Employment report – Marginal decrease in September's unemployment rate

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- **Unemployment rate (September; seasonally adjusted figures): 3.3%; Banorte-Ixe: 3.2%; consensus: 3.29%; previous: 3.31%**
- **Part-time workers: 7.4% (previous: 6.9%); participation rate: 59.3% (previous: 58.8%; seasonally adjusted figures)**
- **Looking ahead, we expect unemployment rate to oscillate around these levels in the second half of the year**
- **Sonora stands out as the federal entity with the largest reduction in its unemployment rate for the second consecutive month**

Slight decrease in unemployment rate. According to *INEGI's* report published today, the unemployment rate stood at 3.3% in September, above our 3.2% forecast (*Bloomberg's* median forecast: 3.29%). This number implies a marginal 0.01%-pts decrease from August's rate. Moreover, the part-time workers rate increased to 7.4% from 6.9%, while the participation rate rose to 59.3% from 58.8%, as shown in the table below.

Regarding the informal economy, September's results show an expansion, despite the positive numbers regarding formal employment published during the week. The percentage of workers who are incorporated in the informal sector represents 26.9% of Mexico's total labor force, which implies a 0.2%-pts increase from August's revised figure. Moreover, the percentage of informal workers (without any contractual obligation) –either in the formal or in the informal economy–, represents 57.2% of the Mexican workforce, which implies a 0.1%-pts increase from last month's figure.

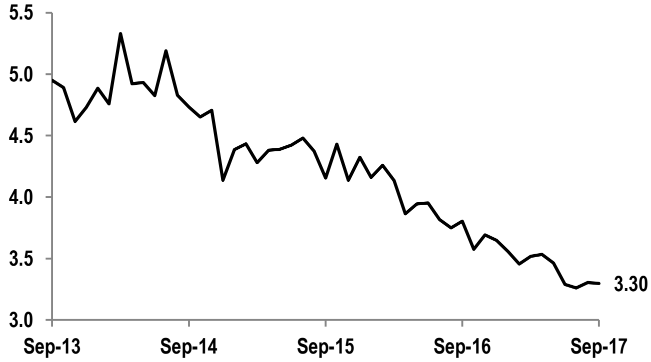
INEGI's employment report: September 2017
Seasonally adjusted

%	Sep-17	Aug-17	Difference
Unemployment rate	3.3	3.29	-0.01
Participation rate	59.3	58.8	0.5
Part-time workers rate	7.4	6.9	0.5
Informal employment[1]	57.2	57.1	0.1
Working in the informal economy	26.9	26.7	0.2
Working in the formal economy	30.3	30.4	-0.1

Source: INEGI

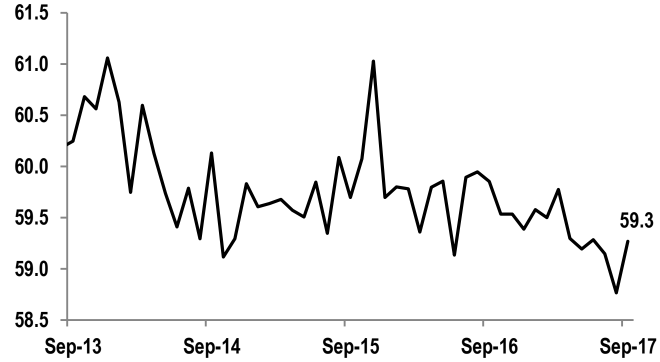
[1] Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate
% seasonally adjusted



Source: Banorte-Ixe with data from INEGI

Participation rate
% seasonally adjusted



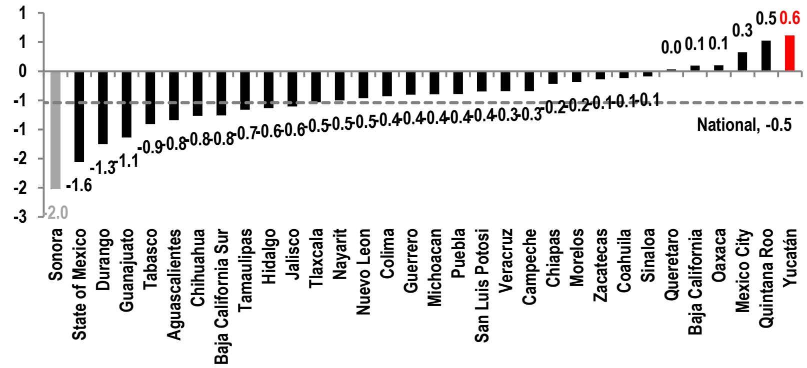
Source: Banorte-Ixe with data from INEGI

Looking ahead, we expect unemployment rate to oscillate around these levels in the fourth quarter of the year. Despite the recent increase in uncertainty about the future of the US-Mexico trade relationship, we believe that this will have a favorable conclusion, which in turn will positively influence employment performance. In addition, it will be positively impacted once reconstruction efforts begin to repair the damage that occurred due to September's earthquakes. However, we foresee that this will be partially offset by the downward trend in public spending, which has already translated in a higher number of unemployed workers.

Regional analysis

Sonora stands out as the federal entity with the largest reduction in its unemployment rate for the second consecutive month. Analyzing the original figures published by *INEGI*, (given that the seasonally adjusted figures for the federal entities are highly volatile), we highlight for the second consecutive month, the 2pp annual reduction in Sonora's unemployment rate, which stood at 3.9%. Moreover, unemployment rate in Sonora stands at 3.7% YTD. In this context, the reduction in the state's unemployment rate was accompanied by a 4.3% yoy increase in the job creation within the formal economy, with the arrival of new investments of 26 companies in the agricultural sector and the growth in education infrastructure. At the national level, we highlight that only 11 entities out of the 32 that make up the Mexican Republic showed a smaller difference in the unemployment rate than that observed at the national level, as shown in next page graph.

Minor and major difference in the unemployment rate by state
% nsa



Source: INEGI

In addition, in the State of Mexico, Durango, Guanajuato and Tabasco, the labor market has improved substantially vs. September 2016 with significant declines in their unemployment rates. However, in Yucatán, Quintana Roo, Mexico City, Oaxaca, and Baja California, the unemployment rates have substantially increased since September'16, as shown in the following table.

Unemployment rate by state
%; nsa

	Sep-17	Sep-16	Jan-Sep, '17	Difference
Sonora	**3.9**	**5.9**	**3.7**	**-2.0**
State of Mexico	4.3	5.8	4.1	-1.6
Durango	3.8	5.0	3.8	-1.3
Guanajuato	2.8	3.9	3.4	-1.1
Tabasco	7.1	8.0	7.2	-0.9
Aguascalientes	3.3	4.1	3.7	-0.8
Chihuahua	2.5	3.3	2.8	-0.8
Baja California Sur	4.4	5.2	4.2	-0.8
Tamaulipas	4.4	5.1	4.1	-0.7
Hidalgo	2.3	2.9	3.0	-0.6
Jalisco	2.9	3.5	2.8	-0.6
National	***3.6***	***4.1***	***3.4***	***-0.5***
Tlaxcala	4.0	4.5	3.6	-0.5
Nayarit	4.0	4.5	3.3	-0.5
Nuevo Leon	3.9	4.4	3.8	-0.5
Colima	3.7	4.2	3.6	-0.4
Guerrero	1.5	1.9	1.8	-0.4
Michoacan	2.6	3.0	2.7	-0.4
Puebla	2.8	3.2	2.8	-0.4
San Luis Potosi	2.4	2.7	2.3	-0.4
Veracruz	3.1	3.5	3.4	-0.3
Campeche	4.0	4.3	3.9	-0.3
Chiapas	3.0	3.2	2.7	-0.2
Morelos	2.7	2.9	1.8	-0.2
Zacatecas	2.6	2.8	2.7	-0.1
Coahuila	4.3	4.4	4.5	-0.1
Sinaloa	3.9	4.0	3.5	-0.1
Queretaro	4.1	4.1	4.3	0.0
Baja California	3.0	2.9	2.8	0.1
Oaxaca	2.1	2.0	2.2	0.1
Mexico City	5.2	4.9	4.4	0.3
Quintana Roo	3.4	2.8	3.1	0.5
Yucatan	2.6	2.0	2.1	0.6

Source: INEGI

As part of the earthquake effects occurred in September, we believe that those events did not affect unemployment rate in the states associated with this matter, thanks to the programs implemented by the government for those affected by the earthquakes. Looking ahead, we expect that unemployment rate in these states could show a reduction in their unemployment rates in the coming months once the reconstruction process has begun.

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