More modest job gains in May

- **Unemployment rate (May; nsa): 3.99%; Banorte: 4.47%; consensus: 4.47% (range: 3.73% to 4.80%); previous: 4.65 %**
- **Part-time workers: 12.9% (previous: 13.7%); Participation rate: 58.7% (previous: 59.1%)**
- **In the month, 56.3 thousand jobs were created, slowing down relative to April, albeit still positive. As a result, the gap to recovery (using February 2020 as benchmark) now stands only at 847.0 thousand**
- **Nevertheless, 336.0 thousand workers returned to the labor force, while unemployed people fell by 392.3 thousand. Both factors explain the higher-than-expected decline in the unemployment rate, compensating for a sharp influx to the labor force and in total unemployed workers in the previous month**
- **As a result, the participation rate diminished modestly, further away from pre-pandemic levels at the margin. On a positive note, the part-time rate fell, consistent with a higher degree of economic reopening**
- **The period's seasonality is slightly more favorable. Considering this and all factors mentioned above, with seasonally adjusted figures, the unemployment rate declined to 4.14% from 4.59% in April**
- **Job gains in the formal sector stood at 54.0 thousand (96.0%), with 2.3 thousand in informality (4.0%). Therefore, the informality rate declined to 55.5% from 55.6% in April**
- **Average hourly wages reached $46.89, above the $46.61 previously. This represents a 7.4% y/y contraction, with the latter still heavily distorted by a base effect because of the pandemic**
- **We maintain our call of additional employment gains as the recovery continues. However, some risks remain, with possible headwinds on industry and a recent deterioration in epidemiological conditions**

The unemployment rate reverses lower in May. Using original figures, it stood at 3.99% (chart below, left), surprising consensus which coincided with our forecast (4.47%). With this move, the rate more than erased April's upward adjustment, which in turn contrasted with a broad improvement in employment conditions. However, we still believe the pandemic keeps distorting figures. In this context –and contrary to our call–, the labor force retraced modestly, shedding 336.0 thousand people, possibly as payback from April's surge. Inside, total unemployed people fell even more strongly at -392.3 thousand, possibly discouraged after not landing a job in the previous month. On a more positive note, 56.3 thousand more people now said that they have a job. In our view, further dynamism in activity and better epidemiological conditions continue to be the main drivers behind job gains. However, the contraction in the labor force comes after hefty gains in an environment in which the reopening has not been fully completed, particularly in sectors that are still highly dependent on social interactions (*e.g.* local tourism, entertainment).

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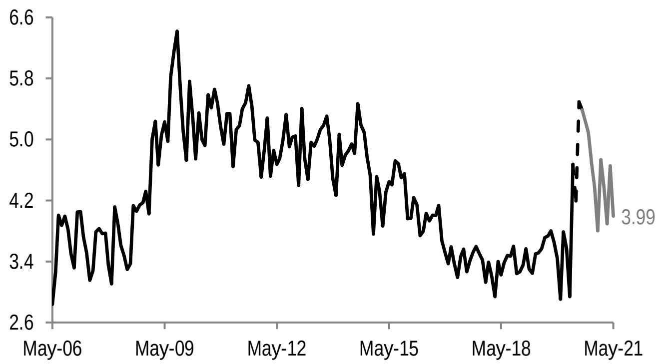
There is also a mild positive seasonal effect, with *Easter* holiday distortions fading away. As a result, using seasonally adjusted figures, we saw a more modest 45bps decline in the unemployment rate, to 4.14%. This is consistent with improving trends in the labor market. Also reflecting this, total employees reached 54.9 million, just 847.0 thousand less than in February 2020, before the pandemic began. Considering population growth, we need to see gains above this to fully compensate for slack. This is suggested by the participation rate, which stands at 58.7% (chart below on the right), still lower than its long-term average.

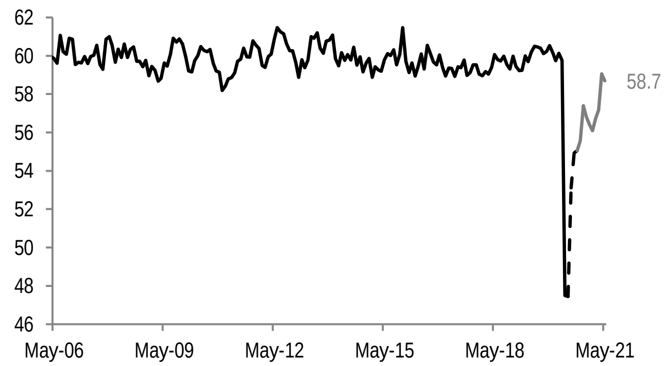
As in previous releases, to reflect labor market conditions more accurately, if we sum those 'available for work' not in the labor force both to the unemployed and the labor force, the 'expanded' unemployment rate stood at 15.6%, below the previous month but much more favorable than the 32.8% one year ago –which surged as it was the second month of strict lockdowns. In February 2020 it reached 12.0%, suggesting that there is still room left for gains. Nevertheless, it indicates that a sizable improvement in labor market conditions has already been 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 the formal sector, with additional advances in underemployment. Of the 56.3 thousand net jobs created, 54.0 thousand were in the formal sector, with the informal economy adding only 2.3 thousand. The former is better than the 39.0 thousand jobs added associated to IMSS. As a result, the informality rate fell to 55.5% (previous: 55.6%). This also contrasts with expectations, considering that rising mobility and looser restrictions could have benefitted informality more. By sectors, industry added 17.0 thousand jobs, with gains in construction (84.0 thousand), mining and utilities (+50.9 thousand), albeit with relevant losses in manufacturing (-118.0 thousand) This is somewhat concerning given risks in the sector associated to supply chain issues. In services, jobs added reached 21.4 thousand, with relevant gains in social and professional services, but with losses in commerce and transportation. Lastly, primary activities shed 1.5 thousand positions. Also favorable, the part-time rate declined to 12.9% from 13.7%, also boosted by epidemiological conditions. Average wages per hour stood at $46.89 pesos, up $0.28 sequentially but -7.4% y/y. The latter is still heavily distorted by a base effect related to the pandemic. Given recent supply and demand shocks, along higher inflation, we will keep tracking this figure closely.

INEGI's employment report
Non-seasonally adjusted figures

%	May-21	Apr-21	Difference
Unemployment rate	3.99	4.65	-0.66
Participation rate	58.7	59.1	-0.4
Part-time workers rate	12.9	13.7	-0.8
Formal employment	44.5	44.4	0.1
Informal employment[1]	55.5	55.6	-0.1
Working in the informal economy	28.7	28.0	0.7
Working in the formal economy	26.8	27.6	-0.7

Source: INEGI

We expect employment gains to continue despite risks up ahead. In our view, data for the last three months has shown that the labor market has gathered steam, supported by stronger activity. This is very positive given some weakness at the start of the year, coinciding with the deterioration in epidemiological conditions, along other shocks. In this sense, most recent data suggests that the economy kept recovering in June despite a slight setback in terms of the pandemic at the end of the period. Specifically, Mexico City returned to 'yellow' in the traffic light indicator on June 21st after two weeks in 'green'. While this could potentially impact the economy, we believe the population will continue going out and will not affect mobility levels that much. In addition, the pace of daily vaccinations has moderated to around 400,000 after reaching a high in early June, which could result in some delays relative to recently built up expectations. Despite of these setbacks –along more negative news about the spread of virus variants, we see virus conditions as allowing the recovery to continue.

Regarding other, more pressing risks, we remain concerned about industrial activity, mainly manufacturing, as the lack of raw materials and other logistics issues have taken a toll on production. However, we hope this has a relatively limited effect on the sector going forward considering the decline in today's report. Robust demand –especially from abroad– could limit the blow as businesses scramble trying to match it. Meanwhile, lagged sectors such as lodging and entertainment could keep showing some weakness until a full reopening is achieved. Despite this, we still expect the unemployment rate to keep trending down, closing 2021 around 4.0%, with additional good news in other related indicators.

[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

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 Thalía 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.

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