

DIVERGENT SIGNS FOR LABOR MARKET IN MARCH

Gabriel Couto*
gabriel.couto@santander.com.br
+5511 3553-8487

- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.8% in the three months through March, at the mid-point of our estimate (8.7%) and the market consensus (8.9%) and implying a 2.3 p.p. drop from the year-ago level (11.1%). We calculate that the seasonally adjusted unemployment rate stood at 8.2% during the period, slightly below the February level (8.3%).
- The drop in the seasonally adjusted unemployment rate stemmed from +0.3% MoM-sa and 0.2% MoM-sa variations in the employed population and the labor force, respectively. The labor market participation rate was 61.8% (sa), slightly above the February level (61.7%). If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would have been 10.0% in March.
- All PNAD data is based on a three-month moving average. Our monthly unemployment rate estimate stood at 8.5% (sa) in March, an increase from February (8.2%). This estimate stemmed from +0.0% and +0.3% MoM-sa variations in the employed population and the labor force, respectively.
- Effective real average income posted a -0.4% MoM sa variation in February (data lagged one month relative to other PNAD series), while usual real average income posted a +0.0% MoM-sa variation in March. After reaching levels close to the pre-pandemic (February 2020) both series showed signs of deceleration, but the overall trend still indicates a hefty recovery since mid-2022.
- According to the March CAGED survey, released on April 28, net formal job creation stood at 195k (versus consensus +90k, Santander estimate +100k), above both the historical average for the month (+60k) and the data observed in March 2022 (+136k). After our seasonal adjustment, net formal job creation accelerated to 312k, from 137k in February, the highest expansion since December 2020. The number of hirings increased 13.4% MoM-sa, while layoffs increased 4.2% MoM-sa. CAGED results are now considerably above our estimate for the joblessness-neutral level. We estimate that the 3mma of CAGED's gap to the joblessness-neutral level (~100k) stood at +90k (+15k in February).
- In our view, March labor market surveys were positive but showed some divergent signs. On the one hand, CAGED data indicated a hefty and surprising result. On the other hand, the PNAD survey shows a flattish overall behavior. However, we evaluate that both surveys continue to show a likely overheated job market. We still believe that the unemployment rate remains low due more to a reduction in the participation rate than to employment growth.
- We expect the deceleration trend in the labor market to return ahead, but the continuity of a low participation rate and the strong result in March's CAGED data imply a downside risk to our unemployment rate projections.



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.8% in the three months to March, at the mid-point of our estimate (8.7%) and the market consensus (8.9%), implying a 2.3 p.p. drop from the year-ago rate of 11.1%. We calculate that the seasonally adjusted unemployment rate stood at 8.2%, slightly below the February level (8.3%). The performance of the seasonally adjusted unemployment rate stemmed from +0.3% MoM-sa and 0.2% MoM-sa variations in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% MoM-sa*			% YoY*		
	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
Unemployment rate (%)	8.4	8.3	8.2	0.0	-0.1	-0.1	-2.8	-2.6	-2.3
Participation rate (%)	61.7	61.7	61.8	0.0	0.0	0.1	-0.4	-0.5	-0.5
Labor force (millions)	107.3	107.4	107.6	0.0	0.1	0.2	0.1	0.1	0.0
Employment	98.3	98.5	98.8	0.0	0.2	0.3	3.4	3.0	2.7
Unemployment	9.0	9.0	8.8	0.0	-1.1	-1.5	-25.3	-23.2	-21.1
Formalization Rate (%)	58.2	58.1	57.9	-0.2	-0.1	-0.2	1.1	1.1	0.8
Formal Workers (millions)	57.1	57.1	57.1	-0.5	0.0	0.1	5.4	5.0	4.1
Informal Workers (millions)	41.1	41.3	41.5	0.6	0.4	0.7	0.7	0.4	0.8
Average usual earnings (BRL)**	2,878	2,875	2,876	0.1	-0.1	0.0	7.7	7.5	7.4
Average effective earnings (BRL)**	2,982	2,972	-	0.2	-0.4	-	8.4	7.1	-
Usual wage bill (BRL bn)**	277.8	278.2	278.9	0.0	0.1	0.3	11.9	11.4	10.8
Effective wage bill (BRL bn)**	288.7	288.8	-	0.1	0.0	-	12.2	10.5	-

* For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

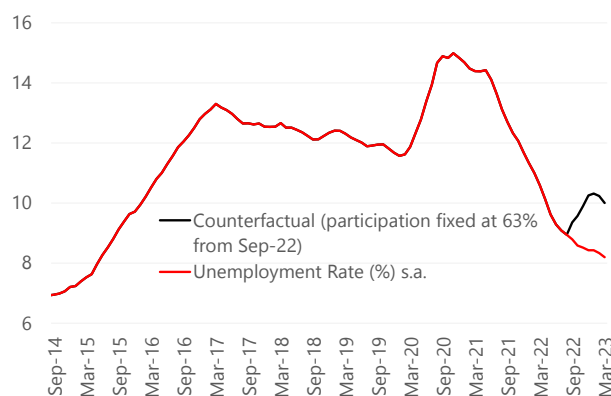
The labor market participation rate stood at 61.8% (sa), slightly above the February level (61.7%). If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would have been 10.0%.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Unemployment Rate and Counterfactual (sa)

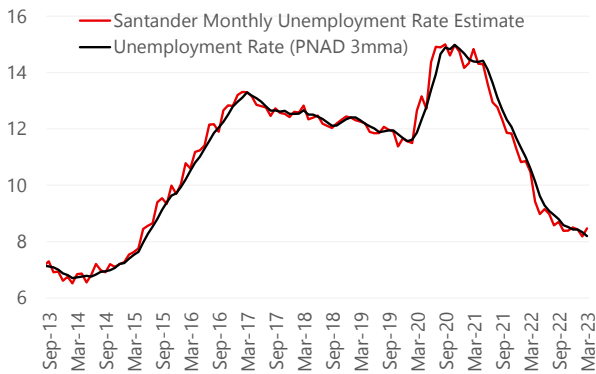


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. Our monthly unemployment rate estimate stood at 8.5% (sa) in March, an increase from February (8.3%). This estimate stemmed from +0.0% and +0.3% MoM-sa variations in the employed population and the labor force, respectively.



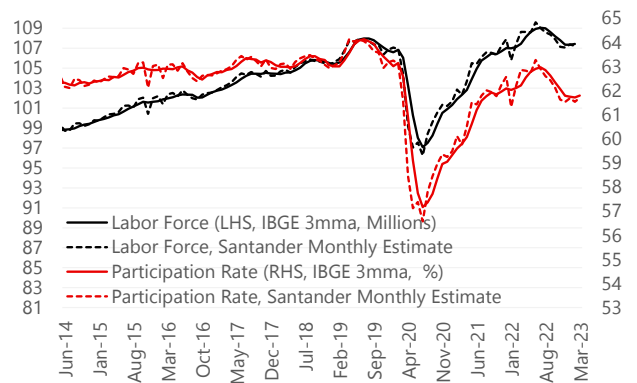
Figure 4. Monthly Unemployment Rate (sa)



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 methodology.

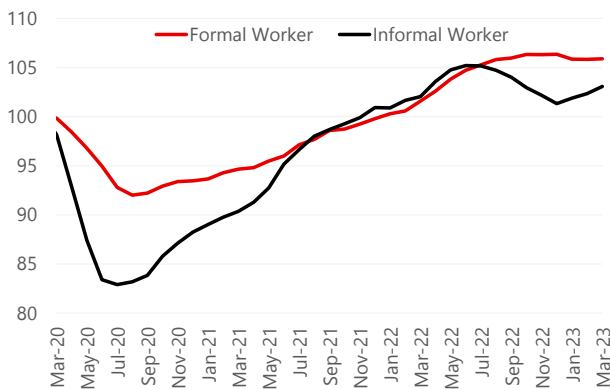
Figure 5. Participation Rate and Employment (sa)



Sources: IBGE, Santander.

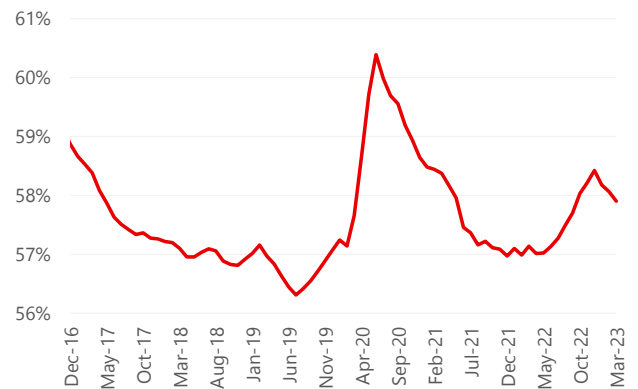
Formal employment posted a +0.1% MoM-sa variation, while informal employment had a +0.7% MoM-sa variation. This result led the formalization rate to 57.9% (sa), below the February level (58.1%). After six months of declines, informal employment grew at the margin in January through March.

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



Sources: IBGE, Santander.

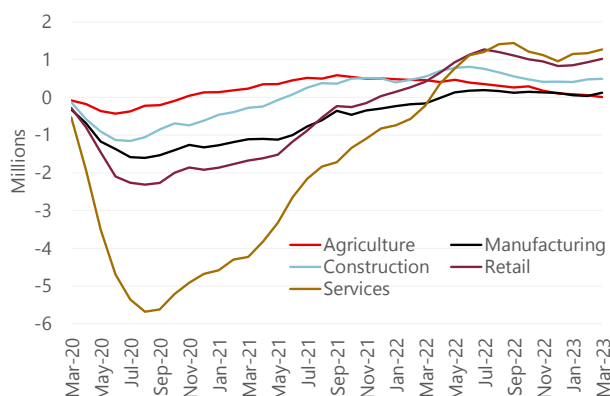
Figure 7. Formalization Rate (sa)



Sources: IBGE, Santander.

The accommodation/food, services to companies and manufacturing sectors were the highlights of job creation in March, while agriculture and domestic services posted the largest contractions at the margin. In our view, more cycle-sensitive sectors tend to signal deceleration or stability in employment ahead, due to tight financial conditions.

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



Sources: IBGE, Santander.

Figure 9. Employed Population Growth

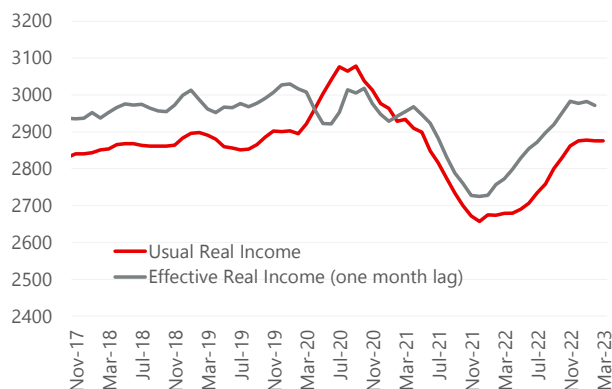


Sources: IBGE, Santander.



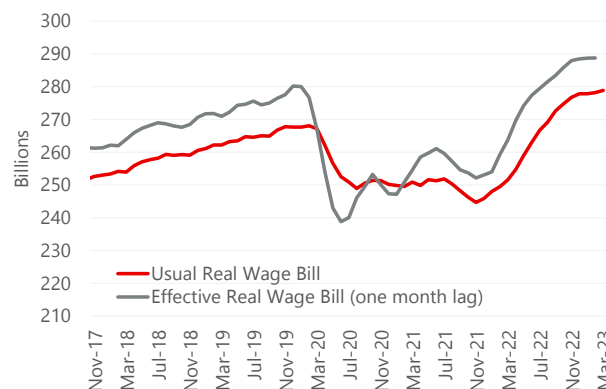
As for average real income indicators, there were additional signs of a deceleration trend. In our view, the results have been boosted by the deceleration in YoY IPCA inflation in 2H22 and by the overheated job market. Effective real average income posted a -0.4% MoM sa variation in February (data lagged one month relative to other PNAD series), while usual real average income posted a 0.0% MoM-sa variation in March.

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 March CAGED survey, released on April 28, net formal job creation stood at 195k (versus consensus +90k, Santander estimate +100k), above both the historical average for the month (+60k) and the data observed in March 2022 (+136k). After our seasonal adjustment, net formal job creation accelerated to 312k, from 137k in February, the highest expansion since December 2020. The number of hirings increased 13.4% MoM-sa, while layoffs increased 4.2% MoM-sa. The three-month average now points to a payroll expansion of 186k jobs, from 111k in February. CAGED results are now considerably above our estimate for the joblessness-neutral level¹. We estimate that the 3mma of CAGED's gap to the joblessness-neutral level (~100k) stood at +90k (+15k in February).

With the March result, 12-month accumulated net job creation reached 1.934 million (adjusted for post-deadline declarations), from 1.837 million in February. It was the first increase in this metric since May 2022.

All the main sectors indicated acceleration from February, with services, retail and manufacturing as the highlights. Construction and agriculture also contributed positively to the result.

Figure 12 – CAGED Breakdown (thousands)

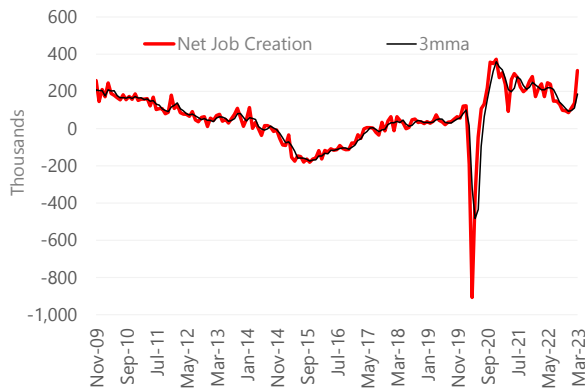
	Headline			Headline (s.a.)		
	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
Net Creation	83.3	241.8	195.2	109.8	136.5	311.6
Creation	1,874.2	1,949.8	2,168.4	1,850.7	1,826.4	2,072.0
Destruction	1,790.9	1,708.1	1,973.2	1,741.0	1,689.8	1,760.4
Mining	0.3	1.3	1.6	0.7	0.8	1.9
Construction	39.0	22.2	33.6	16.7	8.3	31.5
Manufacturing	33.7	37.2	17.9	-0.5	17.1	41.0
Utilities	-0.1	1.9	1.5	0.3	1.0	1.9
Retail	-53.5	-1.3	18.6	26.9	13.1	68.2
Agriculture	23.1	16.3	-0.3	4.2	9.2	16.4
Services	40.7	164.2	122.3	61.5	87.1	150.8

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>

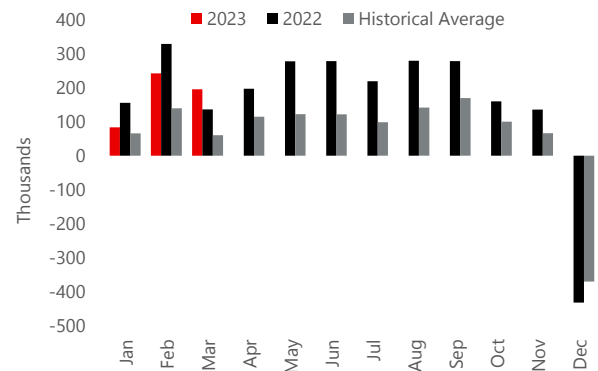


Figure 13. Net Formal Job Creation (sa)



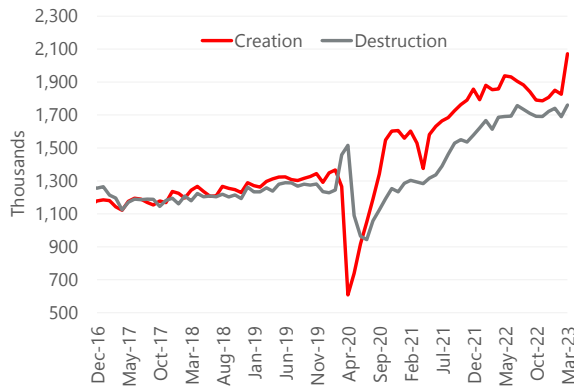
Sources: Ministry of Labor, Santander.

Figure 14. Net Formal Job Creation



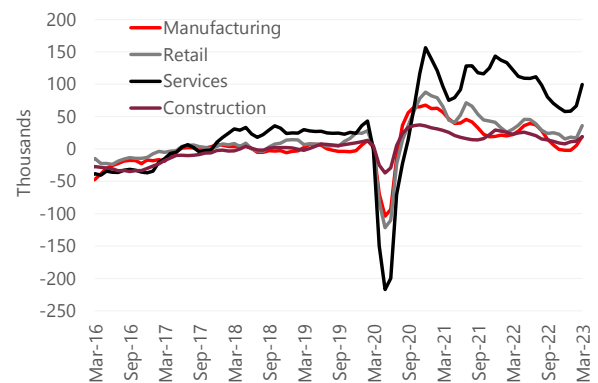
Sources: Ministry of Labor, Santander.

Figure 15. Job Creation and Destruction (sa)



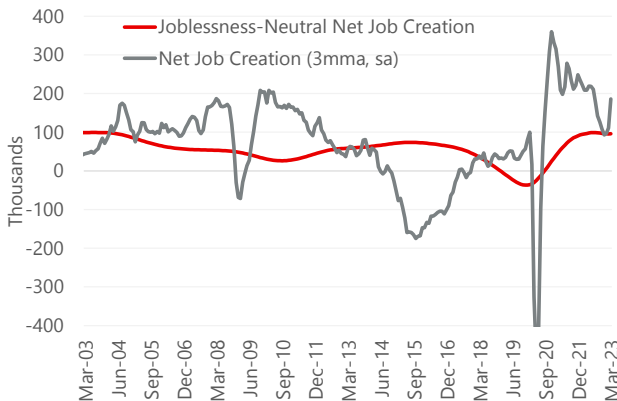
Sources: Ministry of Labor, Santander.

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



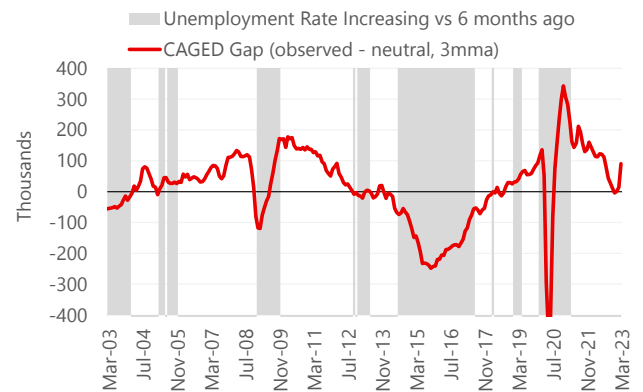
Sources: Ministry of Labor, Santander.

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.

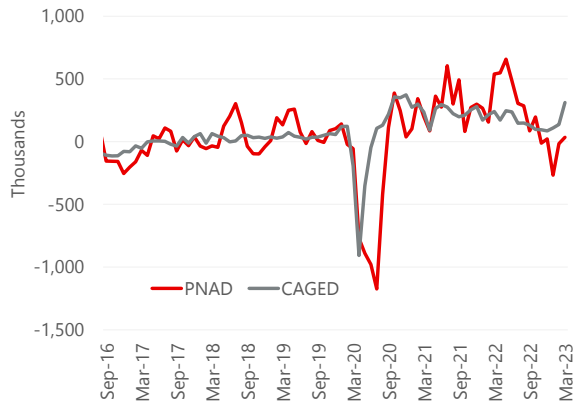
Final Remarks

In our view, March labor market surveys were positive but showed some divergent signs. On the one hand, CAGED data indicated a hefty and surprising result. On the other hand, the PNAD survey shows a flattish overall behavior. However, we evaluate that both surveys continue to show a likely overheated job market. We still believe that the unemployment rate remains low due more to a reduction in the participation rate than to employment growth.

We expect the deceleration trend in the labor market to return ahead, but the continuity of a low participation rate and the strong result in March's CAGED data imply a downside risk to our unemployment rate projections.

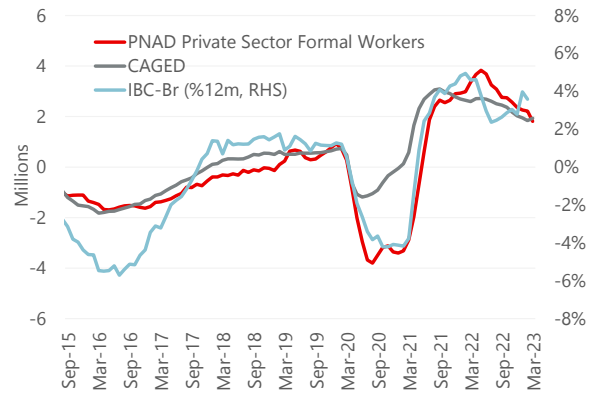


Figure 19. CAGED vs. PNAD Net Formal Job Creation (sa)



Sources: IBGE, Ministry of Labor, Santander.

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



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



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This research report (“report”) has been prepared by Santander US Capital Markets LLC (is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. “Santander”) on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This report must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. (“Santander Investment Bolsa”) and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. Santander US Capital Markets LLC, Santander London and Santander Investment Bolsa are members of Grupo Santander. ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Gabriel Couto*. Employed by a non-US affiliate of Santander US Capital Markets LLC and is not registered/qualified as a research analyst under FINRA rules and is not an associated person of the member firm and therefore is not subject to FINRA Rule 2241 or FINRA Rule 2242 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The information contained within this report has been compiled from sources believed to be reliable. Although all reasonable care has been taken to ensure the information contained within these reports is not untrue or misleading, we make no representation that such information is accurate or complete and it should not be relied upon as such. All opinions and estimates included within this report constitute our judgment as of the date of the report and are subject to change without notice. Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with Santander US Capital Markets LLC, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States. Hong Kong (HK): This report is distributed in Hong Kong by Banco Santander, S.A. (a public limited liability company incorporated in Spain) which has a branch in Hong Kong. Banco Santander, S.A., Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. This report is not intended for distribution to any persons other than professional investors. Banco Santander, S.A. or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.. Singapore (SG): This report is distributed in Singapore by Banco



Santander, S.A. which has a branch in Singapore. It is not intended for distribution to any persons other than institutional investors, accredited investors and expert investors (each as defined in the Securities and Futures Act 2001 of Singapore). Recipients of this report should contact Banco Santander, S.A., Singapore Branch at researchsingapore@gruposantander.com for matters arising from, or in connection with, this report. Mainland China (CN): This report is being distributed in Mainland China by Banco Santander, S.A. which has two branches in Mainland China, being Shanghai Branch and Beijing Branch ("Santander China"). Santander China is regulated by China Banking and Insurance Regulatory Commission. Banco Santander, S.A., Shanghai Branch is licensed for foreign currency business, RMB business and derivative business. Banco Santander, S.A., Beijing Branch is licensed with foreign currency business. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.© 2023 by Santander US Capital Markets LLC All Rights Reserved.

