



International
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2016 **Labour** Overview

Latin America and the Caribbean

EXECUTIVE
SUMMARY

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FOREWORD

This *2016 Labour Overview of Latin America and the Caribbean* contains a summary of economic trends in the region's countries and an analysis of their impacts on labour markets this year, as well as those expected in 2017.

The region's labour situation worsened in 2016: there was a sharp increase in unemployment, informality increased and the quality of employment –measured by various indicators, such as the increase in own-account work, the reduction of wage labour and a decrease in real wages–deteriorated.

The predicted threat of setbacks in the progress made on social and labour issues during the decade of high growth shows up in the statistics in this *2016 Labour Overview* as a disturbing pattern of negative impacts in multiple indicators.

This report also describes a heterogeneous region, where economic growth is occurring at different rates, and where the effects on employment are also diverse. Regional averages are notably influenced by the situation in Brazil, where about 40% of the region's economically active population live. Although some countries, maintain relatively high GDP growth, others, such as Venezuela and Brazil, have registered a sharp contraction.

Regional averages, however, show a real trend: in 2016, the unemployment rate increased in 13 of the 19 countries for which current information is available.

Since 2011, Latin America and the Caribbean have been affected by an economic deceleration whose cumulative impacts on labour markets were described in the *2015 Labour Overview* as a "slow-motion crisis". This edition, however, shows that since 2015, the deceleration has turned into a contraction of economic activity, making 2016 the region's worst year so far this decade in economic terms.

The average regional unemployment rate, which reached a historical low of 6.1% in 2014, rose to 6.6% in 2015. This was the first sign of a reversal in the trend of improvement in labour markets that began at the start of the twenty-first century.

In 2016, the regional unemployment rate will average 8.1 per cent, an increase of 1.5 percentage points. This means that by the end of the year, the number of unemployed people in the region will reach 25 million, some 5 million more than in 2015. A large proportion of the newly unemployed are women and young people.

This *2016 Labour Overview* also contains an estimate of regional unemployment for next year: the rate is expected to increase again in 2017, to 8.4 per cent.

The quality of employment is also deteriorating. Informality in employment, which had decreased from the previous decade, began to rise again in 2015, according to the most recent available data. And this trend is likely to continue in 2016. If that is the case, about 134 million workers in the region could be employed informally.

Another important indicator of the deterioration in the quality of jobs is that employees began to decrease and the proportion of own-account workers increased. Wages have also dropped since 2014.

Although in different combinations and with different degrees of urgency, the countries of Latin America and the Caribbean face a dual challenge: they need urgent short-term responses to mitigate the negative social and labour impacts of the deceleration or contraction and return to a growth path, along with actions to address the structural problems of low productivity and the long-standing lack of diversification of production. This requires actions to stimulate new and more balanced drivers that promote sustained, inclusive and sustainable growth with full and productive employment and decent work for all, the challenge posed by Goal 8 of the 2030 Agenda for Sustainable Development.

This requires responses that emerge from dialogue, with a shared vision and an appropriate balance between the short and long term. The role of social dialogue as a mechanism for democratic governance and the development of shared visions of national interest is more important than ever. This will require special efforts to re-establish trust between sectors and strengthen the abilities of institutions to meet different expectations and demands according to a widely shared vision. But

that vision and those dialogues should not focus only on resolving a series of short-term problems. Emphasis must also be placed on long-term strategic tasks—ongoing efforts whose success will be measured over five- or ten-year cycles, not by the quarter or even by a term of government.

For that reason, the second part of this *2016 Labour Overview* also looks to the future, with a special section on the future of work in Latin America and the Caribbean. This section identifies and analyses the main long-term demographic, economic, productive development and technological factors that are looming and which are already having an impact.

Impact scenarios for these factors are analysed in areas such as the volume and composition of employment, labour relations, supply of and demand for skills, governance and institutions related to the labour market and social dialogue.

The report concludes with a reflection: the future, in both the short and long term, is not predetermined; it will depend greatly on the ability of societies to provide appropriate collective responses to anticipated impacts and to orient and accelerate processes of change in a positive direction. There is no question that the deteriorating scenario documented in this *Labour Overview* calls for collective action by all stakeholders to find viable, effective solutions in a climate of social justice.

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The labour scenario in Latin America and the Caribbean worsened in 2016. The economic deceleration experienced in the region since 2011 became a contraction of the economy as of 2016, with a significant impact this year on labour markets in Latin America and the Caribbean. For the second year in a row, the average unemployment rate increased, from 6.6% in 2015 to 8.1% in 2016. This level of unemployment had not been seen since the beginning of the last decade and means that there are roughly 25 million unemployed people in the region (approximately 5 million more than in 2015).

The quality of employment has also deteriorated: real wages have decreased, although real minimum wages have increased in some countries; informality has increased and formality of employment has decreased. The proportion of employees in the total work force has shrunk, and own-account work has risen.

Global uncertainty continues to have a negative impact on growth in Latin America and the Caribbean

Expectations for recovery of growth in developed countries changed during the year, particularly in the United Kingdom and the United States, where political developments led to greater uncertainty about the future of investments and trade. The result has been greater instability and lower-than-expected economic growth in the most-developed countries, especially in Europe. This pattern is also seen in emerging countries.

The performance of Latin American and Caribbean economies has been particularly negative. The contraction of regional GDP worsened in 2015 and a drop between 0.6% and 0.9% is estimated for 2016.

Nevertheless, it is important to differentiate economic performance by country and sub-region. For the second year in a row, the strong recessions in Brazil and Venezuela affected the Latin American growth average, which was also exacerbated by economic contractions in Argentina and Ecuador. Meanwhile, Central America, the Caribbean and Mexico have shown positive economic growth overall, at levels similar to those of 2015, maintaining the pace of growth seen in recent years.

Besides the deterioration in terms of trade, 2016 saw a significant contraction in effective demand in the region, due to a decrease in private consumption and public investment. The average fiscal deficit as a percentage of GDP increased significantly, mainly because of a decrease in income associated with lower growth, creating a climate of budget constraints which is very different from the situation experienced by the region during the crisis of 2008-2009.

The region's chances of resuming growth in the short and medium-term will depend on both the regularization of internal political processes under way in various countries and the course of relations with the United States in terms of trade, finance and migration. Amid greater instability, volatility, budget constraints and more precarious socio-economic conditions, it is crucial to activate mechanisms of social dialogue, with a commitment from all parties to strengthen the quality, relevance and sustainability of policy responses.

Regional unemployment increases to levels not seen in more than a decade

The regional unemployment rate increased again, this time sharply, rising from 6.6 per cent in 2015 to 8.1 per cent (preliminary estimate) in 2016—an increase of 1.5 percentage points. These levels were not seen even during the international financial crisis of 2008-2009.

The downward impact of deceleration/contraction on labour demand was considerable, and as a result, the regional employment-to-population ratio fell by nearly one percentage point.

The recessive scenario also produced an increase in the flow of people outside the labour force seeking to return to the labour market to meet their needs; this translated into an increase in the participation rate, from 61.9 per cent in 2015 to 62.0 in 2016 (preliminary estimate).

The net effect of the sharp drop in labour demand and the slight increase in labour supply explains the increase of 1.5 percentage points in the unemployment rate, which reached 8.1 per cent.

Unlike 2015, in 2016 the increase in the unemployment rate was more extensive in the region, rising in 13 of the 19 countries for which current information is available. Particularly notable are the increases in Brazil (+2.9 percentage points) and Ecuador (+1.2 percentage points).

In the other six countries, the unemployment rate dropped, with the greatest decreases registered in Barbados (-2.5 percentage points), Belize (-2.1 percentage points) and Mexico (-0.4 percentage points).

Because Brazil's unemployment rate represents a high proportion of the region's economically active population, the sharp increase in this indicator largely explains the rise in the region's average unemployment rate and this year's increase in the number of unemployed people.

Unemployment by sub-regions

The greatest effects of the deceleration/contraction have been concentrated in South America, where the unemployment rate increased by 2.0 percentage points, rising from 7.5% to 9.5% between the first three quarters of 2015 and the same period in 2016. However, in Central America and Mexico, the unemployment rate decreased slightly, from 4.6% to 4.4%. In the Caribbean, unemployment also decreased slightly, from 8.2% to 7.9%.

Unemployment affects women more than men

Although the region's unemployment rate during the first three quarters of 2016 increased sharply for both men (+1.3 percentage points) and women (+1.6 percentage points), compared to the same period in 2015, the greatest rise came in the unemployment rate for women, which neared double digits (9.8 per cent) for the first time in a decade. Nevertheless, increases in unemployment rates by sex are due to different dynamics. Although the increase among women was due to a drop in the employment-to-population ratio and an increase in the participation rate (more women entering the labour market), those two indicators dropped among men, but more for the employment-to-population ratio than the participation rate.

Youth unemployment increased

The increase in youth unemployment in the region in 2015 was exacerbated in 2016, rising from 15.1 percent to 18.3 percent between the first three quarters of 2015 and the same period in 2016, although not all countries experienced increases in youth unemployment.

The increase in youth unemployment during this period far exceeded the increase in this indicator for adults. As a result, the gap between the unemployment rates of the two age groups increased to a factor of 3.1.

For both young people and adults, the participation rate (labour supply) in the region held steady. The economic deceleration/contraction further reduced labour demand more for young people than for adults: while the employment-to-population ratio fell by 0.6 percentage points among adults, it dropped by 1.4 percentage points for young people. This confirms the pattern seen in other regions and during other episodes of decreased demand: young people are the first to be laid off during a deceleration and the last to be hired during the recovery.

The economic deceleration led to informality, more precarious employment and decrease of real wages

The quality of employment has continued to deteriorate. Particularly critical was the increase in the informal employment rate in 2015, when at least 133 million workers were employed informally. In 2016, there was also a decrease in registered employment and in the share of employees to total employment, particularly in large enterprises. Own-account work increased, generally associated with lower-paying jobs and less access to social security coverage and labour benefits. If that trend continues, it is estimated that there could be 134 million informal workers in 2016.

Besides these changes, which are directly related to lower-quality employment, there is a growing regional trend toward increased employment in the service sector and a decrease in industrial employment, which continued in 2016.

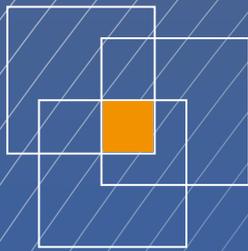


The weak performance of the regional labour market was also reflected in a decrease in real average wages (-1.3%) between 2014 and 2015, however there were significant differences in the behaviour of wages in different countries. Although information about real average wages is not available for 2016, the drop in wages in the registered or formal sector of the economy between the first three quarters of 2015 and the same period in 2016 could indicate that the drop in real average wages was accentuated in 2016.

Nevertheless, thanks to adjustments in nominal minimum wages above inflation rates, real minimum wages have continued to increase in 14 of 16 countries in the region. On average, the real minimum wage increased by 4.4%, between the first three quarters of 2015 and the same period in 2016.

Outlook

For 2017, it is estimated that the region's average unemployment rate will rise to 8.4%, compared to 8.1% in 2016 and 6.6% in 2015.



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