Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Unexpected Gain in Chilean Econ Activity

- **Colombia: Unemployment rate reflected weaker economic activity**
- **Peru: Thanks to protests, 2022 GDP growth ends with a whimper and a bang**

The risk tone is positive this morning, buoyed by stronger than expected Chinese PMIs showing a solid post reopening/Lunar New Year economy. The USD is weaker across the board with some key levels being tested at writing in a few key pairs (e.g., USDJPY in mid 135s), while SPX futures notch a 0.5% gain that would roughly erase yesterday's decline. Crude oil is down about 1% (with a higher rates outlook in the Eurozone perhaps weighing) while iron ore (+2%) and copper (1%) are getting a clear lift from the better Chinese data. Latam currencies are better bid in line with the pro-risk/commodities mood but the CLP is leading the charge thanks to a solid IMACEC release a few minutes ago (see below).

Chilean economic activity data released this morning posted an unexpected increase in output in the country, rising 0.5% m/m to start 2023 against a median forecast of a slight 0.2% contraction. On a year-on-year basis, activity increased for the first time since August 2022, climbing 0.4% y/y in the opposite direction than expected by economists that saw a 0.2% y/y contraction. Non-mining activity still contracted 0.2% y/y, but this represents a significant turnaround from the 2.2% y/y contraction in 2022 (when on a m/m basis, the IMACEC fell 2.5%). On the month, mining rose 1%, services 0.7%, commerce 1.1%, and industry 0.9%, representing solid breadth in the composition of growth.

With today's data, markets may further discount the odds of rate cut by the BCCh at its April meeting. Finance Minister Marcel also expressed yesterday his optimism on economic activity over the coming months, saying that the country will "soon face a stage in which not only while activity stop declining, but will begin to recover month-on-month." In early dealing, the CLP is gaining strongly, up around 1% on the day and eyeing a firm break under the 50-day MA and the 800 level in the USDCLP cross.

The highlight of the Latam day ahead will be the release of Peruvian CPI data at 10ET (see ***Latam Daily*** for a preview) and Banxico's quarterly inflation report at 13.30ET as well as the first remittances data for 2023 at 10ET. As regards Banxico's report, we'll be looking for the bank's outlook on inflation (notably core inflation) as that will guide whether the board led by Rodriguez Ceja votes for another 50bps or shifts to a lower 25bps pace at the late-March decision.

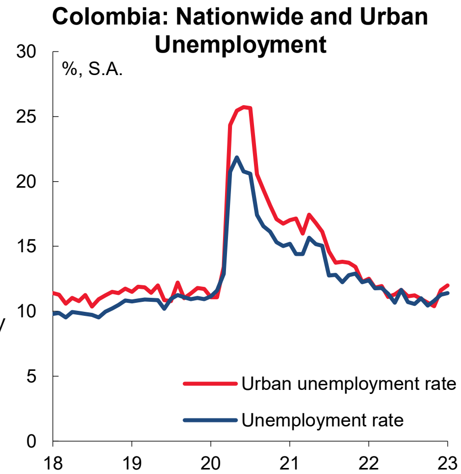
We're also keeping an eye on Tesla's investor day as the auto firm is set to provide more details on a planned plant in the Mexican state of Nuevo Leon. Elsewhere, rumblings around Petro's health reform plans and whether more opposition emerges are worth paying attention to after Monday's cabinet shake-up saw a 100 pesos increase in the USDCOP exchange rate yesterday.

—Juan Manuel Herrera

COLOMBIA: UNEMPLOYMENT RATE REFLECTED WEAKER ECONOMIC ACTIVITY

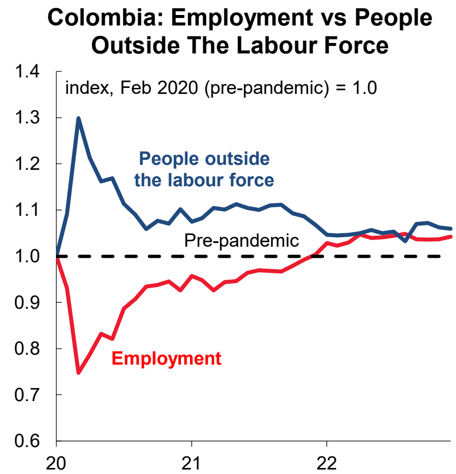
Employment data released on Tuesday showed the national unemployment rate at 13.7% in January 2023. Urban unemployment came in at 14.5% in December, above our forecast of 14% and the Bloomberg consensus. On a seasonally adjusted basis, unemployment rose in both readings, nationwide it climbed slightly to 11.4% y/y in January from 11.3% in December, while in urban areas it increased further to 12% y/y from 11.7% y/y (chart 1). On the other hand, the labour force increased on a y/y basis, the participation rate was 63.4% in January vs 62.6% in the same month of 2022, but these levels are still well below the 2019 figure of 65.7%.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

It is worth noting that in January there was an increase in the number of employed persons compared to December while the number of inactive persons, i.e., those outside the labour force, showed a slight decrease compared to December. Workers continue to return to the labour market and employment remains 6.4% above pre-pandemic levels, pointing to a more robust labour market (chart 2).

On a y/y basis, jobs increased by 796K in January 2023. Three sectors accounted for 90% of job creation: hotels and restaurants (+336k), manufacturing industries (201k) and leisure activities (205k). On the negative side, public administration, health and education (-124k) and construction (-148k) showed the most relevant contractions in employment. This shows a greater deterioration in employment for the urban areas, given that in agriculture the contraction was not significant. This dynamic could signal improvement in the performance of the agricultural sector. January is a month that is characterized by lower temporary employment, however a strong concern comes from the commerce sector since it presented a weaker than expected performance even taking into account seasonal behaviours. Job creation is still negative when compared to the average of 2019, so it indicates a slowdown in economic activity.

Notably, gender gaps during January 2023 widened, the female unemployment rate was 17.4%, up from 12.9% in December 2022. Meanwhile, male unemployment stood at 11.0% increasing from 8.3% in December 2022. That said, the gap between female and male unemployment widened to 6.4 vs last year's average 5.3ppts. The above dynamics explain the outflow of people from the labour market due to disengagement for temporary jobs in sectors such as commerce and services.

Regarding labour quality, we saw a deterioration, informality increased to 58% in January compared to 57.1% in the same month of 2022. The informality rate in urban areas was 42.4%, with no variation compared to last year, while for rural areas it was 84.9%, increasing from 82.8% in January 2022, still showing an unequal panorama.

In summary, the labour market showed a deterioration compared to the end of 2022, since employment gaps widened compared to pre-pandemic levels and greater informality was evidenced.

Having said that, we know that January is a month with strong seasonal effects, therefore we expect improvement of labour market in the coming months, although according to the economic activity deterioration, will reflect in a less dynamic labour market.

In fact, it is likely that domestic demand continues to decelerate in 2023, extending the trend that occurred at the end of last year, due to further reductions in household savings levels coupled with persistent price pressures. However, the impact of remittances will continue to be important amid a labour market that may be getting more difficult since the business sector faces a more challenging environment.

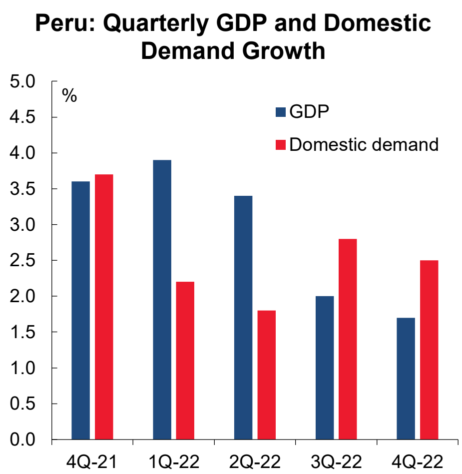
Finally, the increase in the unemployment rate would contribute to signal the end of BanRep's hiking cycle in a context in which economic activity continues to show signs of deceleration and inflation continues to rise, but at a slower pace. Thus, our call is for a final increase of 25bps to 13.00% at the March meeting.

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

PERU: THANKS TO PROTESTS, 2022 GDP GROWTH ENDS WITH A WHIMPER AND A BANG

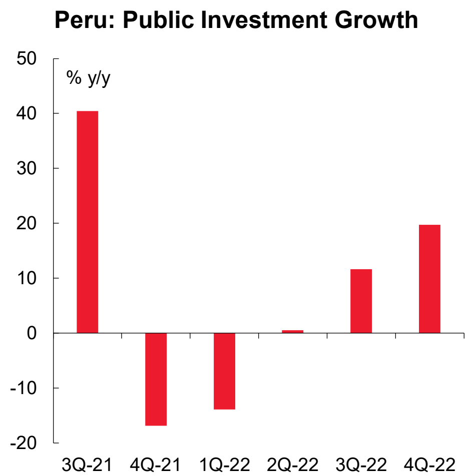
Fourth quarter and full year 2022 demand growth figures were released on Friday. The figures were mostly in line with expectations. Full-year 2022 GDP growth of 2.7% was already known and, given this figure, one could deduce the 1.7% y/y growth for Q4-2022. The thing to note, however, was the trend. Quarterly growth declined from 3.9% at the beginning of 2022, to 1.7% (chart 3, table 1). Protests in December had something to do with growth falling below 2.0%, and something similar may occur in Q1-2023.

Chart 3



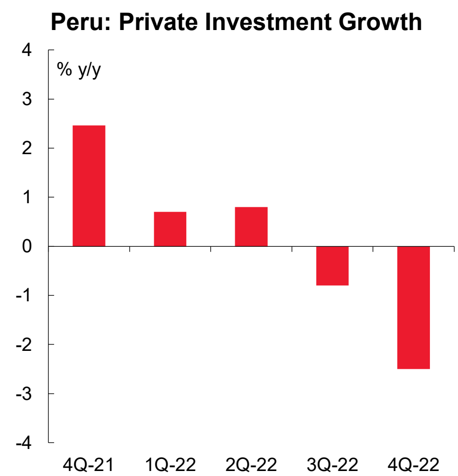
Sources: Scotiabank Economics, INEI.

Chart 4



Sources: Scotiabank Economics, BCRP.

Chart 5



Sources: Scotiabank Economics, BCRP.

Domestic demand held up surprisingly well, with growth in Q3 and Q4 higher than in the first half of the year. The reason behind this was not the most sustainable, however. Public investment growth soared 19.7% y/y in Q4-2022 (after an also hefty 11.6% y/y growth in Q3, chart 4). This was linked to a huge increase in spending at the regional and local government level, in view of the elections held in October. The large turnover in authorities in January will make this it very a difficult to replicate this driver of growth in 2023.

Table : Peru—GDP Growth 2022 (%)

%	Q4-2022	2022
GDP	1.7	2.7
Domestic Demand	2.5	2.3
Private Consumption	2.3	3.6
Private Investment	-2.5	-0.5
Public Consumption	-10.3	-3.4
Public Investment	19.7	7.1
Exports Volume	0.8	5.4
Imports Volume	4.2	4

Sources: Scotiabank Economics, BCRP.

The trends in private spending were quite worrisome. Consumption growth weakened quarter after quarter, and most particularly in Q4-2022, when it came in at a relatively soft 2.3% y/y. One is tempted to blame the slowdown on the protests in December (after President Castillo's aborted attempt at a coup), and they may have played a part to a mild extent. However, what is more relevant is that households stopped receiving extraordinary resources coming from access to pension funds and government transfers, which they were still receiving earlier in the year. Given that extraordinary household income is not on the agenda for 2023, consumption is likely to be much more in line with the somewhat lukewarm evolution of the job picture going forward.

The trend in private investment is even more worrisome. Private investment growth went from very low in the first half of 2022, to frankly (and increasingly) negative in the second half, culminating in a 2.5% decline in Q4-2022 (chart 5). Mining investment led in the decline, down 12.3% y/y in Q4, but non-mining investment also slipped, down 0.9% y/y. These results were in line with the severe deterioration in business confidence that has taken place over the past few years due to political turbulence and policy uncertainty, and it is difficult to envision this environment improving significantly in 2023.

What we expect to change in 2023 with respect to early 2022 is that in 2023 exports will become the driver of growth that they were not in 2022, while domestic demand will lag in 2023, rather than lead as it did in 2022.

—Guillermo Arbe