

NO SIGNS OF DECELERATION IN LABOR MARKET

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 9.3% in the three months to June. The result was in line with both our estimate and the market consensus, implying a 4.9 p.p. drop from the year-ago level (14.2%). We calculate that the seasonally adjusted jobless rate stood at 9.1%, a decrease compared to the May level (9.5%).
- The decrease in the seasonally adjusted unemployment rate stemmed from a 0.8% increase in the employed population, while the labor force increased 0.4% MoM-sa. The labor market participation rate stood at 63.0% (sa), an increase compared to May's level (62.8%), and only 0.1 p.p. below the pre-crisis mark (February 2020). Formal employment posted a +0.9% MoM-sa variation, while informal employment had a +0.6% MoM-sa variation. This result led the formalization rate to 57.0% (sa), slightly above the May level (56.9%).
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate figure stood at 9.1% (sa) in June, compared to 8.9% in May. This result followed +0.8% and +1.0% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the slight increase of the unemployment rate at the margin was due to an improvement in the participation rate, as the employed population posted another hefty result.
- The effective real wage bill posted a +1.7% MoM sa variation in May (data lagged one month relative to other PNAD series), while the usual real wage bill had a +1.7% MoM sa variation in June. The series are 0.6% and 1.8% below the pre-crisis mark, respectively, and reflect the mostly the recovery in the employed population, but the average real wages started to indicate more clear signs of recovery.
- According to the June 2022 CAGED survey, released on July 28, net formal job creation stood at 278k (vs. consensus 240k, Santander estimate 234k), above the historical average (114.6k) slightly below the number observed in June 2021 (310k). After our seasonal adjustment, net formal job creation accelerated to 253k, from 242k in May. The number of hirings increased 0.2% MoM-sa, while layoffs decreased 0.4% MoM-sa. The three-month average now points to a payroll expansion of 215k jobs, from 210k in May.
- In our view, June results are compatible with a strong, and likely overheating labor market, as well as a decreasing unemployment rate. The current rate of payroll growth is equivalent to an annualized pace of over 2.5 million jobs, close to the numbers observed in 2010 (2.1 million) and 2021 (2.8 million). In both years, the labor market was rebounding from shocks that had prompted considerable job losses previously (2008-09 recession and 2020 pandemic). The PNAD survey printed the lowest unemployment rate results since mid-2015. It is important to note that our monthly estimate for the labor market participation has reached 63.6%, the highest level since September 2019. 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.



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate was 9.3% in the three months to June, in line with both our estimate the market consensus, implying a 4.9 p.p. drop from the year-ago rate of 14.2%. We estimate that the seasonally adjusted unemployment rate fell to 9.1% from the May level of 9.5%. The performance of the seasonally adjusted unemployment rate stemmed from 0.8% and 0.4% MoM-sa increases in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22
Unemployment rate (%)	10.1	9.5	9.1	-4.3	-4.9	-4.9	-1.6	-2.2	-2.5
Participation rate (%)	62.5	62.8	63.0	2.4	2.2	1.8	-0.6	-0.3	-0.1
Labor force (millions)	108.0	108.6	109.1	5.1	4.6	4.0	1.3	1.9	2.3
Employment	97.1	98.3	99.1	10.3	10.6	9.9	3.0	4.3	5.2
Unemployment	10.9	10.3	10.0	-25.3	-30.2	-32.0	-12.4	-17.2	-20.1
Formalization Rate (%)	57.0	56.9	57.0	-1.2	-1.0	0.0	-0.2	-0.3	-0.2
Formal Workers (millions)	55.3	55.9	56.4	8.1	8.8	0.0	2.5	3.8	4.7
Informal Workers (millions)	41.8	42.3	42.6	13.5	13.2	0.0	3.5	5.0	5.6
Average usual earnings (BRL)**	2,622	2,624	2,634	-7.9	-7.3	-5.1	-7.8	-7.7	-7.4
Average effective earnings (BRL)**	2,736	2,757	-	-5.7	-4.0	-	-7.3	-6.6	-
Usual wage bill (BRL bn)**	248.9	253.1	257.4	1.9	3.0	4.8	-5.0	-3.4	-1.8
Effective wage bill (BRL bn)**	263.3	267.8	-	4.6	6.0	-	-2.3	-0.6	-

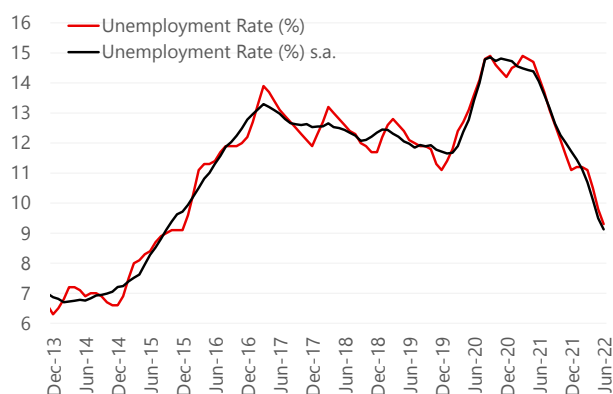
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

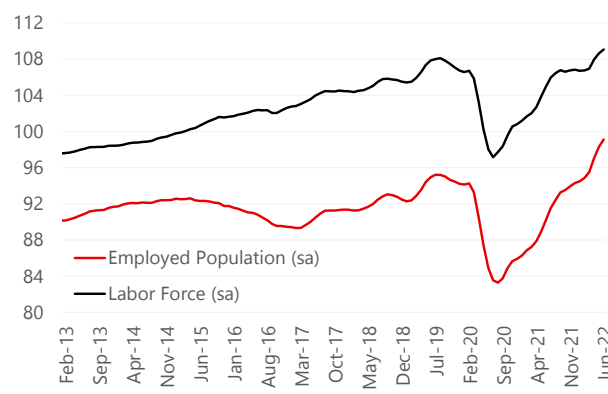
The labor market participation rate stood at 63.0% (sa), an increase from the May level (62.8%) and only 0.1 p.p. below the pre-crisis mark. Once again, the PNAD survey has printed the lowest unemployment rate results since mid-2015. Moreover, most variables have already surpassed pre-pandemic levels.

Figure 2. Unemployment Rate



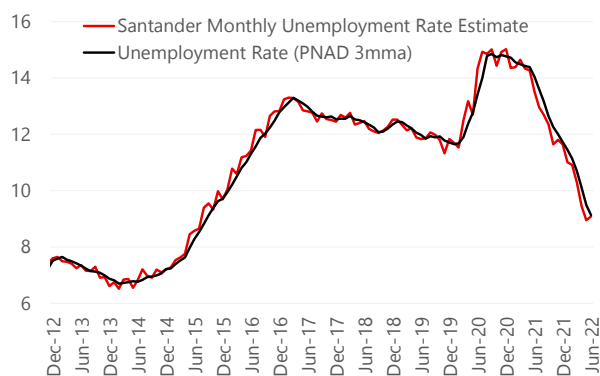
Sources: IBGE, Santander.

Figure 3. Employment and Labor Force (millions)



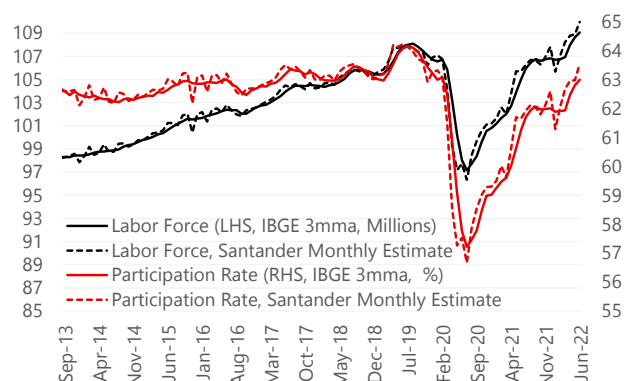
Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 9.1% (sa) in June, compared to 8.9% in May. This result followed +0.8% and +1.0% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the slight increase of the unemployment rate at the margin was due to an improvement in the participation rate, as the employed population posted another hefty result.

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

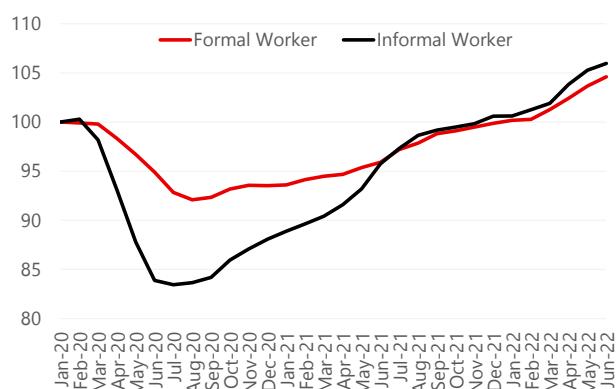
Sources: IBGE, Santander.

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.

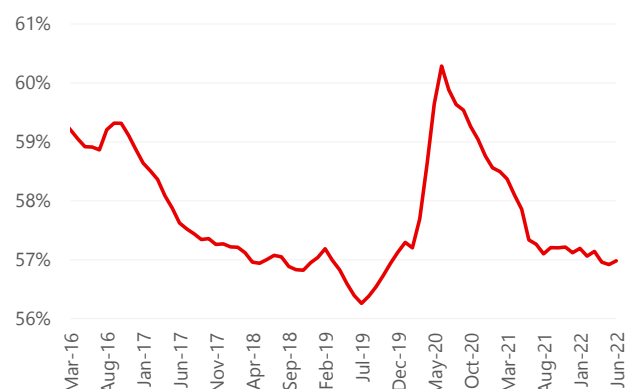
Figure 5. Participation Rate and Labor Force (sa)

Sources: IBGE, Santander.

Formal employment posted a +0.9% MoM-sa variation, while informal employment increased 0.6% 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 57.0% (sa), slightly above the May level (56.9%).

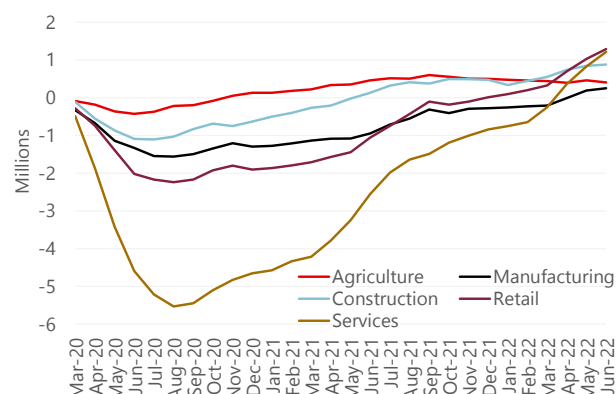
Figure 6. Employed Population (sa, Jan-20=100)

Sources: IBGE, Santander.

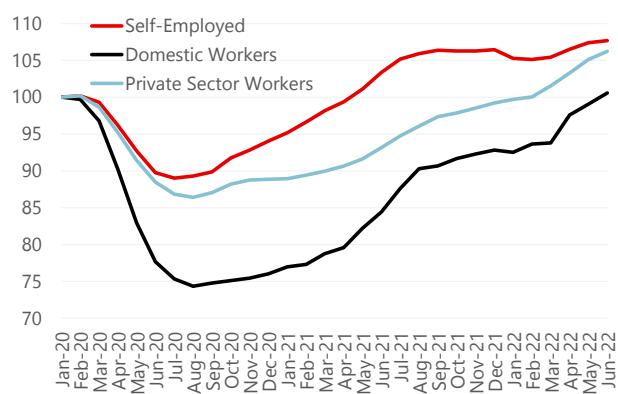
Figure 7. Formalization Rate (sa)

Sources: IBGE, Santander.

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

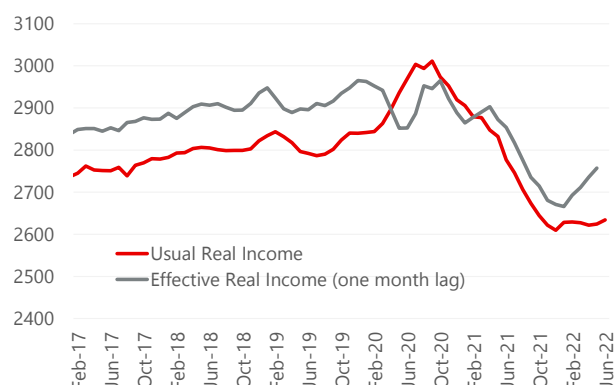
Sources: IBGE, Santander.

As for the average real income indicators, there was some improvement at the margin, despite the still high inflation levels. The real wage bill is also benefiting from employment growth. The effective real wage bill posted



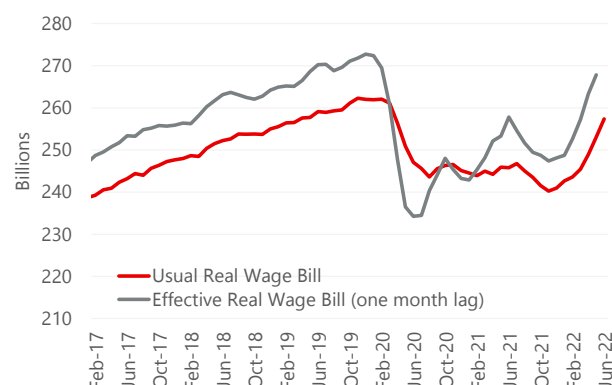
a +1.7% MoM-sa variation in May (data lagged one month relative to other PNAD series), while the usual real wage bill increased 1.7% MoM-sa in June. The two series are 0.6% and 1.8% below their pre-crisis marks, respectively. We expect real income to gradually recover as inflation slowly decelerates.

Figure 10. Average Real Income (sa)



Sources: IBGE, Santander.

Figure 11. Real Wage Bill (sa)



Sources: IBGE, Santander.

CAGED Formal Job Survey

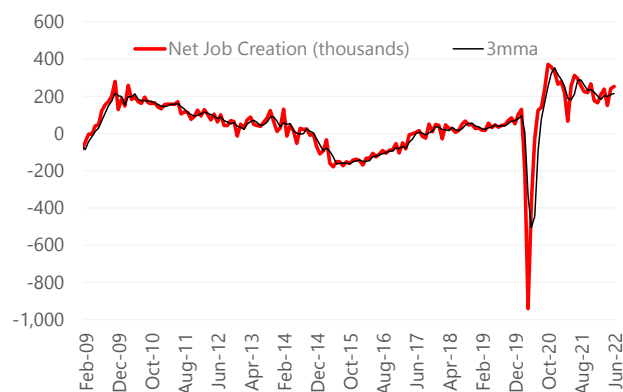
According to the June 2022 CAGED survey, released on July 28, net formal job creation stood at 278k (vs. consensus 240k, Santander estimate 234k), above the historical average (114.6k), and slightly below the number observed in June 2021 (310.0k).

Figure 12 – CAGED Breakdown (thousands)

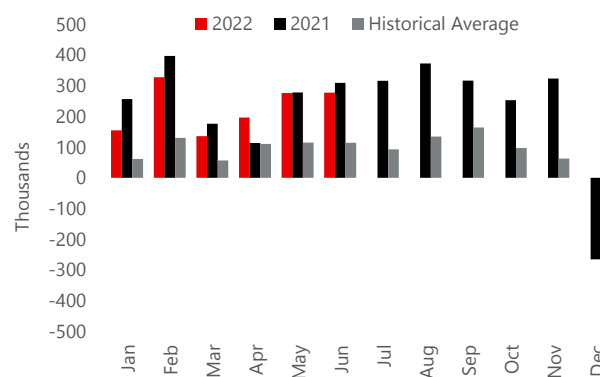
	Headline			Headline (s.a.)		
	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22
Net Creation	197.0	277.0	277.9	151.0	241.7	253.0
Creation	1,854.6	1,961.0	1,898.9	1,851.8	1,956.0	1,960.4
Destruction	1,657.6	1,683.9	1,620.9	1,700.9	1,714.3	1,707.4
Mining	1.5	1.5	1.3	0.8	1.4	0.8
Construction	25.3	35.4	30.3	7.1	25.4	21.5
Manufacturing	22.5	42.1	38.0	-1.8	44.1	48.6
Retail	29.3	47.6	47.2	30.5	68.4	59.4
Agriculture	-1.0	26.7	34.5	-17.4	-14.6	-3.5
Services	114.1	118.5	121.5	73.6	142.9	120.7

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation accelerated to 253k, from 242k in May. The number of hirings had a 0.2% MoM-sa increase, while layoffs had a 0.4% MoM-sa decrease. The three-month average now points to a payroll expansion of 215k jobs, from 210k in May. After decelerating since mid-2021, the figures for May and June consolidated a stabilization slightly above 200k, a strong pace of job creation, equivalent to more than 2.5 million annualized.

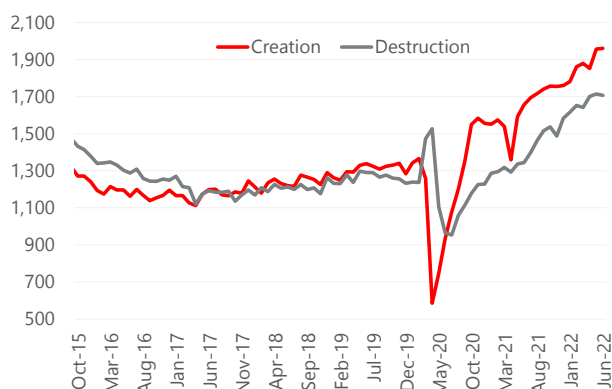
**Figure 13. Net Formal Job Creation (sa)**

Sources: Ministry of Labor, Santander.

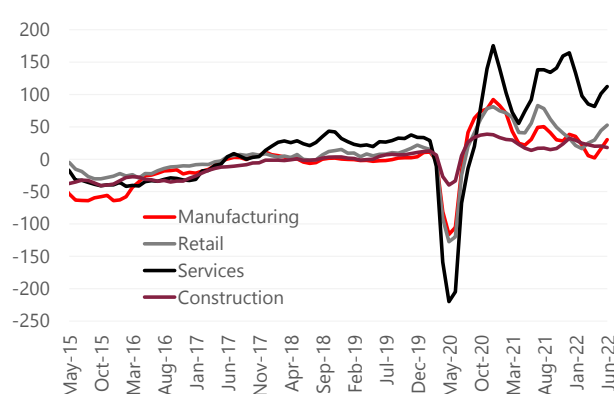
Figure 14. Net Formal Job Creation

Sources: Ministry of Labor, Santander.

June's net result stemmed from a slight growth in hiring, while layoffs had a small decrease. All the main sectors indicate hefty paces of 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, manufacturing accelerated at the margin, contributing positively to June'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.

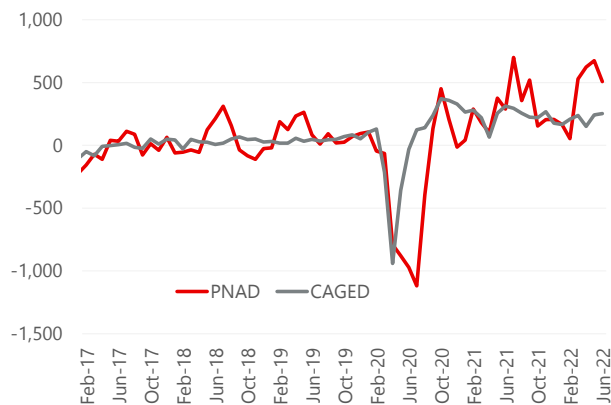
Final Remarks

In our view, June results are compatible with a strong, and likely overheating labor market, as well as a decreasing unemployment rate. The current rate of payroll growth is equivalent to an annualized pace of over 2.5 million jobs, close to the numbers observed in 2010 (2.1 million) and 2021 (2.8 million). In both years, the labor market was rebounding from shocks that had prompted considerable job losses previously (2008-09 recession and 2020 pandemic). The PNAD survey printed the lowest unemployment rate results since mid-2015. It is important to note that our monthly estimate for the labor market participation has reached 63.6%, the highest level since September 2019.

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.

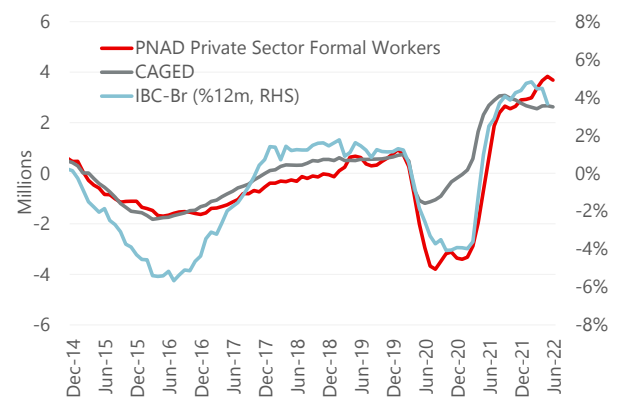


Figure 17. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

Figure 18. Net Job Creation and IBC-Br (12m)



Sources: IBGE, Ministry of Labor, BCB, Santander.

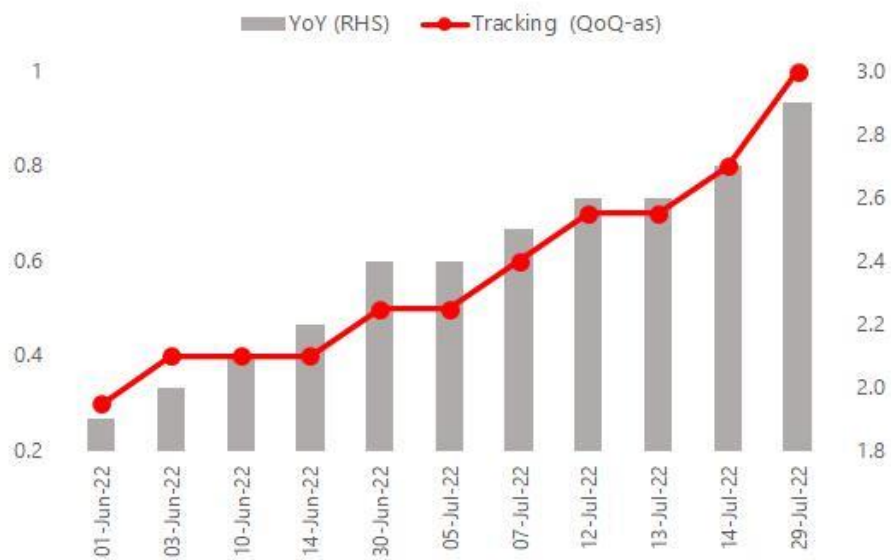
The June PNAD results have led us to revise our 2Q22 GDP tracking to +1.0% QoQ-sa (from +0.8% QoQ-sa).
For details on Santander's activity outlook, please refer to our last chartbook¹.

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	1.8
03-Jun-22	Industry	Apr-22	0.4	2.0	0.2	1.8
10-Jun-22	Retail Sales	Apr-22	0.4	2.1	0.2	1.8
14-Jun-22	Services	Apr-22	0.4	2.2	0.2	1.8
30-Jun-22	Labor Market	May-22	0.5	2.4	0.2	1.8
05-Jul-22	Industry	May-22	0.5	2.4	0.2	1.8
07-Jul-22	IBC-Br	Apr-22	0.6	2.5	0.2	1.8
12-Jul-22	Services	May-22	0.7	2.6	0.2	1.8
13-Jul-22	Retail Sales	May-22	0.7	2.6	0.2	1.8
14-Jul-22	IBC-Br	May-22	0.8	2.7	0.7	2.6
29-Jul-22	Labor Market	Jun-22	1.0	2.9	0.7	2.6

Sources: IBGE, BCB, Santander.

¹ Santander Brazil Economic Activity: “Chartbook: Further improvements in 2022, as 2023 remains challenging” – July 20, 2022 – Available on: <https://bit.ly/Std-chart-econact-jul22>

**Figure 20 – Santander GDP Tracking**

Sources: IBGE, BCB, Santander.



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