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Economic Watch

Brazil

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Economic Analysis

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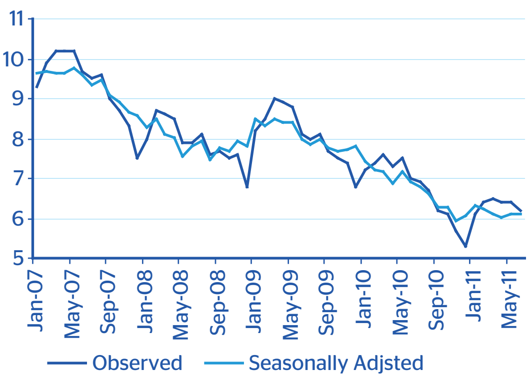
Brazil: the labor market show resilience against countercyclical measures

The unemployment reached 6.2% in June -the lowest rate for the month- and real wages expanded 4.0%y/y. The robustness of labor markets leaves practically no room for a change in the tone of countercyclical policies

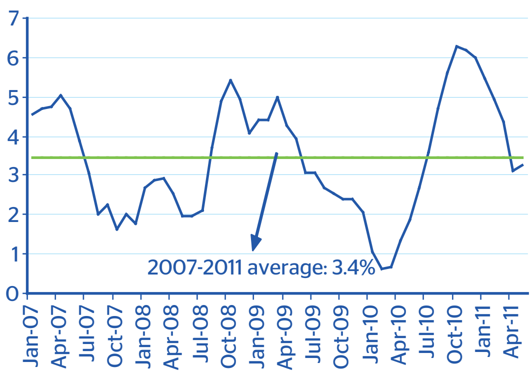
- **The unemployment rate dropped to 6.2% in June from 6.4% in May and 7.0% in June of 2010.** The result was broadly in line with expectations (6.1%) and was the lowest figure for the month since the series started being released in 2002.
- **Correcting for seasonality, the unemployment rate remained stable at 6.1%,** very close to historical low levels (6.0% in November of 2010 and in April of 2011).
- **Real wages expanded 4.0%y/y in June,** the same pace as in May.
- **Stripping seasonal effects out, real wages expanded 4.0%y/y in June, slightly less than in May when they had expanded 4.2%y/y.** The 3-months average growth of real wages is now equal to 3.3%y/y, which is close to the average expansion in the 2007-2011 period (3.4%y/y).
- **All in all, the data released today shows that labor markets continue very strong in spite of the countercyclical measures being taken since the end of 2010.** At some extent, this resilience is explained by some structural trends such as the reduction of the equilibrium unemployment rate and the increase of formality ratios.

Chart 1
Unemployment rate (%)



Source: IBGE

Chart 2
Real wages (3-months average; %m/m; seasonally adjusted)



Source: IBGE and BBVA Research

- **In our view, the strength of Brazilian labor markets will not allow the Central Bank** to put an end to the monetary tightening cycle after adjusting the SELIC rate by 25bps tomorrow.
- **In addition to this week's SELIC adjustment, we expect one more 25bps hike to be implemented in August and more macroprudential measures to be announced within the next few months.** An extra set of measures, however, should not be ruled out if the labor makets refrain from showing clear signs of moderation in the next few months.

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