

Unemployment rate picks up to a two-year high

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- **Unemployment rate (December; sa): 3.57%; Banorte: 3.60%; consensus: 3.37% (range of estimates: 3.20% to 3.68%); previous: 3.31%**
- **Part-time workers: 7.24% (previous: 7.10%); Participation rate: 59.66% (previous: 59.66%; sa)**
- **In our view, today's report was negative given that higher unemployment was explained by stronger layoffs and not by an increase in the participation rate**
- **Going forward, we reiterate our view that the unemployment rate has reached a cyclical low, expecting a slight uptrend this year on the likely deceleration of global and local growth**
- **Relative to the same period of the previous year, Veracruz stood out as the federal entity with the largest reduction in the unemployment rate**

Significant increase in unemployment in December. According to *INEGI's* report, the unemployment rate stood at 3.57% in December (seasonally adjusted figures), considerably above the 3.31% of the previous month and reaching its highest level since December 2016. We believe this rise was mainly explained by layoffs in the public sector and several autonomous entities, as austerity measures by the new federal administration began to be implemented.

Part-time workers –representing those willing to work additional hours– worsened from 7.10% to 7.24%. The participation rate stood unchanged at 59.66%. As a result, we view today's data as weak, given that the participation rate was not the main driver behind this pickup, but actual layoffs. The increase in the unemployment rate matched the second-highest month-on-month adjustment higher since July 2014, in the aftermath of the latest fiscal reform and in the midst of the strong decline in global oil prices.

Regarding informality, the share of total workers in this situation fell relative to November, representing 56.84% of the total labor force. From this figure, those categorized as purely informal increased 6bps to 27.50% (see table below for details).

INEGI's employment report: December 2018

Seasonally adjusted figures

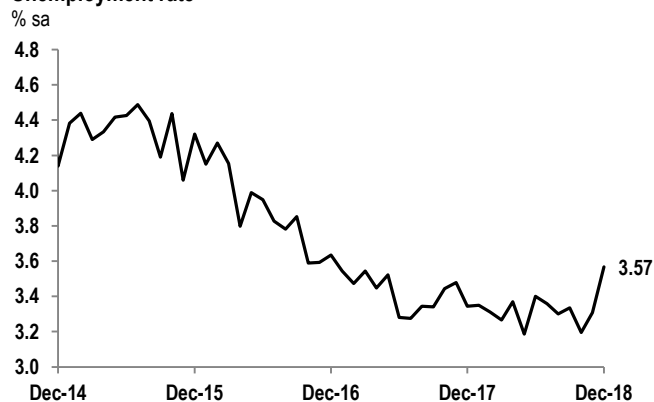
%	Dec-18	Nov-18	Difference
Unemployment rate	3.57	3.31	0.26
Participation rate	59.66	59.66	0.00
Part-time workers rate	7.24	7.10	0.14
Informal employment¹	56.84	57.13	-0.29
Working in the informal economy	27.50	27.44	0.06
Working in the formal economy	29.34	29.70	-0.36

Source: INEGI

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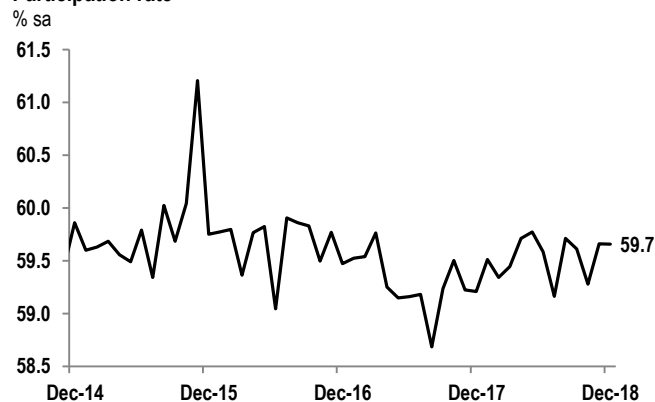
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

Looking ahead, we believe unemployment has probably reached a cyclical low. In line with our expectations, the unemployment rate was significantly impacted by austerity measures implemented by the Federal Government, resulting in layoffs in several ministries and autonomous entities. Moreover, it is worth noting that the magnitude of the adjustment was significantly higher than in the two previous transitions for which data is available.

We believe that measures such as the above-average minimum wage increase starting in 2019 will limit the possibility of a move down in the unemployment rate in coming months, even after taking into account tax incentives in the Northern Border. Moreover, global and local GDP growth will likely decelerate during 2019, which could also impact labor demand at the margin, particularly in the manufacturing sector. On the contrary, the implementation of programs such as “*Jóvenes Construyendo el Futuro*” (government subsidies for youth apprenticeships in both the private and public sector) could help mitigate some of these effects.

All in all, this report increases our conviction that the unemployment rate has reached a cyclical low (at 3.19% in May 2018), expecting a slight upward trend this year as a result of the factors mentioned above, although staying at relatively strong levels when compared to its long-term historical performance.

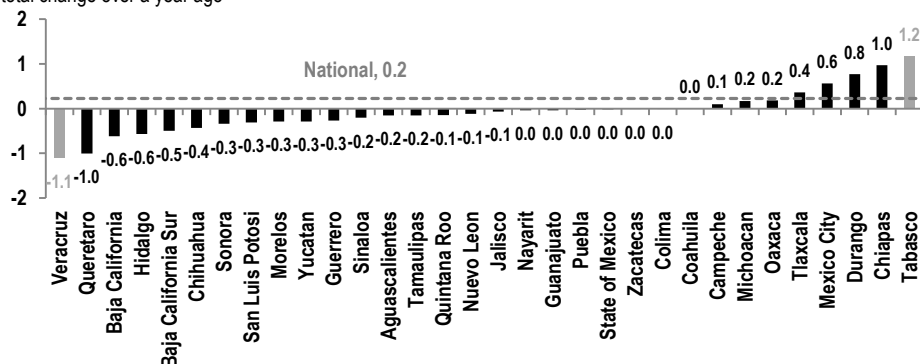
At the state level

Veracruz stood out as the federal entity with the largest reduction in the unemployment rate when compared to the same period of the previous year. Analyzing non-seasonally adjusted figures, (given that sa data for federal entities is highly volatile), we highlight the 1.1pp annual reduction in Veracruz’s unemployment rate, from 3.8% in December 2017 to 2.7% in the current month, its lowest level since April 2018 and 0.6pp below the national average.

This reduction was partially explained by the support of the *National Service of Employment Programs*, particularly employment boards, which placed just over 4,600 people into new jobs. Moreover, we note 27 out of the 32 states showed a sharper reduction in unemployment than at the national level, as shown in the following graph.

Minor and major difference in the unemployment rate by state: December 2018

total change over a year ago



Source INEGI:

The labor market in Queretaro, Baja California, Hidalgo, and Baja California Sur has improved substantially, all of them with significant declines in the unemployment rate. However, Tabasco (widest spread between Dec '18 vs. Dec '17), Chiapas, Durango, Mexico City, and Tlaxcala hve worsened. Last but not least, the lowest level of the unemployment rate was in Guerrero (1.3%), a difference of -0.3pp when compared to the same month of the previous year, while Tabasco recorded the highest (7.9%).

Unemployment rate by state – December 2018

%; nsa

	Dec-18	Dec-17	Jan-Dec'18	Difference
Veracruz	2.7	3.8	3.2	-1.1
Queretaro	3.7	4.7	3.9	-1.0
Baja California	2.2	2.8	2.6	-0.6
Hidalgo	2.1	2.7	2.8	-0.6
Baja California Sur	3.4	3.9	3.7	-0.5
Chihuahua	2.1	2.5	3.1	-0.4
Sonora	3.5	3.8	3.7	-0.3
San Luis Potosi	2.1	2.4	2.5	-0.3
Morelos	2.1	2.4	2.1	-0.3
Yucatan	1.5	1.7	1.8	-0.3
Guerrero	1.3	1.5	1.3	-0.3
Sinaloa	3.2	3.4	3.3	-0.2
Aguascalientes	3.4	3.6	3.6	-0.2
Tamaulipas	3.9	4.0	3.9	-0.2
Quintana Roo	3.1	3.2	2.7	-0.1
Nuevo Leon	3.3	3.5	3.5	-0.1
Jalisco	2.6	2.7	2.7	-0.1
Nayarit	3.4	3.4	4.0	0.0
Guanajuato	3.7	3.8	3.5	0.0
Puebla	2.5	2.6	2.6	0.0
State of Mexico	4.1	4.1	4.2	0.0
Zacatecas	2.5	2.5	2.9	0.0
Colima	3.6	3.6	3.2	0.0
Coahuila	3.6	3.6	4.1	0.0
Campeche	3.5	3.4	3.2	0.1
Michoacan	2.4	2.3	2.2	0.2
Oaxaca	2.0	1.8	1.5	0.2
National	3.4	3.1	3.3	0.2
Tlaxcala	4.1	3.8	3.6	0.4
Mexico City	5.2	4.6	4.5	0.6
Durango	4.1	3.4	4.3	0.8
Chiapas	3.5	2.5	2.7	1.0
Tabasco	7.9	6.7	7.2	1.2

Source: INEGI

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