

Unemployment rate at a new low

November 27, 2018

- **Unemployment rate (October; sa): 3.19%; Banorte: 3.35%; consensus: 3.35%; previous: 3.31%**
- **Part-time workers: 6.62% (previous: 6.66%); Participation rate: 59.27% (previous: 59.59%; sa)**
- **Today's report was very positive considering that the unemployment rate reached a new low in the history of this particular indicator, which dates back to January 2005**
- **Going forward, we believe the unemployment rate could pick up slightly given our expectation of more modest economic growth in 4Q18 and the impact of a new administration coming into office**
- **Oaxaca stands out as the federal entity with the largest reduction in its unemployment rate in comparison with the previous year**

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Positive results from the employment report in October. According to INEGI's report published today, the unemployment rate stood at 3.19% in October (seasonally adjusted), reaching a new low in the history of this indicator. It is worth noting that this new particular measurement results from the National Employment Survey (*Encuesta Nacional de Ocupación y Empleo*, or *ENOE* in Spanish) dating back to January 2005.

Part-time workers –representing those employees willing to work additional hours- improved to 6.62% from 6.66% in the previous month, not observed since August 2017. In spite of these results, the participation rate decreased from 59.59% to 59.27%. In this context and although we can't deny that the report was favorable, the decrease in the participation rate is slightly less positive than what the headline print shows.

Regarding informal employment, the share of total workers in this situation fell, representing 55.31% of the total labor force from 56.66% previously. From this figure, those categorized as purely informal decreased almost one percentage points, to 28.43% (see table below for details).

INEGI's employment report: October 2018

Seasonally adjusted figures

%	Oct-18	Sep-18	Difference
Unemployment rate	3.19	3.31	-0.12
Participation rate	59.27	59.59	-0.32
Part-time workers rate	6.62	6.66	-0.04
Informal employment ¹	55.31	56.66	-1.35
Working in the informal economy	27.08	27.44	-0.36
Working in the formal economy	28.23	29.23	-0.99

Source: INEGI

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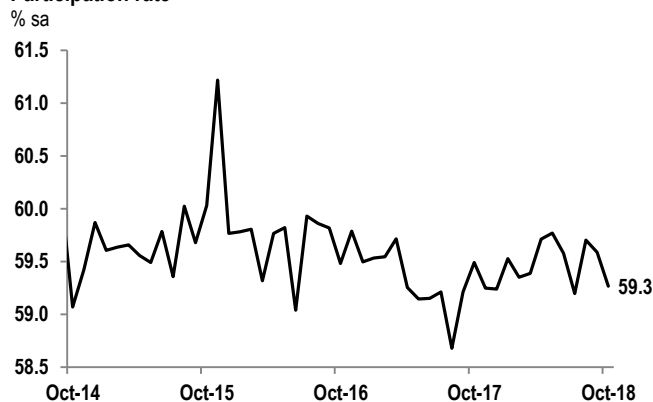
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

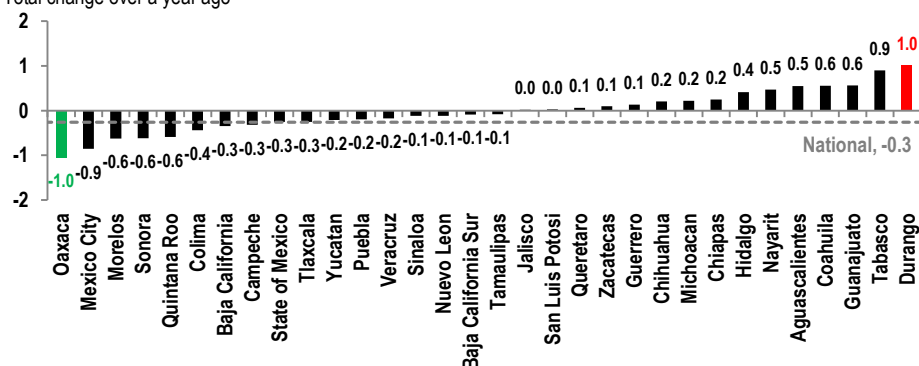
Looking ahead, we believe unemployment will stay low but could snap back in coming months. In our view, unemployment will remain at similar levels in coming months as the economy maintains a relatively good performance, growing near potential. Nevertheless, it is our take that a modest deceleration in economic activity is likely in 4Q18, so we could have some adjustment in employment in coming months. In addition, it is also worth remembering that employment changes are highly likely in the public sector as a result of the new administration coming into office, as seen both in December 2006 and 2012. In particular, the participation rate would remain broadly stable (as these workers should not get out of the labor force) while frictional unemployment increases. However, and once these new positions are filled, labor market conditions will likely normalize in the data at still relatively favorable levels.

At the state level

Oaxaca stands out as the federal entity with the largest reduction in its unemployment rate in comparison with the previous year. Analyzing the non-seasonally figures published by *INEGI*, (given that the seasonally adjusted figures for the federal entities are highly volatile), we highlight the 1pp annual reduction in Oaxaca's unemployment rate, going from 2.5% in October 2017 to 1.5% in the current month, thus standing 1.7pp lower than the national average and reaching its lowest level since January 2018. In this context, the reduction in the entity's unemployment rate was partially explained by the support of the *National Service of Employment Programs*, particularly through the employment web portal. Moreover, we note that the unemployment rate in 8 out of the 32 states showed a sharper reduction than the one observed at the national level, as shown in the following graph.

Minor and major difference in the unemployment rate by state: October 2018

Total change over a year ago



Source INEGI:

In addition, the labor market in Mexico City, Morelos, Sonora, and Quintana Roo has improved substantially, with significant declines in terms of the unemployment rate. However, in Durango –highest difference between Oct '18 vs. Oct '17 of the country for the second consecutive month–, Tabasco, Guanajuato, Coahuila, and Aguascalientes the unemployment rate has increased meaningfully, as shown in the following table.

Unemployment rate by state – October 2018

%; nsa

	Oct-18	Oct-17	Jan-Oct'18	Difference
Oaxaca	1.5	2.5	1.4	-1.0
Ciudad de México	4.7	5.6	4.4	-0.9
Morelos	2.5	3.1	2.1	-0.6
Sonora	3.4	4.0	3.7	-0.6
Quintana Roo	2.7	3.3	2.7	-0.6
Colima	3.4	3.9	3.1	-0.4
Baja California	2.9	3.3	2.6	-0.3
Campeche	3.6	3.9	3.1	-0.3
Nacional	3.2	3.5	3.3	-0.3
Estado de México	3.9	4.2	4.2	-0.3
Tlaxcala	3.9	4.2	3.5	-0.3
Yucatán	1.9	2.1	1.8	-0.2
Puebla	2.6	2.8	2.6	-0.2
Veracruz	3.0	3.1	3.2	-0.2
Sinaloa	3.7	3.8	3.3	-0.1
Nuevo León	3.8	3.9	3.6	-0.1
Baja California Sur	4.2	4.3	3.7	-0.1
Tamaulipas	4.2	4.3	3.9	-0.1
Jalisco	3.0	2.9	2.7	0.0
San Luis Potosí	2.3	2.3	2.6	0.0
Querétaro	4.2	4.1	3.9	0.1
Zacatecas	2.8	2.7	3.0	0.1
Guerrero	1.4	1.3	1.2	0.1
Chihuahua	2.8	2.6	3.3	0.2
Michoacán	2.6	2.4	2.1	0.2
Chiapas	3.0	2.8	2.6	0.2
Hidalgo	3.1	2.7	2.9	0.4
Nayarit	4.5	4.1	4.1	0.5
Aguascalientes	3.7	3.1	3.7	0.5
Coahuila	4.7	4.1	4.2	0.6
Guanajuato	3.6	3.1	3.4	0.6
Tabasco	7.8	6.9	7.1	0.9
Durango	4.7	3.7	4.3	1.0

Source: INEGI

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