November 24, 2023

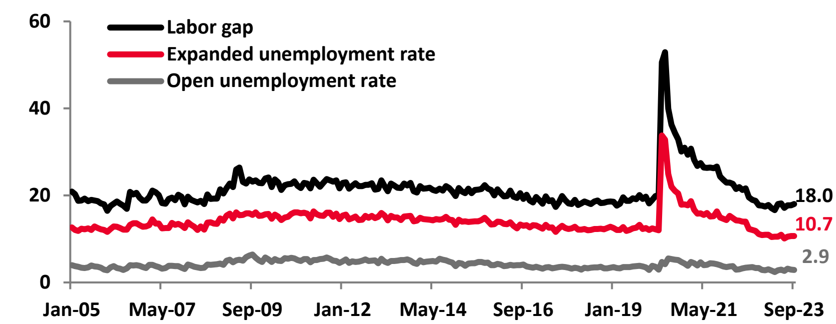
Mexico Economics – View from the Top

- **The labor market is still showing signs of modest slack. This is related to circumstantial and structural factors, with wages helped by this**
- **In the coming week, we highlight the release of October's employment figures, remittances, and trade balance, along with Banxico's 3Q23 *Quarterly Report***

Labor market indicators to remain strong in October. We expect a marginal improvement in the unemployment rate to 2.86% (2.73% with sa figures). In turn, we see a resumption of job gains, with more dynamism as distortions from the summer holiday and the return to classes ended, along with a more favorable base effect. We also expect some adjustments in the labor force and the part-time rate, while wages will likely keep growing strongly.

Market dynamics continue to show modest slack, both regarding total jobs… The expansion in economic activity in the last quarters has happened in tandem with a tightening in labor market conditions. As a result, different indicators are showing strength. According to INEGI, job gains have accumulated a total of 1.1 million positions relative to year-end 2022, with manufacturing (220.6 thousand) and commerce (590.5 thousand) as the main beneficiaries. The unemployment rate has been 11 months below the 3.0% mark, and a little over two years under its long-term average of 4.13% (using sa figures). Similarly, and as seen in the chart below, the expanded unemployment rate[1] has maintained a downward skew, albeit more modestly (September: 10.7%; average: 14.1%). This has also happened in the labor gap[2] (September: 18.0%; average: 21.4%). In our view, this trend can be extended at least until 1H24.

Unemployment indicators
%, nsa



Source: Banorte with data from INEGI

…and wages. As a result of higher labor demand, wages have also adjusted to the upside. However, there are other exogenous factors that have impacted incomes, including: (1) Increases to the minimum wage and the associated 'lighthouse effect' –which is the indirect impact on the income of workers earning more than the minimum; and (2) high inflation in the last three years, which has also affected wage revisions. In the short-term, we expect the upward trend to continue, considering that the announcement of the minimum wage hike for 2024 is expected in a range between 12.8% and 25.0%. The first number corresponds to the proposal by business representatives, while the second one is from workers. The annual discussion by the *National Minimum Wage Commission* (CONASAMI in Spanish) is slated to being on November 30th.

[1] Sum of unemployed in the labor force plus those available outside of the labor force divided by the total labor force and those available outside of the labor force.

[2] Defined as the sum of unemployed, available and part-time workers, divided by the labor force and those available outside of the labor force.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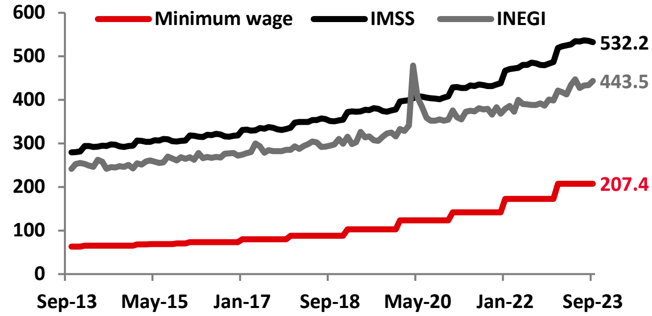
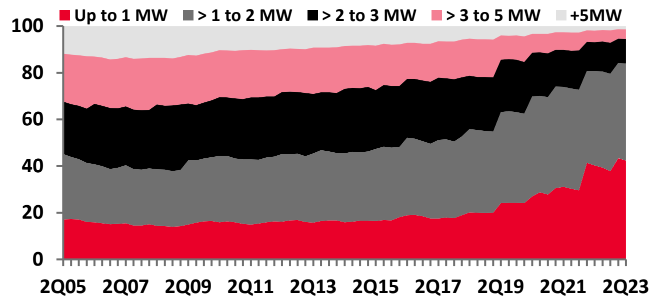
Daily wages*
MXN per day, nominal values



*The daily wage from INEGI is gotten by multiplying the hourly wage times eight.
Source: INEGI, IMSS, CONASAMI

Employed persons by income level
% of the population that receives a payment for their work



Source: Banorte with figures from INEGI

The positive trend in the labor market is partly justified by activity… Strength in industry and services so far in the year has had a positive impact on job creation, with companies demanding additional labor. Consistent with this, employers recognize conditions that are characteristic of a tight labor market in Mexico's manufacturing PMI reports from *S&P Global* during the last couple of months, including: (1) An increase in voluntary layoffs; (2) difficulty to find qualified workers; and (3) high turnover rates.

…but we also identify relevant non-cyclical factors. Among them, we highlight: (1) The change in households' consumption patterns after the pandemic, skewed towards services –with categories such as commerce and entertainment among the most flexible to fill vacancies; (2) smaller information gaps in the labor market –with hiring processes supported by online services; (3) the effects from nearshoring; and (4) higher dynamism in digital commerce, triggering more demand in transportation and logistics. In some sectors, this tightening is even more evident. According to the *Mexican Association of Private Freight Transportation*, the deficit of drivers towards the end of 2023 could get worse relative to the previous year, estimated at around 54 thousand additional workers needed since 2022. The closeness between Mexico and the US would motivate drivers to get employed in said country given more competitive wages –which can be up to five times higher. In this sense, it is relevant to mention that work programs that allow for this type of mobility are currently available. In the case of the auto sector, the arrival of new investments will represent a push for specialized workers, likely also helping current demand levels.

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 27-Nov	10:00am	Trade balance	October	US$ mn	-1,699.3	1,457.0	1,481.4
		Exports		% y/y	1.0	--	5.1
		Imports		% y/y	0.2	--	-3.9
Tue 28-Nov	11:00am	International reserves	Nov-24	US$ bn	--	--	205.6
	11:00am	Government weekly auction: 1-, 3-, 6-, & 12-month Cetes, 30-year Mbono (Jul'53), 3-year Udibono (Dec'26), & 2-, 5-, & 10-year Bondes F					
Wed 29-Nov	2:30pm	Banxico's Quarterly Report	3Q23				
Thu 30-Nov		Budget balance (measured with PSBR)	October	MX$ bn	--	--	-813.6
Thu 28-Sep	8:00am	Unemployment rate	October	%	2.86	2.86	2.88
		sa		%	2.73	--	2.70
Thu 30-Nov	11:00am	Commercial banking credit	October	% y/y in real terms	6.0	--	5.8
		Consumption		% y/y in real terms	13.6	--	13.50
		Mortgages		% y/y in real terms	5.3	--	5.2
		Corporates		% y/y in real terms	2.5	--	2.30
Fri 1-Dec	11:00am	Family remittances	October	US$ mn	5,781.2	5,746.0	5,612.6
Fri 1-Dec	11:00am	Banxico's survey of economic expectations	November				
Fri 1-Dec	2:00pm	IMEF's PMI survey	November				
		Manufacturing		index	50.9	--	50.5
		Non-manufacturing		index	52.6	--	52.2

*Seasonally adjusted figures. Source: Banorte with figures from INEGI, Banxico, and Bloomberg

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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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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