Latam Daily: New Month, Positive Mood; Quiet Regional Day Ahead

- **Mexico: Q3 GDP exceeds estimates**
- **Colombia: People returning to the labour market are making it difficult to achieve a lower unemployment rate**

The new month has started with solid gains in equity markets and in the FX space against the USD as a new month brings new speculation on China easing its COVID-19 Zero policies. Rumours (and that's all they are at this point) surfaced in Chinese social media that a committee is being formed to analyze possible 'reopening' strategies. The country's foreign ministry's spokesperson said earlier today that they are "unaware" that such a committee is in the works, but then news that Zhengzhou (where the world's biggest iPhone plant is) is loosening COVID-19 rules re-settled markets on a positive trajectory.

For the Latam economies, signs that China could ease its virus restrictions may drive solid demand increases for their raw material exports, providing support for local currencies and their manufacturing sectors to some degree. The MXN is not making much of the move in equity markets and the improvement in risk sentiment, however, as its 0.1/2% gain on the day pales in comparison to those of its commodity/high-beta peers (e.g., NOK +1%, AUD +0.7%). Softening US yields today and their implication for Mexican yields may be driving the MXN's underperformance. **Markets remain in waiting mode ahead of tomorrow's Fed policy announcement.**

In Brazil, Bolsonaro has yet to make an announcement following his defeat to Lula at Sunday's runoff election. The departing president's spokesperson noted yesterday that Bolsonaro may make an announcement today, though all signs point to him not quite accepting defeat but also not ready to engage in a campaign to challenge the results. For Brazilians assets, the focus will be who Lula chooses as finance minister as markets prefer former BCB Head Meirelles—and his assignment could give an extra push to the BRL which gained 2.2% yesterday (a full ppt above the next best performing major, the NZD).

In the day ahead, we await the minutes to BanRep's Friday policy decision this afternoon while Chilean and Peruvian markets are closed for the day. The COP significantly underperformed yesterday with a 2.2% depreciation in response to BanRep's decision to not intervene in FX markets. To us, this was not an unexpected decision but eager markets had perhaps expected more in tandem with a 100bps hike. **Colombian President Petro also meets his Venezuelan counterpart Maduro today**—which may see a stream of 'socialist' rhetoric that sits poorly with Colombian financial markets.

—Juan Manuel Herrera

MEXICO: Q3 GDP EXCEEDS ESTIMATES

Yesterday's flash estimate of Mexican Q3 GDP far exceeded consensus forecasts, as growth accelerated from 2.0% to 4.2% on a y/y basis (vs 3.3% y/y expected in the Bloomberg survey, chart 1). The three main components soared, but the increase was particularly driven by services, which accelerated sharply from 1.2% to 4.3% y/y, as mobility-intensive activities such as tourism gained traction amid an easing of COVID-19-related risk. Other services, such as retail and wholesale services, also showed favourable progress according to their monthly prints. In the year-to-date, GDP is recording an advance of 2.7% y/y.

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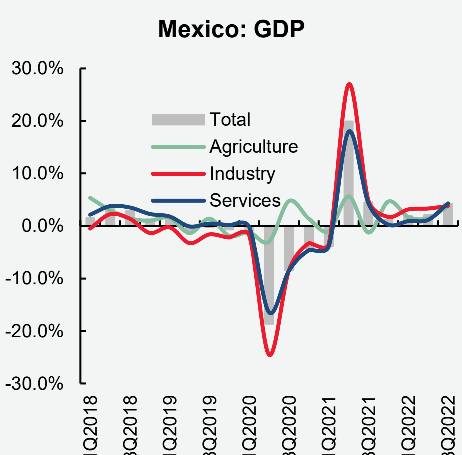
Chart 1



Sources: Scotiabank Economics, INEGI.

Industry rose from 3.3% to 3.8% y/y. GDP flash estimate include no major details, but monthly prints for industrial production released recently showed a stronger pace of manufacturing, particularly those highly integrated with global supply chains (e.g., autos and computer equipment). However, construction continues to lag and in contractionary territory year-on-year. In this sense, the GDP monthly proxy (IGAE) for August also significantly surpassed expectations, owing to a strong rate of advance in services and manufactures that offset a drop in construction. Back to GDP, primary sector output growth rose from 1.4% to 3.8% y/y.

Quarter-on-quarter, GDP rose 1.0% with the services and industry sectors posting gains of 1.2% q/q. Analysts have recently revised their GDP forecasts higher for this year—the mean in the Banxico survey is 2.01% y/y and we expect it to increase in this week's release—but economists are also lowering their expectations for 2023 growth, facing downside risks from restrictive monetary policy and softer economic activity in the US. Additionally, the medium and long-term outlook remains uncertain. In this regard, the decline in investment, especially in construction, remains an important obstacle that could hinder economic momentum. Thus, it is highly likely that annual GDP will stand above 2.0%, even if numbers for prior quarters show downward revisions in the final estimate for Q3 and activity moderates in Q4. However, the long-term outlook remains subdued as investment shows no clear signs of recovery, and the 2023 outlook faces downside risks.

—Miguel Saldaña

COLOMBIA: PEOPLE RETURNING TO THE LABOUR MARKET ARE MAKING IT DIFFICULT TO ACHIEVE A LOWER UNEMPLOYMENT RATE

Employment data for September showed only marginal improvement despite economic activity performing better than expected during the month. In data released yesterday, the national unemployment rate stood at 10.7% while the urban unemployment rate (the main 13 cities) was 10.4%. Both were lower than their September 2021 levels of 12.0% and 13.3%, respectively. In seasonally adjusted terms, the nationwide unemployment rate showed a deteriorating employment picture, however, increasing from 10.6% to 11%, while the urban figure improved from 11.2% to 10.9% (chart 2). All in all, the unemployment rate since April has shown some stagnation that is failing to reflect the positive performance exemplified in economic activity data—this could result in a higher participation rate.

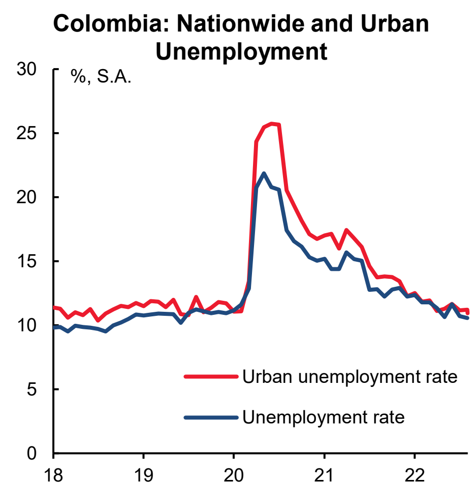
Services-related sectors are still the main contributors to job creation. Jobs formality shows mixed signals with improvements in rural areas against a deterioration in urban centres. The data show that the employment recovery is facing a ceiling and it could contribute to the discussion among BanRep regarding ending the hiking cycle.

Over the past twelve months, four sectors accounted for ~70% of the 1.7 million y/y increase in employment: commerce (+334k), restaurants and hotels (+333k), agriculture (+273k), and leisure-related activities (+249k). All of the above sectors showed that the services sector is leading the labour market recovery. It is interesting to note the that the agricultural is again adding to employment since it would point to the recovery in the sector and would thus contribute to improved food supply in the future.

The female population again benefited the most from the employment recovery. Around 71% of employment creation was in women. Services-related sectors, such as restaurants and hotels, commerce, and leisure accounted for around 70% job gains for women. As for the male population, agriculture and commerce were the main contributors. The female unemployment rate now stands at 13.3%, which is 1.8ppts below one year ago and 4.5ppts above male unemployment (8.8%), showing some stability in gender gaps.

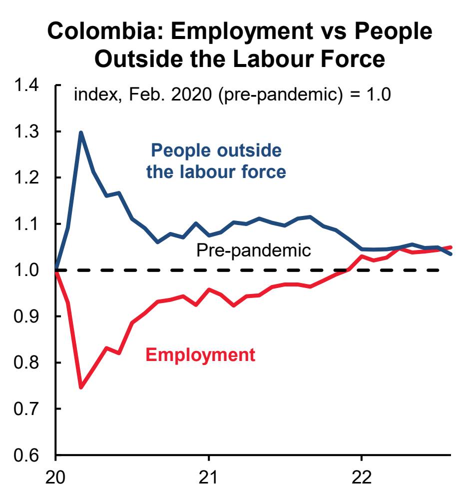
For the nationwide figure, informality stood at 58.8%, improving from 59.1% a year ago but is, however, showing a mixed picture. In the case of urban informality, it stood at 45.1%, which is higher compared with 44.7% in 2021. That said, formality conditions are improving in rural areas, with the rate decreasing from 84.7% to 83.7%.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

A key point to highlight is inactivity dynamics (people outside the labour force), which in September showed the strongest reduction seen since February 2021. Compared to pre-pandemic levels, the share of people outside the labour market is down to just 3% higher (chart 3). The trend of people returning to the labour force is reflected in urban and rural areas, while it could make it even more difficult to take the unemployment rate below double-digits.

Summing up, the labour market is showing signs of stagnation in the unemployment rate but this is due to a rebound in the participation rate. Services sectors remain the main contributor to job creation, which is reflected at the same time in a still high degree of informality. Either way, job gains have been less dynamic than economic activity gains, and the perspectives are challenging as the central bank expected an economic downturn in 2023.

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