May 30, 2024

Resilience in the labor market extended to April

- **Unemployment rate (April; nsa): 2.61%; Banorte: 2.62%; consensus: 2.54% (range: 2.43% to 2.70%); previous: 2.28%**
- **Part-time workers: 7.7% (previous: 6.5%); participation rate: 60.5% (previous: 60.2%)**
- **In April, 10.6 thousand jobs were lost, with distortions from the *Easter* holiday still in play. The number of unemployed persons climbed by 206.3 thousand, with the labor force up by 195.7 thousand. The combination of these factors explains the rebound in the unemployment rate**
- **With this, the participation rate increased at the margin, with the part-time rate exhibiting a larger adjustment. Outside of the labor force, people 'available to work' declined by 61.8 thousand**
- **With seasonally adjusted figures, the unemployment rate declined by 4bps to 2.62% its second lowest level, just above the 2.59% seen in February**
- **The formal sector eliminated 155.7 thousand jobs, with the informal sector adding 145.1 thousand positions. As such, the informality rate came in at 54.6% (previous: 54.3%). By sectors, losses centered in industry (-415.2 thousand)**
- **The average hourly wage came in at $59.46 (previous: $57.54), with the annual comparison at +9.4% y/y (previous: +11.6%). This was its first single-digit uptick since June 2023, but with relevant drivers still pushing them**
- **We reaffirm our view on employment strength. However, the unemployment rate could adjust upward at the margin due to a more complex economic outlook for the remainder of the year, albeit with remaining in a very favorable position overall**

10.6 thousand jobs lost in April, although with distortions from the *Easter* holiday still present. With nsa figures, the unemployment rate came in at 2.61% (see chart below, left), above consensus (2.54%) but closer to our estimate (2.62%). Distortions related to the *Easter* holiday extended to the period, triggering re-adjustments within the labor force. Correcting for this with seasonally adjusted figures, the rate declined to 2.62% from 2.66%, only 4bps above the historical low of 2.59% in February of this year. Back to original figures, the labor force was up by 195.7 thousand persons, with 206.3 thousand more unemployed and -10.6 thousand employed. With this, job creation in the last 12 months has totaled 901.6 thousand positions. Thus, the participation rate climbed to 60.5%. Meanwhile, people outside of the labor force declined by 389.3 thousand, with a reduction of 61.8 thousand persons 'available to work', while those 'unavailable' fell by 327.6 thousand. As in previous reports, we added those 'available to work' not in the labor force both to the unemployed and the labor force to better reflect market conditions. With this, the 'expanded' unemployment rate stood at 9.88%, slightly above March's mark (9.68%), albeit still positive as it remains below 10%. Weighing all the results, and in despite of the increase in the unemployed, the composition of the labor force continues to show strength, highlighting the tightness of the labor market.


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Winners of the awards as the best economic forecasters in Mexico by *LSEG* and *Focus Economics* in 2023

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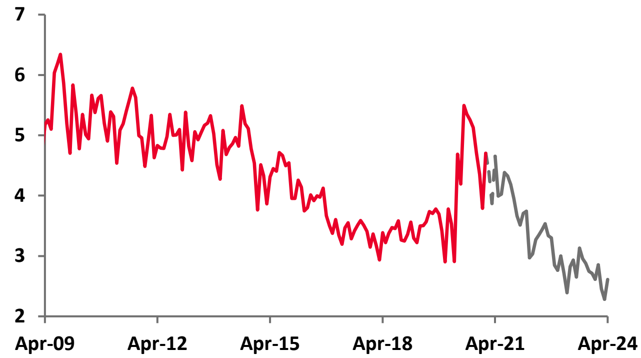
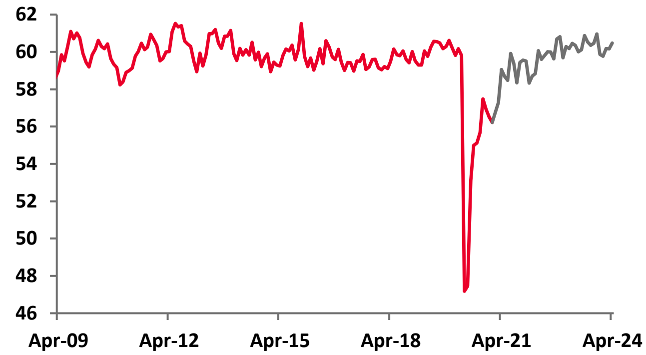
BANORTE

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 in the formal sector and industry. Formal employment declined by 155.7 thousand, with positions in the informal one up by 145.1 thousand. As a result, the informality rate climbed to 54.6% (previous: 54.3%). By sectors, industry shed 415.2 thousand positions, with manufacturing quite negative at -774.4 thousand, but with construction adding 390.8 thousand. On the contrary, both agriculture (+133.2 thousand) and services (+203.2 thousand) were positive. Within the latter, gains centered in 'diverse services' (+247.2 thousand) and commerce (+143.6 thousand), but with declines in government (-198.6 thousand) and professional and financial (-184.4 thousand). The part-time rate saw a relevant uptick to 7.7%. Finally, average hourly wages came in at $59.46, up $1.93 vs. the previous month. The annual rate moderated to 9.4% (previous: +11.6%), its first single-digit uptick since June. However, its positive trend will remain supported by little labor market slack and the 'lighthouse effect' from the minimum wage.

INEGI's employment report
Non-seasonally adjusted figures, %

	Apr-24	Mar-24	Difference
Unemployment rate	2.61	2.28	0.33
Participation rate	60.5	60.2	0.3
Part-time workers rate	7.7	6.5	1.2
Formal employment	45.4	45.7	-0.3
Informal employment[1]	54.5	54.3	0.3
Working in the informal economy	28.1	27.9	0.2
Working in the formal economy	26.4	26.4	0.0

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

We forecast the unemployment rate to remain low, while wages are expected to stay on the rise. Labor market conditions remain tight, with supply and demand imbalances across the board and exacerbated in some sectors. In this context, and as we discussed in more detail in our last *View from the Top*, the outlook for employment remains positive. This scenario is mainly justified by tight conditions, which would remain despite a moderation in economic activity in the second half of 2024.

We believe that part of these effects is seen in different ways, with the most evident being reports of labor shortages in some industries (*e.g.* autos and construction) and agricultural activities -especially in the northern areas of the country. We have noted this both anecdotally and in company surveys, as mentioned in the previous month's report. Although there have not been as many notes on the latter in services, the sector still shows relevant job creation –not ruling out a temporary acceleration due to cyclical factors such as next Sunday's electoral process. Given this, the short-term outlook suggests that these conditions will continue, with a GDP slowdown likely resulting in an easing of hiring pressures, but not in significant job losses.

On wages, we continue seeing gains ahead. These have become one of the points of attention of Banxico's Board members due to the risks they pose to the price formation process. Specifically, in the last minutes, we noted two comments: (1) "*...another said that demand pressures, the current wage policy and the continuous fall in labor productivity have contributed to the fact that inflation in services is reluctant to decrease*."; and (2) "*...one pointed out the possible effects of the tight labor market and wage increases* [in reference to the persistence of inflation in the mentioned component]".

Finally, aside from the latter, we identify three possible changes in labor market issues: (1) An increase in paternity leave; (2) reduction in working hours; and (3) regulation of work on digital platforms. Thus, attention on this front will resume after the end of the summer recess of Congress on August 1st.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, 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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	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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