Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile Data Flood, Regional Unemployment; Chile Jobs Recap

- **Chile: Encouraging, but not confirmed, labour market recovery**

Slightly hotter-than-expected Spanish, French, and German regional inflation prints have rates markets sharply weaker in European dealing, with moves looking somewhat stretched at writing as the selloff stalls. Strong UK credit data and hawkish comments by a BoJ official are also adding upward pressure on yields. USTs, EGBs, and gilts are all bear flattening as global markets await the release of the German CPI aggregate at 8ET, followed by Canadian GDP and US PCE data at 8.30ET, with month-end flows also set to play a role.

The risk mood is a touch negative today, as SPX futures lose a bit of ground while holding in the weekly range alongside flat SX5E and FTSE. The commodities backdrop is mixed as crude oil is unchanged while copper and iron ore record small increases. In the FX space the USD is confined to +/-0.2% ranges against most majors, with the JPY the clear exception, rallying 0.5% thanks to hawkish comments; the MXN is a touch firmer.

Yesterday's Banxico quarterly report did not surprise on the forecasts front with slightly lower 2024 GDP and formal jobs growth forecasts, and only Dep Gov Heath seemed somewhat against a start to rate cuts in March saying the balance of risks is "very biased to the upside" and that it "would be a mistake to lower the rate too soon". On the other hand, Gov Rodriguez held to her relatively dovish stance (sounding modestly confident about the inflation path), as did Mejia (who said a rate move should be considered due to better inflation), while Espinosa had a more balanced view noting that headline CPI deceleration may stall due to upside risks and that wage increases are pressuring services inflation. We expect Banxico to announce a 25bps reduction next month in a 4–1 vote split.

As we had highlighted as a possibility in yesterday's report, Canada is due to reimpose visa requirement on Mexican travelers on the basis of slowing the inflows of asylum seekers—but also likely amid claims that Mexicans are using Canada as a gateway to the US. The requirement, which excludes seasonal workers and students, should be announced later this morning to come into effect at 23.30ET today. Yesterday, Pres AMLO said that he may skip the next North American leaders summit "if there is no respectful treatment" of Mexico. There is a chance that US Pres Biden also announces some measures to limit Mexican immigration or ramp up border safeguards. For Mexican assets, AMLO retaliation may be a greater risk than US or Canadian measures. Broadly, Mexico-US/Canada relations are trending in a negative direction and we may see more restrictive immigration/trade policies announced in coming months ahead of elections in the US and Mexico.

Today's Chile data flood at 7ET is the highlight of the Latam day, while Mexican, Brazilian, and Colombian unemployment figures are worth a look, but are unlikely to shake up local markets too much. Chilean retail sales, industrial/manufacturing production, commercial activity, and copper output figures, all for January, will help us refine expectations for tomorrow's economic activity data. Retail sales are seeing contracting again in y/y terms for the twenty-first month in a row, while closing in on the zero mark. Industrial production is expected to show only a small decline.

—Juan Manuel Herrera

CHILE: ENCOURAGING, BUT NOT CONFIRMED, LABOUR MARKET RECOVERY

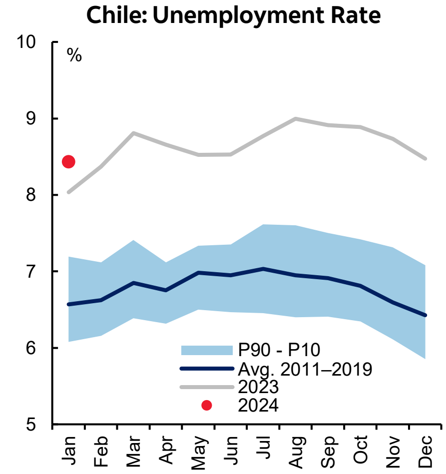
- **Private salaried job creation in commerce and construction; the worst in these sectors would have been left behind**

On Wednesday, February 28th, the statistical agency (INE) released the unemployment rate, which fell to 8.4% in the quarter ending in January 2024, below market expectations (consensus: 8.6%) and closer to our projection of 8.5%, although still high based on a historical perspective (chart 1). The drop in the rate was explained by the creation of 50k jobs, similar to the evolution of the labour force, which confirms the green shoots we reported in the last two moving quarters. Reflecting this is the strong creation of private salaried employment (+93k, chart 2), the highest in almost two years (since Feb 2022), concentrated in agriculture, construction and commerce, although stronger than seasonal in the latter sector. At Scotiabank, we continue to see weakness in the labour market, although framed within a recovery. Signs of recovery in private employment in construction and commerce could be indicating that the worst in these sectors is behind us. We expect the pace of job creation to slow in the next few months, but to continue to be marginally positive due to the execution of scheduled private and public investment.

Thus, the good creation of private salaried employment (+93k) provides support to the labour market without taking into account the creation of public employment or self-employment. The increase in private salaried employment was well above the usual seasonality for the month of January, being one of the few categories that created jobs in the month. In fact, the public sector destroyed 14k jobs, while 29k self-employed jobs were lost. With this, the labour market continues to move towards greater formalization, providing more sustainable support to private consumption. In this regard, 35k formal jobs were created, the third consecutive increase in this type of employment. Although last year there was also a strong creation of salaried employment in the same period, it was led by the public sector, unlike what is happening this year, where the private sector seems to be regaining dynamism.

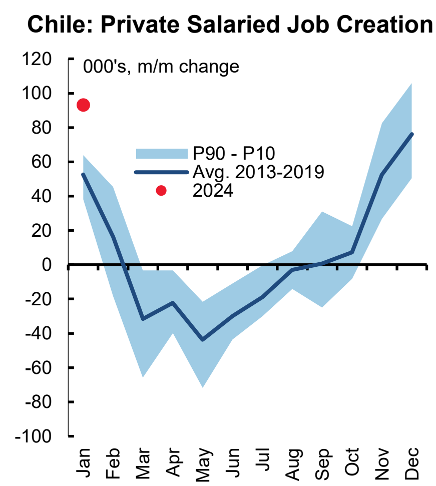
Commerce and construction led in job creation, indicating that the worst is now behind us in these sectors. Employment in commerce has fully recovered to its pre-pandemic level, while construction continues to lag far behind. While the figures at the margin contribute to the recovery of employment in the sector, it is still far from the pre-Covid level. Agriculture also stood out for the increase in employment, although this was not very different from the usual seasonality observed in the sector. On the negative side, the destruction of employment in the manufacturing industry, which was mainly of salaried jobs in the private sector, was noteworthy.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

—Aníbal Alarcón