



BOX I.2:

The labor market and inflation

The behavior of wage inflation is a key determinant of inflationary dynamics. This is particularly relevant in contexts of high inflation, in which nominal wages may become more sensitive to labor market conditions and even to past inflation. The analysis of administrative records and the cross-country comparison presented in this Box suggest that the current dynamics of the Chilean labor market have caused no significant additional pressures on inflation. In any case, monitoring is important to ensure the convergence of inflation to the target within the two-year horizon.

In developed economies, labor markets are showing signs of being very tight. In particular, the ratio of available vacancies to the number of unemployed persons (V/U) has been rising. Nonetheless, real wages are falling because the adjustment of nominal wages has been less than inflation (figure I.20). The results presented in [Andalaf et al. \(2022\)](#) suggest that in these economies nominal wages respond more strongly to past inflation increases when the labor market is very tight. This poses a risk to the inflation decline in these economies, and is one of the factors behind the more contractionary global monetary policy outlook contemplated in the central scenario of this Report.

The data available for Chile paint a different picture. The labor market shows limited dynamism and lower degrees of indexation, which reduces the risks for inflation convergence. Thus, a proxy measure to the V/U ratio —described in [Andalaf et al. \(2022\)](#)— indicates that the labor market has loosened, which has been accompanied by a fall in real wages over the last year^{1/}. Meanwhile, the analysis of nominal labor income based on administrative records indicates that in 2021-2022 the degree of indexation to past inflation has been 50% lower than in the pre-pandemic period (see [Andalaf et al. \(2022\)](#) for more details), which is one of the factors that would explain the fall in real wages.

Another indicator usually used to measure how constrained the labor market is would be the evolution of the wages of workers who voluntarily change jobs. The administrative records available to the Bank allow us to construct this indicator for Chile. The evidence shows that in Chile the wages of those who change jobs are decelerating in both real and nominal terms, although they are still high compared to the period for which this information is available (figure I.21). This is a risk that must be monitored, considering also that the proportion of workers who stay in the same job and those who change from job to job have remained similar to pre-pandemic levels, which tends to rule out a widespread fragility of the labor market (figure I.22)^{2/}. This imposes a degree of caution on the overall picture that points to a looser labor market and, therefore, lower risks to the convergence of inflation.

All in all, the central scenario of this Report considers that nominal wage dynamics will evolve consistently with inflation converging to the target over the two-year policy horizon. In that scenario, nominal wages will grow in line with the usual indexation patterns. This will allow real wages to gradually recover their historical average growth rate in the coming quarters.

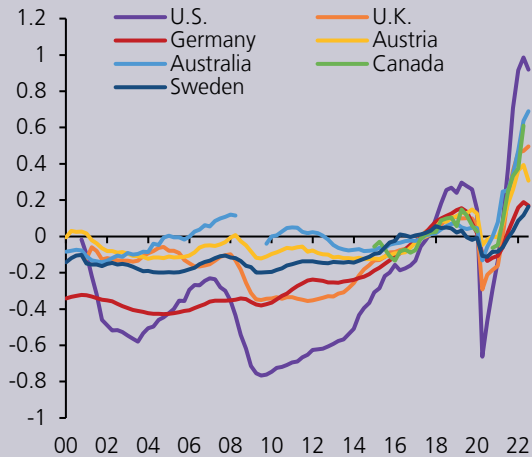
^{1/} The V/U ratio proxy constructed for Chile informs about the change in said ratio but not about the level.

^{2/} Employment is broken down into those who maintain the same employment relationship from one month to the next, those who change from job to job, and those who, having been unemployed, appear as employed in the month. The three flows add up to 100; the proportion of those who keep the same job and those who change jobs are reported.

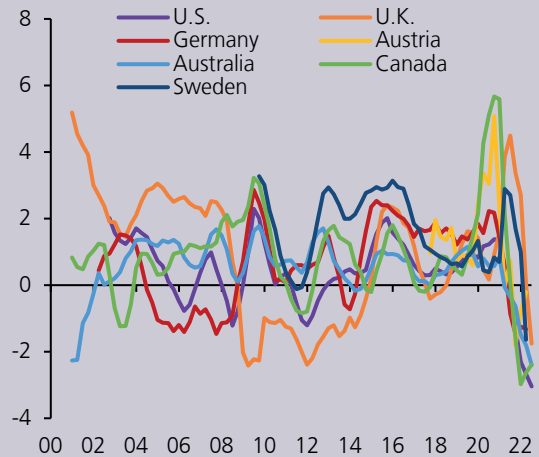


FIGURE I.20 LABOR MARKETS IN DEVELOPED ECONOMIES

Vacancies per unemployed person
(deviation from 2014Q1-2019Q4 average)



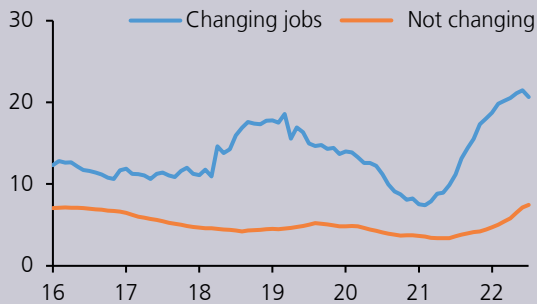
Real wages (*)
(annual change, percent)



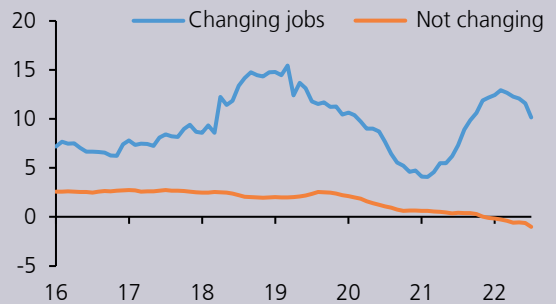
(*) Four quarters moving average. Real wages calculated using nominal wages deflated by CPI.
Sources: Bloomberg, OECD, Eurostat and respective statistical bureaus.

FIGURE I.21 WAGE GROWTH IN CHILE (*)

Median of annual growth in nominal wages
(percent)



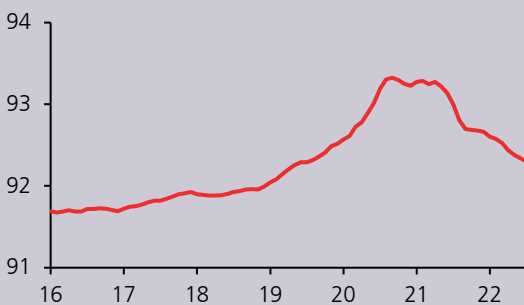
Median of annual growth in real wages
(percent)



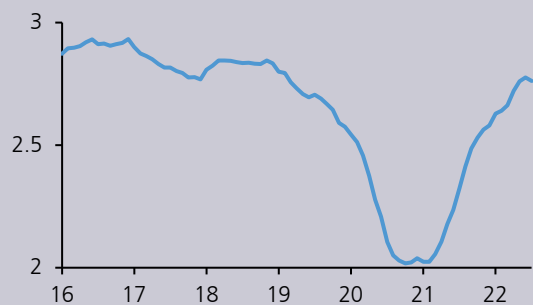
(*) Considers data up to July 2022.
Source: AFC.

FIGURE I.22 SHARES OF SALARIED EMPLOYEES WHO MAINTAIN THEIR JOBS OR FIND NEW ONES (*)

Job keeping rate
(percent)



Job change rate
(percent)



(*) Considers data up to July 2022.
Source: AFC.