Employment gains continued in July, with tightness prevailing in the labor market

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- **Unemployment rate (July; nsa): 3.13%; Banorte: 2.93%; consensus: 2.90% (range: 2.71% to 3.10%); previous: 2.65%**
- **Part-time workers: 8.1% (previous: 7.9%); Participation rate: 60.9% (previous: 60.1%)**
- **In July, 774.2 thousand jobs were created, better than the typical seasonal pattern and adding two months of improvements**
- **The labor force increased by 1.1 million, with those unemployed up by 322.4 thousand. The combination of these factors explains the uptick in the unemployment rate**
- **With this, the participation rate came in considerably higher, while the part-time rate increased at the margin. Outside of the labor force, those catalogued as 'available for work' rose by 52.0 thousand**
- **With seasonally adjusted figures, the unemployment rate also increased, standing at 2.88% from 2.67%**
- **In the informal sector, 564.4 thousand jobs were created, while 209.7 thousand positions were added in the formal sector. As such, the informality rate came in at 55.7% (previous: 55.5%)**
- **Average hourly wages came in at $54.20 (previous: $53.39), with the annual comparison at +11.6% (previous: 9.6%), remaining as a key support for private consumption**
- **We believe labor market strength will prevail in 3Q23, with a relevant support from services and some resilience in industry**

The unemployment rate increased in July, albeit with job creation continuing. With original figures, the rate stood at 3.13% (graph below, left), above consensus (2.90%) and our estimate (2.93%). Favorable signs for domestic demand extended throughout the period –with household consumption rising and inflationary pressures abating–, helping job demand. In addition, the holiday period skewed the composition of the labor force, with more people available for work. With seasonally adjusted figures, the rate increased to 2.88% from 2.67%, although noting that it adds nine months below the 3% level. Back to original figures, the labor force increased by 1.1 million, with +774.2 thousand employed persons and +322.4 thousand unemployed. The creation was strong relative to the usual seasonal pattern. With this result 1.5 million positions have been created so far in the year, with a gain of 2.0 million jobs in the last 12 months. In this context, the participation rate increased to 60.9% from 60.1%. Meanwhile, people outside of the labor force declined by 542.7 thousand, with those 'available for work' climbing by 52.0 thousand. Completing the group, 'non-available' persons decreased by 594.7 thousand. The result is consistent with seasonal trends and reiterates the strength of the labor market after the post-pandemic recovery stage. In this sense, total employees reached 59.5 million.

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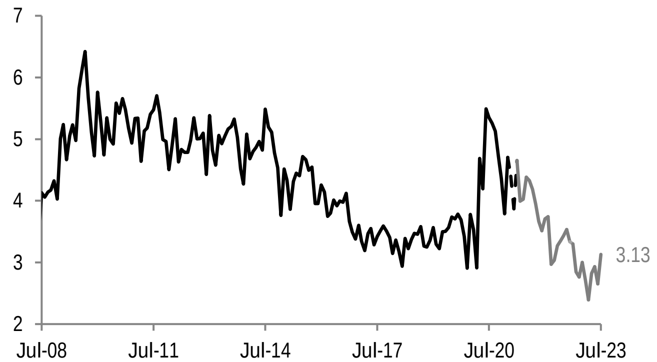
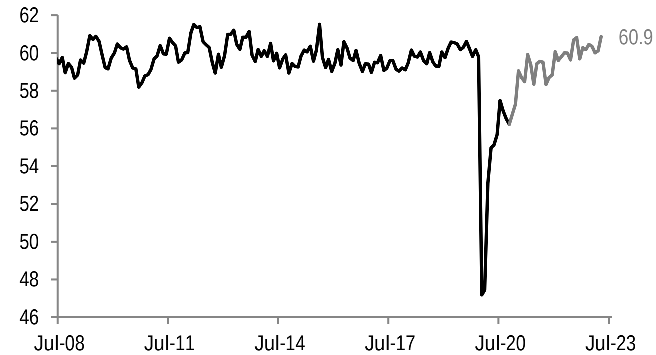
As in previous reports, we added those 'available for work' not in the labor force both to the unemployed and the labor force to better reflect labor market conditions. With this, the 'expanded' unemployment rate stood at 10.50%, up 39bps relative to June and in line with other figures in the report.

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

Second straight month of job gains centered in the informal sector. This category added 564.4 thousand new positions, with the formal branch providing 209.7 thousand. As a result, the informality rate increased to 55.7% (previous: 55.5%). By sectors, employment in services rose by 756.4 thousand positions, followed by primary activities at 499.0 thousand. In the former, 'diverse services' led (615.4 thousand), albeit with losses in restaurants and lodging (-207.7 thousand). However, industry was weaker (-452.2 thousand), noting a challenging base. Inside all categories were lower, with manufacturing shedding 417.0 thousand positions, while construction was more modest at -14.9 thousand. The part-time rate rebounded at the margin to 8.1%, although still below its long-term average. Finally, the average hourly wage came in at $54.20, higher by $0.81 vs. the previous month. In addition, the annual rate accelerated to 11.6% (previous: +9.6%). In our view, the increase is still justified by the lighthouse effect from the minimum wage adjustment, the impact form previously built-up inflationary pressures, and labor market tightness.

INEGI's employment report
Non-seasonally adjusted figures

%	Jul-23	Jun-23	Difference
Unemployment rate	3.13	2.65	0.48
Participation rate	60.9	60.1	0.8
Part-time workers rate	8.1	7.9	0.2
Formal employment	44.3	44.2	-0.2
Informal employment[1]	55.7	55.5	0.2
Working in the informal economy	28.2	28.9	-0.6
Working in the formal economy	27.5	26.6	0.9

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

The unemployment rate could remain close to 3% in coming months. We believe the labor market will remain strong in the second half of the year, in line with our GDP growth estimate. Following the same narrative, we consider that the main driver will be services, with industry more subdued –with construction positive, but with headwinds on manufacturing.

Thus, the market will stay tight. In addition, the current situation of the sector could be influenced by some idiosyncratic elements. In this regard, several factors have changed the labor market in recent years, including: (1) Reforms to the Federal Labor Law; (2) commitments related to the signature of USMCA; (3) minimum wage increases; and (4) the way in which positions are demanded and offered. Regarding the latter, market experts point out that specialized platforms and social networks (with a greater amount of information from both the supply and demand sides) have become more relevant –in a post-pandemic environment– in at least two ways. The first is by facilitating the process of filling vacancies –especially by MSMEs–, with lower costs, lags, and frictions. The second refers to job opportunities where the employment relationship is looser, and where, according to the International Labor Organization, the difference that used to exist between salaried and self-employed workers is blurring. These transformations have direct effects on the composition of the labor force, underemployment, and informality rates, as well as on the rhythm/speed at which people change from one group to another.

Regarding the evolution of wages, our expectation is that they will continue their upward trend for the remainder of 2023. Thus, we remain attentive to the final implications for real wages and how this translates into negotiations towards 2024. Considering all the above, we believe the labor market will keep expanding, although we do not rule out a slower pace and some volatility within the labor force.

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