

Employment gains in March as the economy likely accelerated

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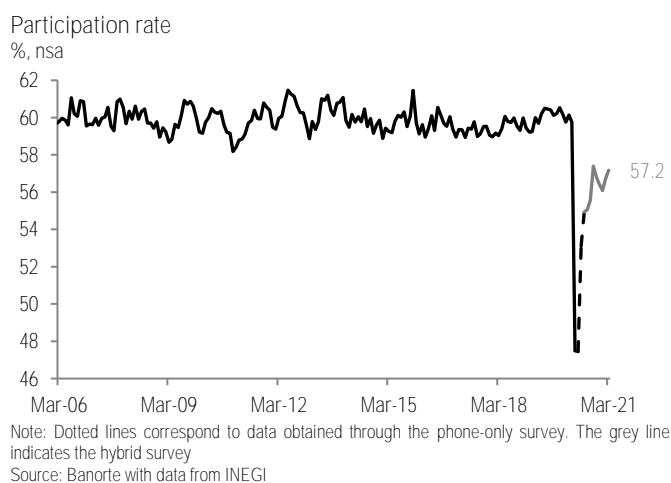
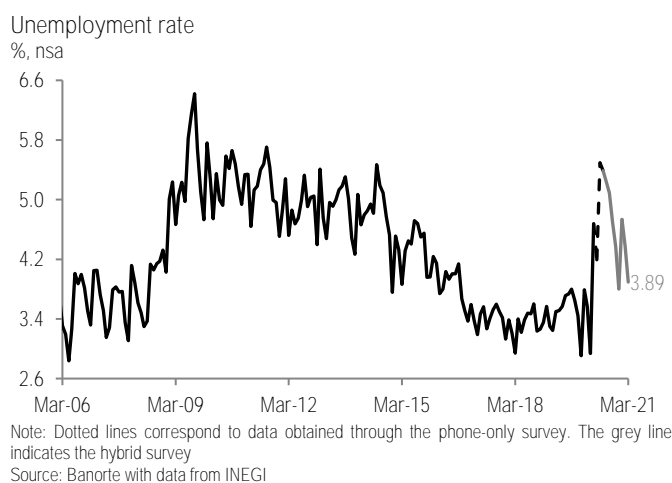
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- **Unemployment rate (March; nsa): 3.89%; Banorte: 3.98%; consensus: 4.10% (range: 3.90% to 4.40%); previous: 4.37%**
- **Part-time workers: 13.2% (previous: 13.9%); Participation rate: 57.2% (previous: 56.7%)**
- **The period's seasonality is favorable relative to the months close to the turn of each calendar year, which are characterized by distortions related to temporary workers and other hiring processes**
- **In the month, 761.9 thousand jobs were created, in our view aided by better economic conditions, especially regarding the virus. With this, about 2.0 million jobs are yet to be recovered since February 2020, just before the pandemic began**
- **The participation rate extended higher, with 515.7 thousand persons back into the labor force, partly boosted by the abovementioned seasonality. Most came from those 'available for work', likely benefited by lower COVID-19 restrictions. The part-time rate also improved, consistent with better dynamics as well**
- **Job gains in the informal sector stood at 1.1 million, with 354.5 thousand less in formality. Hence, the informality rate increased to 56.8% from 55.5% in the previous month**
- **Average hourly wages were at \$44.44, slightly below the \$45.09 seen in February and with a 4.2% y/y expansion, albeit with the latter distorted by the effects of the pandemic in 2020**
- **We believe results are favorable and match other signals of better economic performance. We expect additional gains in coming months, supported by the recovery that remains under way both locally and abroad, despite some temporary disruptions**

The unemployment rate falls sharply due to seasonal factors. Specifically, it stood at 3.89% (non-seasonally adjusted figures, see chart below to the left), below consensus (4.10%) but closer to our 3.98%. This period usually extends the move lower seen in February as labor market conditions keep normalizing after distortions at the turn of each calendar year. Moreover, it is almost always more evident in March as more time has elapsed for additional contract renewals and hiring/layoffs end. In this respect, using seasonally adjusted figures, the unemployment rate came in at 4.43%, 4bps lower than February's print. We consider that stronger activity likely had a visible effect, luring people back into seeking, and finding, jobs. In this context, total employment rose 761.9 thousand, reaching 53.8 million workers. Meanwhile, those catalogued as unemployed fell 246.1 thousand, to 2.2 million. This is positive as those looking for a job mostly succeeded. In this respect, the labor force expanded by 515.7 thousand, to 56.0 million, taking the participation rate to 57.2% (previous: 56.7%; chart below on the right). Despite of this, the latter remains low relative to historical standards. In this sense, total employment remains 2.0 million below the level in February 2020, just before the pandemic started.

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People not in the labor force declined by 391.2 thousand, with most of the fall from those classified as ‘available for work’. This matches our view on optimism driving people back into searching and/or getting a job. Nevertheless, the total amount in the group remains high at 8.0 million. As done in previous releases, to reflect labor market conditions more accurately, if we sum the latter group (‘available for work’) to the total unemployed and add them also into the labor force, the ‘expanded’ unemployment rate stands at 15.9% (previous: 16.7%), above the 12.2% seen in February last year.



Job gains only in the informal sector. Specifically, this sector added 1.1 million posts, contrasting with formality which shed 354.5 thousand. This is relevant as the report from IMSS pointed to a positive print. Hence, other government agencies could have reduced their workforce. In this backdrop, the informality rate picked up meaningfully, reaching 56.8%, highest since February 2019. In our view, this was mainly driven by the improvement in virus dynamics, allowing more businesses to resume activities. Meanwhile, the part-time rate fell again, to 13.2% from 13.9%, influenced by the same factors as informality figures. At the sector level, we highlight the gain of 758.7 thousand positions in the agricultural sector, likely related to a seasonal effect. On the other hand, services added 526.0 thousand, with all subsectors up, albeit noting restaurants and hotels (+263.1 thousand) ahead of the Easter holiday. We will focus on whether these jobs remain in place or are reduced in April. In industry, 552.9 thousand jobs were lost, concentrated in manufacturing and construction. We believe the former may be due to supply chain issues and the aftermath of the impact from cold weather in February.

Average wages per hour fell by \$0.65 sequentially, reaching 44.44 pesos. This represents a 4.2% y/y increase. Although we believe this remains influenced by a higher minimum wage, we should also mention that this figure has started to show a skew to the downside because of the pandemic’s impact last year. Hence, it is highly likely that the annual rate will be negative in April. Workers earning up to one MW rose by 258.5 thousand. Those between one and two MW picked up 281.6 thousand. In contrast, those with more than two fell by 369.4 thousand. We believe this is still distorted by the change in the benchmark measure. Nevertheless, in this period could also be a result of net new jobs being exclusively in the informal sector.

INEGI's employment report

Non-seasonally adjusted figures

%	Mar-21	Feb-21	Difference
Unemployment rate	3.89	4.37	-0.48
Participation rate	57.2	56.7	0.5
Part-time workers rate	13.2	13.9	-0.7
Formal employment	43.2	44.5	-1.3
Informal employment ¹	56.8	55.5	1.3
Working in the informal economy	28.7	28.6	0.0
Working in the formal economy	28.1	26.9	1.2

Source: INEGI

Labor market gains to continue, tied to the recovery. We consider today's report supports our view that a more positive trend resumed last month, benefited by an improving backdrop regarding the pandemic. Gains stalled in the first two months of 2021, mainly on temporary factors. In the short-term, epidemiological conditions have improved, with new cases so far in April mostly downwards and the traffic light indicator close to its best level, with no states in 'red', only 5 in orange 'and 19 in 'yellow'. Evidence so-far does not point to a widespread spike after the *Easter* holiday. However, we do not rule it out completely. Vaccinations have gathered steam, with an average of 336 thousand administered so far in April, accelerating since the middle of the month. Nevertheless, we acknowledge other risks. Reports continue warning about the shortage of semiconductors, affecting mostly manufacturing (such as autos, computers, phones, TVs, to name a few). In this backdrop, we could see some impact on employment if more technical shutdowns are implemented, albeit probably more evident in the hiring of new employees (and hence, on the pace of the recovery).

In the medium-term, we expect further gains. As the pandemic hopefully remains under control and more vaccines are administered, we expect conditions to keep normalizing. This is key for services, mostly those relying on social interactions (*e.g.* tourism, entertainment). Nevertheless, we also factor-in that employment has taken time to recover in previous recessions. While we expect job gains to continue, we maintain our year-end estimate of the unemployment rate at 4.0% (seasonally adjusted), with several factors at play. We remain vigilant on the composition and changes in the labor force, as the level of the rate depends on this. There is very high uncertainty about the pace of decline among those 'available for work'. In our opinion, a substantial and persistent improvement in the economy is needed to drive a more forceful fall. Other indicators could keep getting better, mainly the part-time rate, trending slowly back to pre-pandemic levels. Regarding informality, we still believe that as activity recovers it could keep rising, careful to analyze if there has been a structural shift. Minimum wage hikes should continue pushing wages up, with the speed also depending on slack.

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

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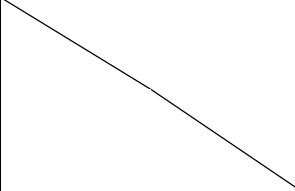
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