

Another Month of Strong Labor Market Results

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 9.8% in the three months to May. The result was close to our estimate (9.9%) and below the market consensus (10.2%), implying a 4.9 p.p. drop from the year-ago level (14.7%). We calculate that the seasonally adjusted jobless rate stood at 9.5%, a decrease compared to the April level (10.1%).
- The decrease in the seasonally adjusted unemployment rate stemmed from a 1.3% increase in the employed population, while the labor force increased 0.6% MoM-sa. The labor market participation rate stood at 62.8% (sa), an increase compared to April's level (62.5%), and 0.2 p.p. below the pre-crisis mark (February 2020). Formal employment posted a +1.2% MoM-sa variation, while informal employment had a +1.5% MoM-sa variation. This result led the formalization rate to 56.9% (sa), stable compared to April.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate figure stood at 9.0% (sa) in May, compared to 9.5% in April. This is the lowest level of the series since July 2015. This result followed +0.5% and +0.0% MoM-sa variations in the employed population and the labor force, respectively. Despite some deceleration in employment growth from the April result (+1.5% MoM sa), the stability in the labor force led the unemployment rate to even lower levels in May.
- The effective real wage bill posted a +2.6% MoM sa variation in April (data lagged one month relative to other PNAD series), while the usual real wage bill had a +1.7% MoM sa variation in May. The series are 2.4% and 3.6% below the pre-crisis mark, respectively, and reflect the recovery in the employed population, as average real wages continue at historical lows.
- According to the May 2022 CAGED survey, released on June 28, net formal job creation stood at 277k (vs. consensus 181k, Santander estimate 175k), above the historical average (114.9k) and close to the number observed in May 2021 (278.7k). After our seasonal adjustment, net formal job creation accelerated to 231k, from 140k in April. The number of hirings increased 5.6% MoM-sa, while layoffs increased 0.8% MoM-sa. The three-month average now points to a payroll expansion of 201k jobs, from 190k in April.
- The PNAD result shows that the labor market maintained good momentum in May, despite a deceleration from April's strong employment figures (considering our monthly estimates). Moreover, the unemployment rate has fallen further, as the monthly estimate for the labor force remained stable in May. Once again, the PNAD survey printed the lowest unemployment rate results since 2015. It is important to note that labor market participation has virtually returned to its pre-crisis levels. The strength of employment in recent months poses downward risk to our unemployment rate forecasts, but we still expect some deceleration in the labor market once the effects of a tighter monetary policy start to kick in — especially from 2H22 onward.
- The May PNAD results have led us to revise our 2Q22 GDP tracking to +0.5% QoQ-sa (from +0.4% QoQ-sa).



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate was 9.8% in the three months to May, close to our estimate (9.9%) and below the market consensus (10.2%), implying a 4.9 p.p. drop from the year-ago rate of 14.7%. We estimate that the seasonally adjusted unemployment rate fell to 9.5% from the April level of 10.1%. The performance of the seasonally adjusted unemployment rate stemmed from 1.3% and 0.6% MoM-sa increases in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22
Unemployment rate (%)	10.7	10.1	9.5	-3.8	-4.3	-4.9	-1.0	-1.6	-2.2
Participation rate (%)	61.9	62.5	62.8	2.3	2.4	2.2	-1.1	-0.6	-0.2
Labor force (millions)	106.9	108.0	108.7	4.8	5.1	4.6	0.2	1.3	2.0
Employment	95.5	97.1	98.4	9.4	10.3	10.6	1.3	3.0	4.4
Unemployment	11.4	10.9	10.3	-21.7	-25.3	-30.2	-8.6	-12.6	-17.5
Formalization Rate (%)	57.1	56.9	56.9	-1.3	-1.2	-1.0	-0.1	-0.3	-0.3
Formal Workers (millions)	54.6	55.2	55.9	7.1	8.1	8.8	1.3	2.5	3.7
Informal Workers (millions)	41.0	41.8	42.4	12.7	13.5	13.2	1.7	3.6	5.2
Average usual earnings (BRL)**	2,605	2,598	2,596	-8.7	-7.9	-7.2	-7.7	-8.0	-8.1
Average effective earnings (BRL)**	2,687	2,708	-	-6.3	-5.7	-	-8.1	-7.4	-
Usual wage bill (BRL bn)**	243.3	246.7	250.9	0.2	1.9	3.0	-6.5	-5.1	-3.6
Effective wage bill (BRL bn)**	254.7	261.2	-	3.7	4.6	-	-4.9	-2.4	-

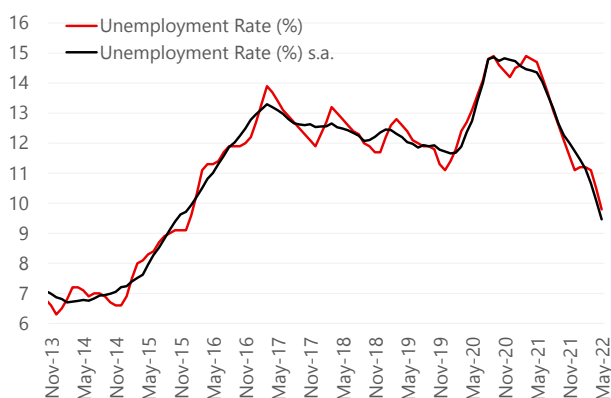
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

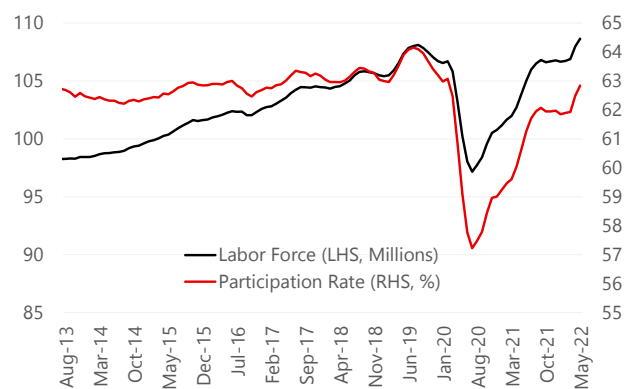
The labor market participation rate stood at 62.8% (sa), an increase from the April level (62.5%) and 0.2 p.p. below the pre-crisis mark. In our view, the labor market maintained good momentum in May, even after April's positive surprise. Moreover, most variables have already surpassed pre-pandemic levels.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate

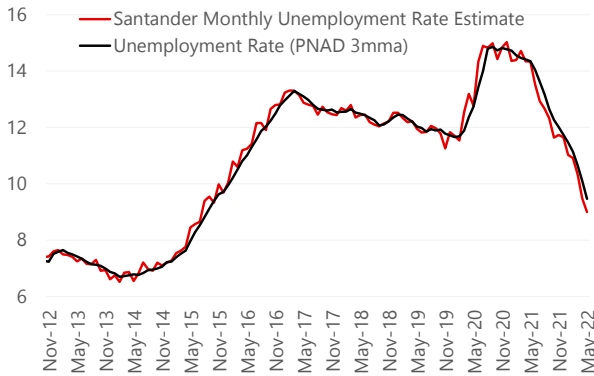


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 9.0% (sa) in May, compared to 9.5% in April. This result followed +0.5% and +0.0% MoM-sa variations in the employed population and the labor force, respectively. We estimate that, since December, the monthly unemployment rate has dropped 2.7 p.p., reaching the lowest level since July 2015.



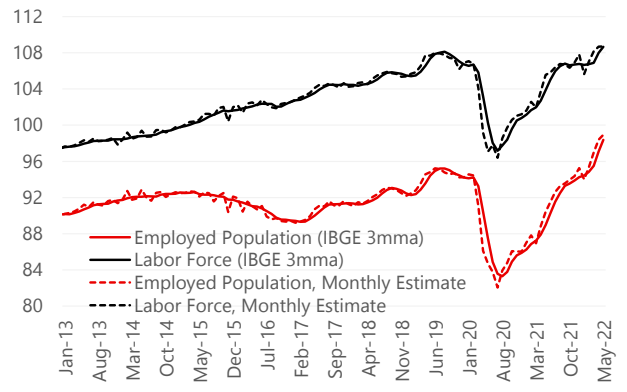
Figure 4. Monthly Unemployment Rate (sa)



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.

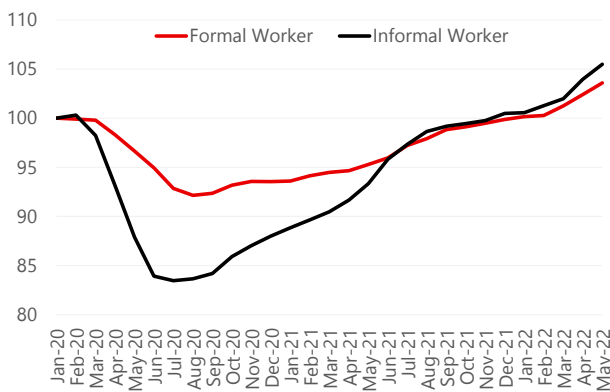
Figure 5. Employment and Labor Force (sa)



Sources: IBGE, Santander.

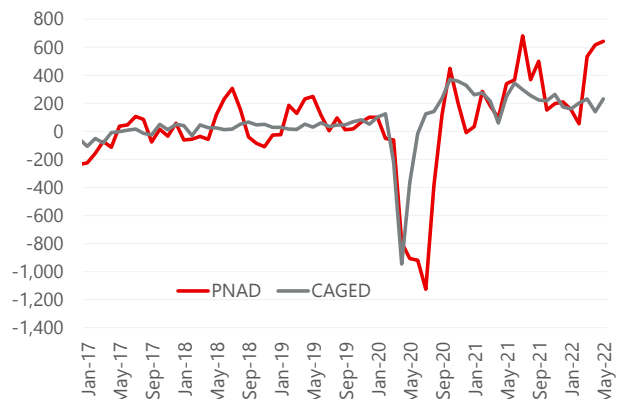
Formal employment posted a +1.2% MoM-sa variation, while informal employment increased 1.5% MoM-sa, a consequence of both the decrease in COVID-19 infections and the good performance of core economic activity indicators. This result led the formalization rate to 56.9% (sa), stable compared to April.

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



Sources: IBGE, Santander.

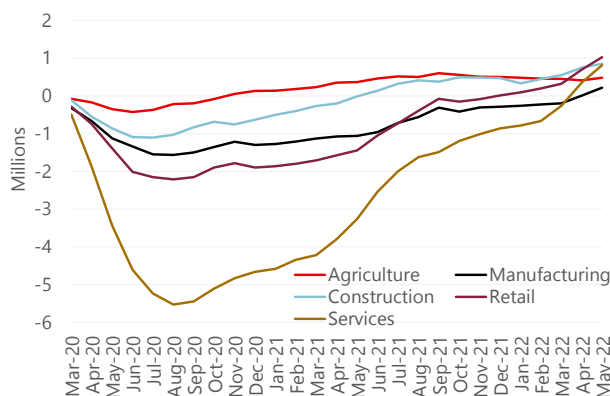
Figure 7. Net Formal Job Creation (thousands, sa)



Sources: IBGE, Ministry of Labor, Santander.

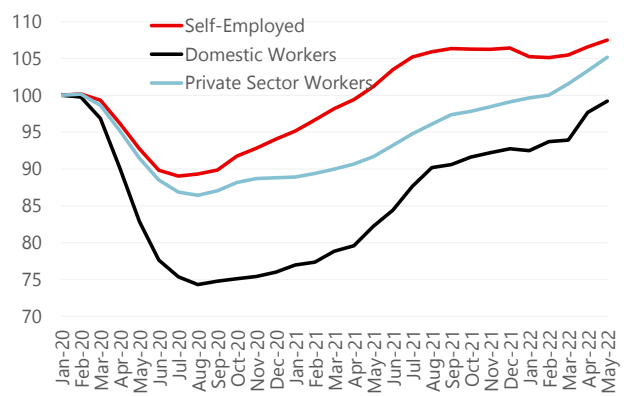
Once again, the services sector has been the highlight of employment growth among the main segments, and now has almost 1 million jobs more than before the pandemic (February 2020). Still, most sectors reported increases in employment in May. Another highlight in May's employment growth was domestic and private sector workers.

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



Sources: IBGE, Santander.

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



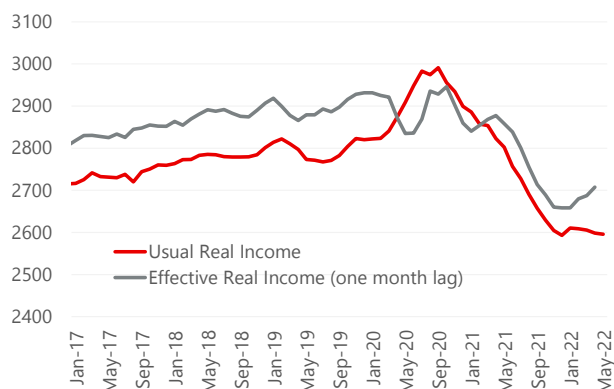
Sources: IBGE, Santander.

As for the average real income indicators, the picture is still of stagnation at the margin, especially due to high inflation. The real wage bill, on the other hand, is benefiting from employment growth. The effective real wage



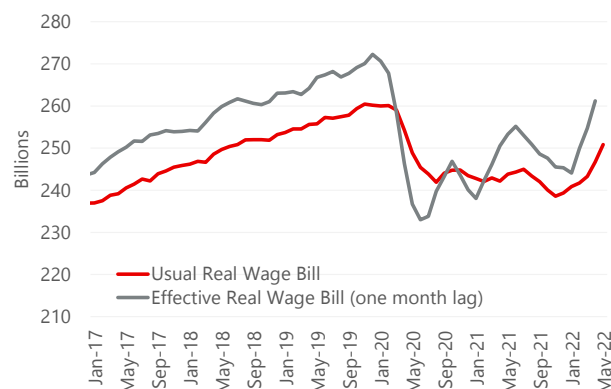
bill posted a +2.6% MoM-sa variation in April (data lagged one month relative to other PNAD series), while the usual real wage bill increased 1.7% MoM-sa in May. The two series are 2.4% and 3.6% below their pre-crisis marks, respectively. We expect real income to gradually recover as inflation slowly 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 May 2022 CAGED survey, released on June 28, net formal job creation stood at 277k (vs. consensus 181k, Santander estimate 175k), above the historical average (114.9k), and close to the number observed in May 2021 (278.7k).

Figure 12 – CAGED Breakdown (thousands)

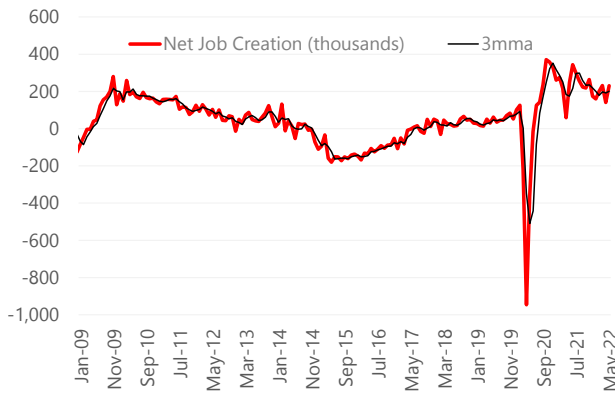
	Headline			Headline (s.a.)		
	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22
Net Creation	136.2	197.0	277.0	231.7	140.6	231.0
Creation	1,953.1	1,854.6	1,961.0	1,879.4	1,850.7	1,954.0
Destruction	1,816.9	1,657.6	1,683.9	1,647.7	1,710.1	1,723.0
Mining	0.9	1.5	1.5	0.5	0.8	1.4
Construction	25.1	25.3	35.4	28.5	7.1	25.4
Manufacturing	12.1	22.5	42.1	6.6	-1.8	44.1
Retail	0.4	29.3	47.6	34.2	30.5	68.4
Agriculture	-16.0	-1.0	26.7	-6.5	-17.4	-14.6
Services	105.9	114.1	118.5	87.6	73.6	142.9

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation accelerated to 231k, from 140k in April. The number of hirings had a 5.6% MoM-sa increase, while layoffs had a 0.8% MoM-sa increase. The three-month average now points to a payroll expansion of 201k jobs, from 190k in April. After decelerating since mid-2021, the figure for May consolidated a stabilization slightly below 200k, a strong pace of job creation, equivalent to almost 2.4 million annualized.

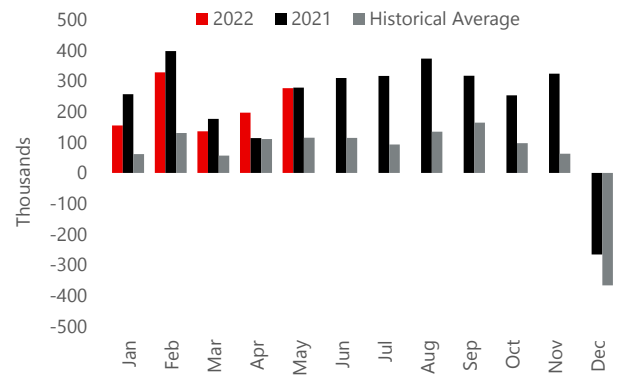


Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

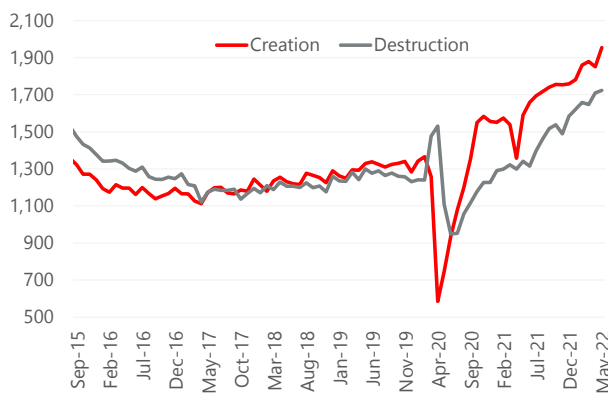
Figure 14. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

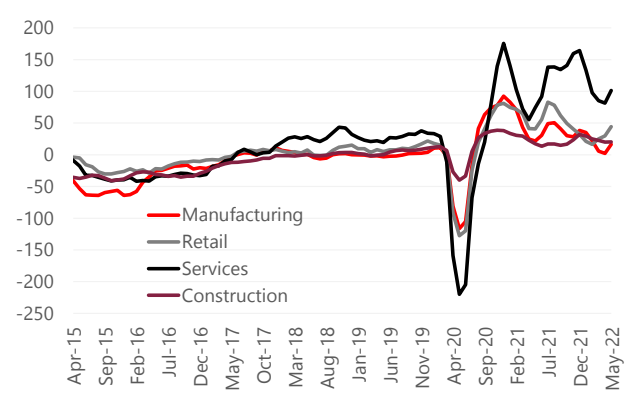
May's net result stemmed from strong growth in hiring, while layoffs had a small increase. All the main sectors indicated improvement in net job creation at the margin. The services sector is still the highlight in job creation, followed by retail, both benefiting from the reopening. Moreover, construction and manufacturing accelerated at the margin, contributing positively to May's strong figure.

Figure 15. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

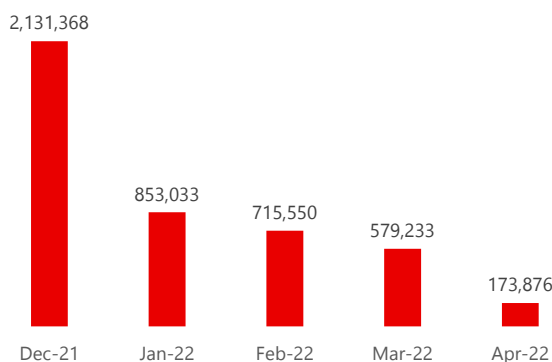
Figure 16. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

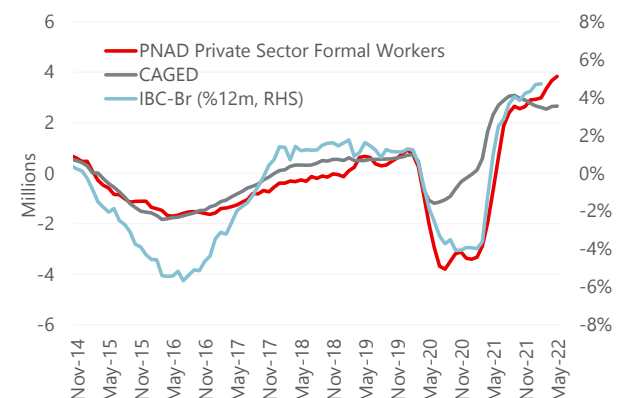
It is worth noting that May was the first month with no workers under the temporary job guarantee from the formal employment preservation program ("Emergency Benefit for Income and Employment Preservation", or BEm). Until April, each month fewer workers were included in the program's temporary job guarantee as the waiver periods for layoffs of the program's beneficiaries gradually expired. We still expect some deceleration in net job creation, especially considering the lingering effects of a tighter monetary policy stance (expected to materialize more intensely in 2H22).

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

The PNAD result shows that the labor market maintained good momentum in May, despite a deceleration from April's employment numbers (considering our monthly estimates). Moreover, the unemployment rate has fallen further, as the monthly estimate for the labor force remained stable in May. Once again, the PNAD survey printed the lowest unemployment rate results since 2015. It is important to note that labor market participation has virtually returned to its pre-crisis levels. The CAGED survey results reinforced the perception of labor market strength in May.

The strength of employment in the recent months poses downward risk to our unemployment rate forecasts, but we still expect some deceleration in the labor market once the effects of a tighter monetary policy start to kick in — especially from 2H22 onward.

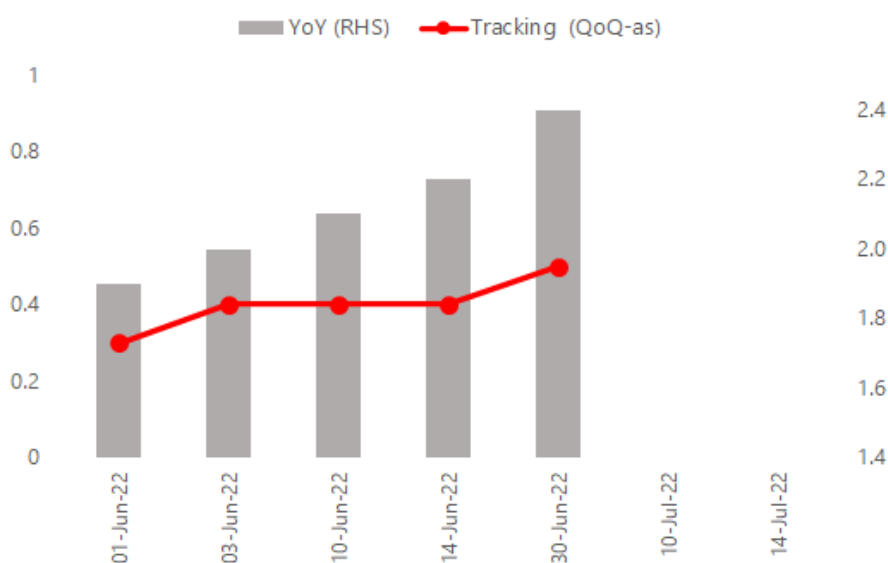
The May PNAD results have led us to revise our 2Q22 GDP tracking to +0.5% QoQ-sa (from +0.4% QoQ-sa). **For details on Santander's activity outlook, please refer to our last chartbook¹.**

Figure 19 – 1Q22 GDP Growth Tracking (% , QoQ-sa and YoY-nsa)

2Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
01-Jun-22	Labor Market	Apr-22	0.3	1.9	0.2	1.7
03-Jun-22	Industry	Apr-22	0.4	2.0	0.2	1.7
10-Jun-22	Retail Sales	Apr-22	0.4	2.1	0.2	1.7
14-Jun-22	Services	Apr-22	0.4	2.2	0.2	1.7
30-Jun-22	Labor Market	May-22	0.5	2.4	0.2	1.7

Sources: IBGE, BCB, Santander.

Figure 20 – Santander GDP Tracking



Sources: IBGE, BCB, Santander.

¹ Santander Brazil Economic Activity: “Chartbook – Upward Revisions in 2022, Concerns Regarding 2023 Intensify” – June 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-jun22>



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