A BITTERSWEET MONTH FOR LABOR MARKET

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 9.1% in the three months to July. The result was below our estimate (9.3%) and slightly above the market consensus (9.0%), implying a 4.6 p.p. drop from the year-ago level (13.7%). We calculate that the seasonally adjusted jobless rate stood at 9.1%, a decrease compared to the June level (9.2%).

- The decrease in the seasonally adjusted unemployment rate stemmed from a 0.3% increase in the employed population, while the labor force increased 0.2% MoM-sa. The labor market participation rate stood at 63.1% (sa), an increase compared to June's level (63.0%), matching the pre-crisis mark (February 2020). Formal employment posted a +0.6% MoM-sa variation, while informal employment had a -0.1% MoM-sa variation. This result led the formalization rate to 57.1% (sa), slightly above the June level (57.0%).

- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate figure stood at 9.0% (sa) in July, compared to 9.1% in June. This result followed -0.3% and -0.5% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the slight decrease of the unemployment rate at the margin was due to a drop in the participation rate, as both the employed population and the labor force contracted in July.

- The effective real wage bill posted a +1.0% MoM sa variation in June (data lagged one month relative to other PNAD series), while the usual real wage bill had a +1.4% MoM sa variation in July. The series are 0.5% above and 0.5% below the pre-crisis marks, respectively. It is the first time that one of the real wage bill series surpasses the pre pandemic mark, with the positive impact of the recover in average real wages.

- According to the July 2022 CAGED survey, released on August 29, net formal job creation stood at 219k (vs. consensus 259k, Santander estimate 260k), above the historical average for the month (93k) and below the number observed in July 2021 (317k). After our seasonal adjustment, net formal job creation decelerated to 170k, from 282k in June. The number of hirings decreased 0.6% MoM-sa, while layoffs increased 6.0% MoM-sa. The three-month average now points to a payroll expansion of 228k jobs, from 220k in June. We estimate that the 3mma of CAGED's gap to the joblessness-neutral level stood at 141k (134k in June).

- In our view, labor market had mixed results in July. The PNAD result shows another good result for the job market, but with some fewer positive signs at the margin. Once again, the survey has printed the lowest unemployment rate results since mid-2015, but with the smallest monthly reduction since May 2021. It is important to note that our monthly estimates indicate contractions in both the employed population and in the labor force. On the positive side, formal employment maintained the strong pace as the real wages show additional signs of recovery. As for the CAGED survey, there was substantial deceleration in net job creation, but the results are still compatible with a decreasing unemployment rate.

- We still see an overheated labor market, and the strength of employment in the recent months pose a downside risk to 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.

PNAD Household Survey

According to the IBGE National Household Survey (PNAD), the unemployment rate was 9.1% in the three months to July, below our estimate (9.3%) and slightly above the market consensus (9.0%), implying a 4.6 p.p. drop from the year-ago rate of 13.7%. We estimate that the seasonally adjusted unemployment rate fell to 9.1% from the June level of 9.2%. The performance of the seasonally adjusted unemployment rate stemmed from 0.3% and 0.2% MoM-sa increases in the employed population and the labor force, respectively.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
Unemployment rate (%)	**9.6**	**9.2**	**9.1**	**-4.9**	**-4.9**	**-4.6**	**-2.1**	**-2.4**	**-2.6**
Participation rate (%)	**62.8**	**63.0**	**63.1**	**2.2**	**1.8**	**1.5**	**-0.3**	**-0.1**	**0.0**
Labor force (millions)	**108.7**	**109.1**	**109.4**	**4.6**	**4.0**	**3.3**	**2.0**	**2.4**	**2.6**
Employment	98.3	99.1	99.4	10.6	9.9	8.8	4.3	5.1	5.4
Unemployment	10.4	10.1	9.9	-30.2	-32.0	-31.4	-16.5	-19.1	-20.1
Formalization Rate (%)	**56.9**	**57.0**	**57.1**	**-1.0**	**-0.4**	**-0.1**	**-0.3**	**-0.2**	**-0.1**
Formal Workers (millions)	56.0	56.5	56.8	8.8	9.2	8.6	3.8	4.8	5.4
Informal Workers (millions)	42.3	42.6	42.6	13.2	10.9	9.2	5.0	5.8	5.7
Average usual earnings (BRL)**	**2,633**	**2,645**	**2,669**	**-7.2**	**-5.1**	**-2.9**	**-7.4**	**-7.0**	**-6.2**
Average effective earnings (BRL)**	**2,763**	**2,784**	**-**	**-4.0**	**-2.3**	**-**	**-6.6**	**-5.8**	**-**
Usual wage bill (BRL bn)**	**253.7**	**257.7**	**261.3**	**3.0**	**4.8**	**6.1**	**-3.4**	**-1.8**	**-0.5**
Effective wage bill (BRL bn)**	**268.6**	**271.4**	**-**	**6.0**	**6.7**	**-**	**-0.6**	**0.5**	**-**

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

** In real terms
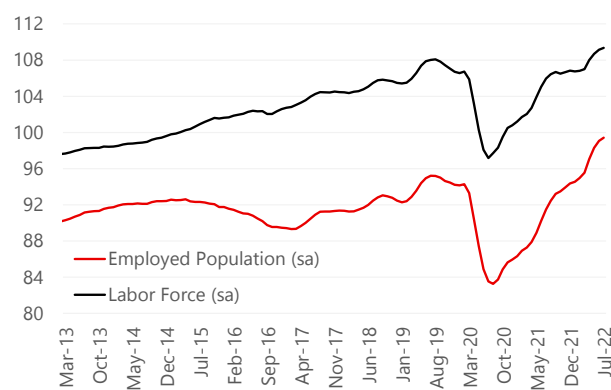
Sources: IBGE, Santander.

The labor market participation rate stood at 63.1% (sa), an increase from the June level (63.0%), matching the pre-crisis mark. Once again, the PNAD survey has printed the lowest unemployment rate results since mid-2015, but with the smallest monthly reduction since May 2021.

Figure 2. Unemployment Rate

Sources: IBGE, Santander.

**Figure 3. Employment and Labor Force (millions)**

Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate stood at 9.0% (sa) in July, compared to 9.1% in June. This result followed -0.3% and -0.5% MoM-sa variations in the employed population and the labor force, respectively. Therefore, the slight decrease of the unemployment rate at the margin was due to a drop in the participation rate, as both the employed population and the labor force contracted in July.
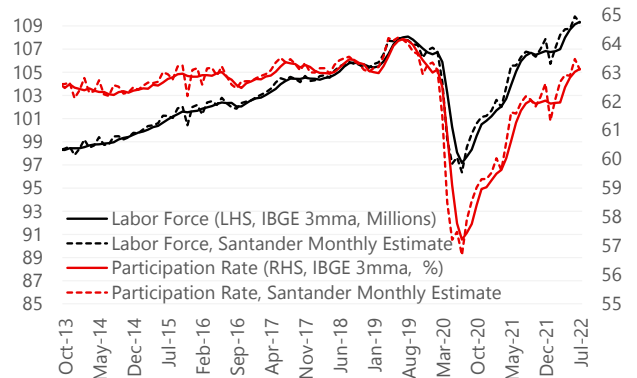
Figure 4. Monthly Unemployment Rate (sa)

Sources: IBGE, Santander.

Figure 5. Participation Rate and Labor Force (sa)
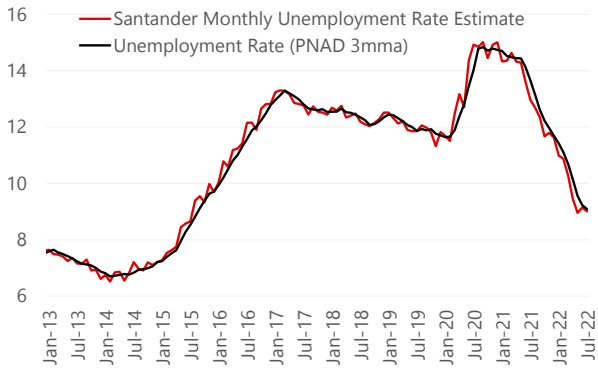
Sources: IBGE, Santander.

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.
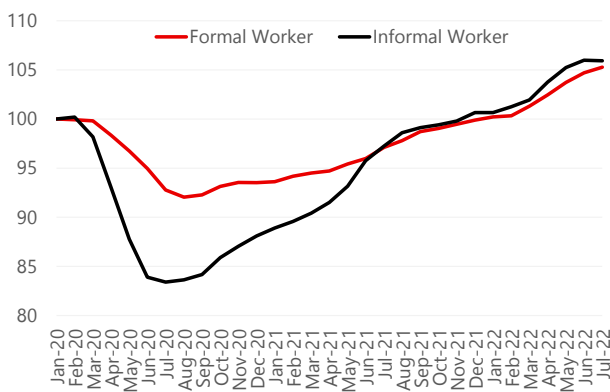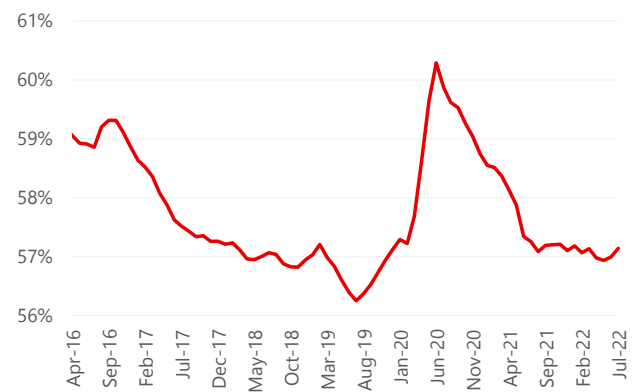
Formal employment posted a +0.6% MoM-sa variation, while informal employment decreased 0.1% MoM-sa. This result led the formalization rate to 57.1% (sa), slightly above the June level (57.0%).

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

Sources: IBGE, Santander.

Figure 7. Formalization Rate (sa)

Sources: IBGE, Santander.

All the main sectors showed signs of deceleration in employment growth in July. The services sector remains the highlight of employment growth in 2022 but has also shown a slowdown in July. Retail also indicates a similar behavior. Another highlight in July's employment growth was self-employed workers, as domestic and private sector employment also pointed to a slowdown.

Figure 8. Post-Pandemic Accumulated Job Losses (sa)
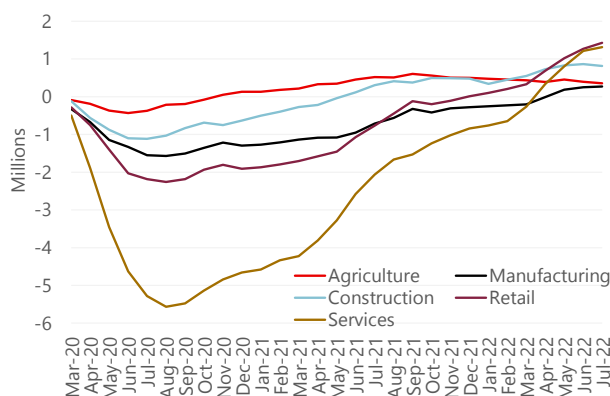
Sources: IBGE, Santander.

Figure 9. Employment by Position (sa, Jan-20=100)
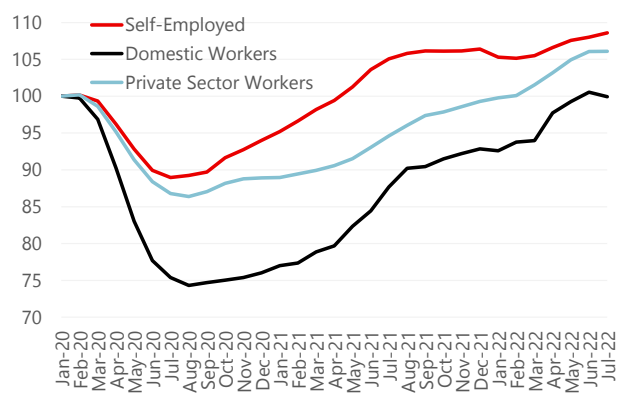
Sources: IBGE, Santander.

As for the average real income indicators, there was additional improvement at the margin, probably boosted by the monthly deflation in July's IPCA. The effective real wage bill has benefited from this recent recovery in real wages and posted a +1.0% MoM-sa variation in June (data lagged one month relative to other PNAD

series), while the usual real wage bill increased 1.4% MoM-sa in July. The series are 0.5% above and 0.5% below the pre-crisis marks, respectively. It is the first time that one of the real wage bill series surpasses the pre pandemic mark. We expect real income to gradually recover as inflation slowly decelerates.

Figure 10. Average Real Income (sa)
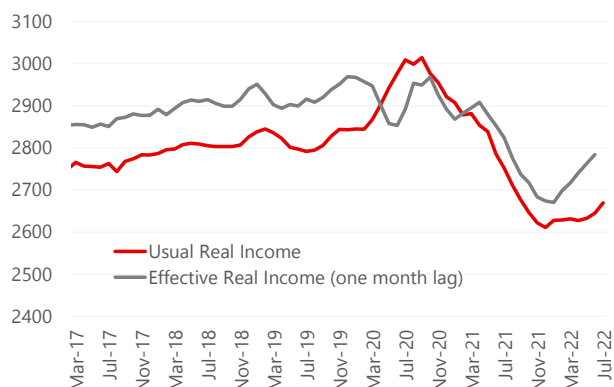
Sources: IBGE, Santander.

Figure 11. Real Wage Bill (sa)
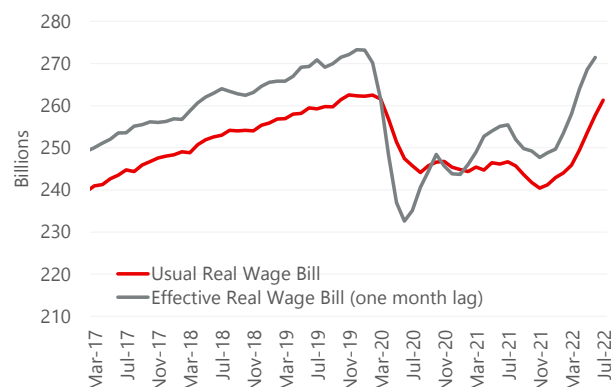
Sources: IBGE, Santander.

CAGED Formal Job Survey

According to the July 2022 CAGED survey, released on August 29, net formal job creation stood at 219k (vs. consensus 259k, Santander estimate 260k), above the historical average for the month (93k), and slightly below the number observed in July 2021 (317k).

Figure 12 – CAGED Breakdown (thousands)

	Headline			Headline (s.a.)		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
Net Creation	277.0	277.9	218.9	234.0	281.7	169.6
Creation	1,961.0	1,898.9	1,886.5	1,952.6	1,955.1	1,943.5
Destruction	1,683.9	1,620.9	1,667.6	1,718.6	1,673.4	1,773.9
Mining	1.5	1.3	1.6	1.4	0.8	1.3
Construction	35.4	30.3	32.1	25.4	21.5	18.7
Manufacturing	42.1	38.0	46.3	44.1	48.6	43.9
Retail	47.6	47.2	38.6	68.4	59.4	52.6
Agriculture	26.7	34.5	15.9	-14.6	-3.5	7.1
Services	118.5	121.5	77.8	142.9	120.7	118.9

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation decelerated to 170k, from 282k in June. The number of hirings had a 0.6% MoM-sa decrease, while layoffs had a 6.0% MoM-sa increase. The three-month average now points to a payroll expansion of 228k jobs, from 220k in June.
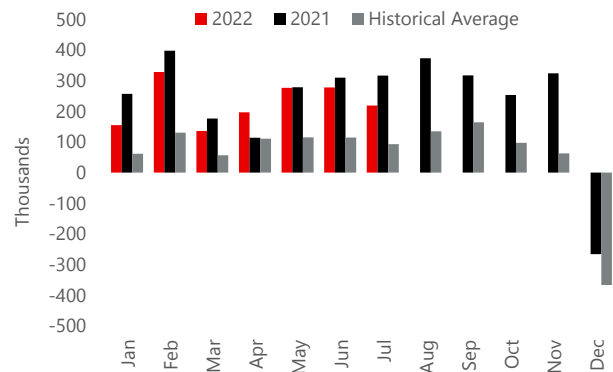
Figure 13. Net Formal Job Creation (sa)
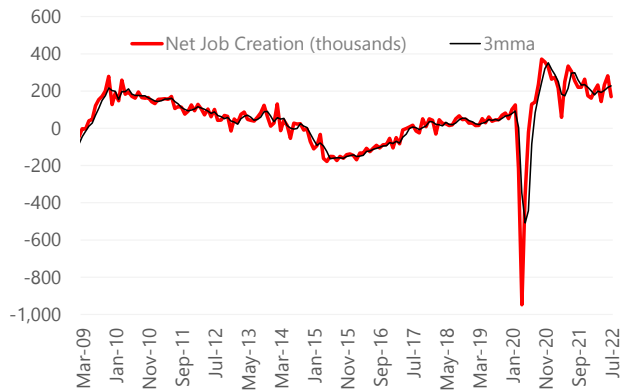
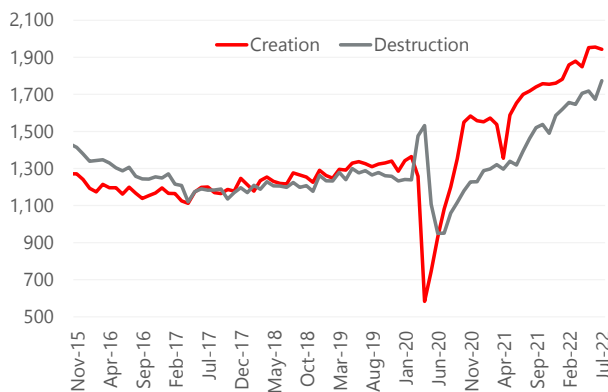Sources: Ministry of Labor, Santander.

Figure 14. Net Formal Job Creation
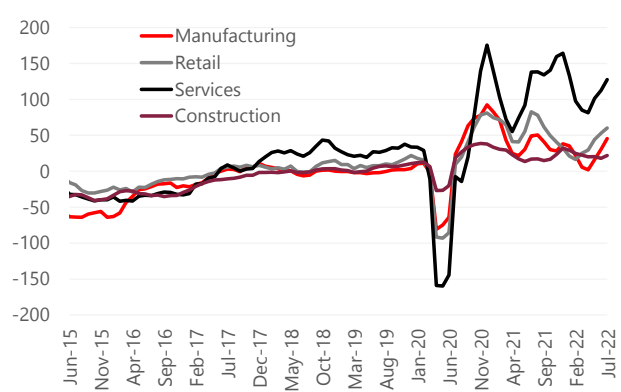

Sources: Ministry of Labor, Santander.

June's net result stemmed from a slight decrease in hiring, while layoffs had a considerable increase. All the main sectors still indicate hefty paces of net job creation, but retail and services were the lowlights in July, posting decelerations at the margin. Still, the services sector remains with the higher levels of job creation, followed by retail. Moreover, manufacturing accelerated at the margin, contributing positively to July's figure.

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 level[1]. We estimate that the 3-month moving average of CAGED's gap to the neutral level stood at 141k (134k in June).

Figure 17. Observed CAGED vs. Neutral
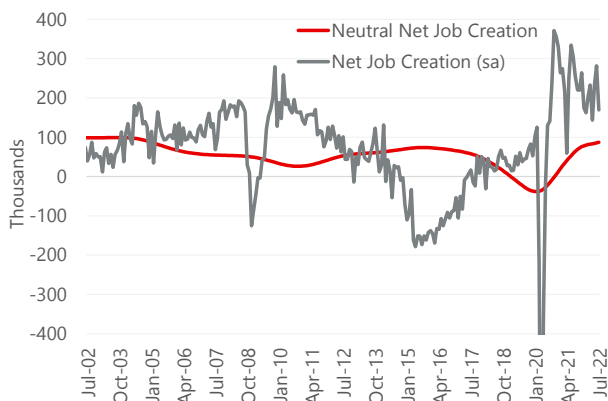
Sources: Ministry of Labor, Santander.

Figure 18. Net Formal Job Creation Gap (sa)
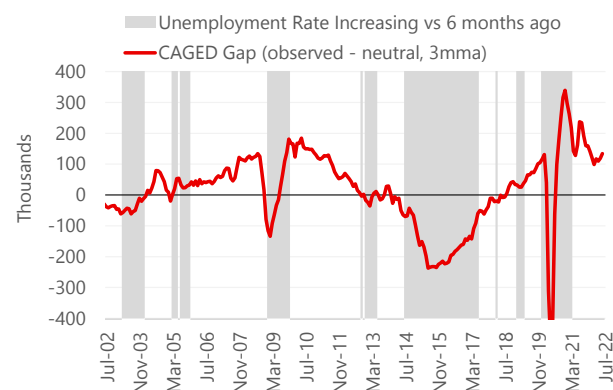
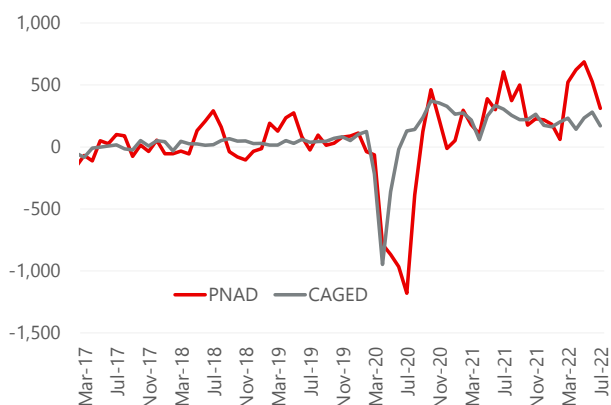Sources: IBGE, Ministry of Labor, Santander.

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[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, labor market had mixed results in July. The PNAD result shows another good result for the job market, but with some fewer positive signs at the margin. Once again, the survey has printed the lowest unemployment rate results since mid-2015, but with the smallest monthly reduction since May 2021. It is important to note that our monthly estimates indicate contractions in both the employed population and in the labor force. On the positive side, formal employment maintained the strong pace as the real wages show additional signs of recovery. As for the CAGED survey, there was an important deceleration in net job creation, but the results are still 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)
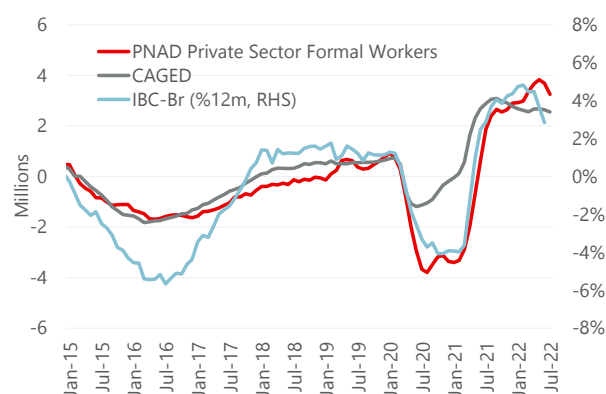
Sources: IBGE, Ministry of Labor, BCB, Santander.

All in all, we still see an overheated labor market, and the strength of employment in the recent months post a downside risk to 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 chartbook**[2].

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[2] **Santander Brazil Economic Activity: "***Chartbook: Further improvements in 2022, as 2023 remains challenging***"** – July 20, 2022 – Available on: https://bit.ly/Std-chart-econact-jul22

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