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GLOBAL ECONOMICS

LATAM DAILY

August 31, 2023

Latam Daily: Chile Releases Unemployment and Copper Price Data

- **Chile: Unemployment rate rises to 8.8%; 6.5k jobs are lost with a sharp increase in the labour force; Good news for the 2024 structural balance: higher long-term copper price estimates and no change in trend GDP growth**

CHILE: UNEMPLOYMENT RATE RISES TO 8.8%; 6.5K JOBS ARE LOST WITH A SHARP INCREASE IN THE LABOUR FORCE

- **Labour market deterioration is accentuated, but there are green shoots in investment-linked employment.**

On Wednesday, August 30th, the statistical agency (INE) released the unemployment rate for the quarter ending in July, which rose to 8.8% (chart 1), above market and our expectation (8.7%) and showing a deterioration with respect to the previous record (8.5%). The main difference with respect to our expectation was not in the destruction of employment but in the renewed dynamism of the labour force. Although this could be explained by transitory reasons (reduction of inactivity for study reasons), female participation increased for the third consecutive quarter, reflecting the fact that women are returning to the labour market in a decisive manner.

Job destruction continues to reflect weakness in the labour market. Over the last two moving quarters, employment has declined mainly due to the decline in self-employment. In July, this contracted by 10k jobs, most of them employers. In contrast, salaried employment increased (+7k), again thanks to the public sector (+8k), since the private sector destroyed salaried jobs (-1k). All in all, 6.5k jobs were lost in the quarter ending in July.

Relevant and counter-seasonal increase in the labour force (+19k) could be a transitory phenomenon. The increase observed this month put pressure on the unemployment rate, explaining a large part of the deterioration of this indicator with respect to the previous month. Part of the increase in the labour force was explained by a reduction in the inactive population, mainly for study reasons, which was already observed in July of 2022 and showed moderation in the following month. Although this may be a transitory phenomenon, we interpret positively the increase in the female labour participation rate observed in recent quarters, whose level is very close to what was observed before Covid, in contrast to male participation, which continues to decline.

By economic sector, job creation in public administration (+12k) stands out once again, both of public employees and also of people who report being private employees providing services to the public administration, a phenomenon that we have already detected in previous months. Also noteworthy for the second consecutive month was the increase in employment in professional activities (chart 2), which created 19k jobs, mostly salaried employees (13k). This last sector groups professional service providers, generally linked to the development of investment projects in early stages, so its recovery could be in line with the launching of several public and private investment projects in recent months, especially in the mining and energy sector.

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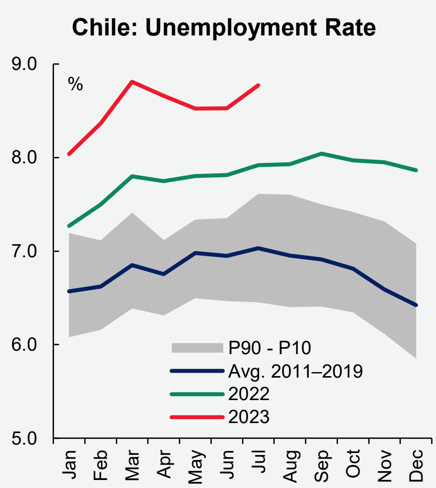
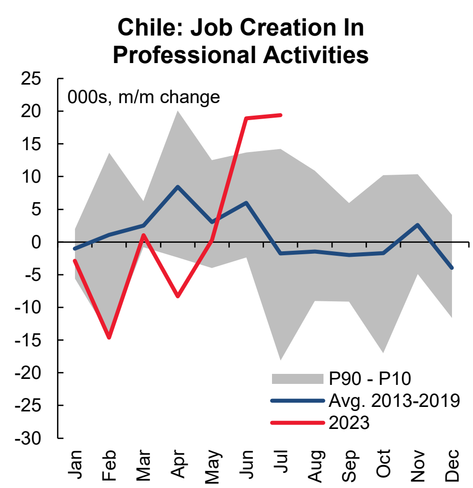
Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

On the other hand, the sectors of concern are manufacturing and construction, which continue to destroy employment beyond what is seasonally expected. These sectors, together with commerce, are the main job seekers in Chile, and their weakness is in line with the lack of dynamism or stagnation shown by these sectors in terms of economic activity.

GOOD NEWS FOR THE 2024 STRUCTURAL BALANCE: HIGHER LONG-TERM COPPER PRICE ESTIMATES AND NO CHANGE IN TREND GDP GROWTH

On Wednesday, August 30th, the Ministry of Finance published the estimate of the long-term copper price and trend GDP growth. These parameters represent the main inputs for the estimation of 2024 structural fiscal revenues and are provided by two independent expert groups, one of which (long-term GDP expert committee) is integrated by Scotiabank's Economics team thanks to the representation of our Chief Economist, Jorge Selaive.

On the one hand, the long-term copper price (10-year average) increased from 374 to 386 USD cents per pound according to the independent experts' estimates, a value that will be used as input for the 2024 structural revenue estimate and that would imply higher structural revenues than those estimated for next year (ceteris paribus). It should be noted that the Q2-23 Public Finance Report projected the price of copper at 381 USD cents per pound for 2024.

On the other hand, the trend GDP growth estimated by independent experts for 2024 remained stable at 2.3%, increasing from the 1.9% used as a parameter to determine structural revenues in the fiscal 2023 budget. Our GDP growth projection for 2024 stands at 2.3%, reflecting our expectation that the economy will expand at a pace similar to its long-term trend.

The Ministry of Finance should deliver the fiscal budget for 2024 to congress no later than September 30th, which must be passed no later than 60 days later by congress.

—Aníbal Alarcón