

Economic Analysis

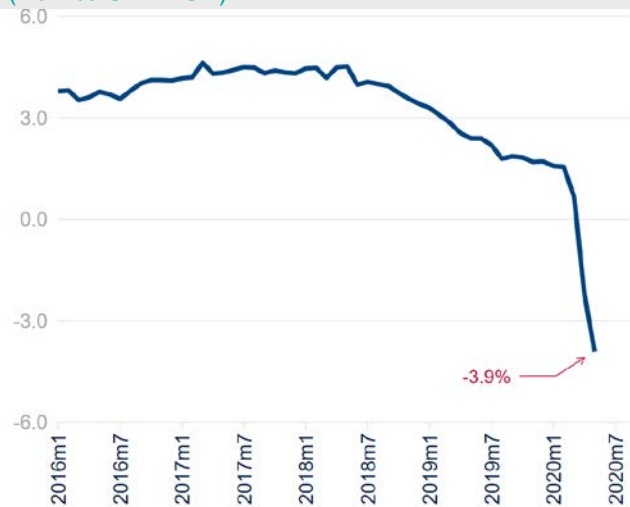
Job loss hasn't bottomed out yet: medium and large companies with higher closing rates

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June 23, 2020

In just three months, one million jobs have been lost; measures taken have failed to halt the deepening decline

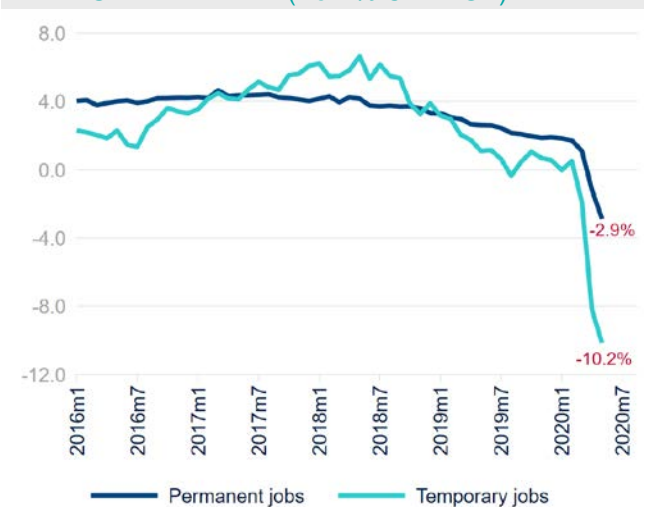
The economic downturn resulting from the COVID-19 pandemic and its negative impact on domestic and global supply and demand continue to affect the job market severely. According to the Mexican Social Security Institute (IMSS), formal employment showed a year-on-year decline of (-)3.9% in May. Temporary jobs have been most affected, with a reduction in employment level of (-)10.2% YoY, the lowest level since July 2001. Permanent employment has also been profoundly affected, with a year-on-year rate of (-)2.9%, which has a greater impact in terms of production structure, since this type of employment represents a loss of human capital, and disrupts the labor market trajectories of those workers who are generally the most productive.

Figure 1. **WORKERS AFFILIATED IN THE IMSS (YoY % CHANGE)**



Source: BBVA Research based on IMSS data

Figure 2. **WORKERS AFFILIATED IN THE IMSS BY EMPLOYMENT TYPE (YoY % CHANGE)**



Source: BBVA Research based on IMSS data

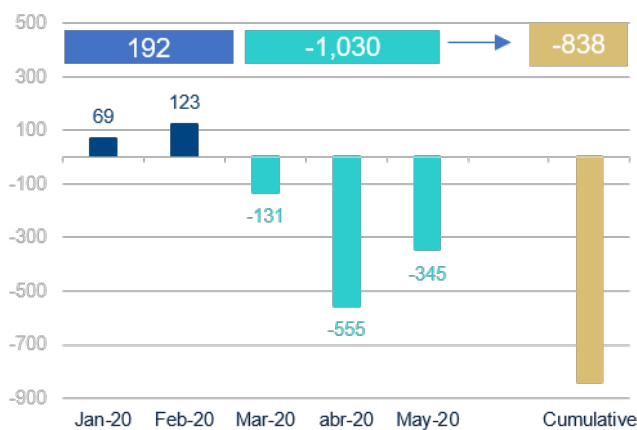
We have repeatedly pointed out is that we are currently in a recession scenario or economic crisis that is different from those we have experienced in recent history. This is evident by merely observing the intensity and speed of its impact on the job market, as more than 1 million jobs have been lost in just three months—see Figure 3. This outright month-on-month destruction exceeds the 1994 and 2008–09 crises, during which the maximum number of jobs lost did not exceed 193 thousand or 327 thousand in terms of monthly variation, respectively (more [here](#)). It should be noted that, to date, the job losses witnessed during the 1994 crisis remain greater in proportion to the size of the job market. However, given the degree of economic stagnation, uncertainty about reopening the economy — which could be a gradual affair through to the end of the third quarter of the year — as well as a likely slow rebound in demand (despite reopening) and coupled with a lack of sufficient or targeted stimulus to strengthen

the economy, we expect that the impact on the labor market may be much higher in the medium and long term and may not fully recover until early 2024 or beyond, depending on the extent to which the decline deepens.

A slowdown in job loss does not mean the worst is over...

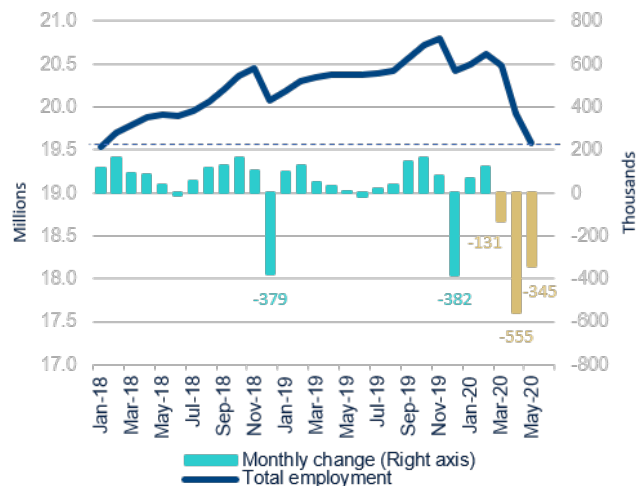
Given these results, formal job losses from January to the present total 838 thousand, which practically cancel out the previous 2.5 years of job creation, placing us 29 months behind at levels last seen at the start of 2018. While the monthly net job loss was lower than in April, this does not necessarily mean that the intensity of the decline and job loss has started to slow. This is because companies will increasingly be affected over time by the closure of the economy and by the dynamics involved in the reactivation of output demand, which we believe will be slow; this is corroborated by the results of the BBVA Research Consumer Index, which continues to show negative rates in June (more [here](#)). Therefore we expect to see further negative monthly variations in employment levels over the coming months, as well as a significant adjustment in December.

Figure 3. **WORKERS AFFILIATED IN THE IMSS (THOUSANDS, MONTHLY CHANGE)**



Source: BBVA Research based on IMSS data

Figure 4. **WORKERS AFFILIATED IN THE IMSS (TOTAL AND MONTHLY CHANGE)**



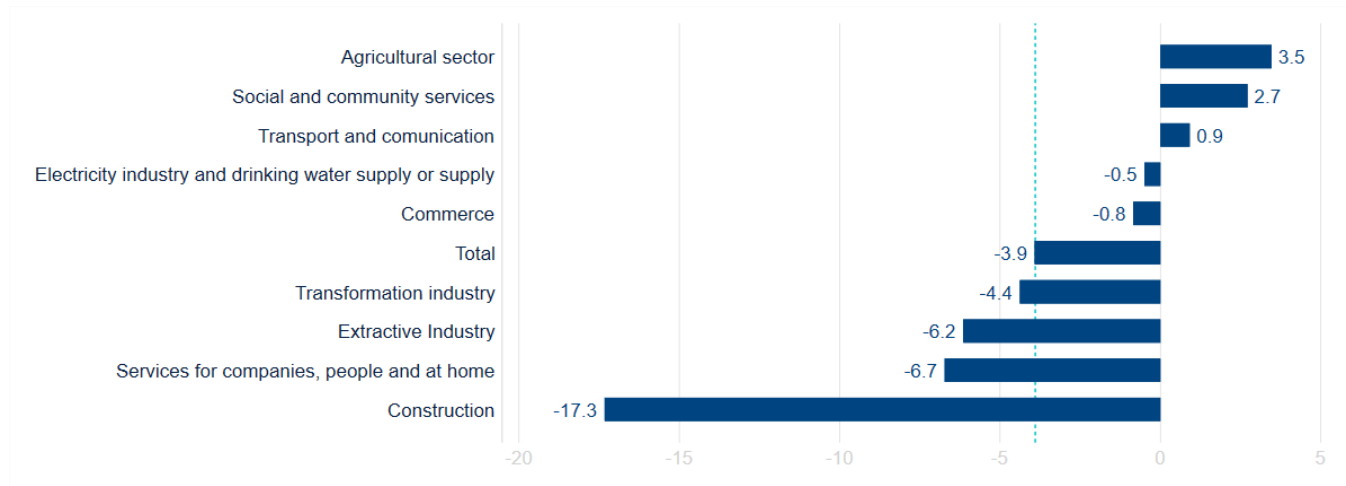
Source: BBVA Research based on IMSS data

The construction sector reports 16 straight months of contraction...

The construction is the sector most damaged of all industries since last year, suffered further losses in May, with a negative rate of (-)17.3%, 2.3 pp lower than the previous month. With this drop, the sector has accumulated 16 cumulative months of negative year-on-year rates, with 267 thousand fewer jobs than in January 2019. Other sectors where the decline exceeded the national average were: services -which include tourism- with a YoY decrease of (-)6.7%; extractive industries (-)6.2%; and the manufacturing or processing industry with (-)4.4%.

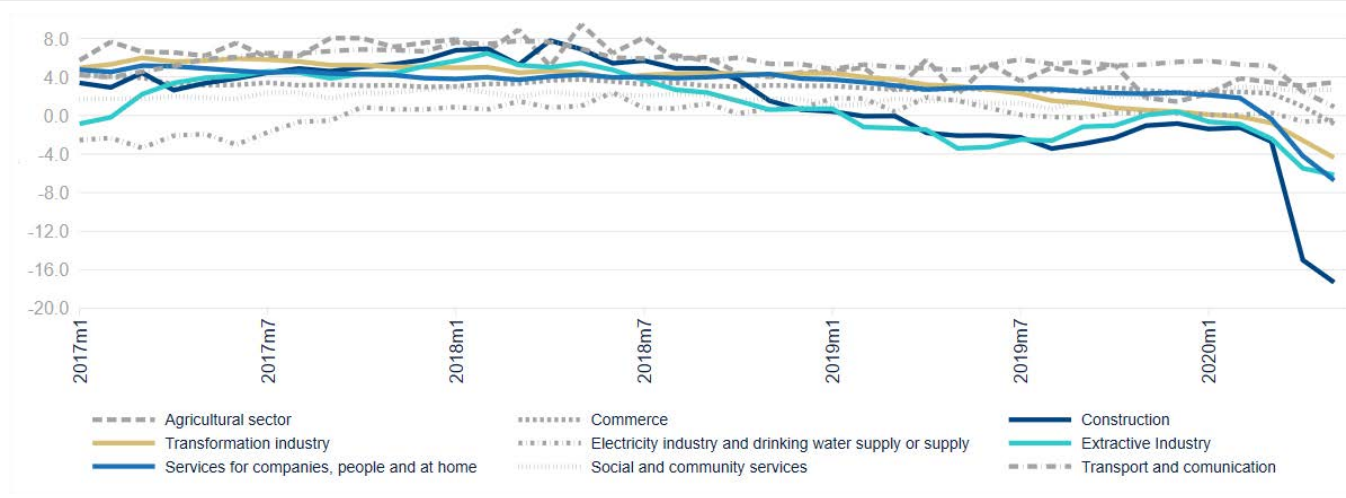
Considering the partial reopening of the economy, as in the case of the construction and tourism sectors in May, is expected a relative improvement in the level of employment in these industries; however, the effects will be gradual, as the reactivation of supply and demand has not been even.

Figure 5. **WORKERS AFFILIATED IN THE IMSS BY SECTOR OF ACTIVITY (MAY 2020, YoY % CHANGE)**



Source: BBVA Research based on IMSS data

Figure 6. **WORKERS AFFILIATED IN THE IMSS BY SECTOR OF ACTIVITY (YoY % CHANGE)**



Source: BBVA Research based on IMSS data

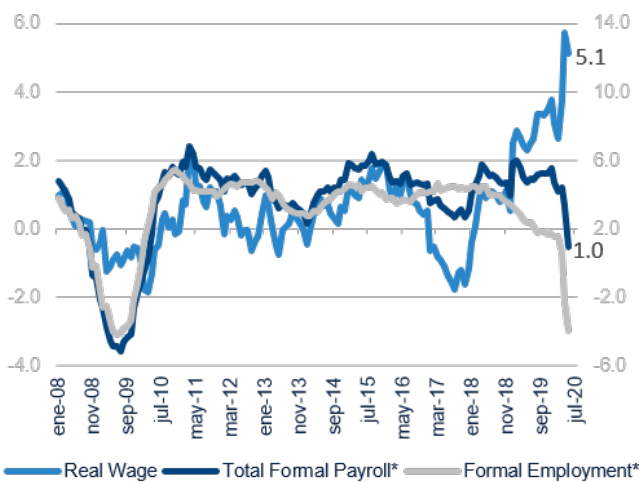
Despite the current adverse economic context, real wages continued to grow in May, maintaining total wage bill levels in positive territory. What might explain this growth?

According to IMSS reports, the average nominal wage showed growth of 8.1% year-on-year and of 1.1% compared to the previous month. Meanwhile, inflation over these same periods showed an increase of 2.8% YoY and 0.4% MoM. Therefore, real wage growth is partially explained by the good inflation performance, but this is not enough to account for the 5.1% YoY real wage growth in May, thus begging the question: What is happening with wage structures given the closure of the economy?

Lower-income workers bear the brunt of formal job loss, while employment support programs failed to protect the most vulnerable workers...

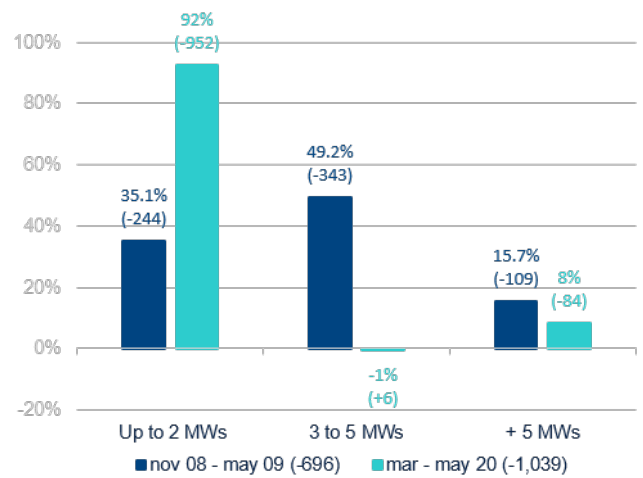
The answer lies in the fact that, so far, lower-income workers have been the ones most affected by job destruction, as shown in Figure 8. Of the 1.03 million jobs lost, 92.4% were workers with incomes equivalent to up to 2 minimum wages (MWs), which increased directly from the real average wage level.

Figure 7. **REAL WAGES, TOTAL FORMAL PAYROLL, AND FORMAL EMPLOYMENT (YoY % CHANGE)**



Source: BBVA Research based on IMSS data
* Right axis

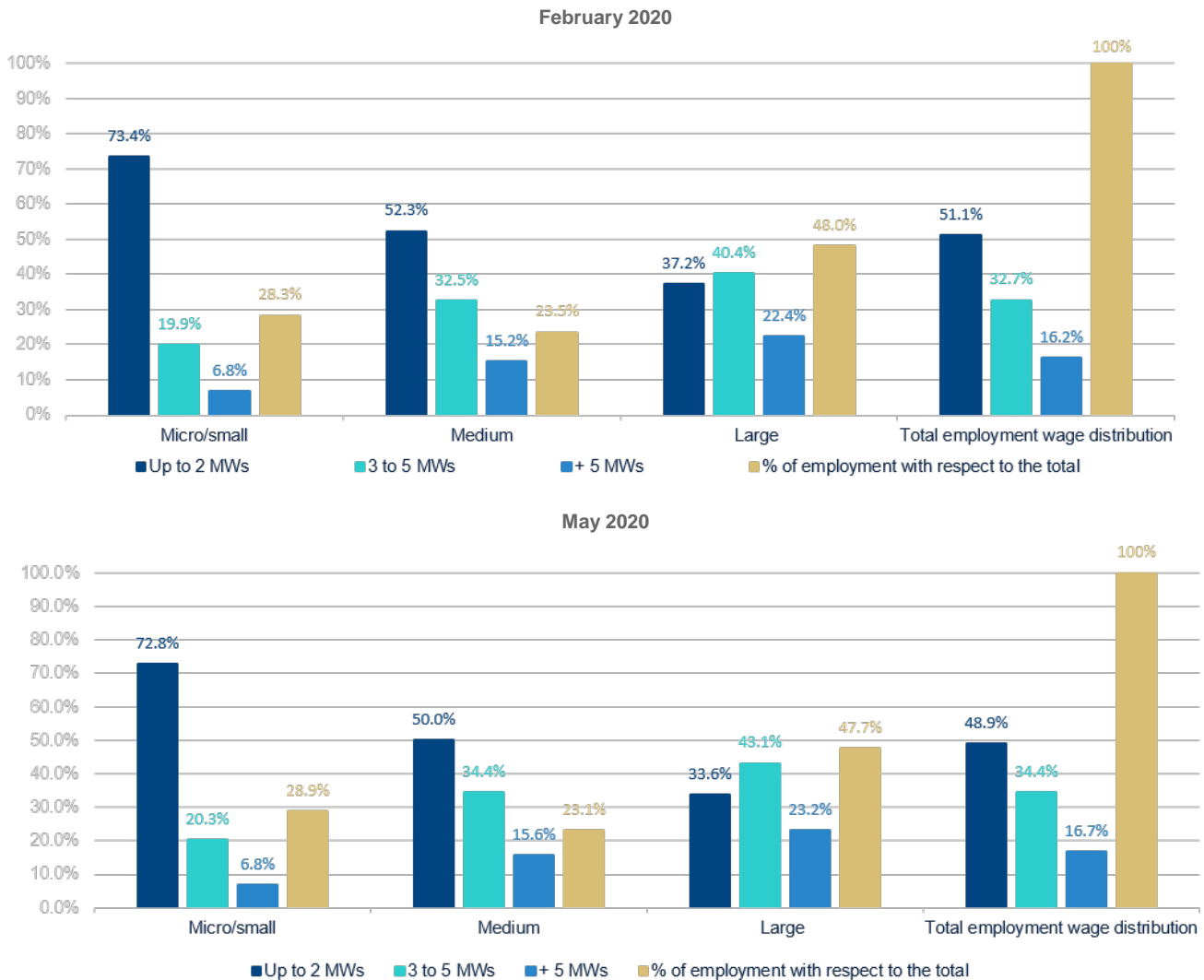
Figure 8. **IMSS-REGISTERED EMPLOYMENT LOSS BY MINIMUM WAGE RANGE (MW) (THOUSANDS, CUMULATIVE % MONTHLY CHANGE)**



Source: BBVA Research based on IMSS data
() Total in thousands

Job losses have also had an effect on differentiated wage distributions, which can be seen based on company size and the number of workers per wage range. In comparing May with February — before the COVID-19 pandemic began to have an impact — the first thing we can see is that the burden on job generation was virtually unchanged; in rounded figures, five out of ten formal jobs are created by large companies, two by medium-sized companies and three by micro/small companies.

Figure 9–10. **WAGE DISTRIBUTION OF WORKERS AFFILIATED IN THE IMSS BY MINIMUM WAGE RANGE AND COMPANY SIZE (%)**



Source: BBVA Research based on IMSS data
Company size: Micro/Small (0–50 workers); Medium (51–250 workers); Large (250+ workers)

However, wage distributions by company size do show some differences. Micro/small companies account for 14% of all jobs lost, although there were no substantial changes in the distribution of employment by MW ranges. This implies that, in addition to the loss of low-wage employment, there were also widespread wage decreases, with this latter effect dominating over job losses.

In the case of medium-sized companies, there were slight changes in wage distributions, reducing the participation of extreme wages, and thus leading to a combined job destruction effect of up to two MWs and a reduction in workers' wages of more than five MWs.

Finally, at large companies, the effect that has dominated most is job destruction for incomes of up to two MWs. This led to a change in the distribution of workers by income level, i.e. the relative weight of employment of up to two MWs was reduced by (-)3.6 pp, while the relative weight increased by 2.7 pp for workers with an income of three-five MWs, and by 0.8 pp for workers with an income of more than five MWs. It is important to explain that

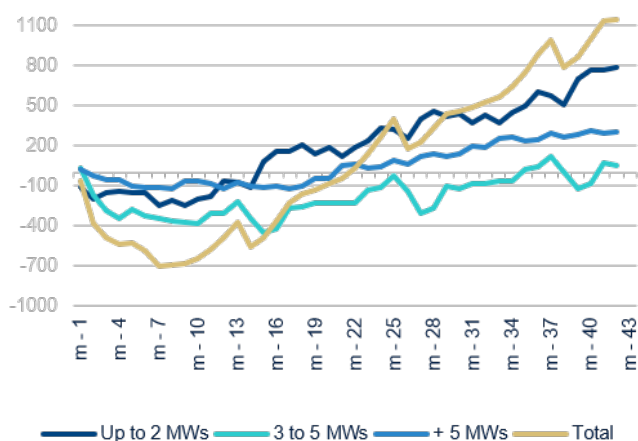
these increases in relative weight do not imply growth for higher-wage jobs; it is merely a relative change resulting from the job loss of workers with wages up to two MWs.

The loss of formal employment brings with it the risk of creating lower-paid jobs. Preventing further deterioration should be a priority

Comparatively, we can see a pattern of job loss by wage level that is similar to the 2008–09 crisis, i.e. the initial adjustment or loss in employment occurred for workers of up to two MW with the strongest negative cumulative monthly changes; however, after the first three months of the economic crisis, the cumulative monthly change for jobs with two-three MWs was much deeper, even doubling some months, and thirdly we can see slower destruction and prolonged recovery for jobs with more than five MWs.

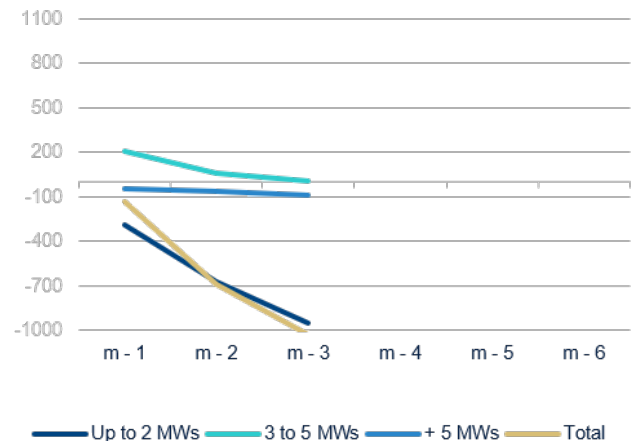
The lesson learned from the 2008–09 crisis is that jobs with 2–3 MWs took up to 42 months to recover, compared to 22 months for those with more than five MWs. In contrast, the fastest to recover were those with up to 2 MWs (12 months). In other words, the lower the remuneration level, the quicker the job recovery.

Figure 11. **2008–09 CRISIS: LOSS OF IMSS-REGISTERED WORKERS (THOUSANDS, CUMULATIVE MONTHLY CHANGE)**



Source: BBVA Research based on IMSS data
m - 1: November 2008

Figure 12. **COVID-19: LOSS OF IMSS-REGISTERED WORKERS (THOUSANDS, CUMULATIVE MONTHLY CHANGE)**



Source: BBVA Research based on IMSS data
m - 1: March 2020

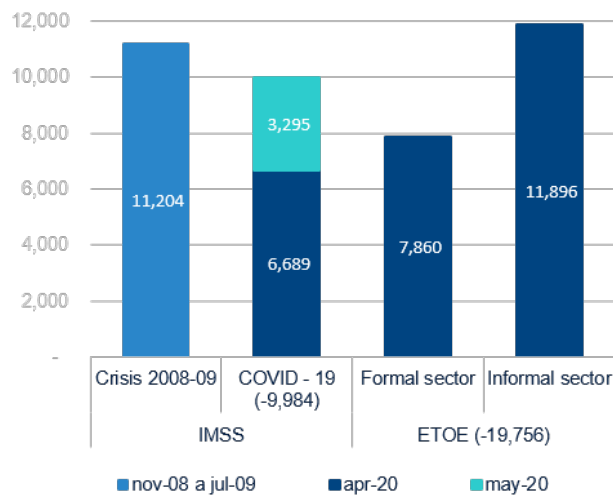
At present, the greatest job loss has occurred in the case of lower-income workers, although it is expected that job destruction will reach higher-paid workers at a subsequent stage. Once the economic lockdown has passed, it is expected that jobs of up to two MW can recover as supply disruptions in the economy gradually dissipate. However, as the effects of increased weakness in demand deepen, it is also expected that better-paid jobs will be destroyed and working poverty will increase.

A total of 600 thousand companies paralyzed and without revenue, with serious doubts as to whether they can recover

There has been a significant loss of companies due to closure judging by IMSS deregistration figures and employers who switched to unemployment, as reported in the Telephone Occupation and Employment Survey

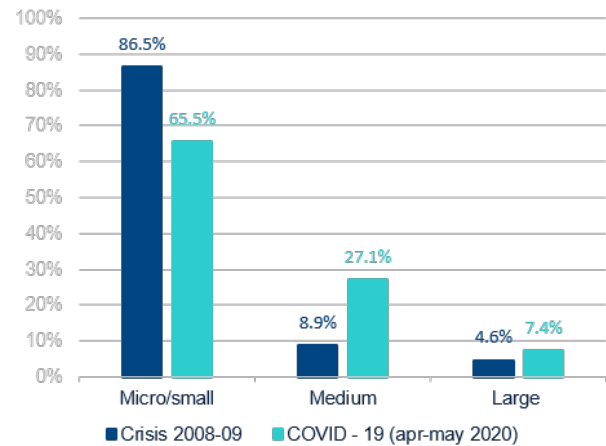
(ETOE). While the information from the ETOE should be examined with caution due to the nature of the survey¹, the results presented by the national institute of statistics (Instituto Nacional de Estadística y Geografía, INEGI) can give us an idea of the scale of the impact that COVID-19 is having on the country's productive structure.

Figure 13. **COMPANY CLOSURES**



Source: BBVA Research based on IMSS, ETOE and INEGI data

Figure 14. **CLOSURE OF FORMAL COMPANIES REGISTERED IN THE IMSS BY SIZE (%)**



Source: BBVA Research based on IMSS data
Company size: Micro/Small (0–50 workers); Medium (51–250 workers); Large (250+ workers)

Based on the above clarification, what we can confirm is that the current closure of formal companies is practically equivalent to that of the 2008–09 crisis, with the exception being that on this occasion, a similar level was reached in just two months, i.e. the impact on the closure of companies was much more abrupt. By company size, the highest incidence of formal company closure has occurred for micro and small companies, representing 65% of the total, followed by medium and large companies.

Concerning the ETOE, the data for formal employers² who switched to unemployment is similar to the figures released by the IMSS, i.e. the magnitude of the closure of companies is indirectly corroborated. This suggests that COVID-19 has affected some 12 thousand informal companies, meaning that a total of 19–20 thousand companies have closed due to the shutdown of the economy.

It is important to note that, despite the micro/small category representing the most significant number of companies that have closed in terms of volume, the closure rate is higher for medium and large companies. By comparison, medium-sized companies had a closure rate of 2.3 during the 2008–09 crisis compared to the current rate of 5.9, and in the case of large companies, the closure rate rises to 6.1 compared to the rate of 3.4 in 2008–09.

The risks related to the job market remain latent and have not yet bottomed out. According to the ETOE, approximately 600 thousand employers were temporarily suspended and without revenue, with serious doubts as to whether they will be able to resume their activities. Given this volume of companies paralyzed due to inactivity,

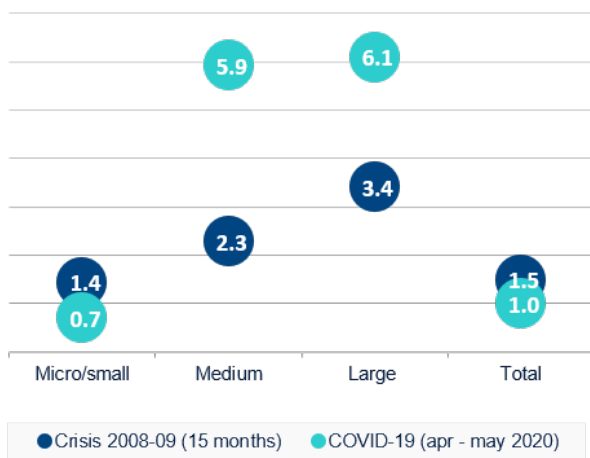
1: It should be noted that following INEGI specifications and given the characteristics of the survey, the results are not strictly comparable with the National Occupation and Employment Survey (ENOE). Accordingly, the observations made in the methodological documents must be taken into account. (<https://www.inegi.org.mx/investigacion/etoe/>)

2:: In order to determine employee transitions to unemployment, the ETOE activity status and the ENOE employment history for the first quarter of 2020 were used as a baseline, applying the calibrated expansion factors set out in the ETOE.

the closure of companies is likely to increase and their employees will likely cause an increase in informal employment, unemployment, and working poverty levels.

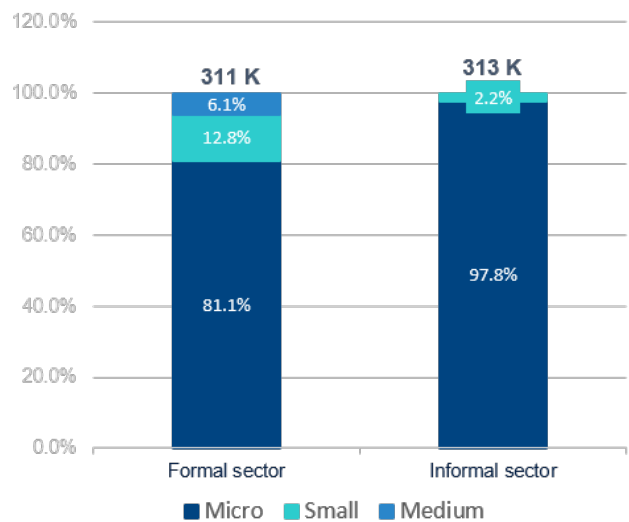
The ETOE notes that 300 thousand formal companies are under temporary suspension without revenue, a number equivalent to 30% of the total number of employers in the formal sector of the IMSS. Therefore it is necessary to ensure that they manage to recover rather than close down, with the best social policy here being the promotion of formal employment.

Figure 15. **CLOSURE RATE OF COMPANIES (REGISTRATION PATTERNS IN IMSS)**



Source: BBVA Research based on IMSS data
Base 100

Figure 16. **ETOE: EMPLOYERS UNDER TEMPORARY SUSPENSION WITHOUT REVENUE (%)**



Source: BBVA Research based on ETOE and INEGI data
Company size: Micro (0-10 workers); Small (11-50 workers) Medium (51-250 workers); Large (250+ workers)

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