

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:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

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

Latam Daily: Chilean Unemployment Rise vs Historic Lows in Colombia

- **Chile: Unemployment rate rose to 8.9%, sharply above the NAIRU; Jara wins left-wing primaries**
- **Colombia: Unemployment hits historic lows, but self-employment raises concerns**

CHILE: UNEMPLOYMENT RATE ROSE TO 8.9%, SHARPLY ABOVE THE NAIRU

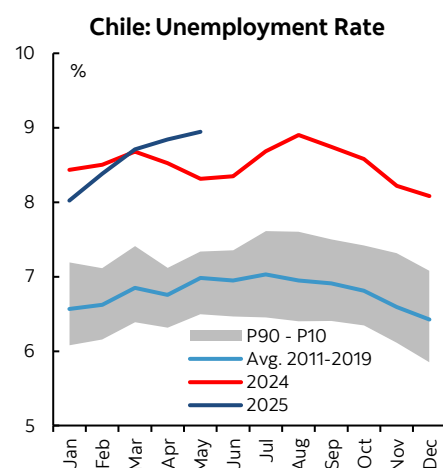
- **Labour market worsens (again) with drop in formal employment**

On Monday, June 30th, the INE released the unemployment rate for the quarter ending in May, which rose to 8.9% in the quarter ending in May (chart 1), in line with our projection, up from 8.8% in April. This was explained by the loss of 13k jobs and a 3k decline in the labour force. The seasonally adjusted unemployment rate also rose to 8.9%, the highest in nearly a year and a half (since December 23rd), reflecting continuing widening capacity gaps in the labour market. According to recent estimates reported by the Central Bank, the NAIRU for Chile is estimated to be between 8% and 8.5%. Therefore, the 8.9% rate for May is well above this range, reflecting widening capacity gaps.

Formal employment has been destroyed for the second consecutive quarter. In May, formal employment fell by 23k people, while informal employment increased by 10k people, marking the first increase since the quarter ending in January of this year. For several quarters, a restructuring of employment has been observed, with the creation of formal jobs and declines in informal employment, although recently, formal job creation has been decreasing year-on-year, while an incipient recovery has been observed in informal employment, which has stopped losing its share of total employment. Along these lines, the informal employment rate maintains a wide gap with respect to its pre-pandemic level, which has been most pronounced in sectors such as agriculture.

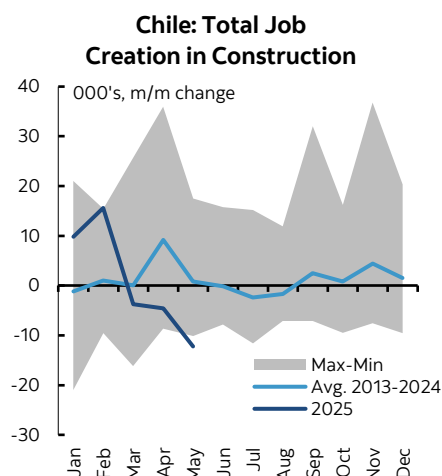
By economic sector, the construction sector continues to show no recovery and is once again losing jobs (chart 2). This sector has been one of the hardest hit by the slow pace of investment in construction, primarily residential construction, with job losses for the third consecutive quarterly moving average across all employment categories. In fact, in the quarter ending in May, job losses in this sector were the most pronounced compared to its pre-pandemic history. The commerce and manufacturing sectors displayed a less dramatic but equally worrying picture, where job losses were somewhat greater than seasonal and concentrated in private-sector salaried employment.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

Jara (PC) wins the primary elections, anticipating a possible surprise in the parliamentary elections

On Sunday, June 29th, Chilean Communist Jeannette Jara won the left-wing presidential primaries with 60.2% of the vote, while Carolina Tohá, former Minister of the Interior and member of the Democratic Socialism Party (PPD), came in second with 28.1%. These elections were characterized by low voter turnout, reaching only 9.2% of total registered voters. This figure was lower than the one reached by left-wing parties in the 2021 presidential primaries. In our view, this could open more space for right-wing parties, especially Evelyn Matthei (right-wing), ahead of the presidential elections. However, it could also anticipate a surprisingly positive performance for the Communist Party in the parliamentary elections, where half of the Senate and the entire Chamber of Deputies will be elected, which could continue to show political polarization.

—Aníbal Alarcón

COLOMBIA: UNEMPLOYMENT HITS HISTORIC LOWS, BUT SELF-EMPLOYMENT RAISES CONCERNS

On June 27th, DANE published the labour market data for May 2025. The national unemployment rate stood at 9.0%, decreasing by 1.3 p.p. compared to 10.3% in May 2024, posting the lowest unemployment rate seen in a May since 2001 (chart 3). The urban unemployment rate decreased 1.3 p.p. to 9.0% compared to 10.3% in May 2024. Seasonally adjusted, the national unemployment rate increased to 9.0% from the previous month and remains below that one year ago 10.3%, while the urban unemployment increased at 9.0%.

Unemployment reflects the ongoing economic recovery; however, the rise in self-employment remains as a concern. In May, 597 thousand jobs were created, with 11 out of 13 total sectors contributing positively (chart 4). The most significant gains came from transportation and storage, professional activities, and commerce, which together accounted for 89% of the total job growth. In contrast, the manufacturing sector lost 122 thousand jobs, and construction offset some of the overall gains with a loss of 42 thousand jobs.

The three-month moving average of job creation continues to show significant acceleration. During the March–May 2025 quarter, job creation averaged 789 thousand, compared to 146 thousand in the same period of 2024, highlighting a strong rebound in early 2025. With these results, the economy is approaching pre-pandemic employment levels, driven by an increase in the occupation rate. However, high interest rates and a lack of investment continue to limit broader economic momentum, especially in activities such as industry and construction, which together account for 90% of total investment in Colombia.

On a seasonally adjusted basis, the unemployment rate increased compared to the previous month. The national unemployment rate rose to 9.0%, with the same rate observed in urban areas. At the same time, the number of people outside the labour force increased by 257 thousand people compared to the previous year, contributing with a slight decline in the labour participation rate, from 64.1% in May 2024 to 64.0% in May 2025. However, in our view, labour force participation is expected to continue recovering, 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. For now, the May results show a rise in the employment rate alongside a decline in labour participation, which together explain the recent unemployment rate performance.

These results suggest that job creation is gaining momentum, though there is a noticeable gap between formal employment indicators and the grow of self-employment. In May 2025, self-employment—which is often associated with informal activities—increased by 612 thousand jobs, accounting for 67% of total employment growth. However, the informality rate declined from 55.6% to 55.1%, and one possible explanation is the rise in government contractors, who are classified as self-employed but formal. Looking ahead, we expect the public sector to continue playing a key role in supporting employment growth.

Chart 3

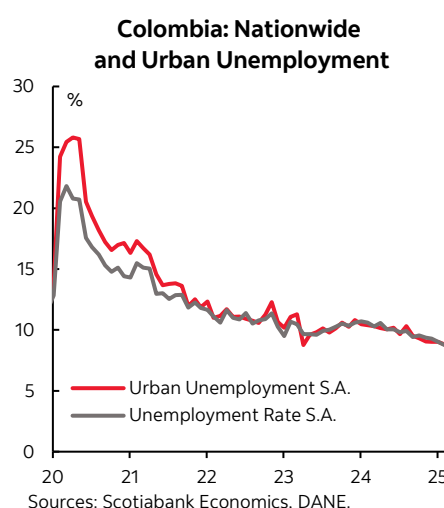
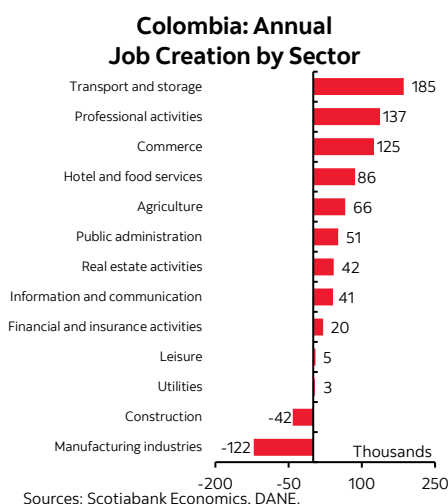


Chart 4



June 30, 2025

For now, we expect the average unemployment rate to decline from 10.2% in 2024 to 9.7% in 2025, driven by a stronger increase in labour force participation and faster pace of job creation. However, we don't rule out the possibility that unemployment could fall even further than our current estimate, depending on the degree of absorption of new labour force by the economy, as we are currently observing.

Previous data definitively reduces the pressure on the central bank to cut interest rates. By this time, we expect a new reading of inflation to be likely lower, while the publication of the 2025 MTFF provides greater clarity on the fiscal outlook ([see here](#)). We believe that the timing of central bank rate cuts will be influenced not only by inflation dynamics but also by market reactions to recent credit rating downgrades by Moody's and S&P Global. 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.

Key information on employment data:

- **In May +597 thousand jobs were created, with 11 of the 13 economic sectors recording positive changes.** Job creation was concentrated in transport and storage (+185 thousand), professional activities (+137 thousand), commerce (+125 thousand) and hotel and food services (+86 thousand). In contrast, the decline in manufacturing (-122 thousand) and construction (-42 thousand), offset the general result.
- **The informality rate decreased in May.** The informality rate fell significantly compared to the same period last year, dropping from 55.6% to 55.1%, suggesting improved domestic labour conditions—likely driven by the growth in government contractor positions. In contrast, urban employment quality deteriorated, with the urban informality rate rising from 41.8% in May 2024 to 42.3% in May 2025. Despite the overall improvement in employment figures, new jobs have been concentrated in informal occupations, particularly self-employment, which increased by 612 thousand during this period.
- **Colombia's labour market maintains a high gender gap.** In May, the national unemployment rate for women was 11.6% and for men was 7.1%. Thus, men gained +466 thousand new jobs, of which +331 thousand were in self-employed, +166 thousand in private sector, +42 thousand in day-labourer, and +10 thousand in domestic activities, offset by the destruction of -89 thousand jobs in public sector, employers and unpaid family worker. The female population created +131 thousand jobs of which +281 thousand in self-employed, +77 thousand in the private sector, and +7 thousand in day-labourer, offset by -232 thousand jobs in domestic activities, public sector, 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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