Positive results for jobs in June, although still with room to recover

- **Unemployment rate (June; nsa): 3.35%; Banorte: 3.27%; consensus: 3.37% (range: 3.22% to 3.45%); previous: 3.27%**
- **Part-time workers: 8.9% (previous: 8.5%); Participation rate: 59.8% (previous: 59.6%)**
- **In the period, 281.0 thousand new jobs were added, recovering some of the losses of the previous month. So far this year, 202.8 thousand positions have been created**
- **The labor force increased by 338.5 thousand, with unemployed persons rising by 57.6 thousand. This helps explain the higher unemployment rate**
- **As a result, the participation rate increased, while the part-time rate deteriorated at the margin. Outside of the labor force, those catalogued as 'available for work' rose by 3.9 thousand, with those 'not available' were down by 102.3 thousand**
- **Seasonally adjusted figures show that the unemployment rate fell marginally, to 3.33% from 3.36%, supporting other positive developments**
- **Gains were in the informal sector, with a total of 292.3 thousand more jobs. On the contrary, position in the formal sector contracted by 11.3 thousand. Hence, the informality rate rose to 55.8% (previous: 55.6%)**
- **Average hourly wages slightly worsened to $48.71 (previous: $48.79), representing a 4.2% y/y advance. While positive, it is not enough to offset for rising inflation**
- **While the result was positive, short-term risks remain, mainly due to the latest wave of contagions. However, we maintain a favorable outlook for the remainder of the year**

Partial rebound in labor market conditions in June. With original figures, the unemployment rate stood at 3.35% (chart below, left), lower than consensus (3.37%) but higher than our forecast (3.27%). This represents +8bps vs. May, with a negative seasonality at the margin. As such, using seasonally adjusted figures, the unemployment rate stood at 3.33%, an inch lower from the 3.35% of the previous month. Back to original data, the labor force increased by 338.5 thousand, with +281.0 thousand employees and +57.6 thousand unemployed. The result on job positions was positive, especially given some seasonal effects which tend to be mixed, partly due to the start of summer vacations –mainly for college and high school students– and compensating, to a certain extent, losses of the previous month (-518.1 thousand), which were unusual back then. So far this year, the total number of jobs created reached 202.8 thousand, although still 237.1 thousand positions below the latest historical high seen in April.

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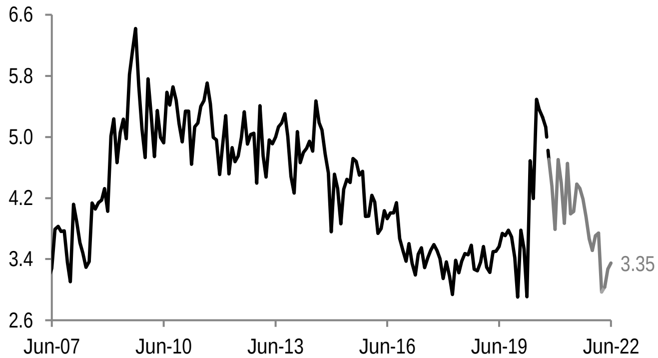
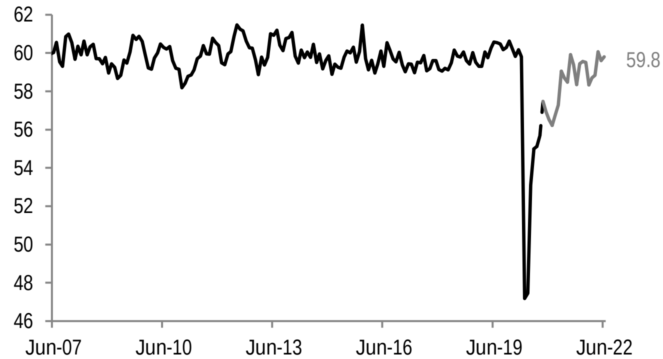
The participation rate rebounded slightly, at 59.8% (previous 59.6%), although not enough to make up for recent losses. This is explained by a higher labor force and 98.5 thousand less people not in the labor force. From the latter, those catalogued as 'available' rose 3.9 thousand, with those 'not available' fell 102.3 thousand, likely related to the seasonal trends outlined above. Therefore, total employees reached 57.4 million. As on previous reports, to better reflect labor market conditions, we added 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 14.0%, 25bps lower than in the previous month. For reference, in February 2020 –before the impact of the pandemic– it reached 12.2%, indicating that a full recovery has yet to be achieved.

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

Job gains centered in informality, with construction outperforming. Out of the 281.0 thousand created jobs, 292.3 thousand were in the informal sector, while the formal economy lost 11.3 thousand positions. The latter figure is not consistent with IMSS data, which points to a significant decline in other areas such as federal and state workers, along with the military. As a result, the informality rate rose to 55.8% (previous: 55.6%). By sectors, we highlight that the primary sector added 336.1 thousand positions, better than signaled by its typical seasonality. Industry continued to add jobs for a fifth consecutive month, with +138.3 thousand. Construction was the main driver at +237.9 thousand, with moderate losses in both manufacturing (-59.3 thousand) and mining and utilities (-40.3 thousand). Services kept declining, with 213.7 thousand jobs lost. The fall centered on professional, financial, and corporate (-220.8 thousand) and commerce (-205.2 thousand) but improving significantly in 'diverse' (299.2 thousand). Somewhat negatively, the part-time rate increased to 8.9% from 8.5%, which we see as consistent with the uptick in contagions in the latter half of the month. Lastly, the average hourly wage was $48.71, falling by $0.08 sequentially and decelerating to +4.1% y/y (previous: +4.2%). We believe this continues to be modest considering some recent news about adjustments achieved by some unions and the signal sent by the minimum wage increase early in the year.

INEGI's employment report
Non-seasonally adjusted figures

%	Jun-22	May-22	Difference
Unemployment rate	3.35	3.27	0.08
Participation rate	59.8	59.6	0.2
Part-time workers rate	8.9	8.5	0.4
Formal employment	44.2	44.4	-0.2
Informal employment[1]	55.8	55.6	0.2
Working in the informal economy	28.4	28.7	-0.3
Working in the formal economy	27.4	26.9	0.5

Note: Differences might not match due to the number of decimals allowed in the table
Source: INEGI

Possible short-term disruptions, although expecting a positive trend to prevail the remainder of the year. Today's results support the narrative of a resilient labor market through the first half, even considering a more challenging backdrop. However, we do recognize higher risks for short-term dynamics, based on three factors: (1) A fifth wave of contagions; (2) a moderation in economic activity towards the end of 2Q22; and (3) some mixed seasonality ahead of the summer holidays.

Regarding the virus, IMSS reactivated its online sick leave program on July 6th. Since that date and until the 26th, total requests reached 142.0 thousand, representing around 0.6% of total affiliated workers. Meanwhile, Coparmex estimated that absenteeism in Mexico City due to this new wave could reach between 15% or 20% of workers. This suggests an impact may be in order, although likely more modest considering that it seems that a peak was reached on July 11th at +40.0 thousand daily cases (vs. a high of +80.7 thousand on January 17th, 2022, during the fourth wave). This is likely driven by progress on vaccinations and a variant that is triggering milder symptoms, possibly reducing the impact on productivity (especially among remote workers) and overall job numbers.

On the other hand, activity at the end of 2Q22 probably slowed down in both services and industry. We believe that employment dynamics could be affected, at least in the short-term. However, we maintain a positive outlook for the remainder of the year. Taking this into account, as well as our belief of prevailing slack conditions in the labor market, employment gains will likely continue. In contrast, considering changes in the makeup of the labor force and those outside of it, we maintain our call of a slight increase in the unemployment rate towards the end of 2022 to levels close to 3.6%.

Lastly, we are heeding the evolution of wage negotiations, especially as we believe there is a mismatch between reported negotiations by unions and this report. This is especially relevant in the current environment as lower real wages are affected by inflation and could impact consumption and thus, activity more broadly.

[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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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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.

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