

## A Better Print in December, Outlook Still Challenging

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate was 11.1% in the three months through December. The figure was below both our estimate (11.3%) and the market consensus (11.2%), implying a 3.1-p.p. drop from the year-ago level (14.2%). We calculate that the seasonally adjusted jobless rate stood at 11.9%, a decrease from November's level (12.1%).
- The decline in the seasonally adjusted unemployment rate stemmed from 0.3% and 0.1% MoM-sa increases in the employed population and the labor force, respectively. The labor market participation rate stood at 62.0% (sa), stable compared to November and 1.0 p.p. below the pre-pandemic level (February 2020). Formal employment posted a +0.2% MoM-sa variation, while informal employment showed a 0.5% MoM-sa variation.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 11.7% (sa) in December, compared to 11.8% in November. This result followed +0.8% and +0.6% MoM-sa variations in the employed population and the labor force, respectively. Therefore, our estimates for the monthly data show a more positive picture at the margin than the headline suggests.
- The effective real wage bill posted a 0.8% MoM-sa decrease in November (data lagged one month relative to other PNAD series), while the usual real wage bill decreased 0.1% MoM-sa in December. The two series are 8.4% and 8.0% below their pre-crisis marks, respectively.
- In our view, the December PNAD result shows that the labor market has accelerated at the margin. Our estimates for monthly labor market data showed considerable MoM increases in both the labor force and the employed population. We expect employed population growth to decelerate in the coming months, and the participation rate should return to levels closer to the pre-crisis mark. Therefore, we believe the seasonally adjusted unemployment rate will start increasing again soon. The average real income indicators continued to fall at the margin and remain substantially below their pre-crisis marks, mainly due to the continued high inflation.
- March will have two PNAD survey publications, as the IBGE plans to normalize the larger than usual lag of the unemployment rate. The January survey is due to be released on March 18, and the February results will be out on March 31.

According to the IBGE National Household Survey (PNAD), the unemployment rate was 11.1% in the three months to December, below both our estimate (11.3%) and market consensus (11.2%), implying a 3.1 p.p. drop from the year-ago rate of 14.2%. We estimate that the seasonally adjusted unemployment rate fell to 11.9% from the November level of 12.1%. The performance of the seasonally adjusted unemployment rate stemmed from increases of 0.3% and 0.1% MoM-sa in the employed population and the labor force, respectively.

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Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21
<b>Unemployment rate (%)</b>	<b>12.3</b>	<b>12.1</b>	<b>11.9</b>	<b>-2.5</b>	<b>-2.8</b>	<b>-3.1</b>	<b>0.5</b>	<b>0.3</b>	<b>0.1</b>
Participation rate (%)	62.0	62.0	62.0	3.5	3.0	3.0	-0.9	-1.0	-1.0
Labor force (millions)	106.7	106.8	106.8	7.0	6.2	6.0	0.2	0.3	0.3
Employment	93.7	93.9	94.1	10.2	9.7	9.8	-0.3	-0.1	0.2
Unemployment	13.1	12.9	12.7	-11.3	-14.5	-16.7	4.1	2.8	1.0
Formalization Rate (%)	57.2	57.2	57.2	-2.0	-1.8	-1.6	-0.1	-0.1	-0.1
Formal Workers (millions)	53.6	53.7	53.8	6.4	6.3	6.7	-0.5	-0.3	-0.1
Informal Workers (millions)	40.1	40.1	40.3	15.6	14.3	14.0	-0.2	0.0	0.5
Average usual earnings (BRL)**	2,500	2,478	2,468	-11.1	-11.4	-10.8	-7.1	-7.9	-8.3
Average effective earnings (BRL)**	2,559	2,528	-	-8.7	-8.4	-	-8.2	-9.3	-
Usual wage bill (BRL bn)**	228.9	227.8	227.5	-1.9	-2.6	-1.8	-7.5	-7.9	-8.0
Effective wage bill (BRL bn)**	234.8	232.9	-	0.3	0.7	-	-7.6	-8.4	-

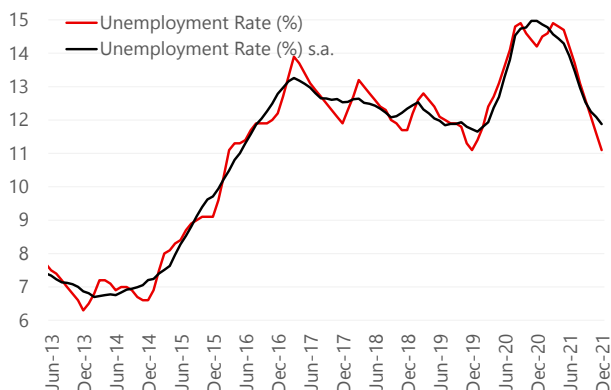
\* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

\*\* In real terms

Sources: IBGE, Santander.

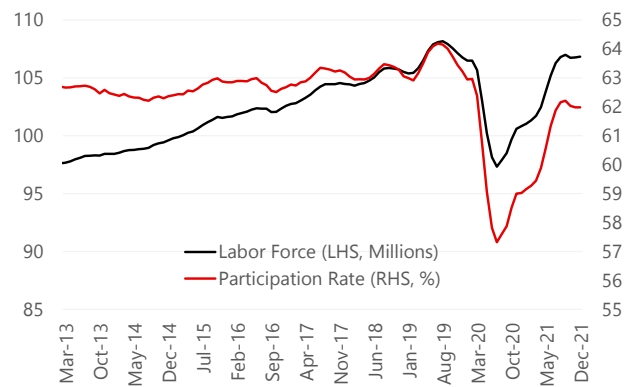
The labor market participation rate stood at 62.0% (sa), stable relative to November's level. The participation rate has decelerated considerably in the most recent releases, despite still being 1.0 p.p. below the pre-crisis mark. We expect the labor force to return to its pre-pandemic trend in 2022, and the participation rate should normalize sometime in 2H22.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate

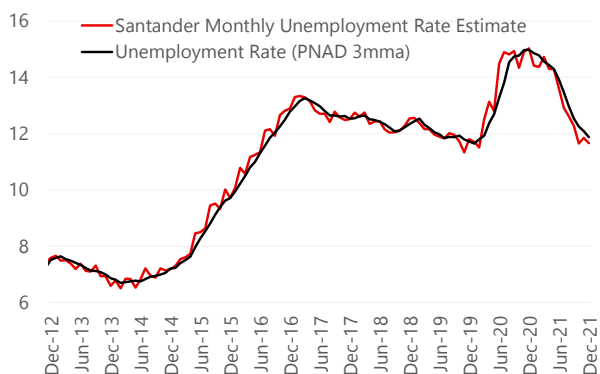


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 11.7% (sa) in December, compared to 11.9% in November. This result followed +0.8% and +0.6% MoM-sa variations in the employed population and the labor force, respectively. Therefore, our estimates for the monthly data show a more positive picture at the margin than the headline suggests.



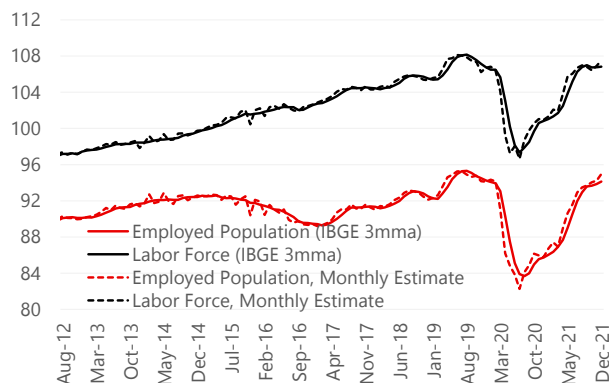
**Figure 4. Monthly Unemployment Rate\* (sa)**



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.

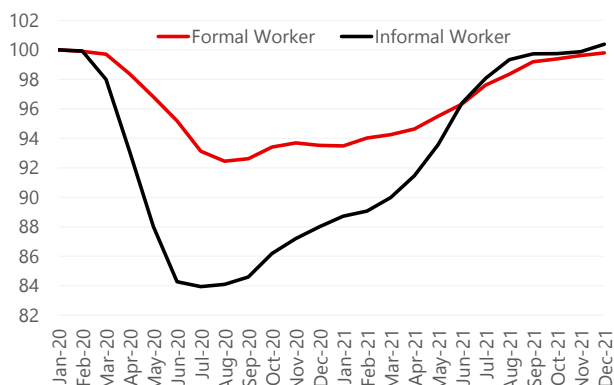
**Figure 5. Employment\* and Labor Force\* (sa)**



Sources: IBGE, Santander.

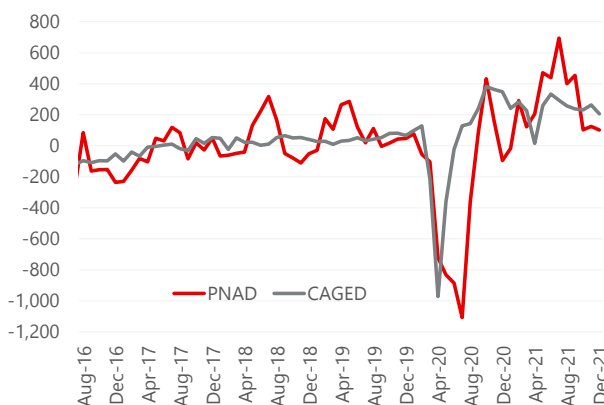
Formal employment posted a +0.2% MoM-sa variation, while informal employment showed 0.5% MoM-sa growth, after remaining stable for the three months in a row. This result led the formalization rate to 57.2% (sa), stable compared to November. In our view, the growth in formal employment has decelerated and is now closer to a long-term growth trend. However, 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. Informal employment has posted positive growth at the margin, after staying virtually stable since September.

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



Sources: IBGE, Santander.

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

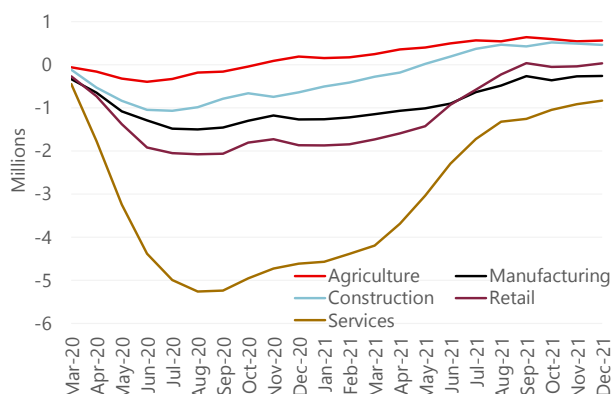


Sources: IBGE, Ministry of Labor, Santander.

The main contributions to December's employment growth came from services and retail, still benefiting from the reopening process. The accumulated job losses in the services sector since the beginning of the pandemic are now below 1.0 million, but that sector still the one showing the largest gap from 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 highlight of the December results was private sector workers.

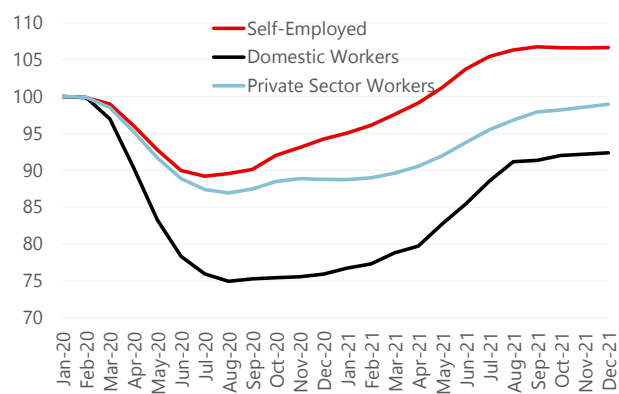


**Figure 8. Post-Pandemic Accumulated Job Losses (sa)**



Sources: IBGE, Santander.

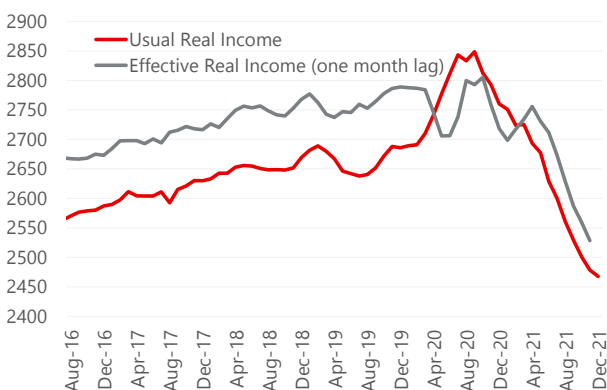
**Figure 9. Employment by Position (sa, Jan-20=100)**



Sources: IBGE, Santander.

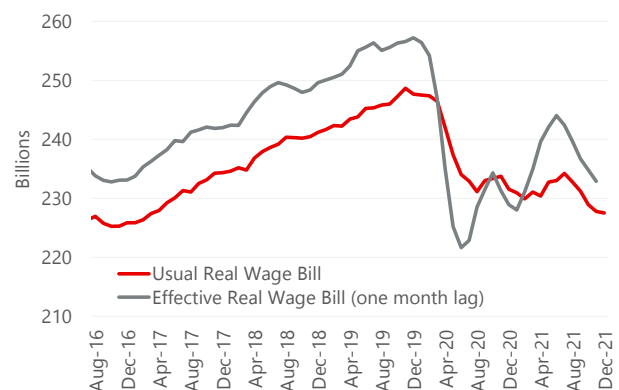
As for the real income indicators, the picture remains concerning. The effective real wage bill posted a 0.8% MoM-sa decrease in November (data lagged one month relative to other PNAD series), while the usual real wage bill decreased 0.1% MoM-sa in December, due to the sharp drop in average income. The two series are 8.4% and 8.0% below their pre-crisis marks, respectively. Real income continues to show a negative trend, as inflation remains high, but the December data indicates that usual real income may be stabilizing at the margin.

**Figure 10. Average Real Income (sa)**



Sources: IBGE, Santander.

**Figure 11. Real Wage Bill (sa)**



Sources: IBGE, Santander.

**Final Remarks**

In our view, the December PNAD result shows that the labor market has accelerated at the margin. Our estimates for monthly labor market data showed considerable MoM increases in both the labor force and the employed population. We expect the employed population’s growth to decelerate in the coming months, as the reopening effect gradually fades and the guarantees from the BEm formal jobs program expire. We also expect the participation rate to gradually return to levels closer to the pre-crisis mark throughout 2022. Therefore, we believe the seasonally adjusted unemployment rate will start increasing again soon. The average real income indicators continued to fall at the margin and remain substantially below their pre-crisis marks, mainly due to high inflation.

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