

## POSITIVE SURPRISES FOR LABOR MARKET IN APRIL

**Felipe Kotinda\***  
felipe.kotinda@santander.com.br  
+5511 3553 8071

- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.5% in the three months to April (consensus: 8.8%; Santander estimate: 8.7%), implying a 2 p.p. drop from the year-ago level (10.5%). We calculate that the seasonally adjusted jobless rate stood at 8.1%, slightly below the March level (8.2%).
- The drop in the seasonally adjusted unemployment rate stemmed from +0.1% and 0.0% MoM-sa variations in the employed population and the labor force, respectively. The labor market participation rate was 61.6% (sa), below the March level (61.7%). If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would be at 10.0%.
- Formal employment has posted a +0.2% MoM sa variation, while informal employment had a 0.0% MoM sa variation. This result led the formalization rate to 57.9% (sa), unchanged from the March level (57.9%). After six months of decreases, informal employment once again posted growth at the margin in February through April.
- The effective real average income posted a +0.3% MoM sa variation in March (data lagged one month relative to other PNAD series), while usual real average income posted a 0.2% MoM-sa variation in April. After reaching levels close to the pre-pandemic mark (February 2020) both series showed signs of deceleration, but the overall trend still indicates a hefty recovery since mid-2022.
- According to the April 2023 CAGED survey, net formal job creation stood at +180k (vs. consensus +187k, Santander estimate +275k), above the historical average for the month (+114k) but below the figure observed in April 2022 (+197k).
- After our seasonal adjustment, net formal job creation decelerated to 154k, from 293k in March. The number of hirings had a -6.6% MoM-sa variation, while layoffs had a +0.2% MoM-sa variation. The three-month average now points to payroll expansion of 194k jobs, from 179k in March. We estimate that the 3mma of CAGED's gap to the joblessness-neutral level (~100k) stood at +102k (+87k in March). In the past three months, the gap has increased considerably.
- In our view, April labor market 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, but a continued low participation rate and the result for April's CAGED data imply downside risk to our unemployment rate projections.



## PNAD Household Survey

According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 8.5% in the three months to April (consensus: 8.8%; Santander estimate: 8.7%), implying a 2 p.p. drop from the year-ago level (10.5%). We calculate that the seasonally adjusted jobless rate stood at 8.1%, slightly below the March level (8.2%). The drop in the seasonally adjusted unemployment rate stemmed from +0.1% and 0.0% MoM-sa variations in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% MoM-sa*			% YoY*		
	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23
<b>Unemployment rate (%)</b>	<b>8.3</b>	<b>8.2</b>	<b>8.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-2.6</b>	<b>-2.3</b>	<b>-2.0</b>
Participation rate (%)	61.7	61.7	61.6	0.0	0.0	-0.1	-0.5	-0.5	-1.0
Labor force (millions)	107.4	107.5	107.5	0.0	0.1	0.0	0.1	0.0	-0.7
Employment	98.4	98.7	98.8	0.1	0.3	0.1	3.0	2.7	1.6
Unemployment	9.0	8.8	8.7	-0.9	-1.4	-1.5	-23.2	-21.1	-19.9
<b>Formalization Rate (%)</b>	<b>58.1</b>	<b>57.9</b>	<b>57.9</b>	<b>-0.1</b>	<b>-0.2</b>	<b>0.0</b>	<b>1.1</b>	<b>0.8</b>	<b>0.9</b>
Formal Workers (millions)	57.1	57.1	57.3	0.0	0.0	0.2	5.0	4.1	3.2
Informal Workers (millions)	41.2	41.5	41.6	0.4	0.7	0.0	0.4	0.8	-0.6
<b>Average usual earnings (BRL)**</b>	<b>2,896</b>	<b>2,895</b>	<b>2,898</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>7.5</b>	<b>7.3</b>	<b>7.4</b>
<b>Average effective earnings (BRL)**</b>	<b>2,989</b>	<b>3,016</b>	-	<b>-0.7</b>	<b>0.9</b>	-	<b>7.2</b>	<b>8.0</b>	-
<b>Usual wage bill (BRL bn)**</b>	<b>280.2</b>	<b>280.9</b>	<b>281.5</b>	<b>0.1</b>	<b>0.3</b>	<b>0.2</b>	<b>11.4</b>	<b>10.8</b>	<b>9.6</b>
<b>Effective wage bill (BRL bn)**</b>	<b>291.7</b>	<b>292.7</b>	-	<b>0.0</b>	<b>0.3</b>	-	<b>10.5</b>	<b>10.2</b>	-

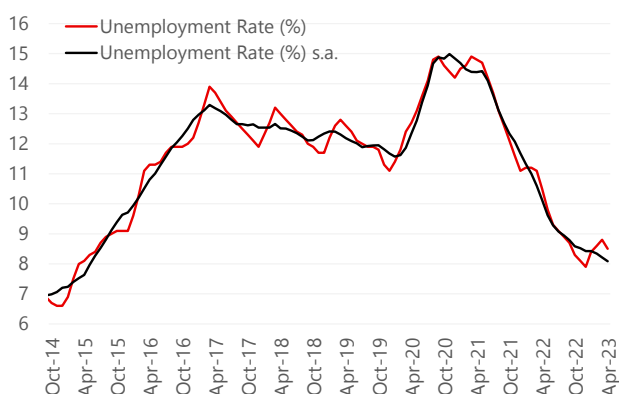
\* For rates, change is in percentage points.

\*\* In real terms

Sources: IBGE, Santander.

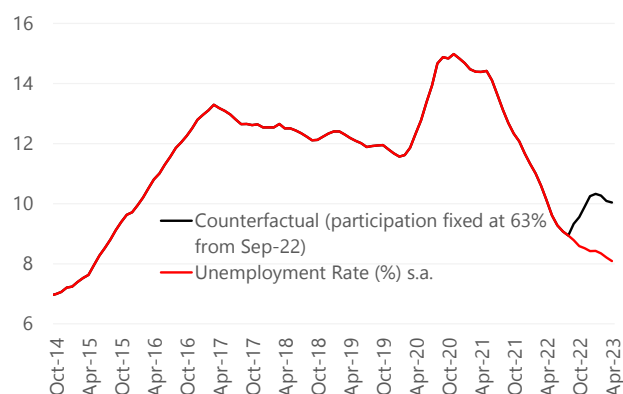
The labor market participation rate was 61.6% (sa), below the March level (61.7%). If the participation rate were fixed at 63% (pre-pandemic historical average), we calculate that the seasonally adjusted unemployment rate would be at 10.0%.

Figure 2. Unemployment Rate



Sources: IBGE, Santander.

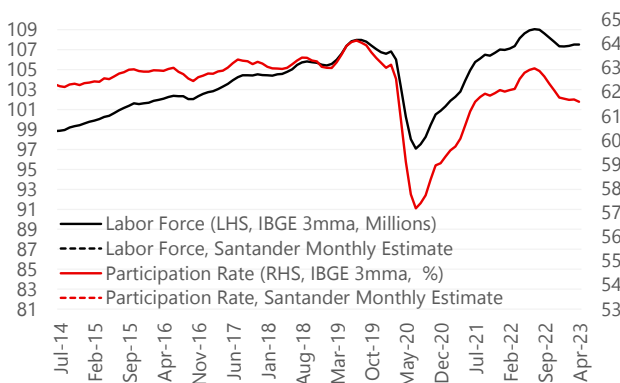
Figure 3. Unemployment Rate and Counterfactual (sa)



Sources: IBGE, Santander.

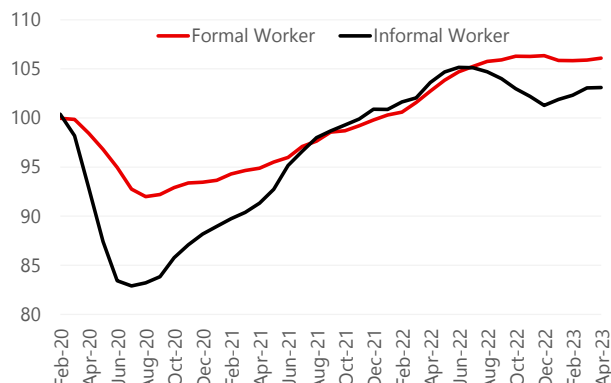


**Figure 4. Participation Rate and Employment (sa)**



Sources: IBGE, Santander.

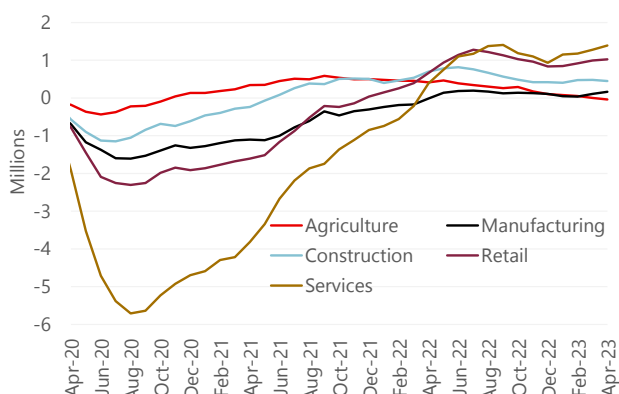
**Figure 5. Employed Population (sa, Jan-20=100)**



Sources: IBGE, Santander.

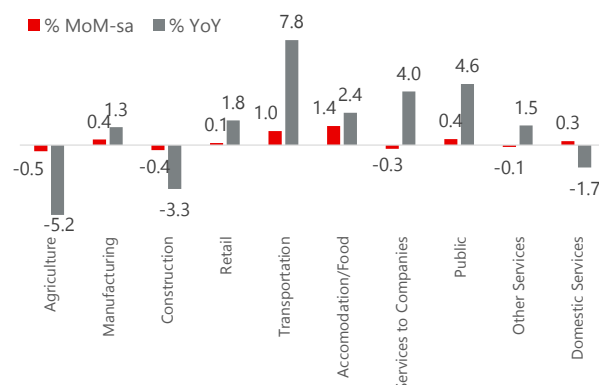
Formal employment posted a +0.2% MoM sa variation, while informal employment had a 0.0% MoM sa variation. This result led the formalization rate to 57.9% (sa), unchanged from the March level (57.9%). After six months of decreases, informal employment once again posted growth at the margin in February through April. Accommodation/food and Transportation were the highlights for job creation in April, while agriculture and construction both posted 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 6. Post-Pandemic Accumulated Job Variation (sa)**



Sources: IBGE, Santander.

**Figure 7. Employed Population Growth**

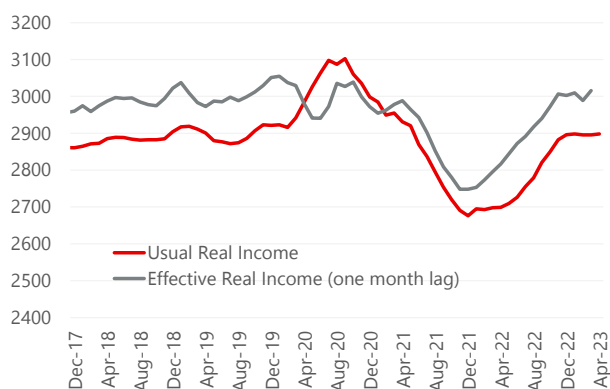


Sources: IBGE, Santander.

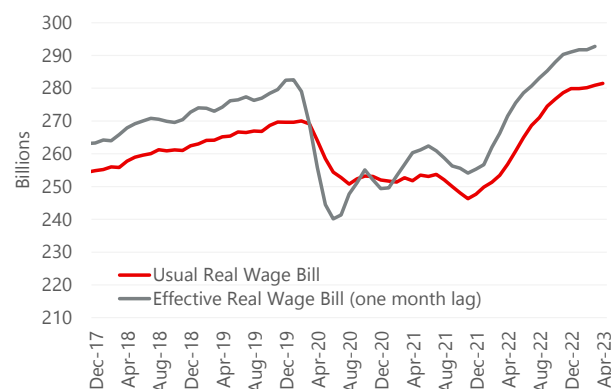
As for average real income indicators, there were additional signs of a deceleration trend. In our view, the results were boosted by the deceleration in YoY IPCA inflation in 2H22 and by the overheated job market. Effective real average income posted a +0.3% MoM sa variation in March (data lagged one month relative to other PNAD series), while usual real average income posted a 0.2% MoM-sa variation in April.

**Figure 8. Average Real Income (BRL, sa)**

**Figure 9. Real Wage Bill (BRL, sa)**



Sources: IBGE, Santander.



Sources: IBGE, Santander.

## CAGED Formal Job Survey

According to the April 2023 CAGED survey, net formal job creation stood at +180k (vs. consensus +187k, Santander estimate +275k), above the historical average for the month (+114k) but below the figure observed in April 2022 (+197k).

After our seasonal adjustment, net formal job creation decelerated to 154k, from 293k in March. The number of hirings had a -6.6% MoM-sa variation, while layoffs had a +0.2% MoM-sa variation. The three-month average now points to payroll expansion of 194k jobs, from 179k in March. We estimate that the 3mma of CAGED's gap to the joblessness-neutral level (~100k) stood at +102k (+87k in March). In the past three months, the gap has increased considerably.

With the April result, 12-month accumulated net job creation reached 1.894 million (adjusted for post-deadline declarations), from 1.911 million in March.

All the main sectors indicated acceleration from March, with services, retail, construction and manufacturing as the highlights.

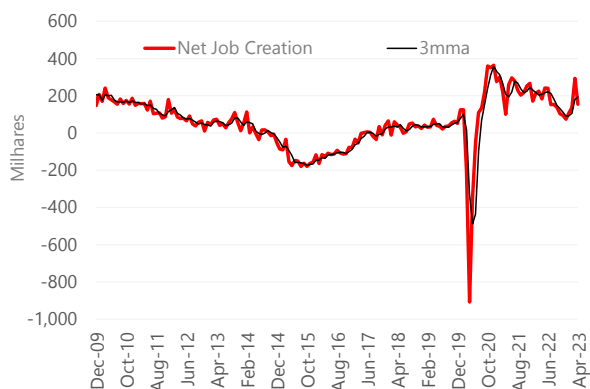
Figure 10 – CAGED Breakdown (thousands)

	Headline			Headline (s.a.)		
	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23
<b>Net Creation</b>	<b>241.8</b>	<b>195.2</b>	<b>180.0</b>	<b>135.2</b>	<b>293.5</b>	<b>154.4</b>
<b>Creation</b>	<b>1,949.8</b>	<b>2,168.4</b>	<b>1,865.3</b>	<b>1,818.2</b>	<b>2,058.6</b>	<b>1,923.8</b>
<b>Destruction</b>	<b>1,708.1</b>	<b>1,973.2</b>	<b>1,685.3</b>	<b>1,683.0</b>	<b>1,765.1</b>	<b>1,769.4</b>
Mining	1.3	1.6	2.5	0.7	1.9	1.6
Construction	22.2	33.6	26.9	10.3	33.9	25.4
Manufacturing	37.2	17.9	14.2	17.2	40.1	20.2
Utilities	1.9	1.5	2.1	0.9	1.9	1.8
Retail	-1.3	18.6	27.6	18.9	56.3	23.5
Agriculture	16.3	-0.3	2.9	8.9	18.2	8.1
Services	164.2	122.3	103.9	78.3	141.3	73.9

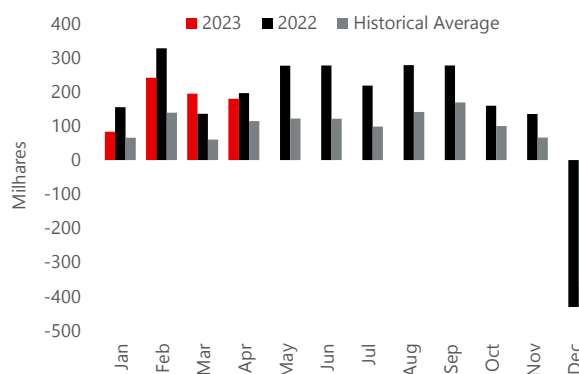
Sources: Ministry of Labor, Santander.

Figure 11. Net Formal Job Creation (sa)

Figure 12. Net Formal Job Creation

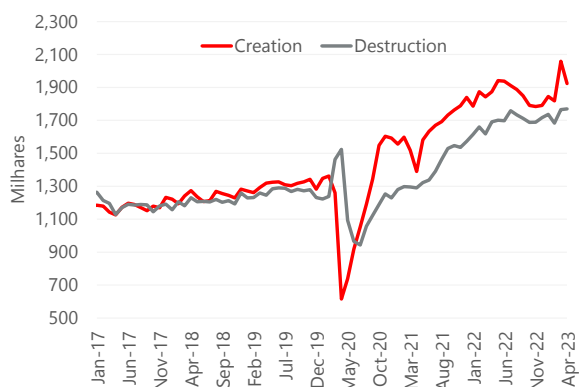


Sources: Ministry of Labor, Santander.



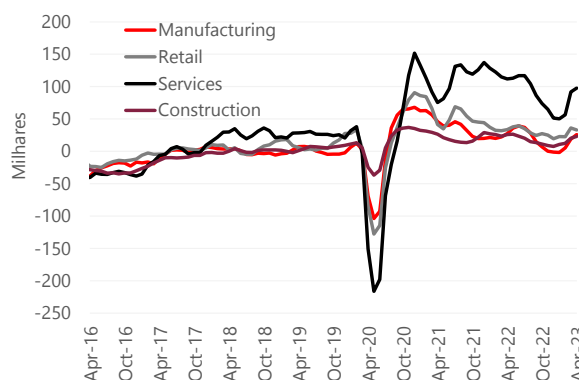
Sources: Ministry of Labor, Santander.

**Figure 13. Job Creation and Destruction (sa)**



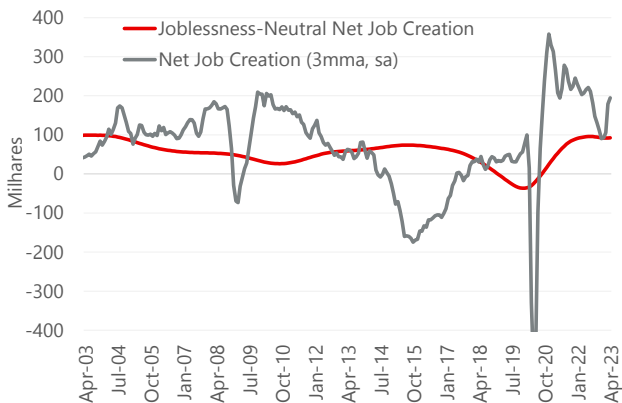
Sources: Ministry of Labor, Santander.

**Figure 14. Net Formal Job Creation (3mma, sa)**



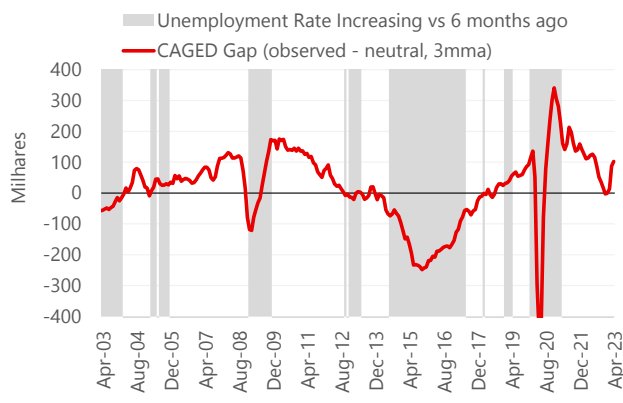
Sources: Ministry of Labor, Santander.

**Figure 15. Observed CAGED vs. Neutral**



Sources: Ministry of Labor, Santander.

**Figure 16. Net Formal Job Creation Gap (sa)**



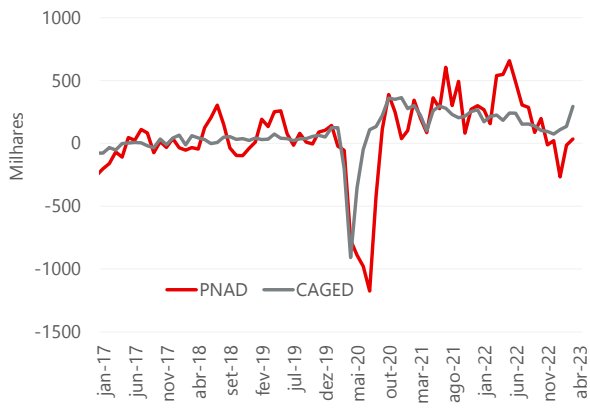
Sources: IBGE, Ministry of Labor, Santander.

**Final Remarks**

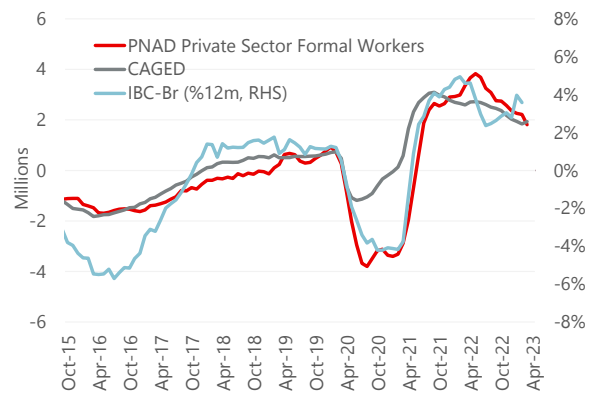
In our view, April labor market surveys continue to show a likely overheated job market. We still believe that the unemployment rate remains low due more to a reduction in the participation rate than to employment growth. We expect the deceleration trend in the labor market to return, but the continued low participation rate and the result for April's CAGED data imply downside risk to our unemployment rate projections.

**Figure 17. CAGED vs. PNAD Net Formal Job Creation (sa)**

**Figure 18. Net Job Creation and IBC-Br (12m)**



Sources: IBGE, Ministry of Labor, Santander.



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

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