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## **Abstract**

Most macroeconomic labor literature on estimating matching functions does not consider spatial spillover effects. However, job search and vacancy-filling processes often involve neighboring locations, as local workers can search for and fill vacancies in nearby labor markets. We estimate a spatial spillover model using annual data for a middle-income country in Latin America. Our findings show that unemployment has a positive spatial spillover effect because an increase in the labor supply raises the probability of filling a vacancy. In contrast, vacancies have a negative spillover effect because local and neighboring vacancies compete to be filled by workers in both markets.