October 26, 2023

Modest job losses in September, but with improvements in other labor conditions

- **Unemployment rate (September; nsa): 2.88%; Banorte: 2.93%; consensus: 2.93% (range: 2.79% to 3.05%); previous: 2.96%**
- **Part-time workers: 8.2% (previous: 7.9%); participation rate: 60.4% (previous: 60.5%)**
- **In September, 92.4 thousand jobs were lost, adding a second month of declines. Despite this, 1.1 million positions have been created so far this year**
- **The labor force declined by 144.0 thousand, with those unemployed down by 51.7 thousand. The latter explains the reduction in the unemployment rate**
- **With this, the participation rate fell at the margin, with the part-time rate increasing, albeit modestly. Outside of the labor force, those catalogued as 'available for work' rose by 39.8 thousand**
- **With seasonally adjusted figures, the unemployment rate fell slightly, down to 2.70% from 2.72%**
- **In the formal sector, 517.5 thousand jobs were created, while 609.8 thousand positions were shed in the informal sector. As such, the informality rate came in at 54.3% (previous: 55.2%)**
- **Average hourly wages came in at $55.43 (previous: $54.29), with the annual comparison at +13.0% (previous: +11.9%). We believe pressures will continue through the remainder of 2023 and into 2024, with a relevant influence from the 'lighthouse effect' of the minimum wage**
- **We believe the labor market will remain with a high degree of tightness. Nevertheless, considering our forecast of a slight moderation in the pace of economic growth, the unemployment rate could climb at the margin. Overall, we believe the outlook for consumption remains favorable**

The unemployment rate declines despite some job losses. With original figures, the unemployment rate came in at 2.88% (chart below, left), below both consensus and our estimate (2.93%). This happens in a context in which the economy kept growing, albeit with higher uncertainty in sectors such as manufacturing and some branches within services. Meanwhile, the decline in the labor force was in line with the period's seasonality in the last couple of years, influenced by the 'back-to-school' effect in elementary and middle education. Considering this, we believe the labor market is still strong. With seasonally adjusted figures, the rate declined to 2.70% from 2.72%, adding 11 months below the 3% threshold. Back to original figures, the labor force dropped by 144.0 thousand, with -92.4 thousand employed people and -51.7 thousand unemployed. Despite of this, 1.1 million jobs have been created throughout the year, driving total employees to 59.1 million. In this backdrop, the participation rate declined to 60.4% from 60.5%. Meanwhile, people outside of the labor force increased by 198.8 thousand, with a relevant expansion in those 'not available for work' (+159.0 thousand) because of the abovementioned seasonality. Those 'available for work' rose by 39.8 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 10.7%, unchanged relative to August, supporting the assessment about the overall strength within this report.

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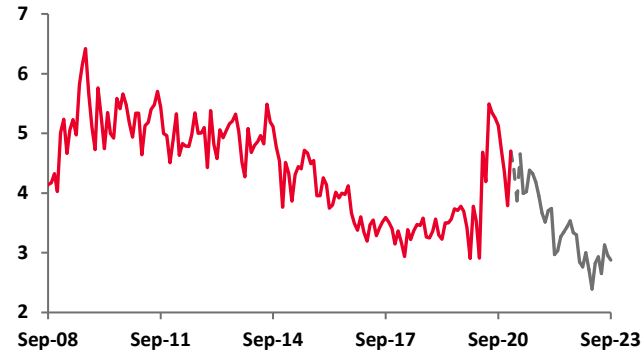
BANORTE

Unemployment rate

%, nsa

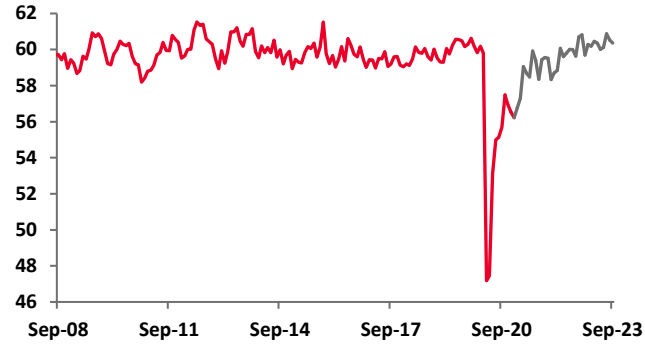


Note: Dotted lines correspond to data obtained through the phone-only survey. The grey line indicates the hybrid survey

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

Further job losses in the informal sector. This category shed 609.8 thousand positions –adding a second month lower–, while the formal branch added 517.5 thousand. As a result, the informality rate decreased to 54.3% (previous: 55.2%). By sectors, employment in industry contracted by 236.4 thousand, followed by primary activities at -202.8 thousand. In the former, 'construction' explained the drop (-252.6 thousand), with 'manufacturing' higher (+39.7 thousand). However, services were stronger (+373.4 thousand), noting a more favorable base effect. Inside we highlight gains in 'social' (+281.4 thousand) and 'transportation' (+98.0 thousand). The part-time rate rose at the margin to 8.2%, still below its long-term average. Finally, average hourly wages came in at $55.43, higher by $1.14 vs. the previous month. In addition, the annual rate accelerated to 13.0% (previous: +11.9%). In our view, the latter 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, %

	Sep-23	Aug-23	Difference
Unemployment rate	2.88	2.96	-0.08
Participation rate	60.4	60.5	-0.2
Part-time workers rate	8.2	7.9	0.3
Formal employment	45.7	44.8	0.9
Informal employment	54.3	55.2	-0.9
Working in the informal economy	28.0	28.2	-0.2
Working in the formal economy	26.3	27.1	-0.8

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

We anticipate a slightly higher unemployment rate in coming months, but labor market strength will continue supporting private consumption. Our estimates for economic activity contemplate a moderation in the pace of growth in 4Q23, recognizing a complex base effect, as well as some challenges on the global and local fronts. Among the latter, some of the most relevant include: (1) Shocks to auto production given the UAW strike in the US; and (2) renewed inflationary pressures that could impact some production and consumption decisions. Given this, we believe the unemployment rate could increase at the margin, rising slightly above 3% by the end of the year. However, tight conditions will prevail, considering that labor demand in construction is likely to remain elevated –as dynamism in the sector extends–, in addition to some seasonal patterns that should boost jobs in service sectors such as 'commerce' and 'entertainment'. On wages, news on next year's minimum wage adjustment have started to gain traction, with recent comments from Deputy Governor Jonathan Heath about his expectation of a hike between 20% and 25%, consistent with our estimates that it could be between 15% and 25%.

[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, 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, Juan Carlos Mercado Garduño, Paula Lozoya Valadez, 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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