

Brazilian labour market adjustment to two recessions: an analysis of the period 2015–2016 and the COVID-19 pandemic

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The coronavirus pandemic arrived in Brazil at a time when the labour market was still recovering from the effects of the 2015–2016 recession.¹ The adjustment in employment after the crisis of 2015 and 2016 occurred through an increase in informal work, characterised by greater flexibility and the absence of dismissal costs. This type of occupation was most severely affected by the social distancing measures and restriction of economic activities brought about by COVID-19.

To understand the current situation of the Brazilian labour market, it is necessary to look back and examine the consequences remaining from the 2015–2016 recession in the labour market that enhanced the negative effects of the pandemic in the country. To do this, we used data from the National Continuous Household Sample Survey (*Pesquisa Nacional por Amostra de Domicílios (PNAD) Contínua*).

The working-age population (aged 14 and over) can be divided into three states: i) employed; ii) unemployed; and iii) inactive. Figure 1 shows the distribution of the population in these three statuses from the first quarter of 2015 to the third quarter of 2020.

From 2015 to 2017, there was a decrease of 3 percentage points (p.p.) in the proportion of employed people, from 56.2 per cent to 53 per cent. During the pandemic, employment declined much more sharply in a short time, from 53.5 per cent in the first quarter of 2020 to 47.1 per cent in the third quarter.

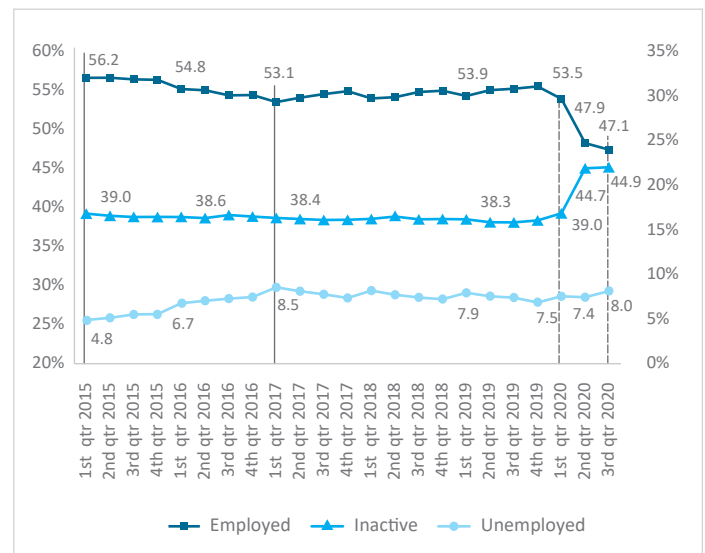
The increase in the proportion of unemployed people of working age was more marked between the first quarter of 2015 and the first quarter of 2017, rising from 4.8 per cent to 8.5 per cent. When the pandemic arrived in Brazil, the proportion of unemployed people was already at a high level and showed only modest growth of 0.5 p.p. between the first and third quarters of 2020.

The striking difference between the two periods is the significant increase in the inactive population during the pandemic, which increased from 39 per cent in the first quarter of 2020 to 44.9 per cent in the third quarter of 2020. This increase of almost 6 p.p. in the proportion of the working-age population that left the labour force has important implications for the recovery of the economy. People who have given up looking for work due to low expectations of finding a job are classified as ‘discouraged workers’. In both crises, there was an increase in the proportion of discouraged workers. In 2020, over 12 per cent of the working-age population was in this situation.

The most vulnerable groups of workers in Brazil—young people, black people, women, and people with a low level of education—who tend to be prevalent in the informal sector, were those most affected by the loss of livelihoods associated with the shock of 2020. Although the same trend was observed in the 2015–2016 recession, the extent of current losses is much greater.

Unlike the fall in the average regular income² observed during the 2015–2016 recession, the pandemic led to a large increase in regular income. This surprising result was due to the massive layoff of low-income workers, many of whom became inactive. However, the increase in average regular income was not observed for average actual labour income as the demand for work and actual hours worked had a sharp drop during the second quarter of 2020, which coincided with the adoption of containment measures.

FIGURE 1
Distribution of employed, unemployed and inactive people of working age, first quarter of 2015 to third quarter of 2020 (percentage)



Source: Authors' elaboration.

Reference:

Corseuil, C.H., M. Franca, G. Padilha, L. Ramos, and F. Russo. 2021. "Comportamento do mercado de trabalho brasileiro em duas recessões: análise do período 2015-2017 e da pandemia de Covid-19." *Nota Técnica*, No. 98. Brasília: Institute for Applied Economic Research.

Notes:

1. Brazilian gross domestic product (GDP) fell for 11 consecutive quarters, from the second quarter of 2014 to the fourth quarter of 2016.
2. Regular labour income, defined as the usual monthly income received by the worker, as opposed to actual labour income, which is the income received in the last month by the worker.