

Wage negotiations come in below expectations at the start of the year

- **Wage negotiations (January): 5.0%; Banorte: 5.7%; previous: 5.9%**
- **In total, 143,541 workers were benefited by an increase, which is 41,720 workers less than those observed in the same month of 2019**
- **Specifically, workers in the public sector saw wages increase 3.5%, while employees in the private branch got a more significant raise of 5.7%. By economic sectors, we highlight the 6.2% increase in industry, led by mining (6.7%) and manufacturing (6.3%)**
- **We believe negotiations came in below expectations due to a higher impact from economic slack, helping to compensate for the boost from the 20% increase to the minimum wage**
- **Nevertheless, we think it is still too early to affirm this categorically. In this respect, we will remain focused on performance of wages and other labor market indicators in coming months**
- **At the state level, Durango stood out as the federal entity with the highest average salary increase in the country (13.6%)**

Wages increased 5.0% on average at the start of 2020. This result was lower than both our expectation (5.7%) and the +5.2% observed in the same month of 2019. It was a result of 425 negotiations –practically half of those seen in the previous year–, benefiting 143,541 workers, 41,720 less than one year ago. In particular, we expected a higher increase in the month, driven to a great extent by the steep 20% increase to the minimum wage, which came into force on January 1st. Nevertheless, this seems to be offset to the downside, at least in part, by higher slack in the economy, which seems to be contributing to slower labor demand which also reduces negotiation power among workers.

At the sector level, 68.8% of employees with an increase (98,771) work in the private sector, with an average raise of 5.7%. The remaining 31.2% (44,770) corresponds to the public sector, with an average increase of 3.5%. This is broadly in line with the typical behavior for the period, which is one of the months with the largest share of activity in the latter sector. In this sense, the distribution in February tends to be much more skewed towards the private sector, leading us to expect the total advance will be much higher because of this fact.

Contractual wage negotiations

%; number of workers

% nominal	Jan-20	Dec-19	2019	2018
Total	5.0	5.9	5.4	4.9
Public	3.5	3.3	3.4	3.4
Private	5.7	5.9	6.4	5.7
Number of workers				
Total	143,541	48,074	2,488,097	2,393,234
Public	44,770	211	816,727	814,077
Private	98,771	47,863	1,671,370	1,579,157

Source: Ministry of Labor

February 10, 2020

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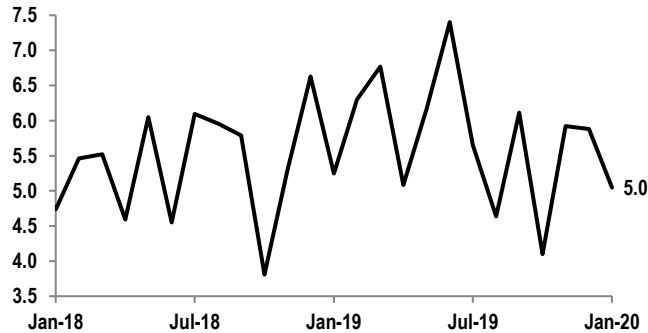
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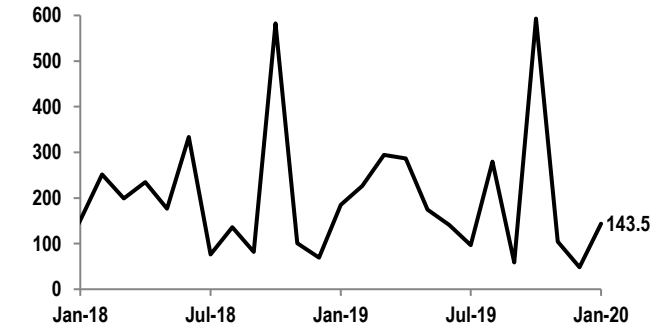
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Contractual wage negotiations
% yoy, nominal



Source: Ministry of Labor

Workers receiving a wage increase
thousands



Source: Ministry of Labor

Wages in the industry climbed 6.2%, benefitting 49,678 workers. Taking a look at the breakdown, most workers were in manufacturing (46,104), receiving an increase of 6.3%. We also highlight the 6.7% increase in mining to 2,812 workers. Last but not least, wages in utilities were up 3.4% for 377 workers, while those in construction edged-up 5.1%, for 385 employees.

Services sector wages increased 5.8% for 93,767 workers. The strongest pick-up was in commerce, at 7.5% for 5,685 workers. Moreover, the sector with the highest number of benefited workers was transportation, storage and communications, with a 4.9% raise to 44,214 employees. In addition, we highlight the 3.5% increase in ‘others’ to 43,469 workers. Within the latter, 96.5% correspond to education, which received a 3.4% raise.

Contractual wage negotiations by sector

	January 2020		2019		2018	
	%	Workers	%	Workers	%	Workers
Industrial	6.2	49,678	6.0	1,232,860	5.5	1,140,640
Mining	6.7	2,812	4.0	196,883	3.9	195,881
Manufacturing	6.3	46,104	6.7	936,033	6.1	851,011
Construction	5.1	385	4.8	3,552	5.1	1,665
Utilities	3.4	377	3.4	96,392	3.5	92,083
Services	4.4	93,767	4.8	1,244,371	4.4	1,243,825
Commerce	7.5	5,685	6.1	157,567	5.5	148,020
Transportation, storage and communications	4.9	44,214	5.5	331,804	4.9	329,609
Financial and real estate services	4.5	399	6.2	111,883	5.5	125,036
Other	3.5	43,469	3.9	643,117	3.7	641,160
Agricultural	5.4	96	8.0	10,866	7.1	8,769

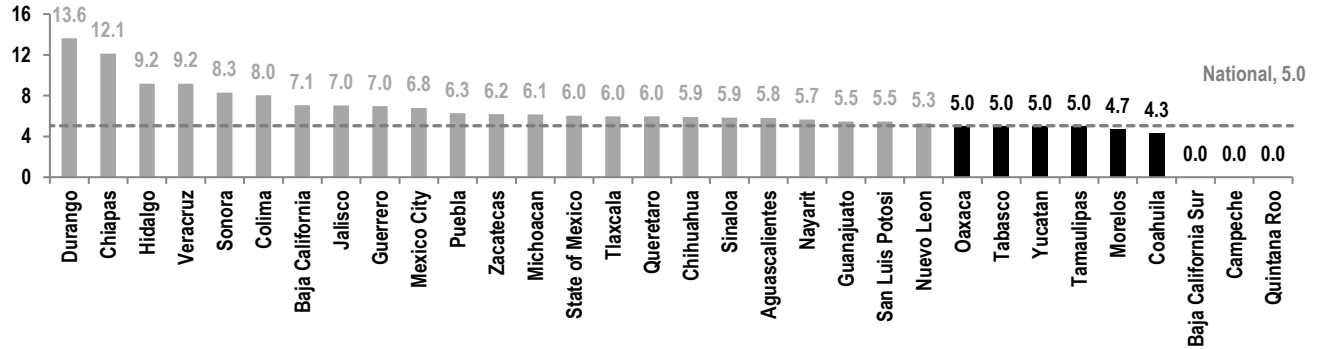
Source: Ministry of Labor

Attention on performance in coming months. Considering today’s result and as previously mentioned, we will be paying very close attention to the wage dynamics and other labor market indicators, such as formal employment, the unemployment rate and mean wages, in order to evaluate the degree more carefully the degree of the impact that could stem from higher economic slack. In our view, this could be offsetting at least some of the effect of the minimum wage increase, which we expected to have more of an influence to the upside in overall wages. Nevertheless, we believe more information is still necessary in order to confirm this hypothesis.

At the state level

At the state level, Durango stood out as the federal entity with the highest average salary increase in the country (13.6%). It is worth noting there are 99,773 workers who work in more than one state received an average increase of 4.3% during the month. These are not considered in the regional analysis. Twenty-three out of the 32 states in Mexico showed a wage hike above or in line with the 5% national weighted average.

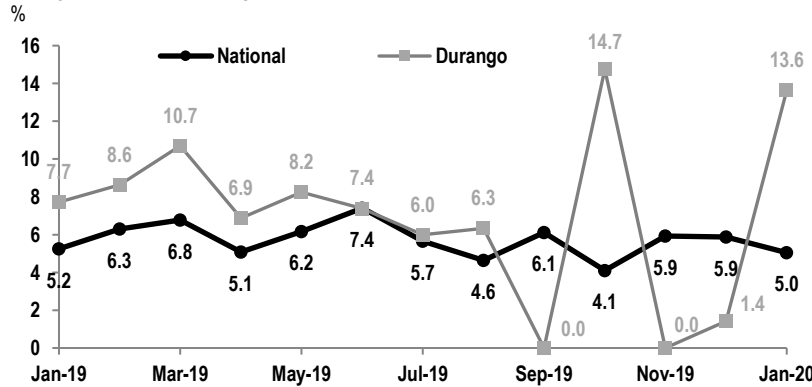
Contractual wage negotiations by federal entity: January
% in nominal terms



Source: Banorte; Ministry of Labor

In this context, Durango showed the highest average increase in the country (13.6% nominal terms), as seen in the chart above. This is the highest advance for the state in the last three months, achieved through 3 negotiations with a total of 3,133 workers (chart below). At the end of 2019, 15,854 workers saw an average salary increase of 9.8%. Moreover, Chiapas (12.1%), Hidalgo and Veracruz (9.2%), and Sonora (8.3%), had firms that furthered wages for their workers above the national average, as shown in the table below on the right.

Salary increase in Durango



Source: Banorte; STPS

Guanajuato, for its part, was the entity with the most workers benefitting from revisions in January. A total of 6,798 workers improved their salary perception with a 5.5% advance in nominal terms through 15 negotiations (see table below, left). At the end of last year, 114,027 workers have been benefited with an average salary increase of 7.4% in nominal terms. On the other hand, no negotiations took place during the period in Baja California Sur, Campeche, and Quintana Roo again.

States with the largest and smallest amount of workers with a wage increase
 %, number of workers

States with the highest and lowest wage increases
 %, number of workers

	January 2020		2019			January 2020		2019	
	Workers	%	Workers	%		%	Workers	%	Workers
National	43,768	5.0	906,879	5.4	National	5.0	43,768	5.4	906,879
Guanajuato	6,798	5.5	114,027	7.4	Durango	13.6	3,133	9.8	15,854
State of Mexico	6,578	6.0	130,257	6.0	Chiapas	12.1	204	7.2	9,364
Nuevo Leon	4,880	5.3	47,974	5.8	Hidalgo	9.2	231	6.8	14,001
Mexico City	3,965	6.8	73,423	6.1	Veracruz	9.2	914	6.1	25,626
Durango	3,133	13.6	15,854	9.8	Sonora	8.3	2,290	6.3	22,519
Tabasco	11	5.0	2,753	5.2	Morelos	4.7	771	5.6	7,091
Oaxaca	10	5.0	3,019	4.9	Coahuila	4.3	476	7.0	76,550
Baja California Sur	--	--	3,562	6.1	Baja California Sur	--	--	6.1	3,562
Campeche	--	--	1,028	6.9	Campeche	--	--	6.9	1,028
Quintana Roo	--	--	2,527	5.8	Quintana Roo	--	--	5.8	2,527

Source: Banorte; Ministry of Labor

Source: Banorte; Ministry of Labor

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