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Latam Daily: Chile's Monthly Activity Contracted in July; Colombia's Unemployment Rate Declines

- **Chile: Monthly GDP contracted 1.1% m/m in July, the largest decline since the pandemic**
- **Colombia: Employment increased modestly in July, but job quality lags**

CHILE: MONTHLY GDP CONTRACTED 1.1% M/M IN JULY, THE LARGEST DECLINE SINCE THE PANDEMIC

Healthy adjustment in economic activity.

On Thursday, September 1, the central bank (BCCh) announced that monthly GDP expanded 1.0% y/y in July but contracted -1.1% m/m (chart 1) owing to the poor performance of services, which fell 1.7% m/m. The latter is explained by weakness in personal services, especially health and education, reflecting lower demand for healthcare and an additional week of school winter vacations. **In our view, the downward adjustment in activity is a healthy development, conditional on continued fiscal consolidation and in a context of economic fragility and a less dynamic labor market.**

Trade remains resilient, adjusting downwards -0.4% m/m (chart 2). As we anticipated a few months ago, the slowdown in the sector has been gradual thanks to the excess liquidity in the bank accounts of companies and households that smoothed consumption through the first half of the year as fiscal stimulus was withdrawn and in the absence of additional pension fund withdrawals. **However, the worst is yet to come in terms of activity in the coming months.** This is because the excess liquidity has already been depleted and the labour market has recently lost dynamism. **Starting in August, economic activity will likely begin to show year-on-year declines that will last until at least the second part of next year.**

Public investment continues to lag. July's data shows that public spending on investment fell by 16.2% y/y. With this, budget execution reached 35.3% so far this year, reflecting delays in the execution of projects from material shortages and cost increases affecting road projects and public work projects, as well as projects in the housing, health and education sectors. That said, the construction sector posted a positive performance in the Imacec (+1.1% m/m), probably as a result of government efforts to expedite projects.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

Chart 1

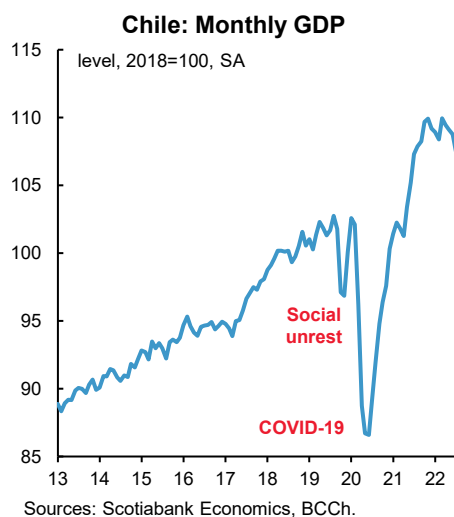
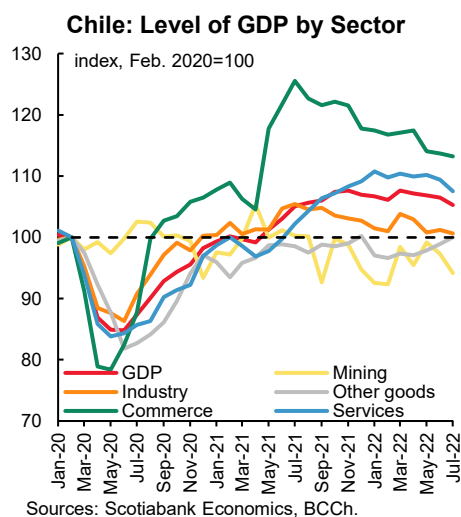


Chart 2



COLOMBIA: EMPLOYMENT INCREASED MODESTLY IN JULY, BUT JOB QUALITY LAGS

Employment data for July, released on Wednesday, August 31, show that job creation improved, with the female population gaining ground as the economy returns to normality. However, inactivity remains around 16% above pre-pandemic levels, which could constrain medium-term growth. Moreover, the rate of under-employment is increasing, as workers are in jobs below their respective skill levels.

The national unemployment rate stood at 11% in July, while the urban unemployment rate (the main 13 cities) was 11.3%. Both indicators are lower than the July 2021 levels of 13.1% and 11.3%, respectively. In seasonally adjusted terms, the national unemployment rate also improved, decreasing from 11.6% to 10.7%, while urban unemployment went down from 11.7% to 11.2% (chart 3). Employment gains are moderating (chart 4), while more people are re-entering the labour market, which for the medium term means the unemployment rate is likely to remain broadly stable.

During the last year, four sectors accounted for roughly 60% of the y/y increase of 1.64 million employment: manufacturing (+279 thousand), public administration, education and health (+272 thousand), transport and logistic (+247 thousand), and leisure related activities (+214 thousand). All of the above sectors point to a still strong domestic demand, especially in the services sector. In contrast, employment contracted in only two sectors compared to a year ago. Agriculture (-30 thousand) is currently facing difficulties due to higher input costs and less dynamic activity.

The female population again benefited the most from the recovery in employment. In July, female employment gains doubled those of males. Services-related sectors, such as commerce and leisure, were the main contributors to female job gains, while transport activities were the main generator of jobs in the case of male employment. The female unemployment rate now stands at 13.9%, which is 3.4 pts below one year ago and 5.1 pts above male unemployment (8.8%), showing a new reduction in gender gaps.

Limited progress has been made in reducing informality. Informality stood at 58.4% at the national level, improving by 1.1% compared to one year ago. Urban informality, meanwhile, stood at 44.4%, which is similar to 44.5% in 2021. In this regard, job quality is still lagging in the recovery, despite the dynamism observed in the labour market. In fact, the services sector in Colombia is characterized by high informality, and is currently the sector that is contributing the most to job recovery.

Inactivity is the main source of uncertainty as it remains high compared with the pre-pandemic metric. In July, it was 16.2% (or roughly 1.9 million people) above the pre-pandemic level. Inactivity in the previously-employed population is increasing compared with 2021, which warrants close monitoring with respect to their effect on the future private demand.

Summing up, the labour market continues to improve, but the main problem continues to be the high inactivity and high informality. **Going forward, it will be important to monitor labour market developments to gauge their effects on a possible moderation in private demand.**

Chart 3

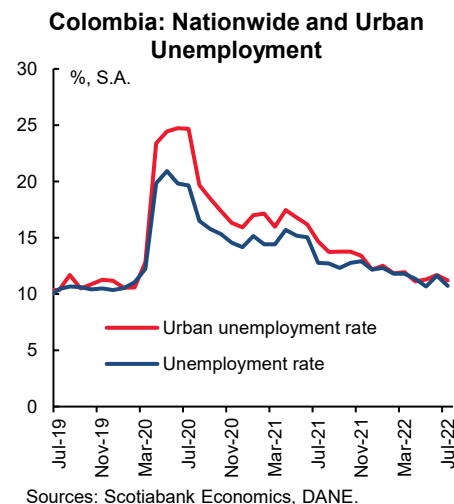
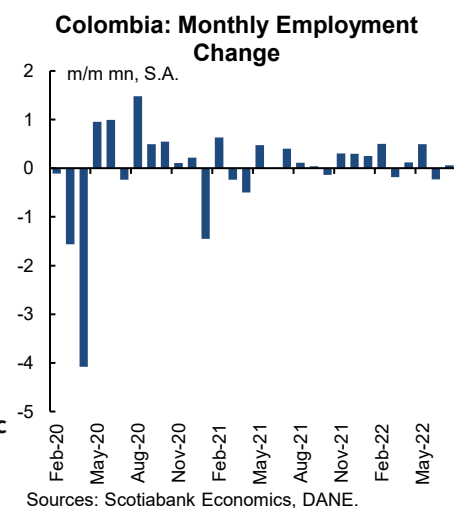


Chart 4



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

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