Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile Unemployment; Mexico Activity and Trade Balance

- **Chile: Unemployment rate increased to 7.3%, but solid gains in formal employment continue**
- **Mexico: Economic activity increases in December, while trade balance posts a record deficit**

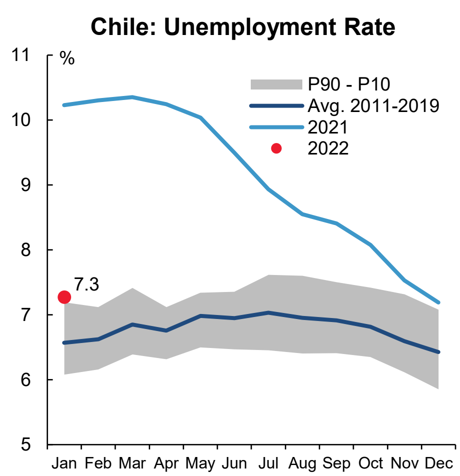
CHILE: UNEMPLOYMENT RATE INCREASED TO 7.3%, BUT SOLID GAINS IN FORMAL EMPLOYMENT CONTINUE

Strong salaried employment offset by self-employment losses. On Monday, February 28, the statistical agency (INE) released the unemployment rate, which rose to 7.3% in the quarter that ended in January, slightly above market expectations and Scotiabank's estimate (7.2%) (chart 1). The increase in the unemployment rate is explained by a larger increase in the labour force (0.5% m/m) relative to employment (0.4% m/m), a phenomenon that we expect to continue in the coming months, as more people re-enter the labour market before financial assistance programs end, which will result in the gradual reduction in household liquidity. This is clearer in the case of women, whose labour force participation increased by almost three times that of the monthly job creation. By gender, the female unemployment rate increased to 7.7% (Oct–Dec: 7.4%), due to the lower growth of employment (0.2% m/m) compared to that of the labour force (0.6% m/m).

In the three-month period ending in January, 35k jobs were created compared to the previous period. Although job creation was lower than in previous months, it was around its historical average for the quarter. This is explained by the loss of self-employment that partially offset the solid creation of salaried employment. With this, the employment gap with pre-pandemic levels was reduced to 350k jobs, of which 153k correspond to men and 197k to women.

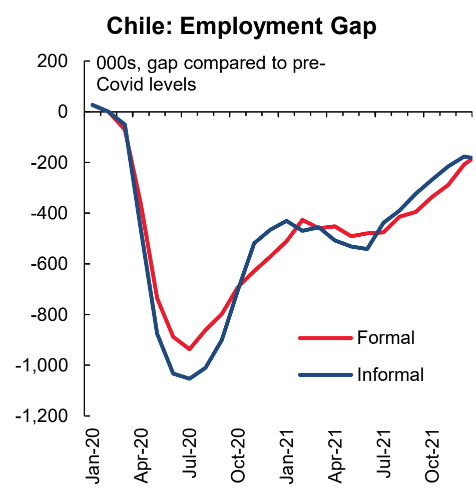
Formal job creation remains strong. In the three months ending in January, formal employment increased by 46k people, while 11k informal jobs were lost. By economic sectors, the creation of formal employment was concentrated in agriculture, mostly seasonal (+24k), service activities (+19k) and commerce (+11k). On the other hand, commerce lost 20k informal jobs. For the coming months, the extension of the labour emergency family income (IFE) will give greater support to the creation of formal employment, which has a gap of 162k jobs to recover compared to the level prior to the pandemic (chart 2).

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

By economic sectors, commerce showed a realignment of its labour force, with the destruction of self-employment and the creation of salaried employment. In general, salaried employment remains robust, standing above what is seasonally expected for the month of January, a trend that has been observed since the middle of last year.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

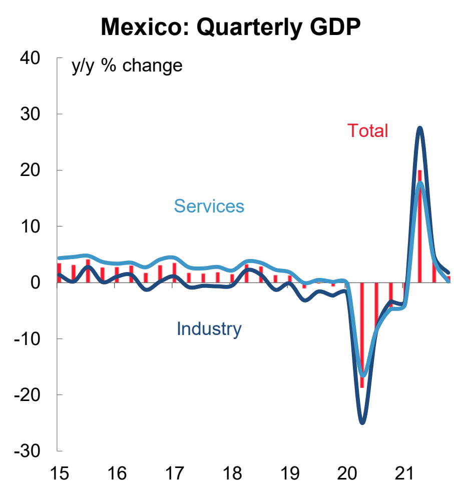
MEXICO: ECONOMIC ACTIVITY INCREASES IN DECEMBER, WHILE TRADE BALANCE POSTS A RECORD DEFICIT

I. Economic activity increased in December

The IGAE GDP proxy registered its second consecutive increase in December, growing 0.8% m/m (0.5% previously). While the primary sector contracted 1.1% m/m in the data published on February 25, this decline was offset by advances in industry and services, which grew 1.2% m/m and 0.7%, respectively.

The revised GDP figure for Q4-2021 was also published on February 25, which came in at 1.1% y/y, marginally exceeding the preliminary figure of 1% y/y (chart 3). Growth decelerated from the previous period (4.6% y/y in Q3-2021). On a quarterly basis, the figure stood at 0.0% q/q, avoiding a technical recession, but with no signs of recovery. Services fell for the second consecutive quarter (-0.6% q/q, -1.4% q/q previously), mainly due to the outsourcing reform, which led to a drop in business support services from 4.2% q/q in Q2-2021 to 1.25% q/q in Q4-2021. Wholesale and retail trade also decelerated from the previous quarter, while leisure, accommodation and transportation services advanced in line with higher vaccination rates and lower mobility restrictions. Manufacturing (0.82% q/q) continued to be constrained by disruptions in supply chains, especially in the automotive sector, while construction slowed to -1.86% q/q, which meant that in total the industrial sector grew 0.4% q/q.

Chart 3



Sources: Scotiabank Economics, INEGI.

From the demand side, investment remains the weakest link in the economy. Although consumption posted a modest recovery in the last quarter (retail and wholesale data), in line with the decline in consumer confidence, we expect it to continue advancing in the coming months. However, the conflict in Europe, which may delay the normalization of value chains, generating persistent inflation and policy uncertainty, poses challenges going forward.

II. January trade balance at record deficit USD -6.3 bn

The trade balance for January reported a record deficit of USD -6.3 bn, much higher than the expected USD -3.8 bn, and in contrast with the previous surplus of USD 0.6 bn, partly owing to COVID-19 increases in Mexico and its trading partners (chart 4). Exports increased 3.8% y/y to USD 33.9 bn. Manufacturing exports grew 1.6% y/y despite a sharp contraction in automotive exports of -20.5% y/y, which is attributable to the disruptions in production chains. Non-oil exports destined to the United States (accounting for 82% of such exports) decelerated from 10.7% y/y to 4.1% y/y, while those to the rest of the world fell from 2.5% y/y to -7.4% y/y.

Chart 4

Sources: Scotiabank Economics, INEGI.

Total imports amounted to USD 4.2 bn in January, representing an annual increase of 18.5%. By category, the largest rise was in consumer imports with 32.1% y/y (13.4% of the total), followed by intermediate goods with 16.7% y/y (78% of the total), and capital goods with 16.5% y/y (8.6% of imports). Typically, a contraction in total trade is observed in January; however, when analyzing seasonally adjusted figures, we can see a drop in trade components, which reflects greater problems in supply chains in the face of the latest waves of contagion from the Omicron variant.

Exports declined -0.41% -5.26% m/m (-5.53% non-oil, 0.84% oil). Manufacturing exports fell -5.72% m/m and automotive exports -9.86% m/m, in line with supply shortages affecting the sector, with a more noticeable impact on the automotive sector. Imports also fell, from 4.82% m/m in December to -3.42% m/m in January, due to a contraction of -4.36% m/m in intermediate goods and 0.44% m/m in capital goods, which were not offset by the 0.71% m/m increase in imports of consumer goods.

Going forward, the trade balance is likely to average a deficit in the first half of this year. In this context, exports would be constrained by disruptions in logistics chains, while imports could show a modest pace of growth, in line with the slow recovery of domestic demand. With respect to recent geopolitical events, there is still no clarity as to the depth and duration of the impact on Mexican trade; however, in the short term, upward pressure on merchandise could be observed due to increases in international energy prices.

—Luisa Valle & Miguel Saldaña