Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile GDP/UR; Colombia Unemployment Rate; Mexico Indicators Preview

- **Chile: GDP in October expanded 2.3% y/y, with seasonally adjusted declines in all sectors except Services; Unemployment rate down to 8.6%, although job creation remains very weak**
- **Colombia: In October, unemployment rate was worse than expected, while sectoral job creation suggest mixed dynamics**
- **Mexico: Upcoming indicators**

CHILE: GDP IN OCTOBER EXPANDED 2.3% Y/Y, WITH SEASONALLY ADJUSTED DECLINES IN ALL SECTORS EXCEPT SERVICES

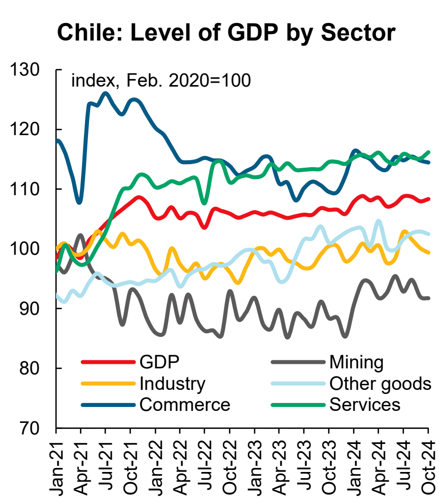
- **The way is paved for a further cut of "no less" than 25bps in the policy rate. GDP in 2024 could grow below the central bank's baseline scenario.**

This morning, the central bank released October GDP, which grew by 2.3% y/y, slightly above the Economists' Survey (1.8%) but below our 3.2% y/y projection, despite a similar dynamism to what we expected (0.4% m/m). This is explained by a particularly aggressive and striking seasonal adjustment that we point out below.

The positive surprise came from services, which grew by 2.2% y/y (0.9% m/m), where we estimate that some recovery in investment could be behind the increase. The better performance of services came from the recovery of the dynamism of business services, a sector that had accumulated two previous months of significant declines. We note a new increase in the estimate of private investment that will materialize this year, thanks to the energy sector. Likewise, public investment grew by 10.2% y/y in October (adjusted for inflation), especially due to the execution in public works. The rest of the sectors presented seasonally adjusted contractions, although year-on-year growth is explained by the low comparison bases and the two additional working days (chart 1).

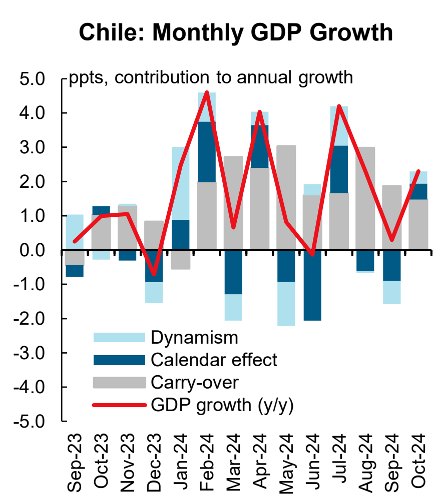
The Seasonal Adjustment Factor is particularly low, especially in the commerce and services sectors, which were even below those recorded in years with the same number of working days (22 days) or similar calendar composition. The seasonal factor of the non-mining GDP is very striking, which was below that observed in 2019, a year with the same calendar composition as 2024 but with a relevant negative effect due to social unrest. Had we had a factor in line with expectations, closer to what was seen in 2018, and above 2019, October's GDP growth would have been above 3% (chart 2).

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

This monthly record of activity is consistent with an annual expansion of GDP 2024 of around 2.2%, somewhat below our projection of 2.4% and very close to being even below the floor of the projection range of the central bank's baseline scenario (2.25–2.75%). In this context, it becomes a new input to justify a cut of "no less" than 25bps in the policy rate this coming December 17th.

UNEMPLOYMENT RATE DOWN TO 8.6%, ALTHOUGH JOB CREATION REMAINS VERY WEAK

- **Sectoral and regional heterogeneity continues to characterize the labour market**

On Friday, November 29th, the INE published the unemployment rate for the quarter ending in October, which fell to 8.6% (chart 3), showing a slow advance in employment at the aggregate level and a fall in the labour force. At the sectoral level, job creation in the manufacturing industry stood out positively, which surpassed the historical records for the month (chart 4), showing a genuine recovery. Also noteworthy was the normalization of employment in public administration, which also contributed to the decline in the unemployment rate. On the negative side, the strong job destruction in commerce stands out, which may have been partially affected by the closure of establishments during the electoral process, although it also reflects a structural process that has kept the sector with a low employment rate.

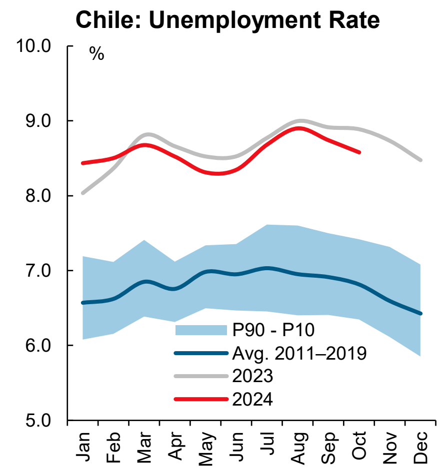
The drop in the unemployment rate is explained by one-off factors rather than seasonal elements. Although the reduction in the rate was expected by the market, the fall is due more to the normalization of employment in public administration after the end of the census than to a seasonal improvement in employment figures in some sectors. In fact, employment in agriculture, livestock, forestry and fishing activities contracted, as did employment in construction, all sectors that usually show job creation in October.

Administrative records continue to show a lower level of contributors than estimated by the INE. Since the fourth quarter of last year, the number of dependent contributors recorded by the Pensions Supervisor has been located in the lower part of the confidence interval of the estimate made by INE based on the Employment Survey. Although there are several elements that explain the differences between both records, we continue to consider that the dynamics of employment from administrative records seems to better reflect the weakness shown by the activity during the year.

There is heterogeneity at the regional level. Since the pandemic, beyond employment characteristics, in the north total job creation exceeds double digits in some regions, growing in all of them. Lack of investment, successive supply shocks, slowing external demand, overly restrictive financial conditions, or all of them together could be part of the regional heterogeneity. It should also be noted that mining and energy sector investment has continued to flow in a sustained manner, generating positive effects on the labour market in the northern part of the country. In addition to the above, there is a pro-cyclical effect of public investment estimated for 2025.

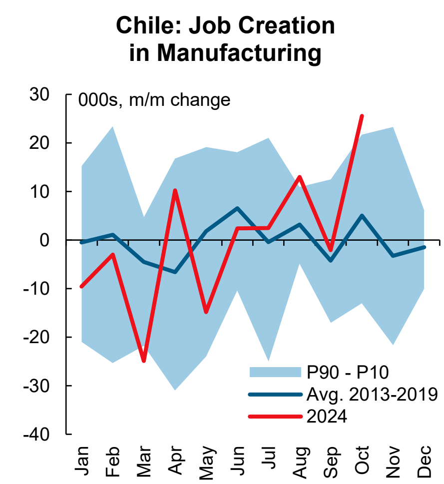
—Aníbal Alarcón

Chart 3



Sources: Scotiabank Economics, INE.

Chart 4



Sources: Scotiabank Economics, INE.

COLOMBIA: IN OCTOBER, UNEMPLOYMENT RATE WAS WORSE THAN EXPECTED, WHILE SECTORAL JOB CREATION SUGGEST MIXED DYNAMICS

On November 29th, DANE published the labour market data for October. The national unemployment rate stood at 9.1%, increasing 0.1 ppts. compared to 9.2% in October 2023. The urban unemployment rate increased 0.5 ppts to 9.5% compared to 9.0% in October 2023. Seasonally adjusted, the national unemployment rate increased to 10.0% from the previous month, however remains below the level one year ago 10.1%, while the urban unemployment rate increased 0.7 ppts from September 2024 to 10.4%.

Job creation in some sectors has slowed compared to one year ago, while in others, it is starting to reflect a potentially better business perspective. In October, +311 thousand jobs were created, mainly concentrated in commerce (+289 thousand), manufacturing industries

(+275 thousand) and construction (+79 thousand), offset by public administration (-106 thousand), professional activities (-97 thousand) and hotel and food services (-93 thousand). The slowdown in public administration is striking after 2023 contributed significantly to growth and employment. On the other side, the improvement in employment in sectors such as commerce and manufacturing reflects a recovery of some job losses one year ago, but also would suggest a better economic growth perspective.

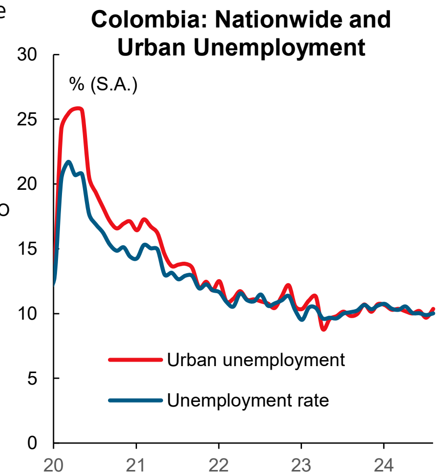
If we take a three-month moving average of job creation, we can see a slowdown. In the August to October 2023 quarter, job creation averaged 731 thousand, compared to 225 thousand in the August to October 2024 quarter, reflecting that job creation remains slow. However we have to keep an eye on forthcoming job reports as in October we saw a good balance that should prove to be sustainable before.

On a seasonally adjusted basis, unemployment worsened compared to the previous month (chart 5). The unemployment rate for the country increased to 10.0% in October, and in urban areas, it increased from 9.7% in September to 10.4% in October. This shows the slowdown in job creation, at this point, the number of people outside the labour market has increased by more than 150 thousand people so far this year, which could be related to the historical inflow of remittances, discouraging labour participation, especially in the female population (chart 6).

Employment registered a slight acceleration in sectors such as manufacturing and construction. However, we continue to believe that these activities still need a stronger boost to reach pre-pandemic levels, as high interest rates and the lack of investment continue to hinder greater dynamism, emphasizing that these activities contribute to the entire production chain in Colombia.

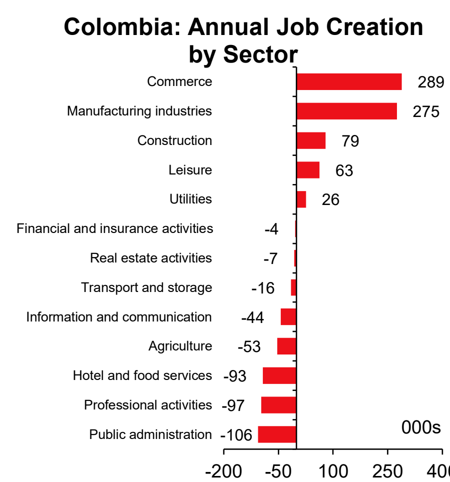
All in all, previous results suggest that employment creation remains weak but shows that the composition is changing. The stunning sectors leading the economic activity during 2024 are now losing steam, while some sectors that are starting to show stabilization signals in their production dynamic are now showing better job creation. Today's data support our call for a 50bps rate cut at the next BanRep meeting, economic activity is still operating in a negative output gap, and despite the unemployment rate being under control, its composition suggests it needs a better impulse. However, the board will continue to be cautious due to the international domestic uncertainty around fiscal accounts, which prevents the board from taking more significant steps in the cutting cycle.

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

Key information on employment data:

- **In October, +311 thousand jobs were created, with 5 of the 13 economic sectors recording positive changes.** Job creation was concentrated in commerce (+289 thousand) and secondary sectors as construction (+79 thousand) and industry (+275 thousand). In services sector, leisure continues with acceleration in job creation (+60 thousand), in contrast, sectors as public administration (-106 thousand), professional activities (-97 thousand) and hotel and food services (-93 thousand) registered a contraction in employment levels. The slowdown in job creation in the agricultural sector (-53 thousand) stands out in contrast to its contribution of more than 50% to Colombia's economic growth.
- **Informality increased in October.** The informality rate increases slightly compared to the same period of the previous year, from 55.2% to 55.3%, indicating a worse performance domestically. The quality of employment in urban areas has deteriorated, with the informality rate rising from 41.8% in October 2023 to 43.7% in October 2024.
- **The male population has created more jobs which contrasts with the decline in female jobs.** In October, men created +320 thousand new jobs, of which +369 thousand were in private sector, offset by the destruction of jobs in day-labour (-103 thousand). The female population lost -9 thousand jobs, with the loss of -132 thousand jobs in the self-employment sector and greater job creation in unpaid domestic work (+78 thousand).

—Jackeline Piraján & Valentina Guio

MEXICO: UPCOMING INDICATORS

In Mexico, the week will be filled with important releases. Starting on Monday, we will know the remittances for the month of October, which are estimated at $5.768 bn, lower than the $5.817 bn reported in the same month of the previous year, representing a decrease of -0.8%, confirming the downward trend, although to a lesser extent than in September, when it dropped by -12%. On the other hand, INEGI will publish the Gross Fixed Investment for September, where we anticipate that the weakness trend shown during previous months will continue, affected by a significant drop in the construction component. However, we could continue with the positive dynamism on machinery and equipment, although with a decreasing trend.

Regarding employment, on Tuesday the unemployment rate for the month of October will be published, in which we anticipate that it will remain at 3.0%, very close to the levels of 2.92% of the previous month. However, we anticipate that formal employment will increase with signs of deceleration owing to the increase in uncertainty generated by the elections in the U.S., as well as the presentation of the 2025 economic package and constitutional reforms. It is worth mentioning that the annual changes in job creation have grown to a lesser extent in the last three months, in line with a recent moderation in consumption.

Additionally, for private consumption for the month of September, we anticipate that the growth shown the previous month will continue, which grew by 2.3% year-on-year, considering that retail sales reported in GDP grew during Q3-2024 by 2.8% in annual terms. In this sense, we believe that the consumption of imported goods will remain strong, although below the 7.3% reported the previous month.

Finally, the Citibanamex and Banco de México expectations surveys will be published, where the highlight will be set on possibles changes in GDP growth forecasts for 2024 and 2025, as well as revisions to the reference rate trajectories, given the comments shown in the minutes by two members of the Governing Board, who pointed to opening the discussion to increase the amount in the cycle of cuts in the Banco de México reference interest rate in a scenario of economic weakness and an upside biased inflationary risk balance.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña