

Employment starts to recover in June as economic activity restarts

- **Unemployment rate (June; nsa): 5.5%; previous: 4.2%**
- **Part-time workers: 20.1% (previous: 29.9%); Participation rate: 53.1% (previous: 47.4%)**
- **As in the previous two months, these figures were obtained through a phone survey instead of the usual face-to-face method. Therefore, they are not strictly comparable to the historical series despite their usefulness as reference**
- **In our view, the report is positive despite a higher unemployment rate, explained by a relatively high share of those back into the labor force returning as unemployed, at around 16%**
- **In this respect, of the 5.7 million people that came back into the labor market, 4.7 million returned as employed while the rest were catalogued as unemployed**
- **As a result, the participation rate improved despite remaining low relative to historical levels, still impacted by discouraged workers due to the pandemic**
- **Informal sector data once again shows job gains concentrated in this sector, with the informality rate at 53.0% from 51.8% in May. As losses were largely centered here in April, this performance is not surprising**
- **We believe the unemployment rate will climb further as more people keep returning to the labor force. Nevertheless, and after reaching a peak this year, we should start to see a gradual decrease towards its long-term average as activity normalizes**

The unemployment rate climbs in June. According to INEGI's report, the rate stood at 5.5% (non-seasonally adjusted figures, see chart below to the left), 130bps above May's data. As in the previous two months, the statistics agency reaffirmed this is not strictly comparable with the historical series (more details in the section below). This was relatively in line with our expectations, driven by: (1) A significant rise of the labor force, with the participation rate standing at 53.0% from 47.4% (chart below, right), as the start of the economic reopening led to more people back into the market; and (2) from these, around 16% were catalogued as unemployed, skewing the metric higher. In this sense, although the total number of unemployed went up to 2.8 million from 1.9 million in May, the total number of employed increased to 48.3 million from 46.6 million. As a result, and although the unemployment rate increased, we believe the report is positive and shows the benefit of the restart of activities.

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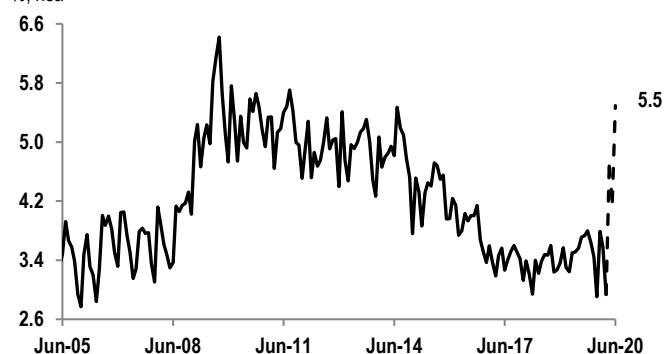
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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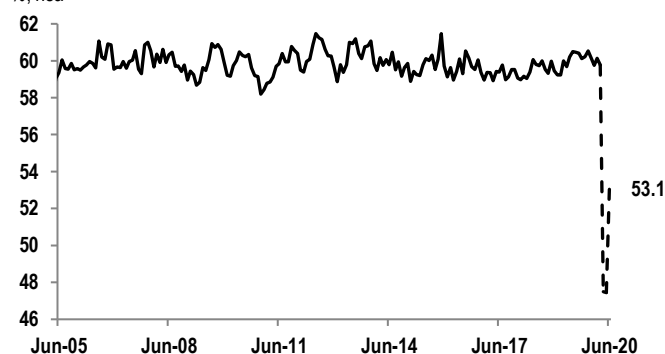
Specifically, the labor force increased by 5.7 million, accelerating relative to the +67.9 thousand million in May but not enough to compensate for April's 12.0 million decline. Therefore, the total remains low in absolute terms, at 51.1 million. Within those not in the labor force, the share of people available for work fell by 6.1 million, at 29.3% from 38.4% in the previous month. Inside, those not looking for work as they believe will not get one stood at 13.0 million, quite high to historical standards, in our view still impacted by the pandemic shock. Meanwhile, those that have stopped looking for a job stood at 226.2 thousand, also high in historical terms. Therefore, if we add both groups to the total of those identifying as unemployed, the unemployment rate would stand at 24.9% from 32.8% in May. In this sense, we believe that until conditions normalize further, the unemployment rate will probably not relay the entire story behind labor market dynamics, making a more detailed analysis even more necessary.

Unemployment rate
%, nsa



Note: Dotted lines correspond to data obtained through the alternative methodology
Source: Banorte with data from INEGI

Participation rate
%, nsa



Note: Dotted lines correspond to data obtained through the alternative methodology
Source: Banorte with data from INEGI

Quality of employment remains relatively deteriorated. In first place, of the 4.7 million new employed people, 3.0 million were created in the informal sector, so the informality rate kept climbing, reaching 53.0% (previous: 51.8%). Those catalogued as purely informal represent 24.6%, picking up 1.0%-pts from May. We note these rates remain below those observed in February, before the pandemic hit. This is not surprising as job losses had been largely concentrated in this sector. Secondly, new employment was concentrated at the low-end of the wage distribution, with 3.5 out of the 4.7 million (73.5%) between one and two minimum wages. Nevertheless, and on a more positive note, part-time workers fell, reaching 20.1% from 29.9%, with a total reduction of 3.4 million. Broadly speaking, we still believe that job quality has weakened despite the absolute improvement in terms of total employment relative to the previous month.

INEGI's employment report

Non-seasonally adjusted figures

%	Jun-20	May-20	Difference
Unemployment rate	5.5	4.2	1.3
Participation rate	53.1	47.4	5.7
Part-time workers rate	20.1	29.9	-9.9
Formal employment	47.0	48.2	-1.2
Informal employment¹	53.0	51.8	1.2
Working in the informal economy	24.6	23.6	1.0
Working in the formal economy	28.4	28.2	0.2

Source: INEGI

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

Methodological considerations. The press release reaffirmed the warning, first included in April, 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 figures were obtained through a telephone survey, while the usual survey is carried out face-to-face. This is explained by measures taken by the agency to maintain social distancing as well as other public health recommendations. In addition, other important differences include a different sample size and rate of non-response, among others, although the conceptual design is very similar. However, we are now starting to build a comparable base for the pandemic period, which will be highly relevant to understand the evolution in coming months as part of the recovery of economic activity. In this sense, INEGI has stated that this survey will also be published for July and August.

We expect the unemployment rate to climb further in coming months. We believe today's results are starting to be more consistent with the deceleration in economic activity. In this sense, as people return to the labor force, the state of employment conditions is being reflected with more accuracy. We expect that, as more and more people start looking again for jobs –with a still high number of people available for work but not seeking–, and positions not readily available due to the pandemic, the unemployment rate will keep trending up. This would also be consistent with the gradual reopening of the economy, in which positions supplied by businesses will likely increase more slowly relative to workers' demand. In addition, we believe the impact to key labor-intensive sectors, such as tourism and entertainment services, among others, will remain a drag for longer. In this context, we maintain our year-end estimate of 8.0%.

We consider it will take some time to see a sizeable decrease in the unemployment rate after reaching its peak, probably above its long-term average for an extended period, as seen after the 2009 Financial Crisis. However, some factors could work as shock absorbers, helping it not to increase in such a drastic manner, including: (1) Higher part-time worker rates, as people that find jobs could face restrictions in order to maintain social-distancing measures or as part of an excess of labor supply; and (2) additional increases in informal sector employment, capturing a higher share of employees that try to return to the labor force. In this context, we will watch carefully for possible changes in dynamics as activity starts to recover more forcefully, to gauge the possible trend and composition of employment going forward.

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