



Employment Outlook 2011 – How does MEXICO compare?

While the economic recovery is well underway in Mexico, the decline in the unemployment rate has remained modest. Since the start of the crisis, the unemployment rate increased from 3.7% in 2008Q2 to a peak of 5.8 % in 2009Q3. As of 2011Q2, the unemployment rate stands at 5.5%. Looking forward, the unemployment rate is expected to remain above its pre-crisis level for some time to come, especially in light of the recent weakening of the economic recovery in the OECD area.

The incidence of informal employment has increased substantially from an already high level and more than during previous downturns. This reflected a sharp decline in the share of the working-age population in formal employment during the initial phase of the downturn due to the decline in export demand and a sharp increase in the share of the working-age population in informal employment (up to 63% of total employment) during the last phase of the downturn and the initial phase of the recovery. This rise in informal employment reflects the tendency of formal-sector job losers to move into informal work and possibly the engagement of previously inactive household members in informal work to compensate for the loss of household income. Moreover, there is no indication that the formal employment rate has started to return to pre-crisis levels (see Figure).

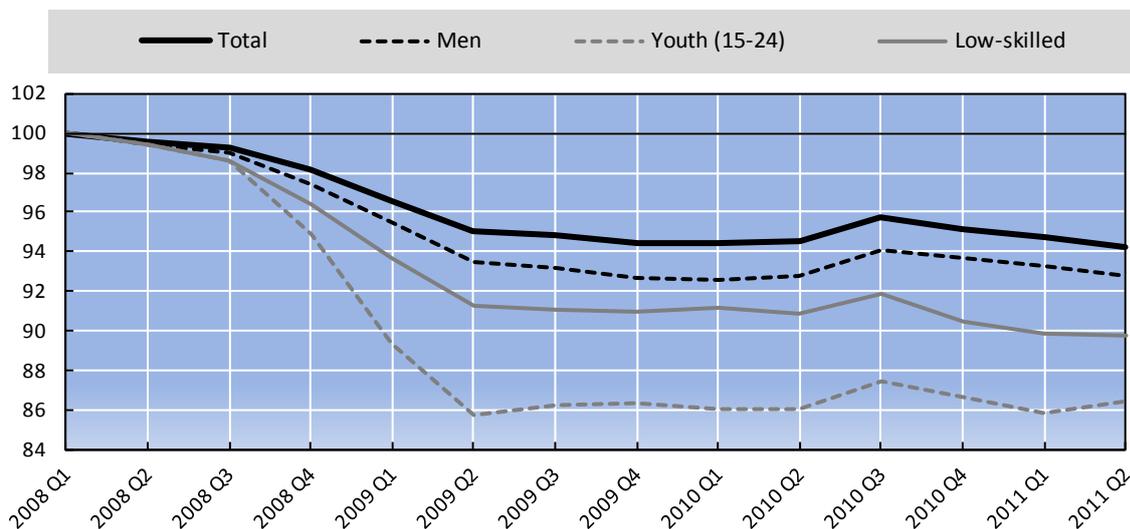
Youth, low-skilled workers and men were hit particularly hard by the decline in formal-sector employment as a share of the working-age population (see Figure). While the decline in the overall rate of formal employment since the start of the crisis amounted to about 5%, it declined about twice as strongly for low-skilled workers and almost three times as strongly for youth. This pattern is similar to that observed in many OECD countries for employment as a whole. This reflects the relative vulnerability of formal-sector workers with limited professional experience, low levels of skills and fixed-term contracts for whom hiring and firing costs are relatively low as well as the concentration of the crisis in male-dominated industries such as manufacturing.

The rise in the incidence of informal work reflects to an important extent the limited role of income support measures for job losers in Mexico. Indeed, Mexico is the only OECD country that does not have a system of unemployment benefits in place. While formal-sector job losers with individual pension accounts can in principle draw on their savings, the conditions for their use are rather restrictive. Developing an effective unemployment insurance system should be a key priority. This could either take the form of an individual savings-accounts system in combination with a public component for job losers with insufficient savings as in Chile or a modest public unemployment insurance system as in Brazil with means-tested benefits and a relatively short maximum duration.



Figure. **The formal employment rate does not show any signs of recovery yet**

Evolution of the share of the working-age population in formal employment, 2008 Q1-2011 Q2



Quarterly data smoothed using 3-quarter moving average with base 100 at peak date (2008 Q1). Formal employment includes workers getting access to social security (IMSS/ISSTE) through their work.

Source: OECD calculations based on the *Encuesta Nacional de Empleo y Ocupacion* (ENOE).

Health protection coverage has increased spectacularly during the past decade thanks to the establishment of *Seguro Popular*, a new non-contributory health system. Extending health coverage by introducing non-contributory programmes in parallel to contributory ones may increase incentives for informal work by reducing the relative benefits of contributory systems. However, new evidence in the *OECD's Employment Outlook 2011* suggests that this has not happened in practice. It shows that there appears to be essentially no relationship between the gradual geographical roll-out of *Seguro Popular* and the incidence of informal work up to now, except perhaps for those workers with the highest propensity to move between informal and formal work. Nevertheless, better integrating the various health schemes and making the subsidy component of *Seguro Popular* dependent on income would address remaining concerns about reduced incentives to work formally. While in principle non-poor households are required to pay a premium that increases with income, this requirement has largely been left unimplemented so far.

OECD Employment Outlook 2011 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on the Mexico, journalists are invited to contact Mark Keese (tel: +33 1 45 24 87 94 or e-mail: mark.keese@oecd.org), Alexander Hijzen (tel: +33 1 45 24 92 61 or e-mail: alexander.hijzen@oecd.org) or Ann Vourc'h (tel: +33 1 45 24 17 27 or e-mail: ann.vourch@oecd.org) from the OECD Employment Analysis and Policy Division.