

Higher unemployment rate in July on more modest economic activity

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- **Unemployment rate (July; sa): 3.58%; Banorte: 3.57%; consensus: 3.59% (range of estimates: 3.50% to 3.75%); previous: 3.54%**
- **Part-time workers: 7.60% (previous: 7.57%); Participation rate: 60.03% (previous: 60.16%)**
- **The unemployment rate reached a maximum since December 2016. We also highlight the increase in part-time workers and the decline in the participation rate, suggesting higher slack of the labor market**
- **On a more positive note, the share of informal workers fell to a low not seen since October 2018**
- **We maintain our view that the unemployment rate will keep increasing gradually, with some risks to the upside to our year-end estimate around 3.6%**
- **Veracruz was the state with the largest decline in the unemployment rate in the annual comparison**

Unemployment rate edges-up for third consecutive month. According to INEGI's report, the rate stood at 3.58% in July (seasonally-adjusted figures), virtually in line with our estimate of 3.57%. It should be noted that figures for the two previous months were revised higher again. As a result, the unemployment rate has increased for three consecutive months. In our view, the details of the report are also weak. In particular, we highlight the increase in part-time workers to 7.60% –increasing in the last five prints– coupled with the decline in the participation rate. On a more positive note, the share of informal employment fell to 55.93%, driven by the decline of 87bps during the month in those related to the formal economy. In our view, the report is negative, with the unemployment rate gradually trending higher and consistent with higher slack in the labor market which we believe is reflecting the deceleration of economic activity, especially in domestic demand.

INEGI's employment report: July 2019

Seasonally adjusted figures

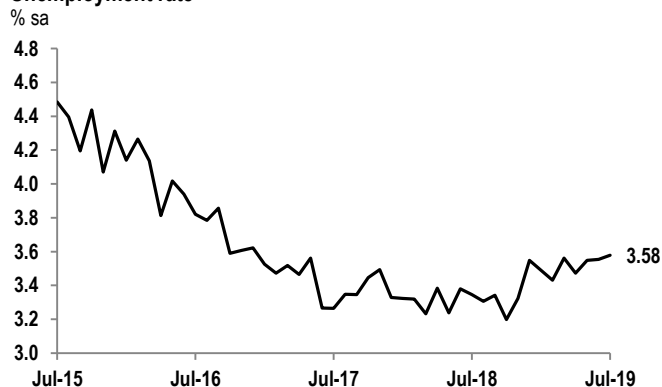
%	Jul-19	Jun-19	Difference
Unemployment rate	3.58	3.55	0.02
Participation rate	60.03	60.16	-0.13
Part-time workers rate	7.60	7.57	0.02
Formal employment	44.07	43.30	0.78
Informal employment¹	55.93	56.70	-0.78
Working in the informal economy	27.53	27.43	0.10
Working in the formal economy	28.40	29.27	-0.87

Source: INEGI

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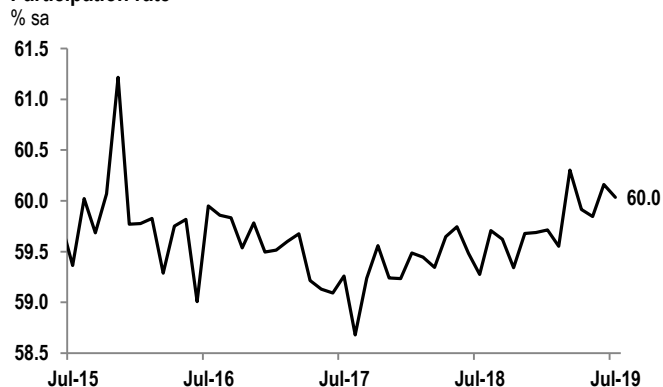
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



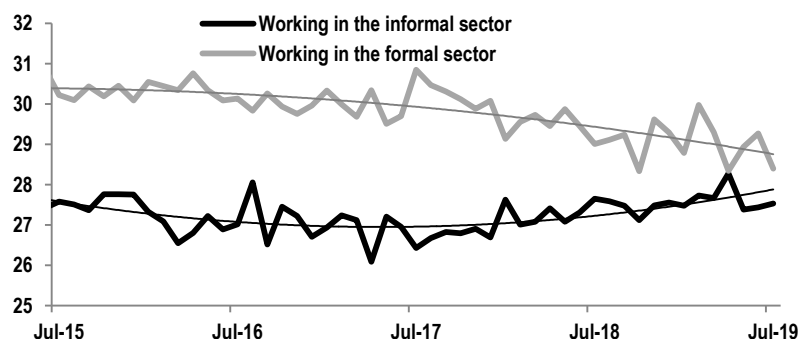
Source: Banorte with data from INEGI

Upside risks to our year-end unemployment rate forecast. It is our take that the details of the report point to more weakness than what is suggested by looking only at the level of the unemployment rate, mainly driven by the stagnation in economic activity. In this respect, we estimate the output gap around -0.8% of potential GDP, standing in negative territory since December. Taking into account that the unemployment rate tends to lag activity figures, we believe that upside risks to our year-end forecast of 3.6% have increased. In this context, we should note that: (1) The pace of formal job creation keeps moderating, reaching 2.2% yoy in July, lowest since 1Q10; and (2) business confidence remains low, signaling to us low appetite of the private sector to increase capacity. On the contrary, we see as positive the strong fall in the share of workers in the informal economy, so we will see if this decline is confirmed in coming months as we have observed a gradual uptick in this type of employment (see chart below).

We maintain our view of a slowdown in private consumption, estimated to grow 1.4% yoy in 2019, below the 2.2% observed in the previous year. We still believe that dynamism will gradually recover during the second half, as social programs gather pace, inflation pressures diminish and provide further support to real wage gains, and government spending normalizes. Nevertheless, this would not be enough to reverse the increase in the unemployment rate, more so in a context of not only a deceleration in domestic demand but also with heightened concerns about the dynamism of the global economy.

Informal employment

% of total workers



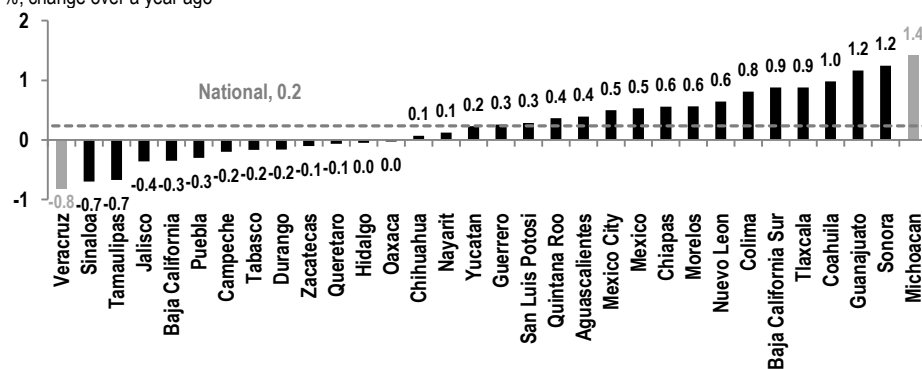
Source: IMSS, INEGI

At the state level

Veracruz was the state with the largest decline in the unemployment rate in the annual comparison. Analyzing non-seasonally figures, (given that the data for federal entities are highly volatile), we highlight the 0.8pp annual reduction in Veracruz’s unemployment rate, from 3.7% in July 2018 to 2.9%. However, this is the highest in the last three months. The decline in annual terms is backed up by the 1% yoy increase in formal jobs, partially explained by the support of the *National Service of Employment Programs*. In this context, employment boards placed more than 2,400 people into new jobs. Also, this dynamism is partly due to the implementation of the “*Transistmic Corridor*” combined with the Special Economic Zones, which seeks to boost growth in Veracruz and Oaxaca through the modernization of 300 kilometers of railway tracks that link both states. For its part, the Corridor will generate a route for the supply of electricity and oil to the center and north of the country, as well as the increase in trade with Europe, Asia, Canada and the United States. On the other hand, we noted that 16 out of the 32 states showed a better performance relative to the national level, as shown in the following graph.

Change in the unemployment rate by state: July 2019

% change over a year ago



Source INEGI:

The labor market in Sinaloa, Tamaulipas, Jalisco, and Baja California improved substantially, with significant declines in the unemployment rate. However, Michoacán, Sonora, Guanajuato, Coahuila, and Tlaxcala worsened. Last but not least, the lowest unemployment rate was registered in Guerrero (1.4%), albeit 0.3pp higher with respect than the same month of the previous year. Moreover, Tabasco continues with the highest unemployment of the country (6.3%). Nonetheless, this rate is the lowest in the entity since May 2018 –refer to the following table–.

Unemployment rate by state – July 2019

%; nsa

	Jul-19	Jul-18	Jan-Jul'19	Difference
Veracruz	2.9	3.7	2.7	-0.8
Sinaloa	3.1	3.8	3.3	-0.7
Tamaulipas	3.0	3.7	3.4	-0.7
Jalisco	2.8	3.1	2.8	-0.4
Baja California	2.5	2.8	2.4	-0.3
Puebla	2.9	3.2	2.6	-0.3
Campeche	3.2	3.4	3.4	-0.2
Tabasco	6.3	6.5	7.2	-0.2
Durango	4.1	4.2	4.5	-0.2
Zacatecas	3.0	3.1	3.1	-0.1
Queretaro	4.3	4.3	3.6	-0.1
Hidalgo	2.6	2.6	2.5	0.0
Oaxaca	1.6	1.6	1.6	0.0
Chihuahua	3.2	3.2	3.1	0.1
Nayarit	4.5	4.4	3.8	0.1
Yucatan	2.1	1.8	1.8	0.2
National	3.7	3.5	3.5	0.2
Guerrero	1.4	1.1	1.6	0.3
San Luis Potosi	2.8	2.6	2.4	0.3
Quintana Roo	3.0	2.7	2.9	0.4
Aguascalientes	3.8	3.4	3.5	0.4
Mexico City	5.0	4.5	5.1	0.5
State of Mexico	4.6	4.1	4.3	0.5
Chiapas	3.4	2.8	3.4	0.6
Morelos	2.5	1.9	2.1	0.6
Nuevo Leon	4.0	3.3	3.5	0.6
Colima	3.7	2.9	3.8	0.8
Baja California Sur	4.6	3.7	3.8	0.9
Tlaxcala	4.2	3.3	4.1	0.9
Coahuila	5.1	4.1	4.4	1.0
Guanajuato	4.1	2.9	3.8	1.2
Sonora	5.1	3.9	4.2	1.2
Michoacan	3.0	1.6	2.5	1.4

Source: INEGI

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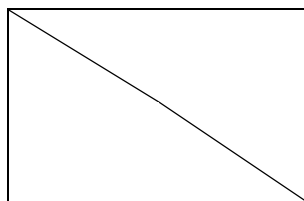
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