Brazil Flash

Moderation signs are everywhere, even in labor markets

Labor markets are finally decelerating after many months of hefty expansion. They, however, remain at strong levels and the gradual slowdown which we expect for the months ahead should not prevent them from supporting domestic demand.

- **Average wages decline and unemployment rate stabilizes.**
  Average wages dropped 0.3%y/y in real terms in October after remaining stable in September and growing around 4.0%y/y in the months before. In monthly terms, real wages remained practically stable after dropping 1.8%m/m in September and expanding on average 0.4%m/m between January and August. In addition to the downward correction in real wages, the unemployment rate remained practically stable around 6.0% in October taking out seasonal factors (and dropped from 6.0% to 5.8% if seasonal factors are not excluded). The signs of deceleration coming from labor markets add to evidence from credit markets, external accounts, public revenue data, among many others. Taking all this information into account we expect GDP to grow only 0.2%q/q in Q3 and not much more than that in Q4.

- **Labor markets are expected to support domestic demand in 2012.**
  The implementation of a laxer monetary policy, the (gradual) decline of inflation, and especially the 14% minimum wage adjustment to be enacted next year should, in our view, prevent labor markets from hard landing. Regarding the increase of the minimum wage, it should drive wage mass up by 3% according to a study released this week by the CB. Labor markets should, therefore, remain strong in 2012, although not as strong as in 2011.

For more on Brazil, **click here**

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