

LABOR MARKET STABLE IN JANUARY

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.4% in the three months to January. The figure was slightly below our estimate (8.5%) and above the market consensus (8.2%), implying a 2.8 p.p. drop from the year-ago level (11.2%). We calculate that the seasonally adjusted jobless rate stood at 8.5%, stable compared to the December level.
- The stability in the seasonally adjusted unemployment rate stemmed from 0.0% MoM-sa variations in both the employed population and the labor force. The labor market participation rate was 61.8% (sa), also stable compared to December and holding at its lowest level since August 2021. If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would have been 10.4% in January.
- All PNAD data is based on a three-month moving average. Our monthly unemployment rate estimate stood at 8.5% (sa) in January, a decrease compared to December (8.7%). This estimate followed 0.4% and 0.2% MoM-sa increases in the employed population and the labor force, respectively. Our monthly estimate for the labor force has increased after six declines in a row and is now 1.9% below the June level.
- Effective real average income posted a -0.6% MoM sa variation in December (data lagged one month relative to other PNAD series), while usual real average income posted a +0.1% MoM-sa variation in January. After reaching levels close to pre-pandemic numbers (February 2020), both series showed signs of deceleration, but the overall trend still indicates a significant recovery since mid-2022.
- According to the January CAGED survey, released on March 9, net formal job creation stood at 83k. After our seasonal adjustment, net formal job creation accelerated to 100k, from 87k in December. The number of hirings increased 2.0% MoM-sa, while layoffs increased 1.0% MoM-sa. The three-month average now points to payroll expansion of 93.4k jobs, from 93.5k in December. CAGED results remained slightly below our estimate for the joblessness-neutral level. We estimate that the three-month moving average of CAGED's gap with the joblessness-neutral level (~105k) stood at -11.6k (-12.3k in December).
- In our view, January labor market surveys continue to show a likely overheated job market, but with mixed signals in the breakdown. In our view, the unemployment rate remains low due more to a reduction in the participation rate than to employment growth. Our monthly estimates indicate a slight recovery for employment, labor force, and the participation rate in January. After several months of strong growth, real wages show some signs of deceleration at the margin, but still indicate evidence of an overheated job market. We expect the deceleration in the labor market to continue, but the persistently low participation rate implies downside risk to our unemployment rate projections.
- Since December 2022, the PNAD survey releases have been delayed by the IBGE due to the processing of Population Census data. This schedule is set to be normalized on March 31, with another publication of the PNAD survey (February data).

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PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.4% in the three months to January, slightly below our estimate (8.5%) and above market consensus (8.2%), implying a 2.8 p.p. drop from the year-ago rate of 11.2%. We calculate that the seasonally adjusted jobless rate stood at 8.5%, stable compared to the December level. The performance of the seasonally adjusted unemployment rate stemmed from 0.0% MoM-sa variations in both the employed population and the labor force.

Figure 1 – PNAD Breakdown

	s.a.			% MoM-sa*			% YoY*		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
Unemployment rate (%)	8.6	8.5	8.5	0.0	-0.1	0.0	-3.5	-3.2	-2.8
Participation rate (%)	62.1	61.8	61.8	-0.3	-0.3	0.0	0.1	-0.4	-0.4
Labor force (millions)	107.9	107.4	107.4	-0.4	-0.4	0.0	1.0	0.2	0.1
Employment	98.6	98.3	98.2	-0.4	-0.4	0.0	5.0	3.8	3.4
Unemployment	9.2	9.1	9.2	-0.7	-1.0	0.5	-29.5	-28.6	-25.3
Formalization Rate (%)	58.2	58.4	58.2	0.2	0.2	-0.2	1.1	1.5	1.1
Formal Workers (millions)	57.4	57.4	57.2	-0.1	0.0	-0.4	7.1	6.5	5.4
Informal Workers (millions)	41.2	40.8	41.1	-0.8	-0.9	0.6	2.2	0.2	0.7
Average usual earnings (BRL)**	2,824	2,838	2,840	1.2	0.5	0.1	7.1	8.3	7.7
Average effective earnings (BRL)**	2,942	2,924	-	1.0	-0.6	-	9.4	8.4	-
Usual wage bill (BRL bn)**	273.1	274.1	274.0	0.7	0.4	0.0	13.0	12.8	11.9
Effective wage bill (BRL bn)**	283.9	284.3	-	0.7	0.1	-	14.0	12.5	-

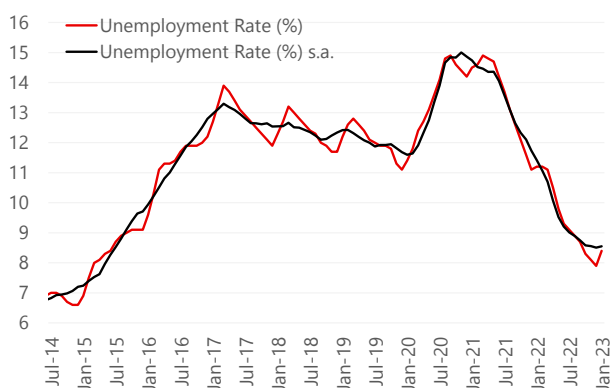
* For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

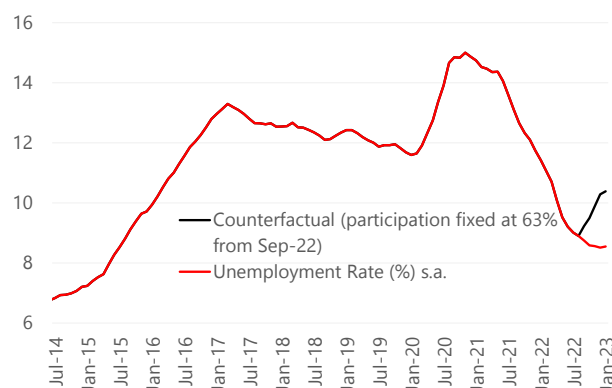
The labor market participation rate stood at 61.8% (sa), also stable compared to December and holding at its lowest level since August 2021. If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would have been 10.4% in January.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Unemployment Rate and Counterfactual (sa)

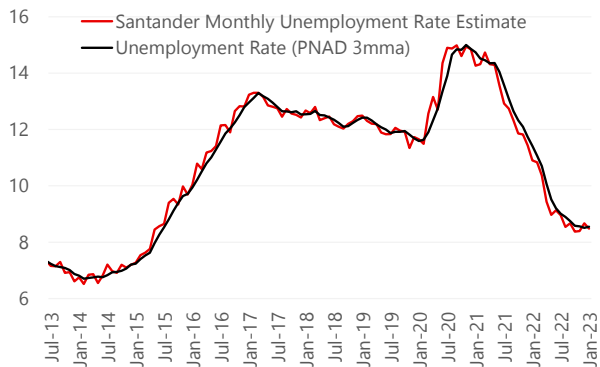


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. Our monthly unemployment rate estimate stood at 8.5% (sa) in January, a decrease compared to December (8.7%). This estimate followed 0.4% and 0.2% MoM-sa variations in the employed population and the labor force, respectively. Our monthly estimate for the labor force has increased after six declines in a row and is now 1.9% below the June level.



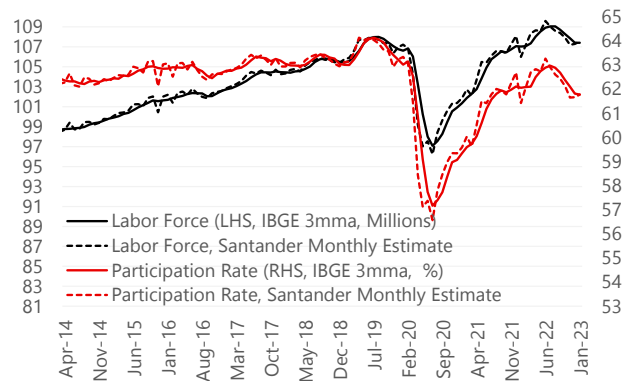
Figure 4. Monthly Unemployment Rate (sa)



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.

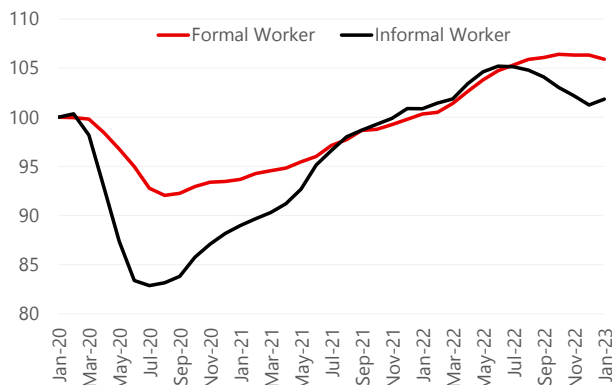
Figure 5. Participation Rate and Employment (sa)



Sources: IBGE, Santander.

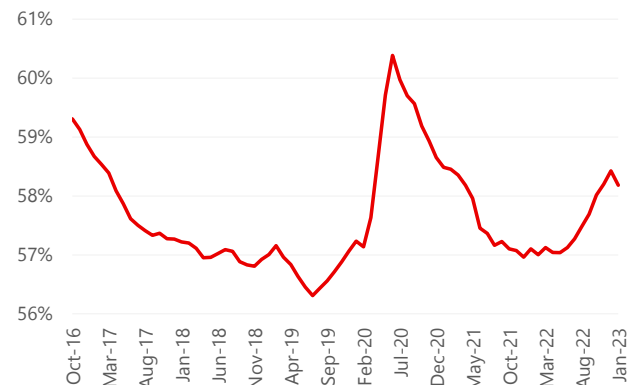
Formal employment posted a -0.4% MoM-sa variation, while informal employment had a +0.6% MoM-sa variation. This result led the formalization rate to 58.2% (sa), below the December level (58.4%). After six months of declines, informal employment grew at the margin in January.

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



Sources: IBGE, Santander.

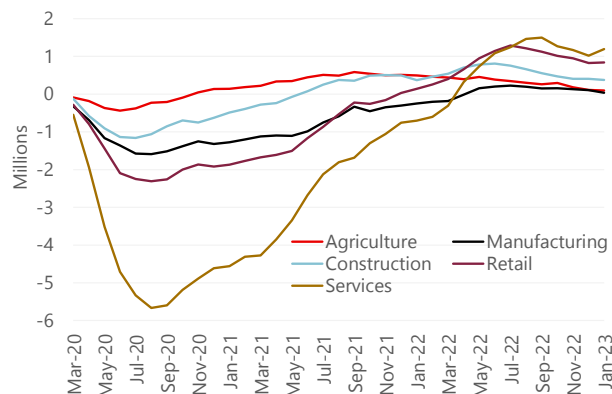
Figure 7. Formalization Rate (sa)



Sources: IBGE, Santander.

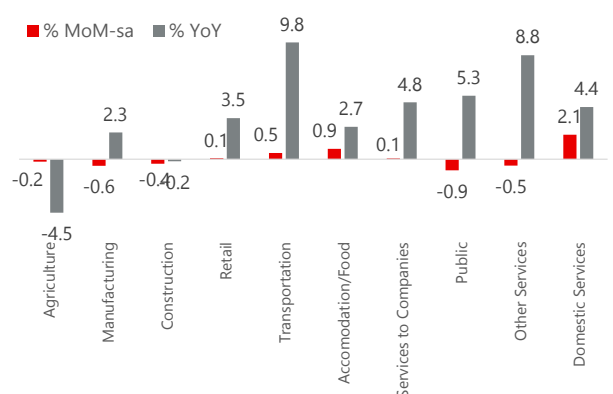
The services sector was the highlight of job creation in January, with a positive variation after a streak of contractions, as domestic services posted a hefty expansion. In our view, more cycle-sensitive sectors tend to indicate deceleration or stability in employment due to tight financial conditions.

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



Sources: IBGE, Santander.

Figure 9. Employed Population Growth

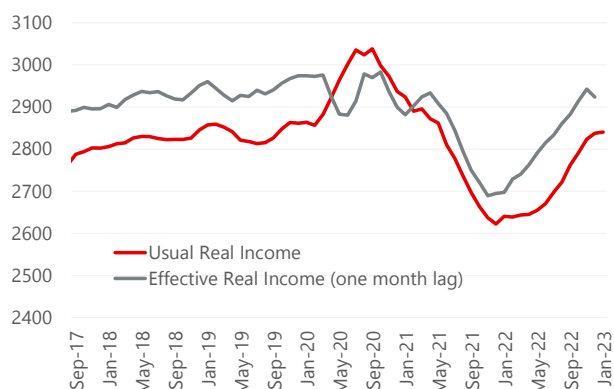


Sources: IBGE, Santander.



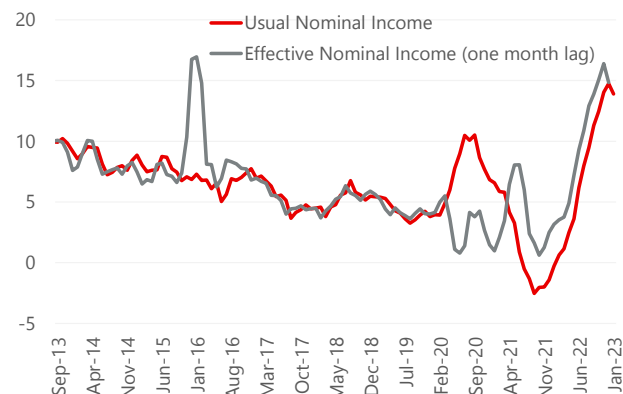
As for average real income indicators, there was some deceleration at the margin. However, in our view, the results are still being boosted both by the recent deceleration in YoY IPCA inflation (since mid-2022) and by the overheated job market. Effective real average income posted a -0.6% MoM sa variation in December (data lagged one month relative to other PNAD series), while usual real average income posted a +0.1% MoM-sa variation in January. Nominal wages continue to show significant YoY gains, still hovering around 15%.

Figure 10. Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Figure 11. Average Nominal Income (% YoY)



Sources: IBGE, Santander.

CAGED Formal Job Survey

According to the January CAGED survey, released on March 9, net formal job creation stood at 83k. After our seasonal adjustment, net formal job creation accelerated to 100k, from 87k in December. The number of hirings increased 2.0% MoM-sa, while layoffs increased 1.0% MoM-sa. The three-month average now points to a payroll expansion of 93.4k jobs, from 93.5k in December. CAGED results remained slightly below our estimate for the joblessness-neutral level¹. We estimate that the three-month moving average of CAGED's gap with the joblessness-neutral level (~105k) stood at -11.6k (-12.3k in December).

Figure 12 – CAGED Breakdown (thousands)

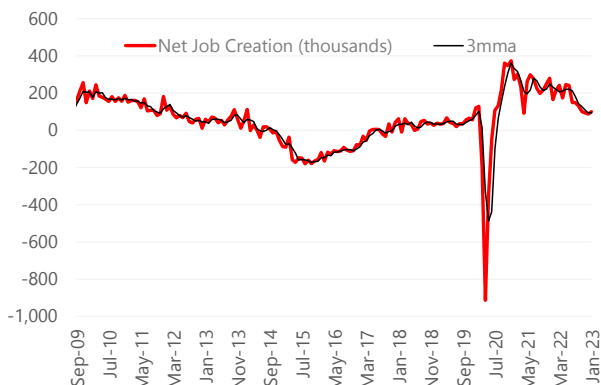
	Headline			Headline (s.a.)		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
Net Creation	135.5	-431.0	83.3	93.4	86.9	100.0
Creation	1,747.9	1,382.9	1,874.2	1,782.5	1,804.4	1,835.9
Destruction	1,612.4	1,813.9	1,790.9	1,689.2	1,717.5	1,735.9
Mining	0.9	-0.3	0.3	1.5	1.6	0.6
Construction	-18.8	-74.5	39.0	5.0	9.7	14.3
Manufacturing	-26.6	-113.0	33.7	-4.8	-2.9	-4.1
Utilities	0.0	-0.9	-0.1	0.7	1.3	0.1
Retail	106.0	-17.3	-53.5	20.9	18.4	35.3
Agriculture	-18.2	-36.9	23.1	11.1	9.2	2.6
Services	92.2	-188.1	40.7	59.0	49.6	51.2

Sources: Ministry of Labor, Santander.

¹ Santander Brazil Special Report: “*Estimating a Neutral Level for Caged Net Job Creation Data*” – August 15, 2022 – Available on: <https://bit.ly/Std-special-081522>

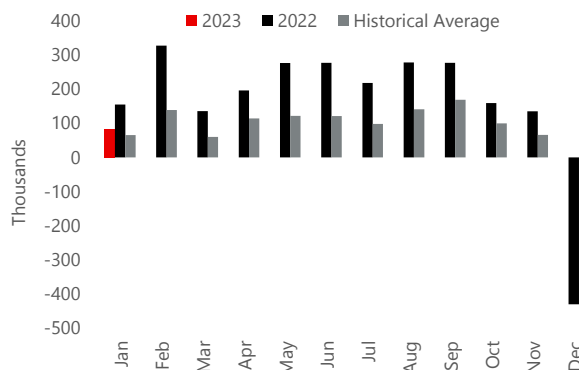


Figure 13. Net Formal Job Creation (sa)



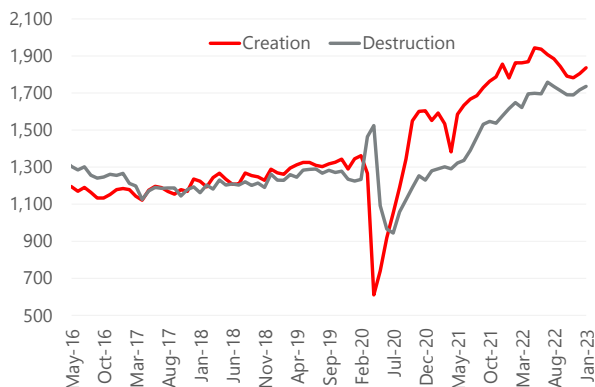
Sources: Ministry of Labor, Santander.

Figure 14. Net Formal Job Creation



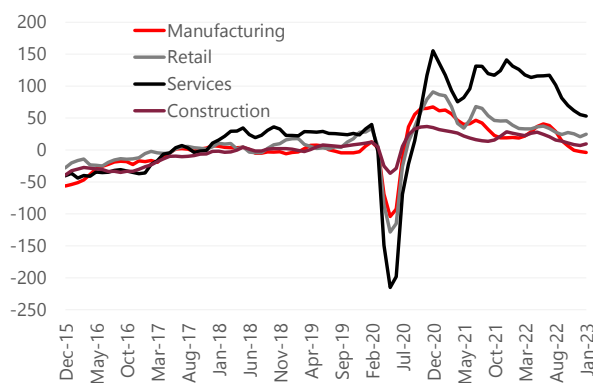
Sources: Ministry of Labor, Santander.

Figure 15. Job Creation and Destruction (sa)



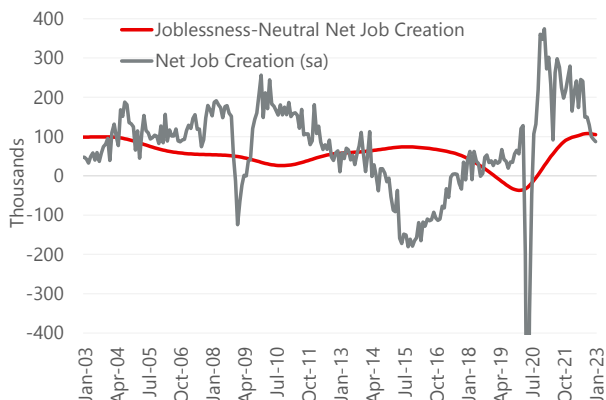
Sources: Ministry of Labor, Santander.

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



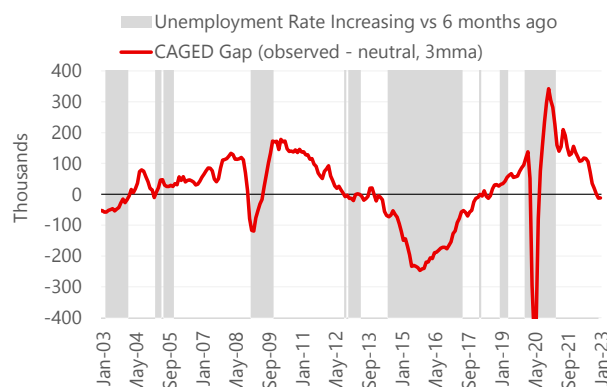
Sources: Ministry of Labor, Santander.

Figure 17. Observed CAGED vs. Neutral



Sources: Ministry of Labor, Santander.

Figure 18. Net Formal Job Creation Gap (sa)



Sources: IBGE, Ministry of Labor, Santander.

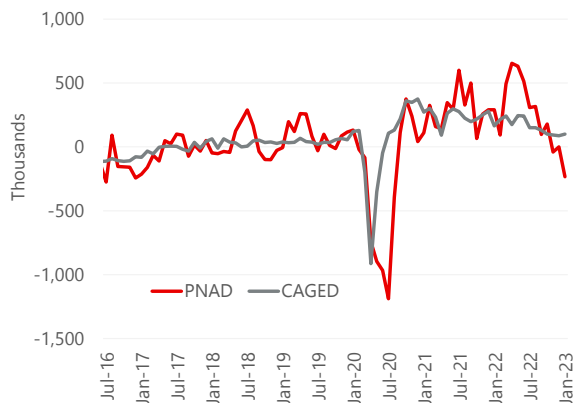
Final Remarks

In our view, the January labor market surveys continue to show a likely overheated job market, but with mixed signals in the breakdown. In our view, the unemployment rate remains low due more to a reduction in the participation rate than to employment growth. Our monthly estimates indicate a slight recovery for employment, labor force, and the participation rate in January. After several months of strong growth, real wages show some signs of deceleration at the margin, but still indicate evidence of an overheated job market. We expect the deceleration in the labor market to continue, but the persistently low participation rate implies downside risk to our unemployment rate projections.



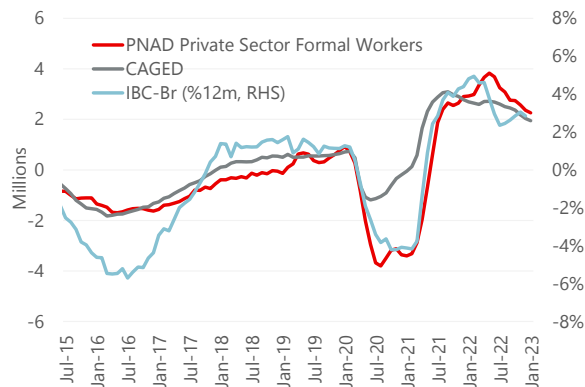
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Figure 19. CAGED vs. PNAD Net Formal Job Creation (sa)



Sources: IBGE, Ministry of Labor, Santander.

Figure 20. Net Job Creation and IBC-Br (12m)



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



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