

2005 Labour Overview

LATIN AMERICA AND THE CARIBBEAN

(First Semester Advance Report)

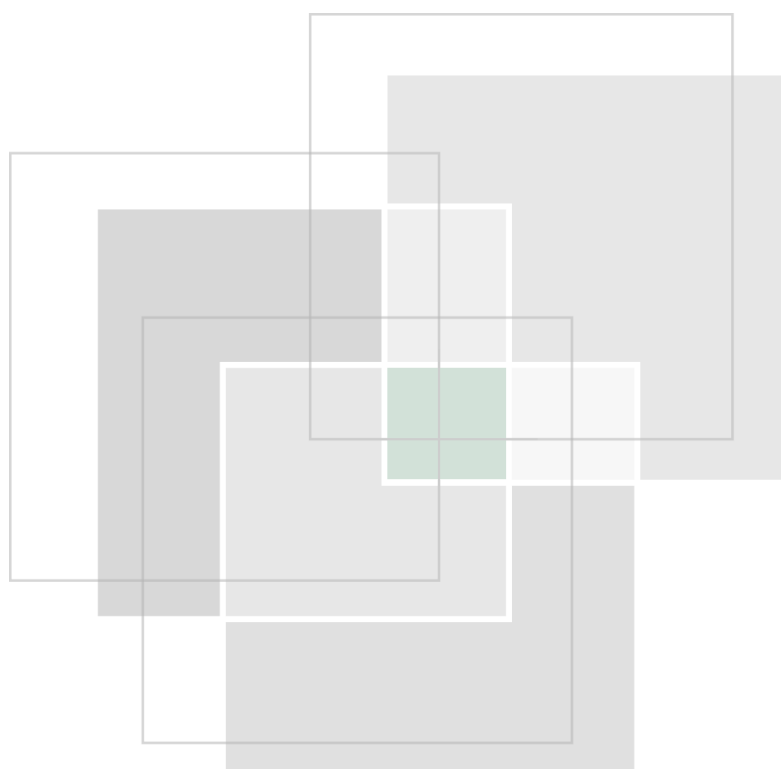


International Labour Office
Regional Office for Latin America and the Caribbean

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Foreword

The *Labour Overview Advance Report for 2005* conveys a mixed message with respect to the current economic and labour market situation in Latin America and the Caribbean. In general, there are reasons for cautious optimism as regards the region's economic growth. At the same time, despite favourable economic conditions, progress is modest compared with the need to reverse the decent work deficit that has accumulated since the 1990s.

Economic growth in the region, estimated at 4.6% in the first semester of 2005, points to GDP growth of approximately 4% for the year. Although this rate is lower than that recorded in 2004 (5.9%), it remains higher than the average for recent years. These results reflect the favourable international context characterized by the expansion of global GDP and trade, high prices for primary export products, low interest rates, a reduced rate of inflation and relatively low inflationary pressures, although in some countries inflation rates surpassed 2004 levels. Also contributing to the economic growth was the adoption of flexible exchange rates that fostered an increase in the competitiveness of the region, as well as countries' capitalizing on positive economic conditions to strengthen fiscal balances and reduce foreign debt. These changes resulted in a notable reduction in country risk indices, which are approaching historic lows, and a surplus in the current account recorded in the past two years which will likely continue in 2005.

Nevertheless, this generally positive scenario is marred by some risks in the short and medium term. First, the future price of oil could continue to be a risk variable. Pressures on the demand side, particularly from the United States and China, are driving the current increase in oil prices to record levels and there is uncertainty as regards the capacity of the oil industry to meet the growing demand. This situation was aggravated by the recent effects of Hurricane Katrina in key areas of the United States, which affected oilrigs in the Gulf of Mexico. Beyond the unfortunate loss of life and the direct costs of destruction, the hurricane's impact on the oil industry both for refining as well as for importation and production represents a supply shock, which could negatively affect growth in the world's largest economy.

Moreover, the main imbalances of the global economy, especially the trade and fiscal deficits of the United States, generate uncertainty about the duration of the expansion of the global economy. Although these deficits have been financed with relative ease to date thanks to the continuous flow of capital from around the world, the demand for U.S. assets has limits. In addition, experience demonstrates that such a large deficit cannot be maintained indefinitely. Therefore, risks may increase as net foreign obligations of the United States continue to rise.

Regional GDP growth in 2004 was decisive for the increase in labour demand in most of the countries, whereas labour supply, after a marked increase in 2003, rose only slightly. The result was a decrease of 0.9 percentage points in the weighted average urban unemployment rate for the region with respect to the rate in 2003, to 10.2% in 2004. This rate is similar to the level of 1998, if the effects of methodological changes in the household surveys of Argentina and Brazil are taken into account.



During the first semester of 2005, the downward trend in urban unemployment continued in the region, which was estimated at 9.6%, 1.3 percentage points below the rate recorded for the same period in 2004. This was the result of an increase in the employment-to-population ratio (0.6 percentage points) and a decline in the labour force participation rate (0.3 percentage points). Unemployment fell in seven of the nine countries with available information, Argentina, Brazil, Chile, Colombia, Ecuador, Uruguay and Venezuela, whereas it rose slightly in Mexico and Peru. This regional urban unemployment rate is the equivalent of approximately 18.3 million unemployed individuals.

Although the decline in the unemployment rate is encouraging, it remains at the high levels which have characterized the region since the mid 1990s. For this reason, job creation continues to be a major challenge for policymakers. In addition, assuming that the labour force grows at close to 2% annually and productivity increases, the GDP growth forecast of 4.3% for 2005 will be insufficient to significantly reduce the unemployment rate.

Experience shows that economic growth must be strong and sustained to lower unemployment rates. Nevertheless, economic growth in the past 10 years in most of the countries of the region has been lacklustre and unstable. Only Chile and Trinidad and Tobago registered sufficiently high growth rates to significantly reduce unemployment in the period 1995-2004. The remainder of the countries of the region experienced only short periods when economic growth managed to diminish unemployment.

Real wages rose in the region in 2004 due to an increase in productivity and a decline in inflation. Real manufacturing wages increased 5.2% on average, and the real minimum wage rose 8.3%. The fact that real wage growth was less than the increase in labour productivity for all the sectors indicates that these factors did not have a significant impact on employment or the unemployment rate. During the first semester of this year, the increase in real wages was lower than that registered in the same period of 2004. Real manufacturing wages increased 1.1% and real minimum wages rose 5%.

In the 2003-2004 biennium, non-agricultural employment continued to be characterized by a high share in the informal and services sectors, while registering low levels of social protection. Formal sector employment rose in six countries (Argentina, Colombia, Costa Rica, Panama, Uruguay and Venezuela) while informal sector employment increased in four (the Dominican Republic, Ecuador, Paraguay and Peru). Notwithstanding, for the period 2000-2004, only Costa Rica shows a downward trend in terms of informal sector employment in non-agricultural sectors.

Statistics for health coverage and pensions of seven countries for 2004 indicate that social protection of wage and salaried workers increased in three countries (Argentina, Colombia and Costa Rica), remained practically unchanged in Ecuador and decreased in three countries (Panama, Peru and Venezuela). The percentage of workers with pension system coverage diminished in Paraguay and Uruguay.

In summary, although regional economic growth has led to an improvement in some key labour market indicators, there remains a substantial decent work deficit which requires the continuous application of integrated economic and social policies whose focus should be the generation of decent work, balancing the need for competitiveness and efficiency with that of social protection, employment security and respect for labour and human rights.



This edition includes two feature articles. The first analyzes voluntary migration trends both within and outside the region, as well as the internal and external conditions that drive migration. The article concludes that labour migration has both positive and negative effects for the countries of origin and destination, as well as for immigrants and their families. A box article provides a proposal for a regional plan of action regarding migrant workers. The second feature article analyzes economic and labour progress in Latin America and the Caribbean since the application of economic stabilization policies in the early 1990s. The conclusion is that while important progress has been made, particularly in improving macroeconomic imbalances, these positive changes have been accompanied by an increase in unemployment and precarious employment as well as a deterioration in income distribution. To address these issues, the article presents policy proposals designed to achieve economic growth compatible with decent work. The *Labour Overview Advance Report for 2005* also includes a statistical annex that accompanies the labour situation report as well as an explanatory note with concepts, definitions and information sources.

Latin American and Caribbean countries face a paradox from a labour market perspective: the regional economy is in a better situation than ever to improve the quality of life for the region's inhabitants; nevertheless, current labour and social challenges are more daunting than ever before. In the task of achieving decent work for all, governments, workers and entrepreneurs of the region have at their disposal the instruments, experience and technical support of the International Labour Office.

Daniel Martínez,
Acting Regional Director for the Americas

Lima, October 2005



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The preparation of the *Labour Overview Advance Report for 2005* was coordinated by Mónica Castillo, who also helped in the preparation of different texts and oversaw the editing of the report, with the collaboration of Manuel Déano.

The Labour Situation Report, which contains an analysis of current conditions of work, including unemployment and wages by country, was prepared by Werner Gárate, who received comments from Mónica Castillo and Daniel Martínez.

The feature articles are brief reports on different topics relevant to the world of work. Andrés Solimano, with research support from Claudia Allendes, prepared the first feature article, *International Migration, Remittances and the Labour Market: The Situation in Latin America and the Caribbean*, and received comments from Mónica Castillo and Daniel Martínez. The article *Generating Decent Work in Open Economies: The Strategy of Growth with Quality Employment* was prepared by Leonardo Neves with comments from Mónica Castillo, Eliana Franco, Virgilio Levaggi and Daniel Martínez.

The box article *Proposal for a Plan of Action for Migrant Workers from Latin America and*



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