

SLOWER EMPLOYMENT EXPANSION, WITH LOWER PARTICIPATION RATE

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.3% in the three months to October. The figure was below both our estimate (8.6%) and the market consensus (8.5%), implying a 3.8 p.p. drop from the year-ago level (12.1%). We calculate that the seasonally adjusted jobless rate stood at 8.5%, a decrease from the September level (8.7%).
- 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 62.4% (sa), a decrease from September's level (62.7%), and is at its lowest level since March 2022. Formal employment posted a +0.4% MoM-sa variation, while informal employment had a -1.0% MoM-sa variation. This performance led the formalization rate to 58.1% (sa), above September's level (57.7%) 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 8.2% (sa) in October, compared to 8.6% in September. This result followed 0.0% and -0.4% MoM-sa variations in the employed population and the labor force, respectively. Therefore, once again, the decrease of the unemployment rate at the margin was due to a drop in the participation rate. Our monthly estimate for the labor force has dropped for the fourth month in a row.
- The effective real wage bill posted a +0.7% MoM sa variation in September (data lagged one month relative to other PNAD series), while the usual real wage bill had a +0.8% MoM sa variation in October. The series are 3.1% and 2.6% 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 October CAGED survey, released on November 29, net formal job creation stood at 159k (vs. consensus 210k, Santander estimate 244k), above the historical average for the month (97k) and below the number observed in October 2021 (389k). After our seasonal adjustment, net formal job creation decelerated to 106k, from 148k in September. The number of hirings decreased 3.3% MoM-sa, while layoffs fell 1.2% MoM-sa. The three-month average now points to payroll expansion of 145k jobs, from 163k in September. We estimate that in September the 3mma of CAGED's gap with the joblessness-neutral level (~110k) stood at +27k (+45k in September).
- The October PNAD result continued to show a strong, and likely overheated job market. However, the recent drop in the unemployment rate (since August) was more due to a reduction in the participation rate than due to employment growth. Once again, our monthly estimates indicate a stable figure for the employed population, as the labor force contracted for the fourth month in a row. The CAGED survey also indicates a slower pace for payroll expansion. The real wages show additional signs of recovery, benefitting from the deceleration of consumer inflation and indicating additional signs of an overheated job market. We expect additional deceleration in the labor market ahead, but the continuity of a low participation rate implies a downside risk to our unemployment rate projections. We envision a tight labor market until at least 3Q23.

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PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.3% in the three months to October, below both our estimate (8.6%) and market consensus (8.5%), implying a 3.8 p.p. drop from the year-ago rate of 12.1%. We estimate that the seasonally adjusted unemployment rate fell to 8.5% from the September level of 8.7%. 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

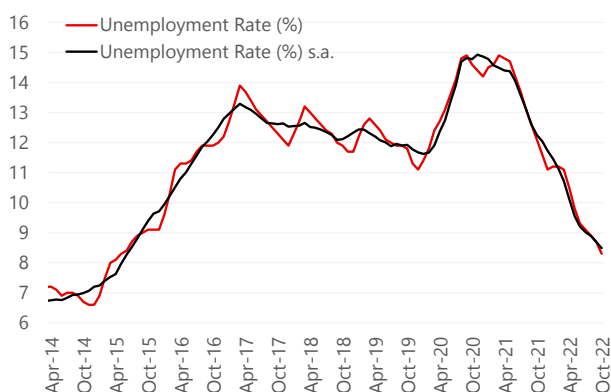
	s.a.			% YoY			% Feb-20*		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Unemployment rate (%)	8.9	8.7	8.5	-4.2	-3.9	-3.8	-2.8	-3.0	-3.2
Participation rate (%)	63.0	62.7	62.4	1.2	0.8	0.5	-0.2	-0.4	-0.7
Labor force (millions)	109.2	108.8	108.3	2.9	2.2	1.7	2.4	2.0	1.6
Employment	99.5	99.3	99.1	7.9	6.8	6.1	5.5	5.3	5.1
Unemployment	9.7	9.5	9.2	-30.1	-29.7	-30.1	-22.0	-24.0	-26.1
Formalization Rate (%)	57.5	57.7	58.1	0.3	0.5	0.9	0.3	0.5	0.9
Formal Workers (millions)	57.2	57.3	57.5	8.5	7.7	7.8	6.1	6.3	6.7
Informal Workers (millions)	42.3	42.0	41.6	7.2	5.6	3.8	4.8	4.0	3.0
Average usual earnings (BRL)**	2,684	2,726	2,757	-0.6	2.5	4.8	-4.9	-3.4	-2.3
Average effective earnings (BRL)**	2,823	2,846	-	2.5	4.9	-	-3.8	-3.0	-
Usual wage bill (BRL bn)**	262.4	265.8	267.9	7.7	9.9	11.5	0.5	1.9	2.6
Effective wage bill (BRL bn)**	275.2	277.1	-	9.9	11.7	-	2.5	3.1	-

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

Sources: IBGE, Santander.

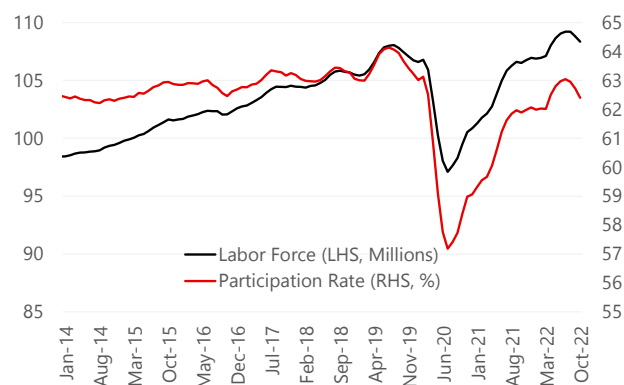
The labor market participation rate stood at 62.4% (sa), a decrease compared to the September level (62.7%) and is at its lowest level since March 2022. Once again, the PNAD survey has shown the lowest unemployment rate since mid-2015, but the reduction observed since August is almost entirely due to a drop in the participation rate.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Labor Force and Participation Rate (sa)

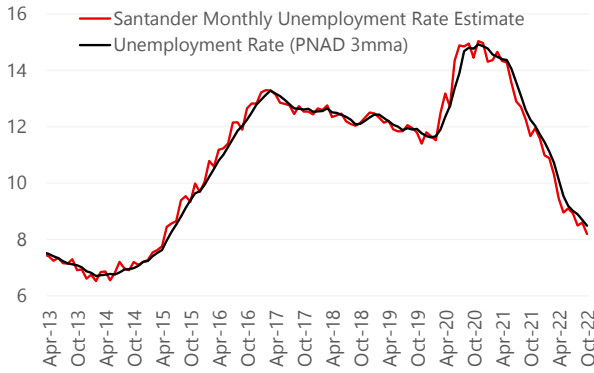


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 8.2% (sa) in October, compared to 8.6% in September. This result followed 0.0% and -0.4% MoM-sa variations in the employed population and the labor force, respectively. Therefore, once again, the decrease of the unemployment rate at the margin was due to a drop in the participation rate. Our monthly estimate for the labor force has dropped for the fourth month in a row.



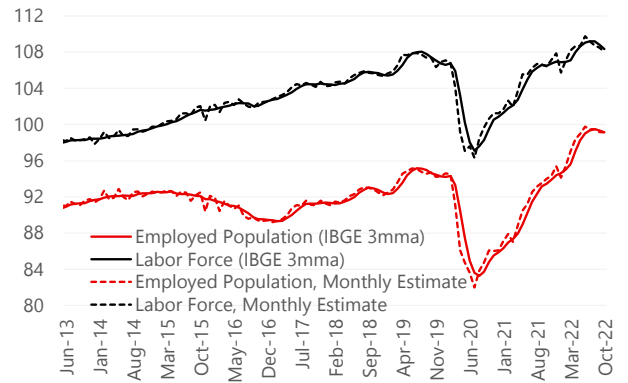
Figure 4. Monthly Unemployment Rate (sa)



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.

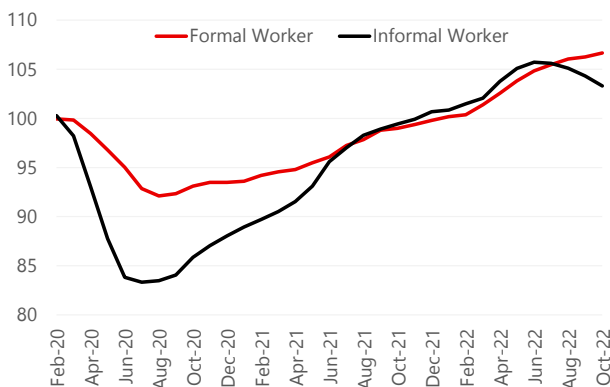
Figure 5. Employed Population and Labor Force (sa)



Sources: IBGE, Santander.

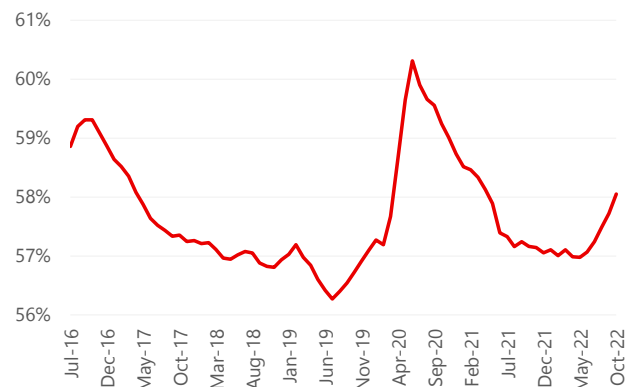
Formal employment posted a +0.4% MoM-sa variation, while informal employment decreased 1.0% MoM-sa. This performance led the formalization rate to 58.1% (sa), above the September level (57.7%) and the highest reading since normalization of the pandemic's composition effect (August 2021). The recent readings show a clear trend of reduction in informal labor, as formal jobs continued to expand.

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



Sources: IBGE, Santander.

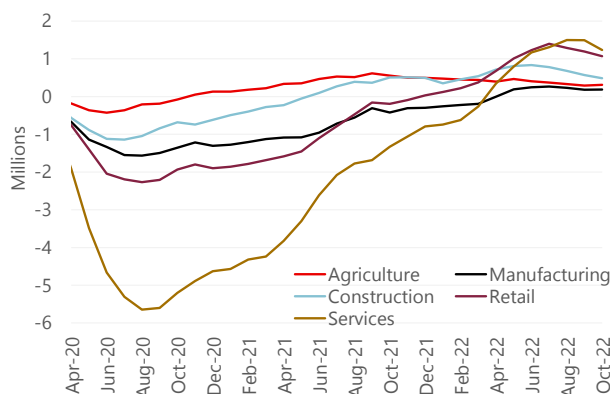
Figure 7. Formalization Rate (sa)



Sources: IBGE, Santander.

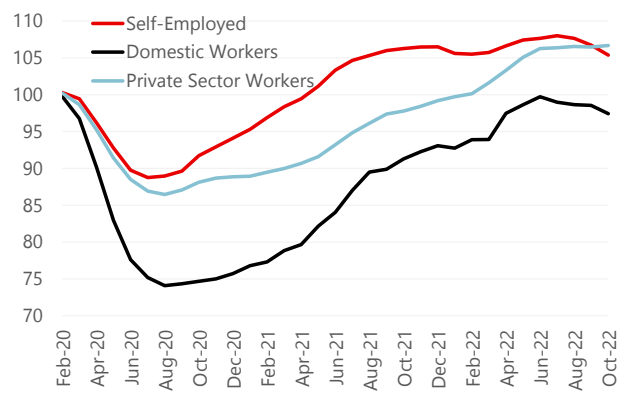
Some sectors showed additional signs of deceleration in employment growth in October. The services sector remains the highlight of job creation in 2022 but posted a significant decline at the margin. All the other main sectors indicate deceleration or stability trends in employment.

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



Sources: IBGE, Santander.

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



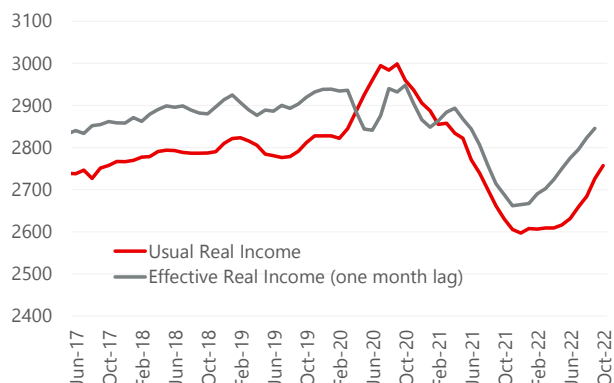
Sources: IBGE, Santander.

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 monthly deflation readings in the IPCA and by the overheated job market.



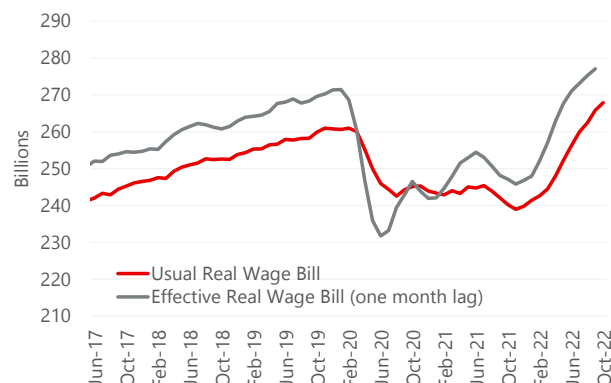
The effective real wage bill posted a +0.7% MoM-sa variation in September (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.8% MoM-sa in September. The series are 3.1% above and 2.6% above their pre-pandemic marks, respectively.

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 October CAGED survey, released on November 29, net formal job creation stood at 159k (vs. consensus 210k, Santander estimate 244k), above the historical average for the month (97k) and below the number observed in October 2021 (389k).

Figure 12 – CAGED Breakdown (thousands)

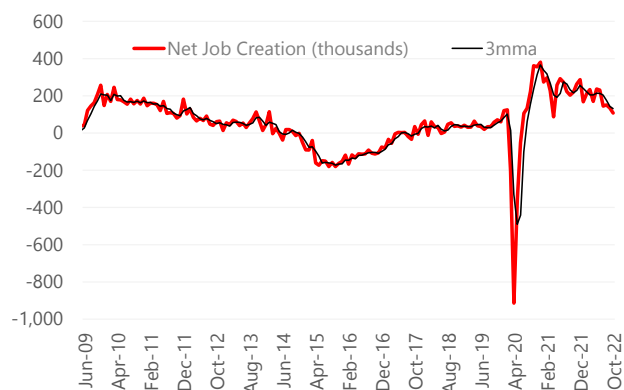
	Headline			Headline (s.a.)		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Net Creation	278.6	278.1	159.5	150.9	134.3	107.0
Creation	2,051.8	1,926.6	1,789.5	1,889.9	1,851.1	1,797.3
Destruction	1,773.2	1,648.5	1,630.0	1,739.0	1,716.9	1,690.3
Mining	1.2	1.1	0.7	1.2	0.9	0.7
Construction	35.2	31.2	5.3	12.7	13.9	5.4
Manufacturing	48.9	54.1	13.1	14.0	5.9	6.3
Utilities	2.6	1.7	1.1	1.8	1.6	1.5
Retail	41.9	58.0	49.4	28.5	34.1	23.8
Agriculture	7.7	9.5	-1.4	8.4	8.3	10.2
Services	141.1	122.6	91.3	84.3	69.6	59.1

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation decelerated to 107k, from 134k in September. The number of hirings decreased 2.9% MoM-sa, while layoffs declined 1.5% MoM-sa. The three-month average now points to a payroll expansion of 131k jobs, from 143k in September.

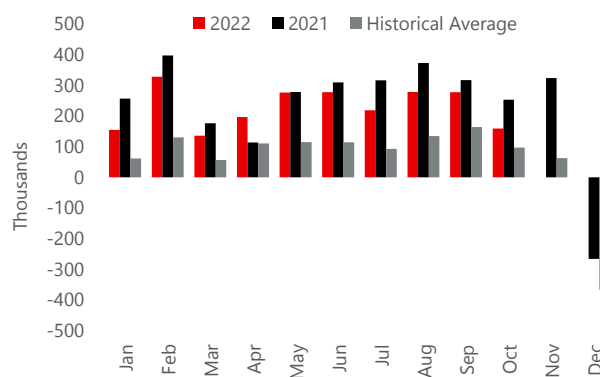


Figure 13. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

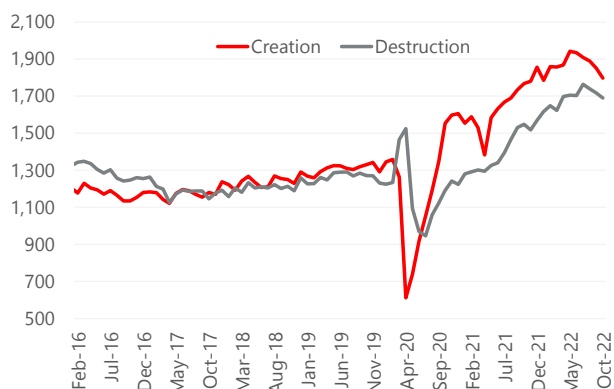
Figure 14. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

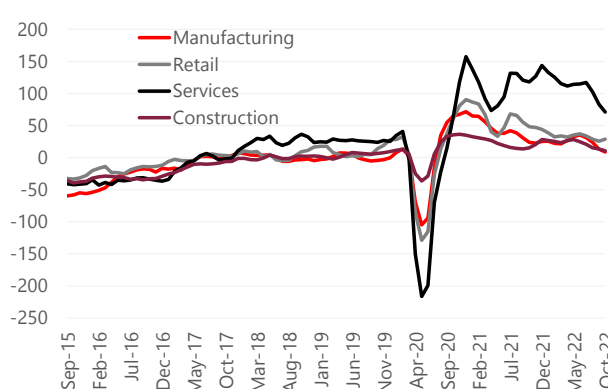
October's net result stemmed from a sharper decline in hiring than in layoffs. Manufacturing and services posted the sharper decelerations, but all the main sectors still indicate positive rates of net job creation. The services sector continues to post the highest levels of job creation, but there is a recent deceleration trend in all the main sectors.

Figure 15. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

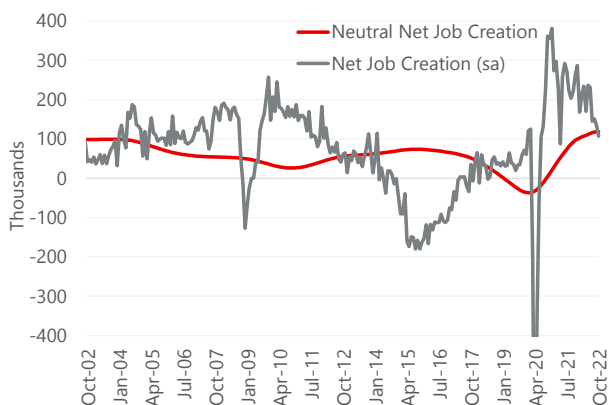
Figure 16. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

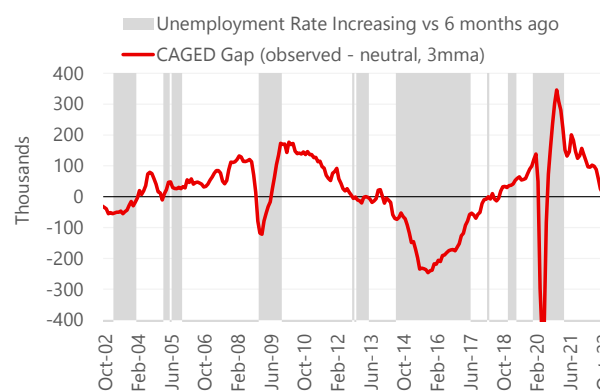
The three-month moving average of net job creation figures has decelerated further and shows a growth rate equivalent to around 1.5 million annualized. CAGED results are now close to our estimate for the joblessness-neutral level¹. We estimate that the three-month moving average of CAGED's gap with the joblessness-neutral level (~110k) stood at 13k (25k in September).

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.

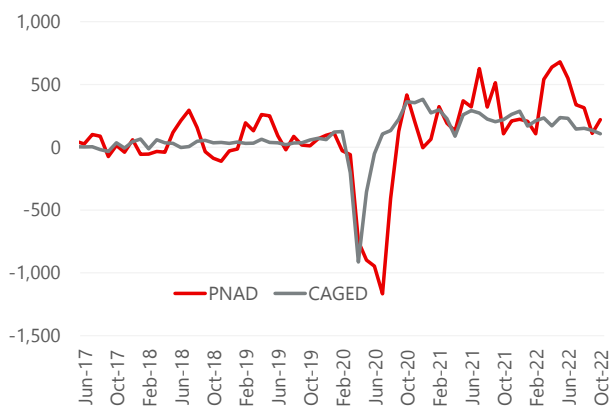
¹ Santander Brazil Special Report: "Estimating a Neutral Level for Caged Net Job Creation Data" – August 15, 2022 – Available on: <https://bit.ly/Std-special-081522>



Final Remarks

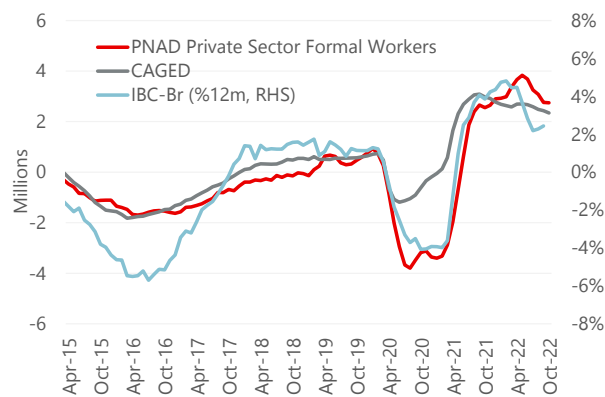
The October PNAD result continued to show a strong, and likely overheated job market. However, the recent drop in the unemployment rate (since August) was more due to a reduction in the participation rate than to employment growth. Once again, our monthly estimates indicate a stable figure for the employed population, as the labor force contracted for the fourth month in a row. The CAGED survey also indicates a slower pace for payroll expansion. The real wages show additional signs of recovery, benefitted by the deceleration of consumer inflation and indicating additional signs of an overheated job market. We expect additional deceleration in the labor market ahead, but the continuity of a low participation rate implies a downside risk to our unemployment rate projections. We envision 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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