

LATAM Market Update

- **Chile: Weak** —as expected— sectorial data did not shift our growth expectation for March
- **Colombia: March unemployment deteriorated further, despite robust growth of formal employment**

CHILE: WEAK —AS WE EXPECTED— SECTORIAL DATA DID NOT SHIFT OUR GROWTH EXPECTATION FOR MARCH

Yesterday, we knew activity data for some key sectors in March (all following data are referred to that month if otherwise not said). Considering this chunk of data our team keeps its forecasts of a monthly GDP growth between 1.75% and 2% y/y (0.4% m/m for non-mining GDP). For the commerce sector the analysis assumes an expansion of 1%, but actual data will be released on Friday. Thus, GDP 1Q19 will end with an expansion of 1.8% or 1.9% y/y (0.6% saar), markedly below the Central Bank's baseline scenario. We do not rule out a new wave of analysts updating their macro scenarios after this disappointing performance of the first quarter which could bring new downward corrections in the consensus median for annual GDP growth (currently at 3.3%). Overall, total GDP growth for the current year will be a significant negative surprise to the Central Bank's scenario, we think. Even though, the performance of non-mining activity will continue showing signs of stabilization and smooth recovery. After anticipating a weak beginning of the year, our team maintains the forecast of GDP growth of 3.2% for 2109 based on additional increase in private and public investment starting by the end of the current quarter.

Mining contracted 3.5% y/y (our team's estimate was -4.0%), something we already knew would happen and that will be part of the bad activity record for March. Less productivity is something that is not only happening in Chile, but also in Peru, and is part of the strength that has shown the price of copper that has remained close to USD 3/lb. We observe retrenchment in the production plans of large global mining companies, and we expect year-on-year contractions until the middle of the year. To the extent that productivity is normalized, and new increases are made of expansions and new mines, we should observe production expansions towards the second part of the year. We also anticipate relevant increases in investment in the mining sector at the hands of important private and public projects. Last but not the least, manufacturing expanded at 1.3% y/y without differences with respect to consensus and our forecast (2.0% y/y). The subsectors most linked to private consumption show contractions while those linked to mining continue to receive the momentum of machinery renewal. The mining sector is consolidating the investment projects planned for this year, with greater intensity during this quarter.

As far as the labour market is concerned, deterioration seems concluded thanks to job creation in mining, construction and services. Even though, sectors linked to private consumption still with job destruction. Unemployment rate increased to 6.9% in Q1, in line with last year's rate and the expected seasonal expansion (previous mobile quarter register was 6.7%). This rise is characterized by a similar

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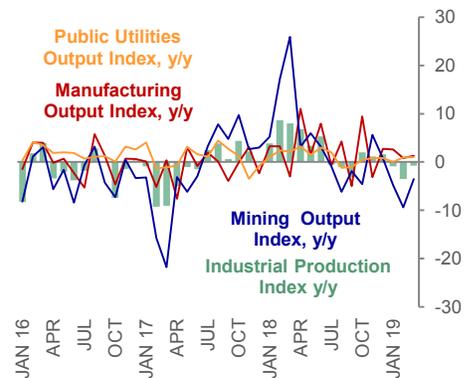
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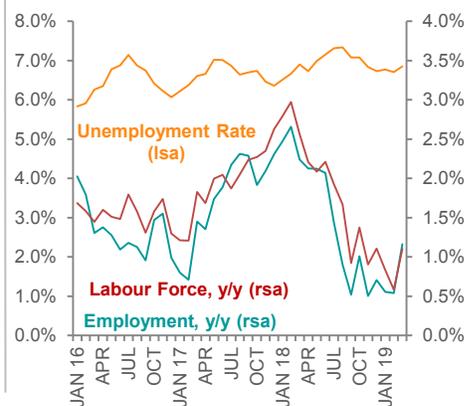
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Chile: Industrial Sector Production Indicators - y/y Growth Rate



Sources: Scotiabank Economics, National Statistics Bureau (INE).

Chile: Labour Market and Unemployment



Sources: Scotiabank Economics, INE.

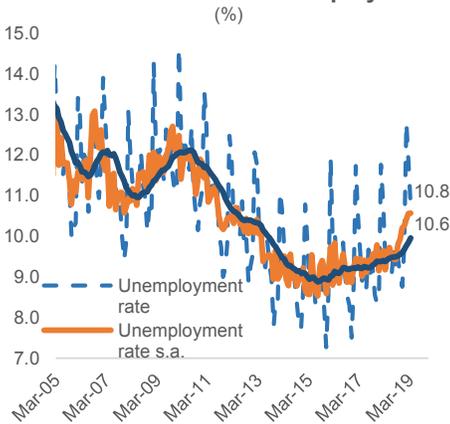
growth in the labour force and employment, 1.1% and 1.2% respectively. Employment creation shows a rebound, due to a rising dynamism of self employment and a slight improvement in private wage-earners. This surge in private employment comes from the mining industry and services (transportation, recreation and culture, and other). On the other hand, retail trade keeps destroying private jobs, replacing them with self-account employment. With this last register, the improvement in private jobs stands out, and unlike its historical record, it did not fall, showing evidence of an upturn after a weak beginning of the year. Regarding public employment, the creation of employment in health and education is stabilized but a sustained increase in public administration employment is confirmed (with an annual creation of 25.4k).

COLOMBIA: MARCH UNEMPLOYMENT DETERIORATED FURTHER, DESPITE ROBUST GROWTH OF FORMAL EMPLOYMENT

Unemployment deteriorated in March, again, for both, nationwide and urban measures. In fact Nationwide unemployment came in at 10.8% (Mar-2018 was 9.4%), while urban unemployment (13 cities) came in at 12.0% (Mar-2018, 10.6%). Unemployment data have strong seasonality, therefore it is better to analyze seasonal adjusted series. This measure showed a flattish behaviour for both nationwide and urban figures (10.6% in Feb-2019 and Mar-2019 for Nationwide and 11.7% vs 11.6% in Feb-2019 for Urban). March unemployment data followed the January and February deterioration. Having said that, it is worth to note that employment growth continued positive numbers after three months falling by 0.1% y/y. In March employment annual growth was 0.5%. Even more interesting, wage employment (formal employment proxy) added 1pp out of the 0.5% y/y growth in labour creation, while self-employment subtracted 0.5pp to the annual employment growth, which can be a signal that not only employment quality is improving, but also that in the near future, employment data will be more in line with coincident indicators good behavior.

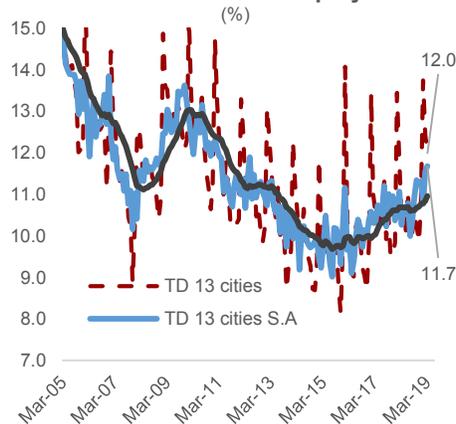
On the monetary policy front, weaker employment data support our call that BanRep will not hike the monetary policy rate (MPR) in 1H19 to boost economic activity, and will wait the initial data on 2019 GDP.

Colombia: Nationwide Unemployment



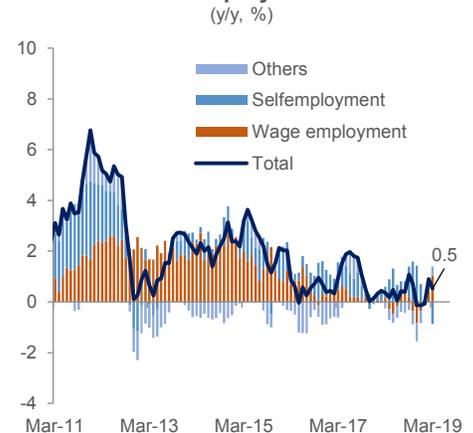
Sources: DANE, Scotiabank.

Colombia: Urban Unemployment



Sources: DANE, Scotiabank.

Colombia: Employment Growth



Sources: DANE, Scotiabank.

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