

Slower Employment Growth at the Margin, with Lower Real Wages

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

- According to the IBGE's National Household Survey (PNAD) released on Friday (January 28), the unemployment rate stood at 11.6% in the three months through November. The result was slightly above our estimate (11.5%) and slightly below the market consensus (11.7%), implying a 2.8 p.p. drop from the year-ago level (14.4%). We calculate that the seasonally adjusted jobless rate stood at 12.1%, a decrease from October's level (12.3%).
- The decline in the seasonally adjusted unemployment rate stemmed from a 0.2% increase in the employed population, while the labor force decreased 0.1% MoM-sa. The labor market participation rate stood at 61.9% (sa), a decrease from October (62.0%) and 1.1 p.p. below the pre-pandemic level (February 2020). Formal employment posted a +0.2% MoM-sa variation, while informal employment had a 0.0% MoM-sa variation.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 11.9% (sa) in November, compared to 11.7% in October. This result followed +0.1% and +0.4% MoM-sa variations in employed population and the labor force, respectively. Therefore, our estimates for the monthly data show a more negative picture than the headline suggests.
- The effective real wage bill posted a 0.6% MoM-sa decrease in October (data lagged one month relative to other PNAD series), while the usual real wage bill decreased 0.8% MoM-sa in November. The two series are 7.5% and 8.4% below their pre-crisis marks, respectively.
- According to the December 2021 CAGED survey, net (unadjusted) formal job creation stood at -265.8k, (vs. consensus +175k, Santander estimate -181k), above the historical average (-371.6k) and below the all-time record for the month (-82.1k in December 2020). The result followed the seasonal pattern of net job destruction in December, but surprised on the downside.
- After our seasonal adjustment, we calculate that net formal job creation decelerated to 206k, from 263k in November. The number of hirings decreased 0.2% MoM-sa, while layoffs increased 3.6% MoM-sa. The three-month average now points to a payroll expansion of 233k jobs, from 244k in November.
- In our view, the current batch of labor market data indicates deceleration at the margin, with the effects of the economic reopening fading, and the ongoing impact of the end of the BEm program leading to more layoffs. Based on the PNAD survey, the resumption of growth in the labor force has limited the drop in the unemployment rate, as the employed population grows at a slower pace. We expect this behavior to persist in the coming months, as the participation rate returns to pre-crisis levels and the effects of the economic reopening on employment tend to fade. Therefore, the seasonally adjusted unemployment rate is likely to start increasing again soon, in our view.
- The average real income indicators continued to fall at the margin and remain substantially below the pre-crisis marks, due to both high inflation and the lower-quality jobs that are being recovered, on average.



November PNAD Results

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 11.6% in the three months to November, between our estimate (11.5%) and market consensus (11.7%), implying a 2.8 p.p. drop from the year-ago rate of 14.4%. We estimate that the seasonally adjusted unemployment rate fell to 12.1% from the October level of 12.3%. The behavior of the seasonally adjusted unemployment rate stemmed from an increase of 0.2% MoM-sa in the employed population, as the labor force posted a 0.1% MoM-sa drop.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21
Unemployment rate (%)	12.5	12.3	12.1	-2.3	-2.5	-2.8	0.7	0.5	0.3
Participation rate (%)	62.1	62.0	61.9	4.3	3.5	3.0	-0.8	-1.0	-1.1
Labor force (millions)	106.9	106.7	106.6	8.6	7.0	6.2	0.4	0.2	0.1
Employment	93.5	93.6	93.8	11.4	10.2	9.7	-0.5	-0.4	-0.2
Unemployment	13.4	13.1	12.9	-7.8	-11.3	-14.5	6.4	4.1	2.3
Formalization Rate (%)	57.2	57.2	57.3	-2.3	-2.0	-1.8	-0.1	0.0	0.0
Formal Workers (millions)	53.4	53.5	53.7	7.1	6.4	6.3	-0.7	-0.5	-0.3
Informal Workers (millions)	40.0	40.0	40.0	17.7	15.6	14.3	-0.5	-0.5	-0.5
Average usual earnings (BRL)**	2,506	2,476	2,453	-11.1	-11.1	-11.4	-6.1	-7.2	-8.0
Average effective earnings (BRL)**	2,567	2,544	-	-7.3	-8.7	-	-6.9	-7.8	-
Usual wage bill (BRL bn)**	228.9	226.5	224.7	-0.8	-1.9	-2.6	-6.7	-7.6	-8.4
Effective wage bill (BRL bn)**	234.7	233.3	-	2.3	0.3	-	-6.9	-7.5	-

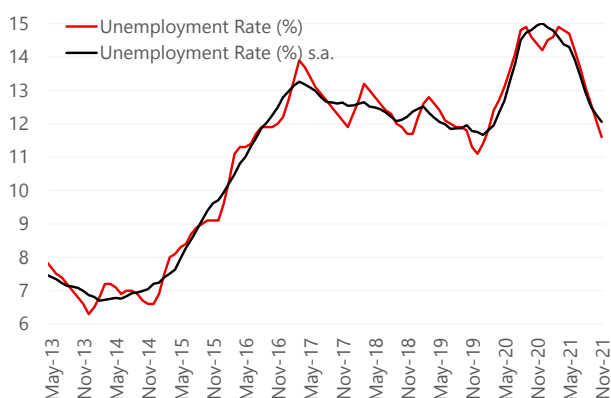
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

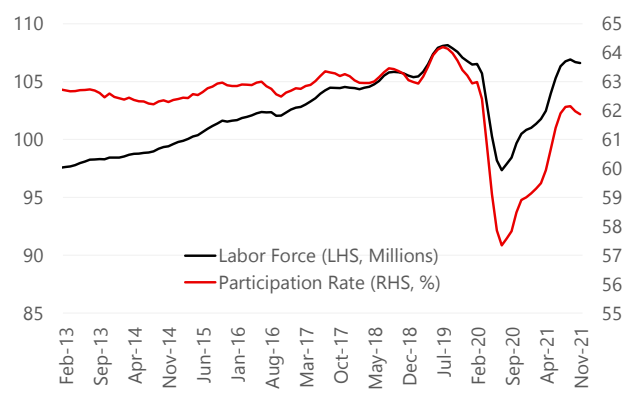
The labor market participation rate stood at 61.9% (sa), a decrease from October (62.0%). This was the second drop in a row for the participation rate, which has decelerated considerably in the most recent releases, despite still being 1.1 p.p. below the pre-crisis mark. We expect the labor force to return to the pre-pandemic trend in 2022, and the participation rate should normalize.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate

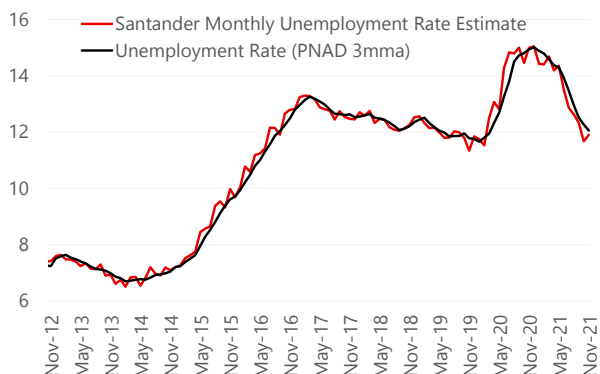


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 11.9% (sa) in November, compared to 11.7% in October. This result followed +0.1% and +0.4% MoM-sa variations in employed population and the labor force, respectively. Therefore, our estimates for the monthly data show a more negative picture than the headline suggests.



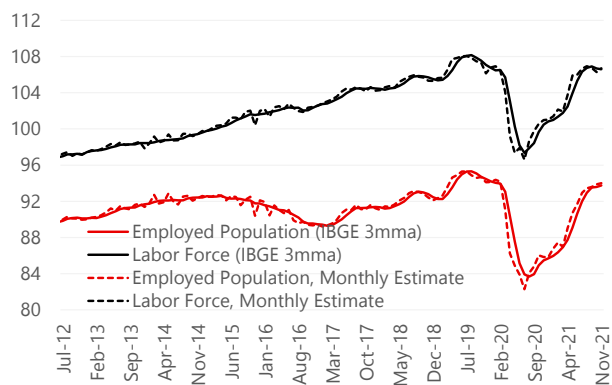
Figure 4. Monthly Unemployment Rate* (sa)



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.

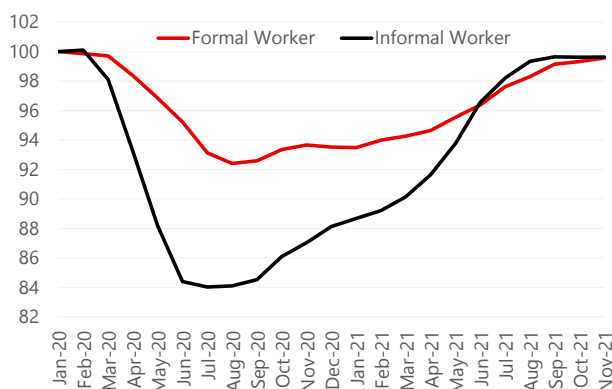
Figure 5. Employment* and Labor Force* (sa)



Sources: IBGE, Santander.

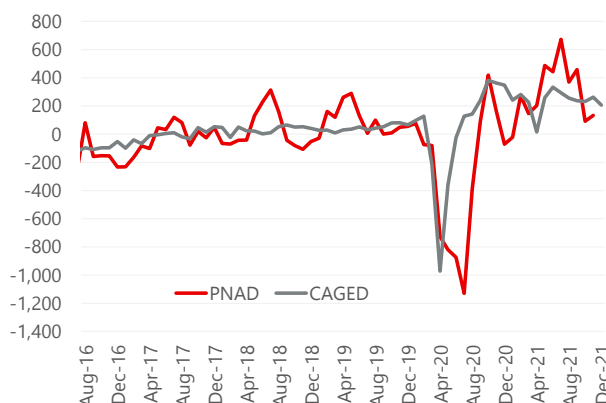
Formal employment posted a +0.2% MoM-sa variation, while informal employment remained stable for the third month in a row. This result led the formalization rate to 57.3% (sa), a slight increase from October (57.2%). In our view, the growth in formal employment still seems to be decelerating, as the effect of normalization seen in the PNAD survey and the impact of the economic reopening are fading. Informal employment, on the other hand, has consolidated the loss of momentum. We note that the survey has recently resumed in-person interviews, after carrying out the interview by phone for more than a year.

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



Sources: IBGE, Santander.

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

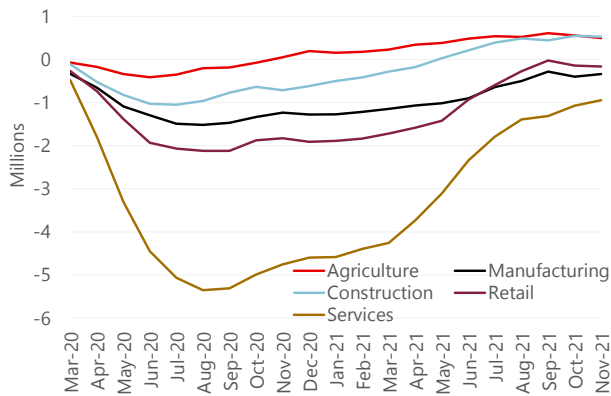


Sources: IBGE, Ministry of Labor, Santander.

The main contributions to November's employment growth came from services, as it is still the sector showing the greatest gap relative to the pre-pandemic level. The accumulated job losses in the services sector since the beginning of the pandemic are still close to 1.0 million. The highlight in employment recovery since 2H20 is self-employed workers, which indicates difficult conditions in the job market, especially for informal workers. The number of domestic workers employed showed considerable growth in July and August, but that figure has decelerated since September.

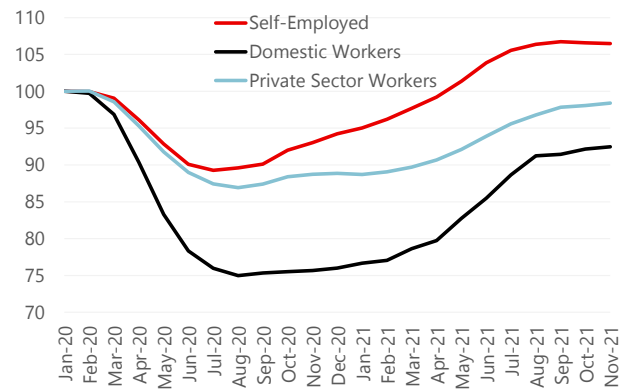


Figure 8. Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

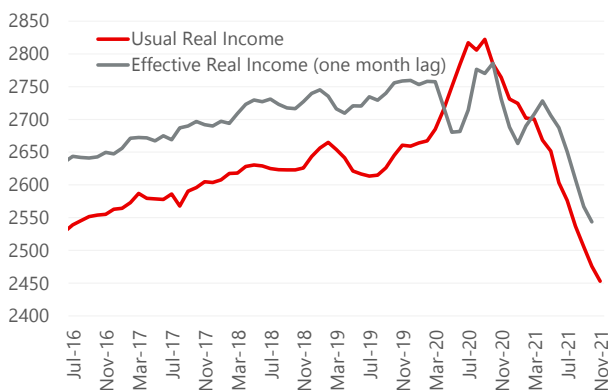
Figure 9. Employment by Position (sa, Jan-20=100)



Sources: IBGE, Santander.

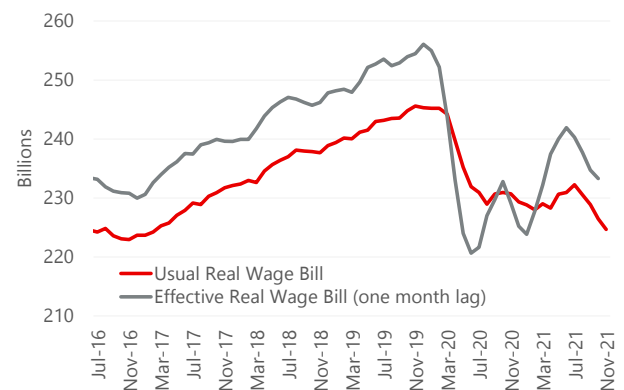
As for the real income indicators, the picture remains concerning. The effective real wage bill posted a 0.6% MoM-sa decrease in October (data lagged one month relative to other PNAD series), while the usual real wage bill decreased 0.8% MoM-sa in November, due to the sharp drop in average income. The two series are 7.5% and 8.4%, respectively, below their pre-crisis marks. Real income continues to show a negative trend, as people returning to the labor market are obtaining lower wages, and inflation remains high.

Figure 10. Average Real Income (sa)



Sources: IBGE, Santander.

Figure 11. Real Wage Bill (sa)



Sources: IBGE, Santander.

December CAGED results

According to the December CAGED survey, net formal job creation stood at -265.8k (vs. consensus at -175k and Santander’s estimate of -181k), above its historical average (-371.6k) and below its all-time record for the month (-82.1k in December 2020). The result followed the seasonal pattern of net job destruction in December, but surprised on the downside.



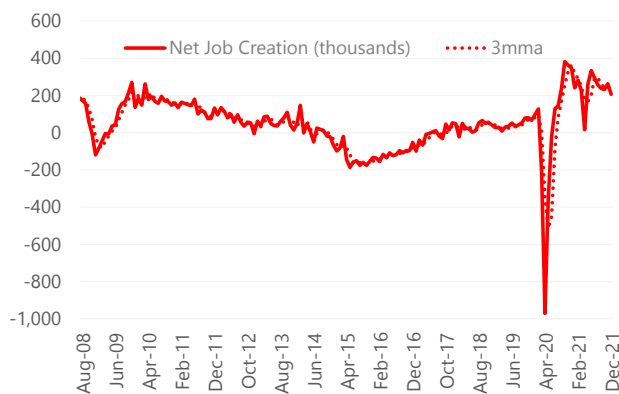
Figure 12 – CAGED Breakdown (thousands)

	Headline			Headline (s.a.)		
	Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21
Net Creation	253.1	324.1	-265.8	231.4	263.0	206.3
Creation	1760.7	1772.8	1437.9	1764.4	1760.5	1757.4
Destruction	1507.7	1448.7	1703.7	1533.0	1497.6	1551.1
Mining	1.2	0.5	-1.1	1.3	1.7	1.4
Construction	17.2	12.5	-52.0	20.2	37.9	38.9
Manufacturing	23.7	5.9	-88.3	15.5	40.8	61.7
Retail	70.4	139.3	9.0	43.5	38.6	8.9
Agriculture	-5.8	-16.8	-26.1	7.5	9.2	37.5
Services	143.7	181.0	-86.9	154.7	189.8	137.3

Sources: Ministry of Labor, Santander.

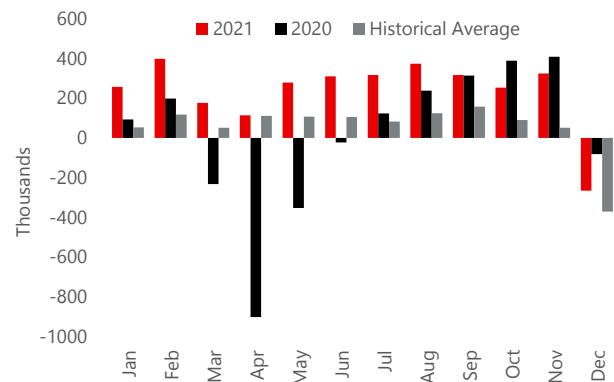
After our seasonal adjustment, we calculate that net formal job creation decelerated to 206k, from 263k in November. The number of hirings decreased 0.2% MoM-sa, while layoffs increased 3.6% MoM-sa. The three-month average now points to payroll expansion of 233k jobs, from 244k in November. After a positive surprise in November, CAGED numbers have resumed a deceleration at the margin.

Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

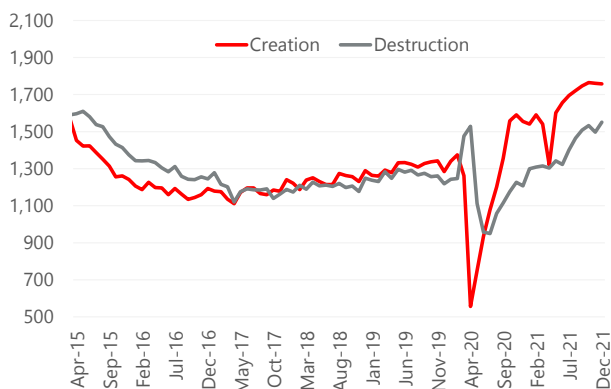
Figure 14. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

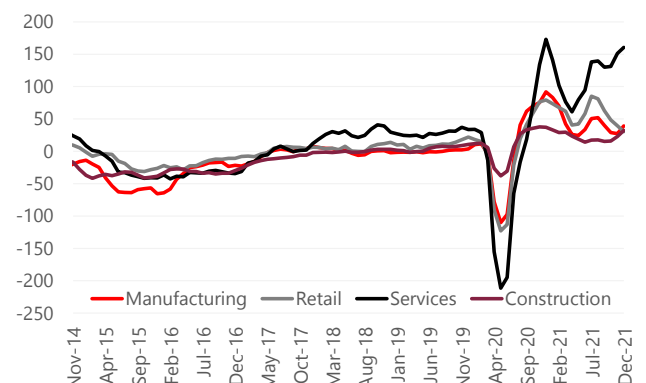
The December net result stemmed from deceleration in net job creation, especially for the retail and manufacturing sectors. On the other hand, services and construction have shown some resilience in the past few months. The sectors that are more dependent on social interaction remain the highlights in job creation, but we expect employment in these sectors to tend to decelerate 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)



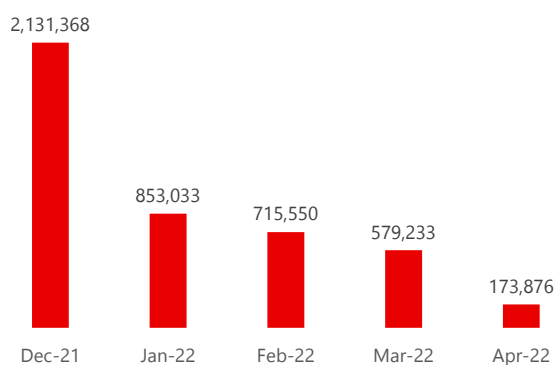
Sources: Ministry of Labor, Santander.



With the December result, 2021 net formal job creation closed at 2.731 million (still subject to adjustments due to additional post-deadline announcements). In November, 12-month accumulated net job creation was 2.839 million. With that result, 2021 consolidated the largest net job creation result in the whole CAGED series, due to the rebound from the negative performance in 2020 and the economic reopening effect.

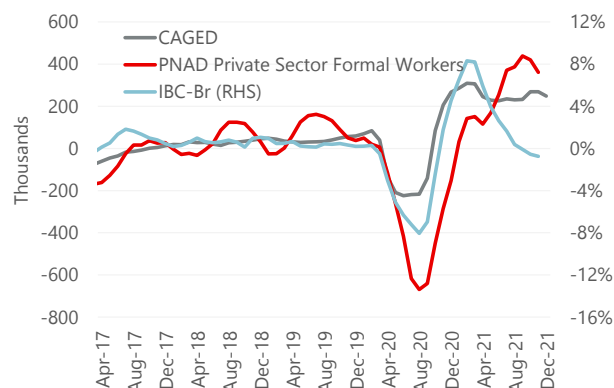
We believe that the end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) on August 26 continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program’s 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 (6m, sa)



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

Final Remarks

In our view, the current batch of labor market data indicates deceleration at the margin, with the economic reopening effect fading, and the ongoing impact of the end of the BEm program leading to more layoffs. According to the PNAD survey, the resumption of growth in the labor force has limited the drop in the unemployment rate, as the employed population grows at a slower pace. We expect this behavior to persist in the coming months, as the participation rate returns to pre-crisis levels and the effects of the economic reopening on employment tend to fade. Therefore, the seasonally adjusted unemployment rate is likely to start increasing again soon, in our view. The average real income indicators continued to fall at the margin and remain substantially below their pre-crisis marks, due to both high inflation and the lower-quality jobs that are being recovered, on average. As for the CAGED survey, it showed that the deceleration in hirings consolidated in December, as layoffs reached new highs.



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.

