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ARE JOBS BEING CREATED IN THE CURRENT ECONOMIC BONANZA?

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The Venezuelan economy is in a period of bonanza and the Government reports a significant drop in the unemployment rate. However, the figures from the National Statistics Institute (INE) hide other findings. One of these findings is that the economy isn't creating jobs in a satisfactory manner; another one is that the missions and the public sector are playing a very important role with regard to the drop in unemployment.

The Venezuelan economy has been expanding for more than four years now

In economic terms, Gross Domestic Product (GDP) figures are widely used to measure a country's economic development. This means that a significant increase in GDP can reflect positive changes in a population's well-being, measurable in terms of health, education, and jobs. The Central Bank of Venezuela (BCV) has indicated that during the second quarter 2007, GDP showed a growth of 8.9%, which means that over the last 15 months the national economy has grown at a surprising average rate of 12.4%. This rate is very high and it is evident that Venezuela is going through an economic bonanza without precedent.

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Such economic expansion should be generating a significant drop in unemployment, besides creating incentives for the creation of new jobs.

Job creation is way below where it should be

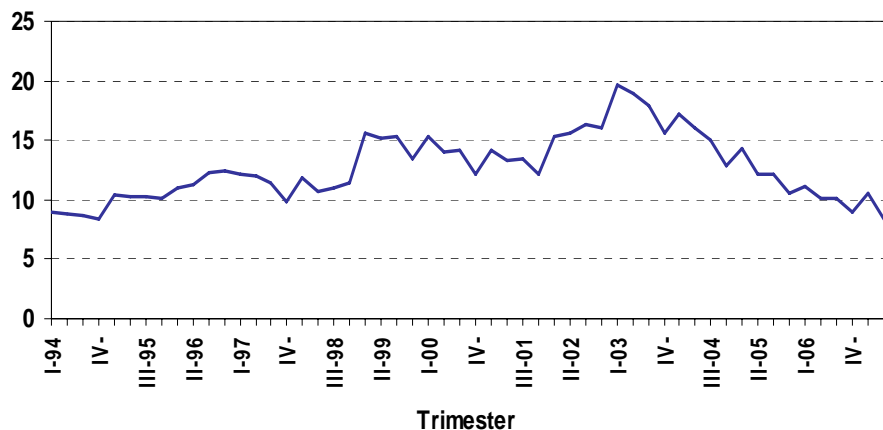
Growth in the non-oil sector is the main generator of jobs. **Ecoanalítica** established through a simple equation using data from 1968 until 2006, that on average, for every point the non-oil sector grows, 78,000 new jobs should be created. This means that if the non-oil sector economy grew by 11.6% in the last 12 months until June, according to the BCV, then in the same period of time 904,800 new jobs should have been created. If we analyze the INE figures corresponding to the second quarter of this year, the economy created only 416,035 new jobs. By analyzing the origin of these new jobs, what stands out is that 136,729 (32.9%) correspond to the public sector and 279,306 (67.1%) to the private sector.

The second quarter 2007 posted the lowest unemployment level since 1994

According to the figures released by the INE, unemployment goes down month after month. However, after an exhaustive review of the employment figures, the facts that stand behind them are a bit suspicious. In order to verify them, we studied the job market since 2004, the year the country began to show favorable figures of economic growth.

For the second quarter 2007, the percentage of the economically active population that finds itself unemployed is at 8.3%; this translates to 1,026,561 people. This figure is 12% less than the unemployment level observed during the same period last year, which reflected 1,164,212 people unemployed. And, this is the lowest quarterly unemployment figure posted since 1994.

Unemployment Rate



Sources: INE and Ecoanalítica

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In the period from June 2004 to June this year, the number of jobs created was 511,420 in the public sector (44% of the total jobs created) and 647,817 in the private sector (56% of the total jobs created), which all adds up to a total of 1,159,237 new jobs. However, during that period, the number of people that came of working age (registered by the INE as the population over the age of 15) increased by 1,396,009 people.

What's growing the most is inactivity

In contrast, the active population only increased by 323,794 people during the same period. So, what we have is that 1,072,215 people, that represent 77% of the increase of the working age population, remained in the inactive segment, which is to say that, being able to get a job, for some reason, they decide not to. So, the final situation reflects less unemployment but more inactivity. According to INE figures this would include homemakers, high school and university students, anyone benefiting from the "Vuelvan Caras" mission and/or any other educational mission.

According to other experts on the subject, like Miguel A. Santos, since 2004, an atypical drop in the activity rate reported by the INE is observed, one that grows much slower (0.7%) than the previous 17 years (4.1%).

The working age population increased each year by an average of 449,048 people, while the number of people who actually began working only increased by an average of 387,368 people a year. It's clear that despite the positive unemployment figures, jobs continue to be created at an insufficient rate to compensate for the growing workforce.

The labor market is full of distortions

Within the context of a high and sustained economic growth like what Venezuela has been showing for more than three years now, you can justify the resulting increase in demand for goods and services finds its counterpart in the expansion of the productive apparatus, and therefore an increase in jobs. This would allow businesses to satisfactorily respond to the new level of demand being observed. However, the figures show that despite the high growth rates reflected in the Venezuelan GDP, the result has been the emergence of a series of distortions in the local economy.

Economic growth triples job growth

In the path followed by the total GDP from the second quarter 2004 until the second quarter 2007, a 33% cumulative variation can be verified. In contrast to this high growth rate, employment increased by only 11,5% during the last three years.

The situation is more dramatic in the private sector

While the private sector share of the GDP continually grows, the same can't be said about labor market figures. The economy's growth reflected in the last few years has been due mainly to the private efforts which increased its production by 39% during the period being analyzed. Despite this performance, it's important to point out that private sector employment only increased by 7.5%.

Public employment increases more than private one

On the other hand, public sector production which only increased by 11% over the last three years, posted an increase of 33.8% with regard to employment.

The INE does it all with mirrors

It's worth mentioning that this situation could possibly be worse if we take into account the methodological changes that the INE has been implementing. These changes incorporate individuals that belong to some of the Government's educational missions. It defines them as "inactive," eliminating them from the "unemployed" category. This adjustment to the number of unemployed, though it reflects people that are trying to take advantage of what little incentives there are to improve oneself in order to have a better chance of getting a job (as long as they get paid to study the few hours they do a week), has created a fictitious drop in the number of unemployed people reflected by INE figures.

The private sector is stubborn about creating jobs

In this context, it would be logical to ask: What possible mechanism can the Venezuelan industry be using to continue posting such dismal numbers in terms of employment? One feasible explanation lies in the fact that starting from 2004, companies began to confront the incipient economy expansion through the use of productive factors that up to the moment had been idle; so the production adjustment could be covered with the physical and human capital already existing and available. Once they reached production capacity, demand increase began to only be reflected in the increase in price of the goods and/or services being produced.

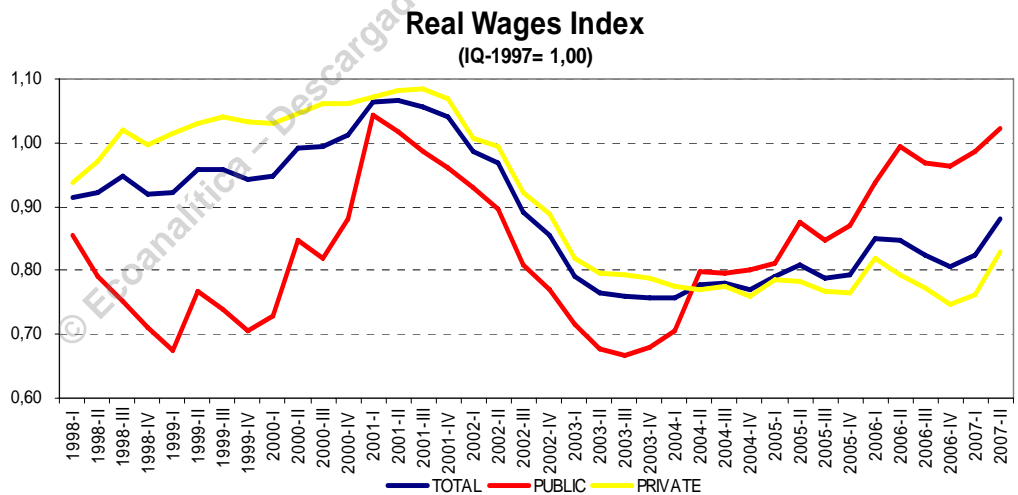
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More political uncertainty expected

This tendency hasn't changed, and it's possible, apart from a few exceptions, that it won't, at least not in the middle term, since companies continue to feel that the environment is not conducive to new investments that would favor an increase in production, and therefore, require hiring more labor. The constitutional reform and the referendum to approve it, possibly to be held in December, contribute to this climate of uncertainty. It's not surprising that the Minister of Planning and Development, Jorge Giordani, points to the drop in production capacity used by the national industrial sector during the first half of the year (it went from 92.1% in December 2006 to 90.3% in June 2007).

Public employees are getting better paid

Seeing how the public sector has fared (less growth than the private sector though it hired more people) it's evident that hiring policies in that sector don't respond to real labor needs determined by the free flow of supply and demand. As a result, government employees, in general, benefit from real salaries that are quite high and are in no way consistent with the low productivity reflected by the sector.



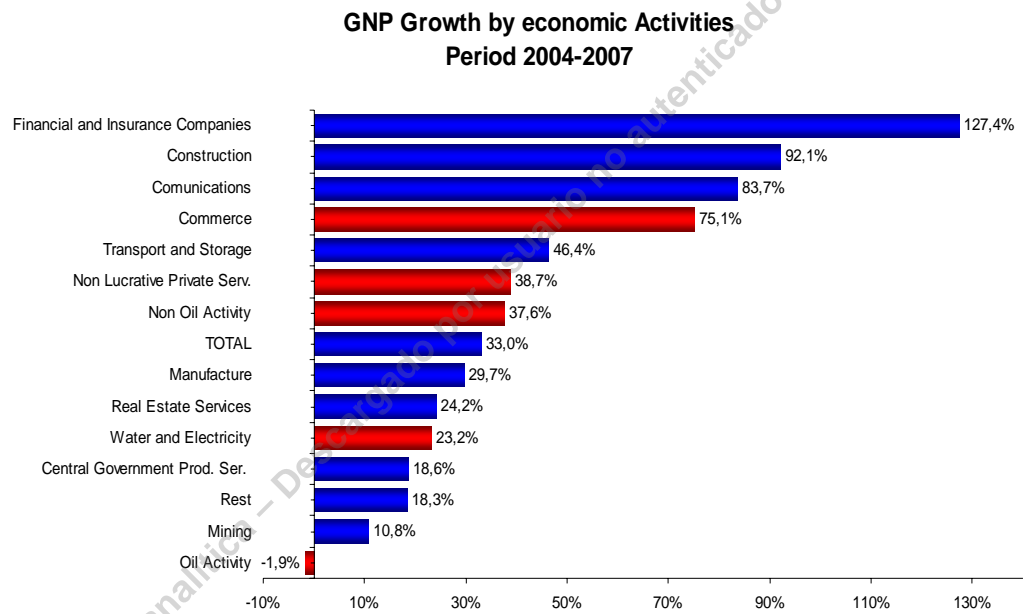
Sources: BCV and Ecoanalítica

Sectors that are expanding the most aren't labor intensive

On the other hand, if we analyze the growth of each one of the economic activities which are reflected in the GNP, we will find that those that registered the highest levels of growth between the second quarter 2004 and the second quarter 2007 were: commerce and repair services, communication, construction, financial institutions, and insurance. However, those sectors, since they mostly deal with producing services (except for construction), are very labor intensive,

and therefore their high growth rate doesn't affect the job creation numbers very much.

But, economic activities like manufacture (considered one of the best employers, in terms of number of people it employees) reflect a drop in growth. This tendency could be a direct result of the high overvaluation that the country's exchange rate is suffering from, which has perverse effects on the competitiveness of the sectors that have the most significant effect on labor.



Sources: BCV and Ecoanalitica

Economic Tips

Administration to issue debt for refinancing. The Finance Commission of the National Assembly approved the change concerning the financial conditions for an issue of bonds up to VEB5.3 trillion. Said issue is earmarked to address domestic and foreign public debt service.

Domestic debt lowered. According to the figures of the Ministry of Finance, at the close of June the domestic debt was VEB32.1 trillion compared to 2006 when it was at VEB36.2 trillion. The drop responds to the domestic debt payments for VEB3 trillion that were made during the period.

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Foreign debt stays the same. The foreign debt balance at the close of the first semester 2007 remained at US\$25.80 billion, and according to what Finance Minister, Rodrigo Cabeza, indicated, a proposal is being analyzed to buy back foreign debt by the last quarter of the year, but no amounts or papers have been defined.

Venezuela's country risk is only surpassed by Argentina. Country risk, a term used to measure the difference between the yield that an investor requires in order not to buy United States Treasury bonds and instead, buy Venezuelan papers, closed last week at 4.48%, a figure that clearly surpasses the 1.87% registered by Colombia, and the 1.96% posted by Brazil, Peru's 1.72% and only less than the 4.61% reflected by Argentina.

The constitutional reform increases labor costs. According to a study made by the company Bolinaga Levy Márquez & Canova, if the shorting of the workday is approved, the cost of paying a minimum wage will increase between 12% and 50%, depending on what the company needs to maintain the same production.

Businessmen warn. According to the president of the Commission for Labor and Social Security for CONSECOMERCIO, Aurelio Concheso, shortening the workday to six hours could greatly undermine the workforce and working conditions, since he considers that the measure could end up by pushing the smaller companies of the industrial sector towards the informal sector.

Constitutional changes favor social and collective companies. The new constitutional reform proposed by the President of the Republic concerning economic matters benefit companies that develop within the framework of collective and social property; they will be protected by the law and any commercial activity which affects them will be prohibited.

Communal council budgets. President Hugo Chávez during a broadcast of Aló Presidente announced that he will propose, within article 167 of the constitutional reform, to earmark at least 5% of the budget, through revenue sharing, for communal councils.

Public employees continue to protest in front of the Ministry of Labor. Public sector union leaders have been camped in front of the headquarters for the Ministry of Labor and Social Security waiting for the labor office to receive the Public Administration worker's collective bargaining agreement project.

Change in the calculation of the tax unit. According to the national tax superintendent, José Vielma Mora, due to the monetary reform the parameter to calculate the tax unit will have to be adjusted. Every year the value increases on the base of the consumer price index of the previous year, but, starting in 2008, the revision will not only take into account inflation, but also the behavior of GDP.

Other adjustments. Concerning the changes of the tax unit, the official announced that in order to be able to adjust to the bolivar fuerte (strong bolivar), a period of up to ten days will be granted to businesses to allow them to update their registers.

It's not required to show double prices on invoices. Starting October 1st, all goods and services must display double prices, but invoices don't have to show the prices in both current bolivars and bolivar fuertes, announced the head of the SENIAT, José Vielma Mora.

Tons of money leaving the country. According to the AP news agency, Venezuela has promised more than US\$8.80 billion in donations, financing, and energy assistance so far this year. While the most recent figures available from Washington indicate that around US\$3.0 billion from the United States was given out in direct assistance and loans to the region in 2005, it's not sure exactly how much of the Venezuelan money has actually been given out. The contributions by the Chávez Government don't add up to the total value of the United States private investments and trade in Latin America. But in terms of direct support from government funds, there is no precedent for any other Latin American nation doing what Chávez has done.

OIL TIPS

Venezuelan oil basket continues to drop. The Venezuelan basket of crude oil and oil by-products dropped again this week settling at US\$64.28 per barrel. So far for the month of August, the cumulative average price for a barrel of Venezuelan oil is US\$66.36, down from the monthly record set in July of US\$68.07. The cumulative average price for 2007 is at US\$57.99, up US\$1.54 from the average cumulative price for all of 2006.

Agreement with London. Said agreement establishes a supply of Venezuelan oil at prices 20% below market value for busses in London, in exchange for advice from London to Venezuela concerning public transportation, urban planning, environmental

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protection, waste management, tourism development, and cultural activities. The agreement calls for subsidies up to US\$32 million a year which will make it possible for lower-income Londoners to receive a benefit of up to US\$555 a year.

Crude exports to the U.S. According to the Energy Information Agency (EIA), Venezuela supplied the United States with an average of 1.31 million barrels of crude oil and oil by-products a day in June, down 202 thousand b/d (13.2%) compared to May. June results put the cumulative average for this year at 1.35 million b/d, down 129 thousand b/d (8.9%) from the 1.48 million b/d supplied to the United States during the same period in 2006.

Venezuela is the fourth largest supplier of oil to the United States. Venezuela follows Canada, Saudi Arabia, and Mexico, which each supplied the U.S. with more than 1.5 million b/d of crude oil and oil by-products in June.

Drilling rigs arrive in Ecuador in October. According to the Ecuadorian Minister of Mines and Petroleum, Galo Chiriboga, the cost of renting two drilling rigs on the international market is at around US\$250,000 a day, but he pointed out that thanks to bilateral cooperation with Venezuela, that cost has been reduced to US\$ 40.000.

Bill of Venezuelan oil supplies to the Caribbean reaches US\$2.39 billion. The supply of crude oil and oil by-products that Venezuela sends to 13 nations belonging to the Petrocaribe initiative has accumulated a bill totaling US\$2.39 billion in the two years since the agreement was signed.

Another triangulation. The Nicaraguan Minister of Energy and Mines, Emilio Rappaccioli, said that Esso Standard Oil will buy Venezuelan oil from the state-run Petróleos de Nicaragua (PETRONIC) in the next few years.

Contracted employees too. The PDVSA board approved granting the three months bonus of basic salary to 28,000 workers contracted by the industry, including more than 4,000 people that work in the Orinoco Oil Belt associations. This bonus that has been granted because of the delays that occurred with regard to the oil collective bargaining agreement that expired in January was paid in May to the workers that had been hired directly by PDVSA. Negotiations were underway to extend the bonus to the contracted personnel. In the end, it's calculated that this cost PDVSA around VEB84.0 billion.

Oil sector collective bargaining agreement discussions move forward. There have been delays in the formal negotiations concerning the collective bargaining these last two weeks, but talks concerning labor benefits have not been abandoned. A work

table has been established which has moved forward with a number of pending issues. To date, 45 clauses have been formally agreed upon by both parties and two other have been deferred for further analysis.

Two posts. The presidential decree No. 5.515, which appeared in the August 23rd Gaceta Oficial published the appointment of Saúl Ameliach, current president of PEQUIVEN, as Vice-Minister of Petroquímica, assigned to the Ministry of Energy and Petroleum. Ameliach now holds both offices, just like Rafael Ramírez, who is president of PDVSA and Minister of MENPET. Ameliach is an engineer and a finance specialist. He has taught in a number of universities and has sat on the board of a number of Venezuelan chemical sector private companies.

BUSINESS SECTOR TIPS

Private and Socialist. The President recognizes that there has been very little progress with respect to the transformation of the national productive apparatus and points out that even businessmen close to the revolution continue to act like capitalists. He invited them to get in touch with the community and create new mixed companies. He insisted that businessmen like Alberto Cudemus (Feporcina) and Alejandro Uzcátegui (Empreven), both loyal to the revolutionary process, should become real socialist businessmen; that they should cease to be mainly private and embrace one of the new models of communal business and fall even more in step with the Government.

Commercial exchange between Venezuela and Colombia will register record amount. According to estimates by businessmen, this year said amount could get close to around US\$5.0 billion, after last year's record high of US\$4.20 billion.

Record number of flights. According to Humberto Figuera, president of the Venezuelan Airline Association (ALAV), one of the sectors of the economy that has most benefited from the consumer boom being experienced in Venezuela is the airline sector. The number of passengers traveling is surpassing the record year of 2001. During the first semester 2007, international flights increased by 20% and domestic flights increased by 30% compared to the same period in 2006 respectively.

The president of CANTV speaks. Socorro Hernández, president of CANTV, announced that spending increased during the second quarter 2007 because provisions for pension payments increased reaching VEB366.0 billion (US\$ 170

million). Additionally she pointed out that the number of employees contracted by CANTV was a lot more than estimated, around 10,000 people, while the initial estimate was 6,000.

Investments will be similar to 2007. Hernández announced that in 2008, CANTV's investment is going to surpass US\$750 million, which was the same estimate established for 2007. It's expected that the GSM network will be up and running by the end of the year.

CANTV solves problem with broadband Internet service. CANTV's broadband servers have been having problems these past few weeks due to the high demand for this service. This caused the system to crash that was immediately addressed.

Growth in the construction sector due to extraordinarily high investment. Construction increased by 20.6% of GNP during the first six months of the year, mainly due to extraordinarily high public investment. Investments were mostly earmarked for Government infrastructure works, while private investment went mostly to non-residential projects like shopping centers and hotels.

Public banks will unify operations. Between September and October, public financial institution teller operations will be integrated which will enhance the service capabilities of state-run banks; so said Rafael Isea, vice-minister of finance, who explained that the measure aims to increase efficiency and lower costs for public banks. He also announced an integrated human resource system to guarantee that every public bank employee in the country is being used as effectively as possible.

Private sector leading in food. Venezuelans consumed a bit more than 915,000 tons of food a month during the first semester 2007, according to the statistics gathered by FEDECÁMARAS and the agro-food sector union. José Manuel González, president of FEDECÁMARAS, announced that with regard to the distribution of said amount, 765,285 tons of food corresponds to sales of private commercial chains. This number equals 86% of the placement of all food in the country. These numbers also showed that the Mercal chain, the Government's main program to guarantee food supply, distributed 150,000 tons monthly (14%). Though the 14% is actually lower, since the Ministry of Food announced that it wouldn't be until December that Mercal would reach the 150,000 tons a month in distribution.

How do we eat? A study by FEDECÁMARAS concerning the food supply reveals that consumption per person per day is at 1.1 kilo with regard to main foods (meats, fish, sugar, and milk products), this represents around 407 kilos per person a year of these items. Consumption percentages of the 407 kilos for these items are: 19% in meats

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and fish, 19% in milk products, 20% in cereals, 36% in fresh produce, and 6% in sugar.

Government solves powdered milk shortage problems with subsidies. The shortage problems concerning this item could be solved by next week when the Government activates subsidies that it will grant to companies that import this product.

Grant licenses to import sugar. Sugar mills have received licenses to import unrefined sugar in order to satisfy retail demand. Production companies that use sugar to make their products like soft drinks, candy, cookies, and sweets have also received licenses to buy on the international market.

Cattle ranchers study impact of constitutional reform. The president in charge of FEDENAGA announced that cattle ranchers will hold a meeting to define their position concerning the points regarding the constitutional reform that affect them directly.

Second phase of the Energy revolution Mission. This second stage will begin in November with the construction of the light bulb factory here in Venezuela, a joint venture with a Vietnamese company. Estimated production is around 24 million energy-saving bulbs a year.

Gaceta Oficial published rule on placing advertisements on vehicles. The resolution was published in the Gaceta which established the rule covering the placement of advertisement on vehicles that circulate on the national road system. In all, 26 articles make up this resolution, of which article 3 stands out. It states that advertisements must in no way resemble traffic signs or any indications used to direct traffic, nor are they permitted to have surfaces that are reflective, televisions, screens, or any other means that create movement.

Political Tips

Constitutional reform approved in its first discussion. After a debate that was broadcast on national network television, the representatives of the National Assembly (all loyal to the Government) approved in its first discussion the constitutional reform proposal. The proposal must still survive two more National Assembly debates in order to complete the Assembly approval procedure. National Assembly president, Cilia Flores, announced that the second discussion will examine the proposal titles and articles to then be sent to the mixed commission.

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As a whole. According to a National Electoral Council (CNE) board decision, citizens may not request that a third of the constitutional reform be voted on separately. The directors, (with a negative vote by Vicente Díaz and the absence of Janeth Hernández) agreed with the President Chávez. According to the CNE, the voters aren't the ones submitting the reform and therefore don't have the right to request modifications to the question; that competence only belongs to the National Assembly.

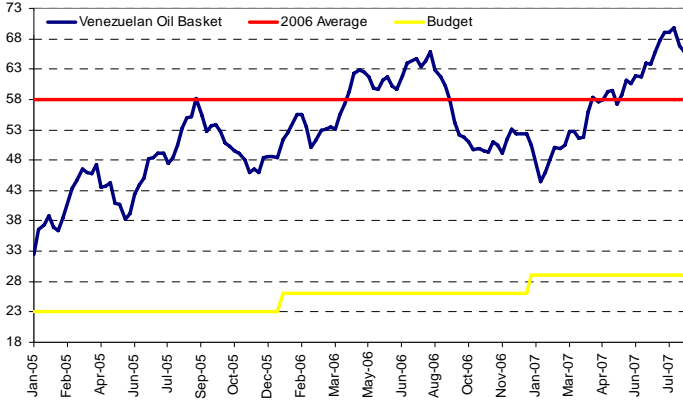
More changes could come. The president of the National Assembly, Cilia Flores, assured that other articles of the Constitution related to the 33 that are included in the reform proposal submitted by the President will be modified. "The proposal submitted can be improved. The mixed commission has to do that, to see where the 33 articles submitted coincide and are related to other articles," pointed out Flores.

Reform will legitimize all Government abuses. Former Minister of the Interior and Justice, Luís Miquilena, denounced that the project to reform the Constitution proposed by President Hugo Chávez will "legitimize all the arbitrary actions and excesses" that the current Administration "has been carrying out through all these years." Miquilena, who was a member of the National Constituent Assembly, and therefore one of those involved in the writing of the 1999 Constitution, pointed out that President Hugo Chávez "has violated" and "has not adhered to" the fundamental text of the current Constitution. The former member of the National Constituent Assembly questioned the modifications submitted by Chávez, categorizing them as "a new Constitution" that changes the structure of the country. He insisted that this isn't a reform.

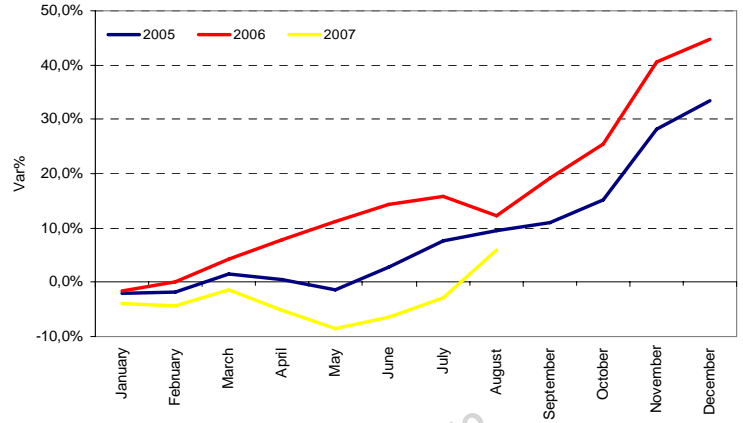
Studying to make time zone change in September. The Minister for the People's Power for Science and Technology, Héctor Navarro, announced that a study is underway to coincide the beginning of the new school year with the time zone change, which would mean that this measure could be put into effect as soon as this coming September. Navarro indicated that these time modifications would mainly benefit children and young people.

ECONOMIC OVERVIEW

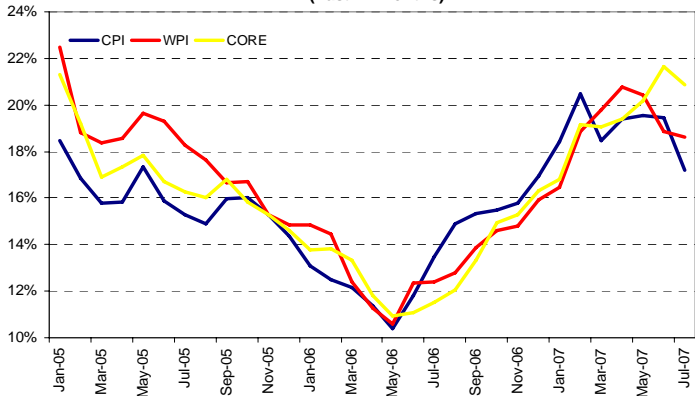
Oil Price
(Venezuelan Basket US\$/pb)



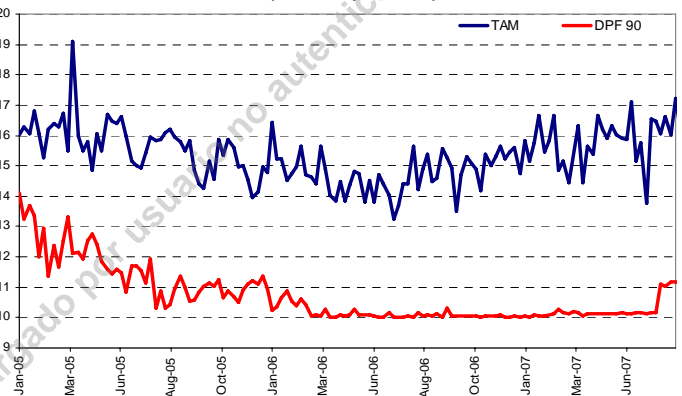
Real Expansion (M2)



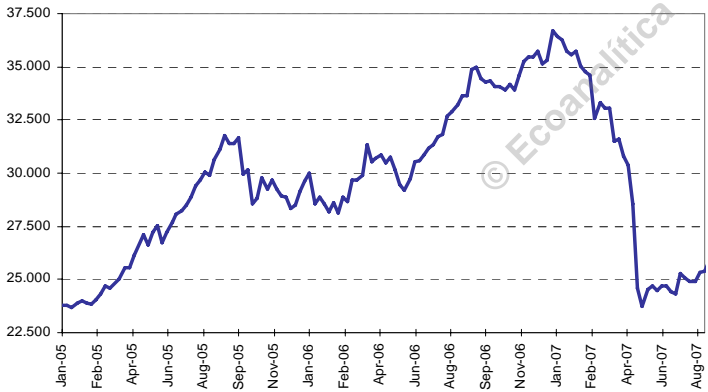
Inflation
(Last 12 Months)



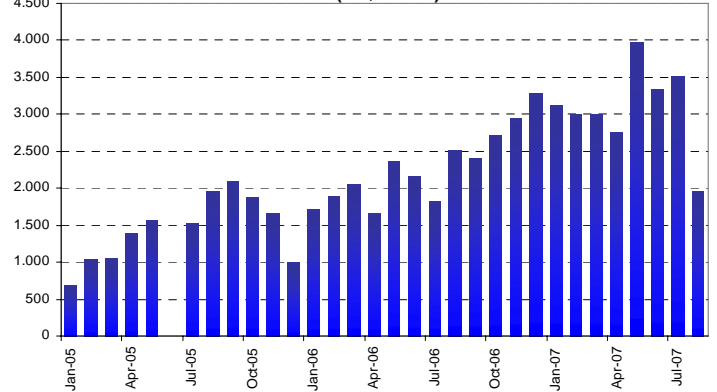
Interest Rate
(Six Principal Banks)



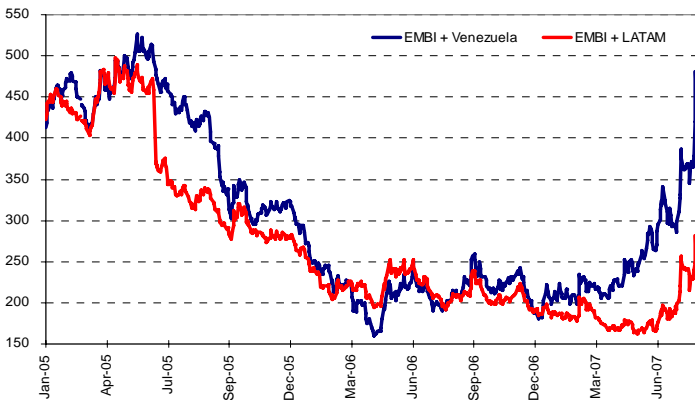
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

