

Unemployment rate picked up in May, with other indicators also with a negative bias

- **Unemployment rate (May; sa): 3.48%; Banorte: 3.52%; consensus: 3.50% (range of estimates: 3.34% to 3.70%); previous: 3.45%**
- **Part-time workers: 7.51% (previous: 7.40%); Participation rate: 59.84% (previous: 59.90%)**
- **While the unemployment rate rebounded slightly after improving in April, the rest of the components showed a more negative performance**
- **Part-time workers in conjunction with a lower participation rate, suggesting a less dynamic labor market**
- **The unemployment rate is likely to be limited to the downside as the pace of formal job creation keeps decelerating, while activity in the services sector has downshifted**
- **In this respect, we believe risks to dynamism in consumption growth have increased, albeit with other fundamentals still relatively strong**
- **For the second consecutive month, Hidalgo stood out as the state with the largest reduction in the unemployment rate in the annual comparison**

Unemployment rate picks up in May. According to *INEGI's* report, the rate stood at 3.48% in May (seasonally-adjusted figures), above the 3.45% of the previous month but lower than consensus at 3.50%. Despite of the latter, the increase was not enough to reverse the downward adjustment in April. In our view the details show a more negative performance, with the part-time workers rate deteriorating further while the participation rate fell again, as shown in the table below. In that respect, the complete set of data suggests to us that labor conditions are worsening gradually, likely a result of lower economic activity.

Regarding informal workers, the share of those in the formal economy increased from 28.44% to 28.95%, On the contrary, those purely informal declined to 28.20% from 20.41% As a result, the total in the sector declined to 56.37%, which was the only positive development within the report.

INEGI's employment report: May 2019

Seasonally adjusted figures

| % | May-19 | Apr-19 | Difference |
|--|--------|--------|------------|
| Unemployment rate | 3.48 | 3.45 | 0.03 |
| Participation rate | 59.84 | 59.90 | -0.06 |
| Part-time workers rate | 7.51 | 7.40 | 0.11 |
| Formal employment | 43.63 | 43.36 | 0.27 |
| Informal employment¹ | 56.37 | 56.64 | -0.27 |
| Working in the informal economy | 27.41 | 28.20 | -0.79 |
| Working in the formal economy | 28.95 | 28.44 | 0.51 |

Source: INEGI

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www.banorte.com
@analisis_fundam

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

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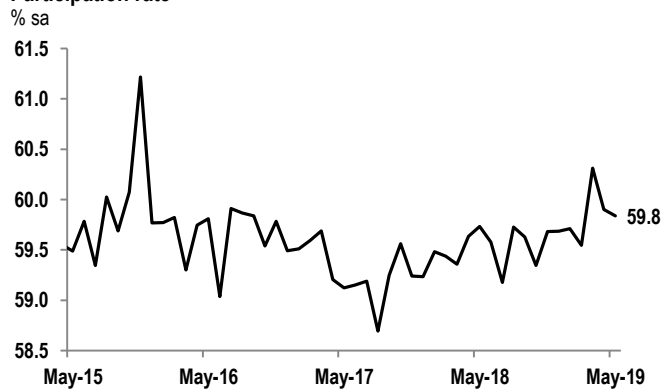
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

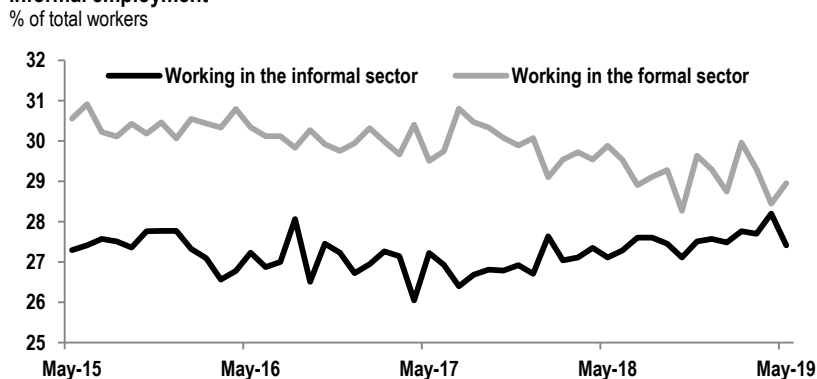
Participation rate



Source: Banorte with data from INEGI

We maintain our view of a possible slowdown in consumption as the labor market cools off. Similar to April, we believe that the full details of the report show a more negative performance than looking only at the headline unemployment rate. The latter, in spite of a reduction in the purely informal sector, which had been gaining relative importance in recent months (see chart below). In particular, the formal job market has slowed down persistently since mid-2018, while there are increasing signs of a moderation in services as shown by April's IGAE. In our view, this is an increasingly relevant risk for consumption growth. Nevertheless, other factors remain positive for the latter, such as real wage gains (which continue at a brisk pace since last January, also helped by lower non-core inflation), remittances and banking credit. Additionally, social programs' transfers of the Federal Government are likely to broaden their scope gradually and have a positive effect on income, particularly for those groups with a relatively higher marginal propensity to consume. Nevertheless, further delays and other austerity measures in other government programs could limit their impact this year. All in all, we believe that the unemployment rate will keep increasing gradually, with our year-end forecast at 3.6%.

Informal employment



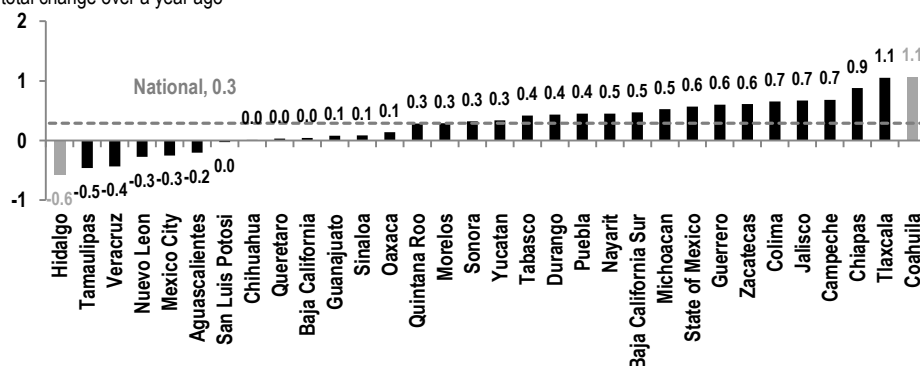
Source: IMSS, INEGI

At the state level

For the second consecutive month, Hidalgo stood out as the state with the largest accumulated reduction in the unemployment rate relative to the annual comparison. Analyzing non-seasonally adjusted figures (given that sa data for federal entities are highly volatile), we highlight that, for the second consecutive time, the 0.6pp annual reduction in Hidalgo’s unemployment rate was the highest among states, from 3.2% in May 2018 to 2.6% currently. This was backed up with an increase of 4.3% annual in the creation of formal jobs, partially explained by the support of the *National Service of Employment Programs*. Employment boards and job fairs gave attention to 69,000 people, of which more than 13,000 were placed into new jobs. Moreover, we note 15 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: May 2019

total change over a year ago



Source INEGI

The labor market in Tamaulipas, Veracruz, Nuevo Leon, and Mexico City has improved substantially, showing significant declines in the unemployment rate. However, Coahuila (with the widest spread between May’19 vs. May ’18), Tlaxcala, Chiapas, Campeche, and Jalisco have worsened. Last but not least, the lowest level of the unemployment rate was observed again in Oaxaca (1.3%). Nevertheless, this implies a 0.1pp increase with respect to the same month of the previous year. Moreover, Tabasco continues with the highest rate in the country (6.7%). Nevertheless, this has been the lowest in the state in the last 10 months—refer to the following table—.

Unemployment rate by state – May 2019

%; nsa

| | May-19 | May-18 | Jan-may'19 | Difference |
|---------------------|------------|------------|------------|------------|
| Hidalgo | 2.6 | 3.2 | 2.4 | -0.6 |
| Tamaulipas | 3.2 | 3.6 | 3.5 | -0.5 |
| Veracruz | 2.6 | 3.1 | 2.7 | -0.4 |
| Nuevo Leon | 3.4 | 3.7 | 3.3 | -0.3 |
| Mexico City | 4.7 | 5.0 | 5.1 | -0.3 |
| Aguascalientes | 3.3 | 3.5 | 3.4 | -0.2 |
| San Luis Potosi | 2.4 | 2.4 | 2.3 | 0.0 |
| Chihuahua | 3.5 | 3.5 | 3.0 | 0.0 |
| Queretaro | 4.0 | 4.0 | 3.3 | 0.0 |
| Baja California | 2.4 | 2.4 | 2.4 | 0.0 |
| Guanajuato | 3.5 | 3.4 | 3.8 | 0.1 |
| Sinaloa | 3.2 | 3.2 | 3.4 | 0.1 |
| Oaxaca | 1.3 | 1.2 | 1.7 | 0.1 |
| Quintana Roo | 2.8 | 2.5 | 3.0 | 0.3 |
| Morelos | 2.4 | 2.1 | 2.0 | 0.3 |
| National | 3.5 | 3.2 | 3.4 | 0.3 |
| Sonora | 3.6 | 3.3 | 4.0 | 0.3 |
| Yucatan | 1.7 | 1.4 | 1.7 | 0.3 |
| Tabasco | 6.7 | 6.2 | 7.5 | 0.4 |
| Durango | 4.7 | 4.2 | 4.6 | 0.4 |
| Puebla | 2.5 | 2.1 | 2.6 | 0.4 |
| Nayarit | 4.1 | 3.7 | 3.6 | 0.5 |
| Baja California Sur | 4.1 | 3.6 | 3.5 | 0.5 |
| Michoacan | 2.5 | 1.9 | 2.4 | 0.5 |
| State of Mexico | 4.4 | 3.9 | 4.3 | 0.6 |
| Guerrero | 1.6 | 1.0 | 1.6 | 0.6 |
| Zacatecas | 3.3 | 2.6 | 3.1 | 0.6 |
| Colima | 3.5 | 2.9 | 3.8 | 0.7 |
| Jalisco | 3.2 | 2.5 | 2.8 | 0.7 |
| Campeche | 3.4 | 2.7 | 3.5 | 0.7 |
| Chiapas | 3.4 | 2.5 | 3.4 | 0.9 |
| Tlaxcala | 4.1 | 3.1 | 4.0 | 1.1 |
| Coahuila | 4.8 | 3.7 | 4.2 | 1.1 |

Source: INEGI

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|-------------|---|
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| | <p><i>When the share expected performance is greater than the MEXBOL estimated performance.</i></p> <p><i>When the share expected performance is similar to the MEXBOL estimated performance.</i></p> <p><i>When the share expected performance is lower than the MEXBOL estimated performance.</i></p> |

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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 |
| Francisco Duarte Alcocer | Analyst, Global Economist | francisco.duarte.alcocer@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 Thalia 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 |
| Victor 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 |
| 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 | (55) 1670 - 1889 |
| 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.cebillos@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 Asset Management | pimentelr@banorte.com | (55) 5268 - 9004 |
| Ricardo Velázquez Rodríguez | Head of International Banking | rvelazquez@banorte.com | (55) 5004 - 5279 |
| Victor Antonio Roldan Ferrer | Head of Corporate Banking | victor.rolan.ferrer@banorte.com | (55) 5004 - 1454 |