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LATAM DAILY

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Latam Daily: Colombian Unemployment Fell More than Expected; Lima Inflation Surprise

- **Colombia: Unemployment fell more than expected amid a significant increase in people outside the labour force**
- **Peru: March CPI surprised more than expected, BCRP will extend pause of key rate by 7.75%**

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COLOMBIA: UNEMPLOYMENT FELL MORE THAN EXPECTED AMID A SIGNIFICANT INCREASE IN PEOPLE OUTSIDE THE LABOUR FORCE

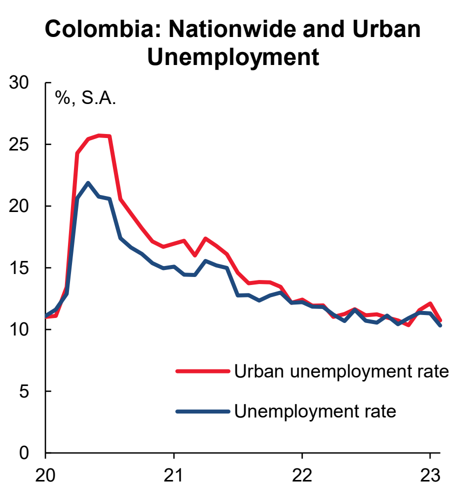
Employment data released on Friday, March 31 showed the national unemployment rate at 11.4% in February 2023. Urban unemployment came in at 11.5%, below Bloomberg consensus (13.1%) and our forecast of 13.2%. On a seasonally adjusted basis, unemployment rose in both readings, nationwide it fell significantly to 10.3% y/y in February from 11.3% in January, while in urban areas it decreased from 12.1% y/y to 10.7% y/y (charts 1 and 2). On the other hand, the labour force decreased on a y/y basis, the participation rate was 63.8% in February vs 64.2% in the same month of 2022, levels still well below the 2019 figure of 65.7%.

Despite the headline looking positive, the composition of the unemployment rate is hiding the effect of higher employment but also higher inactivity. In fact, inactivity showed the most significant reversal observed since the beginning of 2021. The contrast between a positive output gap and a lower labour supply probably has a response to the migration dynamic. Remittances remain at a historical high that contributes to maintaining a decent level of disposable consumption, despite domestic employment not booming. The increase in the population outside the labour market was concentrated in main cities and small cities, male population was the main contributor to the increase in inactivity.

On a y/y basis, jobs increased by 552k in February 2023. Four sectors accounted for 97% of job creation: transport and logistics (+194k), hotels and restaurants (+141k), agriculture (+135k), and commerce (+70k). On the negative side, employment contraction was concentrated on IT-related services (-43k), construction (-27k), professional services (22k), and public administration, education, and health (-10k). The previous picture also shows that the employment recovery is concentrated in the urban areas (46.85 of job creation).

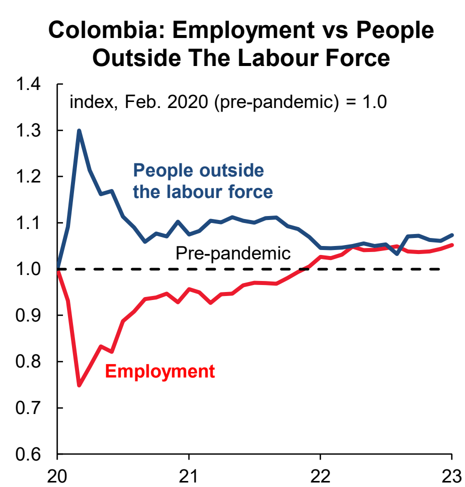
Despite that last year employment recovery led to a reduction of gender gaps, in 2023 this gap has widened. The female unemployment rate was 15%, down from 16.5% observed in

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

February 2022, meanwhile male unemployment falls from 10.3% in Feb 2022 to 8.6% in February 2023. That said, the gap between female and male unemployment widened to 6.4ppts vs last year's average of 6.2ppts.

Regarding labour quality, most of the job creation was concentrated in the formal sector ~60%, allowing an improvement in the informality ratio from 59.6% in February 2022 to 58.4% in February 2023, the most significant improvement was in small cities going from 86.9% to 85.6%.

In summary, the labour market is showing interesting dynamics, employment increase remains concentrated in services-related sectors, which offset the weakening in some sectors that reflects more materially the economic slowdown.

On the other side, the increase in inactivity is showing strong signals associated with the increase in emigration. That continues supporting our thesis about resiliency in the economic cycle thanks to the remittances boom, which allows low-income households to maintain a decent level of spending.

Previous results maintain the door open for the central bank to consider a potential rate hike in April. However, we think that inflation (to be released on April 5) will be the most important indicator to define a skew on BanRep's potential decision.

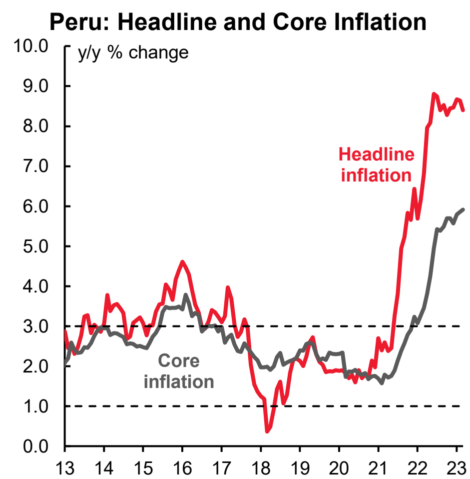
—Sergio Olarte, Santiago Moreno, & Jackeline Piraján

PERU: MARCH CPI SURPRISED MORE THAN EXPECTED, BCRP WILL EXTEND PAUSE OF KEY RATE BY 7.75%

Inflation in Lima reached 1.25% m/m in March data released on Saturday, April 1, above our forecast (1.00%) and Bloomberg consensus. Year-on-year inflation fell for the second consecutive month, going from 8.65% y/y to 8.40% y/y (chart 3). The market and we expected a more visible decline in March, closer to 8% y/y. With inflation data from March, 22 months have been accumulated in which inflation remained above the upper limit of 3% of the inflation target, a record since the target band of 1–3% was established in 2007.

Inflation in March (table 1) was 45% explained by the rise in poultry prices because of bird flu, followed by 32% explained by the seasonal increase in education costs. Isolating the effect of poultry prices, March inflation would have been close to 0.70%, in line with the average of the last 20 years for March, and the year-on-year trajectory would have been below 8%. The effects of Cyclone Yaku were reflected in the increase in fruit prices, mainly coming from the north coast of Peru, and explained 10% of inflation for the month. Indirect effects were also registered due to the interruption of roads (22 on average in March due to weather factors). The prices of perishable foods, which in December and January were the triggers for inflation, this time contributing to reducing it (-0.07ppts), reflecting the lower intensity of the social unrest. The number of interrupted roads went from 48 in February to 15 in March on average due to this factor.

Chart 3



Sources: Scotiabank Economics, BCRP.

In March, of the 586 products that make up the consumer basket (base 2021), 415 increased (71%), 103 decreased (18%) and 68 remained unchanged (12%). Core inflation went from 5.86% y/y to 5.91% y/y, reaching a new maximum and accumulating 16 months outside the target range. However, various cost indicators showed a downward trend, such as wholesale prices that decreased from 8.1% y/y to 5.7% y/y, as well as the prices of machinery and equipment that went from 5.4% y/y to 5.0% y/y and the prices of construction materials that went from 5.0% y/y to 2.9% y/y (again, chart 3). Inflation at the national level (not only Lima) went from 9.0% y/y to 8.7% y/y, surpassing that of Lima for 19 consecutive

Table 1: Peru—Lima CPI Basket—March 2023

Groups of consumption	Base 2021	% m/m	% y/y
1. Food and non-alcoholic beverages	22.97	2.79	15.6
2. Alcoholic beverages, tobacco, drugs	1.61	0.50	4.3
3. Apparel and footwear	4.20	0.41	3.1
4. Housing, water, electricity, gas and others	10.55	-0.08	3.2
5. Furniture and home maintenance	5.11	0.20	3.1
6. Health	3.48	0.26	5.3
7. Transport	12.40	-0.12	9.3
8. Communications	4.77	0.01	1.3
9. Recreation and culture	3.96	0.27	4.9
10. Education	8.61	4.79	6.7
11. Restaurants & hotels	15.89	0.72	9.2
12. Other goods and services	6.47	0.41	6.9
Total CPI	**100.00**	**1.25**	**8.4**

*Adjusted base to 12 from 8 groups of consumption.
Sources: Scotiabank Economics, INEI.

months. In the 26 largest cities, year-on-year inflation accelerated in 11 of them (42%). The number of cities that registered annual inflation above 10% dropped from nine to five (19% of the total).

Looking ahead, we expect inflation to continue declining in April, mainly due to a high base of comparison (April 2022 inflation was unusually high: 0.96% m/m, well above 0.22% m/m average of the last 20 years for the same month), so it is likely that it is close to 8%, or even below the figure. We keep our inflation forecast of 5.0% at end-2023. Inflation for March and our forecast for April confirm the possibility that the BCRP will continue with its monetary pause for a long time. Our baseline scenario considers that the current rate of 7.75% is the terminal level and that it will remain at that level during Q2-2023 and Q3-2023.

—Mario Guerrero