

## Despite some setbacks, the labor market remained strong in August

- Unemployment rate (August; nsa): 2.96%; Banorte: 3.17%; consensus: 3.15% (range: 2.74% to 3.43%); previous: 3.13%
- Part-time workers: 7.9% (previous: 8.1%); participation rate: 60.5% (previous: 60.9%)
- In August, 269.6 thousand jobs were lost, contrasting with usual gains in the period, although following a sizeable increase in July. Therefore, so far this year, 1.6 million positions have been created
- The labor force contracted by 388.2 thousand, with those unemployed down by 118.6 thousand. The combination of these factors explains the reduction in the unemployment rate
- With this, the participation rate fell, with the part-time rate also lower at the margin. Outside of the labor force, those catalogued as 'available for work' rose by 236.9 thousand
- With seasonally adjusted figures, the unemployment rate also declined, standing at 2.72% from 2.87%, adding 10 months below the 3% threshold
- In the informal sector, 425.1 thousand jobs were eliminated, while 155.4 thousand positions were added in the formal sector. As such, the informality rate came in at 55.2% (previous: 55.7%)
- Average hourly wages came in at \$54.29 (previous: \$54.20), with the annual comparison at +11.9% (previous: 11.6%). We believe wage gains will extend through the remainder of the year and into 2024
- Going forward, a favorable performance in services –with strong domestic demand– will continue to drive the expansion of labor market, albeit with some concerns over industry as the outlook seems more challenging

**Decline in the unemployment rate despite a negative seasonal skew at the margin.** With original figures, the rate came in at 2.96 % (chart below, left), below consensus (3.15%) and our estimate (3.17%). This result happens in a context of optimism for activity, with household consumption in clear expansion and despite some increasing concerns on [inflation dynamics](#), especially in the non-core. We must emphasize that the seasonal effect due to the end of summer usually distorts the unemployment rate to the upside as the labor force adjusts. As such, in our view, the decline corroborates signs of strength in the labor market. In this sense, with seasonally adjusted figures, the rate declined to 2.72% from 2.87%, adding 10 months below the 3% print. Back to original figures, the labor force declined by 388.2 thousand, with -269.6 thousand employed people and -118.6 thousand unemployed. With this result, 1.6 million positions have been created throughout the year. In this sense, total employees reached 59.2 million. In this context, the participation rate declined to 60.5% from 60.9%. Meanwhile, people outside of the labor force increased by 311.6 thousand, with an expansion in those 'available for work' (+236.9 thousand), while those 'non-available' rose by 74.6 thousand. As in previous reports, we added 'available for 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 10.70%, increasing by 20pb relative to July and contrasting with other figures in the report.



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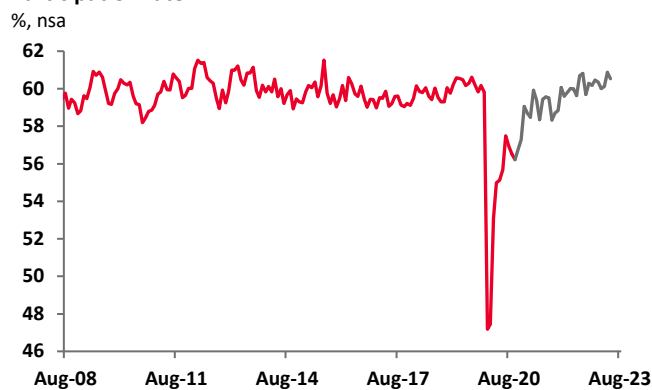
## Unemployment rate



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



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 informal sector.** This category shed 425.1 thousand positions, with the formal branch adding 155.4 thousand. As a result, the informality rate decreased to 55.2% (previous: 55.7%). By sectors, employment in services contracted by 552.3 thousand positions, followed by primary activities at -332.0 thousand. In the former, 'diverse services' led (-432.0 thousand), followed by 'social' (-371.3 thousand). However, industry was stronger (638.3 thousand), noting a more favorable base. Inside all categories were higher, with manufacturing adding 360.5 thousand positions, while construction was more modest at +156.2 thousand. The part-time rate declined at the margin to 7.9%, below its long-term average. Finally, the average hourly wage came in at \$54.29, higher by \$0.09 vs. the previous month. In addition, the annual rate accelerated to 11.9% (previous: +11.6%). In our view, the increase is still justified by the lighthouse effect from the minimum wage adjustment, the impact from previously built-up inflationary pressures, and labor market tightness.

## INEGI's employment report


Non-seasonally adjusted figures, %

	Aug-23	Jul-23	Difference
Unemployment rate	2.96	3.13	-0.17
Participation rate	60.5	60.9	-0.3
Part-time workers rate	7.9	8.1	-0.2
Formal employment	44.8	44.3	0.5
Informal employment	55.2	55.7	-0.5
Working in the informal economy	28.2	28.2	0.0
Working in the formal economy	27.1	27.5	-0.4

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

**We expect services to remain as the main driver of the labor market in the remainder of the year.** The current economic situation, and our expectations going forward, suggest that the labor market will continue to strengthen. As a result, we believe job growth will extend, with the unemployment rate close to 3% in the short-term, on top of being accompanied by wage gains. Nevertheless, some divergence across sectors is due, with industry probably impacted by global demand weakness and other relevant shocks (e.g. higher energy prices and the auto strike in the US); but with the services maintaining their dynamism. Regarding the latter, job creation would be reinforced in coming months, with different events triggering an increase in labor demand such as discount campaigns, holidays and recreational, sports and cultural activities. In this context, *Walmart de México* carried out a massive recruitment this month, looking to fill 6,000 positions throughout the country, likely aimed to covering vacancies ahead of the November sales period.

<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.



Industry could see gains later, once investments related to nearshoring start to mature and demand for manufacturing positions climbs. As such, states in the northern border are poised to experience more gains. According to the *Índice de Calidad y Competencia de Ocupación Estatal* estimated by *El Economista* newspaper, which uses INEGI's data, the border states of Baja California and Chihuahua are already reflecting improvements due to the arrival of nearshoring investments, being the best ranked in 2Q23 and reporting progress in their level of occupancy quality. Nevertheless, short-term concerns remain, with the negative spillover from the auto sector strike in the US as one of the main risks. Although we do not expect this to translate into job losses, furloughs or other type of measures may be implemented as supply lines are impacted.

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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, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora 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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