

## Employment report – Lower unemployment for all the wrong reasons

- **Unemployment rate (February; seasonally adjusted figures): 3.46%; Banorte-Ixe: 3.70%; consensus: 3.64%; previous: 3.57%**
- **Part-time workers: 7.3% (previous: 7.2%); participation rate: 59.5% (previous: 59.6%; seasonally adjusted figures)**
- **Looking ahead, we expect a higher unemployment rate as a result of the uncertainty surrounding the future performance of the Mexican economy**
- **Mexico City stands out as the federal entity with the largest reduction in its unemployment rate in February 2017**

**Slight decrease in February’s unemployment rate.** According to *INEGI*’s report published today, the unemployment rate stood at 3.46% in February, below our 3.70% estimate (Bloomberg’s median forecast: 3.64%). This number implies a 0.11%-pts contraction from January’s rate. However, the fall in the unemployment rate was largely explained by the fall in the participation rate (-0.08%-pts m/m), while the part-time workers rate grew to 7.3% from 7.2%, as shown in the table below.

Regarding the informal economy, February’s results were also negative. The percentage of workers who are incorporated in the informal sector represents 27.3% of Mexico’s total workforce, which implies a 0.32%-pts expansion from January’s figure. Finally, the percentage of informal workers (without any contractual obligation) –either in the formal or in the informal economy–, continues to represent 57.2% of the Mexican workforce.

**INEGI’s employment report: February 2017**

%	Feb-17	Jan-17	Difference
Unemployment rate (EAP)	3.46	3.56	-0.10
Participation rate	59.51	59.59	-0.08
Part-time workers rate	7.29	7.17	0.12
Employment in the informal economy	27.24	26.92	0.32
Informal employment	57.27	57.27	0.01

Source: INEGI

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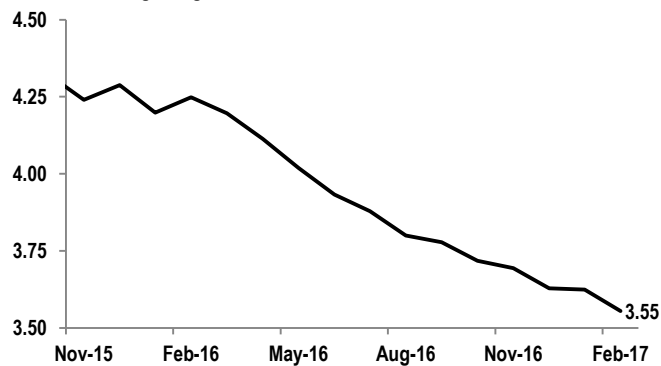
**Alejandro Cervantes**  
Senior Economist, Mexico  
alejandro.cervantes@banorte.com

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

**Miguel Calvo**  
Regional and Sectorial Economist  
miguel.calvo@banorte.com

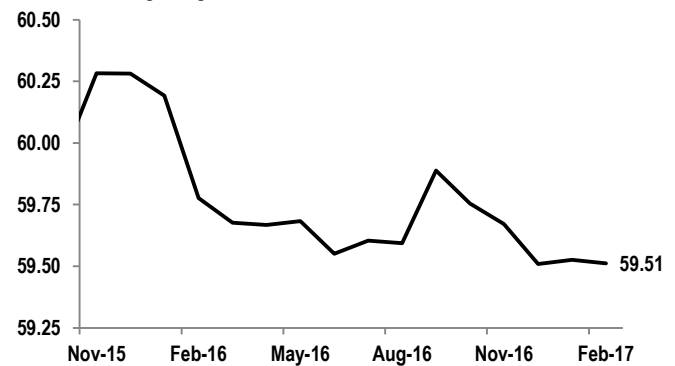
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**Unemployment rate**  
% sa, 3m moving average,



Source: Banorte-Ixe with data from INEGI

**Participation rate**  
% sa, 3m moving average,



Source: Banorte-Ixe with data from INEGI

**Looking ahead, we expect a higher unemployment rate as a result of the uncertainty surrounding the future performance of the Mexican economy.** Today's employment report suggests a slightly more negative outlook for the Mexican labor market during February, given that the unemployment rate edged down, as a result of the lower participation rate. In addition, the underemployment rate increased, while the percentage of workers in the informal economy increased.

In this regard, we continue believe that the unemployment rate will increase in the first half of the year as a result of: (1) The downward trend in public spending, which has already translated in a higher number of unemployed workers, and has affected private investment projects; and (2) the uncertainty around the possible policies the new administration in the US could implement.

*From our regional economist*

**Mexico City stands out as the federal entity with the largest reduction in its unemployment rate during February 2017.** Analyzing the original figures published by *INEGI*, (given that the seasonally adjusted figures for the federal entities are highly volatile), we highlight the 2.2pp reduction in Mexico City's unemployment rate during February, which stood at 3.6%. The unemployment rate in the state now stands at its lowest level since March 2005. With these figures, this entity continues to show better growth dynamics within the labor market than the other 31 states. Moreover, year-to-date, unemployment rate in this state stands at 3.9%, above the national average (3.5%). In this context, the reduction in February's unemployment rate in the entity was accompanied by a 4% yoy increase in the job creation within the formal economy.

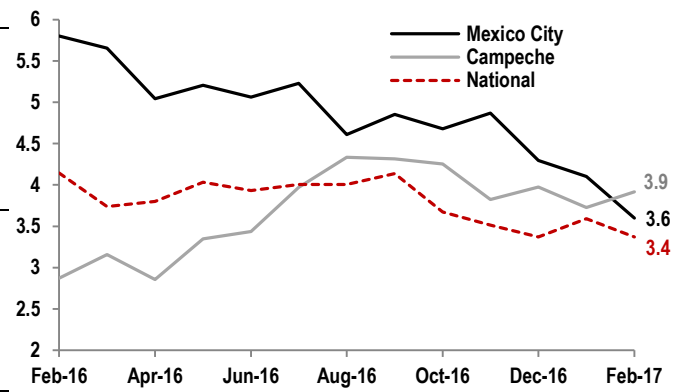
In addition, in Sonora, Tlaxcala, Nayarit, and San Luis Potosi, the labor market has improved substantially vs. February 2016 with significant declines in their unemployment rates. However, in Campeche, Quintana Roo, Michoacan, Oaxaca, and Veracruz, the unemployment rates substantially have increased since February 2016, as shown in the following table.

**Entities with minor and major changes in the unemployment rate: January-2017**  
%, nsa

	Feb-17	Feb-16	Difference	Jan-Feb. '17
Mexico City	3.6	5.8	-2.2	3.9
Sonora	3.4	5.0	-1.6	3.5
Tlaxcala	3.4	4.7	-1.4	3.4
Nayarit	3.0	4.2	-1.2	3.1
San Luis Potosi	1.7	2.8	-1.1	1.9
Campeche	3.9	2.9	1.0	3.8
Quintana Roo	3.3	2.7	0.6	3.4
Michoacan	2.9	2.7	0.2	2.7
Oaxaca	2.6	2.4	0.1	2.4
Veracruz	3.3	3.3	0.0	3.3

Source: INEGI

**Entities with minor and major difference in the unemployment rate**  
%, nsa



Source: INEGI

We highlight Morelos 1.6% unemployment rate, being the lowest of the 32 federal entities in February 2017. However, on the other hand, Tabasco's unemployment rate stands at 7.3%, which now registers the highest unemployment rate in the country for the fifth consecutive month.

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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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
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
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
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	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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