Labor market weakness in August despite a lower unemployment rate

September 28, 2021

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

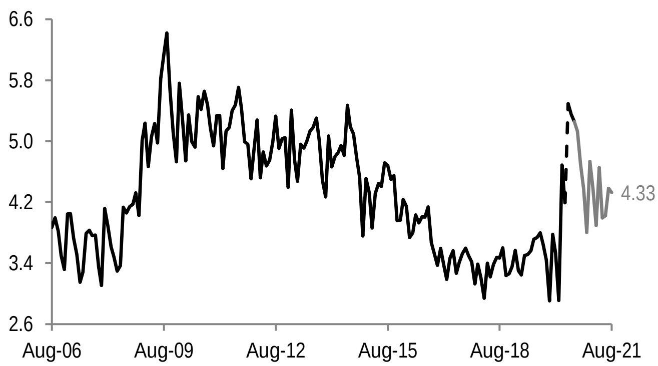
- **Unemployment rate (August; nsa): 4.33%; Banorte: 4.49%; consensus: 4.38% (range: 4.20% to 4.56%); previous: 4.38%**
- **Part-time workers: 13.0% (previous: 13.2%); Participation rate: 59.4% (previous: 59.9%)**
- **Jobs lost totaled 740.7 thousand, after strength in July and likely impacted by worsening COVID-19 conditions in the period, among other factors. Total jobs are 86.9 thousand lower than in February 2020, used as benchmark to pre-pandemic conditions**
- **The labor force fell (-808.7 thousand), with unemployed people declining by 68.0 thousand. We think this is relatively consistent with signs of a slowdown in economic activity**
- **The participation rate backtracked to 59.4% after a jump in the previous month. Despite of an improvement, the part-time rate remains relatively high (13.0%), as well as those catalogued as 'available for work', suggesting there's still room for additional advances**
- **Historically, the period's seasonality is adverse, in our view related to the summer holiday. Seasonally adjusted, the unemployment rate came in at 4.05% from 4.09% in July**
- **Job losses in the formal sector stood at 308.3 thousand (41.6% of the total), with 432.4 thousand in informality (58.4%). Hence, the informality rate was unchanged at 56.4%**
- **Average hourly wages reached $47.30, lower than the $47.65 in July. This represents a 7.4% y/y expansion, accelerating at the margin in our view driven by recent inflation pressures**
- **We believe the labor market is also giving signals of an impact due to COVID-19's third wave. In addition, risks of a greater slowdown have increased due to the moderation in economic activity**

Job losses in August. Using original figures, the unemployment rate stood at 4.33% (chart below, left), lower than consensus (4.38%) and further from our 4.49%. This represents a 6bps decrease relative to July, despite an adverse seasonal effect at play. With seasonally adjusted data, the rate came in at 4.05%, also below the previous at 4.09%. Back to original figures, the labor force decreased by 808.7 thousand, comprised of 740.7 thousand less employed people and a 68.0 thousand decline in those unemployed. We believe this could be a reflection of the pandemic, with daily cases of COVID-19 maintaining an upward trend and reaching a new historical high later in the month. This is similar to the moderation in other data, such as IMEF's PMIs and confidence indicators (both from consumers and businesses) which signal less activity and increased cautiousness. These latest indicators provide some warning signs about the pace ahead, as employment is ultimately related to GDP growth.

The participation rate declined to 59.4% from 59.9%. Meanwhile, people outside of the labor force increased by 314.1 thousand, which also reinforces the signal that this wave of the pandemic has had some economic impact. From these, those classified as 'available' fell by 17.5 thousand, while those 'not available' rose by 331.6 thousand, respectively. Nevertheless, we do not rule out a seasonal impact, remembering that higher education students start to return to school by the middle of the period, likely impacting their availability, which may have existed temporarily in previous months. In this context, total employees reached 55.7 million, which is 86.9 thousand less than in February 2020, before the virus.

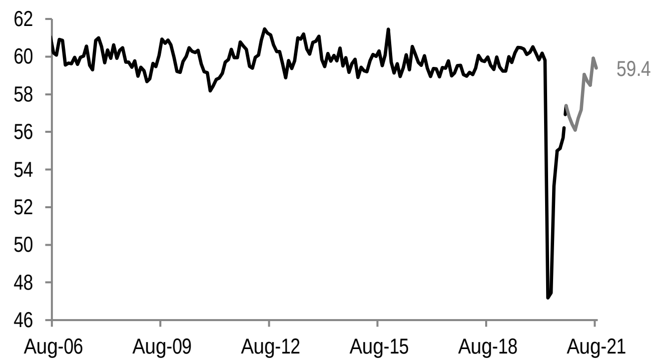
As in previous releases, to reflect labor market conditions more accurately, if we sum those 'available for work' not in the labor force both to the unemployed and the labor force, the 'expanded' unemployment rate stood at 15.2%, unchanged vs. the previous month. In February 2020 it reached 12.2%, pointing to room still left for gains as it is also necessary to make up for population growth.

Unemployment rate
%, nsa



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

Strong losses in primary and secondary activities. Out of the 740.7 thousand positions lost, 308.3 thousand were in the formal sector, with the informal economy accounting for the 432.4 thousand remaining. The first was quite low relative to the +128.9 thousand new positions affiliated to IMSS. As a result, the informality rate stood at 56.4%. By sectors, primary activities lost 508.4 thousand jobs. Industry shed 489.6 thousand positions, with a decline in all three sectors, albeit highlighting -395.8 thousand in manufacturing, resuming a downward trend. In services, 257.0 thousand positions were added, with increases in commerce and social. Nevertheless, there were loses in restaurants and 'others'. Meanwhile, the part-time rate fell to 13.0% from 13.2%, which is positive at the margin. Average wages per hour stood at $47.30 pesos, lower $0.36 sequentially but accelerating to +7.4% y/y. We believe this latter figure is probably reflecting some wage pressures following price increases since at least the beginning of the year, as well as the rise to the minimum wage in January of this year.

INEGI's employment report
Non-seasonally adjusted figures

%	Aug-21	Jul-21	Difference
Unemployment rate	4.33	4.38	-0.06
Participation rate	59.4	59.9	-0.5
Part-time workers rate	13.0	13.2	-0.2
Formal employment	43.6	43.6	0.0
Informal employment[1]	56.4	56.4	0.0
Working in the informal economy	28.8	28.9	-0.1
Working in the formal economy	27.5	27.5	0.1

Source: INEGI

Pause in the recovery of the labor market, with some concerns about the pace going forward. Overall, it is our take that the performance of the job market in August was somewhat negative, consistent with other reports on activity and likely impacted by daily cases of COVID-19 reaching a new high. In this sense, available data suggests at least two effects: (1) Higher caution among consumers and businesses, as reflected in recent confidence indicators, in turn affecting the pace of the recovery (as signaled by INEGI's latest *Timely Indicator of Economic Activity*); and (2) further supply chain disruptions, affecting industry the most, as signaled in the broad-based sequential contraction in exports and imports in August. In our view, this deceleration is gradually becoming the most important risk for a further improvement in employment, which has surprised to the upside so far.

In addition, and as detailed in July's report, there are other factors which could be important for labor market statistics in coming months. One of them is the return to in-person classes. Specifically, the Minister of Education, Delfina Gómez, said that a little more than 13.2 million students were already attending in-person classes by September 14th, gradually picking up since this process started, back on August 30th (with around 11.4 million students). Nevertheless, these figures are being updated constantly. In either case, we still think it may help more people to return to the labor force –especially women, but also with an estimated return of 200.2 thousand employees in the education sector–.

Lastly, we will watch carefully minimum wage negotiations for the coming year. Current reports suggest that a 21% y/y increase may be in the cards –15% in real terms and 6% due to inflation, from $141.70 to $171.45 daily, except for the Northern Border. This would be the highest percentage increase in the current administration. Negotiations are still going to take place between the government and representatives of the private sector and labor unions, with the *National Commission of Minimum Wages* probably giving a final resolution by mid-December. We believe this could represent an additional headwind for the recovery of employment if current signals about the deceleration in economic activity exacerbate further.

All in all, we will focus on the upcoming September report as several of the distortions mentioned above may start to reflect themselves more clearly in the data. For now, we maintain our view that the unemployment rate may fall to close to 4% by the end of the year, although with risks skewing to the upside.

[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

Analyst Certification

We, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Alvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Alik Daniel García Alvarez	Senior Strategist, Equity	alik.garcia.alvarez@banorte.com	(55) 1670 – 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899