

Minimum wage – 22% increase in 2022

- Yesterday, the *National Commission for Minimum Wages (CONASAMI, in Spanish)* announced a 22% increase in the minimum wage (MW) for 2022, from \$141.70 to \$172.87 per day
- This increase was above adjustments seen in the previous three years (2021: 15%; 2020: 20%; 2019: 16.2%), although is consistent with higher observed inflation throughout the year
- The government continues with its policy of aiming for a gradual recovery in wages. The measure had support from government entities, worker’s unions and the private sector
- In the case of the Northern Border, the increase was at the same rate (22%), from \$213.39 to \$260.34 per day
- Available evidence suggests that the recent impact of MW hikes on inflation has been modest, which remains as our base case...
- ...nevertheless, this announcement has been coupled with several other cost pressures, adding some upward risks to our year-end 2022 inflation forecast of 4.4%

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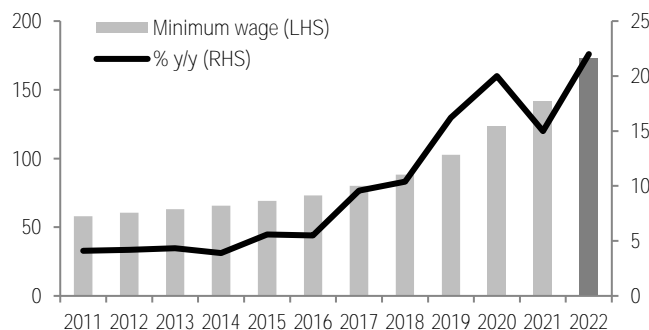
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Minimum wage set to increase 22% in 2022. Yesterday, the *National Commission for Minimum Wages (CONASAMI, in Spanish)* announced a 22.0% increase in the minimum wage (MW) starting on January 1st, 2022. Once again this is composed of two factors: (1) 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 \$172.87 from \$141.70 per day (see chart below), comprised of an increase of \$16.90 in the MIR plus 9%. Hence, the total hike stands at 22% (see table below for details). We should mention that average inflation so far this year (until 1H-November) has been 5.4%, which would imply a recovery despite a generalized expectation of additional pressures for the remainder of the year. Remembering that the *Minimum Wage for the Northern Border* was introduced since 2019, the latter will pick up by the same magnitude (22%), with a higher MIR by \$25.45 and the same inflation adjustment of 9%

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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
MXN, % nominal increase

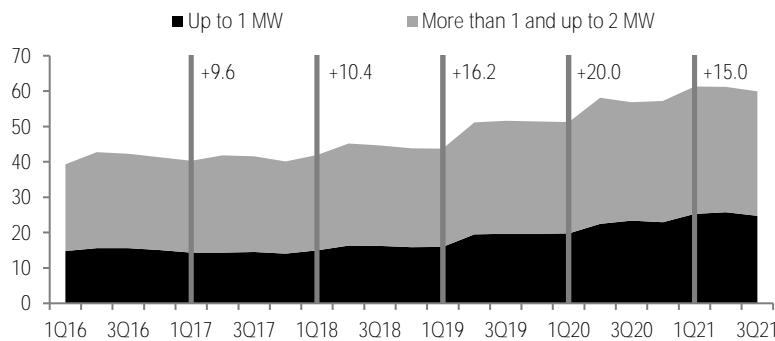
	Previous MW (MXN)	MIR (MXN)	Inflation adjustment (%)	New MW (MXN)	Total increase (%)
2017	73.04	4.00	3.90	80.04	9.58
2018	80.04	5.00	3.90	88.36	10.39
2019	88.36	9.43	5.00	102.68	16.21
2020	102.68	14.67	5.00	123.22	20.00
2021	123.22	10.46	6.00	141.70	15.00
2022	141.70	16.90	9.00	172.87	22.00

Source: Banorte with data from CONASAMI

Highest increase so far in this administration. After a more modest adjustment in 2021 at 15%, the percentage increase will accelerate, reaching a new high during this administration. This is consistent with the current government’s wage policy. The stated goal at the beginning of the administration was for an accumulated increase of 100%. Based on this metric, the accumulated progress stands at 95.6%, which means they have practically fulfilled this goal. Nevertheless, in the CONASAMI’s *Institutional Program for 2021-2024*, the stated goal is to reach 100% of the poverty line in urban areas per family unit by the end of the administration. This amount changes based on inflation and other factors determined by CONEVAL, and still provides room for additional increases. Specifically, as of October 2021, the monthly equivalent income based on this line would be around \$6,533.10. Based on our calculations, the new MW can still increase around 26% to reach that level.

Unanimous consent, benefitting around 6.3 million workers affiliated to IMSS. According to several reports, the agreement was unanimous, with support from government entities, worker’s unions, and the private sector. In this context, the *Corporate Coordinating Counsel* (CCE in Spanish) mentioned in a statement that they reaffirm their commitment to not leave workers unprotected amid a challenging situation. On the other hand, and similar to previous 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 3Q21, 24.7% of the labor force earned up to one MW (vs. 23.0% as of 4Q20), totaling around 13.8 million people (see chart below). According to the Minister of Labor, Luisa María Alcalde, around 6.3 million workers affiliated to IMSS will be benefitted (in the formal sector), or 30.5% of the total. In our view, this distinction is important as enforcement is likely to be much stronger in the formal sector relative to informal workers.

Employees by income level*
% of total employees*

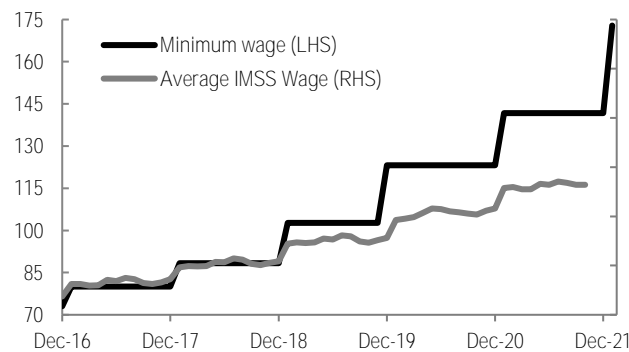


* Vertical lines denote the moment and magnitude of the minimum wage increase for the upcoming year
Source: Banorte with data from INEGI

The ‘lighthouse effect’ has been modest, but further increases should be made cautiously. One important issue that is constantly debated is the possibility that a higher minimum wage translates into important upward pressures to the rest of the wage distribution, the so-called “lighthouse effect”. In our view, this is increasingly relevant given accumulated MW increases.

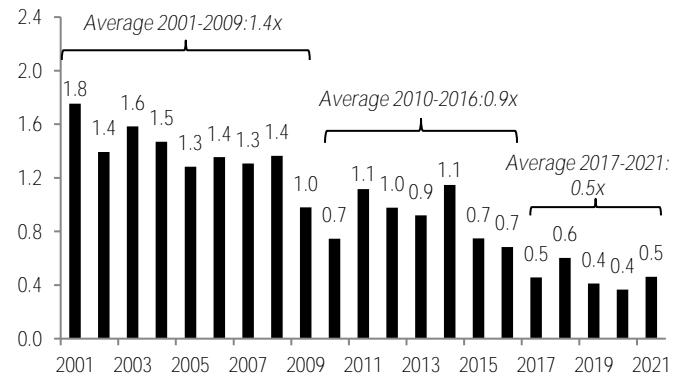
As a result, an increasingly higher percentage of the population receives this compensation, as seen in the chart above. For example, the share of the population earning more than one and up to two MW went from 34.2% by year-end 2020 to 35.2% as of 3Q21. This share was only around 26% of employed people between 2015-2017. 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. Some evidence of the latter comes from the fact that increases to the Average Wage at IMSS (AWI) in the last few years have been more modest relative to the MW, limiting the so-called ‘lighthouse effect’. In this sense, we note that the percentage increase of the AWI as a proportion of the MW so far in 2021 has been 0.46x times, slightly above the 0.37x in 2020 (see chart below, right). Although higher at the margin, the trend in recent years clearly suggests a more modest effect of the MW increase to the AWI. It is our take that this is likely related to an output gap that remains wide and in negative territory, as well as not ruling out other distortions because of the pandemic (e.g. a low participation rate, still not recovering from the shock).

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 2021, the AWI is year-to-date until October.
Source: Banorte with data from CONASAMI, Labor Ministry and IMSS

Other studies also suggest a limited impact. To add further to the point above, we highlight a paper by Raymundo Miguel Campos Vázquez and James Alexis Rodas Milián, published in 1Q20¹. The article analyzes minimum wage increases in 2012 and 2015 –based on IMSS data, so it is restricted to some workers in the formal economy– to identify its effects in the wage structure and employment. It also has a preliminary discussion about the ‘lighthouse effect’ in 2019. We focus on the latter as it is more relevant for the issue at hand. According to the authors, the effect of the MW increase is around 87% of the original increase for the first five quantiles of the wage distribution, which corresponded to those earning the MW. For the range of workers in the quantiles 20 to 70, the magnitude of the ‘lighthouse effect’ was 7.7% of the original increase on average, with a range between 5.4% and 11%. Moreover, the greatest effect is in the first 3 quantiles and starts diluting from there until vanishing completely by the quantile 77 (when the MW hike was 100% at the Northern Border). At the time of the study, these workers earned around \$11,000 to 13,000 a month.

¹ Campos Vázquez, Raymundo Miguel & Rodas Milián, James Alexis, 2020. "El efecto faro del salario mínimo en la estructura salarial: evidencias para México," El Trimestre Económico, Fondo de Cultura Económica, vol. 87(345), pages 51-97, Jan-Mar.

Lastly, the results were preliminary, as data for 2019 could be changed afterwards. Moreover, they warn that: (1) The lighthouse effect may be very different depending on the magnitude of the MW increase; and (2) each increase must be analyzed separately.

Our base case is that the ‘lighthouse effect’ will remain modest... Although the increase is the highest in recent years and is compounded by an increasingly higher base effect, we believe the total impact on consumer prices will be modest. Specifically, it is our take that companies’ bargaining power for setting wages remains high as labor market slack and the output gap remains elevated, not making up yet for the shock from the pandemic. Anecdotal evidence –such as comments from managers’ in manufacturing according to *Markit’s* PMI– suggests companies are reluctant to pass-through increased costs to consumers, fearing losing market share. In our view, this should remain the case as [most recent signals](#) from domestic demand are still weak, pointing out to limited demand-side pressures on prices.

...although other factors add upward risks. We heed the paper’s advice about the importance of analyzing each increment separately. This is even more important considering that these estimates were computed before the pandemic, which induced a plethora of distortions in markets for labor and goods (intermediate and final). In addition, companies have faced cost pressures from many fronts since the reopening started (*e.g.* in raw materials, energy, shipping costs, etc.). In this respect, we note Mexico’s producer prices in October were up 8.6% y/y, while consumer prices increased at a slightly lower rate of 6.2%. As profit margins erode, producers may well find themselves in a situation in which more sizable upward adjustments to prices must be made. Our year-end 2022 inflation forecast of 4.4% is above market consensus (4.0%, according to the latest Banxico survey) and incorporates some potential pressures from yesterday’s announcement. Nevertheless, the increase was higher than our expectations and is coupled with a very difficult global and local backdrop for prices. This makes it even more challenging to incorporate in our estimates but adds upside risks. Therefore, we will pay close attention to price adjustments during the first months of next year. In our view, these could provide us with very valuable information about the effect that these changes may ultimately have on inflation, as several companies adjust their prices on an annual basis in said period.

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