

## The unemployment rate plunges to 3.26% in March despite COVID-19 shocks

- **Unemployment rate (March; sa): 3.26%; Banorte: 4.03%; consensus: 4.14% (range of estimates: 3.78% to 4.67%); previous: 3.70%**
- **Part-time workers: 9.27% (previous: 9.15%); Participation rate: 60.06% (previous: 60.43%)**
- **The fall in the unemployment rate was highly surprising when considering the current economic environment, in which we and most of the market actually expected it to climb**
- **However, we believe this can be explained by several factors, including a lower participation rate and the timing of the survey, which is carried out in a continuous manner**
- **In this sense, we expect April to show the impact of the COVID-19 pandemic on the economy and the labor market. However, we should note that considering sanitary measures in place since March 31<sup>st</sup>, data for the month might not be available in its usual frequency**
- **At a state level and for the fourth consecutive month, Tabasco posted the largest decline in the unemployment rate in the annual comparison**

**The unemployment rate plunges in March.** According to *INEGI's* report, the rate reached 3.26% (seasonally adjusted figures), considerably below both consensus at 4.14% and our forecast (4.03%). The participation rate fell by 37bps to 60.06%, lowest in little under a year. Meanwhile, part-time workers added a second consecutive increase to 9.27%, as shown in the table below. We should note these results were highly surprising, as a significant number of reports and other figures suggested that economic activity was already heavily impacted by the COVID-19 outbreak as soon as mid- to late-March. Nevertheless, we believe two factors may have come in play as to why the unemployment rate didn't increase, being: (1) The significant decline in the participation rate, which may start to show some discouraged workers not looking for a job in the midst of the pandemic; and (2) the timing of the survey, which may have captured favorable answers in the early part of March.

### INEGI's employment report

Seasonally adjusted figures

| %                                | Mar-20 | Feb-20 | Difference |
|----------------------------------|--------|--------|------------|
| Unemployment rate                | 3.26   | 3.70   | -0.44      |
| Participation rate               | 60.06  | 60.43  | -0.37      |
| Part-time workers rate           | 9.27   | 9.15   | 0.12       |
| Formal employment                | 44.18  | 43.77  | 0.42       |
| Informal employment <sup>1</sup> | 55.82  | 56.23  | -0.42      |
| Working in the informal economy  | 26.87  | 27.33  | -0.46      |
| Working in the formal economy    | 28.94  | 28.90  | 0.04       |

Source: INEGI

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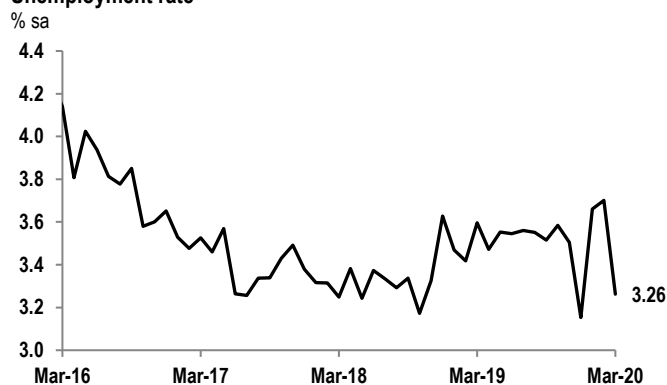
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<sup>1</sup> Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

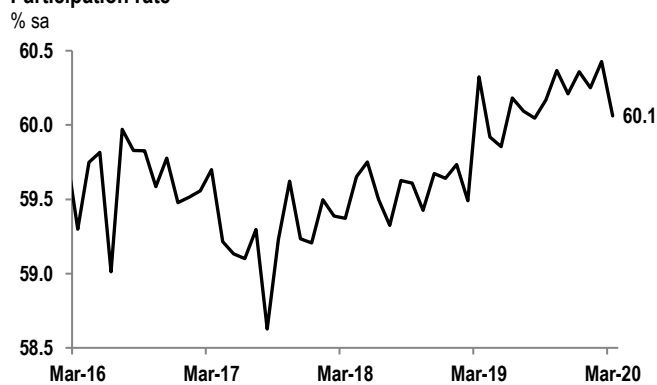
Regarding informal employment, the share of total workers fell to 55.82%. Inside, the number of employees working within the formal sector edged-up to 28.94% from 28.90%, while purely informal workers fell 46bps to 26.87%.

**Unemployment rate**



Source: Banorte with data from INEGI

**Participation rate**



Source: Banorte with data from INEGI

**We still expect a strong increase in the unemployment rate in coming months, which could happen as soon as April.** As we previously mentioned, we anticipated March to start to show the impact from the pandemic, which was already seen in formal employment figures. In this context, 130,593 jobs were lost, lowest on record for this specific period. Moreover, as we mentioned in [our preview for 1Q20 GDP](#), there were relevant signs of a deceleration as soon as March, although more timely data for April points to a further decline in activity. In this context, the sanitary emergency in Mexico was declared on March 30<sup>th</sup>, followed by “Phase 3” of the Coronavirus pandemic on April 21<sup>st</sup>. This, in turn, could have resulted in an additional increase in unemployment, as more and more non-essential businesses had to close. In this context and including some of the characteristics of the survey outlined in the previous section, we expect figures for April to start to show a relevant increase in the unemployment rate, which could be joined by upticks in the part-time rate as well as in informal employment. Nevertheless, these might be dampened, at least in part, by further reductions in the participation rate, as people stop looking for a job in the current environment.

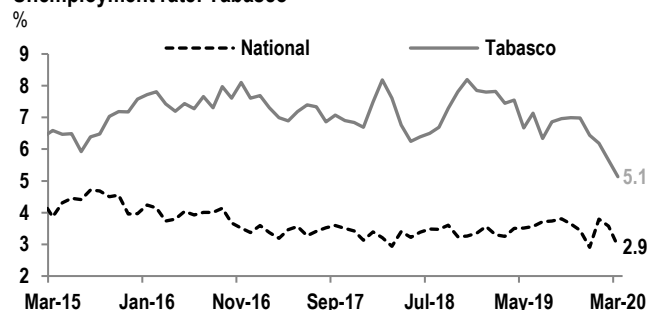
Apart from these considerations, we should note that there will be an impact on the release of employment figures in the following months, as INEGI stopped conducting face-to-face interviews on March 31<sup>st</sup>. Nevertheless, they established a special provision for this survey. In this sense, with today’s publication the institute stated they will soon publish modifications to their release schedule and some of changes to available information.

Going forward, [we recently updated our forecast for unemployment and economic activity](#), now expecting the former to close 2020 at 7.2%, surpassing the maximum seen during the Financial Crisis in which it climbed to 5.99%. We expect most of the outlays to happen in 2Q20, where we anticipate most of the impact, to then start improving towards the end of the year. As we previously stated, we forecast an impact to both formal and informal employment, as the characteristics of this economic shock are unlike other recession periods.

At the state level

**For the fourth consecutive month, Tabasco posted the largest decline in the unemployment rate in the annual comparison.** Analyzing non-seasonally adjusted figures (given that sa data for federal entities are highly volatile), we highlight the 2.3%-pts annual reduction in Tabasco’s unemployment rate. With the implementation of Phase 1 and 2 in the country, which includes social distancing measures, unemployment in the state begins to take more force showing a rate of 5.1% -highest in the country-. However, this rate was below the one in March 2019, due to the support given in certain sectors of the state’s economy such as the continuation of works on the “*Mayan Train*” and the Dos Bocas refinery, as well as the absence of a significant loss in job creation, as seen in the lower right graph. It should be remembered that the first case of COVID-19 was reported in March, so we think the effects will be more visible in coming months.

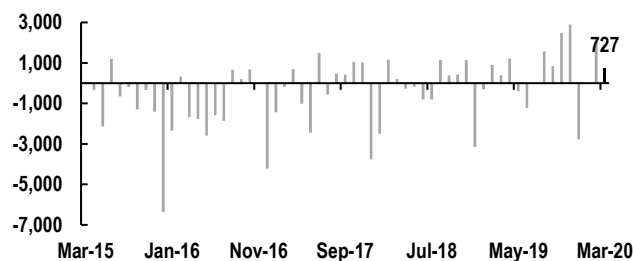
Unemployment rate: Tabasco



Source: Banorte; INEGI

Job creation

Balance with respect to the previous month

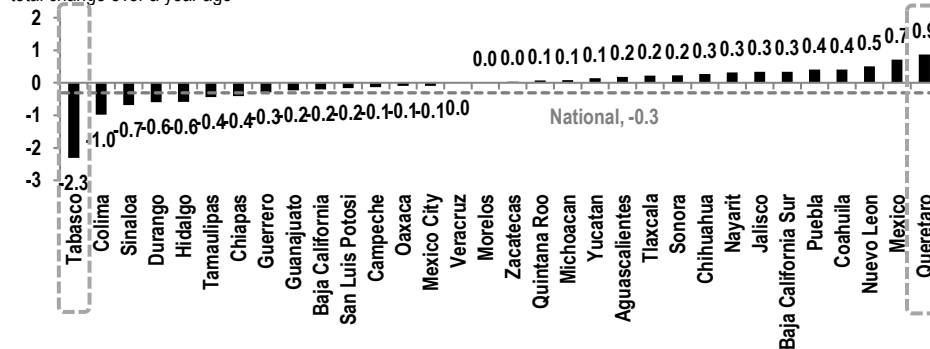


Source:

In addition, it’s important to highlight that only 7 out of the 32 states showed a better performance relative to the national level, as shown in the following graph.

Minor and major difference in the unemployment rate by state: March 2020

total change over a year ago



Source INEGI:

The labor market in Colima, Sinaloa, Durango, and Hidalgo has improved substantially, with significant declines in the unemployment rate. However, in Queretaro, State of Mexico, Nuevo Leon, Coahuila, and Puebla it has worsened. Last but not least, the lowest level of the unemployment rate was seen again in Guerrero (1.6%). This implies a 0.3%-pts fall relative to the same month of the previous year as shown in the following table.

### Unemployment rate by state – March 2020

%; nsa

|                     | Mar-20     | Mar-19     | Jan-Mar '20 | difference  |
|---------------------|------------|------------|-------------|-------------|
| Tabasco             | 5.1        | 7.4        | 5.7         | -2.3        |
| Colima              | 3.0        | 4.0        | 3.0         | -1.0        |
| Sinaloa             | 2.8        | 3.5        | 2.8         | -0.7        |
| Durango             | 4.0        | 4.6        | 3.9         | -0.6        |
| Hidalgo             | 1.9        | 2.5        | 2.1         | -0.6        |
| Tamaulipas          | 3.2        | 3.6        | 3.2         | -0.4        |
| Chiapas             | 2.6        | 3.1        | 2.6         | -0.4        |
| <b>National</b>     | <b>2.9</b> | <b>3.2</b> | <b>3.4</b>  | <b>-0.3</b> |
| Guerrero            | 1.6        | 1.9        | 1.4         | -0.3        |
| Guanajuato          | 3.6        | 3.8        | 3.6         | -0.2        |
| Baja California     | 2.3        | 2.5        | 2.3         | -0.2        |
| San Luis Potosi     | 2.0        | 2.2        | 2.0         | -0.2        |
| Campeche            | 3.2        | 3.4        | 3.2         | -0.1        |
| Oaxaca              | 1.7        | 1.8        | 1.9         | -0.1        |
| Mexico City         | 4.8        | 4.8        | 5.0         | -0.1        |
| Veracruz            | 2.8        | 2.8        | 2.9         | 0.0         |
| Morelos             | 1.9        | 1.9        | 2.0         | 0.0         |
| Zacatecas           | 3.2        | 3.2        | 3.0         | 0.0         |
| Quintana Roo        | 3.0        | 2.9        | 2.9         | 0.1         |
| Michoacan           | 2.4        | 2.3        | 2.4         | 0.1         |
| Yucatan             | 2.0        | 1.9        | 1.9         | 0.1         |
| Aguascalientes      | 3.5        | 3.3        | 3.6         | 0.2         |
| Tlaxcala            | 4.0        | 3.8        | 3.9         | 0.2         |
| Sonora              | 4.4        | 4.2        | 4.5         | 0.2         |
| Chihuahua           | 3.5        | 3.2        | 3.3         | 0.3         |
| Nayarit             | 3.8        | 3.5        | 3.8         | 0.3         |
| Jalisco             | 3.0        | 2.7        | 3.2         | 0.3         |
| Baja California Sur | 3.7        | 3.4        | 3.5         | 0.3         |
| Puebla              | 2.8        | 2.4        | 2.6         | 0.4         |
| Coahuila            | 4.6        | 4.2        | 4.4         | 0.4         |
| Nuevo Leon          | 3.9        | 3.3        | 3.7         | 0.5         |
| State of Mexico     | 5.0        | 4.3        | 4.7         | 0.7         |
| Queretaro           | 3.5        | 2.6        | 3.9         | 0.9         |

Source: INEGI

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