

FALLING PARTICIPATION KEEPS JOBLESS RATE STABLE

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.1% in the three months to November. The figure was close to our estimate (8.0%) and in line with the market consensus, implying a 3.5 p.p. drop from the year-ago level (11.6%). We calculate that the seasonally adjusted jobless rate stood at 8.6%, stable compared to the October level.
- The stability in the seasonally adjusted unemployment rate stemmed from -0.4% MoM-sa variations in both the employed population and the labor force. The labor market participation rate was 62.1% (sa), a decrease from October (62.4%) and its lowest level since March 2022. If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would be at 9.9% in November.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 8.5% (sa) in November, also stable compared to October. This result followed -0.7% MoM sa variations in both the employed population and the labor force. Therefore, once again, the unemployment rate did not increase at the margin owing to a drop in the participation rate. Our monthly estimate for the labor force has dropped for the fifth month in a row.
- The effective real wage bill posted a +1.1% MoM sa variation in October (data lagged one month relative to other PNAD series), while the usual real wage bill had a +1.3% MoM sa variation in November. Both real wage bill series continue to benefit from the positive impact of a recovering trend in average real wages.
- According to the November CAGED survey, released on December 28, net formal job creation stood at 135k, above the historical average for the month (63k) but below the number observed in November 2021 (324k). After our seasonal adjustment, net formal job creation decelerated to 103k, from 108k in October. We estimate that the 3mma of CAGED's gap to the joblessness-neutral level (~115k) stood at -3k (+12k in October), the first negative print since July 2020.
- In our view, November data show a decelerating but still likely overheated job market. The unemployment rate remains low more because of a reduction in the participation rate than because of employment growth. Our monthly estimates indicate sharp drops for the employed population and the labor force in November. Real wages show additional signs of recovery, benefiting from the deceleration of consumer inflation and indicating additional signs of an overheated job market. The CAGED survey also indicates a slower pace for payroll expansion, which is now below the unemployment rate-neutral level. We expect additional deceleration in the labor market, but the continuation of a low participation rate implies downside risk to our unemployment rate projections. We forecast a tight labor market until at least 3Q23.



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.1% in the three months to October, close to our estimate (8.6%) and in line with market consensus, implying a 3.5 p.p. drop from the year-ago rate of 11.6%. We estimate that the seasonally adjusted unemployment rate remained stable at 8.6%. The performance of the seasonally adjusted unemployment rate stemmed from 0.4% MoM-sa decreases in both the employed population and the labor force.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
Unemployment rate (%)	8.8	8.6	8.6	-3.9	-3.8	0.0	-2.9	-3.0	-3.0
Participation rate (%)	62.7	62.4	62.1	0.8	0.5	0.0	-0.4	-0.8	-1.1
Labor force (millions)	108.8	108.3	107.9	2.2	1.7	0.0	2.0	1.5	1.1
Employment	99.2	99.0	98.6	6.8	6.1	0.0	5.1	4.9	4.4
Unemployment	9.5	9.3	9.3	-29.7	-30.1	0.0	-23.3	-24.9	-25.1
Formalization Rate (%)	57.7	58.0	58.2	0.5	0.9	1.1	0.5	0.8	1.0
Formal Workers (millions)	57.3	57.5	57.4	7.7	7.8	7.1	6.2	6.6	6.5
Informal Workers (millions)	42.0	41.6	41.2	5.6	3.8	2.2	4.0	3.0	2.1
Average usual earnings (BRL)**	2,733	2,764	2,800	2.5	4.7	7.2	-3.3	-2.2	-1.0
Average effective earnings (BRL)**	2,856	2,887	-	4.9	7.2	-	-2.9	-1.8	-
Usual wage bill (BRL bn)**	266.5	268.6	270.7	9.9	11.5	13.0	1.9	2.7	3.5
Effective wage bill (BRL bn)**	277.1	279.3	-	11.7	13.0	-	2.6	3.4	-

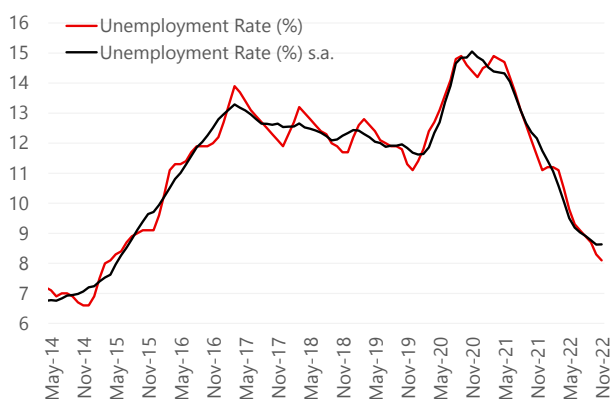
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

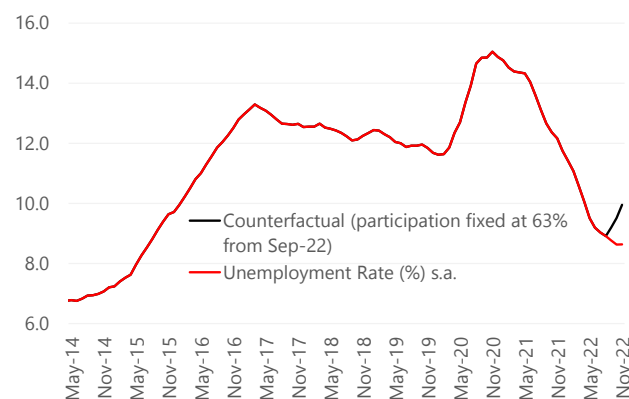
The labor market participation rate stood at 62.1% (sa), a decrease from October (62.4%) and its lowest level since March 2022. Once again, the PNAD survey has shown that the unemployment rate only remained stable because of the drop in the participation rate. If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would be at 9.9% in November.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Unemployment Rate and Counterfactual (sa)

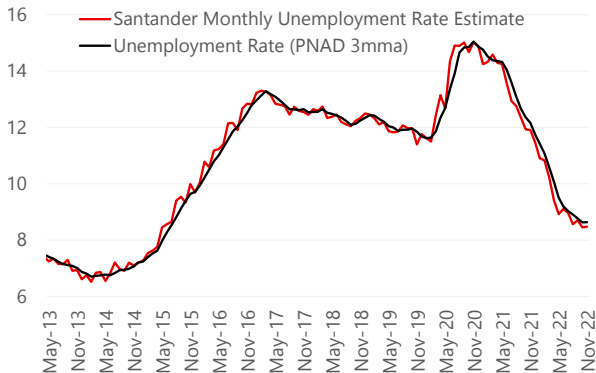


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 8.5% (sa) in November, also stable compared to October. This result followed -0.7% MoM sa variations in both the employed population and the labor force. Therefore, once again, the unemployment rate did not increase at the margin owing to a drop in the participation rate. Our monthly estimate for the labor force has dropped for the fifth month in a row.



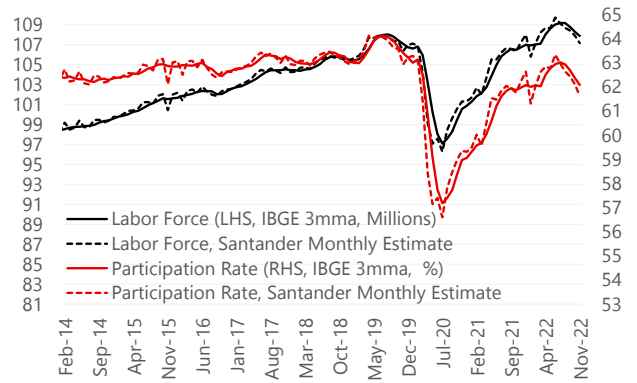
Figure 4. Monthly Unemployment Rate (sa)



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.

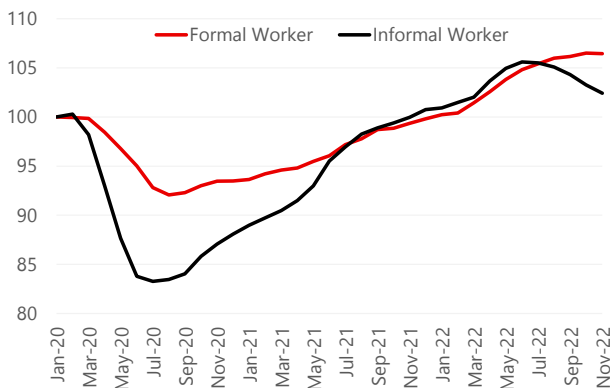
Figure 5. Participation Rate and Labor Force (sa)



Sources: IBGE, Santander.

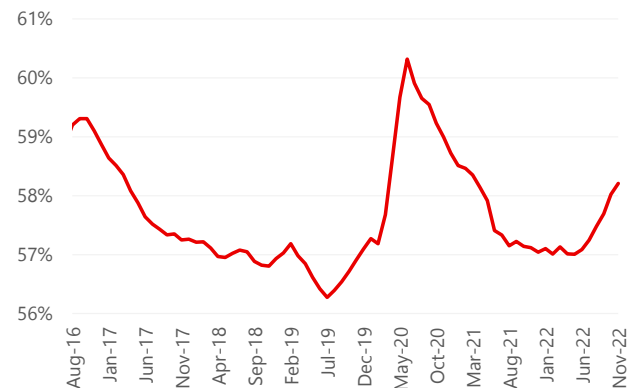
Formal employment posted a -0.1% MoM SA variation, while informal employment had a -0.8% MoM sa variation. This result led the formalization rate to 58.2% (sa), above the October level (58.0%), and the highest reading since normalization of the pandemic's composition effect (August 2021). The recent readings show a clear declining trend in informal labor, as formal jobs are stabilizing.

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



Sources: IBGE, Santander.

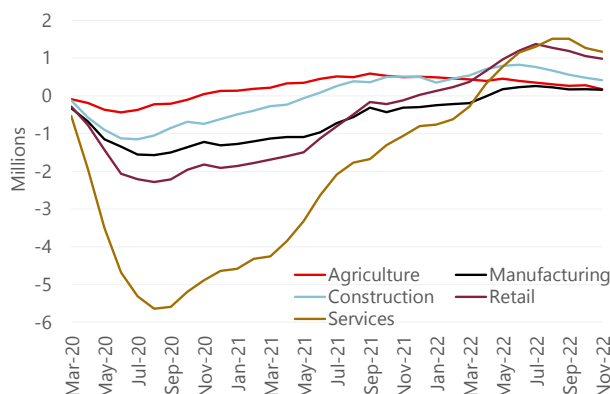
Figure 7. Formalization Rate (sa)



Sources: IBGE, Santander.

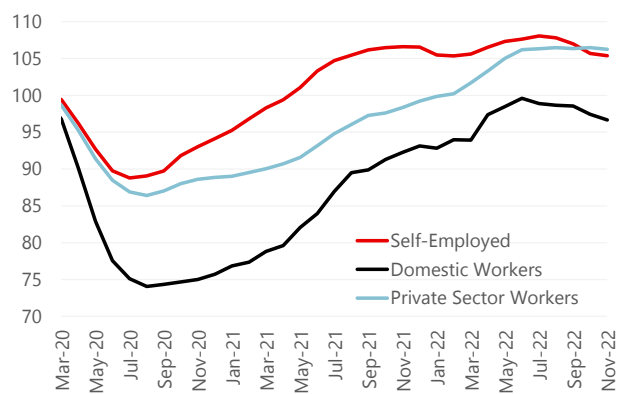
The services sector remains the highlight of job creation in 2022 but continued to decline at the margin, with similar trends seen in retail and construction. In our view, more cycle-sensitive sectors tend to indicate deceleration or stability in employment due to the tight financial conditions.

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



Sources: IBGE, Santander.

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



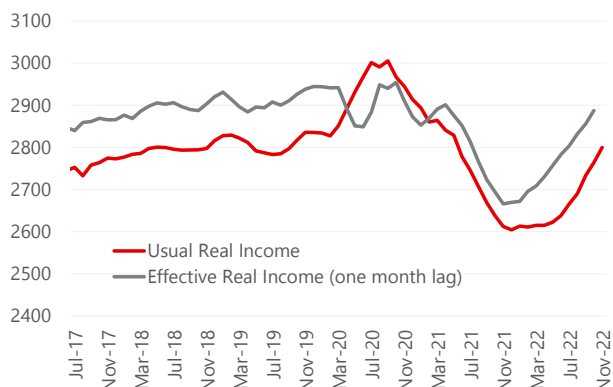
Sources: IBGE, Santander.

As for average real income indicators, there was additional improvement at the margin. In our view, the results are being boosted both by the recent deceleration seen in YoY IPCA inflation and by the overheated job market.



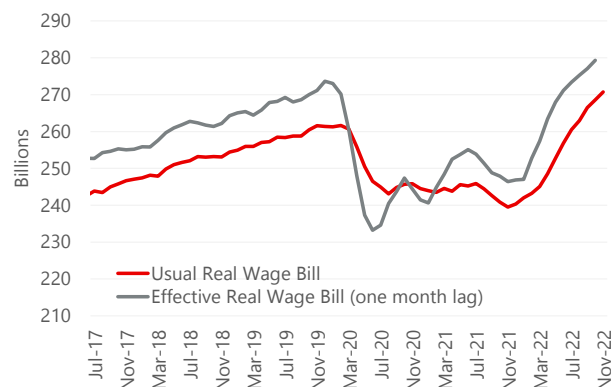
The effective real wage bill posted a +1.1% MoM sa variation in October (data lagged one month relative to other PNAD series), while the usual real wage bill had a +1.3% MoM sa variation in November.

Figure 10. Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Figure 11. Real Wage Bill (BRL, sa)



Sources: IBGE, Santander.

CAGED Formal Job Survey

According to the November CAGED survey, released on December 28, net formal job creation stood at 135k (vs. consensus 146k, Santander estimate 104k), above the historical average for the month (63k) and below the number observed in November 2021 (324k).

Figure 12 – CAGED Breakdown (thousands)

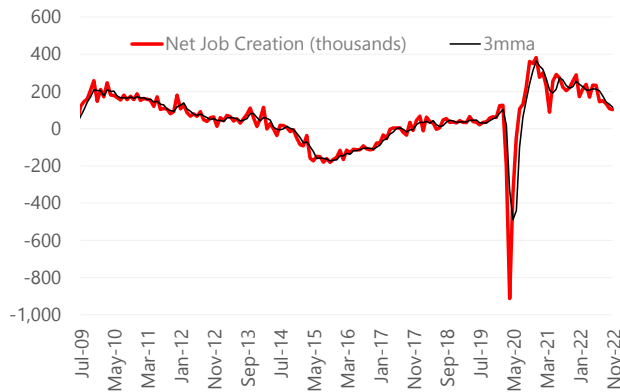
	Headline			Headline (s.a.)		
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22
Net Creation	278.1	159.5	135.5	134.5	107.9	102.9
Creation	1,926.6	1,789.5	1,747.9	1,845.1	1,793.1	1,784.8
Destruction	1,648.5	1,630.0	1,612.4	1,710.6	1,685.2	1,681.9
Mining	1.1	0.7	0.9	0.9	0.7	1.5
Construction	31.2	5.3	-18.8	13.9	5.2	4.0
Manufacturing	54.1	13.1	-26.6	6.0	5.5	1.9
Utilities	1.7	1.1	0.0	1.6	1.5	0.8
Retail	58.0	49.4	106.0	31.1	22.4	20.4
Agriculture	9.5	-1.4	-18.2	8.5	11.3	11.3
Services	122.6	91.3	92.2	72.5	61.4	63.1

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation decelerated to 103k, from 108k in October. The number of hirings decreased 0.5% MoM-sa, while layoffs declined 0.2% MoM-sa. The three-month average now points to a payroll expansion of 115k jobs, from 131k in October.

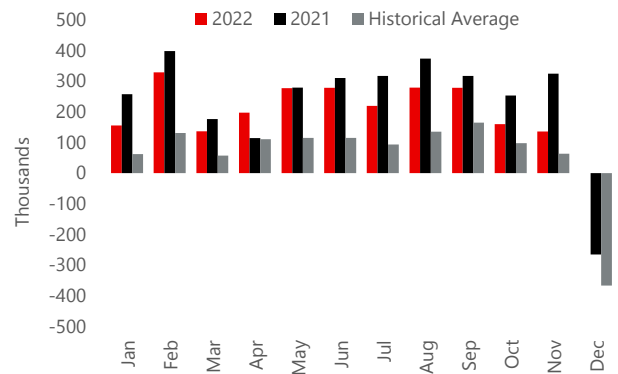


Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

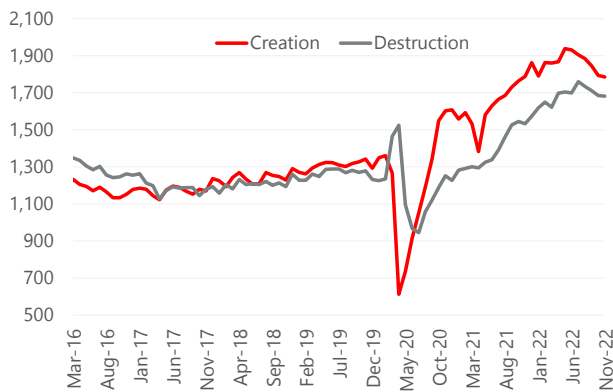
Figure 14. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

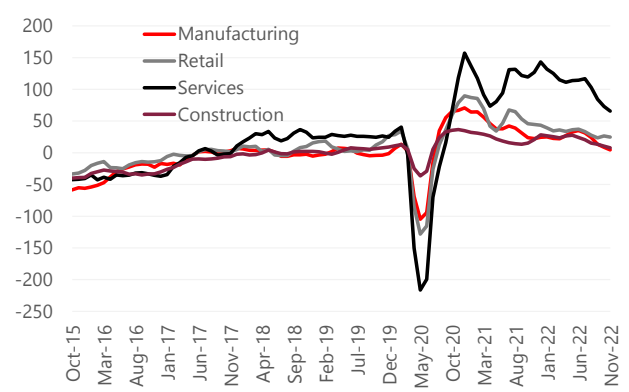
November’s net result stemmed from a sharper decline in hiring than in layoffs. Most of the main sectors showed a level of payroll expansion close to the observed in October. Conversely, manufacturing posted the sharpest deceleration, but still indicate a positive rate of net job creation. The services sector continues to post the highest levels of job creation, but there is a recent deceleration trend in all the main sectors.

Figure 15. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

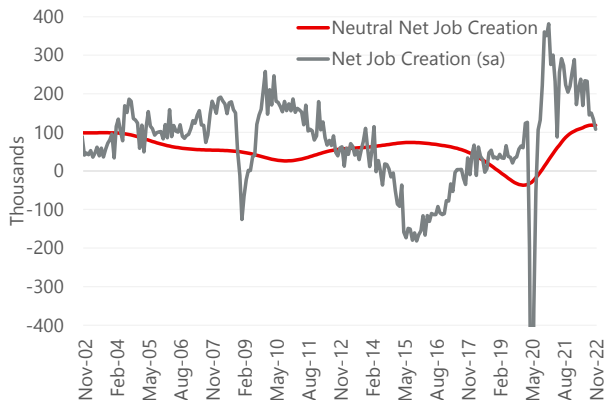
Figure 16. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

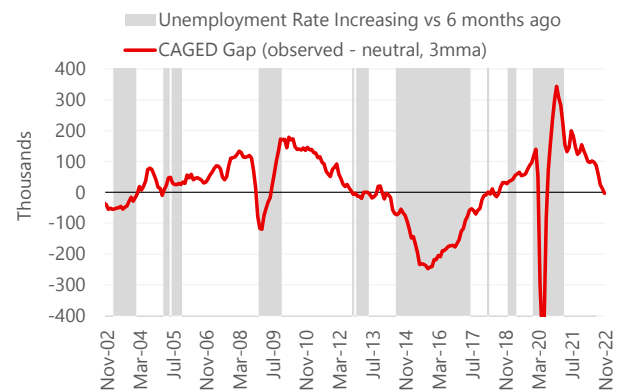
The three-month moving average of net job creation figures has decelerated further and shows a growth rate equivalent to around 1.4 million annualized. CAGED results are now slightly below our estimate for the joblessness-neutral level¹. We estimate that the three-month moving average of CAGED’s gap with the joblessness-neutral level (~110k) stood at -3k (+12k in October).

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.

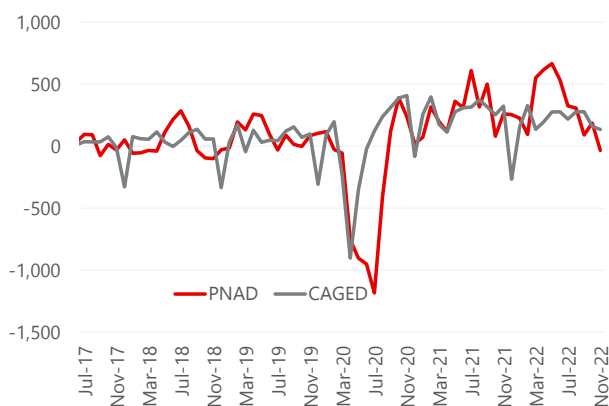
¹ Santander Brazil Special Report: “Estimating a Neutral Level for Caged Net Job Creation Data” – August 15, 2022 – Available on: <https://bit.ly/Std-special-081522>



Final Remarks

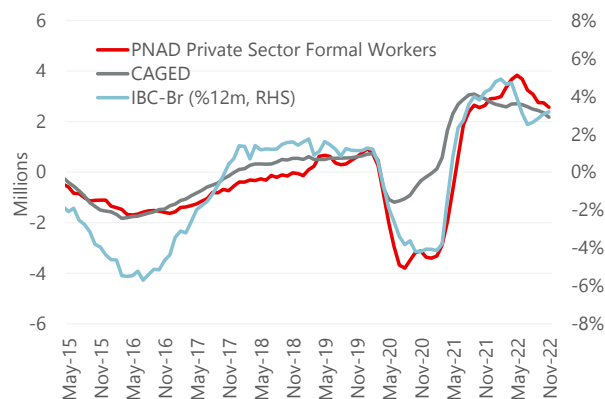
In our view, November data show a decelerating but still likely overheated job market. The unemployment rate remains low more because of a reduction in the participation rate than because of employment growth. Our monthly estimates indicate sharp drops for the employed population and the labor force in November. Real wages show additional signs of recovery, benefiting from the deceleration of consumer inflation and indicating additional signs of an overheated job market. The CAGED survey also indicates a slower pace for payroll expansion, which is now below the unemployment rate-neutral level. We expect additional deceleration in the labor market, but the continuation of a low participation rate implies downside risk to our unemployment rate projections. We forecast a tight labor market until at least 3Q23.

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



Sources: Ministry of Labor, Santander.

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



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



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