# Latam Economic Update

- **Chile: Labour market adversity will continue; Monthly GDP for May expected to fall 18% y/y**

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## CHILE: LABOUR MARKET ADVERSITY WILL CONTINUE; MONTHLY GDP FOR MAY EXPECTED TO FALL 18% Y/Y

### Labour market: Unemployment rate is expected to fall further given labour force dynamics

In Chile, the unemployment rate reached 11.2% in the March–May period (+2pp higher than the previous quarter), above market estimates. This reveals a sharp drop in employment (-16.5% y/y), although the estimate of the unemployment rate continues to be attenuated by the significant contraction in the labour force (-12.8% y/y), a phenomenon that we have observed since the pandemic began and quarantine measures were imposed. This labour force dynamic is making it difficult for the market to correctly anticipate the evolution of the unemployment rate. Assuming that people can actively seek employment after the restrictions are lifted, the unemployment rate should continue to rise to reflect the real weakness of the labour market. According to NBS's own calculations, the potential unemployment rate (including potential labour force) would currently be 28.1% nationwide; almost 1 in 3 Chileans of age and capable of working would be unemployed.

As of May, about 1.5 million jobs were destroyed compared to the same period last year, of which about 643 thousand correspond to private salaried jobs. The sectors where the number of jobs decreased the most were commerce (-19.4% y/y), accommodation and food service (-42.4% y/y) and construction (-23.1% y/y), while by occupational category the greatest decreases were observed in self-employed workers (-29.5% y/y) and formal employees (-8.4% y/y). The positive note in job creation comes from the administrative and support services sectors (+ 13.5% y/y), financial and insurance activities (+9.7 y/y) and water supply (+23.7 y/y).

It is important to remember that these employment figures continue to count workers covered by the Employment Protection Plan as absentee workers, which already exceeds 1.1 million people, an increase of 689 thousand compared to the same period last year. However, given the weak economy, a significant number of these workers could permanently lose their jobs. According to a survey carried out by the Central Bank (reported in the last Monetary Policy Report), nearly half of the companies covered by this plan expressed uncertainty regarding reinstating these workers after the end of the benefit period. At the end of May, the beneficiaries of this program reached 592,000, and has continued to increase, reaching 646,000 as of June 21.

### With a seasonally adjusted monthly drop less than in April, May GDP would fall 18% y/y

Retail sales showed a contraction of -28.7% y/y in May, roughly in line with our projection based on transactional data from the system, shown in our Tracking Report (-32% y/y). The declines in automobiles, clothing, footwear and durable consumer goods in general are mainly responsible for this major fall. Similarly, and as we have been pointing out for some time, supermarket sales grew 2.3% y/y—also closely following what was determined by credit and debit card transactions. Here, we reiterate that the big winners of the quarantine and forced isolation process that has affected about 48% of the population have been the supermarkets, showing an expansion of 8.6% m/m. This is already reflected in the stock valuations that have begun to internalize the greater cash availability and increased sales of these chains. The e-commerce and delivery channels are becoming strong levers for resilience in this sector.

Manufacturing showed a fall of -13.3% y/y, somewhat larger than we expected (-9% y/y), owing to a slightly higher calendar effect for 2 business days less than in the same month of 2019, but also showing contractions in all the sectors that make up the index. The greatest negative incidence came from the food division, which in principle could be paradoxical but, as the NBS points out, comes from a lower demand for “bread” from restaurants, catering and hotels. The rest of the food division is much less affected as it is considered “essential” and subject to strong demand from supermarkets.

Finally, Mining showed an expansion of 2.1% y/y (0.7% m/m). The mining sector has been less affected for two reasons. Being in the north of the country, mining has been subject to fewer mobility restrictions. Furthermore, as it is considered a strategic/ essential sector, major production interruptions have been avoided. This sector will somewhat mitigate the total fall in GDP in May, just as it has in previous months.

As a whole, and with reduced activity of other productive sectors, we anticipate a fall in May’s monthly GDP of 18% y/y, which corresponds to a seasonally adjusted contraction of around -6% m/m, considerably less than that observed in April (-8.7% m/m). This print would indicate that we would be in the “stabilization phase”, as we anticipate that by June the activity will not exhibit significant seasonally adjusted contractions. To the extent that the Government responds in a timely manner to the evident slowdown in COVID-19 cases and improvement in the gaps in the health system that we are observing, we could see strong seasonally adjusted accelerations during the second semester. While they would still keep GDP down year-on-year, the improvements would imply that the economy is entering a strong recovery phase that asset prices are likely to reflect. The main concern in this regard would arise if the government and the opposition do not reach agreements in the face of clear signs of slowdowns in infections, which could generate excessive "conservatism", postponing the return to normality of highly financially stressed activities. If this happens, the damage in the labour market would increase as would the effect on GDP.

**—Jorge Selaive & Waldo Riveras**