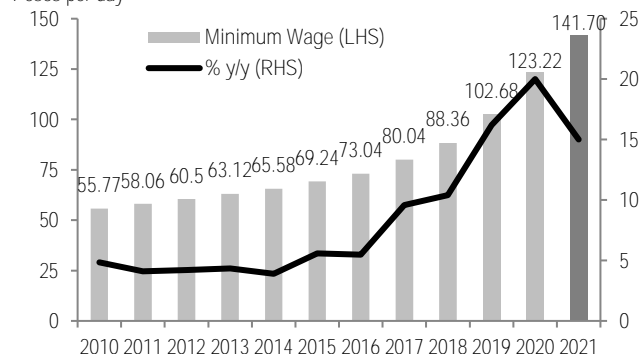


Minimum wage set to increase 15% in 2021

- Yesterday, the *National Commission for Minimum Wages* (CONASAMI, in Spanish) announced a 15.0% increase in the minimum wage (MW) for 2021, from \$123.22 to \$141.70 per day
- This increase was broadly in line with expectations and would be the lowest so far in the current administration, recalling that they picked up 20% in 2020 and 16% in 2019
- Despite of the latter, this is still consistent with the government's policy aiming for a gradual recovery in wages. Nevertheless, it should be noted that the decision was not unanimous, with the private sector supporting a lower increase
- In the case of the Northern Border, the increase was at the same rate (15%), from \$185.56 to \$213.39 per day
- Considering very ample slack in the economy, we believe that the impact of this increase in average wages could be limited, inducing more modest upward pressures in the rest of the wage curve
- Moreover, the latter will likely result also in low passthrough to inflation, similar to 2020 and in recent years

Minimum wage set to increase 15% in 2021. Yesterday, *National Commission for Minimum Wages* (CONASAMI, in Spanish) announced a 15.0% increase in the minimum wage (MW) starting on January 1st, 2021. Once again this is composed of two factors: (1) An increase in pesos related to the *Independent Recovery Amount* (MIR, in Spanish), designed to protect Mexican households purchasing power; and (2) a percentage increase above this updated amount, linked to inflation. In this respect, the *National Minimum Wage* will stand at \$141.70 from \$123.22 per day (see chart below), comprised of an increase of \$10.46 in the MIR plus 6%. Hence, the total hike stands at 15% (see table below for details). We should mention that average inflation so far this year (until November) has been 3.4%, implying a relevant recovery even if we only account for the second factor. Remembering that the *Minimum Wage for the Northern Border* was introduced since 2019, the latter will pick up by the same magnitude (15%), with a higher MIR by \$15.75 and the same inflation adjustment of 6%

Average minimum wage by year*
Pesos per day



*Note: From 2019 onwards, the amount and percentage increase refer only to the minimum wage that excludes the Northern Border, as both are differentiated. Takes into account those earning only one minimum wage
Source: Banorte with data from CONASAMI, Labor Ministry and IMSS

National minimum wage increases by factors
Pesos, % nominal increase

	Previous MW (pesos)	MIR (pesos)	Inflation adjustment (%)	New MW (pesos)	Total increase (%)	Annual inflation (%)
2017	73.04	4.00	3.90	80.04	9.58	6.8
2018	80.04	5.00	3.90	88.36	10.39	4.8
2019*	88.36	9.43	5.00	102.68	16.21	2.8
2020*	102.68	14.67	5.00	123.22	20.00	3.4
2021*	123.22	10.46	6.00	141.70	15.00	3.6

*Note: Inflation for 2020 and 2021 taken from the latest Banxico survey published on Dec-17
Source: Banorte with data from CONASAMI

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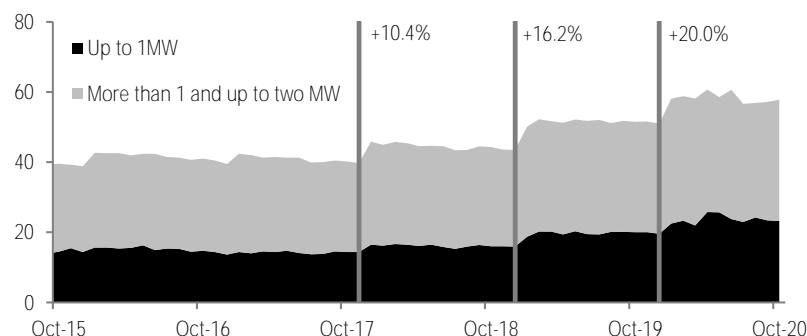
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



Document for distribution among the general public

More modest increase in two years... The agreed revision will be the lowest so far in this administration, recalling that they picked up 20% in 2020 and 16% in 2019. Nevertheless, it is still sizable when compared to 2010-2018, when the average increase stood at 5.8% despite accelerating in the final part of the period. The announcement is still consistent with the government's policy aiming for a gradual recovery in wages, with a goal of a 100% increase for the full six-year term. The accumulated increase so far stands at 60.4%, so the target looks very feasible. Nevertheless, and contrary to previous occasions, this increase was not unanimous. This is something unprecedented, with representatives from the private sector voting for a lower increase, quoting the difficult situation the country is going through. It should be noted that the Commission is made up by members from the public and private sectors as well as workers' representatives. On another note, and similar to recent years, this hike would benefit a greater share of the population. According to the *National Employment Survey* ("*Encuesta Nacional de Ocupación y Empleo*", ENOE, in Spanish) as of October 2020, 23.3% of the labor force (against 19.6% as of December 2019), totaling around 12.3 million people. We should mention that this figure is skewed down because of job losses due to the pandemic, even after considering that these recovered most since the initial shock.

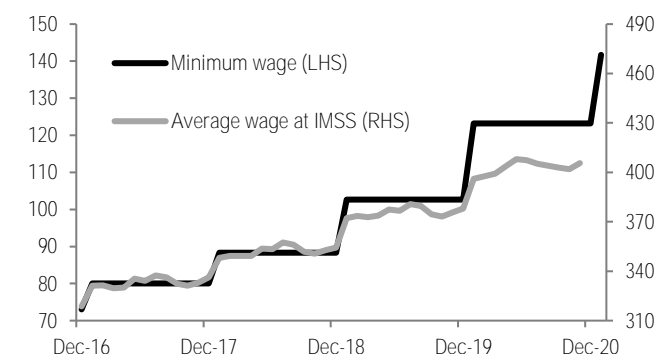
Employees by income level*
% of total employees*



Source: Banorte with data from INEGI

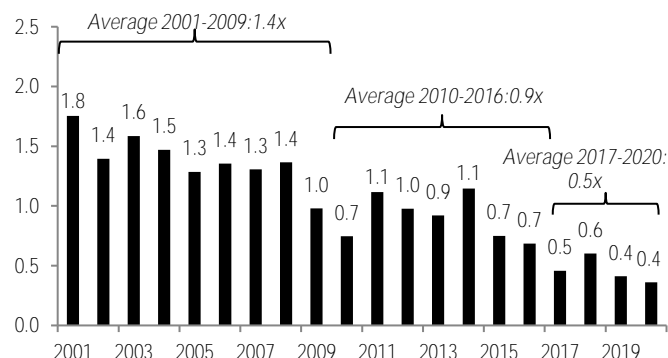
...with an even lower impact on the rest of wages. While analyzing the previous chart, it seems that overall pay is not rising at the same pace as the minimum wage, thus resulting in a higher percentage of the population receiving this compensation. This is clearer when analyzing data for the group earning more than one and up to two MW, with the share of this group going from 40% of employed people between 2015-2017 to close to 58% so far in 2020. In this context, we believe the higher upper bound for the two minimum wage group is capturing more people each time, given that their income is not rising at the same or higher rate. In this sense, increases to the Average Wage at IMSS (AWI) in the last few years have been more modest relative to the MW, minimizing the so-called 'lighthouse effect'. In this sense, and [expanding on our analysis last year](#), the percentage increase of the AWI as a proportion of the MW in 2020 was 0.36x times, below the 0.41x in 2019 (see chart below, right). Although we believe this could be skewed by different shocks related to the pandemic, the trend in previous years seems to quite clear by showing a lesser effect of the MW increase to the AWI.

Minimum wage and Average Wage at IMSS
Pesos per day



Source: Banorte with data from CONASAMI, Labor Ministry and IMSS

Wage increases: Minimum and Average at IMSS*
Times



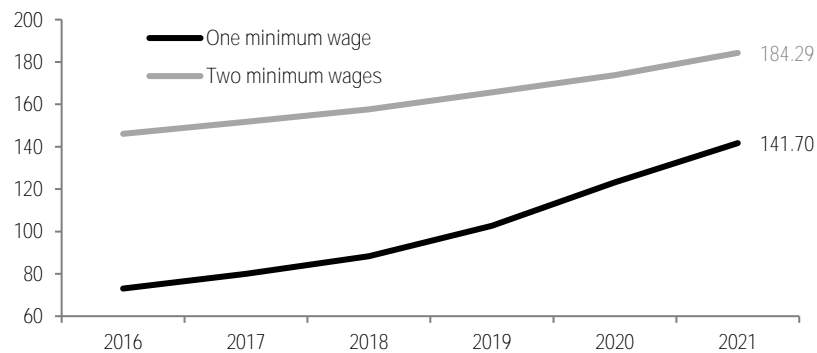
*Note: The measure presented is the ratio of the increase observed in the Average Wage at IMSS by the announced increase in the MW. For 2020, the AWI is year-to-date until November.
Source: Banorte with data from CONASAMI, Labor Ministry and IMSS

Given the current backdrop, businesses may have stronger bargaining power. In addition, we believe businesses may have the upper hand in wage negotiations given excess labor supply in the current environment. As a result of negative shocks on employment conditions, it is likely that workers will be more willing to accept a job with a lower wage just to return into the labor market. This seems to be supported by the fact that most recovered jobs have been on the lower end of the wage distribution. In this context, we believe that upward adjustments in the rest the wage curve will be more modest due to an environment characterized by a deeply negative output gap. Moreover, for some businesses to comply with the increase, and considering the challenging conditions, they may need to stop hiring additional staff or even laying-off some workers already employed, potentially resulting in an additional increase in unemployment or a shift towards more informality.

Modest effect on inflation despite some uncertainty. We consider that the effect from the minimum wage increase on inflation might be somewhat moderate, stemming from: (1) A lower rise relative to previous years; (2) the cyclical position of the economy, with a high level of slack both on economic activity and the labor market, limiting demand-side pressures; and (3) a more modest pass-through of this increase to the rest of wages. In this context we believe that the differentiation from the nominal increase and the MIR play a key role to limit this upside. Making a quick exercise since 2016 (with 2017 being the first year when the MIR was implemented), if we apply the nominal increases to someone earning two minimum wages vs. complete increases to someone earning just one, we can see a more moderate effect on wages (see chart below). Nevertheless, we think there might be some uncertainty over the final impact, considering relevant distortions on consumption patterns and productive processes, which in turn has resulted in important shocks to inflation. Considering that it is likely that some of these reverse throughout 2021 due to a gradual normalization supported by the vaccination process and other shocks that will fade away after the reopening, we believe that measuring the impact from the minimum wage to prices will be even more complex than usual. Considering that the adjustment was close to our expectations, we think it does not imply relevant changes to our inflation and monetary policy forecasts for next year.

Evolution of the minimum wage for those earning 1x and 2x the minimum wage starting in 2017

Pesos per day



Source: Banorte with data from CONASAMI, Labor Ministry and IMSS

Analyst Certification

We, Gabriel Casillas Olvera, 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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.

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