

## Abnormal increase in minimum wage will have a marginal effect on inflation

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- The Minimum-wage Commission (*CONASAMI*) announced that the minimum wage will increase on the 1<sup>st</sup> of December from MXN80.04 per day to MXN88.36 per day, which represents a 10.4% rise on an annual basis
- In our opinion, the rise in the minimum wage will have an additional 30bps impact on 12-month CPI inflation, which will be reflected on both 2017 and 2018
- As a result, we now forecast year-end 2017 inflation at 6.5%, from 6.4%, while our year-end 2018 inflation estimate now stands at 4.1%, from 3.8%

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**A significant increase in minimum wages.** Today, the National Commission of Minimum Wages (*CONSASAMI*) announced an increase in minimum wage starting on the 1<sup>st</sup> of December of 2017. The rise is comprised of two components: (1) A MXN\$5 increase per day (6.8%)—, known as the *Independent Recovery Amount* (MIR), which is designed to compensate Mexican households from the purchasing power loss as a result of inflation; and (2) another MXN\$3.32 increase (3.9%) marginally above next year's inflation expectation. With this revision, the minimum wage will amount to MXN\$88.36 per day. In this context, we expect that the impact from the increase will positively impact, albeit in a marginal way, the price trajectory which will add 30bps on headline inflation. 25bps will be reflected on YE18 headline figure, while the remaining 5bps will be observed in YE17 headline figure.

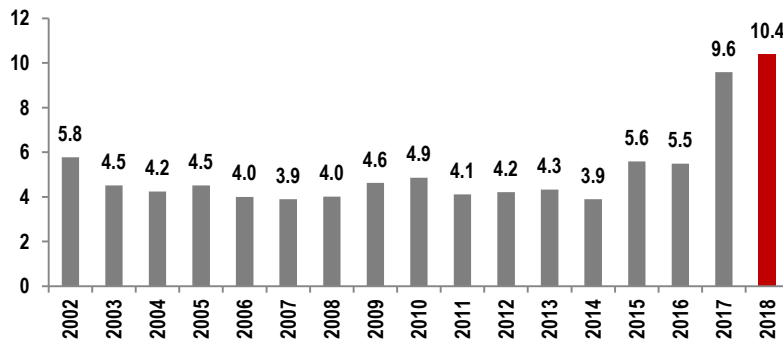
**In our view, this increase will add 30bps to inflation.** Using the methodology described by Card and Kurger (1993), as well as Kiel and McClain (1995), we estimated an econometric model of difference in differences using the homologation of minimum wages in October of 2015 from two zones to one. We highlight that before this date, zone "A" had a 2.7% higher salary than zone "B".

In this sense, we are able to use this event to forecast the impact from the actual increase in the minimum wage, since it serves as a natural experiment of a federal policy targeting an improvement of purchasing power on price dynamics. The results of our econometric model suggest that the impact of the homologation in salaries on annual inflation amounted to 12.2bps. Considering that the actual salary increase is 2.9 times that of October 2015, the contribution from an MXN\$88.36 per day minimum wage will be around 30bps.

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**Inflation will reach 4.1% by YE18.** Given that the increase in the minimum wage will occur on the 1<sup>st</sup> of December, we consider that the direct effect will be limited for inflation in 2017, and most of it would be reflected during the first months of 2018. Thus, we consider that the contribution of said measure for year-end inflation in 2017 will only amount to 5bps and 25bps for 2018. As a result, we now forecast 2017 year-end inflation at 6.5%, from 6.4%, while our 2018 year-end inflation estimate now stands at 4.1%, from 3.8%.

**Increases to the minimum wage**  
% yoy



Source: INEGI, CONASAMI

**References**

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