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2017 **Labour** Overview

Latin America and the Caribbean

Executive Summary

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FOREWORD

The *2017 Labour Overview* of Latin America and the Caribbean summarises economic trends in the countries of the region in 2017 and analyses the impact on labour markets observed this year, as well as expected results for 2018. This year's *Feature Article* examines wage trends in the region during the period 2005-2015.

Compared with 2016, during which practically all labour indicators worsened, 2017 has been a year of mixed performance, of ups and downs, with some signs of improvement and others of deterioration in regional and sub-regional averages, as well as significant variations in national and sub-regional contexts.

The mixed results occurred because the region returned to the path of growth in 2017, at a rate of 1.2 per cent, which is not high enough to reverse the negative trends in all labour indicators, but only in some of them. Additionally, there was the usual lag between the reactivation of the economy and the upturn in labour markets.

In the *2017 Labour Overview*, the main novelty is that the end of the widespread deterioration of labour markets in recent years is in sight, as is the beginning of a new phase of improvement — if the expected acceleration of growth materialises in 2018 (1.9 per cent according to the IMF and 2.2 per cent according to ECLAC).

This new regional labour trend is a welcome one, but we should remember that the overall context is still characterised by a clear deterioration resulting from a combination of the 2011-2015 economic deceleration and the 2016 contraction.

On the negative side, despite the economic reactivation of 1.2 per cent in 2017, the regional average unemployment rate increased for the third consecutive year, from 7.9 per cent in 2016 to 8.4 per cent at the end of 2017. In absolute terms, this rate means that some 26.4 million people are unemployed in the region, two million more than in 2016.

The situation in Brazil carries considerable weight in regional averages since it is the region's largest economy and home to nearly 40 per cent of the labour force. For this reason, this *Labour Overview* provides data on some key indicators excluding Brazil.

When Brazil is excluded, the average unemployment rate for the remainder of the countries of the region was positive, declining from 6.1 per cent to 5.8 per cent, according to year-over-year information available as at the end of the third quarter.

Similarly, the regional youth unemployment rate rose in 2017, but fell when Brazil is excluded. The regional rate increased from 18.9 per cent in 2016 to 19.5 per cent in 2017. In other words, for the first time in a decade, almost one of every five youths looking for a job did not find one. Without Brazil, however, the youth unemployment rate decreased by one percentage point, from 13.7 per cent in 2016 to 12.7 per cent in 2017, a positive development. Jamaica and Brazil have the highest youth unemployment rates in the region at nearly 30 per cent.

As usual, unemployment varied by region. The Southern Cone had the highest rate in both 2016 and 2017, rising from 10.7 per cent to 11.9 per cent at the end of the third quarter of the respective years. In the Andean countries, the rate fell slightly, to 6.8 per cent. In Central America and Mexico, the rate declined from 4.5 per cent to 4.0 per cent. In the Caribbean, the rate decreased from 7.8 per cent to 7.4 per cent.

In 2017, the unemployment rate for women rose to 10.4 per cent, up from 9.9 per cent the previous year. This increase is slightly larger than that of men, which rose from 7.2 per cent to 7.6 per cent. A positive development is that the labour force rate of participation of women crossed the 50 per cent mark for the first time in 2017. Nevertheless, gender gaps of more than 20 percentage points remain for both the labour force participation rate and the employment-to-population ratio.

The quality of employment also experienced mixed results. In 2017, for countries with available information, wage employment increased by 0.3 per cent in an apparent reversal of recent trends. Own-account employment rose by 0.7 per cent, however, indicating that the trend toward the deterioration of the quality of employment, as measured by this indicator, continued in 2017. Other indicators of quality of employment, such as registered employment, performed poorly in several



South American countries, whereas in many Central American countries and in Mexico, the positive trend observed in recent years continued.

The manufacturing industry experienced a growth in employment of 1.9 per cent from January to September 2017, which contrasts with the strong contraction that occurred in 2016. This reversal is a positive indicator since this sector concentrates nearly 13 per cent of total employment and generally has more formal labour relations.

Real wages in the formal sector in seven of the nine countries analysed increased in 2017, and declined in just two. This development is highly influenced by falling inflation rates. Minimum wages rose in 14 of 16 countries.

In summary, it was a mixed panorama, with signs of recovery in some indicators and countries, and of expanding deterioration in others. However, as mentioned, the main novelty is that the widespread deterioration we reported in previous years appears to be ending.

If the accelerated economic growth expected in the region in 2018 materialises, the labour situation will also significantly improve. We estimate that the regional average unemployment rate will decline from 8.4 per cent in 2017 to 8.1 per cent in 2018.

What overall assessment can be made of this upturn in growth and, to a lesser extent now, of labour markets?

It can be said that the fact that growth has stopped falling and has begun to rise at a rate of 1.2 percent in 2017 and is projected to rise around 2 percent in 2018 is good news, but in the end, it also represents bad news. That is because this "new normal" is not the level of growth required by the economies and societies of the region. Growth rates of 1.2 and 2 per cent are insufficient to lift poor people out of poverty quickly. They are also insufficient to satisfy and finance the demands and expectations of the middle class in terms of quality of services and jobs. And they are insufficient to make a clear difference in terms of informality and the quality of employment.

In addition, we must not forget that this rebound in growth is largely attributable to a more favorable external context, not to our own efforts to set new growth drivers for sustained, inclusive and sustainable growth.

1.2 per cent of economic growth in the region in 2017 represents one third of the growth of the world economy in the same year (3.6 per cent), and less than one fifth of growth in Asia (6.5 per cent). These are levels of growth that, although they are much better than those experienced during the recent slowdown/contraction cycle, define the region as one characterised to be falling behind when compared with the dynamism of the global economy and of specific regions.

Therefore, it should be stressed that to advance rapidly towards a better future of work, and to have truly transformative impacts on social and labour market indicators, countries must grow at least 5 or 6 per cent per year. This requires facing structural gaps of low productivity, education, vocational training and business development, as well as the lack of productive development and diversification. Only then will we manage to progress towards more sustained, inclusive and sustainable development with more and better jobs, and be able to escape from the middle-income trap. All of this requires changing the way things are done, beginning with consensual responses and broad, shared visions, and by taking social dialogue seriously as a method for promoting the major necessary transformations.

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International
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Executive Summary /

2017 **Labour**
Overview



EXECUTIVE SUMMARY

Mixed Performance in 2017 Points to End of Sustained Deterioration in Labour Markets

The labour situation in Latin America and the Caribbean showed mixed performance in 2017, with some signs of improvement in a context still characterized by market deterioration resulting from the combination of the 2011-2015 economic slowdown and the 2016 contraction (-0.9 per cent). In 2017, the region returned to the path of growth, although this is moderate (1.2 per cent). Labour market recovery usually lags behind the recovery of economic growth, especially when the growth rate is low. Thus, despite the economic recovery, the regional unemployment rate rose for the third consecutive year, from 7.9 per cent in 2016 to 8.4 per cent at the end of 2017. In absolute terms, this rate means that some 26.4 million are unemployed in the region, two million more than in 2016.

Although the increase in the regional unemployment rate is a negative development, two considerations should be kept in mind when assessing the labour situation: first, this information is an average and this average was strongly influenced by Brazil, an economy that accounts for nearly 40 per cent of the regional labour force. Brazil experienced severe economic contraction in 2015 (-3.8 per cent) and 2016 (-3.6 per cent), which was reflected in unemployment rates of 8.5 per cent in 2015, 11.5 per cent in 2016 and 13.1 per cent in 2017 (average of three quarters). When the regional average is calculated excluding Brazil, the average unemployment rate to the third quarter of 2017 is estimated at 5.8 per cent, below the 6.1 per cent recorded in 2016. In other words, excluding Brazil, the average unemployment rate for the remainder of the countries in the region declined, although only slightly.

The second consideration is that in 2017, positive changes were observed in some indicators of the quality of employment: real wages of the formal sector are recovering, as are real minimum wages, and employment in manufacturing experienced a significant recovery. Nevertheless, the recent trends of rising own-account employment and the decrease in the percentage of employees as a share of the total employed population continue, indicating a deterioration in the quality of employment.

Clearly, labour market performance in 2017 can be characterized as mixed, with signs of deterioration in some indicators and improvements in others, depending on the level of data disaggregation.

With respect to the continuing trend towards deterioration in nearly all indicators reported in recent editions of the *Labour Overview*, which led to the classification of the 2016 labour situation as a "slow-motion crisis," for the first time in three years, it is possible to glimpse what appears to be the end of that process of continuous deterioration of regional labour markets and the beginning of a new phase of improvement.

This improvement is slight and fragile, however, and will endure only if the economic recovery observed in 2017 and expected in 2018 continues.

The Global and Regional Economic Context Improved in 2017

In 2016, world economic growth recorded the lowest rate since the international financial crisis (3.2 per cent). According to the IMF, GDP growth will increase to 3.6 per cent in 2017 and 3.7 per cent in 2018. This higher growth has led to a rise in global demand, with a positive impact on commodity demand and prices, as well as on global trade and regional exports. This vigorous performance reversed the regional economic contraction of 2016. While regional economic growth fell -0.9 per cent that year, the IMF has estimated that growth will reach 1.2 per cent in 2017.

Economic performance varied by sub-region and country. The moderate regional growth is largely associated with an incipient increase in Brazil's GDP (0.7 per cent) in 2017, which reverses two consecutive years of strong economic contraction. By contrast, Venezuela, another country of weight in the Latin American average in recent years, continued its significant negative growth trend. While most South American countries had positive economic performance in 2017, in the aggregate, they will grow just 0.6 per cent. The Caribbean, Central America and Mexico will continue to record positive economic growth, although at more moderate rates than in 2016.

Within the improved overall economic performance of Latin America and the Caribbean in 2017, the positive influence of rising commodity prices and the growth of regional exports was observed, together with a moderate recovery in consumption. Although this performance reverses the trend observed in recent years, which was characterized by the deterioration in the terms of trade and the contraction of demand associated with lower private consumption and public spending, it also underscores the significant dependence of the regional economy and labour market on exogenous factors such as external demand. In this regard, future short- and medium-term performance of the regional economy will depend on the extent to which the more stable international context observed in 2017 continues over the next few years, as well as on the countries' efforts to reduce dependence on a few export commodities through policies to promote productive development and diversification and supply chains of more added value and technological content.

Average Regional Unemployment Continued to Rise in 2017, Together with Signs of Improvement

The regional unemployment rate is expected to increase for the third consecutive year, from 7.9 per cent in 2016 to 8.4 per cent at the end of 2017. Nevertheless, if Brazil is excluded from the regional average, the unemployment rate for the remainder of the region declines slightly, from 6.1 per cent in 2016 to 5.8 per cent to the third quarter of 2017.

To the extent that the expected economic growth of Brazil is reflected in the labour market, it is likely that Brazilian and regional unemployment rates will improve, especially in 2018.

The regional employment-to-population ratio fell -0.2 percentage points, largely due to the contraction of the employment-to-population ratio in Brazil (-0.8 percentage points to the third quarter).

The regional labour force participation rate rose 0.1 percentage points, to 61.8 per cent to the third quarter of 2017.

Less regional labour demand coupled with an increased labour supply explain the 0.5 percentage-point increase in the unemployment rate, which is estimated at 8.4 per cent at the end of 2017.

Another sign of improvement is that fewer countries experienced rising unemployment rates in 2017 compared with 2016. Whereas in 2016, unemployment rose in 13 of the 19 countries, in 2017, unemployment increased in just nine of the 19 countries. The highest increases in 2017 were recorded in Brazil (1.8 percentage points) and Belize (1.0 percentage point). The most significant decreases were observed in the Bahamas (-2.8 percentage points), the Dominican Republic (-1.7 percentage points), Jamaica (-1.2 percentage points) and Ecuador (-1.1 percentage points).

Unemployment Rates Vary by Sub-regions

The unemployment rate varied in terms of level and performance across the different sub-regions.

With respect to levels, the highest rates in both 2016 and 2017 are observed in the Southern Cone, where the rate increased from 10.7 per cent in 2016 (third quarter) to 11.9 per cent in 2017 in the same period. This trend once again reflects the rise in unemployment in Brazil. Eliminating the effect of Brazil, the unemployment rate for the Southern Cone fell slightly, from 8.5 per cent to 8.2 per cent.

In the Andean countries, the unemployment rate declined slightly, by -0.1 percentage points. Central America and Mexico recorded a decrease in the unemployment rate, from 4.5 per cent in 2016 (third quarter) to 4.0 per cent in 2017 (third quarter). In the Caribbean, the unemployment rate fell from 7.8 per cent to 7.4 per cent, although it remains relatively high.

Unemployment Rose among Men and Women and Gaps Persist

Between 2016 and 2017, the women's unemployment rate rose from 9.9 per cent to 10.4 per cent, which was slightly higher than the increase among men, which rose from 7.2 per cent to 7.6 per cent. For the first time in over a decade, the unemployment rate among women reached double digits. As in previous years, the unemployment rate among women is 1.4 times that among men.



The increase in the labour force participation rate among women has been constant in the region in recent years. In 2017, it surpassed 50 per cent (50.2 per cent) for the first time. Nevertheless, the labour force participation rate and the employment-to-population ratio for women reveal gaps of more than 20 percentage points as compared with those of men.

Youth Unemployment Continues to Rise

The regional average youth unemployment rate rose from 18.9 per cent in 2016 to 19.5 per cent in 2017. In other words, for the first time in a decade, one in five youth looking for a job did not find it. This means that the number of unemployed youth increased by some 9.8 to 10.2 million between 2016 and 2017. Nevertheless, without Brazil, the regional average youth unemployment rate fell by one percentage point, from 13.7 per cent in 2016 to 12.7 per cent in 2017. Table 3 of the Statistical Annex lists the change in youth unemployment rates by country.

Mixed Results Are Observed in the Quality of the Jobs Created

Until 2016, there were two clear trends pointing to a deterioration in the quality of employment: the reduction in job creation in the formal wage sector, which declined from 65.3 per cent in 2013 to 64.1 per cent in 2015, and to 63.4 per cent in 2016. Secondly, the increase in the creation of own-account jobs, which rose from 21.6 per cent to 22.8 per cent and to 23.6 per cent in the same years.

In 2017, for nine countries with available information, wage employment increased by 0.3 per cent in an apparent reversal of the trend of previous years, but own-account employment grew more rapidly, by 0.7 per cent, which indicates that the decreasing trend in the quality of employment continued in 2017.

Finally, although employment has recovered somewhat in a context of moderate GDP growth, most of these new jobs are of poor quality.

Mixed performance was also observed for other indicators of employment quality. In South America, registered employment is still weak; by contrast, in Central America and Mexico, registered employment in 2017 continued the positive trend recorded in recent years. Time-related underemployment rates also varied across countries.

Employment in Manufacturing Recovered

A distinctive aspect of 2017 was the employment growth in manufacturing. The manufacturing sector experienced a growth in employment of 1.9 per cent from January to September of 2017, contrasting with the strong contraction in employment that this economic sector recorded in the same period of 2016 (-4.3 per cent). This reversal is a positive sign that the economic recovery is beginning to be reflected in the labour market. This is good news for a sector that concentrates nearly 13 per cent of total employment and that is generally characterized as having more formal labour relations. Additionally, there is a positive trend in regional employment in the services sector, particularly trade and other services, which concentrate more than half of regional urban employment and which employ a large share of women.

Change in Real Wages in a Context of Lower Inflation

Information on wages of the registered or formal sector between the third quarters of 2016 and 2017 demonstrates that in seven of the nine countries with available information, real wages increased, and declined in just two (Peru and Mexico). This improvement is heavily influenced by the lower inflation rates in most of the countries.

This trend is also observed in the change in minimum wages. Nominal adjustments above the inflation rate led to the growth of real minimum wages in 14 of 16 countries. This produced an increase in real minimum wages from 4.3 per cent to the third quarter of 2017, nearly double that observed in the same period of 2016 (2.3 per cent).

Information on real average wages aggregated at the national level (formal and informal sectors) for 21 countries had the following results: real average wages increased by 2.4 per cent in 2013,

declined by -0.3 per cent in 2014, rose by 0.7 per cent in 2015 and remained constant in 2016 (0.05 per cent). No aggregate information for the national level is yet available for 2017.

Outlook

The regional average unemployment rate will be an estimated 8.1 per cent in 2018, below the 8.4 per cent recorded in 2017. This will mark the first decline in the unemployment rate in three years.

Feature Article: Real Wage Trends, 2005-2015

The feature article the *Labour Overview* this year examines wage trends in Latin America for the period 2005-2015.¹ Overall, the change in wages is influenced by economic growth, job creation, inflation and institutional factors, such as systems for wage negotiation and establishment of minimum wages.

The period 2005-2015 was characterized by the economic growth resulting from the boom in prices of the commodities the region exports, by the 2008 international financial crisis and by the economic deceleration that began in 2012.

In that period, the simple average of real monthly wages in Latin America grew to 19.8 per cent, equivalent to a real increase of 1.8 per cent annually. In other words, on average, regional real wages rose consistently throughout the period, although with important differences across sub-regions and sectors.

Positive Change but with Differences among Sub-regions and the Private, Public and Domestic Work Sectors

Despite the regional trend of wage growth, variations were observed across sub-regions.

The largest increases in real wages were observed in the Southern Cone, followed by the Andean countries, which recorded an increase approaching the regional average. By contrast, in Central America and Mexico, increases were far below the average, with modest growth throughout the period analyzed. Just three of the 15 countries studied experienced reductions in real average wages during the period: Mexico, El Salvador and Honduras.

The superior performance of the Southern Cone countries is associated with the positive effect of the commodities super cycle, which especially benefitted South American countries.

Overall, the adjustments to regional real wages were associated with productivity. Nevertheless, in Central American countries and Mexico, wage adjustments fell short of the productivity increases recorded. Thus, factors other than economic performance affected the lower growth of real wages in that sub-region.

The different performance of wages in the public, private and domestic work sectors was also analyzed. In Latin America, public employees accounted for 18 per cent of all employees in 2015; domestic workers represented 8 per cent; and, private-sector employees, 74 per cent. Each of these groups has a different wage-setting method.

While in Southern Cone and Andean countries, real wages of the private sector paralleled those of the public sector, in Central America and Mexico, real wages of the public sector increased by 15 per cent, while those of the private sector remained constant in real terms.

Wages of domestic workers grew at higher rates than those of other sectors in the three sub-regions. This trend led to a relative reduction in the wage gap between domestic workers and other workers. Wages of domestic workers continue to be among the lowest on the wage scale, however. Public-sector wages are approximately 50 per cent higher than the average wage, followed by those of the private sector, which are close to the average, while wages of domestic workers are in most cases less than 50 per cent of the average wage.

¹ The Caribbean was not included in this analysis due to the lack of sufficient, comparable data.



Significant, Widespread Improvements in Real Minimum Wages

The feature article also reviews minimum wage policies. The goal of the minimum wage is to protect workers against the payment of unduly low wages. Its effective application helps low-earning workers to equally participate in the fruits of progress. As such, the minimum wage policy is a key component of efforts to promote inclusive growth and reduce poverty and inequalities.

During the period 2005-2015, there were significant, widespread improvements in real minimum wages, which rose an average of 42 per cent during the period, the equivalent of 3.6 per cent annually. The Andean countries experienced the highest increases (4.0 per cent), followed by those of the Southern Cone (3.8 per cent), and Central America and Mexico (3.0 per cent), to a lesser extent. Honduras, Uruguay and Bolivia had the highest accumulated increase in minimum wages while Paraguay, Mexico, the Dominican Republic and Colombia had the lowest.

The minimum wage is analyzed in relation to the poverty line in 14 countries. In 2005, eight countries had a minimum wage that was below two urban poverty lines; by 2014, just five countries were in that situation, which indicates an improvement in the purchasing power of minimum wages. However, since poverty lines are expressed for individuals, it is necessary to consider household size. The minimum wage is insufficient to free an average household – composed of 4.3 people for the poorest 50 percent of households – from poverty.

The rate of non-compliance with the minimum wage in the private sector was also estimated and analyzed. Although seven of the 14 countries studied demonstrated an improvement, the data indicate that it is a serious problem since half of the countries have rates exceeding 20 per cent. A low level of non-compliance is not always a positive indicator. If a country establishes an extremely low minimum wage, to the point that many workers receive higher wages, non-compliance rates may be low, but the minimum wage will be useless as an instrument for protection in this case.

Gender Wage Gaps Narrow

In Latin America, the monthly gender wage gap decreased from approximately 20 per cent to 15 per cent between 2005 and 2015, a trend identified in the three sub-regions analyzed. This occurred mainly because women's wages grew at a higher rate than those of men (25 per cent and 18 per cent, respectively). Women continue to earn lower wages than men, however.

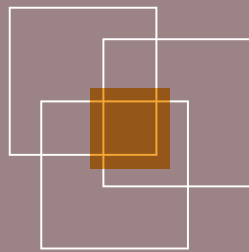
A breakdown of this relative improvement demonstrated that three-fourths is due to wage increases among women and one-fourth to changes in the composition of women's employment, particularly their increased employment in the private sector and reduced participation in domestic work.

In the public sector, during the period 2005-2015, the wage gap narrowed significantly in all sub-regions. In the private sector, there were relatively minor reductions in the gap in the Southern Cone and in Central America and Mexico, and a slight increase in the gap in the Andean countries.

Increase in the Wage Bill and Improvement of Distributive Indicators

Finally, the feature article states that wage and employment improvements during the period analyzed led to an estimated increase of 4.4 percentage points in the wage bill in relation to regional GDP. The highest increase was recorded in the Southern Cone (9.8 percentage points) and the Andean sub-region (4.2 percentage points), while the wage bill remained constant in Central America and Mexico.

Additionally, the distributive indicators analyzed indicate that wage inequality declined in Latin America and in all the sub-regions, particularly among the deciles at opposite ends of the spectrum (D9/D1). This was a clear trend only until 2013 given that reductions in wage inequality slowed during the period of economic deceleration.



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