LATAM Market Update

- **Colombia: Pre-COVID-19 labor market improved in urban areas**
- **Chile: Limited growth in the labor market before COVID-19 anticipates unemployment rates close to 2 digits in winter; CPI for March projected at 0.4% m/m, but CPI for April could be 0% m/m.**
- **Peru: President announces schools will resume on-campus attendance on May 4th**

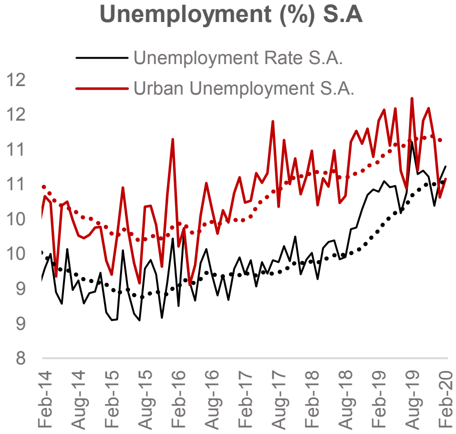
COLOMBIA: PRE-COVID-19 LABOR MARKET IMPROVED IN URBAN AREAS

DANE released February's unemployment statistics; it is worth noting that February wasn't affected by COVID-19 shock. Unemployment rate had mixed results: nationwide unemployment came in at 12.2% (Feb-19 was 11.8%), while urban unemployment (13 cities) came in at 11.5% (Feb-19, 12.4%). Labour force participation decreased to 63.2% (Feb-19, 63.9%) for the nationwide print and increased to 65.9% for the urban reference. Seasonally adjusted unemployment showed a deterioration, 10.8% vs. 10.5% in January-20 for nationwide, and increased to 10.8% vs.10.3% in January-20 for the urban print.

Previous to the COVID-19 shock, the labor market was showing a relative stabilization of the unemployment rate with a divergence in employment creation between rural and urban areas. In fact, employment expanded significantly in urban areas in activities such as construction, manufacturing, and others related to agriculture, mining, and utilities sectors. However, employment contracted in rural areas in activities related to commerce, agriculture, and the public sector. In the press conference, DANE's Director, Juan Daniel Oviedo, highlighted that employment destruction took place in small business in small rural zones.

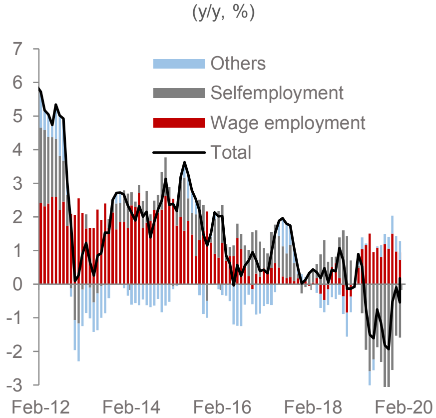
Additionally, the labor market continued to show different dynamics in the jobs quality. February pointed to net job contraction (0.5%), in which destruction of informal employment continued (-3.4% on average), and it was partially offset by waged employment creation (+3.1% on average).

Colombia: Nationwide and Urban Unemployment (%) S.A



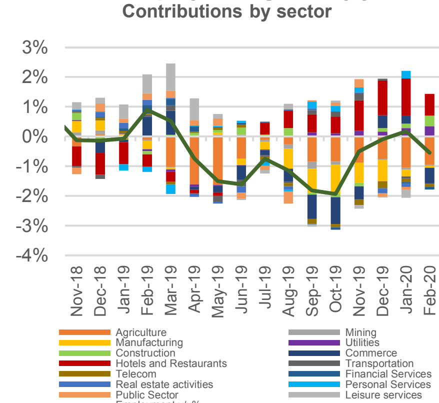
Sources: DANE, Scotiabank.

Colombia: Employment Growth
(y/y, %)



Sources: DANE, Scotiabank.

Employment growth y/y%
Contributions by sector



Sources: DANE, Scotiabank.

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All in all, the unemployment rate stabilization was positive but will be interrupted by the nationwide mandatory isolation that began on March 25th since—during the isolation—activities such as commerce, non-essential manufacturing, tourism, and construction were suspended. Those activities account for around 55% of total employment. COVID-19 shock is already affecting labor market recovery, and if the lockdown is extended, the deterioration will be worse. The only sectors in which the shock may not be that large are agricultural and some sub items in commerce due to the higher demand in basic goods.

—Sergio Olarte & Jackeline Piraján

CHILE: LIMITED GROWTH IN THE LABOR MARKET BEFORE COVID-19 ANTICIPATES UNEMPLOYMENT RATES CLOSE TO 2 DIGITS IN WINTER

- **The deteriorating trend in the labor market continued in February; methodological adjustments will bias the low unemployment rate and will also affect the CPI**

The unemployment rate increased to 7.8% in the moving quarter Dec–Feb, showing a counter-seasonal behavior for a month of February that historically presents low levels of unemployment. This is explained by a lower strength of employment (1.7% y/y) compared to the labor force (2.6% y/y), due to the strong destruction of jobs registered in February, something also contrary to the seasonality of the month (Fig. 2).

Although the deterioration trend in employment that started in October continues, private salaried employment continued to show strength until February, with the categories of independent employment being hit hardest in recent months.

The resilience shown by private salaried employment until the month of February is explained by the dynamism in some service sectors, which we estimate are linked to the execution of investment projects that had been advancing at an accelerated pace in recent months. Of particular interest is the high incidence in job creation of people who “do not know / do not respond (DK/NR)" to the sector to which they belong, since they created the largest number of jobs in the month (58 thousand). Given that this grouping was only included last month, after the methodological changes implemented by the National Institute of Statistics (NIS), it is probably due to a re-categorization of employees that belonged within another sector in the previous months. In line with this diagnosis, we estimate that this category could be reflecting the greater employment in external service sectors or contractor companies that provide services to various branches of the economy. On the other hand, it highlights the greater destruction of employment in Manufacturing and the negative trend shown by Education, sectors that have been hit hard after the social outbreak.

Finally, our fears regarding representativeness and also the application of exceptional measures for the sampling process are confirmed. NIS notes that the response rate of its surveys has suffered from volatility since last October, and that it has implemented measures to maintain a high response rate. This has some market implications:

(1) For the newly delivered employment survey, the effects appear minor given an average response rate of 90%. However, the non-response rate could increase for the January–March quarterly survey, considering the quarantine measures implemented recently. Beyond applying a statistical adjustment to the “no response”, the bias we estimate will be downwards, showing lower than effective unemployment rates.

(2) For the CPI survey, the effects could be more drastic, since methodologically the logistical inability to gather prices in some establishments implies the maintenance of the last price collected. Therefore, we could find less than effective CPI inflation as long as the task of the field surveyor is impossible, difficult or risky. It should be mentioned that the NIS does not have the capacity to digitally survey prices for the entire IPC basket, and we estimate that even if it were replaced by taking prices via a telephone sample, its success rate in taking prices would not exceed 70% of the basket.

CHILE CPI FOR MARCH PROJECTED AT 0.4% M/M, BUT CPI FOR APRIL COULD BE 0% M/M

We estimate monthly inflation of 0.4% m/m (3.8% y/y) for March, in line with the Economic Expectations Survey and above what was anticipated by the Financial Operators and forwards (0.3% m/m). The depreciation of the exchange rate, which would continue to push up the price of imported goods, along with the annual adjustment of educational services, would be the main determinants of this month's results. On the other hand, we would once again observe a drop in fuel prices, given the tensions between the producing countries that led to a significant drop in the price of the commodity in the month. Overall, we project a Core CPI of 0.5% m/m (2.8% y/y), with goods increasing 0.3% m/m (3.0% y/y) and services 0.6% m/m (2.6% y/y).

After the high exchange rate pass-through evidenced in the month of February, we estimate that the new rise in the exchange rate in March would continue to push up imported products. In particular, we anticipate increases in New Cars and Tour Packages, among others.

Among the negative incidents, the drop in fuel prices stands out, given the tensions between Saudi Arabia and Russia which have led to a substantial increase in the supply of oil worldwide, which is added to the drop in demand due to lower prospects for global growth by 2020 due to the effects of COVID-19. Likewise, we anticipate a decline in transport services, which historically drop in price in March before the end of the summer season.

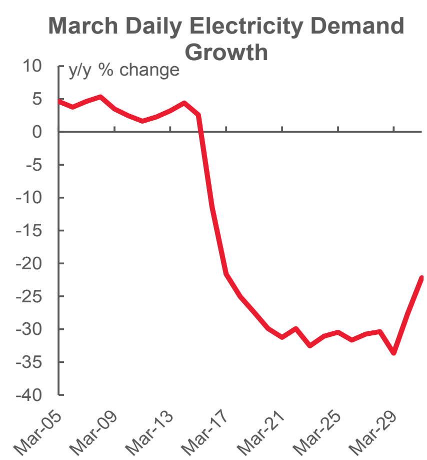
For April, we estimate monthly inflation of 0% m/m (3.6% y/y), markedly below the market forwards, which stand at 0.2% m/m. Despite the announced price rise in bread (3% m/m), and the new, consecutive and relevant falls in fuel prices that we will have until next July, there is the risk that the NIS will not be able to collect prices for many of its products given the current health situation, which requires a strict quarantine to be followed in various cities of the country. With this, many products would show, due to methodological issues, a price maintenance during this month. As quarantine measures increase, price collection problems will increase.

—Carlos Muñoz

PERU: PRESIDENT ANNOUNCES SCHOOLS WILL RESUME ON-CAMPUS ATTENDANCE ON MAY 4TH

Peru registered an increase of 115 COVID-19 cases to 1,065 total. The curve is not quite exponential, but neither is it turning. So far, the containment measures are allowing the government to gain time and avoid overburdening the limited resources of Peru's health system.

In his daily press conference, President Vizcarra announced that a virtual education system would begin for public and private schools on April 6. More interestingly, for what it means for government intentions in terms of ending the State of Emergency, Vizcarra stated that schools would go back to normal on-campus attendance on May 4. Vizcarra reiterated that the State of Emergency ends on April 12, although some aspects would continue. In our view, Vizcarra would like to begin lifting the State of Emergency after Easter, not totally, but enough to be able to no longer call it a State of Emergency. That would mean lifting restrictions on going to work, and partially lifting the curfew. However, we also believe that for this intention to materialize, the COVID-19 case curve must not turn exponential in the meantime.



Sources: Scotiabank Economics, COES, MINSA.

In March, electricity demand fell 13%, y/y, for the month as a whole. However, daily demand was down as much as 30%, compared to a year early, during a number of days, after the State of Emergency was declared on March 15.

—Guillermo Arbe

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