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Economic Recovery, Employment Losses, Inequality Expansion

Cecilia Machado
Chief Economist

Felipi Bruno
Economist

Nicolau Curi
Economist

Anna Saraiva
Intern

Gabriel Maciel
Intern

Joel Makangila
Intern

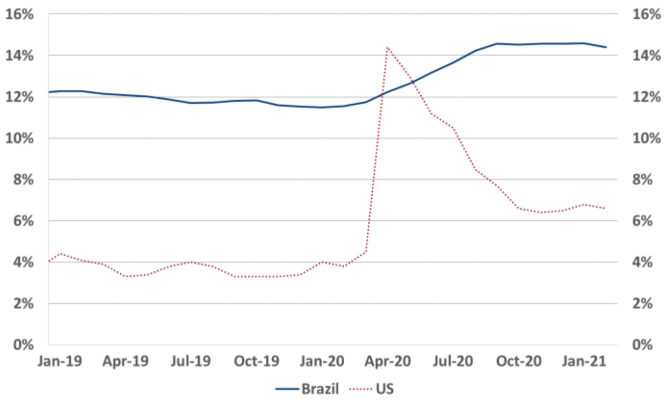
While the outlook one year ago – in the wake of the pandemic – was dominated by enormous uncertainty regarding the adverse impacts of the public health crisis on the economy, currently there is a clear consensus regarding the prospect of strong global growth in 2021. Most countries have already embarked on a recovery, and according to the IMF the average growth forecast is 6%. Growth is expected to be positive in most countries, although the strength of the recovery varies considerably among them. The path to recovery in all cases is characterized by a combination of expansionary monetary policy, fiscal stimulus, and vaccine rollout to assure a safe economic reopening.

One of the countries that have advanced farthest in this cycle is the United States, both in terms of the aggressiveness of the fiscal packages passed in 2020 and 2021, and the fast vaccine rollout it has achieved. The United Kingdom and Israel are two other good examples of the importance of mass vaccination to reopening: in these economies some 51% and 62% of the population respectively have now received their first dose. In the lead is China, which looks set to grow most of all in 2021. Strict control of the health crisis in the early months of the pandemic averted a complete shutdown of China's economy and a prolonged interruption of production processes.

In Brazil, less than 15% of the population have had their first dose of a vaccine, and while growth expectations are positive, albeit below 4%, they signify less a vigorous recovery than a mechanical statistical consequence of the 4.1% contraction seen in 2020, when economic activity plunged in the first half and improved somewhat in the second. Despite being well behind in the recovery cycle, Brazil can learn lessons from the developed economies. In particular, it is worth taking a close look at the labor market recovery, since disposable income is a key driver of consumer demand and household savings, and is considered a significant factor in a sustainable recovery that does not depend on government intervention or stimulus to take off.

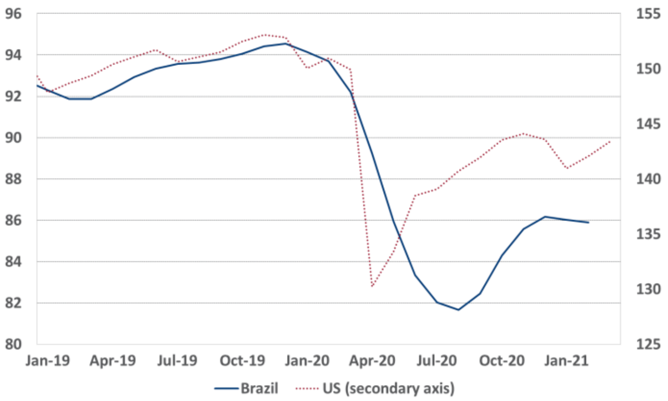
In the US, for example, the labor market has not recovered completely. The unemployment rate, which was 4% before the pandemic and reached 14% at the peak of the pandemic, is now 6% (Figure 1). According to the latest BLS data, the net job loss is still around 5 million (Figure 2). Worse still, the effects of the crisis on the labor market have been extremely unequal, with job losses for workers with less schooling and lower pay reaching 30% since the start of the pandemic and looking permanent.

Figure 1: Unemployment Rate, Brazil vs. United States (%)



Source: BLS (unemployment rate) and PNAD-C (taxa de desocupação)

Figure 2: Employment, Brazil vs. United States (Millions)

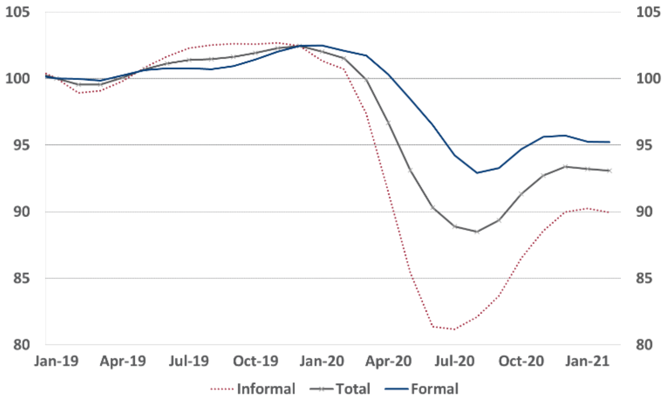


Source: BLS (non-farm payroll empl.) and PNAD-C (pop. ocupada)

In Brazil, too, we have begun to see a rebound that favors more qualified professionals who have managed to adapt to working from home, but there are also many differences that suggest the labor market recovery will be bumpier here.

First, the informal economy accounts for a substantial proportion of the workforce, and these jobs cannot be recouped until mass vaccination is complete. For freelancers and the self-employed generally, the economic recovery is proceeding even more slowly than for everyone else (Figure 3). Second, only 10% have benefited from remote working, an even smaller proportion than in the developed economies, where this group averages 40%-50% of the workforce. Third, social groups already disadvantaged in the labor market — women, blacks and workers with little formal schooling — have been proportionally more affected by the crisis, making the inequality even worse.

Figure 3: Employment in Brazil, Formal vs. Informal (index, jan-19)



Source: PNAD-C (pop. ocupada por categoria)

The unequal labor market recovery will have important consequences for the Brazilian economy. It will inevitably lead to demands for more spending on income support and other social welfare programs in a critical fiscal situation, with high levels of public debt, a federal budget almost completely taken up with mandatory expenditure, and huge political resistance to tax hikes. The implications of this labor market rebound for growth, for the fiscal situation and for the 2022 election make watching it closely essential. So far the prospects look challenging.

Our inflation projections are 4.9% for this year and 3.7% in 2022, above the Central Bank of Brazil's target for 2021 and threatening to de-anchor expectations next year. Given this inflation outlook, and despite weaker growth, the Monetary Policy Committee (Copom) is likely to raise its policy rate (Selic) again at the next meeting. We forecast additional hikes, taking the Selic to 5.5% by end-2021.

ECONOMIC FORECASTS	2016	2017	2018	2019	2020	2021F	2022F
GDP Growth (%)	-3,3%	1,3%	1,3%	1,1%	-4,1%	3,8%	2,5%
Inflation (%)	6,3%	2,9%	3,7%	4,3%	4,5%	4,9%	3,7%
Unemployment Rate, SA (eoy ,%)	12,6%	12,4%	12,2%	11,7%	13,9%	13,0%	13,0%
Policy Rate (eoy, %)	13,8%	7,0%	6,5%	4,5%	2,0%	5,5%	5,5%
External Accounts							
Trade Balance (US$ bn)	48	67	53	48	51	66	46
Current Account Balance (US$ bn)	-23	-10	-42	-51	-13	0	-16
Current Account Balance (% of GDP)	-1,3%	-0,7%	-2,2%	-2,8%	-0,9%	0,0%	-0,9%
Fiscal Policy							
Fiscal Primary Balance (% of GDP)	-2,5%	-1,7%	-1,7%	-1,2%	-9,5%	-3,2%	-2,2%
Government Gross Debt (% of GDP)	69,4%	73,7%	75,3%	74,3%	88,8%	86,4%	88,0%