Seasonal factors drive the unemployment rate sharply down in December

- **Unemployment rate (December; nsa): 3.80%; Banorte: 4.05%; consensus: 4.28% (range: 4.05% to 4.70%); previous: 4.37%**
- **Part-time workers: 14.2% (previous: 15.9%); Participation rate: 56.4% (previous: 56.8%)**
- **Despite the loss of 95.0 thousand positions, the report was very favorable, as the unemployment rate fell more than usually for this period. Moreover, this happened amid a more complex backdrop, with epidemiological conditions worsening. In this context, there are close to 2.9 million jobs left to be recovered**
- **The participation rate also declined, in line with its seasonal trend, with a reduction of 425.8 thousand in the labor force. Most were reclassified as 'not available for work', possibly distorted by the pandemic but not uncommon when compared to recent years**
- **Also positive, the part time rate declined to a new post-pandemic low, albeit remaining high as businesses keep trying to implement different schemes in a bid to preserve jobs amid more difficult conditions**
- **Job losses were exclusively in the informal sector, with the informality rate declining to 55.8% from 56.3% in the previous month. Moreover, these were concentrated in the lower-end of the wage distribution, likely affected again by heightened restrictions due to the pandemic**
- **Despite today's favorable report, labor conditions remain relatively fragile while short-term risks for the recovery of the labor market have increased**

The unemployment rate surprises to the downside in December. Specifically, it stood at 3.80% (non-seasonally adjusted figures, see chart below to the left), well below consensus (4.28%) and closer, but still far from our 4.05% forecast. Despite a major positive seasonal effect in the month, adjusted data also suggests an improvement in labor market conditions. In this context, we consider the report was very favorable amid signs of a deceleration in activity and worsening epidemiological conditions. In the period, net employment decreased by 95.0 thousand positions, more modest relative to losses in previous years, reinforcing that conditions were better. In this sense, total employees stood at 52.8 million, about 2.9 million lower than in February, before the pandemic started. The medium-term outlook has become more positive given the start of vaccinations and stronger dynamism abroad. Nevertheless, short-term risks remain high. The labor force fell to 54.9 million, which is 2.9 million below February's level. As a result, the participation rate declined to 56.4% (chart below on the right). People not in the labor force increased by 375.4 thousand, with most of the uptick (243.7 thousand) in those 'not available for work'. This is not atypical relative to history, so it is likely that this change is mostly reversed by February. Meanwhile, those 'available for work' increased by 131.7 thousand, recalling that this group captured most of the people that lost their jobs at the start of the pandemic.

January 21, 2021

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

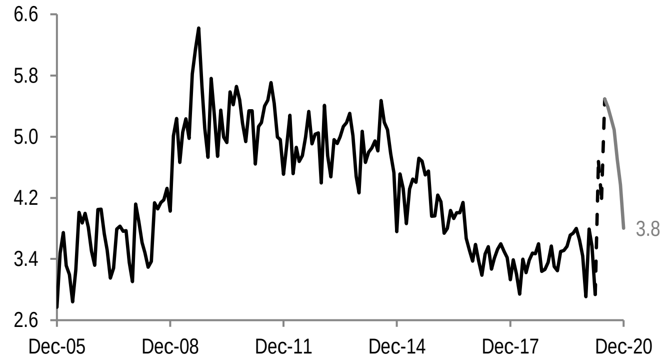
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Document for distribution among the general public

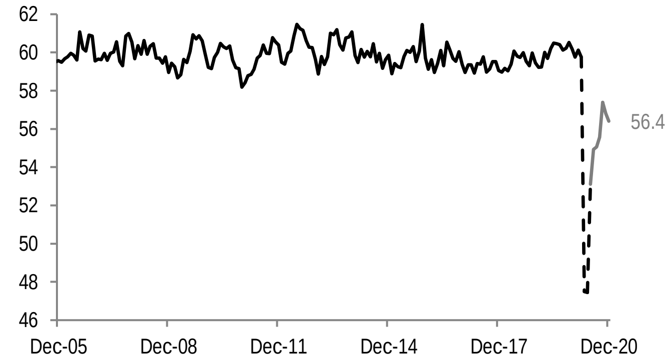
In this respect, the total number of people in the latter group stands at 9.4 million, still reflecting the impact from the pandemic. To reflect labor market conditions more accurately, if we sum this group to the total unemployed and into the labor force, the 'expanded' unemployment rate would have reached 17.9% (previous: 18.1%), above the 12.0% seen in December 2019.

Unemployment rate
%, nsa



Note: Dotted lines correspond to data obtained through the phone 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 survey. The grey line indicates the hybrid survey
Source: Banorte with data from INEGI

Job losses concentrated in informality. Specifically, 289.5 thousand jobs were lost in the informal sector, while 194.4 thousand were added in the formal one. The latter is stronger than the signal provided by the employment report from IMSS, which showed a net decline of 277.8 thousand. Thus, other formal positions (*e.g.* governments, Defense Ministry and Pemex) should have raised their payrolls significantly during the month. Therefore, the informality rate declined to 55.8% from 56.3% in November. The part-time rate declined to 14.2% (previous: 15.9%), which is a positive development. We still believe this metric will stay high relative to its historical norm, limited by social-distancing measures. Average wages per hour increased by MXN 28 cents sequentially, reaching 44.33 pesos. When looking at employment changes by income level, all groups exhibited losses except those earning between 2 and 3 minimum wages. Nevertheless, the decrease was more pronounced among lower earners, explaining the uptick in the average wage. On a sector basis, losses were mainly in agriculture (-121.8 thousand) followed by industry (-91.7 thousand), highlighting the decline of 116.9k in construction within the latter. Lastly, services increased 164.1 thousand, with commerce strong (+356.4 thousand) but all other services mostly shedding positions.

INEGI's employment report
Non-seasonally adjusted figures

%	Dec-20	Nov-20	Difference
Unemployment rate	3.80	4.37	-0.57
Participation rate	56.4	56.8	-0.4
Part-time workers rate	14.2	15.9	-1.8
Formal employment	44.2	43.7	0.4
Informal employment[1]	55.8	56.3	-0.4
Working in the informal economy	27.8	27.9	-0.1
Working in the formal economy	28.1	28.4	-0.3

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

Relevant short-term risks for activity and employment. Today's report is still giving signs of a recovery, despite seasonal effects being the main drivers of the decline during the last two months, which could also possibly skew January's data. Although results were a significantly positive surprise, there are signals of mounting risks in the short-term, including an additional deterioration in epidemiological conditions, with the traffic light indicator currently showing 10 states in 'red', including Mexico City and the State of Mexico since mid-December. In this backdrop, forward-looking data provide hints of a deceleration, including IMEF's indicators and the Timely Indicator of Economic Activity. More recently, mobility figures have been falling since early January, a situation which could have an especially negative impact on services and the informal sector. The fact that the latter was the most affected in December, when restrictions started to increase again, suggests that more difficulties may lie ahead. Nevertheless, we think that medium-term expectations could be more favorable, with more optimism due to the start of vaccinations –both globally and domestically–, as well as increased fiscal stimulus in the US, which could have a positive spillover effect on our country. Hence, policymakers worldwide have stressed the need of 'building bridges' for an easier transition between the short- and medium-term.

We believe there is still very high uncertainty about the path of the unemployment rate going forward, with doubts about when and how we could see people 'available to work' back into the labor force, either as employed or unemployed. We expect the unemployment rate to remain relatively high over the coming months, although we recognize that the recovery has been stronger than foreseen. Moreover, it could accelerate further to the downside once we see a more vigorous increase in activity, particularly on sectors which have been affected the most. The informal sector will continue recovering most positions once mobility returns to more normal levels, with the informality rate still below its historical average. Meanwhile, the part-time rate will probably remain elevated, acting as a shock-absorber to avoid additional employment losses. On wages, we believe slack conditions will keep upward adjustments at bay despite the 15% increase to the minimum wage. Lastly, it should be noted that references for the different wage tranches will be adjusted relative to the new base of $141.70, probably driving differentiated changes across groups (with higher earners having a proportionally lower adjustment, limiting further the so-called 'lighthouse effect'). We will remain highly attentive to the performance of the labor market, as its health will be crucial to consolidate a sustainable recovery, especially in the domestic front, in which performance remains muted.

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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.

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

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, 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			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	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
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
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
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
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 - 1002
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) 8318 - 5071
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) 5004 - 1453
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) 5268 - 9004
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) 5004 - 1454