Scotiabank

GLOBAL ECONOMICS

LATAM FLASH

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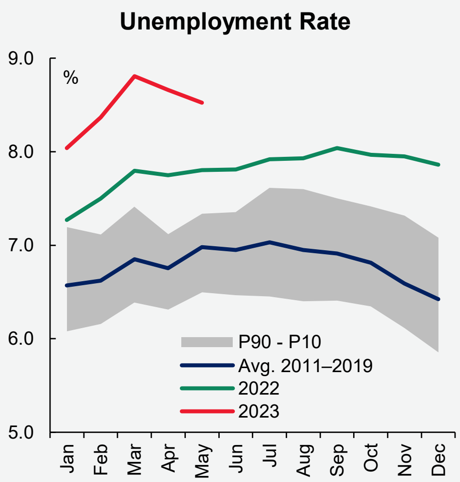
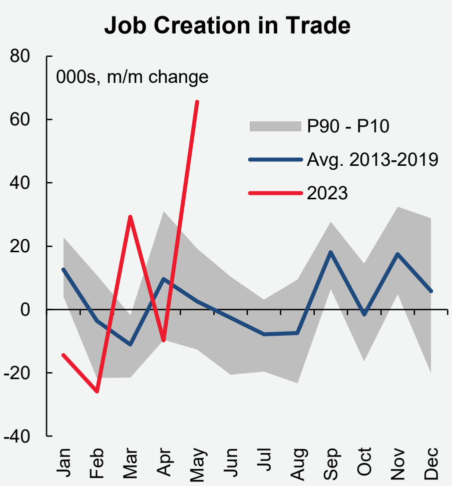
Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

Chile—Unemployment Rate Fell to 8.5% in May, Strongly Influenced by Commercial Sector

- **The commercial sector explained almost entirely the resilience in labour markets, looking like more a puzzle than genuine strength for now**

Today, the statistical agency (INE) released unemployment rate data for the quarter ending in May, showing a decline to 8.5% (chart 1), positively surprising both the market's and our expectations. The fall in the unemployment rate was explained by a smaller increase in the labour force (+0.2%) compared to job creation (+0.3%). However, rather than leading to a reading of stabilization of the labour market, it raises questions given that job creation originated in a specific sector of the economy that is not in good shape, cyclically speaking.

In this sense, the labour market created 28k new jobs, where the most striking—and which manages to avoid an increase in the unemployment rate—was the creation of 37k private salaried jobs, mainly in the trade or commercial sector. This is difficult to explain at the moment, given the successive decline in sales and economic activity in this sector. Recall that commercial activity has experienced year-on-year contractions since May 2022, and almost consecutive seasonally adjusted contractions since January 2023.

We propose some hypotheses in this regard that should be verified: (1) a positive transitory effect on employment as a result of CyberDay; (2) a gradual implementation of the 40-hour law in some shopping centers with national coverage that could result in salaried hiring to maintain the quality of service; (3) a notable increase in the use by employers of the Emergency Family Income (IFE) subsidy for new hires, ahead of the program expiry at the end of the current month.

Beyond the surprising rise in trade sector employment, the labour market remains weak, with zero job creation in most industries and even losses in some services. Excluding trade employment jobs, the economy would have shed some 38k jobs in the month. Trade then appears as the main, if not the only, job-creating sector in the month. Trade created 66k jobs (chart 2), 50k of them salaried. This surprising increase is also much larger than the usual job creation in the sector for a month of May (2.5k jobs). Other sectors that contributed, but to a much lesser extent in the month, were transportation, which created some employment beyond seasonal norms. All other sectors performed similarly or worse than seasonally for the month, revealing a generalized weakness in the labour market that has been ongoing for several months in the private sector.

The public sector, after significant job creation in the first quarter—which we've highlighted in the past—has begun to normalize. In fact, salaried employment in the sector has been falling for three consecutive months, highlighting the destruction of 24k jobs in May. With April figures, progress in the execution of public investment spending continues at a slow pace, especially in employment-intensive ministries such as public works and housing.

As we anticipated, the labour force recovered the lost momentum. In April, the labour force contracted by 15k people, which we interpret as a seasonal and transitory effect and which generated a drop in the unemployment rate (see our Latam Daily). Although the unemployment rate fell again in May, this time it was explained by an increase in employment that leaves more doubts than certainties. What does seem more certain and is ratified with this new INE publication is that the labour force recovered its dynamism (+15k), so it will be necessary to see a consolidation of the job creation that we observed in May—especially in commerce—in order to not experience increases in the unemployment rate in the coming months. At Scotiabank, we project a deterioration of the labour market in the coming months, which will lead to increases in the unemployment rate.

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