

Unemployment rate improves at the turn of the year

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

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

Miguel Calvo
Regional Analyst
miguel.calvo@banorte.com

- **Unemployment rate (January; sa): 3.49%; Banorte: 3.62%; consensus: 3.61% (range of estimates: 3.31% to 3.74%); previous: 3.56%**
- **Part-time workers: 6.74% (previous: 7.18%); Participation rate: 59.70% (previous: 59.68%; sa)**
- **Today's report was positive as the decline in the unemployment rate was accompanied by a relatively stable participation and lower part-time workers**
- **In spite of the latter, we believe unemployment will be higher in 2019 relative to the previous year, as the deceleration in economic activity keeps impacting the rate formal job creation**
- **Relative to the same period of 2018, Veracruz stood out as the state with the largest reduction in the unemployment rate for the second consecutive month**

Improvement in unemployment in January. According to *INEGI's* report, the unemployment rate stood at 3.49% in January (seasonally adjusted figures), below the 3.56% of the previous month. Despite of the latter, unemployment remains significantly above the level observed in November, at its second highest level since the last fourteen months. In general, we see today's data as positive, given that the decline in the unemployment rate was accompanied by a relatively stable participation and lower part-time workers.

Regarding part-time workers –representing those willing to work additional hours– worsened from 7.18% to 6.74%. The participation rate was broadly unchanged at 59.70%. Regarding informality, the share of total workers in this situation fell in both categories when compared to the previous month, representing 56.29% of the total labor force. From this figure, those categorized as purely informal fell 10bps to 27.42%, but with a relatively flat trend since 2014 (see table below for details).

INEGI's employment report: January 2019

Seasonally adjusted figures

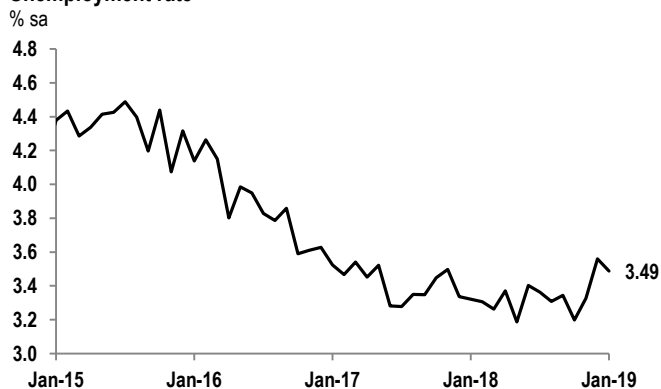
%	Jan-19	Dec-18	Difference
Unemployment rate	3.49	3.56	-0.07
Participation rate	59.70	59.68	0.02
Part-time workers rate	6.74	7.18	-0.44
Formal employment	43.71	43.16	0.55
Informal employment ¹	56.29	56.84	-0.55
Working in the informal economy	27.42	27.52	-0.10
Working in the formal economy	28.87	29.32	-0.44

Source: INEGI

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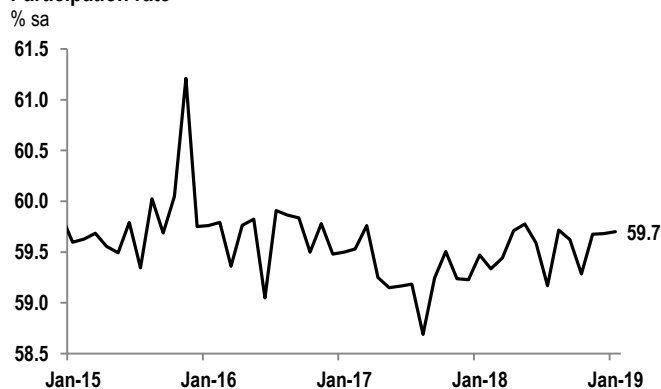
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

We believe unemployment will be higher in 2019 relative to the previous year. First and foremost, we believe that the deceleration in global and domestic economic activity is likely to impact the annual pace of formal job creation. Regarding the latter, a deceleration has been observed since last June. In our view, the downtrend has been persistent enough to argue that slack in the labor market has been increasing at the margin, despite recognizing that changes in employment conditions could be having an impact in this metric. In particular, the increased use of outsourcing and/or fee-based employment, especially among young people, could be impacting formally reported job creation according to Social Security figures but not the unemployment rate.

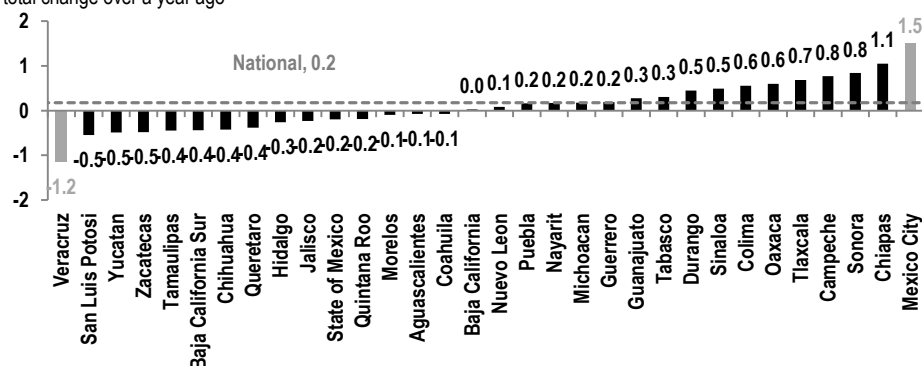
We maintain our view that the unemployment rate has likely passed its cycle-low, with a post-crisis minimum in May 2018. Apart from the expected deceleration in economic activity, we maintain that austerity measures recently implemented by the Federal Government have likely impacted negatively, while measures such as the above-average minimum wage could at least limit further declines. All in all, we continue expecting a slight upward trend in the unemployment rate this year, although staying relatively low when compared to its long-term historical performance.

At the state level

Relative to the same period of 2018, Veracruz stood out as the state with the largest reduction in the unemployment rate for the second consecutive month. Analyzing non-seasonally adjusted figures (given that seasonally adjusted data for the federal entities are highly volatile), we highlight for the second consecutive month, the 1.2pp annual reduction in Veracruz unemployment rate, from 3.7% in January 2018 to 2.5% in the current month, its lowest level since December 2012. This reduction was partially explained by the support of the *National Service of Employment Programs* particularly employment boards, where 2,448 people were attended of which 392 were placed into new jobs. Moreover, we note 20 out of the 32 states showed a sharper reduction in unemployment than at the national level, as shown in the following graph.

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

total change over a year ago



Source INEGI:

The labor market in San Luis Potosi, Yucatan, Zacatecas, and Tamaulipas has improved substantially, all of them with significant declines in the unemployment rate. However, Mexico City (widest spread between Jan'19 vs. Jan '18), Chiapas, Sonora, Campeche, and Tlaxcala have worsened. Last but not least, the lowest level of the unemployment rate was in Yucatan (1.4%), figure not seen in the state since the inception of the indicator. In addition, this level was 0.5pp lower compared to the one obtained in Jan '18. Finally, Tabasco continuous recording the highest level of the country (7.8%).

Unemployment rate by state – January 2019

%; nsa

	Jan-19	Jan-18	Jan-Dec'18	Difference
Veracruz	2.5	3.7	3.2	-1.2
San Luis Potosi	2.3	2.8	2.5	-0.5
Yucatan	1.4	1.9	1.8	-0.5
Zacatecas	2.8	3.3	2.9	-0.5
Tamaulipas	3.5	3.9	3.9	-0.4
Baja California Sur	3.0	3.5	3.7	-0.4
Chihuahua	2.4	2.8	3.1	-0.4
Queretaro	3.6	4.0	3.9	-0.4
Hidalgo	2.3	2.5	2.8	-0.3
Jalisco	2.5	2.7	2.7	-0.2
State of Mexico	4.2	4.4	4.2	-0.2
Quintana Roo	3.0	3.2	2.7	-0.2
Morelos	1.9	2.0	2.1	-0.1
Aguascalientes	3.5	3.6	3.6	-0.1
Coahuila	3.8	3.9	4.1	-0.1
Baja California	2.5	2.5	2.6	0.0
Nuevo Leon	3.4	3.3	3.5	0.1
Puebla	2.7	2.5	2.6	0.2
Nayarit	3.5	3.4	4.0	0.2
Michoacan	2.6	2.4	2.2	0.2
National	3.6	3.4	3.3	0.2
Guerrero	1.7	1.5	1.3	0.2
Guanajuato	3.9	3.6	3.5	0.3
Tabasco	7.8	7.5	7.2	0.3
Durango	4.4	3.9	4.3	0.5
Sinaloa	3.6	3.1	3.3	0.5
Colima	4.1	3.6	3.2	0.6
Oaxaca	2.2	1.6	1.5	0.6
Tlaxcala	4.0	3.4	3.6	0.7
Campeche	3.7	3.0	3.2	0.8
Sonora	4.3	3.4	3.7	0.8
Chiapas	3.5	2.5	2.7	1.1
Mexico City	5.5	4.0	4.5	1.5

Source: INEGI

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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
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
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	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@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