Brazil Macro Special Report

Five Questions on the Labor Market

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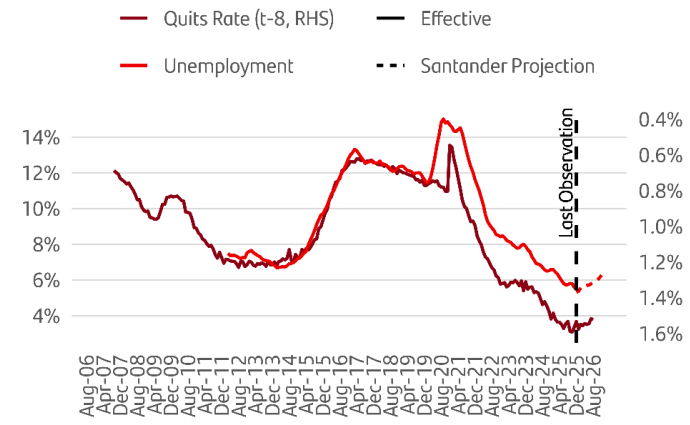
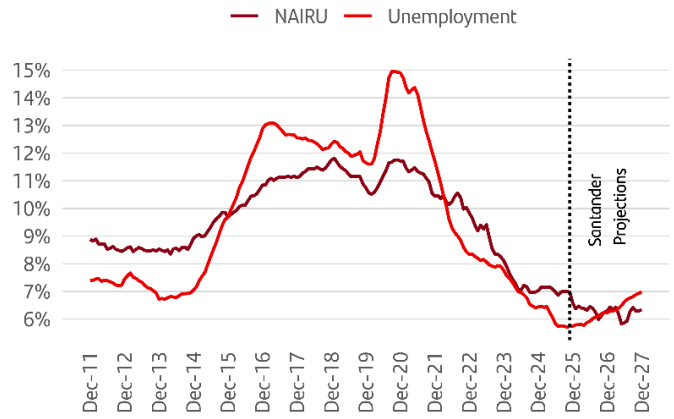
- **Nov/25 PNAD job surge looks like a one-off, concentrated in Public Administration; underlying labor demand still points to gradual cooling. Late-2025 wage acceleration was focused on specific categories/sectors, with limited signs of broad overheating.**
- **Participation gap vs. pre-pandemic level is mostly a within-group behavior story (not demographics alone), but long-lasting persistence makes it hard to attribute it solely to transitory factors. Recovery seems dependent on within-group improvements.**
- **We see a lower NAIRU than the pre-pandemic level, explaining joblessness with limited inflation pressures. We raise possible explanations for this fall. Labor softening still points to a 6.3% SA unemployment by YE2026.**

Figure 1: Formal Employment Quits and Unemployment Rate (%, sa)



Source: IBGE, Santander

Figure 2: Unemployment Rate and NAIRU (%, sa)



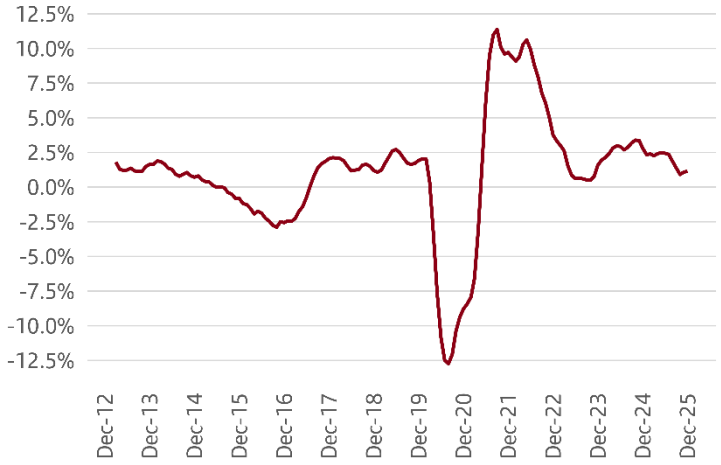
Source: IBGE, Santander

In this report, we tackle five questions which we see as the most relevant for the labor market outlook and its implications as of February 2026. We start with debates regarding the latest readings in PNAD statistics. Next, we move to a question related to structural changes in the labor market. Finally, we ask ourselves what justifies our current projections for the labor market.

1) What's behind the recent surge in employment?

Up until October, PNAD statistics were noticeably losing steam. Indeed, employment growth decelerated from 2.4% YoY in July to 0.9% in October, as displayed in Figure 3. Yet, November statistics displayed significant strong job creation, which raised doubts on whether the deceleration trend would continue to vigor or whether it was officially over.

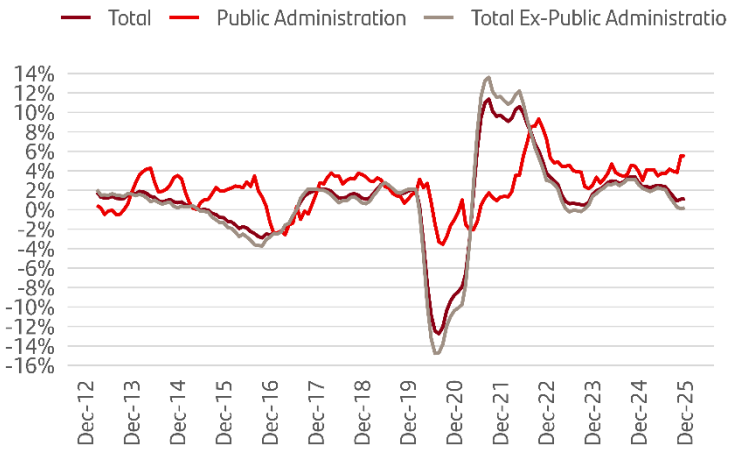
Figure 3: Employment (% YoY)



Sources: IBGE, Santander.

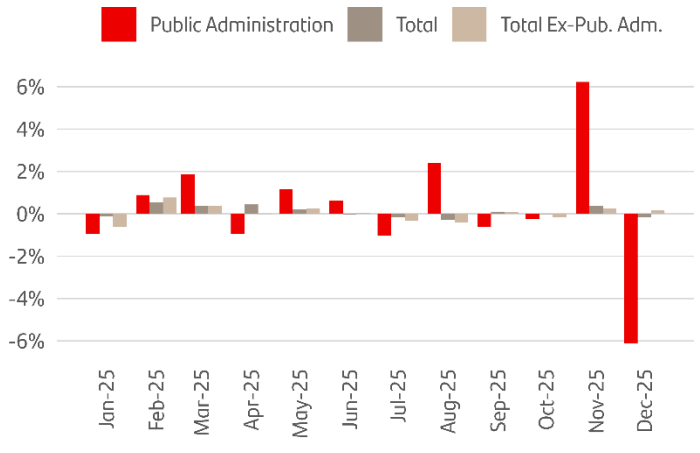
As of now, we believe the spike was a limited event, an outlier. As we show in figures 4 and 5, the bulk of the new jobs in November were focused on one specific sector, Public Administration.

Figure 4: Employment – Public Administration Breakdown (% YoY)



Sources: IBGE, Santander.

Figure 5: Employment – Public Administration Breakdown (Monthly Proxy, % MoM-sa)

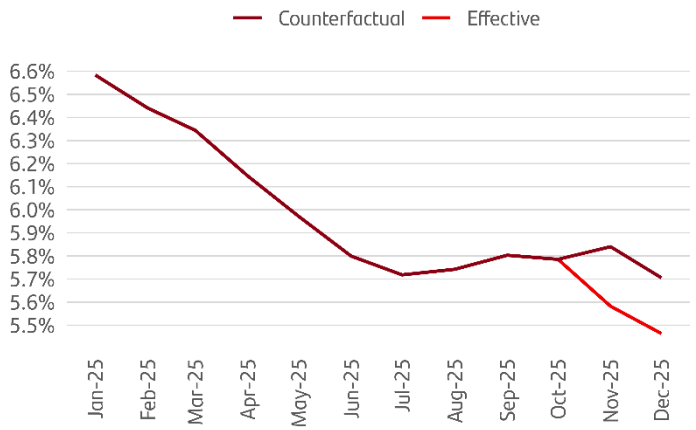


Sources: IBGE, Santander.

In November, Brazil hosted the United Nations' Climate Change Conference of 2025 (COP30). We believe a substantial amount of (temporary) jobs may have been created in the month to accommodate the event. PNAD releases its statistics in 3mma terms. Thus, even though we already have the December release, we cannot yet remove the total effect the event may have had. We can, however, estimate the monthly proxy for total employment in the sector and check how it has behaved in seasonally adjusted terms. As we show in figure 5, indeed, a large sum of jobs was created in November a non-negligible number of jobs are proxied to have been destroyed in December.

Given our view of the November print being a temporary factor, if we assume that employment in the sector would have behaved differently and grown the same amount as total employment ex-Public Administration in MoM-sa terms in November and December, we can create a counterfactual unemployment rate which we display in figure 6. In that scenario, the latter would have ended 2025 at 5.7%, ~0.2 p.p. above the final statistics.

Figure 6: Counterfactual Unemployment Rate Assuming Public Administration Employment with no COP30 effects (%, sa)



Sources: IBGE, Ministry of Labor, Santander.

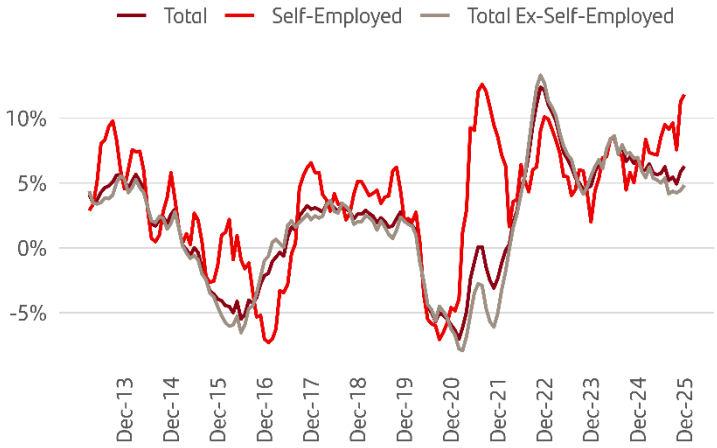
If our assumptions materialize, PNAD's statistics for February should be free of the outlier and thus return to non-affected levels.

2) What caused the late-2025 real wage pickup? Is it a lasting trend or temporary?

Beyond employment, there was another noteworthy movement that started in November 2025. Real wages, which had stabilized at slightly below ~5% YoY growth, started to accelerate once again. What was behind this new surge? Is it a new trend led by an overly tight market or only another temporary factor?

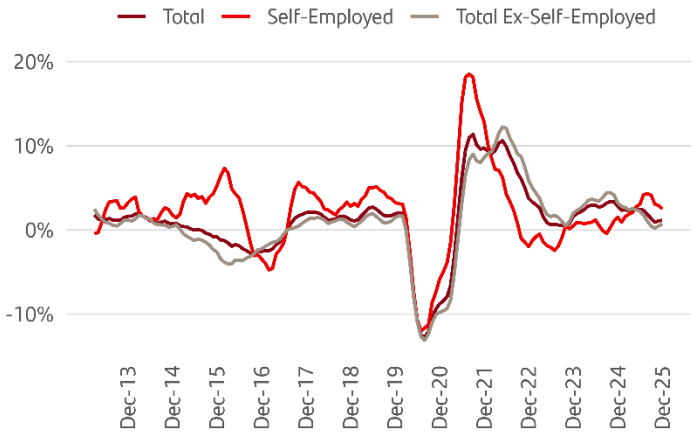
As we show in figure 7, the main driver for the recent surge was the average income of self-employed individuals. When we exclude this modality, real wages showed relatively stable growth. Interestingly, as displayed in figure 8, this boost was not accompanied by a renewal in the modality's employment growth.

Figure 7: Real Usual Income – Self-Employment Breakdown (% YoY)



Sources: IBGE, Santander.

Figure 8: Employment – Self-Employment Breakdown (% YoY)

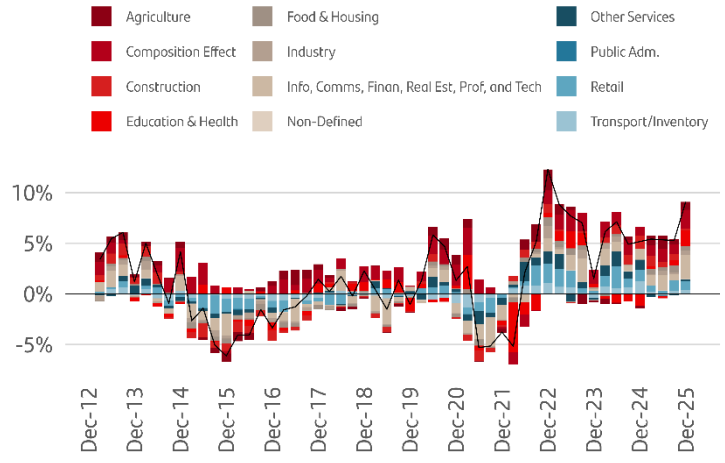


Sources: IBGE, Santander.

Given the main source of the recent pickup was self-employment income, we can further focus solely on this sector's earnings. This way, we can identify whether this rise was limited to a niche of employment or broad to the whole self-employment category. In figure 9, we show the sectoral

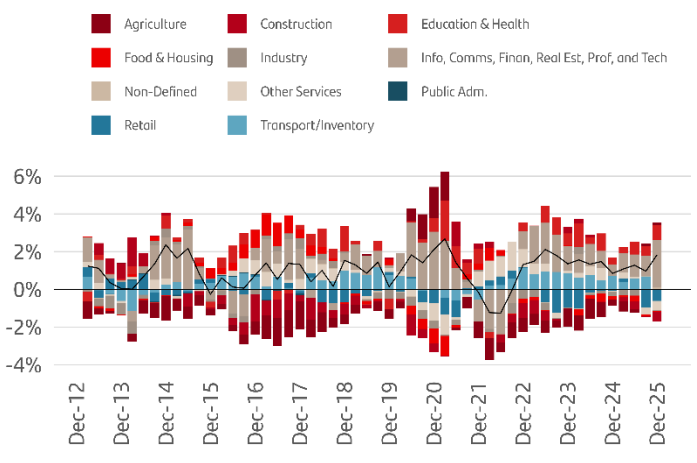
decomposition of the real usual income growth for self-employed individuals next to its contribution effects in figure 10. The bulk of the sectors' acceleration was focused on Information, Communication, and Financial, Real Estate, Professional, and Administrative Activities.

Figure 9: Self-Employed Real Usual Income – Breakdown (% YoY)



Sources: IBGE, Santander.

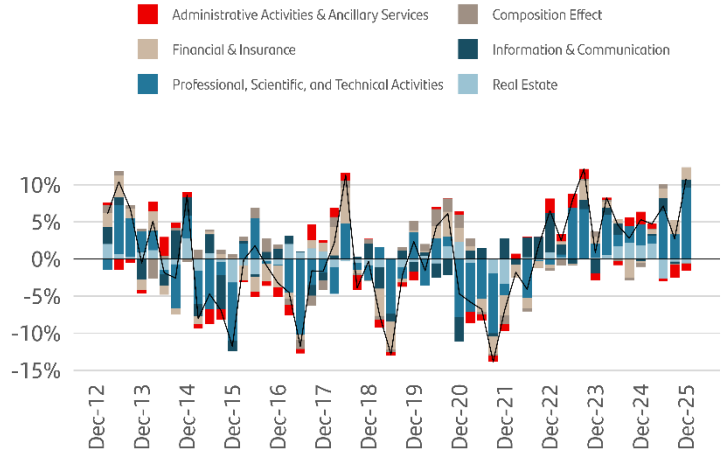
Figure 10: Self-Employed Real Usual Income – Composition Effect Breakdown (% YoY)



Sources: IBGE, Santander.

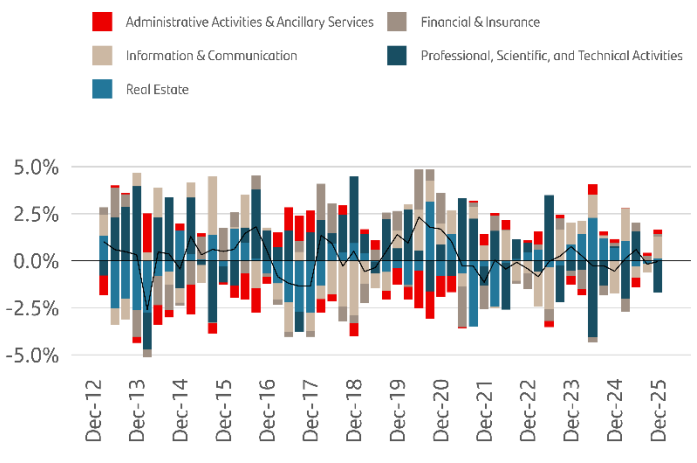
Though we have identified that most of the rise was driven by the "Information, Communication, and Financial, Real Estate, Professional, and Administrative Activities" sector, we can further investigate which subsector was responsible for such rise. Figures 11 and 12 show a breakdown of income growth in this sector. We find that the main subsector behind the change was the "Professional, Scientific, and Technical Activities" sector.

Figure 11: Self-Employed Real Usual Income in the Information, Communication, and Financial, Real Estate, Professional, and Administrative Activities Sector – Breakdown (% YoY)



Sources: IBGE, Santander.

Figure 12: Self-Employed Real Usual Income in the Information, Communication, and Financial, Real Estate, Professional, and Administrative Activities Sector – Composition Effect Breakdown (% YoY)



Sources: IBGE, Santander.

Though we cannot discard this rise as a risk of cyclical tightness, we list below possible drivers that could be behind this spike in the category/sector.

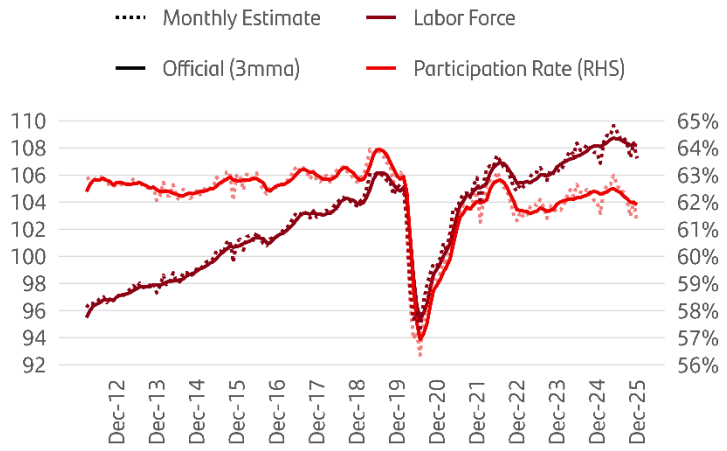
- One possible contributor to the late-2025 spike is stronger demand for specialized professional services (notably tax, accounting, and legal advisory) amid tax reform preparation. News flow in late 2025 suggested that part of the corporate sector was still adapting to the transition, which may have increased demand for year-end consulting/compliance work and temporarily supported self-employed fees/honoraria in 4Q25.

- At this stage, the evidence is more consistent with a remuneration/timing effect vs. a clear employment-volume shock. Self-employed income accelerated while self-employed employment growth did not show a similar reacceleration, which may reflect higher fees, contract timing, or year-end billing/revenue recognition effects.
- COP30 may also have played a complementary role, although the effect is likely concentrated and difficult to quantify at this point. Professional services linked to communication, translation, consulting, and technical support may have seen temporary demand and/or payment concentration around the event, potentially reinforcing the late-2025 move in "Professional, Scientific and Technical Activities." As we head into 2026 data, we get a better understanding of whether the recent rise in real wages was another outlier.

3) Why is the participation rate still short of its pre-pandemic level? Will it ever reach those levels again?

Ever since the pandemic crisis, the participation rate has never again reached the 2019 record of 64% so far, as displayed in figure 13. More recently, its trend has in fact been downwards. In this section, we try to find some explanations behind this phenomenon.

Figure 13: Participation Rate (%, sa) and Labor Force (million people, sa)

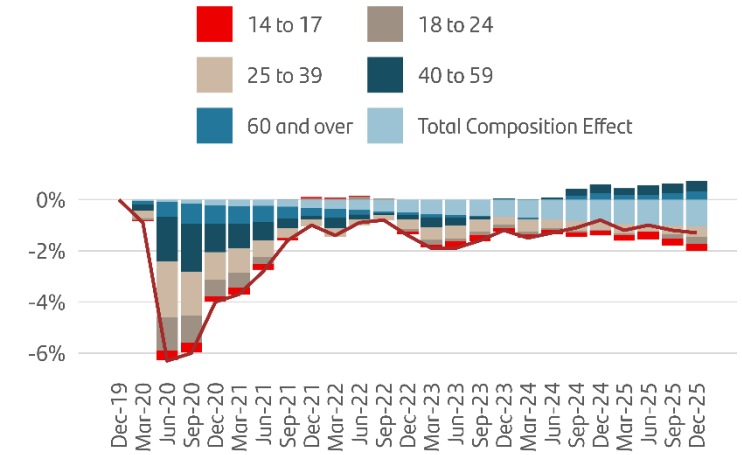


Sources: IBGE, Ministry of Labor, Santander.

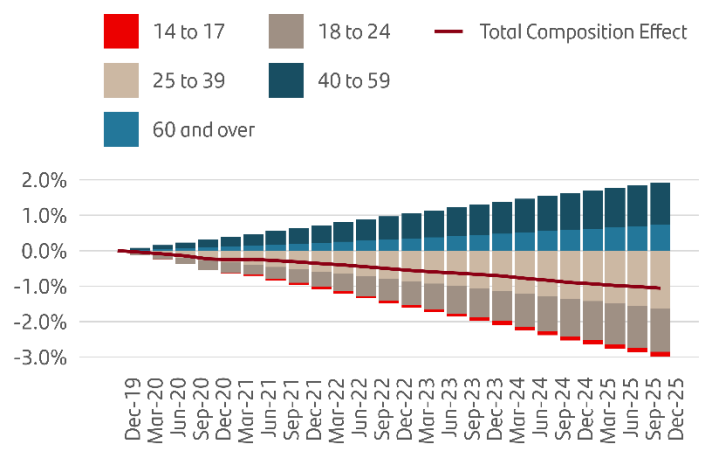
We start by decomposing the change in the participation rate since 4Q19 in terms of age groups. Figures 14 and 15 paint the picture. Figure 14 shows that the groups below 39 years of age are indeed short of the 4Q19 level. Regardless, the rise in participation for individuals aged over 40 years has risen to levels beyond that period. When combined, these idiosyncratic changes across younger and older individuals appear to offset each other. What remains is the composition changes in the population. Moving to figure 15, we can now understand that the driving force for the composition effect in terms of age groups was population ageing. Individuals over 40 represent now a larger share of all individuals, yet their participation rate is still smaller (on average) than individuals below 39. The change in population composition in terms of ages is putting a downward pressure on participation.

Figure 14: Participation Rate change since 4Q19 Decomposed by Age Groups (p.p.)

Figure 15: Participation Rate change since 4Q19 Decomposed by Age Groups — Composition Effect (p.p.)



Sources: IBGE, Santander.

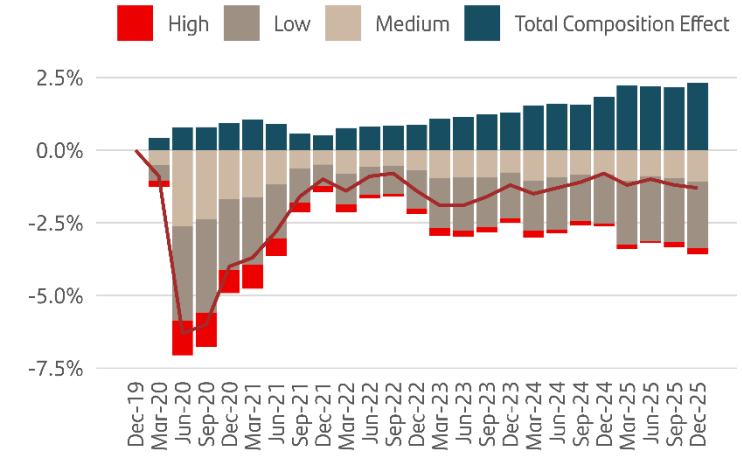


Sources: IBGE, Santander.

We can continue our investigation by breaking down the participation rate change in the period in terms of education skills, as we do in Figures 16 and 17. The idea is to capture whether a change in the population approach towards higher education has changed. We want to check if individuals are taking longer to build skills only to later join the labor market.

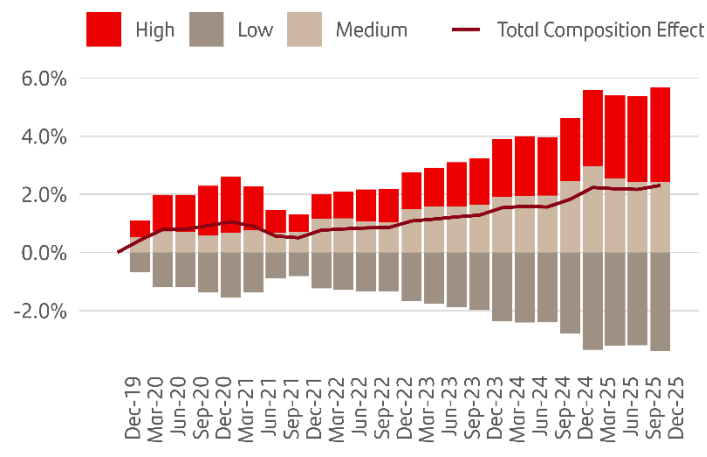
For education, what we find is notably different from the age decomposition. As highlighted by figure 16, the composition effect is positive, with an increasingly lower share of individuals in the low skill group—which is marked by a much smaller average participation rate than the medium and high skill individuals—implying a positive push for the aggregate average participation rate. Nonetheless, we know that this push was not enough to sustain higher participation levels. Figure 17 shows that despite the larger share of medium and high skilled individuals, these groups are still short of the pre-pandemic level.

Figure 16: Participation Rate change since 4Q19 Decomposed by Skill Groups (p.p.)



Sources: IBGE, Santander.

Figure 17: Participation Rate change since 4Q19 Decomposed by Skill Groups — Composition Effect (p.p.)

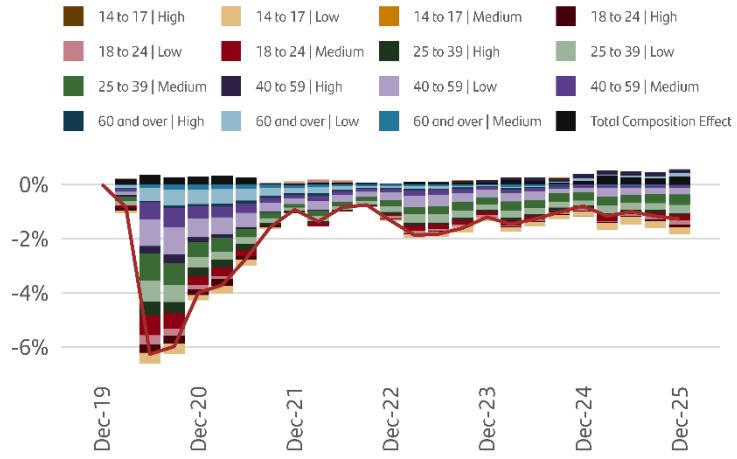


Sources: IBGE, Santander.

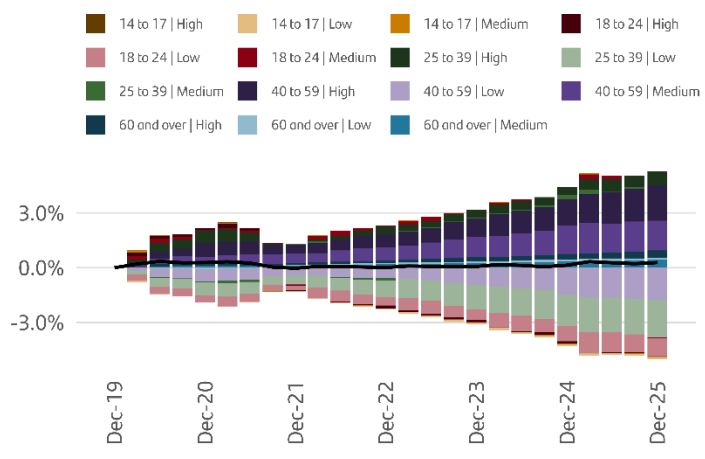
Finally, we can once again break down the participation change only now by grouping individuals by age and skill simultaneously, as we show in figures 18 and 19. In this more detailed breakdown, the composition effect is noticeably small, as the increase in medium and high skilled workers with 25 to 59 years offsets the decrease that would have been brought by low skilled workers from 18 to 59 years old. This indeed suggests that the increase of workers with longer education spans is compensating for the fall in the participating workers with shorter education spans.

Figure 18: Participation Rate change since 4Q19 Decomposed by Age and Skill Groups (p.p.)

Figure 19: Participation Rate change since 4Q19 Decomposed by Age and Skill Groups — Composition Effect (p.p.)



Sources: IBGE, Santander.



Sources: IBGE, Santander.

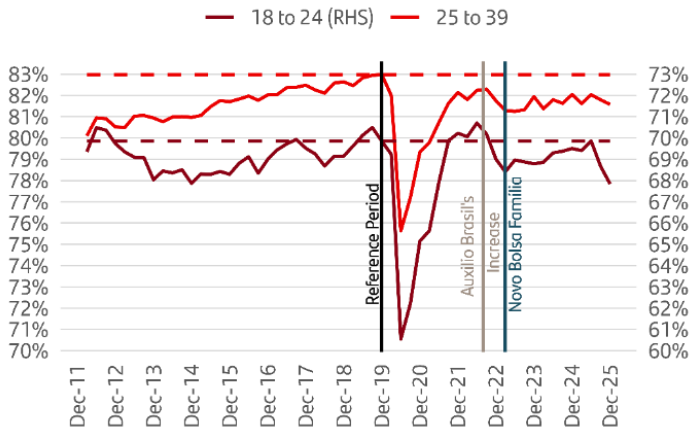
Hence, we have found that:

1. **Ageing:** as the population ages, there is an increasingly **negative** composition effect weighing on participation which should be expected to persist in the coming years.
2. **Education**: Longer education spans are increasing the share of individuals with medium and high skills, which are marked by a higher average participation, thus **driving up participation**.
3. **In Aggregate:** once we control jointly for age and skill, the net compositional shift is close to zero, indicating that changes in the population structure along these two dimensions do not account for the post-2019 decline in participation. The characteristics of the population indeed changed, but overall, these changes offset each other. One can argue that education patterns are likely to stabilize earlier than the end of the ageing trend, though this is not likely in the medium term.

Hence, the current participation level is comparable to the one in 4Q19. The pre-pandemic level is not mechanically out of reach due to demographics or education: a normalization of within-group participation rates—especially among the cohorts/skill groups that remain depressed—would largely close the gap. This shifts the explanation from population structure to within-group behavior and labor-market conditions; whether the gap closes would depend on the persistence of these within-group shortfalls.

The answer to our current question is: the fall in participation does not seem to be linked to structural trends from ageing or education decisions. Even so, it is hard to sustain that the lower within-group participation rates could be linked to cyclical/transitory factors given the absence of a swift recovery in a 6-year span since the initial shock marked by strong real income growth. The most likely case is that there was a persistent change in behavior/labor supply (government benefits, health, expected returns/income, selfcare, early retirement, etc.), making the pre-pandemic level reachable, but not easily. As we show in figure 20, a group of individuals worthy of attention going forward are those within the 18 to 24 years of age, which tumbled ~2 p.p. in the 2H25.

Figure 20: Participation Rate – Ages 18 to 39 (%)



Sources: IBGE, Ministry of Labor, Santander.

4) What about the NAIRU? Where is it at? Where is it going?

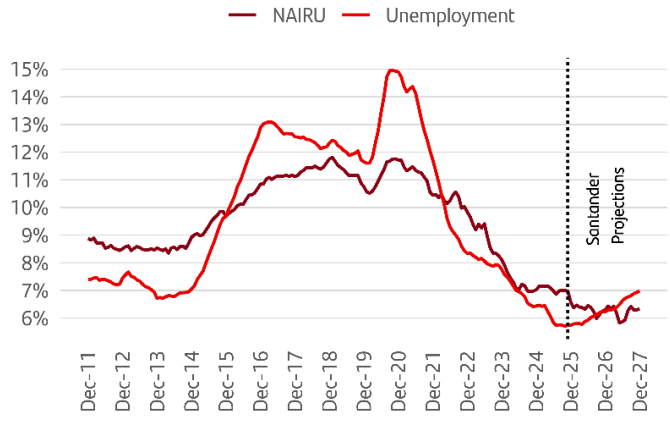
We have explored our view regarding the natural unemployment rate in *It's Only Natural – GDP, Unemployment, and Okun's Law*. In figure 21, we show how the average between our flexible and our smooth NAIRU estimates have evolved and is projected to behave in our forecasting horizon.

Our view of a lower natural rate of unemployment is consistent with the limited pressure on inflation—particularly in services prices—in an environment of remarkably low unemployment. Yet we still must present changes in the labor market that would explain this view.

A first candidate is the delayed impact of the 2017 labor reform. While the reform's contemporaneous effects were difficult to identify in real time, its cumulative effect may have become more visible in the post-pandemic recovery. In particular, greater contractual flexibility, lower legal uncertainty and a broader set of hiring arrangements may have reduced labor-demand frictions, allowing firms to rebuild payrolls faster and under greater uncertainty. In practice, this would be consistent with a lower equilibrium unemployment rate for a given level of activity.

A second factor is the expansion of platform-based work, particularly in delivery and other app-mediated services. The gig economy likely increased the labor market's absorption capacity by lowering entry barriers and shortening unemployment spells, especially for workers with lower qualifications or weaker labor market attachment. Even if these jobs are often lower-productivity and more volatile, they may still help explain why measured unemployment can fall further without generating the same inflation pressures seen in previous cycles.

Figure 21: Unemployment Rate and NAIRU (%, sa)



Sources: IBGE, Ministry of Labor, Santander.

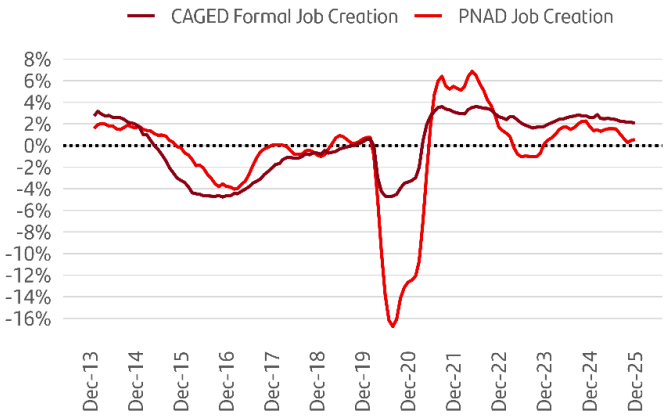
More broadly, the pandemic may have increased labor supply flexibility along margins that are not fully captured by the headline unemployment rate. In this setting, the unemployment rate alone may overstate the degree of inflationary tightness in the labor market.

That said, we would interpret this decline in NAIRU cautiously. Part of the recent performance may still reflect cyclical or transitional factors, including post-pandemic normalization effects and measurement challenges around underemployment and platform work. Our baseline is that Brazil's natural unemployment rate has likely declined relative to the pre-pandemic period, but the size and persistence of that decline remain uncertain and should be reassessed as wage/inflation dynamics, participation and services inflation evolve.

5) Will the labor market soften?

In our view, yes. In fact, the softening trend has already started. We recently explored what is the level of net job creation—both from PNAD and CAGED's perspective—that would allow unemployment to converge towards our estimate of the natural unemployment rate in 18 months[1]. In the analysis, we found that though CAGED statistics were still marked by resilience in 2025, PNAD's data suggest aggregate job creation is already in line with stabilization in the horizon. We highlight in figure 22 the updated NAIRU-neutral job creation gaps.

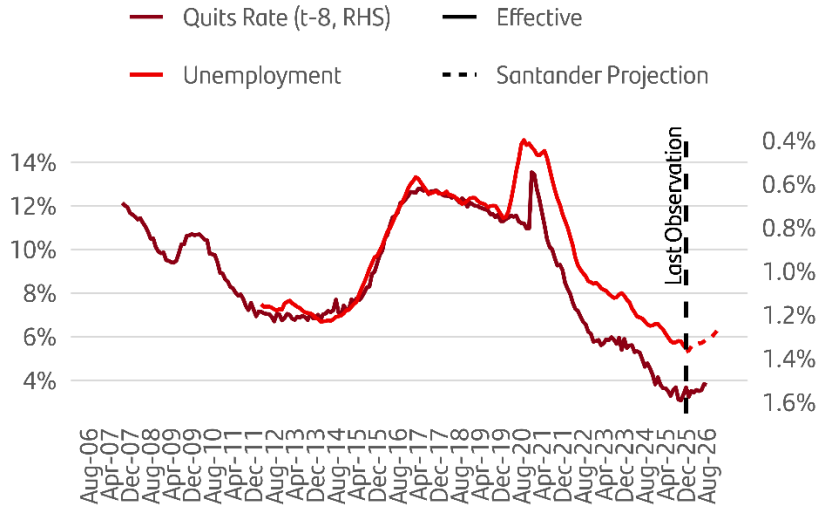
Figure 22: NAIRU-Neutral Job Creations Gaps (12m, percent)



Sources: IBGE, Ministry of Labor, Santander.

In addition, as we highlight in figure 23, the formal employment quits rate is already falling. Given its historically tight albeit lagged correlation with the unemployment rate, the current softening of the quits rate suggests that it should likely trend upward in 2H26.

Figure 23: Formal Employment Quits Rate (%, sa)



Sources: IBGE, Ministry of Labor, Santander.

[1] *Should I Stay (Backward) or Should I Go (Forward)? Two Views on Job Creation*, January 28, 2026.

All in all, the pre-conditions currently in place for a slightly higher unemployment rate at the end of 2026 were not present at the beginning of 2024 or 2025. We maintain our view that unemployment should potentially end 2026 close to 6.3% in seasonally adjusted terms.

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