Labor market strength extends to March

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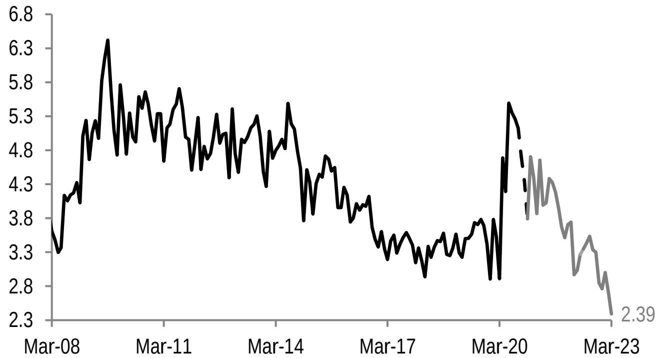
- **Unemployment rate (March; nsa): 2.39%; Banorte: 2.53%; consensus: 2.68% (range: 2.50% to 2.90%); previous: 2.72%**
- **Part-time workers: 6.8% (previous: 7.4%); Participation rate: 60.5% (previous: 60.2%)**
- **In March, 668.9 thousand jobs were created, surpassing its usual trend, and reaffirming that the market keeps strengthening**
- **The labor force rose by 483.8 thousand, with those unemployed down by 185.1 thousand. The combination of both factors explains the decline in the unemployment rate**
- **As such, the participation rate moved higher, while the part-time rate declined further. Outside of the labor force, those catalogued as 'available for work' increased by 305.4 thousand**
- **Seasonally adjusted, the unemployment rate was unchanged at 2.77%, still a historical low**
- **In the informal sector, 71.3 thousand jobs were added, with the formal sector contributing with 597.6 thousand. As such, the informality rate stood at 55.0% (previous: 55.5%)**
- **Average hourly wages moderated to $51.55 (previous: $52.18), which implies +10.6% y/y (previous: 8.1%). We still think this has been supported by the 'lighthouse effect' from the minimum wage increase**
- **The labor market remains strong and will likely keep consolidating in coming months. This is key for the dynamism observed in domestic demand. Nevertheless, some risks persist that may well have a greater impact towards the end of the year**

Job gains in March total 668.9 thousand, with an additional drop in the unemployment rate. With original figures, the unemployment rate stood at 2.39% (graph below, left), below consensus (2.68%) and our estimate (2.53%), marking a new historical low (since 2005). This is consistent with its typical seasonal pattern, recalling that the metric tends to adjust lower after a more adverse seasonality in the first months of the year. Seasonally adjusted, it was unchanged at 2.77%, also at a historical low. Back to original data, the labor force increased by 483.8 thousand, with 668.9 thousand more employees and -185.1 thousand unemployed. We note that job gains surpassed the long-term average for the period (around +280 thousand positions), so it is a quite positive result. The labor force tends to increase, albeit at a slower pace, explaining the usual declines outlined above. Hence, the participation rate improved to 60.5% (previous: 60.2%). Meanwhile, people outside of the labor force declined by 129.9 thousand, with the reduction driven by those catalogued as 'not available for work' (-435.4 thousand), with those 'available' up by 305.4 thousand. In our view, these figures reaffirm that the labor market not only maintains a solid position but keeps improving.

In this backdrop, total employees reached 59.0 million, a new high. As in previous reports, we added those 'available for work' not in the labor force both to the unemployed and the labor force to better reflect labor market conditions. With this, the 'expanded' unemployment rate stood at 10.5%, increasing by 6bps relative to February, showing more stability in the last few months.

Unemployment rate

%, nsa

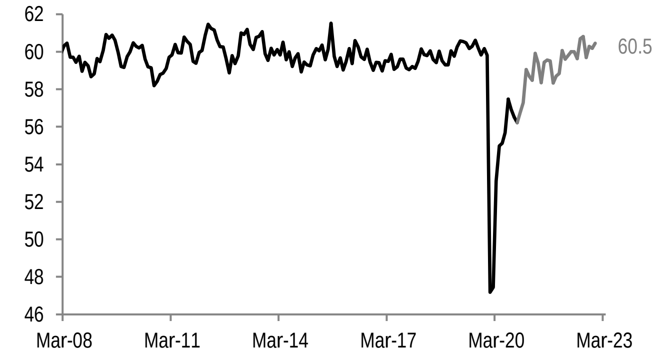


Note: Dotted lines correspond to data obtained through the phone-only survey. The grey line indicates the hybrid survey

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 drive jobs gains. The informal sector added just 71.3 thousand jobs, while the formal sector contributed with 597.6 thousand. The latter is better than IMSS data, which showed +135.8 thousand jobs (original figures). As a result, the informality rate declined to 55.0% (previous: 55.5%). By sectors, primary activities led gains (+251.1 thousand), with progress also in services (+229.7 thousand) and industry (+184.8 thousand). Performance within the second was mixed, positive in government (+177.1 thousand), but with declines in professional services (-162.9 thousand). In the latter, we highlight construction (+110.0 thousand) and manufacturing (+84.9 thousand). On the other hand, the part-time rate declined to 6.8%, lower than its long-term average. Finally, the average hourly wage was at $51.55, moderating by $0.63 vs. the previous month. However, in annual terms it accelerated to 10.6% y/y (previous: +8.1%), likely supported by the 'lighthouse effect' associated to the minimum wage increase and a tight labor market.

INEGI's employment report

Non-seasonally adjusted figures

%	Mar-23	Feb-23	Difference
Unemployment rate	2.39	2.72	-0.33
Participation rate	60.5	60.2	0.3
Part-time workers rate	6.8	7.4	-0.6
Formal employment	45.0	44.5	0.5
Informal employment[1]	55.0	55.5	-0.5
Working in the informal economy	28.2	29.0	-0.8
Working in the formal economy	26.8	26.5	0.3

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

Source: INEGI

[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

We expect labor market strength to continue in coming months, with higher risks towards the end of the year. We believe that the labor market is in a very favorable position, consistent with an environment of strong economic growth. For the time being, a sort of virtuous circle could be maintained, with such dynamism driving employment, which in turn contributes positively to consumption and, therefore, to activity. In this backdrop, we believe that the effects of this strength will extend into the coming months.

We expect the labor market to continue benefitting from: (1) Resilience of economic activity; (2) a further moderation in inflationary pressures; (3) the boost to certain infrastructure projects by the federal government; and (4) the favorable spillover from nearshoring. Nevertheless, caution is granted as some evidence suggests that the labor market may be increasingly 'overheated', which in turn may complicate the fight against inflation. According to the consulting firm *Rankmi*, talent retention is emerging as one of the main challenges for companies. This could be driven by more attractive options presented by other businesses as they try to fill key vacancies. This last point, together with the minimum wage increase –and the 'lighthouse effect' stemming from it– could imply higher salary revisions in the short-term. In addition, we remain alert to the possible reform around reducing the working week from 48 to 40 hours per week, possibly introducing distortions to the market.

Nonetheless, we believe risks are greater towards the end of the year. We highlight our view of a moderation in economic activity –mostly impacted by less dynamism in external demand. However, we believe its potential impact could be limited given a favorable outlook for 2024.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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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