

Living Wage Update Report: Non-Metropolitan Brazil, State of São Paulo (February 2021)

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	Cost of decent standard of living for a family R\$ 3,961 (USD 722)		Gross Living Wage per month R\$ 2,710 (USD 494)
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Abstract:

This report provides updated estimates of family living expenses and living wages in the citrus belt in the State of São Paulo until February 2021, taking into account inflation and changes in payroll deductions since the original Anker living wage study carried out in February 2020 (Barbosa, Prates, Barbosa & Bowen, 2021).

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

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the living wage and living expenses in the non-metropolitan citrus belt in the State of São Paulo (Barbosas, Prates, Barbosa & Bowen, 2021).). The net living wage and living expenses are updated to the study month of the most recent calendar year—February 2021—to take into account the amount of inflation since the original study in February 2020. Without accounting for inflation, the net living wage estimated in 2020 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 February 2021 to account for inflation.

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

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM FEBRUARY 2020

The net living wage was estimated as R\$2,220 in February 2020 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\$2,552 in February 2020. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as R\$3,729 in February 2020.

3. INFLATION RATE USED FOR UPDATE

The Brazilian Institute of Geography and Statistics (IBGE)¹ is the government body responsible for computing and reporting price indices 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 wages² (5 x R\$ 998 = R\$ 4,990), this is the most widely used indicator for wage agreements and negotiations.

¹ <https://www.ibge.gov.br/en/>

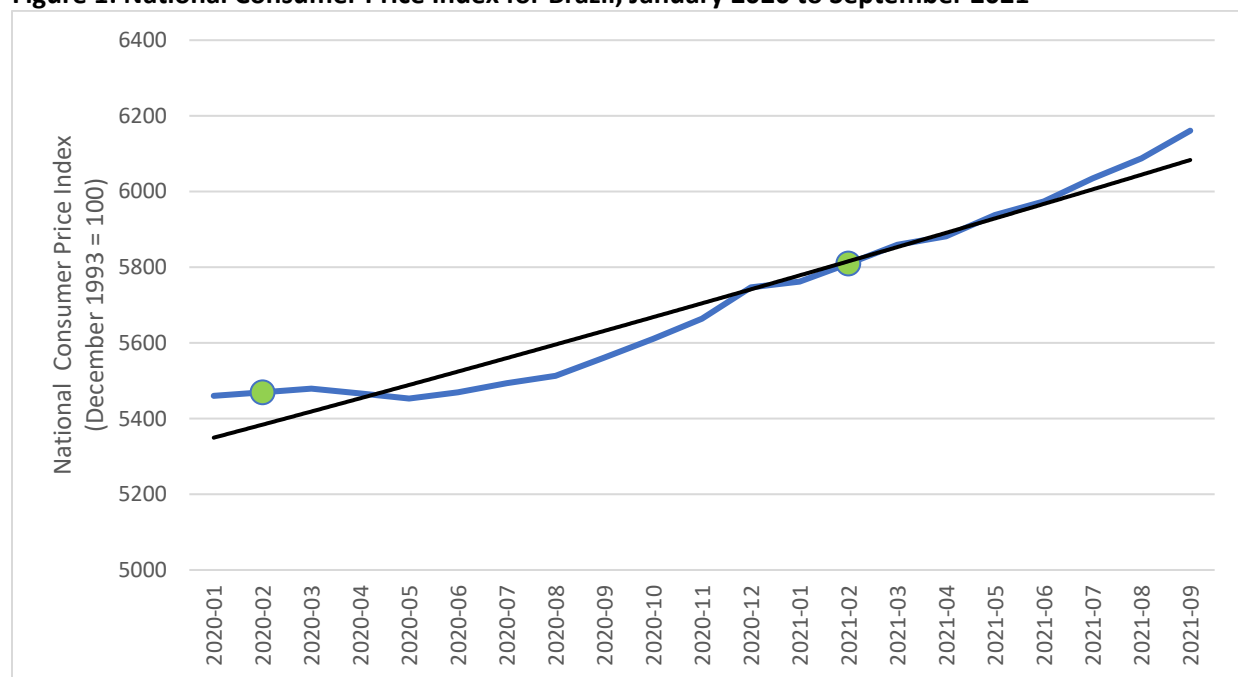
² These groups are more sensitive to price changes, as they tend to spend all of their income on basic items, such as food, medicine, transportation, etc. <https://www.ibge.gov.br/explica/inflacao.php>

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.³ 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 or urban areas, thus we use the INPC national average to update the living wage for non-metropolitan São Paulo.

4. RECENT LEVEL OF INFLATION

Between February 2020 and February 2021, the inflation rate was 6.22%. This is the inflation rate used for this update.

Figure 1: National Consumer Price Index for Brazil, January 2020 to September 2021



Notes: Green dots highlight the month of the original study and the update. Black line is the fitted exponential trendline.
Source: Authors' calculations based on CPI data from IBGE.

5. MANDATORY DEDUCTIONS

In November of 2019, the social security tax changed to a progressive system, in which workers on a living wage are subject to social security deductions amounting to 12% of the gross wage.⁴

³ <https://www.bcb.gov.br/conteudo/home-en/FAQs/FAQ%202002-Price%20Indices.pdf>

⁴ <https://www.pwc.com/gx/en/services/people-organisation/publications/assets/pwc-new-brazil-social-security-tax-rates-effective-in-march.pdf>

In terms of income tax, the gross living wage falls into lowest taxed income range, from R\$ 1,904 to R\$ 2,827, with a 7.5% rate. However, workers have some room for deduction, which comprises the social security contribution and a value for each dependent child. Considering two dependents, which is reasonable for our family size of 4, workers receiving our estimated gross living wage would not be charged income tax.

On the other hand, although union dues are no longer mandatory since the 2017 Labor Reform Law (Law No 13.467 of July 13, 2017), in practice, many unions in order to maintain their activities are signing agreements with enterprises and employers' unions that set up union confederation and/or union support dues ("contribuição confederativa" or "assistencial" in Portuguese) of a monthly value. These union dues, collected by the employers and sent to unions, varies from 1% to 2% of the gross wages in some collective agreements. Although this practice is not generalized in the agricultural sector, our view is that worker representation and collective bargaining are fundamentally important rights for workers and for this reason 1% for union dues was included in our gross living wage in our 2020 living wage study. We also keep this 1% of deduction for union dues in this update for consistency with the estimations in the original study.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR FEBRUARY 2021

The updated net living wage, or take-home pay, for February 2021 is R\$2,358 (US\$ 430) per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is R\$2,710 (US\$494) per month for February 2021. Notice that while the living wage in R\$ rose in the past year, its USD value fell because the drop in the exchange rate was greater than inflation. Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Living wages and living expenses with focus on orange production in the citrus belt in the non-Metropolitan State of São Paulo, Brazil (in Brazilian Real and US Dollars)

Item	February 2020 Original Study Date		February 2021 Latest Update Report	
	Brazilian Real	USD	Brazilian Real	USD
Living Expenses for Reference Family Per Month	3,729	834	3,961	722
Net Living Wage Per Month	2,220	496	2,358	430
Income Taxes and Payroll Deductions Per Month on Living Wage	332	74	352	64
Gross Living Wage Per Month	2,552	571	2,710	494

Exchange Rate to USD	470	486
Source of Exchange Rate	Original Report	IMF's Archive for February 2021

Source: Authors' calculations.

7. REFERENCES

Barbosa, A. F., Prates, I., Barbosa, M., & Bowen, S. (2021) *Living Wage Report: Non-Metropolitan Brazil, State of São Paulo with focus on orange production in the citrus belt*. Available online: <https://bit.ly/3lJtN17>