

Unemployment rate reaches a historical low of 3.13% in December

January 21, 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

- **Unemployment rate (December; sa): 3.13%; Banorte: 3.56%; consensus: 3.60% (range of estimates: 3.44% to 3.73%); previous: 3.48%**
- **Part-time workers: 7.69% (previous: 8.20%); Participation rate: 60.39% (previous: 60.24%)**
- **The unemployment rate saw its steepest decline since November 2015, plunging by 35bps to a new historical low two since the survey is available (2005). Details within the report were relatively favorable, with a higher participation and a lower part-time rate**
- **Informal employment was broadly stable as it stood at 56.1%, highlighting the decline of those working in the formal economy during the year, going from 29.3% to 28.6%**
- **Despite today's significant surprise, we believe the unemployment rate will correct higher in coming months, as activity levels and formal job creation remain muted**
- **At a state level, Tabasco posted the largest decline in the unemployment rate in the annual comparison**

The unemployment rate plunged in December. According to *INEGI's* report, the rate reached 3.13% (seasonally-adjusted figures), significantly below consensus at 3.60% and our forecast (3.56%). The decline was the steepest since November 2015, resulting in an unemployment rate at its historical low since the survey is available. Moreover, the headline figure was accompanied by a 16bps improvement in the participation rate, to 60.39%. Moreover, part-time workers fell to 7.69%, almost reversing the previous month's increase that pushed it towards 8.20%, which is a two-and-a-half year high. Regarding informal employment, the share of total workers in this condition was broadly stable, at 56.05%. Among them, the number of employees working within the formal sector fell to 28.64% from 28.89%, while purely informal workers inched higher by 23bps to 27.41%, as shown in the table below.

INEGI's employment report: December 2019

Seasonally adjusted figures

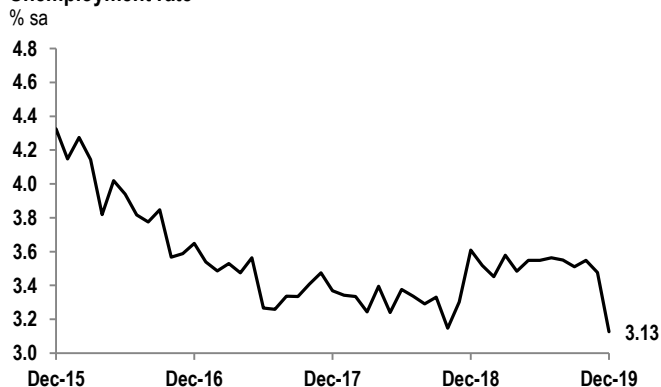
%	Dec-19	Nov-19	Difference
Unemployment rate	3.13	3.48	-0.35
Participation rate	60.39	60.24	0.16
Part-time workers rate	7.69	8.20	-0.51
Formal employment	43.95	43.93	0.01
Informal employment¹	56.05	56.07	-0.01
Working in the informal economy	27.41	27.18	0.23
Working in the formal economy	28.64	28.89	-0.25

Source: INEGI

Document for distribution among public

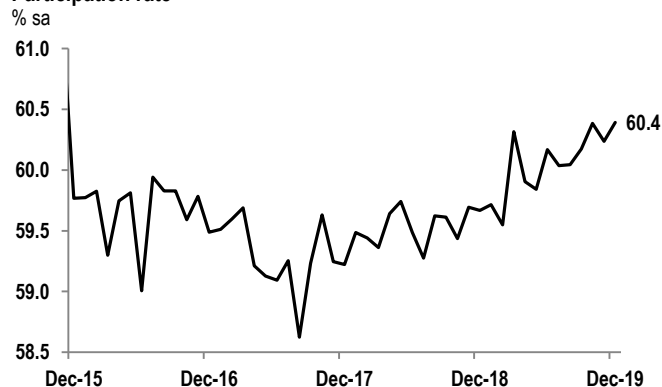
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

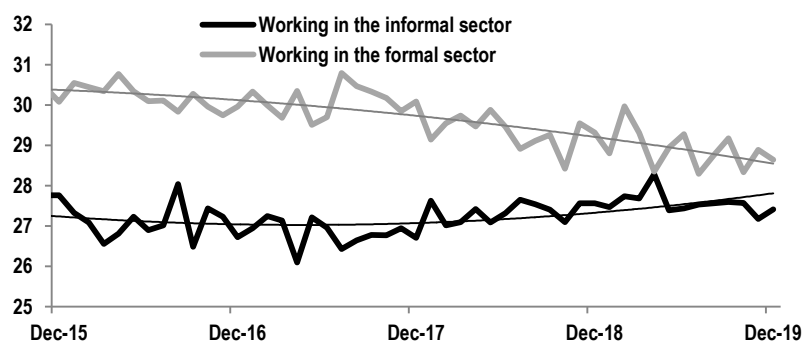
Despite December’s steep decline, other signals suggest more muted labor market dynamics.

The highly surprising and significant fall in the unemployment rate resulted in a better performance than our expectation of a year-end level of 3.6%. Nonetheless, the 2019 average was closer, at 3.5%. In this respect, other signals suggest a more muted performance of the labor market. In particular, formal jobs according to IMSS plunged by 382,210, which even after taking into account that this particular period is highly seasonal (as it always shows net losses), is the weakest historical print for any given month. Moreover, IMEF’s employment components also declined. Therefore, we believe it is very important to wait for January data in order to see if there is additional support for the hefty decline in today’s report.

Considering available information, our hypothesis is that the decline was likely influenced by most new labor force participants being categorized as occupied. Given differences in magnitude between these measures, the total effect on the unemployment rate would be a significant decline. In this respect, it should be mentioned that the labor force rose to 60.39%, its maximum since November 2015 which is also the historical high. We think more insights can be obtained when absolute figures about the labor force are released by INEGI on February 13th. On the contrary, the higher participation is favorable but seems to be skewed towards more informality (see chart, below), particularly those purely informal, which typically have less access to job benefits. Nevertheless, we cannot rule out some support given government hiring for the development of infrastructure projects, particularly in the Southeast, as well as temporary jobs added by INEGI to carry out the 2020 Census.

Going forward, we expect the unemployment rate to adjust higher in coming months, limited to the downside by low levels of economic activity. Moreover, we believe the minimum wage increase for 2020 could add pressures in terms of the composition of the labor force, as it is our take that some employers will search for cheaper alternatives in the informal sector, thus limiting growth in total payrolls and therefore on consumption growth.

Informal employment % of total workers



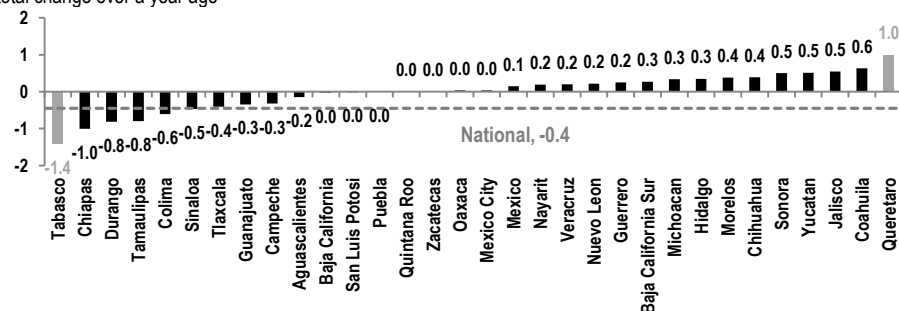
Source: IMSS, INEGI

At the state level

Tabasco posted the largest decline in the unemployment rate in the annual comparison. Analyzing non-seasonally adjusted figures (given that sa data for federal entities is highly volatile), we highlight the 1.4pp annual reduction in Tabasco’s unemployment rate, going from 7.9% in December 2018 to 6.4%. Nevertheless, it continues as the highest in the country, at 6.4% (as shown in the table below). The fall in annual terms is backed up by the 2,895 formal jobs created, partially explained by the support of the *National Employment Service Programs*. In this context, employment boards and job web pages placed more than 3,100 people into new positions. In addition, we also note that only 6 out of 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: December 2019

total change over a year ago



Source INEGI:

The labor market in Chiapas, Durango, Tamaulipas, and Colima has improved substantially, with significant declines in the unemployment rate. However, in Queretaro, Coahuila, Jalisco, Yucatan, and Sonora it has worsened. Last but not least, the lowest level of the unemployment rate was again in Guerrero (1.5%). This implies a 0.2pp increase relative to the same month of the previous year as shown in the following table.

Unemployment rate by state – December 2019

%; nsa

	Dec-19	Dec-18	2019	Difference
Tabasco	6.4	7.9	7.1	-1.4
Chiapas	2.5	3.5	3.3	-1.0
Durango	3.3	4.1	4.2	-0.8
Tamaulipas	3.1	3.9	3.4	-0.8
Colima	3.0	3.6	3.6	-0.6
Sinaloa	2.7	3.2	3.2	-0.5
National	2.9	3.4	3.5	-0.4
Tlaxcala	3.7	4.1	4.0	-0.4
Guanajuato	3.4	3.7	3.8	-0.3
Campeche	3.1	3.5	3.3	-0.3
Aguascalientes	3.2	3.4	3.5	-0.2
Baja California	2.2	2.2	2.5	0.0
San Luis Potosi	2.1	2.1	2.6	0.0
Puebla	2.5	2.5	2.7	0.0
Quintana Roo	3.1	3.1	3.1	0.0
Zacatecas	2.5	2.5	3.0	0.0
Oaxaca	2.0	2.0	1.8	0.0
Mexico City	5.2	5.2	5.1	0.0
State of Mexico	4.2	4.1	4.5	0.1
Nayarit	3.6	3.4	3.9	0.2
Veracruz	2.9	2.7	2.9	0.2
Nuevo Leon	3.6	3.3	3.5	0.2
Guerrero	1.5	1.3	1.5	0.2
Baja California Sur	3.7	3.4	4.1	0.3
Michoacan	2.8	2.4	2.7	0.3
Hidalgo	2.5	2.1	2.4	0.3
Morelos	2.5	2.1	2.4	0.4
Chihuahua	2.5	2.1	3.0	0.4
Sonora	4.0	3.5	4.4	0.5
Yucatan	2.0	1.5	1.9	0.5
Jalisco	3.1	2.6	3.0	0.5
Coahuila	4.2	3.6	4.6	0.6
Queretaro	4.7	3.7	4.3	1.0

Source: INEGI

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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 Zaldivar	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	hugo.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.cebaldos@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