

Labor market weakness extends through September

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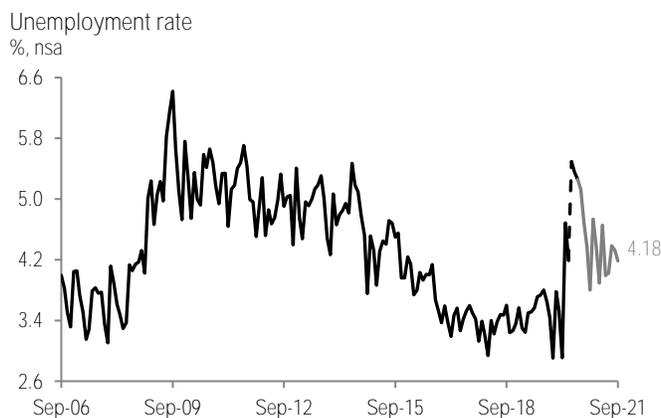
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- **Unemployment rate (September; nsa): 4.19%; Banorte: 4.43%; consensus: 4.25% (range: 3.96% to 4.48%); previous: 4.33%**
- **Part-time workers: 12.3% (previous: 13.0%); Participation rate: 58.4% (previous: 59.4%)**
- **Jobs lost totaled 544.4 thousand, possibly still resenting the impact from the ‘third wave’ of COVID-19. Total jobs were 631.2 thousand below those seen in February 2020, used as benchmark to pre-pandemic conditions**
- **The labor force also fell (-654.0 thousand), with unemployed people declining by 109.6 thousand. These changes help explain the reduction in the unemployment rate, albeit not for the right reasons**
- **The participation rate backtracked again, consistent with the broad deterioration of the labor market. The part-time rate also fell, although it remains relatively high. Outside the labor force, those catalogued as ‘available for work’ increased, which is also a negative development**
- **Historically, the period’s seasonality is adverse, in our view still related to the summer holiday and in part because of the return to classes. Seasonally adjusted, the unemployment rate came in at 3.93% from 4.03% in August**
- **Job losses in the informal sector stood at 405.3 thousand (74.5% of the total), with 139.0 thousand less in formality (25.5%). Therefore, the informality rate declined to 56.2%**
- **Average hourly wages reached \$47.42, above the \$47.30 seen in August. This represents a 7.7% y/y expansion, accelerating at the margin in our view driven by recent inflation pressures**
- **We expect the labor market to recover in coming months, supported by a more favorable backdrop for economic activity**

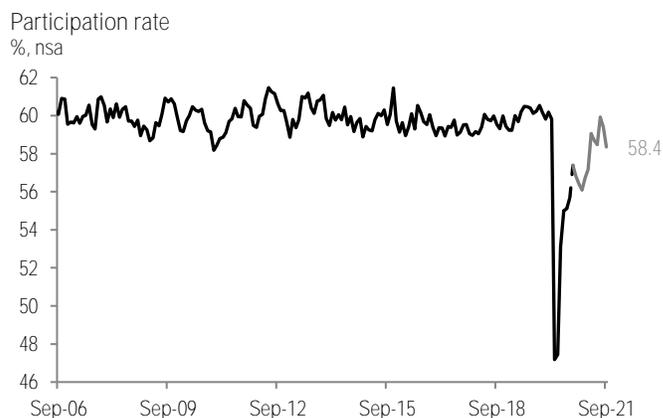
Job losses continued in September. Using original figures, the unemployment rate stood at 4.19% (chart below, left), lower than consensus (4.25%) and further away from our 4.43%. This represents a 14bps decline relative to August, with a relatively stable seasonal effect, although more negative at the margin. With seasonally adjusted data, the rate came in at 3.93%, also below the previous month at 4.03%. Back to original figures, the labor force decreased by 654.0 thousand, comprised of 544.4 thousand less employed people and 109.6 thousand less unemployed. Although conditions seemed better, we do not rule out that the acceleration in COVID-19 cases in the previous month also had a negative effect in September, especially considering other factors such as: (1) The lag in business decisions; (2) a persistent impact in various sectors; and even (3) differences in measurement (*e.g.* when the survey is compiled).

Therefore, although these results are negative and represent an additional warning signal for economic activity, we think figures in coming months will be important to gauge the increase after the ‘third wave’. In this backdrop, the participation rate fell again, reaching 58.4% (previous: 59.4%), its lowest level since March, at the end of the ‘second wave’. Moreover, people outside of the labor force increased by 1.3 million, with a possible effect coming from the return to classes. From these, those classified as ‘available’ picked up by 854.4 thousand, while those ‘not available’ increased by 423.2 thousand. Among the former, it is somewhat concerning that the highest increase was in those that ‘are not looking for a job because they do not see chances of finding one’, which reflects a more difficult environment for activity. In this backdrop, total employees reached 55.1 million, which is 631.2 thousand less than in February 2020, before the virus.

As in previous releases, to reflect labor market conditions more accurately, we sum those ‘available for work’ not in the labor force both to the unemployed and the labor force. With this, the ‘expanded’ unemployment rate stood at 16.3%, above the 15.2% of the previous month and highest since February. 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.



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



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Strong losses in services and the primary sector. Out of the 544.4 thousand positions lost, 405.3 thousand were in the informal sector, with the formal economy accounting for the 139.0 thousand positions left. The latter was very low relative to the +174.1 thousand new positions affiliated to IMSS. As a result, the informality rate stood at 56.2% (previous: 56.4%). By sectors, the most substantial losses were in services, down 731.8 thousand jobs. These were concentrated in commerce (-358.4 thousand) and restaurants and lodging (-382.8 thousand). Although part of this is related to the pandemic, we believe there is also a relevant seasonal effect behind the fall, especially in the latter. The primary sector lost 38.2 thousand, while industry created 223.4 thousand, with most of them being in manufacturing (+178.1 thousand), which is positive considering losses in recent months.

On the other hand, the part-time rate fell to 12.3% from 13.0%, which is favorable at the margin. The average hourly wage stood at \$47.42, higher by \$0.12 sequentially and accelerating to 7.7% y/y. We believe this last figure is possibly reflecting wage pressures after higher price increases since at least the beginning of the year, as well as the minimum wage hike at the start of 2021.

INEGI's employment report

Non-seasonally adjusted figures

%	Sep-21	Aug-21	Difference
Unemployment rate	4.19	4.33	-0.14
Participation rate	58.4	59.4	-1.0
Part-time workers rate	12.3	13.0	-0.7
Formal employment	43.8	43.6	0.2
Informal employment ¹	56.2	56.4	-0.2
Working in the informal economy	28.1	28.8	-0.7
Working in the formal economy	28.1	27.5	0.6

Source: INEGI

The decline in unemployment suggests that an unfavorable environment remains, at least in the labor market. It is our take that this report was negative, with signals that the more difficult environment in previous months still had an impact on labor market conditions in September. Nevertheless, and as mentioned above, several factors could explain the deterioration despite an improvement in other fronts. Moreover, [economic activity seems to have improved](#) at the margin, which could also help job creation. Therefore, factoring-in that the outlook seems more positive in coming months, we expect recent losses to reverse relatively quickly, in turn helping the recovery in 4Q21.

On the other hand, we will continue watching the possible impact from the return to in-person classes as it was not crystal clear in this report. This is likely because the process has been very gradual to avoid contagions. In this sense, this strategy may still limit some parents to search again for a job. Therefore, we believe that a more substantial return could be needed for gains to materialize. There are also other distortions that may be having an impact which we expect to dissipate in coming months. Regarding wages, the civil organization *Acción Ciudadana Frente a la Pobreza* (Citizen Actions against Poverty) presented a minimum wage proposal to the *National Wages Commission*. They argue for a \$43.50 daily increase in the minimum wage, reaching \$185.20. This would imply a 30.7% y/y increase, a new high for this administration. Nevertheless, given that we still need to know the private sector's positioning and adjustments in recent years, we think the final hike will be less than this.

We will be watching closely to performance in coming months as activity may recover more strongly. As there is still very high volatility in the unemployment rate, we maintain our view that it will end the year close to 4% (with seasonally adjusted figures).

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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