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Latam Daily: Peru CPI Meets, Chile Econ Activity; Chile and Colombia Recap

- **Chile: Unemployment rate surprises favourably (8.3%), but is explained by a strong contraction of the labour force**
- **Colombia: The labour market is resilient to the economic deceleration**

European markets are relief trading to start the week but there remains an overall rates-negative mood in a hangover from their Friday selloff. French election results broadly came in line with polls and the vote split suggests the National Rally will fall short of a majority at Sunday's second round elections. This leaves European bourses up nicely but well off their best levels at the open as a pronounced (rather unexplained) selloff in rates markets weighs on equities.

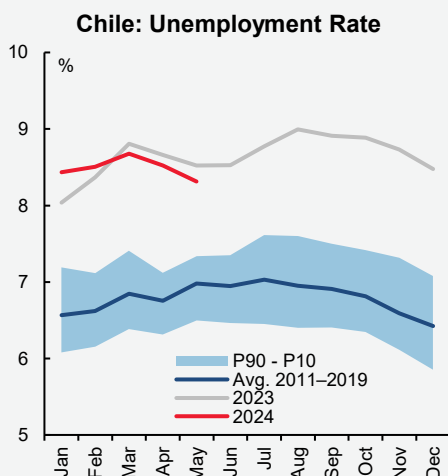
US equity futures are little changed and currencies are trading mixed, from the MXN's 0.3% loss to the EUR's 0.5% gain, while commodities are in decent shape with oil and copper up ~0.5% and iron ore spiking 3.0%+ on decent activity readings and a 36% m/m jump in new home sales in China in June. Global markets now await the release of German inflation data at 8ET (after state-level data point to a small miss in the national aggregate) and US ISM manufacturing readings at 10ET. Colombian and Canadian markets are closed today for holidays.

Peru's official journal has reported a 0.12% m/m increase in Lima CPI that virtually matches the Bloomberg median of 0.10% while coming in slightly above our team's forecast of -0.04%. The monthly gain translates into a 2.28% y/y print (vs 2.3% median) that brings the headline rate away from the on-target 2% reading in May due to less favourable base effects. We'll have to wait until the 11ET release by INEI for details on the drivers of price gains and how core inflation fared given the BCRP's emphasis on the persistence of above-target underlying inflation—a stated justification for a rate hold last month.

Chilean May economic activity figures out at 8.30ET are expected to show a ~1ppt deceleration in growth to 2.5% from 3.5% in April, as guided by some underwhelming retail sales and manufacturing production data out on Friday; still, it will be the June inflation print (due a week from now) that decides whether the BCCh cuts again on the 31st. We also have the results of the latest Banxico economists' survey out at 11ET, which may show a larger number of respondents calling for an August cut after relatively dovish decision.

—Juan Manuel Herrera

Chart 1



Sources: Scotiabank Economics, INE.

CHILE: UNEMPLOYMENT RATE SURPRISES FAVOURABLY (8.3%), BUT IS EXPLAINED BY A STRONG CONTRACTION OF THE LABOUR FORCE

- **The sharp drop in the labour force concentrated in construction (own-account) is linked to permanent factors, but may also be weather-related.**
- **The loss of employment in the manufacturing sector (15k) could owe to more permanent factors.**
- **The disappearance of employment linked to the Population and Housing Census in the third quarter of 2024 would have a significant upward impact on the unemployment rate. Without these jobs, the unemployment rate would have been 8.6% in the quarter ending in May.**

The unemployment rate surprisingly fell to 8.3% in the quarter ending in May (chart 1), which is largely explained by the sharp decline in the labour force (-32k). The effect on the

unemployment rate was particularly important given that total employment experienced a slight drop (-8k). Regarding employment, there is a significant increase in public sector employees, in line with hiring linked to the Population and Housing Census. On the other hand, sectors such as manufacturing and construction destroyed employment (chart 2), which could be partly explained by transitory weather factors. For its part, the drop in the labour force—which was the largest in three years—is closely related to an increase in the reasons for habitual inactivity, especially study and retirement. However, we estimate a deterioration in the labour force for climatic reasons, which would have especially affected informal and own-account jobs.

Employment linked to the Census has allowed us to sustain no small part of the total job creation since last March. This factor has allowed the creation of between 25k and 30k salaried public jobs, but they should disappear next July/August once the national survey process concludes, and the tabulation of the collected records begins. The impact on the unemployment rate and total employment could be significant, although muted given the quarterly employment gains. The INE employment record for September should be clearer about the salaried employment linked to the Census and, consequently, we should observe a gradual increase in the accumulated unemployment rate of “nothing less” than 0.3 ppts from July to September, since a normalization of the labour force is also expected. All of the above would occur prior to the municipal elections (October 26–27th).

—Aníbal Alarcón

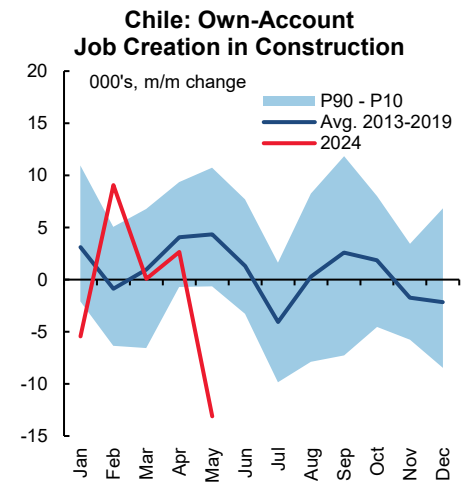
COLOMBIA: THE LABOUR MARKET IS RESILIENT TO THE ECONOMIC DECELERATION

On June 28th, DANE released the labour market data for May. The national unemployment rate stood at 10.3%, decreasing slightly from 10.5% in May 2023. The urban unemployment rate also stood at 10.3%, showing a decrease of 0.9 p.p. in the same month of the previous year. On a seasonally adjusted (S.A) basis, the national unemployment rate stood at 10.3%, falling by 0.2 p.p. from 10.5% in April, while the urban unemployment rate increased slightly from 10.3% in April to 10.4% (chart 3). It is worth noting that despite this improvement, the economic activity deceleration is impeding Colombia from reaching again a single-digit unemployment rate.

It seems that economic growth has been sufficient to maintain a seemingly stable labour market; although there was a bump in the road with the destruction of jobs in March, job creation has returned to a positive trend. In May, +463 thousand jobs were created, of which almost 50% came from the category of artistic activities and entertainment, associated with some musical events in that month. Additionally, the creation of jobs in the construction sector (+160 thousand) and the manufacturing sector (+89 thousand) stands out, which in the last two months had shown decreases in job creation. It is also important to highlight that urban job creation represented around 95% of total job creation (chart 4).

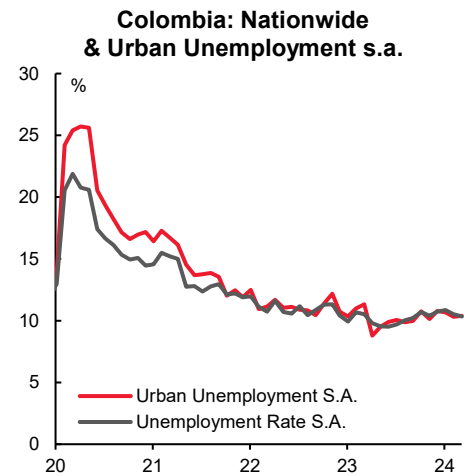
Despite the positive picture in some sectors, the context remained challenging for the sector of commerce and vehicle repair, which accounts for the largest number of jobs in the economy (~17% of total employment is concentrated in this sector), had a destruction of 137 thousand jobs, which is discouraging considering that it is one of the activities that usually has the greatest dynamism in May, due to the celebration of Mother’s Day. The result of this activity is highly correlated with some surveys that indicate that merchants did not reach the sales expectations they had for this period of the year, even though the prices of durable goods continue to be favourable for purchase.

Chart 2



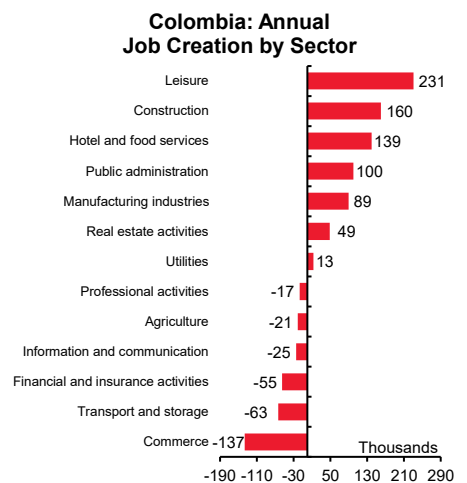
Sources: Scotiabank Economics, INE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



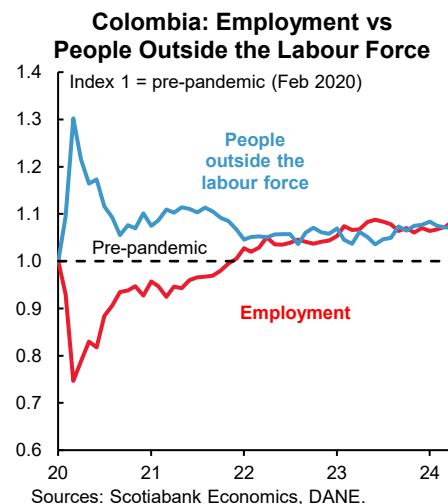
Sources: Scotiabank Economics, DANE.

The results of the labour market are added to economic activity data that show better dynamism in key sectors such as industry and construction; however, lower internal demand could eventually counteract these advances.

Key information on employment data:

- In annual terms, +463 thousand jobs were created.** Artistic and entertainment activities added the most to the total, creating 231 thousand jobs, followed by the construction sector, which added +160 thousand jobs. On the negative side, the activity of trade and vehicle repair remains at -137 thousand jobs, followed by transportation and storage with -63 thousand jobs.
- The gender gap was at 3.1%, the lowest of all the months of May since 2016.** The female unemployment rate fell by 1.1 p.p., standing at 12.1% from 13.2% in May 2023, while the unemployment rate of the male population increased by 0.6 p.p., standing at 9%. We have to highlight that part of the improvement in female unemployment rate was attributed to a decrease in the participation rate, which is something to monitor in forthcoming publications.
- The proportion of informal employment remained relatively stable, standing at 55.6%.** Job creation was divided almost proportionally between formal employment (+228 thousand) and informal employment (+235 thousand), which prevented a greater improvement in the proportion of formal employment. The proportion of informal employment in rural areas decreased by 0.3 p.p., reaching 84.2%. At the same time, informal employment in urban areas increased by 0.4 p.p. to 41.8% (chart 5).

Chart 5



—Jackeline Piraján & Daniela Silva

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