

Monetary Policy Transmission and the Labour Market

Banco de Portugal

Banco Central do Brasil

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Four topics for today

- The labour market and the Central Bank mandate
- The labour market and the policy reaction function
- The current stance of the labour market
- The prospective scenario of the labour market

The labour market and the Central Bank mandate

- Written:

- Law 179/2021 – Article 1. **The fundamental objective of the Central Bank of Brazil is to ensure price Stability**
- Single paragraph. **Without prejudice to its fundamental objective**, the Central Bank of Brazil also has the objectives of fostering the stability and efficiency of the financial system, smoothing fluctuations in the level of economic activity, and promoting full employment

- Spoken:

- **Minutes and statements** (policy attention function based on LDA and BERT)
- **Speeches** (financial stability is the most important policy concern that is not directly enumerated in the FED mandate – Bertsch et al 2024)

- Implemented:

- Empirical interest rate rules
- Theoretical rules

The labour market and the policy reaction function

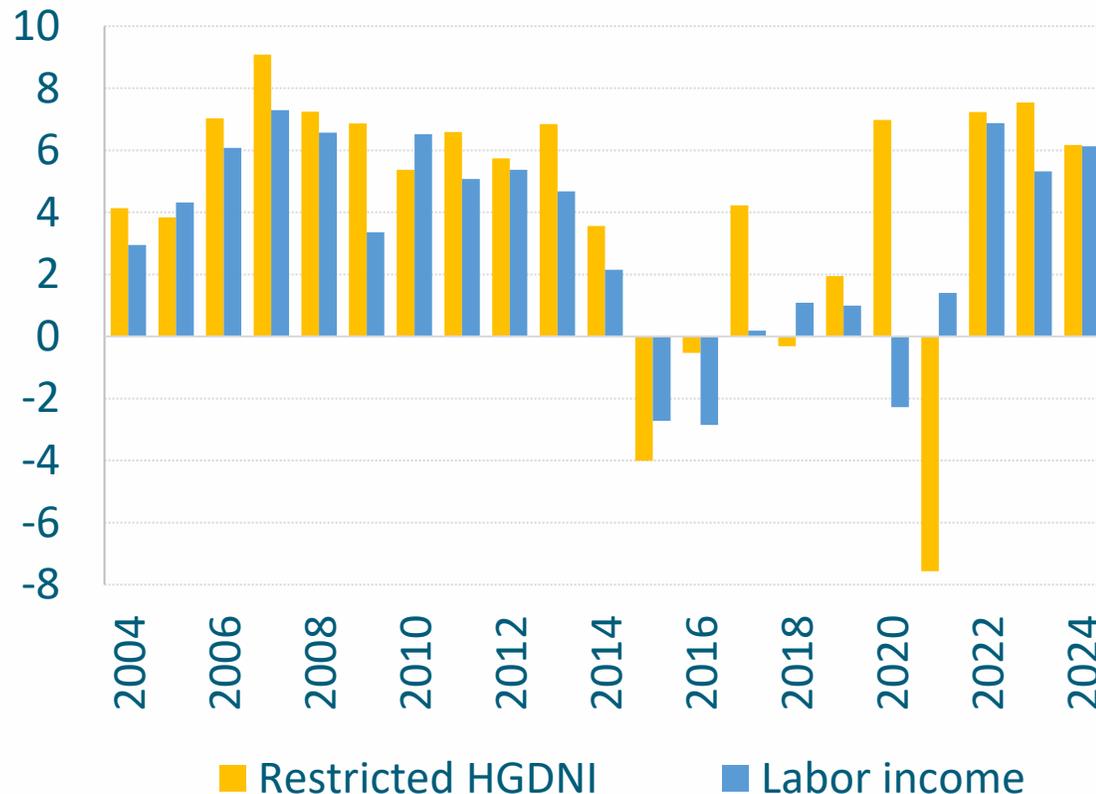
- *Beyond the next meeting, the Committee reinforces that the total magnitude of the tightening cycle will be determined by*
 - *the firm commitment of reaching the inflation target*
 - *and will depend*
 - *on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity,*
 - *on the inflation projections,*
 - *on the inflation expectations,*
 - *on the output gap, and*
 - *on the balance of risks.*

The current stance of the labour market

- Over the past quarters, economic activity, despite the contractionary monetary policy, has surprised positively and remained strong.

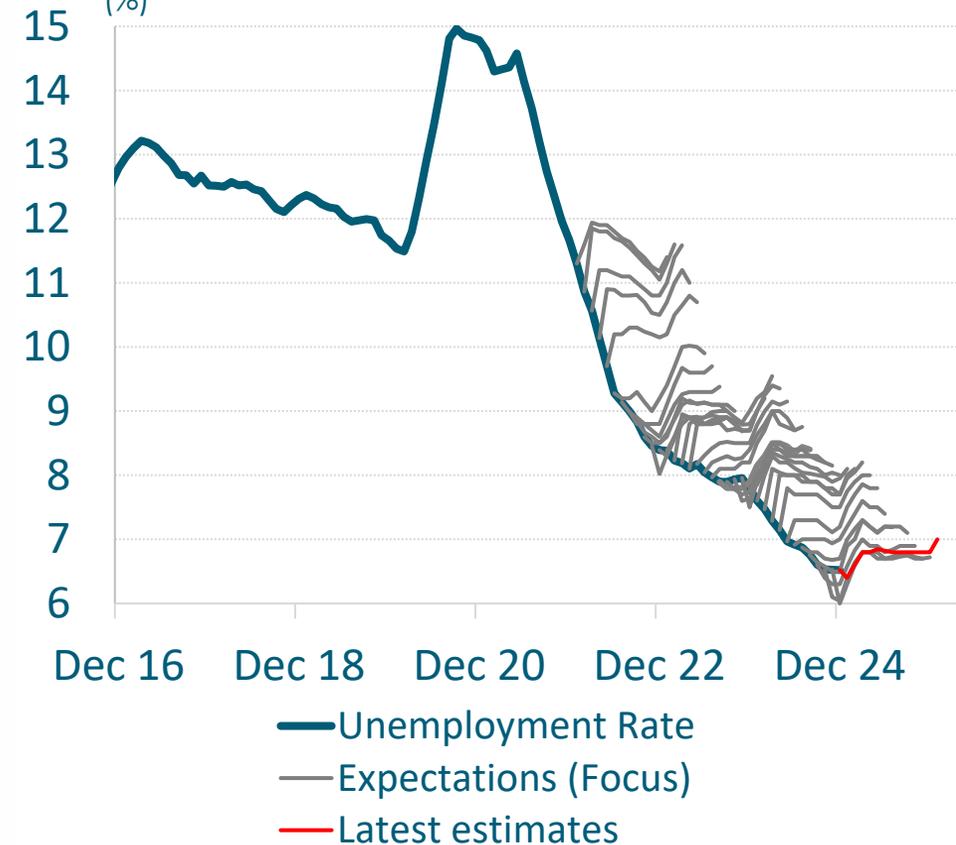
Proxy of restricted Household Gross Disposable National Income

Contribution to annual change (p.p.) Real IPCA



Unemployment rate (UR) and market expectations

(%)



The current stance of the labour market

- Similarly, over the past quarters, **the labour market has been tight**, as demonstrated by measures of unemployment rate, employment level, and number of voluntary layoffs. Nominal wages increase at a high rate, although there is some moderation in the pace of real wage growth.

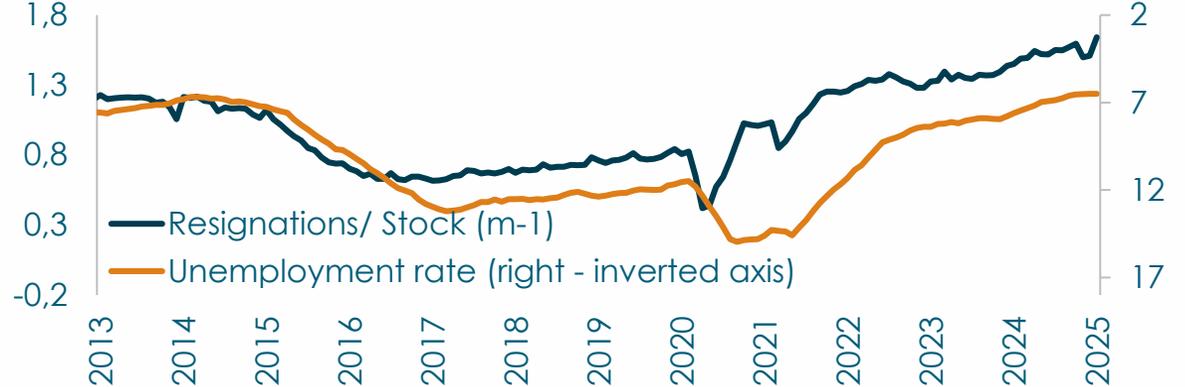
Unemployment Rate

%; 3mma; s.a.



Resignations rate and unemployment rate

%; 3mma; s.a.



Participation rate and Occupation level



Salaries and income 3mma; % YoY change



The prospective scenario of the labour market

- The prospective baseline scenario involves a slowdown in activity, which is part of the monetary policy transmission process and an element necessary for the convergence of inflation to the target.*

Gross Domestic Product

Accumulated in the year

Itemization				% growth
	2023	2024 ¹	2025 ¹	
		Current	Previous	Current
Agriculture	16,3	-2,0	2,0	4,0
Industry	1,7	3,3	2,4	2,4
Services	2,8	3,8	1,9	1,9
Value added at basic prices	3,4	3,3	2,0	2,2
Taxes on products	2,3	5,5	1,9	2,0
GDP at market prices	3,2	3,5	2,0	2,1
Household consumption	3,2	5,3	2,2	2,4
Government consumption	3,8	1,9	2,0	1,6
Gross Fixed Capital Formation	-3,0	7,3	2,0	2,9
Exports	8,9	3,0	2,5	2,5
Imports	-1,2	13,7	2,5	2,5

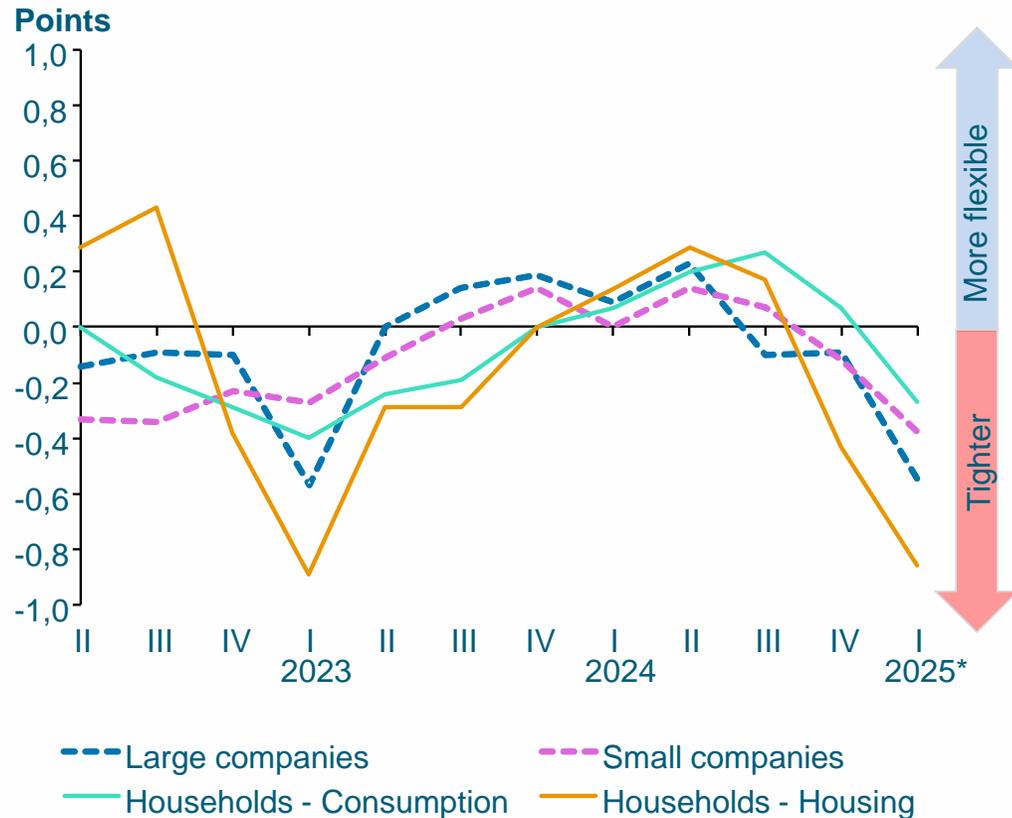
Sources: IBGE and BCB

1/ Estimated.

The prospective scenario of the labour market

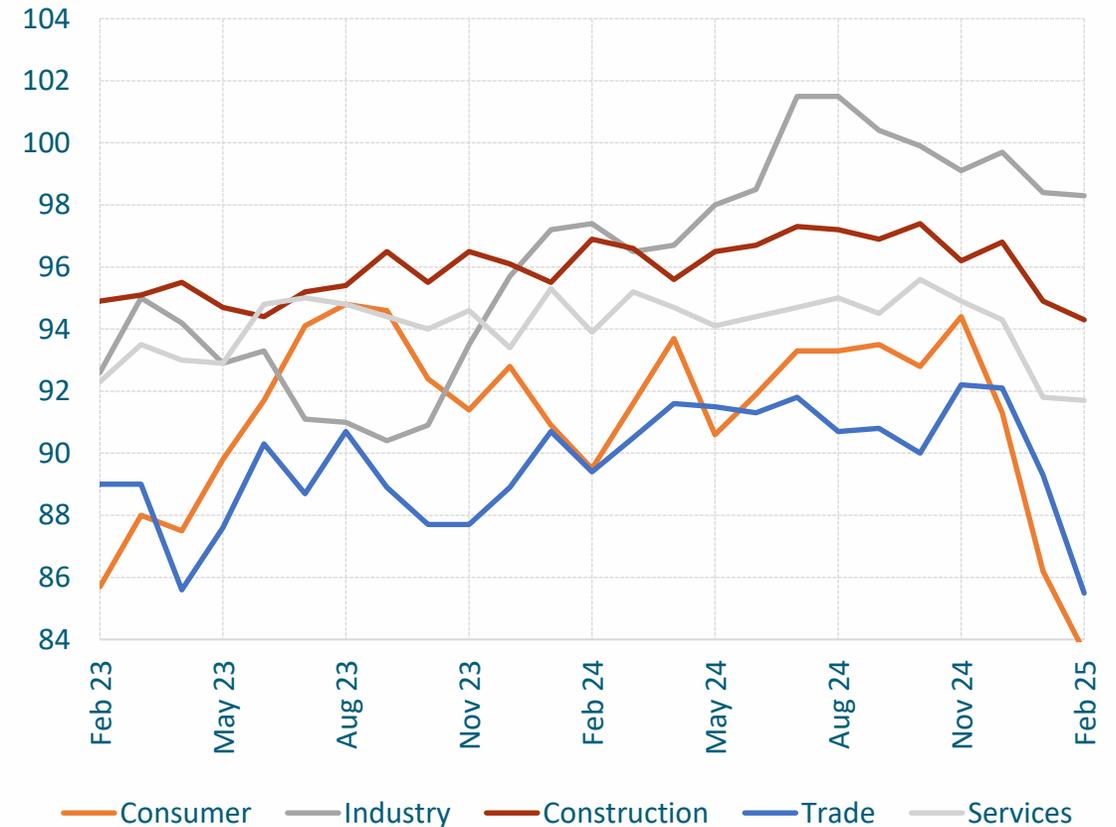
- *More recent data provide early signs that some growth moderation, in line with the baseline scenario, may be starting*

Credit supply indicator: credit approval



Confidence Indices

Points; s.a.

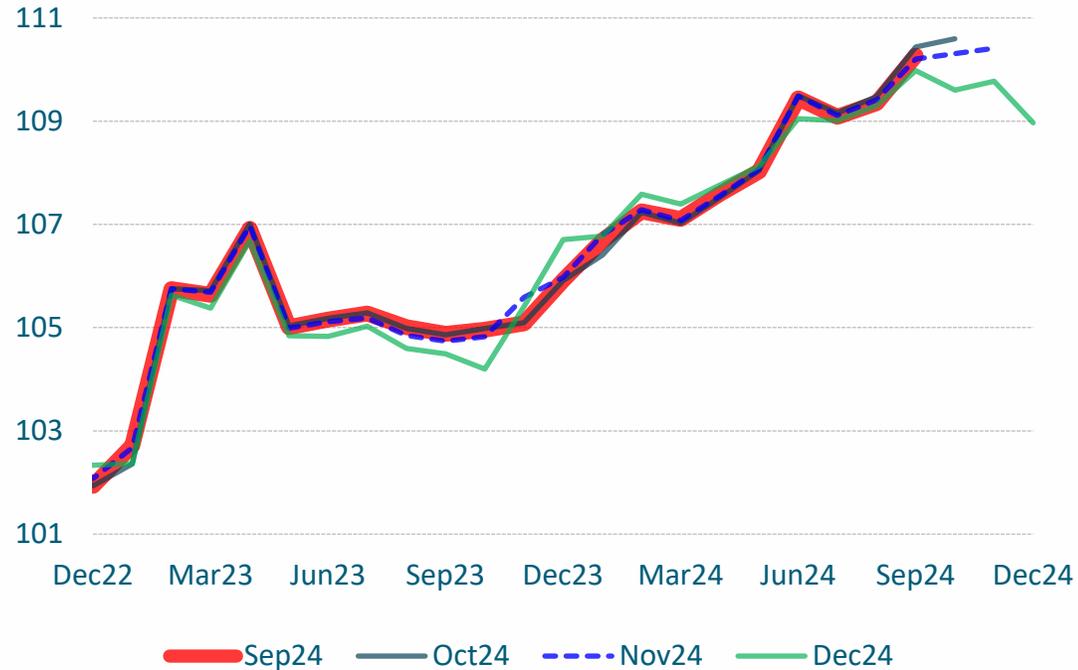


The prospective scenario of the labour market

- *Some mitigating factors suggest caution in the conclusions.*
 - *Data are still of high frequency, and the difficulties involving seasonality and frequent revisions in those series demand greater caution in the analysis.*

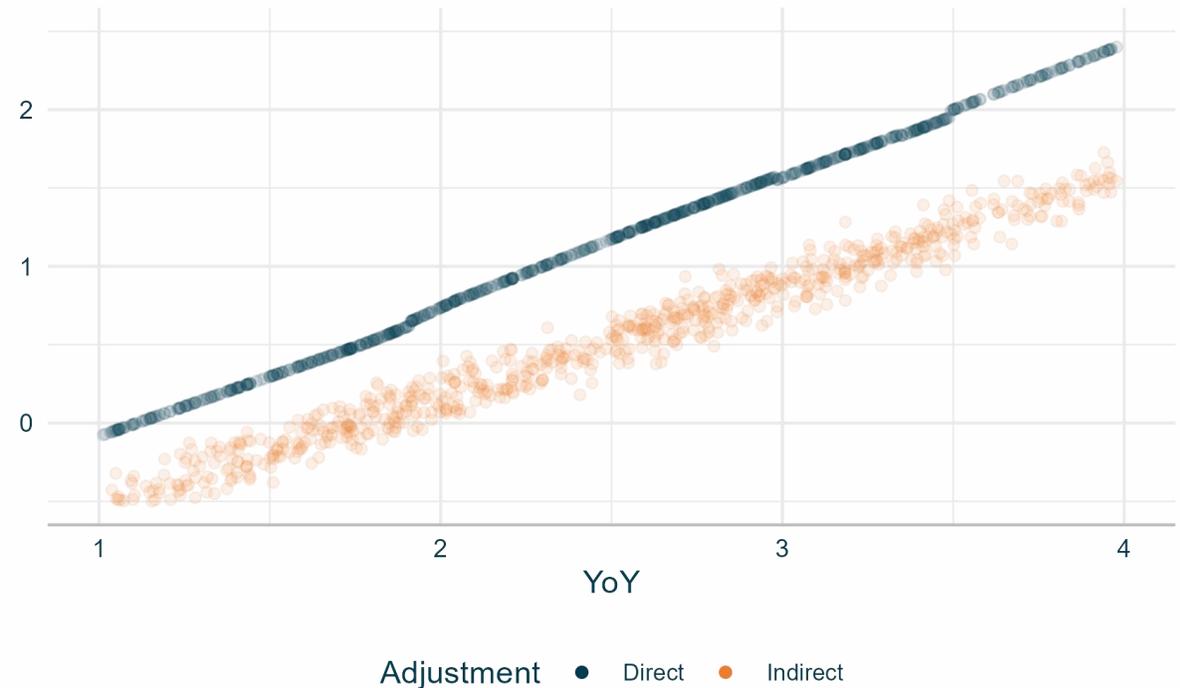
IBC-Br: Vintages

Feb20 = 100; s.a.



Non-agricultural GDP - 25Q1

QoQsa (%)



The prospective scenario of the labour market

- *Some mitigating factors suggest caution in the conclusions.*
 - *In the past, data also suggested an economic slowdown, but this perception was reverted in subsequent months, reflecting only volatility in the series, with no change in the growth trend, which showed remarkable resilience.*

Economic activity indicators (MoM % change. s.a.)

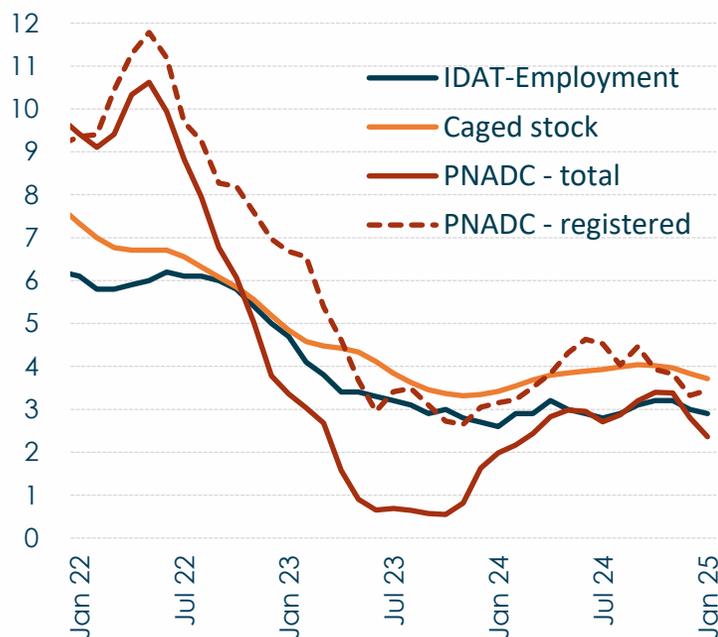
	2024											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industrial production	-1.3	0.2	0.9	-0.4	-1.5	4.3	-1.5	0.2	0.9	-0.2	-0.7	-0.3
Mining	-6.4	-1.0	0.2	-3.9	3.4	2.5	-2.3	0.9	-1.4	-0.2	0.3	0.8
Manufacturing	0.2	0.6	0.7	0.3	-2.4	4.9	-1.3	-0.2	1.5	0.0	-1.1	-0.8
Broad retail sales	2.2	0.9	0.5	-0.8	0.4	0.3	-0.0	-0.6	1.0	0.5	-1.4	-1.1
Retail sales	1.1	0.9	0.2	0.7	0.9	-0.9	0.6	-0.1	0.6	0.4	-0.2	-0.1
Services	0.4	-0.4	0.2	0.2	-0.3	1.4	0.2	-0.3	0.9	1.4	-1.4	-0.5
Services to households	-2.8	0.2	0.4	-3.3	3.4	0.5	0.4	0.5	0.2	0.0	1.8	0.8
IBC-Br*	0.1	0.8	-0.2	0.3	0.3	0.9	-0.0	0.3	0.6	-0.3	0.2	-0.7

* BCB's monthly economic activity index.

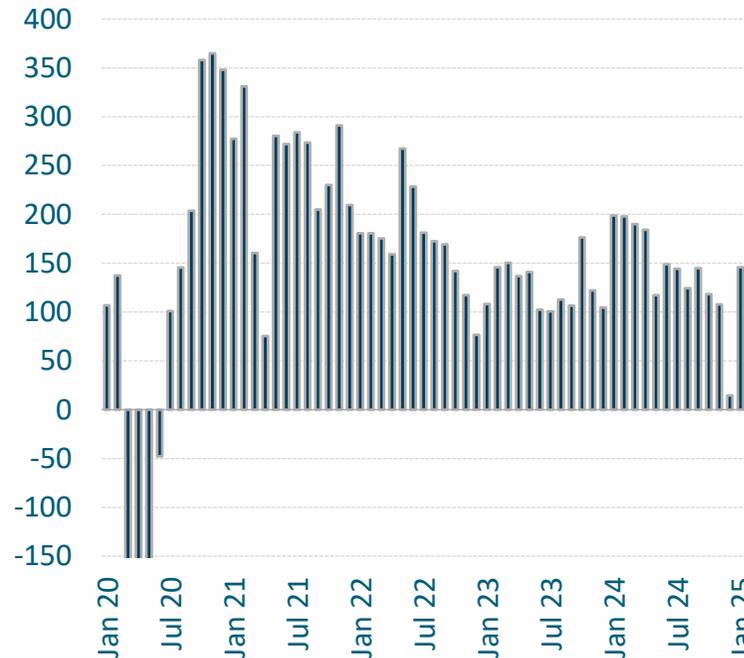
The prospective scenario of the labour market

- *Some mitigating factors suggest caution in the conclusions.*
 - *As the labour market remains heated, it is difficult to assess to what extent a possible slowdown would reflect weakening demand or supply pressures, with different impacts on inflation.*

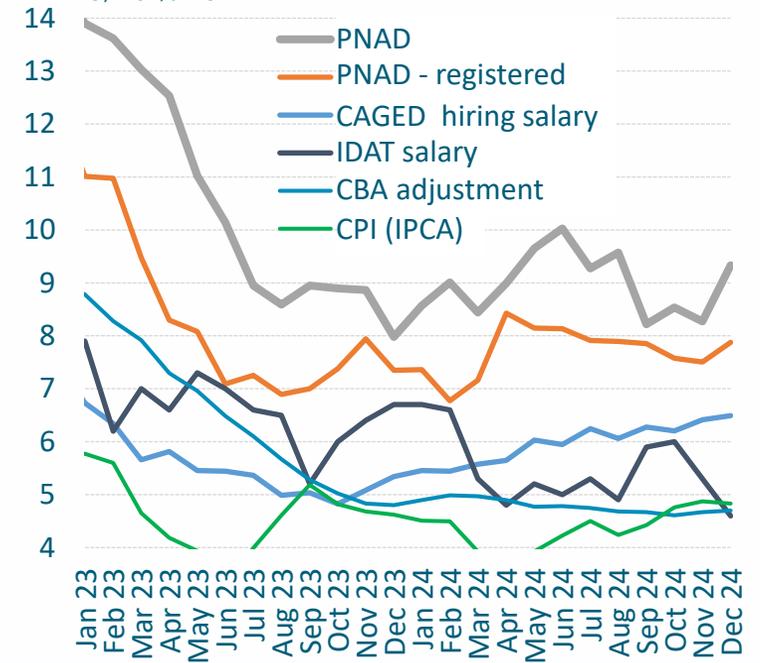
Employed population
%, 3mma, % YoY change



Net formal job creation
thousand; s.a.



Salaries and wages
mm3; var% YoY



Conclusion

- *Prospectively, the Committee will monitor*
 - *the pace of economic activity, which is fundamental in determining inflation, particularly services inflation;*
 - *the exchange rate pass-through to inflation, after a process of depreciation and increased exchange rate volatility; and*
 - *inflation expectations, which have shown further deanchoring and are drivers of the future inflation behaviour.*
- *It was emphasized that inflationary vectors remain adverse, such as*
 - *a positive output gap,*
 - *exchange rate depreciation,*
 - *higher current inflation, and*
 - *more deanchored inflation expectations.*

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