

Latam Daily: Argentina Price-Wage Spiral

- Argentina: August data show wages tracking CPI inflation

ARGENTINA: WAGE GROWTH TRACKING HEADLINE INFLATION

Data on August wage growth, published by INDEC on Thursday, October 29, showed that wages picked up 1.99% m/m in the month, a mild acceleration from July's 1.79% m/m gains (chart 1). The print marked a return to pre-pandemic wage inflation with the highest monthly print since March's 3.05% m/m increase. Informal private-sector wage growth, at 3.7% m/m, led the month, with slower increases in the formal private (2.1% m/m) and public (0.8% m/m) sectors.

In annual terms, wages were up 32.04% y/y in August, continuing the progressive ebb from a year-on-year high of 46.55% y/y in February. But the sequential monthly wage gains are the ones to watch here: the decline in the year-on-year rate of wage growth is simply a statistical artefact of base effects from 2019's high wage and price inflation.

Rather than a wage-price spiral, Argentina may be seeing the beginning of a price-wage spiral: wage growth is mirroring headline inflation closely (chart 2). Although labour-market demand remains soft, the ongoing monetization of large deficits, massive expansion in the monetary base, pass-through effects from the sliding ARS, and a push to import in order to get access to relatively cheap dollars at the official USDARS exchange rate are together pushing up price indices. Wage demands appear to be tracking headline inflation to ensure the real returns to work remain steady. With price inflation set to remain near 3% m/m through the end of 2020 and into 2021, we expect wage growth to accelerate over the next couple quarters—which is likely to stoke inflation further.

—Brett House

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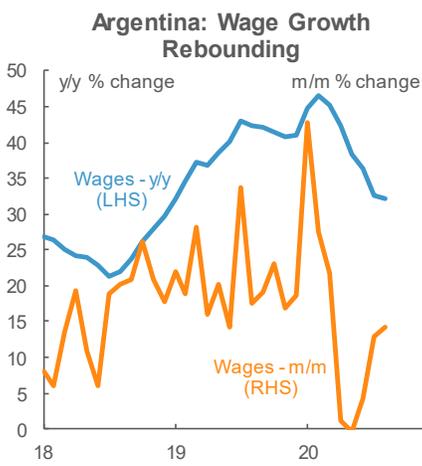
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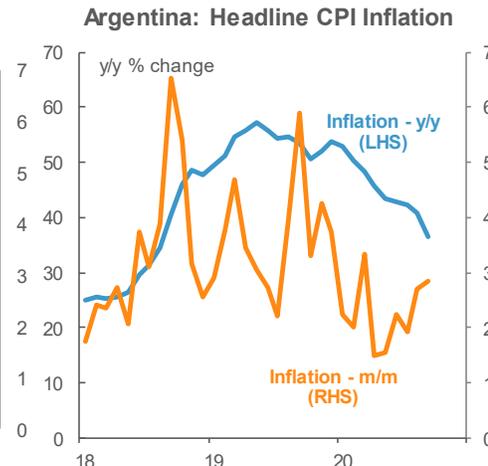
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Chart 1



Sources: Scotiabank Economics, INDEC.

Chart 2



Sources: Scotiabank Economics, INDEC.

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