February 29, 2024

Signs of labor market tightness remain high at the start of 2024

- **Unemployment rate (January; nsa): 2.85%; Banorte: 2.83%; consensus: 2.82% (range: 2.70% to 3.00%); previous: 2.61%**
- **Part-time workers: 7.1% (previous: 7.6%); participation rate: 59.8% (previous: 59.9%)**
- **In January, 234.6 thousand jobs were lost, consistent with seasonal patterns for the period. Meanwhile, the number of unemployed picked up by 142.7 thousand, while the labor force diminished by 91.9 thousand. This combination explains the increase in the unemployment rate**
- **With this, the participation rate fell and the part-time rate moderated again. Outside of the labor force, those catalogued as 'available for work' picked up by 193.8 thousand**
- **Nevertheless, with seasonally adjusted figures, the unemployment rate declined to 2.76% from 2.79%. This supports our view of a still tight labor market**
- **The formal sector shed 395.5 thousand jobs, with the informal sector adding 160.9 thousand positions. As such, the informality rate came in at 54.1% (previous: 53.6%)**
- **The average hourly wage came in at $58.98 (previous: $56.05), with the annual comparison at +11.9 y/y (previous: +12.4%). The result is not surprising considering the trend of large revisions and the coming into force of the 20% minimum wage hike**
- **Adjusting for an adverse seasonality, we believe job gains will continue in coming months, especially in 1H24. Despite a more challenging outlook for the second half, we think structural factors will help keep the unemployment rate low**

Seasonal uptick in the unemployment rate, with other indicators still suggesting labor market tightness. With original figures, the unemployment rate came in at 2.85% (graph below, left), slightly higher than consensus (2.82%) and our estimate (2.83%). The month suffers from an unfavorable seasonal skew, as a significant number of people start looking for a job after year-end holidays, among other factors. The labor force decreased by 91.9 thousand people, with +142.7 thousand unemployed and -234.6 thousand employed –mostly in line with the historical trend for the period. Despite of this, total employed people in the last twelve months increased by 552.5 thousand. In line with the latter, the participation rate decreased to 59.8% from 59.9%. On the other hand, people outside of the labor force rose by 97.6 thousand. Inside, those 'not available for work' fell by 96.2 thousand, with those 'available' adding 193.8 thousand. As in previous reports, we added those 'available for work' but 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 10.4%, above than December's mark (9.89%), albeit cautious in its interpretation due to its seasonality. Helping to correct for these distortions, the seasonally adjusted unemployment rate improved to 2.76% from 2.79%. In our view, this supports our evaluation that the labor market remains tight.


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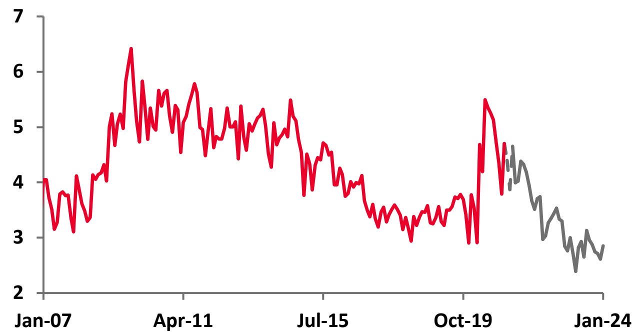
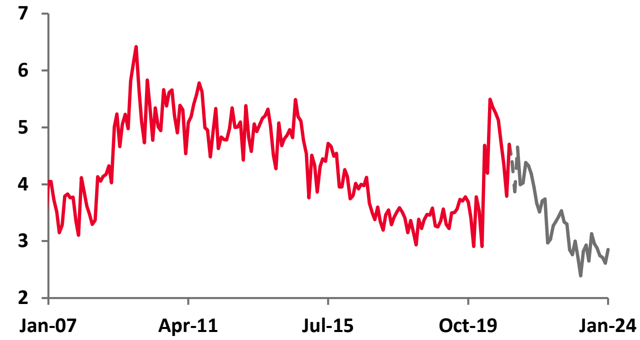
Unemployment rate
%, nsa



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 gains in the informal sector. In this sector 160.9 thousand positions were added –up for the first time in two months–, while the formal sector shed 395.5 thousand posts. Hence, the informality rate picked up to 54.1% (previous: 53.6%). By sectors, agriculture and services improved with 303.8 thousand and 289.6 thousand positions added. In the former, the seasonality pattern seems to have outweighed harsh droughts. On the latter, with highlight gains in 'diverse services' (+450.5 thousand) and 'restaurant and lodging' (+304.9 thousand), albeit with 'government and international organization' shedding 247.0 thousand. Finally, industry lost 789.3 thousand jobs. Manufacturing was the main headwind at -829.0 thousand –not ruling out an impact from maintenance plans in some auto sector plants. The part-time rate fell to 7.1%. Finally, average hourly wages came in at $58.98, up $2.93 vs. the previous month. However, the annual rate decelerated to 11.9% (previous: +12.4%). In our view, its upward 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, %

	Jan-24	Dec-23	Difference
Unemployment rate	2.85	2.61	-0.24
Participation rate	59.8	59.9	0.1
Part-time workers rate	7.1	7.6	0.5
Formal employment	45.9	46.4	0.5
Informal employment	54.1	53.6	-0.5
Working in the informal economy	27.6	27.9	0.3
Working in the formal economy	26.5	25.8	-0.7

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

Labor market tightness will likely continue in coming months, with several supportive factors. Starting from a very favorable backdrop in terms of overall employment conditions, we see relevant drivers –both circumstantial and structural– that will support a positive trend. As presented in detail in our last *View from the Top*, in 1H24 one of the most important factors will be economic strength, driving hiring in various sectors –mainly construction. Following this, nearshoring will remain as an engine for employment, especially in manufacturing and other areas that could experience a positive spillover. The latter will be very relevant to sustain the labor market in the second half, where we forecast sequential GDP contractions. Thus, we reiterate our expectation that the unemployment rate will close the year at 3.4%. Turning to wages, the lighthouse effect of the latest minimum wage revisions will likely permeate further along the salary curve. In this regard, average hourly wages could maintain double-digit growth in their annual comparison. However, IMSS's officials are more conservative. According to its Director of Incorporations and Collections, Norma Gabriela López, the average wage of workers affiliated to the institution is expected to increase around $40 per day, which would imply +7.4% vs. 2023.

[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, 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, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, 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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