Labor Market Report - Labor Market Stabilization with Signs of Deterioration by 2023 and Assessment of the Formal Employment Support Program (PAEF in Spanish)

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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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As of November 2022, the Colombian labor market has stabilized. This is due to the heterogeneous dynamics between the urban and rural domains. In the first domain, employment continues to grow, while in the second, there have been contractions in recent months. Job losses in the rural area are partly explained by the poor performance in the agricultural sector, especially in short-season crops, which were particularly affected by *La Niña*. Employment losses are mostly driven by the non-salaried segment. Meanwhile, the salaried segment continues to grow. However, other sources of information reflecting formal employment, such as the social security records from the Integrated Social Security Contribution Form (PILA in Spanish), suggest stability in recent months. Other labor demand indicators, such as job vacancy rates, show a rapid contraction in the margin. This is consistent with lower recruitment expectations according to information from Banco de la República's quarterly survey of economic expectations, which indicates two consecutive quarters of decline in this indicator.

The unemployment rate (UR) remains stable in the national aggregate, which is consistent with contractions in urban areas that are offset by growth in rural areas. Indexes relating UR and job vacancy rate, such as the Beveridge Curve, continue to show a tight labor market. Based on the economic growth forecasts of Banco de la República's technical staff reported in the January 2023 Monetary Policy Report, the urban UR would increase throughout the year. On average, the 2023 UR would be between 9.4% and 12.5%, with 11% as the most probable value. The national UR would also increase during this period, with a 2023 average between 9.8% and 12.5%, with 11.3% as the most probable value. On the other hand, the Non-inflationary Unemployment Rate (Nairu in Spanish) forecasts suggest a negative urban unemployment gap that would tend to close by the end of the year. Such forecasts suggest that inflationary pressures from the labor market would continue in 2023.

This report is divided into two sections. The first section delves into the current situation of the labor market described above. The second evaluates the effect of subsidies of the Formal Employment Support Program

(PAEF in Spanish), introduced by Law 2155 of 2021. Since the program targeted micro and small companies, we use the company-size criterion to identify it´s causal effects. Results show positive and persistent effects in companies with up to fifty employees, eligible for the subsidy, compared to those of larger size. In particular, the average effect is an increase in employment of 0.4 percentage points.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/labor-market-report/labor-market-stabilization-signs-deterioration