

Economic Watch

Brazil

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Economic Analysis

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

Brazil: the labor market show resilience against countercyclical measures

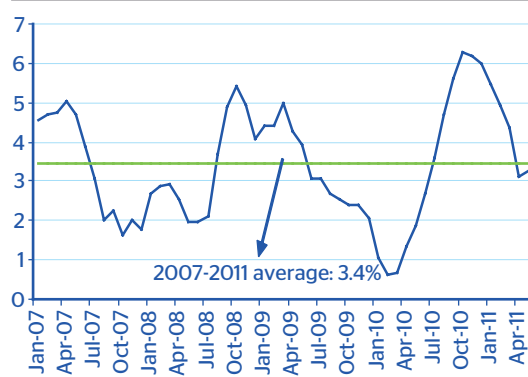
- **The unemployment rate dropped to 6.2% in June from 6.4% in May and 7.0% in June of 2010.** The result was broadly in line with expectations (6.1%) and was the lowest figure for the month since the series started being released in 2002.
- **Correcting for seasonality, the unemployment rate remained 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 in June,** the same pace as in May.
- **Stripping seasonal effects out, real wages expanded 4.0%/y in June,** slightly less than in May when they had expanded 4.2%/y. The 3-months average growth of real wages is now equal to 3.3%/y, which is close to the average expansion in the 2007-2011 period (3.4%/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 markets refrain from showing clear signs of moderation in the next few months.

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

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