

Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Valentina Guio, Senior Economist
+57.601.745.6300 Ext. 9166 (Colombia)
daniela.guio@scotiabankcolpatria.com

Daniela Silva, Economist
+57.601.745.6300 (Colombia)
daniela1.silva@scotiabankcolpatria.com

Latam Daily: Chile Jobs Recap, Colombia BanRep Preview

- **Chile: Low job creation in September (+8k) but an increase in formal employment**
- **Colombia: Monetary Policy Preview—uncertainty in international and local markets will keep BanRep Board taking cautious steps in the easing cycle**

CHILE: LOW JOB CREATION IN SEPTEMBER (+8K) BUT AN INCREASE IN FORMAL EMPLOYMENT

- **The labour market is in line with September seasonality and the outlook for October looks positive**

On Tuesday, October 29th, INE published the unemployment rate for the quarter ending in September, which dropped to 8.7% (chart 1), positively surprising our expectations and those of the market. The good: job creation in services, especially in those related to investment. The bad: the construction sector did not pick up (chart 2) and salaried employment was destroyed in commerce. The ugly: contributors reported by the Pension Supervisor (administrative records) fell below the lower limit of the confidence interval of the employment survey estimate, something that INE and the authorities are undoubtedly analyzing.

The unemployment rate fell due to low labour participation and limited job creation. This was mainly explained by the drop in the labour force due to seasonal reasons (-9k), in a context where employment grew around its historical average for the month (8k). As for the composition of employment, the strong creation in formal sectors and companies (+61k) stands out positively, being the highest in the last two and a half years (since March 2022).

There has been creation of salaried employment in the services sectors, but destruction in construction and commerce. At the sector level, the creation of total employment in professional activities and especially of private salaried employees stands out positively, which could signal an incipient recovery in the materialization of investment projects. However, employment in construction does not yet reflect such a recovery, as it has registered its third consecutive job destruction, which could occur in the coming months. Also noteworthy is the destruction of employment in commerce, which is much higher than expected for the month.

In October, the Census effect disappears, favouring greater job creation and a drop in the unemployment rate. In sum, for this July–September record, the negative effect generated by the destruction of employment associated with the 2024 Population and

Chart 1

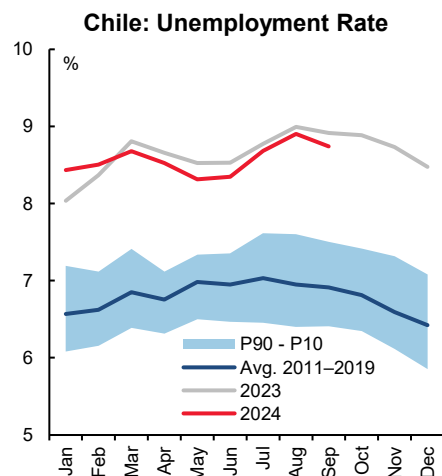
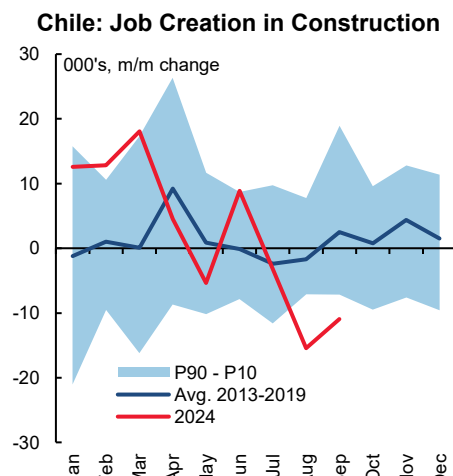


Chart 2



October 30, 2024

Housing Census in July and August is maintained. However, for next month's record (August–October) we expect to see a recovery in employment, since this negative effect will disappear and the monthly comparison will show a high level of job creation, favouring a new drop in the unemployment rate, which could be close to 8.5%, according to preliminary estimates.

There is a marked difference between administrative records and the INE survey. Why is this? Since Q4-23, the number of contributors recorded by the Pensions Supervisor (administrative records) has been located in the lower part of the confidence interval of the estimate made by INE based on the Employment Survey. In fact, since the quarter ending in March, the number of contributors has been below this limit. Taking into account that they correspond to different data sources, both are subject to biases and measurement errors, which in the case of the administrative records, have to do with errors generated by delays in the payment of contributions by employers, non-payment of contributions, failures in the registry, among others. Meanwhile, the INE survey is subject to sampling failures, errors in self-reporting, interviewer bias, among others. In any case, the dynamics of the use of administrative records seems to better reflect the weakness of the economic activity during this year.

—Aníbal Alarcón

COLOMBIA: MONETARY POLICY PREVIEW—UNCERTAINTY IN INTERNATIONAL AND LOCAL MARKETS WILL KEEP BANREP BOARD TAKING CAUTIOUS STEPS IN THE EASING CYCLE

On Thursday, October 31st, BanRep will hold its penultimate monetary policy meeting of 2024. The decision could remain divided, as despite inflation continuing to decline and economic activity operating below potential, some risks indicate that BanRep will continue taking cautious steps. At its last monetary policy meeting, the Board highlighted the favourable progress on inflation and economic activity that has been more dynamic than expected. However, the Board decided to continue cutting the interest rate by 50bps in a split vote, 4 vs 3, with the majority group arguing the cautious stance should be maintained due to uncertainties around the fiscal policy in Colombia and how this could trigger higher risk premiums, and uncertainty over the adjustment of the minimum wage for 2025.

During October, the outlook has not changed, which means that there are not enough arguments for the Board to accelerate the easing cycle. Therefore, we believe that the Board will prefer to proceed with a gradual 50bps cut that ensures inflation remains in its target range without compromising the continuity of the easing cycle.

The central bank has maintained the pace of rate cuts at 50 basis points since the March meeting. At the September meeting, however, there was a greater division in the vote, with 4 members in favour of maintaining the pace of rate cuts and 3 in favour of a 75bps cut. However, the message about fiscal risk and its impact on risk premiums was confirmed as one of the main concerns of those who voted for 50 basis points. The panorama has not changed since September's meeting. The uncertainty around the 2025 budget is still ongoing, and the minimum wage discussion has not begun yet. In addition, the bill to reform the General Participation System (monetary transfer mechanism for the country's regions) led by Congress has caused a stir in the markets, because despite a potential implementation taking a long time, it is not clear about its negative impact on fiscal accounts. In fact, in the middle of the current noise, the government launched new global bonds references to 12 and 30 years with significantly higher premiums.

The international environment also creates uncertainty. Geopolitical tensions, a more pessimistic global outlook and a close presidential election in the US have led to a certain amount of volatility in the markets. The exchange rate has reached a high for the year, mainly due to risk aversions in the international markets and the price of oil, which has fallen below USD 75/barrel, influencing the depreciation of the Colombian peso, that couples with an increased noise around fiscal accounts.

Inflation will continue to decline and according to our estimates would reach the target range in the second quarter of 2025. However, the Board's concern will focus on the time taken by the disinflation process given the risks mentioned above, as the intention not to interrupt the easing cycle has been emphasised in various meetings, and a consistent easing of monetary policy leads us to believe that the Board will again argue for a 50bps cut, which would leave the reference rate at 9.75%.

Key points to consider ahead of October's BanRep meeting:

- **Inflation continues to fall and surprise below expectations.** In September, inflation fell from 6.12% to 5.81% y/y. Core inflation (excluding food) decreased from 6.78% to 6.51%, the lowest since mid-2022. However, service inflation increased from 7.45% y/y in August to 7.48% y/y in September, reflecting the impact of indexation, so the discussion around the minimum wage will be a key variable to monitor.

October 30, 2024

- **Economic activity has shown a better performance, with a 2% expansion that exceeded expectations.** The recovery remains uneven, with agricultural activities driving growth and entertainment activities maintaining a good dynamic. There were some signals of recovery in the consumption of durable goods. On the negative side, the manufacturing industry and construction showed a contraction of 1.4% y/y in August, showing a challenging outlook and a dependence on new investments and a lower interest rate to support the recovery.
- **Fiscal noise has been persistent since Congress did not approve the 2025 budget.** In an unprecedented event, the expectation of what the final amount of the 2025 budget will be and its distribution is still in question. We believe that the Board will remain vigilant and remain on the side of caution until the future of the fiscal accounts are defined, and the markets incorporate greater confidence in political conditions. The discussion of the bill about government transfer to regions adds uncertainty to the fiscal debate, despite the immediate impact being limited.
- **The international environment has played against the local market.** The premise of historically higher terminal rates, and the uncertainty about the pace at which the Fed will adjust its monetary policy, combined with a close electoral contest in the United States, has generated a feeling of risk aversion at a global level, with emerging markets losing their appeal and incorporating higher risk premiums. This time, BanRep will not be able to anticipate what happens in the United States, since the Fed decides a week later, reinforcing the expectation of a moderate 50bps cut.
- **The central bank staff will provide an update in its assessment of macroeconomic projections.** In October, the central bank staff will present the new Monetary Policy Report to the Board. From this publication, we expect to see the balance of risk around economic growth and inflation, but what will catch our attention most will be the assessment of current fiscal policy uncertainty in the reaction function.

—Jackeline Piraján, Valentina Guio & Daniela Silva

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