

Living Wage Update Report: Urban Brazil, Minas Gerais South/Southwestern Region (July 2021)

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 <p>Cost of decent standard of living for a family</p> <p>R\$ 3,417 (USD 664)</p>	 <p>Gross Living Wage per month</p> <p>R\$ 2,271 (USD 441)</p>
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Photo: Coffee farmer, Brazil © Rainforest Alliance

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Abstract:

This report provides updated estimates of family living expenses and living wages for the coffee producing region of Southern and Southwestern Minas Gerais State in Brazil until July 2021, taking into account inflation and changes in payroll deductions since the original Anker living wage study carried out in July 2015 (Barbosa, Barbosa, Veiga, Zacareli, 2016).

Keywords: Living costs, living wages, Anker Methodology, Brazil

JEL classifications: J30, J50, J80.

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BACKGROUND

This report updates the living wage and living expenses for the coffee producing region of the South/Southwestern Minas Gerais State in Brazil (Barbosa, Barbosa, Veiga, Zacareli, 2016). The net living wage and living expenses are updated to the study month of the most recent calendar year—July 2021—to take into account the amount of inflation since the original study in July 2015. Without accounting for inflation, the net living wage estimated in 2015 would not be sufficient for workers to have a basic but decent standard of living in 2021 because the purchasing power of the living wage would have decreased. Similarly, living expenses for a reference family are also updated to July 2021 to account for inflation.

The gross living wage is updated to July 2021 by taking into consideration in addition income taxes and mandatory deductions from pay that workers would need to pay on the updated 2021 living wage. This is done using July 2021 laws.

LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM JULY 2015

The net living wage was estimated as R\$1,482 in July 2015 in the original living wage country report. 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\$1,629 in July 2015. 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.

INFLATION RATE USED FOR UPDATE

The Brazilian Institute of Geography and Statistics (IBGE)¹ 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 x 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 earning a living wage and because it is widely used for salary adjustments.² 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

¹ <https://www.ibge.gov.br/en/>

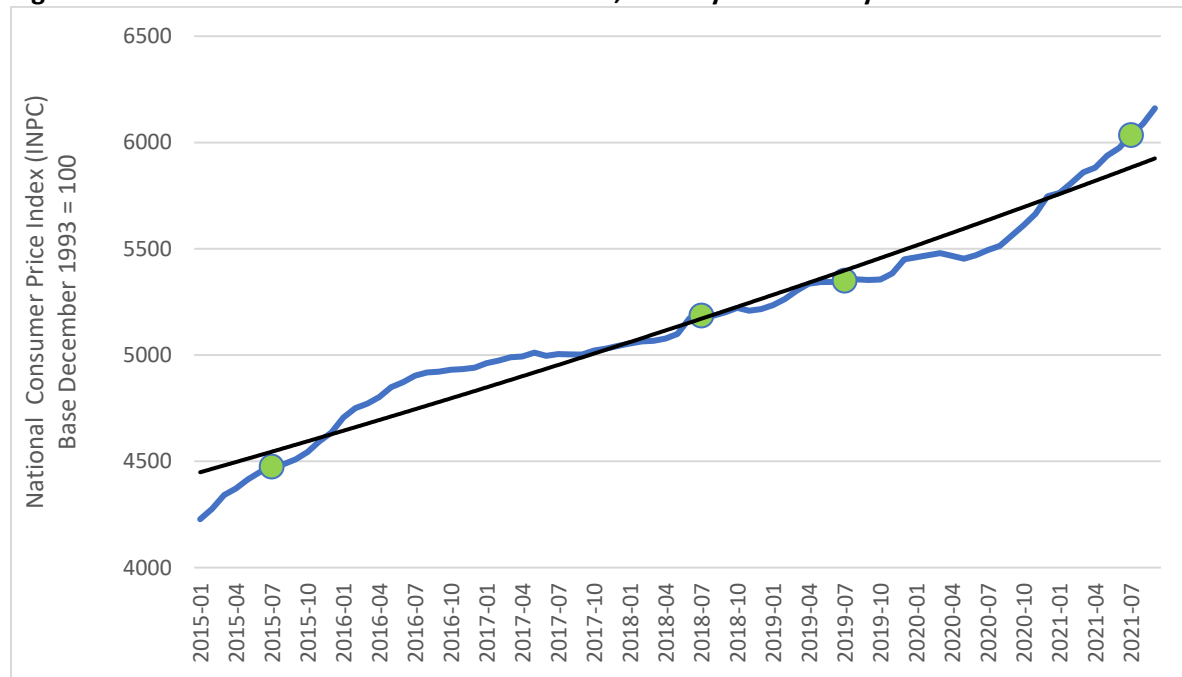
² <https://www.bcb.gov.br/conteudo/home-en/FAQs/FAQ%2002-Price%20Indices.pdf>

separate values for states or for rural or 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.

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 to 2020. In 2021, the year-on-year inflation rates are increasing to levels similar to the ones in 2015-2016. Between July 2015 and July 2021, the inflation rate was 34.85%. This is the inflation rate used for this update.

Figure 1: National Consumer Price Index for Brazil, January 2015 to July 2021



Notes: Green dots highlight the months of the original study and the updates. Black line is the fitted exponential trendline.

Source: Authors’ calculations based on CPI data from IBGE.

MANDATORY DEDUCTIONS

The 8% social security tax on earnings changed since November 2019.³ Employees are now subject to the payment of monthly social security contributions based on progressive rates. The rate for social security is 12% for the living wage.

³ <https://www.pwc.com/gx/en/services/people-organisation/publications/assets/pwc-new-brazil-social-security-tax-rates-effective-in-march.pdf>

Since social security contributions can be deducted from the income tax due, workers on a living wage still do not have to pay any taxes in 2021.⁴ On the other hand, 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).

UPDATED LIVING WAGES AND FAMILY EXPENSES FOR JULY 2021

The updated net living wage, or take-home pay, for July 2021 is R\$1,998 (US\$ 388) per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is R\$2,271 (US\$ 441) per month for July 2021. 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)

Item	July 2015 Original Study Date		July 2021 Latest Update Report	
	Brazilian Real	USD	Brazilian Real	USD
Living Expenses for Reference Family Per Month	2,534	685	3,417	664
Net Living Wage Per Month	1,482	401	1,998	388
Income Taxes and Payroll Deductions Per Month on Living Wage	147	40	273	53
Gross Living Wage Per Month	1,629	440	2,271	441
Exchange Rate to USD	3.70		5.15	
Source of Exchange Rate	Original Report		IMF's Archive for July 2021	

Source: Authors' calculations.

REFERENCES

Barbosa, de Freitas, A., Barbosa e Sliva, M., Candia Veiga, J. P., & Zacareli, M. A., (2016) . *Living Wage Benchmark Report: Urban Brazil, Minas Gerais South/Southwestern Region (July 2015 study)*. Available online: <https://bit.ly/3DS3Anp>

⁴ <https://taxsummaries.pwc.com/brazil/individual/taxes-on-personal-income>