

Economic Analysis

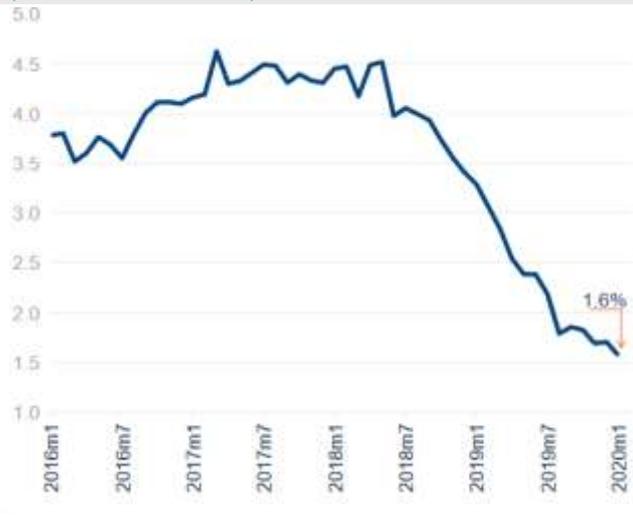
The growth of formal employment will slowdown further in early 2020

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February 19, 2020

We expect a slow recovery in job creation during 2020

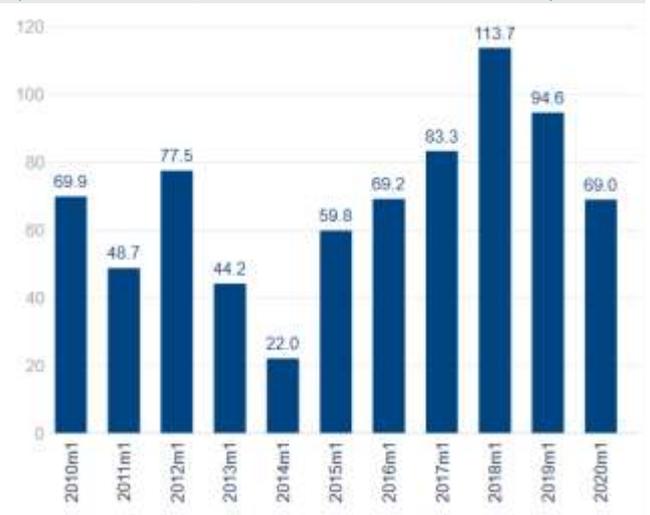
As reported by the Instituto Mexicano del Seguro Social (Mexican Social Security Institute, IMSS) in January, formal employment grew by 69,000 net jobs, reaching a total of 20.49 million insured workers. In relative terms, employment grew by 1.6% YoY, the lowest rate since January 2010 when there was no employment growth. It should be noted that despite being one of the lowest employment growth rates, in net terms, the job creation is similar to the average of January months from 2010 to date (see Figure 2).

Figure 1. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS (% YoY VARIATION)**



Source: BBVA Research based on IMSS data

Figure 2. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS (THOUSANDS, NET MONTHLY VARIATION)**



Source: BBVA Research based on IMSS data

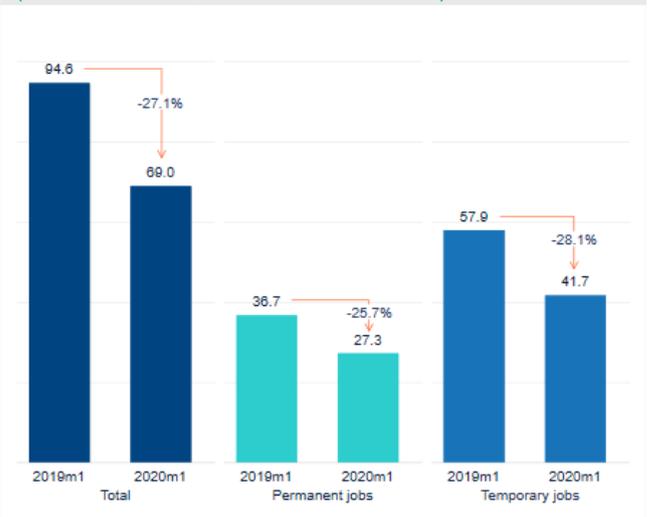
By type of contract, the slowdown in permanent employment continued to worsen with a growth rate of 1.8% YoY, the lowest level since April 2010; while temporary employment saw no YoY growth. In absolute terms, 27,300 net jobs were created, 25.7% less than in the same month of the previous year. In the case of temporary employment, 28.1% fewer jobs were created compared to January 2019. With this result permanent employment continues to show a negative trend in the YoY growth rate and temporary employment shows the greatest fluctuation in its behavior without a clear trend since the second half of 2019.

Figure 3. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS BY TYPE OF EMPLOYMENT (% YoY VARIATION)**



Source: BBVA Research based on IMSS data

Figure 4. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS (THOUSANDS, % YoY VARIATION)**



Source: BBVA Research based on IMSS data

The real wage continues to compensate, to some extent, the low job creation rate ...

Figure 5. **REAL WAGE (% YoY VARIATION)**



Source: BBVA Research based on IMSS data

Figure 6. **FORMAL PAYROLL (% YoY VARIATION)**



Source: BBVA Research based on IMSS data

As expected, real wages continued to show a positive growth of 3.1% YoY. This growth is rather moderate compared to the last four months of the year, on the back of the expected inflation upturn in January. However, it is still higher than the 2019 YoY average, which is positive for the purchasing power of wages. As a result, the total formal payroll grew by 4.7% YoY, a growth level of 1.1 pp lower compared to the same month of 2019.

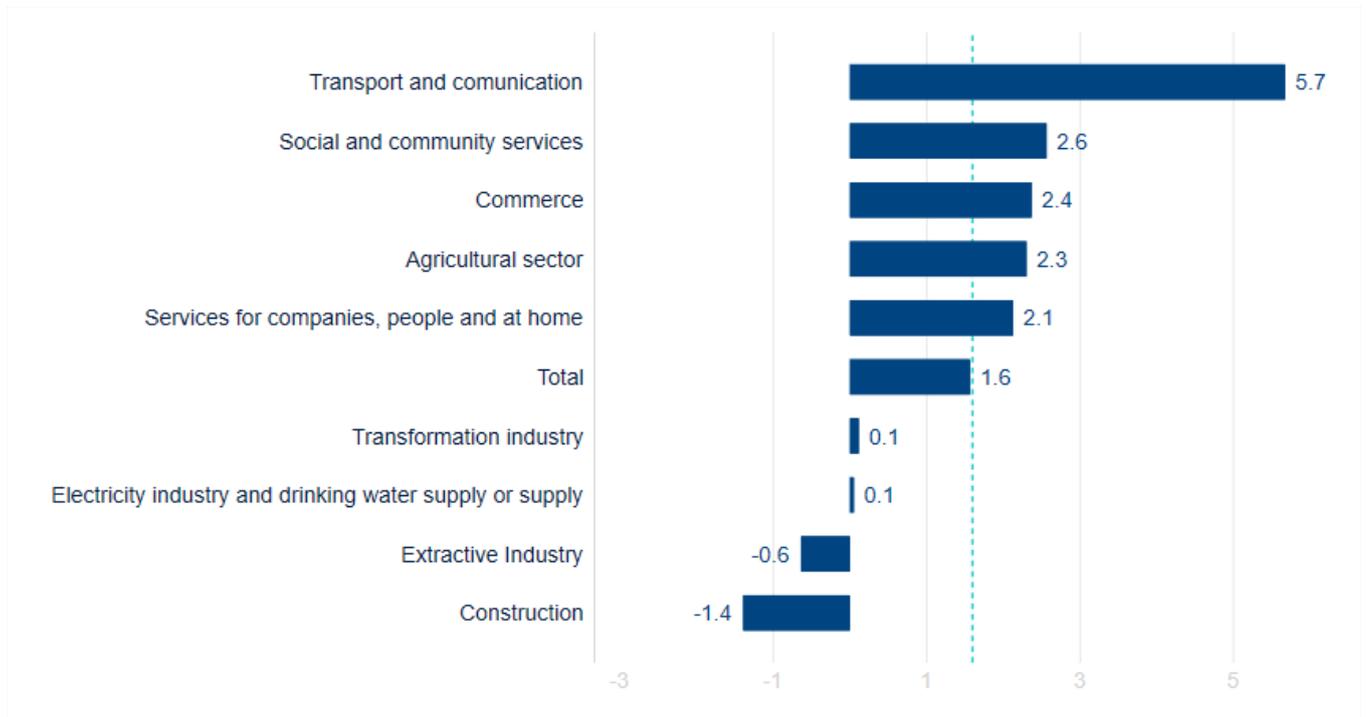
The services and trade sectors have annual growth rates above the national average

The transformation and the social and communal services sectors, as well as trade sector have the highest shares in employment generation. The average figures to date from 2019 show that these sectors generate seven out of ten formal jobs, 27.0%, 23.5% and 20% respectively, hence they have great relevance in job creation dynamics.

The transformation sector had an annual growth of 0.1% in January, the lowest since the same month of 2019. It should be noted that during 2019 this sector has had a decreasing trend in YoY job creation and if this trend remains in the coming months negative rates could be seen. As for the services and trade sectors, employment grew at an annual rate of 2.6% and 2.4%, located within the sectors with the best performance during January.

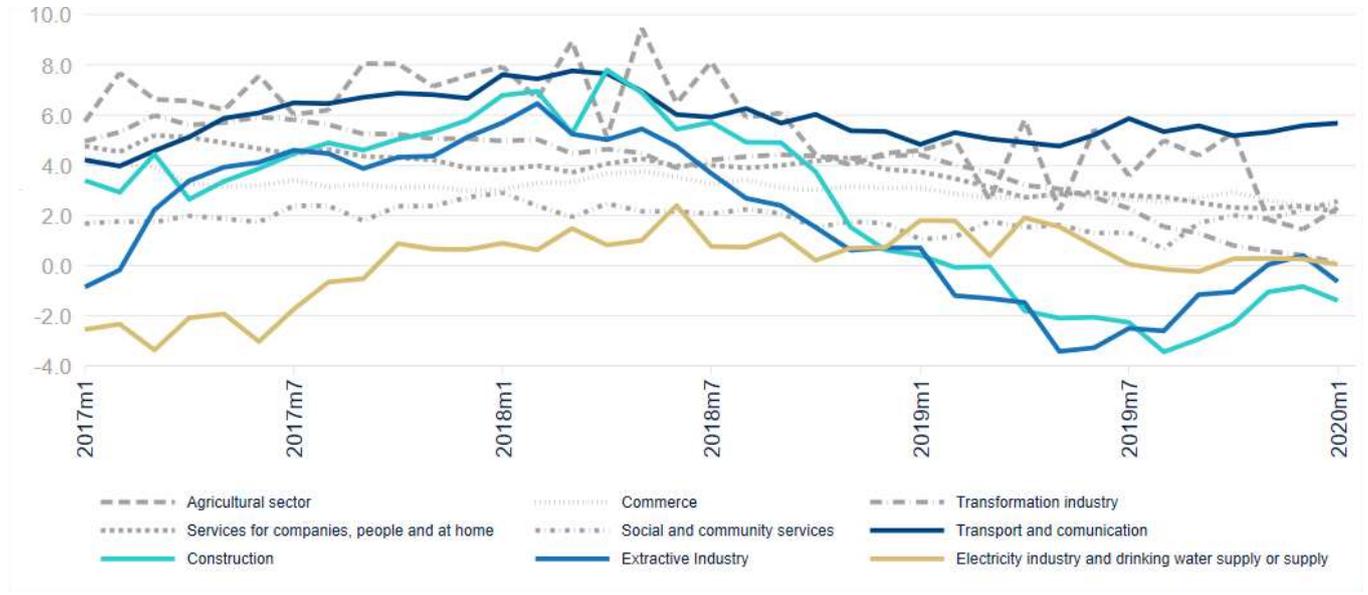
The transport and communications sector also stands out due to their outstanding performance in terms of job creation in January, with an annual growth rate of 5.7%; 4.1pp of the national average.

Figure 7. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS BY SECTOR OF ACTIVITY**
(% YoY VARIATION)



Source: BBVA Research based on IMSS data

Figure 8. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS BY SECTOR OF ACTIVITY**
(% YoY VARIATION)



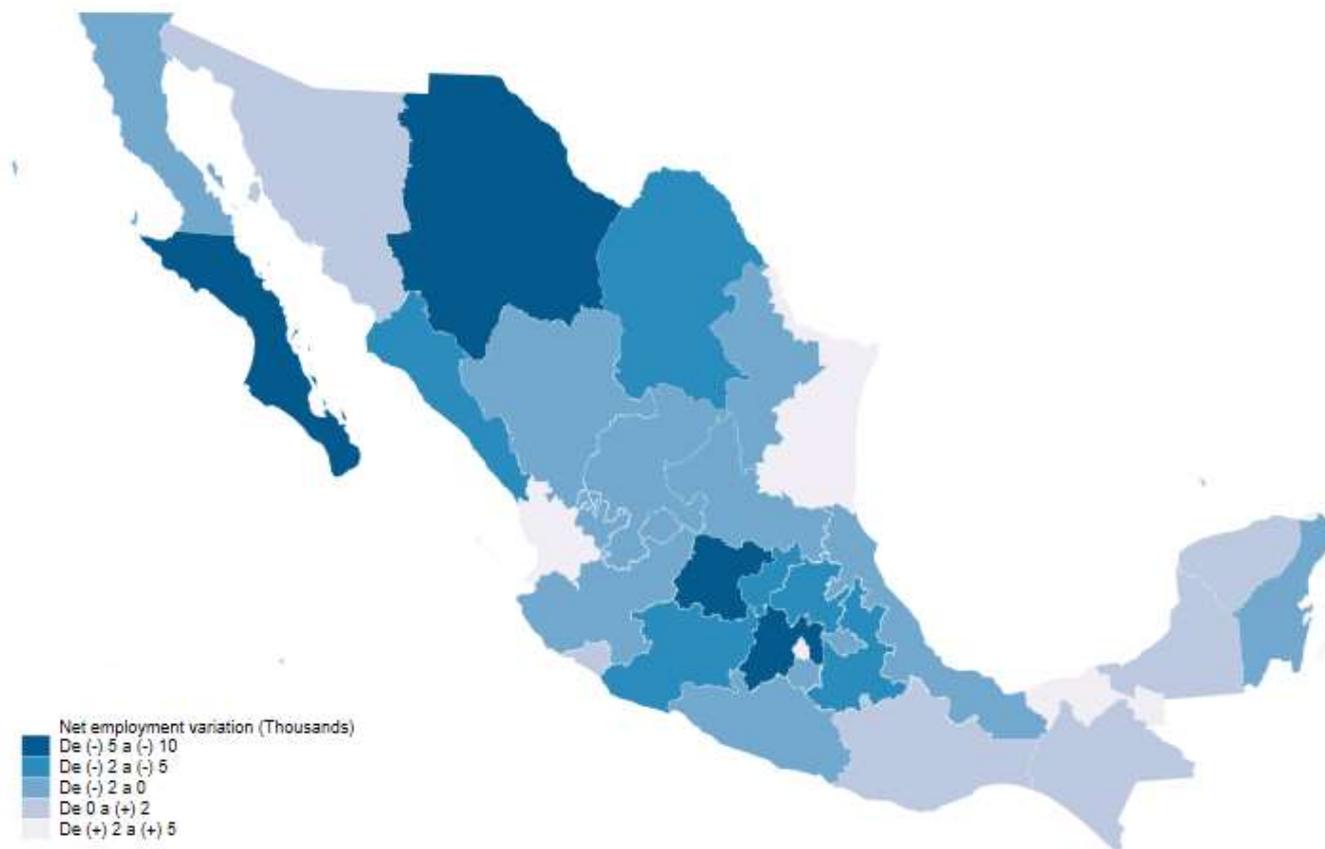
Source: BBVA Research based on IMSS data

More than 38,000 jobs were lost in the construction sector

On the other hand, the extractive industries and construction sectors continue to perform poorly in terms of job creation. In the first case, and despite the fact that in November (0.04% YoY) and December (0.4% YoY) the sectors had shown a slight improvement in the level of job creation, employment once again saw a negative annual rate of -0.6% in January.

Construction was the most impacted sector on the back of the economic slowdown, with an annual growth rate of -1.4% in January. With this result, this sector has seen 12 consecutive months of negative growth rates and the loss of 38,870 jobs from February 2019 to January 2020. The net job loss in this sector has been practically widespread throughout the country. Only ten states had a positive balance, out of which Nayarit (4600 jobs) and Tabasco (3700 jobs) stand out. The State of Mexico, Guanajuato, Baja California and Chihuahua are the states with the greatest job loss (31,900), which together account for 82.1% of the total jobs lost in this sector (see map 1).

Map 1. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH THE IMSS OF THE CONSTRUCTION SECTOR (THOUSANDS, NET VARIATION FROM FEB 2019 TO JAN 2020)**



Source: BBVA Research based on IMSS data

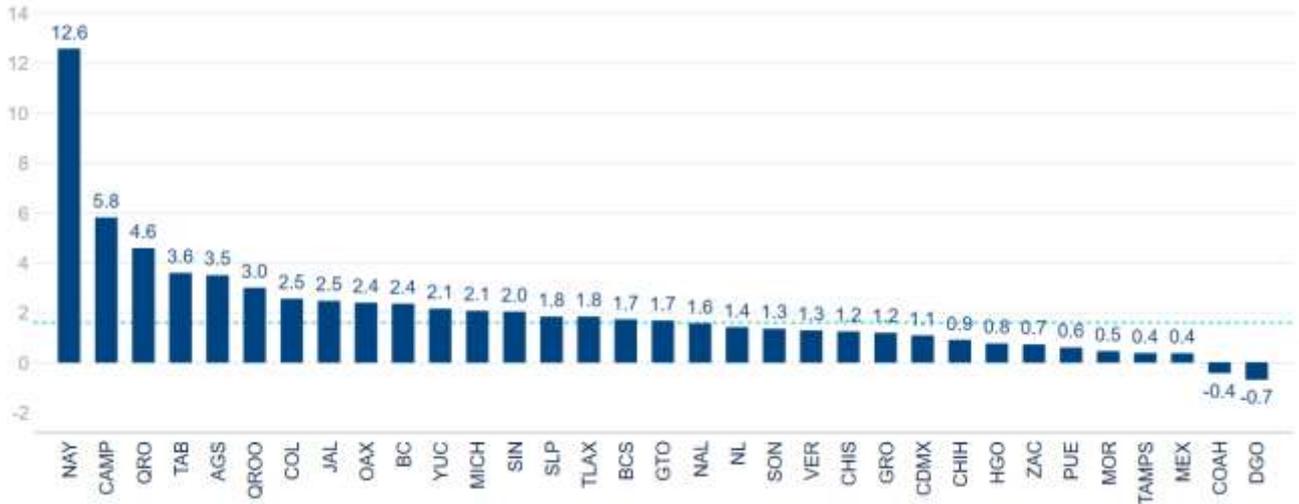
Durango saw ten months in a row with negative annual employment growth rates

At the state level and for all sectors, only Coahuila (-0.4%) and Durango (-0.7% YoY) reported negative annual employment growth rates. The weakness and negative trend of job creation in Durango began in April 2019 when it had a growth of -0.05% YoY, a trend that has been consistently maintained and has prompted the loss of 2,700 jobs as of January 2020.

Guerrero managed to maintain a positive employment growth rate of 1.2% YoY for the second consecutive month after 14 months of negative rates. On the other hand, Morelos saw an end to the negative trend in job creation that began in April 2019 with a growth rate of 0.5% YoY.

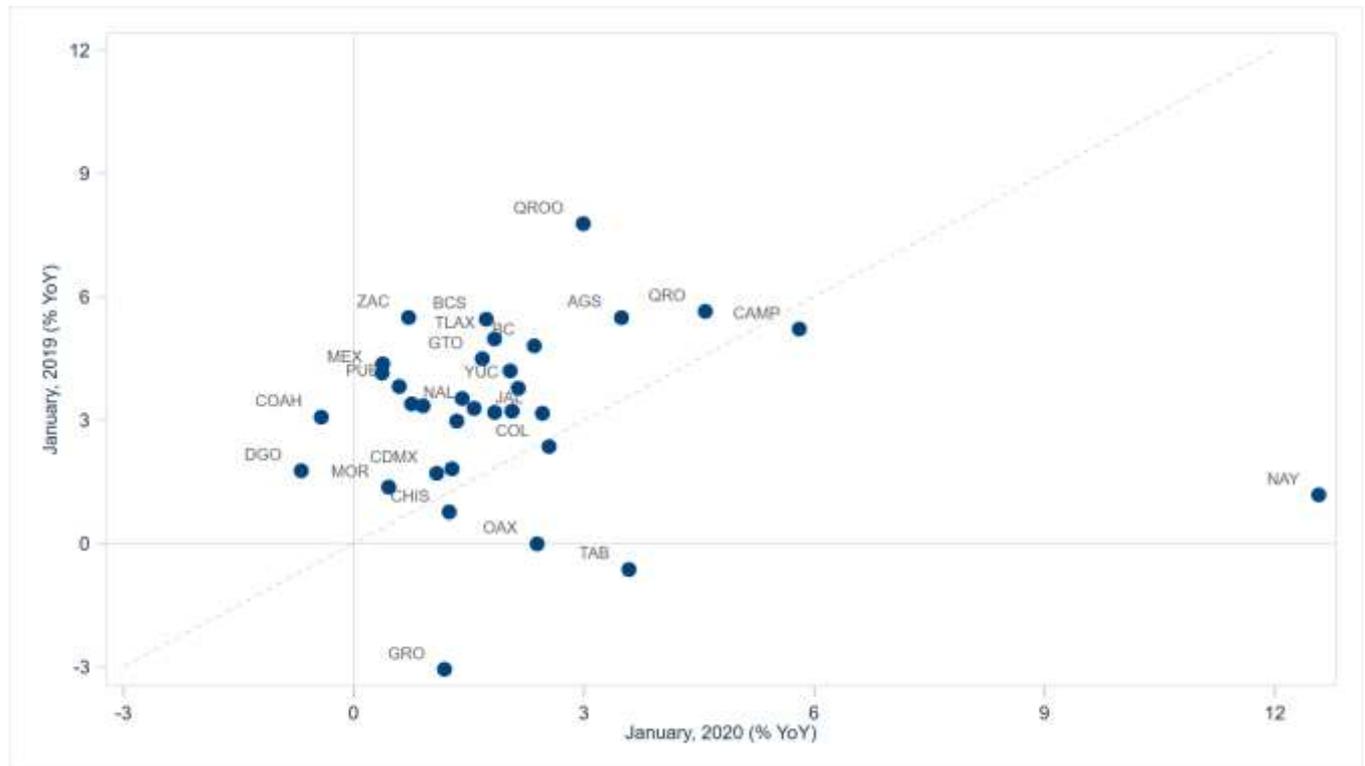
Formal employment in January was expected to have a growth below 2% YoY. This slowdown in job creation will continue for the remaining two months of the first quarter and will resume a higher growth dynamic as the stagnation conditions in the economy are overcome.

Figure 9. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS BY STATE (JANUARY 2020, % YoY VARIATION)**



Source: BBVA Research based on IMSS data

Figure 10. **INSURED PERSONS WITH EMPLOYMENT AFFILIATED WITH IMSS BY STATE (% YoY VARIATION)**



Source: BBVA Research based on IMSS data

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