Strong job gains in July, with people back to the labor force

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- **Unemployment rate (July; nsa): 4.38%; Banorte: 4.29%; consensus: 4.10% (range: 3.74% to 4.29%); previous: 4.02 %**
- **Part-time workers: 13.2% (previous: 12.4%); Participation rate: 59.9% (previous: 58.5%)**
- **In the month, 1.3 million jobs were created, with no discernible impact from worsening COVID-19 conditions, probably aided by milder restrictions relative to previous episodes. As a result, the gap to recovery (using February 2020 as benchmark) has already closed, standing at +653.8 thousand jobs**
- **The labor force expanded by 1.6 million, with those classified as unemployed rising by 275.8 thousand. This is surprising given higher uncertainty and an economic slowdown by the end of 2Q21**
- **As a result, the participation rate surged, back to pre-pandemic levels. Nevertheless, the part-time rate increased after two consecutive months lower**
- **The period's seasonality is adverse. Considering this and all factors mentioned above, with seasonally adjusted figures, the unemployment rate came in at 4.09% from 3.96% in June**
- **Job gains in the formal sector stood at only 22.0 thousand (1.7%), with 1.3 million in informality (98.3%). Therefore, the informality rate increased to 56.4% from 55.4%**
- **Average hourly wages reached $47.65, higher than the $46.74 from June. This represents a 6.2% y/y expansion, which may be reflecting adjustments due to recent inflation pressures**
- **Despite the uptick in the unemployment rate, we see the report as very positive. Nevertheless, COVID-19 dynamics are still an important risk for a further recovery of the labor market**

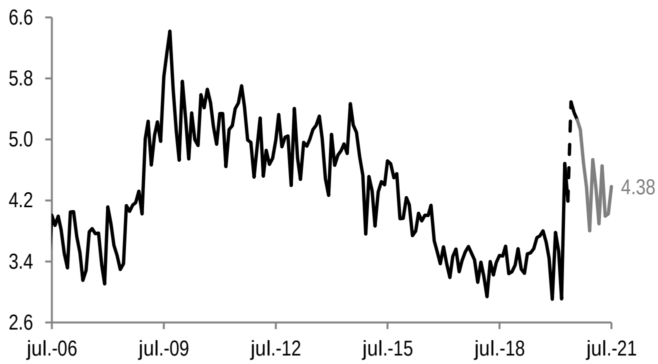
Job gains accelerate in July. Using original figures, the unemployment rate stood at 4.38% (chart below, left), higher than consensus (4.10%) but closer to our 4.29%. This represents a 36bps increase relative to June. However, most of this is related to an adverse seasonal effect. As a result, with seasonally adjusted figures the rate came in at 4.09%, above the 3.96% from the previous month. Despite this increase, details show that the report was quite positive. This is especially true considering worsening virus conditions, so it was likely aided by more modest restrictions relative to previous waves. In this context, and back to non-seasonally adjusted figures, job gains stood at 1.3 million, accelerating vs. the previous month. This happened as part of an increase of 1.6 million persons in the labor force, implying 275.8 thousand more unemployed people. In our view, the relative increase in the latter is not significant considering the strong increase in the labor force, which means that more people were optimistic enough to search and find a job.

As a result, the participation rate surged to 59.6% from 58.5%. We should note that the effect from the update in population projections is not as discernible as in the previous release. Meanwhile, people outside of the labor force fell by 1.3 million, coming from a relatively similar distribution between those classified as 'available' (632.9 thousand) and 'not available' (645.8 thousand). The latter group was driven by the decline in the group of people not interested in a job because of other obligations. In turn, we believe this may be comprised mainly by students graduating and searching for a job. In this context, total employees reached 56.4 million, with 653.8 thousand jobs above those in February 2020, before the virus struck.

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%, lower than in the previous month (16.0%) but much more favorable than 22.0% one year ago. In February 2020 it reached 12.0%, suggesting that there is still room left for gains as it is also necessary to make up for population growth.

Unemployment rate

%, nsa

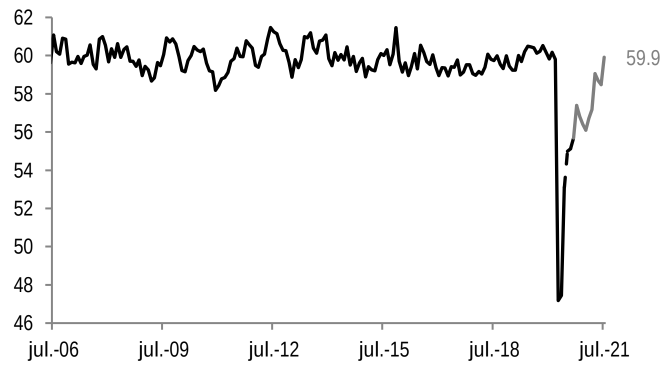


Note: Dotted lines correspond to data obtained through the phone-only survey. The grey line indicates the hybrid survey

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 gains in the informal sector. Of the 1.3 million jobs created, only 22.0 thousand were in the formal sector, with the informal economy adding 1.3 million. The former is much lower than the +116.5 thousand new positions affiliated to IMSS. As a result, the informality rate came in at 56.4% (previous: 55.4%). By sectors, industry added 662.7 thousand jobs, with gains in all three sectors, albeit highlighting 374.2 thousand in manufacturing, breaking with losses in each of the last two months. Services were up by 590.2 thousand, with commerce and restaurants higher which is consistent with resilient mobility levels. Nevertheless, there were strong losses in social and government services. Lastly, primary activities added 66.9 thousand positions. Meanwhile, the part-time rate increased to 13.2% from 12.4%, likely related to the big share of gains in informality. Average wages per hour stood at $47.65 pesos, higher $0.92 sequentially and at +6.2% y/y. The latter figure is probably reflecting some wage pressures following price increases since at least the beginning of the year, as well as the dilution of distortions due to the pandemic in the same period of 2020.

INEGI's employment report
Non-seasonally adjusted figures

%	Jul-21	Jun-21	Difference
Unemployment rate	4.38	4.02	0.36
Participation rate	59.9	58.5	1.4
Part-time workers rate	13.2	12.4	0.9
Formal employment	43.6	44.6	-1.0
Informal employment[1]	56.4	55.4	1.0
Working in the informal economy	28.9	27.5	1.5
Working in the formal economy	27.5	27.9	-0.4

Source: INEGI

Labor market data will likely remain distorted, including from changes to outsourcing and the return to classes. In our view, today's report was very positive. Specifically, we saw a very important job creation and increase in the labor force, which we believe is a strong signal of a greater normalization in the labor market. Although it is not clear that the pandemic had a meaningful effect in jobs, it remains as the most pressing risk going forward. This is especially relevant as conditions in this front worsened through August, with several new highs in terms of cases in the month. Despite of this, mobility has remained resilient, likely supported by: (1) People continuing with their lives, both out of need and after growing tired of the pandemic; and (2) accumulated progress on the vaccination front, with efforts ramping up in late July, despite waning in the last few weeks. An acceleration might be in store soon, with the US shipping 1.5 million doses of the *Moderna* vaccine, recently approved by local health authorities. As such, the impact will likely be more modest than in the first and second waves. More positively though, we still anticipate sequential GDP growth in 2H21, which in our view will also support the labor market and drive the unemployment rate close to 4.00% by the end of the year. Even in this scenario, we consider that the balance of risks for employment is skewed to the downside, matching our view for activity.

Apart from this, we warn about two factors that may induce more distortions in labor market statistics in coming months: Changes to the *Federal Labor Law* and the return to classes. On the first, IMSS data for July showed sizable changes in the composition of workers, with permanent positions climbing at a brisk pace and temporary ones plummeting. In our view, this indicates that a high number of people hired by outsourcing firms were laid-off and re-hired by the businesses they work for. We recall that the reform was published in the *Official Gazette* on April 23rd and the original deadline for implementation was early August. Nevertheless, the latter was pushed to September 1st as firm's confusion about the requirements abounded. On the second, our view is that many people –especially women– have been unable to return to the labor force given the need to look after their children, at home for the last year and a half. Therefore, once in-person classes resume, they could be freed up to look again for a job. If this materializes and jobs are not readily available, we could see a spike in the unemployment rate. However, both the number of students that will indeed return to in-person classes and its potential effect on the labor force is still very uncertain. Therefore, it represents an additional challenge for interpreting this variable in coming months.

[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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