

# BBVA Research Flash

## Brazil

Madrid, 22 September 2011  
Economic Analysis

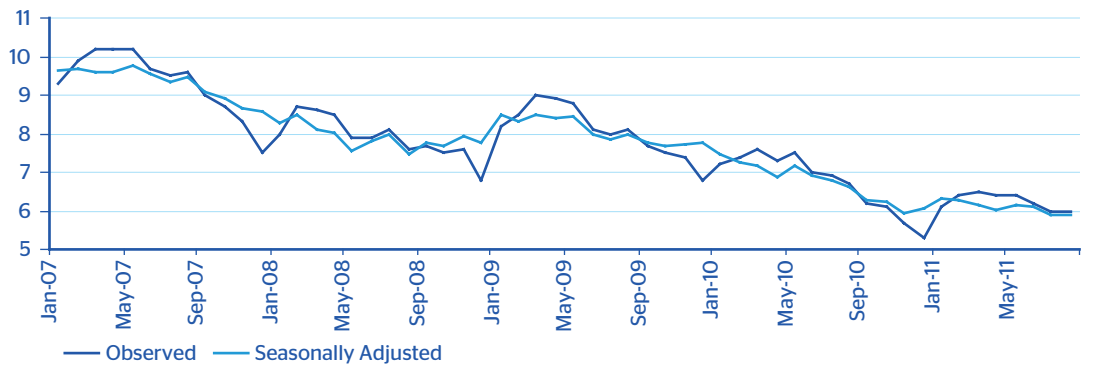
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The unemployment rate remained stable at historically low levels and real wages growth continued strong in August. The labor market buoyancy, together with a weaker currency, resilient commodity prices and declining interest rates, makes very difficult to see inflation converging to the 4.5%/y target before the end of 2012

## Brazil: labor market strength leaves no much room for inflation to fall

- **The unemployment rate remained stable at 6.0% in August, slightly below expectations (6.1%).** This rate is significantly lower than the rate observed in the same month last year (6.7%). It is, actually, the lowest rate for the period since 2001, when the current series started being released.

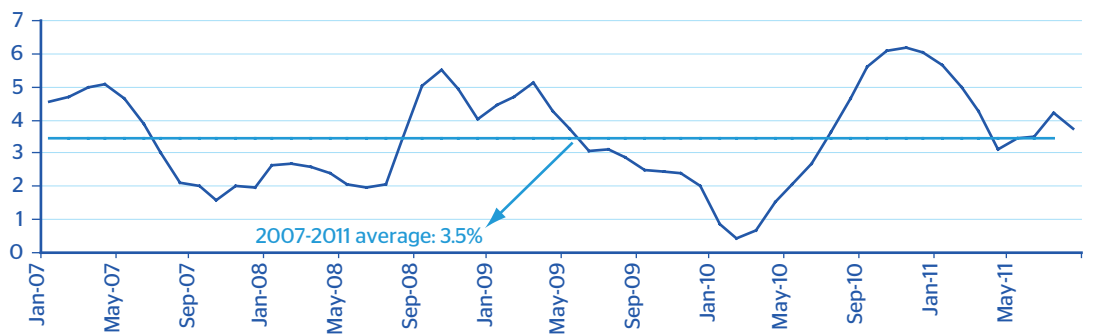
Chart 1  
Unemployment rate (%)



Source:IBGE

- **The unemployment rate is clearly below equilibrium levels,** which is supported by generalized evidence of labor shortage.
- **After three months growing more than 4.0%/y/y, real wages expanded 3.2%/y/y in August.** The three-month growth average is around 3.7%/y/y, still higher than the 2007-2011 average (3.5%/y/y).

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



Source:IBGE; BBVA Research

- **The strength of the domestic labor market leaves practically no room for the inflation to moderate more significantly**, especially in an environment of resilient commodity prices, weaker currency, declining interest rates, and uncertainties regarding 2012's fiscal policy.
- **Even though we continue expecting domestic demand and labor market to slow down**, our current inflation expectations (6.3%/y and 5.4%/y for the end of 2011 and 2012) could end up becoming too optimistic.
- **The only way to see inflation converging to the target seems to be through a much sharper deterioration of the external environment than we (and markets) are currently expecting.** Last days' turbulences suggest, however, this scenario should not be ruled out.

For more on Brazil, click [here](#)

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