Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Peru Inflation Preview; Colombian Unemployment Surprises Higher

- **Chile: Unemployment rate rises to 8%, despite job creation**
- **Mexico: Economic activity moderated in Q4, but data were revised slightly higher**
- **Peru: Inflation will near 8.8% peak in February**

Markets have taken on a more positive feel in the past few hours, with US equity futures flipping into minor gains and the USD trending lower ahead of Americas trading hours. Overnight developments were limited to stronger than expected inflation in France and Spain that triggered higher bond yields across the major economies. Crude oil is also tracking a solid gain of 1.5% on the day, though remains on track to close February with a fourth consecutive monthly decline (down 2.5%); metals prices are firmer on the day with copper attempting to reverse Friday's drop while iron ore is only retracing a fraction of Friday/Monday losses.

The drive higher in US rates is only lingering negatively on the JPY while the rest of the majors FX complex is following the improvement in risk sentiment in recent hours—notably the MXN which is trading just shy of yesterday's high, at writing, as it extends its outperformance to a ~6.5% gain year-to-date. Political risks around AMLO's electoral reform have had no major impact on Mexican assets, partly as the final bill was a watered-down version of initial proposals, nor have public demonstrations of opposition as the President's position faces no noteworthy risk.

Data in the Latam region released this morning was mixed. Colombian unemployment in the 13 largest cities and metro areas recorded a larger than expected increase for January, coming in at 14.5% vs a median forecast of 14.0% and only a touch lower than January 2022's rate of 14.8%—albeit with a higher participation rate (65.5% vs 64.5%). On the other hand, the jobless rate showed a larger reduction at the national level, at 13.7% against last January's 14.6%. Still, the print missed economists' expectations and may reflect more pronounced weakness in the economy that sees BanRep hike one last time, by 25bps, at its March 31 meeting.

On Colombia risks, Petro's health reform plans remain a point of contention between the executive and legislative branch that we continue to monitor for risks to the country's assets. A leaked letter to media yesterday showed that even the country's agriculture, education, and finance ministers expressed their concern to the country's health minister about higher fiscal costs not considered by the reform bill. Petro made three changes to his cabinet yesterday, replacing Education Minister Gaviria (as well as the culture and sports ministers) who, as noted above, opposed his plans.

Chilean industry activity data showed an unexpected increase in industrial production (+0.5% y/y vs -0.1% consensus) and a smaller decline in manufacturing output (-1.6% vs -3.6% expected) against a slightly larger than expected drop in retail sales (-10.4% vs -10.2%). It is the latter that the central bank will focus on as continued weakness in consumption should eventually prompt fast policy rate reductions in the country, as our economists expect.

—Juan Manuel Herrera

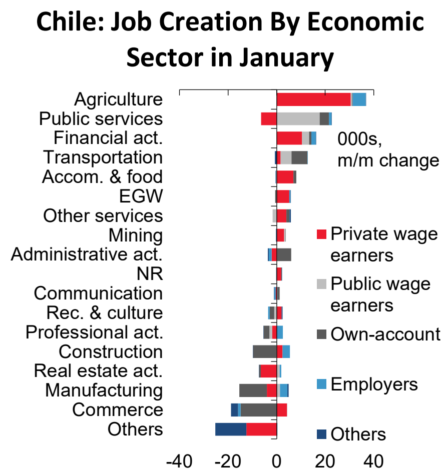
CHILE: UNEMPLOYMENT RATE RISES TO 8%, DESPITE JOB CREATION

A positive start to the year associated with public spending execution does not ensure dynamism in the coming months.

Yesterday, the statistical agency (INE) released unemployment date for the quarter ending in January 2023, with the jobless rate rising to 8% (see our ***Latam Daily***). Despite the positive job creation figures, we are cautious about the economic dynamism observed in recent months.

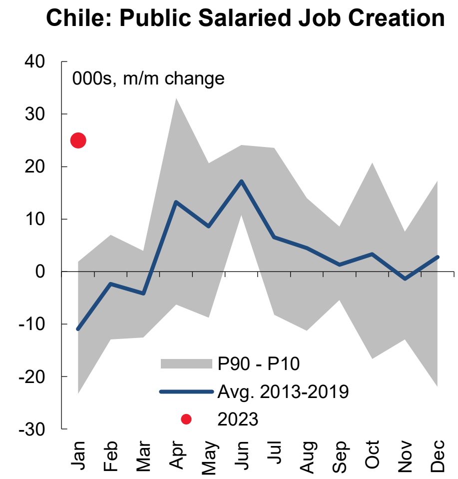
Formal job creation boosted the labour market in January, which could continue to be associated with strong execution of the fiscal budget. Fiscal figures for December 2022 confirmed that public spending showed a higher-than-seasonal increase in its execution pace, which coincided with the rebound in formal employment. Although the January figures have not yet been published, it is expected that the execution pace solidly kicked off 2023, which would have had a positive impact on the labour market.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

In line with this, a high creation of public salaried employment is observed, which exceeds the seasonal expectations for the month. This greater strength in public employment is concentrated in the public administration sector, but also in health and transportation (charts 1 and 2). The economy is going through a phase of weakness that could have negative repercussions on the labour market in the coming months. Private investment will fall this year, while the execution of public investment will continue to face difficulties in the materialization of spending. In the context of a rebound in the labour force, this could translate into new increases in the unemployment rate, associated with a possibly lower dynamism of employment in the months ahead.

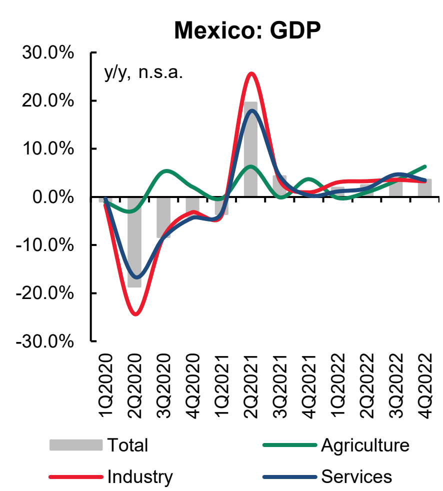
—Aníbal Alarcón

MEXICO: ECONOMIC ACTIVITY MODERATED IN Q4, BUT DATA WERE REVISED SLIGHTLY HIGHER

GDP figures for Q4 2022 were revised slightly higher, to 3.6% y/y (vs 3.5% preliminary, 4.4% in Q3, chart 3). By sector (table 1), industry decelerated to 3.2% y/y (3.5% previously), owing to a slower pace in manufacturing 4.2% (7.3% previously). Services sector growth moderated to 3.5% y/y (4.7% previously), highlighting weakness in wholesale trade at 4.4% (9.5% previously), retail trade at 1.5% (4.9% previously), and services related to temporary accommodation at 9.6% (18.9% previously). The primary sector accelerated to a 6.3% y/y expansion from 3.3% previously. In its seasonally adjusted quarterly comparison, GDP decelerated to 0.5% q/q from 0.9% previously. By sectors, industrial activity slightly moderated to 0.5% (0.6% previously), services to 0.1% (1.0% previously) and the primary sector to 2.0% (3.2% previously).

Thus, in 2022, GDP grew 3.1% q/q in seasonally adjusted terms. Looking ahead, economic activity is expected to remain somewhat positive, although moderate, in line with a stronger than expected pace in US. In this sense, inflationary pressures could remain, as both merchandise and services items in the core basket face some stickiness in line with gains in consumption that represented the main contribution to the recovery in demand last year.

Chart 3



Sources: Scotiabank Economics, INEGI.

Table 1: Mexico—Growth Domestic Product (GDP)

GDP	%	4Q-21	Annual % Change, N.S.A. 1Q-22	2Q-22	3Q-22	4Q-22	Quarterly % Change, S.A. 3Q-22	4Q-22
GDP	100.0	1.0	1.9	2.4	4.4	3.6	0.9	0.5
Primary sector	4.1	3.7	-0.2	1.0	3.3	6.3	3.2	2.0
Industrial activity	27.7	0.9	3.0	3.3	3.5	3.2	0.6	0.5
Mining	4.5	-0.4	1.4	-0.1	-0.9	0.3	-1.4	1.2
Utilities	1.2	-17.7	1.2	4.1	4.9	3.9	-0.1	0.0
Construction	6.0	3.5	1.3	0.8	-3.1	2.6	-0.5	2.2
Manufacturing	16.1	2.1	4.3	5.1	7.3	4.2	1.9	-0.6
Services	63.6	0.3	1.1	1.8	4.7	3.5	1.0	0.1
Wholesale trade	9.1	4.5	5.9	7.8	9.7	4.4	2.1	-1.3
Retail trade	10.2	4.7	3.9	6.4	4.9	1.5	0.3	-1.5
Transport & storage	6.7	15.2	14.3	12.0	12.9	7.0	1.3	0.6
Information & communication	3.5	2.8	22.6	18.0	6.2	5.4	-5.1	-0.4
Financial & insurance	4.7	0.3	2.2	0.9	1.8	4.7	0.7	0.9
Real estate	11.4	2.2	1.1	1.7	2.3	2.9	1.0	0.7
Professional & scientific	2.0	4.5	7.6	11.5	6.9	-2.0	-3.1	-4.4
Corporate	0.8	13.3	8.7	11.5	10.8	10.5	4.5	2.4
Business support	0.9	-71.2	-73.7	-71.4	-39.7	-19.3	-5.0	-9.2
Education	3.8	1.3	2.9	-0.9	3.5	3.6	2.4	0.5
Health	2.2	1.2	3.2	4.2	1.6	1.4	-1.8	-0.3
Recreational	0.5	45.3	47.1	71.3	46.5	38.7	-5.0	5.0
Accommodation & restaurants	2.1	50.2	50.6	34.7	18.9	9.6	-0.6	0.6
Others	1.8	7.9	6.2	1.9	1.5	1.3	5.1	-0.6
Government	3.8	-0.9	-0.8	-2.3	1.3	3.5	1.9	1.1

Sources: Scotiabank Economics, INEGI.

—Miguel Saldaña

PERU: INFLATION WILL NEAR 8.8% PEAK IN FEBRUARY

We expect inflation in February to be close to 0.48% m/m, higher than that of January (0.23% m/m) and that of February 2022 (0.31% m/m), resulting in a year-on-year rate close to the peak of 8.8% posted in June 2022.

According to the monitoring of key prices that we carry out, we see a moderation in the prices of perishable foods, in line with the reduced intensity of social unrest seen in February. Lower inflation would have been a clear result of this were it not for poultry prices, with an increase of more than 10% on average and a high weighting in the basic food basket. Likewise, we observed increases in local fuel prices, which offset the reduction in electricity rates. Core inflation is seen around 0.3% m/m, translating into a stable 5.8% y/y gain.

February should be the last month with high year-on-year inflation since starting in March, both the central bank and us expect a decline in the path of inflation due to a high statistical base of comparison (inflation in March 2022 was unusually high at 1.48% m/m) and the moderation of international commodity prices in recent weeks. The BCRP brought forward the pause in its tightening cycle in February and, due to its concern about a weaker economic performance, we anticipate that it will hold its benchmark interest rate unchanged at its meeting on March 9.

—Mario Guerrero