

The unemployment rate improves in August, with a relatively favorable report

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- **Unemployment rate (August; sa): 3.57%; Banorte: 3.56%; consensus: 3.60% (range of estimates: 3.56% to 3.72%); previous: 3.58%**
- **Part-time workers: 7.26% (previous: 7.57%); Participation rate: 60.04% (previous: 60.09%)**
- **The unemployment rate fell after three consecutive months rising, in part due to the decrease in the participation rate. On the positive side, we highlight the strong reduction in part-time workers**
- **On the other hand, the share of informal employment increased at the margin**
- **We believe that the unemployment rate will hover around current levels during the rest of the year, although we recognize that risks to our point estimate of 3.6% are skewed to the upside**
- **Sinaloa was the state with the largest decline in the unemployment rate in the annual comparison**

Slight relief for August's unemployment rate. According to *INEGI's* report, the rate stood at 3.57% (seasonally-adjusted figures), virtually in line with our 3.56% forecast. As a result, the unemployment rate broke with three consecutive months on the upside.

In our view, the details of the report are mixed to positive. In our view, part of the improvement in terms of the unemployment rate was driven by the decline in participation, which declined 6bps to 60.04%. Nevertheless, we highlight the fall in part-time workers, reaching 7.26% and reversing its uptrend of the last four months. On a more negative note, informal employment advanced to 56.33%, pushed higher by the 37bps increase in those related to the formal economy. Although the move higher was not as steep in the case of those working in the informal sector, these are still showing a trend towards higher levels.

INEGI's employment report: August 2019

Seasonally adjusted figures

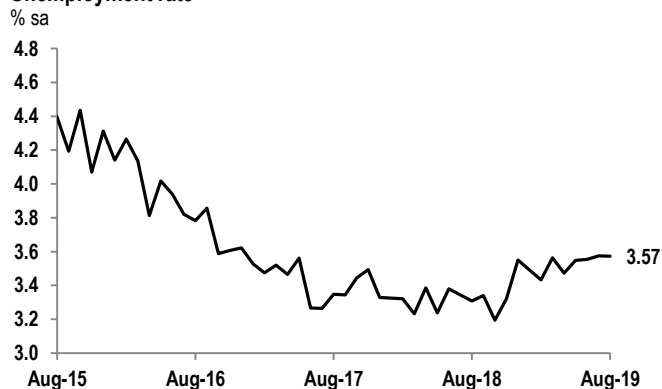
%	Aug-19	Jul-19	Difference
Unemployment rate	3.57	3.58	0.00
Participation rate	60.04	60.09	-0.06
Part-time workers rate	7.26	7.57	-0.31
Formal employment	43.67	44.08	-0.41
Informal employment ¹	56.33	55.92	0.41
Working in the informal economy	27.58	27.54	0.04
Working in the formal economy	28.75	28.38	0.37

Source: INEGI

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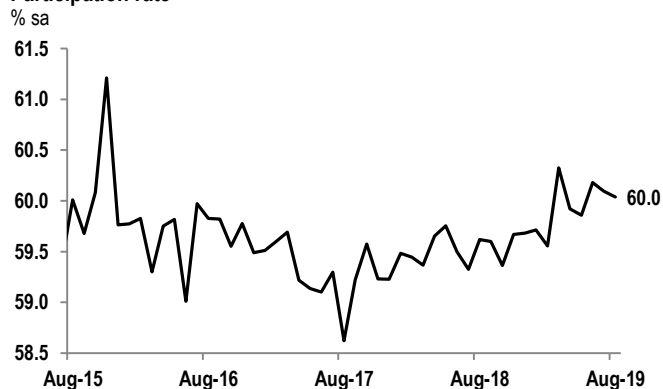
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



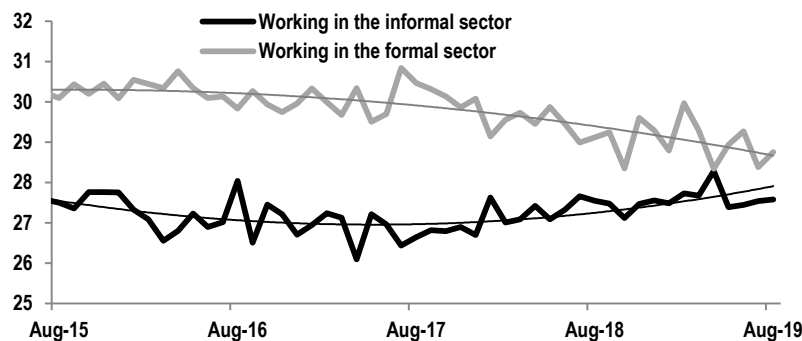
Source: Banorte with data from INEGI

We expect the unemployment rate to hover around current levels for the rest of the year. In particular, it has averaged 3.55% during the last six months, although with an uptrend since last May. In our view, the latter dynamic could continue in coming months, with the labor market impacted by lower economic activity levels.

Nevertheless, we believe the unemployment rate has shown more modest pressures when compared to those observed in terms of formal job creation. In this respect, the annual pace was up only by 1.8%, lowest since the beginning of 2010. Specifically, net jobs created so far this year total 342.6 thousand, practically half of those observed in the same period of 2018. In our view, this reflects that the spread between these indicators could be a result of higher absorption of the labor force by the informal sector, both those newly incorporated and people displaced for the formal economy (see chart below). Moreover, we believe that this could be related to some extent to the strong increase in the minimum wage at the start of the year, which could have resulted in some employers to search for cheaper alternatives in the informal sector, remembering that, given its nature, it does not need to comply with all requirements of labor laws, such as minimum wages.

Informal employment

% of total workers



Source: IMSS, INEGI

Going forward, we believe that the slowdown of the labor market will limit growth in private consumption, with our expectation unchanged at 1.4% yoy for 2019, below the 2.2% observed in the previous year. In our view, this latter sector could find some support from resources coming from social transfers programs along lower inflationary pressures, while higher government spending could also translate into greater available resources for households. Nevertheless and as previously mentioned, we do not believe this is enough to reverse the effects of the moderation in economic activity and the impact of higher uncertainty, both locally and globally.

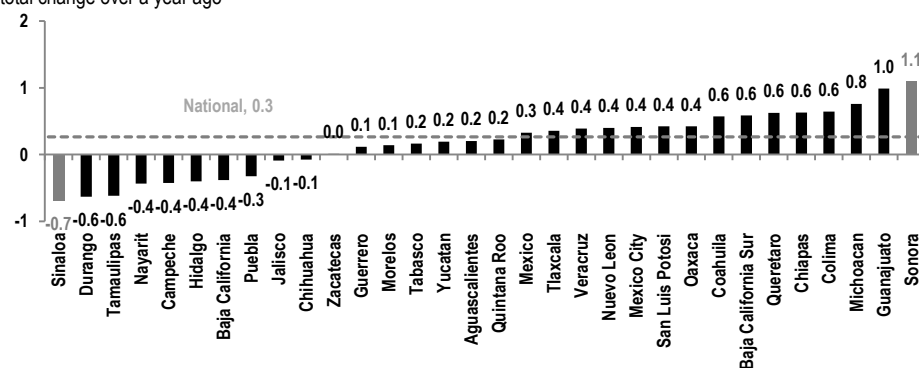
At the state level

Sinaloa was the state with the largest decline in the unemployment rate in the annual comparison. Analyzing the non-seasonally figures published by INEGI, (given that the seasonally adjusted figures for the federal entities are highly volatile), we highlight the 0.7pp annual reduction in Sinaloa unemployment rate, going from 3.9% in August 2018 to 3.2% currently. The decline in annual terms is backed up by the 4.2% yoy increase in formal jobs, partially explained by the support of the *National Employment Service Programs*. In this context, employment boards placed more than 4,200 people into new jobs.

Also, this dynamism is partly driven by the investments made by foreign companies in strategic sectors such as tourism, energy and agribusiness. An example of this is the arrival of natural gas provided by the company “*Iberdrola*”, which represented a significant source of employment in the entity. In addition, we also note that the 17 out of the 32 states showed a better performance relative to the national difference, as shown in the following graph.

Minor and major difference in the unemployment rate by state: August 2019

total change over a year ago



Source INEGI:

The labor market in Durango, Tamaulipas, Nayarit, and Campeche has improved substantially, with significant declines in the unemployment rate. However, Sonora, Guanajuato, Michoacán, and Colima worsened. Last but not least, the lowest level of the unemployment rate was in Guerrero (1.4%). Nevertheless, this implies a 0.1pp increase relative to the same month of the previous year. Moreover Tabasco posted the highest unemployment rate in the country (6.9%), as shown in the following table.

Unemployment rate by state – August 2019

%; nsa

	Aug-19	Aug-18	Jan-Aug'19	Difference
Sinaloa	3.2	3.9	3.3	-0.7
Durango	3.7	4.4	4.4	-0.6
Tamaulipas	3.3	3.9	3.3	-0.6
Nayarit	4.3	4.7	3.9	-0.4
Campeche	3.4	3.8	3.4	-0.4
Hidalgo	2.6	3.0	2.5	-0.4
Baja California	2.7	3.0	2.5	-0.4
Puebla	2.9	3.2	2.7	-0.3
Jalisco	3.0	3.0	2.8	-0.1
Chihuahua	3.2	3.3	3.1	-0.1
Zacatecas	3.0	3.0	3.1	0.0
Guerrero	1.4	1.3	1.5	0.1
Morelos	2.4	2.2	2.2	0.1
Tabasco	6.9	6.7	7.2	0.2
Yucatan	2.1	1.9	1.8	0.2
Aguascalientes	3.9	3.7	3.5	0.2
Quintana Roo	3.1	2.9	3.0	0.2
National	3.7	3.5	3.5	0.3
State of Mexico	4.6	4.2	4.4	0.3
Tlaxcala	4.1	3.7	4.1	0.4
Veracruz	3.6	3.2	2.8	0.4
Nuevo Leon	3.9	3.5	3.5	0.4
Mexico City	4.9	4.5	5.0	0.4
San Luis Potosi	3.1	2.7	2.5	0.4
Oaxaca	2.0	1.6	1.7	0.4
Coahuila	5.2	4.6	4.5	0.6
Baja California Sur	4.5	4.0	3.9	0.6
Queretaro	4.7	4.1	3.8	0.6
Chiapas	3.5	2.9	3.4	0.6
Colima	3.7	3.0	3.8	0.6
Michoacan	2.6	1.9	2.5	0.8
Guanajuato	4.0	3.0	3.8	1.0
Sonora	5.1	4.1	4.3	1.1

Source: INEGI

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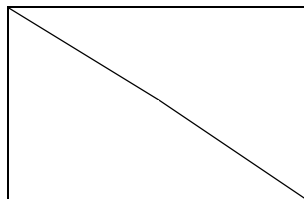
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