Latam Daily: Pandemic a Drag on January Labour Markets in Chile and Colombia

- **Chile: Employment growth slows in January as GDP continues to be driven by the services sector**
- **Colombia: January 2021 labour market affected by new round of lockdowns**

CHILE: EMPLOYMENT GROWTH SLOWS IN JANUARY AS GDP CONTINUES TO BE DRIVEN BY THE SERVICES SECTOR

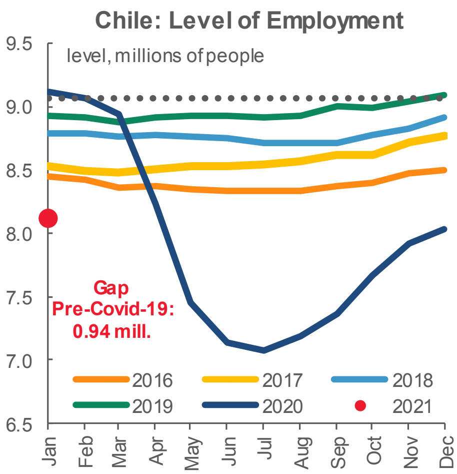
I. Slowdown in job creation continues

With vaccination advancing and a reduction in containment measures, we may see an increase in the unemployment rate as Chileans try to return to work.

The unemployment rate, published on Friday February 26, decreased to 10.2% in the November 2020 to January 2021 period, according to data released on Friday, but the workforce is increasing more rapidly than employment, as is to be expected given that mobility restrictions are lifted and a more active search for employment begins. This will contain the fall in the unemployment rate in the coming months, and we do not rule out that it may even rise, as the number of people entering the labour force outperforms job creation. As we have mentioned before, as vaccination advances and mobility returns, so will the desire to seek employment. This could hinder the political discussion as the unemployment rate suggests greater labour market weakness than is actually the case.

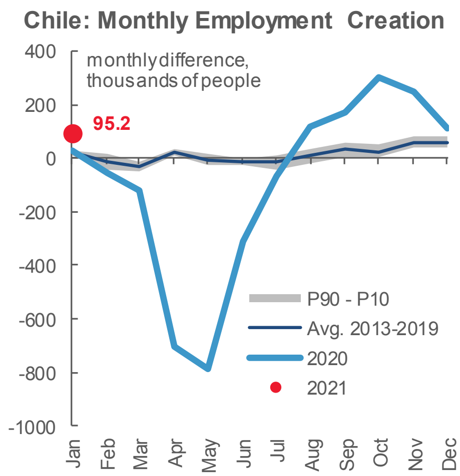
Although job creation has been recovering strongly since July 2020—the month that showed the lowest level of occupation at the national level—the pace of job creation has been slowing (charts 1 and 2). In the November–

Chart 1



Sources: Scotiabank Economics, NBS (INE).

Chart 2



Sources: Scotiabank Economics, NBS (INE).

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January 2021 quarter, the number of employed increased by 95k, far from the nearly 300k jobs that were created monthly in September and October 2020. With this, there are still 942k jobs to be recovered to reach pre-pandemic levels. At the sectoral level, commerce continues to be the sector that leads the monthly creation of private salaried employment, along with seasonal increases in agriculture. In addition, this month also highlights the recovery of employment in some service sectors.

For the central bank (BCCh), these latest news are not entirely encouraging when assessing the output gap across the labour market. Job creation slows down and, additionally, the characteristic fragility in quality that it has been showing since last June continues. Consequently, we do not expect innovations in the stimulative bias for now, beyond the fact that GDP growth could be located in the upper end of the range projected by the central bank (5.5 y/y / 6.5% y/y). Adjustments in the forward guidance towards a somewhat less stimulative monetary policy could only be observed towards the third quarter if inflation maintains an accelerated recovery path with a zero pass-through of the appreciation of the Chilean peso to prices.

II. Economic recovery continues to be supported by services

Data released on Monday March 1, showed that January Imacec contracted by a surprise -3.1% y/y (Bloomberg: -1.3% y/y; EEE: -1% y/y), owing to fewer working days relative to January 2020. On a seasonally adjusted basis, activity expanded 1.3% m/m, as services continue to rebound (charts 3 and 4). The negative effect from fewer working days on the y/y growth was higher than usual, which is clearly reflected in the seasonal factor (chart 5).

Given that February 2021 has the same number of business days as February 2020, and considering the seasonally adjusted growth that has been observed almost consecutively since June (interrupted only in October 2020, chart 6), we anticipate a decline between -1 and 0% y/y in February GDP. For now, these records are fully consistent with an expansion of GDP in 2021 of no less than 6.0% as the recovery gathers steam in the months ahead.

The main disappointment came from construction, which fell relative to the previous month and on year-over-year terms, affected by sanitary measures that have prevented a complete resumption of large construction activities. It should be noted that minor construction and architecture activities remain dynamic as indicated in the central bank's *Business Perception Report*. We expect that the accelerated vaccination process will allow the second part of the year to begin to see greater materialization of public and private investment that should also support the construction and civil works sector.

—Jorge Selaive, Carlos Muñoz, & Waldo Riveras

Chart 3

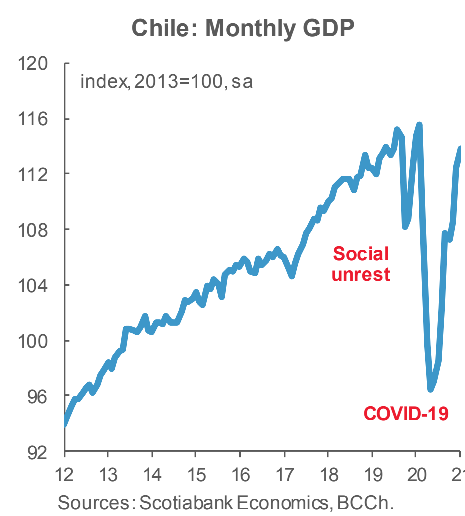


Chart 4

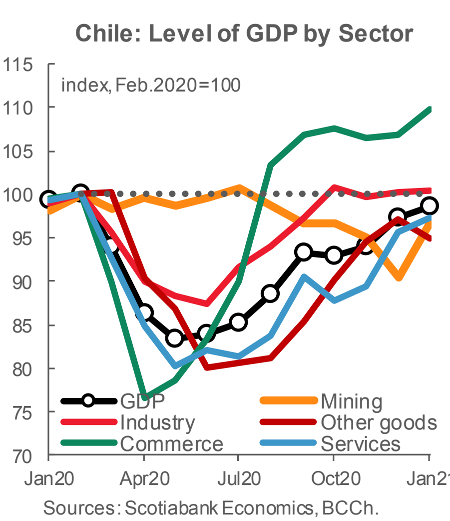


Chart 5

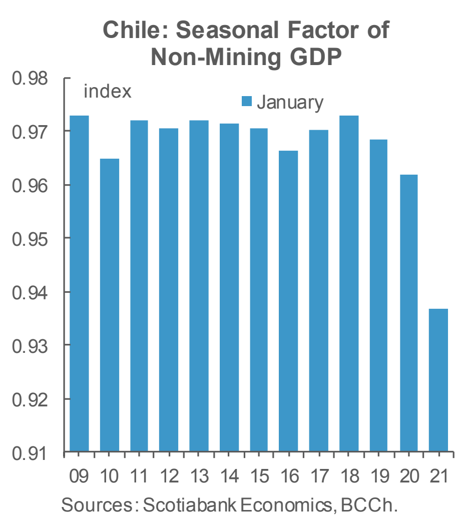


Chart 6

COLOMBIA: JANUARY 2021 LABOUR MARKET AFFECTED BY NEW ROUND OF LOCKDOWNS

On Friday February 26, DANE reported the January nationwide unemployment rate came in at 17.3%, still well above January 2020's 13% while the urban unemployment rate (i.e., for 13 major cities) came in at 19.5% versus 12.9% in January 2020. January employment data has a seasonal effect since this month is typically a vocational month and many industries reduce their activity, therefore it is important to analyze the seasonally adjusted series. With a new round of partial lockdown measures implemented in January, the seasonally adjusted series reveal that the national unemployment rate deteriorated to 14.8% versus 14.4% in January 2020, while the urban unemployment rate improved from 16.4% in December 2020 to 16.1% in January 2021 (chart 7).

The new lockdown measures caused the first break in the improvement of labour conditions since August. January job losses were 1.6 mn relative to the pre-pandemic period, a return to the November level and worse than the 1.3 mn observed in December. Hospitality and some leisure activities accounted for ~350,000 in employment losses in the first month of 2021 beyond the normal seasonal decline.

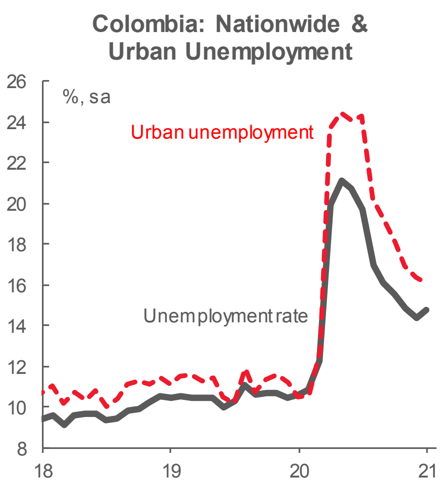
The quality of jobs remains an important issue of concern. Growth in formal jobs continued to lag the overall recovery (chart 8). We attribute these dynamics to the informal economy's relative flexibility. Indeed, informality in urban areas increased by 2.7 ppts to 50% in January 2021.

From a sectoral perspective, year-on-year employment losses as of January 2021 were concentrated in hotels and restaurants (-323k), the leisure sector (-294k), and manufacturing (-223k), which together accounted for 56% of the total employment contraction (chart 9).

All in all, despite a weak showing in January, we expect that the rapid decline in the number of COVID-19 cases that allowed a partial return to by late January will boost economic activity and labour market in February.

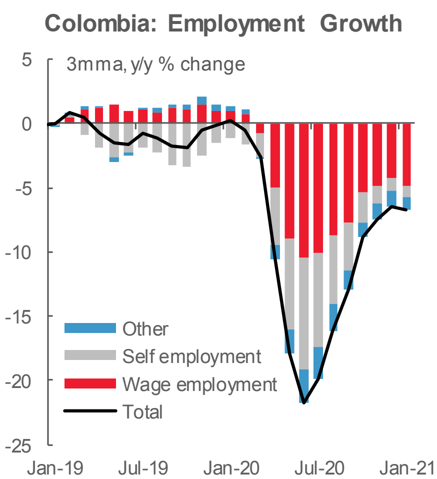
—Sergio Olarte & Jackeline Piraján

Chart 7



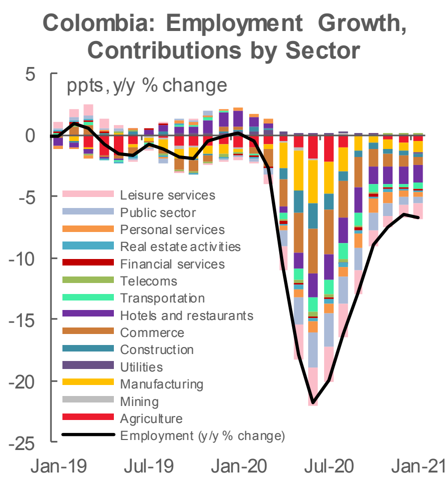
Sources: Scotiabank Economics, DANE.

Chart 8



Sources: Scotiabank Economics, DANE.

Chart 9



Sources: Scotiabank Economics, DANE.

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