

## Unemployment rate ticks lower in September, driven by the formal sector

- Unemployment rate (September; nsa): 5.09%; Banorte: 5.33%; consensus: 5.32% (range: 5.10% to 6.03%); previous: 5.24%
- Part-time workers: 15.7% (previous: 17.0%); Participation rate: 55.6% (previous: 55.1%)
- Overall, figures showed that employment continued to recover for a fifth month in a row. However, there is still room for improvement, with around 4.6 million jobs left to be regained relative to February
- Once again, the rise in the participation rate was driven by the return of 620.6 thousand persons to the labor force. On the other hand, 669.9 thousand found a job, implying that total unemployed people fell by 49.3 thousand, explaining the decline in the unemployment rate
- In contrast to recent months, job gains concentrated in the formal sector (63.4% of the total), with a decline of the informality rate to 54.9% from 55.1% in August. By sector, the most relevant increase was in services, likely driven at least in part by more activities reopening
- We expect employment gains to continue in coming months, albeit at a slower pace. On the other hand, unemployment rate dynamics remain highly uncertain, mainly because of the effects from the pandemic
- As in the previous two months, these figures were obtained through both face-to-face and phone surveys, so all disclaimers for July and August also apply for this month

**The unemployment rate declines slightly in September.** The rate stood at 5.09% (non-seasonally adjusted figures, see chart below to the left), below all market estimates. INEGI's data collection method remains unchanged relative to the previous two months, both with face-to-face and phone surveys (details at the end of the document). This was driven by both a lower amount of unemployed people (-49.3 thousand) and an increase in the labor force (+620.6 thousand). Hence, total employed people rose by 669.9 thousand. All in all, this implies that overall employment levels remain 4.6 million below those registered in February, before the pandemic shock. In our view, the pace of job growth is consistent with latest available data that suggests activity kept recovering through September. Nevertheless, there is still a long way to go for a full recovery. Overall, the rebound in this front is better than what we were expecting, which is one of the factors behind [our upward revisions to GDP both for 2020 and 2021](#).

The labor force stood at 53.8 million, representing 4.0 million less people relative to February. This metric remains low despite continued improvements in recent months, with the participation rate at 55.6% (chart below on the right). From people not in the labor force, those available for work fell 189.9 thousand, to 10.5 million (24.4% of the total NLF from 24.7% in the previous month).

October 21, 2020

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

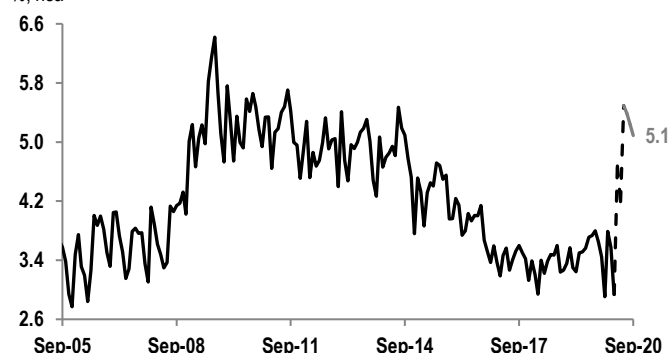


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From these, almost all (10.4 million, still high relative to historical standards) are still not searching for a job as they believe there are no possibilities of finding one, likely very influenced by the pandemic and the corresponding economic weakness. Meanwhile, those that have desisted from looking for a job stand at 116.1 thousand. If we sum these two groups to the total number of unemployed and into the labor force, the ‘expanded’ unemployment rate would be 20.6% (previous: 21.1%), considerably higher than the 13.2% seen in September 2019.

**Unemployment rate**

%, nsa

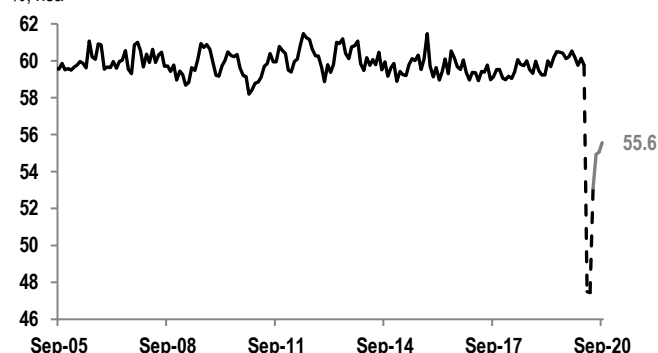


Note: Dotted lines correspond to data obtained through the phone survey. The grey line indicates the hybrid survey

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

**In contrast to recent months, gains were led by the formal sector.** Specifically, from the total of 669.9 thousand jobs added, 63.4% (424.8 thousand) were in the formal sector, the first month in which they outpace the informal sector since the start of the recovery, back in May. These were substantially higher than the 113.9k in the *Mexican Institute of Social Security (IMSS)* report. Therefore, it implies relatively strong gains in other areas, such as the public sector and defense. Hence, the informality rate declined to 54.9% from 55.1% in August, still below historical averages. Regarding wages, increases remain concentrated in the low end of the distribution. Moreover, and as highlighted by INEGI, services were the most benefited, adding 1.1 million. Among them, the strongest were commerce (514.8k) and social services (413.3k). In contrast, primary activities lost 544.9k jobs. In our view, these dynamics were likely driven at least in part by more activities reopening (*e.g.* cinemas, museums, archeological sites, etc.). We also note that part-time workers declined to 15.7% of the total from 17.0% in the previous month. Nevertheless, the statistics agency also pointed out that new jobs were mostly among people working between 15 to 34 hours a week. Although this cohort can be full-time depending on their answers about the desire to work more, it seems challenges remain for employment conditions.

**INEGI's employment report**

Non-seasonally adjusted figures

%	Sep-20	Aug-20	Difference
Unemployment rate	5.09	5.24	-0.15
Participation rate	55.6	55.1	0.5
Part-time workers rate	15.7	17.0	-1.4
Formal employment	45.1	44.9	0.2
Informal employment <sup>1</sup>	54.9	55.1	-0.2
Working in the informal economy	27.2	27.0	0.2
Working in the formal economy	27.7	28.1	-0.4

Source: INEGI

<sup>1</sup> 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

**Positive report, despite high uncertainty about the path of the unemployment rate.**

As flagged by today's report, we expect employment gains to continue, so far recovering stronger than we had anticipated. Although this is clearly positive for activity and supports our recent revision to GDP forecasts, the pace of recovery will likely be slower going forward. This would be mainly due to several factors: (1) The need to maintain social-distancing measures, impacting total production and/or services that can be provided; (2) a relatively lower quantity of activities that can be reopened, given the road already walked in this front; and (3) uncertainty about the evolution of the pandemic, the eventual availability of effective treatments and/or vaccines, and its ultimate impact on the economy.

On the other hand, it is our take that people out of the labor force might not be able to stay there much longer, especially as savings run out. We believe a sizable portion of currently discouraged people will eventually start looking for a job again. If this happens, the rate would have to increase if a greater proportion of them is counted as unemployed. Nevertheless, the pace and magnitude of the adjustment is uncertain, as different factors could influence them—such as access to formal and informal credit, inflation, relatives' income support such as remittances, among others—and lead to drastic changes. As such, the pandemic keeps inserting high uncertainty about the likely dynamics of the unemployment rate.

Regarding employment conditions, informal job creation will probably continue outpacing the formal sector despite today's results, especially as losses were centered here. Part-time rates will likely remain elevated for long, with sanitary measures and businesses' strategic changes playing a key role in this component. Lastly, and in our view more concerning, there is evidence that people returning to the labor force are doing so with relatively low wages, impacting total payrolls and representing an additional headwind for domestic demand strength.

**Methodological considerations.** The press release mentioned that today's results were obtained again from the 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. The response rate improved around 20bps relative to August, at 71% of the traditional (pre-pandemic) survey. From these, 82% were through the former method (above the 79% observed in the previous month) and the remaining 18% via the second option. Finally, the institute announced that it has started a Public Consultation period (from October 8<sup>th</sup> to November 30<sup>th</sup>, 2020) to assess the convenience of adding telephone surveys, new classifications and the use of digital tools, among others.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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