Additional improvements in the labor market in February

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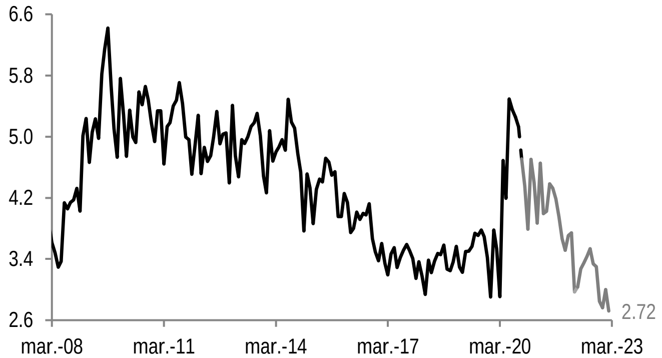
- **Unemployment rate (February; nsa): 2.72%; Banorte: 3.02%; consensus: 3.04% (range: 2.90% to 3.11%); previous: 3.00%**
- **Part-time workers: 7.4% (previous: 7.7%); Participation rate: 60.2% (previous: 60.3%)**
- **In February 10.0 thousand jobs were lost, contrasting with its usual trend, albeit coming also after a surprising increase in the previous month –which is characterized by job losses–**
- **The labor force dropped by 182.9 thousand, with those unemployed down 173.0 thousand. The latter explains the decline in the unemployment rate**
- **As such, the participation rate moved lower, while the part-time rate declined at the margin. Outside of the labor force, those catalogued as 'available for work' decreased by 187.1 thousand, with those 'not available' increasing by 231.2 thousand**
- **Seasonally adjusted, the unemployment rate declined to 2.79% from 2.90%, a new historical low**
- **In the informal sector, 391.1 thousand jobs were added, with the formal sector showed 401.0 thousand less. As such, the informality rate picked up to 55.5% (previous: 54.8%)**
- **Average hourly wages moderated to $52.18 (previous: $52.70), resulting in a +8.1% y/y advance, in our view still helped by the 20% minimum wage increase**
- **We believe the labor market will maintain its strength in coming months, even eyeing additional gains in some fronts. In this sense, it will remain as a key support for domestic demand throughout the year**

10.0 thousand jobs were lost in February, but the unemployment rate fell further. With original figures, the unemployment rate stood at 2.72% (graph below, left), well below consensus (3.04%) and our estimate (3.05%). The result contrasts with its typical seasonal pattern, recalling that this metric tends to move higher in the first months of the year. Using seasonally adjusted figures, the unemployment rate stood at 2.79% (previous: 2.90%), a new historical low since the series is available (2005) for a second month in a row. Back to original data, the labor force dropped by 182.9 thousand, with -10.0 thousand less employees and -173.0 thousand unemployed. We must say that seeing jobs lost was somewhat surprising considering that this period is usually the first higher after declining in the previous two. Nevertheless, we also had a surprise in January, as 409.3 thousand positions were added. Similarly, the labor force tends to increase, explaining a great part of the abovementioned increases. Hence, the participation rate declined to 60.2% (previous: 60.3%). Meanwhile, people outside of the labor force increased by 44.1 thousand, with less people catalogued as 'available' (-187.1 thousand), but with a relevant increase in those 'not available' (231.2 thousand). In our view, these figures confirm that the labor market remains solid, which is undoubtedly favorable for economic activity.

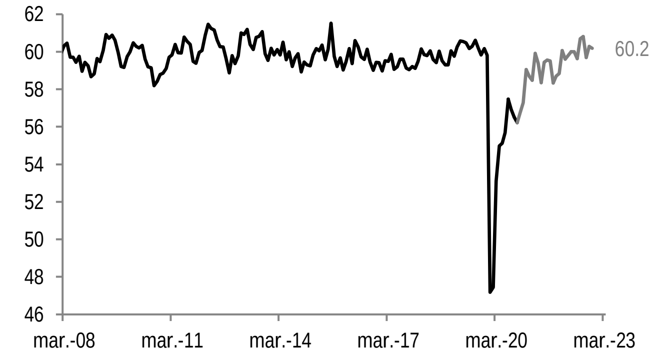
In this backdrop, total employees reached 58.4 million. As in previous reports, and to better reflect labor market conditions, we added those 'available for work' not in the labor force both to the unemployed and the labor force. With this, the 'expanded' unemployment rate stood at 10.4%, lower than in January (-49bps), and resuming its downward trend.

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

Formal employees and primary sector jobs lower. The informal sector added 399.1 thousand jobs, while the formal sector subtracted 401.0 thousand jobs. The latter is below IMSS data, which showed +175.9 thousand jobs (original figures). As a result, the informality rate surged to 55.5% (previous: 54.8%). By sectors, primary activities concentrated losses (-809.9 thousand), albeit with gains in industry (+657.9 thousand) and services (103.8 thousand). Within the second one, all subsectors gained, although highlighting construction (+395.3 thousand) and manufacturing (244.4 thousand). In the latter, performance was mixed, with +469.2 thousand in professional services, although with -371.1 thousand in government. On the other hand, the part-time rate declined to 7.4%, lower than its long-term average. Finally, the average hourly wage was at $52.18, moderating by $0.51 vs. the previous month. In annual terms it grew 8.1% y/y (previous: +11.1%), still supported by the 20% minimum wage increase.

INEGI's employment report
Non-seasonally adjusted figures

%	Feb-23	Jan-23	Difference
Unemployment rate	2.72	3.00	-0.28
Participation rate	60.2	60.3	-0.1
Part-time workers rate	7.4	7.7	-0.3
Formal employment	44.5	45.2	-0.7
Informal employment[1]	55.5	54.8	0.7
Working in the informal economy	29.0	27.5	1.5
Working in the formal economy	26.5	27.3	-0.8

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

We expect labor market strength to extend further, which would be a catalyst for consumption this year. In our view, the labor market is in a very favorable position, showing added strength in a positive economic environment.

[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

Despite recognizing some risks for economic activity, we believe this market will maintain its resilience throughout the year, representing a key support for several sectors, especially consumption.

In our view, several engines suggest stronger dynamism, including: (1) Relatively favorable signals for economic activity in the short term; (2) Lower inflationary pressures in several key sectors; and (3) the boost from investment related to nearshoring. On the latter, several companies and organizations have talked about potential gains. According to a *ManpowerGroup* survey, 52% of companies in the country's northeast mentioned that they expect to hire new workers, much higher than the national average of 29%. Analysts from this consultancy attributed this difference to nearshoring, arguing also that the most favorable responses were seen in logistics, transportation, and the auto sector. Moreover, expectations about the quality of employment have also improved. Ana Gutiérrez, IMCO's coordinator for International Trade and the Labor Market, commented that this: "*…opens the possibility of higher workers' income, not only in maquiladoras or the auto sector, but also in other activities…*"

Regarding wages, we expect growth to continue throughout the year, with those above the minimum benefitted by the 'lighthouse effect'. Nevertheless, we will stay attentive to companies' actions as they were already facing other cost pressures, which in turn drove final prices higher. Nevertheless, on an aggregate level, the rise in households' real disposable income should foster consumption growth, in turn helping GDP.

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