

The unemployment rate increases to 3.69% in February, with more upside ahead

- Unemployment rate (February; sa): 3.69%; Banorte: 3.61%; consensus: 3.67% (range of estimates: 3.55% to 3.80%); previous: 3.65%
- Part-time workers: 9.27% (previous: 7.47%); Participation rate: 60.44% (previous: 60.26%)
- We believe data within the report was mixed to negative, considering that the higher unemployment rate was coupled with an improvement in participation. Nevertheless, the increase in part-time workers to 2015 highs is unfavorable
- Informal employment increased 24bps to 56.25%, although showing an increase in those working in the formal economy during the month, from 28.31% to 28.87%
- Despite the relative stability in February, we expect the unemployment rate to increase at a more accelerated pace as soon as March, feeling the impact of the COVID-19 outbreak
- At a state level and for the third consecutive month, Tabasco posted the largest decline in the unemployment rate in the annual comparison

The unemployment rate increases slightly in February. According to *INEGI's* report, the rate reached 3.69% (seasonally-adjusted figures), above both consensus at 3.67% and our forecast (3.61%). With this, the unemployment rate reached a new high since September 2016. The headline figure was accompanied by a 17bps increase in the participation rate, to 60.44%. On the contrary, part-time workers rose considerably to 9.27%, its highest monthly increase since April 2009, in the midst of the global financial crisis and the A(H1N1) influenza outbreak. We consider the report is mixed to negative, taking into account the increase in both unemployment and part-time workers, partly offset by the improvement in participation. Regarding informal employment, the share of total workers rose to 56.25%. Inside, the number of employees working within the formal sector edged-up to 28.87% from 28.31%, while purely informal workers fell 32bps to 27.38%, as shown in the table below.

INEGI's employment report

Seasonally adjusted figures

%	Feb-20	Jan-20	Difference
Unemployment rate	3.69	3.65	0.04
Participation rate	60.44	60.26	0.17
Part-time workers rate	9.27	7.47	1.80
Formal employment	43.75	43.99	-0.24
Informal employment ¹	56.25	56.01	0.24
Working in the informal economy	27.38	27.70	-0.32
Working in the formal economy	28.87	28.31	0.57

Source: INEGI

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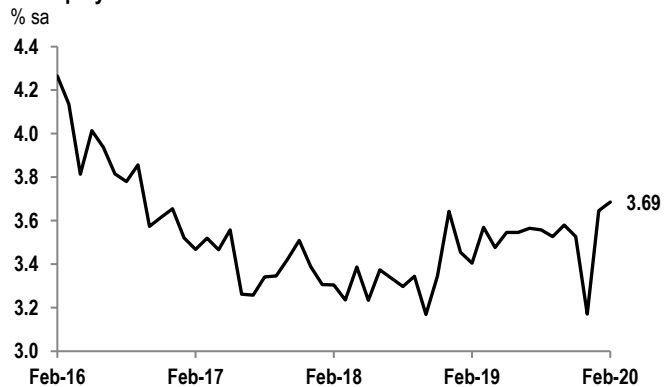
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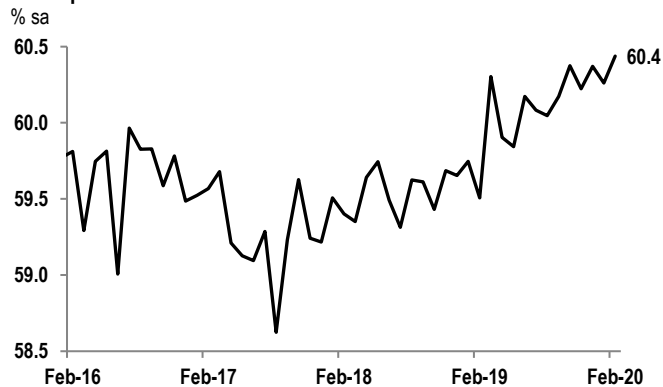
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

We expect a strong increase in the unemployment rate in coming months, feeling the impact of the COVID-19 outbreak. It is likely that we start to see a relevant rise as soon as March. This would be explained firstly by supply chains shocks, which we believe started since February –awaiting confirmation in the trade balance report, to be published tomorrow–, resulting also in technical stoppages, with or without pay, depending on the case. This situation could be exacerbated by the closure of factories in the US, considering the high degree of interconnection of manufacturing between both countries. In this sense, the three big auto builders in the US, *General Motors*, *Ford*, and *Fiat Chrysler*, announced the close of their North America plants on March 18th. In addition, other auto plants that have closed in our country include *Audi*, *Honda*, *Toyota*, *Nissan*, *Volkswagen*, and *Mazda*, among others. Although it is likely that big auto manufacturers might not lay-off their employees, some of the factories related to the process might, triggering the adjustment in the rate. On the other hand, the announcement of the closure of several shops and businesses only in Mexico City and the State of Mexico (with these two states representing around 25% of domestic economic activity), as well as in other cities and states, will likely have repercussions on employment in services.

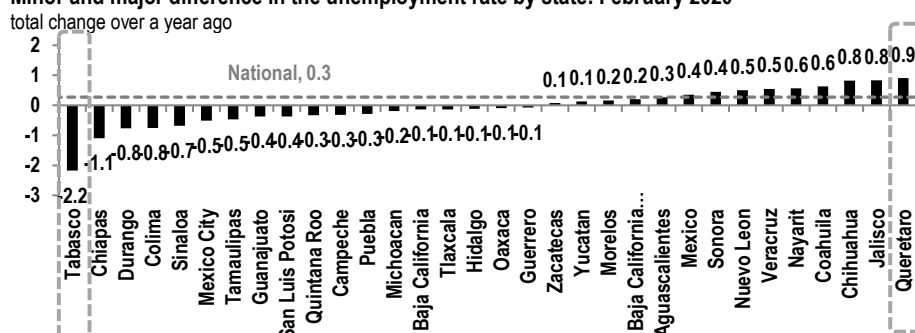
Nevertheless, considering the way surveys are carried out, the increase could be relatively modest in March and could be reflected more strongly in subsequent months. In this sense, we expect the greatest shock in mid-to-late 2Q20. Historically, employment tends to respond to the deterioration in economic activity with a lag. In this context, we recently [updated our macroeconomic framework](#) given the impact of the Coronavirus, now expecting GDP to fall 3.5%.

We believe the scenario for employment in 2020 has deteriorated in a significant manner. Considering the circumstances of the current economic impact, unlike in previous periods, we could see a more generalized increase in unemployment, with a similar shock in both the formal and the informal sectors, considering that the latter seemed to be more stable in previous recessions.

At the state level

For the third 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 federal entities are highly volatile), we highlight the 2.2%-pts annual reduction in Tabasco’s unemployment rate, going from 7.8% in February 2019 to 5.6% currently. Nevertheless, it remains the highest in the country, as shown in the table below. The fall in annual terms is partially explained by the support of the *National Employment Service Programs* (labor linkage services and employment support programs), which mainly through job boards, obtained the lowest rate since August 2012. It is important to mention that the effects of COVID-19 in the employment sector did not show any affectation in the month, since the first case of this disease was reported in March. In addition, it’s important to highlight that 23 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: February 2020



Source INEGI:

The labor market in Chiapas, Durango, Colima, and Sinaloa has improved substantially, with significant declines in the unemployment rate. However, in Queretaro, Jalisco, Chihuahua, Coahuila, and Nayarit it has worsened. Last but not least, the lowest level of the unemployment rate was again in Guerrero (1.3%). However, this implies a 0.1%-pts fall relative to the same month of the previous year, as shown in the following table.

Unemployment rate by state – February 2020

%; nsa

	Feb-20	Feb-19	Jan-Feb '20	Difference
Tabasco	5.6	7.8	5.9	-2.2
Chiapas	2.5	3.6	2.5	-1.1
Durango	3.9	4.6	3.8	-0.8
Colima	3.3	4.1	3.0	-0.8
Sinaloa	2.9	3.6	2.8	-0.7
Mexico City	5.1	5.6	5.1	-0.5
Tamaulipas	3.4	3.8	3.2	-0.5
Guanajuato	3.7	4.0	3.6	-0.4
San Luis Potosi	2.0	2.4	2.0	-0.4
Quintana Roo	2.9	3.2	2.9	-0.3
Campeche	3.2	3.5	3.2	-0.3
Puebla	2.5	2.8	2.5	-0.3
Michoacan	2.2	2.4	2.4	-0.2
Baja California	2.3	2.4	2.4	-0.1
Tlaxcala	3.9	4.0	3.8	-0.1
Hidalgo	2.1	2.2	2.2	-0.1
Oaxaca	1.7	1.8	2.0	-0.1
Guerrero	1.3	1.4	1.4	-0.1
Zacatecas	3.1	3.0	2.9	0.1
Yucatan	1.9	1.7	1.9	0.1
Morelos	2.0	1.8	2.0	0.2
Baja California Sur	3.4	3.2	3.4	0.2
Aguascalientes	3.6	3.4	3.6	0.3
National	3.6	3.3	3.7	0.3
State of Mexico	4.6	4.2	4.5	0.4
Sonora	4.7	4.3	4.6	0.4
Nuevo Leon	3.8	3.3	3.7	0.5
Veracruz	3.0	2.4	3.0	0.5
Nayarit	3.9	3.3	3.7	0.6
Coahuila	4.5	3.9	4.2	0.6
Chihuahua	3.4	2.6	3.2	0.8
Jalisco	3.2	2.4	3.2	0.8
Queretaro	4.1	3.2	4.1	0.9

Source: INEGI

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