Good labor market data in July, albeit distorted by seasonal drivers

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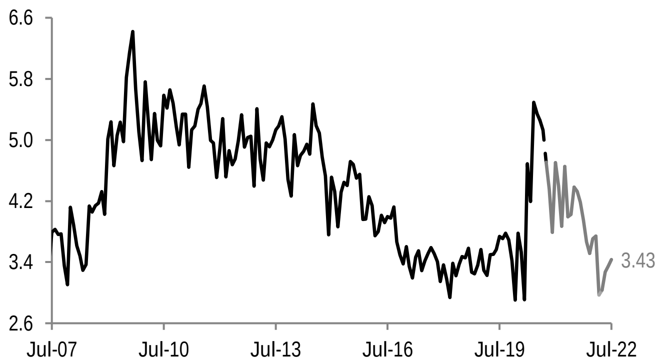
- **Unemployment rate (July; nsa): 3.43%; Banorte: 3.56%; consensus: 3.53% (range: 3.30% to 3.73%); previous: 3.35%**
- **Part-time workers: 8.3% (previous: 8.9%); Participation rate: 60.0% (previous: 59.8%)**
- **In July, only 8.6 thousand jobs were created, in our opinion related to the summer holiday period. So far this year, 1.9 million positions have been created**
- **The labor force increased by 64.1 thousand, with those unemployed up by 52.8 thousand. This explains the higher unemployment rate and in line with similar periods**
- **As a result, the participation rate increased, while the part-time rate kept improving. Outside of the labor force, those catalogued as 'available for work' fell by 1.3 million, with those 'not available' picked up by 1.0 million. In our view, this could be driven by temporary disruptions because of vacation trips and at-home responsibilities**
- **Seasonally adjusted, the unemployment rate declined to 3.21% from 3.32%, not resenting heavily the fifth COVID-19 wave**
- **In the formal sector, 251.1 thousand jobs were created. On the contrary, 242.5 thousand jobs were shed in the informal sector contracted. As a result, the informality rate fell to 55.4% (previous: 55.8%)**
- **Average hourly wages declined at the margin, to $48.55 (previous: $48.71), which translates into an 1.9% y/y advance. In our view, this is quite modest considering consumer price pressures**
- **We maintain our positive view of the labor market for the remainder of the year. Nevertheless, the recent deceleration in total payrolls represents a headwind for domestic demand**

Seasonal factors drove the labor market in July. With original figures, the unemployment rate stood at 3.43% (chart below, left), lower than consensus (3.53%) and our estimate (3.56%). This was likely driven by seasonal factors, with students either on vacation or graduating, in addition to people going out on summer trips. This influences the unemployment and participation rates, among other metrics. Nevertheless, using seasonally adjusted figures, the unemployment rate was 3.21%, lower than the 3.32% of the previous month. Back to original data, and consistent with the abovementioned distortions, the labor force picked up by 61.4 thousand, with 8.6 thousand new employees and +52.8 thousand unemployed. In this sense, the participation rate increased to 60.0%. Meanwhile, the labor force backtracked by 295.5 thousand, concentrated in those catalogued as 'available' (-1.3 million), while those 'not available' rose by 1.0 million. In our view, all these figures are distorted to varying degrees by the holiday period, considering the implications it has on: (1) Students leaving school, both temporarily or permanently; (2) people that suspend work to go on vacation; and/or (3) more parental responsibilities this period, with some having to suspend employment to take care of children.

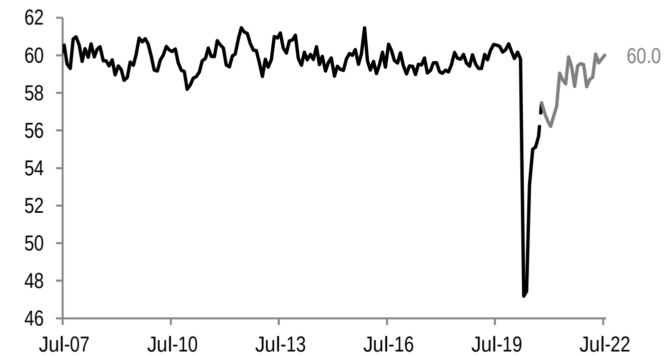
On the other hand, and back to seasonally adjusted data, the fifth COVID-19 wave does not seem to have had a significant effect on the labor market, in contrast to other episodes. In this context, the total number of employees reached 57.4 million, implying 1.9 million new jobs so far this year. Nevertheless, they remain 228.5 thousand positions short of the historical high back in April 2022. 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 12.3%, 1.7pp lower than in the previous month. As a reference, in February 2020 –before the impact of the pandemic– it reached 12.2%, indicating that the recovery has advanced meaningfully.

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

Gains in the formal sector, but with substantial losses in industry. Of the 8.6 thousand jobs gained, the formal sector contributed with 251.1 thousand, while the informal economy shed 242.5 thousand positions. Regarding the first, the figure is better than IMSS data, where only 10.7 thousand new positions were registered. From this, it can be inferred that new jobs materialized in other areas, such as federal and state workers, along with the military. Hence, the informality rate fell to 55.4% (previous: 55.8%). By sectors, both primary activities (+269.6 thousand) and services (+38.7 thousand) improved. Within the latter, commerce led gains at +238.0 thousand, followed by professional and financial (+214.8 thousand). Nevertheless, this was partly offset by social work (-306.3 thousand) and transportation (-187.2 thousand). Meanwhile, industry lost 319.8 thousand positions, most of them in construction (-359.8 thousand). On a positive note, the part-time rate improved to 8.3%, supporting our belief that the effect from higher contagions was quite modest. Finally, the average hourly wage stood at $48.55, declining by $0.16 relative to the previous month, and moderating to +1.9% y/y (previous: +4.2%). We believe the latter is low considering accumulated price pressures, impacting household’s purchasing power. However, it could serve as a relief from some cost pressures, such as increases in raw materials and energy.

INEGI's employment report
Non-seasonally adjusted figures

%	Jul-22	Jun-22	Difference
Unemployment rate	3.43	3.35	0.09
Participation rate	60.0	59.8	0.2
Part-time workers rate	8.3	8.9	-0.6
Formal employment	44.6	44.2	0.4
Informal employment[1]	55.4	55.8	-0.4
Working in the informal economy	27.9	28.4	-0.5
Working in the formal economy	27.5	27.4	0.1

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

The labor market recovery will likely continue, although headwinds are increasing. We believe today's report is positive. However, additional data is necessary to corroborate if gains are permanent or just temporary, given relevant seasonal skews. This is particularly evident in the expanded unemployment rate, which was impacted by the large move in people "available for work", which could backtrack as soon as August. Despite of a possible setback soon, we think the overall recovery trend will continue through the remainder of the year. We consider that the effects from global monetary tightening and increased recession fears could impact the pace of improvement, although not enough for a sudden stop. This would be consistent with our economic views, where despite a deceleration, activity would keep growing. Considering our call of some US resiliency, further support would come for both activity and employment. On short-term dynamics, we think the start of the 2022-2023 school period can be a driver. This will be the first cycle since the start of the pandemic in which most of the nearly 24.5 million basic education students return to in-person teaching. On the other hand, we believe sectors related to the restaurant and tourism industries can be key to promote new jobs, as we adapt further to the pandemic.

The main risk comes from wages and total payrolls. Considering the lackluster performance of the former in the last couple of months, risks for households' purchasing power have increased. This is especially relevant in a high inflation environment, with pressures centered in basic categories such as food. In this backdrop, we remain on the look about possible effects from the start of discussions about the minimum wage for 2023. Recently, members of the *National Minimum Wage Commission* updated their goals due to price pressures, with a new goal to reach $260 per day by 2024, which translates to a 50.4% accumulated increase compared to the current level of $172.90 pesos.

[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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