

Wage negotiations once again accelerate in May

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- **Wage negotiations (May): 5.9%; Banorte: 5.9%; previous: 5.0%**
- **Workers in the private sector saw wages increase 6.4%, while employees in the public branch got a 3.3% raise**
- **We highlight the 6.3% increase in industry, driven by negotiations in manufacturing (+6.4%)**
- **We believe the minimum wage increase that came into effect on January 1st helps explain part this relative acceleration, along demands of higher increases after two years of relatively high inflation**
- **Looking ahead, we expect workers to keep incorporating gradually the impact of these factors**
- **Tamaulipas stood out as the federal entity with the highest average salary increase of the country**

Wages increased 5.9% in May. This was higher than the 5.0% increase observed in April and marginally lower than the 6% of the same month in the previous year. This raise was a result of 748 negotiations that benefited 149,841 workers, 26,521 less than in May 2018. Year-to-date, the average increase has been 5.8% (55bps higher than in the same period of 2018) for a total of 1,074,635 employees.

It should be reminded that in April, the share of total negotiations made by public-sector employees was higher than in the private sector as a result of the adjustment made to workers of the state-owned utility company, CFE. This dynamic reversed in May, helping explain to a great extent the relative acceleration in the annual growth rate. In this context, 125,795 employees in private companies got a 6.4% raise, while only 24,046 workers in the public sector obtained a 3.3% increase (see table below).

We continue believing that strong annual growth is mostly driven by the minimum wage increase of 16% that was announced last January. To the latter, we must add that several workers keep demanding above-average increases after 2 years of inflation above Banxico's target.

Contractual wage negotiations

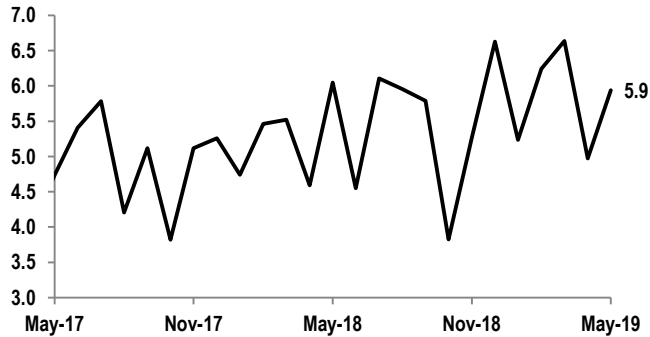
%; number of workers

| % nominal | May-19 | Apr-19 | Jan-May '19 | Jan-May '18 |
|--------------------------|----------------|----------------|------------------|------------------|
| Total | 5.9 | 5.0 | 5.8 | 5.3 |
| Public | 3.3 | 3.4 | 3.4 | 3.5 |
| Private | 6.4 | 5.9 | 6.3 | 5.6 |
| Number of workers | | | | |
| Total | 149,841 | 259,358 | 1,074,635 | 1,012,912 |
| Public | 24,046 | 96,679 | 178,984 | 175,237 |
| Private | 125,795 | 162,679 | 895,651 | 837,675 |

Source: Ministry of Labor

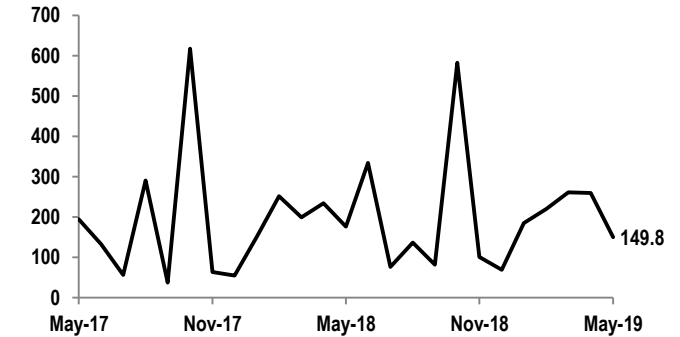
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Contractual wage negotiations
% yoy, nominal



Source: Ministry of Labor

Workers receiving a wage increase
thousands



Source: Ministry of Labor

Wages in the industrial sector climbed 6.3%, benefitting 85,386 workers.

Taking a look at the breakdown, most workers with a raise were in manufacturing (80,212), receiving an increase of 6.4%. On the other hand, 4,200 employees in utilities negotiated a 3.4% raise. We also note the 6.6% increase for 964 workers in mining.

Services sector wages' posted a 5.4% average growth for 63,399 workers.

Within the sector, the highest pick-up was of 7.2% for 13,436 thousand workers in commerce. Nevertheless, the subsector with the most workers benefited was 'others', with a 3.5% raise to 24,128 employees.

Contractual wage negotiations by sector

| | May 2019 | | Jan-May '19 | | Jan-May '18 | |
|---------------------------------------|-------------|---------------|-------------|----------------|-------------|----------------|
| | %yoy | Workers | %yoy | Workers | %yoy | Workers |
| Industrial | 6.3 | 85,386 | 6.2 | 588,502 | 5.6 | 527,518 |
| Mining | 6.6 | 964 | 7.0 | 6,652 | 6.2 | 10,797 |
| Manufacturing | 6.4 | 80,212 | 6.7 | 484,097 | 6.1 | 425,819 |
| Construction | 4.4 | 10 | 4.9 | 2,631 | 5.1 | 1,025 |
| Utilities | 3.4 | 4,200 | 3.4 | 95,122 | 3.4 | 89,877 |
| Services | 5.4 | 63,399 | 5.3 | 479,293 | 4.8 | 479,853 |
| Commerce | 7.2 | 13,436 | 6.4 | 86,650 | 5.1 | 96,006 |
| Transport, storage and communications | 6.3 | 15,837 | 5.2 | 221,267 | 4.8 | 193,089 |
| Financial and real estate services | 6.1 | 9,998 | 5.1 | 55,595 | 5.5 | 74,176 |
| Other | 3.5 | 24,128 | 4.8 | 115,781 | 4.2 | 116,582 |
| Agricultural | 13.2 | 1,056 | 8.5 | 6,840 | 8.2 | 5,541 |

Source: Ministry of Labor

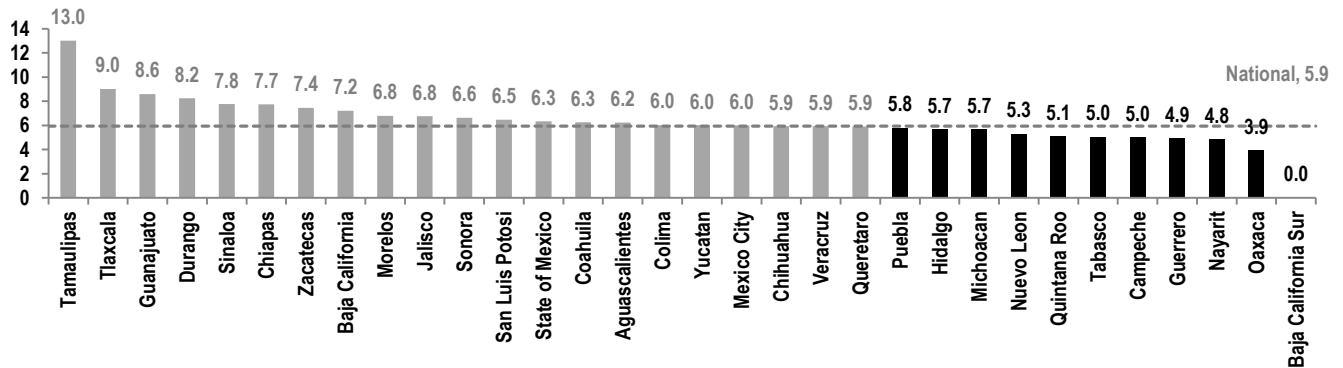
Looking ahead, we continue expecting pressures in wages. In our view, the abovementioned factors will keep playing a relevant part in wage negotiations' dynamics in coming months, taking into account that workers that have not had an adjustment so far continue taking them into account. In this respect, we believe negotiations will remain skewed to the upside. By the same reasoning, we expect a catch-up effect as a result of higher inflation in the last two years to also influence negotiations. Nevertheless this could be partially offset by the convergence of inflation towards the target in the following quarters.

At the state level

Tamaulipas stood out as the federal entity with the highest average salary increase in the country. It is worth noting there are 83,013 workers who work in more than one entity which received an average increase of 5.2% during the month. These are not considered in the regional analysis. Twenty-one out of the 32 states in Mexico showed an increase above or in line with the 5.9% national weighted average.

Contractual wage negotiations by federal entity: May 2019

% in nominal terms

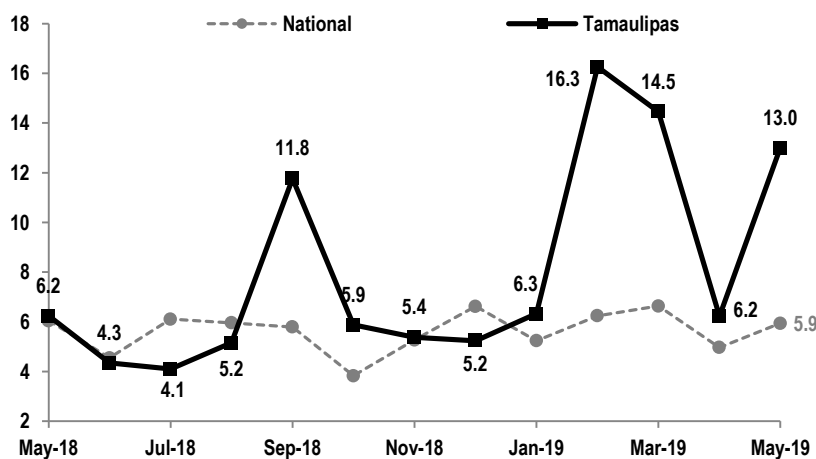


Source: Banorte; Ministry of Labor

In this context, Tamaulipas registered the highest average salary increase of the country (+13% nominal terms), as seen in the following graph. This was achieved through only 20 negotiations for a total of 612 workers in the state. It's important to remember that at the beginning of 2019, about 45,000 workers from more than 45 companies in the state went on strike, achieving significant increases in their contracts. In this regard and on a year-to-date basis, a total of 17,020 workers saw their salary increase by an average of 14.2%. Moreover, Tlaxcala (9%), Guanajuato (8.6%), Durango (8.2%), and Sinaloa (7.8%), had firms that furthered wages for their workers above the national average, as shown in the table below on the right.

Salary increase in Tamaulipas

%



Source: Banorte; STPS

On the other hand, the State of Mexico stands out as the entity with the most workers benefitting from revisions (18,393 workers). In this context, wage negotiations in this state increased 6.3% through 117 negotiations. By contrast Oaxaca, Nayarit, Guerrero, and Campeche showed the lowest number of workers with salary benefits in the country. Moreover, in Baja California Sur no negotiations took place during the period.

Higher and lower workers with contractual wage negotiations

| | Year-to-date | | | | Higher and lower contractual wage negotiations | | | | |
|---------------------|---------------|------------|------------|----------------|--|------------|---------------|--------------|----------------|
| | Workers | % | Workers | Jan-May '19 | % oya | Workers | Jan-May '19 | Workers | |
| National | 83,013 | 5.9 | 4.9 | 476,771 | National | 5.9 | 83,013 | 2,944 | 476,771 |
| State of Mexico | 18,393 | 6.3 | 5.8 | 71,972 | Tamaulipas | 13.0 | 612 | 167 | 17,020 |
| Coahuila | 17,960 | 6.3 | 6.0 | 51,043 | Tlaxcala | 9.0 | 976 | 32 | 7,345 |
| Guanajuato | 8,636 | 8.6 | 8.0 | 66,567 | Guanajuato | 8.6 | 8,636 | 172 | 66,567 |
| Nuevo Leon | 7,132 | 5.3 | 5.6 | 31,849 | Durango | 8.2 | 94 | 18 | 10,140 |
| Ciudad de México | 6,725 | 6.0 | 5.3 | 33,691 | Sinaloa | 7.8 | 305 | 50 | 5,498 |
| Quintana Roo | 71 | 5.1 | 4.8 | 1,773 | Campeche | 5.0 | 116 | 11 | 499 |
| Nayarit | 32 | 4.8 | 4.9 | 498 | Guerrero | 4.9 | 30 | 19 | 2,384 |
| Durango | 94 | 8.2 | 10.6 | 10,140 | Nayarit | 4.8 | 32 | 12 | 498 |
| Colima | 20 | 6.0 | 6.4 | 4,437 | Oaxaca | 3.9 | 607 | 38 | 3,019 |
| Baja California Sur | -- | -- | 5.6 | 1,155 | Baja California Sur | -- | -- | 20 | 1,155 |

Source: Banorte; Ministry of Labor

Source: Banorte; Ministry of Labor

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