Labor market conditions improve gradually in February

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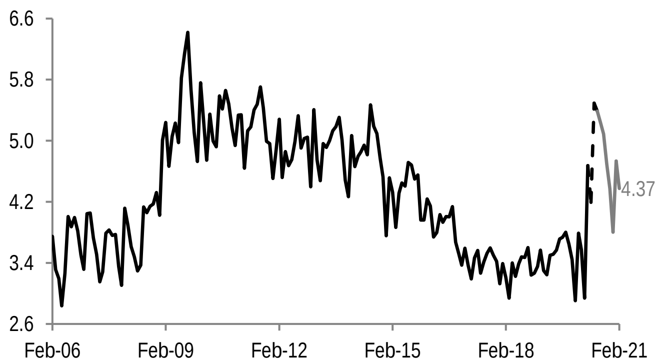
- **Unemployment rate (February; nsa): 4.37%; Banorte: 4.27%; consensus: 4.40% (range: 4.10% to 4.50%); previous: 4.73%**
- **Part-time workers: 13.9% (previous: 14.9%); Participation rate: 56.7% (previous: 56.1%)**
- **The month's seasonality is favorable relative to January, with some of the distortions starting to gradually correct, a situation likely to extend further into March**
- **In the month, 1.1 million jobs were created, in our view aided by improvements on the pandemic and with a limited shock from the blackouts and the lack of natural gas. With this, about 2.7 million jobs are yet to be recovered relative to last year, just before COVID-19**
- **The participation rate climbed back, also on seasonal factors, with 922.4 thousand persons back into the labor force. Most were from those 'available for work', in contrast with recent years and likely boosted by lower COVID-19 restrictions. Meanwhile, the lower part time rate also suggests more positive results than the headline print**
- **Job gains in the informal sector stood at 531.4 thousand (49.3% of the total). Hence, the informality rate fell to 55.5% from 55.6% in January**
- **Average hourly wages were at $45.09, slightly below the $46.94 seen in the previous month and with a 9.8% y/y expansion, in our view partly driven by the minimum wage increase**
- **We believe labor market gains have moderated due to recent challenges to economic activity. Going forward, we expect them to keep improving at a modest pace in the short-term, gathering steam later this year as vaccination efforts continue and the boost from external demand is felt**

The unemployment rate decreases on a seasonal trend. Specifically, it stood at 4.37% (non-seasonally adjusted figures, see chart below to the left), close to consensus (4.40%) but above our 4.27%. In this sense, the period's seasonality starts to take a turn from an adverse impact in January, correcting gradually in this month and likely into March. We believe this is due to adjustments after temporary hiring and layoffs are assimilated, while contract renewals at the beginning of the year are also formalized. We thought the improvement in epidemiological conditions in the second half of the month –especially in services as portrayed by some timely data from the sector, such as ANTAD sales–, would have a more positive effect. On the other hand, and in line with our view, data suggests the impact from blackouts and the lack of natural gas was very limited as these disruptions lasted about a week. All in all, using seasonally adjusted figures, the unemployment rate picked up by almost 1bp relative to revised figures for January, staying at 4.49%.

In this context, net employment rose by 1.1 million positions, with 546.6 thousand in the formal sector and 531.4 thousand in the informal one. With this, total employees came in at 53.0 million, a loss of around 2.7 million relative to the same month of last year, just before the pandemic started.

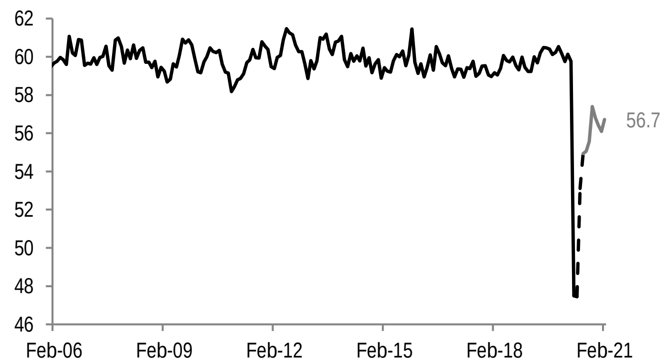
Meanwhile, the labor force expanded by 922.4 thousand positions, taking the participation rate to 56.7% from 56.1% in the previous month (see chart below on the right). In contrast, people outside of the labor force fell by 361.7 thousand, with most of them classified as 'available for work'. In our view, this was mainly driven by better pandemic conditions driving people back into a job, following the end of the year. Despite of the latter, this group remains large, standing at 8.2 million, considerably above the 5.7 million seen last year. Lastly, to reflect labor market conditions more accurately, if we sum the latter group ('available for work') to the total unemployed and also add them back into the labor force, the 'expanded' unemployment rate would have reached 16.7% (previous: 18.9%), above the 12.2% seen in February 2020.

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

Most job gains were in the formal sector. In contrast to recent months, the increase in employment was mostly in this sector, adding 546.6 thousand jobs (50.7%). In our view, this suggests that the main driver of the recovery was due to seasonal factors, albeit also with some support from a relatively more resilient performance in services. In turn, the latter was likely helped by a sizable improvement in the evolution of COVID-19 cases and deaths at the end of the month. Regarding the formal sector, gains were significantly higher than the net creation of 115.3 thousand posts according to the IMSS report. This suggests that other formal positions (*e.g.* government, Defense Ministry and Pemex) added positions in the period, compensating for January's fall. Given this, the informality rate ticked down to 55.5% from 55.6%. Meanwhile, the part-time rate fell to 13.9% from 14.9%, likely also influenced by the same factors. Broadly speaking, we believe results were better than the headline print suggests, albeit still modest.

On the other hand, average wages per hour declined by MXN 1.85 sequentially, reaching 45.09 pesos. This represents a 9.8% y/y increase. As mentioned before, we think this remains influenced by the 15% minimum wage hike that began on January 1st. In this respect, when looking at employment changes by income level, workers earning up to one MW surged again, by 665.8 thousand. Those between one and two MW picked up 608.9 thousand. In contrast, those with more than two fell by 136.3 thousand. Although we have warned that this is distorted due to the change in the benchmark measure, we note that 33.1 million workers (62.5% of the total) earn up to two MW. On a sector basis, we highlight that 404.6 thousand were added in manufacturing, which we see as positive considering disruptions to activity in the period. This is reaffirmed by a total gain of 914.5 thousand in all industry. Moreover, services were also higher as mobility improved, showing a net creation of 370.4 thousand.

INEGI's employment report
Non-seasonally adjusted figures

%	Feb-21	Jan-21	Difference
Unemployment rate	4.37	4.73	-0.36
Participation rate	56.7	56.1	0.6
Part-time workers rate	13.9	14.9	-1.0
Formal employment	44.5	44.4	0.1
Informal employment[1]	55.5	55.4	-0.1
Working in the informal economy	28.6	28.2	0.4
Working in the formal economy	26.9	27.4	-0.5

Source: INEGI

We maintain our view that the labor market recovery will still take a while. We believe this print could be an inflection point in the positive trend of employment conditions that was observed before the negative bump in the last two months. This would be supported by: (1) Better epidemiological conditions since the second half of February, currently with no state in 'red' according to the traffic light indicator; and (2) an additional boost from external demand, with a new fiscal stimulus package in the US that started to be disbursed in March. We recognize there is a potential hurdle from rising cases after the *Easter* holiday in the short-term, with some experts forecasting an uptick due to reduced social-distancing. Therefore, we will keep looking to contagion data to assess its possible impact on activity and employment. Nevertheless, our base case is that they will not deteriorate as much as what we observed around the turn of the year.

More positively, we believe the groundwork for a recovery in the labor market has been reinforced by the better outlook for external demand, which could push employment higher in key categories such as manufacturing. Nevertheless, based on previous recessions, the rebound in employment will likely be slower than the economy. We believe this is especially important now given that, unlike previous episodes, the output gap will remain substantially negative throughout this year. In addition, we also note other possible challenges, such as supply chain disruptions (*e.g.* shortage of semiconductors). In this context we maintain our view that the unemployment rate will finish the year around 4.0% (sa), with a downward bias only if the vaccination program moves faster domestically.

[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

On other relevant indicators, the labor force is likely to also increase further, albeit at a gradual pace, as those 'available for work' continue returning to the job market. However, this might take a while as we believe that there needs to be a substantial improvement to lure back employees in the most lagged sectors of the economy. Moreover, another indicator that will probably remain high is the part-time rate, with prevailing distancing measures resulting in rotation schemes and other measures to keep people employed. Finally, informality should trend higher with better pandemic conditions. All in all, we maintain our view that there is still a long path for a full recovery of the labor market, even with some positive developments and apparently fewer risks.

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