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A LOOK AT LABOR PRODUCTIVITY IN BRAZIL

The feeling is similar to that of an island of prosperity next to a continent in full drought. Brazil's labor market is undergoing an unparalleled phenomenon in relation to other countries, being one of the few to maintain an unemployment rate close to full employment: 5.6% according to the latest survey conducted in February by the Brazilian Institute of Geography and Statistics (IBGE).

This phenomenon was one of the factors that protected Brazil's economy against the negative global-activity cycle. Additionally, it was the main element for expanding consumption and credit. And, in political terms, it can be considered what guaranteed the Workers Party's victory in the last two elections.

However, the accelerated evolution in unemployment rate, coupled with inefficiencies in Brazil's economy, have pressured labor productivity¹, increasing the labor cost of Brazilian companies in a symptomatic manner. This higher cost is basically due to real salary gains that are calculated discounting inflation or a price index, pursuant to collective-bargaining agreements entered into by worker unions and companies in each region and economic sector.

According to SAS-Dieese, the real salary gain in 2012 amounted to around 2%. See the graph example, which shows that, considering the 6.19% INPC inflation rate measured by IBGE in 2012, plus the 2% average real

gain, the salary adjustment that companies faced having to give employees surpassed 8.0%. The important thing here is that there is no company capable of supporting such evolution for a very long time.

Following this quantitative assessment, we observe in a descriptive manner the negative impacts of salary adjustments on the productivity of Brazilian companies, in view that companies need to produce more with the same *quantum* of production factors.

Coupled with this reduced labor productivity trend, the reduction in unemployment implies in another Brazilian phenomenon, which is increased labor turnover and lack of qualified professionals.

These two symptoms have increased salaries of new hires. Labor-intensive sectors, such as the pulp & paper and metallurgical industries were the most affected. For these industries and other segments with similar characteristics, productivity dropped drastically and compromised the profitability of companies as seen in financial statements published for the first quarter of 2013.

Without perspectives of changing in the short term, the labor market is another delicate and unfavorable factor for companies. The first salary readjustment negotiations seen in the early months of 2013 lead us to believe that readjustments will be slightly lower than in 2012.

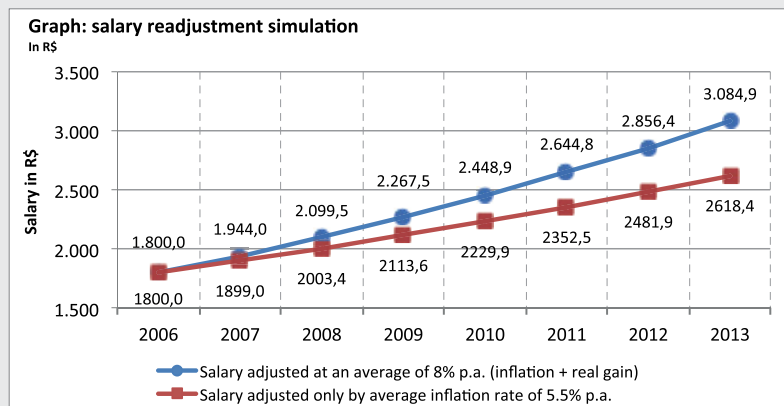
The ideal situation for minimizing the effects of increased labor costs would be to expand productivity by incorporating new technologies and investing in labor qualification, as well as reducing payroll charges.

Some actions were developed at the federal level, such as payroll exemption², but there exists margin for more positive actions, such as including costs with employee healthcare plans among expenses that are income-tax deductible for companies subject to taxable income that pay taxes on a monthly basis. This is just one more example that would contribute to the productivity of companies.

Note: for readers who work in the labor areas of companies, it is important to include on the negotiation table the following arguments: weak GDP growth, increase in imports, the international crisis and the reduced profitability of companies. ■

¹ Productivity is defined as the direct relationship between production and production factors (labor, capital and others) utilized in the productive process

² Law #12,546, December 14, 2011, which eliminates the current Social Security contribution over payroll and adopts a new contribution over the gross revenues of companies (less export revenues), in consonance with Federal Constitution provisions



Source: IBGE. Prepared by author
Note: this simulation is merely for didactic purposes