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Employment Situation in Latin America and the Caribbean

Real wages during the pandemic:
trends and challenges



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International
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**COVID-19
RESPONSE**

Employment Situation in Latin America and the Caribbean is a twice-yearly report prepared jointly by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC) and the Office for the Southern Cone of Latin America of the International Labour Organization (ILO), headed by Daniel Titelman and Fabio Bertranou, respectively.

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Foreword

The economies of Latin America and the Caribbean grew by 6.6% in 2021 and the region's main labour indicators also improved, including rises in employment and the labour force participation rate, and a decline in the unemployment rate. However, as the first section of this report highlights, the recovery has not only been slow, but also partial and uneven.

Following a historic fall of 8.2% in the number of employed in the region in 2020, from the fourth quarter through to the same quarter of 2021 there was significant growth of 6.8%. Despite this considerable increase in employment over 2021, the number of employed persons in the region did not regain the year-end 2019 level until the fourth quarter.

Furthermore, in the countries of the region, employment has lagged behind economic activity in terms of the return to pre-pandemic levels. By the end of 2021, the vast majority of countries' GDPs had recovered pre-crisis levels, but in many cases employment levels remained lower. As in other crisis situations, the relation between employment and economic activity is key to implementing better and more timely labour policies. In that regard, this lag in the employment recovery suggests that efforts must be made to strengthen instruments that facilitate people's return to the labour market.

The crisis triggered by the coronavirus disease (COVID-19) pandemic hit women's employment harder, leading to a reversal in their participation rate equivalent to more than 18 years of rises. The first part of this report explains how the labour market recovery has also been unequal, to the detriment of women; although employment and participation have recovered for both men and women, the improvements have been larger for men. This marked difference in the patterns for total participation rates are largely explained by the subdued recovery in activities that account for a larger share of female employment and the larger burden of care tasks shouldered by women in caring for the sick, children and older persons.

By categories of workers, the fastest year-on-year employment growth rate in 2021 was 9.9% for own-account workers, 4.2 percentage points ahead of the 5.7% for wage earners. Despite this, at year-end 2021, informal employment had not yet returned to pre-crisis levels, mainly owing to a slow recovery in activities that account for the bulk of such employment and the lower participation rate for women.

As the first section of this report describes, the pace of job creation is expected to slow in 2022, although progress with vaccinations, fewer movement restrictions and reopening of schools are expected to drive a recovery in participation, especially among women. However, the combined effect of higher labour force participation rates and slow job creation could drive the unemployment rate up over the year.

The second section of the report outlines how the health crisis caused by COVID-19 has severely affected wage trends in the region. Firstly, the impact of recent rises in inflation has been most clearly reflected in real minimum wages, with a decline in purchasing power in 2021. This situation may worsen in 2022, when inflation is expected to accelerate even further. Secondly, average real wages in the region in 2021 were 6.8% below pre-pandemic levels, a larger gap than for economic activity or employment. Moreover, it has been found that the real wages of the most vulnerable groups during the pandemic—such as women, young people, wage earners in service sectors and those with less schooling—have followed paradoxical patterns. Because job losses were more prevalent among the most vulnerable during the pandemic and because of the resulting employment structure effect,

although there were falls in the average real wages of the most vulnerable, they were less pronounced than those for other groups of wage earners. Another finding in this report is that those working in domestic service, mainly women, have been one of the most affected groups during the pandemic, both by job losses and by a proportionally larger fall in real wages compared to other wage earners.

The report stresses that it is vital to deploy institutional instruments, such as collective bargaining and minimum wages, to enable discussion of wage adjustments at the level of productive units and branches of activity, to meet the needs of both workers and companies. The document also underscores that policies aimed at the most vulnerable groups, which enable people to join the labour market as wage earners—such as hiring subsidies— will not only contribute to a faster recovery in their employment, but will also prevent wage conditions becoming more precarious than before the pandemic.

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I. The employment situation in 2021

Introduction

In 2021, the economies of the region grew by an average of 6.6% compared to 2020. This was a result of the global recovery in economic activity and, at the country level, progress with vaccination campaigns and easing of physical distancing measures to combat the spread of coronavirus disease (COVID-19), as well as sizeable fiscal and monetary stimulus packages implemented throughout the region to support the socioeconomic sectors most affected by the crisis.

In this situation, the region's key labour indicators also improved in 2021: there were rises in regional employment and the labour force participation rate, and a fall in the regional unemployment rate.

However, the recovery in employment was slower than the recovery in activity. While most countries had returned to pre-crisis gross domestic product (GDP) figures by the fourth quarter of 2021, in several economies employment was still at pre-pandemic levels. This sets the COVID-19 crisis apart from others, as in previous crisis periods employment generally recovered much earlier than economic activity.

The crisis has had a more severe impact on female employment, with a large drop in participation. What is more, labour market recoveries have also been unequal to the detriment of women; while employment and participation have improved for both men and women, the upswing has been greater for men. Similarly, the regional unemployment rate for men has fallen more than the rate for women. The greater burden of care work shouldered by women, together with limitations during the pandemic on in-person schooling and care services, have undoubtedly led to a widening of the enduring gender gaps in the region's labour markets. One contributing factor to the different recovery patterns for men and women has been the lag in improvement in activity in sectors such as commerce and services, which tend to account for a larger proportion of female employment.

In 2021, growth in own-account work outpaced that in wage employment. However, by the end of 2021, informal work remained below pre-crisis levels, owing to a slow recovery in activities that account for the majority of such work. One last aspect highlighted in the first chapter of this report is the significant impact of rising inflation on workers' real wages, and especially on the wages of those with lower incomes, given the considerable hikes in food and energy prices.

A. The region's labour markets showed signs of a recovery

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