



International
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► COVID-19 Edition

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► 2020 LABOUR OVERVIEW

Latin America
and the Caribbean

Executive Summary



ILO Regional Office
for Latin America and the Caribbean

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► Foreword

Over the past 10 months, the labour markets of Latin America and the Caribbean have regressed at least 10 years, and the crisis is far from over. We are arriving to 2021 with employment in intensive care and with the difficult but inescapable mission of laying the foundations for a new and better normal.

When the history of employment in Latin America and the Caribbean is written, 2020 will be the year that marks the before and after. The ILO's annual *Labour Overview* report records this impact. The result is a rarefied scenario, with high unemployment rates, an alarming increase in inactivity and persistent decent work deficits.

Labour markets were affected by the strong economic contraction, which the IMF estimated at -8.1 per cent and which the ECLAC echoed this week, with an estimated decline of 7.7 per cent. Additionally, the health emergency and the measures applied in the countries to contain the virus sharply curtailed productive activities.

This 2020 edition of the Labour Overview was preceded by a series of national and thematic reports released throughout the year as part of the *Labour Overview in times of COVID-19* series that included technical studies on countries such as Uruguay, Peru, Argentina, Mexico, Paraguay and Chile, and on specific topics such as vocational training, social protection, rural employment and just transition.

The report is divided into two parts. The first contains the Labour Report, which includes the most recent data on the pandemic's impact on the labour market. The second part is a feature article that discusses "Policy challenges and trends arising from the COVID-19 crisis."

The first thing one notes when reading the *2020 Labour Overview* is the significant increase in the unemployment rate, which is expected to reach 10.6 per cent by year-end, that is, 2.5 percentage points higher than last year. This means that the number of job seekers who are unable to find work has increased by 5.4 million, to 30.1 million.

Nevertheless, in such a sudden, unparalleled crisis, unemployment tells only part of the story. The truth is that this indicator would have grown even more if it were not for an unprecedented reduction of -5.4 percentage points in the labour force participation rate, which declined to 57.2 per cent for the third quarter of 2020, from 62.6 per cent for the same period in 2019.

This means that some 23 million men and women were inactive and stopped seeking employment given the lack of opportunities in the context of the pandemic.

Just over half of the newly inactive, 12.2 million, were women, and six million were youth aged 15 to 24. The youth unemployment rate also rose 2.7 percentage points, to 23.2 per cent, a level never before recorded, and which means that one in every four youth was unemployed as of the third quarter of 2020.

The *Labour Overview* notes that the crisis has evolved, with perhaps the worst moment occurring in the second quarter. Consequently, the data included in the report already reflect an incipient recovery in activity in the third quarter. The report also points out the varied performance of the different countries.

This ILO publication also reports that in 2020, total wage and salaried employment and own-account employment fell -6.8 per cent and -8.9 per cent, respectively. The health crisis also affected other types of employment status, such as employer (-9.8 per cent) and domestic service (-19.4 per cent).

Additionally, the service, manufacturing and construction sectors were seriously affected. The contraction in employment was particularly acute in service sectors such as hotels (-17.6 per cent) and trade (-12.0 per cent). The health crisis also had a major impact on employment in construction (-13.6 per cent) and manufacturing (-8.9 per cent). The smallest decline in employment was observed in agriculture (-2.7 per cent).

The second part of the *Labour Overview*, the feature article "Policy challenges and trends arising from the COVID-19 crisis" addresses key issues for understanding some dimensions of the impact on labour markets.

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It discusses the challenges and innovations occurring in vocational training, social protection, support for micro, small and medium-sized enterprises (MSME) and the implementation of labour inspections.

The impact of this crisis on accelerating trends is also reviewed, especially in two forms of work organization that experienced rapid development and that pose a series of challenges, such as work on digital platforms and teleworking.

The feature article also outlines the types of policies that governments implemented to address the health emergency and its most immediate economic consequences with a view to supporting businesses, maintaining jobs and compensating for the serious reduction in labour income.

Finally, the ILO report contains a chapter on "Policies for a labour recovery from the COVID-19 crisis," with several recommendations for moving forward to 2021 and beyond.

Without a doubt, this is the most serious labour crisis on record since the ILO began to publish its annual report on Latin America and the Caribbean in 1994. It has provided some lessons learned that are important for finding solutions.

First, there is no dilemma between preserving health and economic activity. Without health, there is neither production nor consumption. Occupational safety and health is now a key issue for reactivation.

Another important lesson is that social dialogue is more relevant than ever since it enables consensual strategies to address the crisis, the application of which will be agreed upon by constituents. This is crucial given the daunting challenges that lie ahead.

Also, we are now aware that we must deal with "pre-existing conditions." The crisis hit this region particularly hard, even more than others in the world, owing largely to existing structural problems. These include the persistent lack of fiscal space, gaps in social protection coverage and high levels of social inequality and labour informality, which underscored the precariousness of large sectors of our societies.

Finally, the *Labour Overview* offers projections for 2021, when there are moderate growth prospects, in a context of great uncertainty since the pandemic is still present, and infection and death rates remain high in several Latin American and Caribbean countries.

Many people who were inactive in 2020 will begin to look for work when the economy recovers, or when they need income. This will undoubtedly affect informality and unemployment levels. In this scenario, the unemployment rate could continue to rise, potentially reaching 11.2 per cent.

This indicates that the road to a new and better normal will be neither easy nor short. That is the legacy of 2020, the year we have lived with COVID-19.

Vinicius Pinheiro
ILO Regional Director
for Latin America and the Caribbean

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The region's GDP growth projections reflect the progression of the unprecedented effects of the COVID-19 health crisis on the economies of the region. For 2020, estimates point to a contraction of the regional economy of around -8 per cent, and for 2021, a growth rate of 3.5 per cent.

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The average unemployment rate during the first three quarters of 2020 (10.6 per cent) was higher than that observed for the same period of 2019 (8.7 per cent). The unemployment rate for the year is expected to be 10.6 per cent. This figure only partially reflects the impact of the pandemic on regional labour markets, which were significantly affected by trends in regional labour force participation rates and employment-to-population ratios. Large numbers of people preferred to remain unemployed rather than look for non-existent jobs, and this helped to moderate the effect on unemployment.

For 2021, the economies of the region are expected to recover, although in a context of uncertainty. Even if the pandemic is controlled during 2021, health measures could once again have an impact on labour market indicators such as the labour force participation rate, employment-to-population ratio and the unemployment rate, as well as on the sustainability of enterprises.

Additionally, the large contingent that left the labour force is expected to return. This will likely drive up the regional unemployment rate for 2021, which could reach 11.2 per cent.

Strong impact of the health and economic crisis on labour indicators in the region

The regional and subregional analysis clearly demonstrates the severe impact of the health and economic crisis on labour market indicators in Latin America and the Caribbean. In the first three quarters of 2020, compared with the same period of 2019, both the labour force participation rate and the employment-to-population ratio experienced a significant contraction: -5.4 and -6.0 percentage points, respectively. This means that nearly 10 per cent of jobs in the region were lost, causing many people to leave the labour force.

In the same period, and because of the more pronounced contraction of the employment-to-population ratio compared with the decline in the labour force participation rate, the unemployment rate rose 1.9 percentage points, reaching 10.6 per cent, the highest level recorded in recent decades.

Moreover, the labour force participation rate and the employment-to-population ratio declined in all subregions and countries, although at varying levels. Rising unemployment rates affected almost every country in the region, although also at different magnitudes, again reflecting the region's significant heterogeneity.

The health crisis had a more profound effect on the labour indicators of women and youth

During the health crisis, the contraction in the labour force participation rate of women in the labour force (-10.4 per cent) was more pronounced than that of men (-7.4 per cent). This decline in female labour force participation is significant considering the progress observed in women's participation in the region's labour markets in recent decades. Among other factors, the timely provision of care services (children, the sick, the elderly) and the return to in-person schooling will largely condition the return of women to the workforce in the short and medium terms.

The employment-to-population ratio by sex experienced a similar trend. The impact of the health crisis was greater on the employment-to-population ratio of women (-12.3 per cent) than on that of men (-9.3 per cent), in a context in which more jobs were lost in the service sector, which has a larger share of women workers. Finally, unemployment rose at a similar rate for both sexes.

In terms of youth, the labour force participation rate and employment-to-population ratio fell by approximately -5.5 percentage points, to 42.7 per cent and 33.0 per cent, respectively, while the youth unemployment rate increased by 2.7 percentage points, higher than the increase among adults. The regional youth unemployment rate reached 23.2 per cent during the pandemic. This means that nearly one in four young people who participates in the labour market is unemployed in the region.

Wage, non-wage and registered employment falls sharply

The health crisis had a profound impact on employment in terms of both wage and non-wage employment. Total wage and salaried employment and own-account employment fell -6.8 per cent and -8.9 per cent, respectively, in 2020. The health crisis also affected other types of employment status, such as employer (-9.8 per cent) and domestic service (-19.4 per cent). Registered employment declined sharply at the beginning of the health crisis, decreasing to its lowest level in May, and has since either partially recovered or remained stagnant.

Service, construction and manufacturing sectors severely affected

The 2020 health crisis had a major impact on employment in the service, manufacturing and construction sectors. The contraction of employment in 2020 was especially marked in service sectors such as hotels (-17.6 per cent) and trade (-12.0 per cent), in contrast with 2019, when these sectors recorded higher growth rates than other economic sectors. The health crisis also had a significant impact on employment in construction (-13.6 per cent) and manufacturing (-8.9 per cent). The smallest decline in employment was observed in agriculture (-2.7 per cent).

Policy challenges and trends arising from the COVID-19 crisis

The second part of the Labour Overview analyzes the policy challenges that the COVID-19 crisis has posed for labour markets.

The first section of the analysis presents stylized information on policies to support employment and income in the context of the pandemic. To sustain the labour relationship, payroll subsidies were granted, unemployment insurance was extended to cover the situation of suspension or reduction of working hours and, more recently, subsidies were applied to encourage rehiring. Cash transfers also played a fundamental role in compensating for the loss of household income owing to the pandemic. The main challenge in this area was to reach a segment of the population not traditionally covered by this type of

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programme, and to quickly implement wage subsidies and cash transfers. It was not enough to adapt existing programmes; rather, significant innovations had to be introduced to broaden coverage of people and situations.

The crisis led several countries to introduce policy innovations as part of their mitigation strategies. Some of these changes will be useful beyond the current crisis and constitute improvements that should be institutionalized. In the area of vocational training, given the impossibility of providing in-person classes and training activities, the distance training offer was expanded based on existing digital platforms, along with others developed in response to the new context. Consolidating this change requires the broader incorporation of digital technologies in anticipating demand, developing programmes, implementing training and evaluating impact.

In the case of unemployment insurance, an innovation that could be institutionalized to make it available throughout the usual economic cycles is coverage of situations such as suspension of contracts or reduction of working hours to avoid layoffs and to facilitate the reactivation process.

Although most labour inspections have continued during the health restrictions, online activities have increased significantly, reserving face-to-face visits for the verification of biosafety conditions in workplaces, among other issues. This experience can help accelerate institutional modernization processes to enable the development of more efficient labour inspection systems.

Regarding micro, small and medium-sized enterprises (MSME), a key innovation was the development of programmes to help digitize their business models and take advantage of the growth opportunities of e-commerce. Pandemic-response policies also led to improvements in the management of administrative records. Taking advantage of this achievement will be crucial for designing and monitoring labour policies as well as for formalizing employment.

Even before the pandemic, digital and technological innovations were transforming the world of work. The pandemic accelerated some of these processes. Digital delivery platforms experienced increased demand due to restrictions on the population's mobility. Despite a series of measures adopted by governments and platforms, digital workers still face precarious working conditions that need to be addressed.

Teleworking was another process that accelerated with the arrival of the pandemic. Social distancing measures showed that teleworking was possible in many occupations and that the implementation of this modality was satisfactory from a productivity standpoint, as was the work process itself. However, teleworking during the pandemic acquired several characteristics that differed from the usual concept of teleworking. Once the emergency is over, each country should review its regulatory framework in the light of experience and should address key issues required to achieve good practices.

Finally, even if it is possible to return to the path of growth begun prior to the pandemic, this development trajectory will clearly fall short. While growth is expected to accelerate in 2021, initially, it will primarily represent a rebound from extremely depressed levels. Foreign trade will perform well but will be insufficient to stimulate the entire economy. In some economic sectors, more specialized niches are

The unemployment rate

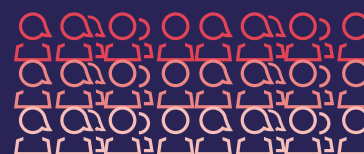
By the end
of 2020

will reach the highest level
recorded in recent decades at

10.6%

Around 30.1

MILLION
people are
unemployed*



* Estimate based on CELADE data.

expanding, which can provide opportunities for economic activities and new ventures that can be incorporated in some global supply chains. The increase in e-commerce also offers opportunities for small producers in some supply chains to reach end consumers directly, thus dispensing with intermediaries and increasing their share of added value. To take advantage of these opportunities created by the “forced digitization” caused by the pandemic, it is essential to close digital gaps between countries, between urban and rural areas, and between workers of different socioeconomic levels.

In addition to exports, sustainable, inclusive economic growth requires stimulating investment and private consumption. Public investment should enhance this process, with an added focus on job creation. Private investment in strategic areas for long-term growth should also be promoted, such as investments in environmentally friendly activities, for example. Regardless of the combination of reactivation and recovery policies agreed upon and adopted at the national level, the impact on employment will largely depend on employment policy strategies and the development of labour institutions.



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