

Half a million formal jobs lost in April in the midst of the COVID-19 outbreak

- Today, the Social Security Institute (IMSS) released formal employment figures for April
- Within, we highlight the loss of 555.2 thousand formal jobs, highest decline for a single month since the series is available (1994). As a result, total workers stood at 19.9 million, lowest since July 2018
- Moreover, 6,689 businesses were removed from the affiliation list (-0.7% m/m), in our view also a direct effect from the pandemic. On the other hand, the average daily wage increased to \$403.6 (US\$16.6, + 5.7% y/y in real terms)
- Going forward, we expect an additional decrease in job positions due to measures implemented to fight the outbreak, with May so far also being strongly affected
- Nevertheless, we believe a gradual recovery could be observed once the sanitary emergency is over, which will also be highly dependent on the magnitude of the potential rebound in economic activity

COVID-19 pandemic induces a loss of slightly more than half a million jobs in April. Today, the Social Security Institute (IMSS) released its formal employment report for April. We highlight the elimination of 555.2 thousand formal jobs, its biggest loss for a single month in the history of the series, which is available since 1994 (see chart below on the left). With this, total formal workers stood at 19.9 million, not seen since July 2018 (see chart below on the right). Year-to-date, 493.7 thousand jobs have been lost, remembering that in March we observed a decrease of 130.6 thousand.

The effects of the pandemic also influenced the number of affiliated businesses ... Specifically, the number of businesses that were removed from the affiliation list stood at 6,689, representing a 0.7% m/m decline. In our view, most of them likely suspended operations or closed definitively due the demand shock induced by the pandemic, outweighing for the typical birth and death rates of businesses in the economy. Regarding the latter and just as an example, there were 2,404 new businesses in March despite already observing job losses in that period.

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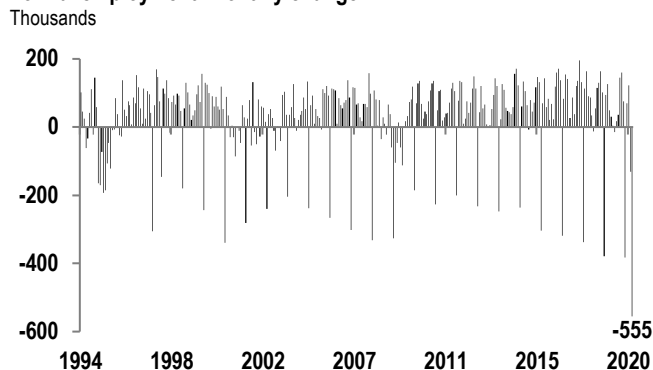
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



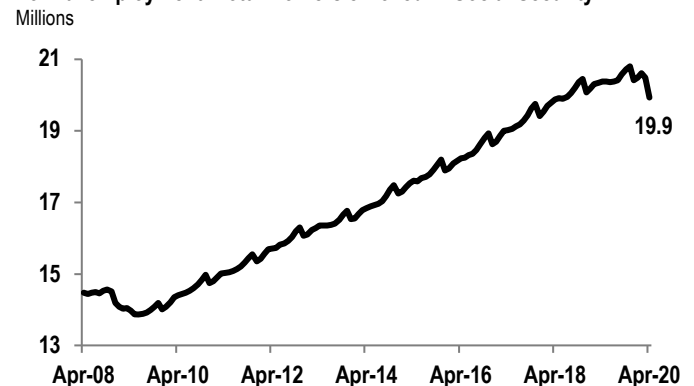
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Formal employment: Monthly change



Source: IMSS, Ministry of Labor

Formal employment: Total workers enrolled in Social Security



Source: IMSS, Ministry of Labor

...while also skewing higher the average wage. In particular, the average daily wage surged to \$403.6 (US\$16.6), up 5.7% y/y in real terms and highest since December 2001. We believe at least three factors help explain most of the adjustment higher in real terms: (1) Recent increases in the minimum wage, which accelerated this year, although with a relatively modest impact; (2) lower annual inflation, which dipped to 2.15% in April from 3.25% in March; and probably most relevant (3) jobs lost that were likely concentrated among workers with lower wages, resulting in an upward bias when calculating the average.

Important data on employment dynamics in the country. It should be noted that another of the consequences of the pandemic is that INEGI will be unable to carry out the *National Employment Survey* (ENOE) as usual, from which the unemployment rate is calculated, at least for April and May. To try to mitigate this, INEGI is working on a complementary phone survey, aiming to provide timely information about the current backdrop, when it is crucial to have these figures. In this sense, IMSS's employment data will be very important to continue building a continuous series about labor market dynamics, despite being focused only in the formal sector.

We expect additional job losses in the short term, bouncing back as economic activity restarts. Dynamics seen today were relatively better to other countries that have also implemented strong social distancing measures, which has resulted in lower economic activity. Specifically, job losses were equivalent to a 2.7% decline in total formal employment relative to March. To put this in perspective, in the US, the 20.5 million contraction in jobs during the same month implied a 13.5% fall in total employment. In Canada, they fell 11.0%. Nevertheless, figures in those countries consider most of the labor force, as informal employment is low. On the contrary, around 56% of total employees in Mexico are in this sector, which is not accounted in today's report. On the other hand, and although more detailed figures are not yet available, broader data suggests that industry was the most impacted, despite some important sectors still operating as they are considered essential (*e.g.* food and beverages, medical supplies, etc.). Going forward, we believe the impact will be more heavily concentrated in services.

Considering that "Phase 3" of the pandemic and the declaration of the sanitary emergency has extended into May (so far), it is our take that the decline in employment levels will continue. In our opinion, this will happen because of at least two effects: (1) Lower economic activity; and (2) greater financial vulnerability of businesses due to the shock given that, as more time passes by without generating income, their capacity to keep up with their expenses, such as payrolls, is compromised.

Nevertheless, and according to the latest available information, activity is planned to restart in a gradual manner in some zones in which contagion is lower as soon as in the next couple of days; meanwhile, in metropolitan areas –where there are more cases– this would happen until the end of the month. In this context, we will look into the details about the plan to reopen the economy, which according to President López-Obrador, will be unveiled tomorrow.

In this regard, the sooner we see a resumption in activities, job losses would be lower and the speed of the recovery faster. However, the decision is not easy, as a full-fledged and unrestricted reopening increases the probability of a new wave of contagion that once again compromises the country's productive capacity. Considering the latter, we believe that, once activity starts to reactivate, employment will follow. Nevertheless, we anticipate this will be gradual given the nature of the pandemic and that this is what usually happens in recovery periods after very disruptive shocks to the economy.

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