

Latam Daily: Mexico Saw Weak Labour Data in December, January Inflation Surprise

- **Mexico: Labour market remained weak in December; inflation surprised to the upside in the first half of January**

MEXICO: LABOUR MARKET REMAINED WEAK IN DECEMBER; INFLATION SURPRISED TO THE UPSIDE IN THE FIRST HALF OF JANUARY

I. Deteriorated labour market conditions continued to prevail in December

December's formal-sector unemployment rate, released on Thursday January 21 by INEGI, came out better than anticipated at 3.80% versus the consensus expectation of 4.28% (chart 1). However, for a better understanding of the labour market's recent behaviour it is important to look at the whole picture. Although the unemployment rate decreased in December and has maintained a downward trajectory over the last five months, the participation rate has also decreased and is still at levels well below those of a year earlier. In addition, INEGI reported that of the 12 mn people who left the labour force in April, a net figure of around 9.5 mn had been re-absorbed into formal employment by December. This was lower than the numbers observed in the months of October and November as new job losses ensued as a result of the resurgent pandemic and recent economic restrictions and contagion control measures.

In absolute terms, the total labour force contracted from 55.4 to 54.9 mn persons in December. The formally employed population decreased from 53.0 mn to 52.8 mn, while the number of informally employed also decreased from 29.8 mn to 29.5 mn and the unemployed population moderated from 2.4 mn to 2.1 mn. On the other hand, the non-economically active population increased on a monthly basis from 8.9 mn to 9.4 mn. The December data imply that the number of people looking for jobs decreased more than the drop in available jobs, which resulted in the unemployment rate dropping from November.

In relative terms, the economic participation rate decreased -0.4 points m/m from 56.8% to 56.4% (chart 1, again). While the unemployment rate came down from 4.4% to 3.8%, it averaged 4.4% in the twelve months of 2020, the highest in the last six years. Likewise, the underemployment rate softened from 15.9% to 14.2% and the labour informality rate fell from 56.3% to 55.8%.

Looking forward, the recovery in the labour market, and of the economy as a whole, will depend on success in controlling the pandemic. Contagion control measures disproportionately affect small and micro firms, which account for the majority of job vacancies.

—Miguel Saldaña

II. H1-January inflation moved further above the 3% target

Bi-weekly headline inflation for the first half of January surprised on the high side, according to data released by INEGI on Friday, Jan 22. General

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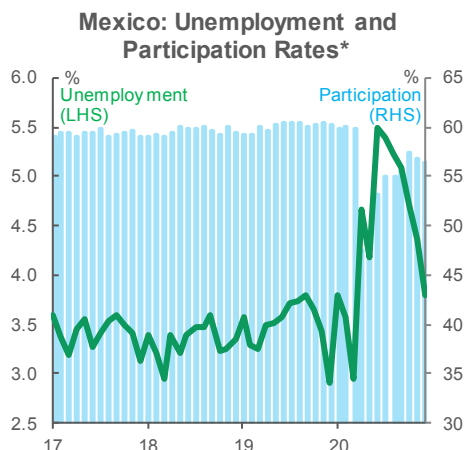
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Chart 1



Sources: Scotiabank Economics, INEGI.
*ETOE figures for Apr., May, Jun.

inflation increased by 0.51% 2w/2w in H1-January versus the 0.42% 2w/2w on average expected in the Bloomberg consensus and the 0.23% 2w/2w increase we anticipated. Internally, both the core and non-core components accelerated in the first two weeks of January more than we have seen in recent years, with non-core prices leading the way. Looking at the major components:

- **Core inflation**, which excludes prices that are more volatile, advanced 0.24% 2w/2w, faster than the 0.17% 2w/2w on average expected and the 0.20% 2w/2w rate recorded a year earlier. Core inflation was also much higher than H2-December's 0.08% 2w/2w. The rise in prices was mainly due to a 0.39% 2w/2w gain in goods prices, while services prices grew more modestly at 0.06% 2w/2w; and
- Meanwhile, **non-core prices** increased by a substantial 1.37% 2w/2w versus 0.54% 2w/2w in H2-December and 0.46% 2w/2w a year earlier, with the energy component and government-authorized tariffs rising a significant 2.17% in the fortnight. Energy prices rose by 2.91% 2w/2w, their largest gain since H1-October 2020's 3.72% 2w/2w. On the agricultural side, prices rose 0.31% 2w/2w versus -0.09% 2w/2w in H2-December.

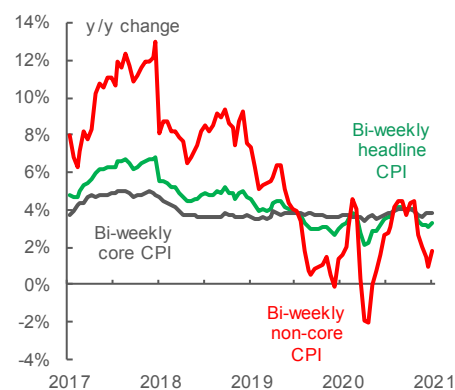
Thus, the annual rise in the consumer price index stood at 3.33% y/y in H1-January, up from 3.08% in H2-December (chart 2) against Banxico's target of 3% y/y. In the details, core inflation accelerated its pace from 3.81% y/y to 3.83% y/y, resuming the dynamism observed prior to the temporary drop in prices during November (chart 2, again), while the non-core component accelerated from 0.93% y/y to 1.37% y/y (versus 1.60% y/y in the same fortnight of 2020).

Despite the inflation surprise in the first half of January, we still anticipate that monetary policy will become more lax and the target rate will be lowered further. We are maintain our updated view that Banxico will cut -25 bps on February 11, especially since the increase in prices has been more significant in the non-core segment and the central bank has little or no influence on these prices.

—Paulina Villanueva

Chart 2

Mexico: Bi-Weekly Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

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