

Employment recovery continued in July as more activities reopened

- **Unemployment rate (July; nsa): 5.4%; previous: 5.5%**
- **Part-time workers: 18.4% (previous: 20.1%); Participation rate: 54.9% (previous: 53.1%)**
- **In contrast to recent months, these figures were obtained through both a face-to-face method and via a phone survey. Therefore, INEGI renamed the survey again, although they mentioned that the main methodological differences remained unchanged**
- **In our view the report is favorable, likely driven by additional efforts to reopen other economic sectors. Nevertheless, the labor market remains very affected by distortions caused by the pandemic**
- **The report showed that 1.5 million people incorporated to the labor force. Moreover, the same number of people found a job, explaining the decline in the unemployment rate**
- **As a result, the participation rate went up again despite remaining low relative to historical levels, with around 4.8 million people that left the labor market as the pandemic hit still not returning**
- **Job gains remain concentrated in the informal sector, with the informality rate up to 54.9% from 53.0% in June. The distribution of wages among those that found new jobs was mixed, albeit with most reporting no income**
- **We maintain our view that the unemployment rate will climb in coming months, estimated to reach around 8.0% by the end of the year. Nevertheless, risks seem to be skewing to a lower level given today's results**

The unemployment rate improves modestly in July. According to INEGI's report, the rate stood at 5.4% (non-seasonally adjusted figures, see chart below to the left), 10bps below June's data. The statistics agency modified again its data collection method, as it was made both face-to-face and via a phone survey. Therefore, these results are not strictly comparable to figures of the previous three months (further details at the end of the document). The decline in the unemployment rate was explained by the fact that, of those people that returned to the labor force, they did so with a job. Specifically, the labor force increased by 1.5 million, with total employees up by the same amount, reaching 49.8 million. Despite of the latter, we should mention this still implies a reduction of 6 million jobs relative to levels observed in March. Meanwhile, unemployed people rose by 25.9 thousand, with the total coming in at 2.8 million. Overall, we see the report as positive, although there is still some way to return to employment levels observed before the pandemic hit.

September 3, 2020

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

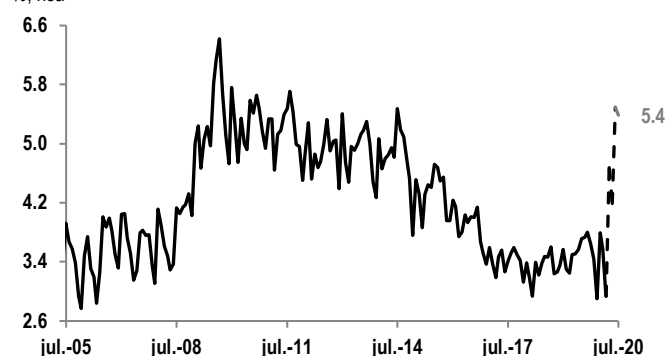


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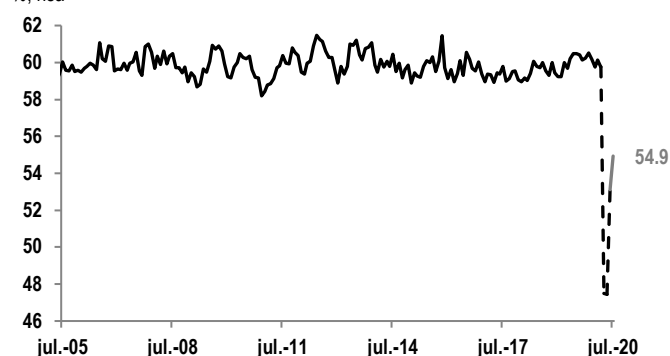
Specifically, the labor force stood at 52.6 million, representing 4.8 million people less relative to March. This shows that this metric remains low in absolute terms and relative to the total working-age population, with the participation rate at 54.9% (chart below on the right). Going to those persons not in the labor force, people available for work fell by 2.0 million to 11.3 million, representing 26.1% of this group from 29.1% in the previous month. From these available people, 11.1 million are not searching because they do not see a possibility of finding an opportunity, figure that remains high by historical standards and affected by the pandemic shock. On the other hand, those that have stopped looking reached 131.6 thousand, in this case closer to levels observed before COVID-19. We should mention that, if we add both groups to the total of those identified as unemployed, the unemployment rate would have reached 22.1% from 24.9% in June. This compares to a rate of 12.4% by the same accounting as of July 2019.

Unemployment rate
%, nsa



Note: Dotted lines correspond to data obtained through the phone survey. The grey line indicates the hybrid survey
Source: Banorte with data from INEGI

Participation rate
%, nsa



Note: Dotted lines correspond to data obtained through the phone survey. The grey line indicates the hybrid survey
Source: Banorte with data from INEGI

Quality of employment improves at the margin but remains weak. In the period, 1.7 million jobs were added in the informal sector, implying a reduction of 262 thousand jobs in the formal economy. Hence, the informality rate picked up to 54.9% (previous: 53.0%). Regarding the wage distribution, most new employees concentrated in three categories: (1) No income, which added 792.5k; (2) more than three and up to five minimum wages, higher by 674.1k; and (3) more than two and up to three minimum wages, adding 578.0k. On the flip side, 1.1 million jobs were eliminated in the category between one to two minimum wages. Broadly speaking, we believe that the quality of employment improved at the margin. Nevertheless, it remains relatively deteriorated, which in our view will keep impacting the outlook for consumption and other sectors of economic activity in the short term.

INEGI's employment report

Non-seasonally adjusted figures

%	Jul-20	Jun-20	Difference
Unemployment rate	5.4	5.5	-0.1
Participation rate	54.9	53.1	1.8
Part-time workers rate	18.4	20.1	-1.7
Formal employment	45.1	47.0	-1.9
Informal employment ¹	54.9	53.0	1.9
Working in the informal economy	27.7	24.6	3.0
Working in the formal economy	27.3	28.4	-1.1

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

We still believe the unemployment rate could increase in coming months. We should mention that employment gains in the month were driven by the recovery in commerce, highlighting losses in construction, lodging and transportation. In our view, this is consistent with the reopening of additional activities during the period, such as shopping malls at least in Mexico City and the State of Mexico. Nevertheless, declines in other sectors support our call that categories more closely related to domestic demand, along those services more dependent on social interactions, will remain low and could weaken even further.

We congratulate INEGI's extraordinary efforts to ensure the continuity of labor market data despite a very challenging backdrop. Nevertheless, we are aware of at least some limitations in these figures, such as: (1) The impossibility of making strict comparisons due to sampling-method differences, which in our view could be more distorted in the case of phone surveys relative to the face-to-face method; and (2) the lack of seasonally-adjusted figures, which makes it more difficult to assess relative changes in the short term. Regarding the latter, we should also say that the unemployment rate in July in the historical series, using original data, is higher than in seasonally adjusted terms. As such, we still think that additional information is needed to make more precise evaluations of the state of the labor market.

Considering these factors, along evidence of a still high number of people available for work, we maintain our estimate of a higher unemployment rate by the end of the year, to 8.0%. Specifically, it is our take that these group of people will resume their efforts to find a job, cataloguing them as unemployed and driving the ratio higher. Nevertheless, and given today's results, we recognize that risks seem to be skewing towards a lower print relative to our estimate. In this respect, some situations could lessen the expected net impact, such as higher underemployment and informality levels, along the willingness of some workers to accept jobs with lower wages. In either case, we think this represents an important deterioration in consumer fundamentals, which is an important headwind for the economic recovery. Going forward, we will heed carefully labor market dynamics in order have a more accurate assessment of the most likely trend and composition of employment.

Methodological considerations. The press release mentioned that today's results were obtained from a new edition of the *National Employment Survey* ("*Encuesta Nacional de Ocupación y Empleo*" or ENOE, in Spanish), collected both face-to-face (as was the case before COVID-19) and a phone survey. Specifically, 72% of responses were through the former method and the remaining 28% via the second option. Importantly, they stated there are no statistically significant differences in these indicators when obtaining them through a combined survey as opposed to face-to-face. Therefore, the statistics agency formally ended the its phone-only survey (ETOE, in Spanish). It was also added that they will evaluate the convenience of maintaining the current hybrid methodology, as it could be useful to ensure time series data continuity in case of new restrictions. Nevertheless, the decision will be made through a public consultation in the future.

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