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Labor Market Report – Continued Loss of Dynamism in Employment and Recent Employment Trends in the Building Construction Sector

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This series intend to broaden the discussion and understanding of the current situation of the Colombian labor market by providing relevant information to the public. Additionally, it aims to foster closer engagement with diverse audiences by presenting valuable findings from recent research on this topic that are relevant to the work of *Banco de la República* (the Central Bank of Colombia). These include issues related to labor market fluidity, the structural unemployment rate, the impact of payroll taxes, unemployment rate forecasts, and leading labor market indicators, among others.

Publication Date: Thursday, 9 of May 2024
In recent months, employment has continued to deteriorate at a moderate pace. According to data from the Official Colombian Household Survey (GEIH by its acronym in Spanish), national aggregate employment declined by 1.8% over the past six months, driven mainly by the rural area, while urban employment has remained stable. The weak employment performance is also reflected in the employment-to-population ratio (EPR), which, as of February, showed declines across all domains. On the other hand, salaried employment, which had driven growth during the post-pandemic period, has remained stable in recent periods. This weaker dynamism in salaried employment is also observed in administrative records of salaried and formal employment, such as the Social Security Administrative Records (PILA, by its acronym in Spanish) and family compensation funds. This explains the recent increase in the informality rate, which now stands at 55.8%. Finally, at the margin, an increasing number of sectors are contributing to the decline in employment, including transportation and communications; public administration, health and education; construction; trade and accommodation; and professional activities. In line with weaker employment growth, vacancy indicators and firms' hiring expectations continue to decline. This lower demand explains the recent rise in the unemployment rate (UR), which in February 2024 increased across all geographic domains, reaching 10.6% for the national aggregate. Despite weaker demand and the increase in the UR, the Beveridge curve suggests a still tight labor market. In line with this, annual increases have been observed in labor income, in both nominal and real terms, the latter partly driven by the recent correction in inflation.

Based on recent employment dynamics and economic growth projections for 2024, forecasts for the average UR continue to show an upward trend. Thus, the urban UR is expected to range from 9.6% to 11.9%, with 10.8% as the most likely value. A similar pattern is expected for the national aggregate, with average levels ranging from 9.5% to 11.8%, with 10.7% as the most likely value. This suggests an unemployment gap (the difference between the UR and the non-inflationary unemployment rate, or Nairu) that would continue to narrow over the year, with an average value of -0.6 percentage points (pp) in 2024. These projections suggest that the unemployment gap is moving toward a neutral zone and will close toward the end of 2024.

As usual, this report is divided into two sections. The first describes the current labor market situation, while the second provides a more detailed analysis of employment in the construction sector and its relationship with economic activity. In Colombia, as in the world's major economies, construction is one of the sectors most sensitive to changes in financial conditions. Since late 2022, its main indicators have shown signs of a slowdown, which has also been reflected in employment creation, albeit with some lag. This special section shows that key indicators, such as new housing launches, units sold, and the start of construction of new units, drive employment developments in the sector, highlighting the importance of monitoring and analyzing these indicators to anticipate potential future trends.

Fuente: https://www.banrep.gov.co/en/publications-research/labor-market-reports/april-2024