

The unemployment rate declined again in October despite worse COVID-19 dynamics

- **Unemployment rate (October; nsa): 4.70%; Banorte: 5.03%; consensus: 5.00% (range: 4.88% to 5.20%); previous: 5.09%**
- **Part-time workers: 15.0% (previous: 15.7%); Participation rate: 57.4% (previous: 55.6%)**
- **In our view, today's report was very positive given a net job creation of 1.9 million, especially considering the deterioration in epidemiological conditions by the end of the month. However, there are still 2.8 million jobs left to be regained relative to February**
- **The participation rate remained to the upside, with 1.7 million people back to the labor force. Most of them were reclassified from those 'available for work'. This implies a reduction of 128.9 thousand people catalogued as unemployed**
- **Nevertheless, the part-time rate remains elevated relative to historical standards, still suggesting a relevant impact from the pandemic**
- **Job gains were concentrated in the informal sector (85.7% of the total), leading to a higher informality rate, to 56.0% from 54.9% in September. Once again, new jobs were concentrated in the lower end of the wage distribution, raising concerns for domestic demand dynamics going forward**
- **We expect job gains to extend to the following months, albeit probably at a slower pace considering previous improvements, as well as an increase in short-term risks for activity**

The unemployment rate declined strongly in October. The rate stood at 4.70% (non-seasonally adjusted figures, see chart below to the left), below our forecast (5.03%) and consensus (5.00%). We believe the month's performance was mainly explained by an improvement in labor market conditions, although in our view there is a favorable seasonal effect, slightly boosting the figure. Nevertheless, we cannot confirm this, given the lack of seasonally adjusted figures. In addition, today's result was very positive considering a deterioration in epidemiological conditions by the end of the period. Looking at the details, 1.9 million new jobs were created, with total employees reaching 53.0 million, still 2.8 million below the level seen in February. On the other hand, the total number of unemployed people declined by 128.9 thousand. This implies an increase of 1.7 million in the labor force. So far, the recovery in employment levels has been more favorable than what we had expected, to some extent consistent with [the stronger pace of economic activity](#). Nevertheless, it is our take that risks are increasing, which could result in a lower pace of job creation in the short term. The labor force stood at 55.6 million, still 2.2 million below than seen before the pandemic (February). As a result, the participation rate is nearing its historical average, currently at 57.4% (chart below on the right). People not in the labor force fell by 1.8 million, with most of the decline (1.6 million) from those 'available for work'. It should be recalled that, at the start of the pandemic, this group captured most of the people that lost their job, so its reduction is favorable.

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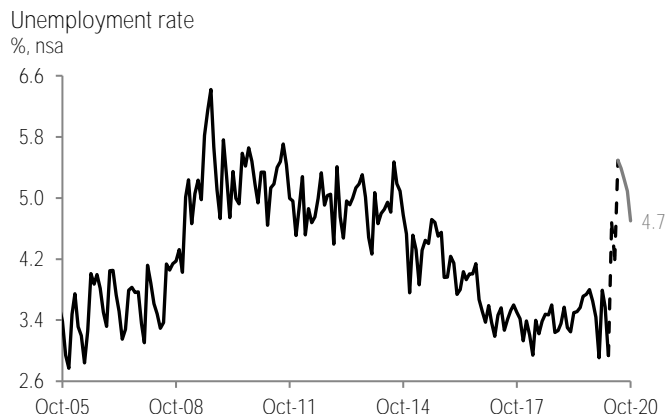
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*

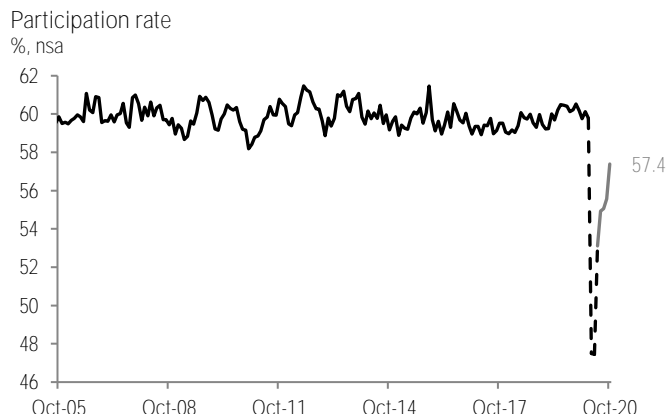


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In this respect, the total number of people in this latter group stands at 8.9 million, still reflecting the impact from the pandemic. To reflect labor market conditions more accurately, if we sum this group to the total unemployed and into the labor force, the ‘expanded’ unemployment rate would have reached 17.9% (previous: 20.6%), above the 12.3% seen in October 2019.



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



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Strong recovery of jobs in the informal sector. Specifically, 1.6 million jobs (85.7% of the total) were in the informal sector, contrary to dynamics observed in September. Nevertheless, this is not very surprising as losses at the start of the pandemic were concentrated here. With this, the informality rate picked up to 56.0%, still below its long-term average around 58.4%. The part-time rate remained relatively high at 15.0% (previous: 15.7%), in our view affected by some distortions induced by COVID-19. Some of these include social-distancing measures, which prevent the full restart of some activities. Considering this, it is likely that metric stays somewhat high at least until we observe a clearer normalization in economic activity. Regarding wages, these were concentrated again in the low-end of the wage distribution, with the range from less than one and up to 2 minimum wages adding 1.4 million. This maintains concerns about the strength of domestic demand, as it limits the possible uptick in terms of total payrolls. On a sector basis, gains were again mostly on services with 1.6 million, albeit also with an increase in industry (284.8 thousand) and primary activities (50.2 thousand). In the former, the best performing sectors were commerce (574.2 thousand) and other services (458.9 thousand)

INEGI's employment report

Non-seasonally adjusted figures

%	Oct-20	Sep-20	Difference
Unemployment rate	4.70	5.09	0.39
Participation rate	57.4	55.6	1.8
Part-time workers rate	15.0	15.7	-0.7
Formal employment	44.0	45.1	-1.1
Informal employment ¹	56.0	54.9	1.1
Working in the informal economy	28.2	27.2	1.0
Working in the formal economy	27.8	27.7	0.1

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

While employment gains continued, there is mounting uncertainty ahead.

After today's report, we reaffirm our view that employment gains will probably extend in coming months. Nevertheless, there are some warning signs about its future performance. The main one is related to the recent uptick in COVID-19 cases and the worsening of other epidemiological metrics (*e.g.* positivity rates, ICU beds available, etc.) at the beginning of the month, although with some states improving marginally. This could impact force some businesses to enact stricter social-distancing measures, with some even having to close again. There could also be demand-side effects, as people take additional precautions and revert back to consumption patterns similar to those at the height of the lockdown (in April and May). If new cases continue rising rapidly we could see a halt in terms of further improvements, possibly even with some losses if a large-scale lockdown is implemented again. Despite of this, the mid-term outlook is improving given recent announcements from three big pharmaceutical companies (Pfizer/BioNTech, Moderna, and AstraZeneca) about the development of a vaccine. While the distribution process will be complex, it represents an important step for finally defeating the virus.

Another source of uncertainty about the path going forward is the behavior of the cohort of people 'available for work'. We have little clarity about which factors or circumstances might drive them back to being 'unemployed' within the labor force. Therefore, it is very challenging to forecast an accurate path of the traditional unemployment rate, with this indicator somewhat incomplete to tell the whole story about labor market conditions in our country. On other relevant factors and indicators, informal job gains are likely to continue outpacing the formal sector, remembering that the informality rate remains below its historical average. The part-time rate could remain high. Lastly, we are still concerned about wages, as they keep suggesting that new jobs are mostly at relatively low income, a situation that could limit the recovery of domestic demand.

All in all, we keep watching carefully labor market developments, as its health will continue to be crucial for a sustained economic recovery. As usual, we will be waiting for the announcement of the yearly minimum wage increase. So far, reports from business chambers point to an upward adjustment from 5% to 15%. Given the current backdrop of very ample economic slack and accumulated increases in recent years, we believe workers' bargaining power may be relatively impaired despite the government's aim to keep pushing for a strong increase.

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 with a phone survey. The response rate improved around 9bps relative to September, at 80% of the traditional (pre-pandemic) survey. From these, 86% were through the former method (above 82% in the previous month) and the remaining 14% via the second option. In this sense, we will look closely if epidemiological dynamics have an effect on the survey's sample. Finally, the institute said that the Public Consultation period (from October 8th to November 30th, 2020) to assess the convenience of adding telephone surveys, new classifications and the use of digital tools, among others, has continued.

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