

## Positive Surprises for Labor Market in February

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate was 11.2% in the three months through February. The figure was below both our estimate (11.3%) and the market consensus (11.4%), implying a 3.4 p.p. drop from the year-ago level (14.6%). We calculate that the seasonally adjusted jobless rate stood at 11.2%, a decrease from January's level (11.5%).
- The decline in the seasonally adjusted unemployment rate stemmed from a 0.3% increase in the employed population, as the labor force showed a 0.1% MoM-sa decrease. The labor market participation rate stood at 61.7% (sa), stable compared to the January level 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 11.0% (sa) in February, compared to 11.2% in January. This result followed +1.0% and +0.8% MoM-sa variations in the employed population and the labor force, respectively. After January's sharp drop in both the employed population and the labor force due to the outbreak of the Omicron variant of COVID-19, both series partially recovered in February, still leaving room for further volatility in March.
- The effective real wage bill posted a 0.0% MoM-sa variation in January (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.2% MoM-sa in February. The two series are 8.7% and 7.3% below their pre-crisis marks, respectively.
- According to the February CAGED survey, released on March 29, net (unadjusted) formal job creation stood at 328.5k (vs. consensus 220k, Santander estimate 180k), above the historical average (130.4k) and below the all-time record for the month (397.9k in February 2021). After our seasonal adjustment, we calculate that net formal job creation decelerated to 200.2k, from 165.8k in January. The number of hirings increased 3.8% MoM-sa, while layoffs increased 2.1% MoM-sa. The three-month average now points to a payroll expansion of 184.6k jobs, from 206.3k in January.
- Both labor market surveys for February surprised on the upside. In our view, the PNAD result shows that the labor market has partially recovered from the Omicron outbreak. The monthly data showed significant MoM increases in both the labor force and the employed population, but both series are still below the December level. The larger recovery for the employed population compared to the labor force led the unemployment rate to drop 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, especially considering the relatively short duration of the Omicron outbreak. Therefore, we expect the seasonally adjusted unemployment rate to start increasing again soon.



## PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate was 11.2% in the three months to February, below both our estimate (11.3%) and market consensus (11.4%), implying a 3.4 p.p. drop from the year-ago rate of 14.6%. We estimate that the seasonally adjusted unemployment rate fell to 11.2% from the January level of 11.5%. The performance of the seasonally adjusted unemployment rate stemmed from an increase of 0.3% in the employed population, as the labor force dropped 0.1% MoM-sa.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22
<b>Unemployment rate (%)</b>	<b>11.8</b>	<b>11.5</b>	<b>11.2</b>	<b>-3.1</b>	<b>-3.3</b>	<b>-3.4</b>	<b>0.1</b>	<b>-0.2</b>	<b>-0.5</b>
Participation rate (%)	62.0	61.7	61.7	3.0	2.6	2.4	-1.0	-1.3	-1.3
Labor force (millions)	106.8	106.4	106.4	6.0	5.4	4.9	0.2	-0.1	-0.2
Employment	94.2	94.2	94.4	9.8	9.4	9.1	0.1	0.1	0.4
Unemployment	12.6	12.2	11.9	-16.7	-18.3	-19.5	0.7	-2.0	-4.4
<b>Formalization Rate (%)</b>	<b>57.2</b>	<b>57.2</b>	<b>57.2</b>	<b>-1.6</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>
Formal Workers (millions)	53.8	53.9	53.9	6.7	6.9	6.4	-0.1	0.1	0.2
Informal Workers (millions)	40.3	40.3	40.4	14.0	13.0	12.9	0.4	0.3	0.7
<b>Average usual earnings (BRL)**</b>	<b>2,508</b>	<b>2,527</b>	<b>2,530</b>	<b>-10.7</b>	<b>-9.7</b>	<b>-8.8</b>	<b>-8.3</b>	<b>-7.6</b>	<b>-7.5</b>
<b>Average effective earnings (BRL)**</b>	<b>2,564</b>	<b>2,562</b>	-	<b>-7.2</b>	<b>-6.6</b>	-	<b>-9.2</b>	<b>-9.3</b>	-
<b>Usual wage bill (BRL bn)**</b>	<b>231.2</b>	<b>232.3</b>	<b>232.8</b>	<b>-1.8</b>	<b>-0.9</b>	<b>-0.2</b>	<b>-7.9</b>	<b>-7.5</b>	<b>-7.3</b>
<b>Effective wage bill (BRL bn)**</b>	<b>236.2</b>	<b>236.3</b>	-	<b>1.8</b>	<b>2.2</b>	-	<b>-8.8</b>	<b>-8.7</b>	-

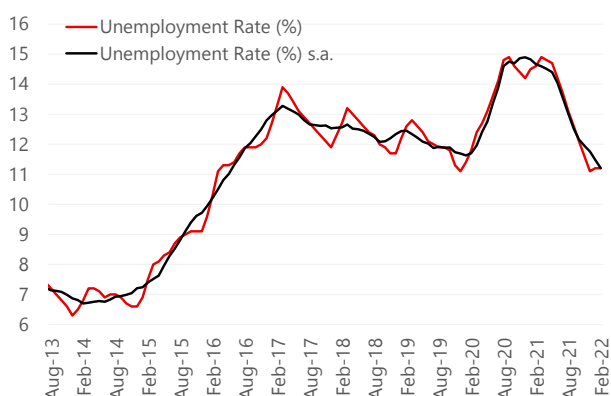
\* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

\*\* In real terms

Sources: IBGE, Santander.

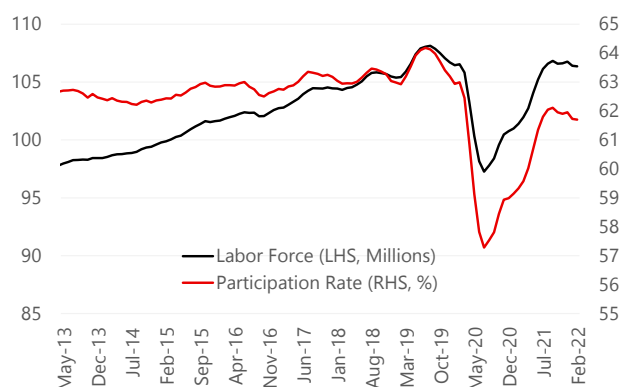
The labor market participation rate stood at 61.7% (sa), stable compared to the January level and 1.3 p.p. below the pre-crisis mark. In our view, the recent Omicron outbreak that hit Brazil in January continues to affect the data, as the number of people searching for jobs dropped and the participation rate has resumed a slight downward trend. As the Omicron outbreak was of relatively short duration, 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

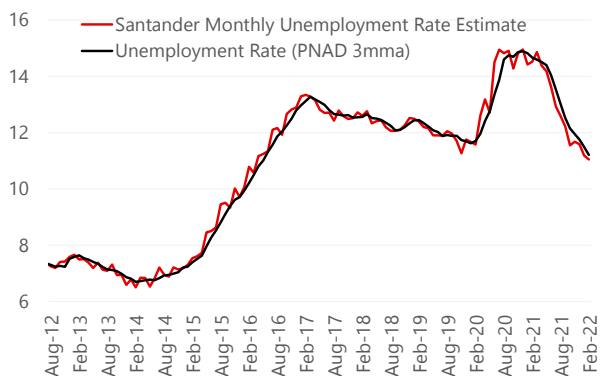


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 11.0% (sa) in February, compared to 11.2% in January. This result followed +1.0% and +0.8% MoM-sa variations in the employed population and the labor force, respectively. After January's sharp drop in both the employed population and the labor force due to the Omicron outbreak, both series partially recovered in February, still leaving room for further volatility in March.



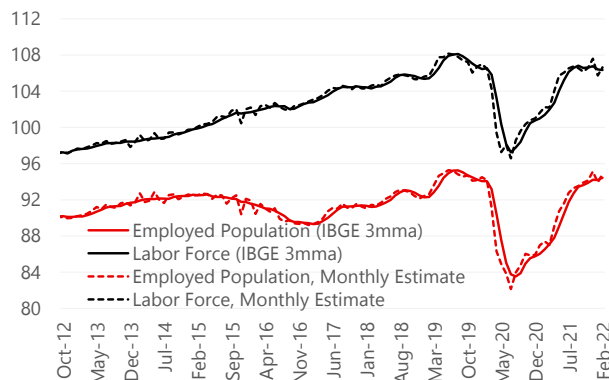
**Figure 4. Monthly Unemployment Rate\* (sa)**



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.

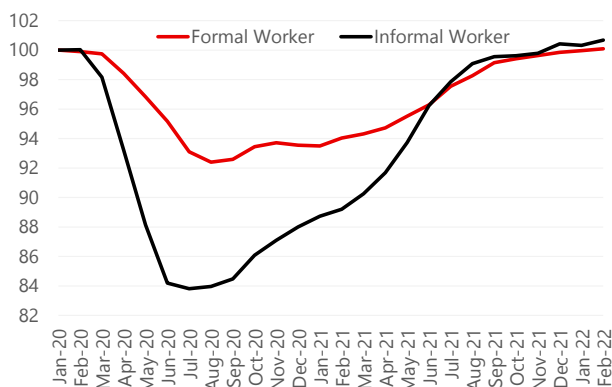
**Figure 5. Employment\* and Labor Force\* (sa)**



Sources: IBGE, Santander.

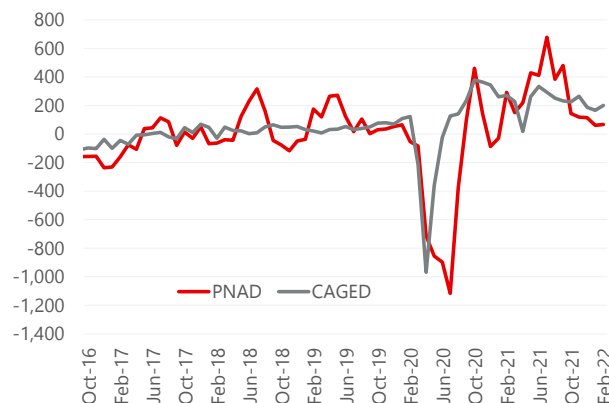
Formal employment posted a +0.1% MoM-sa variation, while informal employment showed a 0.4% MoM-sa increase, another possible consequence of the rise in COVID-19 infections. This result led the formalization rate to 57.3% (sa), above the December result (57.2%). We project that employment growth is likely 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)**

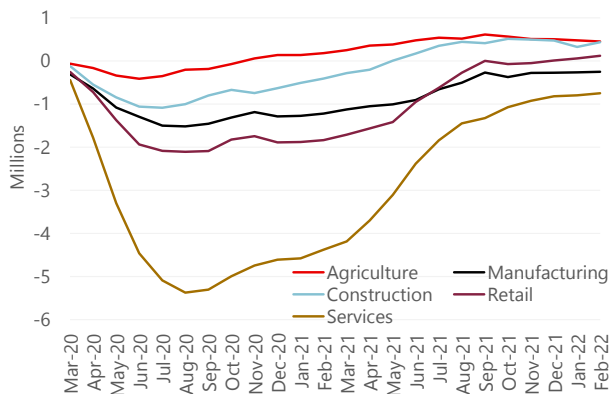


Sources: IBGE, Ministry of Labor, Santander.

Retail has been the highlight of employment growth among the main sectors, consolidating the full recovery of its job losses during the pandemic. As for the services sector, the accumulated job losses continue to close the gap and remain slightly below 1.0 million. However, 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 recent months have shown decreases in the number of total self-employed workers, as private sector employment continues to grow.

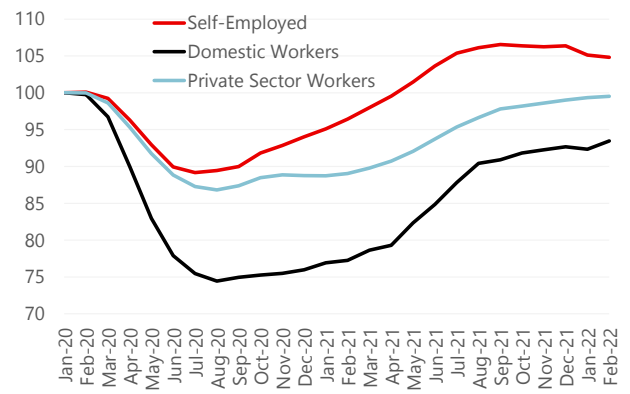


**Figure 8. Post-Pandemic Accumulated Job Losses (sa)**



Sources: IBGE, Santander.

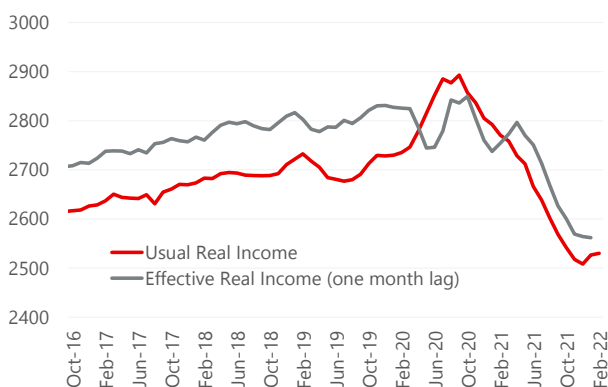
**Figure 9. Employment by Position (sa, Jan-20=100)**



Sources: IBGE, Santander.

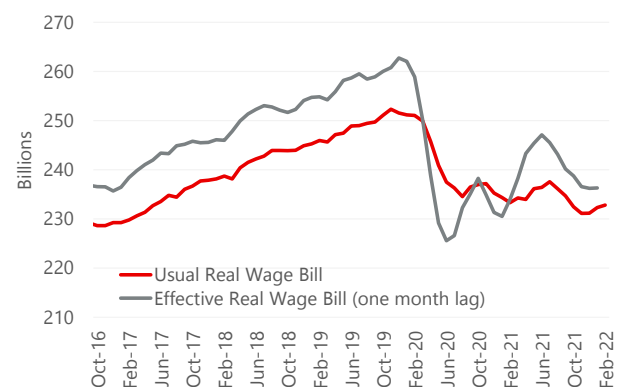
As for the real income indicators, the picture showed another slight improvement at the margin. The effective real wage bill posted a 0.0% MoM-sa variation in January (data lagged one month relative to other PNAD series), breaking a string of six consecutive declines, while the usual real wage bill increased 0.2% MoM-sa in January. The two series are 8.7% and 7.3% below their pre-crisis marks, respectively. The average usual real income showed a +0.2% MoM-sa variation, the second consecutive increase. 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 February CAGED survey, released on March 29, net formal job creation stood at 328.5k (vs. consensus at 220k and Santander’s estimate of 180k), above its historical average (130.4k) and below its all-time record for the month (397.9k in February 2021).



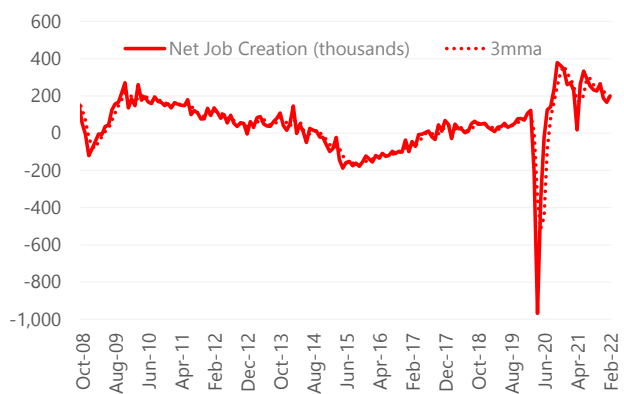
Figure 12 – CAGED Breakdown (thousands)

	Headline			Headline (s.a.)		
	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22
<b>Net Creation</b>	<b>-265.8</b>	<b>155.2</b>	<b>328.5</b>	<b>187.7</b>	<b>165.8</b>	<b>200.2</b>
<b>Creation</b>	<b>1,437.9</b>	<b>1,777.6</b>	<b>2,013.1</b>	<b>1,770.6</b>	<b>1,785.9</b>	<b>1,854.6</b>
<b>Destruction</b>	<b>1,703.7</b>	<b>1,622.5</b>	<b>1,684.6</b>	<b>1,582.9</b>	<b>1,620.1</b>	<b>1,654.4</b>
Mining	-1.1	0.5	1.9	1.3	0.6	1.0
Construction	-52.0	36.8	39.5	35.5	14.8	24.4
Manufacturing	-88.3	48.8	38.6	56.4	8.5	1.6
Retail	9.0	-60.1	13.2	8.1	16.8	24.4
Agriculture	-26.1	25.0	17.4	34.3	14.9	19.1
Services	-86.9	100.8	203.7	125.4	84.9	83.1

Sources: Ministry of Labor, Santander.

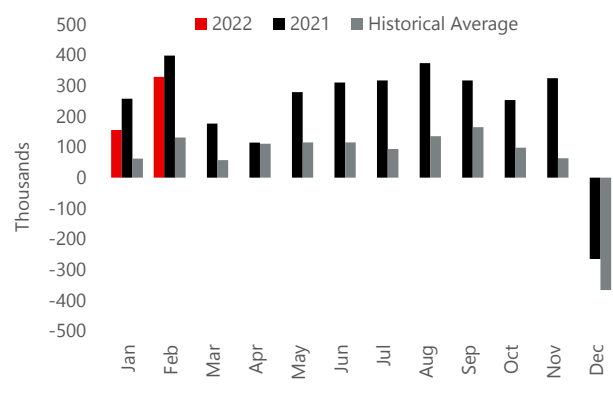
After our seasonal adjustment, we calculate that net formal job creation accelerated to 200.2k, from 165.8k in January. The number of hirings increased 3.8% MoM-sa, while layoffs increased 2.1% MoM-sa. The three-month average now points to payroll expansion of 184.6k jobs, from 206.3k in January. The 3mma net job creation result continued the deceleration that started in mid-2021.

Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

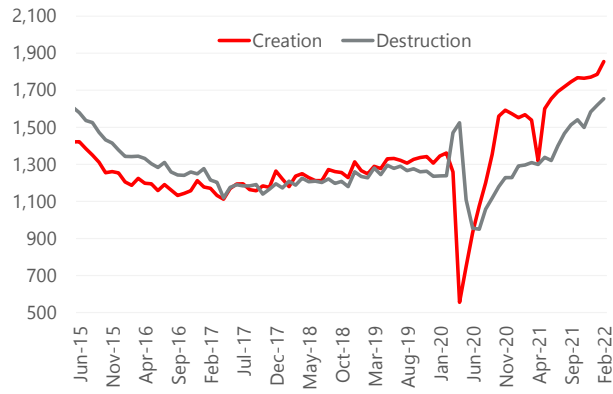
Figure 14. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

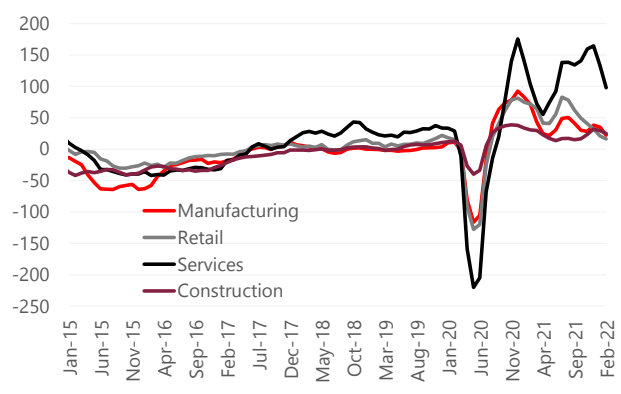
The February net result stemmed from growth in both hirings and layoffs. All the main segments indicate deceleration in net job creation, especially the services sector. The sectors that are more dependent on social interaction remain the highlights in job creation, but we expect the employment growth 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)

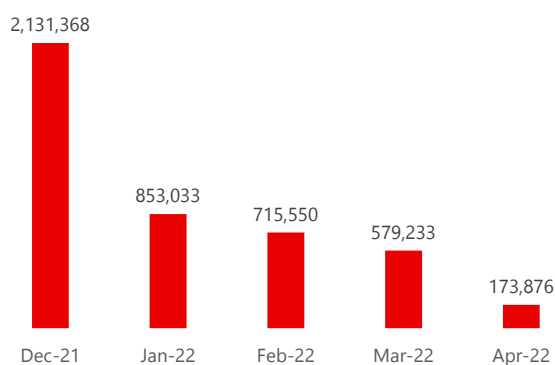


Sources: Ministry of Labor, Santander.



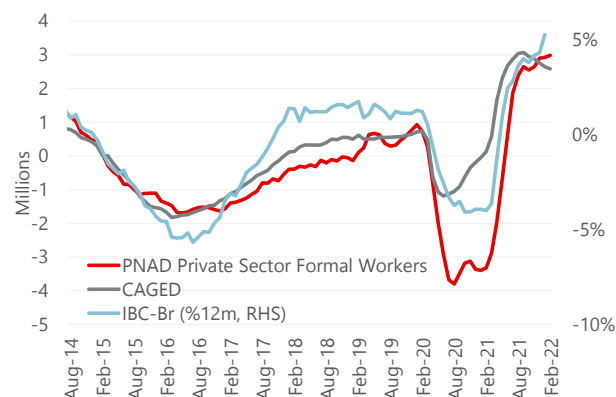
We believe that the end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) on August 26 continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program’s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

**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

Both labor market surveys for February have surprised on the upside. In our view, the PNAD result shows that the labor market has partially recovered from the Omicron outbreak. The monthly data showed considerable MoM increases in both the labor force and the employed population, but both series are still below the December level. The larger recovery for the employed population compared to the labor force led the unemployment rate to drop at the margin. We maintain our view that growth in the employed population is likely to decelerate in the coming months, and we expect the participation rate to return to levels closer to those before the pandemic, especially considering the relatively short duration of the Omicron outbreak. Therefore, we expect the seasonally adjusted unemployment rate to start increasing again soon. **For details on Santander’s activity outlook, please refer to our last chartbook<sup>1</sup>.**

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



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