

Unemployment rate reverts December gains, standing at 3.66%

- **Unemployment rate (January; sa): 3.66%; Banorte: 3.39%; consensus: 3.30% (range of estimates: 3.11% to 3.56%); previous: 3.16%**
- **Part-time workers: 7.49% (previous: 7.61%); Participation rate: 60.26% (previous: 60.36%)**
- **The unemployment rate saw a sharp 51bps increase, more than reversing last month's gain and climbing to a new high since September 2016. Details within the report were mostly negative, with only an improvement in the part-time workers rate**
- **Informal employment was practically unchanged at 55.98%, highlighting the decline of those working in the formal economy during the month, from 28.61% to 28.26%**
- **As expected, the unemployment rate corrected higher, albeit at a faster pace than projected. Going forward, we anticipate that the rate could hover around these levels, offset by pressures from higher wages and an acceleration in economic activity**
- **At the state level and for a second consecutive month, Tabasco posted the largest decline in the unemployment rate in the annual comparison**

The unemployment rate rebounds strongly in January. According to *INEGI's* report, the rate reached 3.66% (seasonally-adjusted figures), above consensus at 3.30% closer to but still far from our forecast (3.39%). The increase was the sharpest since March 2014, resulting in an unemployment rate at a new high not seen since September 2016. It should be noted that this more than reversed the previous month's improvement, in which the rate had reached its third lowest level in history (using revised figures). In addition, the headline figure was accompanied by an 11bps contraction in the participation rate, to 60.26%. On the contrary, part-time workers fell to 7.49%, now adding two months improving. Regarding informal employment, the share of total workers in this condition was broadly stable, at 55.98%. Among them, the number of employees working within the formal sector fell to 28.26% from 28.61%, while purely informal workers inched higher by 28bps to 27.72%, as shown in the table below.

INEGI's employment report

Seasonally adjusted figures

%	Jan-20	Dec-19	Difference
Unemployment rate	3.66	3.16	0.51
Participation rate	60.26	60.36	-0.11
Part-time workers rate	7.49	7.61	-0.12
Formal employment	44.02	43.95	0.08
Informal employment¹	55.98	56.05	-0.08
Working in the informal economy	27.72	27.44	0.28
Working in the formal economy	28.26	28.61	-0.36

Source: INEGI

February 27, 2020

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

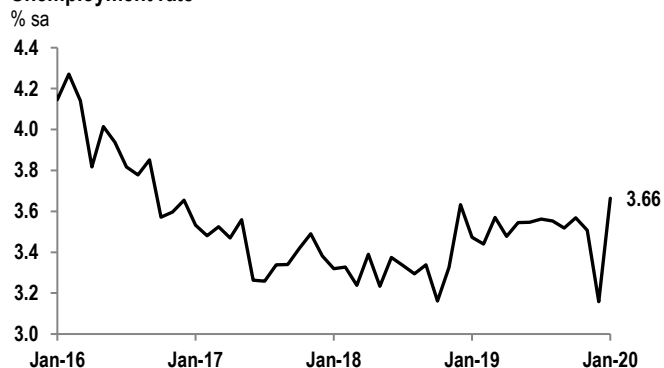
Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

Miguel Calvo
Senior Analyst, Economic Studies
miguel.calvo@banorte.com

Document for distribution among public

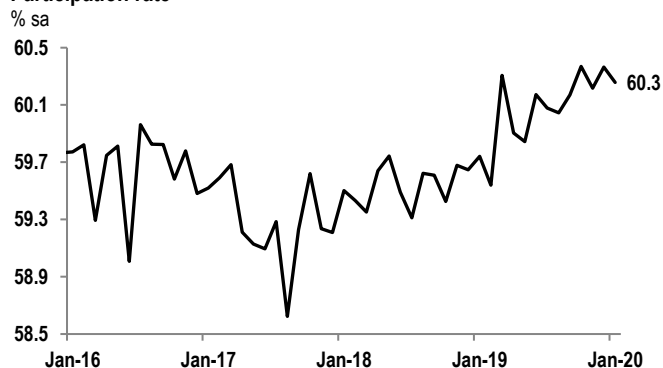
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



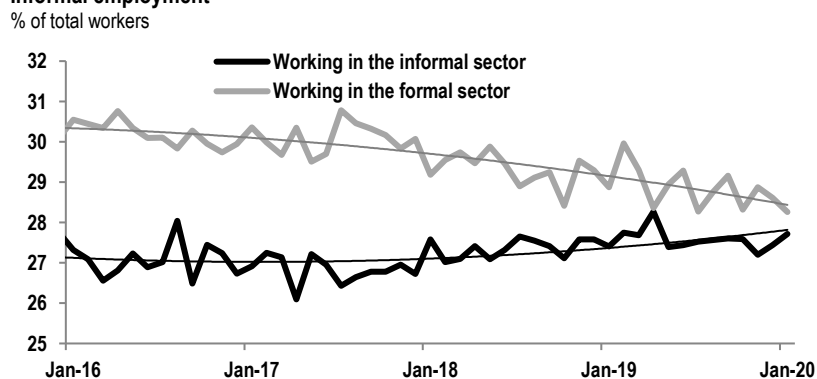
Source: Banorte with data from INEGI

We expect the unemployment rate to hover around these levels in coming months.

As we expected, the unemployment rate bounced back in January after the previous month's steep decline. Nevertheless, the adjustment was much stronger, as we forecasted a smoother and gradual increase in a span of several months. We believe this could be explained, at least in part, by the further deceleration in the annual pace of formal job creation, growing 1.6%, lowest since early 2010 in the aftermath of the Financial Crisis. In absolute terms, there were 68,955 new jobs in January, slowest for a comparable period since 2015. These figures continue to show that formal employment continues cooling down, probably impacted by two factors: (1) The deceleration of economic activity; and (2) higher wage pressures in the formal sector, driving workers into informality. In this context, today's figures continue to show this gradual transition (see chart below), which seems to have accelerated in more recent months. If this trend continues, we could see workers catalogued as purely informal overtake those working the formal sector for the first time in the series' history.

Nevertheless, we believe there could be other supporting factors for employment in the short-term, including the seasonal hiring by INEGI to conduct the 2020 Census and the start of key infrastructure projects, particularly in the southeast. Moreover, a pickup in economic activity, although mild by historical standards, should also be more positive for employment levels. However, we still need to be keenly focused on possible shifts in its composition, as increased informality could reduce prospects for consumption and credit growth.

Informal employment



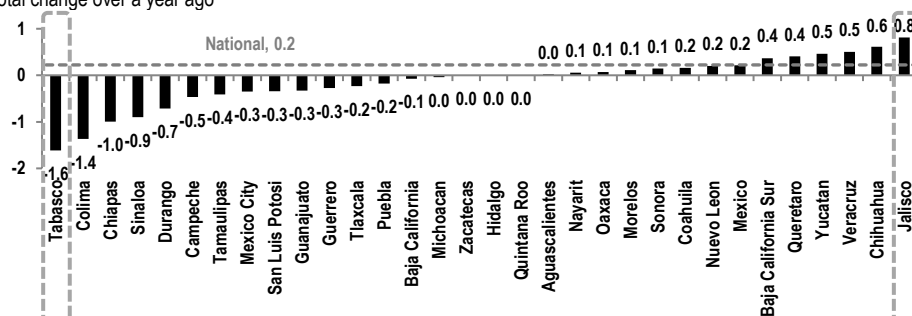
Source: IMSS, INEGI

At the state level

For the second consecutive month, Tabasco posted the largest decline in the unemployment rate in the annual comparison. Analyzing non-seasonally adjusted figures (given that sa data for the federal entities are highly volatile), we highlight the 1.6pp annual reduction in Tabasco’s unemployment rate, going from 7.8% in January 2019 to 6.2% currently. Nevertheless, it remains the highest in the country, as shown in the table below. The fall in annual terms is partially explained by support from *National Employment Service Programs*. In this context, employment boards placed more than 2,460 people into new jobs. In addition, it’s important to highlight that 26 out of the 32 states showed a better performance relative to the national average, as shown in the following graph.

Minor and major difference in the unemployment rate by state: January 2020

total change over a year ago



Source INEGI:

The labor market in Colima, Chiapas, Sinaloa, and Durango has improved substantially, with significant declines in the unemployment rate. However, in Jalisco, Chihuahua, Veracruz, Yucatan, and Queretaro it has worsened. Last but not least, the lowest level of the unemployment rate was again in Guerrero (1.4%). However, this implies a 0.3pp fall relative to the same month of the previous year as shown in the following table.

Unemployment rate by state – January 2020

%; nsa

	Jan-20	Jan-19	2019	difference
Tabasco	6.2	7.8	7.1	-1.6
Colima	2.8	4.1	3.6	-1.4
Chiapas	2.5	3.5	3.3	-1.0
Sinaloa	2.7	3.6	3.2	-0.9
Durango	3.7	4.4	4.2	-0.7
Campeche	3.3	3.7	3.3	-0.5
Tamaulipas	3.1	3.5	3.4	-0.4
Mexico City	5.2	5.5	5.1	-0.3
San Luis Potosi	2.0	2.3	2.6	-0.3
Guanajuato	3.6	3.9	3.8	-0.3
Guerrero	1.4	1.7	1.5	-0.3
Tlaxcala	3.8	4.0	4.0	-0.2
Puebla	2.5	2.7	2.7	-0.2
Baja California	2.4	2.5	2.5	-0.1
Michoacan	2.5	2.6	2.7	0.0
Zacatecas	2.8	2.8	3.0	0.0
Hidalgo	2.3	2.3	2.4	0.0
Quintana Roo	3.0	3.0	3.1	0.0
Aguascalientes	3.5	3.5	3.5	0.0
Nayarit	3.6	3.5	3.9	0.1
Oaxaca	2.2	2.2	1.8	0.1
Morelos	2.0	1.9	2.4	0.1
Sonora	4.4	4.3	4.4	0.1
Coahuila	4.0	3.8	4.6	0.2
Nuevo Leon	3.6	3.4	3.5	0.2
State of Mexico	4.4	4.2	4.5	0.2
National	3.8	3.6	3.5	0.2
Baja California Sur	3.4	3.0	4.1	0.4
Queretaro	4.0	3.6	4.3	0.4
Yucatan	1.9	1.4	1.9	0.5
Veracruz	3.0	2.5	2.9	0.5
Chihuahua	3.0	2.4	3.0	0.6
Jalisco	3.3	2.5	3.0	0.8

Source: INEGI

Analyst Certification

We, Gabriel Casillas Olivera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
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 Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454