

Economic Analysis

The Labor Market Is Slowing Down

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Fewer formal jobs are currently being created in the country than in recent years—and that's worrying. The growth rate of formal employment positions had remained above 4% in recent years. However, it fell to 2.5% in May. 303,000 jobs were created between January and May this year, but the figure for the same period last year was 489,000. In other words, 38% fewer jobs were created during the first five months of this year compared with last year.

It is true that the unemployment rate has remained stable and levels have remained low: the unemployment rate was 3.4% in May, very similar to the rate seen last decade. However, the unemployment rate says very little about labor market conditions. This is due to the size of the Mexico's informal sector. Informal workers represent over half of the economically active population. But this is not a desirable situation. Informal jobs are less well paid, less productive and do not offer social security protection (pension plans, compensation, access to healthcare, etc.). In addition, informal workers may struggle to access different types of credit, such as payroll or mortgage loans. Informality is closely linked with low levels of access to banking.

Why has the job creation rate slowed? An initial hypothesis was that the new administration failed to continue the formalization efforts undertaken by the previous government. However, examination of the formalization rate (i.e. informal jobs that are turned into formal jobs), calculated using data from the National Employment Survey, shows that there has been very little change. The formalization rate in the first quarter of 2019 was 5.4%, while it was 5.7% in the last quarter of the preceding year and 5.9% in the first quarter of 2018. Although there has been a drop in the job formalization rate, it is marginal and cannot explain the significantly lower job creation rate.

So, it seems to me that what we are seeing is a cyclical decline in employment. It is my opinion that this is fundamentally explained by the stagnation in investment, which in turn is explained by the uncertainty surrounding the trade relationship with the United States. We don't know whether the US Congress will approve the United States–Mexico–Canada Agreement; nor do we know whether President Donald Trump's threat of tariffs will become a reality. There is also uncertainty about the route that economic policies will take under the current government. To a lesser extent, the slowdown in employment is also explained by the fall in manufacturing activity in Mexico, in line with the slowdown in manufacturing activity worldwide, particularly in the United States.

Some argue that the labor market is actually growing in strength due to the growth of the "Young People Building the Future" program, and that the over 700,000 program beneficiaries should be included in the formal job creation rate. In my opinion, this argument is completely invalid. I think the program is a good idea, but we cannot determine its efficiency until we can measure the rate at which these young people are absorbed into the labor market, i.e. how many of them are able to stay where they are being trained or get a formal job.

However, a one-year training program that is unpaid by the employer (all financing is provided by the government) cannot be considered a job. It would not comply with the International Labor Organization's (ILO) definition of employment. It is a scholarship program that could yield good results if properly implemented.

As such, it is necessary to generate greater certainty for investors so that more jobs may be created.

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