

POSITIVE SURPRISES FOR LABOR MARKET IN FEBRUARY

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.6% in the three months through February. The figure was below both our estimate (8.8%) and the market consensus (8.7%), implying a 2.6 p.p. drop from the year-ago level (11.2%). We calculate that the seasonally adjusted jobless rate stood at 8.3%, slightly below the January level (8.4%).
- The drop in the seasonally adjusted unemployment rate stemmed from +0.2% MoM-sa and 0.0% MoM-sa variations in the employed population and the labor force, respectively. The labor market participation rate was 61.7% (sa), stable compared to January and holding at its lowest level since August 2021. If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would have been 10.3% in February.
- All PNAD data is based on a three-month moving average. Our monthly unemployment rate estimate stood at 8.1% (sa) in February, a decrease from January (8.4%). This estimate stemmed from +0.1% and -0.2% MoM-sa variations in the employed population and the labor force, respectively.
- Effective real average income posted a +0.2% MoM sa variation in January (data lagged one month relative to other PNAD series), while usual real average income posted a -0.1% MoM-sa variation in February. After reaching levels close to the pre-pandemic mark (February 2020), both series showed signs of deceleration in January and February, but the overall trend still indicates a robust recovery since mid-2022.
- According to the February CAGED survey, released on March 29, net formal job creation stood at 242k. After our seasonal adjustment, net formal job creation accelerated to 135k, from 102k in January. The number of hirings decreased 1.1% MoM-sa, while layoffs decreased 3.1% MoM-sa. The three-month average now points to a payroll expansion of 109k jobs, from 96k in January. CAGED results remained slightly below our estimate for the joblessness-neutral level. We estimate that the three-month moving average of CAGED's gap with the joblessness-neutral level (~100k) stood at +8.6k (-5.2k in January).
- In our view, February labor market surveys showed some recovery after several months of deceleration since 4Q22. We evaluate that data continue to show a likely overheated job market. In addition to the decrease in the seasonally adjusted unemployment rate, the February PNAD shows some positive signals in the breakdown. We still believe that the unemployment rate remains low due more to a reduction in the participation rate than to employment growth. However, our monthly estimates indicate a slight recovery for employment in January and February, interrupting four consecutive months of contractions. After a strong recovery in 2H22, real wages show some signs of deceleration at the margin, but still indicate signs of an overheated job market.
- We expect the deceleration trend in the labor market to resume, but the continued low participation rate implies downside risk to our unemployment rate projections for 2023.



PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate stood at 8.6% in the three months to February, below both our estimate (8.8%) and the market consensus (8.7%), implying a 2.6 p.p. drop from the year-ago rate of 11.2%. We calculate that the seasonally adjusted jobless rate stood at 8.3%, slightly below the January level (8.4%). The performance of the seasonally adjusted unemployment rate stemmed from +0.2% MoM-sa and 0.0% MoM-sa variations in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% MoM-sa*			% YoY*		
	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23
Unemployment rate (%)	8.4	8.4	8.3	-0.1	0.0	-0.1	-3.2	-2.8	-2.6
Participation rate (%)	61.8	61.7	61.7	-0.3	-0.1	0.0	-0.4	-0.4	-0.5
Labor force (millions)	107.3	107.3	107.3	-0.4	0.0	0.0	0.2	0.1	0.1
Employment	98.3	98.3	98.4	-0.3	0.0	0.2	3.8	3.4	3.0
Unemployment	9.0	9.0	8.9	-1.4	-0.1	-1.3	-28.6	-25.3	-23.2
Formalization Rate (%)	58.5	58.2	58.1	0.2	-0.3	-0.1	1.5	1.1	1.1
Formal Workers (millions)	57.4	57.1	57.2	0.0	-0.5	0.1	6.5	5.4	5.0
Informal Workers (millions)	40.8	41.1	41.2	-0.9	0.6	0.4	0.2	0.7	0.4
Average usual earnings (BRL)**	2,855	2,858	2,856	0.5	0.1	-0.1	8.3	7.7	7.5
Average effective earnings (BRL)**	2,956	2,961	-	-0.2	0.2	-	8.3	8.4	-
Usual wage bill (BRL bn)**	275.9	275.9	276.4	0.4	0.0	0.2	12.8	11.9	11.4
Effective wage bill (BRL bn)**	286.6	287.0	-	0.2	0.1	-	12.5	12.2	-

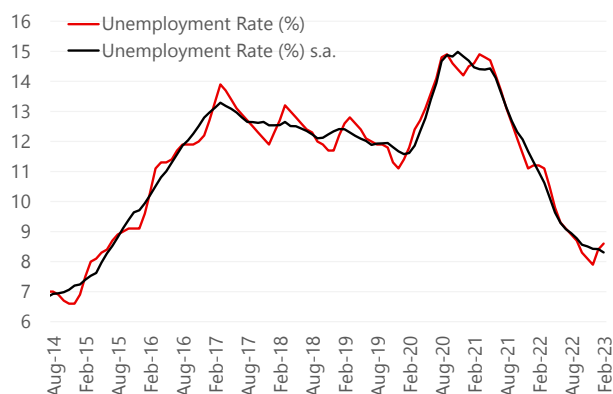
* For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

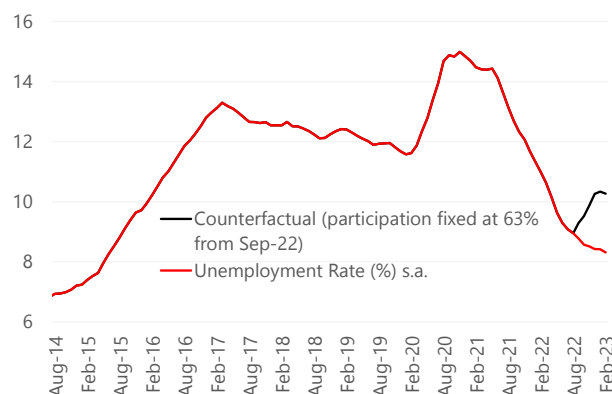
The labor market participation rate stood at 61.7% (sa), stable compared to January and holding at its lowest level since August 2021. If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would have been 10.3%.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

Figure 3. Unemployment Rate and Counterfactual (sa)

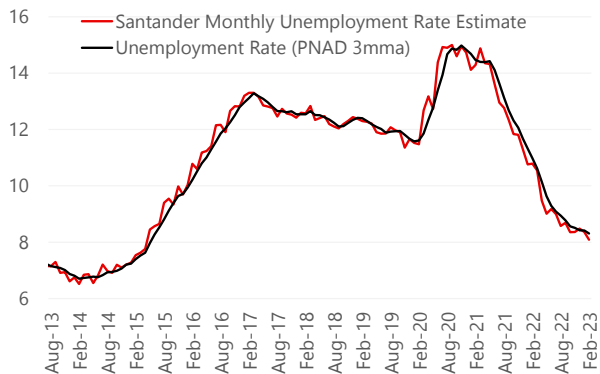


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. Our monthly unemployment rate estimate stood at 8.1% (sa) in February, a decrease from January (8.4%). This estimate stemmed from +0.1% and -0.2% MoM-sa variations in the employed population and the labor force, respectively.



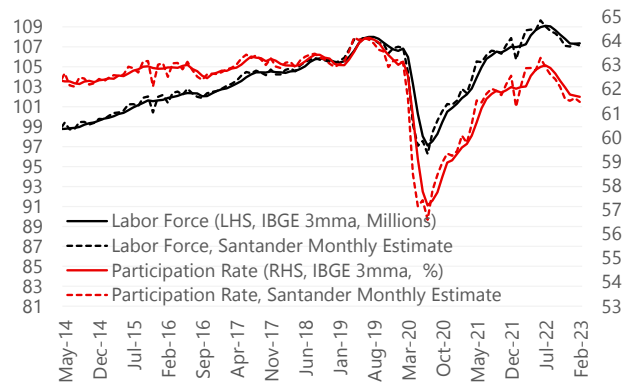
Figure 4. Monthly Unemployment Rate (sa)



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.

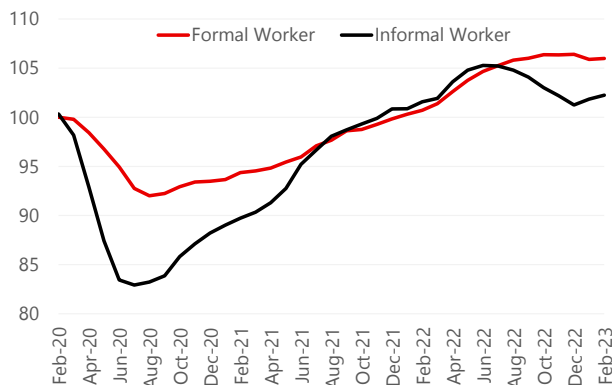
Figure 5. Participation Rate and Employment (sa)



Sources: IBGE, Santander.

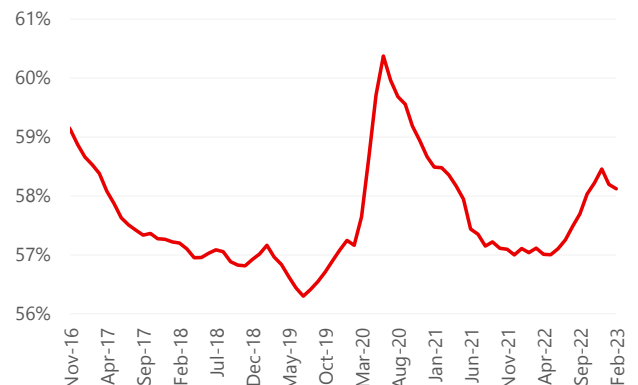
Formal employment posted a +0.1% MoM-sa variation, while informal employment had a +0.4% MoM-sa variation. This result led the formalization rate to 58.1% (sa), below the January level (58.2%). After six months of declines, informal employment grew at the margin in January and February.

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



Sources: IBGE, Santander.

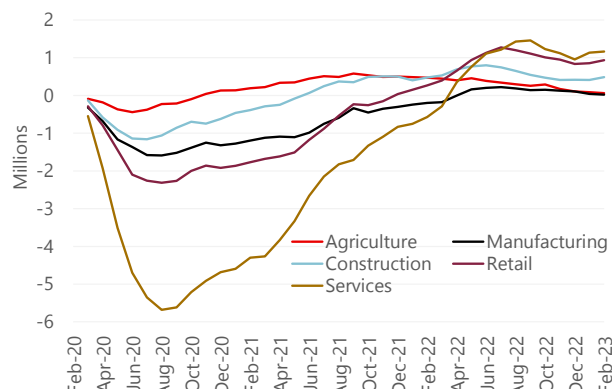
Figure 7. Formalization Rate (sa)



Sources: IBGE, Santander.

The construction, accommodation/food, and transportation sectors were the highlights of job creation in February, while domestic services posted the largest contraction 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

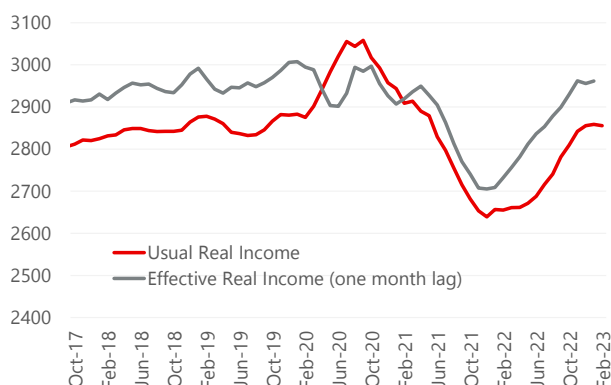


Sources: IBGE, Santander.



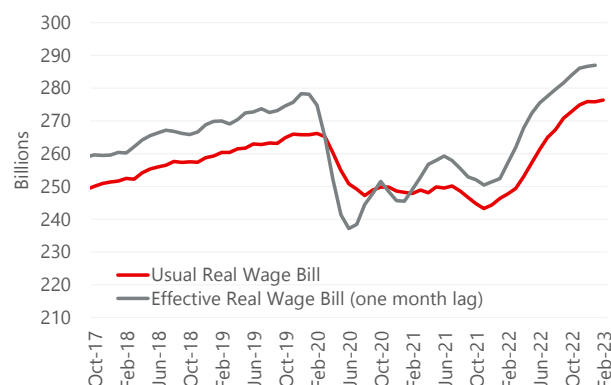
As for average real income indicators, there was some additional deceleration at the margin. However, in our view, the results are still being boosted both by the recent deceleration in YoY IPCA inflation (since mid-2022) and by the overheated job market. Effective real average income posted a +0.2% MoM sa variation in January (data lagged one month relative to other PNAD series), while usual real average income posted a -0.1% MoM-sa variation in February.

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 February CAGED survey, released on March 29, net formal job creation stood at 242k. After our seasonal adjustment, net formal job creation accelerated to 135k, from 102k in January. The number of hirings decreased 1.1% MoM-sa, while layoffs decreased 3.1% MoM-sa. The three-month average now points to a payroll expansion of 109k jobs, from 96k in January. CAGED results remained 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 (~100k) stood at +8.6k (-5.2k in January).

With the February result, 12-month accumulated net job creation reached 1.835 million (adjusted for post-deadline declarations), from 1.946 million in January. We expect 2023 net job creation to be below 1 million, in line with our scenario of an increasing unemployment rate.

In the breakdown, services and manufacturing posted the most substantial improvements from January. On the other hand, construction and retail indicated decelerations at the margin.

Figure 12 – CAGED Breakdown (thousands)

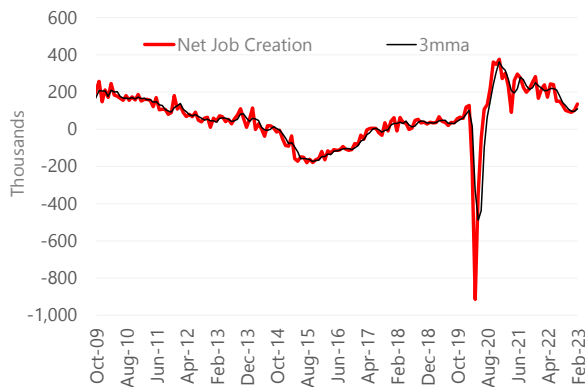
	Headline			Headline (s.a.)		
	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23
Net Creation	-431.0	83.3	241.8	90.7	102.1	135.5
Creation	1,382.9	1,874.2	1,949.8	1,801.4	1,831.9	1,811.1
Destruction	1,813.9	1,790.9	1,708.1	1,710.7	1,729.8	1,675.7
Mining	-0.3	0.3	1.3	1.6	0.6	0.7
Construction	-74.5	39.0	22.2	8.9	13.1	8.6
Manufacturing	-113.0	33.7	37.2	-0.1	-2.7	12.4
Utilities	-0.9	-0.1	1.9	1.4	0.2	0.9
Retail	-17.3	-53.5	-1.3	17.2	33.6	23.4
Agriculture	-36.9	23.1	16.3	10.1	3.4	8.5
Services	-188.1	40.7	164.2	51.6	54.0	80.9

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>

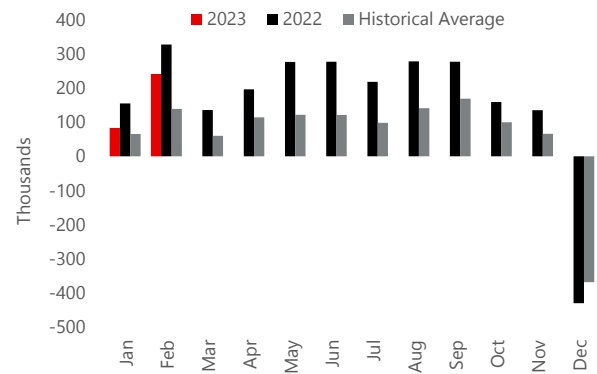


Figure 13. Net Formal Job Creation (sa)



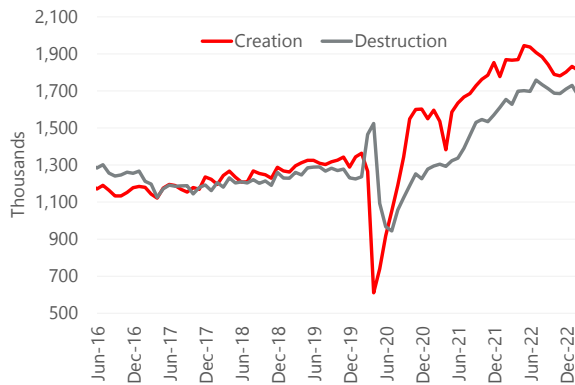
Sources: Ministry of Labor, Santander.

Figure 14. Net Formal Job Creation



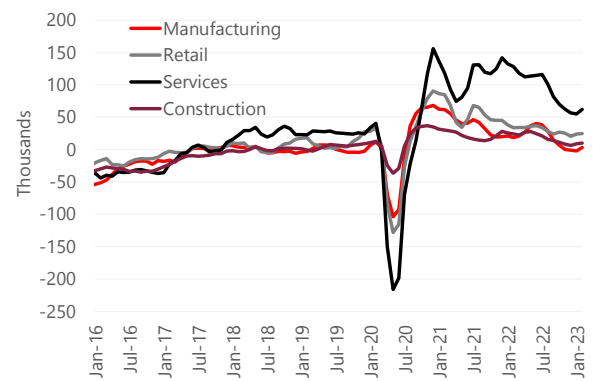
Sources: Ministry of Labor, Santander.

Figure 15. Job Creation and Destruction (sa)



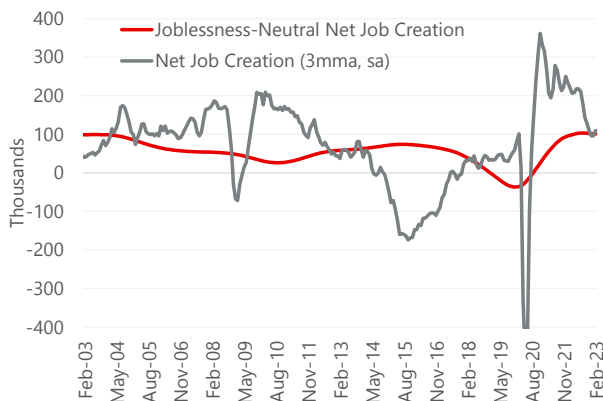
Sources: Ministry of Labor, Santander.

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



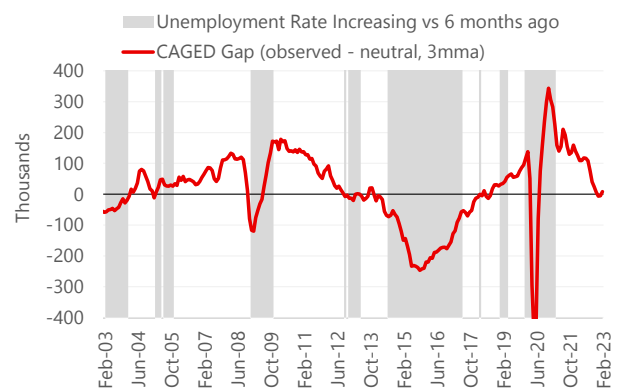
Sources: Ministry of Labor, Santander.

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.

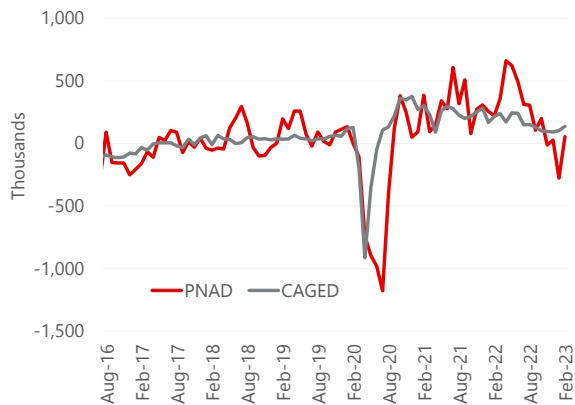
Final Remarks

In our view, February labor market surveys showed some recovery after several months of deceleration since 4Q22. We evaluate that data continue to show a likely overheated job market. In addition to the decrease in the seasonally adjusted unemployment rate, the February PNAD shows some positive signals in the breakdown. We still believe that the unemployment rate remains low due more to a reduction in the participation rate than to employment growth. However, our monthly estimates indicate a slight recovery for employment in January and February, interrupting four consecutive months of contractions. After a strong recovery in 2H22, real wages show some signs of deceleration at the margin, but still indicate signs of an overheated job market.



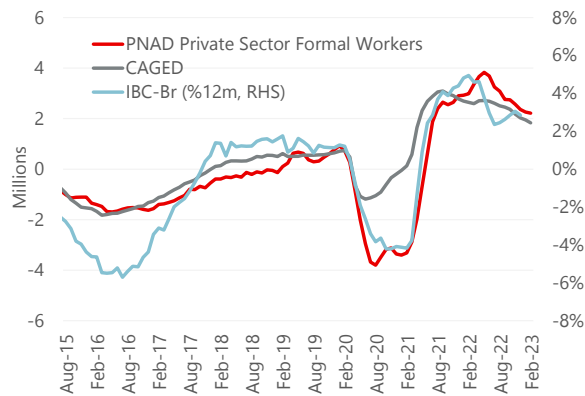
We expect the deceleration trend in the labor market to resume, but the continued low participation rate implies downside risk to our unemployment rate projections for 2023.

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.



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