

Contributors

**Juan Manuel Herrera**  
Senior Economist/Strategist  
Scotiabank GBM  
+44.207.826.5654  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

**Guillermo Arbe**, Head Economist, Peru  
+51.1.211.6052 (Peru)  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Jackeline Piraján**, Head Economist, Colombia  
+57.601.745.6300 Ext. 9400 (Colombia)  
[jackeline.pirajan@scotiabankcolpatria.com](mailto:jackeline.pirajan@scotiabankcolpatria.com)

**Jorge Selaive**, Head Economist, Chile  
+56.2.2619.5435 (Chile)  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**, VP, Latin America Economics  
+52.55.9179.5174 (Mexico)  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

TODAY'S CONTRIBUTORS:

**Aníbal Alarcón**, Senior Economist  
+56.2.2619.5465 (Chile)  
[anibal.alarcon@scotiabank.cl](mailto:anibal.alarcon@scotiabank.cl)

**Daniela Silva**, Junior Economist  
+57.601.745.6300 (Colombia)  
[daniela1.silva@scotiabankcolpatria.com](mailto:daniela1.silva@scotiabankcolpatria.com)

# Latam Daily: BanRep's 50bps Cut, Chile and Colombia Jobs Recaps

- **Chile: Job destruction somewhat beyond seasonality**
- **Colombia: BanRep kept to a 50bps cut pace in a more divided vote of 4 vs 3; Job creation remains weak despite some improvement in August**

## CHILE: JOB DESTRUCTION SOMEWHAT BEYOND SEASONALITY

- **Unemployment rate rises to 8.9% with job destruction in construction and positive surprise in manufacturing**

On Monday, September 30<sup>th</sup>, the INE released unemployment data showing an increase in the jobless rate to 8.9% in the quarter ending August (chart 1), somewhat below consensus expectations (9%) but in line with our projection. This increase was due to zero growth in the labour force coupled with a loss of 22k jobs. We estimate that the unemployment rate increase would go beyond seasonal patterns for August, partly still influenced by the end of the census collection period, but also by strong job losses in the construction sector (chart 2), mostly salaried workers in formal companies.

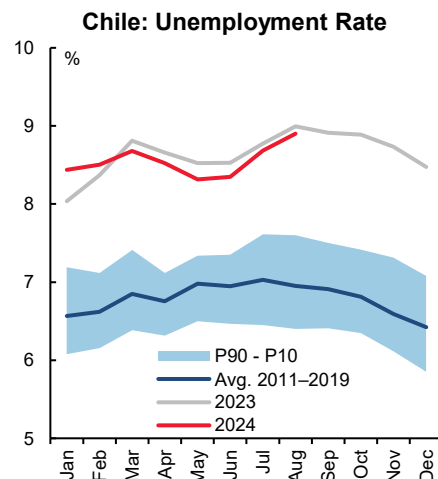
By economic sector, the loss of employment in construction (-15k) stands out, although the fall in salaried employment within the same sector reached 23k. This contraction, although surprising, is in line with the slow execution of private investment, especially in the real estate sector. However, we expect a recovery of the sector's dynamism given the improvement in financial conditions and the entry of new investment projects. Although they are still in preliminary stages, they represent a considerable volume of investment for a sector that has remained stagnant in recent years.

On the other hand, the manufacturing sector created 13k jobs in the month, most of them salaried. This is in line with the greater dynamism of economic activity in the sector, led by the food industry in August.

All in all, we maintain our view of the fragility of the labour market. Even controlling for specific factors that could have affected the unemployment rate in August, it remains at the high end of its historical records, with employment levels remaining low, with no signs of sustained recovery.

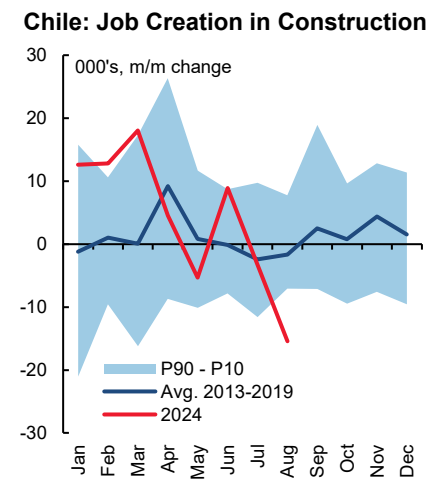
—Aníbal Alarcón

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

**COLOMBIA: BANREP KEPT TO A 50 BPS CUT PACE IN A MORE DIVIDED VOTE OF 4 VS 3**

- **Villar was reappointed governor until 2029 and Scotiabank Colpatría revises the estimate for the year-end rate to 9%**

The board of Colombia's central bank (BanRep) cut the monetary policy rate by 50bps to 10.25% in a split vote with four members voting for a 50bps cut and three voting for a 75bps cut. Additionally, the central bank board reappointed Leonardo Villar as Governor for the Jan 2025–Jan 2029 period.

In the communique and during the press conference, Governor Villar highlighted the improvement in the disinflationary process and said that there is confidence that inflation will reach the target by the end of 2025. However, he said the board prefers to maintain a restrictive monetary policy, mainly because inflation remains above the target range, while risk premiums in the region and in Colombia have increased despite the Federal Reserve starting its easing cycle at a faster pace than expected. Regarding economic growth, the board said that recent numbers show a recovery in private consumption, while investment remains weak. However, they didn't change their forecast for GDP growth in 2024, which stands at 1.8%.

Some elements suggest that BanRep's discussion is becoming challenging; the split vote, three vs four, shows more division than the previous meetings' vote of five vs two. Despite the macro scenario suggesting the space for accelerating the easing cycle, the game changer was the assessment of domestic and regional risk, which implies a concern about Colombia's fiscal situation. Governor Villar highlighted that the board is trying to maximize the probability of achieving the inflation target and to promote economic growth as much as possible, saying additionally that the main focus is on core inflation.

All in all, we think that the uncertainty around fiscal accounts in Colombia won't be solved during October. That said, it will continue to constrain the central bank's consideration of accelerating the easing cycle. In the communique, the board doesn't show huge concern about economic activity. In fact, the decision to affirm Villar as governor with anticipation could be a demonstration of independence.

Having said that, we revise our call for future interest rate moves, to a 50bps rate cut in October, and a potential acceleration in December with a cut of 75bps to close the year at a 9% rate, the potential change of two board members could also prevent the board from accelerating the cut, however at Scotiabank Colpatría we think that waiting longer to begin a faster reduction in the real rate could negatively affect economic activity in the future.

We still estimate the terminal rate to be around 5.50%, and it could be achieved in H2-2025, which, in the end, will continue to be the main source of value for the fixed income. In the case of the FX, depreciation pressures should ease as the central bank once again shows they will remain cautious.

**Decision highlights:**

- **Governor Villar said it is important to pay attention to core inflation.** During the press conference, many questions were around the increase in the neutral rate given the reduction of headline inflation in July and August readings. However, Governor Villar said that the key measure to monitor is the core inflation, which has gone down only half or less than the headline inflation reduction since June.
- **Governor Villar said that it is important to maintain a cautious approach to increase the probability of achieving the inflation target range by mid-2025 and the target of 3% in December 2025.** Either way, Villar said that the board feels confident in the disinflationary process and that the 50bps cut should be read as significant.
- **Minister Bonilla said that the easing cycle should accelerate to support economic activity.** On the fiscal side, Bonilla emphasized that the Fiscal Budget will be enacted by decree; however, if the Financial Law is rejected, the government will make the necessary adjustment to comply with the fiscal rule. Bonilla also said that the government will continue paying its debt as usual.
- **The Accumulation Program for International Reserves is in ~90% compliance (USD 1.3bn executed vs. the USD 1.5 bn target).** However, Governor Villar said the board is not discussing whether to extend the program. Having said that, we think October could see the last tranche of the puts program.
- **The next meeting will be on October 31<sup>st</sup>.** In this meeting, the board will receive an update on the macro scenario from the central bank staff. However, we don't expect the staff to significantly change their cautious view.

—Jackeline Piraján

**JOB CREATION REMAINS WEAK DESPITE SOME IMPROVEMENT IN AUGUST**

On September 30<sup>th</sup>, DANE published the labour market data for August. The national unemployment rate stood at 9.7%, increasing by 0.4 ppts from 9.3% in August 2023, likewise, the urban unemployment rate deteriorated by the same magnitude, standing at 10% from 9.6% recorded in August 2023. In seasonally adjusted terms, the national unemployment rate remained stable compared to the previous month at 10%, while the urban unemployment rate increased by 0.2 ppts compared to July 2024 reaching 10.2% (chart 3).

The labour market seems to have adjusted to the behaviour that existed before the pandemic, with an average job creation that did not exceed 200 thousand jobs, since so far this year up to August, the average job creation is 172 thousand jobs. In August, +257 thousand jobs were created, concentrated mainly in leisure (+195 thousand), commerce (+159 thousand), and hotel and food services (+116 thousand), however, these activities usually respond to greater leisure activities that encourage job creation, which is also usually reflected in economic activity (chart 4).

By making a three-month moving average of job creation, we can see a slowdown. In the Jun–Aug 2023 quarter, the average job creation was 1 million jobs, while in the Jun–Aug 2024 quarter the figure was 49 thousand, which leads us to assume that job creation continues to slow down and that the greater job creation in August may be due to transitory events.

On a seasonally adjusted basis, the unemployment rate for the entire country remained at 10% in July, however, in urban areas it went from 10% in July to 10.2% in August, showing insufficient job creation to cover the greater entry of people into the labour market, since in general terms, the number of people outside the labour market has decreased in the last two months by more than 200 thousand people.

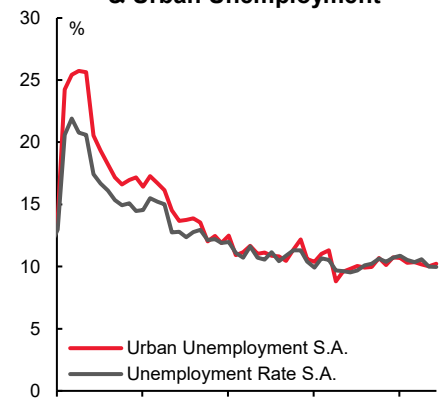
In general terms, job creation remains weak, reflecting a lower dynamism in activities that tend to be labour intensive such as construction and manufacturing. We continue to think that these activities still need a greater boost to operate at pre-pandemic levels since high interest rates and lack of investment continue to weigh against greater dynamism.

**Employment data highlights:**

- **In August, +257 thousand jobs were created, with six of the thirteen activities registering positive variations.** Job creation was concentrated in service activities, including leisure (+195 thousand), commerce (+159 thousand), and hotel and food services (+116 thousand). On the negative side, construction (-84 thousand), public administration (-74 thousand), and real estate activities (-71 thousand) were the activities that destroyed the most jobs, without leaving out manufacturing, which also lost -43 thousand jobs.
- **In August, job creation had a high informal component.** Informal job creation represented 62.2% of total job creation, that is, +160 thousand. Additionally, the informality rate showed a slight increase compared to August of the previous year, going from 55.9% to 56%, showing a deterioration in the quality of employment in urban areas, with an informality rate that goes from 40.9% in August 2023 to 41.7% in August 2024.
- **The female population absorbed greater job creation.** In August, women added +189 thousand jobs (73.5% of total job creation), of which +116 thousand were in self-employment, which leads us to assume that there is a deterioration in the quality of employment. For its part, the male population added +68 thousand jobs, being relevant to highlight the departure of -151 thousand jobs from the position of head or employer and a greater creation in unpaid household activities (+80 thousand).

**Chart 3**

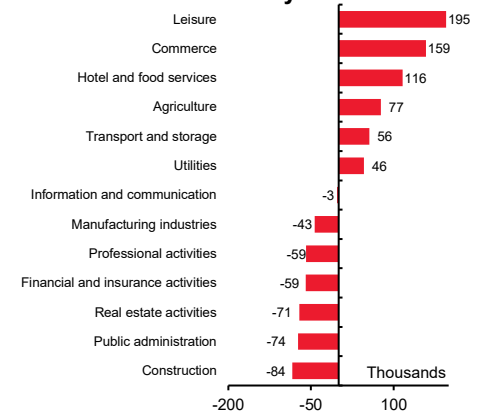
**Colombia: Nationwide & Urban Unemployment**



Sources: Scotiabank Economics, DANE.

**Chart 4**

**Colombia: Annual Job Creation by Sector**



Sources: Scotiabank Economics, DANE.

—Jackeline Piraján & Daniela Silva

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