

Labour Overview of Latin America and the Caribbean 2014

Foreword: Warning signs

The *2014 Labour Overview of Latin America and the Caribbean* is characterized by slower economic growth. Following a decade of robust growth, during which the region created jobs and improved the quality of employment, there is uncertainty and apprehension about the possibility that we cannot continue to advance or may even lose ground on some of the achievements made.

Currently, there are nearly 15 million unemployed in urban areas of the region. Next year, there will likely be 500,000 more unemployed since the urban unemployment rate is expected to rise by two-tenths of a percentage point, from the ILO's estimate of 6.1% in 2014 to 6.3% in 2015.

Economic growth estimates for the region have been diminishing since the beginning of the year and are now expected to reach just over 1.0% in 2014 and 2.2% in 2015. This growth will be insufficient to prevent an increase in unemployment.

Currently, the most worrying issue is that job growth is slowing in Latin America and the Caribbean. The urban employment-to-population ratio has fallen over the past two years and now stands at 56.2%. The only time this ratio declined in the past decade was in 2009, the year of the global financial crisis.

What does this figure mean? Basically, that one million jobs were not created in 2014.

However, unemployment did not rise this year, it actually fell slightly. Why did this happen?

Normally, reductions in job creation are accompanied by increases in unemployment, but this did not occur. This is largely explained by the decline in the labour participation rate, which reflects the size of the labour force. This indicator decreased to 59.9%, a reduction sufficient to offset the decline in the pace of job creation.

In other words, whereas in previous years the decrease in unemployment resulted from an increased supply of jobs, it is currently explained by the large numbers of people who are leaving the labour market.

The reduction in the labour force participation rate means that many people --especially women and young people-- no longer receive an income which may be important for the wellbeing of their households. Sometimes this is for positive reasons, such as remaining in school to complete their education, but in other cases it results from discouragement and frustration at the lack of opportunities.

These circumstances make it difficult to advance in closing the gender gaps that still persist in the region's labour markets. Although large numbers of women are now employed, their labour force participation rate is still 30% lower than that of men. Women looking for work face an unemployment rate that is 30% higher than that of men.

Young people are also at a disadvantage. Forty percent of the region's unemployed are between the ages of 15 and 24 and face an unemployment rate two to four times higher than that of adults.

The decline in the labour force participation rate is a short-term phenomenon. Many people who temporarily left the labour market in 2014 will return in search of employment again next year, joining the youth who will participate in the labour market for the first time. The region will need to create nearly 50 million jobs over the next 10 years just to compensate for demographic growth.

Besides unemployment, there are problems associated with the quality of employment. In an advance of this *Labour Overview* presented in October, we warned that the region has 130 million workers employed in informal conditions, which usually means poor labour conditions, job instability and a lack of social protection and respect for their rights.

Given that the economies depend heavily on their domestic markets, the slowdown in the growth of wages and the wage-earning population is another warning sign.

This labour market overview indicates that the challenge of creating more quality jobs remains, and that it is even more difficult to achieve this in a context of economic deceleration.

We must now rethink strategies to drive growth and productive transformation, strengthening economic and social inclusion through the labour market. It is a daunting task.

This challenge was addressed by representatives of governments, employers' organizations and workers' organizations during the ILO's 18th American Regional Meeting held in Peru in October 2014. The Lima Declaration adopted at the meeting underscored that "to combat inequality requires integrated economic and social public policies that promote social inclusion, decent work and productive employment, as well as an enabling environment for sustainable enterprises."

The promotion of decent work is one of the key issues that the international community is addressing in the framework of the discussion of post-2015 development goals. The focus is on recognizing the importance of employment as a component of sustainable development and an essential part of more robust, inclusive growth.

With the *2014 Labour Overview of Latin America and the Caribbean*, the ILO hopes to contribute to the knowledge on what the countries have achieved in recent years, which has been considerable, and on key future challenges in the world of work, including the warning signs that require urgent attention.

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Executive summary

Labour indicators for Latin America and the Caribbean indicate that the regional economy did not create enough jobs in 2014, as reflected in the decline in the employment-to-population ratio. Additionally, the labour force participation rate experienced a downward trend, especially among women and young people who withdrew from the labour market.

The performance of both indicators has led to a slight reduction in the region's current unemployment rate, despite the unfavourable economic context. Nevertheless, this precarious balance could shift at any time and unemployment is likely to increase in 2015.

All indicators point to an extended period of slower growth. For every tenth of a percentage point that the growth rate declines, approximately 100,000 jobs fail to be created.

This situation is of concern because in addition to unemployment, there are pending issues related to the quality of employment, which pose challenges in terms of productivity and wages, the formalization of employment and social security coverage, among others.

The creation of more and better jobs is crucial for advancing in the fight against poverty and inequality, achieving sustainable development and promoting inclusive economic growth.

Economic growth is clearly slowing

Global economic growth for 2014 is estimated at 3.3%, but just 1.3% (IMF) or 1.1% (ECLAC) in Latin America and the Caribbean. For the third consecutive year, the average growth rate for the region will be below the global rate.

Moreover, the year has been characterized by a constant downward readjustment of this indicator, which demonstrates that the economies of the region have not performed as well as expected.

The region's slow growth was concentrated in South America (Andean and Southern Cone countries), which had a rate of 0.7%. Mexico recorded a growth rate of 2.4% whereas both Central American (3.8%) and Caribbean (3.8%) countries had growth rates slightly above the global average (IMF).

Unemployment declines but fewer jobs are created

In 2014, the slowing economy caused a decline in the regional urban employment-to-population ratio for the second consecutive year, which indicates a slower pace of job creation. The only time this ratio fell in the past decade was in 2009, the year of the global financial crisis.

Despite the slower rate of job creation, the urban unemployment rate continued to decline, from 6.5% for the first three quarters of 2013 to 6.2% in the same period of 2014. In 2013, the annual average urban unemployment rate was 6.2% while the 2014 rate is estimated at 6.1%.

This situation, where unemployment remains stable or even declines despite lower job creation, is caused by a decrease in the labour force participation rate (from 60.3% to 59.9%) that was greater than the decline in the employment-to-population ratio (from 56.5% to 56.2%).

In other words, the reduction in the unemployment rate is due more to the decline in the labour force participation rate than to a real increase in the employed population. Although job creation is insufficient for compensating for demographic growth, more persons remained outside of the labour market, whether because of studies, household duties, discouragement due to the lack of opportunities or other reasons.

The combination of a simultaneous decrease in the employment-to-population ratio and the unemployment rate observed in 2013 and 2014 has not occurred since 1990, when regional labour market measurements began.

These figures are heavily influenced by the performance of Brazil due to its considerable weight in the regional population and its combination of simultaneous, significant declines in the unemployment rate (5.6% to 4.9%), the labour force participation rate and the employment-to-population ratio.

In 2014, wage and salaried employment grew less than own-account or self-employment. This means that the employment-to-population ratio would have fallen even more if people had not created their own (often informal) employment.

This trend, which is characteristic of labour markets in the region, tends to mitigate fluctuations in unemployment rates.

A lower labour force participation rate means less economic autonomy for a large share of the population, especially for women and young people leaving the labour force.

Consequently, the labour force participation rate is not likely to decline again and will probably even increase beginning in 2015, when individuals who left the labour market return in search of employment given their need for income.

Therefore, the reduction in unemployment in 2014 is not necessarily a positive sign.

Wage increases are smaller

Real average wages continued to climb, although to a lesser degree than in 2013. For the eight countries with available information for the first three quarters of 2014, the simple mean of real average wages rose 2.1%, less than in the same period of 2013 for the same group of countries (2.4%).

Minimum wages continued to improve in the region although the pace has slowed over the past year. For the first three quarters of 2014, the weighted average of real minimum wages rose 2.1%, compared with 2.9% for the same period of 2013.

Wage and salaried employment as a share of total employment grew in most of the countries with available information, although at a slower pace than in previous years. At any rate, important shifts have occurred in the labour market, particularly in terms of economic activity and status in employment.

The challenge of quality rural employment

This edition of the *Labour Overview* includes national information by geographic region, enabling an analysis of rural labour markets and their comparison with urban ones. Unemployment rates continue to be lower in rural areas than in urban areas, although the gap seems to be narrowing.

Although there are differences among countries, the quality of employment in rural areas is a pressing issue in the region. The low social protection coverage is particularly critical. However, statistics show that the rate of health protection continued to rise in both rural and urban areas in 2013. This improvement most likely reflects the impact of the public policies implemented to extend coverage, even in a weaker labour environment.

Given the prevalence of low-paid jobs among rural wage and salaried workers, minimum wage systems could play a crucial role in ensuring sufficient income levels. Nevertheless, as the feature article in this edition of the *Labour Overview* demonstrates, high non-compliance rates have significantly diminished the effectiveness of this policy instrument.

Whereas non-compliance tends to be higher in countries where the minimum wage is higher than the average wage, the analysis demonstrates that institutional factors also play a role. These factors include the excessive concentration of labour inspectors in capital cities or a few urban centres and problems related to inspection procedures and penalties.

Labour indicators improve in the Caribbean and Central America

As in other years, labour performance varied significantly in the different sub-regions.

The countries of the Caribbean and Central America, which experienced greater economic and labour market difficulties following the 2009 global financial crisis, had a more favourable economic context in 2014 given the economic recovery of the United States. Consequently, their employment-to-population ratios and unemployment rates improved. The employment-to-population ratio in Caribbean countries rose from 54.3% to 55.3% whereas the unemployment rate fell from 11.2% to 10.1%. In Central America, the employment-to-population ratio increased from 55.1% to 56.6% and the unemployment rate remained constant at 5.8%.

By contrast, the Southern Cone countries, which were affected by the slower economic growth in China and the decline in prices of some commodities, showed less economic vigour. As a result, demographic growth outpaced the job creation rate, triggering a decrease in the employment-to-population ratio, from 54.5% to 53.7%.

Outlook: a probable increase in unemployment

The annual regional unemployment rate for 2014 is expected to fall slightly with respect to 2013, to 6.1%.

Nevertheless, forecasts for 2015 indicate that the unemployment rate will increase by one-tenth or two-tenths of a percentage point, to 6.3%, even in a context of slightly higher economic growth than in 2014.

Over the next year, the trend of rising unemployment will be driven both by the impact that slower economic growth usually has on labour markets and by the expectation that the labour force participation rate will not decline. Given the IMF's regional economic growth forecast of 2.2%, the labour force participation rate is expected to recover more quickly than the employment-to-population ratio in 2015.

The data analyzed for 2014 and projected for 2015 indicate a real threat of losing some the labour and social advances made over the past decade.

The current economic slowdown differs from the 2008-2009 crisis in three key ways. First, whereas the global financial crisis had a strong but brief economic impact, the current deceleration has been more gradual but longer-lasting. Second, Caribbean and Central American countries are not affected by the slowdown; rather, they have achieved a satisfactory economic and labour performance. Third, the fiscal space of several countries has considerably diminished with respect to the situation prior to 2009.

Therefore, the recommendations for the implementation of counter-cyclical programmes in response to economic fluctuations depend on the specific situation of each country, especially in terms of the degree to which the countries are affected by the slowdown and their fiscal policy margin to sustain a spending increase for a more extended period than during the 2009 crisis.

Additionally, the focus should return to the advances made in strengthening labour institutions and their capacity to implement policies and programmes to mitigate a rising unemployment rate, maintain efforts to protect the quality of employment through increased social protection coverage and decrease informality, even in a more difficult economic context.