

Wage negotiations keep growing around 6% in July

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- **Wage negotiations (Jul): 5.9%; Banorte: 6.2%; previous: 6.5%**
- **Workers in the private sector saw wages increase 6.0%, while employees in the public branch got a more modest raise of 3.4%**
- **We highlight the 6.3% increase in services, led by financial and real estate (7.8%)**
- **Recent figures show that wage revisions maintain a strong pace, in our view mostly explained by the minimum wage increase that came into effect on January 1st and after two years of relatively high inflation**
- **We expect the pace of wage revisions to stay close to its current level, with the factors mentioned above mitigated at least partially by the end of the year as the economy decelerates**
- **Sonora stood out as the federal entity with the highest salary average increase in the country**

Wages increased an average of 5.9% in July. This was below the 6.5% advance of the previous month, upwardly revised from 6.1% in the first release. This was a result of 486 negotiations that benefited 79,410 workers. Year-to-date, the average increase has been 6.0% (81bps above the same period of 2018), with a total of 1,321,570 employees, which is 6.9% lower than the previous year.

Contrary to our expectations, the share of negotiations among public increased was higher, which have tended to be close to zero for this month. Taking into account the 3.4% advance in this group (2,279 employees), the latter helped skew the total result of 6.0% in the private sector (77,131 employees) to the total of 5.9% (see table below). Nonetheless, the advance is still relatively high, which we believe remains mostly driven by the minimum wage increase of 16% that was announced last January. The latter, coupled with the deceleration in economic activity, likely helps explain the persistently more modest pace of formal job creation. To this, we must add that several workers keep demanding above-average increases after 2 years of inflation above Banxico's target.

Contractual wage negotiations

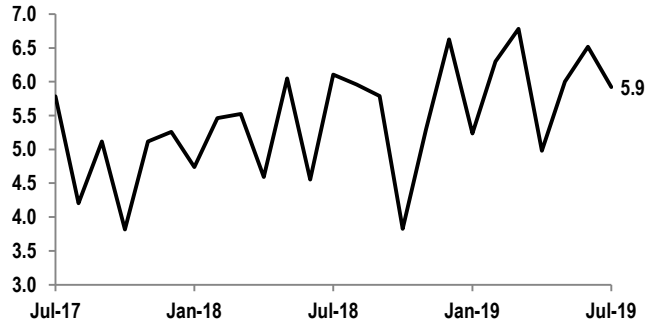
%; number of workers

| % nominal | Jul-19 | Jun-19 | Jan-Jul '19 | Jan-Jul '18 |
|--------------------------|---------------|----------------|------------------|------------------|
| Total | 5.9 | 6.5 | 6.0 | 5.1 |
| Public | 3.4 | 3.4 | 3.4 | 3.5 |
| Private | 6.0 | 6.6 | 6.4 | 5.7 |
| Number of workers | | | | |
| Total | 79,410 | 116,032 | 1,324,570 | 1,422,985 |
| Public | 2,279 | 1,393 | 182,656 | 343,503 |
| Private | 77,131 | 114,639 | 1,141,914 | 1,079,482 |

Source: Ministry of Labor

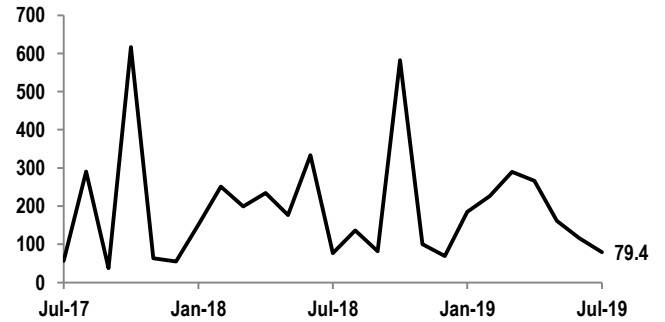
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Contractual wage negotiations
% yoy, nominal



Source: Ministry of Labor

Workers receiving a wage increase
thousands



Source: Ministry of Labor

Wages in the industry climbed 5.7%, benefitting 49,588 workers. Taking a look at the breakdown, most workers remain concentrated in manufacturing (48,429), receiving an increase of 5.7%. Moreover, we highlight the strong 6.8% increase in mining, benefitting 764 workers. Last but not least, construction and utilities were up 5.0% and 3.9%, respectively.

Services sector wages increased 3.6% for 29,405 workers. The strongest pick-up was in financial and real estate services, at 7.8% for 13,444 workers. Commerce was up by 5.4% (4,163 workers) and transportation y 5.1% (7,302 employees).

Contractual wage negotiations by sector

| | Jul 2019 | | Jan-Jul '19 | | Jan-Jul '18 | |
|---------------------------------------|------------|---------------|-------------|----------------|-------------|----------------|
| | %yoy | Workers | %yoy | Workers | %yoy | Workers |
| Industrial | 5.7 | 49,588 | 6.2 | 739,347 | 5.3 | 807,536 |
| Mining | 6.8 | 764 | 6.7 | 24,347 | 3.7 | 177,217 |
| Manufacturing | 5.7 | 48,429 | 6.7 | 616,147 | 6.1 | 538,499 |
| Construction | 5.0 | 44 | 4.7 | 3,150 | 5.1 | 1,538 |
| Utilities | 3.9 | 351 | 3.4 | 95,703 | 3.4 | 90,282 |
| Services | 6.3 | 29,405 | 5.5 | 577,734 | 4.9 | 609,038 |
| Commerce | 5.4 | 4,163 | 6.3 | 108,296 | 5.3 | 112,690 |
| Transport, storage and communications | 5.1 | 7,302 | 5.3 | 245,580 | 4.8 | 242,754 |
| Financial and real estate services | 7.8 | 13,444 | 6.3 | 94,702 | 5.4 | 100,813 |
| Other | 4.3 | 4,496 | 4.9 | 129,156 | 4.5 | 152,781 |
| Agricultural | 6.1 | 417 | 8.5 | 7,489 | 7.7 | 6,411 |

Source: Ministry of Labor

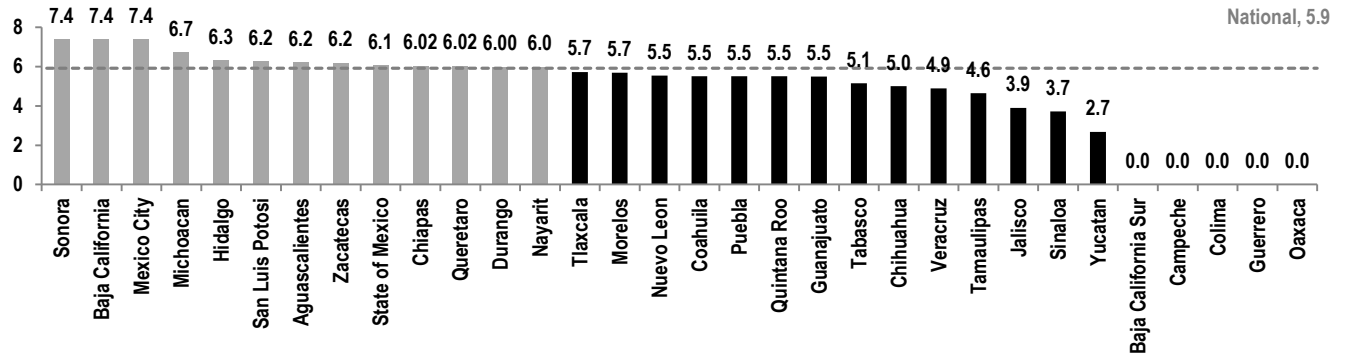
The pace of advance in wage negotiations could stabilize towards the end of the year. In particular, they will likely stay close to 6% in full-year 2019 as the bulk of negotiations has already passed away, even if October is very high due to negotiations by the IMSS union. In our view, the deceleration in economic activity will have a more relevant impact in coming months, coupled with the persistent moderation in inflation, which has been driven by the non-core component. Nevertheless, the “lighthouse effect” after the minimum wage hike will keep playing a relevant part in negotiation dynamics, as workers that have not had an adjustment so far continue taking them into account. As a result, we believe negotiations will remain relatively high.

At the state level

Sonora stood out as the federal entity with the highest average salary increase in the country. It is worth noting there are 47,191 workers who work in more than one entity which received an average increase of 6.1% during the month. These are not considered in the regional analysis. Thirteen of the 32 states in Mexico showed a wage hike above or in line with the national weighted average of 5.9%.

Contractual wage negotiations by federal entity: July 2019

% in nominal terms

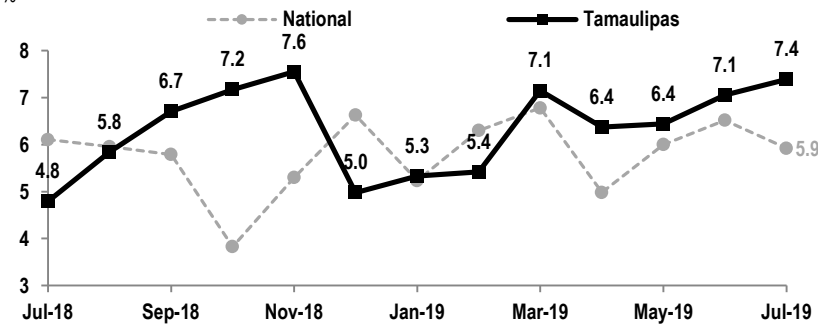


Source: Banorte; Ministry of Labor

In this context, Sonora saw the highest average increase of the country (+7.4% nominal terms), as seen in the chart above. This is the highest increase in the state since November 2018, achieved through only 8 negotiations for a total of 383 workers. On a year-to-date basis, a total of 17,154 workers saw their salary increase by an average of 6.3%. Moreover, Baja California and Mexico City (7.4%), Michoacán (6.7%), and Hidalgo (6.3%), had firms that furthered wages for their workers above the national average, as shown in the table on the right.

Salary increase in Sonora

%



Fuente:

Guanajuato was the entity with most workers benefitting from revisions in July. A total of 8,262 workers improved their salary perception with a 5.5% increase in nominal terms through 23 negotiations (see table below, left). In the first seven months of the year 89,047 workers have benefited, with an average salary increase of 8% in nominal terms. However, in Baja California Sur, Campeche, Colima, Guerrero, and Oaxaca, no negotiations took place during the period. Additionally, Tabasco showed the lowest number of workers with contractual negotiation during the period.

Workers with the highest and lowest contractual wage negotiations
Highest and lowest number of contractual wage negotiations

| Year-to-date | | | | | Year-to-date | | | | |
|---------------------|---------------|------------|------------|----------------|---------------------|------------|---------------|--------------|----------------|
| | Workers | % | Workers | Jan-Jul '19 | | % oya | Workers | Jan-Jul '19 | Workers |
| Nacional | 47,191 | 5.9 | 4.9 | 632,235 | Nacional | 5.9 | 47,191 | 3,948 | 632,235 |
| Guanajuato | 8,262 | 5.5 | 8.0 | 89,047 | Sonora | 7.4 | 383 | 83 | 17,154 |
| State of Mexico | 7,608 | 6.1 | 5.8 | 90,388 | Baja California | 7.4 | 1,248 | 78 | 9,867 |
| Mexico City | 4,706 | 7.4 | 5.3 | 52,224 | Mexico City | 7.4 | 4,706 | 789 | 52,224 |
| Chiapas | 4,132 | 6.0 | 7.1 | 7,404 | Michoacan | 6.7 | 733 | 73 | 17,074 |
| Coahuila | 3,900 | 5.5 | 6.0 | 65,590 | Hidalgo | 6.3 | 336 | 98 | 9,557 |
| Baja California Sur | -- | -- | 5.6 | 2,188 | Baja California Sur | -- | -- | 22 | 2,188 |
| Campeche | -- | -- | 4.5 | 541 | Campeche | -- | -- | 12 | 541 |
| Colima | -- | -- | 6.4 | 4,657 | Colima | -- | -- | 18 | 4,657 |
| Guerrero | -- | -- | 5.9 | 2,384 | Guerrero | -- | -- | 24 | 2,384 |
| Oaxaca | -- | -- | 4.4 | 3,019 | Oaxaca | -- | -- | 43 | 3,019 |

Source: Banorte; Ministry of Labor

Source: Banorte; Ministry of Labor

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