The recovery of the labor market resumed in February, with 524.7 thousand new jobs

March 30, 2022

- **Unemployment rate (January; nsa): 3.74%; Banorte: 3.43%; consensus: 3.65% (range: 3.43% to 3.92%); previous: 3.71%**
- **Part-time workers: 9.2% (previous: 9.1%); Participation rate: 58.7% (previous: 58.3%)**
- **In the period, 524.7 thousand jobs were created, better than suggested by the seasonal trend and partially recovering after last month's retracement. Thus, total jobs stand 311.6 thousand above those seen in February 2020, used as a pre-pandemic metric**
- **The labor force rose by 565.6 thousand, with unemployed people at +40.9 thousand. This explains the increase in the unemployment rate, but also supports the notion of a labor market recovery in the period**
- **As a result, the participation rate increased, while the part-time rate halted its downward trend. Outside of the labor force, those catalogued as 'available for work' decreased, which is also favorable**
- **As such, seasonally adjusted figures showed an increase of the unemployment rate to 3.75% from 3.63% in the previous month**
- **Gains in the informal sector totaled 154.7 thousand jobs, with 370.0 thousand more in the formal sector. Therefore, the informality rate fell to 54.6% (previous: 54.9%)**
- **Average hourly wages reached $48.25 (previous: $47.45). This represents +7.0% y/y. We believe this mainly reflects the adjustment to the minimum wage, considering that progress in January was more modest**
- **Although there is a seasonal component that helped today's results, we believe the signal is mostly favorable, setting the tone for greater dynamism in coming months. However, certain risks persist that could impact the pace of growth**

Partial recovery of the labor market in February. Using original figures, the unemployment rate was 3.74% (chart below, left), higher than consensus (3.65%) and our 3.43%. This represents +3bps relative to January despite a less negative seasonal effect. With seasonally adjusted figures, the rate came at 3.75%, above the previous 3.63%. While this might suggest an impact, other data show that the month was more positive. Back to original figures, the labor force increased by 565.6 thousand, with 524.7 thousand more employees and 40.9 thousand more unemployed. While some of this comes on the back of positive seasonality as jobs lost in January are filled again, we believe much more is due to an improvement in virus conditions. Specifically, the number of cases began to fall sharply from the end of January, boosting mobility. This was coupled with signs of stronger dynamism in economic activity. However, we think it is still moderate considering the loss of 1.4 million the previous month, with several indicators still suggesting that additional gains are necessary.

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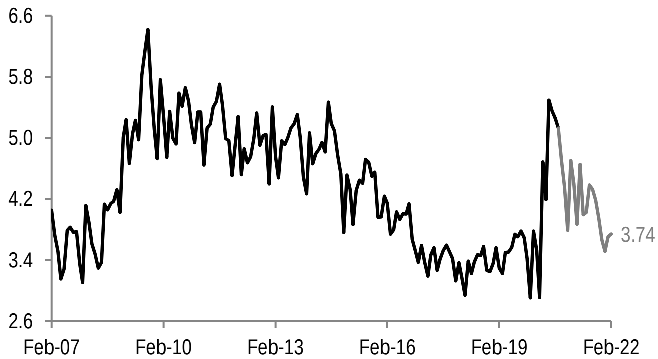
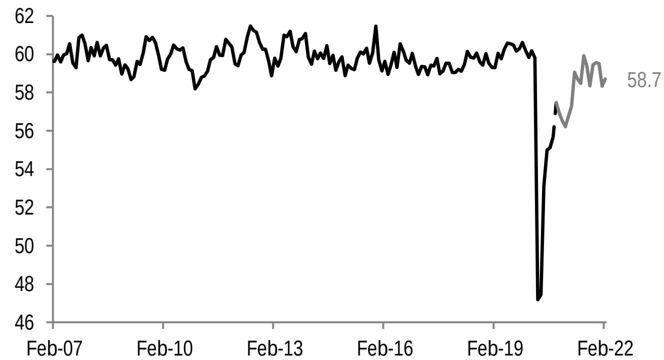
In this context, the participation rate rose to 58.7% (previous: 58.3%). This is explained by the increase in the labor force, while people outside the labor force falling by 226.3 thousand. From the latter, those 'available' fell by 324.7 thousand, with those 'not available' picked up by 98.4 thousand. Within the first group, it is favorable that the decline was concentrated in those that 'are not looking for a job because they do not see chances of finding one'. Therefore, total employees reached 56.1 million, exceeding by the level in February 2020 –before the impact of the virus– by 311.6 thousand, but still 883.5 thousand short from the maximum in December 2021. As previously, to better reflect the labor market conditions, we sum 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 14.8%, lower than the 15.3% in January. For reference, in February 2020 it reached 12.2%.

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

Gains again centered in the informal sector, with an acceleration in wages. Out of the 524.7 thousand gained, 154.7 thousand corresponded to the informal sector, with +370.0 thousand in the formal economy. At the margin, the last figure is better than those in the IMSS employment report, suggesting gains in other areas such as federal and state workers, along with the military. Meanwhile, we think the recovery of the first group is due to a rebound after the drop in the previous month, benefiting from lower worker absenteeism due to the decrease in contagions. However, we expected a more substantial increase. As a result, the informality rate fell to 54.6% (previous: 54.9%). By sectors, services concentrated gains at +863.5 thousand, noting sharp increases in social (+358.9 thousand) and 'diverse' (+253.4 thousand). In industry (+264.1 thousand), construction was the highest with +202.0 thousand, while manufacturing lost 2.5 thousand jobs. Lastly, the primary sector shed 706.6 thousand positions. On the other hand, the part-time rate increased to 9.2% from 9.1%, breaking with months of improvements. The average hourly wage stood at $48.25, higher by $0.80 sequentially and accelerating to +7.0% y/y. We believe this is more consistent with the enactment of the 22% rise to the minimum wage at the beginning of the year. As such, it likely sets the tone for additional progress along the wage curve for the remainder of the year.

INEGI's employment report
Non-seasonally adjusted figures

%	Feb-22	Jan-22	Difference
Unemployment rate	3.74	3.71	0.03
Participation rate	58.7	58.3	0.4
Part-time workers rate	9.2	9.1	0.1
Formal employment	45.4	45.1	0.2
Informal employment[1]	54.6	54.8	-0.2
Working in the informal economy	28.5	27.5	1.0
Working in the formal economy	26.1	27.3	-1.3

Source: INEGI

The recovery resumes, with better conditions in the short-term, although with heightened risks on the horizon. Even adjusting for the month's positive skew, we think the results are positive. In our view, it shows that the recovery got back on track after the impact in January. Overall, this is consistent with more favorable signs for activity in the period that could extend in the short-term.

Considering this, we believe job gains will continue at least in March, if not in the following months. Specifically, conditions surrounding the virus –with all states in 'green' in the traffic light indicator– have resulted in a larger number of people returning to offices and workplaces in general. While the impact of this by itself could be small, it may spillover to support and related services and fuel an additional recovery. We also note that the seasonal effect in hiring remains positive in March, further boosting the numbers. On wages, today's acceleration sets the basis for gains to consolidate in coming months. However, progress they may have relative to price pressures will be very important, with a significant impact of the latter on households' purchasing power.

In the medium-term, risks are becoming more relevant. Even though the direct effect of the conflict in Ukraine could be modest for our country, the impact of higher inflationary pressures because of this could undermine the local recovery. In addition, the persistence of shocks to supply chains –with important lockdowns in China due to new outbreaks of COVID-19– and distortions in some local sectors could persist, limiting growth. Despite of this and considering that 1Q21 has had some positive surprises, we maintain our estimate for the unemployment rate at the end of the year at 3.7%, although with higher levels of participation relative to those seen currently.

[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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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, David Alejandro Arenas Sánchez. Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Isaías Rodríguez Sobrino, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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