

Strong Labor Market Results in March

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate was 11.1% in the three months through March. The figure was below our estimate and the market consensus (both at 11.4%), implying a 3.8 p.p. drop from the year-ago level (14.9%). We calculate that the seasonally adjusted jobless rate stood at 10.9%, a decrease from February's level (11.2%).
- The decline in the seasonally adjusted unemployment rate stemmed from a 0.7% increase in the employed population, as the labor force increased 0.3% MoM-sa. The labor market participation rate stood at 61.9% (sa), a 0.1 p.p. increase compared to the February level and 1.1 p.p. below the pre-pandemic level (February 2020). Formal employment posted a +0.9% MoM-sa variation, while informal employment showed a +0.7% MoM-sa variation.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 10.7% (sa) in March, compared to 11.0% in February. This result followed +1.5% and +1.3% MoM-sa variations in the employed population and the labor force, respectively. After January's sharp drop in employed population and the labor force, due to the Omicron outbreak, and the partial recovery in February, March data has fully offset these negative impacts.
- The effective real wage bill posted a +1.5% MoM-sa variation in February (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.6% MoM-sa in March. The two series are 6.4% and 6.6% below their pre-crisis marks, respectively.
- According to the March CAGED survey, net formal job creation stood at 136.2k (vs. consensus at 130k and Santander's estimate of 200k), above the historical average for the month (56.9k) and below the level observed in March 2021 (176.3k). After our seasonal adjustment, we calculate that net formal job creation accelerated to 232k, from 209k in February. The number of hirings increased 0.4% MoM-sa, while layoffs decreased 0.9% MoM-sa. The three-month average now points to a payroll expansion of 204k jobs, from 192k in February.
- Once again, IBGE's labor market survey surprised on the upside, with the lowest unemployment rate since 2016 (in seasonally adjusted terms). In our view, the results were strong, and the breakdown also indicates more favorable signs that the labor market has fully recovered from the Omicron outbreak. The monthly data showed significant MoM increases in both the labor force and the employed population. The larger recovery for the employed population compared to the labor force led the unemployment rate to drop further at the margin. We maintain our view that growth in the employed population will decelerate in the coming months, and we expect the participation rate to return to levels closer to those before the pandemic. However, the strength of employment in recent months and the participation rate remaining at lower levels for longer than we expected, imply downside risk for our unemployment rate forecasts.
- The March PNAD results have led us to revise our 1Q22 GDP tracking to +0.5% QoQ-sa (from +0.3% QoQ-sa).



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate was 11.1% in the three months to March, below our estimate and market consensus (both at 11.4%), implying a 3.8 p.p. drop from the year-ago rate of 14.9%. We estimate that the seasonally adjusted unemployment rate fell to 10.9% from the February level of 11.2%. The performance of the seasonally adjusted unemployment rate stemmed from 0.7% and 0.3% MoM-sa increases in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Jan-22	Feb-22	Mar-22	Jan-22	Feb-22	Mar-22	Jan-22	Feb-22	Mar-22
Unemployment rate (%)	11.5	11.2	10.9	-3.3	-3.4	-3.8	-0.2	-0.5	-0.8
Participation rate (%)	61.8	61.8	61.9	2.6	2.4	2.3	-1.2	-1.2	-1.1
Labor force (millions)	106.6	106.6	107.0	5.4	4.9	4.8	-0.1	0.0	0.3
Employment	94.3	94.7	95.4	9.4	9.1	9.4	0.2	0.5	1.3
Unemployment	12.2	12.0	11.6	-18.3	-19.5	-21.7	-1.9	-4.1	-6.9
Formalization Rate (%)	57.2	57.1	57.1	-1.3	-1.4	-1.3	0.0	-0.1	-0.1
Formal Workers (millions)	54.0	54.1	54.5	6.9	6.4	7.1	0.3	0.3	1.2
Informal Workers (millions)	40.4	40.6	40.9	13.0	12.9	12.7	0.2	0.8	1.6
Average usual earnings (BRL)**	2,551	2,549	2,546	-9.7	-8.7	-8.6	-7.6	-7.6	-7.7
Average effective earnings (BRL)**	2,595	2,617	-	-6.6	-6.2	-	-9.2	-8.4	-
Usual wage bill (BRL bn)**	235.1	235.8	237.2	-0.9	-0.2	0.2	-7.4	-7.2	-6.6
Effective wage bill (BRL bn)**	240.7	244.3	-	2.1	2.9	-	-7.8	-6.4	-

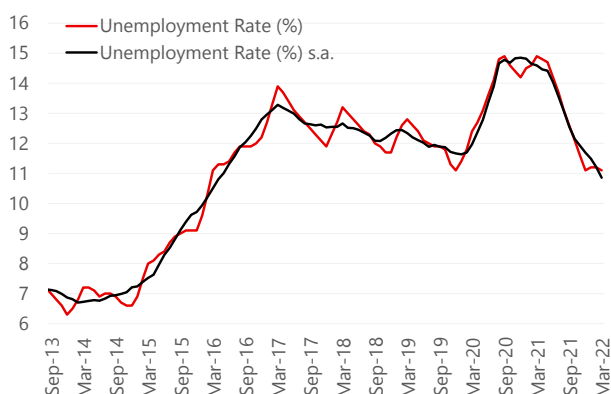
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

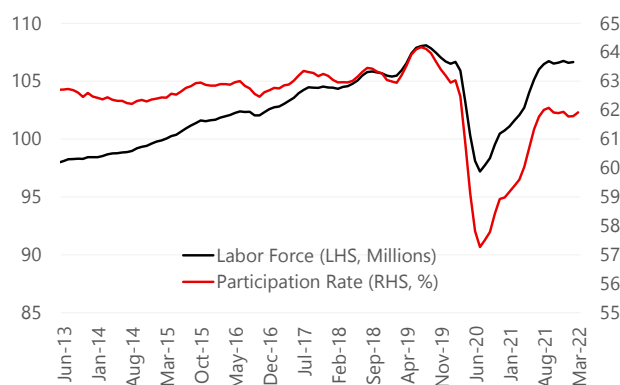
The labor market participation rate stood at 61.9% (sa), an increase from the February level (61.8%), and 1.1 p.p. below the pre-crisis mark. In our view, the Omicron outbreak that hit Brazil in January has affected recent results, as the number of people searching for jobs dropped, and the participation rate has resumed a slight downward trend. As the Omicron outbreak was of relatively short duration, March results have fully offset the previous 1Q22 impacts.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate

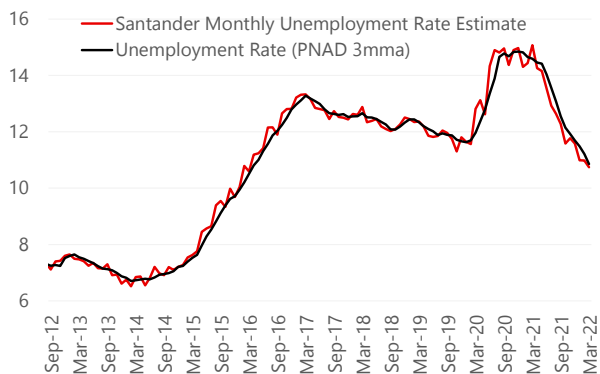


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 10.7% (sa) in March, compared to 11.0% in February. This result followed +1.5% and +1.3% MoM-sa variations in the employed population and the labor force, respectively. After January's sharp drop in employed population and the labor force, due to the Omicron outbreak, and the partial recovery in February, March data has fully offset these negative impacts.



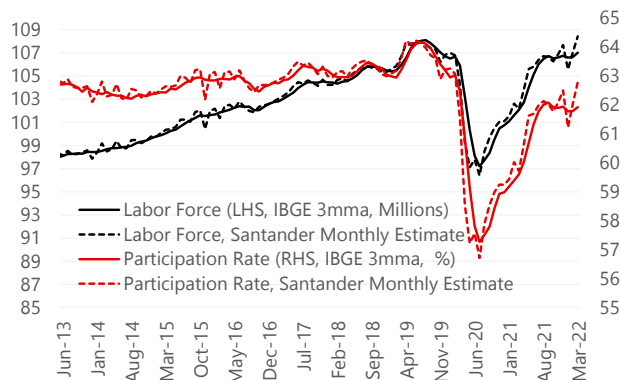
Figure 4. Monthly Unemployment Rate* (sa)



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.

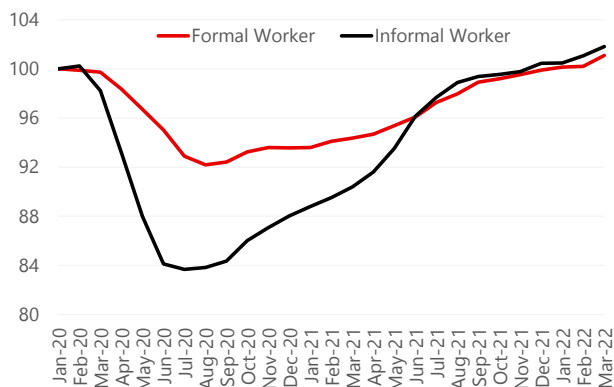
Figure 5. Employment* and Labor Force* (sa)



Sources: IBGE, Santander.

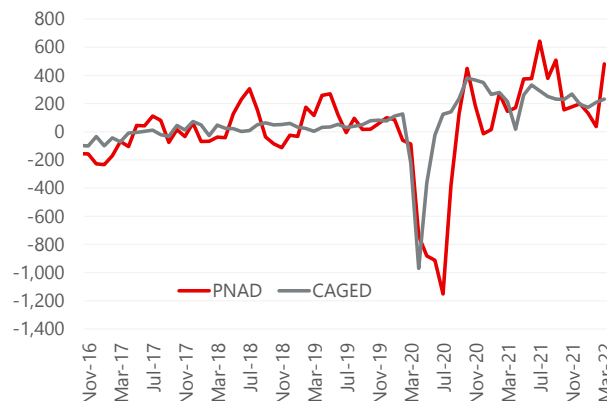
Formal employment posted a +0.9% MoM-sa variation, while informal employment showed a 0.7% MoM-sa increase, another possible consequence of the decrease in COVID-19 infections. This result led the formalization rate to 57.1% (sa), stable compared to the February level. We project that employment growth is likely to decelerate in the coming months, as the effect of the economic reopening should fade, 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)

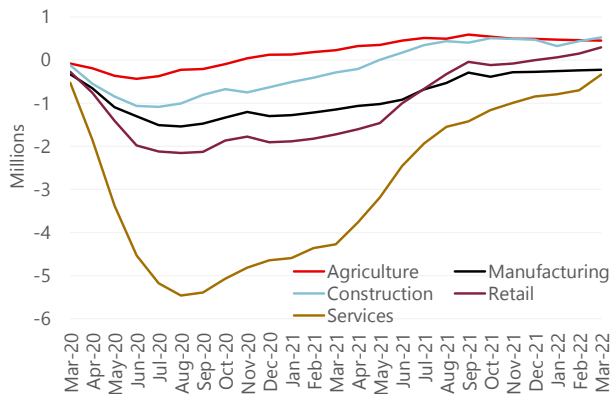


Sources: IBGE, Ministry of Labor, Santander.

The services sector has been the highlight of employment growth among the main segments, and is now close to fully recovering the jobs lost during the pandemic. Most sectors have indicated increases in employment in March. Another highlight in March's employment growth was private sector workers. However, the number of self-employed workers continues to be high, which indicates still difficult conditions in the job market, especially for informal workers.

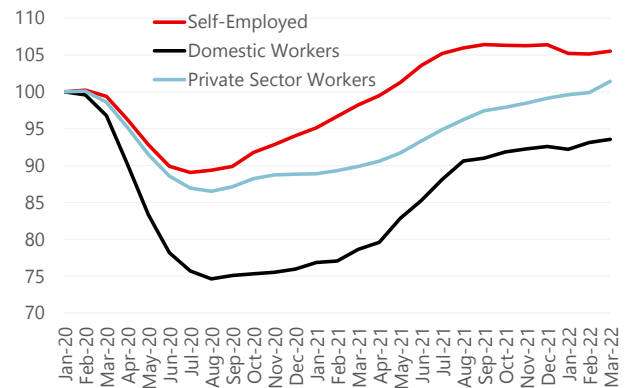


Figure 8. Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

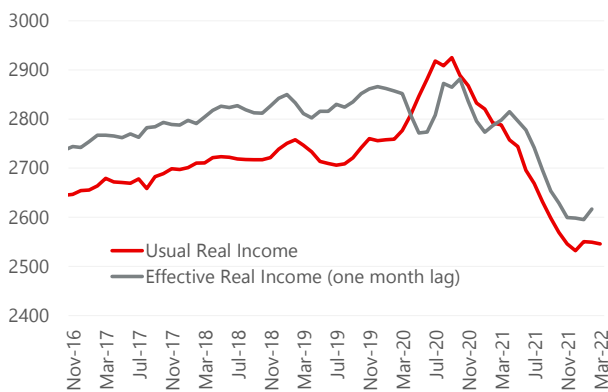
Figure 9. Employment by Position (sa, Jan-20=100)



Sources: IBGE, Santander.

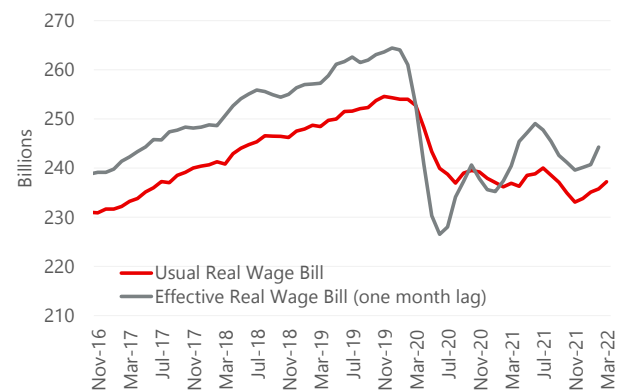
As for the real income indicators, the picture showed another improvement at the margin. The effective real wage bill posted a +1.5% MoM-sa variation in February (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.6% MoM-sa in March. The two series are 6.4% and 6.6% below their pre-crisis marks, respectively. The average effective real income showed a +0.8% MoM-sa variation, the largest increase since August 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 March CAGED survey, net formal job creation stood at 136.2k (vs. consensus at 130k and Santander's estimate of 200k), above the historical average for the month (56.9k) and below the number observed in March 2021 (176.3k).

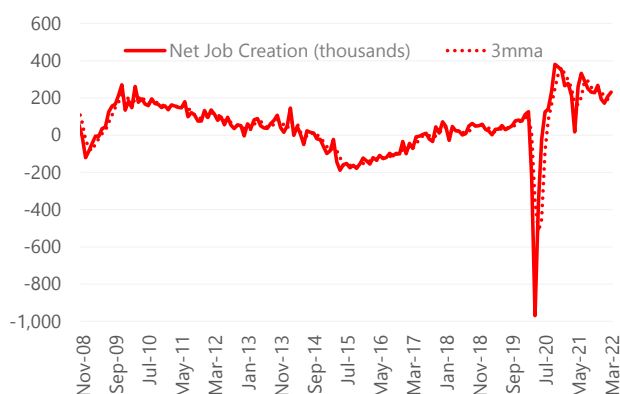
Figure 12 – CAGED Breakdown (thousands)

	Headline			Headline (s.a.)		
	Jan-22	Feb-22	Mar-22	Jan-22	Feb-22	Mar-22
Net Creation	155.2	328.5	136.2	172.4	208.9	231.8
Creation	1,777.6	2,013.1	1,953.1	1,789.3	1,860.2	1,868.0
Destruction	1,622.5	1,684.6	1,816.9	1,616.9	1,651.3	1,636.2
Mining	0.5	1.9	0.9	0.6	1.0	0.5
Construction	36.8	39.5	25.1	14.8	24.4	28.5
Manufacturing	48.8	38.6	12.1	8.5	1.6	6.6
Retail	-60.1	13.2	0.4	16.8	24.4	34.2
Agriculture	25.0	17.4	-16.0	14.9	19.1	-6.5
Services	100.8	203.7	105.9	84.9	83.1	87.6

Sources: Ministry of Labor, Santander.

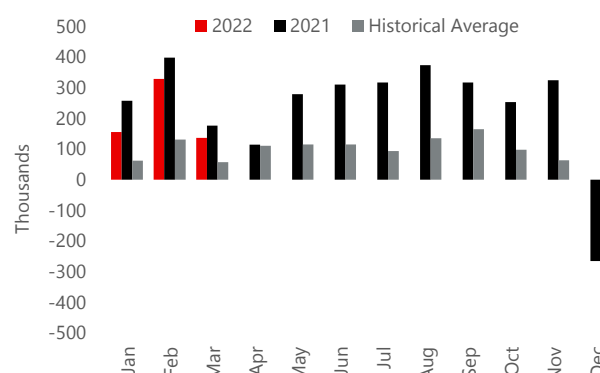
After our seasonal adjustment, we calculate that net formal job creation accelerated to 232k, from 209k in February. The number of hirings increased 0.4% MoM-sa, while layoffs decreased 0.9% MoM-sa. The three-month average now points to payroll expansion of 204k jobs, from 192k in January. The figure for March was the first acceleration in the three-month moving average since November.

Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

Figure 14. Net Formal Job Creation

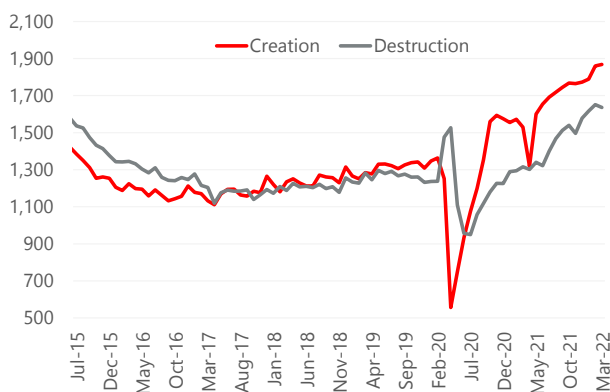


Sources: Ministry of Labor, Santander.

The February net result stemmed from slight growth in hiring, while the layoffs had a small decrease. Considering the three-month moving averages, all the main segments indicate deceleration in net job creation, especially the services sector. 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.

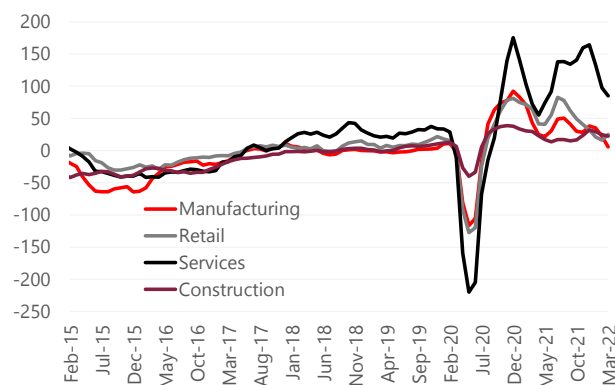


Figure 15. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

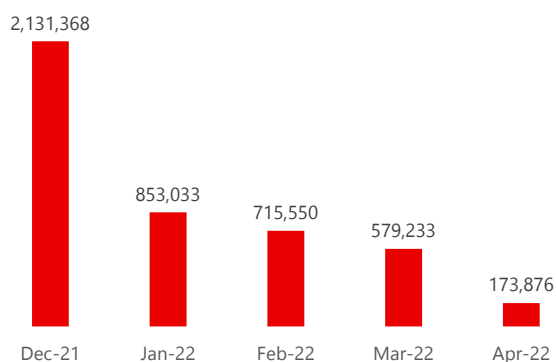
Figure 16. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

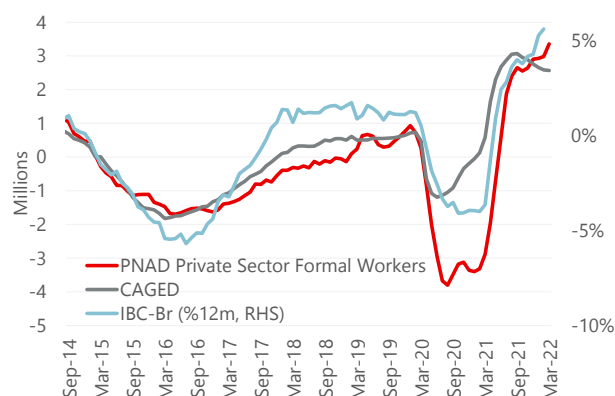
We believe that the end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) on August 26 continued to affect the data, as the layoffs series continue to be close to the recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program’s temporary job guarantee as the waiver periods for layoffs of the program’s beneficiaries gradually expire. The Ministry of Labor estimates that there will be no more workers under this guarantee from May onward.

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

Once again, IBGE’s labor market survey surprised on the upside, with the lowest unemployment rate since 2016 (in seasonally adjusted terms). In our view, the results were strong, and the breakdown also indicates more favorable signs that the labor market has fully recovered from the Omicron outbreak. The monthly data showed significant MoM increases in both the labor force and the employed population. The larger recovery for the employed population compared to the labor force led the unemployment rate to drop further at the margin. We maintain our view that growth in the employed population will decelerate in the coming months, and we expect the participation rate to return to levels closer to those before the pandemic. However, the strength of employment in recent months and the participation rate remaining at lower levels for longer than we expected imply downside risk for our unemployment rate forecasts.

The March PNAD results have led us to revise our 1Q22 GDP tracking to +0.5% QoQ-sa (from +0.3% QoQ-sa). **For details on Santander’s activity outlook, please refer to our last chartbook¹.**

¹ **Santander Brazil Economic Activity: “Resilience in 2022, but with Concerns Regarding 2023”** – April 19, 2022 – Available on: <https://bit.ly/Std-chart-Econact-apr22>

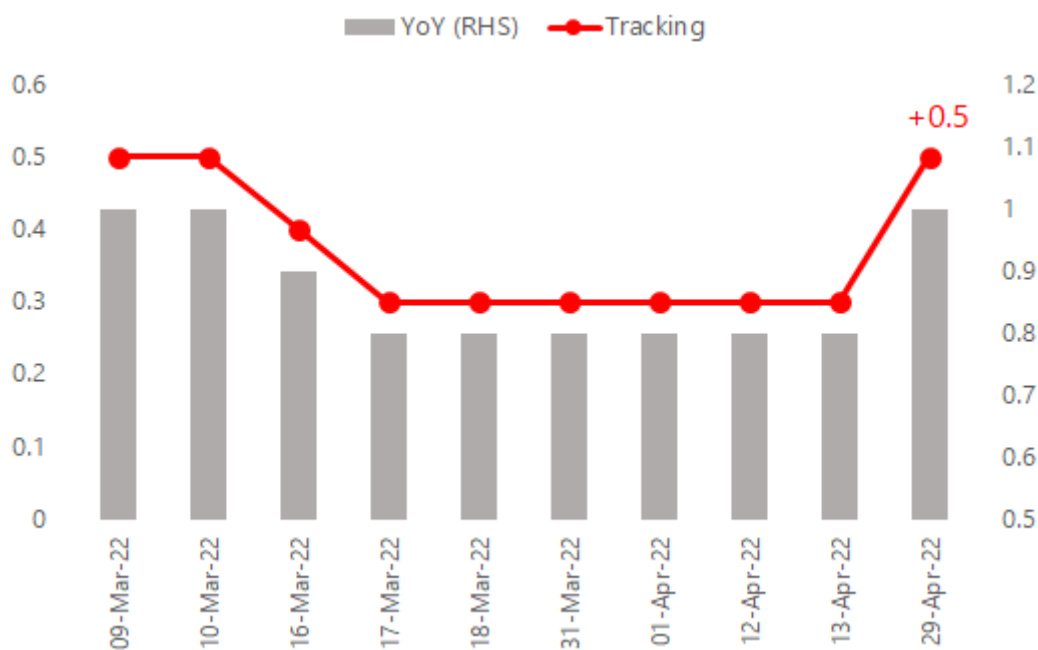


Figure 19 – 1Q22 GDP Growth Tracking (% , QoQ-sa and YoY-nsa)

1Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
09-Mar-22	Industry	Jan-22	0.5	1.0	0.5	1.0
10-Mar-22	Retail Sales	Jan-22	0.5	1.0	0.5	1.0
16-Mar-22	Services	Jan-22	0.4	0.9	0.5	1.0
17-Mar-22	IBC-Br	Jan-22	0.3	0.8	0.5	1.0
18-Mar-22	PNAD	Jan-22	0.3	0.8	0.5	1.0
31-Mar-22	PNAD	Feb-22	0.3	0.8	0.5	1.0
01-Apr-22	Industry	Feb-22	0.3	0.8	0.5	1.0
12-Apr-22	Services	Feb-22	0.3	0.8	0.5	1.0
13-Apr-22	Retail Sales	Feb-22	0.3	0.8	0.5	1.0
29-Apr-22	PNAD	Mar-22	0.5	1.0	0.5	1.0

Sources: IBGE, BCB, Santander.

Figure 20 – Santander GDP Tracking



Sources: IBGE, BCB, Santander.



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