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LATIN AMERICA: Employment will not pick up in 2016

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Abstract

The outlook for unemployment in Latin America.

Unemployment in the region will rise this year for the first time since 2009, according to an October report by the UN Economic Commission for Latin America and the Caribbean (ECLAC) and the International Labour Organization (ILO). There are also signs of deterioration in job quality and that households are beginning to feel the pinch of slower GDP growth.

Full text

SUBJECT:The outlook for unemployment in Latin America.

SIGNIFICANCE:Unemployment in the region will rise this year for the first time since 2009, according to an October report by the UN Economic Commission for Latin America and the Caribbean (ECLAC) and the International Labour Organization (ILO). There are also signs of deterioration in job quality and that households are beginning to feel the pinch of slower GDP growth.

ANALYSIS: Impacts.

In Brazil, the number of wage earners fell in absolute terms in the first half of 2015, a trend that is accelerating.

In a typical feature of economic slowdowns, the number of women seeking jobs will continue to increase sharply.

An already large productivity gap between micro and larger businesses is likely to widen.

ECLAC is currently forecasting a 0.3% contraction this year, after earlier growth projections of 0.5% in July and 2.2% in December 2014 (see LATIN AMERICA: Growth pessimism gains ground - August 3, 2015). According to the new report, The Employment Situation in Latin America and the Caribbean, released on October 27, deceleration of the region's GDP growth is beginning to be reflected in the labour market. It anticipates that urban unemployment in the region will reach 6.6% this year, up from 6.0% last year.

In the first half, jobless rates among the major economies ranged from 10.3% in Colombia to 5.1% in Mexico. In Brazil -- which accounts for 36% of the region's economically active population -- it was running at 6.2% in the first half but has since risen to a national rate of 8.7% in October, with urban unemployment at 7.9%.

Supply and demand .

The increase in unemployment in Latin America and the Caribbean (LAC) reflects both demand and supply factors:

Job creation .

In 2015, the region's employment rate is forecast to drop for the third consecutive year (albeit perhaps doing so more slowly than last year), reflecting slack demand in the formal sector which is being partly offset by an increase in self-employment. Nearly 820,000 jobs were lost in Brazil in the first ten months, according to the Labour Ministry in November, while in Argentina the activity rate has reached a twelve-year low due to the 'discouragement effect' (see ARGENTINA: Macri faces conflicting pressures - November 23, 2015).

Labour market participation .

After falling by 0.6 percentage points in 2014, labour market participation dropped by only 0.35 percentage points in the first quarter of this year before rising by 0.1 percentage points in the second quarter (the first increase since the fourth quarter of 2012). In 2014, this supply factor was key in explaining the ongoing drop in LAC's unemployment rate despite slowing GDP growth.

However, the current change of trend appears to reflect the erosion of economic resilience developed by households following years of strong growth and poverty reduction, which initially allowed them to absorb a loss of labour income without being obliged to seek scarce or unattractive jobs.

By sector .

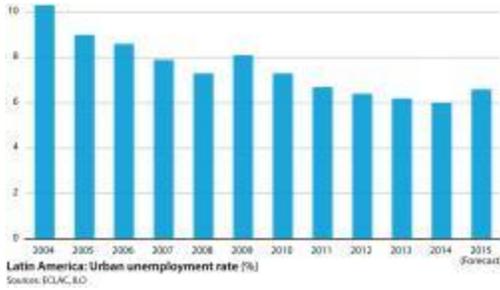
Labour market performance by sector (based on figures for ten countries) was mixed in the first half of the year:

Construction. In general, employment in construction increased, particularly in countries with important infrastructure expansion programmes such as Colombia and Paraguay. In other countries, including Brazil, it showed a pro-cyclical reduction, despite the impact of the 2016 Olympic Games. The woes of major construction companies implicated in the Petrobras bribery scandal may exert downward pressure on employment in the sector (see BRAZIL: Crime, contamination may mar Rio Olympics - September 3, 2015)

Manufacturing. Weak domestic demand across the region is keeping growth in manufacturing jobs modest.

Commerce, restaurants and hotels. A stronger increase in these industries probably reflects the low entry barriers that make them a popular choice for self-employment.

Agriculture. Lack of growth of agricultural employment -- which tends to be counter-cyclical, at least in countries with an important small-scale farming sector -- appears to signal that perceptions of the labour market are not as yet bad enough to trigger migration back to the countryside.



Underlying indicators .

Other indicators clearly reflect the deterioration in LAC's labour market:

Self-employment .

The growth of self-employment, a typical recourse in the face of scarcity of wage jobs, accelerated in the first half of this year; in countries including Brazil, Mexico and Peru, it increased as a percentage of total employment.

Working hours .

Among the countries under consideration, underemployment, measured in terms of working hours, rose in Brazil, Costa Rica, Ecuador and Paraguay in the first half but fell in Argentina, Chile and Peru. In general, this indicator showed a more marked deterioration in the second than in the first quarter.

Real wages .

The impact of economic deceleration on real wages, aggravated by higher inflation and currency depreciation, was apparent in the second quarter when their growth slowed in, for example, Chile and Peru. In Brazil, a drop seen in the first quarter accelerated in the second.

Micro-enterprise malaise.

In 2003-13, positive economic conditions, backed by public policies, meant both a reduction in unemployment and better job quality, with an important increase in wage jobs as a percentage of total employment and social security coverage.

Based on analysis of the labour market composition by size of business, the report concludes that progress was due principally to a decline in the share of total employment accounted for by micro-enterprises and improvements in working conditions in these enterprises:

Between 2003 and 2013, employment in micro-enterprises increased by 11.4%, well below the 25.3% increase in total employment. However, micro-enterprises still represented an important 28.4% of total employment in 2013. Moreover, the increase in social security coverage in this sector, from 25.1% to 39.0%, was particularly marked.

In 2003, wage employment already reached almost 100% in large, mid-sized and small companies. Most of the increase in wage jobs as a percentage of total employment, therefore, occurred in micro-enterprises where it rose from 64.4% to 71.9%, due to a drop in unpaid family work. However, most of this progress was in the three largest economies -- Argentina, Brazil and Mexico.

On the other hand, the wage gap between micro-enterprises and larger companies did not narrow significantly during that decade, while the educational level of their employees showed only a slight improvement. The percentage with higher education rose from 12.5% in 2003 to 15.6% in 2013.

Micro-enterprises are often created in response to family income needs, rather than market opportunities. The increase in LAC's unemployment rate risks being accompanied by erosion of some of its recent progress

on job quality, with a negative impact on income distribution and poverty (see LATIN AMERICA: Patchy MDGs record could deteriorate - October 21, 2015).

CONCLUSION: With the region's growth expected to improve only slightly next year, when ECLAC estimates it will reach 0.7%, a change in the weakening trend of the labour market is unlikely. The impact of slow GDP growth and, particularly, low commodity prices on fiscal revenues will, moreover, limit governments' capacity to implement both short-term relief measures and longer-term policies to increase the low productivity of smaller businesses that is a key cause of income inequality.

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Details

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