

Brazil Macro: Labor Market

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Mixed Signals in Labor Market Data

- Formal job creation continued to improve in September. According to the CAGED (establishment) survey, net (unadjusted) job creation stood at 313k, considerably better than consensus (242k). After seasonal adjustments, the number recorded was 251k, with 39.0% of jobs lost in the crisis having already been recovered.
- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 14.4% in the three months to August, a slightly higher result than the market consensus (14.3%), implying a gain of 2.6 p.p from the year-ago level (11.8%). We calculate that the seasonally adjusted jobless rate moved up to 14.3%, compared to 13.8% in July — the highest reading in the historical series.
- All in all, August numbers in the PNAD survey herald a continued deterioration in labor market conditions. Looking ahead, we expect joblessness to grow significantly, with wages remaining sluggish (at best) in the coming months, following the gradual economic reopening and the workforce's return to pre-crisis levels.

Continuing the Recovery of Formal Jobs
Figure 1. Formal Job Creation Breakdown

	Headline (s.a.)			3MMA			Total*	Rec %**		
	Jul-20	Aug-20	Sep-20	Jul-20	Aug-20	Sep-20	Jobs	Jul-20	Aug-20	Sep-20
Net Creation	144,738	160,468	251,169	-61,902	102,675	185,458	-1,434,111	10.3	21.5	39.0
Creation	1,048,558	1,201,983	1,343,297	901,290	1,063,294	1,197,946	2,539,470	-	-	-
Destruction	903,820	1,041,515	1,092,129	963,192	960,618	1,012,488	3,973,581	-	-	-
Mining	382	412	755	-4	379	516	-2,658	27.3	42.8	71.2
Construction	31,908	35,580	39,282	6,866	26,517	35,590	-114,224	38.5	69.6	104.0
Public Administration	-138	-384	-370	-237	-319	-297	-1,929	7.1	27.1	46.2
Manufacturing	50,984	61,809	67,589	-7,067	44,240	60,127	-323,431	21.9	41.0	61.9
Retail Sales	43,827	36,042	57,119	-8,900	27,299	45,663	-341,908	12.8	23.4	40.1
Livestock & agriculture	14,258	13,655	11,926	5,173	12,132	13,280	-16,646	136.6	218.6	290.3
Public Utilities Industrial Services	14,258	1,113	1,884	-1,522	-458	825	-8,048	6.5	7.3	30.8
Services	-523	12,242	72,983	-56,211	-7,114	29,755	-667,450	0.6	2.4	13.4

* Total Jobs Lost in the crisis

** Percentage of the jobs lost in the crisis already recovered.

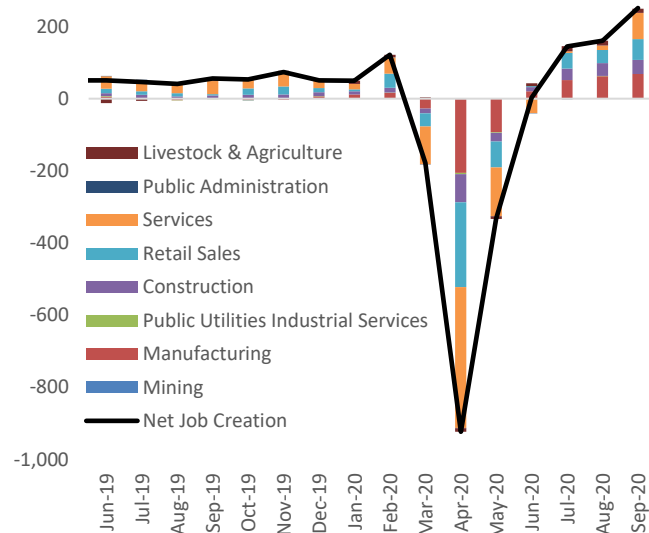
Sources: Labor Ministry of Brazil and Santander.



According to the CAGED (establishment) survey, formal job creation continued to improve in September: the net (unadjusted) job creation stood at 313k (versus consensus at 242k), considerably better than the historical average for the month (152 k). After seasonal adjustments, the number recorded was 251k, and the three-month moving average now points to a payroll expansion of 185k jobs — a much better result than May’s all-time low contraction of almost 500k and pointing to a positive result for the second month in a row. This positive headline result was mainly driven by an increase in hirings that more than offset the slight increase in firings. Regarding accumulated losses, more than 39.0% of the jobs lost in the crisis have already been recovered.

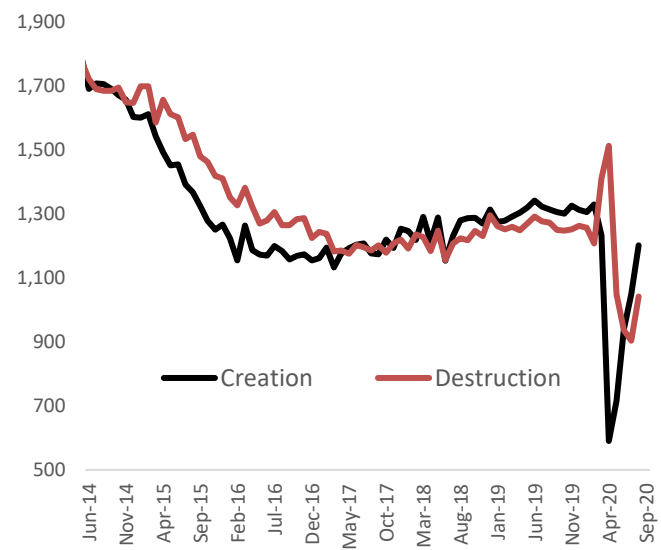
Among the sectors, we highlight Construction, which has recovered all the jobs lost in the crisis; the Manufacturing Industry and Retail Sales, which together peaked at a loss of almost 700 k jobs in the crisis, have recovered 62.0% and 40.0% of the formal jobs, respectively. As other activity indicators illustrate, the services sector is the laggard in this economic resumption: after registering net destruction of 670k jobs, the sector has recovered only 13.4%. Given the mixed signals in CAGED (survey) and PNAD labor market condition data, we take these figures with a pinch of salt. In fact, the number of establishments recorded in the CAGED survey plummeted from 850k between January and March to 610k in recent months, after reaching 550k in April, which, under some assumptions, may provide evidence of under-reported job destruction in this period. ¹

Figure 2-A. Net Job Creation (s.a.) in Thousands



Sources: Labor Ministry of Brazil and Santander.

Figure 2-B. Job Creation x Job Destruction (s.a) in Thousands



Sources: Labor Ministry of Brazil and Santander

¹ For more details, see in Portuguese: <https://blogdoibre.fgv.br/posts/evidencias-da-subnotificacao-de-desligamentos-do-caged>



Unemployment Rate Continues to Deteriorate

Figure 3. PNAD Breakdown

	s.a.			YoY %			Feb %*		
	Jun-20	Jul-20	Aug-20	Jun-20	Jul-20	Aug-20	Jun-20	Jul-20	Aug-20
Unemployment rate %	13.2	13.8	14.3	1.3	2.0	2.6	1.8	2.3	2.9
Participation rate %	55.8	55.2	55.1	-6.8	-7.4	-7.4	-5.6	-6.1	-6.2
Labor force	97065	96174	96359	-9.4	-10.4	-10.1	-8227	-9118	-8934
Employment	84208	82946	82589	-10.7	-12.3	-12.8	-9064	-10326	-10683
Unemployment	12857	13228	13770	0.2	4.5	9.8	837	1208	1750
Formalization Rate %	60.1	59.7	59.2	4.0	3.7	3.3	3.2	2.8	2.3
Formal Workers	50289	49233	48640	-4.4	-6.6	-7.7	-2675	-3731	-4324
Informal Workers	33919	33713	33948	-18.8	-19.7	-19.2	-6389	-6595	-6359
Average usual earnings	-	-	-	6.9	8.6	8.1	-	-	-
Average effective earnings	-	-	-	-1.2	-0.3	-	-	-	-
Usual wage bill	-	-	-	-4.4	-4.7	-5.7	-	-	-
Effective wage bill	-	-	-	-13.3	-13.1	-	-	-	-

* Variation relative to February's reading. For rates, change is in percentage points.

According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 14.4% in the three months to August, a result slightly higher than the market consensus (14.3%), implying a gain of 2.6 p.p. from the year-ago level (11.8%). We calculate that seasonally adjusted joblessness moved up to 14.3%, compared to 13.8% in July — the highest reading in the historical series.

Survey details show that employment recorded its steepest fall on record by registering a -12.8% YoY drop; the labor force also fell -10.1% YoY. Job-market participation stood at 55.1% s.a., well below February's reading (61.4%). We believe that this low rate "conceals" the bad signal indicated in the unemployment rate from the standpoint of actual labor market conditions, if we take into account the sudden stop observed in April and deterioration in the Services Sector, as in past crises that sector has served as an economic cushion. In a simple counterfactual exercise, if the work force had remained at February's level, the unemployment rate would have reached 23.0% (21.6% s.a.).

The formalization rate of the labor market reached 59.2% s.a. of the employed population, considerably above February's reading of 56.6%. This result follows the pandemic's asymmetrically stronger employment impact (in particular, the need for social distancing measures) on the informal workers' category (-19.2% YoY), in comparison with formal workers (-7.7% YoY). Indeed, since the quarter ended in February, more than 4 million formal jobs have been lost, while more than 6 million informal jobs have disappeared. This asymmetry also affected wage statistics, which show that usual real average income was up 8.1% YoY, due to a (spurious) composition effect, as low-wage informal workers who have left the labor market are no longer counted in wage statistics. In terms of effective wages, earnings dropped -0.3 %, while the effective wage bill declined -13.1% YoY.

The PNAD survey emphasizes the pandemic's varying magnitude on different sectors. Agriculture and Industry posted declines of -4.3% YoY and -13.4% YoY in the quarter ended in August, while Retail, Services and Construction posted declines of -13.6% YoY, -18.7% YoY and -19.0%, respectively. In the details of the Services Sector, the lowlights were Accommodations and Food (-30.4% YoY), Other Services (-22.5%) and Transportation (-16.6% YoY).

All in all, August numbers in the PNAD survey herald a continued deterioration in labor market conditions. Looking ahead, we expect joblessness to grow significantly, with wages remaining sluggish (at best) in the coming months, following the gradual economic reopening and the workforce's return to pre-crisis levels.

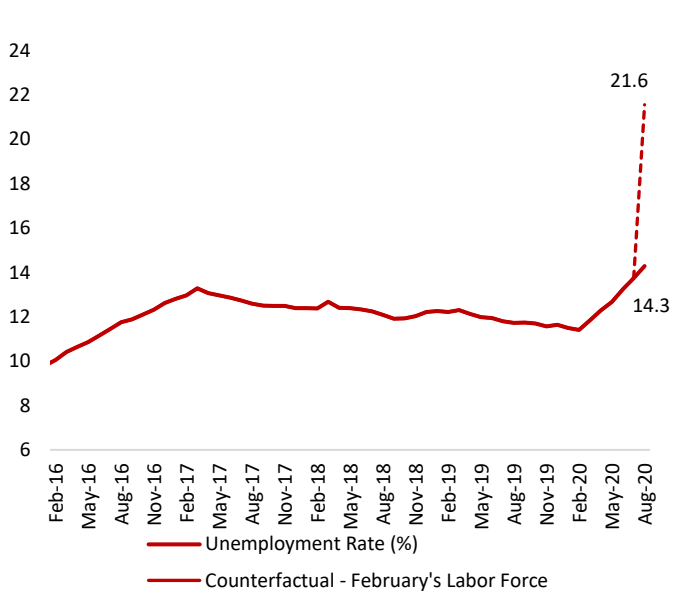


Figure 3-A. Unemployment Rate (of the labor force)



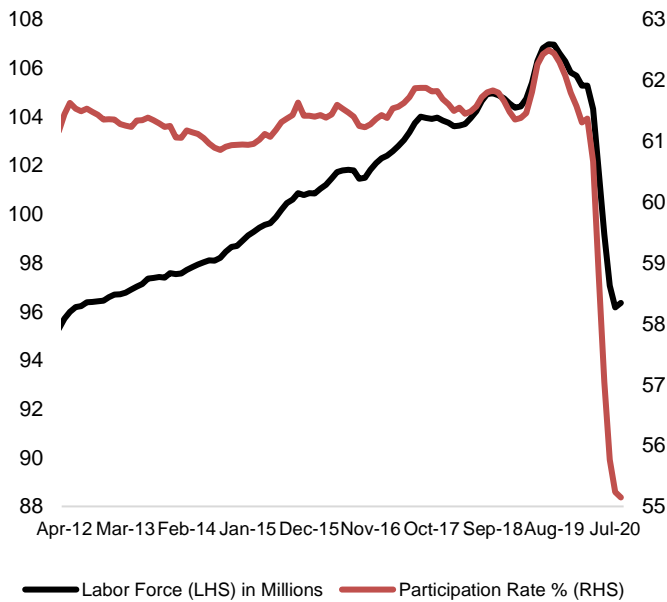
Sources: IBGE and Santander.

Figure 3-B. Counterfactual Exercise for Unemployment Rate



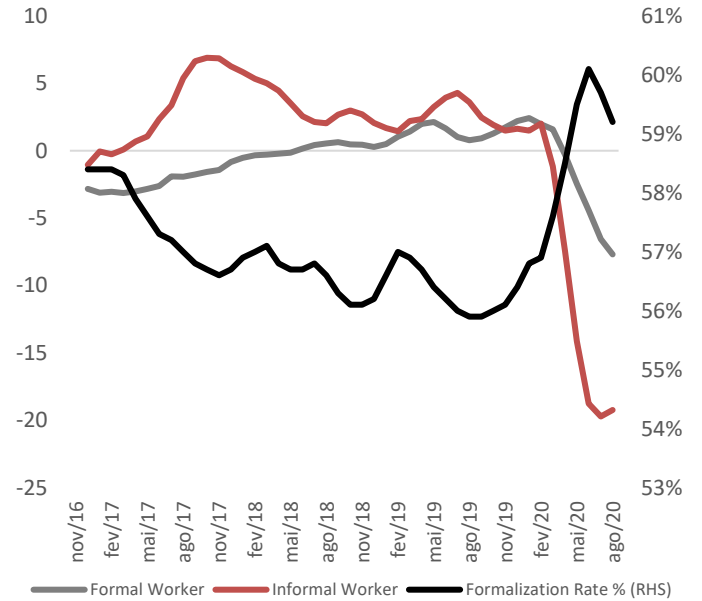
Sources: IBGE and Santander.

Figure 4-A. Participation Rate x Labor Force (s.a.)



Sources: IBGE and Santander.

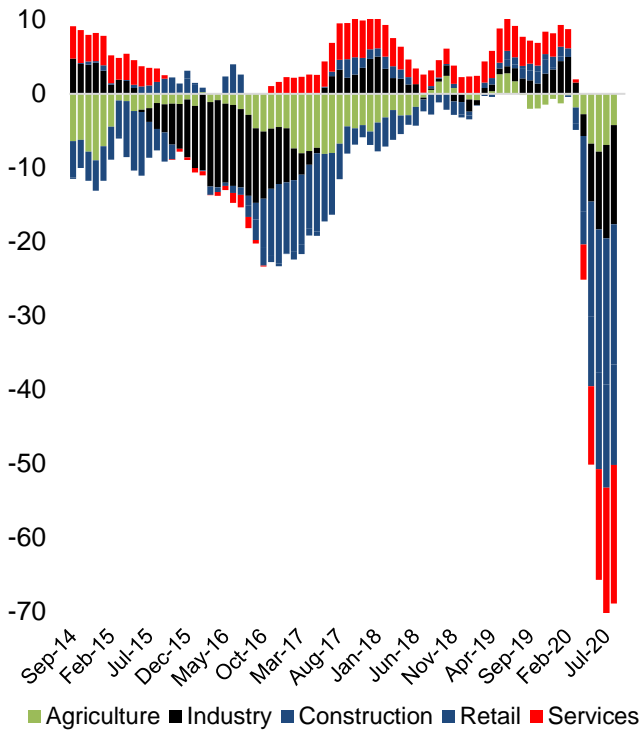
Figure 4-B. Employment Occupation by Position (YoY%)



Sources: IBGE and Santander.

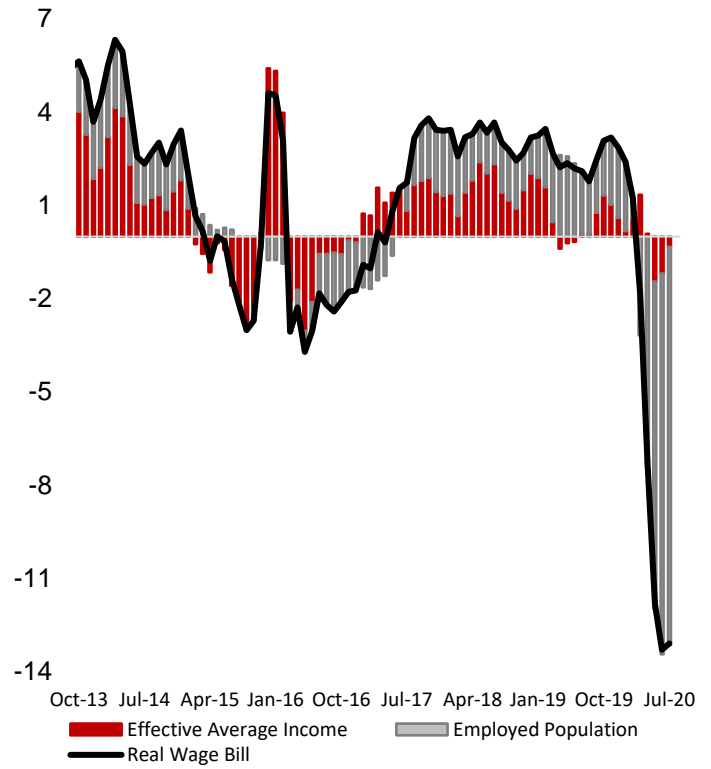


Figure 5-A. Employment by Occupation (YoY %)



Sources: IBGE and Santander.

Figure 5-B. Real Wage Bill (YoY%)



Sources: IBGE and Santander.



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