

Unit Labor Cost: continued and widespread increase across sectors

Tight labor market hinders inflation convergence to target

This note provides our update on labor productivity, wages, and their impact on services inflation, with data for 25Q1. For more information on the methodological approach, see [XP Macro Special - Labor costs add pressure to services inflation](#). In a nutshell, the unit labor cost has been rising in most sectors of the Brazilian economy, with no signs of cooling down so far. Therefore, core services inflation should decline slowly in the coming quarters, remaining well above the 3% target.

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Overall dynamics of labor productivity have not changed in Brazil recently. We continue to see stagnation in most sectors. Considering data from FGV, only 4 of the 14 monitored activities recorded an increase in labor productivity in 25Q1 compared to 24Q4 (seasonally adjusted data): Agriculture and Livestock (9%); Utilities (3%); Mining (2%); and Construction (1%). Regarding real wages, there were quarterly increases in 6 of the 14 sectors, down from 10 in 24Q4. Labor earnings in Agriculture & Livestock resumed growth after a decline in late 2024, whereas Real Estate Activities surprised to the downside. **Compared to 2024 average, all sectors - except Agriculture & Livestock - showed real wage increases**, which reflects the scenario of tight labor market. The following table presents the variation in labor productivity for selected periods.

Table 1: Productivity by economic sector in Brazil

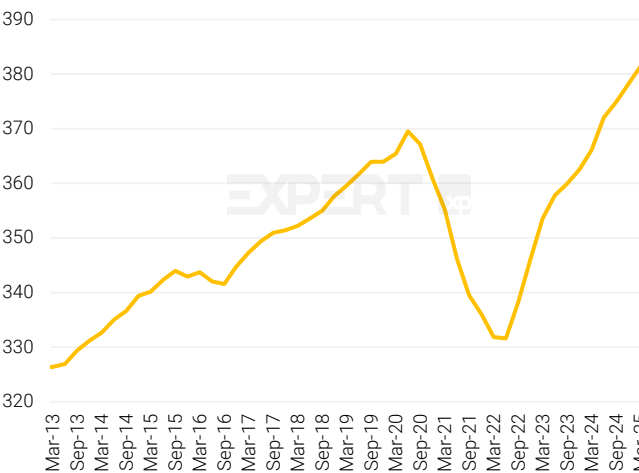
Economic Sector	25Q1 vs 2012	25Q1 vs 2019	25Q1 vs 24Q4
Agriculture	114%	37%	9%
Utilities	55%	36%	3%
Mining	21%	-15%	2%
Industry	1%	-1%	0%
Information & Communication	4%	-2%	-1%
Construction	-1%	12%	1%
Other Services	-2%	10%	0%
Real Estate Services	-6%	-12%	-2%
Retail	-7%	0%	-1%
Services	-6%	0%	-1%
Manufacturing	-11%	-10%	-3%
Public Services	-12%	-8%	0%
Financial Activities	-17%	-10%	-5%
Transportation & Storage	-24%	-12%	-1%
Total	1%	2%	0%

Source: FGV, XP

In a context of rising real wages and productivity stagnation, the Unit Labor Cost (ULC) in the services sector – which accounts for approximately 70% of overall GDP – remains on an upward trajectory, moving further away from pre-pandemic levels (0.9% QoQ; 4.8% in 25Q1 vs 19Q4). Among seven service categories, only 'Information Services' posted a decline in ULC. Similarly, the ULC in total industry has been rising continuously (1.2% QoQ; 4.2% in 25Q1 vs 19Q4). We draw attention to the rise in manufacturing industry in 25Q1, following stability in 24Q4. On the other hand, the Utilities category remained at relatively low levels, despite an uptick in recent quarters (1.8% QoQ; -10% in 25Q1 vs 19Q4). See the ULC charts for all sectors in the *Appendix*.

ULC – Total Services

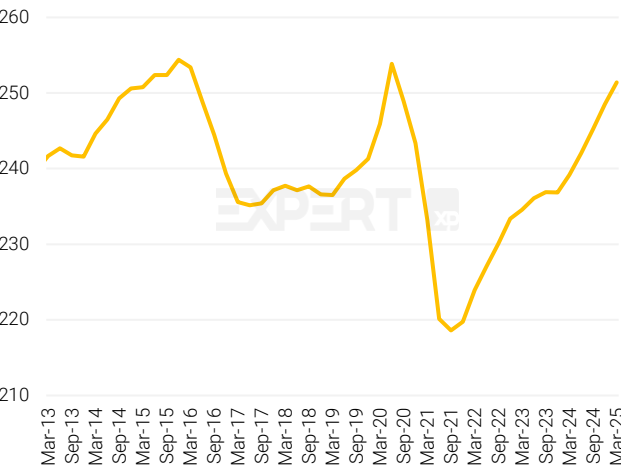
Seasonally adjusted data. 4QMA.



Source: IBGE, FGV

ULC - Total Industry

Seasonally adjusted data. 4QMA.



Source: IBGE, FGV

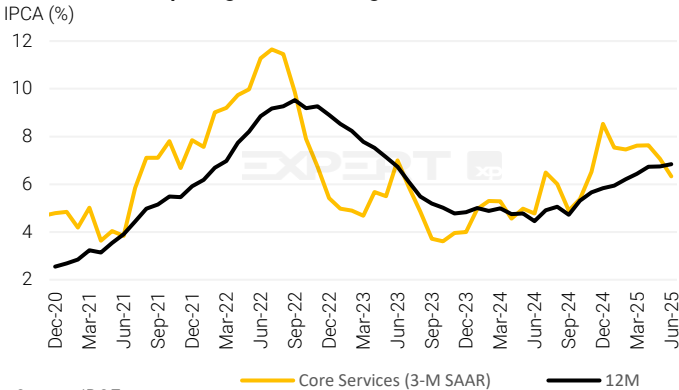
Impact on inflation outlook

Core services inflation has remained on an upward path on a yearly basis, rising from 5.8% in 2024YE to 6.4% in March (when we published our previous note on ULC) and 6.8% in June – a trajectory consistent with a tight labor market, resilient domestic activity, and unanchored inflation expectations. **However, we see early signs of moderation based on the 3M-SAAR** – this metric decreased from around 8% in 25Q1 to 6% in 25Q2 (see chart below). Besides, the diffusion index for the services inflation group appears to have peaked in April, with benign readings in May and June.

Core services inflation has likely peaked in mid-2025... Compared to our baseline scenario in early 2025, the more favorable-than-expected core services inflation dynamics resulted from three main items: (I) ‘food away from home’; (II) ‘residential rent’; and (III) ‘condominium fees’. These components together account for approximately 55% of the core inflation measure. In fact, the first two items accelerated in 25Q2, but less than we had anticipated. Regarding rents, we draw attention to the downward impact from the IGP-M inflation index, on the heels of tumbling wholesale prices.

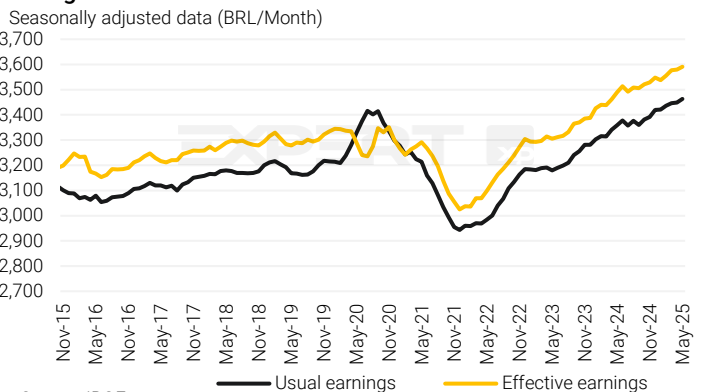
... but should slowly ease over the next few quarters. Real wages continue to rise amid record-low unemployment rate, while labor productivity is stagnant. As presented in this report, **the ULC has been rising in most sectors of the Brazilian economy, with no signs of cooling down so far.** Moreover, inflation expectations are unanchored across the foreseeable horizon and, in our view, are unlikely to move consistently toward the 3% target any time soon. As shown in the following heatmap table, important components of the underlying services inflation are still accelerating or stabilizing at elevated levels.

Core services inflation has probably peaked in mid-2025. We anticipate gradual easing ahead



Source: IBGE

Real labor earnings have been rising steadily amid the tight labor market



Source: IBGE

Table 2: Components of core services inflation remain at high levels (% 12M)

Item	Weight	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Underlying Services	100	4.45	4.91	5.06	4.73	5.32	5.67	5.84	5.95	6.22	6.43	6.74	6.75	6.83
Food away from home	28.1	4.25	4.44	4.55	4.78	5.02	5.61	6.30	6.75	6.72	7.17	7.61	7.70	7.79
Rents	17.0	2.15	2.35	3.02	3.14	3.18	3.23	3.44	3.84	4.77	4.86	4.98	5.08	5.00
Condominium	10.5	6.51	7.09	7.19	6.46	6.33	6.26	6.24	6.20	7.05	6.59	6.22	5.73	5.78
Car repairing	8.4	2.83	4.20	3.55	3.93	4.63	5.82	5.87	6.50	7.13	8.86	10.05	9.42	10.15
Bank services	8.0	7.68	8.67	8.86	8.84	9.00	8.37	8.04	5.20	5.29	5.14	6.04	6.33	5.82
Aesthetic services	8.0	7.81	7.80	7.53	6.72	6.83	7.25	7.16	7.48	7.61	7.12	7.91	7.69	7.39
Health and dental services	5.5	6.92	6.76	7.14	7.20	7.53	7.51	7.57	7.89	7.56	7.78	7.34	7.32	7.40
Car insurance	3.8	-4.27	-0.20	-0.02	-2.25	3.82	6.31	6.30	7.85	7.68	6.78	6.80	7.18	9.20
Lab and hospitals services	2.8	6.77	6.25	6.19	6.24	6.44	6.38	5.99	5.84	5.81	5.72	5.76	6.11	5.46
Cinema, theaters and concerts	2.3	4.22	4.22	3.49	-6.54	1.69	2.41	3.22	2.60	-0.07	2.42	2.68	3.08	4.19
Repairing and maintenance	1.6	4.92	4.35	5.41	5.35	5.10	4.55	4.28	3.82	4.98	5.25	4.62	5.78	5.59
Petshop	1.3	4.23	3.40	4.11	5.09	3.91	4.51	2.61	3.20	4.06	3.48	3.02	4.83	3.82
Pet service	0.7	9.12	6.48	6.68	5.99	6.12	5.79	4.59	5.54	5.54	7.29	7.30	5.40	5.22
School transportation	0.6	6.92	7.34	6.94	6.92	7.08	6.82	6.82	7.49	7.31	6.13	4.80	3.68	3.69
Broker	0.4	3.32	3.25	3.57	3.63	3.21	3.44	3.51	2.93	5.89	4.81	4.17	4.86	2.90
Club	0.4	2.09	2.34	2.66	2.86	2.60	2.79	2.67	3.05	6.18	5.96	6.53	6.39	6.76
Parking	0.3	2.51	2.81	4.57	6.15	4.80	5.81	6.81	7.71	6.25	5.82	5.60	6.06	7.08
Nightclub	0.2	2.36	3.21	3.72	5.36	5.34	3.46	4.45	3.08	0.90	6.74	7.83	9.34	10.22
Car rent	0.1	21.26	17.74	15.76	27.52	31.73	22.33	16.61	13.91	0.74	3.26	11.13	16.06	16.14
Car painting	0.1	5.83	8.56	10.49	7.21	5.20	4.46	7.08	5.32	7.57	4.60	4.86	8.64	7.25
Moving expense	0.0	-1.08	-0.52	-0.41	0.96	4.88	2.39	2.39	4.91	5.93	3.05	2.78	2.78	2.78

Source: IBGE, XP

Therefore, we continue to see the IPCA inflation at 5.0% in 2025 and 4.5% in 2026. Total services inflation is expected to decline from 5.8% this year to 4.5% next year, mainly due to items less sensitive to labor market conditions. Meanwhile, core services inflation should ease from 6.4% to 5.1%, remaining above the upper bound of the tolerance range around the target.

IPCA Groups

12M (%)

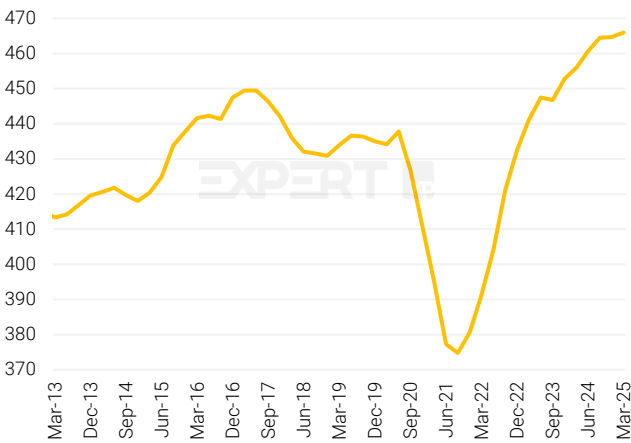
	2022	2023	2024	2025 (F)	2026 (F)
Monitored prices	-3.8	9.1	4.7	4.7	4.8
Market-set prices	9.3	3.1	4.9	5.0	4.4
Food at home	13.2	-0.5	8.2	6.9	5.6
Industrials	9.6	1.1	2.9	2.7	3.6
Services	7.6	6.2	4.8	5.7	4.5
Core services	8.9	4.8	5.8	6.4	5.1
IPCA headline	5.8	4.6	4.8	5.0	4.5

Source: IBGE, XP

Appendix

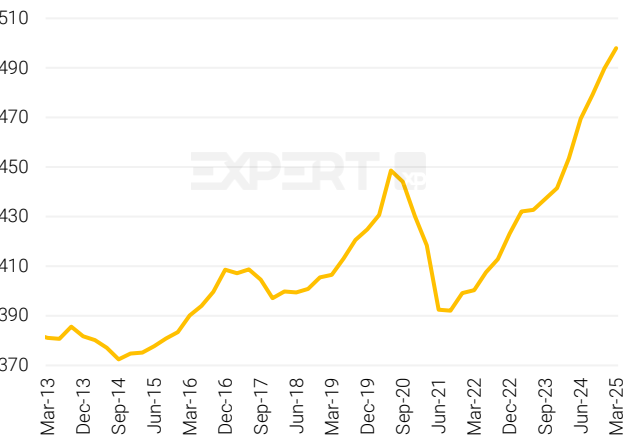
Unit Labor Cost (ULC)

ULC - Retail
Seasonally adjusted data. 4QMA.



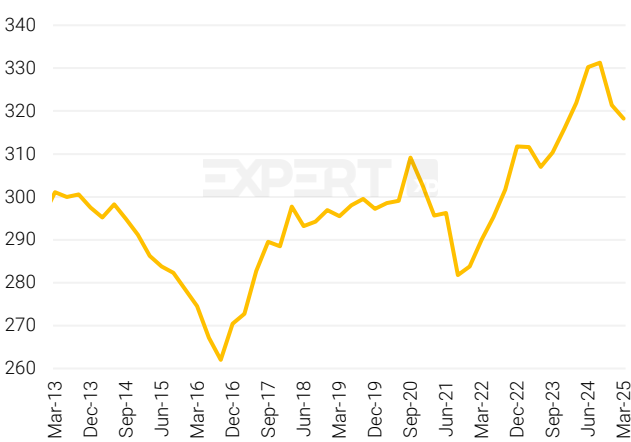
Source: IBGE, FGV

ULC - Transportation
Seasonally adjusted data. 4QMA.



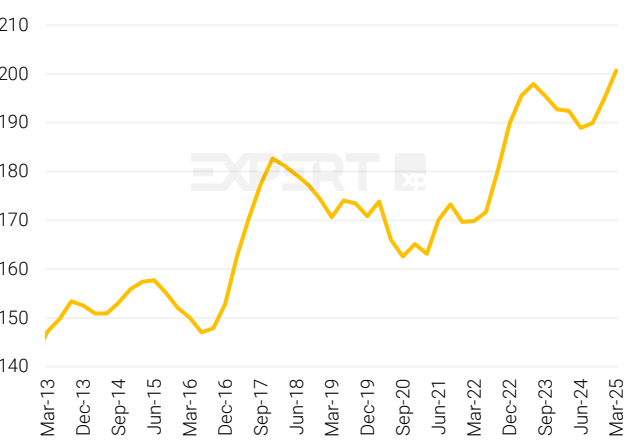
Source: IBGE, FGV

ULC - Information & Communication
Seasonally adjusted data. 4QMA.



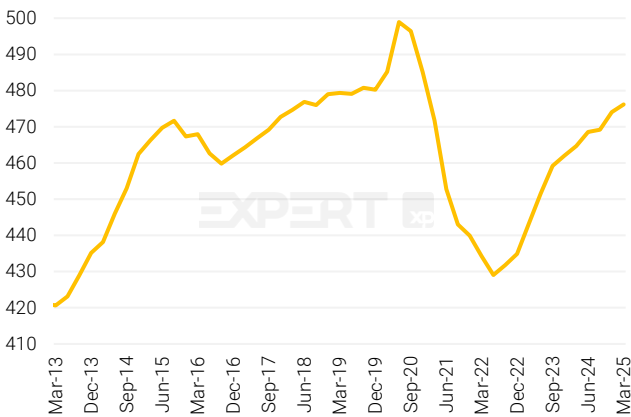
Source: IBGE, FGV

ULC - Financial Services
Seasonally adjusted data. 4QMA.



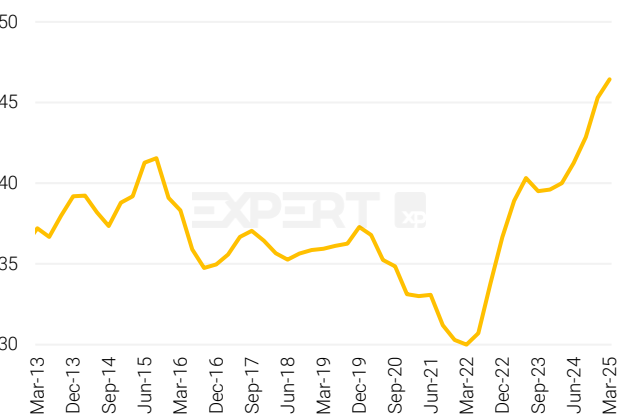
Source: IBGE, FGV

ULC - Other Services
Seasonally adjusted data. 4QMA.



Source: IBGE, FGV

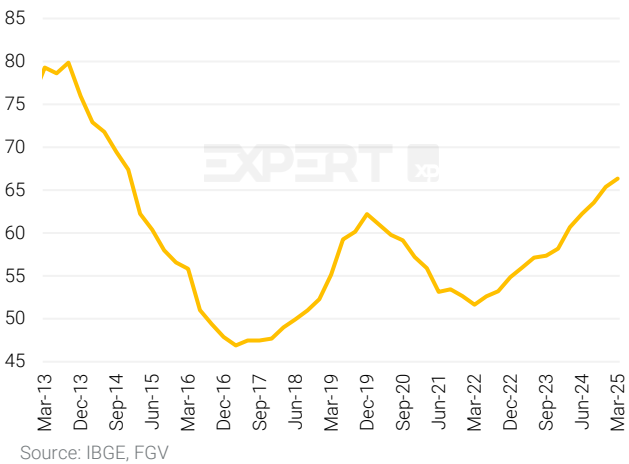
ULC - Real Estate Services
Seasonally adjusted data. 4QMA.



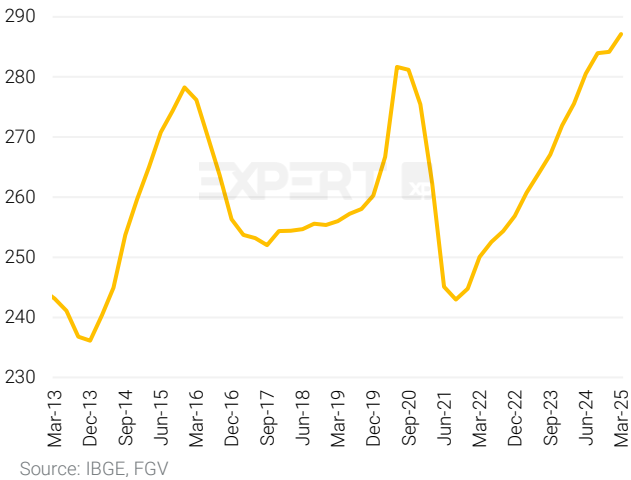
Source: IBGE, FGV

Unit Labor Cost (ULC)

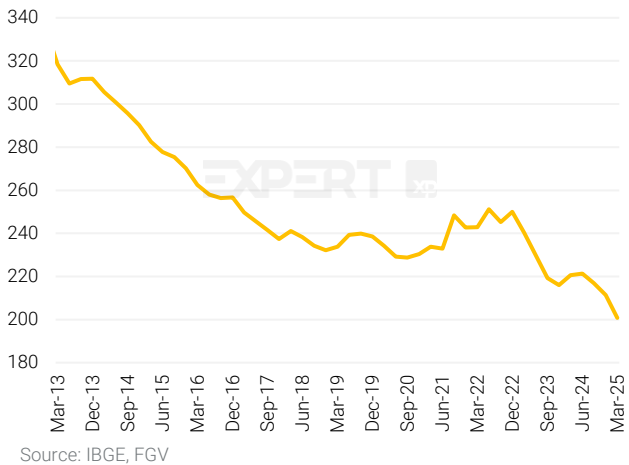
ULC - Mining
Seasonally adjusted data. 4QMA.



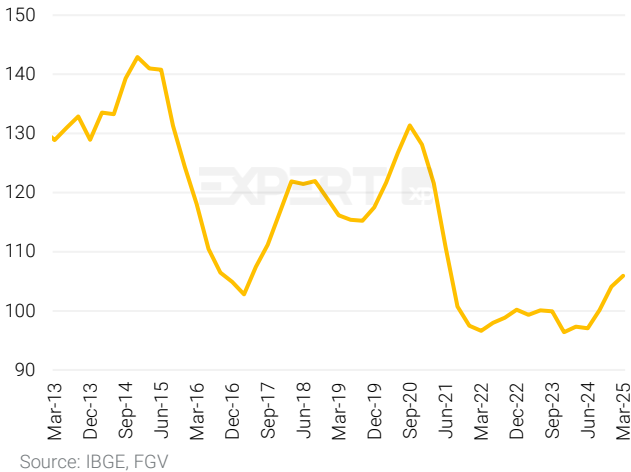
ULC - Manufacturing Industry
Seasonally adjusted data. 4QMA.



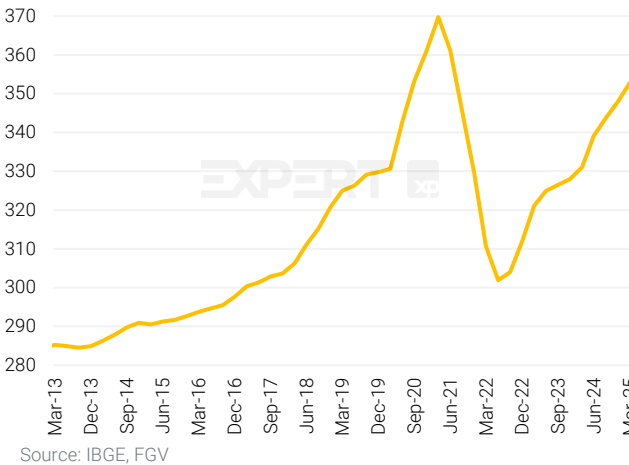
ULC - Agriculture
Seasonally adjusted data. 4QMA.



ULC - Utilities
Seasonally adjusted data. 4QMA.



ULC - Public Services
Seasonally adjusted data. 4QMA.



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