

Brazil boosts jobs and lowers unemployment

Contributed by Euromonitor International
Friday, 15 February 2008
Last Updated Friday, 11 July 2008

Author: An Hodgson - Date published: 3 Oct 2007

Since 2003, labour market indicators in Brazil have improved. Unemployment has fallen, amid stronger economic growth and additional job creation. Real average wages have risen, lifting household incomes and enabling the expansion of a new lower-middle class. The result has been an explosion in the domestic consumer market.

Issue

Employment growth, an upward adjustment of real wages and an expansion of private sector credit have boosted household purchasing power, stimulating rapid growth in the domestic consumer market.

However, labour market trends are not all benign. An already-swollen public sector has been expanded further. There are concerns about the quality of the jobs being created in the private sector. The informal sector also remains extensive, in no small part due to Brazil's restrictive labour laws.

Importance
Brazil is the second most populous country in the Western Hemisphere (after the USA):

In 2006, the population was 189.3 million. It will rise to 220.0 million by 2020; The working age population (aged 15-64) was 125.0 million in 2006 and will rise to 147.8 million by 2020.

The steady expansion of the working age population creates an urgent and ongoing need for additional employment creation, in a country with a traditionally high rate of unemployment and a very large informal sector (estimated at up to 55% of the workforce).

Since President Lula da Silva took office in 2003, unemployment has fallen, amid stronger economic and employment growth:

In 2003-2006, real annual GDP growth averaged 3.4%, up from 2.1% in 1999-2002; In 2006, the rate of urban unemployment (the average of six metropolitan regions) was 10.0%, down from 12.3% in 2003. In July 2007, it was 9.5%; The employed population rose to 83.2 million in 2006, up from 78.5 million in 2003; About 65% of the labour force works in the services sector, 20% in agriculture and 15% in industry.

The proportion of employed women has grown and is gradually approaching half of the labour force:

In 2006, there were 35.4 million working women, up from 31.5 million in 2002. Women accounted for 42.5% of the employed population in 2006, up from 39.3% a decade earlier.

Following several hikes to the minimum wage since 2003, helped by declining inflation and interest rates, real average wages have slowly risen:

In 2003-2006, the minimum wage rose by 13.2% annually in real terms.

Despite the predominance of informal employment, formal waged employment is gradually increasing. Some of this may be linked to the formalisation of existing jobs, in line with government efforts to bring more people into the official labour force, where they pay taxes and become eligible for social security and pensions benefits.

Â

Formal employment, real average wage and real minimum wage: 2003-2006% annual change
Source: UN Commission for Latin America and the Caribbean (ECLAC). Index=2000. Implications

Lower unemployment, higher total employment and a rise in real wages have helped lift household incomes and broaden the base of the emerging lower-middle class.

In the period 2002-2006:

Per capita annual disposable incomes rose 3.1% in real terms; The number of households with annual disposable

incomes over US\$15,000 rose 36.0% to 3.8 million, accounting for 7.4% of the total.

In line with this, there has been rapid growth in consumption, helped by the expansion of private sector credit:

Domestic credit to the private sector was worth an estimated 38.1% of GDP in 2006, up from 30% in 2003.

Labour market trends are not all benign. The already-swollen public sector has been expanded further. There are some concerns about the quality of jobs being created in the private sector, with fears that higher-skilled industrial jobs are being replaced by lower-skilled ones in the thriving commodities sector.

The rise in the minimum wage has made low-skilled labour more expensive. This raises costs for employers and encourages informality. Moreover, Brazil's labour laws remain rigid and inflexible. As a result, productivity levels are comparatively low on a regional basis:

In 2006, labour productivity in Brazil (US\$ per person employed) was US\$12,830, significantly lower than in Chile, Mexico and Venezuela.

Despite the rise in real average earnings, there are significant wage differences between sectors and types of employment (e.g. between public and private), in addition to regional disparities.

Â

GDP, private consumption, gross fixed capital investment and unemployment: 2003-2006. Source: National statistics
Note: Unemployment refers to average annual rate of six metropolitan areas. Eap = economically active population. Future scenarios

Near-term prospects for the labour market are generally positive, amid steady projected growth in domestic demand:

Domestic demand accounted for 77.2% of GDP in 2006; In Q2 2007, real GDP rose 5.4% annually, a three-year high, driven by private consumption and fixed capital investment, which rose 5.9% and 13.8% in annual terms respectively; Average real annual GDP growth is forecast at 3.7% in 2007-2011.

Higher private sector investment will encourage employment creation. However, moving forward, unemployment rates may be slower to fall, as more young people enter the labour force.

Growth in employment, real wages and credit will underpin consumer confidence and encourage higher expenditure. Rising disposable incomes will encourage demand for a wider variety of consumer goods and services.

Brazil's outmoded labour regulations, including high non-wage costs, a lack of flexibility and a strongly unionised culture, act as a deterrent to the formalisation of the labour force. Yet successive governments have declined to implement much-needed labour reforms.

This leaves Brazil's large informal labour force - and the businesses that serve it - vulnerable to any sudden downturn in economic growth.

[Link to Euromonitor Homepage](#)

Â

Â

Â [Print this page](#) [E-mail a friend](#)

For further detail about this article and other related findings, please visitÂ [Euromonitor International](#) by clicking here.

Â