

Employment kept recovering in August, albeit at a more modest pace

- Unemployment rate (August; nsa): 5.2%; previous: 5.4%
- Part-time workers: 17.0% (previous: 18.4%); Participation rate: 55.1% (previous: 54.9%)
- As in the previous month, these figures were obtained through both face-to-face and phone survey methods, so all disclaimers on that occasion apply also for this month
- In our view the report is positive as the recovery of employment extended to August. The effects of the pandemic remain evident, with almost 5.3 million less jobs than those observed in March
- The report showed that 608.1 thousand people incorporated to the labor force. Moreover, 653.5 thousand found a job, explaining the decline in the unemployment rate
- The participation rate went up again, but remains low relative to historical levels
- Job gains stayed more concentrated in the informal sector, with the informality rate up to 55.1% from 54.9% in July. Nevertheless, we also saw gains in the formal sector, consistent with data from IMSS
- Considering several distortions and high uncertainty still present in the labor market, we maintain our call that the unemployment rate will climb to around 8.0% by year-end. Nevertheless, recent dynamics suggest that risks may be skewed to a better performance

The unemployment rate ticks lower again in August. The rate stood at 5.2% (non-seasonally adjusted figures, see chart below to the left), below July's 5.4%. INEGI's data collection method remain unchanged relative to the previous month, as it was made both face-to-face and via a phone survey (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, with additional gains among those that were already part of it. Specifically, the labor force increased by 608.1 thousand, with total employees up 653.3 thousand to reach 50.4 million. Despite of the latter, it still implies a reduction of 5.3 million jobs relative to the level observed in March. Meanwhile, unemployed people fell by 45.3 thousand, with the total at 2.8 million. Overall, today's report was positive, with sequential gains in this indicator for a fourth consecutive month. On the contrary, there is still some road ahead to recover jobs lost, which we believe will be a headwind for activity at least until this situation does not reverts completely.

Specifically, the labor force stood at 53.2 million, representing 4.2 million less relative to March. Therefore, this metric remains low in absolute terms and relative to the total working-age population, with the participation rate at 55.1% (chart below on the right).

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

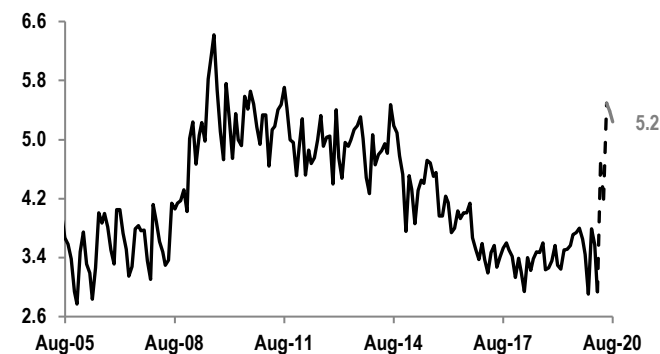


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Going to those persons not in the labor force, people available for work fell by 549.1 thousand to 10.7 million, representing 24.7% of this group from 26.1% in the previous month. From these available people, virtually all of them (10.6 million) are not searching because they do not see a real possibility of finding an opportunity, which remains high by historical standards and affected by the pandemic. On the other hand, those that have desisted from looking stand at 157.1 thousand, still close to levels observed before COVID-19. If we add both groups to the total of those identified as unemployed, the unemployment rate would have reached 21.1% from 22.1% in July. This compares to a rate of 12.6% by the same accounting as of August 2019.

Unemployment rate

%, nsa

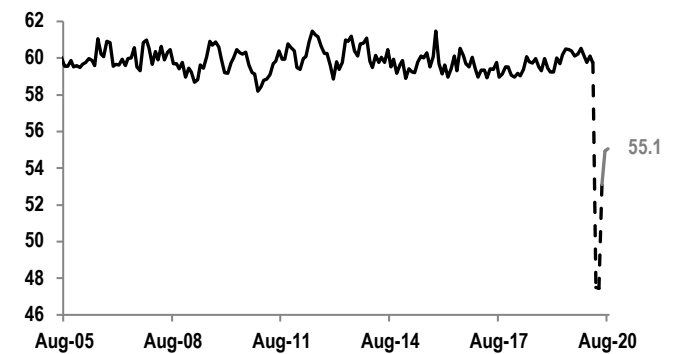


Note: Dotted lines correspond to data obtained through the phone survey. The grey line indicates the hybrid survey

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

The normalization continues in terms of employment's composition. In the period, 466.6 thousand jobs were added in the informal sector, implying an increase of 186.8 thousand in the formal economy, higher than the 92.4k presented in the [report made by the Mexican Institute of Social Security \(IMSS\)](#). Hence, the informality rate picked up to 55.1% (previous: 54.9%), still below its five-year average of 57.0% (using data from the traditional survey). Regarding the wage distribution, most new employees were concentrated in three categories: (1) Up to one minimum wage (MW) with 819.9k; (2) more than two and up to three MW at 690.5k; and (3) no income received, up by 176.8k. Moreover, 529.3k jobs were shed in the category between three to five minimum wages, while 309.4k were lost between one and two MW. More positively, part-time workers fell again, standing at 17.0% from 18.4%, representing 596.4 thousand less people. Broadly speaking, employment conditions keep normalizing, gradually converging to levels observed before the pandemic. Nevertheless, some key metrics keep suggesting that they remain deteriorated, which coupled with lower absolute levels of employment, still represents a headwind for a recovery in private consumption. Specifically, it appears jobs regained have done so mostly with lower wages, which may be driven by companies' needing to control total costs (given limits to the downside for those of fixed nature) while they operate with ample spare capacity.

INEGI's employment report

Non-seasonally adjusted figures

%	Aug-20	Jul-20	Difference
Unemployment rate	5.2	5.4	-0.1
Participation rate	55.1	54.9	0.1
Part-time workers rate	17.0	18.4	-1.4
Formal employment	44.9	45.1	-0.2
Informal employment ¹	55.1	54.9	0.2
Working in the informal economy	27.0	27.7	-0.6
Working in the formal economy	28.1	27.3	0.8

Source: INEGI

Uncertainty about the unemployment rate going forward. Although the report was mostly positive, analyzing with the dynamics within suggests the rate should be significantly above its reported level when considering all people available for work. In this respect, people have remained out of the labor force for longer, as we thought they would do so when lockdown measures were eased. The trend that has prevailed is that people back mostly do so with a job, with still a big share of unemployed people uncounted in the former. As such, dynamics in the last two months would suggest downside risks to our year-end forecast of an unemployment rate at 8.0%. Nevertheless, this metric could change very fast and drastically in case of a stronger rebound of the labor force, ultimately depending on whether those returning are employed or not. Regarding other details of the report, we observed a strong rebound in the primary sector (+1.2 million) and a relevant decline in services (-1.5 million), concentrated in commerce at -1.3 million. Industry gained 872.4 thousand. Nevertheless, we should remain cautious about overinterpreting as several seasonal factors could be at play, so we should wait for INEGI to provide an equivalent series or make the proper adjustments to compare monthly data.

Broadly speaking, employment kept improving but at a more moderate pace, with distortions due to the pandemic still present. Moreover, the situation going forward remains challenging. This is driven by several factors, among them: (1) Limited capacity to increase production to comply with sanitary measures and distancing guidelines; (2) the likely decline in demand, both because of lower income –given changes in wages distribution– and total employment; and (3) low appetite to increase investment in capital goods. These factors, coupled with high uncertainty about both domestic and global drivers, are the main reason behind our view of a weak path for domestic demand in coming months despite economic agents that are still adjusting to the ‘new normality’.

Methodological considerations. The press release mentioned that today’s results were obtained again 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 done before COVID-19) and a phone survey. First, the response rate stood at 69% relative to the traditional (pre-pandemic) survey. From these, 79% were through the former method (above the 72% observed in July) and the remaining 21% via the second option. They also reaffirmed that there are no statistically significant differences in these indicators when obtaining them through a combined survey as opposed to only face-to-face.

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

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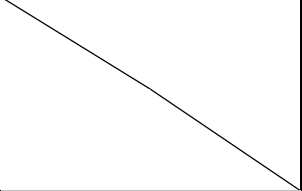
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