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▶ 2021 LABOUR OVERVIEW

Latin America and the Caribbean

Executive Summary



ILO Regional Office for Latin America and the Caribbean

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► Foreword

Two years after the onset of a pandemic that caused a deep crisis in the labour markets of Latin America and the Caribbean, economic recovery has been insufficient to return employment to its 2019 levels.

There remains a high degree of uncertainty in the region's world of work due to the ongoing health emergency, slow economic growth forecast for this year, and structural problems, which contributed to amplifying the impact of the crisis, namely inequality, informality, and low systemic productivity.

The 2021 Employment Outlook describes a mixed bag scenario for employment and suggests that pre-pandemic levels will be reached by 2023 or even 2024.

The COVID-19 pandemic has had a devastating impact on labour markets in this region. From late 2019 through the second quarter of 2020, a little over 49 million jobs were lost, with massive departures from the workforce, many companies- especially SMEs- pushed into bankruptcy, and an unprecedented drop in revenues.

Since the second half of 2020, signs of economic recovery began to appear; in 2021, they were stronger albeit with varying degrees in countries and sectors. After such a deep crisis, the regional growth average in 2021 reach 6.2 percent, because of the "rebound effect". Yet, the latest forecasts for 2022 estimate a slow growth of 2.1 percent, a rather moderate level.

The economic recovery has translated into a slight improvement in labour indicators.

The regional unemployment rate for the first three quarters of 2021 was 10 percent and is expected to be 9.6 by the end of the year. This rate would be below 10.7 percent reached in 2020, yet well above the 8 percent of 2019. Due to the crisis, around 4 million people have joined the ranks of the unemployed. Overall, more than 28 million people are currently looking for a job and cannot find one.

At the end of 2021, around 4.5 million jobs remained to be recovered, including unemployed people and those who have not yet returned to the workforce. Most of these people are women. Unemployment rates for women have not changed. The average rate for the first three quarters of 2020 and 2021 was the same: 12.4 percent.

In this stage of recovery, young people have returned to work faster than adults. However, regional youth unemployment rate is still 21.4 percent (average for the first three quarters of 2021), which is higher than the pre-pandemic rate: 18 percent-a figure already considered excessively high. In addition, many young people tend to start their first job under informal conditions.

Informality is endemic in this region and can be considered as a "social comorbidity" in this pandemic. In 2019, one in two employed persons was working under informal conditions. At the beginning of the crisis, the informality rate dropped due to the enormous loss of this type of jobs; however, most of the jobs recovered since then have been under informal conditions.

This report shows that the proportion of jobs recovered in the informal sector, which was 80 percent, has dropped to 70 percent in 2021, which indicates a recovery in formal employment. As of the third quarter, the average regional informality rate is 49 percent, the same as before the pandemic. However, this could increase as more people enter the workforce in a context of low growth and insufficient formal job creation.

Likewise, this Employment Outlook includes a special section on the challenges of digital transformation and its impact on labour markets in the region. Due to its characteristics, the current crisis has also accelerated work trends leading to new forms of employment and automation.

Technological changes have had significant economic, social, and environmental impacts as evidenced in the quantity and quality of employment, productivity, international trade, productive structures, qualifications required, company dynamics, and people's welfare.

The exponential increase in teleworking and employment on digital platforms were two of the most visible signs of these transformations. To leverage upon the opportunity offered by an era of change

►► Clearly, to overcome this crisis it will be necessary to create more and better jobs for women and men in Latin America and the Caribbean. This can have a direct impact on the improvement of social indicators, including those of poverty and inequality.

will require strategies that range from professional training to supporting companies, entrepreneurs, and workers.

The crisis caused by the pandemic has marked a turning point for this region, one of the world's hardest-hit regions in economic and social terms, and in the number of infections and deaths.

Clearly, to overcome this crisis it will be necessary to create more and better jobs for women and men in Latin America and the Caribbean. This can have a direct impact on the improvement of social indicators, including those of poverty and inequality.

The ILO's message is that a broader, comprehensive, far-reaching, people-centred policy agenda needs to be adopted; it should, particularly, focus on the creation of formal employment. Without a set of coherent and far-reaching measures, the impacts of the crisis will be prolonged and will leave deep long-term social and labour scars in Latin America and the Caribbean.

The discouragement and frustration generated by difficulties in accessing decent work are often reflected in social unrest, which, in turn, affects stability, prosperity and even governance at all levels.

Vinicius Pinheiro
ILO Regional Director
for Latin America and the Caribbean

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Slowing economic recovery, accelerating inflation, and shrinking fiscal space threaten the path to improve the labour market and incomes

- After the sharp contraction of the economic activity level in 2020 of -7 percent, the region grew 6.2 percent in 2021, according to the latest estimates released by ECLAC.
- A significant slowdown of the growth rate is expected for 2022. According to ECLAC, it will be at around 2.1 percent.
- The slowdown in economic growth will be more evident in developing countries than in developed economies increasing the asymmetry between the two groups of countries.
- The evolution of the economic activity level during 2021 will not be enough to return to pre-pandemic values. According to ECLAC, only 11 countries out of 33 will have recovered said value by 2021 and 3 will do so by 2022. In other words, by the end of 2022, three years into the pandemic, more than half of the countries in the region will have a lower GDP compared to that of 2019. Moreover, 2019 closed the worst five-year period in Latin America in terms of growth since the GDP per capita contracted by 4 percent because between 2014 and 2019.
- The gradual normalization of economic activity coexists with an emerging acceleration of inflation that is pushing rates to levels not seen for some time in the region. This has led to a tightening of monetary policies and an increase of interest rates, hindering the path of economic recovery.
- These growing difficulties coexist with the persistent challenges of Latin American and Caribbean economies to overcome a situation structurally characterized by stagnation and inequality. This challenge will have to be faced with the double difficulty of reduced fiscal space and high levels of indebtedness, so the task ahead for the countries of the region will not be easy.

►► Nearly two years after the onset of the COVID-19 pandemic, in the third quarter of 2021, the employment rate and economic participation rate were still lower than the 2019 records, while the unemployment rate was higher than in that year.

In a complex macroeconomic context, the recovery of labour market indicators has been insufficient to return to pre-pandemic values

- Nearly two years after the onset of the COVID-19 pandemic, in the third quarter of 2021, the employment rate and economic participation rate were still lower than the 2019 records, while the unemployment rate was higher than in that year.
- When comparing the average figures for the first three quarters of 2021 with the same period two years earlier, we notice a lower employment rate by about 2.8 percentage points (54.9 percent and 57.8, respectively), a 2.2 percentage point lower economic participation rate (61.1 percent and 63.2

percent, respectively), and a 1.3 percentage point higher unemployment rate (10 percent and 8.7 percent, respectively).

- ▶ In addition, when analysing the evolution of the total volume of jobs from the onset of the pandemic until the third quarter of 2021, it is possible to size the magnitude of two opposing behaviours: the reduction in employment between the fourth quarter of 2019 and the second quarter of 2020 of over 49 million, and the subsequent partial recovery of about 44.6 million. **There are still 4.5 million jobs to be recovered in the region.** In the third quarter of 2021, the quantity of jobs was about 2 percent lower than in the fourth quarter of 2019.
- ▶ Given that the absolute number of people in the workforce in the third quarter of 2021 was similar to that observed prior to the outbreak of the pandemic¹, the quantity of jobs that have not been recovered is similar to the additional number of unemployed people. There were about 4 million more unemployed people in the third quarter of 2021 than in the fourth quarter of 2019.
- ▶ The asymmetry between the duration of the contractionary phase of employment and that of the recovery phase is evident. It will take more than 5 quarters to recover the total number of jobs lost in the region during the first two quarters of 2020.
- ▶ However, in most of the countries of the region, the speed of the employment recovery was similar or even faster than that observed in the level of activity. In fact, in some countries, both indicators -employment and activity- reached similar values by the third quarter of 2021, even though the initial contraction of employment was more severe than that of output.
- ▶ The third quarter of 2021 was the first quarter since the onset of the pandemic in which all countries with information available in the region experienced increases in their employment rates.
- ▶ The number of hours worked increased much more than that of the employment level, after having experienced a greater contraction than that of the volume of employment in 2020. Despite such recovery of hours, levels have not returned to pre-pandemic values.

The employment recovery has been more difficult for women and young people. However, there are many significant labour gaps that still persist

- ▶ **After enduring the most intense impacts of the crisis in 2020, the recovery of female employment has been more intense than that experienced by male employment. Likewise, the recovery of women's job opportunities was also more intense than that of men. In other words, during 2021, the difference between the employment rate of men and women did not widen, nor did the participation gap by gender.**
- ▶ Nevertheless, this dynamic has not been sufficient to offset for the greater job loss and the greater reduction in women's job opportunities in the first half of 2020. In the third quarter of 2021, the female employment rate was 5.6 percent lower than that observed prior to the onset of the pandemic. This gap was more than double compared to the one observed in the male employment rate. Meanwhile, the labour participation rate for women was 3.6 percent lower than that recorded in the fourth quarter of 2019 while for men this percentage difference was 1.4.
- ▶ Between the second quarter of 2020 and the third quarter of 2021, about 25.5 million jobs held by men were recovered. This figure was similar to the male job loss recorded between the fourth quarter of 2019 and the second quarter of 2020. However, of the 23.6 female occupations lost, around 19.3 million were recovered in the same period. In other words, more than 4 million jobs held by women have yet to be recovered.

¹ This is the result of a lower economic participation rate that is offset by a higher total volume of the working-age population during the two periods compared.

►► The major historical difficulties experienced by young people in the region's labour markets continue. They face greater labour intermittency that can be explained by the intense inflows and outflows of the workforce. Greater occupational instability, in turn, is associated with a higher prevalence of informal, precarious, low-skilled activities.

- In fact, as of the third quarter of 2021, the average unemployment rate for women is 12.4 percent, the same as in 2020, which shows that there has been no improvement, and that it must drop significantly to return to the 9.7 percent of the first three quarters of 2019.
- Almost two years into the pandemic, the employment situation of women in most countries in the region is worse than that of men in 2019. In this context, gender mainstreaming is becoming increasingly important in developing strategies to accelerate job creation, especially formal employment.
- The greater initial proportional loss of occupations among young people is a widespread phenomenon in the region. However, during the recovery phase, young people returned to employment faster than adults. When comparing the third quarter of 2021 and the same period of 2019, it can be seen that the regional employment rate of young people is the same (40.5) while that of adults drops almost 3 percentage points (61.1 and 64, respectively). This is partly explained by the behaviour of labour informality and the evolution of certain sectors with a higher advocacy of youth employment.
- Yet, youth unemployment continues to be of concern in the region and remains at unprecedented levels. Before the pandemic, it hovered around 18 percent, which was considered high. But with this crisis it quickly exceeded the 20 percent limit. As of the third quarter of 2021, the cumulative youth unemployment rate (15-24 years old) was 21.4 percent, a figure lower than the 23 percent of 2020. But there is still some way to go to return to pre-pandemic levels.
- The major historical difficulties experienced by young people in the region's labour markets continue. They face greater labour intermittency that can be explained by the intense inflows and outflows of the workforce. Greater occupational instability, in turn, is associated with a higher prevalence of informal, precarious, low-skilled activities. For adolescents who enter the labour market early and for young people with little work experience and less developed job skills, the high occupational turnover hinders the possibility of accumulating specific qualifications, thus hindering their future work experience. In contexts of low labour demand, less experience reduces their probability of accessing a job and increases their chances of being fired. This situation may be accompanied by an increase in the discouragement effect that results in lower incentives to look for a job and to start or continue studies.

Recovery led by informal occupations, but with an increasing contribution of formal jobs to employment growth

- The dynamics of formal and informal employments have differed from those noted in previous economic crises. Frequently, when formal employment falls, informal employment plays a countercyclical role and increases its level. But in this crisis, both formal and informal employment

experienced significant contractions, but the latter with greater intensity than the former. Therefore, this “traditional mechanism” was strongly weakened during the first half of 2020. This led to a significant reduction in the informality rate in the countries of the region at the height of the crisis, in mid-2020.

- ▶ However, the partial recovery of employment has been led by the growth of informal employment. These occupations have reported between 60 and 80 percent of net job creation between the second quarter of 2020 and third quarter of 2021.
- ▶ Nevertheless, the growth contribution of informal jobs has been declining from the third quarter of 2020 to the same period in 2021. Thus, the simple average of 7 countries in terms of the contribution of informal employment, in the first phase of recovery in the third and fourth quarters of 2020, was 80 percent, and around 70 percent in the third quarter of 2021.
- ▶ In countries that have returned to the pre-pandemic employment rate, or are very close to it, the informality rate is no higher than in 2019, despite the increasing trend of this indicator after the sudden contraction in the second quarter of 2020.
- ▶ This has been partly associated with more formal paid jobs in the private sector, especially during 2021. However, only in the last few months have about half of the countries reached the same or similar levels of early 2020. This data is based on information taken from administrative records.
- ▶ But countries that still show significant differences with regard to the volume of occupations registered in 2019 could experience a closing of this gap with higher informality rates than those observed in that year.
- ▶ Unless a significant number of formal jobs are created to recover the workforce, the risk of increases in the rate of labour informality will continue. Moreover, in contexts of sharp contraction of family income, some family members may enter the labour market for the first time to try to overcome, at least partially, the loss of family monetary resources. Therefore, it is necessary to implement policies not only to retain existing formal employment but also to support the creation of new formal jobs in the region.

Moderate adjustments to minimum wage and unfavourable performance of real average incomes

- ▶ By 2020, some countries had already made periodic adjustments to the minimum wage, prior to the pandemic. Other countries that used to make irregular adjustments postponed the decision for the following year or adopted moderate adjustments. In 2021, moderate readjustments of the nominal value of the minimum wage prevailed.
- ▶ In addition, in 2021, several countries in the region experienced significant increases in their inflation rate. If this trend consolidates, it may lead to future falls in real wages and to an increase in the distributive bid, as long as the readjustments of this institution do not keep pace with inflationary dynamics.
- ▶ During 2021, negative (or positive but close to zero) variations continued to be observed in the real average earnings of those who remained employed. In a context of accelerating inflation, there is an increased risk that salaries will continue to lose purchasing power.

The increase in the total mass of real labour income in 2021 did not fully offset the contraction experienced in 2020

- ▶ Increase in employment between the second and fourth quarters of 2020 and the second and third quarters of 2021 generated a positive variation (or reduced the fall risk) in the total mass of labour

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incomes. Despite this, the indicator in 2021 was still in the vast majority of countries, below the aggregate labour income generated by the end of 2019.

- In the third quarter of 2021, the percentage of households without any labour income exceeded those recorded prior to the onset of the pandemic, even if there was an increase compared to 2020 due to the partial recovery of employment.

The COVID-19 pandemic intensified trends toward greater digitalization, generating new opportunities and challenges in the labour markets of the region

- The COVID-19 pandemic intensified the trends towards greater digitalization and there is agreement that in the future the influence of digital technologies will be even greater than in the past. Although this process is taking place within a framework of great uncertainty, there seems to be no doubt about the significant impact that new technologies have and will have on different dimensions that affect the well-being of societies.
- Two of the clear manifestations of technological progress during the pandemic have been the significant increase in teleworking and digital labour platforms.
- Teleworking allowed a number of companies to continue their operations and certain groups of workers to maintain their employment relationships. However, the transition from face-to-face to remote work involved challenges for companies and workers, who had to quickly implement new working methods during lockdown.
- Work based on digital platforms increased significantly amidst the pandemic and the measures implemented to prevent the spread of the virus. Because many delivery activities were considered "essential", digital platform workers continued working due to an increasing demand for their services. But along with the employment opportunities created by digital platforms, there are significant challenges to guarantee labour rights and social protection for these workers in the region.
- There is a clear need to adapt the content and scope of vocational training in order to improve the match between the supply and demand of skills, develop skills required in the future and reduce the disruptive impacts of technology on labour markets.
- The region's agenda for digital transformation is as necessary as it is demanding and intensive in terms of public policies that help to remove the obstacles that stand in the way of this transformation and to ensure that this transition leads to the creation of more and better jobs.

- ▶ New technologies can be very valuable tools in the design, implementation, monitoring and evaluation of different strategies and policies to recover decent employment. Technology can facilitate greater coverage of social protection, simplify worker registration, improve access to financial services, strengthen skills development and improve training systems to reach those in the informal economy, support labour inspection, and encourage and facilitate compliance with labour laws.

Outlooks: high unemployment and labour informality in a context of a slowdown in economic recovery, accelerating inflation, and less fiscal space. An ambitious set of far-reaching policies focused on people and, in particular, on the creation of formal employment is required

- ▶ The average unemployment rate during the first three quarters of 2021 was 10 percent, a lower figure than that observed for the same period in 2020: 10.7 percent. **The forecast average for 2021 is around 9.6 percent.** This represents a reduction compared to the 2020 value (10.6 percent) but an increase compared to the 2019 record (8 percent).
- ▶ The 2022 forecast indicates that the recovery of Latin American and Caribbean economies observed in 2021 slows down significantly. There is still uncertainty about the possible trajectory of the effects associated with new outbreaks of the COVID-19 pandemic, as well as the effects that a period of higher interest rates and discontinuity of the fiscal stimulus observed until 2021 may have on aggregate demand and labour markets in the countries of the region.
- ▶ In this regard, **by 2022 the regional unemployment rate is likely to decrease slightly, between 0.1 and 0.3 percentage points, remaining above 9 percent.** However, besides the aforementioned factors, this value will be strongly influenced by the behaviour of the labour supply in a context where the participation rate is still lower than the pre-pandemic value.
- ▶ This means that the unemployment rate in 2022 will still be higher than the average value experienced in 2019 (8 percent). This value was already 1.9 percentage points higher than the value registered in 2014, the lowest record since 2010 in the region.
- ▶ In addition, there has been a significant increase in the average length of unemployment episodes as a result of this crisis. Moreover, this increase was verified even during 2021 when the unemployment rate experienced a decreasing trend. This picture is even more worrisome when considering that most of the job loss were from informal workers who do not have access to an unemployment insurance when they are unemployed. In most cases, this represents the loss or reduction of the most important source of individual and family income.
- ▶ In addition, extended periods of unemployment may come with a reduction in other available sources of income, but also may deteriorate the worker's human capital and thus reduce the likelihood of finding a job in a near future.
- ▶ In the third quarter of 2021, the informality rate was almost 49 percent, similar to the record of 2019 and to that of 2012. In other words, around one out of every two workers in the region is informal. The stability of this record at an extremely high value over almost a decade reveals that labour informality continues to be one of the most important challenges in the labour markets of the region. Moreover, in a context of lower economic growth projected for 2022, the lower intensity of job creation may bias employment towards the generation of informal jobs.
- ▶ According to the projections included in the recently published "World Employment and Social Outlook Trends 2022", ILO (2022), the average weekly hours worked in the population aged 15- 64 in the region for 2022 (25.5) will continue to be lower than those recorded in 2019 (26.0).

- ▶ Likewise, the negative impact on real wages and income distribution of the aforementioned increased inflation rates in Latin America and the Caribbean is another factor that affects the possibilities of the region's countries to consolidate the recovery of their economies. It should also be noted that, in most cases, the acceleration of inflation has been driven by the increase in food prices, which aggravates the consequences on poverty and inequality indicators that were already in a process of marked deterioration even before the pandemic.
- ▶ In view of this critical context, it is necessary to continue with some of the measures implemented in the region in 2020 and 2021, but more importantly to adopt a broader agenda of comprehensive and far-reaching policies focused on people and, in particular, on the creation of formal employment. Without a set of coherent and far-reaching measures, the impacts of the crisis will be prolonged and will leave deep long-term social and labour scars in Latin America and the Caribbean. The different speeds of employment recovery among various groups of workers and the high levels of inequality and poverty may not only severely limit economic growth, but may also aggravate the degree of social unrest in the region.

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