



Omicron Outbreak Affects Labor Market in January

Gabriel Couto*
gabriel.couto@santander.com.br
+5511 3553-8487

- According to the IBGE's National Household Survey (PNAD), the unemployment rate was 11.2% in the three months through January. The figure was below both our estimate (11.5%) and the market consensus (11.3%), implying a 3.3 p.p. drop from the year-ago level (14.5%). We calculate that the seasonally adjusted jobless rate stood at 11.5%, a decrease from December's level (11.9%).
- The decline in the seasonally adjusted unemployment rate stemmed from a 0.2% increase in the employed population, as the labor force showed a 0.3% MoM-sa decrease. The labor market participation rate stood at 61.6% (sa), a drop from December (61.9%) and 1.3 p.p. below the pre-pandemic level (February 2020). Formal employment posted a +0.1% MoM-sa variation, while informal employment showed a -0.4% MoM-sa variation.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 11.2% (sa) in January, compared to 11.6% in December. This result followed -1.5% and -1.9% MoM-sa variations in the employed population and the labor force, respectively. We believe that this result was mainly due to the Omicron variant outbreak that hit Brazil in January.
- The effective real wage bill posted a 0.2% MoM-sa decrease in December (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.5% MoM-sa in January. The two series are 8.4% and 8.0% below their pre-crisis marks, respectively. The usual average real income had a 0.8% MoM-sa increase, the first positive print since September 2020.
- According to the January CAGED survey, released on March 10, net (unadjusted) formal job creation stood at 155.2k (vs. consensus 160k, Santander estimate 200k), above the historical average (61.8k) and below the all-time record for the month (257.1k in January 2021). After our seasonal adjustment, we calculate that net formal job creation decelerated to 164.6k, from 180.9k in December. The number of hirings increased 1.1% MoM-sa, while layoffs increased 2.3% MoM-sa. The three-month average now points to a payroll expansion of 202k jobs, from 221k in December.
- In our view, the January batch of labor market data indicates a mixed bag, especially due to the Omicron outbreak's impact on the PNAD survey indicators. Both the labor force and the employed population were hard hit in January, with the data posting monthly decreases comparable to the ones at the beginning of the pandemic. As for the CAGED survey, the deceleration at the margin continued, with the ongoing impact of the end of the formal job preservation program (BEm) leading to more layoffs. As the Omicron outbreak had a relatively short duration, we expect its impact to be offset in the next couple of months. We still expect the unemployment rate to rise throughout 2022, as the participation rate returns to pre-crisis levels and the effects of the economic reopening on employment fade.
- The February batch of labor market data will be released before the end of March, with the CAGED and PNAD surveys due to be released on March 29 and March 31, respectively.



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate was 11.2% in the three months to January, below both our estimate (11.5%) and market consensus (11.3%), implying a 3.3 p.p. drop from the year-ago rate of 14.5%. We estimate that the seasonally adjusted unemployment rate fell to 11.5% from the December level of 11.9%. The performance of the seasonally adjusted unemployment rate stemmed from an increase of 0.2% in the employed population, as the labor force dropped 0.3% MoM-sa.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22
Unemployment rate (%)	12.2	11.9	11.5	-2.8	-3.1	-3.3	0.3	0.1	-0.4
Participation rate (%)	61.9	61.9	61.6	3.0	3.0	2.6	-1.1	-1.1	-1.3
Labor force (millions)	106.5	106.5	106.3	6.2	6.0	5.4	0.0	0.0	-0.3
Employment	93.6	93.9	94.1	9.7	9.8	9.4	-0.4	0.0	0.2
Unemployment	13.0	12.7	12.2	-14.5	-16.7	-18.3	3.0	0.6	-3.2
Formalization Rate (%)	57.3	57.2	57.3	-1.8	-1.6	-1.3	0.0	-0.1	0.1
Formal Workers (millions)	53.7	53.8	53.9	6.3	6.7	6.9	-0.3	-0.1	0.1
Informal Workers (millions)	40.0	40.3	40.1	14.3	14.0	13.0	-0.4	0.2	-0.2
Average usual earnings (BRL)**	2,501	2,491	2,511	-11.4	-10.8	-9.7	-7.7	-8.1	-7.4
Average effective earnings (BRL)**	2,552	2,548	-	-8.4	-7.2	-	-9.0	-9.1	-
Usual wage bill (BRL bn)**	229.5	229.5	230.7	-2.6	-1.8	-0.9	-7.8	-7.8	-7.4
Effective wage bill (BRL bn)**	234.7	234.3	-	0.7	1.8	-	-8.7	-8.8	-

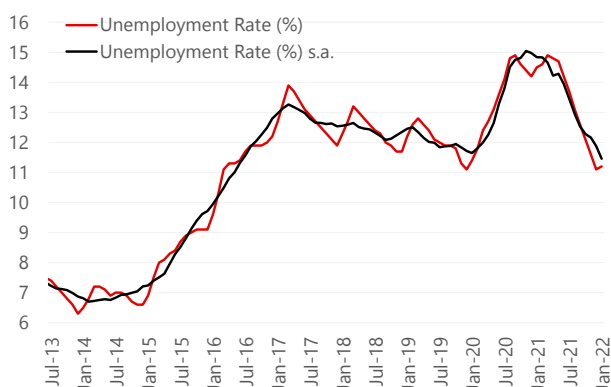
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

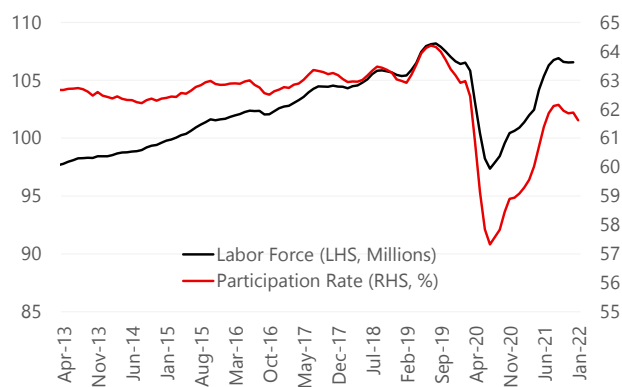
The labor market participation rate stood at 61.6% (sa), below the December level (61.9%) and 1.3 p.p. below the pre-crisis mark. In our view, the drop-in participation rate was mainly due to the Omicron wave that hit Brazil in January, and probably reduced the number of people searching for jobs. As the Omicron outbreak happened over a relatively short period, we still expect the labor force to return to its pre-pandemic trend in 2022, and the participation rate should normalize sometime in 2H22.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate

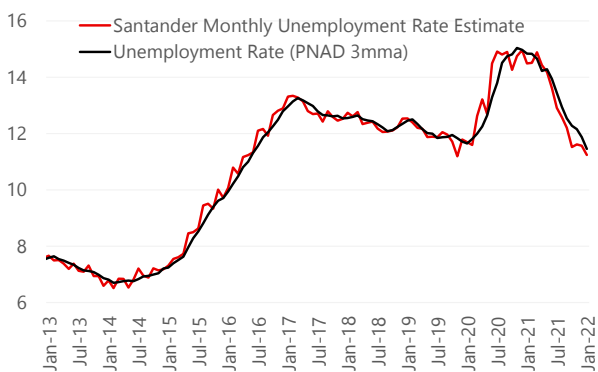


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 11.2% (sa) in January, compared to 11.6% in December. This result followed -1.5% and -1.9% MoM-sa variations in the employed population and the labor force, respectively. We believe that these sharp drops are further evidence of the Omicron outbreak's impact in January.



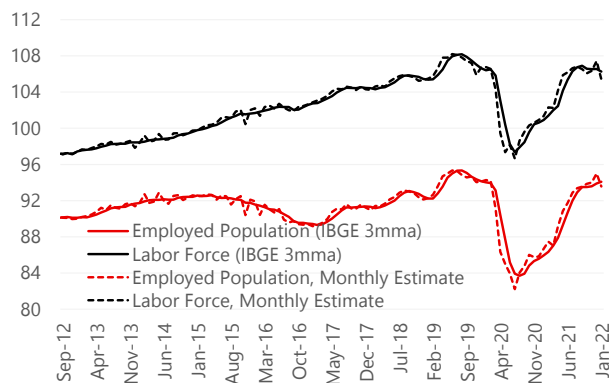
Figure 4. Monthly Unemployment Rate* (sa)



Sources: IBGE, Santander.

*All PNAD data is constructed as 3-month moving averages. We estimate the monthly figures based on a Kalman Filter, according to BCB's methodology.

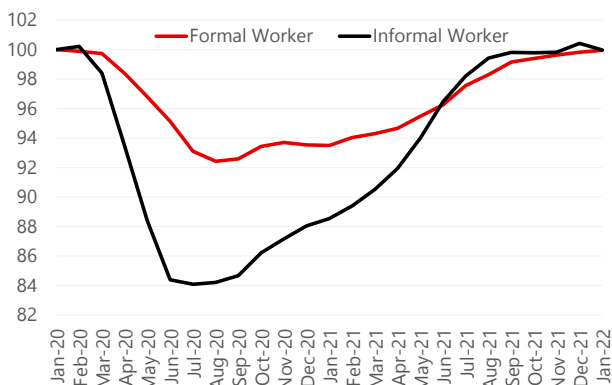
Figure 5. Employment* and Labor Force* (sa)



Sources: IBGE, Santander.

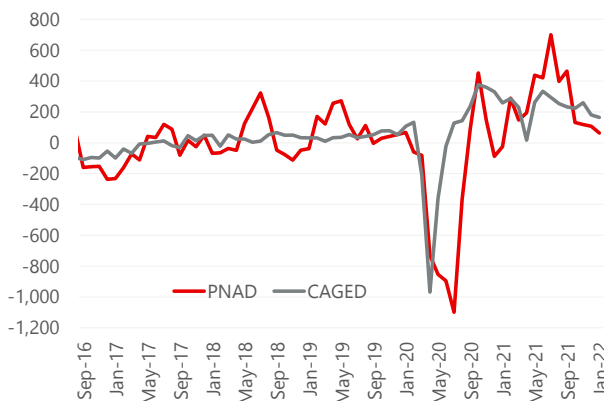
Formal employment posted a +0.1% MoM-sa variation, while informal employment showed 0.4% MoM-sa drop, another possible consequence of the rise in COVID-19 infections. This result led the formalization rate to 57.3% (sa), above the December result (57.2%). We project that employment growth is likely to decelerate in the coming months, as the effect of the economic reopening is fading, and the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm), which prevented layoffs for some time, has ended.

Figure 6. Employed Population (sa, Jan-20=100)



Sources: IBGE, Santander.

Figure 7. Net Formal Job Creation (thousands, sa)

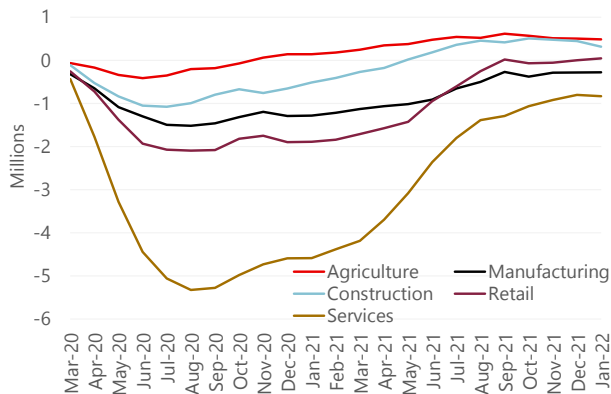


Sources: IBGE, Ministry of Labor, Santander.

All the main sectors showed flattish behavior in January. The accumulated job losses in the services sector since the beginning of the pandemic are slightly below 1.0 million, and that sector is still the one showing the largest gap relative to the pre-crisis mark. The highlight in employment recovery since 2H20 is self-employed workers, which indicates difficult conditions in the job market, especially for informal workers. However, the January figure was also affected by the Omicron wave, in our view.

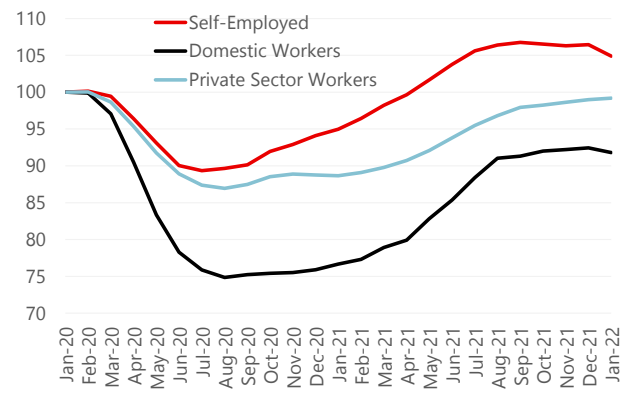


Figure 8. Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

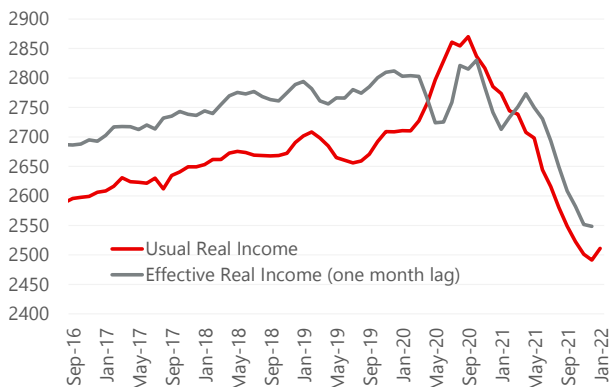
Figure 9. Employment by Position (sa, Jan-20=100)



Sources: IBGE, Santander.

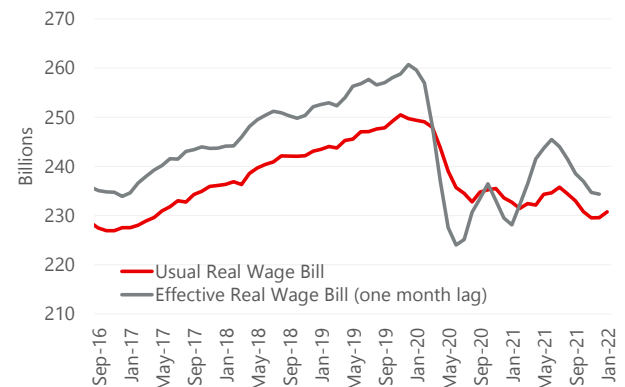
As for the real income indicators, the picture showed a slight improvement at the margin. The effective real wage bill posted a 0.2% MoM-sa decrease in December (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.5% MoM-sa in January. The two series are 8.8% and 7.4% below their pre-crisis marks, respectively. The average usual real income had a +0.8% MoM-sa variation, the first increase since September 2020. We expect real income to gradually recover as inflation slowly decelerates.

Figure 10. Average Real Income (sa)



Sources: IBGE, Santander.

Figure 11. Real Wage Bill (sa)



Sources: IBGE, Santander.

CAGED Formal Job Survey

According to the January CAGED survey, released on March 10, net formal job creation stood at 155.2k (vs. consensus at 160k and Santander’s estimate of 200k), above its historical average (61.8k) and below its all-time record for the month (257.1k in January 2021).



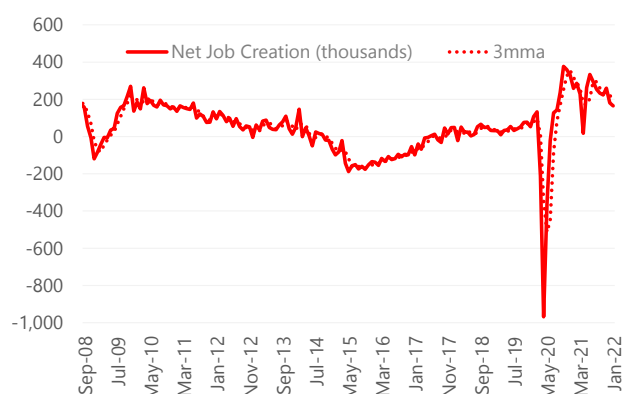
Figure 12 – CAGED Breakdown (thousands)

	Headline			Headline (s.a.)		
	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22
Net Creation	324.1	-265.8	155.2	259.7	181.0	164.6
Creation	1772.8	1437.9	1777.6	1759.1	1755.3	1775.3
Destruction	1448.7	1703.7	1622.5	1499.4	1574.3	1610.7
Mining	0.5	-1.1	0.5	1.7	1.3	0.6
Construction	12.5	-52.0	36.8	37.9	35.5	14.8
Manufacturing	5.9	-88.3	48.8	40.8	56.4	8.5
Retail	139.3	9.0	-60.1	38.6	8.1	16.8
Agriculture	-16.8	-26.1	25.0	9.2	34.3	14.9
Services	181.0	-86.9	100.8	189.8	125.4	84.9

Sources: Ministry of Labor, Santander.

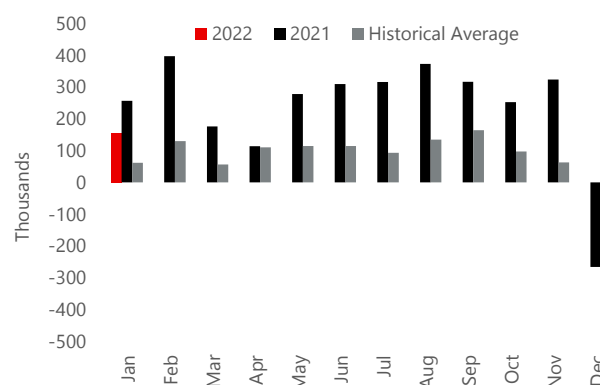
After our seasonal adjustment, we calculate that net formal job creation decelerated to 164.6k, from 180.9k in December. The number of hirings increased 1.1% MoM-sa, while layoffs increased 2.3% MoM-sa. The three-month average now points to payroll expansion of 202k jobs, from 221k in December. The CAGED results continued the deceleration that started in mid-2021.

Figure 13. Net Formal Job Creation (sa)



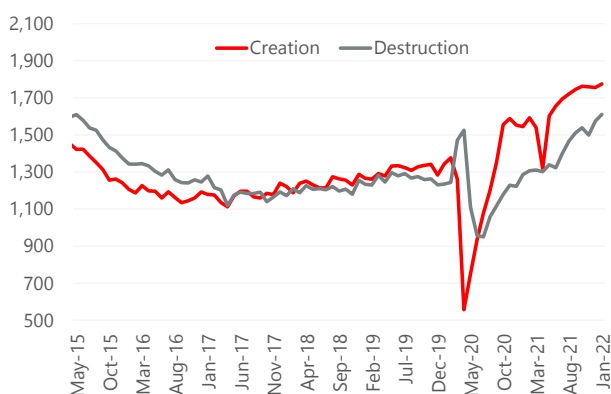
Sources: Ministry of Labor, Santander.

Figure 14. Net Formal Job Creation

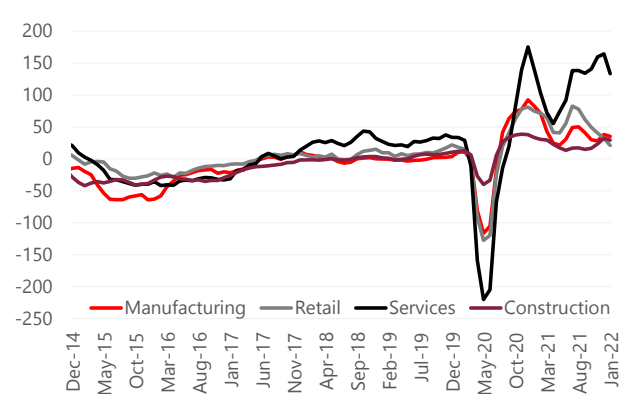


Sources: Ministry of Labor, Santander.

The January net result stemmed from an acceleration in layoffs, especially in the retail and manufacturing sectors. All the main segments now indicate deceleration trends in net job creation. The sectors that are more dependent on social interaction remain the highlights in job creation, but we expect the employment growth rate to keep decelerating as the effects of the economic reopening fade.

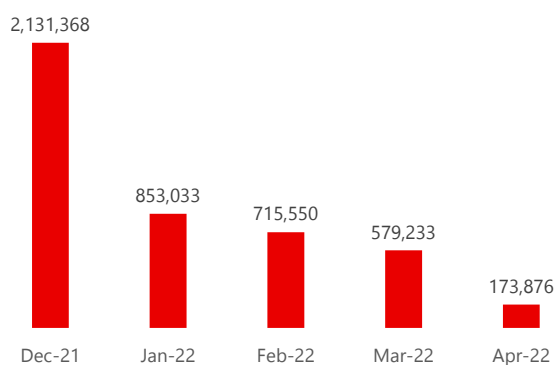

Figure 15. Job Creation and Destruction (sa)


Sources: Ministry of Labor, Santander.

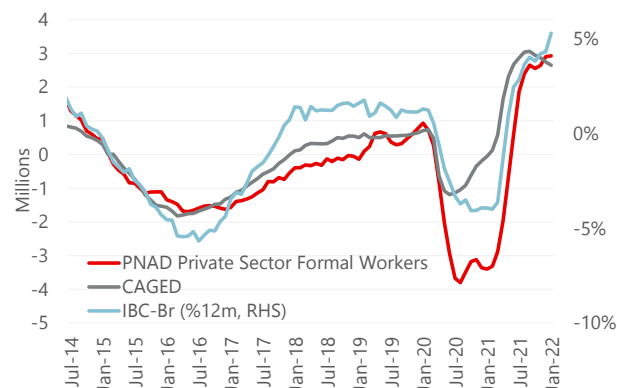
Figure 16. Net Formal Job Creation (3mma, sa)


Sources: Ministry of Labor, Santander.

We believe that the end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) on August 26 continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program’s temporary job guarantee as the waiver periods for layoffs of the program’s beneficiaries gradually expire.

Figure 17. Jobs Secured by BEm Program


Sources: Ministry of Labor, Santander.

Figure 18. Net Job Creation and IBC-Br (12m)


Sources: IBGE, Ministry of Labor, BCB, Santander.

Final Remarks

In our view, the January batch of labor market data indicates a mixed bag, especially due to the Omicron outbreak’s impact on the PNAD survey indicators. Both the labor force and the employed population were hard hit in January, with the data posting monthly decreases comparable to the ones at the beginning of the pandemic. As for the CAGED survey, the deceleration at the margin continued, with the ongoing impact of the end of the formal job preservation program (BEm) leading to more layoffs. As the Omicron outbreak had a relatively short duration, we expect its impact to be offset in the next couple of months. We still expect the unemployment rate to rise throughout 2022, as the participation rate returns to pre-crisis levels and the effects of the economic reopening on employment fade.

The February batch of labor market data will be released before the end of March, with the CAGED and PNAD surveys due to be released on March 29 and March 31, respectively. **For details on Santander’s activity outlook, please refer to our last chartbook¹.**

¹ Santander Brazil Economic Activity - “Positive Surprises Reinforce Resilience Outlook for 2022” – March 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-mar22>



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Gabriel Couto*. *Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2022 by Santander Investment Securities Inc. All Rights Reserved.

