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The Real Wage Bill and the Impact of Emergency Aid

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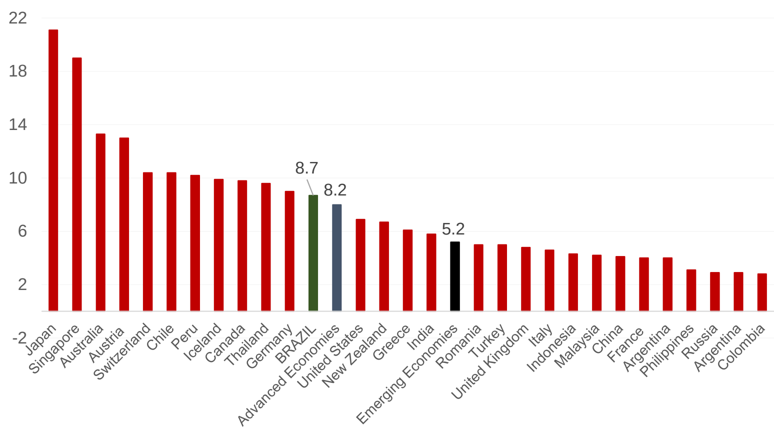
- In order to mitigate the effect of the pandemic on household income, many countries have adopted direct cash transfer policies for unemployed workers. In Brazil, most of the budgetary stimulus came from emergency aid to households, a temporary welfare program that is expected to add BRL320 billion (4.4% of GDP) in transfers until the end of the year. In this brief analysis, our objective is to gauge the impact of these transfers on the “expanded” (i.e., including social benefits) real wage bill (total wages from work).
- Considering the government stimulus to households, we estimate the “expanded” wage bill to rise by 3.9% adjusted for inflation for full-year 2020 compared to 2019. In a counterfactual simulation, we calculate a 6% drop in the real wage bill, so that the benefits more than offset the estimated cyclical drop caused by the pandemic.
- For 2021, although the creation of a new income program has been ruled out, in a hypothetical scenario with a new permanent welfare program worth BRL35 billion, the real wage bill would register a decrease of 6.9%. We estimate a decline of 7.8% for the “expanded” wage bill without such a program.
- Alongside the social distancing measures, the government transfers seem to indicate a clear pattern for household spending in recent months. In retail, sales in the income-driven segments (such as food and medicine) fell significantly less than sales in the credit-driven segments (such as automobiles and appliances). In comparison to February (pre-crisis), the index in April (worst month of the crisis) for sales associated with credit concessions was 51.4% lower, vs. 5.4% lower for income-related sales.

The COVID-19 pandemic caused a sudden cessation in activity during the second quarter of 2019, generating a loss of income for workers, especially informal workers who are more dependent on mobility. Officials in the world's largest economies have pledged to spare no effort to preserve jobs and household income. By June, the G20 countries had announced fiscal stimuli amounting to USD7.6 trillion, equivalent to 11% of those countries’ GDP[1]. In Brazil, income transfer programs, especially emergency aid, have significantly helped the recovery of economic activity. Among the emerging countries, Brazil is one of those with the largest fiscal aid packages (8.6% of GDP), as shown in Figure 1. The effects of the benefits in supplementing individuals’ income, as well as a reduction in social isolation measures, are pointing to a resumption of activity in Brazil, mainly in the trade sector.

Figure 1. Fiscal Stimulus Worldwide (Impact on Government Primary Result - % GDP)



Sources: International Monetary Fund (IMF), Ministry of Economy and Santander.

[1] https://www.csis.org/analysis/breaking-down-g20-covid-19-fiscal-response-june-2020-update.

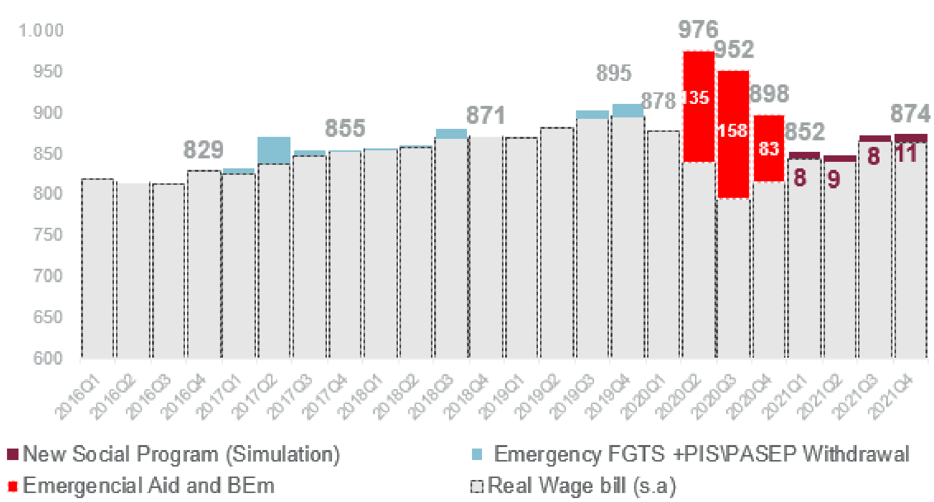
Introduced in April, the BRL600 per person monthly emergency aid injected about BRL45 billion per month into the economy, an effect that lasted through August. From September until the end of the year, the estimated monthly value is BRL300 per person, with total stimulus close to BRL25 billion per month. The measure reached a total of more than 65 million people, according to government estimates. The program is expected to cost BRL322 billion in 2020, accounting for more than 50% of the fiscal impulse implemented this year.

The government also adopted other measures to supplement income. The Emergency Employment and Income Maintenance Program (BEm) seeks to preserve formal jobs, complementing the income of these workers. This program has already spent BRL22.6 billion and is projected to reach up to BRL52 billion by the end of the year. In addition, emergency withdrawals from the FGTS[2] were also authorized, which could free up to BRL40 billion for injecting in the economy, depending on the withdrawals. These measures generated a significant boost to household income in the second and third quarters and should continue to contribute, albeit to a lesser extent, in the last quarter of 2020.

Figure 2 presents our estimate on the evolution of the real seasonally adjusted wage bill and the welfare programs[3]. The "expanded" real wage bill is the product of the employed population and the real effective average income from work, and the series is seasonally adjusted (published in the *PNAD contínua*), adding the government benefits (i.e., pensions, unemployment insurance, and entitlements such as the *Benefício de Prestação Continuada* [BPC] and *Bolsa Família*). For the emergency aid, we consider five installments of BRL600 each and four additional installments of BRL300 each. In the second quarter of 2020, transfers represented 16.1% of the effective income bill from all sources (*PNAD contínua*), an increase of 11.1% QoQ (+10.6% YoY). To get an idea of the impact of the benefits, the counterfactual scenario without transfers would have resulted in a 4.3% QoQ drop (-4.7% YoY) in the "expanded" real wage bill in the second quarter.

According to our estimate, for the annual average of the total real wage bill, 2020 should present an increase of 3.9% compared to 2019, in the scenario that includes the government stimulus. In a counterfactual simulation, we calculate a 6% drop in this series if the government had not implemented any fiscal measures. Thus, our numbers indicate that government transfers should more than offset the expected cyclical decrease in the real wage bill for the year, with a total impact of nearly 10 percentage points in 2020. Table 1 summarizes these growth rates, while Figure 3 shows how the transfers in 2Q20 and 3Q20 clearly exceed the (actual and expected) quarterly drop in the total wage bill.

Figure 2. "Expanded" Real Wage Bill and Social Benefits (in real terms, BRL billion)



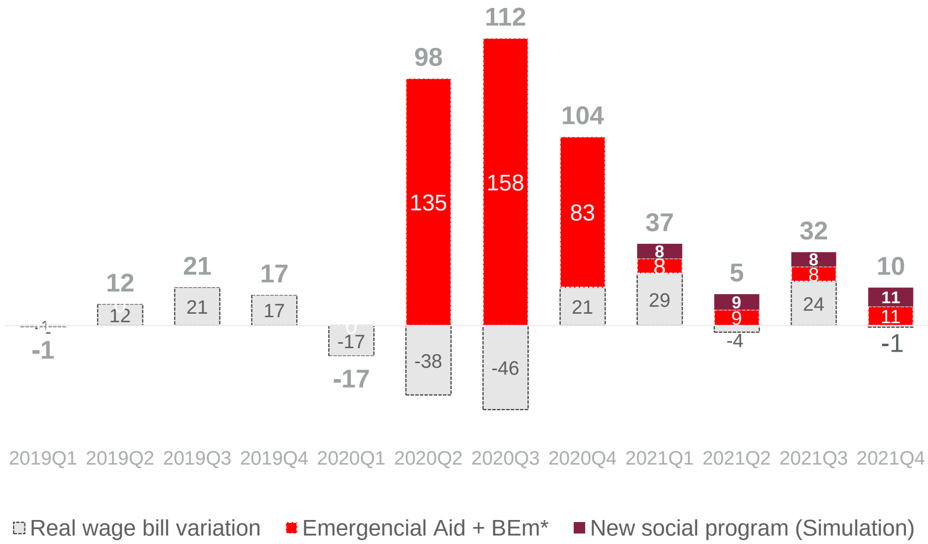
*Emergency Employment and Income Maintenance Program (BEm)

Sources: STN, IBGE, Ministry of Economy, and Santander.

It is important to note that, for 2021, we simulate the hypothetical creation of a new welfare program, doubling the amount of *Bolsa Família* (BRL35 billion) under the 2021 Budget Law Project. Due to the strong fiscal stimulus to complement disposable income in 2020, in this scenario the wage bill would register a decrease of 6.9% in the annual average in 2021, compared with an increase of 2.6% if the fiscal stimulus had not taken place in 2020.

[2] Government Severance Indemnity Fund for Employees.
[3] Real wage bill data from 3Q20 onward are Santander projections. Our premise for the evolution of the wage bill is that the employed population returns to the level of 1Q20 only in 4Q22.

Figure 3. Income and Aid Quarterly Flow (in real terms, BRL billions)



*Emergency Employment and Income Maintenance Program (BEm).

Sources: STN, IBGE, Ministry of Economy, and Santander.

Table 1. Annual Growth in Real Wage Bill (average % in the period)

	2020(E)	2021(E)	
Wage Bill **(Without Fiscal Aid)**	-6.0%	+2.6%	
		Hyphotetical New Social program*	
		Without	*With*
Wage Bill **(With Fiscal Aid)**	+3.9%	-7.8%	-6.9%

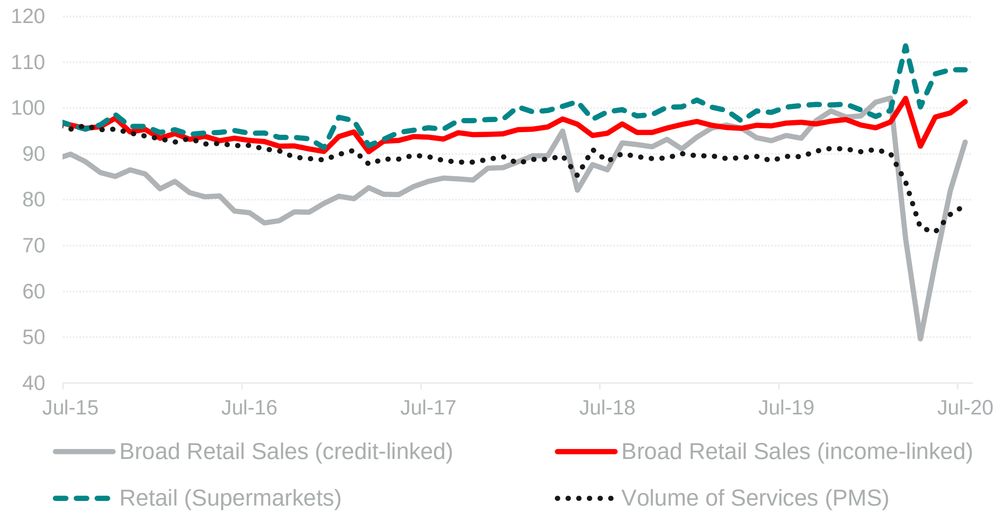
*Hypothetical simulation adding the creation of a new social program (duplicates the Bolsa Família).

Sources: STN, IBGE, Ministry of Economy, and Santander.

The first impact of these transfers must be reflected in household consumption, as can be seen in Figure 4. Looking at the volume of "expanded" retail sales, we see that sales in the income-driven segments (e.g., food and medicine) had a much smaller decrease than the tumble that retail sales took in the credit-driven segments (e.g. cars and appliances). In comparison with February, the index in April (worst month of the crisis) for sales associated with credit was 51.4% lower, vs. 5.4% lower for sales associated with income[4]. Possibly reflecting the use of benefits for food purchases, the hypermarket index showed significant gains during the pandemic, stabilizing in July, when it was 9% higher than in February. In turn, the volume of services (PMS), due to social isolation and restrictions on mobility and consumption, is presenting a greater drop even in the face of an increase in available income, as shown in the wage bill measure. Therefore, it is still 12.5% below the February level (pre-COVID), and should continue to show a gradual recovery.

[4] This comparison is somewhat affected by the fact that supermarket and pharmacies were among the few retail establishments allowed to operate during the peak of social distancing measures. Yet we think government stimulus played a key role in boosting sales for income-driven segments.

Figure 4. Retail Sales by Category and Service Volume (2014 average = 100, seasonally adjusted)

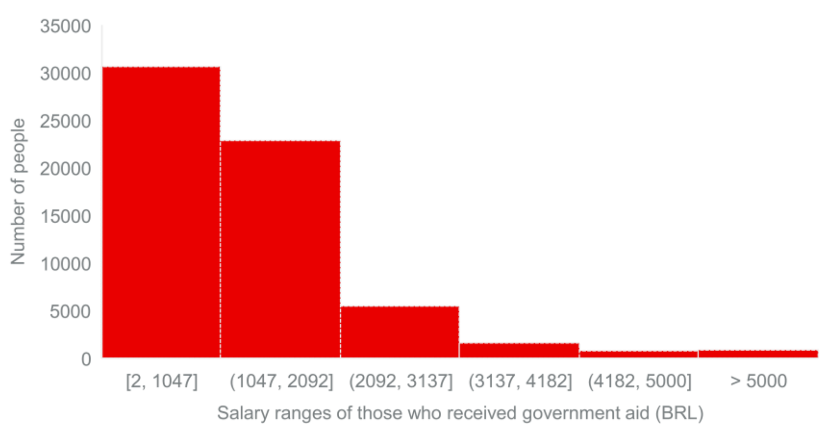


Sources: IBGE and Santander.

IBGE's special household survey during the pandemic, known locally as PNAD Covid microdata, brings more insight on the spending pattern generated by the government stimulus. With data from July 2020, we observe how income is distributed among those receiving government aid. Figure 5 shows that a large portion of the population in the survey earns up to two minimum wages (BRL2,094), or 86.5% of the total. The average declared income was BRL1,074.73 monthly, so the emergency aid of BRL600 per month represents almost 56% of this income. Consumers in this income bracket have a higher propensity to spend discretionary money on goods rather than services. According to the 2017-2018 Household Budget Survey, families with income of up to two minimum wages (BRL1,908.00, at the time) spent a greater part of their budget on food and housing expenses than those with more than 25 minimum wages (BRL23,850.00). In families with income up to two relative wages, food represents 22.0% of household spending and 39.2% is devoted to housing, compared with 7.6% and 22.6%, respectively, in the wealthiest wage groups. And, with a number of services still allowed to operate way below full capacity, this spending shift out of services and into goods intensified even more.

In addition, considering people who receive government aid, about 40.6% of the workers are informal, with a declared average monthly income of BRL1,025.00, and these workers received about BRL955 in government aid in July.

Figure 5. Distribution of Income from Work of Those Who Received Aid (in July 2020)



Sources: IBGE (PNAD Covid) and Santander.

These data reveal the impact of these various forms of aid on the composition of the wage bill, and are important for the analysis of consumption and for prospective GDP scenarios. Our aim is to deepen our analysis, as well as make simulations using the wage bill for our activity projections. In our view, the evolution of the job market and real wage bill will be important in shaping the outlook for next year's GDP.

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