

## LATAM Market Update

- **Chile: Persistent recovery in job creation confirms stabilization in labour market**
- **Colombia: May's unemployment deteriorated**
- **Mexico: May's financial activity exhibits an overall slowdown**
- **Peru: Project Manager chosen for the Chinchero (Cusco) airport project (finally!)**

### CHILE: PERSISTENT RECOVERY IN JOB CREATION CONFIRMS STABILIZATION IN LABOUR MARKET

Monthly GDP growth around 2.4% y/y in May would pave the way for better prints in the second half of the year. Unemployment rate increased to 7.1% in May, as the labour force grew more than job creation, in line with seasonal factors (Graph 1). Employment growth remained solid, with increasing dynamism in wage-earners jobs, but still supported only by public employment. Private jobs showed a monthly dynamism aligned with seasonal patterns, but due to the higher levels last year, the annual growth in May was almost null. Regarding self-employment, it is still supportive due to higher own-account job creation in the trade sector and Manufacturing (Graph 2).

Once again, job creation in May was influenced by the high contribution of public jobs and a very low dynamism of private-wage earners (Graph 3). The greatest creation of public jobs was observed in public administration and health, in line with an acceleration in public expenditure during the last quarter (Graph 4). Of particular note was the destruction of jobs in Commerce and Manufacturing, where private wage earners decreased around 40 and 15 thousand, respectively. Commerce kept destroying jobs, but that is in line with the structural adjustment the sector is experiencing. Along the same line, the companies linked to trade are also demanding less credit. On a positive tone, construction is boosting private employment, with an annual creation of 21 thousand private jobs in May.

Manufacturing production expanded 1.9% y/y above our forecast (0.5%; consensus 0.3%) partly offsetting the negative surprise derived from mining production. The recovery is explained by the 25.5% y/y growth in the manufacture of chemical substances and products, which added 2.8 percentage points (pp) in the variation of the general index. The latter, mainly due to greater availability of raw material. It was followed by the manufacturing of metal products, except machinery and equipment, with an increase of 9.2% y/y, contributing 0.7pp. The increase was explained, in large part, by greater domestic demand coming from the mining sector. The main negative influence came from the manufacturing of paper and paper products, which decreased by 9.5% y/y and subtracted 0.8pp, mainly due to production strategies of companies in the sector.

Mining continues subtracting to GDP growth after experiencing a drop of 2.0% y/y in May (negative incidence of 0.2 pp in monthly GDP). Metal mining contracted 1.8% as a result of the 1.5% drop in copper extraction and processing, because of

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both lower grade and mineral treatment in some important mining companies. For June we anticipate a minor effect of the Chuquicamata strike on national production. Chuquicamata produces around 5% of national production of copper, around 25 metric tons by month. Since the strike lasted half of the month, and during this period the mine produced at 50%-60% of capacity, the impact on mining activity would be around -1pp of annual growth; -0.1pp of monthly GDP growth in June.

The last sectorial indicator for the month will be revealed on Wednesday, and we anticipate a positive performance in retail sales (+1.3% y/y) thanks to e-commerce and stabilization in the labour market.

Overall, we forecast a monthly GDP growth (IMACEC) around 2.4% y/y for the fifth month of the year, which we estimate consistent with a GDP growth of 2.4% y/y in the second quarter of the year; an impressive 4.1% saar. This expansion would be in line with our short-run baseline scenario and Central Bank's, so from the side of domestic activity we find bounded space to increase the monetary stimulus. We anticipate non-mining activity would have expanded +0.5% m/m which is at the upper part of historical records for the fifth month of the year since 2011. The downside surprises might come from inflation, where we forecast a CPI of -0.1% m/m in June, even though mostly explained by non-core items.

Chart 1

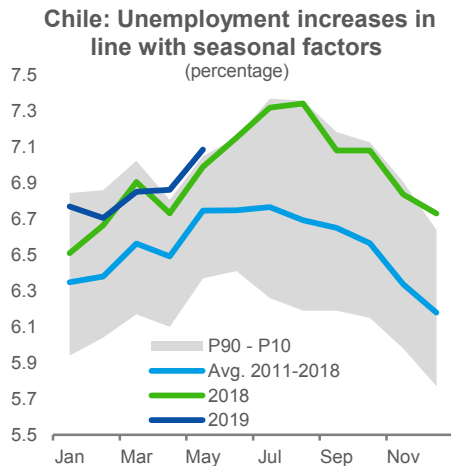


Chart 2

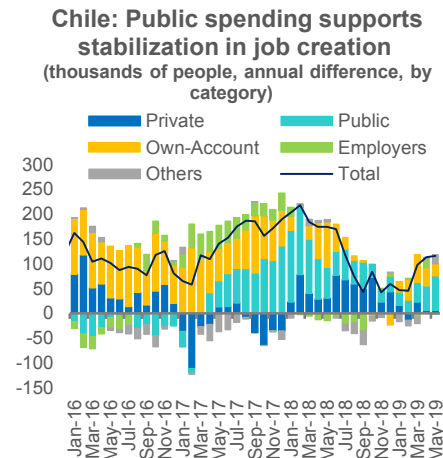


Chart 3

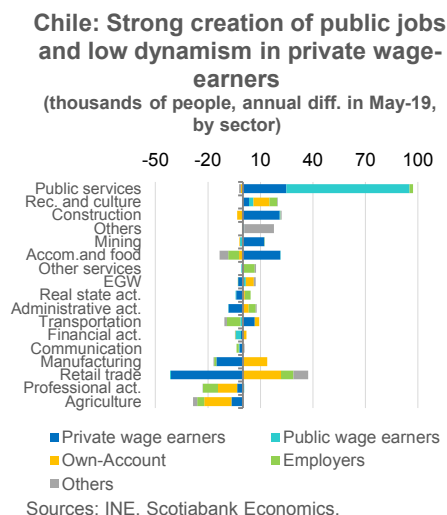
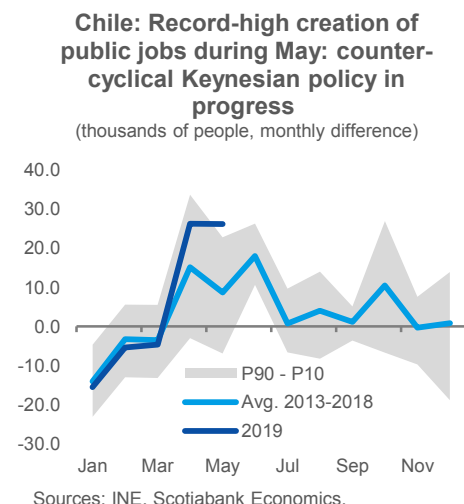


Chart 4

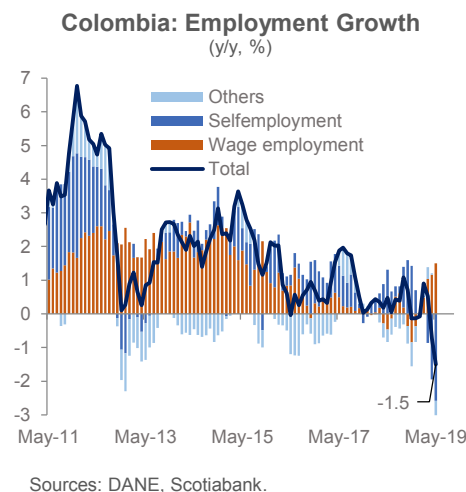
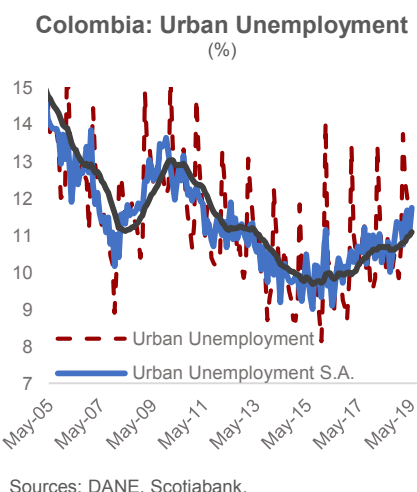
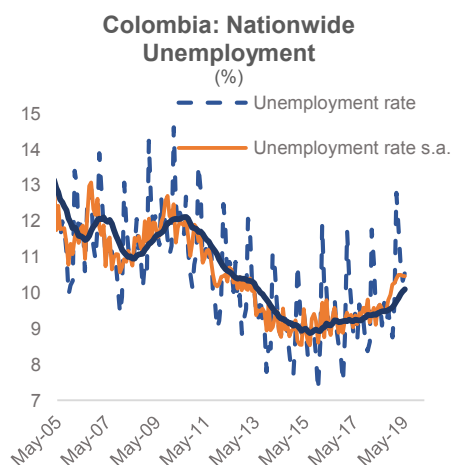


## COLOMBIA: MAY'S UNEMPLOYMENT RATE DETERIORATED

Unemployment deteriorated in May, again, for both, nationwide and urban measures. In fact Nationwide unemployment came in at 10.5% (May-18 was 9.7%), while urban unemployment (13 cities) came in at 11.2% (May-18, 10.1%). Unemployment data have strong seasonality, therefore it is better to analyze seasonal adjusted series. This measure showed a flattish behaviour for nationwide and a strong deterioration for the urban figure (10.5% vs 10.5% in April19, and 11.8% vs 11.7% in April19 respectively). May unemployment continued to decouple from the domestic demand recovery seen in 1Q19 and other coincident indicators as retail sales, energy demand and capital imports. However, it is worth to say that the employed population increased in the urban area in sectors such as construction, commerce, hotels and restaurants, while employment was reduced in manufacturing activities. The employed population in the rural sector fell in the agriculture sector due to climatic factors.

Although employment growth was -1.5% y/y, it is very interesting that wage employment continued with solid growth (1.5% y/y in May) while informal employment (self-employment) is falling at a 2.6% y/y pace. This dynamics, although results in a fall in labour creation, formal employment dynamics through the year is a relative positive news and let us to anticipate an improvement in labour quality and in the end better employment data. We continue to think that the recent deterioration in employment data has its main reason in a one-off event which is the Venezuelan immigration that increased the labour force by around 700k people.

On monetary policy, weaker employment data support our call that BanRep will not hike the monetary policy rate (MPR) in 2019 to boost economic activity, and will wait for more economic activity information, while keeping its neutral-dovish tone.



## MEXICO: MAY'S FINANCIAL ACTIVITY EXHIBITS AN OVERALL SLOWDOWN

Financial activity lost momentum in May, as the non-bank commercial banking deposits moderated their annual growth, in real terms, for a second consecutive time, now from 3.3% to 2.9% y/y, because of a lower dynamism in term deposits and because demand deposits continued to fall. Meanwhile, direct financing to the private sector softened its pace, from 5.2% to 4.2% y/y, after a softer performance in the one granted to companies, from 6.5% to 4.7% y/y, partly offset by a boost in housing and consumer oriented, from 5.5% to 5.8% y/y in the first case and from 1.3% to 1.5% y/y in the second.

## PERU: PROJECT MANAGER CHOSEN FOR THE CHINCHERO (CUSCO) AIRPORT PROJECT (FINALLY!)

A group led by Korea Airport Corp was chosen as Project Manager, PMO, of the US\$480mn Chinchero (Cusco) airport project. Korea Airport Corp offered to receive US\$30mn for supervising and managing the airport's construction. This is a huge step in both the airport Project itself, and infrastructure projects in Peru in general. The PMO formula has been used with great success in building the infrastructure for the Lima 2019 Pan-American Games which begin towards the end of July. As a result, the government had been announcing for some time that it would recur to PMOs for infrastructure projects. There was some doubt as to whether this would occur, due to delays (the Chinchero project was originally scheduled to be tendered to a PMO in April) and to the novelty of PMOs in Peru, so it has come as a bit of a relief that the tender has finally taken place, not only for what it means in terms of accelerating the Chinchero Project, but also because it gives credence to the government's claim of a broader use of PMOs for infrastructure projects.

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