

## Job gains continue in June, with uncertainty ahead on a challenging backdrop

July 26, 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

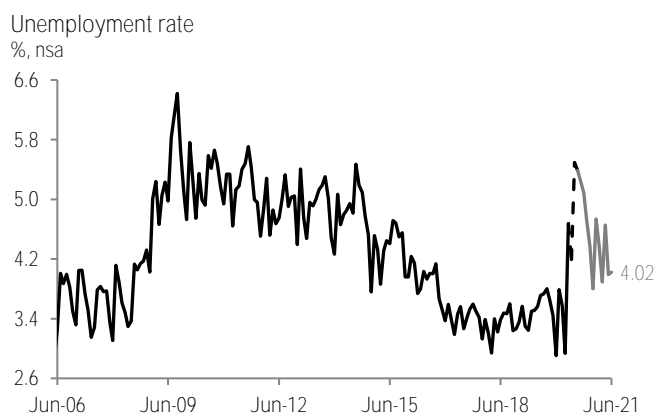
- **Unemployment rate (June; nsa): 4.02%; Banorte: 4.48%; consensus: 4.48% (range: 3.90% to 4.53%); previous: 3.99 %**
- **Part-time workers: 12.4% (previous: 12.9%); Participation rate: 58.5% (previous: 58.7%)**
- **In the month, 176.6 thousand jobs were created, accelerating relative to the previous month and positive considering a deterioration regarding the virus. As a result, the gap to recovery (using February 2020 as benchmark) now stands only at 670.4 thousand**
- **We should note that 201.8 thousand workers returned to the labor force, with unemployed people rising by 25.2 thousand. We believe this was mainly driven by higher hopes of finding a job –which were mostly fulfilled–**
- **Despite of this, the participation rate diminished at the margin, due to higher population growth as a result of an update of the latter's quarterly projections. On a positive note, the part-time rate fell, consistent with allowed activities remaining mostly unchanged**
- **The period's seasonality is slightly more adverse. Considering this and all factors mentioned above, with seasonally adjusted figures, the unemployment rate declined to 3.97% from 4.12% in May**
- **Job gains in the formal sector stood at 169.4 thousand (96.0%), with 7.2 thousand in informality (4.0%). Therefore, the informality rate declined to 55.4% from 55.5%**
- **Average hourly wages reached \$46.74, below the \$46.89 from May. This represents a 2.7% y/y contraction, with the latter still somewhat distorted by effects from the pandemic**
- **Given an additional deterioration in epidemiological conditions, there is some uncertainty about the trend in the short-term. However, we expect once this wave passes, gains will resume**

**Job gains continue in June.** Using original figures, the unemployment rate stood at 4.02% (chart below, left), surprising consensus which coincided with our forecast (4.48%), thus being practically unchanged vs. the 3.99% from May. However, this is partly skewed by a seasonal effect, with some trends from the Summer holiday period starting to have an effect. As such, seasonally adjusted figures show a 16bps decrease in the rate, standing at 3.97%, its best level since the pandemic began. We believe this is quite positive considering more adverse virus dynamics in the month, which we thought could have hindered new hires and even triggered some layoffs. In this context, and back to non-seasonally adjusted figures, job gains stood at 176.6 thousand, picking up after a slight moderation in May (+56.3k). This happened as part of an increase of 201.8 thousand persons in the labor force, implying 25.2 thousand new unemployed people. While at face value this might seem negative, in our view it partly reflects willingness from people to return to the labor market, especially as most of them are doing so with a job.

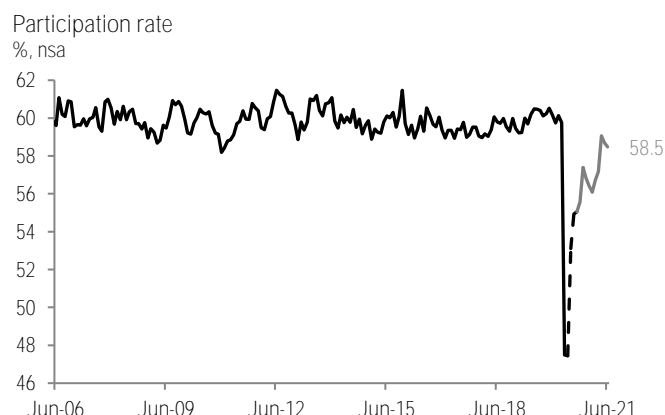
Document for distribution among the general public

Despite of the latter, the participation rate declined at the margin to 58.5% from 58.7%. However, there was a substantial increase in the qualifying population (15 and older), which was the driver behind the decrease. In this sense, INEGI mentioned that, starting with this print, they used updated population projections, so this probably helps explain the latter. In this context, people outside of the labor force rose by 501.7 thousand, with most of them being classified as ‘available’ (319.0 thousand). Meanwhile, total employees reached 55.1 million, with just 670.4 thousand jobs left to be made-up vs. February 2020, before the pandemic began.

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 16.0%, slightly higher than in the previous month (15.6%) but much more favorable than the 24.9% one year ago. In February 2020 it reached 12.0%, suggesting that there is still room left for gains. Nevertheless, it still indicates that a sizable improvement in labor market conditions has already been achieved.



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



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

### Job gains centered in primary activities, as losses mounted in manufacturing.

Of the 176.6 thousand net jobs created, 169.4 thousand were in the formal sector, with the informal economy adding only 7.2 thousand. The former is better than the 65.9 thousand jobs added associated to IMSS. As a result, the informality rate fell to 55.4% (previous: 55.5%). This represents three consecutive months of declines, contrasting with our view that a wider reopening would have helped this sector the most. Industry lost 422.0 thousand jobs, with gains in construction (46.2 thousand) and mining and utilities (6.7 thousand), albeit with a second month of relevant losses in manufacturing (-474.9 thousand). This continues to be concerning, as it could be related to additional impacts of the several issues plaguing the sector. In services, jobs lost reached 70.8 thousand, with losses in commerce and restaurants but gains in transportation and social services. Lastly, primary activities added a whopping 647.8 thousand positions, in our view aided by improving conditions in terms of the drought. Meanwhile, the part-time rate declined to 12.4% from 12.9%, which may be related to the fact that despite an increase in cases, restrictions were broadly unchanged.

Average wages per hour stood at \$46.74 pesos, down \$0.28 sequentially and -2.7% y/y. While the latter is better than the -7.4% from the previous month, it remains distorted by a base effect related to the pandemic, considering the large number of jobs still left to be made up last year.

#### INEGI's employment report

Non-seasonally adjusted figures

| %                                | Jun-21 | May-21 | Difference |
|----------------------------------|--------|--------|------------|
| Unemployment rate                | 4.02   | 3.99   | 0.03       |
| Participation rate               | 58.5   | 58.7   | -0.2       |
| Part-time workers rate           | 12.4   | 12.9   | -0.5       |
| Formal employment                | 44.6   | 44.5   | 0.2        |
| Informal employment <sup>1</sup> | 55.4   | 55.5   | -0.2       |
| Working in the informal economy  | 27.5   | 28.7   | -1.2       |
| Working in the formal economy    | 27.9   | 26.8   | 1.1        |

Source: INEGI

**Risks mounting for the labor market ahead.** As already mentioned, the result was surprising as timelier data and virus trends pointed to a more challenging situation. Although this is positive, sector data provided some warning signs about the potential trend in coming months. Among them, epidemiological conditions have continued to worsen, and it is still difficult to gauge when we might hit a peak as it has been driven by the more contagious 'delta' variant. In this backdrop, the latest 'traffic light indicator' shows now 1 state in 'red', 13 in 'orange', 15 in 'yellow' and only 3 in 'green'. This is considerably worse relative to the levels in late June, where there were no states in 'red', 5 in 'orange', 8 in 'yellow' and 19 in 'green'. To make matters even more challenging, the Federal Government modified the criteria to determine this indicator on July 20<sup>th</sup>, making historical data strictly not comparable. This is important as we think the population indeed changes its behavior depending on this system. Authorities' comments seem to suggest that they may take a more open approach to dealing with this wave of the virus, resulting in lower restrictions. This could be positive in terms of the fallout on employment, albeit adding uncertainty about what could happen to job levels in coming months. On a more positive note, the pace of vaccinations has remained above 400 thousand on average since the second half of June. We believe progress on the latter has been key to avoid a spike in deaths.

On other risks, those related to supply chains issues remain present. This are probably impacting manufacturing the most, as evidenced by jobs shed in May and June. We remain concerned about additional losses as they had already showed a significant rebound earlier in the recovery process. At the margin, we expect robust demand from abroad to continue dampening these effects, possibly aiding some subsectors that have lagged so far. We also note a pressing risk for wages as inflation has remained elevated in the [last few prints](#). This has likely led workers to ask for higher wages. Nevertheless, the uptick should be modest as there is still ample slack. All in all, we consider that the balance of risks has deteriorated at the margin despite positive results lately. We expect this to be temporary, with a positive trend resuming later in the year, aided by progress on vaccinations and the overall pace of economic activity.

<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

## Analyst Certification

We, Gabriel Casillas Olvera, 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, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia 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.

## 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   |
|-------------|---|
| <b>BUY</b>  | When the share expected performance is greater than the MEXBOL estimated performance. |
| <b>HOLD</b> | When the share expected performance is similar to the MEXBOL estimated performance.   |
| <b>SELL</b> | 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.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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

| <b>Research and Strategy</b>                           |  |  |                         |
|--|--|--|-------------------------|
| Gabriel Casillas Olvera                                | IRO and Chief Economist  | gabriel.casillas@banorte.com               | (55) 4433 - 4695        |
| Raquel Vázquez Godínez                                 | Assistant  | raquel.vazquez@banorte.com                 | (55) 1670 - 2967        |
| Lourdes Calvo Fernández                                | Analyst (Edition)  | lourdes.calvo@banorte.com                  | (55) 1103 - 4000 x 2611 |
| <b>Economic Research and Financial Market Strategy</b> |  |  |                         |
| Alejandro Padilla Santana                              | Executive Director of Economic Research and Financial Markets Strategy | alejandro.padilla@banorte.com              | (55) 1103 - 4043        |
| Itzel Martínez Rojas                                   | Analyst  | itzel.martinez.rojas@banorte.com           | (55) 1670 - 2251        |
| <b>Economic Research</b>                               |  |  |                         |
| 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        |
| Katía 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 |
| <b>Market Strategy</b>                                 |  |  |                         |
| Manuel Jiménez Zaldivar                                | Director of Market Strategy  | manueljimenez@banorte.com                  | (55) 5268 - 1671        |
| <b>Fixed income and FX Strategy</b>                    |  |  |                         |
| 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        |
| <b>Equity Strategy</b>                                 |  |  |                         |
| 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        |
| Víctor Hugo Cortes Castro                              | Senior Strategist, Technical   | victorh.cortes@banorte.com                 | (55) 1670 - 1800        |
| Eridani Ruibal Ortega                                  | Analyst  | eridani.ruibal.ortega@banorte.com          | (55) 1103 - 4000 x 2755 |
| Juan Barbier Arizmendi, CFA                            | Analyst  | juan.barbier@banorte.com                   | (55) 1670 - 1746        |
| <b>Corporate Debt</b>                                  |  |  |                         |
| 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        |
| <b>Economic Studies</b>                                |  |  |                         |
| 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        |
| <b>Wholesale Banking</b>                               |  |  |                         |
| Armando Rodal Espinosa                                 | Head of Wholesale Banking  | armando.rodal@banorte.com                  | (81) 8319 - 6895        |
| Alejandro Aguilar Ceballos                             | Head of Asset Management   | alejandro.aguilar.cebillos@banorte.com     | (55) 5268 - 9996        |
| 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 - 1002        |
| 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) 8318 - 5071        |
| 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) 5004 - 1453        |
| Lizza Velarde Torres                                   | Executive Director of Wholesale Banking                                | lizza.velarde@banorte.com                  | (55) 4433 - 4676        |
| Oswaldo 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) 5268 - 9004        |
| Ricardo Velázquez Rodríguez                            | Head of International Banking  | rvelazquez@banorte.com                     | (55) 5004 - 5279        |
| Víctor Antonio Roldan Ferrer                           | Head of Commercial Banking   | victor.rolan.ferrer@banorte.com            | (55) 5004 - 1454        |