

OECD Employment Outlook 2026

Chapter 3.

Places and people: The impact of
structural change on local labour markets

Policy Highlights

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About this Policy Highlights

This Policy Highlights reproduces highlights from Chapter 3 *Places and people: The impact of structural change on local labour markets*, part of the report *OECD Employment Outlook 2026: Geographic Disparities in Jobs and Incomes*, which focuses on how regional access to job opportunities plays a key role in determining both income levels and income mobility. This report is co-written by the Directorate for Employment, Labour and Social Affairs, and the Centre for Entrepreneurship, SMEs, Regions and Cities.

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PLACES AND PEOPLE: *THE IMPACT OF STRUCTURAL CHANGE ON LOCAL LABOUR MARKETS*

Local labour markets are changing fast. Digitalisation, artificial intelligence, shifting global trade patterns and the energy transition are all reshaping where jobs are created... and where they are lost. All places must adapt to thrive in the changing environment.

Trade exposure and technology diffusion are two telling examples. Open and well-functioning global markets have long been recognised as a powerful engine of economic growth, productivity gains and improvements in living standards. By enabling countries to specialise, firms to access larger markets and consumers to benefit from

greater choice and lower prices, international trade has generated substantial aggregate benefits across OECD economies.

But the benefits are not always equally spread within countries and across groups of workers. Indeed, recent evidence suggests that the adjustment costs of structural transformations can persist for long periods.

Chapter 3 of the *OECD Employment Outlook 2026* looks at **the impact of trade and technology shocks on regions and workers in 14 OECD countries between 2000-22.**



NOT ALL PLACES ARE EXPOSED IN THE SAME WAY

A region's exposure to global shocks typically starts with what it produces.

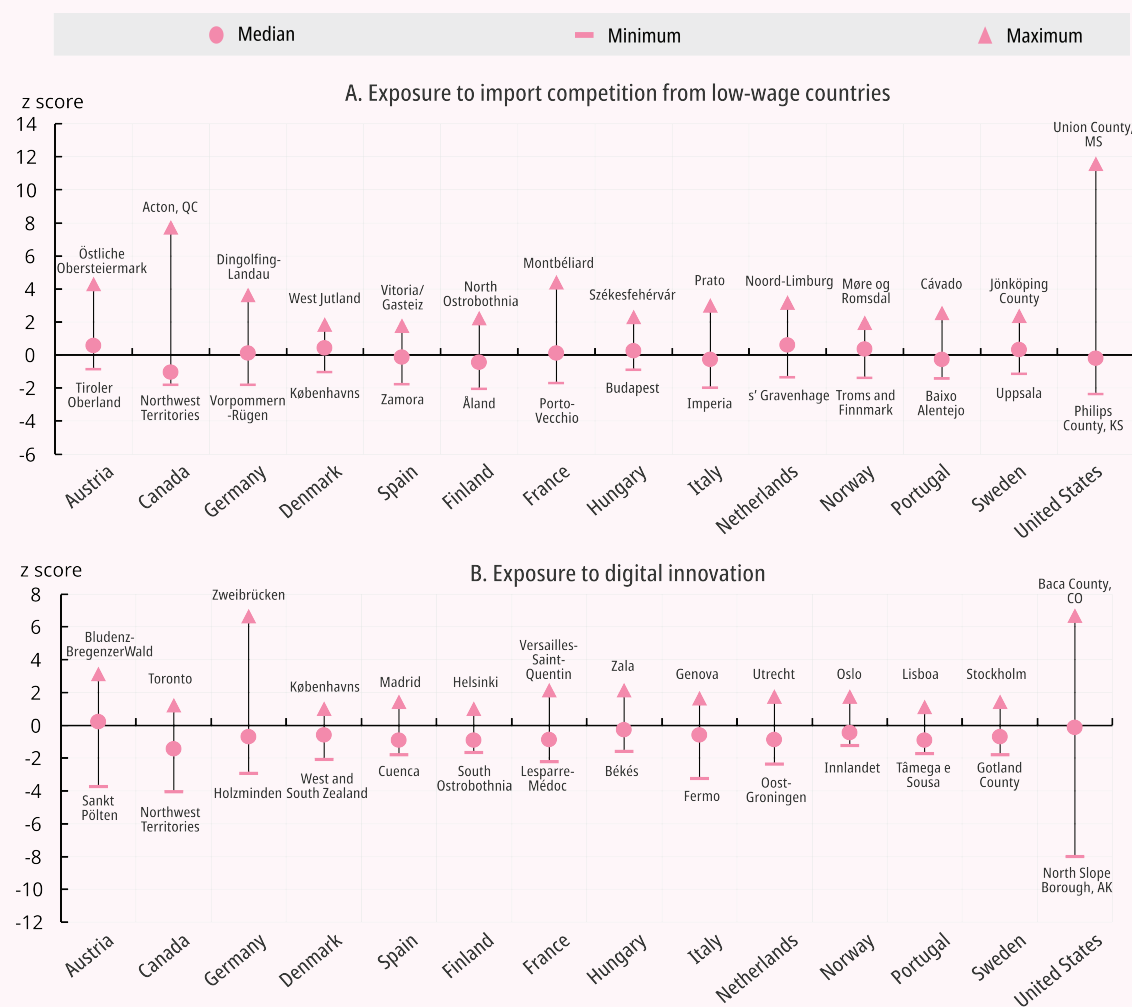
Some places look a lot like the national economy in miniature. Others are highly specialised, built around one or two leading industries.

This specialisation determines exposure. In higher-wage countries, places concentrated in manufacturing were the most exposed to competition from low-wage imports, particularly from China and Central and Eastern Europe in the 2000s. Places concentrated in digitally intensive sectors were the ones most exposed to the wave of innovation in digital technologies during the 2010s.



There are large differences in regional exposure to structural change

Regional exposure to import competition from low-wage countries and digital innovation by country, minimum, maximum and median z-scores



Note: Exposure to import competition refers the period 2000-2007, whereas exposure to digital innovation to 2012-2021. All exposure measures are expressed as z-scores by subtracting the mean and dividing by the standard deviation. A value of one means that a region's exposure to structural change is one standard deviation above the average across regions in the country. See Box 3.1 for details.

Source: Setzler (forthcoming[7]), "The local impact of structural change" (preliminary title), based on national linked employer-employee data. See Annex Table 3.A.1. for details.

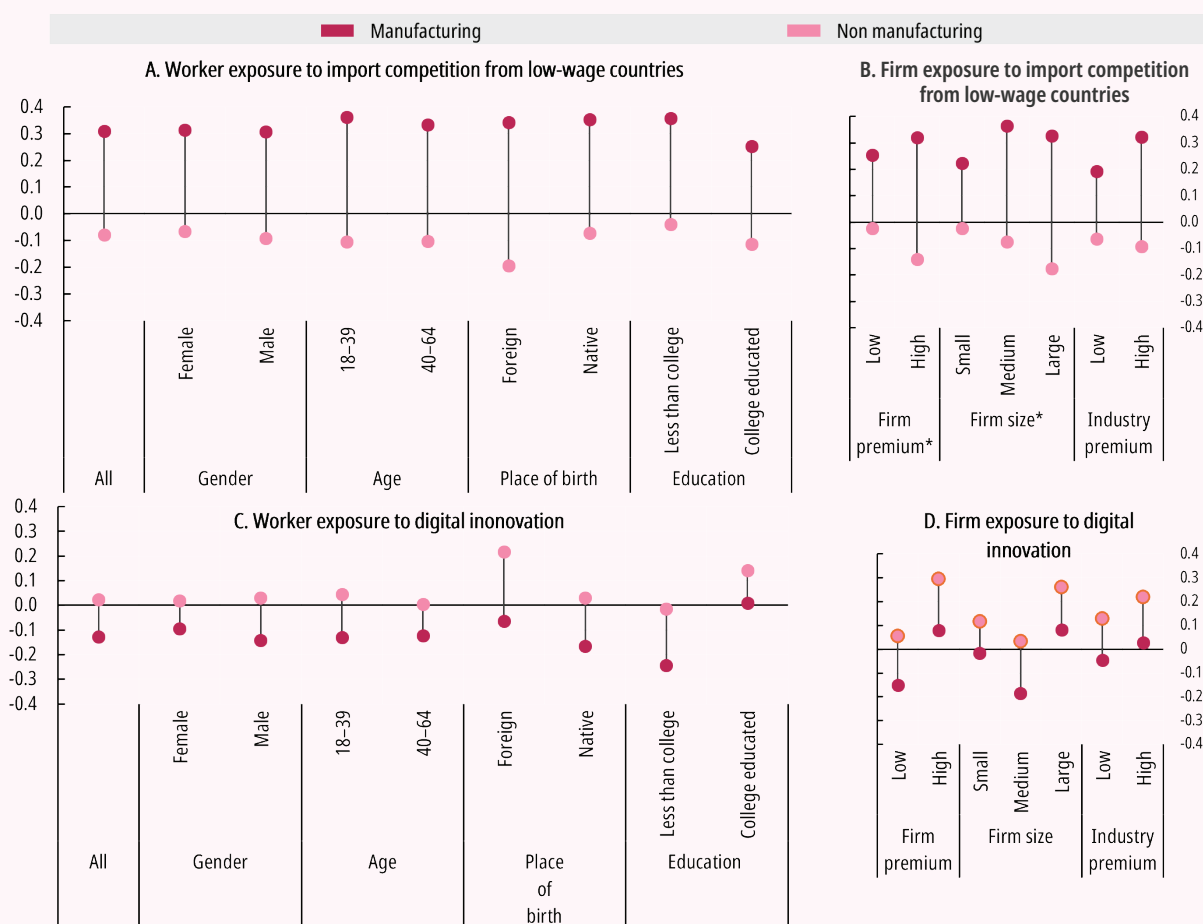
As those places attract specific groups of workers and specific types of firms, geographical variations in exposure also translate into different exposures for workers and firms. In OECD countries, cities which are more exposed to technology, and less to direct trade, typically have higher shares of higher

educated and foreign-born workers, whereas rural areas with a larger manufacturing sector tend to have a higher share of workers with lower levels of education. Large, high-wage, firms are also more exposed to technology shocks, since they too cluster in urban areas.



Exposure to structural change varies across firms and workers

Regional exposure to trade and technology shock by broad sector and worker / firm group in the base year, z-scores



Note: Exposure to import competition from low wage countries refers to the increase in import penetration from China and Central and Eastern Europe over the period 2000–07 multiplied by the share of each industry, whereas exposure to digital innovation refers to the global number of patent applications related to digital technologies over the period 2012–2021 multiplied by the share of each industry. The figure shows average regional exposure separately by worker and firm characteristics as measured in the initial year of the data. All exposure measures are expressed as z-scores by subtracting the mean and dividing by the standard deviation. A value of one means that a region's exposure to structural change is one standard deviation above the average across regions in the country. Firm-wage premia measure average firm wage wages conditional of worker composition estimated following the approach put forward by Abowd et al. (1999[24]). Industry wage premia reflect employment-weighted average firm wage premia as in Card et al (2025[25]). See Box 3.1 for details.

Unweighted average across the following countries: Austria, Canada, Denmark, Finland, France, Germany, Hungary, Italy the Netherlands, Norway, Portugal, Spain, Sweden, the United States.

*The United States is not included in the average for worker premium, firm premium and firm size in Panel A and B and not included at all in Panels C and D.

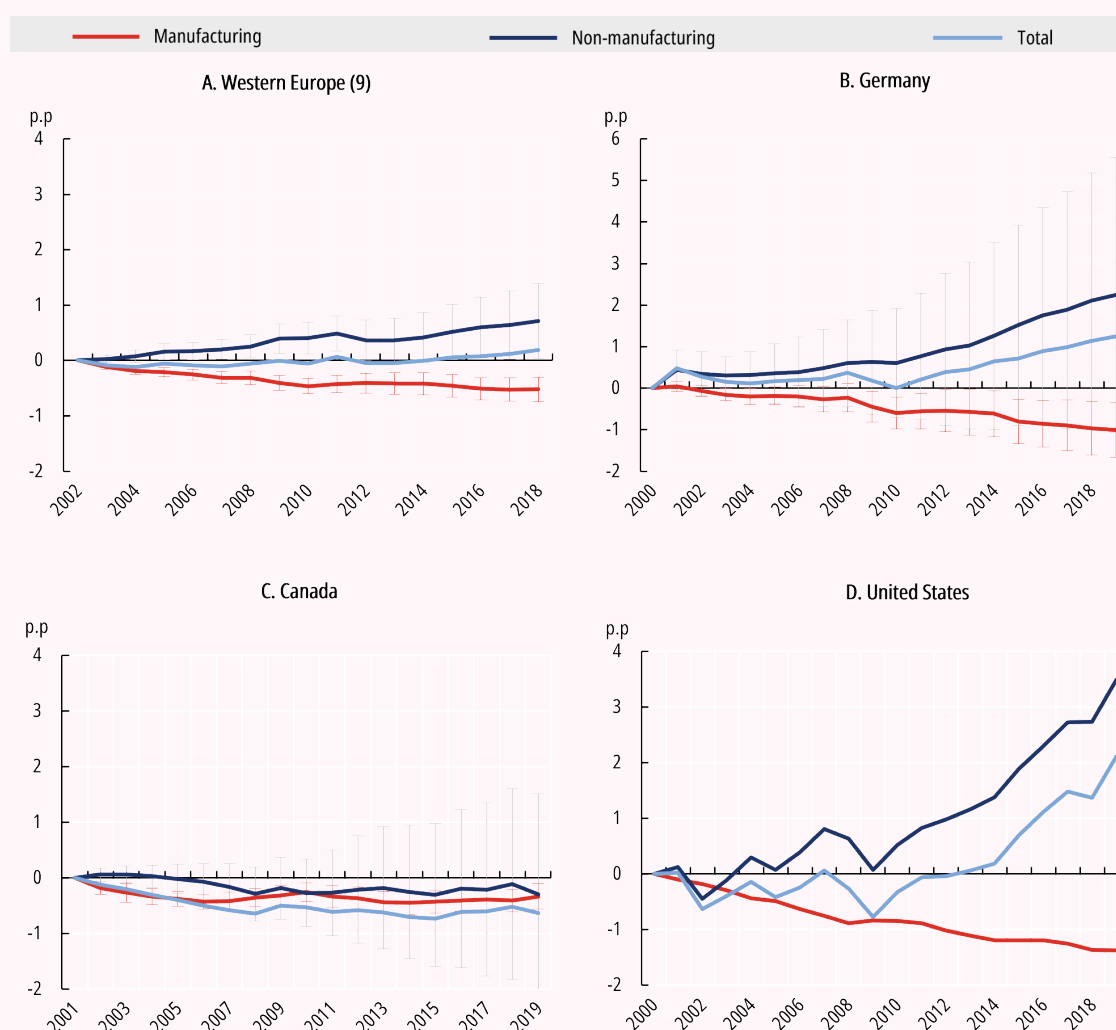
Source: Autor et al. (2025[14]), "Places versus people: the ins and outs of labor market adjustment to globalization", in Handbook of Labor Economics, <https://doi.org/10.1016/bs.heslab.2025.07.004> for the United States and Setzler (forthcoming[7]), "The local impact of structural change" (preliminary title), based on national linked employer-employee data. See Annex Table 3.A.1. for details.

PLACES EVENTUALLY ADAPT... BUT IT TAKES TIME, AND NOT EVERY PLACE GETS THERE



The effects of trade exposure on regional employment

Percentage-point effect of a one standard-deviation increase in regional trade exposure on regional employment as a share of the initial working-age population by broad sector



Notes: Figures show the estimated effect of a one standard deviation increase in import competition exposure, using the specification in Equation (3). Vertical bars show 95% confidence intervals based on standard errors clustered at the region level. Employment rates are defined as working-age employment as a share of the population in the base year. Shocks are normalised by subtracting the country mean and dividing by the country standard deviation. The regressions are weighted by regional employment in the base year. Estimates for Western Europe are based on the following 9 countries: Austria, Denmark, France, Germany, Italy, Norway, Portugal, Spain, Sweden. The estimates for the United States are based on Autor et al. (2025[14]) using the same empirical model but only focusses on imports from China along with slightly more detailed industry data. Regions refer to commuting zones in the case of France, Germany and the United States and small administrative units elsewhere. p.p.: percentage points.

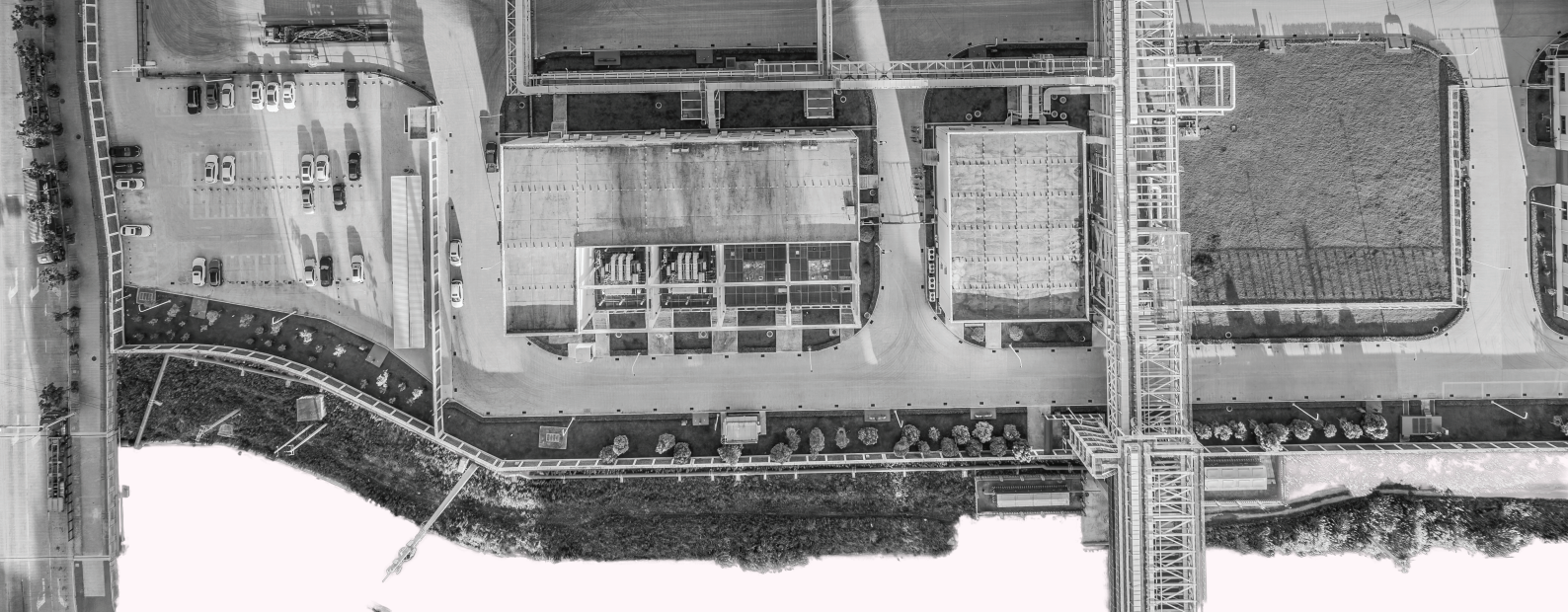
Source: National linked employer-employee data based on Autor et al. (2025[14]), "Places versus people: the ins and outs of labor market adjustment to globalization", in Handbook of Labor Economics, <https://doi.org/10.1016/bs.heslab.2025.07.004> for the United States and Setzler (forthcoming[7]), "The local impact of structural change" (preliminary title), for the other countries. See Annex Table 1.A.1 for details

The evidence shows that in general, when a place has been hit by a wave of low-wage import competition, the manufacturing workforce contracted overall and did not recover. Regions with a one standard-deviation higher trade exposure (roughly, equivalent to a region in the 80th–90th percentile of exposure compared to an average region) lost around 1 in 10 manufacturing jobs in Western Europe, and around one in seven in the United States, between 2002–18.

At the aggregate level however, these losses were eventually more than offset by job growth elsewhere, mostly in producer services like IT, finance and business services. But this transition often took many years and for many regions never materialised.

Technology shocks reveal a different story. Regions more exposed to digital innovation saw a sustained rise in overall employment, driven by producer services and “non-routine” jobs. But routine, manual workers, exposed to automation saw higher job losses.





PEOPLE DON'T MOVE BETWEEN JOBS OR PLACES... *THEY MOVE IN AND OUT OF THE WORKFORCE*

The most striking finding is that when manufacturing jobs vanish and service jobs appear, it is rarely the same workers making that switch.

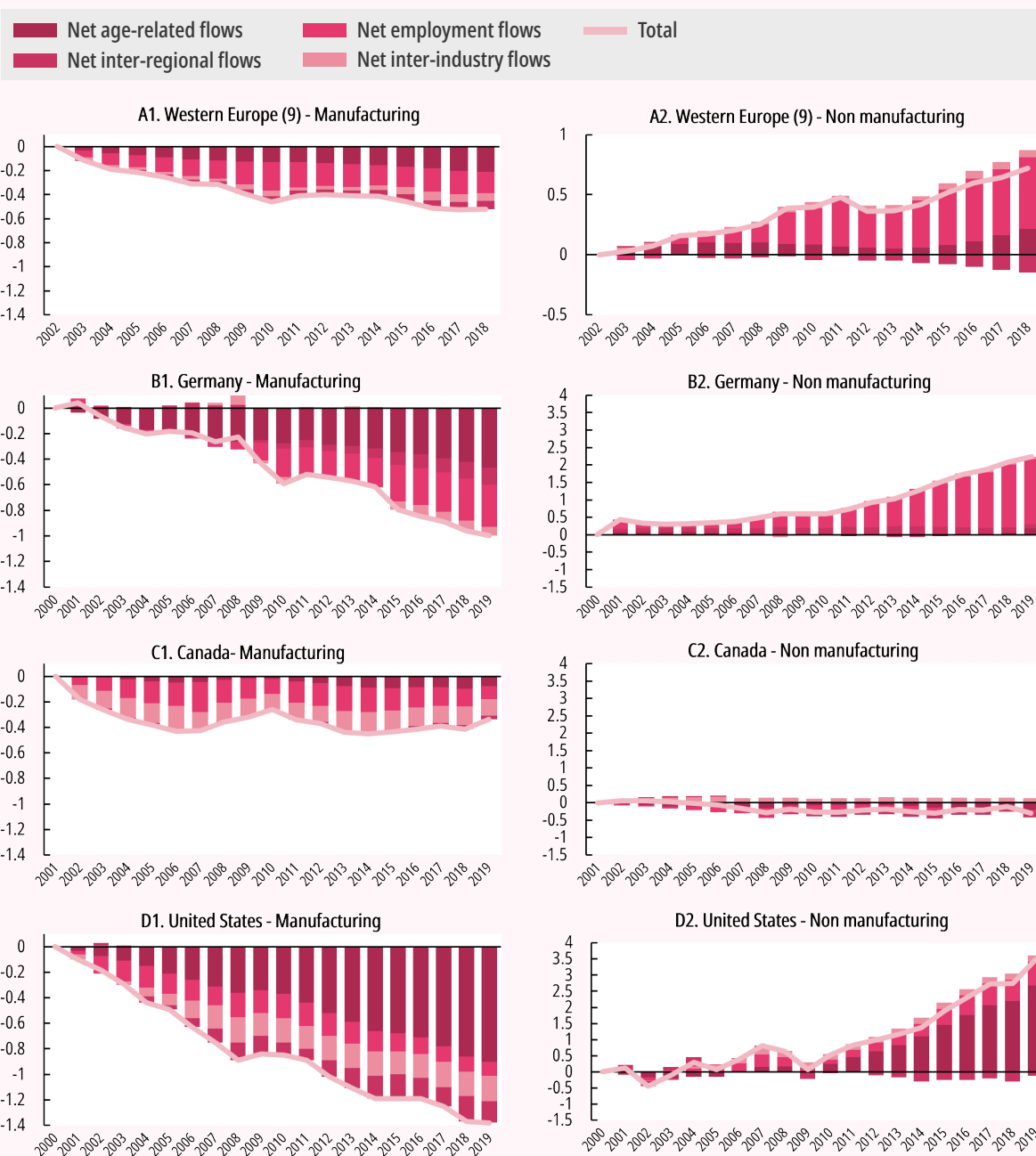
Instead, change happens generationally. Manufacturing workers that lost their jobs disproportionately retire, become unemployed, or leave the workforce. Younger workers, including new graduates, take up the new jobs being created in other sectors. Very few of the manufacturing workers that lost their jobs moved between industries or between places: less than 15% of the manufacturing jobs lost to trade competition were offset by workers switching sectors, and moving to a different place mattered even less.





The effects of trade exposure on net worker flows

Percentage point effect of a one standard-deviation increase in regional trade exposure on net worker flows by broad sector



Notes: Exposure to import competition from low wage countries refers to the increase in import penetration from China and Central and Eastern Europe over the period 2000-2007 multiplied by the share of each industry. Figures show the estimated effect of a one standard deviation increase in import competition exposure, using the specification in Equation (3) in Box 3.4. The red line corresponds to the estimated employment effect in Figure 3.7.

Source: National linked employer-employee data based on Autor et al. (2025[14]), "Places versus people: the ins and outs of labor market adjustment to globalization", in Handbook of Labor Economics, Elsevier, <https://doi.org/10.1016/bs.heslab.2025.07.004> for the United States and Setzler (forthcoming[7]), "The local impact of structural change" (preliminary title), for the other countries. See Annex Table 3.A.1 for details

Evidence from several countries shows the costs for affected communities go well beyond a pay cheque, and can include long-term unemployment, poorer health, and even effects on family stability in the hardest-hit places.

FIRMS ALSO SORT... *AND NOT ALWAYS FOR THE BETTER*

Structural change also reshapes industries and the types of firms that survive and grow within them.

Across industries, import competition often disproportionately reduces manufacturing employment in industries with more generous wage-setting practices, while non-manufacturing job growth is spread evenly across high- and low-wage industries.

Within the industries most exposed to trade competition, the firms that shrink tend to be the smaller, lower-wage, less productive ones. Meanwhile, the firms that expand tend to be larger, higher-wage and more productive. This is good for overall productivity. But it also means that the manufacturing jobs that disappear tend to be those held by the most vulnerable workers.

The impact of digital innovation on job creation in non-routine occupations and job destruction in routine-manual occupations is evenly split across high and low-wage industries. Within industries, job destruction in routine-manual occupations tends to be concentrated in small and medium-sized firms. But whether this remains the case in the future, with adoption of Generative AI, is uncertain.





What this means for policy

Mobility between jobs, sectors or places is often seen as the answer to local economic shocks. New evidence from the *OECD Employment Outlook 2026* suggests it's only part of the solution. Most workers don't move, whether for financial, family or personal reasons. That means local and national policy has to do more of the work.



Anticipate change

Diversify local economies, invest in education and infrastructure, and identify emerging skills needs before the shock hits - not after.



Support people, not just places

Help displaced workers retrain, search for jobs, and relocate if they choose to - while recognising that many will, understandably, prefer to stay.



Remove the barriers

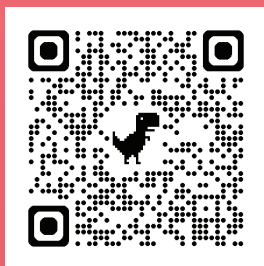
Reduce the frictions that stop workers moving between sectors and places, and that stop new, better jobs from reaching the people who need them.

Structural change creates winners overall.

The challenge for policymakers is making sure it doesn't leave entire places, and the people who live in them, permanently behind.



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