

## Labor-market figures point to greater slack in the economy

- **Unemployment rate (June; sa): 3.54%; Banorte: 3.51%; consensus: 3.50% (range of estimates: 3.42% to 3.69%); previous: 3.53%**
- **Part-time workers: 7.55% (previous: 7.53%); Participation rate: 60.20% (previous: 59.87%)**
- **Results within the report seem to be mixed, highlighting on the positive side the considerable increase in the participation rate, which probably explains the pick-up in unemployment**
- **Nevertheless, the increase in informal employment and an additional rise in part-time workers could be reflecting more slack in the labor market**
- **We consider that the slowdown in formal job creation is an additional headwind for consumption growth, resulting in added pressures for economic growth**
- **Sinaloa stood out as the state with the largest reduction in the unemployment rate in the annual comparison**

**Unemployment rate edges-up in June.** According to *INEGI's* report, the rate stood at 3.53% in June (seasonally-adjusted figures), above our estimate at 3.51%. It should be noted that figures for the previous month were revised significantly to the upside, from 3.48% to 3.53%. In our view, the details show a mixed performance. On a positive tone, the participation rate increased 33bps to 60.20%, probably the main driver behind the pick-up in unemployment. However, on the downside, the part-time workers rate kept climbing for a fourth month in a row, standing at 7.55%, its highest since September 2017. Regarding informal workers, the share of those in the formal economy increased from 28.97% to 29.32%, In addition, those purely informal rose to 27.45% from 27.40%. As a result, the total in the sector stood at 56.77% (previous: 56.37%), an additional negative point within the report. In that respect, the complete set of data suggests to us that labor conditions are getting looser, reflecting the deceleration of economic activity.

### INEGI's employment report: June 2019

Seasonally adjusted figures

%	Jun-19	May-19	Difference
Unemployment rate	3.54	3.53	0.01
Participation rate	60.20	59.87	0.33
Part-time workers rate	7.55	7.53	0.02
Formal employment	43.23	43.63	-0.41
Informal employment <sup>1</sup>	56.77	56.37	0.41
Working in the informal economy	27.45	27.40	0.05
Working in the formal economy	29.32	28.97	0.35

Source: INEGI

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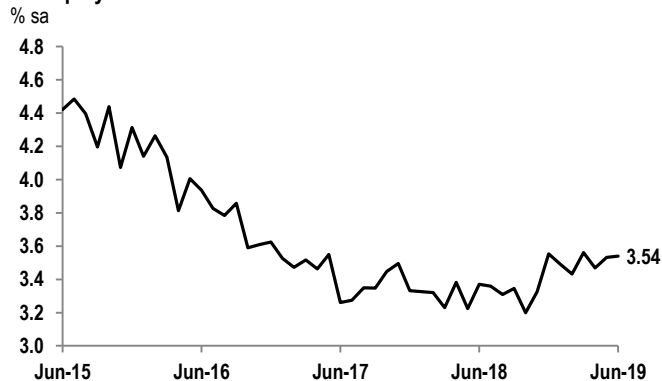
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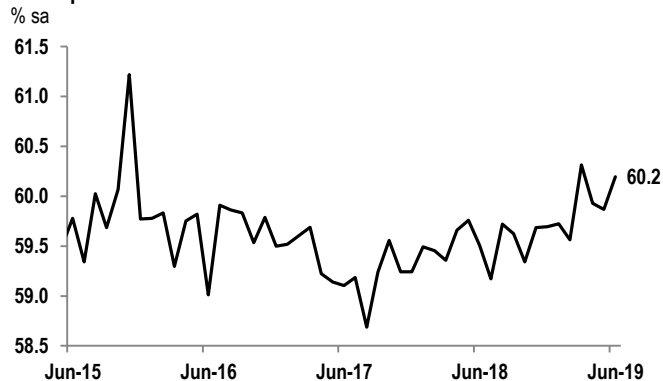
<sup>1</sup> Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

### Unemployment rate



Source: Banorte with data from INEGI

### Participation rate

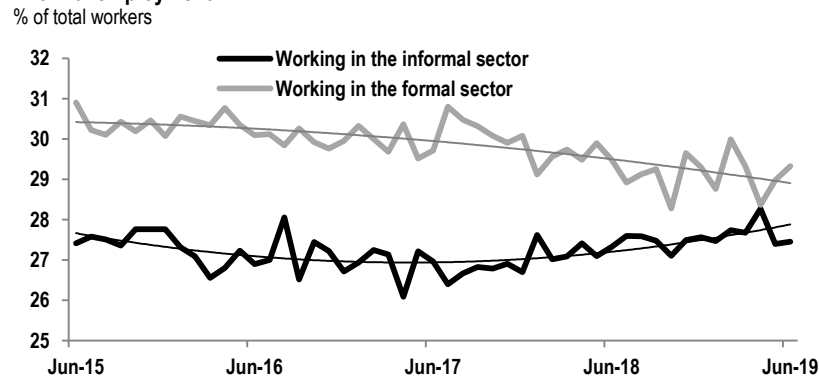


Source: Banorte with data from INEGI

**Labor-market conditions keep getting looser.** In line with data from previous months, certain details stand out that point to an increasing slack in terms of the output gap. This has been reflected mainly in the recent behavior in the part-time workers rate, but also in the shift in informal employment, which despite improving in May, continues to exhibit an upward trend (see chart below). This has also been reflected in formal job creation figures from IMSS, with an annual growth rate of insured workers at +2.4% in June, persistently slowing down since mid-2018.

In our opinion, this is an additional headwind for consumption, a situation now reflected more markedly in our revision for whole-year GDP from 1.5% to 0.8% yoy (for details see: “Mexico – Economic activity decelerates more than expected”, <pdf>). However, there are still some offsetting factors that have helped, including an improvement in inflation and higher real wages. In this context, we expect household spending to pick-up in the second half of the year, boosted by an additional reduction in inflation and by an expanded coverage of social assistance programs from the Federal Government, which according to several reports, are still behind schedule. All in all, we believe that the unemployment rate will keep increasing gradually, with our year-end forecast still at 3.6%.

### Informal employment



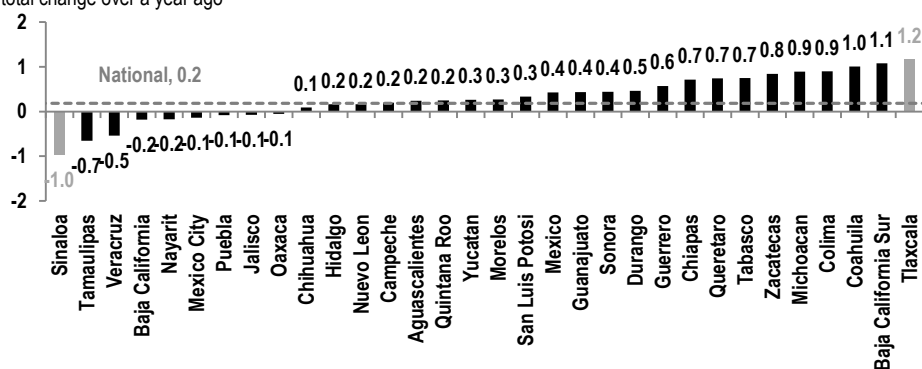
Source: IMSS, INEGI

*At the state level*

**Sinaloa stood out as the state with the largest reduction in the unemployment rate in the annual comparison.** Analyzing non-seasonally figures, (given that the seasonally adjusted figures for the federal entities are highly volatile), we highlight the 1pp annual reduction in Sinaloa’s unemployment rate, from 3.9% in June 2018 to 2.9% currently, the lowest since April 2018. This was backed up with an increase of 4.3% yoy in formal jobs, partially explained by the support of the *National Service of Employment Programs*. In this context, employment boards attended 18,181 people, of which more than 3,300 were placed into new jobs. Moreover, we note that 12 out of 32 states showed a better performance relative to the national level, as shown in the following graph.

**Minor and major difference in the unemployment rate by state: June 2019**

total change over a year ago



Source INEGI:

The labor market in Tamaulipas, Veracruz, Baja California, and Nayarit has improved substantially, showing significant declines in the unemployment rate. However, Tlaxcala (with the widest spread between Jun '19 vs. Jun '18), Baja California Sur, Coahuila, Colima, and Michoacan worsened. Last but not least, the lowest level of the unemployment rate was again in Oaxaca (1.3%). Nevertheless, this implies a 0.1pp reduction with respect to the same month of the previous year. Moreover, Tabasco continues with the highest unemployment rate in the country (7.1%). –refer to the following table–.

### Unemployment rate by state – June 2019

%; nsa

	Jun-19	Jun-18	Jan-Jun'19	Difference
Sinaloa	2.9	3.9	3.3	-1.0
Tamaulipas	3.1	3.8	3.4	-0.7
Veracruz	2.6	3.1	2.7	-0.5
Baja California	2.5	2.7	2.4	-0.2
Nayarit	4.1	4.2	3.7	-0.2
Mexico City	4.9	5.1	5.1	-0.1
Puebla	2.7	2.8	2.6	-0.1
Jalisco	2.9	3.0	2.8	-0.1
Oaxaca	1.3	1.3	1.6	-0.1
Chihuahua	3.5	3.4	3.1	0.1
Hidalgo	2.8	2.6	2.5	0.2
Nuevo Leon	3.6	3.4	3.4	0.2
<b>National</b>	<b>3.6</b>	<b>3.4</b>	<b>3.4</b>	<b>0.2</b>
Campeche	3.4	3.2	3.5	0.2
Aguascalientes	3.7	3.5	3.4	0.2
Quintana Roo	2.8	2.5	2.9	0.2
Yucatan	1.8	1.5	1.7	0.3
Morelos	2.4	2.1	2.1	0.3
San Luis Potosi	2.7	2.4	2.3	0.3
State of Mexico	4.6	4.1	4.3	0.4
Guanajuato	3.8	3.4	3.8	0.4
Sonora	4.2	3.7	4.1	0.4
Durango	4.3	3.8	4.5	0.5
Guerrero	1.4	0.8	1.6	0.6
Chiapas	3.6	2.9	3.4	0.7
Queretaro	4.6	3.8	3.5	0.7
Tabasco	7.1	6.4	7.4	0.7
Zacatecas	3.4	2.5	3.1	0.8
Michoacan	2.8	2.0	2.4	0.9
Colima	3.5	2.6	3.8	0.9
Coahuila	5.1	4.1	4.3	1.0
Baja California Sur	4.4	3.3	3.6	1.1
Tlaxcala	4.3	3.1	4.0	1.2

Source: INEGI

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