

Contributors

Juan Manuel Herrera, Senior Economist
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Valentina Guio, Senior Economist
+57.601.745.6300 Ext. 9166 (Colombia)
daniela.guio@scotiabankcolpatria.com

Latam Daily: Low Colombian Unemployment

- Colombia: Unemployment reached historically low levels in April on rising self-employment**

On May 30th, DANE published labour market data for April 2025. The national unemployment rate stood at 8.8%, decreasing by 1.9 p.p. compared to 10.6% in April 2024, posting the lowest unemployment rate seen in an April month since 2001. The urban unemployment rate decreased 1.6 p.p. to 8.7% compared to 10.3% in April 2024. Seasonally adjusted, the national unemployment rate decreased to 8.8% from the previous month and remains below that one year ago at 10.6%, while the urban unemployment increased at 8.8%.

Employment reflects the economic recovery; however, it lacks in quality as the main source of employment is informal. In April, 711 thousand jobs were created, with the most significant contribution coming from public sector, commerce, manufacturing, and transport which contributed with 82% of total. In contrast, construction registered a destruction of 34 thousand jobs, and public administration services, financial and insurance activities, and professional activities—which contribute the most to formality—offset the increase in job creation with a destruction of 74 thousand jobs.

The three-month moving average of job creation continue with a significant acceleration. In the February to April 2025 quarter, job creation averaged 915 thousand, compared to 78 thousand in the February to April 2024 quarter, reflecting that job creation has accelerated at the beginning of 2025. With these results, the economy is reaching pre-pandemic levels with an increase in occupation rate. However, high interest rates and the lack of investment continue to hinder greater dynamism, especially in activities such as industry and construction which represent 90% of the total investment in Colombia.

On a seasonally adjusted basis, the unemployment rate decreased compared to the previous month. The national unemployment rate decreased to 8.8% and in urban areas to 8.8%. At this point, the number of people outside the labour market has increased by 300 thousand people compared with the last year and was reflected on a decrease in labour participation rate from 64.0% in April 2024 to 63.7% in April 2025. However, in our take the labour participation will continue to recover after a drop of 0.2 pps in 2024 that could be related to the historical inflow of remittances in 2024 (+17%), discouraging labour participation. But for now, the April results showed an increase in the occupation rate and a decrease in labour participation, which explained the unemployment rate performance.

Chart 1

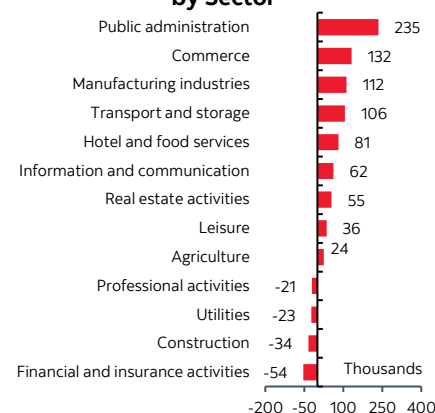
Colombia: Nationwide and Urban Unemployment



Sources: Scotiabank Economics, DANE.

Chart 2

Colombia: Annual Job Creation by Sector



Sources: Scotiabank Economics, DANE.

June 2, 2025

As we have seen, these results suggest that job creation is gaining momentum but with a higher cost in informality. The stunning sectors leading the economic activity during most of 2024 are now losing steam, mainly in formal sectors such as professional activities and financial and insurance sector, while some sectors that are starting to show stabilization signals in their production dynamic are now showing better job creation, mainly in informal occupations. For now, we don't rule out that unemployment may even be below what we estimate, which depends on the degree of absorption of new labour force by the economy.

The data definitively reduce the pressure on the central bank to cut interest rates. However, we affirm our expectation of a rate cut at the June 27th central bank meeting. By this time, we expect a new reading of inflation to be likely lower, while there will also be greater clarity on the fiscal scenario (even if it remains challenging). We believe that the timing for central bank cuts is determined by inflation dynamics. If BanRep decides not to cut in the forthcoming two meetings, we see that the second half cut will be even more challenging, as inflation has risks of rebounding, erasing the possibility of delivering actions to reduce the contractionary stance.

Employment data highlights:

- **In April +711 thousand jobs were created, with 9 of the 13 economic sectors recording positive changes.** Job creation was concentrated in public administration—mainly in public health activities (+235 thousand)—commerce (+132 thousand), manufacturing (+112 thousand) and transport (+106 thousand). In contrast, the decline in financial and insurance sector (-54 thousand), construction (-34 thousand), utilities (-23 thousand) and professional activities (-21 thousand) offset the general result.
- **Surprisingly, informality decreased in April.** The informality rate decreased significantly compared to the same period of the previous year, from 55.7% to 55.0%, indicating a better performance domestically. In addition, the quality of employment in urban areas improved, with the informality rate falling from 41.5% in April 2024 to 40.7% in April 2025. However, despite the employment improvement, the new jobs have been focused on informal occupations such as self-employed which increased by +528 thousand in this period (74% of total job creation).
- **Colombia's labour market maintains a high gender gap.** In April, the national unemployment rate for women was 11.2% and for men was 7.0%. Thus, men absorbed +538 thousand new jobs, of which +436 thousand were in self-employed workers, +138 thousand in private sector, +24 thousand in domestic activities, and +11 thousand in day-labourer, offset by the destruction of -72 thousand jobs in public sector, employers and unpaid family worker. The female population created +174 thousand jobs of which +154 thousand in the private sector, +92 thousand in self-employed, and +32 thousand in day-labourer and public sector, offset by -100 thousand jobs in domestic activities, employer and unpaid family worker.
- For 2025, we expect a restructuring of the labour market with improvements in the labour participation rate, but an increasing informality. **The balance will depend on the capacity of the labour market to absorb the new labour force that will be incorporated in 2025.**

—Valentina Guio

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