Strong labor market results in March

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- **Unemployment rate (March; nsa): 2.97%; Banorte: 3.40%; consensus: 3.40% (range: 3.20% to 3.75%); previous: 3.74%**
- **Part-time workers: 8.5% (previous: 9.2%); Participation rate: 58.8% (previous: 58.7%)**
- **In the period, 566.5 thousand new jobs were created, extending the recovery of the previous month. Thus, total jobs stand 878.1 thousand above February 2020, used as a pre-pandemic metric**
- **The labor force increased by 121.0 thousand, with unemployed persons down by 445.5 thousand. This explains the strong fall of the unemployment rate, reinforcing the recovery trend of the labor market**
- **Therefore, the participation rate ticked higher once again, while the part-time rate resumed its downward trend. These indicators confirm that performance was favorable. Nevertheless, outside of the labor force, those catalogued as 'available for work' increased by 123.2 thousand**
- **Seasonally adjusted figures showed that the unemployment rate declined to 3.46% from 3.71% in the previous month, much better than expected and at a new pandemic low**
- **Gains were centered in the informal sector, with a total of 971.3 thousand jobs. This was moderated by 404.8 thousand positions lost in the formal sector. Hence, the informality rate rose to 55.8% (previous: 54.6%)**
- **Average hourly wages reached $46.59 (previous: $48.25). This represents a +4.8% y/y advance, despite falling at the margin. Although positive, we believe this is relatively low considering adjustments to the minimum wage, as well as current inflation pressures**
- **We believe the labor market recovery will remain key for the consolidation of domestic demand and our above consensus GDP forecast for this year, playing a more important role given heightened risks from abroad**

The labor market recovery continued in March. Using original figures, the unemployment rate stood at 2.97% (chart below, left), significantly below consensus, and which coincided with our estimate (3.40%). This was -77bps relative to February, with a positive seasonal effect. With seasonally adjusted figures, the rate came at 3.46%, below the previous 3.71%. Additional metrics in the report confirm the recovery despite a few pockets of weakness. Back to original figures, the labor force increased by 121.0 thousand, with +566.5 thousand more employees and -455.5 thousand unemployed. We note that job creation was stronger than normally observed within the usual seasonality. It is our take that this may have been helped by an additional decline in COVID-19 cases, allowing for a greater return to in-person work, as well as a rebound in primary and industrial activities, likely boosted by resilient external demand.

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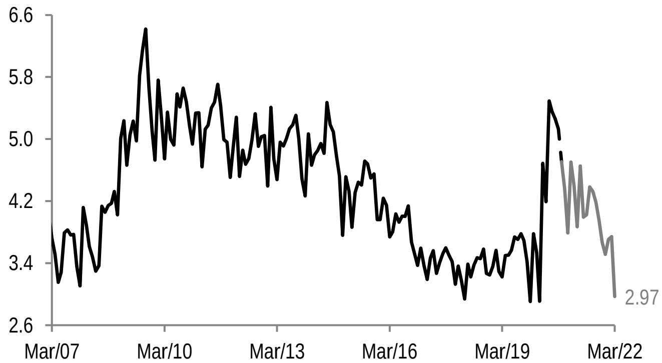
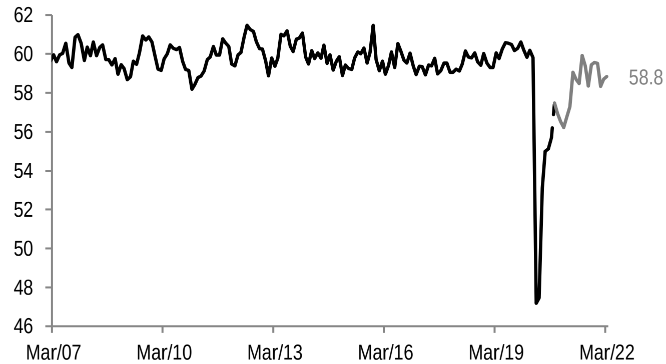
Although this month's gains along with those of February are still not enough to compensate for the loss of 1.4 million jobs in January, the trend suggests this will likely be left behind sooner rather than later. In this context, the participation rate rose to 58.8% (previous 58.7%). This is explained by a higher labor force and a decline of 140.0 thousand in those people outside of the labor force. From the latter, those catalogued as 'available' went up by 123.2 thousand, albeit with those 'not available' down by 263.2 thousand. Therefore, total employees reached 58.4 million, exceeding by 878.1 thousand February 2020's level, before the impact of the virus, but still 316.9 thousand below the historical high in December 2021. As on previous reports, to better reflect labor market conditions, we added 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 14.2%, lower than the 14.8% of the previous month. For reference, in February 2020 it reached 12.2%, indicating that the recovery of the sector has not been fully achieved.

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

Job gains exclusively in the informal sector. Out of the 566.5 thousand position gained, 971.3 thousand were in the informal sector, while the formal economy lost 404.8 thousand. This is very much lower than the 64,566 posts added according to the IMSS employment report, which points to a very sizable reduction in other areas such as federal and state workers, along with the military. In our view, this moderates the positive signal coming from total jobs created, as informal workers typically have less benefits. As a result, the informality rate picked up to 55.8% (previous: 54.6%), highest since last September. By sectors, we also highlight that services lost 163,037 thousand positions, which surprised us to the downside considering favorable seasonal effects to the holidays (*e.g.* Spring Break and the upcoming Holy Week). Losses were led by social services (-197.9 thousand), professional (-166.5 thousand), and restaurants & lodging (-134.4 thousand). In contrast, industry was up by +364.8 thousand, with strength in construction (+196.0 thousand) and manufacturing (157.8 thousand). Lastly, the primary sector showed a meaningful upward surprise, up 427.2 thousand, albeit not enough to make up for the decline seen in February. The part-time rate fell to 8.5% from 9.1%. The average hourly wage stood at $46.59, down by $1.66 sequentially and moderating to +4.8% y/y. We believe this is relatively low considering adjustments to the minimum wage, as well as current inflation pressures.

INEGI's employment report
Non-seasonally adjusted figures

%	Feb-22	Jan-22	Difference
Unemployment rate	2.97	3.74	-0.77
Participation rate	58.8	58.7	0.1
Part-time workers rate	8.4	9.2	-0.8
Formal employment	44.2	45.4	-1.2
Informal employment[1]	55.8	54.6	+1.2
Working in the informal economy	28.3	28.5	-0.2
Working in the formal economy	27.5	26.1	1.4

Source: INEGI

Another positive surprise from the labor market, gaining greater relevance for the domestic recovery. Although a full recovery in employment conditions from the pandemic has not yet been achieved, the overall trend has been more favorable than expected. This is particularly important considering that risks for activity have increased, especially due to external factors. Thus, we believe the domestic sector could play a more pivotal role for growth this year, for which the recovery in employment levels is key.

In the short-term, we believe the outlook remains positive. Regarding virus conditions, contagions have remained low in recent months. As a result, the Ministry of Health has discontinued the epidemiological traffic light indicator given that it has stayed in "green" for the last 8 weeks. In addition, some states started to eliminate mask mandates and other measures. We think this progress will allow a more substantial normalization in workplaces and some auxiliary services, as well as in some entertainment activities. One of our concerns is that, given economic slack and that labor force participation has not recovered fully, real wages lag given high inflationary pressures. Despite greater tightening of the labor market and the 22% increase in the minimum wage at the beginning of the year, we will follow more closely these dynamics due to the current backdrop.

Globally, risks persist and have exacerbated. Contagions in China have been on the rise, resulting in more severe lockdowns in cities such as Shanghai. With this, supply problems worldwide will probably intensify, anticipating some impact in our country. Thus, we do not rule out a new round of temporary stoppages, and even potential layoffs in some companies, aiming to cut costs as growth in production levels is limited by scarcity in inputs. Meanwhile, persistent price pressures continue to dampen some sectors, such as construction, which could impact their recovery in employment levels. Although we expect the favorable trend to continue, the recovery could be somewhat uneven. In this context, we maintain for now our year-end unemployment rate forecast of 3.6%, albeit recognizing increasing downside risks given its recent performance.

[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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