OECD Employment Outlook 2023

ARTIFICIAL INTELLIGENCE AND THE LABOUR MARKET

Country note

Mexico

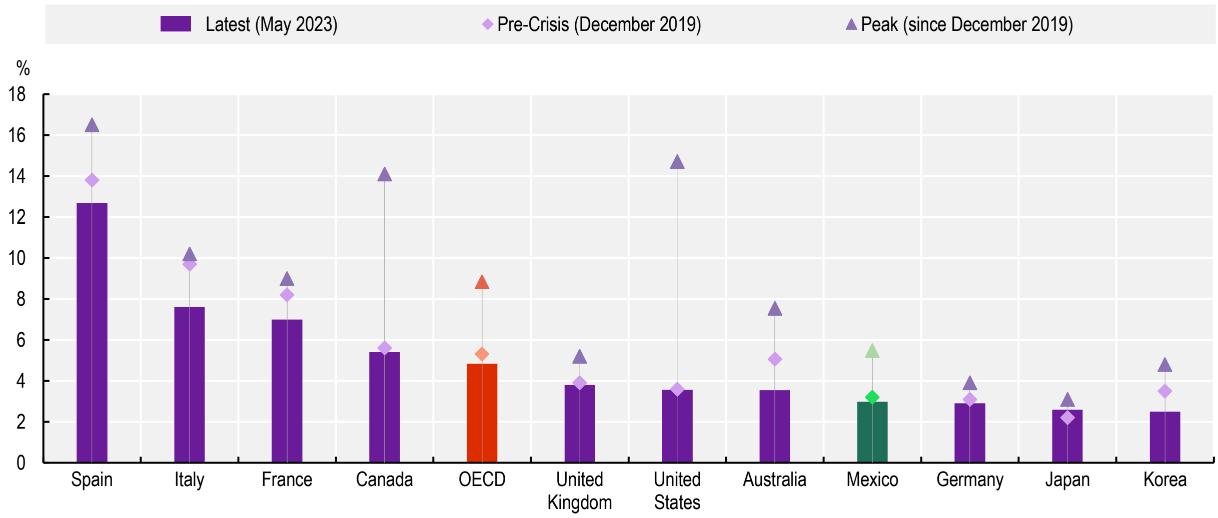
Labour markets have been resilient despite the significant slow-down in economic activity

The labour market recovery from the COVID-19 recession has been strong, but lost momentum in 2022 and early 2023 in the context of the economic slowdown. However, employment and unemployment have held their ground, and job vacancy rates remain high in most countries, despite some signs of easing. By May 2023, the OECD unemployment rate had fallen to 4.8%, a level not seen in decades.

- The unemployment rate in Mexico has sustained a steady decline since it peaked at 5.5% in June 2020. By May 2023, it reduced to 3%, below its pre-pandemic level of 3.2% in December 2019. This decline mirrors the labour market recovery observed in most OECD countries. Similarly, employment rate rebounded standing at 63.8% in Q1 2023, nearly 1.5 percentage points above its pre-pandemic level.
- Mexico has successfully managed to resorb the increase in inactivity induced by the COVID-19 crisis. The inactivity rate fell to 34.3% in Q1 2023, down 1.4 percentage points from Q1 2022 and below the pre-pandemic level of 35.3%. This trend was driven by women, whose inactivity rate dropped 2.3 percentage points to 48.7% over that period. This differential pattern signals a promising recovery in female labour force participation with the potential for further advancements.
- The recovery of the labour market may align with the gradual regain of economic activity. It is projected that Mexico’s real GDP growth will decelerate from 3.1% in 2022 to 2.6% in 2023, then further slow to 2.1% in 2024. These estimates, however, are highly contingent on the pace of the US economy’s slowdown, particularly within its industrial sector, as this could directly impact Mexico’s external demand. Consequently, unemployment is predicted to return to 3.2% by 2024.
- Another progress of Mexico’s labour market is the increase in statutory annual paid leave. Previously, limited to six days (lowest among OECD countries), minimum statutory paid leave has been increased to 12 days in 2023 for the first year of employment, with two additional days per year of tenure. This progress contributes to enhancing labour conditions in line with OECD job quality standards.

Figure 1. Unemployment rates remain low across the OECD

Unemployment rate (percentage of labour force), seasonally adjusted



Note: Latest month available refers to March 2023 for the United Kingdom; and June 2023 for Canada and the United States.
Source: OECD (2023), "Unemployment rate" (indicator), https://doi.org/10.1787/52570002-en (accessed on 11 July 2023).

Real wages are falling amid a cost-of-living crisis

Russia's war of aggression against Ukraine contributed to a surge in inflation, which was not matched by nominal wage growth. Consequently, real wages have fallen in virtually every OECD country. On average, real wages were down 3.8% in Q1 2023 year-on-year among the 34 OECD countries with data available. The loss of purchasing power is particularly challenging for low-income households who have less capacity to deal with increases in prices through savings or borrowing.

- Mexico experienced a significant decline of 1% in real hourly wages from Q1 2022 to Q1 2023. In comparison, the United States saw a slightly smaller decline of 0.7% while Canada faced a more significant decrease of 2%. However, over the cumulative period from Q4 2019 to Q4 2022, Mexico exhibited stronger performance, surpassing its North American neighbours, with only a 0.3% decrease in real hourly wages compared to their declines of more than 2%, reflecting Mexico's efforts in countering the challenges posed by high inflation.
- Wage differentials across education level have compressed: the lower educated workers are the only group having experienced real wage growth from Q4 2019 to Q4 2022. In contrast, wages have grown more significantly for workers in high-paying occupations compared to those in low-paying occupations.

Minimum wages and collective bargaining can support low-paid workers

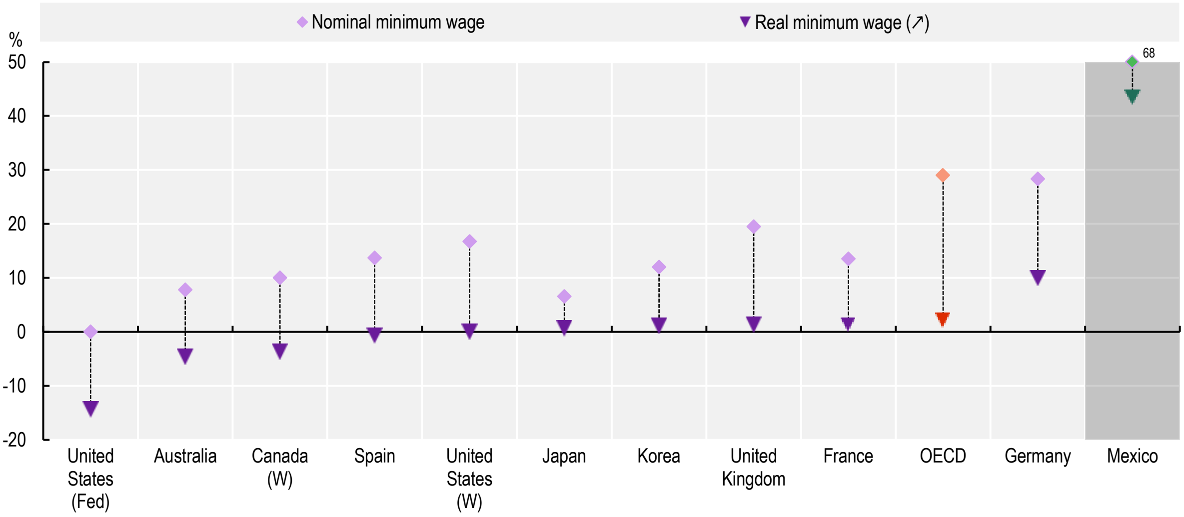
Minimum wages and collective bargaining can help mitigate losses in purchasing power and ensure a fair distribution of the cost of inflation between firms and workers, while avoiding a price-wage spiral. On average across the OECD, statutory minimum wages have increased significantly over the last two years, and this has allowed real minimum wages to keep up with inflation better than average wages. The evidence suggests that there is room for profits to absorb further increases in wages, at least for low-paid workers. Governments can also provide direct support through the tax and benefit system to raise the net income of low-income households.

- Minimum wages in Mexico are not only keeping pace with inflation but are also increasing in real terms. In contrast to the modest 2.3% increase in real minimum wages across the OECD between December 2020 and May 2023, Mexico has witnessed a 43.6% rise, placing it as the country with the highest increase within the OECD. This reflects Mexico's commitment to addressing the loss in purchasing power that minimum wage earners had endured from the 1970s until 2021. Such advances are facilitated by Mexico's regulatory framework, which mandates an annual revision of minimum wages to be implemented within a month from the review.

- Alongside minimum wage regulations, since late 2020 Mexico has been progressively implementing a new labour justice system for resolving labour disputes. In 2022, Mexico stands out among the few countries with a lower number of industrial disputes compared to the 2010-19 average.

Figure 2. Minimum wages have kept pace with inflation

Cumulative percentage change in nominal and real minimum wages since December 2020, May 2023



Note: OECD is the unweighted average of 30 OECD countries with a statutory minimum wage. W: employee-weighted subnational minimum wages. Fed: Federal minimum wage.
Source: *OECD Employment Outlook 2023*, Chapter 1.

AI has so far helped high-skilled workers perform their jobs rather than displacing them, but employment effects could take time to materialise

So far, there is little evidence of decreased labour demand due to AI. High-skilled occupations have been the most exposed to recent progress in AI, but they have also experienced employment gains relative to lower-skilled workers. However, AI adoption is still relatively low and the technology is evolving rapidly including recent advances in generative AI. Any negative employment effects may therefore take time to materialise.

- AI appears to complement the skills of more exposed, high-skill occupations. When considering all automation technologies including AI, the occupations at the highest risk of automation are typically lower-skilled and held by younger workers. On average 27% of employment in OECD countries is in occupations at highest risk of automation.
- High-skilled workers are likely to benefit more from AI and outcomes for workers tend to be better where they have received training to work with AI. According to the PIAAC survey, the percentage of adults in Mexico scoring at the highest proficiency level in problem solving in technology-rich environments was only 1.5% in 2019, compared to the OECD average of 5.1%. To adapt to the evolving job market, Mexico needs to prioritise investments in education and training for its workforce.

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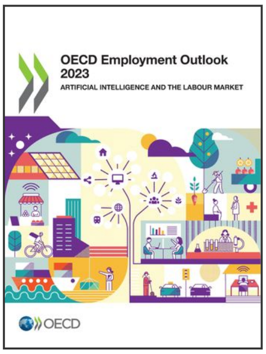

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