

## Wage negotiations – 2% increase in real wages explained by inflation at historical low

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- **Wage negotiations (July): 4.8%; Banorte-Ixe: 4.5%; previous: 4.3%**
- **Wages in the private sector increased 4.8%, while no negotiations were conducted in the public sector**
- **Looking ahead, we believe that the favorable performance in real wages will support consumption**

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**Wage negotiations in July came in at 4.8% in nominal terms (Banorte-Ixe: 4.5%).** The negotiations in July were above the 4.3% average observed year-to-date. We highlight that July's figure was derived from a 4.8% increase in private sector wages, while in the public sector no negotiations were conducted. Moreover, 375 negotiations were conducted in the private sector, with 43,058 workers belonging to this sector, as shown in the following table.

### Contractual wage negotiations % oya

Nominal	Jul-15	Jun-15	Jan-Jul, 15	Jan-Jul, 14
<b>Total</b>	<b>4.8</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>
Public	--	3.5	3.4	3.8
Private	4.8	4.4	4.5	4.4
<b>In Real Terms</b>				
<b>Total</b>	<b>2.0</b>	<b>1.4</b>	<b>1.3</b>	<b>0.3</b>
Public	--	0.6	0.4	-0.1
Private	2.0	1.5	1.4	0.5
<b>Number of workers, thousands</b>				
<b>Total</b>	<b>43</b>	<b>107</b>	<b>1,179</b>	<b>1,273</b>
Public	--	9.0	184	380
Private	43	98	995	893

Source: Banorte-Ixe; Ministry of Labor

**5.1% increase in wages within the industrial sector were above the 4.4% observed in July 2014.** In the mining sector, wage increases were in the area of 5.5%, above the ones negotiated in July 2014 (4%). In the manufacturing sector, wages increased 4.7% vs. 4.3% observed in the same period of 2014. Finally, in the construction sector, no negotiations were conducted.

**Bargaining processes in the services sector also resulted above the ones obtained in July 2014 (4.9% vs. 4.5%).** In the financial services sector, wages improved 7%, significantly above the 4.3% in July 2014. Moreover, workers in the professional services sector negotiated wages by 4.3%, slightly above the 4.2% in July 2014. Similarly, in transportation, storage and communications sector, wage increases were at 4.7%, above the 4.3% figure observed last year. In the retail sector, wage increases were up 4.6% vs. the 10.2% observed in the same month of 2014.

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**Finally in the agricultural sector, negotiations were conducted in the area of 4.5%.** We highlight that the average observed year-to-date for this sector is 4.2%, as shown in the following table.

**Contractual wage negotiations in July 2015**

	% oya	Workers	Year-to-date		
			% oya	Workers	2014
<b>Total</b>	<b>4.8</b>	<b>43,058</b>	<b>4.3</b>	<b>1,178,785</b>	<b>4.1</b>
Public	--	--	3.4	183,539	3.6
Private	4.8	43,058	4.5	995,246	4.4
<b>Breakdown by sector</b>					
<b>Industrial</b>	<b>5.1</b>	<b>33,376</b>	<b>--</b>	<b>625,927</b>	<b>--</b>
Mining	5.5	3,378	5.5	19,146	4.2
Manufacturing	4.7	29,998	4.6	510,681	4.5
Construction	--	--	4.3	1,657	4.5
Utilities	--	--	3.4	94,443	3.5
<b>Services</b>	<b>4.9</b>	<b>8,291</b>	<b>--</b>	<b>546,444</b>	<b>--</b>
Commerce	4.6	2,685	4.2	108,318	4.3
Transport, storage and communications	4.7	3,017	3.9	87,273	3.9
Financial services	7.0	1,194	4.6	99,044	4.6
Other	4.6	1,395	4.2	251,809	4.6
<b>Agricultural</b>	<b>4.5</b>	<b>1,391</b>	<b>4.2</b>	<b>6,414</b>	<b>4.3</b>

Source: Banorte-Ixe; Ministry of Labor

**In our opinion, the favorable increase in real wages augurs well for consumption dynamism ahead.** July's wages –in real terms- posted a 2% increase, its highest level since July 2001. Year-to-date, and in real terms, wage negotiations had a 1.3% increase. However, we continue to believe that increases in contractual wages in the past months respond mostly to a recovery period of lost productivity, and do not imply that firms perceive greater inflationary pressures, given that inflation stands below 3% in July. In this regard, we highlight that real wages in Mexico have shown a significant lag with respect to the pace of growth in formal employment. Additionally, broader measures of wages remain stable.

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