

## Strong CAGED Result in May, as Informal Sector Recovers in April PNAD

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 14.7% in the three months to April, in line with both our estimate (14.8%) and the market consensus (14.7%), implying a 2.1 p.p. rise from the year-ago level (12.6%).
- We calculate that the seasonally adjusted jobless rate stood at 14.5%, a slight increase compared to the March level (14.4%). The near stability in the seasonally adjusted unemployment rate stemmed from increases of 0.7% MoM sa in both the employed population and the labor force. The labor market participation rate stood at 56.7% (sa), an increase from the March result (56.3%). However, the participation rate remains at depressed levels, 4.5 p.p. below the pre-crisis mark (February 2020).
- Formal employment has posted a +0.2% MoM SA variation, while informal employment had 1.3% MoM SA growth. Informal employment has reached its highest level since April 2020. This result led the formalization rate to 57.6% (sa), a drop from the March result (57.9%).
- According to the May 2021 CAGED survey, net (unadjusted) formal job creation stood at +280.7k, (versus consensus +152k, Santander estimate +71k), considerably above the month's historical average of +108.2k and close the all-time record for the month (+298k in 2010). We estimate that the seasonally adjusted, net formal job creation increased to +274.3k in May, from +38.4k in April.
- CAGED's acceleration in April is probably due to the lifting of some social-distancing measures implemented in March, as well as a new round of the government's BEm program. The greatest contribution for the result came from the services sector.
- In our view, the job market remains fragile and with considerable slacks, especially considering the pandemic's impact on informal workers, which the CAGED survey does not capture. However, the current batch of labor market data indicates an improvement for some sectors that are more dependent on social interaction, as shown by the growth of informal employment in PNAD data and the services sector job creation in CAGED. We expect the vaccine rollout and urban mobility to be crucial for the labor force and employment recovery in coming months, with sectors more reliant on social interaction gaining traction. We estimate an average unemployment rate of 14.2% in 2021 and 13.6% in 2022.

According to the IBGE National Household Survey (PNAD), the unemployment rate reached 14.7% in the three months to April, in line with both our forecast (14.8%) and market consensus (14.7%), a rise of 2.1 p.p. in comparison with the year-ago rate. We estimate that the seasonally adjusted unemployment rate slightly increased to 14.5% compared to the March level (14.4%), as shown in Figures 1 and 2.A. The seasonally adjusted unemployment rate's stability stemmed from increases of 0.7% MoM sa in both the employed population and the labor force. Figure 2.B shows the recent behavior of the employed and unemployed populations.

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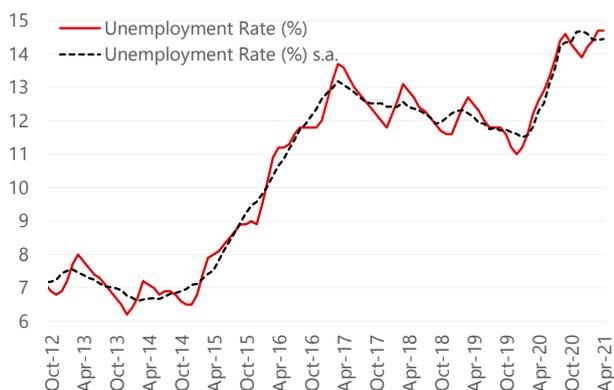
Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Feb-21	Mar-21	Apr-21	Feb-21	Mar-21	Apr-21	Feb-21	Mar-21	Apr-21
<b>Unemployment rate (%)</b>	<b>14.4</b>	<b>14.4</b>	<b>14.5</b>	<b>2.8</b>	<b>2.5</b>	<b>2.1</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>
Participation rate (%)	56.2	56.3	56.7	-4.9	-4.2	-2.1	-5.0	-4.9	-4.5
Labor force (millions)	99.4	99.7	100.4	-5.4	-4.4	-1.3	-5.9	-5.5	-4.8
Employment	85.0	85.3	85.9	-8.3	-7.1	-3.7	-8.0	-7.7	-7.2
Unemployment	14.3	14.4	14.5	16.9	15.2	15.2	2.2	2.2	2.3
<b>Formalization Rate (%)</b>	<b>58.0</b>	<b>57.9</b>	<b>57.6</b>	<b>1.2</b>	<b>0.6</b>	<b>-0.6</b>	<b>1.2</b>	<b>1.1</b>	<b>0.8</b>
Formal Workers (millions)	49.3	49.4	49.5	-6.5	-6.2	-4.7	-3.5	-3.4	-3.4
Informal Workes (millions)	35.7	36.0	36.4	-10.8	-8.4	-2.3	-4.5	-4.3	-3.8
Average usual earnings	-	-	-	1.3	0.8	-1.5	-	-	-
Average effective earnings	-	-	-	-2.2	-1.6	-	-	-	-
Usual wage bill	-	-	-	-7.4	-6.7	-5.4	-	-	-
Effective wage bill	-	-	-	-9.5	-5.4	-	-	-	-

\* Variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

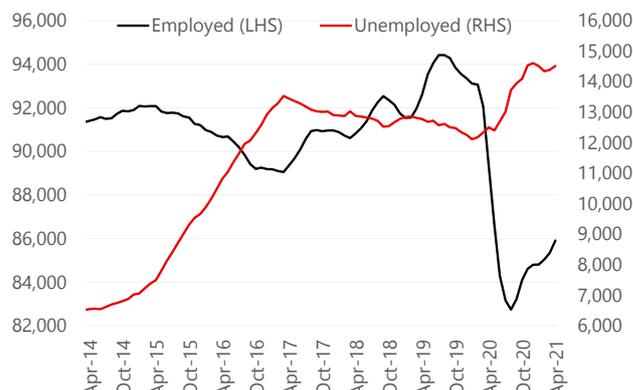
Sources: IBGE, Santander.

Figure 2.A. Unemployment Rate (% of the labor force)



Sources: IBGE, Santander.

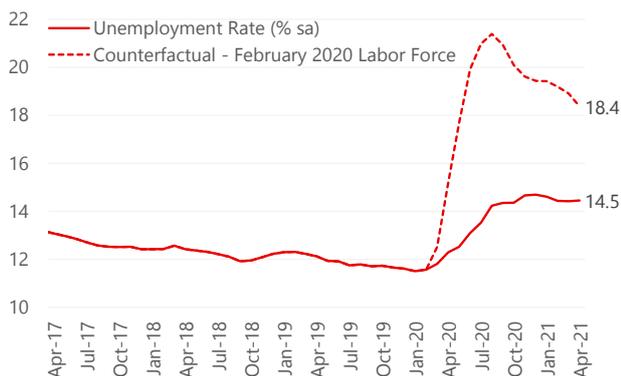
Figure 2.B. Employed and Unemployed (thousands, sa)



Sources: IBGE, Santander.

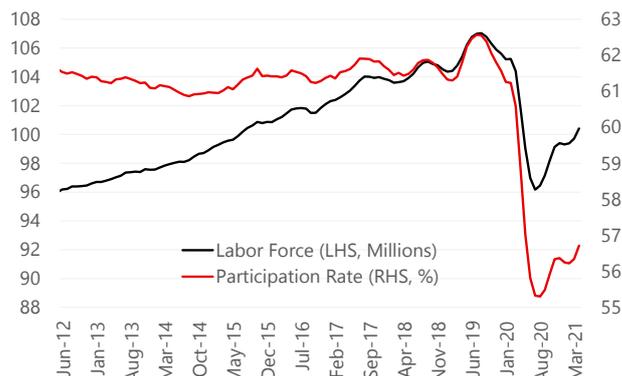
After some deceleration in 1Q21, the labor market participation rate has returned to a recovery trend, following growth in labor force. The seasonally adjusted figure stood at 56.7% in April, from 56.3% in March. In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would have been at 18.4% in April, as shown in Figure 3.A. It is important to note that the convergence of these rates (observed and counterfactual) has resumed, after halting in 1Q21, as the labor force normalization process picked up in April. The new round of the emergency aid may act as a headwind in labor force recovery, but the normalization process should be more dependent on massive vaccinations and mobility recovery, in our view.

Figure 3.A. Counterfactual Exercise



Sources: IBGE, Santander.

Figure 3.B. Participation Rate and Labor Force (sa)

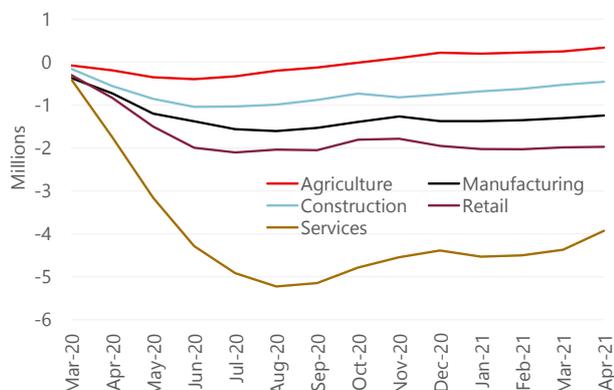


Sources: IBGE, Santander.



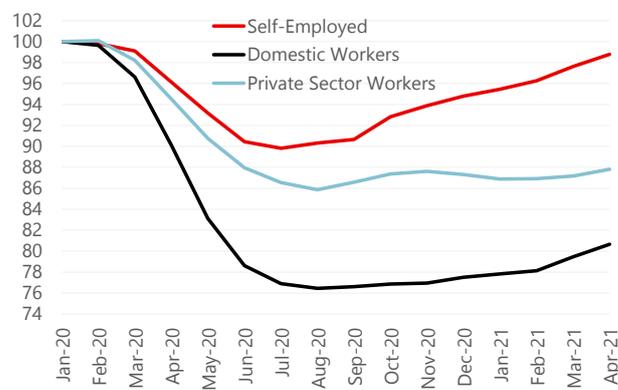
The PNAD survey continues to show that the pandemic has affected individual sectors at varying magnitudes. The main contribution for April's employment growth came from the services sector, which remains at very depressed levels, as shown in Figure 4.A. The accumulated job losses in services sector since the beginning of the pandemic remains close to 4 million. The highlight in employment recovery since 2H20 is in self-employed workers, which indicates difficult conditions in job market, especially for informal workers.

**Figure 4.A. Post-Pandemic Accumulated Job Losses (s.a.)**



Sources: IBGE, Santander.

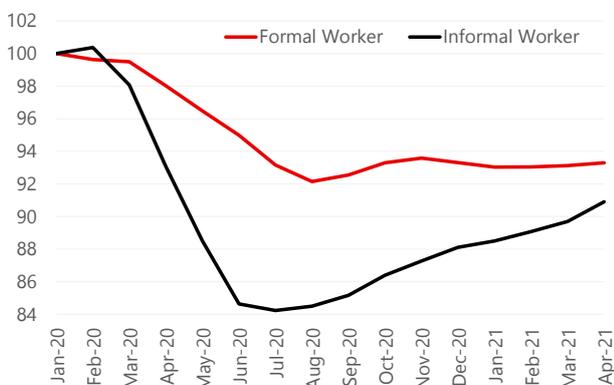
**Figure 4.B. Employment by Position (sa, Jan-20=100)**



Sources: IBGE, Santander.

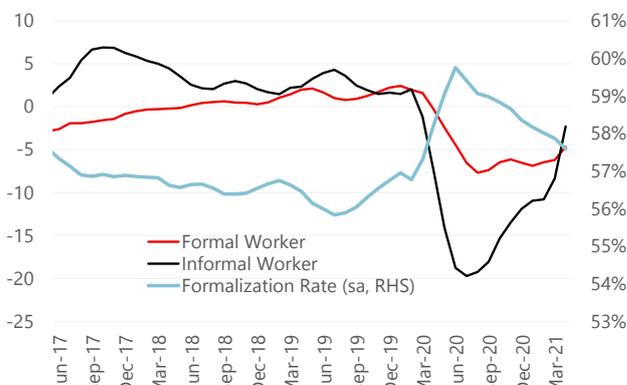
The labor market formalization rate stood at 57.6% (sa), still high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 5.B. In our view, April data indicated an improvement in informal employment, which should lead the employment recovery as the economy reopens, especially in the services sector. We evaluate that the current labor market conditions remain precarious due to the weakness of the informal sector.

**Figure 5.A. Employed Population (sa, Jan-20=100)**



Sources: IBGE, Santander.

**Figure 5.B. Employment by Position (% YoY)**



Sources: IBGE, Santander.

The effective real wage bill indicated some improvement in March (data lagged one month relative to other PNAD series), with a 5.4% YoY drop, but still at depressed levels. There has been a decoupling between the usual and effective real wage bills, because of a significant rise in real usual income, derived from a composition effect as job losses were concentrated among employees with lower wages. These differences have decreased in April, but new discrepancies cannot be dismissed as a possibility in the upcoming months, as the composition effect dissipates.

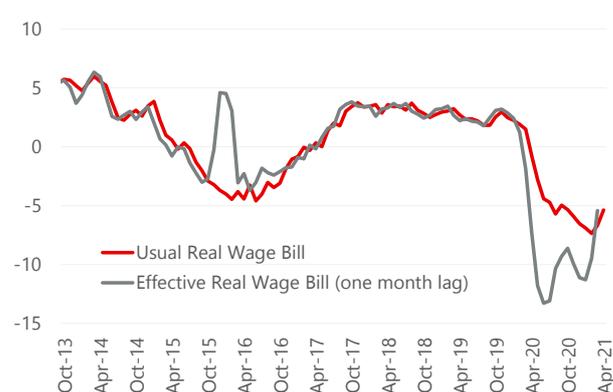


Figure 6.A. Average Real Income (% YoY)



Sources: IBGE, Santander.

Figure 6.B. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

According to the May 2021 CAGED survey, net (unadjusted) formal job creation stood at +280.7k, (versus consensus of +152k and Santander estimate of +71k), considerably above the month's historical average of +108.2k and close the all-time record for the month (+298k in 2010). After a weak result in April, CAGED has once again shown a result close to the all-time high for the month.

Figure 7 – CAGED Breakdown

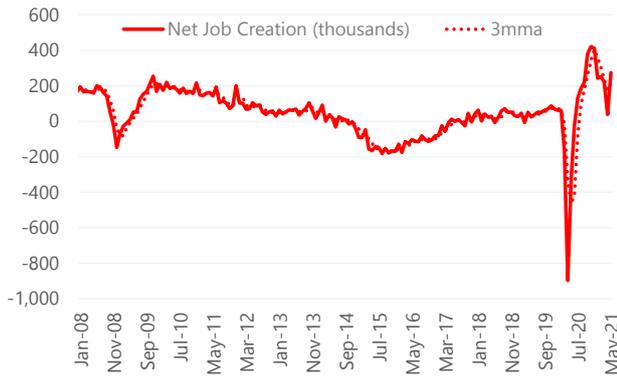
	Headline			Headline (s.a.)		
	Mar-21	Apr-21	May-21	Mar-21	Apr-21	May-21
<b>Net Creation</b>	<b>184.1</b>	<b>120.9</b>	<b>280.7</b>	<b>221.5</b>	<b>38.4</b>	<b>274.4</b>
<b>Creation</b>	<b>1608.0</b>	<b>1381.8</b>	<b>1548.7</b>	<b>1604.1</b>	<b>1306.5</b>	<b>1504.6</b>
<b>Destruction</b>	<b>1423.9</b>	<b>1260.8</b>	<b>1268.0</b>	<b>1382.7</b>	<b>1268.1</b>	<b>1230.2</b>
Mining	1.4	2.3	2.5	1.2	1.6	2.3
Construction	25.0	22.2	22.6	31.6	7.4	15.2
Manufacturing	39.5	17.8	39.2	34.6	-0.4	42.1
Retail	18.0	10.1	60.5	46.4	9.5	77.9
Agriculture	3.5	11.1	42.5	10.1	-1.0	7.3
Services	92.3	56.0	109.9	96.2	23.0	127.7

Sources: CAGED, Santander.

After our seasonal adjustment, net formal job creation accelerated to 274.4k, from 38.4k in April. Therefore, CAGED accelerated considerably at the margin, returning to job creation levels close to the observed in 1Q21, as some mobility restrictions from April have been lifted in May. The new round of the government's BEm program may also have avoided a larger number of layoffs. The three-month average now points to a payroll expansion of 178k jobs, from 170k in April, pointing to a positive result for the tenth month in a row, as illustrated in Figure 8.A. Since July 2020, CAGED has been consistently surpassing monthly historical averages, as shown in Figure 8.B. From mid-2020, CAGED data has shown much better results than IBGE's PNAD survey. We believe CAGED may have underreported layoffs in the recent period, especially throughout 2H20. However, since January 2021, CAGED releases show that the indicator may be normalizing, pointing to a recovery more aligned with other economic activity indicators.

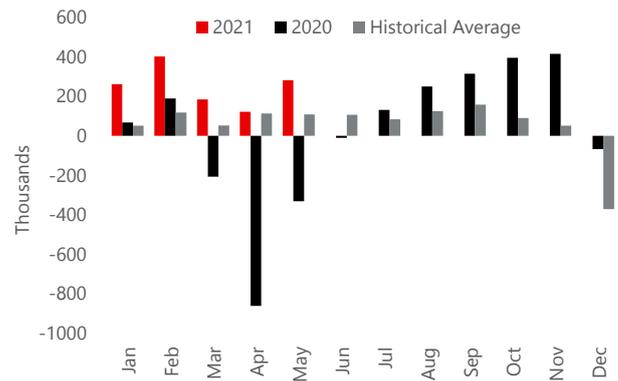


**Figure 8.A. Net Formal Job Creation (sa)**



Sources: CAGED, Santander.

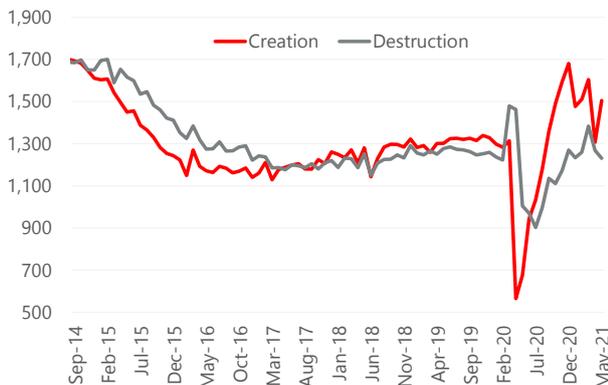
**Figure 8.B. Net Formal Job Creation**



Sources: CAGED, Santander.

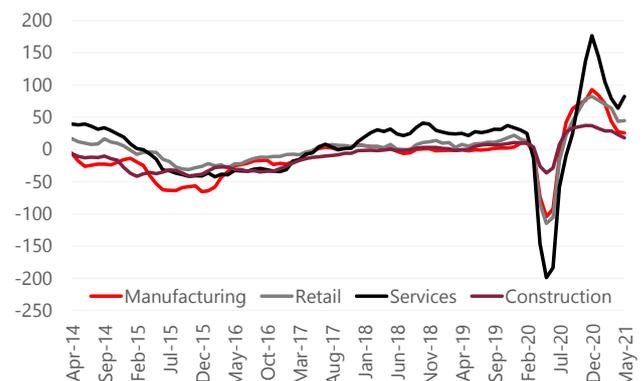
The April net result stemmed from a considerable rise in job creation (+15.2% MoM sa), whereas job destruction has dropped (-3.0% MoM sa). The main contribution for the May result came from the services sector, as pictured in Figure 9.B, probably reflecting an improvement in urban mobility.

**Figure 9.A. Job Creation and Destruction (sa)**



Sources: CAGED, Santander.

**Figure 9.B. Net Formal Job Creation (3mma, sa)**



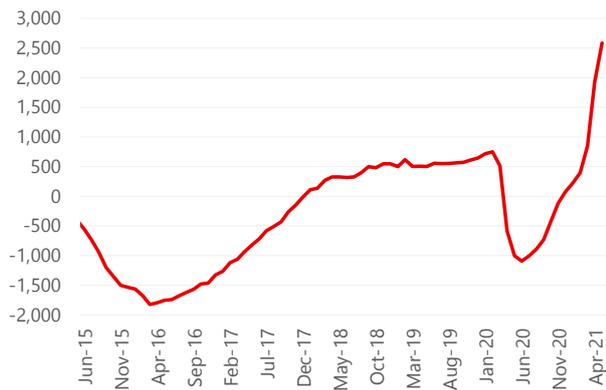
Sources: CAGED, Santander.

On a 12-month basis, net formal job creation has accelerated to 2.583 million (adjusted to post-deadline declarations), from 1.929 million in April. The acceleration is mainly due to the exit of April and May 2020 from the base, when there was a net accumulated destruction of over 1 million jobs. Since December, CAGED data has fully offset the losses suffered during the pandemic. As stated before, the CAGED survey may have underreported layoffs mainly in 2H20, while the more recent numbers seem to be more genuine, in our view. When we observe the six-month accumulated results of CAGED and PNAD, it is possible to note that formal jobs had a recovery trend in the past few months, in line with other economic activity indexes, such as the IBC-Br. However, there is still a considerable difference between CAGED and PNAD, as both surveys still have methodological issues, as explored in our recent special report. [See link below](#)<sup>1</sup>.

<sup>1</sup> Santander Brazil Labor Market - "CAGED vs. PNAD: Which Labor Survey is Right?" – April 12, 2021 - Available on: <http://bit.ly/STD-pnad-caged-apr21>

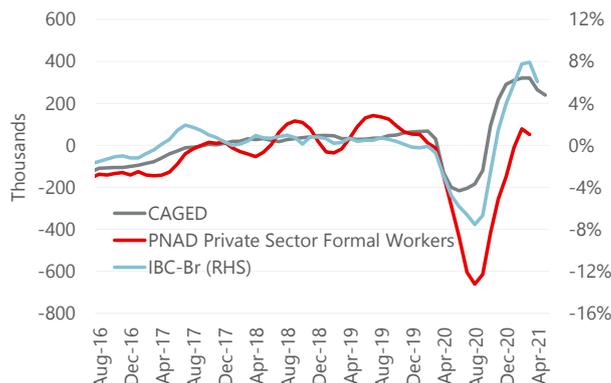


**Figure 10.A. CAGED Adjusted for Post-Deadline Declarations (12m, thousands)**



Sources: CAGED, Santander.

**Figure 10.B. Net Job Creation and IBC-Br (6m, sa)**



Sources: IBGE, CAGED, BCB, Santander.

In our view, the job market remains fragile and with considerable slacks, especially considering the pandemic’s impact on informal workers, which the CAGED survey does not capture. However, the current batch of labor market data indicates an improvement for some sectors that are more dependent on social interaction, as shown by the growth of informal employment in PNAD data and the services sector job creation in CAGED. We expect the vaccine rollout and urban mobility to be crucial for the labor force and employment recovery in coming months, with sectors more reliant on social interaction gaining traction. We estimate an average unemployment rate of 14.2% in 2021 and 13.6% in 2022.



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