

Labor Market Report - Recent employment dynamics and methodologies for calculating the non-inflationary unemployment rate

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This series aims to broaden the discussion and the understanding of the current situation of the Colombian labor market, providing relevant information for the general public. In addition, this series seeks a better approach with the different audiences on valuable results of recent research on this subject and relevant to Banco de la República's work, such as topics related to labor market fluidity, structural unemployment rate, payroll tax impacts, unemployment rate forecasts, and leading indicators of the labor market, among others.

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According to the most recent information from the Great Integrated Household Survey (GEIH in Spanish), as of May 2023, employment in the national aggregate grew by 3.4% in annual terms, mainly driven by the rural area, which grew by 4.0% annually, while in the urban area employment grew by 2.9%. This behavior of employment levels is reflected in the dynamics of the employment to population ratio (TO in Spanish), which in the national aggregate grows 1.1 pp (percentage points) annually, with a hike of 1.4 pp in rural TO. In line with the above, the non-salaried segment, characterized by a high level of informality, has shown a significant growth of 4.8% between February and May 2023. In turn, the salaried segment, which had shown good dynamism during 2022, exhibits signs of deceleration so far this year. In fact, the variation in employment between the quarter ending in May and the quarter ending in February 2023 was -0.9%, implying 92,000 fewer salaried jobs in the last quarter. Additionally, recent indicators of formal labor demand, such as vacancy indexes, exhibit mixed signals, but hiring expectations suggest lower formal employment dynamics in the near future.

On the other hand, the behavior of aggregate labor participation has shown a slight recovery; however, this has not prevented the unemployment rate (UR) from continuing to fall slowly in May, standing at 10.4%. Thus, the national UR is expected to average between 10% and 11.6% in 2023, with 10.8% as the most likely value, which implies a moderate increase in the unemployment rate for the rest of 2023. This forecast suggests a still tight labor market, but that appears to be moving towards a neutral zone with lower inflationary pressures from the labor market. UR forecasts and the estimate of the non-accelerating inflation unemployment rate (Nairu) suggest that the average unemployment gap in 2023 would be -1.6 pp but would continue to close in the coming year.

The second part of the Report presents a detailed description of different measures of the Nairu, understood as the unemployment rate, for which the economy does not show any upward pressure on its price level. This variable is an essential tool for the monetary authority; however, since it is not observable, multiple estimations with different methodologies are required for greater reliability. This section presents the different Nairu measures estimated by the Labor Market Analysis Group (Gamla) and assesses the forecasts of each of these measures, together with their optimal combination; the one that minimizes forecast errors.