

ANOTHER BATCH OF POSITIVE RESULTS FOR THE LABOR MARKET

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.9% in the three months to August. The result was in line with our estimate and market consensus (both at 8.9%), implying a 4.2 p.p. drop from the year-ago level (13.1%). We calculate that the seasonally adjusted jobless rate stood at 9.0%, a decrease compared to the July level (9.1%).
- The decrease in the seasonally adjusted unemployment rate stemmed from a 0.2% increase in the employed population, while the labor force expanded 0.1% MoM-sa. The labor market participation rate was 63.0% (sa), a slight decrease compared to July's level (63.1%), still close to the pre-pandemic mark (February 2020). Formal employment posted a +0.6% MoM-sa variation, while informal employment had a -0.4% MoM-sa variation. This result led the formalization rate to 57.4% (sa), above July's level (57.2%).
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate stood at 8.5% (sa) in August, compared to 9.0% in July. This result followed +0.1% and -0.4% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the decline in the unemployment rate at the margin was mainly due to a drop in the participation rate, as the labor force contracted in August.
- The effective real wage bill posted a +0.8% MoM sa variation in July (data lagged one month relative to other PNAD series), while the usual real wage bill had a +0.9% MoM sa variation in August. The series are 1.3% above and 0.4% above their pre-crisis marks, respectively. This is the first time that both real wage bill series have surpassed their pre-pandemic marks, benefiting from the positive impact of a recovering trend in average real wages.
- According to the August 2022 CAGED survey, released on September 29, net formal job creation stood at 279k (vs. consensus 267k, Santander estimate 270k), above the historical average for the month (135k) and below the number observed in August 2021 (373k). After our seasonal adjustment, net formal job creation accelerated to 198k, from 171k in July. The number of hirings increased 0.2% MoM-sa, while layoffs decreased 1.3% MoM-sa. The three-month average now points to a payroll expansion of 218k jobs, from 228k in July. We estimate that the 3mma of CAGED's gap with the joblessness-neutral level (~100k) stood at 118k (130k in July).
- In our view, the labor market continued to show strong performance in August. The PNAD result showed more healthy prints for the job market, consolidating the single-digit unemployment rate. Note that our monthly estimates indicate a considerable reduction in the unemployment rate in August, but mainly due to a contraction in the labor force. Formal employment maintained its strong growth rate at the margin, as real wages showed additional signs of recovery, with the effective real wage bill surpassing the pre-pandemic mark. As for the CAGED survey, net job creation has stabilized at a strong pace, with the results compatible with a decreasing unemployment rate.
- We still see an overheated labor market, and the strength of employment in recent months implies downside risk for our unemployment rate forecasts. However, we continue to expect some deceleration in the labor market once the effects of a tighter monetary policy start to kick in — especially toward the end of 2022.

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PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.9% in the three months to August, in line with our estimate and market consensus (both at 8.9%), implying a 4.2 p.p. drop from the year-ago rate of 13.1%. We estimate that the seasonally adjusted unemployment rate fell to 9.0% from the July level of 9.1%. The performance of the seasonally adjusted unemployment rate stemmed from 0.2% and 0.1% MoM-sa increases in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
Unemployment rate (%)	9.2	9.1	9.0	-4.9	-4.6	-4.2	-2.4	-2.6	-2.7
Participation rate (%)	63.0	63.1	63.0	1.8	1.5	1.2	-0.1	0.0	-0.1
Labor force (millions)	109.1	109.3	109.3	4.0	3.3	2.9	2.3	2.5	2.6
Employment	99.0	99.4	99.5	9.9	8.8	7.9	5.0	5.4	5.5
Unemployment	10.1	9.9	9.8	-32.0	-31.4	-30.1	-19.0	-20.3	-21.1
Formalization Rate (%)	57.0	57.2	57.4	-0.4	-0.1	0.3	-0.2	0.0	0.2
Formal Workers (millions)	56.5	56.9	57.2	9.2	8.6	8.5	4.9	5.5	6.1
Informal Workers (millions)	42.6	42.6	42.4	10.9	9.2	7.2	5.7	5.6	5.2
Average usual earnings (BRL)**	2,641	2,666	2,687	-5.1	-2.9	-0.6	-6.9	-6.1	-5.3
Average effective earnings (BRL)**	2,781	2,797	-	-2.3	-0.3	-	-5.7	-5.1	-
Usual wage bill (BRL bn)**	257.3	260.7	263.2	4.8	6.1	7.7	-1.9	-0.6	0.4
Effective wage bill (BRL bn)**	271.3	273.4	-	6.7	8.1	-	0.5	1.3	-

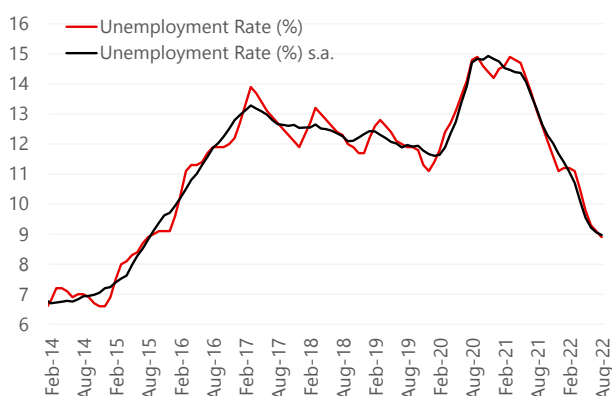
* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

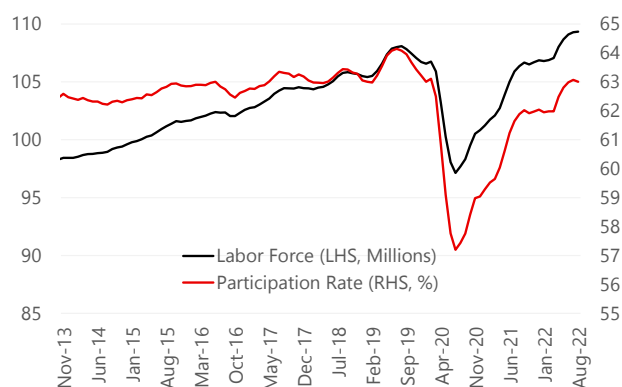
The labor market participation rate stood at 63.0% (sa), a decrease from the July level (63.1%) and still close to the pre-pandemic mark (63.1% in February 2020). Once again, the PNAD survey has shown the lowest unemployment rate results since mid-2015, with a stabilization trend at the margin.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate (sa)

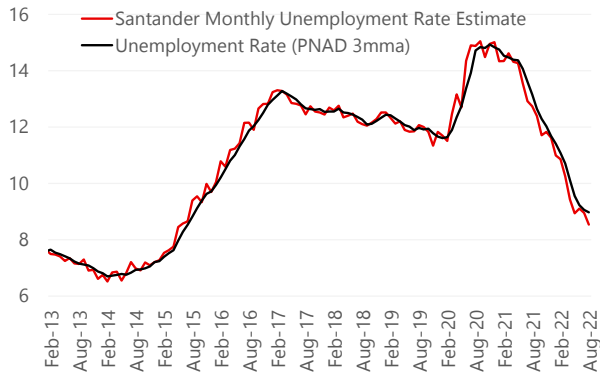


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 8.5% (sa) in August, compared to 9.0% in July. This result followed +0.1% and -0.4% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the decline in the unemployment rate at the margin was due to a drop in the participation rate, as the labor force contracted in August.



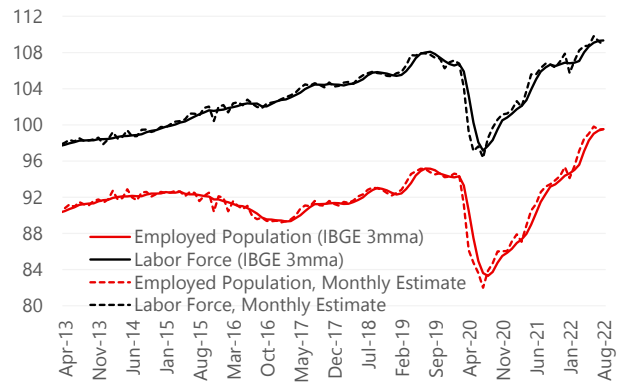
Figure 4. Monthly Unemployment Rate (sa)



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.

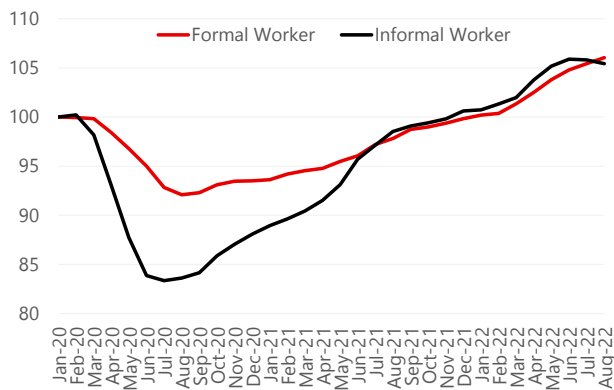
Figure 5. Participation Rate and Labor Force (sa)



Sources: IBGE, Santander.

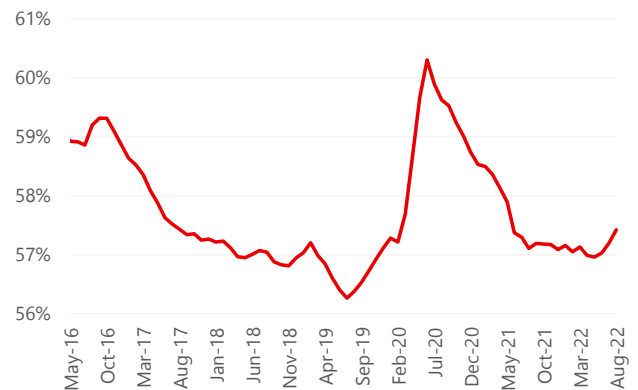
Formal employment posted a +0.6% MoM-sa variation, while informal employment decreased 0.4% MoM-sa. This result led the formalization rate to 57.4% (sa), above the July level (57.2%).

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



Sources: IBGE, Santander.

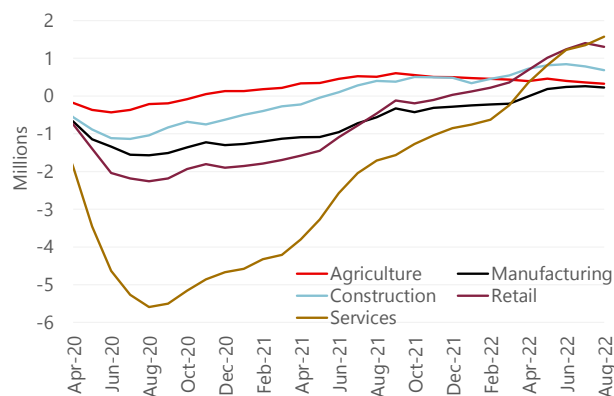
Figure 7. Formalization Rate (sa)



Sources: IBGE, Santander.

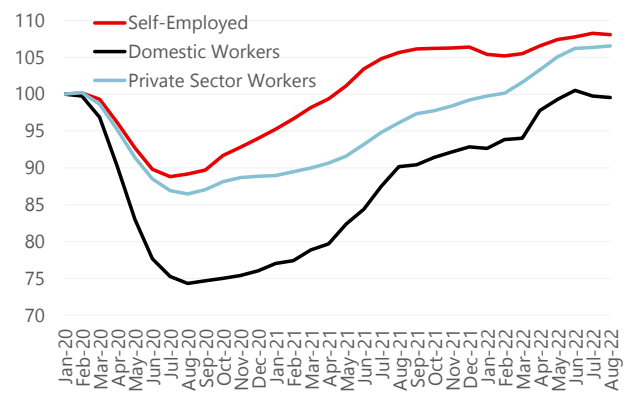
Some sectors showed signs of deceleration in employment growth in August. The services sector remains the highlight of job creation in 2022. Retail, on the other hand, posted a contraction in August, as construction was flattish. Another highlight in August's employment growth was private sector workers, whereas domestic and self-employed workers showed a deceleration.

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



Sources: IBGE, Santander.

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



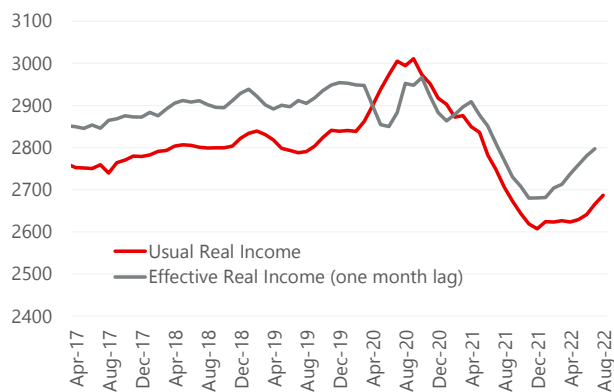
Sources: IBGE, Santander.

As for the average real income indicators, there was additional improvement at the margin, probably, in our view, boosted by the monthly deflation in August's IPCA. The effective real wage bill has benefited from this recent recovery in real wages and posted a +0.8% MoM-sa variation in July (data lagged one month relative



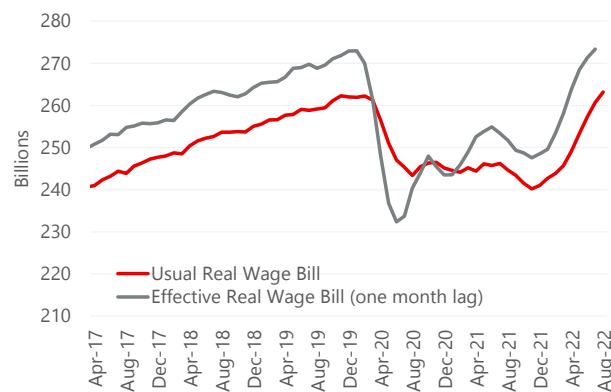
to other PNAD series), while the usual real wage bill increased 0.9% MoM-sa in August. The series are 1.3% above and 0.4% above their pre-pandemic marks, respectively. It is the first time that both real wage bill series have surpassed their pre-pandemic marks, benefiting from the positive impact of 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 August 2022 CAGED survey, released on September 29, net formal job creation stood at 279k (vs. consensus 267k, Santander estimate 270k), above the historical average for the month (135k) and slightly below the number observed in August 2021 (373k).

Figure 12 – CAGED Breakdown (thousands)

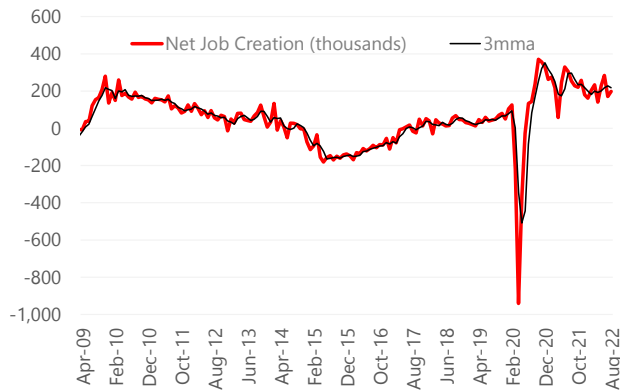
	Headline			Headline (s.a.)		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
Net Creation	277.9	218.9	278.6	284.1	170.9	197.9
Creation	1,898.9	1,886.5	2,051.8	1,952.5	1,940.3	1,944.4
Destruction	1,620.9	1,667.6	1,773.2	1,668.4	1,769.4	1,746.5
Mining	1.3	1.6	1.2	0.8	1.3	0.6
Construction	30.3	32.1	35.2	21.5	18.7	15.0
Manufacturing	38.0	46.3	48.9	48.6	43.9	23.4
Retail	47.2	38.6	41.9	59.4	52.6	24.7
Agriculture	34.5	15.9	7.7	-3.5	7.1	14.6
Services	121.5	77.8	136.5	120.7	118.9	80.5

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation accelerated to 198k, from 171k in July. The number of hirings increased 0.2% MoM-sa, while layoffs decreased 1.3% MoM-sa. The three-month average now points to a payroll expansion of 218k jobs, from 228k in July.

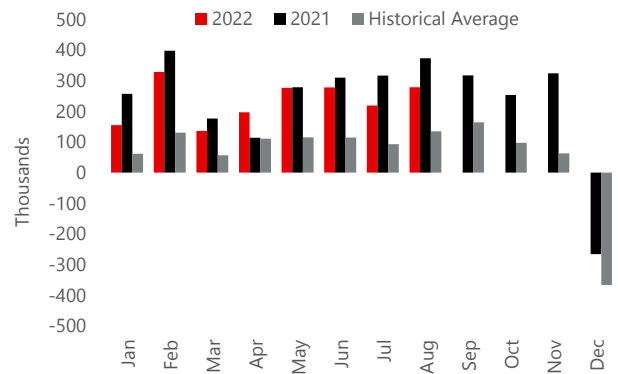


Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

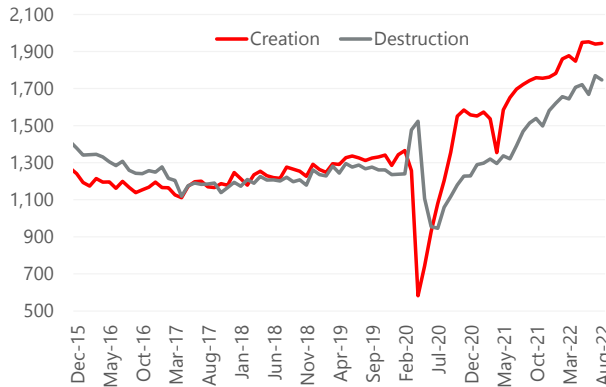
Figure 14. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

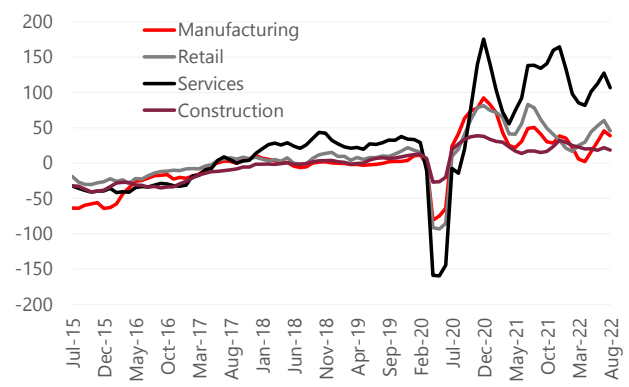
August’s net result stemmed from a slight increase in hiring, while layoffs posted a larger decrease. All the main sectors still indicate a healthy rate of net job creation but show deceleration trends at the margin. The services sector continues to post the highest levels of job creation, followed by retail and manufacturing.

Figure 15. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

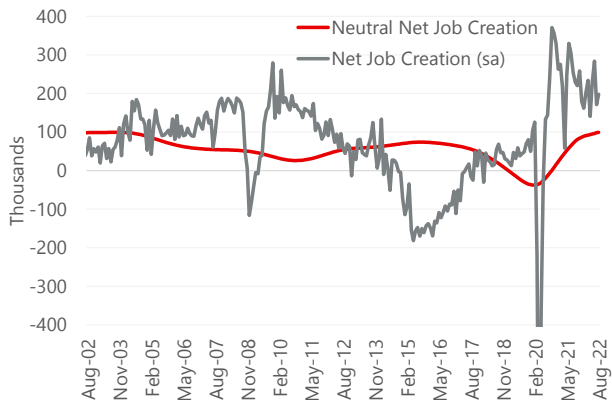
Figure 16. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

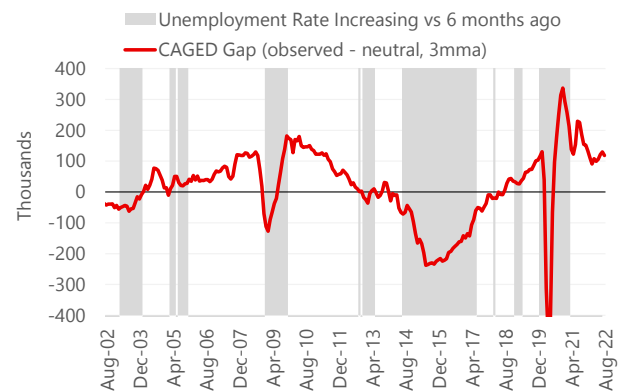
After decelerating since mid-2021, the three-month moving average of net job creation figures consolidated a stabilization slightly above 200k, a strong pace, equivalent to more than 2.5 million annualized. Furthermore, CAGED results remain considerably above our estimate for the joblessness-neutral level¹. We estimate that the three-month moving average of CAGED’s gap with the joblessness-neutral level (~100k) stood at 118k (130k in July).

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.

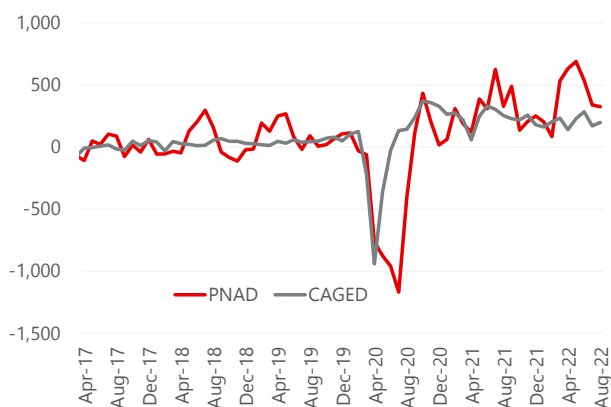
¹ Santander Brazil Special Report: “Estimating a Neutral Level for Caged Net Job Creation Data” – August 15, 2022 – Available on: <https://bit.ly/Std-special-081522>



Final Remarks

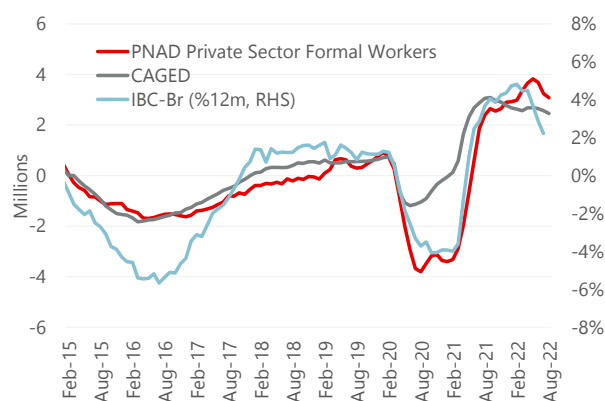
In our view, the labor market continued to show strong results in August. The PNAD result showed improved performance for the job market, consolidating the single-digit unemployment rate. Note that our monthly estimates indicate a considerable reduction in the unemployment rate for August, but mainly due to a contraction in the labor force. Formal employment maintained its strong growth rate at the margin as real wages showed additional signs of recovery, with the effective real wage bill surpassing the pre-pandemic mark. As for the CAGED survey, net job creation has stabilized at a strong pace, with the results compatible with a decreasing unemployment rate.

Figure 19. 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 still see an overheated labor market, and the strength of employment in recent months implies downside risk for our unemployment rate forecasts. However, we continue to expect some deceleration in the labor market once the effects of a tighter monetary policy start to kick in — especially toward the end of 2022. **For details on Santander's activity outlook, please refer to our last chartbook².**

² Santander Brazil Economic Activity: "Chartbook: Strengthening in 2022, Slowing Down in 2023" – September 19, 2022 – Available on: <https://bit.ly/Std-chart-econact-sep22>



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