

The labor market keeps on with a positive performance

- **Unemployment rate (August; seasonally adjusted figures): 3.29%; Banorte: 3.32%; consensus: 3.33%; previous: 3.35%**
- **Part-time workers: 7.24% (previous: 7.07%); Participation rate: 59.67% (previous: 59.16%; seasonally adjusted figures)**
- **In our view, the performance of the labor market in August was positive, as unemployment fell coupled with an increase in the participation rate**
- **Going forward, we believe unemployment is likely to stay near or slightly below its current level, as activity gathers pace but with the economy already operating near full-employment**
- **For the second consecutive month, Michoacan stands out as the federal entity with the largest reduction in its unemployment rate when compared to the same month of 2017**

Positive results from the employment report. According to *INEGI's* report published today, the unemployment rate stood at 3.29% in August (seasonally adjusted), slightly below our 3.32% forecast, and 6bps below the previous month. On the other hand, the participation rate –which is the percentage of the population with 15 years old or above currently employed or searching for employment– picked up by 52bps to 59.67%. Moreover, part-time workers –representing the percentage of employed people looking to work additional hours– stood at 7.24%, 17bps above July.

In this respect, it is our take that the report is positive, as not only did unemployment fell but it was coupled with a higher participation rate. Nevertheless, part-time workers climbed to its highest since last March, suggesting that dynamism in terms of job creation could decelerate in coming months.

Regarding informal employment, the share of total workers in this situation increased in July, representing 56.64% of the total labor force from 56.46% previously. From this figure, those categorized as purely informal decreased 27bps to 27.65% (see table below for details).

INEGI's employment report: August 2018

Seasonally adjusted figures

%	Aug-18	Jul-18	Difference
Unemployment rate	3.29	3.35	-0.06
Participation rate	59.67	59.16	0.52
Part-time workers rate	7.24	7.07	0.17
Informal employment ¹	56.64	56.46	0.17
Working in the informal economy	27.59	27.68	-0.09
Working in the formal economy	29.05	28.78	0.27

Source: INEGI

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

September 26, 2018

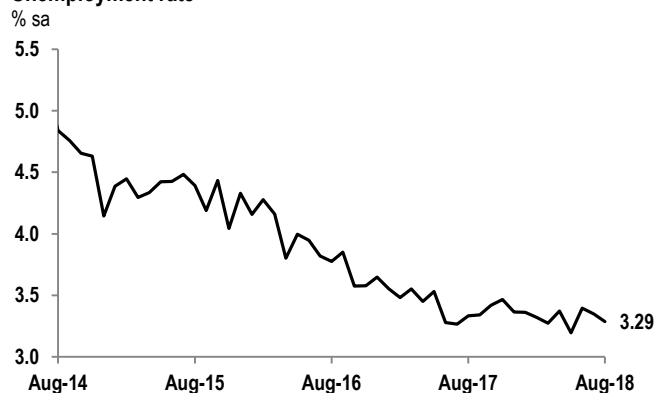
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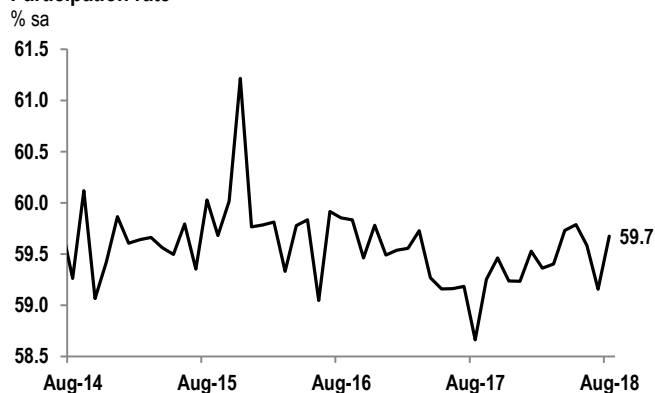
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Unemployment rate



Source: Banorte with data from INEGI

Participation rate



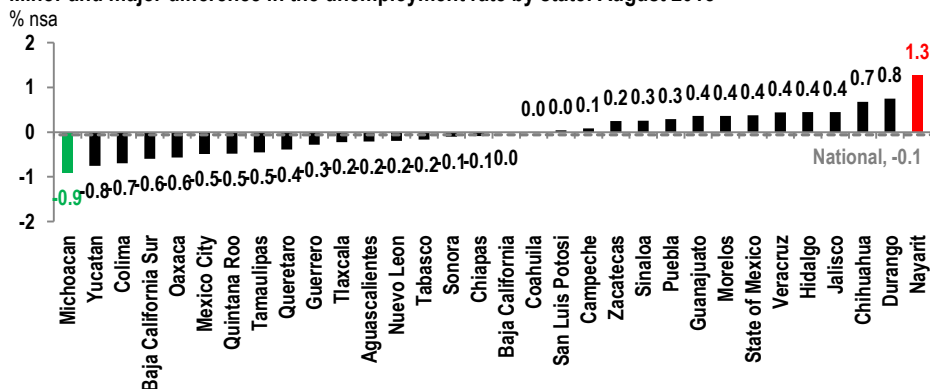
Source: Banorte with data from INEGI

Looking ahead, we believe unemployment will stay low. In our view, unemployment will remain at similar or slightly lower levels as the economy seems to be gathering strength in 3Q18, as portrayed by July’s economic activity indicator (IGAE) published yesterday, increasing to 3.3% yoy (+0.4% m/m), surpassing market expectations. This was mostly driven by a better performance of the services sector. Moreover, wage negotiations during the year have been slightly above inflation, implying an increase in purchasing power. As mentioned in other publications, we believe private consumption could grow more vigorously in coming months, supported not only by a good performance of the labor market but also by lower uncertainty after the “agreement in principle” in terms of the trade relationship between Mexico and the US, along with higher and resilient consumer confidence levels.

At the regional level

For the second consecutive month, Michoacan stood out as the entity with the largest reduction in its unemployment rate over a year ago. Analyzing the non-seasonally adjusted figures (given that the seasonally adjusted figures for federal entities are highly volatile), we highlight the 0.9pp annual reduction in Michoacan’s unemployment rate for the second consecutive month, which now stands at 1.9%. In this context, the reduction in Michoacan’s unemployment rate was partially explained by the support of the *National Service of Employment Programs*, particularly through job exchanges, increased the attractiveness of new offerings as hiring companies offered at least a one-and-a-half salary to participants in the program. In this respect, Michoacan’s unemployment rate fell from 2.9% in August 2017 to 1.9%, 1.6pp lower than the national figure. Moreover, we note that the unemployment rate in 16 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: August 2018



Source INEGI:

In addition, the labor market in Yucatan, Colima, Baja California Sur, and Oaxaca improved substantially, with significant declines in terms of their unemployment rate. However, in Nayarit, Durango, Chihuahua, Jalisco, and Hidalgo the unemployment rate has increased substantially, as shown in the following table.

Unemployment rate by state – August 2018

%, n.s.a

	Aug-18	Aug-17	Jan-Aug'18	Difference
Michoacan	1.9	2.8	2.0	-0.9
Yucatan	1.9	2.7	1.8	-0.8
Colima	3.0	3.7	3.1	-0.7
Baja California Sur	4.0	4.6	3.6	-0.6
Oaxaca	1.6	2.2	1.4	-0.6
Mexico City	4.5	5.0	4.3	-0.5
Quintana Roo	2.9	3.4	2.7	-0.5
Tamaulipas	3.9	4.3	3.9	-0.5
Queretaro	4.1	4.5	3.8	-0.4
Guerrero	1.3	1.6	1.2	-0.3
Tlaxcala	3.7	3.9	3.4	-0.2
Aguascalientes	3.7	3.9	3.6	-0.2
Nuevo Leon	3.5	3.7	3.5	-0.2
Tabasco	6.7	6.9	7.0	-0.2
Sonora	4.1	4.2	3.7	-0.1
Chiapas	2.9	2.9	2.5	-0.1
National	3.5	3.5	3.3	-0.1
Baja California	3.0	3.1	2.5	0.0
Coahuila	4.6	4.6	4.0	0.0
San Luis Potosi	2.7	2.6	2.6	0.0
Campeche	3.8	3.7	3.0	0.1
Zacatecas	3.0	2.7	3.1	0.2
Sinaloa	3.9	3.7	3.2	0.3
Puebla	3.2	2.9	2.6	0.3
Guanajuato	3.0	2.7	3.4	0.4
Morelos	2.2	1.9	2.0	0.4
State of Mexico	4.2	3.9	4.3	0.4
Veracruz	3.2	2.8	3.2	0.4
Hidalgo	3.0	2.5	2.8	0.4
Jalisco	3.0	2.6	2.6	0.4
Chihuahua	3.3	2.6	3.4	0.7
Durango	4.4	3.6	4.1	0.8
Nayarit	4.7	3.5	3.9	1.3

Source: INEGI

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