

Deterioration in the labor market as ‘Omicron’ swept through January

- **Unemployment rate (January; nsa): 3.71%; Banorte: 4.33%; consensus: 4.24% (range: 3.72% to 4.33%); previous: 3.51%**
- **Part-time workers: 9.1% (previous: 10.0%); Participation rate: 58.3% (previous: 59.5%)**
- **Jobs lost totaled 1.4 million, breaking with three consecutive months of gains. Therefore, total employed people stood 213.0 thousand below those in February 2020, used as benchmark to pre-pandemic conditions**
- **The labor force also fell (-1.3 million), with unemployed people climbing by 63.8 thousand. This explains the deterioration in the labor market, albeit with some seasonal trends also in play**
- **As a result, the participation rate fell, while the part-time rate extended its downward trend. Outside of the labor force, those catalogued as ‘available for work’ increased, which is also negative**
- **As such, seasonally adjusted figures showed a decline, with the unemployment rate at 3.62% from 3.83% in the previous month**
- **Job losses in the informal sector stood at 1.7 million, while the formal sector added 294.2 thousand positions. Therefore, the informality rate fell to 54.9% (previous: 56.5%)**
- **Average hourly wages reached \$47.45 (previous: \$46.06). This represents +1.1% y/y. We expected a larger increase as the 22% minimum wage adjustment came into force at the start of the month**
- **We believe figures show a relevant impact from the wave of cases due to ‘Omicron’, erasing previous labor market gains. However, going forward, we expect conditions to gradually improve, considering less cases, improving mobility and a further recovery of activity**

Weak labor market in January, despite a lower unemployment rate. Using original figures, the unemployment rate stood at 3.71% (chart below, left), lower than consensus (4.24%) and our 4.33%. This represents a 19bps increase relative to December, impacted by a negative seasonal effect. With seasonally adjusted data, the rate came in at 3.62%, lower than the 3.83% of the previous month, albeit improving for the wrong reasons. Back to original figures, the labor force decreased by 1.3 million, with 1.4 million jobs lost and 63.8 thousand more unemployed. While part of this corresponds to a negative seasonality as holiday related jobs end, we believe most of the deterioration corresponds to an adverse effect from the latest wave of cases due to ‘Omicron’. While the severity of symptoms has been lower, higher infections have indeed impacted the ability to work of many people as they have had to isolate to avoid further contagions or take care of relatives. As expected, protections in the formal sector (*e.g.* temporary leave permits) saved jobs, a situation that did not happen for informal workers (see details below).

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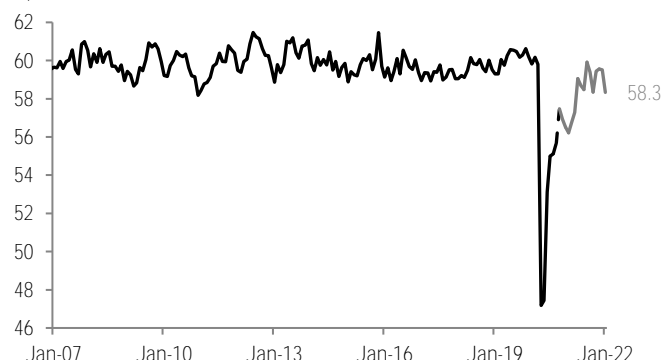
The participation rate fell, standing at 58.3% (previous: 59.5%). This was driven by the sharp decline in the labor force, while people outside of the labor force increased by 1.0 million. From these, those classified as ‘available’ increased by 396.3 thousand, while those ‘not available’ rose by 648.8 thousand. Among the former, we see as negative that the largest expansion was in those that ‘are not looking for a job because they do not see chances of finding one’, which likely reflects a more challenging backdrop. Total employees reached 55.5 million, which is lower by 213.0 thousand than the level seen in February 2020, before the virus. As in previous releases, we sum those ‘available for work’ not in the labor force both to the unemployed and the labor force to reflect labor market conditions more accurately. With this, the ‘expanded’ unemployment rate stood at 15.3%, above the 14.4% of the previous month. As a reference, in February 2020 it reached 12.2%.

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 losses in the informal sector, with little signs of the minimum wage increase. Out of the 1.4 million jobs lost, 1.7 million corresponded to the informal sector, with a gain of 294.2 thousand in the formal economy. The latter is even more positive than what figures from IMSS suggested, likely boosted by gains in the armed forces or other government dependencies. We believe this strong disparity is explained by many factors, including: (1) Law provisions which safeguard employment; (2) a larger degree of self-employment in the informal sector; and (3) reduction in mobility. As a result, the informality rate decreased to 54.9% (previous: 56.5%). By sectors, services were the most impacted at -857.7 thousand, noting sharp decreases in social (-257.1 thousand) and ‘diverse’ (-398.6 thousand). In industry (-537.7 thousand), construction was the lowest with -363.4 thousand, followed by manufacturing (-130.9 thousand). Lastly, the primary sector added 45.4 thousand positions. On the other hand, the part-time rate fell to 9.1% from 10.0%, which is favorable considering the broader impact on other indicators. The average hourly wage stood at \$47.45, higher by \$1.39 sequentially and decelerating to +1.1% y/y. We should note that we expected a more significant increase as the [22% rise in the minimum wage](#) came into effect at the beginning of the month. However, given the impact to employment along other adverse trends, it seems that the hike could take longer to be reflected, thus being an additional drag for an additional recovery of domestic demand.

INEGI's employment report

Non-seasonally adjusted figures

%	Jan-22	Dec-21	Difference
Unemployment rate	3.71	3.51	0.19
Participation rate	58.3	59.5	1.2
Part-time workers rate	9.1	10.0	-0.9
Formal employment	45.1	43.5	1.6
Informal employment ¹	54.9	56.5	-1.6
Working in the informal economy	27.5	29.7	-2.2
Working in the formal economy	27.3	26.8	0.6

Source: INEGI

Likely recovery in coming months as epidemiological conditions improve.

We believe today's report is consistent with [signs of a deterioration in economic activity](#) as a result of the latest COVID-19 wave. As such, it shows that the economy is still highly dependent on an improvement on the pandemic front and thus remains as the most important risk to the downside, especially in the informal sector.

Considering the latter, the mild improvement across February might lay the groundwork for a partial recovery of jobs. Specifically, cases have decreased rapidly, while mobility has consolidated above pre-pandemic levels. In addition, and given the latter, IMSS stopped its online temporary leave system, suggesting a further improvement. Based on the institute's figures, permits from January 10th (when the program started) to February 3rd reached 314.8 thousand, with only an additional 58.7 thousand until February 21st (with the program ending February 22nd). While this suggests a better outlook for the formal sector, we do not rule out gains in informality, rebounding after sharp losses. Moreover, starting in March, the seasonal trend takes a turn for the better, which might also help consolidate gains further ahead. On wages, we think the expected adjustment, on top of additional pressures due to inflation, will likely be reflected in coming months, especially as the labor market achieves a firmer recovery.

While the medium-term trend seems better considering likely progress on the pandemic front (*e.g.* vaccine boosters, new treatments), new risks such as rising geopolitical tensions –with the Russian invasion of Ukraine– might dampen global dynamism. Despite of this, we maintain our year-end estimate for the unemployment rate at 3.7% (sa), albeit with lower distortions and accompanied by a higher participation rate.

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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