Labor market continues to show signs of improvement despite some job losses

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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

Yazmín Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Nava
Senior Economist, Mexico
cintia.nava.roa@banorte.com

- **Unemployment rate (September; nsa): 3.34%; Banorte: 3.42%; consensus: 3.50% (range: 3.42% to 3.60%); previous: 3.53%**
- **Part-time workers: 7.9% (previous: 7.9%); Participation rate: 59.6% (previous: 60.0%)**
- **In September, 120.2 thousand jobs were lost, erasing some of the gains of the previous month. Hence, so far this year, 549.3 thousand positions have been created**
- **The labor force decreased by 246.2 thousand, with those unemployed lower by 126.0 thousand, explaining the adjustment in the unemployment rate, consistent with what was seen in previous years**
- **As a result, the participation rate decline, while the part-time rate was stable. Outside of the labor force, those catalogued as 'available for work' decreased by 60.2 thousand, with those 'not available' up by 499.6 thousand**
- **Seasonally adjusted, the unemployment rate fell to 3.14% from 3.26%, supporting signs of an improvement in the labor market**
- **In the formal sector 124.8 thousand jobs were lost. Meanwhile, 4.7 thousand new jobs were added in the informal sector. As a result, the informality rate increased to 55.6% (previous: 55.5%)**
- **Average hourly wages rose to $49.05 (previous: $48.52), which translates into a 3.4% y/y advance, accelerating slightly**
- **Towards 4Q22, we expect job creation to continue, although we cannot rule out a slowdown due to greater risks for economic activity. In addition, we will continue to monitor the wage dynamics considering the upcoming announcement of the minimum wage in 2023**

Favorable seasonality for the labor market in September. With original figures, the unemployment rate stood at 3.34% (graph below, left), lower than the consensus (3.50%), but closer to our estimate (3.42%). It should be noted that, as has been seen in other years, the beginning of the school year results in a decline in the labor force, in our view, driven by students that return to classes after the holiday period. Using seasonally adjusted figures, the unemployment rate was 3.14%, lower than the 3.26% of the previous month. Back to the original data, and consistent with the biases already mentioned, the labor force decreased by 246.2 thousand, with -120.2 thousand employed and -126.0 thousand unemployed. In this sense, the participation rate fell to 59.6%. Meanwhile, people outside of the labor force increased by 439.4 thousand, with a decline in those catalogued as 'available' (-60.2 thousand), while those 'not available' rose by 499.6 thousand. In our opinion, moves in the labor market are consistent with the seasonality at the end of 3Q22, leaving behind some of the adjustments from the summer holiday and probably having an extra boost due to the 100% in-person classes modality in the schools, while COVID-19 contagions remained low.

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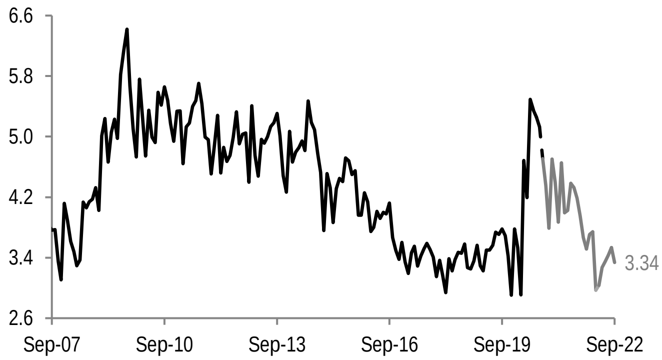
In this context, the total number of employees was 57.5 million, implying +549.3 thousand jobs so far this year. Nevertheless, they remain 171.5 thousand positions short of the historical high seen back in April 2022. As on previous reports, to better reflect labor market conditions, we added those 'available for work' not in the labor force both to the unemployed and the labor force. With this, the 'expanded' unemployment rate stood at 11.8%, 23bps lower than in the previous month. As a reference, in February 2020 –before the impact of the pandemic– it reached 12.2%, indicating that the recovery has advanced meaningfully.

Unemployment rate

%, nsa

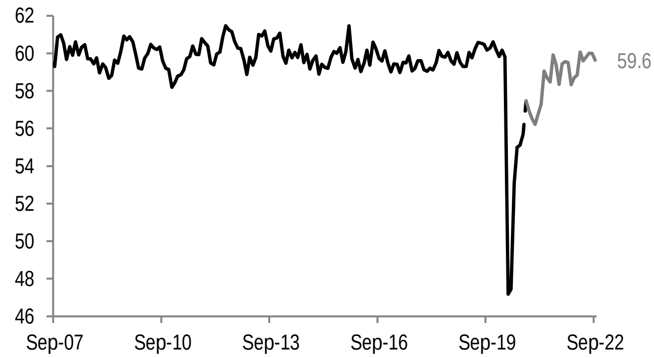


Note: Dotted lines correspond to data obtained through the phone-only survey. The grey line indicates the hybrid survey

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

Job losses centered in industry and services. Of the 120.2 thousand jobs lost, the formal sector contributed with -124.8 thousand, while the informal economy added 4.7 thousand jobs. Regarding the former, the figure is much lower than IMSS data, where 172.5 thousand new positions were registered. From this, it can be inferred that jobs were lost in other areas, such as federal and state workers, along with the military. Hence, the informality rate increased to 55.6% (previous: 55.5%). By sectors, both industry (-340.0 thousand) and services (-65.4 thousand) worsened. Within the former, manufacturing led the move at -399.3 thousand, albeit with positive developments in construction (+71.1 thousand). In services, losses centered in commerce (-189.3 thousand), professional (-181.9 thousand) and transportation (-119.3 thousand). Nevertheless, this decline was partly offset by gains in restaurants and lodging (393.6 thousand) and government (111.9 thousand). Meanwhile, primary activities added 266.0 thousand positions. On the other hand, the part-time rate was unchanged at 7.9%. On a slightly positive note, wages halted their declines, with the average hourly wage standing at $49.05 per hour, up $0.53 relative to the previous month and at its highest since last April. In addition, in annual terms it accelerated to +3.4% (previous: +2.6%). While the improvement is welcome, continued price pressures are still having an adverse effect on household's income, impacting potential growth in consumption.

INEGI's employment report
Non-seasonally adjusted figures

%	Sep-22	Aug-22	Difference
Unemployment rate	3.34	3.53	-0.20
Participation rate	59.6	60.0	-0.4
Part-time workers rate	7.9	7.9	0.0
Formal employment	44.4	44.5	-0.1
Informal employment[1]	55.6	55.5	0.1
Working in the informal economy	28.4	28.0	0.4
Working in the formal economy	27.2	27.4	-0.2

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

Labor conditions could keep improving in 4Q22, although with greater risks for economic activity. Today's results confirm that employment during the third quarter was positive, continuing its recovery despite the headwinds for activity. The latter can also be seen in the 'expanded' unemployment rate that dropped in the period, from 14.0% in June to 11.8% in September. Based on this, we remain optimistic about dynamism in the last quarter of the year. However, we recognize risks in different sectors of the economy.

Regarding industry, we believe construction –due to prevailing pressures on input prices– and mining –to a lesser extent and due to the modifications related to new mining concessions– could have lower demand for jobs. Hence, we see manufacturing as the main driver. Nevertheless, signs of a US slowdown in some of October's timely data confirm our view of more challenges ahead. In services, signals are more mixed. To the downside, timely figures would indicate that retail sales are suffering from current inflation. If this continues, it could be a possible curb for new positions, although it seasonal discounts in both November and December will likely have a positive impact on job creation. On the other hand, we see that dynamism in tourism will remain as an additional driver.

As for wages, we believe inflation's negative impact is also evident, so we will continue to closely monitor the development of discussions regarding the 2023 minimum wage increase. According to the latest comments from CONASAMI, there is not yet a consensus on the adjustment. However, President López Obrador commented that *"…there is going to be a good increase…"*, considering accumulated inflationary pressures. As such, we believe this remains a risk to the price formation process next year.

In this context, we believe the unemployment rate could increase slightly in the remainder of the year, impacted by an additional normalization in the labor force and people outside of the labor force. However, the adjustment could be more moderate considering the dynamics seen to date, so we now expect this indicator at the end of 2022 at 3.4% (previous: 3.6%).

[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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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
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
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
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	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
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
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
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000
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