

Living Wage Update Report Michoacán, Mexico 2023

Living Wage Update Report No. 23-04-17



Cost of decent standard
of living for a family

MXN 19,642
(USD 1,139)



Living Wage
per month

MXN 13,750
(USD 798)



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Abstract:

This report provides updated estimates of family living income expenses and living wage for the state of Michoacán, Mexico. This region is strategic regarding the production of avocados, strawberries, berries, sugar cane, and corn. The update for 2023 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in October 2020 (Delajara, et al., 2020).

Keywords: Living costs, living wages, Anker Methodology, Mexico

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the Anker living wage and family living income expenses to 2023 for the non-metropolitan urban and rural Northwestern regions of Michoacán, Mexico. This update takes into account the amount of inflation since the original study in October 2020. This is done by updating the October 2020 net living wage and family living income expenses to June 2023 by inflation. This provides average living wage and living expenses estimates for 2023. Without accounting for inflation, the net living wage estimated in 2020 would not be sufficient for workers to have a basic but decent standard of living in 2023 because the purchasing power of the living wage would have decreased. The gross living wage (aka living wage) is updated to 2023 by also taking into account income taxes and mandatory deductions from pay that workers need to pay on the updated June 2023 living wage. This is done using laws in force in June 2023.

2. LIVING WAGE AND LIVING EXPENSES IN ORIGINAL REPORT FROM OCTOBER 2020

The net living wage was estimated as MXN 10,223 (USD 543) in October 2020 in the original living wage country report. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security, was estimated as MXN 11,782 (USD 625) in October 2020. The family living income expenses for a basic but decent standard of living in the original country report was estimated as MXN 16,664 (USD 884) in October 2020 (Delajara et al., 2020).

3. INFLATION RATE USED FOR UPDATE

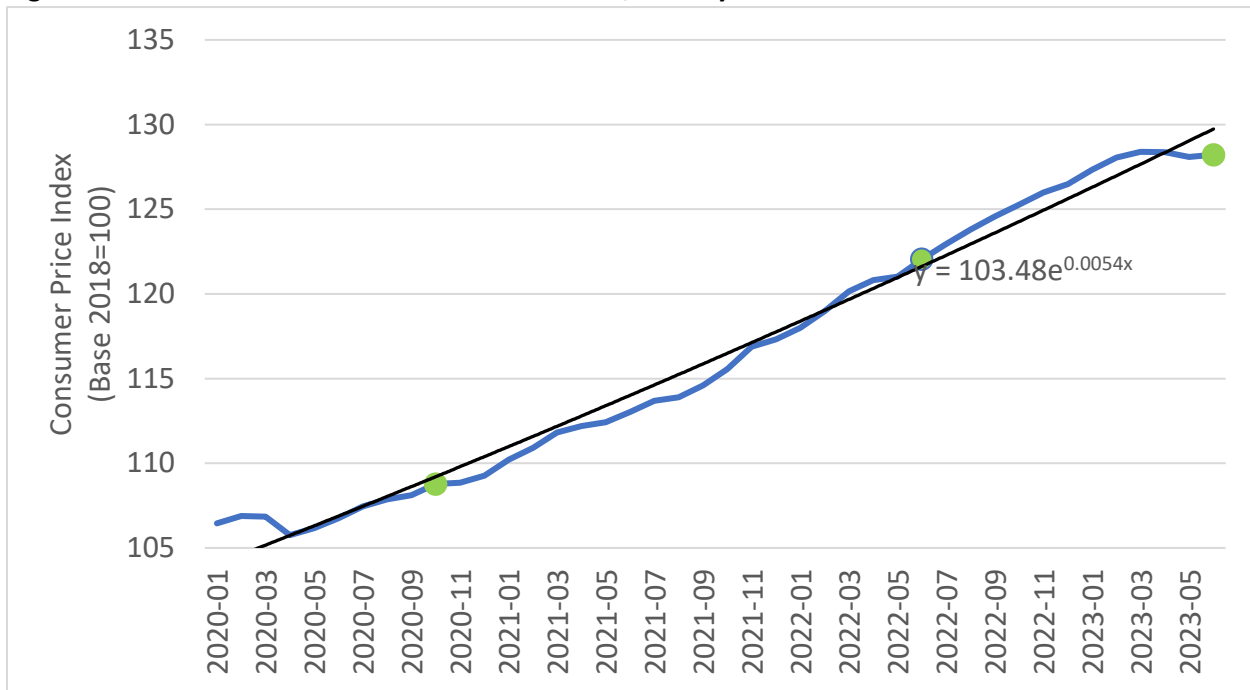
The National Institute of Statistics and Geography (INEGI, for its acronym in Spanish) is the government body responsible for computing and reporting price indices and inflation in Mexico. It reports one consumer price index: National Consumer Price Index (INPC, for its acronym in Spanish). The geographic coverage for price collection is made up of 55 geographic areas and 7 regions.¹ This report uses the INPC with base in 2018.

¹ See <https://www.inegi.org.mx/contenidos/programas/inpc/2018/doc/presentacion.pdf>

4. RECENT LEVEL OF INFLATION

Between October 2020 and June 2022, inflation amounted to 17.9% in Mexico (see Figure 1). This is the inflation used in this report.

Figure 1: National Consumer Price Index for Mexico, January 2020 to June 2023



Notes: Green circle shows the original study and earlier updates. The black line is the fitted exponential trend.
 Source: Authors' calculations based on CPI data from INEGI.

5. MANDATORY DEDUCTIONS

Workers in Mexico start paying income taxes from very low levels of income, and workers earning a living wage in Michoacán have to pay a 17.92% mandatory income tax at the margin on a living wage in 2023.² Income taxes in Mexico are complicated and vary from person to person, since there are many income tax deductions such as for education, healthcare, home mortgage interest, retirement accounts, and charitable contributions and for this reason our estimate of income tax due on a living wage is approximate. Furthermore, social security contributions by workers to the IMSS (Instituto Mexicano de Seguro Social) was 2.7% in 2020 and no changes have been implemented as of June 2023.

It is worth noting that in Mexico only formal workers have to pay income tax and contribute to social security. This report takes into account mandatory deductions because the current policy of the Anker Research Institute and the Global Living Wage Coalition is that the operative living wage for a location

² See <https://taxsummaries.pwc.com/mexico/individual/taxes-on-personal-income>

should be for formal sector workers, in part because it is important to avoid a race to the bottom on wages and in part because informal sector workers have additional uncertainties and insecurities and costs.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2023

The updated net living wage, or take-home pay, for June 2023 is MXN 12,050 (USD 699) per month. The gross living wage (aka living wage), which also considers income taxes and mandatory payroll deductions, is MXN 13,750 (USD 798) per month. These are average estimates for the year 2023.

Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Family Living Expenses and Living Wages for Michoacán, Mexico (in Mexican Pesos and US Dollars per month)

| | October 2020 Original Study Date | | 2022 Update Report | | 2023 Update Report | |
|--|-------------------------------------|-----|-----------------------|-----|-----------------------|-------|
| | MXN | USD | MXN | USD | MXN | USD |
| Family Living Expenses (1) | 16,664 | 884 | 18,697 | 934 | 19,642 | 1,139 |
| Net Living Wage (2) | 10,223 | 543 | 11,470 | 573 | 12,050 | 699 |
| Total mandatory payroll deductions and income tax (3) | 1,559 | 83 | 1,744 | 87 | 1,700 | 99 |
| Gross Living Wage (2+3) | 11,782 | 625 | 13,214 | 660 | 13,750 | 798 |
| Exchange rate to USD | 18.84 | | 20.02 | | 17.24 ^a | |
| Source of exchange rate | Original Report | | Bank of Mexico | | Bank of Mexico | |

Note: USD values are indicative only because exchange rates are volatile. ^aAverage exchange rate for June 2023. Source: Authors' calculations.

7. REFERENCES

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