Pause in the recovery of the labor market in May despite a favorable backdrop

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- **Unemployment rate (May; nsa): 3.27%; Banorte: 3.01%; consensus: 3.10% (range: 3.00% to 3.13%); previous: 3.03%**
- **Part-time workers: 8.5% (previous: 9.0%); Participation rate: 59.6 % (previous: 60.1%)**
- **In the period, 518.1 thousand new jobs were lost, breaking with three consecutive months to the upside. Hence, so far this year 202.8 new jobs have been created**
- **The labor force decreased by 390.3 thousand, with unemployed persons +127.8 thousand. This explains the increase in the unemployment rate**
- **The participation rate fell, while the part-time rate reverted lower. Outside of the labor force, those catalogued as 'available for work' fell by 407.8 thousand, although with 'no available' climbing by 903.8 thousand**
- **Seasonally adjusted figures show that the unemployment rate increased to 3.35% from 3.08% in the previous month, consistent with the pause in the recovery of the labor market in the period.**
- **Losses were skewed towards the formal sector, with a total of -272.4 thousand jobs. In addition, there was a fall of 245.7 thousand in the informal sector. Hence, the informality rate rose to 55.6% (previous: 55.5%)**
- **Average hourly wages moderated to $48.79 (previous: $49.98), which represents a 4.1% y/y advance, lower at the margin despite higher prices pressures**
- **We believe that today's results are not favorable, but we still need further information to see if this is just a pause or something else. However, considering the overall trend of recovery, we expect improvements to continue in the remainder of the year**

Pause in the recovery in May. Using original figures, the unemployment rate stood at 3.27% (chart below, left), higher than both consensus (3.10%) and our forecast (3.01%). This represents a 24bps increase relative to April, despite a more favorable seasonal effect. With seasonally adjusted figures, the unemployment rate rose to 3.35%, higher than the 3.08% of the previous month. Back to original figures, the labor force fell by 309.3 thousand, with -518.1 thousand employees and +128.7 thousand unemployed. The result on job positions is negative, considering that the usual seasonality points to a moderate creation, considering the jobs that are usually lost during the *Easter* holiday. In that sense, dynamics were totally opposite this year, with a stronger creation the previous month and a moderate loss in this period. Therefore, we remain cautious about whether this corresponds to some kind of temporary distortion (possibly still related to the pandemic), or if it really marks a deterioration in labor market conditions. In this context, total job gains in the year reached 202.8 thousand.

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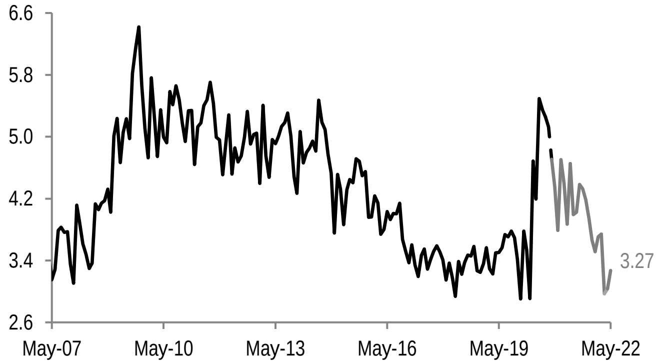
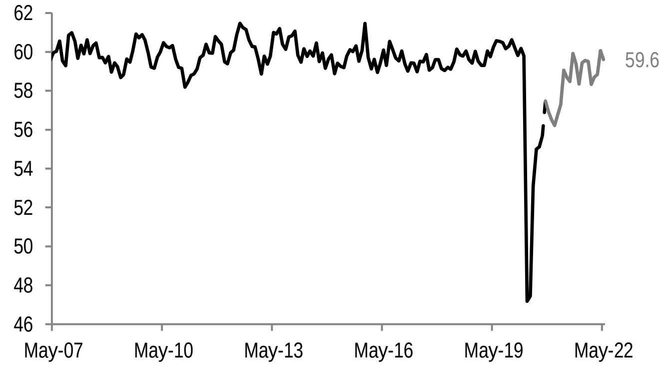
With these results, the participation rate fell to 59.6% (previous 60.1%). This is explained by a lower labor force and an increase of 469.0 thousand people outside of the labor force. From the latter, those catalogued as 'available' fell by 407.8 thousand, with those 'not available' climbing by 903.8 thousand. Therefore, total employees reached 57.1 million, 1.4 million above February 2020's level, before the impact of the virus. 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 14.0%, 25bps 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 losses centered in the formal sector and in agricultural activities. Out of the 518.1 thousand positions lost, 245.7 thousand were in informality, while the formal economy shed 272.4 thousand. This is much lower than the 2.9 thousand posts eliminated according to the IMSS employment report, pointing to a very sizable decrease in other areas such as federal and state workers, along with the military. As a result, the informality rate climbed to 55.6% (previous: 55.5%). By sectors, we highlight that the primary sector lost 266.8 thousand positions, somewhat surprising considering that in this month there are usually sizeable gains. In addition, services lost 221.0 thousand jobs, with losses centered in restaurants and lodging (-141.5 thousand) and government and international organisms (-315.6 thousand). In contrast, industry added 5.0 thousand positions, with manufacturing higher (+39.3 thousand) but with construction lower (-33.6 thousand). On a positive note, the part-time rate decreased to 8.5% from 9.0%, suggesting a marginal improvement in this front. Lastly, the average hourly wage stood at $48.79, down by $1.19 sequentially and decelerating to +4.1% y/y. We believe this is relatively strange, as the effects from the adjustment to the minimum wage should continue pushing other wages while inflation has remained on the upside, particularly in key sectors such as food items.

INEGI's employment report
Non-seasonally adjusted figures

%	May-22	Apr-22	Difference
Unemployment rate	3.27	3.03	0.24
Participation rate	59.6	60.1	-0.5
Part-time workers rate	8.5	9.0	-0.5
Formal employment	44.4	44.5	-0.1
Informal employment[1]	55.6	55.5	0.1
Working in the informal economy	28.7	28.8	-0.1
Working in the formal economy	26.9	26.8	0.2

Note: Differences might not match due to the number of decimals allowed in the table
Source: INEGI

Labor market conditions will likely maintain the recovery trend, although with some risks in the short-term. Today's result was somewhat surprising, as data available so far suggested that conditions were right for an additional improvement in the labor market. However, and considering some seasonal distortions, we believe that we need to wait for further information to assess if this is just a pause in the recovery or a change in the trend.

So far for June, signals point to a more challenging backdrop. Particularly, COVID-19 cases have been on the rise, which have proved to influence employment conditions in previous waves. However, we believe the effect might be more modest than in said occasions, considering: (1) Progress on vaccinations and booster shots; (2) evidence of milder symptoms among those sick; and (3) a steady increase in cases, not seeing a rapid expansion yet. As such, this just may act as a relative drag for additional job gains, not fully causing jobs to be lost. Meanwhile, regarding activity signals also seem to be mixed. The trade balance for May suggested that the impact from the lockdowns in China was relatively modest, which could in turn support some manufacturing in June. Nevertheless, timely signals from the sector in the US are negative, pointing to a relevant slowdown in said sector. As an additional challenge, price pressures remain on the rise, impacting both producers –on input costs– and consumers –through a decrease of disposable income–, which could have a negative effect on output. Nevertheless, we believe that after this patch, support should prevail from the overall recovery, helping employment conditions to consolidate and likely resulting in additional gains through the rest of the year.

Regarding other indicators, our main focus remains on wages –as they have shown some volatility– given that they remain as a key driver for the recovery of consumption. As such, high growth rates should be favorable to support this latter sector. On the part-time rate, given the latest wave we do not rule out an uptick, while expecting the downward trend to continue after this.

All in all, while the outlook in the short-term seems more uncertain, we believe that the sector will continue on an upward trend, with overall conditions normalizing further. As such, we maintain our estimate for the unemployment rate by the end of the year at 3.6%, although noting some downside risks for this figure.

[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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