The labor market kept improving in April, with jobs at an all-time high

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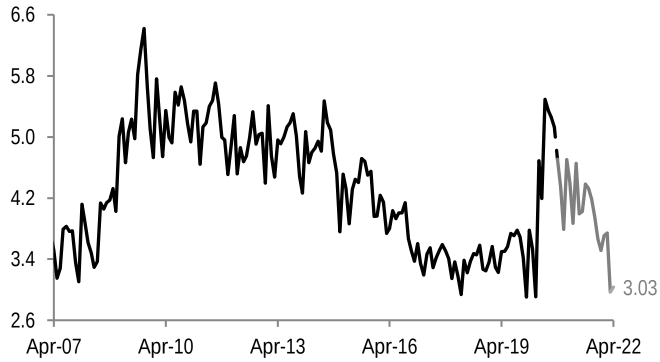
- **Unemployment rate (April; nsa): 3.03%; Banorte: 3.27%; consensus: 3.50% (range: 2.99% to 3.84%); previous: 2.97%**
- **Part-time workers: 9.0% (previous: 8.4%); Participation rate: 60.1% (previous: 58.8%)**
- **In the period, 1.0 million new jobs were created, with three consecutive months to the upside. Thus, total jobs stand 1.9 million above February 2020, used as a pre-pandemic metric and at a new historical high**
- **The labor force increased by 1.1 million, with unemployed persons higher by 71.0 thousand. This explains the slight uptick in the unemployment rate**
- **The participation rate ticked up again, while the part-time rate reversed recent gains. The first indicator reinforces our view that the report was favorable. Outside of the labor force, those catalogued as 'available for work' rose by just 69.4 thousand**
- **Seasonally adjusted figures show that the unemployment rate declined to 3.09% from 3.39% in the previous month, consistent with an overall improvement in the labor market and reaching a new historical low**
- **Gains centered in the formal sector, with a total of +605.4 thousand jobs. In addition, there were 432.4 thousand new positions in the informal sector. Hence, the informality rate fell to 55.5% (previous: 55.8%)**
- **Average hourly wages reached $49.98 (previous: $46.59), which represents a 7.2% y/y advance, picking up speed relative to recent history**
- **We believe the recovery of the labor market has been relatively strong, outpacing economic gains. Despite of this, increased risks for activity in coming months might dampen some of the progress ahead**

The recovery of labor conditions continued in April. Using original figures, the unemployment rate stood at 3.03% (chart below, left), below consensus (3.50%) but closer our estimate (3.27%). This represents a 6bps increase relative to March, with a negative seasonal effect. With seasonally adjusted figures, the rate came at 3.09%, much lower than the 3.39% previously and at a new historical low. This, along other metrics in the report, give broader support to the recovery. Back to original figures, the labor force increased by 1.1 million, with +1.0 million more employees and +71.0 thousand unemployed. Job creation was much stronger than normally observed due to its typical seasonality, which tends to point to losses. It is our take this may have been helped by stability in virus conditions, with evidence so far that activity was relatively strong and not yet impacted by external shocks. These gains, along with those from the previous two months, more than compensated for -1.4 million jobs in January, which suggests a quite favorable trend.

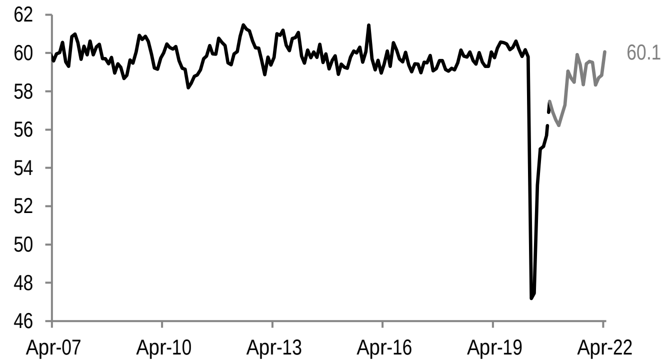
In this context, the participation rate rose to 60.1% (previous 58.8%). This is explained by a higher labor force and 1.3 million less people outside of the labor force. From the latter, those catalogued as ‘available’ went up by 69.4 thousand, albeit with those ‘not available’ down by 1.4 million. Therefore, total employees reached 57.7 million, exceeding February 2020’s level, before the impact of the virus. It is worth noting that this is a new historical high. 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%, 4bps lower than in the previous month. For reference, in February 2020 it reached 12.2%, indicating that a full recovery 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 centered in the formal sector. Out of the 1.0 million positions gained, 432.4 thousand were in informality, while the formal economy added 605.4 thousand. This is much higher than the 5.5 thousand posts added according to the IMSS employment report, pointing to a very sizable increase in other areas such as federal and state workers, along with the military. As a result, the informality rate moderated up to 55.5% (previous: 55.8%). By sectors, we highlight that services gained 876.7 thousand positions, surprising us higher considering prevailing seasonal effects related to the Easter holiday. Gains were led by commerce (443.3 thousand), restaurants & lodging (409.0 thousand), and government (145.9 thousand). In contrast, industry was down by -79.2 thousand, with weakness in construction (-67.6 thousand) and electricity and mining (-21.0 thousand). Lastly, the primary sector rose by 223.0 thousand, adding two months higher. On a negative note, the part-time rate increased to 9.0% from 8.4%. The average hourly wage stood at $49.98, up by $3.39 sequentially and accelerating to +7.2% y/y. We believe this is relatively better considering minimum wage adjustments, as well as inflation pressures, which had resulted in more modest changes in previous months.

INEGI's employment report

Non-seasonally adjusted figures

%	Apr-22	Mar-22	Difference
Unemployment rate	3.03	2.97	0.06
Participation rate	60.1	58.8	1.2
Part-time workers rate	9.0	8.4	0.6
Formal employment	44.5	44.2	0.3
Informal employment[1]	55.5	55.8	-0.3
Working in the informal economy	28.8	28.3	0.5
Working in the formal economy	26.8	27.5	-0.7

Source: INEGI

Labor market conditions keep improving, with some room left to recover amid more pressing global risks. Progress towards a full recovery in employment conditions continues, with the overall pace better than what economic activity would have suggested. This has been a plus, recognizing that risks for the latter still represent upcoming hurdles for the labor market. In our view, the outlook looks more challenging in the short-term.

Figures so far –including this report– suggest that the Mexican economy has been relatively safe from shocks such as the war in Ukraine and lockdowns in China. Nevertheless, we believe this will likely change in coming months. In particular, the effect from the conflict has been mostly felt through higher commodity prices. As they passthrough to costs and prices, this might dampen dynamism. Considering shipping times, we expect the impact from the latter in trade figures starting for May. If conditions become markedly worse, businesses might opt to cut some costs through a hiring freeze or even temporary/permanent layoffs, which would impact employment. However, we expect the overall impact to be quite modest on jobs, likely only implying a deceleration in the pace of the recovery, with a more relevant hit on activity. Considering that epidemiological conditions have remained quite stable, some informal categories likely stayed on the upswing, benefiting from a consolidation in mobility.

We remain vigilant on the participation and part-time rates, as these will be key to assess the degree of the recovery or even evaluate some structural changes. Moreover, wages will likely remain on the upswing, but with the pace still uneven considering the timing of specific negotiations and the bargaining power between businesses and workers. All in all, and despite increased risks, we expect the labor market to stay relatively strong, with conditions likely matching pre-pandemic levels later this year. We maintain 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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