

Important labor market recovery in October

- **Unemployment rate (October; nsa): 3.95%; Banorte: 4.11%; consensus: 4.07% (range: 3.91% to 4.22%); previous: 4.18%**
- **Part-time workers: 11.1% (previous: 12.3%); Participation rate: 59.4% (previous: 58.4%)**
- **Jobs created totaled 1.3 million, possibly benefitted by a better COVID-19 environment. Total jobs were 620.5 thousand above those seen in February 2020, used as benchmark to pre-pandemic conditions**
- **The labor force also increased (1.2 million), with unemployed people declining by 89.4 thousand. These changes help explain the reduction in the unemployment rate, suggesting a stronger labor market**
- **The participation rate improved, breaking with two consecutive months on the downside. The part-time rate fell at a faster pace. Outside of the labor force, those catalogued as ‘available for work’ declined, which is also positive**
- **Historically, the period’s seasonality is more favorable, in our view related to the end of summer vacations. Seasonally adjusted, the unemployment rate came in at 3.89% from 3.91% in September**
- **Job gains in the informal sector stood at 384.5 thousand (30.7% of the total), with 867.2 thousand more in formality (69.3%). Therefore, the informality rate declined to 55.6%**
- **Average hourly wages reached \$45.76, lower than the \$47.42 seen in September. This represents a 3.0% y/y expansion, decelerating at the margin and possibly explained by hiring of people at lower wages**
- **We still expect better labor market figures in coming months despite lingering risks, with the evolution of the pandemic among them**

Job recovery in October. Using original figures, the unemployment rate stood at 3.95% (chart below, left), lower than consensus (4.07%) and from our 4.11%. This represents a 24bps decline relative to September, helped by a seasonal effect. With seasonally adjusted data, the rate came in at 3.89%, barely below the previous month at 3.91%. Back to original figures, the labor force increased by 1.2 million, with 1.3 million more employed and 89.4 thousand less unemployed. We believe this improvement has to do with better conditions regarding the virus, with daily cases still more modest than in September and the ‘traffic light’ indicator allowing for a wider reopening of activities. Despite of this, the rebound in employment is not enough yet to compensate for the impact of the ‘third wave’, as the total number of employees remained below the level observed in July. In addition, we keep thinking that this positive considering that some challenges persist, with a lot of sectors still forced to comply with distancing measures while industry remains affected by supply issues. Therefore, we will remain on the look to the possible rebound in coming months, with additional signs of an improvement in economic activity.

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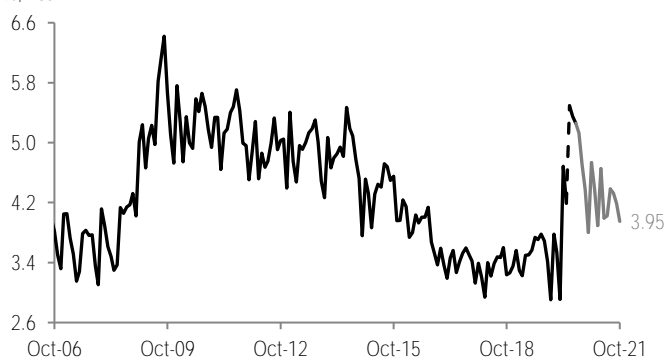
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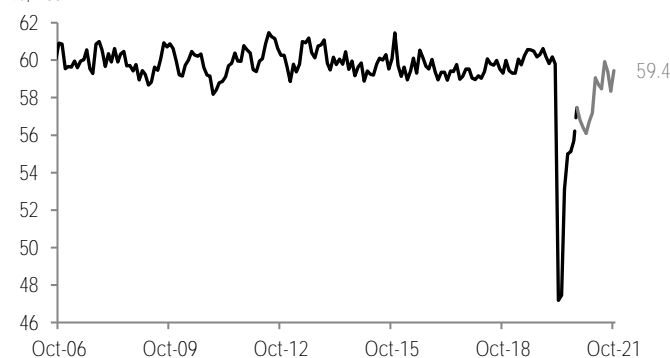
In this backdrop, the participation rate increased after two months of declines, standing at 59.4% (previous: 58.4%). Meanwhile, people outside of the labor force fell by 1.0 million, being the counterparty of the increase in the labor force. From these, those classified as ‘available’ declined by 776.5 thousand, while those ‘not available’ backtracked by 240.1 thousand. Among the former, and positive, the largest decrease was in those that ‘are not looking for a job because they do not see chances of finding one’, which reflects a more favorable backdrop. In this backdrop, total employees reached 56.4 million, which is 620.5 thousand above than in February 2020, before the virus, and just 33.4 thousand below the historical high last July. As in previous releases, to reflect labor market conditions more accurately, we sum those ‘available for work’ not in the labor force both to the unemployed and the labor force. With this, the ‘expanded’ unemployment rate stood at 14.9%, below the 16.3% of the previous month and lowest since the start of the pandemic. In February 2020 it reached 12.2%, pointing to room still left for gains, albeit closing the gap in a relevant manner.

Unemployment rate
%, nsa



Note: Dotted lines correspond to data obtained through the phone-only survey. The grey line indicates the hybrid survey
Source: Banorte with data from INEGI

Participation rate
%, nsa



Note: Dotted lines correspond to data obtained through the phone-only survey. The grey line indicates the hybrid survey
Source: Banorte with data from INEGI

Strong gains in services and the formal sector. Out of the 1.3 million positions gained, only 384.5 thousand were in the informal sector, with the formal economy accounting for the 867.2 thousand positions left. The latter was very high relative to the +172.7 thousand new positions affiliated to IMSS. As a result, the informality rate stood at 55.6% (previous: 56.2%). By sectors, the most substantial gains were in services, up by 1.0 million jobs. These were concentrated in commerce (+509.7 thousand) and restaurants and lodging (+435.5 thousand). Although part of this is related to the pandemic, we believe there is also a relevant seasonal effect behind the increase. The primary sector added 265.3 thousand, while industry lost 48.1 thousand, with declines in manufacturing (-92.3 thousand), but with gains in the remaining sectors. On the other hand, the part-time rate fell to 11.1% from 12.3%, which is favorable. The average hourly wage stood at \$45.76, lower by \$1.66 sequentially and decelerating to +3.0% y/y. We believe this last figure is possibly distorted by strong job growth in the month, suggesting that some of them entered with lower incomes. Despite of this, we still believe that this have been pressured by recent price increases, along the ‘lighthouse effect’ from the minimum wage increase at the beginning of the year.

INEGI's employment report

Non-seasonally adjusted figures

%	Oct-21	Sep-21	Difference
Unemployment rate	3.95	4.18	-0.24
Participation rate	59.4	58.4	1.1
Part-time workers rate	11.1	12.3	-1.2
Formal employment	44.4	43.8	0.6
Informal employment ¹	55.6	56.2	-0.6
Working in the informal economy	28.6	28.1	0.3
Working in the formal economy	27.3	28.1	-0.8

Source: INEGI

The recovery at the start of 4Q21 is important for a rebound in activity going forward. We believe the report is positive, with signals that the improvement in economic conditions had a favorable impact in the labor market. Hence, the shock from the ‘third wave’, has been reversed at least in terms of total employment, with some indicators even showing their best levels since the pandemic began. We believe this is crucial to support the economic recovery and is consistent with some advanced data, providing the groundwork for higher dynamism for the rest of the year.

In this backdrop, it seems that efforts to return to in-person classes, as well as other reopening measures, have had a positive effect. On the former, some reports suggest that there were additional efforts in November to improve the share of students in the classroom, which could have an even greater effect. This is encouraging considering that the ‘traffic light’ indicator improved throughout the month. Regarding wages, short-term focus is on the announcement of the minimum wage increase for next year, expecting an announcement in coming weeks as the *National Wage Commission (Comisión Nacional de Salarios Mínimos, CONASAMI)* has started to deliberate on this issue. Not so immediate, we believe that risks because of the pandemic persist, especially as the ‘Omicron’ variant spreads, considering that its mutations could result in a new and relevant wage of contagion.

We will watch very closely to performance in coming months, with the possibility that the current advance could moderate if we observe a new rebound in cases. Therefore, and recalling that these figures are still somewhat distorted, we maintain our call that the unemployment rate will end the year at 4.0% (seasonally adjusted), albeit with employment gains extending to coming months.

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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