Living Wage Update: July 2019

Rural Brazil
Southern and Southwestern Minas Gerais

Living wage per month
R$ 1,650 (USD 424)

Cost of decent standard of living for a family
R$ 3,036 (USD 780)

Coffee farmer, Brazil © Rainforest Alliance

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Under the Aegis of Fairtrade International, GoodWeave International, Rainforest Alliance, and Social Accountability International, in partnership with ISEAL Alliance and Richard Anker and Martha Anker
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1. BACKGROUND

This report updates the living wage and living expenses for the coffee producing region of Southern and Southwestern Minas Gerais State in Brazil.2

The net living wage and living expenses are updated to the study month of the most recent calendar year – July 2019 – to take into account the amount of inflation since the last update report for July 2018. Without accounting for inflation, the net living wage estimated in 2015 and updated in 2018 would not be sufficient for workers to have a basic but decent standard of living in 2019 because the purchasing power of the living wage would have decreased. Similarly, living expenses for a reference family are also updated to July 2019 to account for inflation.

The gross living wage is updated to July 2019 by taking into consideration in addition income taxes and mandatory deductions from pay that workers would need to pay on the updated 2019 living wage. This is done using July 2019 laws.

2. LIVING WAGE AND LIVING EXPENSES FOR REFERENCE SIZE FAMILY IN ORIGINAL COUNTRY REPORT IN JULY 2015 AND IN THE UPDATE REPORT FOR JULY 2019

The net living wage was estimated as R$1,267 in July 2015 and R$1,468 in July 2018 in the original living wage country report and in this update report, respectively. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security and union dues, was estimated as R$1,414 in July 2015 and R$1,596 in July 2018. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as R$2,534 in July 2015 and R$2,936 in July 2018 by the update report.

1 Prepared by Ian Prates with Richard Anker and Martha Anker.
3. INFLATION RATE USED FOR UPDATE

The Brazilian Institute of Geography and Statistics (IBGE) is the government body responsible for computing and reporting price indexes in Brazil. It reports two main consumer price indexes: (1) IPCA, for broader consumption, and (2) the INPC, which is a restricted price index applicable for families with a maximum income of five times minimum wage which is relevant for most workers.

IPCA covers families with monthly incomes ranging from one to forty minimum wages, and is typically used to update balance sheets and financial statements of companies.

INPC covers families with monthly incomes ranging from up to five minimum wages ($5 \times R$ 998 = R$ 4,990), and is the most widely used indicator for wage agreements and negotiations.

This report uses the INPC to update the living wage as it is more representative for workers. INPC is estimated for ten metropolitan areas in Brazil, and their weighted average is used to arrive at the national INPC value. There are no separate values for states or for rural/urban areas, and because none of the ten metropolitan areas are representative of Southern and Southwestern Minas Gerais, we use the INPC national average to update the living wage for Minas Gerais.

4. RECENT LEVEL OF INFLATION

Although Brazil had high rates of inflation in 2015 and 2016, there has been a steady decline in year-on-year inflation rates from August 2016 onwards. In more recent years (2017, 2018 and 2019), the level of inflation has been moderate to low. Between July 2018 and July 2019, it was 3.42%. This is the inflation rate used for this update to update the July 2018 living wage.

5. MANDATORY PAYROLL DEDUCTIONS AND INCOME TAXES ON A LIVING WAGE

There continues to be an 8% social security tax on earnings just as in 2015. Just as in 2015, there is no income tax due on a living wage. Union dues, which were mandatory in 2015, are no longer mandatory since the 2017 Labor Reform Law (Law No 13.467 of July 13, 2017). This social security tax is taken into consideration in estimating mandatory deductions and gross living wage for July 2019 as it was for the previous 2018 update.

6. UPDATED LIVING WAGES AND FAMILY LIVING EXPENSES FOR JULY 2018

The updated net living wage, or take-home pay, for July 2019 is R$1,518 per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is R$1,650 per month for July 2019. Table 1 provides details of the original and the updated living wages and family living expenses.
Table 1: Living wages and living expenses for coffee growing region in Southern and Southwestern Minas Gerais, Brazil (in Brazilian Real and US Dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>July 2018 Original Study Date</th>
<th>July 2019 Latest Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Brazilian Real USD</td>
<td>Brazilian Real USD</td>
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<tr>
<td>Living Expenses for Reference</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Per Month</td>
<td>R$2,936 $769</td>
<td>R$3,036 $780</td>
</tr>
<tr>
<td>Net Living Wage Per Month</td>
<td>R$1,468 $384</td>
<td>R$1,518 $390</td>
</tr>
<tr>
<td>Income Taxes and Payroll Deductions Per Month on Living Wage</td>
<td>R$128 $33</td>
<td>R$132 $34</td>
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<tr>
<td>Gross Living Wage Per Month</td>
<td>R$1,596 $417</td>
<td>R$1,650 $424</td>
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<tr>
<td>Exchange Rate to USD</td>
<td>3.82</td>
<td>3.89</td>
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<tr>
<td>Source of Exchange Rate</td>
<td>Original Report</td>
<td>IMF’s Archive for July 2019³</td>
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