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# Latam Daily: Chile's Misleading Econ Activity; Peru CPI, Castillo Impeachment Vote

- **Colombia: Unemployment rate falls to single digits in October**

**The Powell-motivated rally extended overnight with the added support of more tinkering of China's zero-COVID-19 policies and tone**. US equity futures are stronger as US yields retreat further while the USD is broadly weaker and commodities are, for the most part, stronger. Latam currencies are mostly following the dollar-negative mood, particularly the COP (up 0.9%) that strengthened at the open as it caught up with post-market losses in the USD.

**Markets are currently reacting to slightly softer than expected US PCE core prices data;** the Fed's preferred inflation gauge.

**The regional calendar presents Peruvian CPI** (see below) **and the results to Banxico's economist survey as the highlights of today's session.**

**Banxico quarterly report; Esquivel replacement coming up**

**Banxico's quarterly report published yesterday showed that the bank now sees stronger growth this year and in 2023** (although this comes alongside a weaker US forecast). Banxico Dep Gov Espinosa also said that the bank doesn't "necessarily have to follow the Federal Reserve's actions." On Esquivel news, the outgoing Banxico dove said yesterday that he hasn't met with AMLO in four years. **AMLO said yesterday that the Fin Min de la O is evaluating options to replace Esquivel, with a new board member expected to be determined no later than two weeks from now.**

**Peruvian inflation to motivate more BCRP hikes; Castillo impeachment vote today**

**We expect Peruvian inflation out at 10ET to keep the BCRP on its toes, pushing it to deliver another 25bps increase at its December gathering**. Our Lima economists forecast that CPI rose 0.4% m/m and 8.4% y/y in November, roughly matching the prices gain in October as inflation remains unreined above 8%; consensus sees a more moderate pace of price gains at 0.3% m/m and 8.3% y/y (down 0.02ppts from Oct for each). As the BCRP has stated, rate hikes will likely continue until inflation is convincingly decelerating—so far, it has only shown modest signs of doing so.

As we highlighted in yesterday's ***Latam Daily***, **Peruvian Congress will vote today on whether to accept the impeachment motion against President Castillo**. As a reminder, the President would have an opportunity to present a defense on Monday, December 12. Castillo said last night that "the balance of power has broken". The country's minister of justice and human rights, Chero, also said yesterday that a second denial of a vote of confidence may be considered if Congress denies this of newly-minted (but not yet validated by Congress) PM Chavez.

**Peru's Congress also approved yesterday the 2023 budget law** with 77 votes in favour (versus 11 against and 13 abstentions) without dipping into the country's contingency fund, as had been floated by some lawmakers (see ***Latam Daily***, again). Spending is penciled in at PEN215mn, representing a 9% increase over the current year's budget, and the highest increase in the past five years.

**Chile's underlying economic weakness; traders see no cut in Q1**

**Chile's October economic activity data decently beat expectations, with the m/m coming in at +0.5% vs -0.1% expected** while showing a smaller year-on-year decline of 1.2% vs a 1.5% median forecast**. Markets would be wrong to think this was a good print, however, since non-mining economic activity fell by 0.4% m/m** in contrast to mining surging by 6.42% (seas adj data).

**The non-mining side of the economy is in weak shape, contracting for the first time since early-2021 on a year-on-year basis**, down 1% as trade (wholesale and retail) takes a hit from high interest rates and the end of the pension-withdrawals sugar rush. An expected sharp slowdown in the country should motivate a quick reduction in rates next year, according to our economists in Santiago.

**Ahead of Chile's central bank decision on Tuesday, market participants surveyed by the BCCh disagree with January rate cut calls, seeing the bank's first cut in April** (100bps); in fact, only one of the fifty surveyed sees a BCCh cut in January. The results of the BCCh's pre-meeting Financial Traders Survey released today show a median overnight rate forecast of 6.5% twelve months ahead (December 2023), down from 8% at the October post-meeting poll. The distribution of responses is strange, however, with an inverted bell curve shape where a high share see a sub 6% rate against a high share that see a 7%+ rate—which may reflect an **important degree of uncertainty among market participants.**

**Brazilian Q3 GDP fell short of projections alongside sizable revisions**

**The BRL is lagging in the region after Brazil reported a 0.4% q/q increase in GDP in Q3, short of a median forecast of 0.6%.** The data was accompanied by a negative revision to Q2, as well, going from 1.2% to 1.0% q/q. Services

**The quarterly numbers translated into a 3.6% y/y gain in Q3 (below the 3.7% median projection)** but a higher Q2 expansion of 3.7% y/y (from 3.2%) given sizable revisions to data for previous quarters. The Brazilian economy is 4.5% lager than where it sat pre-pandemic, while also sitting nearly 1.4% above its pre-2014-16 crash levels.

**Overall, the BCB would be motivated to keep its policy rate higher** for the foreseeable future—more so if Lula rolls out increased social spending/benefits. Markets currently see about 50bps more in BCB hikes over the coming six months.

Regarding Lula, VP-elect Alckmin has said that the president-to-be is in no rush to select a Finance Minister—although odds point to Haddad, still—while we await developments on how much will be excluded from the country's fiscal cap for the Bolsa Familia social plan.

**—Juan Manuel Herrera**

## COLOMBIA: UNEMPLOYMENT RATE FALLS TO SINGLE DIGITS IN OCTOBER

**Data released yesterday showed an improvement in Colombia's employment picture, reflecting economic activity performing above expectations.** The national unemployment rate came in at 9.7%, while the urban unemployment rate (the main 13 cities) sits 9.9%. Both indicators are below their respective September levels of 10.7% and 10.4%. In seasonally adjusted terms, the national unemployment rate improved from 10.6% to 10.4%, while the urban reading improved from 10.9% to 10.7% (chart 1). October's jobless rate showed a significant decline which may be due to robust economic activity and businesses and workers readying for the holiday season—which would result in improved participation rates.

**Services-related sectors continue to be the main contributors to job creation** with positive contributions from the industrial sector, as well. What's more, job formality is also improving, particularly in urban centres. **Yesterday's data reflect the good performance in household consumption that could keep BanRep on its toes.**

Over the past year, four sectors accounted for roughly two-thirds of the 1.5mn y/y gain in jobs: commerce/trade (+345k), leisure related activities (+277k), manufacturing (+237k) and public administration, education, and health (+159k). It is worth noting that the services sector continues to contribute to the recovery of the labour market, but the manufacturing sector is again taking part in the jobs rebound, which may be related to the year-end season as demand for many goods increases.

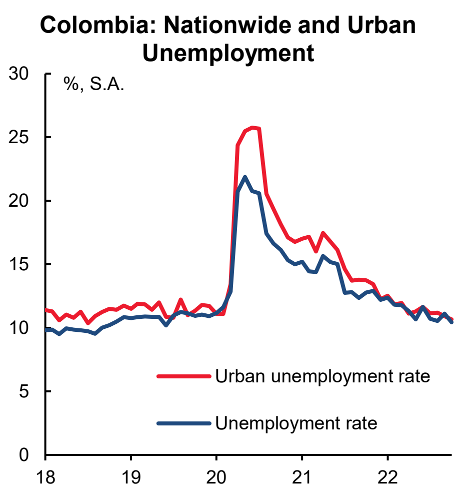
**The female population once again benefited the most from the employment recovery.** Services-related sectors, such as restaurants and hotels, trade, and leisure, accounted for about 70% of women's employment gains, while in the case of the male population it was manufacturing and agriculture. The female unemployment rate now stands at 12.6%, 2.6ppts below year-ago levels though 5ppts points above male unemployment (7.6%), yet showing narrowing gender gaps.

**At the national level, the informality rate fell to 57.8 %,** improving from 59.4% last October. In the case of urban informality, it stood at 44.6%, down from 45.7% in 2021. Although formality is improving in rural areas, there was no significant change in the figure with respect to the previous month, sitting at 83.7%.

**A key point to highlight is the dynamics of inactivity (people out of the labour force), which in October showed a slight increase**, breaking the declining trend since May. Compared to pre-pandemic levels, the number of people out of the labour market is 7% higher (chart 2).

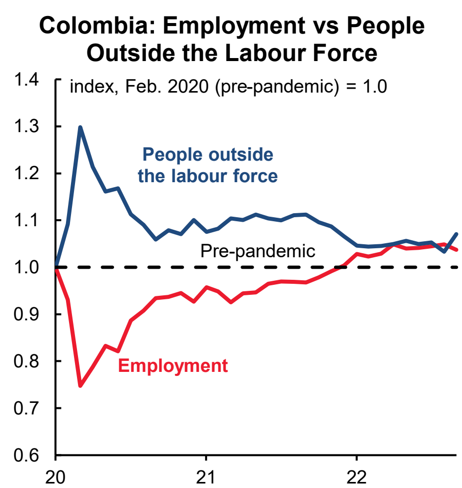
**To conclude, the labour market is showing a better performance, but with a slower improvement in non-seasonally-adjusted terms thanks to improved participation.** The services sector continues to be the main contributor to job creation, and this time around manufacturing is also contributing ahead of strong demand for many goods and services at year-end. In any case, employment gains were solid in this last report thanks to a positive performance of economic activity performance. **Better labour dynamics confirm the positive economic backdrop and a positive output gap that the central bank may be forced to narrow, tilting risks towards a higher terminal rate and a 100bps hike at the December 16th meeting.**

**Chart 1**




Sources: Scotiabank Economics, DANE.

**Chart 2**




Sources: Scotiabank Economics, DANE.

**—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján**

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