

Job losses moderate in June as the economy starts to reopen

July 13, 2020

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- Yesterday, the Social Security Institute (IMSS) released formal employment figures for June
- We highlight the loss of 83.3 thousand formal jobs, moderating relative to those in each of the last three months. Nevertheless, from March to June a total of 1.1 million jobs have been lost
- As a result of the latter, total formal workers stood at 19.5 million, lowest since December 2017
- On the contrary, 2,823 businesses were added to the affiliation list, breaking with two consecutive months of declines. In our opinion this is favorable as it shows the gradual reopening of the economy
- Average daily wages came in at \$407.3 (US\$18.3), increasing 4.7% y/y in real terms, lower than in May (5.1%)
- Considering the moderation in the pace of job losses, coupled with signs of further economic momentum at the beginning of July, we expect marginal job gains starting next month. Nevertheless, conditions remain uncertain, leading us to believe that we cannot rule out additional declines in coming months

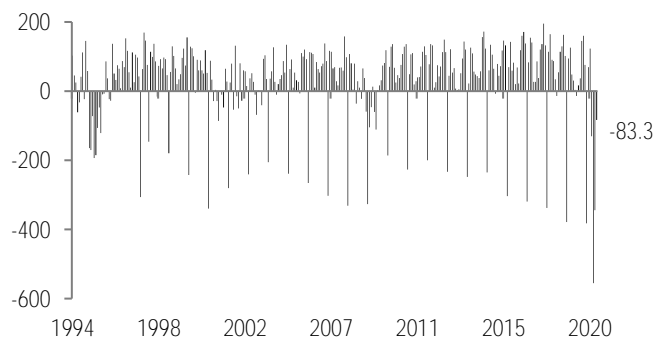
The COVID-19 pandemic kept impacting formal jobs in June. Yesterday, the Social Security Institute (IMSS) released its formal employment report for June. Within, we highlight the elimination of 83.3 thousand formal jobs, moderating significantly relative to losses in each of the last three months (see chart below, left). We believe this is partly explained by the start of the reopening of the economy. However, and given that it has been very gradual, it was not enough to result in net gains. We should mention that the accumulated decline from March to June stands at 1,113,677, greatly surpassing losses of 201,302 in full-year 2008 and 2009, in the midst of the latest crisis. As a result, total formal employees stood at 19.5 million, lowest since December 2017 (chart below, right).

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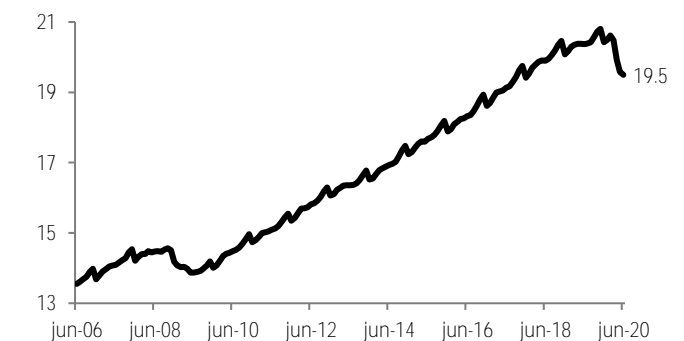
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Formal employment: Monthly change
Thousands



Source: IMSS, Ministry of Labor

Formal employment: Total workers enrolled in Social Security
Millions

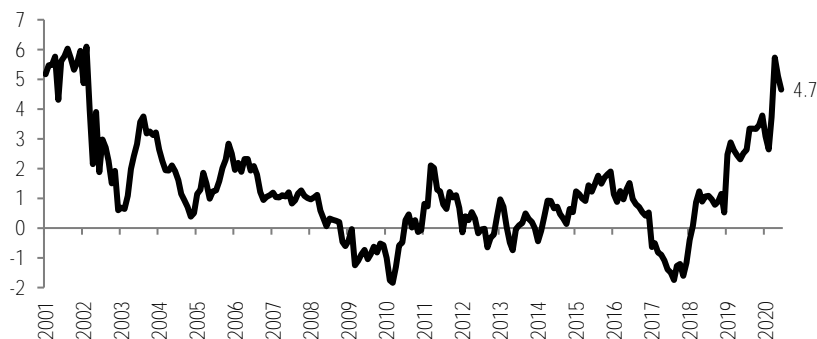


Source: IMSS, Ministry of Labor

Business affiliation shows a marginal pick-up. Specifically, the number of businesses added to the affiliation list stood at 2,823. With this, we only saw two months of declines (April and May), resulting in a year-to-date loss of 1,203 businesses. We also believe efforts to restart the economy likely have played a role in this rebound, which is a favorable sign going forward.

The rate of expansion of average wages slows down slightly. The average daily wage came in at \$407.3 (US\$18.3), +4.7% y/y in real terms, a slight deceleration relative to the 5.1% of the previous month. This slowdown is influenced by marginal inflation pressures, with the annual rate to 3.33% from 2.84% (+49bps). Meanwhile, nominal wages came in at +8.1%, practically in line with May’s figure. We consider the relative stability in nominal terms is explained by the moderation in job losses, which was the main driver behind its increases in previous months. In this sense, we expect wages to start to decline once hiring restarts on the back of the reentrance of workers with relatively low wages into the labor market.

Average daily wage
% y/y in real terms



Source: IMSS, Ministry of Labor

We expect some marginal gains in July. While we expected an increase in employment as soon as this month, we acknowledged that there was the possibility of seeing additional losses, as conditions were still uncertain. Although this situation continues to prevail, we believe that steps taken in June –which included the designation of key industries as essential–, coupled with additional signals of a greater reopening in July, with slight improvements according to the government’s epidemiological indicator, might result in a positive outcome. This would be reflected by both upticks in employment and business affiliations, while, as we mentioned, wages probably will start to come down. However, we believe that risks still remain, as businesses that might have remained ‘open’ –without laying off personnel– are still vulnerable, so we cannot rule out additional closures, which in turn could further impact employment. The latter might happen even if more stringent restrictions are not applied given the evolution of the contagion curve. Moreover, considering the uncertain scenario, businesses might defer their hiring decisions. We will also be on the look on what happens relative to the informal sector, that according to [INEGI’s latest employment data](#), seems to have bounced back faster. Nevertheless, it will be key to see if this sector starts to absorb losses from the formal sector, which considering the situation is a definite possibility.

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Reference	
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