Job losses in December, partly driven by seasonal trends

- **Unemployment rate (December; nsa): 2.76%; Banorte: 2.89%; consensus: 2.80% (range: 2.70% to 2.97%); previous: 2.85%**
- **Part-time workers: 7.3% (previous: 7.6%); Participation rate: 59.7% (previous: 60.8%)**
- **In December, 912.0 thousand jobs were lost, which is relevant even when considering the negative seasonality of the period. With this, in 2022, 1.0 million positions were created**
- **The labor force decreased by 989.9 thousand, with those unemployed falling by 77.9 thousand. This explains the decline in the unemployment rate, which at the same time is justified due to the holidays**
- **As such, the participation rate decreased, while the part-time rate improved marginally. Outside of the labor force, those catalogued as 'available for work' rose by 60.8 thousand, with those 'not available' increasing by 1.1 million, absorbing the decline in employment**
- **Seasonally adjusted, the unemployment rate increased at the margin to 3.01% from 3.00%, which is rather positive considering the sharp adjustment lower in the previous month**
- **In the formal sector, 256.3 thousand jobs were lost. Meanwhile, 655.8 thousand jobs were scrubbed in the informal sector. As a result, the informality rate decreased to 54.9% (previous: 55.2%)**
- **Average hourly wages went down to $49.85 (previous: $50.14), albeit translates into an 8.2% y/y advance, accelerating substantially**
- **In 2023, we expect that labor market keeps resilience, key factor to support the local demand, However, in face of outlook challenges, we anticipated the unemployment rate by the end of the year at 3.6%**

The labor market sheds jobs in December, partly due to a seasonal effect. With original figures, the unemployment rate stood at 2.76% (graph below, left), below than consensus (2.80%), and then our estimate (2.89%), standing at a new historical low (since 2005). The result is quite consistent with seasonal trends, which we explain further below. As such, using seasonally adjusted figures, the unemployment rate stood at 3.01%, practically unchanged (previous: 3.00%). Back to original data, the labor force decreased by 989.9 thousand, with -912.0 thousand employed and -77.9 thousand unemployed. Part of the decline in these sectors corresponds to a typical effect from the holidays, with some businesses and people pausing their employment status. As such, people in the survey do respond as not having a job, but not actively seeking one, which in turn drives them out of the labor force. In this sense, the participation rate decreased to 59.7% (previous: 60.8%). Meanwhile, people outside of the labor force increased by 1.2 million, with a slight increase in those catalogued as 'available' (+60.8 thousand), but with a relevant expansion in those 'not available' (+1.1 million), absorbing the people without an employment.

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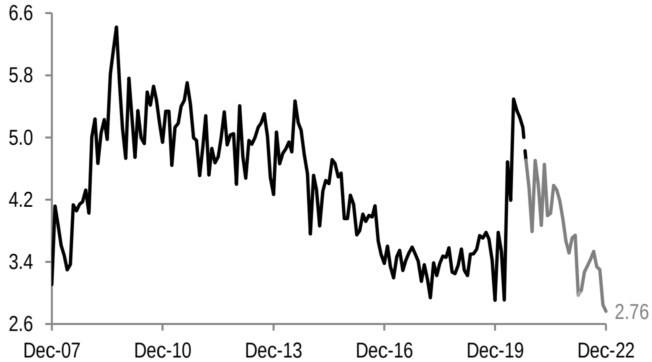
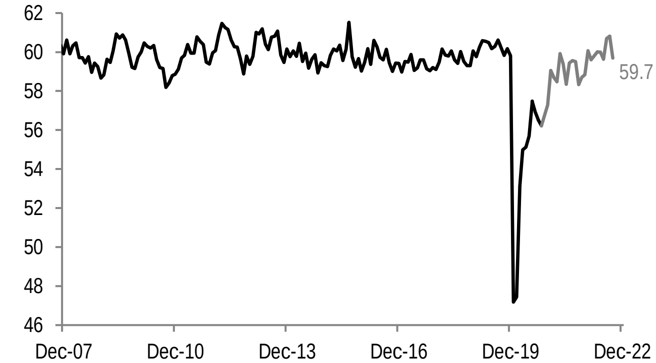
In our opinion, considering that the sector's dynamism has been quite positive lately, maintaining a constant creation of new jobs during most of the year –and specifically in the last quarter (+457.7 thousand positions), where activity in general showed signs of a slowdown–, we do not interpret the job losses as a negative sign, but rather as an adjustment given strong increases in the previous months. In this context, the total number of employees came in at 57.9 million, implying +1.0 million jobs in 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 11.0%, slightly higher vs the previous month (+13bps), and with its first increase since June.

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

The informal sector, along services, concentrated the losses, albeit with wages accelerating meaningfully. Of the 912.0 thousand jobs erased, the informal sector shed 655.8 thousand jobs, while in the formal sector eliminated 256.3 thousand positions. Regarding the latter, the figure is relatively consistent IMSS data, where 345.7 thousand jobs was lost (original figures). As a result, the informality rate decreased to 54.9% (previous: 55.2%). By sectors, services concentrated losses (-689.7 thousand), with industry also lower (-59.6 thousand). Within the former, we highlight declines in commerce (-464.5 thousand), social (-303.9 thousand) and professional (-247.3 thousand). However, these were partially offset by an increase in restaurants and lodging (+179.6 thousand). On industry, construction had a relevant increase with +214.5 thousand, while losses were concentrated in manufacturing (-204.4 thousand) and mining and electricity (-69.8 thousand). Meanwhile, primary activities erased 168.6 thousand jobs. On the other hand, the part-time rate decreased to 7.3%, below its long-term average. Finally, the average hourly wage was $49.85, decreasing by $0.29 vs. the previous month. However, in annual terms it accelerated to +8.2% y/y (previous: +4.6%), its largest increase since November 2021.

INEGI's employment report
Non-seasonally adjusted figures

%	Dec-22	Nov-22	Difference
Unemployment rate	2.76	2.85	-0.08
Participation rate	59.7	60.8	-1.1
Part-time workers rate	7.3	7.6	-0.3
Formal employment	45.1	44.8	0.3
Informal employment[1]	54.9	55.2	-0.3
Working in the informal economy	28.6	28.0	0.6
Working in the formal economy	26.3	27.2	-0.9

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

We anticipate resilience in the labor market during 2023, despite some challenges for activity. In our view –and considering dynamism during 2022–, a positive performance in the labor market will likely continue, at least early 2023. This is quite relevant considering some headwinds for activity, including: (1) A slowdown in external demand, with timely indicators from the US still showing weakness; (2) the effects stemming from additional monetary tightening; and (3) the performance of domestic demand, with some signs of a slowdown in the last few months.

However, we note that labor demand could be resilient thanks to: (1) Higher levels of investment due to nearshoring, directly favoring construction and manufacturing; although also promoting other subsectors such as commerce and professional services; (2) the reopening in China, which could boost labor demand on at least three fronts –higher demand and exports of commodities and manufacturing; normalization of supply chains (reducing local technical stoppages) and higher international tourism; and (3) a shorter and shallower slowdown in the US than had been forecasted in previous months. In this context, the president of Concanaco Servytur (for its Spanish acronym), Héctor Tejada Shaar, declared "*The services sector will continue to grow by approximately 3% each quarter, tourism will seek to return Mexico to the top 10 of the most visited places in the world and the spillover economy will be once again very important…*".

As such, and incorporating our GDP and inflation forecasts for the year, we expect resiliency in the labor market, albeit with a slight uptick in the unemployment rate throughout 2023 –not exceeding 4%–, with a year-end level of 3.6%, below its historical average of 4.2% (since 2005).

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[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, 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, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal and Daniel Sebastián Sosa Aguilar, 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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