Mixed results for the labor market in December

January 20, 2022

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

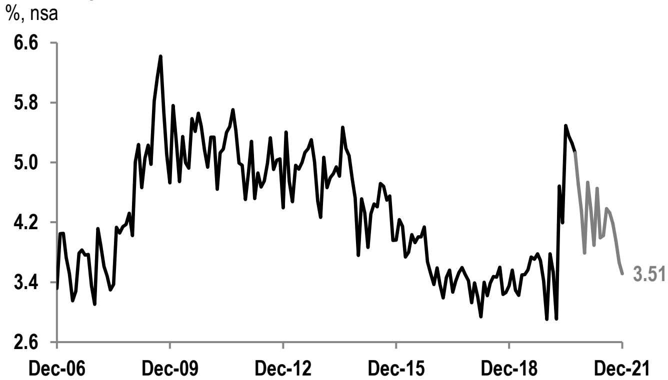
Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

- **Unemployment rate (December; nsa): 3.51%; Banorte: 3.25%; consensus: 3.35% (range: 3.20% to 3.80%); previous: 3.66%**
- **Part-time workers: 10.0% (previous: 10.5%); Participation rate: 59.5% (previous: 59.6%)**
- **Jobs created totaled 455.5 thousand, adding three months to the upside. With this, 4.3 million jobs were added in the year. Therefore, total employed people stood 1.2 million above those in February 2020, used as benchmark to pre-pandemic conditions**
- **The labor force also increased (+380.7 thousand), with unemployed people declining by 74.8 thousand. This explains the reduction in the unemployment rate, albeit recalling that this responds to a significant seasonal pattern**
- **Despite of the latter, the participation rate fell, while the part-time rate extended its downward trend. Outside of the labor force, those catalogued as 'available for work' declined, which is also positive**
- **However, seasonally adjusted figures showed a relevant setback, with the unemployment rate at 3.96% from 3.86% in the previous month**
- **Job gains in the informal sector stood at 737.1 thousand, while the formal sector lost 281.5 thousand positions. Therefore, the informality rate rose to 56.5% (previous: 55.6%)**
- **Average hourly wages reached $46.06 (previous: $47.91). This represents +3.9% y/y, partly reflecting wage pressures, albeit modest considering some remaining slack in the market**
- **We believe the recovery of the labor market will continue in coming months, aided by an economic improvement. Nevertheless, risks have been rising, with the most important being the latest wave of contagions**

Mixed performance of the labor market in December. Using original figures, the unemployment rate stood at 3.51% (chart below, left), above consensus (3.35%) and our 3.25%. This represents a 15bps decline relative to November, aided by a positive seasonal effect. With seasonally adjusted data, the rate came in at 3.96%, higher than the 3.86% of the previous month and suggesting a deterioration at the margin. Back to original figures, the labor force increased by 380.7 thousand, with 455.5 thousand more employed and 74.8 thousand less unemployed. We believe this is mainly explained by seasonal patterns likely related to the holiday season at the end of the year, instead of an improvement in epidemiological conditions during the month. Hence, we believe limits for additional dynamism persist, with the pandemic still a major hurdle to achieve a better performance in some sectors of the economy. In this sense, industry remains limited by shocks to supply chains, while traffic for some services remains low. This is especially important going forward considering the global uptick in cases.

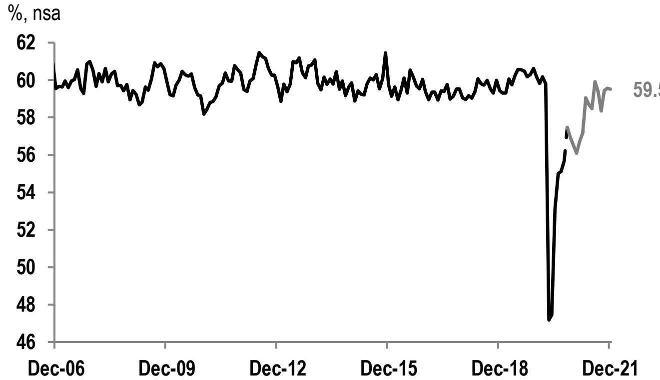
In this context, the participation rate fell at the margin, standing at 59.5% (previous: 59.6%). This was driven by the fact that people outside of the labor force increased by a similar proportion, adding 334.0 thousand. From these, those classified as 'available' declined by 70.7 thousand, while those 'not available' increased by 404.8 thousand. Among the former, we see as positive that the largest decrease was in those that 'are not looking for a job because they do not see chances of finding one', which reflects a more favorable backdrop at the margin. In this sense, total employees reached 56.9 million, which is 1.2 million higher than in February 2020, before the virus and a new historical high. As in previous releases, to reflect labor market conditions more accurately, we sum those 'available for work' not in the labor force both to the unemployed and the labor force. With this, the 'expanded' unemployment rate stood at 14.4%, below the 14.6% of the previous month and lowest since the start of the pandemic. In February 2020 it reached 12.2%, pointing to room still left for gains, albeit closing the gap in a relevant manner.

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

Gains centered in the informal sector. Despite the creation of 455.5 thousand positions, the informal sector added 737.1 thousand, with the formal economy losing 312.9 thousand positions affiliated to IMSS. As a result, the informality rate picked up to 56.5% (previous: 55.6%). By sectors, industry led gains, up by 269.2 thousand jobs. Practically all of these were in construction (+268.1 thousand), with modest losses in manufacturing (-22.2 thousand). Services added only 89.6 thousand. Transportation was positive (+250.2 thousand), but commerce (-177.9 thousand) and restaurants and lodging (-52.1 thousand) lost positions, not ruling out a seasonal effect in them. Lastly, the primary sector added 116.1 thousand. On the other hand, the part-time rate fell to 10.0% from 10.5%, which is favorable and could be reflecting some progress in the pandemic front. The average hourly wage stood at $46.06, lower by $1.86 sequentially and decelerating to +3.9% y/y. We believe this figure is still showing some wage pressures, albeit with a moderation that could be explained by: (1) The fact that most new jobs were in the informal sector; and (2) that there is still some slack in the labor market, lessening some of their impact.

INEGI's employment report
Non-seasonally adjusted figures

%	Dec-21	Nov-21	Difference
Unemployment rate	3.51	3.66	-0.15
Participation rate	59.5	59.6	0.0
Part-time workers rate	10.0	10.5	-0.5
Formal employment	43.5	44.4	-0.8
Informal employment[1]	56.5	55.6	0.8
Working in the informal economy	29.7	28.7	1.0
Working in the formal economy	26.8	27.0	-0.2

Source: INEGI

Important short-term risks for the labor market. We believe the trend in the labor market was mostly positive during 4Q21, even with signals of weakness in economic activity. In this respect, the relative resilience of employment conditions in this backdrop is favorable, suggesting that it may have already adapted fully to the pandemic. Nevertheless, we believe additional information is needed to have enough confidence in this statement.

Specifically, we believe short-term risks are on the rise, mainly because of the strong rebound in COVID-19 cases due to the spread of Omicron. Eleven days with daily cases above 20 thousand have been reported so far in January, while new records have been established 7 times. Although distancing measures have been broadly unchanged, some places (such as museums in Mexico City) have closed again. Moreover, given the need of some persons to remain isolated (despite showing milder symptoms), we do not rule out productivity –and even job– losses. Therefore, we will watch closely incoming reports to gauge the impact of the fourth wave. We will also analyze the impact to salaries after the 22% rise in the minimum wage, possibly affecting them to the upside during the rest of the year. We will look especially to the 'lighthouse effect', remembering that not all revisions are made in January.

All in all, there are still areas of opportunity despite the recovery already seen in the labor market since the pandemic shock. We believe these conditions will improve throughout 2022. Nevertheless, the pandemic –and its aftermath– will likely keep affecting labor market dynamics. Considering this, we estimate the unemployment rate could fall close to 3.7% (sa) by the end of this year.

[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

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

BANORTE

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899