

Lower unemployment rate in September, but with a higher share in the informal sector

- **Unemployment rate (September; sa): 3.54%; Banorte: 3.56%; consensus: 3.57% (range of estimates: 3.50% to 3.70%); previous: 3.57%**
- **Part-time workers: 7.83% (previous: 7.33%); Participation rate: 60.16% (previous: 60.04%)**
- **The unemployment rate fell for a second consecutive month, reaching a low since April. We note the decline was accompanied by a higher participation rate, breaking with two months on the downside**
- **Nevertheless, part-time workers surged and informal employment kept increasing, dampening the positive signal from a lower rate**
- **We continue seeing limited downside to the unemployment rate as activity remains muted, maintaining our view that it will hover around 3.6% for the rest of the year, with balanced risks**
- **Hidalgo was the state with the largest decline in the unemployment rate in the annual comparison**

Second consecutive fall in the unemployment rate during September. According to *INEGI's* report, the rate stood at 3.54% (seasonally-adjusted figures), slightly below consensus at 3.57% and our forecast (3.56%). As a result, the unemployment rate extended its decline for a second consecutive month, reaching a low not observed since last April. Nevertheless, in our view the details are mixed to slightly negative. On the positive side and contrary to the previous month, the decline was observed along a 12bps increase in the participation rate, to 60.16%. On the contrary, part-time workers surged to a three-year high of 7.83%, signaling that the labor market may not be providing opportunities attractive enough to job-seekers. Moreover, informal employment keeps advancing, reaching 56.72% from 56.36% in the previous month, driven once again by the 32bps increase in those related to the formal economy. Similar to August, although the move was not as steep in those in the informal sector, these are still trending towards higher levels.

INEGI's employment report: September 2019

Seasonally adjusted figures

%	Sep-19	Aug-19	Difference
Unemployment rate	3.54	3.57	-0.03
Participation rate	60.16	60.04	0.12
Part-time workers rate	7.83	7.33	0.50
Formal employment	43.28	43.64	-0.36
Informal employment¹	56.72	56.36	0.36
Working in the informal economy	27.63	27.59	0.04
Working in the formal economy	29.09	28.77	0.32

Source: INEGI

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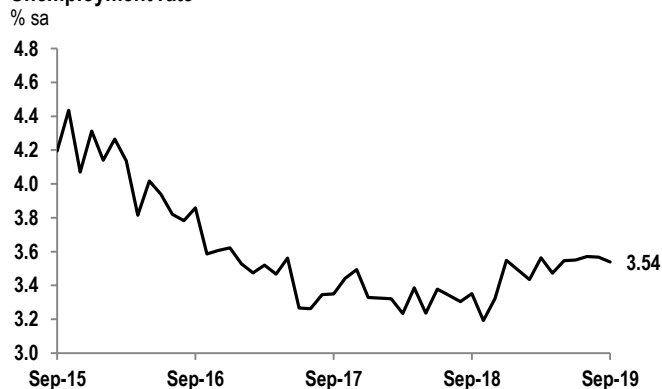
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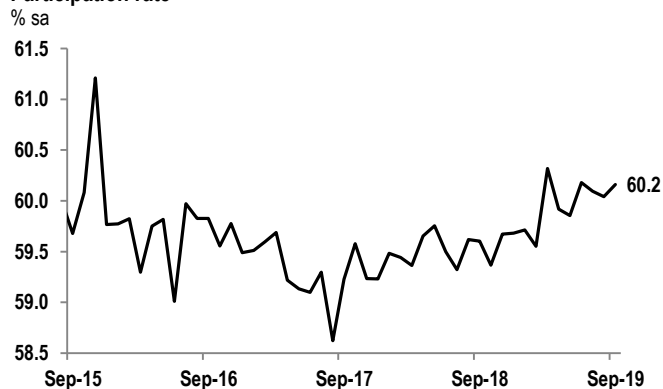
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



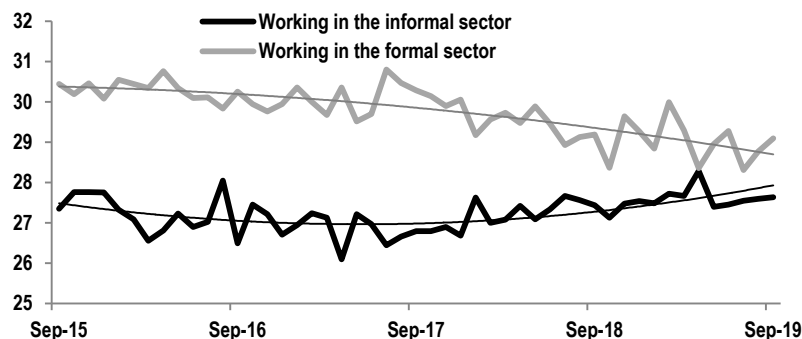
Source: Banorte with data from INEGI

We see limited downside to the unemployment rate in coming months. In

particular, we believe that muted levels of economic activity are likely to limit a strong decline in the unemployment rate in coming months, despite falling modestly in the last two months. Moreover, we noted that despite a relatively unusual and strong uptick in terms of formal job creation during the month at 145,416 new positions, the share of the informal sector increased again. We believe this supports the view that informality may be absorbing a greater share of workers, both those newly incorporated and people displaced from the formal economy (see chart below). As we have also mentioned before, it is our take this could be related to some extent to the strong increase in the minimum wage (MW) at the start of the year, resulting in some employers searching 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. According to press reports, the Federal Government wants an additional increase in the MW in 2020, which we estimate could hover around 10-15%. We believe the latter could provide an additional upward push to the share of total workers in the informal sector, with more of them bypassing the benefit of the increase and therefore the positive effect this could have on consumption growth. Moreover, this could help explain at least to some extent why private consumption has been decelerating despite higher wages and lower inflation levels.

Informal employment

% of total workers



Source: IMSS, INEGI

As a result, we maintain our view that labor market dynamics, coupled with high global and local uncertainty, will restrain the possibility of stronger growth in private consumption. In our view, this latter sector could find some support from resources coming from social transfers programs along lower inflationary pressures. Nevertheless, the need to maintain fiscal austerity measures in a context of lower expected growth is likely to limit their overall positive effect.

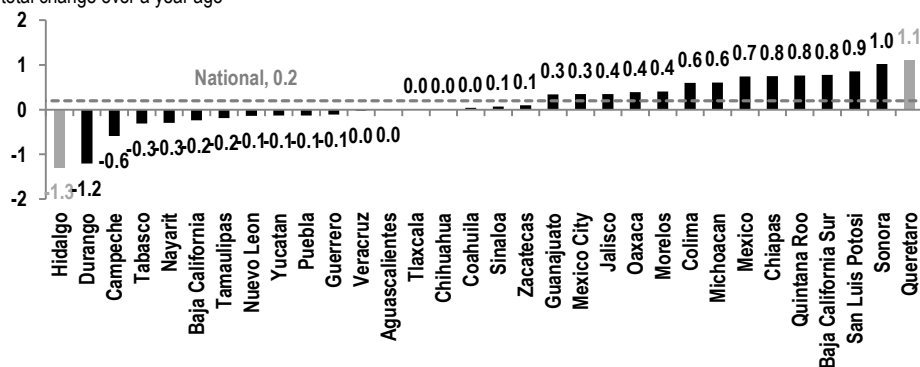
At the state level

Hidalgo 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 1.3pp annual reduction in Hidalgo’s unemployment rate, going from 3.3% in September 2018 to 2% currently. The decline in annual terms is backed up by the 0.1% yoy increase in formal jobs, partially explained by the support of the *National Employment Service Programs*. In this context, employment boards placed more than 8,350 people into new jobs.

Also, this dynamism is partly driven by the “*Employment Fair 2019*” in Tizayuca, where 40 companies such as Soriana, Celmi, Sago, Texhog, Domino’s, Alsea, AT&T and Banco Azteca, among others, offered more than 850 positions. In this context, job fairs in Tulancingo and Tizayuca added 2,101 jobs in the state. In addition, we also note that the 18 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: September 2019

total change over a year ago



Source INEGI:

The labor market in Durango, Campeche, Tabasco, and Nayarit has improved substantially, with significant declines in the unemployment rate. However, in Queretaro, Sonora, San Luis Potosi, and Baja California Sur it has worsened. Last but not least, the lowest unemployment rate was seen again in Guerrero (1.5%). This implies a 0.1pp reduction relative to the same month of the previous year. Moreover, Tabasco continues as the state with the highest unemployment rate in the country (7%), as shown in the following table.

Unemployment rate by state – September 2019

%; nsa

	Sep-19	Sep-18	Jan-Sep '19	Difference
Hidalgo	2.0	3.3	2.4	-1.3
Durango	3.9	5.1	4.3	-1.2
Campeche	3.0	3.6	3.4	-0.6
Tabasco	7.0	7.3	7.2	-0.3
Nayarit	4.7	5.0	4.0	-0.3
Baja California	2.9	3.2	2.5	-0.2
Tamaulipas	3.7	3.8	3.4	-0.2
Nuevo Leon	3.5	3.7	3.5	-0.1
Yucatan	2.0	2.2	1.8	-0.1
Puebla	2.9	3.0	2.7	-0.1
Guerrero	1.5	1.6	1.5	-0.1
Veracruz	3.6	3.6	2.9	0.0
Aguascalientes	3.8	3.8	3.6	0.0
Tlaxcala	3.8	3.7	4.0	0.0
Chihuahua	3.0	3.0	3.1	0.0
Coahuila	5.0	4.9	4.6	0.0
Sinaloa	3.6	3.5	3.3	0.1
Zacatecas	3.1	3.0	3.1	0.1
National	3.8	3.6	3.5	0.2
Guanajuato	3.8	3.4	3.8	0.3
Mexico City	5.0	4.7	5.0	0.3
Jalisco	3.4	3.0	2.9	0.4
Oaxaca	2.1	1.7	1.7	0.4
Morelos	2.8	2.4	2.2	0.4
Colima	3.8	3.2	3.8	0.6
Michoacan	3.0	2.4	2.6	0.6
State of Mexico	4.7	4.0	4.4	0.7
Chiapas	3.6	2.9	3.5	0.8
Quintana Roo	3.4	2.7	3.0	0.8
Baja California Sur	4.8	4.1	4.0	0.8
San Luis Potosi	3.4	2.6	2.6	0.9
Sonora	5.1	4.1	4.4	1.0
Queretaro	5.4	4.2	4.0	1.1

Source: INEGI

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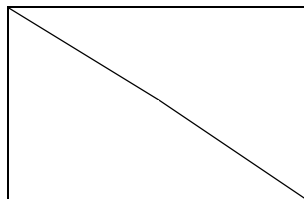
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