

Higher unemployment rate in October, but with favorable dynamics in the rest of the report

November 27, 2019

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

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

Miguel Calvo
Regional Analyst
miguel.calvo@banorte.com

- **Unemployment rate (October; sa): 3.60%; Banorte: 3.52%; consensus: 3.54% (range of estimates: 3.50% to 3.60%); previous: 3.54%**
- **Part-time workers: 7.53% (previous: 7.80%); Participation rate: 60.35% (previous: 60.15%)**
- **The unemployment rate broke with two months of declines, now standing at its highest level since December 2016. Nevertheless, dynamics within the report were more favorable, with an increase in participation coupled with a lower part-time rate**
- **In addition, informal employment improved marginally, although the overall situation in this sector is still unfavorable, particularly when considering that the trend of these type of workers within the formal sector**
- **After today's report, we reiterate our view that it will close near 3.6% by the end of the year, with broadly balanced risks**
- **At a state level, Durango posted the largest decline in the unemployment rate in the annual comparison**

The unemployment rate increases in October. According to *INEGI's* report, the rate stood at 3.60% (seasonally-adjusted figures), above both consensus at 3.54% and our forecast (3.52%). As a result, the unemployment rate broke with two months of declines, now standing at its highest level since December 2016. Nevertheless, we should mention that the headline figure was coupled with a 19bps improvement in the participation rate, to 60.35%. Part-time workers also were better by falling to 7.53 after reaching a three-year high of 7.80% in the previous month. Informal employment improved marginally, reaching 55.95% from 56.69% previously. However, this occurred due to an additional fall in the number of employees working within the formal sector, while purely informal workers were relatively stable, as shown in the table below.

INEGI's employment report: October 2019

Seasonally adjusted figures

| % | Oct-19 | Sep-19 | Difference |
|----------------------------------|--------|--------|------------|
| Unemployment rate | 3.60 | 3.54 | 0.06 |
| Participation rate | 60.35 | 60.15 | 0.19 |
| Part-time workers rate | 7.53 | 7.80 | -0.27 |
| Formal employment | 44.05 | 43.31 | 0.74 |
| Informal employment ¹ | 55.95 | 56.69 | -0.74 |
| Working in the informal economy | 27.62 | 27.63 | -0.01 |
| Working in the formal economy | 28.33 | 29.06 | -0.73 |

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

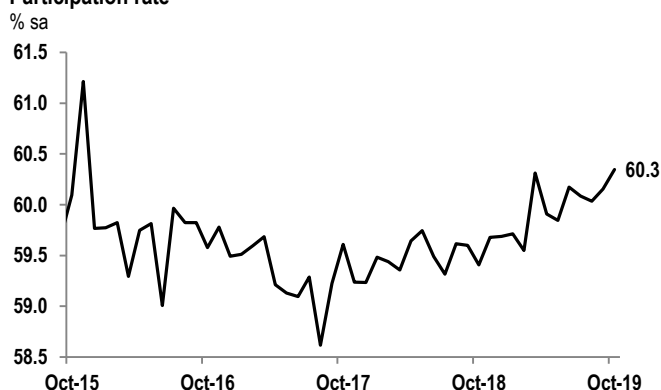
We consider that the results of the report are not entirely negative as the main indicator seems to indicate. While this increase is not favorable, the unemployment rate continues at relatively low levels, while we observed a positive performance in some complementary series. On the other hand, we will remain attentive to the performance of the informal labor market, which seems to continue to absorb, although to a lesser extent, part of the displacement of the formal sector.

Unemployment rate



Source: Banorte with data from INEGI

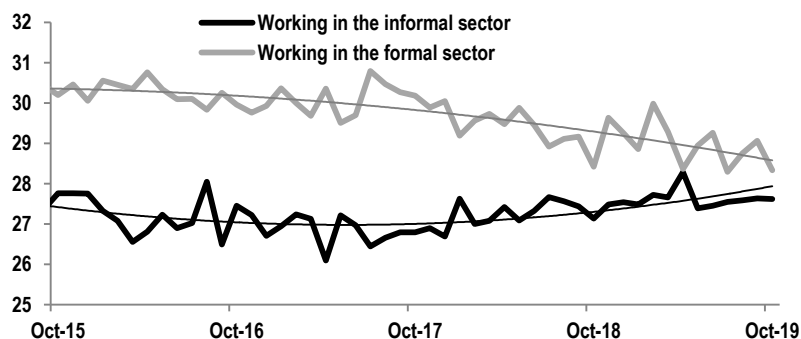
Participation rate



Source: Banorte with data from INEGI

Broadly balanced risks for our year-end forecast of 3.6%. Following the report, it is our take that the unemployment rate will hover around these levels through the end of the year, this despite formal job creation data in the last couple of months showing a stronger performance. We should also mention that the result might be impacted by the temporary shocks in manufacturing during the period, particularly in the auto sector. Despite of the latter, levels of economic activity remain limited, as shown by 3Q19 GDP, prompting us to cut once again our forecast for full-year 2019 growth to -0.1% yoy. In our view, this remains as the most important limitation for a strong decline in the unemployment rate. Moreover, we remain relatively concerned by the increase in the share of total workers in the informal sector, particularly when taking into account that most recent reports suggest that the minimum wage (MW) for 2020 could be increased in a significant manner. In our view, this could induce some employers to search for cheaper alternatives in the informal sector, remembering that, given its nature, it does not need to comply with all requirements of labor laws, such as Social Security contributions (also related to wages). We do not discard this to result in an additional upward push to the share of total workers in the informal sector, with more of them bypassing the benefit of the increase and therefore the positive effect this could have on consumption growth. Considering these factors, we maintain our view that labor market dynamics, along the restraint coming from activity levels, will limit the possibility of a strong decline in the unemployment rate.

Informal employment % of total workers



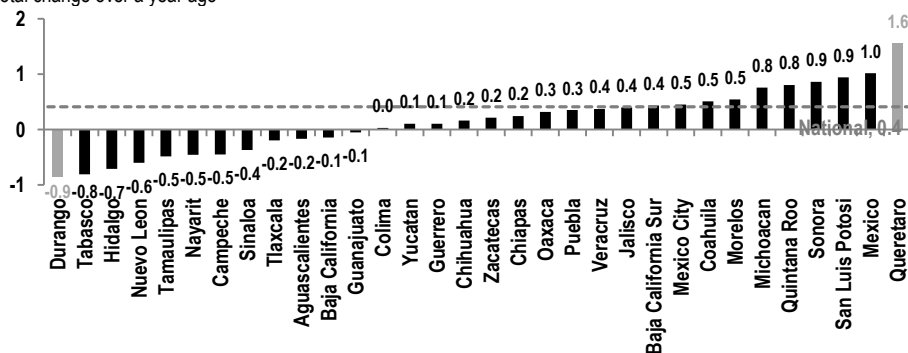
Source: IMSS, INEGI

At the state level

Durango posted the largest decline in the unemployment rate in the annual comparison. Analyzing non-seasonally adjusted figures (given that sa data for the federal entities is highly volatile), we highlight the 0.9pp annual reduction in Durango’s unemployment rate, going from 4.7% in October 2018 to 3.9% currently. The decline in annual terms is backed up by the 2,251 formal jobs created, partially explained by the support of the *National Employment Service Programs*. In this context, employment boards and job fairs placed more than 6,300 people into new jobs. Also, this dynamism is partly driven by the “*Christmas Season Employment Fair*” in October, where 40 companies offered around 450 types of jobs mainly in the commerce, service and industry sectors. In addition, we also note that 22 out of the 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: October 2019

total change over a year ago



Source INEGI:

The labor market in Tabasco, Hidalgo, Nuevo Leon, and Tamaulipas has improved substantially, with significant declines in the unemployment rate. However, in Queretaro, Mexico, San Luis Potosi, Sonora, and Quintana Roo it has worsened. Last but not least, the lowest level of the unemployment rate was seen again in Guerrero (1.6%). This implies a 0.2pp increase relative to the same month of the previous year. Moreover, Tabasco continuous as the state with the highest unemployment rate in the country (7%) as shown in the following table.

Unemployment rate by state – October 2019

%; nsa

| | Oct-19 | Oct-18 | Jan-Oct '19 | diferencia |
|---------------------|------------|------------|-------------|------------|
| Durango | 3.9 | 4.7 | 4.3 | -0.9 |
| Tabasco | 7.0 | 7.8 | 7.2 | -0.8 |
| Hidalgo | 2.4 | 3.1 | 2.4 | -0.7 |
| Nuevo Leon | 3.2 | 3.8 | 3.5 | -0.6 |
| Tamaulipas | 3.7 | 4.2 | 3.4 | -0.5 |
| Nayarit | 4.1 | 4.5 | 4.0 | -0.5 |
| Campeche | 3.1 | 3.6 | 3.3 | -0.5 |
| Sinaloa | 3.3 | 3.7 | 3.3 | -0.4 |
| Tlaxcala | 3.7 | 3.9 | 4.0 | -0.2 |
| Aguascalientes | 3.5 | 3.7 | 3.6 | -0.2 |
| Baja California | 2.8 | 2.9 | 2.6 | -0.1 |
| Guanajuato | 3.6 | 3.6 | 3.8 | -0.1 |
| Colima | 3.5 | 3.4 | 3.7 | 0.0 |
| Yucatan | 2.0 | 1.9 | 1.9 | 0.1 |
| Guerrero | 1.6 | 1.4 | 1.5 | 0.1 |
| Chihuahua | 3.0 | 2.8 | 3.1 | 0.2 |
| Zacatecas | 3.0 | 2.8 | 3.1 | 0.2 |
| Chiapas | 3.3 | 3.0 | 3.4 | 0.2 |
| Oaxaca | 1.8 | 1.5 | 1.7 | 0.3 |
| Puebla | 2.9 | 2.6 | 2.7 | 0.3 |
| Veracruz | 3.3 | 3.0 | 2.9 | 0.4 |
| Jalisco | 3.3 | 3.0 | 2.9 | 0.4 |
| National | 3.6 | 3.2 | 3.6 | 0.4 |
| Baja California Sur | 4.6 | 4.2 | 4.0 | 0.4 |
| Mexico City | 5.2 | 4.7 | 5.1 | 0.5 |
| Coahuila | 5.2 | 4.7 | 4.6 | 0.5 |
| Morelos | 3.1 | 2.5 | 2.3 | 0.5 |
| Michoacan | 3.4 | 2.6 | 2.7 | 0.8 |
| Quintana Roo | 3.5 | 2.7 | 3.1 | 0.8 |
| Sonora | 4.2 | 3.4 | 4.4 | 0.9 |
| San Luis Potosi | 3.3 | 2.3 | 2.7 | 0.9 |
| State of Mexico | 4.9 | 3.9 | 4.5 | 1.0 |
| Queretaro | 5.8 | 4.2 | 4.1 | 1.6 |

Source: INEGI

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

| | | | |
|-------------------------|--------------------------------------|------------------------------|------------------|
| Gabriel Casillas Olvera | Chief Economist and Head of Research | gabriel.casillas@banorte.com | (55) 4433 - 4695 |
| Raquel Vázquez Godínez | Assistant | raquel.vazquez@banorte.com | (55) 1670 - 2967 |

Economic Analysis

| | | | |
|----------------------------------|---|--------------------------------------|-------------------------|
| Delia María Paredes Mier | Executive Director of Economic Analysis | delia.paredes@banorte.com | (55) 5268 - 1694 |
| Katia Celina Goya Ostos | Senior, Global Economist | katia.goya@banorte.com | (55) 1670 - 1821 |
| Juan Carlos Alderete Macal, CFA | Senior Economist, Mexico | juan.alderete.macal@banorte.com | (55) 1103 - 4046 |
| Miguel Alejandro Calvo Domínguez | Economist, Regional | miguel.calvo@banorte.com | (55) 1670 - 2220 |
| Francisco José Flores Serrano | Economist, Mexico | francisco.flores.serrano@banorte.com | (55) 1670 - 2957 |
| Luis Leopoldo López Salinas | Analyst, Global Economist | luis.lopez.salinas@banorte.com | (55) 1103 - 4000 x 2707 |
| Lourdes Calvo Fernández | Analyst (Edition) | lourdes.calvo@banorte.com | (55) 1103 - 4000 x 2611 |

Fixed income and FX Strategy

| | | | |
|----------------------------|---------------------------------------|---------------------------------|------------------|
| Alejandro Padilla Santana | Head Strategist – Fixed income and FX | alejandro.padilla@banorte.com | (55) 1103 - 4043 |
| Santiago Leal Singer | FX Senior Strategist | santiago.leal@banorte.com | (55) 1670 - 2144 |
| Leslie Thalía Orozco Vélez | Fixed Income and FX Strategist | leslie.orozco.velez@banorte.com | (55) 5268 - 1698 |

Equity Strategy

| | | | |
|--------------------------------|--|------------------------------------|-------------------------|
| Manuel Jiménez Zaldivar | Director Equity Research — Telecommunications / Media | manuel.jimenez@banorte.com | (55) 5268 - 1671 |
| Víctor Hugo Cortes Castro | Technical Analysis | victorh.cortes@banorte.com | (55) 1670 - 1800 |
| Marissa Garza Ostos | Equity Research – Conglomerates / Financials/ Mining / Petrochemicals | marissa.garza@banorte.com | (55) 1670 - 1719 |
| José Itzamna Espitia Hernández | Equity Research – Airlines / Airports / Cement / Infrastructure / REITs | jose.espitia@banorte.com | (55) 1670 - 2249 |
| Valentín III Mendoza Balderas | Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail | valentin.mendoza@banorte.com | (55) 1670 - 2250 |
| Jorge Antonio Izquierdo Lobato | Analyst | jorge.izquierdo.lobato@banorte.com | (55) 1670 - 1746 |
| Eridani Ruibal Ortega | Analyst | eridani.ruibal.ortega@banorte.com | (55) 1103 – 4000 x 2755 |
| Itzel Martínez Rojas | Analyst | itzel.martinez.rojas@banorte.com | (55) 1670 - 2251 |

Corporate Debt

| | | | |
|-------------------------------|-------------------------|------------------------------------|------------------|
| Tania Abdul Massih Jacobo | Director Corporate Debt | tania.abdul@banorte.com | (55) 5268 - 1672 |
| Hugo Armando Gómez Solís | Senior, Corporate Debt | hugo.gomez@banorte.com | (55) 1670 - 2247 |
| Gerardo Daniel Valle Trujillo | Manager, Corporate Debt | gerardo.valle.trujillo@banorte.com | (55) 1670 - 2248 |

Wholesale Banking

| | | | |
|--------------------------------|---|--|------------------|
| Armando Rodal Espinosa | Head of Wholesale Banking | armando.rodal@banorte.com | (81) 8319 - 6895 |
| Alejandro Eric Faesi Puente | Head of Global Markets and Institutional Sales | alejandro.faesi@banorte.com | (55) 5268 - 1640 |
| Alejandro Aguilar Ceballos | Head of Asset Management | alejandro.aguilar.cebaldos@banorte.com | (55) 5268 - 9996 |
| Arturo Monroy Ballesteros | Head of Investment Banking and Structured Finance | arturo.monroy.ballesteros@banorte.com | (55) 5004 - 1002 |
| 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 |
| René Gerardo Pimentel Ibarrola | Head of Corporate Banking | pimentelr@banorte.com | (55) 5268 - 9004 |
| Ricardo Velázquez Rodríguez | Head of International Banking | rvlazquez@banorte.com | (55) 5004 - 5279 |
| Víctor Antonio Roldan Ferrer | Head of Commercial Banking | victor.rolan.ferrer@banorte.com | (55) 5004 - 1454 |