

# Economic Observatory

Colombia

Bogota, December 2013  
Economic Analysis

Colombia

*Chief Economist*  
Juana Téllez  
Juana.tellez@bbva.com  
347 16 00 ext. 11406

*Senior Economist*  
María Claudia Llanes  
maria.llanes@bbva.com  
347 16 00 ext. 11408

## How good are the employment data?

- **The unemployment rate in October hits historically low levels**

Unemployment levels were low in October, at 7.8% nationally and 8.7% in the 13 major cities, due to job creation outpacing the growth in the labor force, although it was not as strong as in other periods. In addition to the falling trend in unemployment since March 2012, the low rates of recent months have been boosted by more jobs in the social, community and personal services sector, most of which is public-sector employment.

- **Employment data show falling unemployment and slowing growth of the labor force and employment**

The trend in unemployment is down, which can be explained by the employment rate growing faster than the labor force. The labor market is showing a slowdown of the growth in the economically active population (EAP) and in employment compared to previous years. The slower pace of growth in the EAP as a whole has been marked by a slowdown in its component consisting of people who are not heads of households. This has been combined with a fall in unemployment of the heads of households and an increase in the quality of employment in terms of greater formality and thus higher income.

- **The composition of the economically inactive population (EIP) is providing a boost to the generation of human capital**

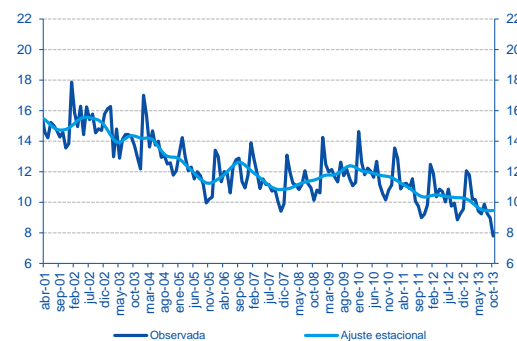
**The slower growth of the labor force of the second household members** was reflected in the inactive population consisting increasingly of people dedicated to domestic work and study and not to tasks included in the category of "other inactive people" that generates less value. In this respect, the composition of the economically inactive population (EIP) tends toward the generation of more human capital.

## The unemployment rate has fallen to historically low levels

The trend in urban and national unemployment since March 2012 has been for a fall to historically low levels in October 2013 (Charts 1 and 2). In seasonally adjusted terms, the national unemployment rate fell by 1 pp between March 2012 and October 2013, while urban unemployment fell by 0.8 pp. Even more, the unemployment rate among heads of households hit the lowest level since the end of 2007 (5.3% in 2013 compared with 4.9% in 2007).

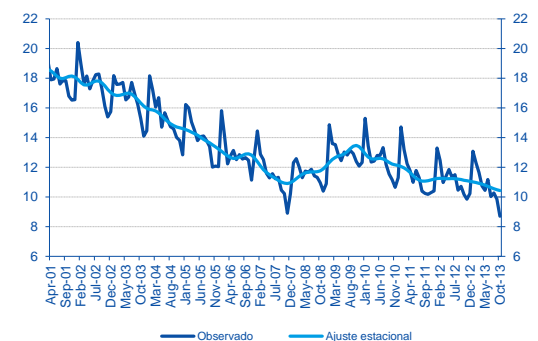
According to Arango et al. (2011), the urban NAIRU estimated for Colombia is 10.8%, and this is also the average unemployment rate for 2013. Thus there does not appear to be room for major reductions in the unemployment rate. It is worth mentioning that despite the reduction in the rate over recent months (seasonally adjusted they are below 10.8%) there do not appear to have been any inflationary pressures so far, perhaps due to supply shocks. However, even inflation excluding food and administered prices does not appear to suffer from inflationary pressures. The NAIRU could therefore probably be a little lower.

Chart 1  
Observed and seasonally adjusted unemployment rate (2001-2013)  
National (% of EAP)



Source: DANE and BBVA Research

Chart 2  
Observed and seasonally adjusted unemployment rate (2001-2013)  
Thirteen cities (% of EAP)



Source: DANE and BBVA Research

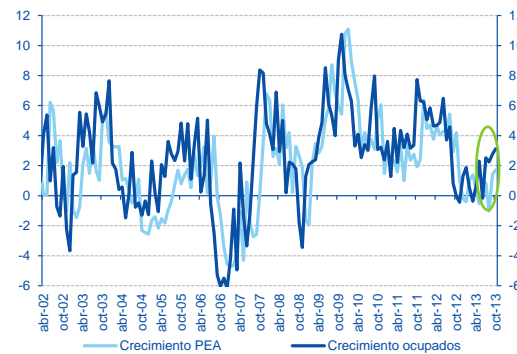
## Employment grows faster than the labor force, although at a slower pace than in previous years

**At the national level**, an annual average of around 260,000 jobs were created in the last year. The percentage increase in the number of employed from one year to another was an average of 1.2% in the same period. The economically active population (EAP) increased by an average of 0.6% per year. The growth rates for both employment and the EAP are well below those in previous years (4.9% y/y between April 2009 and August 2012 for employment and 4.6% y/y for the EAP).

Between July and October this year there has been an upturn in job creation, with an annual average of 560,000 jobs created. This upturn is mainly due to the boost from the community, social and personal services branch, which contributed an average of around 300,000 jobs to total employment. We should keep watch in the coming months to see if these new jobs are permanent or temporary.

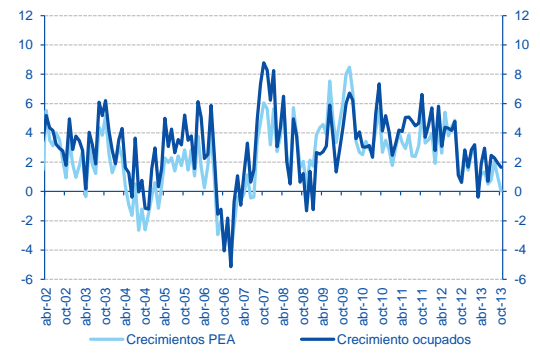
At the level of the 13 major cities since September 2012 growth has also slowed in both the EAP and employment. The average annual growth in the EAP declined from 4% between February 2009 and August 2012 to 1.3% over the last year. In the case of employment the rate fell from 4.2% y/y to 1.8% y/y. A total of 169,000 jobs were created in October 2013 compared to a year ago, an annual rate of growth of 1.6%, while the EAP remained at the same level as a year ago. The unemployment rate in October 2013 was 1.5 pp down on the figure 12 months earlier.

Chart 3  
Growth in the EAP and employment  
National (y/y %)



Source: DANE and BBVA Research

Chart 4  
Growth in the EAP and employment  
Thirteen cities (y/y %)



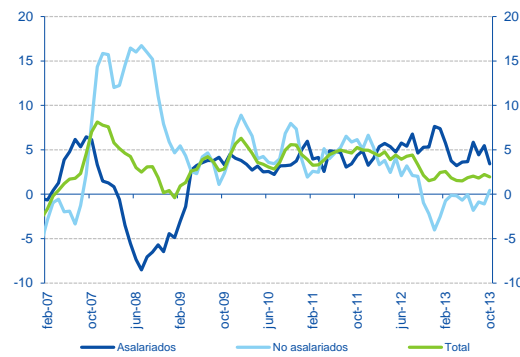
Source: DANE and BBVA Research

## The quality of employment has improved

The quality of employment has improved in the last two years. As can be seen in Chart 5, growth in the number of non-salaried employees has declined steadily since February 2012, and been in negative territory since October 2012. Thus the balance between salaried and non-salaried employees has favored salaried employees, with the ratio of salaried employees to the total being close to 52% in October 2013 (compared with 49.1% in 2011) (Chart 5). In the case of young people between the ages of 14-28, the ratio increased even more (4 pp), from 63% to 67% between December 2011 and August 2013 (Chart 6). This could be due to the policies implemented by this government, which have been focused on providing young people with their first jobs. However, it is too early to come to any conclusions in this respect.

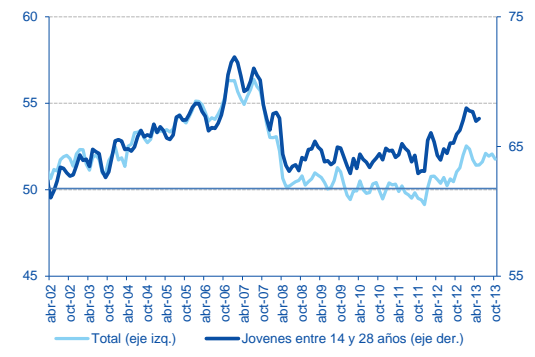
In terms of quality of employment this change in balance is positive, given that the income of salaried employees is higher than that of non-salaried employees. In fact, while 60% of non-salaried employees received an income from work that was lower than the minimum wage in 2012, this percentage is just over 20% in the case of salaried employees.

Chart 5  
Growth of total, salaried and non-salaried employment. Thirteen cities (y/y %)



Source: DANE and BBVA Research

Chart 6  
Total salaried and young employees Thirteen cities (% of employed)

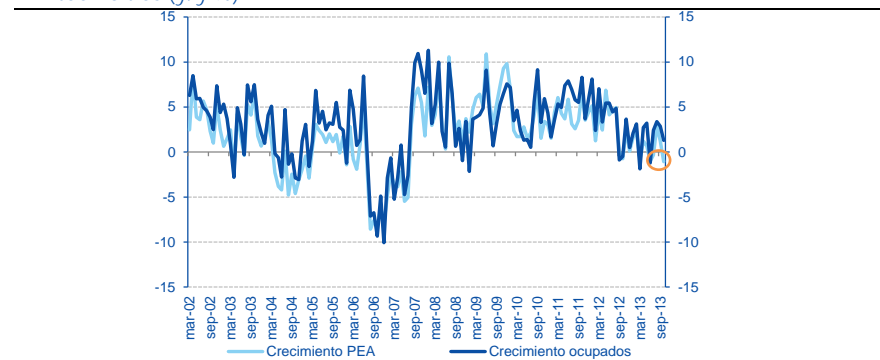


Source: DANE and BBVA Research

The activity rate of people who are not heads of households is falling and the inactive population is moving toward a structure that boosts the formation of human capital

It is the "non-heads of household" who have marked the slowdown in the rate of growth of the EAP. Since September 2012 growth in the economically active population of household members who are not heads of household has declined from an annual average of 4.5% between February 2009 and August 2012 to 0.61% between September 2012 and October 2013 (Chart 5).

Chart 7  
Growth in the EAP and employment among household members other than heads of household Thirteen cities (y/y %)



Source: DANE

In October 2013 the EAP of non-heads of household actually fell, posting a negative growth of 1% y/y. This reflects historically low unemployment rates for heads of household and an improved quality of employment, as a result of which people who before had to work to help sustain a household have been able to study or do domestic work. Although since the quarter September-November 2012 the economically inactive population (EIP) has been growing at higher rates than in previous years (in line with the lower rate of growth in the EAP), these increases can initially be explained by increases in the "other" inactive workers. Starting in February-April 2013, however, this has changed, with the categories of "students" and "domestic worker" having a bigger weight in the increase of the EIP. It is worth pointing out that the classification of "others" includes economically non-productive and non-educational activities, as well as pensioners, people with permanent disabilities and the sick. It could be said that a structure of the inactive population geared more to domestic work and study may tend to generate human capital rather more than structures with greater components of the "other" categories.

## Toward the future

As mentioned earlier, the reduction in the rate of growth of the EAP appears to be due to the fact that people who previously had to be in the labor force can now decide not to work due to the greater quality of employment of heads of household. This change in composition of the EAP has been accompanied by a fall in the labor force as a percentage of the population of an age to work and by falls in the rate of unemployment. As a result, the rate of job creation has continued to be positive, though low. However, having reached levels of unemployment similar to the NAIRU, the unemployment rate cannot be expected to fall much further, and thus the reductions in the overall labor force participation rate will result directly in lower rates of job creation.

The challenge for the economy is therefore to continue to create good quality jobs and maintain the labor force participation rate at current levels. If the rate is maintained at 2013 levels, given that the population of an age to work in Colombia has been growing at annual rates of 1.6%, and with an unemployment rate at around the NAIRU, job creation will be around an annual 1.5%.

## Conclusion

The employment figures are good, given that although employment is growing at reduced rates its composition is improving, in the sense that more salaried - i.e. better quality - jobs are being created. Growth in the EAP is slowing, due to lower rates of growth of the economically active population who are not heads of household. The reduction of the EAP of people who are not heads of household appears to be due to the reduction in unemployment rates for the heads of household and the improved quality of jobs. These two factors have enabled the non-heads of household to take the decision to remain inactive, rather than entering the labor force to generate income and sustain the household. In addition, the composition of the inactive population is boosting the formation of human capital, inasmuch as its increase is made up of people who do domestic work or study.

However, given that the rate is approaching the long-term unemployment rate, adjustments to the labor force participation rate are leading to adjustments to job creation. The challenge is therefore for the economy to continue to create good quality jobs, while maintaining the participation rate at current levels.

## DISCLAIMER

This document, and all data, opinions, estimates, forecasts or recommendations contained herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, "BBVA"), for the purpose of providing its customers with general information as of the date of issue of the report, and are subject to change without notice. BBVA does not undertake to communicate the changes, or to update the content of this document.

Neither this document nor its content constitute an offer, invitation, or request to buy or subscribe to shares or other securities, or to make or cancel investments; nor can it serve as the basis of any contract, commitment or decision whatsoever.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may be inappropriate for their specific investment objectives, financial position or risk profile, as they have not been taken into account when preparing this report. Thus they should adopt their own investment decisions, taking into account these circumstances and obtaining any specific and specialized advice that may be necessary. The content of this document is based on information available to the public, obtained from sources deemed to be reliable, but the information has not been independently verified by BBVA, and therefore no guarantee (either explicit or implicit) is provided as to its accuracy, completeness or correctness. BBVA does not assume any liability for any direct or indirect loss that may result from the use of this document or its contents. Investors should remember that the past performance of securities or instruments, or the historical results of investments, do not guarantee future performance or results.

The price of securities and instruments or the results of investments may fall or rise against the interest of investors and even result in a loss of the initial investment. Transactions in futures, options and shares or high-yield securities may involve high risks, and are not suitable for all investors. In fact, certain investments may lead to a loss greater than the initial outlay, in which case additional sums must be paid to cover the loss. Before making any transactions in these securities, investors must therefore be aware of how they operate, and the rights, obligations and risks involved, in addition to those inherent in the underlying values of the securities. There may not be a secondary market for these instruments.

BBVA or any other organization in the BBVA Group, as well as the respective directors or employees thereof, may hold a direct or indirect position in any of the securities or instruments referred to in this document, or in any other securities or instruments related to them; they may trade these securities or instruments themselves or through a third party, provide advice or other services to the issuer of these securities or instruments, to companies related to them or to their shareholders, directors or employees; and may have a stake, or carry out transactions of any kind, in these securities or instruments or investments related to them, either before or after the publication of this report, to the extent permitted by applicable law.

The employees of the sales department or any other departments of BBVA or other organizations in the BBVA Group may provide customers with comments on the market, either verbally or in writing, or investment strategies, which reflect opinions contrary to those expressed in this document; at the same time, BBVA or any other organization in the BBVA Group may adopt investment decisions on their own account that are inconsistent with the recommendations contained in this document. No part of this document may be (i) copied, photocopied or duplicated in any way, form or method, (ii) redistributed or (iii) cited, without prior permission in writing from BBVA. No part of this report can be reproduced, taken away or transmitted to those countries (or persons or entities in such countries) where distribution may be prohibited by current law. Breach of these restrictions may constitute a violation of the legislation in the relevant jurisdiction.

This document will only be distributed in the United Kingdom to (i) people with professional experience in matters related to the investments provided for in article 19(5) of the 2000 Financial Services and Markets (Financial Promotion) Law of the 2005 Order, (in its amended version, hereinafter the "order") or (ii) major asset institutions subject to the provisions of article 49(2)(a) to (d) of the order or (iii) people to whom an invitation or proposal to make an investment can legally be made (in accordance with the meaning of article 21 of the 2000 Financial Services and Markets) (hereinafter, all these people will be known as "involved people"). This document is addressed exclusively to relevant persons. Those who are not relevant persons should not use it as a basis or guidance for action. The investments or investment activities referred to by this document are only available to involved individuals and will only be made with involved individuals.

No part of this report may be reproduced, taken or transmitted to the United States of America or to American persons or entities. Breach of these restrictions may constitute a violation of legislation of the United States of America.

The system of remuneration of the analyst(s) who are the author(s) of this report is based on a variety of criteria, among them income earned in the economic year by BBVA and, indirectly, the earnings of the BBVA Group, including those generated by its investment banking activity, even though they do not receive compensation based on earnings from any specific investment banking transaction.

BBVA is not a member of FINRA and is not subject to the disclosure standards established for its members.

"BBVA is subject to the BBVA Group Stock Market Code of Conduct; this includes rules of conduct established for preventing and avoiding conflicts of interest with regard to recommendations, including barriers to information. The BBVA Group Stock Market Code of Conduct is available for consultation on [www.bbva.com](http://www.bbva.com) / Gobierno Corporativo.

BBVA is a bank subject to the supervision of the Bank of Spain and the National Securities Market Commission (CNMV), and is registered in the Administrative Register of the Bank of Spain under number O182.