New historical low in January's unemployment rate

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- **Unemployment rate (December; nsa): 3.00%; Banorte: 3.05%; consensus: 3.10% (range: 3.04% to 3.50%); previous: 2.76%**
- **Part-time workers: 7.7% (previous: 7.3%); Participation rate: 60.3% (previous: 59.7%)**
- **In January 409.3 thousand jobs were created, contrasting with its typical seasonality at the start of the year when a decline is usual. This suggests strong labor market dynamism**
- **The labor force picked up by 567.2 thousand, with those unemployed up by 157.8 thousand. The latter explains the higher unemployment rate**
- **As such, the participation rate grew, while the part-time rate increased at the margin. Outside of the labor force, those catalogued as 'available for work' decreased by 158.6 thousand, with those 'not available' down by 445.8 thousand**
- **Seasonally adjusted, the unemployment rate fell from 3.00% to 2.92%, reaching a new historical low (since 2005)**
- **In the informal sector, 173.5 thousand jobs were added, while the formal sector showed 235.8 thousand more. As a result, the informality rate stayed practically unchanged at 54.8% (previous: 54.9%)**
- **Average hourly wages increased to $52.70 (previous: $49.85), with an +11.1% y/y advance, in our view helped by the 20% increase in the minimum wage**
- **We believe the labor market will remain solid in coming months, which in turn will be an important driver for domestic demand. Nevertheless, we are cautious due to prevailing headwinds**

409.3 thousand jobs were created in January, contrasting with its typical seasonal trends. With original figures, the unemployment rate stood at 3.00% (graph below, left), below consensus (3.10%) but closer to our estimate (3.05%). The was in line with the seasonal pattern, explained in detail further below. Using seasonally adjusted figures, the unemployment rate stood at 2.92% (previous: 3.00%), a new low since the series is available (2005). Back to original data, the labor force increased by 567.2 thousand, with +409.3 thousand employees and +157.9 thousand unemployed. We must say that jobs created surprised upwards as the period tends to extend losses seen since December. Similarly, the labor force is pressured to the downside as people that reported themselves as available for work in said month, goes back and resume their usual activities (*e.g.* studies and other unpaid activities) in January, which seems to not have happened this time around. In this sense, the participation rate increased to 60.3% (previous: 59.7%). Meanwhile, people outside of the labor force fell by 604.3 thousand, with less people catalogued as 'available' (-158.6 thousand) and a relevant decline in those 'not available' (-445.8 thousand). In our view, these figures confirm that the labor market remains in solid ground, which is undoubtedly positive for economic activity.

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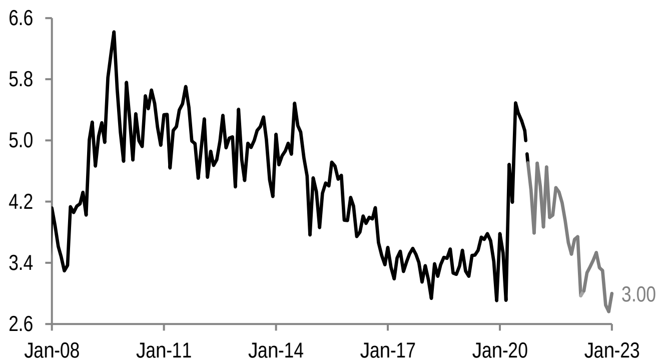
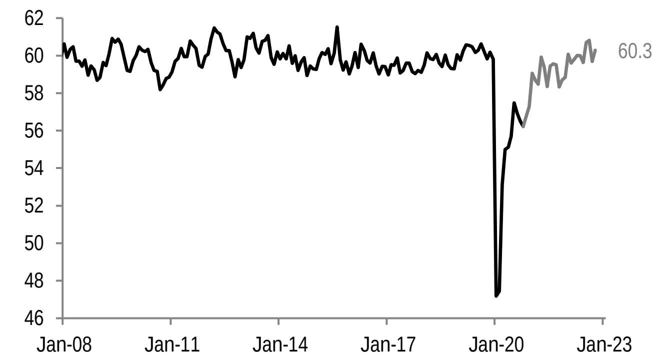
In this context, the total number of employees reached 58.4 million. As in previous reports, to better reflect labor market conditions, we added those 'available for work' not in the labor force both to the unemployed and the labor force. With this, the 'expanded' unemployment rate stood at 10.9%, lower than in December (-7bps), and resuming its downward trend after increasing in the previous month.

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

Broad employment gains by sector, with wages higher. Of the 409.3 thousand jobs created, the informal sector added 173.5 thousand jobs, while the formal sector contributed with 253.8 thousand positions. The latter is stronger than IMSS data, which showed 111.7 thousand jobs more (original figures). As a result, the informality rate remained broadly unchanged at 54.8% (previous: 54.9%). By sectors, services concentrated gains (+393.1 thousand), driven by commerce (+278.7 thousand) and government (+221.6 thousand). Moreover, the private sector added 351.7 thousand positions. On the contrary, industry shed 276.6 thousand, driven by construction (-337.9 thousand). Manufacturing added 45.4 thousand. On the other hand, the part-time rate picked up to 7.6%, still below its long-term average, so it does not necessarily mean a deterioration. Finally, the average hourly wage was at $52.70, growing by $2.85 vs. the previous month. In annual terms it accelerated to 11.1% y/y (previous: +8.2%), probably explained by the 20% increase in the minimum wage that came into force this month.

INEGI's employment report
Non-seasonally adjusted figures

%	Jan-23	Dec-22	Difference
Unemployment rate	3.00	2.76	0.24
Participation rate	60.3	59.7	0.6
Part-time workers rate	7.7	7.3	0.4
Formal employment	45.2	45.1	0.1
Informal employment[1]	54.8	54.9	-0.1
Working in the informal economy	27.5	28.6	-1.1
Working in the formal economy	27.3	26.3	1.0

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

[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

We remain positive about the labor market in the short-term, despite some headwinds. In our view, labor market dynamism will probably extend to the first months of 2023 due to several encouraging factors. First, we highlight the resiliency shown by services demand, reflecting themselves in FDI within tourism – which in 2022 amounted to US$3.4 billion, exceeding its high in 2017. This could boost employment in related services. Second, because of nearshoring efforts. In this regard, Hector Márquez Pitol, president of the *Mexican Association of Human Capital Companies*, indicated that 750,000 new jobs are estimated during 2023 on the back of new investments. Finally, because of the improvement in supply chains worldwide that has allowed the local auto industry to improve its inventory management to avoid technical stoppages. in this respect, stoppages in Volkswagen's plant in Puebla were briefer in February, while Aguascalientes had none during the month. In this backdrop, the general secretary of the Automotive and Metal-Mechanical Industry Union, Rogelio Padilla de León, expressed: "*We still cannot claim victory, (...) but we do see a considerable improvement from how we were last year. Let's hope that there is already a regular supply and continuity until all the supplies are available...*".

In contrast, we believe some headwinds prevail, such as: (1) Additional monetary tightening in the US –which could affect external demand– and domestically; (2) signals of weakness in US industry, which could also affect local companies; and (3) higher costs for companies.

Finally, we will pay attention to the initiative that President Lopez Obrador sent to the Congress last week related to the Federal Labor Law. This initiative seeks to expand the catalog of sick leave illnesses and disabilities, raising the number of illnesses from 161 to 194 and permanent disabilities because of labor risk from 409 to 524. If this initiative is approved, it would be added to the latest changes in the Labor law (more holidays and a higher minimum wage), keeping an eye on their results for companies. According to Jesús Alatorre Mendieta, national president of the Labor Commission of Coparmex "*…new legislation and reforms to the labor law always have a cost and companies can choose not to hire new personnel. We are going to see the results in the first three months…*".

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