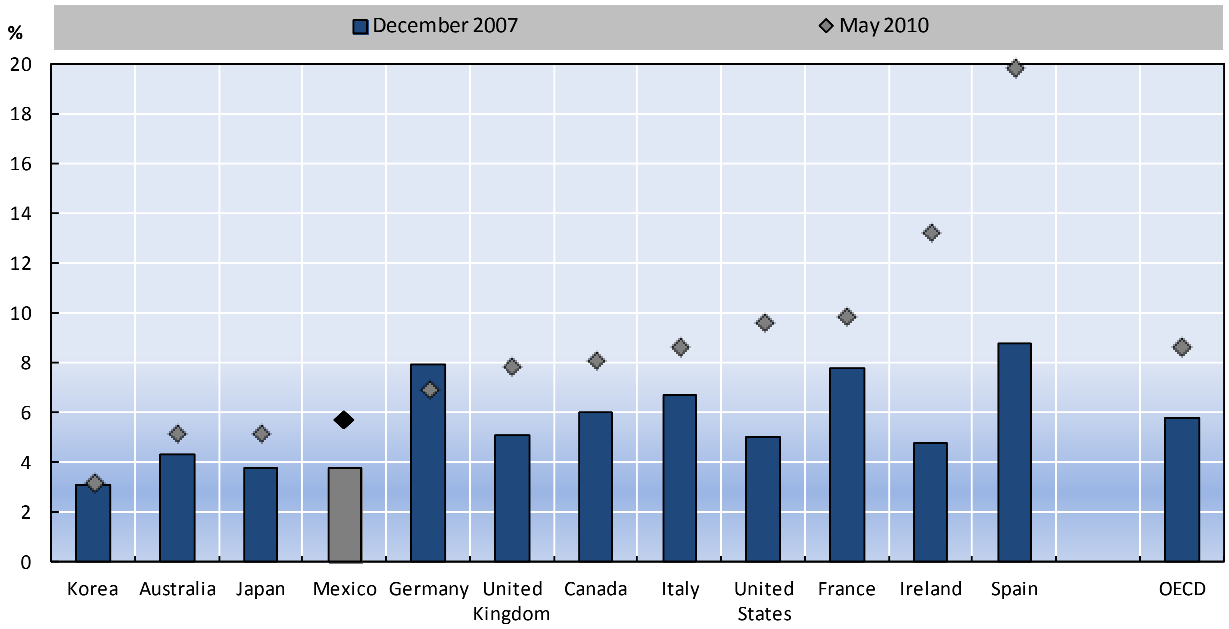
Employment Outlook 2010 – How does MEXICO compare?

Unemployment in Mexico reached 5.7% in May 2010, a 50% increase from the end of 2007. Although this is a substantial increase comparable to that in the OECD countries on average (48.3%), Mexico's unemployment rate remains relatively low from an international perspective, close to that of Korea, Japan and Australia (Figure 1). Unemployment declined by one percentage point in the last quarter of 2009, but remained above its pre-crisis level. In most OECD countries, the cyclical increase in unemployment closely mirrors the decline in employment. In Mexico, the cyclical increase in the unemployment rate is rather small compared with the decline in employment, suggesting that many job losers left the labour market altogether because of the perceived limited job opportunities (the so called "discouraged-worker effects"), thereby reducing the impact of the crisis on measured unemployment. Indeed, labour market participation declined by one percentage point in the year to the second quarter of 2009, reaching a low of 59.4%.

Unemployment rates in December 2007 and May 2010 in selected countries

Percentage of the labour force



Note: Final month available for the United Kingdom is March 2010.

Source : OECD *Main Economic Indicators.*

Similarly to other OECD countries, such as Japan, Korea, Germany and other European countries, **Mexican employers have not massively laid off workers**. As other OECD countries, Mexico experienced a very steep fall in export demand, which might have been viewed as being a largely transitory phenomenon hence explaining the relatively limited adjustment on employment. Consistent with employers engaging in significant "labour hoarding", output per worker fell by 11% in Mexico during the economic slowdown, an adjustment that is substantially higher compared with the OECD average of 4%. On the other hand, the cyclical change in real earnings (both hours and hourly wages) relative to that of employment has been more important in Mexico compared to many OECD countries.

Moreover, evidence presented in the OECD Employment Outlook 2010 suggests that the **recent crisis is likely to have translated into workers moving from the formal to the informal sector in Mexico** and this to a larger extent than the 1994-95 Tequila crisis. In addition, vulnerable groups such as women, youth and older workers may have been relatively more affected by this crisis than the 1994-95 Tequila crisis because of the sectoral concentration of the shock. Overall, this suggests that the government faces the challenge to support not only job losers but also: i) workers who managed to keep their jobs during the slowdown, but experienced substantial reductions in their earnings; and ii) those who were pushed into informal employment.

Even though economic growth resumed in the third quarter of 2009 in Mexico and is expected to continue in 2010 and 2011 (as in most OECD countries) the *OECD Employment Outlook 2010* indicates that **projected output growth will not be robust enough to quickly absorb the large labour market slack accumulated during the downturn**. While unemployment in Mexico is expected to decline to 5% in 2010 and 4.5% in 2011, it will remain well above its pre-crisis level. In this context, policy makers face a daunting challenge to reduce high unemployment while tackling unprecedented fiscal deficits. Given the depth of the labour market slack and the social and economic risks associated with it, a strong case can be made to ensure that labour market policies remain adequately funded. But it becomes essential to focus on cost-effective programmes and target the most disadvantaged groups at risk of losing contact with the labour market.

Most OECD countries responded to the surge in the number of jobseekers registered with Public Employment Services (PES) from 2008 to 2009 by increasing PES staff levels. The number of jobseekers registered with PES in Mexico tripled in 2008/09 relative to 2007. As a result, the authorities responded by increasing PES staff levels by 10% over the past three years. Even though increased staffing mitigated the rise in the caseload compared with past crises it did not prevent it altogether: the caseload rose by more than 50% in Mexico and **the number of jobseekers placed in jobs only mildly increased between 2008 and 2009**.

In 2008/09, similarly to other OECD countries, Mexico scaled up its public works programme, the *Programa de Empleo Temporal* (PET) which provides temporary income support for family or community projects in slack seasons and in natural emergencies. Its coverage increased by about 90% between 2008 and 2009 reaching 700 000 persons or 1.6% of the labour force and the associated expenditure increased by 71%. Moreover, targeting was amended to ensure coverage of districts with higher job losses. Although past experience with public works programmes from OECD countries is not encouraging, in emerging economies, where social protection is little developed, they might **help keeping job seekers connected to the labour market while providing basic income support**. This may be particularly the case in Mexico, where dismissed formal workers have no unemployment compensation scheme to rely on. Such public works programmes can maximise the number of jobs created and provide an effective safety net by favouring labour-intensive projects while limiting non-labour costs.

As part of a broader anti-poverty strategy Mexico increased the coverage of *Oportunidades* by 4% in 2009 up to 5 million household. Although it was not a direct response to the crisis, it helped to **provide income support to poor families and hence mitigate the social impact of the downturn.** In addition, as a response to the global crisis and increasing energy and food prices, the amount of the *Oportunidades* benefit was significantly raised, resulting to an increase in budget of 16%. Finally, the government has recently submitted to Congress a proposal for a comprehensive reform of the Federal Labour Law which, if approved, could create incentives for hiring in the formal economy and provide better protection for workers on temporary contracts.

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Mexico, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org), Theodora Xenogiani (tel: +33 1 45 24 17 85 or e-mail: theodora.xenogiani@oecd.org) or Ann Vourc'h (tel: +33 1 45 24 17 27 or email: ann.vourch@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.