

## The National Commission for Minimum Wages agreed on a 16.2% increase for 2019

- In a joint event, the President, representatives from the Ministry of Labor (STPS), and the *National Commission for Minimum Wages* (CONASAMI) announced a 16.2% increase in minimum wages for 2019, taking it from MXN\$88.36 to MXN\$102.68 per day
- This increase is considerably higher than those observed in 2017 and 2018, with an average annual adjustment of 10%
- In addition, the Commission approved a 100% rise in wages at the northern border, taking the wage floor to MXN\$176.72 per day
- This news add upside risks to our YE19 inflation forecast of 3.5% yoy

**Minimum wages increase of 16.2% for 2019.** Today, in a joint event, the President, representatives from the Ministry of Labor (STPS), and the National Commission for Minimum Wages (CONASAMI) announced an upward adjustment to the minimum wage (MW) starting January 1<sup>st</sup>, 2019. This revision will be differentiated in two regions. The first will contemplate the municipalities located 25km next to the northern border as well as some neighboring this region, thus establish the new *Border Minimum Wage* at MXN\$176.72 per day (around USD\$8.80) from MXN\$88.36 (+100%). Moreover, the minimum wage for the rest of the country will increase from the same MXN\$88.36 to MXN\$102.68 (+16.2%; around US\$5.11). In this latter case, the MXN\$14.32 revision is driven by two factors: (1) A MXN\$9.43 increase (+10.7%) as part of the *Independent Recovery Amount* - designed to compensate Mexican households from purchasing power losses-; and (2) considering the updated amount of MXN\$97.79, a MXN\$4.89 rise (5.0%) linked to inflation. In this sense, it is important to mention that average annual inflation since November 2017, when the last revision took place, has been 5.06%.

**Highest increase in recent years.** In this context, we highlight that the revision for 2019 is the highest in recent years (see chart below on the left). In particular, the average increase in the years between 2010 and 2016 was 4.6%, and during 2017-2018 it stood at 10%. Moreover, it is relevant to note that given the high accumulated adjustment (in absolute terms) of the last couple of years, the labor force impacted by the change tends to be increasingly higher. In this regard, and according to the *National Employment Survey* (“*Encuesta Nacional de Ocupación y Empleo*”, ENOE, in Spanish), as of 3Q18 around 18.5% of the labor force (excluding those not reporting their income) earned up to one MW. This percentage (around 8.5 million people) could be directly benefited by the raise. Nevertheless, the final figure could be lower due to the effect it could have on labor demand dynamics.

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www.banorte.com  
@analisis\_fundam

### Gabriel Casillas

Chief Economist and Head of Research  
gabriel.casillas@banorte.com

### Delia Paredes

Executive Director of Economic Analysis  
delia.paredes@banorte.com

### Juan Carlos Alderete, CFA

Senior Economist, Mexico  
juan.alderete.magal@banorte.com

### Francisco Flores

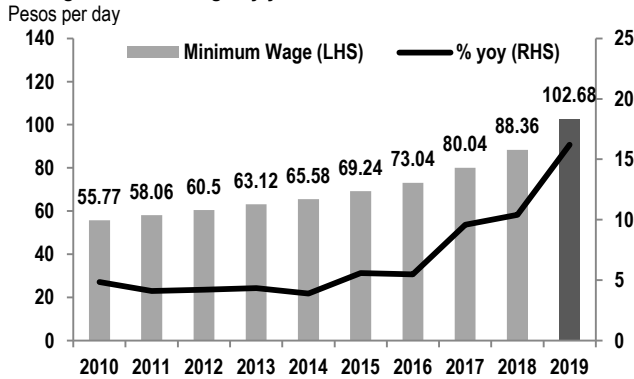
Economist, Mexico  
francisco.flores.serrano@banorte.com

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Moreover, 51.1% earns up to two MW (see graph below on the right), which means that the group that receives between one and two MW is around 32.6% (15.1 million people). However, we do not have specific details for the second group, thus we cannot estimate the number of people that could be benefitted by this revision.

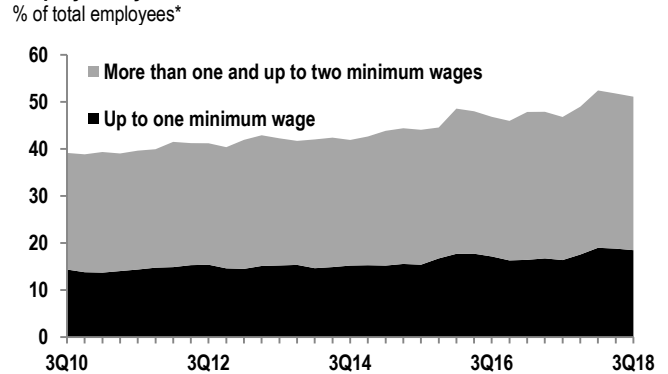
Despite of the latter, we believe that the gross population benefitted could be close to the 18.5% lower limit referenced previously, given two factors: (1) The majority of the population received the 16.2% increase; and (2) the labor force includes workers in both the formal and informal sectors, with the last group possibly not being able to obtain the revision given their work status.

**Average minimum wage by year**



\*Note: For 2018 the average is calculated until the day of this publication. For 2019, the revision for the northern border of 100% is not included  
Source: Banorte with data from INEGI

**Employees by income level**



\*Note: excluding those that do not report their income level  
Source: Banorte with data from INEGI

**Uncertainty over the impact of wage revisions on inflation.** In this context, we previously estimated that a 10% MW hike would increase twelve-month inflation by around 30bps. For details, see: “*Abnormal increase in minimum wage will have a marginal effect on inflation*”, <[pdf](#)>, November 21<sup>st</sup>, 2017. On the other hand, Banxico proposed an econometric model to estimate the direct and indirect-effects of an increase in the MW on the “*Basic Formal Wage*” (“*Salario Básico de Cotización*”, in Spanish) to estimate the latter’s impact on inflation. For details, see: “*Salario Mínimo e Inflación*”, <[pdf](#)>, June 2016 (only in Spanish). Considering only the direct impact, Banxico estimates that a 10% increase in the MW would increase inflation around 150bps in the following 12 months and up to 170bps in 24 months. This contrasts significantly with our own estimate which implies a much lower effect, reminding us of the high level of uncertainty about the final impact that this measure could eventually have. Lastly, we do not know of any study that considers the effect of a differentiated minimum wage along the lines announced today, particularly on the relative impact on labor supply and demand by city, adding uncertainty to the forecast.

**Upward risks for our 3.5% YE2019 inflation forecast.** The increase agreed today was slightly higher than expected. Considering estimates of the pass-through effect from minimum wages to prices, along the possibility of being applicable to a higher proportion of the labor force, we believe that the announcement increases upwards risks to our inflation forecast of 3.5% yoy. Another relevant risk to our forecast is the new gasoline pricing policy, which according to the 2019 Budget, seeks to maintain prices unchanged in real terms.

Although the price policy is not fully explicit, this seems very similar to what was done for many years, namely increasing the price of gasoline once a month in such a percentage that at the end of the year there was an annual increase equal to Banxico's 3% target. For more details see "*New administration presents a fiscally responsible budget for 2019*", published today [<pdf>](#).

Finally, it is worth noting that Banxico mentioned among its upward risks for inflation that "*...if wage negotiations are not consistent with productivity gains, pressures on the economy could arise...*", in our view signaling higher upside risks to prices given the materialization of the measure, which supports our call for a 25bps hike this Thursday, taking the reference rate to 8.25% at the end of the year.

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**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist		(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
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.cebillos@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 Asset Management	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 Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454