

## LABOR MARKET STILL STRONG DESPITE SLIGHT DECCELERATION IN SEPTEMBER

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.7% in the three months to September. The performance was in line with our estimate and market consensus (both at 8.7%), implying a 3.9 p.p. drop from the year-ago level (12.6%). We calculate that the seasonally adjusted jobless rate stood at 8.8%, a decrease from the August level (9.0%).
- The decrease in the seasonally adjusted unemployment rate stemmed from a 0.2% decline in the employed population, while the labor force contracted 0.4% MoM-sa. The labor market participation rate was 62.8% (sa), a decrease from August's level (63.0%). Formal employment posted a +0.2% MoM-sa variation, while informal employment had a -0.7% MoM-sa variation. This performance led the formalization rate to 57.7% (sa), above August's level (57.5%) and the highest reading since the normalization of the pandemic's composition effect (August 2021).
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 8.8% (sa) in September, compared to 8.6% in August. This result followed -0.4% and -0.2% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the increase in the unemployment rate at the margin was due to a drop in the employed population, despite the lower participation rate.
- The effective real wage bill posted a +0.7% MoM sa variation in August (data lagged one month relative to other PNAD series), while the usual real wage bill had a +1.3% MoM sa variation in September. The series are 2.3% and 1.9% above their pre-crisis marks, respectively. Both real wage bill series continue to benefit from the positive impact of a recovering trend in average real wages.
- According to the September CAGED survey, released on October 26, net formal job creation stood at 278k (vs. consensus 275k, Santander estimate 289k), above the historical average for the month (165k) and below the number observed in September 2021 (317k). After our seasonal adjustment, net formal job creation decelerated to 167k, from 192k in August. The number of hirings decreased 2.4% MoM-sa, while layoffs fell 1.2% MoM-sa. The three-month average now points to payroll expansion of 176k jobs, from 214k in August. We estimate that in September the 3mma of CAGED's gap with the joblessness-neutral level (~110k) stood at 63k (102k in August).
- The September labor market results continue to show a strong and likely overheated job market. Once again, the PNAD survey has printed the lowest unemployment rate since mid-2015. However, our monthly estimates indicate some deceleration at the margin, with contractions in both the employed population and the labor force. The CAGED results also indicate some deceleration, but payroll expansion continues at a pace compatible with a falling unemployment rate. Real wages show additional signs of recovery, benefiting from the deceleration of consumer inflation. We expect additional deceleration in the labor market for 4Q22.
- We are slightly raising our 3Q22 GDP growth tracking to +0.8% QoQ-sa (+4.1% YoY) from +0.7% QoQ-sa (+4.0% YoY) previously.



## PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.7% in the three months to September, in line with our estimate and market consensus (both at 8.7%), implying a 3.9 p.p. drop from the year-ago rate of 12.6%. We estimate that the seasonally adjusted unemployment rate fell to 8.8% from the August level of 9.0%. The performance of the seasonally adjusted unemployment rate stemmed from 0.2% and 0.4% MoM-sa decreases in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22
<b>Unemployment rate (%)</b>	<b>9.1</b>	<b>9.0</b>	<b>8.8</b>	<b>-4.6</b>	<b>-4.2</b>	<b>-3.9</b>	<b>-2.6</b>	<b>-2.7</b>	<b>-2.9</b>
Participation rate (%)	63.1	63.0	62.8	1.5	1.2	0.8	0.0	-0.1	-0.3
Labor force (millions)	109.2	109.2	108.8	3.3	2.9	2.2	2.4	2.4	2.0
Employment	99.3	99.4	99.3	8.8	7.9	6.8	5.3	5.4	5.2
Unemployment	9.9	9.8	9.6	-31.4	-30.1	-29.7	-20.4	-21.3	-23.1
<b>Formalization Rate (%)</b>	<b>57.2</b>	<b>57.5</b>	<b>57.7</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.5</b>	<b>0.0</b>	<b>0.3</b>	<b>0.5</b>
Formal Workers (millions)	56.9	57.2	57.3	8.6	8.5	7.7	5.5	6.1	6.2
Informal Workers (millions)	42.5	42.3	42.0	9.2	7.2	5.6	5.3	4.8	4.0
<b>Average usual earnings (BRL)**</b>	<b>2,660</b>	<b>2,684</b>	<b>2,726</b>	<b>-2.9</b>	<b>-0.7</b>	<b>2.5</b>	<b>-5.7</b>	<b>-4.9</b>	<b>-3.4</b>
<b>Average effective earnings (BRL)**</b>	<b>2,793</b>	<b>2,819</b>	-	<b>-0.3</b>	<b>2.5</b>	-	<b>-4.8</b>	<b>-4.0</b>	-
<b>Usual wage bill (BRL bn)**</b>	<b>260.1</b>	<b>262.5</b>	<b>265.9</b>	<b>6.1</b>	<b>7.7</b>	<b>9.9</b>	<b>-0.3</b>	<b>0.6</b>	<b>1.9</b>
<b>Effective wage bill (BRL bn)**</b>	<b>273.0</b>	<b>274.9</b>	-	<b>8.1</b>	<b>9.9</b>	-	<b>1.6</b>	<b>2.3</b>	-

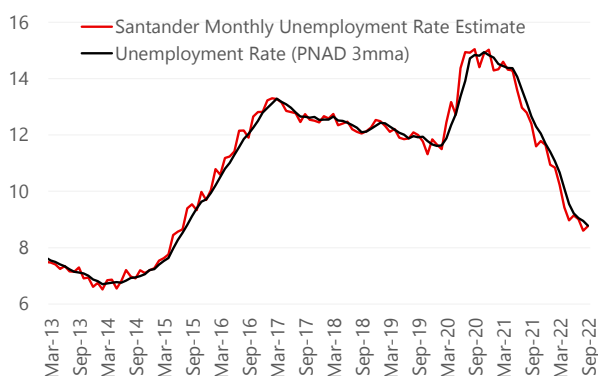
\* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

\*\* In real terms

Sources: IBGE, Santander.

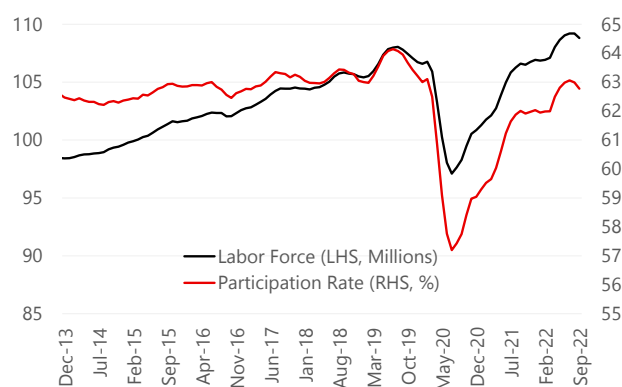
The labor market participation rate stood at 62.8% (sa), a decrease from the August level (63.0%) and below the pre-pandemic mark (63.1% in February 2020). Once again, the PNAD survey has shown the lowest unemployment rate since mid-2015, with a stabilization trend at the margin.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate (sa)

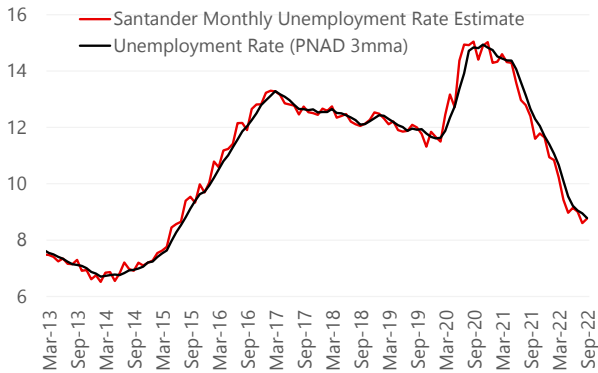


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 8.8% (sa) in September, compared to 8.6% in August. This result followed -0.4% and -0.2% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the increase in the unemployment rate at the margin was due to a drop in the employed population, despite the lower participation rate.



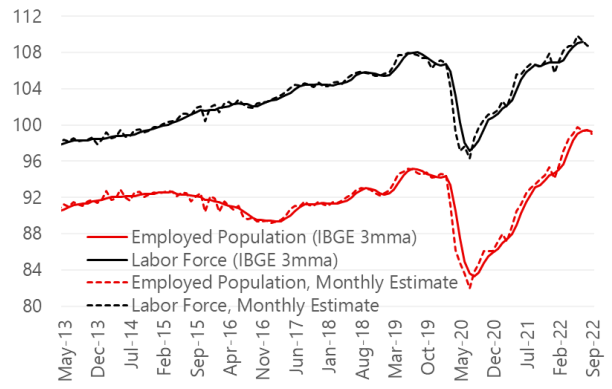
**Figure 4. Monthly Unemployment Rate (sa)**



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.

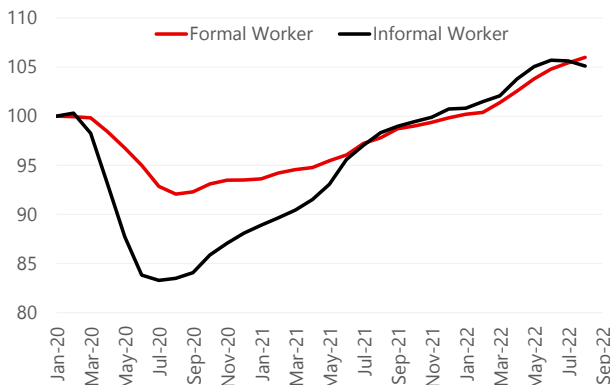
**Figure 5. Employed Population and Labor Force (sa)**



Sources: IBGE, Santander.

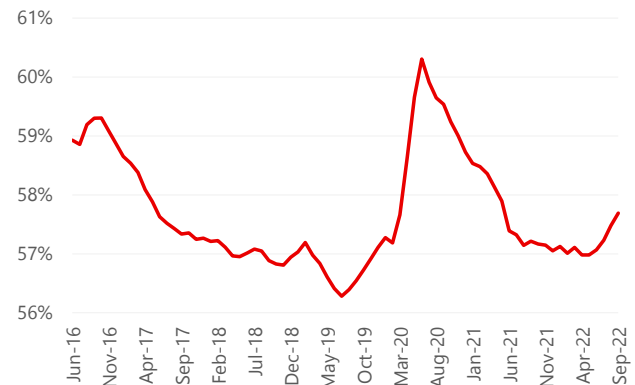
Formal employment posted a +0.2% MoM-sa variation, while informal employment decreased 0.7% MoM-sa. This performance led the formalization rate to 57.7% (sa), above the August level (57.5%) and the highest reading since normalization of the pandemic's composition effect (August 2021).

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



Sources: IBGE, Santander.

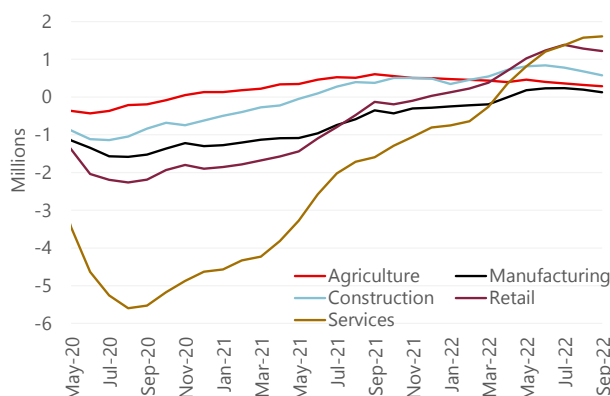
**Figure 7. Formalization Rate (sa)**



Sources: IBGE, Santander.

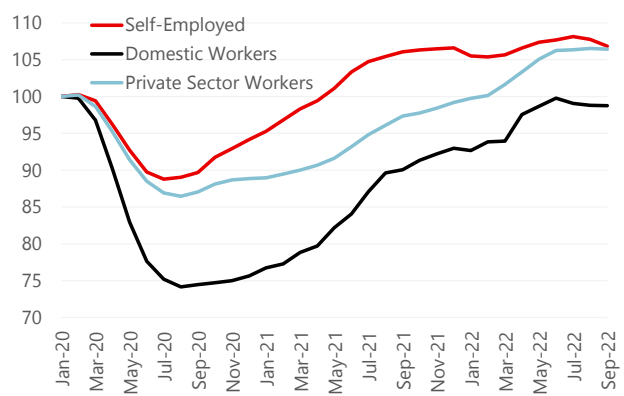
Some sectors showed additional signs of deceleration in employment growth in September. The services sector remains the highlight of job creation in 2022. Retail, on the other hand, posted another contraction in September, as construction continued its declining trend.

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



Sources: IBGE, Santander.

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



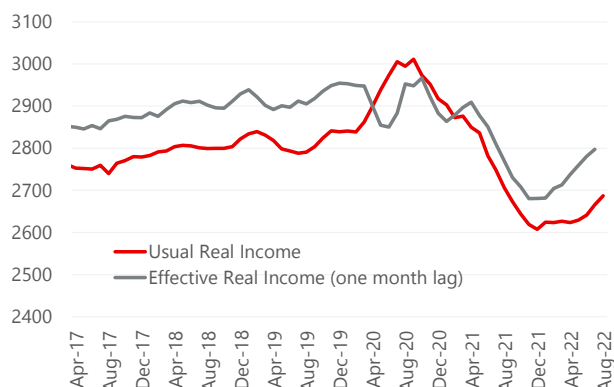
Sources: IBGE, Santander.

As for average real income indicators, there was additional improvement at the margin, probably, in our view, boosted by the recent monthly deflation readings in the IPCA. The effective real wage bill has benefited from this recent recovery in real wages and posted a +0.7% MoM-sa variation in August (data lagged one month



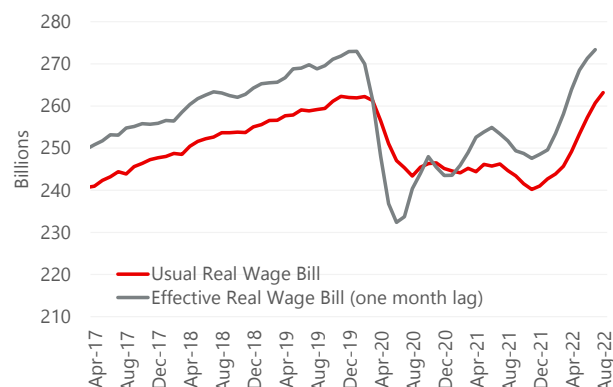
relative to other PNAD series), while the usual real wage bill increased 1.3% MoM-sa in September. The series are 2.3% above and 1.9% above their pre-pandemic marks, respectively. Both real wage bill series are benefiting from the positive impact of a recovering trend in average real wages.

**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 September CAGED survey, released on October 26, net formal job creation stood at 278k (vs. consensus 275k, Santander estimate 289k), above the historical average for the month (165k) and below the number observed in September 2021 (317k).

**Figure 12 – CAGED Breakdown (thousands)**

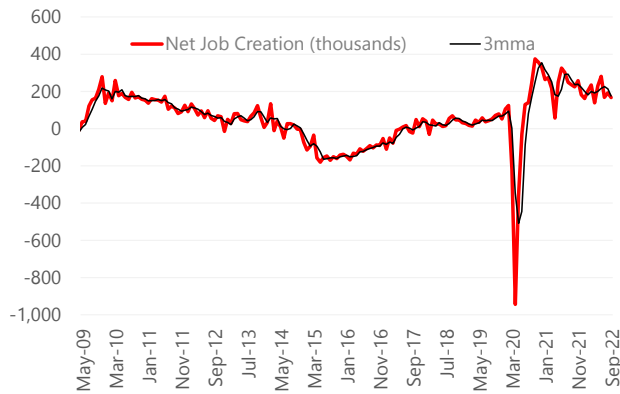
	Headline			Headline (s.a.)		
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22
<b>Net Creation</b>	<b>218.9</b>	<b>278.6</b>	<b>278.1</b>	<b>167.8</b>	<b>192.1</b>	<b>167.3</b>
<b>Creation</b>	<b>1,886.5</b>	<b>2,051.8</b>	<b>1,926.6</b>	<b>1,930.0</b>	<b>1,930.7</b>	<b>1,884.3</b>
<b>Destruction</b>	<b>1,667.6</b>	<b>1,773.2</b>	<b>1,648.5</b>	<b>1,762.2</b>	<b>1,738.7</b>	<b>1,717.0</b>
Mining	1.6	1.2	1.1	1.3	0.6	0.7
Construction	32.1	35.2	31.2	18.7	15.0	11.8
Manufacturing	46.3	48.9	54.1	43.9	23.4	6.5
Retail	38.6	41.9	58.0	52.6	24.7	27.9
Agriculture	15.9	7.7	9.5	7.1	14.6	13.0
Services	77.8	136.5	119.4	118.9	80.5	81.3

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation decelerated to 167k, from 192k in August. The number of hirings decreased 2.4% MoM-sa, while layoffs declined 1.2% MoM-sa. The three-month average now points to a payroll expansion of 176k jobs, from 214k in August.

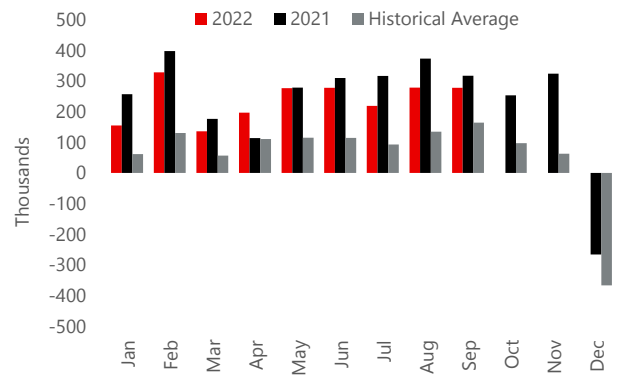


**Figure 13. Net Formal Job Creation (sa)**



Sources: Ministry of Labor, Santander.

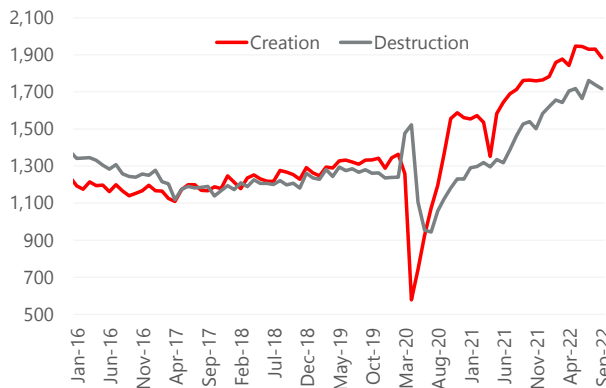
**Figure 14. Net Formal Job Creation**



Sources: Ministry of Labor, Santander.

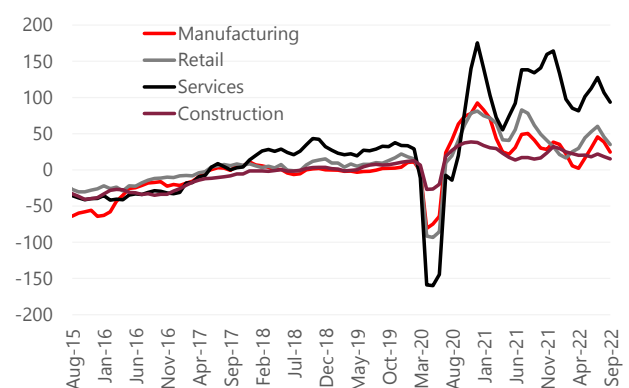
September’s net result stemmed from a sharper decline in hiring than in layoffs. All the main sectors still indicate healthy rates of net job creation but continue to show deceleration trends at the margin. The services sector continues to post the highest levels of job creation, followed by retail and manufacturing.

**Figure 15. Job Creation and Destruction (sa)**



Sources: Ministry of Labor, Santander.

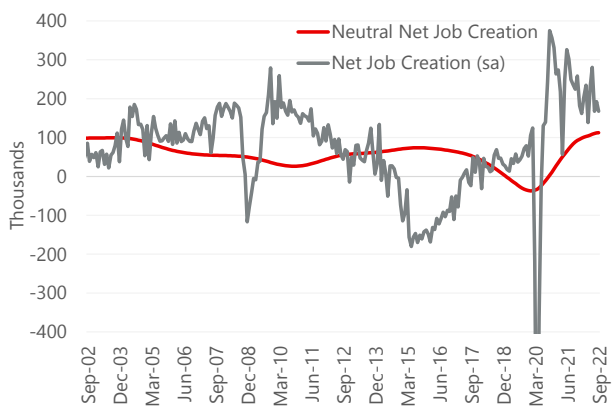
**Figure 16. Net Formal Job Creation (3mma, sa)**



Sources: Ministry of Labor, Santander.

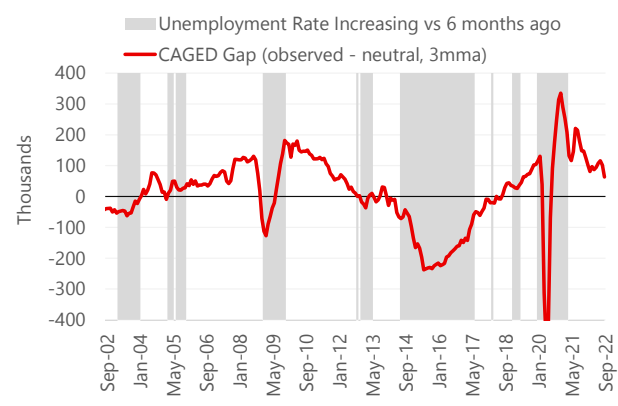
The three-month moving average of net job creation figures has returned to levels below 200k, but it still shows a strong growth rate, equivalent to around 2.0 million annualized. Furthermore, CAGED results remain above our estimate for the joblessness-neutral level<sup>1</sup>. We estimate that the three-month moving average of CAGED’s gap with the joblessness-neutral level (~110k) stood at 63k (102k in August).

**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.

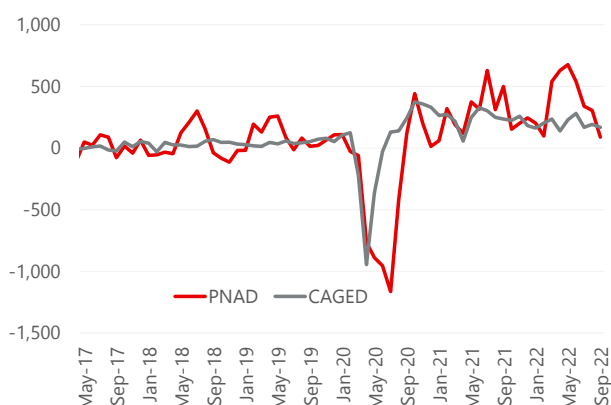
<sup>1</sup> Santander Brazil Special Report: “Estimating a Neutral Level for Caged Net Job Creation Data” – August 15, 2022 – Available on: <https://bit.ly/Std-special-081522>



## Final Remarks

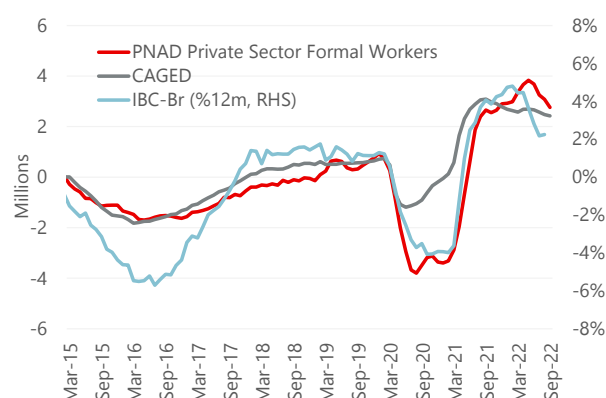
The September labor market results continue to show a strong and likely overheated job market. Once again, the PNAD survey has printed the lowest unemployment rate results since mid-2015. However, our monthly estimates indicate some deceleration at the margin, with contractions in both the employed population and the labor force. The CAGED results also indicate some deceleration, but payroll expansion continues at a pace compatible with a falling unemployment rate. Real wages show additional signs of recovery, benefiting from the deceleration of consumer inflation. We expect further deceleration in the labor market for 4Q22.

**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.

We are slightly raising our 3Q22 GDP growth tracking to +0.8% QoQ-sa (+4.1% YoY) from +0.7% QoQ-sa (+4.0% YoY) previously. **For details on Santander's activity outlook, please refer to our last chartbook<sup>2</sup>.**

**Figure 21 – 1Q22 GDP Growth Tracking (% , QoQ-sa and YoY-nsa)**

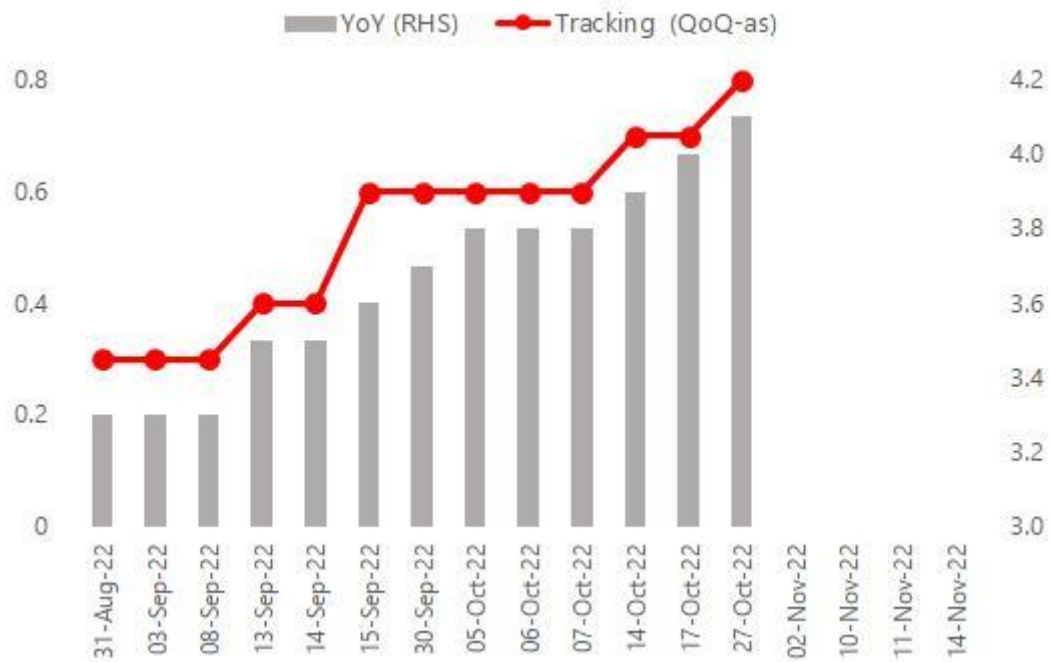
3Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
31-Aug-22	Labor Market	Jul-22	0.3	3.3	0.3	3.3
03-Sep-22	Industry	Jul-22	0.3	3.3	0.3	3.3
08-Sep-22	LSPA	Aug-22	0.3	3.3	0.3	3.3
13-Sep-22	Retail Sales	Jul-22	0.4	3.5	0.3	3.3
14-Sep-22	Services	Jul-22	0.4	3.5	0.3	3.3
15-Sep-22	IBC-Br	Jul-22	0.6	3.6	0.3	3.3
30-Sep-22	Labor Market	Aug-22	0.6	3.7	0.3	3.3
05-Oct-22	Industry	Aug-22	0.6	3.8	0.3	3.3
06-Oct-22	LSPA	Sep-22	0.6	3.8	0.3	3.3
07-Oct-22	Retail Sales	Aug-22	0.6	3.8	0.3	3.3
14-Oct-22	Services	Aug-22	0.7	3.9	0.6	3.8
17-Oct-22	IBC-Br	Aug-22	0.7	4.0	0.6	3.8
27-Oct-22	Labor Market	Sep-22	0.8	4.1	0.6	3.8

Sources: IBGE, BCB, Santander.

<sup>2</sup> Santander Brazil Economic Activity: "Chartbook: A Better Outlook for 2023" – October 21, 2022 – Available on: <https://bit.ly/Std-chart-econtact-oct22>



Figure 22 – Santander GDP Tracking



Sources: IBGE, BCB, Santander.





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