Labor Market Report – Recent Stability in Unemployment and the Analysis of the Effects of Changes in Dismissal Costs Using a Macroeconomic Model

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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.

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Data from the Official Colombian Household Survey (GEIH by its acronym in Spanish) suggests that, following a period of contraction, national employment has stabilized in recent months, reaching levels close to 22.9 million employed people in the quarter ending in May 2024. This performance reflects improvements in rural areas and other municipalities, while urban employment has shown slight increases. Thus, the employment-to-population ratio (EPR) stood at 57.3% over the same period, with a notable difference between urban areas (59.2%) and other municipalities and rural areas (55.2%). This gap is partly explained by a slower recovery of employment in rural areas compared with urban areas during the post-pandemic period. In terms of employment status, salaried employment has remained stagnant so far this year, while non-salaried employment has increased slightly, driving the informality rate to 56.2% in May. The stabilization of salaried and formal employment is also reflected in administrative records, such as pension contributions and membership in family compensation funds. Other labor demand indicators, such as job vacancies and hiring expectations, have improved over the past three months, suggesting better employment performance in the near future. Meanwhile, the labor force participation rate (LFPR) has remained relatively stable, with stabilization observed in other municipalities and rural areas, consistent with developments in labor demand in this domain. Regarding the unemployment rate (UR), in recent months the pace of its increase has slowed, and in the quarter ending in May it stood at 10.5% in both urban and rural areas. Forecasts for the UR in 2024 suggest relative stability. Specifically, the average urban UR is expected to range % from 9.7% to 11.3%, with 10.5% as the most likely value. In turn, the national aggregate UR is projected to range from 9.8% to 11.4%, with 10.6% as the most likely value. Together, these forecasts reflect the improved dynamics observed and expected in the labor market and in economic activity. In addition, the UR gap is expected to continue narrowing during 2024, with an average non-inflationary rate of unemployment (Nairu) of 11.2 %, suggesting a slightly more negative gap than that estimated in the previous report, but consistent with improvements in the labor market.

As usual, this report is divided into two sections. The first provides a detailed analysis of the current labor market situation summarized above. The second presents a tool to study the effects of changes in dismissal costs using a macroeconomic model. In particular, it was found that an increase in dismissal costs has negative effects on labor force participation and labor demand in the formal sector, along with a compensating positive effect on employment in the informal sector. Since this policy may also reduce labor supply, its impact on unemployment is ambiguous.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/labor-market-reports/july-2024