

## Job losses continued in May, partly on an adverse seasonal trend

- Unemployment rate (May; nsa): 2.93%; Banorte: 2.88%; consensus: 2.80% (range: 2.70% to 2.90%); previous: 2.82%
- Part-time workers: 8.1% (previous: 8.4%); Participation rate: 60.0% (previous: 60.4%)
- In May, 648.3 thousand jobs were eliminated, surpassing losses for the same period in the previous two years and adding a second month lower
- The labor force declined by 600.3 thousand, with those unemployed up by 48.1 thousand. The combination of these factors explains the higher unemployment rate
- The participation rate fell significantly, while the part-time rate moderated once again. Outside of the labor force, those catalogued as 'available for work' increased by 212.9 thousand
- Seasonally adjusted, the unemployment rate rose by 9bps to 2.96%, standing below 3% for a seventh consecutive month
- In the informal sector, 81.2 thousand jobs were lost, with the formal sector shedding 567.1 thousand positions. As such, the informality rate climbed to 55.2% (previous: 54.7%)
- Average hourly wages came in at \$55.89 (previous: \$54.36), with the annual pace accelerating to +14.5% (previous: 8.8%). In our opinion these improvements are a result of several factors, including the increase in the minimum wage at the start of the year, previously built-up inflationary pressures, and a still tight labor market
- We expect the labor market to continue showing signs of resilience in the short-term. However, we remain on the look to the evolution of companies' labor costs as a potential headwind

**The unemployment rate ticks higher in May.** With original figures, the rate stood at 2.93% (graph below, left), higher than consensus (2.80%) but closer to our estimate (2.88%). There were relevant sways in the labor force that help explain the result. In seasonally adjusted terms, the rate climbed to 2.96% from 2.87%, remaining below 3% for a seventh consecutive month and with its best streak in history (2005). Back to original data, the labor force decreased by 600.3 thousand, with 648.3 thousand less employees and +48.1 thousand unemployed. Job losses were higher than in the same period of the previous two years (at around 360 thousand). However, it comes after sizeable gains recently, with the YTD creation at 307.8 thousand jobs and with +1.1 million positions in the last 12 months. As a result, the participation rate fell to 60.0% from 60.4%. Meanwhile, people outside of the labor force grew by 178.0 thousand, with a meaningful increase in those 'available to work' (+212.9 thousand) and those 'not available' down by 34.9 thousand.

June 30, 2023

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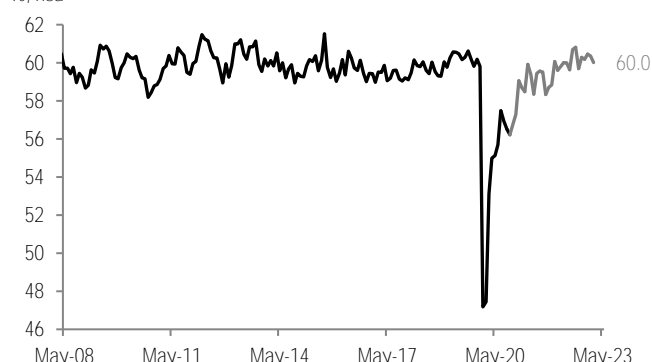
Although today's figures would be consistent with a slight cooldown of the labor market, we do not consider them as outright weak given previous signs of strength. In this backdrop, total employees reached 58.3 million. As in previous reports, we added those 'available for work' not in the labor force both to the unemployed and the labor force to better reflect labor market conditions. With this, the 'expanded' unemployment rate stood at 10.9%, up 46bps relative to April and in line with other figures in the report.

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 centered in the formal sector and primary activities.** The informal sector shed only 81.2 thousand jobs, while the formal sector eliminated 567.1 thousand positions. As a result, the informality rate increased to 55.2% (previous: 54.7%). By sectors, primary activities led the decline (-521.6 thousand), with also lower services (-329.5 thousand). Within the latter, losses centered in restaurants & lodging (-318.2 thousand) and government (-238.9 thousand), albeit with gains across other sectors. Meanwhile, industry added 90.6 thousand, with construction higher (+92.1 thousand) but manufacturing down (-34.0 thousand). On the other hand, the part-time rate moderated to 8.1%, below its long-term average. Finally, the average hourly wage came in at \$55.89, accelerating by \$1.52 vs. the previous month. In addition, the annual rate climbed to 14.5% (previous: +8.8%). The result is still influenced by the 'lighthouse effect' from the minimum wage, along previously accumulated inflationary pressures, driven further by a tight labor market.

#### INEGI's employment report

Non-seasonally adjusted figures

%	May-23	Apr-23	Difference
Unemployment rate	2.93	2.82	0.11
Participation rate	60.0	60.4	-0.3
Part-time workers rate	8.1	8.4	-0.3
Formal employment	44.8	45.3	-0.5
Informal employment <sup>1</sup>	55.2	54.7	0.5
Working in the informal economy	28.2	27.5	0.7
Working in the formal economy	26.9	27.2	-0.2

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

<sup>1</sup> 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

**The labor market remains resilient, expecting recent sluggishness to correct in the short-term.** We believe the economic backdrop remains favorable, with [recent surprises in terms of the pace of growth](#) and signs that dynamism could extend. As such, we stay optimistic that these results are more consistent with a pause within a period of strength, needing more evidence to begin cataloguing this as a downturn. This is especially relevant considering the current level of the traditional unemployment rate –at 2.9%– and the expanded one –at 10.9%–, both notably below their long-term averages.

One point of attention is regarding wages, not on the consumption side –being a key driver for performance in the year–, but more so on businesses’ costs. While some companies have already started to pass-through this to final prices –mainly in ‘dining away from home categories’–, we remain on the look if this phenomenon exacerbates or if these can be offset by improvements in raw materials and other inputs.

Going forward, we keep expecting a slight increase in the unemployment rate, consistent with our call of a growth moderation in 4Q23. However, the adjustment would remain quite mild, with domestic demand resilience –particularly services– offsetting possible losses in externally-related sectors due to additional uncertainty in the latter front.

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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 Thalia 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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