

## Wage negotiations remained strong in June

July 10, 2019

- **Wage negotiations (Jun): 6.1%; Banorte: 6.0%; previous: 6.0%**
- **Workers in the private sector saw wages increase 6.2%, while employees in the public branch got a more modest raise of 3.4%**
- **We highlight the 6.5% increase in industry, led by both mining (7.0%) and a still-strong pace in manufacturing (+6.5%)**
- **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 1<sup>st</sup> and after two years of relatively high inflation, in a relatively tight labor market despite the moderation in activity**
- **We expect the pace of wage revisions to stay elevated, with workers incorporating gradually the impact of these factors, albeit they could moderate by the end of the year as the labor market cools off**
- **For the second consecutive month, Tamaulipas stood out as the federal entity with the highest average salary increase of the country**

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**Wages increased 6.1% in May.** This was virtually in line with both the 6.0% observed in the previous month and the rate observed in same month of 2018. This was a result of 570 negotiations that benefited 87,740 workers. Year-to-date, the average increase has been 5.9% (59bps above the same period of 2018), with a total of 1,194,817 employees, which is 11.3% yoy decline.

As expected, the share of private employees with negotiations increased significantly, at 98.4% from 85% in the previous month. This helps explain the relative acceleration in the annual growth rate during the last two months. In particular, 86,347 employees in private companies got a 6.2% raise, while only 1,393 workers in the public sector obtained a 3.4% increase (see table below). We continue believing that the strong annual growth is 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

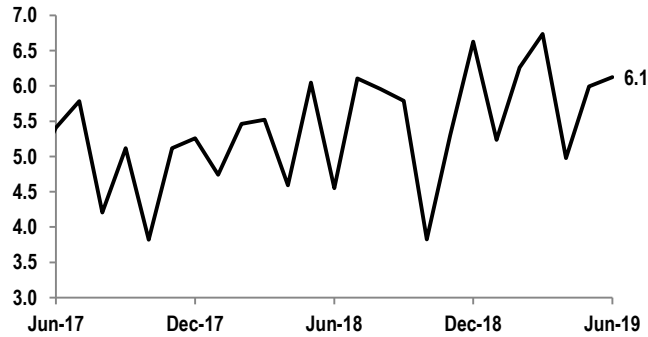
%; number of workers

% nominal	Jun-19	May-19	Jan-Jun '19	Jan-Jun '18
<b>Total</b>	<b>6.1</b>	<b>6.0</b>	<b>5.9</b>	<b>5.1</b>
Public	3.4	3.3	3.4	3.5
Private	6.2	6.5	6.3	5.3
<b>Number of workers</b>				
<b>Total</b>	<b>87,740</b>	<b>160,531</b>	<b>1,194,817</b>	<b>1,346,574</b>
Public	1,393	24,046	180,377	183,431
Private	86,347	136,485	1,014,440	1,163,143

Source: Ministry of Labor

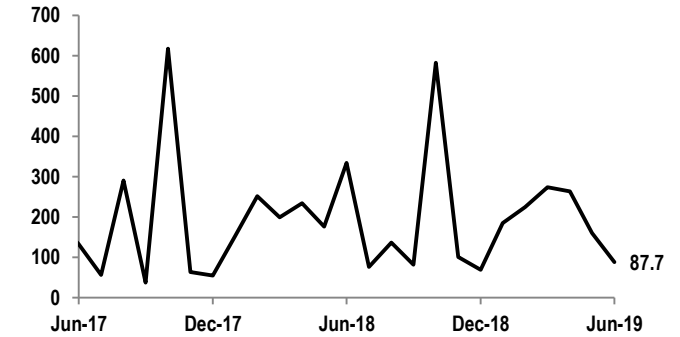
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**Contractual wage negotiations**  
% yoy, nominal



Source: Ministry of Labor

**Workers receiving a wage increase**  
thousands



Source: Ministry of Labor

**Wages in the industry climbed 6.5%, benefitting 46,753 workers.** Taking a look at the breakdown, most workers remain concentrated in manufacturing (36,149), receiving an increase of 6.5%. Moreover, we highlight the strong 7.0% increase in mining, benefitting 10,002 workers. Last but not least, both construction and utilities were up by 3.5%.

**Services sector wages’ posted a 5.6% advance for 40,755 workers.** The strongest pick-up remains in commerce at 6.2% for 9,378 workers. The subsector with most workers benefited was financial and real estate services, advancing 5.4% with 17,079 employees.

**Contractual wage negotiations by sector**

	Jun 2019		Jan-Jun '19		Jan-Jun '18	
	%yoy	Workers	%yoy	Workers	%yoy	Workers
<b>Industrial</b>	<b>6.5</b>	<b>46,753</b>	<b>6.2</b>	<b>655,902</b>	<b>5.2</b>	<b>766,072</b>
Mining	7.0	10,002	6.8	21,674	3.7	175,593
Manufacturing	6.5	36,149	6.7	535,873	6.1	498,717
Construction	3.5	450	4.7	3,081	5.1	1,516
Utilities	3.5	152	3.4	95,274	3.4	90,246
<b>Services</b>	<b>5.6</b>	<b>40,755</b>	<b>5.4</b>	<b>531,843</b>	<b>4.9</b>	<b>574,766</b>
Commerce	6.2	9,378	6.3	98,005	5.1	103,374
Transport, storage and communications	5.6	8,807	5.2	234,633	4.8	226,497
Financial and real estate services	5.4	17,079	5.7	77,521	5.4	98,905
Other	5.2	5,491	4.9	121,684	4.5	145,990
<b>Agricultural</b>	<b>13.3</b>	<b>232</b>	<b>8.7</b>	<b>7,072</b>	<b>8.1</b>	<b>5,736</b>

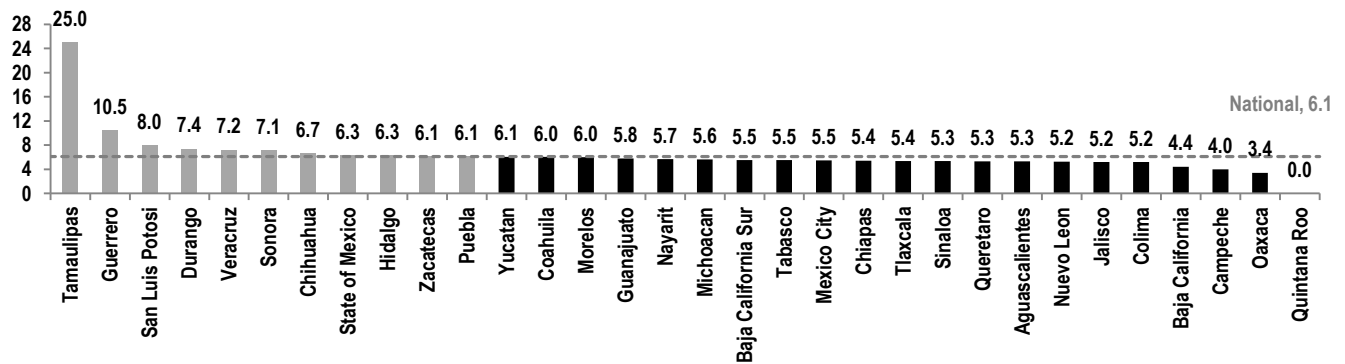
Source: Ministry of Labor

**We continue expecting wages to advance around 5-6% annually.** 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 our view, this will be a stronger driver than the deceleration in economic activity as general unemployment rate remains quite low. In this respect, we believe negotiations will remain skewed to the upside, maintaining their recent trend. 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*

**For the second consecutive month, Tamaulipas stood out as the federal entity with the highest average salary increase in the country.** It is worth noting there are 35,639 workers who work in more than one entity which received an average increase of 5.5% during the month. These are not considered in the regional analysis. Eleven out of the 32 states in Mexico showed a wage increase above or in line with the 6.1% national weighted average.

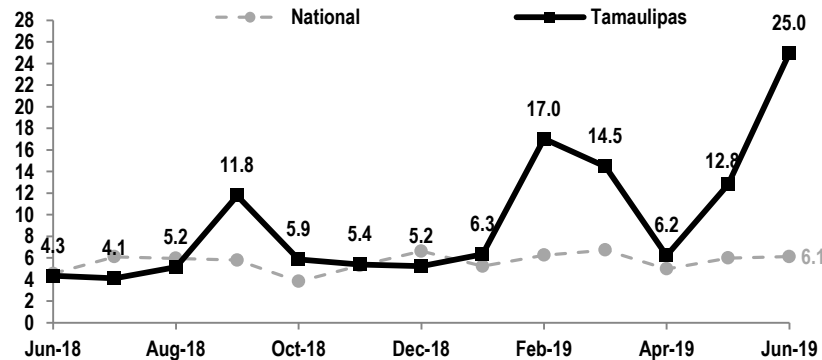
**Contractual wage negotiations by federal entity: June 2019**  
% in nominal terms



Source: Banorte; Ministry of Labor

In this context, Tamaulipas registered the highest average increase of the country for the second consecutive month (+25% nominal terms), as seen in the following graph. The highest increase observed in the state since April 2001. This was achieved through only 14 negotiations for a total of 1,523 workers in the state. In this regard and on a year-to-date basis, a total of 18,718 workers saw their salary increase by an average of 15.4%. Moreover, Guerrero (10.5%), San Luis Potosi (8%), Durango (7.4%), and Veracruz (7.22%), 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 City of Mexico stands out as the entity with the most workers benefitting from revisions (10,790 workers). In this context, wage negotiations in this state increased 5.5% through 96 negotiations.

By contrast Chiapas, Campeche, Guerrero, and Nayarit showed the lowest number of workers with salary benefits in the country. However, in Quintana Roo no negotiations took place during the period.

**Higher and lower workers with contractual wage negotiations**
**Higher and lower contractual wage negotiations**

Year-to-date					Year-to-date				
	Workers	%	Workers	Jan-Jun '19		% oya	Workers	Jan-Jun '19	Workers
<b>National</b>	<b>52,101</b>	<b>6.1</b>	<b>4.9</b>	<b>552,159</b>	<b>National</b>	<b>6.1</b>	<b>52,101</b>	<b>3,458</b>	<b>552,159</b>
Mexico City	10,790	5.5	5.3	46,001	Tamaulipas	25.0	1,523	183	18,718
State of Mexico	6,188	6.3	5.8	79,310	Guerrero	10.5	102	24	2,384
Guanajuato	6,069	5.8	8.0	75,242	San Luis Potosi	8.0	1,545	58	13,751
Zacatecas	4,961	6.1	6.2	11,268	Durango	7.4	1,852	21	11,992
Coahuila	3,937	6.0	6.0	57,484	Veracruz	7.2	851	162	17,057
Nayarit	117	5.7	4.9	615	Colima	5.2	135	18	4,657
Guerrero	102	10.5	5.9	2,384	Baja California	4.4	756	55	8,323
Campeche	42	4.0	4.5	541	Campeche	4.0	42	12	541
Chiapas	33	5.4	7.1	3,272	Oaxaca	3.4	422	43	3,019
Quintana Roo	--	--	4.8	1,773	Quintana Roo	--	--	15	1,773

Source: Banorte; Ministry of Labor

Source: Banorte; Ministry of Labor

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