

Employment figures show the strong impact from COVID-19

- **Unemployment rate (April; nsa): 4.7%; previous: 2.9%**
- **Part-time workers: 25.4% (previous: 9.1%); Participation rate: 47.5% (previous: 59.8%)**
- **These figures were obtained through a phone survey, instead of the usual face-to-face method. Therefore, INEGI stressed that they are not strictly comparable to the historical series despite being very useful as a reference, particularly in a situation such as the one we are currently facing**
- **Although the increase in the unemployment rate was not that drastic, the report was not favorable, as reflected by the plunge in the participation rate, which suggests that a large amount of people became unemployed while also stopped being part of the labor force**
- **In addition, the report shows that employment in the informal sector was hit the hardest, with close to 83% of total jobs lost**
- **We expect May's data, which will also be obtained by phone, to show an extension in the increase in unemployment due to social distancing measures**

The unemployment rate increased strongly in April. According to INEGI's report, the rate stood at 4.7% (non-seasonally adjusted figures), 180bps above March's print and a new high since July 2015. We should mention, as INEGI does, that this result is not strictly comparable to those in the historical series (more details in the section below). In this respect, the statistics agency has made a valuable effort to keep providing timely and useful data, which is helpful as a reference. Nevertheless, and in our opinion, the unemployment rate still does not convey the true impact from the pandemic in labor conditions, as the absolute number of persons classified as unemployed only climbed by around 400,000, even less than job losses seen in [the formal employment report](#). In contrast, the total decline in employed people was 12.5 million. This wide difference is due to the strong fall in the labor force, which plunged around 12 million people. Among others, the latter includes those that lost their jobs and were not actively seeking for another during the period, with most of them likely available for work but discouraged given current conditions. As a result, the participation rate decreased to 47.5% from 59.8%, which represents a new historical low.

In addition, underemployment also showed a steep increase, standing at 25.4% from 9.1% in March, a new historical high. This is explained by two factors: (1) An actual increase in the number of underemployed workers, climbing from 5.1 to 11.0 million, with some businesses probably continuing operations albeit at a reduced capacity, resulting in an involuntary cut in hours worked; and (2) a decrease in full-time workers (from 50.7 to 32.3 million), resulting in an increase in the underemployment rate due to a base effect.

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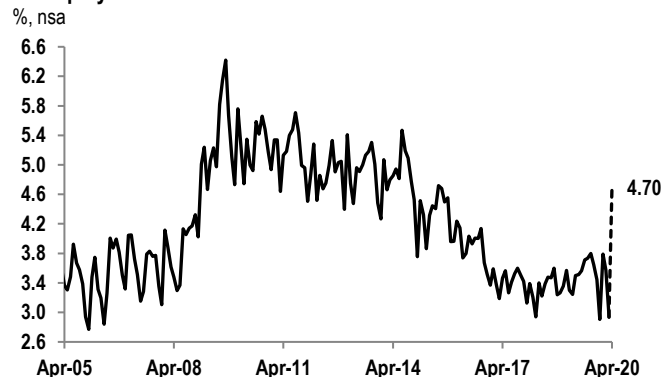
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



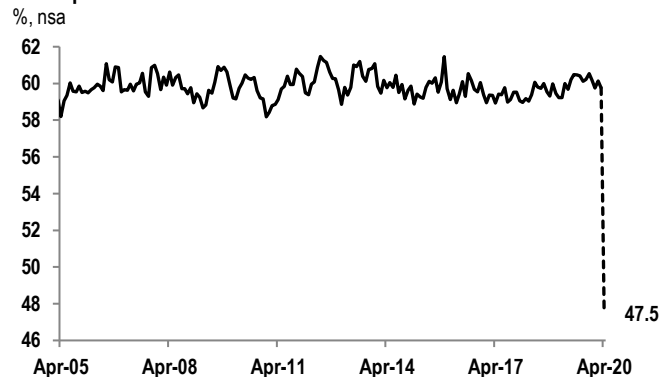
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Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

Informality showed a generalized decrease. In particular, workers in the informal sector fell to 47.7%, an 8%-pts decline relative to April. This is explained by the loss of 10.3 million informal jobs compared to only 2.1 million in the formal sector (according to the survey). In addition, those categorized as purely informal decreased to 23.7% from 30.4%. In our view, this clearly shows that the most impacted sector was the informal one. This might be related to actual conditions of these businesses, which have both a lower scale of operations and less access to credit, conditions that make them more vulnerable to this type of shock, including on their workers.

INEGI's employment report

Non-seasonally adjusted figures

%	Abr-20	Mar-20	Difference
Unemployment rate	4.7	2.9	1.7
Participation rate	47.5	59.8	-12.3
Part-time workers rate	25.4	9.1	16.3
Formal employment	52.3	44.3	8.0
Informal employment ¹	47.7	55.7	-8.0
Working in the informal economy	20.7	26.9	-6.2
Working in the formal economy	27.0	28.8	-1.8

Source: INEGI

Methodological considerations. As previously mentioned, in the press release, INEGI repeatedly stated that data presented today are not strictly comparable to the historical series from the employment survey, given that there are significant differences between them. The main one is the sampling method, as today's figure were obtained through a telephone survey, while the usual survey is carried out face-to-face. This is explained by measures taken by the statistics agency to maintain social distancing as well as other public health recommendations. In addition, other important differences include a different sample size and different rates of non-response, among others, although the conceptual design is very similar. It should be noted that at least for the next month, data for the labor market will also come from this survey, giving us a more direct comparison in terms of structure and methodology.

¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

We expect the labor market to keep deteriorating in coming months, with data still exhibiting distortions. Although the uptick in the unemployment rate can be judged as relatively modest given the global shock from COVID-19, we believe that the full details help assess the negative effects more clearly. Specifically, it is our take that both the hefty decline in the labor force and the higher relative share of job losses in the informal sector –which is very important in our country and consists of a more vulnerable group of the population– are very indicative of the heavy deterioration in labor market conditions.

In this respect, it is our take that despite its likely lagged effect, the unemployment rate will keep climbing in coming months, as more people gradually becomes categorized as unemployed. For example, the current fall in the total labor force (with most people, in our view, discouraged today to look actively for a job) could start to reverse in coming months. If this happens, we believe it is likely that a higher share will be listed as unemployed as opposed to employed, particularly with the economy recovering from a lower base. Support for these dynamics would also come from the future impact that the current fall in employment will have in aggregate demand. As such, the harm would be felt also in coming months even if the pandemic recedes soon, as opposed to being only a one-off shock in the current quarter in an optimistic scenario. This is one important driver behind our view that the unemployment rate could reach a new historical high of 8.1% by the end of the third quarter. In addition, we maintain our year-end forecast of the unemployment rate at 7.2%, while staying very focused on the dynamics in coming months given these considerations.

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We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato, Eridani Ruibal Ortega and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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