



Labor Markets and the Crisis in Latin America and the Caribbean (a preliminary review for selected countries)¹

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Abstract

Countries in Latin America and the Caribbean are experiencing the impact of the international financial crisis on labor markets across different dimensions, such as employment, wages and the quality of labor market arrangements. This note reviews a selected group of countries to assess the speed and severity of labor market impacts. It identifies patterns in the changing labor market conditions, such as specific sectors or types of workers being affected. It also describes countries' preparedness and capacity to respond to the crisis and the specific policy responses being implemented. The review finds a large variation in impacts and responses in the context of increases in unemployment rates that range from 0.4 to 2.1 percentage points. The impacts of the crisis are evolving rapidly but seem to have a more noticeable negative effect among salaried workers in Brazil and Chile whereas in Colombia non-salaried workers have been affected the most. Mexico shows both types of workers as being seriously hit by the recession.

LAC Responses on Labor Markets: Information and Capacity

Countries in Latin America and the Caribbean are experiencing the impact of the international financial crisis on labor markets across different dimensions, such as employment, wages and the quality of labor market arrangements. The policy response to these impacts is reflecting both Governments' ability to monitor the actual impacts of the crisis, as well as their capacity to consistently (and effectively) respond with programs and interventions.

This note reviews a selected group of countries to assess the speed and severity of labor markets impacts. It identifies patterns in the changing labor market conditions, such as specific sectors or types of workers being affected. It also describes the policies announced or adopted to respond to the crisis. At this stage, the note provides only a systematic description of labor market facts and policies. This groundwork stock-taking is necessary for future analytical work. In this regard, the evidence presented below highlights the importance of further studies to understand two main questions: i) why different countries in the region show different labor market adjustments to the crisis and ii) what explains the adoption and effectiveness of the wide range of policy responses adopted by governments.

¹ This is the first of a series of notes to monitor the status of the labor market during this crisis period. Forthcoming issues will extend the study to other countries of the area, and complement the analysis of the countries included with further data. It will also report advances in labor market policies adopted by governments as the crisis evolves. This note was produced by a joint team from the Social Protection and Poverty and Gender Units including Georgina Pizzolitto, Diana Hincapie, Pablo Acosta and, Rodolfo Beazley, under the guidance of Helena Ribe and Jaime Saavedra.

Understanding the size and speed of the impacts of the crisis on labor markets depends on the availability of high frequency data. Countries included in this review fall into two categories: those with higher frequency data (i.e., monthly or quarterly labor statistics) and those with low frequency data (i.e. annual or bi-annual statistics). For the latter group, however, leading indicators such as Social Security records provide some indicative information on the nature of the labor market response to the crisis.

Current Labor Market Impacts of the Global Crisis

Regarding the impact of the crisis, all countries with timely data show an increase in unemployment rates. Chile registers an increase in the unemployment rate of 2.1 percentage points for the latest month in record with respect to the same month one year ago. Colombia and Mexico register near one percentage point changes. Brazil shows an even smaller increase (0.4 percentage points) but a very rapid rise in recent months. These rises in unemployment are accompanied by important falls in net job creation since mid 2008. Countries differ on the main force that explains this fall in net employment creation. On one hand, Brazil, Chile and Mexico, register a deep fall in salaried net job creation since mid 2008. In Colombia, on the other hand, it is net job creation of non-salaried jobs (i.e. employers, self-employed and unpaid workers) what is driving the fall in total employment. All countries show a net destruction of non-salaried jobs towards the end of 2008 or the beginning of 2009, although the Mexican is the largest fall in both relative and absolute terms. In general, non-salaried workers represent a large portion of total informal employment. Hence, it can be argued that the crisis is having a more noticeable negative effect on the formal sector in Brazil and Chile whereas in Colombia the informal sector has been the most affected. Mexico shows both sectors been seriously hit by the recession.

A preliminary distributive analysis of the Mexican case shows that the poorest households and the households in the North of the country (where tradable activities concentrate) are the most affected by the crisis. The evolution of the impacts over time is also important. In Brazil, the early labor market impacts of the crisis were clearly observed in industrial states like Sao Paulo, but are now larger in the urban areas of poorer Northeast states like Recife and Salvador.

The impact of the crisis on earnings and wages is mixed. While Brazil and Chile show growing real earnings, Colombia registers falling real wages both in retail commerce and blue-collar manufacturing (two of the most common occupations). Mexico shows a dual pattern whereby blue-collar manufacturing workers have steady real wages whereas workers in retail commerce have falling real earnings. A pattern emerges whereby the more open economies like Chile, Colombia and Mexico have all endured an important shock due to the international crisis, but Chile has been able to prevent a fall in real wages, whereas Colombia and Mexico have endured declines in real wages, for at least some sectors. On the other hand, in a less open economy like Brazil the impact in the labor markets appears limited to losses of employment in the export oriented activities with no significant impact on earnings. For other countries (e.g. El Salvador, the Dominican Republic), timely data is lacking but leading indicators from Social Security data suggest major job losses in recent months. However, given the limited size of formal employment, the full impact of the crisis cannot be fully ascertained.

Current Policy Responses

In relation to the policies actions adopted in response to the crisis, countries like Brazil, Chile or Mexico are taking advantage of labor market policy instruments already in place, such as unemployment insurance, or wage subsidies to keep or hire workers,. In these countries, the *duration of unemployment*

insurance has been extended either in specific sectors or across sectors aiming at protecting formal workers from longer unemployment spells. *Wage subsidies* are being utilized for targeted and vulnerable groups. In Chile, the wage subsidy is targeted at the youth with earnings below a certain threshold, and with formal employment. In Colombia, the (implicit wage) subsidy is broader since the Government established general payroll tax holidays for new small and medium size firms. Still, the actual coverage of these policy changes (unemployment insurance, wage subsidies) is limited to the formal sector, and it is unclear how much the take up for these measures will be. There is also renewed attention amongst policy makers to finding ways to protect or create jobs, and several are considering *temporary employment programs* (TEP), although countries are still dealing with implementation issues (Mexico). *Minimum wages*, a traditional labor market policy variable, have not been a key instrument in managing the current global crisis. Minimum wage increases have responded instead to the planned periodic adjustment, although in some cases (like in El Salvador), the adjustment took place earlier than planned to protect workers' purchasing power due to high inflation during 2008. Finally, firms are receiving special *subsidies and loans* or benefiting from corporate tax reductions in Chile and Mexico in order to protect employment. While some of these interventions are aimed at providing a finance cushion to small and medium enterprises, their coverage, take up and impact cannot be fully assessed still.

Table 1: LAC Labor Market Interventions (Changes to policies since Oct. 2008)

	MinimumWage	Training	Unemp. Insurance	Wage subsidies*	Public Works
Argentina				x	
Bolivia	x	x	x		
Brazil	x		x		
Chile		x(1)	x	x	
Colombia		x			
Guatemala					x
El Salvador	x				
Honduras	x	x			
Jamaica	x	x			x
Mexico		x		x	x

* This includes wage subsidies and other labor cost reductions. (1) Tax credit and leave for training activities.
Source: Crisis Policy Response - LAC Social Protection Unit.

Latin America in International Perspective

When compared to other countries in the world with available data, Latin American countries are not among the worst hit by the crisis. Table 2 includes year-to-year changes in open unemployment rates as an indicator of the impact of the crisis on the labor market for a selection of countries. Spain, The United States and small open economies/cities in Asia (Singapore, Hong-Kong and Taiwan-China) show an increase of more than 50 percent in their open unemployment rates in the past year. On the other hand, most Latin American countries register changes in their unemployment rates of less than 30 percent (Chile and Mexico) and even at or below the 10 percent mark (Brazil, Colombia, Peru and Uruguay).

Absolute changes are also a good indicator of the severity of the impact. In this regard, Chile is the only country with a rise in the open unemployment rate of more than 2 percentage points, so far. This mark is similar to the increases observed in Hong-Kong and Taiwan, but still well below the record marks of

Spain (7.9 percentage points), the U.S. (3.9 percentage points), Turkey (3.9 percentage points), Canada (2.6 percentage points) and Sweden (2.3 percentage points).

Table 2: Change in Open Unemployment Rates in selected countries

	initial		final		annual change	
	rate	period	rate	period	in percentage points	in percentage change
Spain	9.6	Q1 2008	17.5	Q1 2009	7.9	82%
USA	5.2	May-08	9.1	May-09	3.9	75%
Singapore	2.6	Q1 2008	4.4	Q1 2009	1.8	69%
Hong-Kong	3.3	Mar-08	5.3	Mar-09	2.0	61%
Taiwan (China)	3.8	Apr-08	5.8	Apr-09	2.0	51%
Canada	6.2	May-08	8.8	May-09	2.6	42%
Sweden	6.0	Apr-08	8.3	Apr-09	2.3	38%
UK	5.2	Q1 2008	7.1	Q1 2009	1.9	37%
Turkey	11.6	Feb-08	15.5	Feb-09	3.9	34%
Australia	4.3	Apr-08	5.6	Apr-09	1.3	30%
Mexico	4.0	Q1 2008	5.1	Q1 2009	1.1	28%
Chile	7.7	Mar-08	9.8	Mar-09	2.1	28%
Thailand	1.7	Q1 2008	2.1	Q1 2009	0.4	27%
Norway	2.5	Q1 2008	3.1	Q1 2009	0.6	24%
Hungary	8.0	Q1 2008	9.7	Q1 2009	1.7	21%
Portugal	7.6	Q1 2008	8.9	Q1 2009	1.3	17%
Peru	7.1	Mar-08	7.8	Mar-09	0.7	10%
Uruguay	7.6	Apr-08	8.3	Apr-09	0.7	10%
Morocco	9.5	Q4 2007	10.4	Q4 2008	0.9	9%
Colombia	12.1	Feb-08	12.9	Feb-09	0.8	6%
Germany ⁽¹⁾	7.8	May-08	8.2	May-09	0.4	5%
Brazil	8.6	Mar-08	9.0	Mar-09	0.4	5%
Philippines	7.4	Q1 2008	7.7	Q1 2009	0.3	4%
Poland	8.1	Q1 2008	8.3	Q1 2009	0.2	2%
South Africa	23.5	Q1 2008	23.3	Q1 2009	-0.2	-1%
Egypt	9.1	Q4 2007	8.8	Q4 2008	-0.3	-3%

Source: International Labor Office, LABORSTA-Internet

ANNEX: Summary of recent country experiences

BRAZIL

Labor market facts

The global economic slowdown is having a sharp impact on Brazilian labor markets but recovery may occur soon. After years of sustained employment creation and falling unemployment, the unemployment rate in Metropolitan Areas experienced its largest *increase* ever from 6.8 in December 2008 to 9.0 in March 2009 (Figure 2). Most of the net job losses so far seem to be among non-salaried workers, but there is an important decline in net job creation among salaried workers since mid 2008 (see Figure 3) which is consistent with previous findings that “...the countercyclical rise in unemployment and informality is driven primarily by a reduction in hiring in the formal sector, rather than increased labor shedding...” (see LCR Crisis Brief by Bill Maloney).² Wages in the informal sector, which are less likely to be affected by minimum wage regulations, seem to be adjusting downwards during recent months, partly due to the high food inflation during 2008.

- Unemployment rates had a large increase in January 2009, in a period of historically low levels. While January is a month with seasonal increases in unemployment, 2009 showed the largest jump (21 percent) in the number of unemployed, compared to the increases in January 2007 (10.7 percent) or January 2006 (10.6 percent).³ Still, this sudden increase in the number of unemployed in urban Brazil is taking place when the unemployment rate is at historical low levels: the average unemployment rate between October and December 2008 was 7.5 percent, the lowest since 2002. This recent increase in unemployment has been particularly acute in Sao Paulo where the unemployment rate reached 9.4 percent (compared to December’s 7.1%). By February the unemployment rate stayed around 8.4 percent and in March the number of unemployment insurance requests actually declined, suggesting a gradual improvement in labor market outcomes.
- The sharp impact on labor markets is primarily driven by the employment reduction in the informal labor market. Labor market informality in Brazil has been traditionally countercyclical, and was declining during the recent fast growth period. Since the onset of the crisis, the number of informal workers⁴ in Metropolitan Areas was reduced by 3.2 percent (90 thousand workers) between January 2008 and January 2009, compared to an increase in the number of formal workers⁵ by 4.5 percent (about 400 thousand workers) in the same period.
- After an early -- and substantial -- net employment reduction in the formal sector, labor demand shows signs of stability by March 2009. According to the roster of formal workers in the private

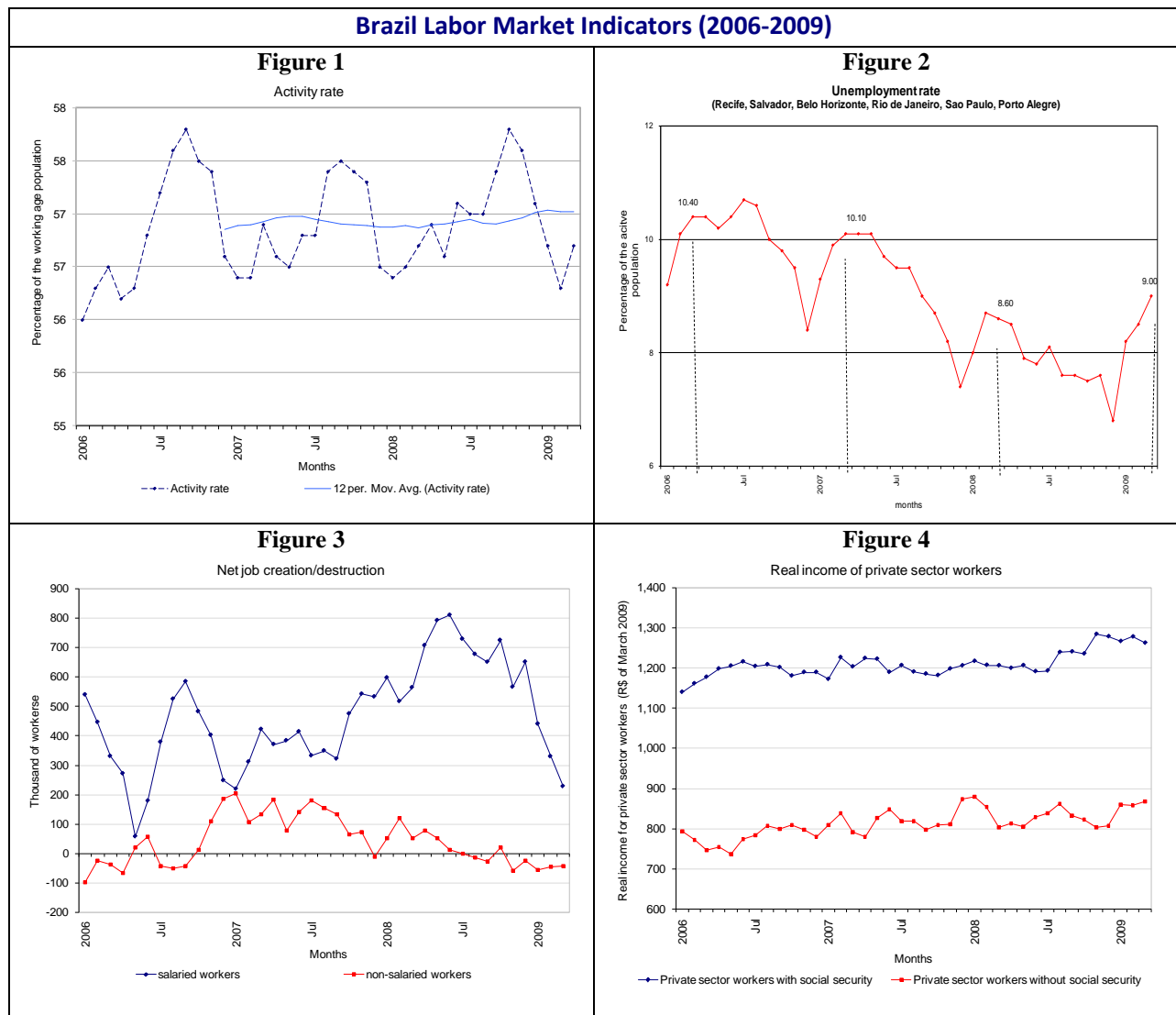
² The number of *underemployed* workers -- as measured by those working an insufficient number of hours -- increased by 11 percent between January 2008 and January 2009, or an additional 60,000 *underemployed* workers, suggesting other margins of adjustment to the crisis. This rising underemployment is better observed in Sao Paulo, Rio de Janeiro and Belo Horizonte. Still, underemployment as measured here, represent only 700,000 workers compared to more than 21 million workers in the PME population.

³ Data from Pesquisa Mensual de Emprego (PME).

⁴ Informal workers are defined as those without Employment Card (*sem Carteira de Trabalho assinada*). Other analyses could include those self-employed (*conta propria*).

⁵ Formal workers are defined as those with Employment Card (*com Carteira de Trabalho assinada*).

sector (*Caged*),⁶ close to 800 thousand formal jobs were lost between November 2008 and January 2009 -- with a peak of 654 thousand in December 2008. Most of the decline in formal jobs took place because of the sudden reduction in hiring rather than firing, especially in States like Sao Paulo and Minas Gerais.⁷ In 2008, the average monthly number of workers hired and fired in Sao Paulo was around 425 and 358 thousand respectively, but in December the number of hired workers dropped to only 271 thousand, causing a major drop in formal jobs. By March 2009, the formal job losses seem to have halted overall, and in fact may have reverted in some states, but not including the industrial sector in Sao Paulo. In April 2009, unemployment figures in Sao Paulo finally dropped, representing 38 thousand less unemployed in urban Sao Paulo.



⁶ *Caged* stands for Cadastro Geral de Empregados e Desempregados and excludes informal sector workers.

⁷ This pattern is also identified as a stylized fact by Bosch and Maloney (2009).

- In addition, informal workers are facing declining real wages in recent months. Average real wages in urban areas have increased during 2008, and real wages in January 2009 were almost 6 percent higher than those in 2008. These higher real wages hide important differences across types of employees, since those informal workers (*sem Carteira*) saw their wages decline during the 2008 year and in January 2009 by 8 and 3 percent, respectively.

Recent Labor Market Policies

The rapid increase in unemployment at the beginning of the 2009 and the lower real due to the 2008 inflation made the Government take two actions related to labor markets:

- First, to address the sharp increase in unemployment the Government extended the unemployment compensation period (*Seguro Desemprego, SD*) for two additional months for the “most affected sectors and states.” Originally the SD covered from three to five months and it was extended to three to seven installments. Every month, around 600 thousand people receive the benefit, and in 2008, the total cost was R\$13.8 billion. The additional payment is expected to cost R\$2.2 billion and only those laid off after December 2008 are eligible. Funding for these benefits come from the FAT (*Fundo de Amparo ao Trabalhador*) which might use up to 10 percent of its technical reserves.
- Second, the Government increased in February the minimum salary from R\$415 to R\$465 (about 6.4 percent) following its periodic adjustment pattern. The minimum salary not only applied to working individual but it also defines the benefit amount for several social security and social assistance transfers. This increase is expected to represent R\$24.3 billion in additional salaries. The R\$50 increase will impact the Federal Government’s in R\$8.5 billion (about 0.3 percent of GDP), mostly affecting the social security accounts with additional R\$7.8 billion. Other benefits also linked to the minimum wage, like salary bonus (*abono salarial*) and unemployment compensation will also be readjusted. Overall, the labor markets policy response in Brazil is addressing the vulnerable population affected by the decline in external demand and facing unemployment. Other interventions like housing construction and increase social assistance transfers (*Bolsa Familia*) are part of the measures of the Government.

CHILE

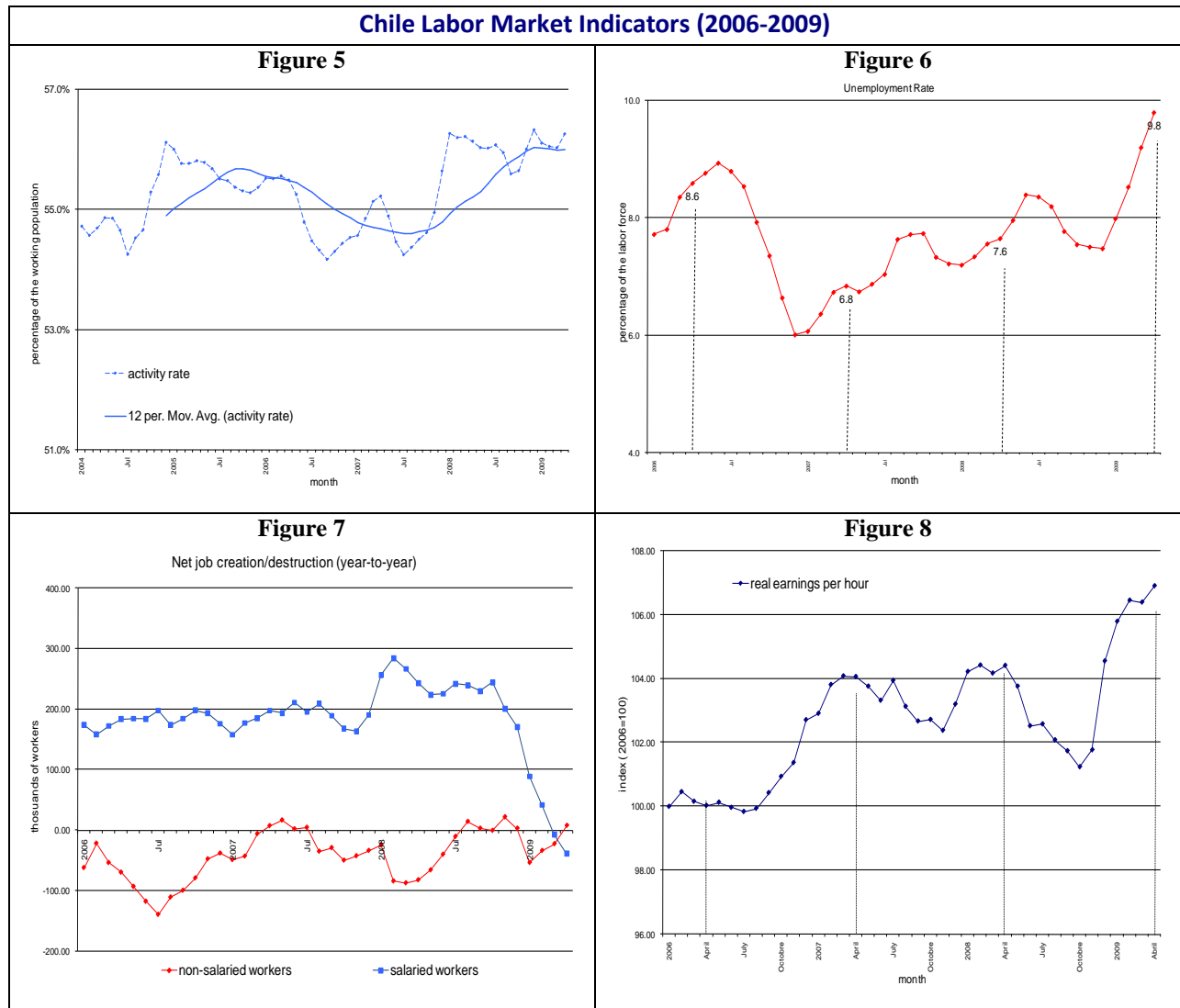
Labor market facts

Unemployment rates have been increasing, quarter-to-quarter, since the first quarter of 2008, changing the downward trend that these rates showed during the previous two years (see Figure 6). During the quarter ending in April 2009, unemployment rate was at 9.8 percent, higher than in the same period of 2008 (7.6 percent) and of 2007 (6.8 percent). On the other hand, the activity rate, has stayed at the same level than in April last year (i.e., around 56.2 percent of the working age population) (Figure 5)

Employment creation came to a halt in February 2009. After three years of annual growth of employment between 1 and 4 percent every month, the quarter ending in February 2009 showed an employment growth rate of 0.1 percent. Since March 2009 there has been net job destruction of around 30 thousand jobs per month. Salaried jobs have declined steeply going from an annual creation of around 200 thousand up until November 2008 to only 41 thousand in February 2009 and net job losses of nearly 40 thousand in the quarter ending in April 2009.. The number of non-salaried workers has had an annual decline of around 40 thousand during the end of 2008, but this figure does not differ much

from what had been seen in previous years and have actually had a small rise in recent months (see Figure 7). Hence, most of the deceleration in employment creation is due to an abrupt reduction in salaried employment creation.

Interestingly, real wages have, during the last three months, reverted the downward trend observed for most of year 2008 (see Figure 8) although some occupations (mostly in the service sector) have lower real wages than in January 2007.



Recent Labor Market Policies

- Chile launched one of the most ambitious fiscal stimulus plans to buffer the impacts of the global economic crisis. In addition to a public investment plan for US\$ 1.485 billion (1 percent of GDP) and tax reductions or holidays accounting for up to US\$ 1.455 billion (another 1 percent of

GDP), president Bachelet announced in early January 2009 several measures related to labor markets:

- First, a new Youth Employment Subsidy Law (30 Jan 09) provides a 30 percent subsidy of the annual income for those individuals aged between 18 and 24, with finished secondary education and working in a formal position. It only covers workers with monthly (annual) incomes below Ch\$360,000 (aprox. US\$ 600). This Law also includes extensions to maternity benefits and additional leave associated to training activities.
- Second, in January 2009 a Law was approved providing for temporary income tax reductions for individuals and tax credits for firms that carry out training activities with their workers. Also, the law includes an extraordinary benefit of Ch \$ 40,000 (aprox. US\$ 67). For families and individuals that are beneficiaries of certain social programs (*Subsidio Familiar, Asignación Familiar, Chile Solidario, Asignación Maternal*). More recently, the Government has passed legislation to facilitate the access to credit for medium and small enterprises.
- In early 2008, and not related to the current international crisis, the Chilean Government had adopted important wage measures. In May it approved a bonus of 20.000 pesos (approximately 14% of the minimum wage) for workers with low incomes. Then, in July, it increased the minimum wage from 144000 to 159000 pesos (that is from US\$ 291 to US\$ 321, approximately).

COLOMBIA

Labor market facts

Recent unemployment rates in Colombia show a deterioration with respect to similar periods in years before (see Figure 10). Unemployment rate in March 2009 was 12.0 percent, 0.8 percentage points above the year before and 0.1 percentage points above the mark for 2007. The January rate, usually the highest in the year, reached a level not seen since 2005. Participation rates have been on the rise. Active labor force represents 60.7 percent of the percentage of working age population for the month of March 2009. This is one of the highest rates recorded in the country in the last three years.

Net job creation was in decline most of year 2008 because of a net destruction of salaried workers and a by declining net job creation of non-salaried workers. However, since the last quarter of 2008, the growth of non-salaried workers has declined while salaried jobs have been on the rise (see Figure 11).

On the other hand, real wages show an important deceleration since the middle of 2007 for retail commerce and since early 2007 for blue-collar workers in manufacturing (see Figure 12). This fall in real wages is associated to consumer inflation being above 7% since June 2008, while nominal wages have grown at a rate below 5% in both retail and manufacturing.

Recent Labor Market Policies

In a recent intervention during a meeting of the Inter-American Development Bank, President Alvaro Uribe announced that Colombia will approach employment protection with a focus on investment, firm activity, and good quality jobs. In particular, President Uribe mentioned three main policy interventions to protect employment during the crisis:

- Temporary reductions in para-fiscal contributions for small and medium size enterprises, during their first three years of operation, in an effort to revitalize the creation of small and medium firms.

Colombia Labor Market Indicators (2006-2009)

Figure 9

Activity Rate

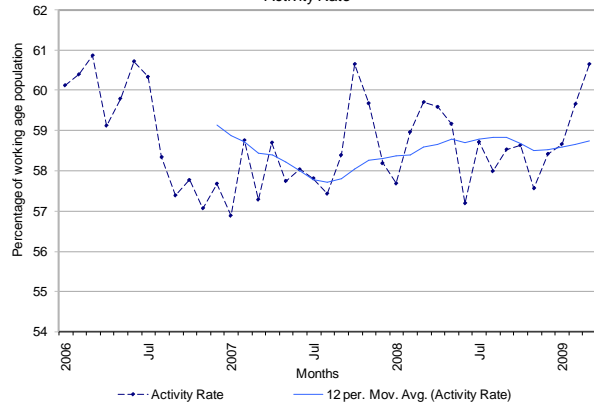


Figure 10

Unemployment Rate

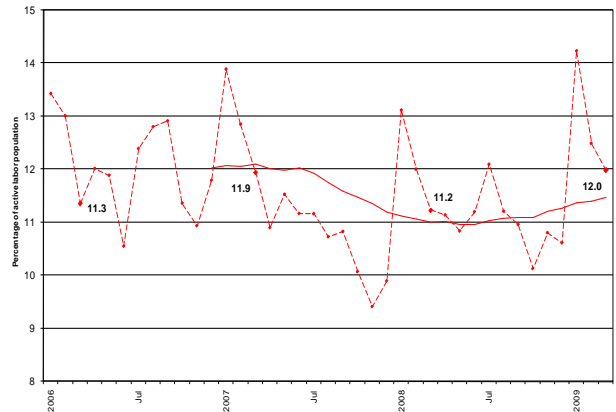


Figure 11

Net Job creation/destruction

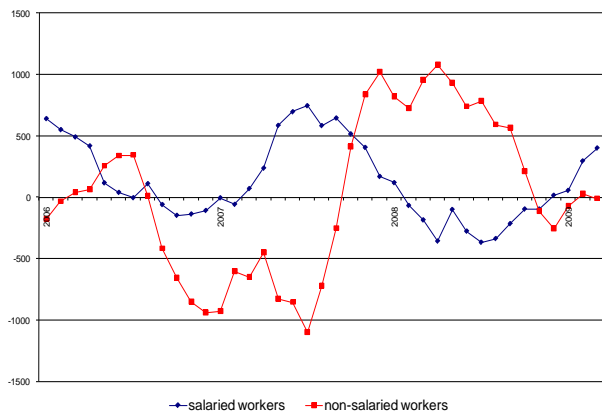
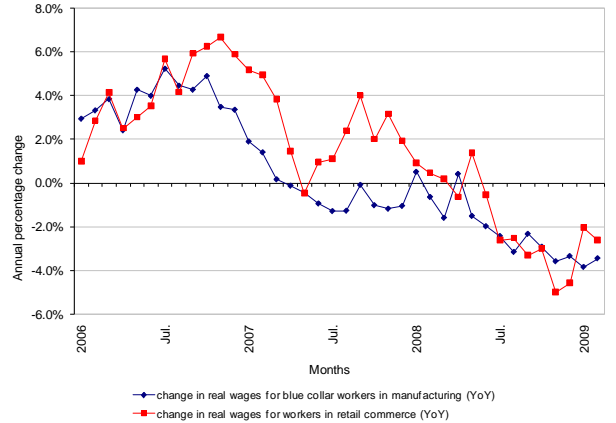


Figure 12

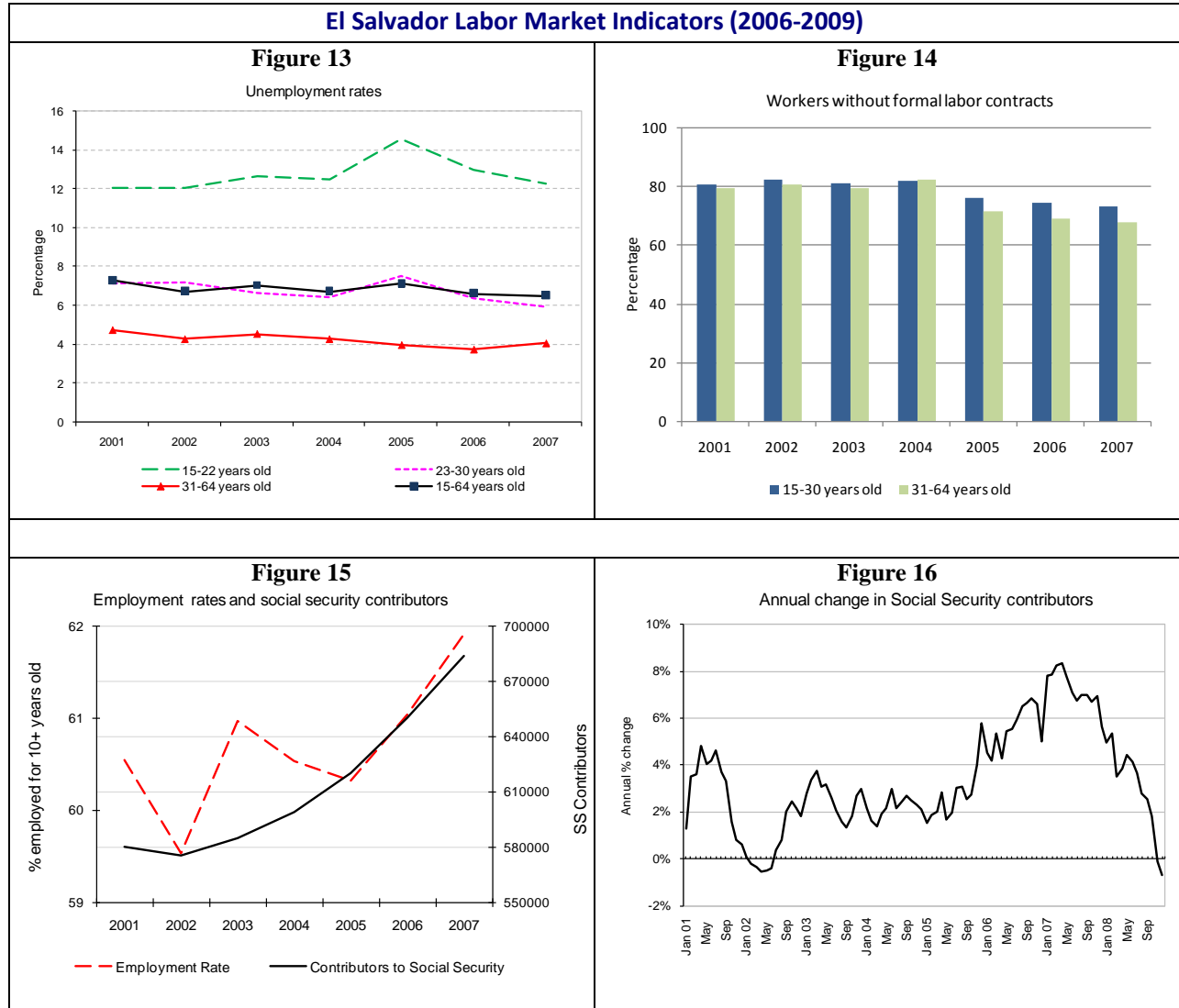
Change in real wages



- To enhance the employability of vulnerable individuals, an additional 250,000 vacancies in SENA (a technical training institution) will be made available for individuals between 18 and 30 years. The estimated cost of this training effort is C\$250 billion (0.7 percent of GDP). An important stated element in the Colombian strategy is the need to maintain workers within the formal sector (affiliated to Social Security).
- In addition to the large public investment program included in the budget, the Government, through the Export Bank of Colombia (Bancoldex), will launch C\$5 billion facility for funding small and medium enterprises.

EL SALVADOR
Labor market facts

Unemployment and Informal employment rates in El Salvador are produced annually and the most recent figures corresponds to year 2007, making impossible a short term inspection of the labor market. Unemployment has been quite stable around the 7% for the last 5 years, with a peak for youth unemployment in 2005 (see Figure 13). Informal employment, on the other hand, has declined since 2004, although it is still very high (see Figure 14).



There is, however, monthly data on number of contributors to the Social Security System. Figure 15 shows that social security contributions are associated to the growth of economic activity and that they have declined noticeably since January 2007. Recent numbers are the lowest in more than five years, indicating a serious blow to the formal employment in the economy.

Recent Labor Market Policies

The attention in El Salvador has been focused on the electoral process for the last months, and it is now when the future and current administration are discussing broad policy actions in a joint Crisis Team. The main messages in the public policy dialogue include the revision of the 2009 budget which should be revised to reflect the slower growth and more limited fiscal resources.

On labor markets, the main discussion is about urban employment programs especially focused on the youth. This discussion, is expected to be evolving rapidly as the administration changes in June 2009. Since employment and other interventions will require additional fiscal resources, the Government has been studying the rationalization of some subsidies with a regressive pattern (water, electricity).

THE DOMINICAN REPUBLIC

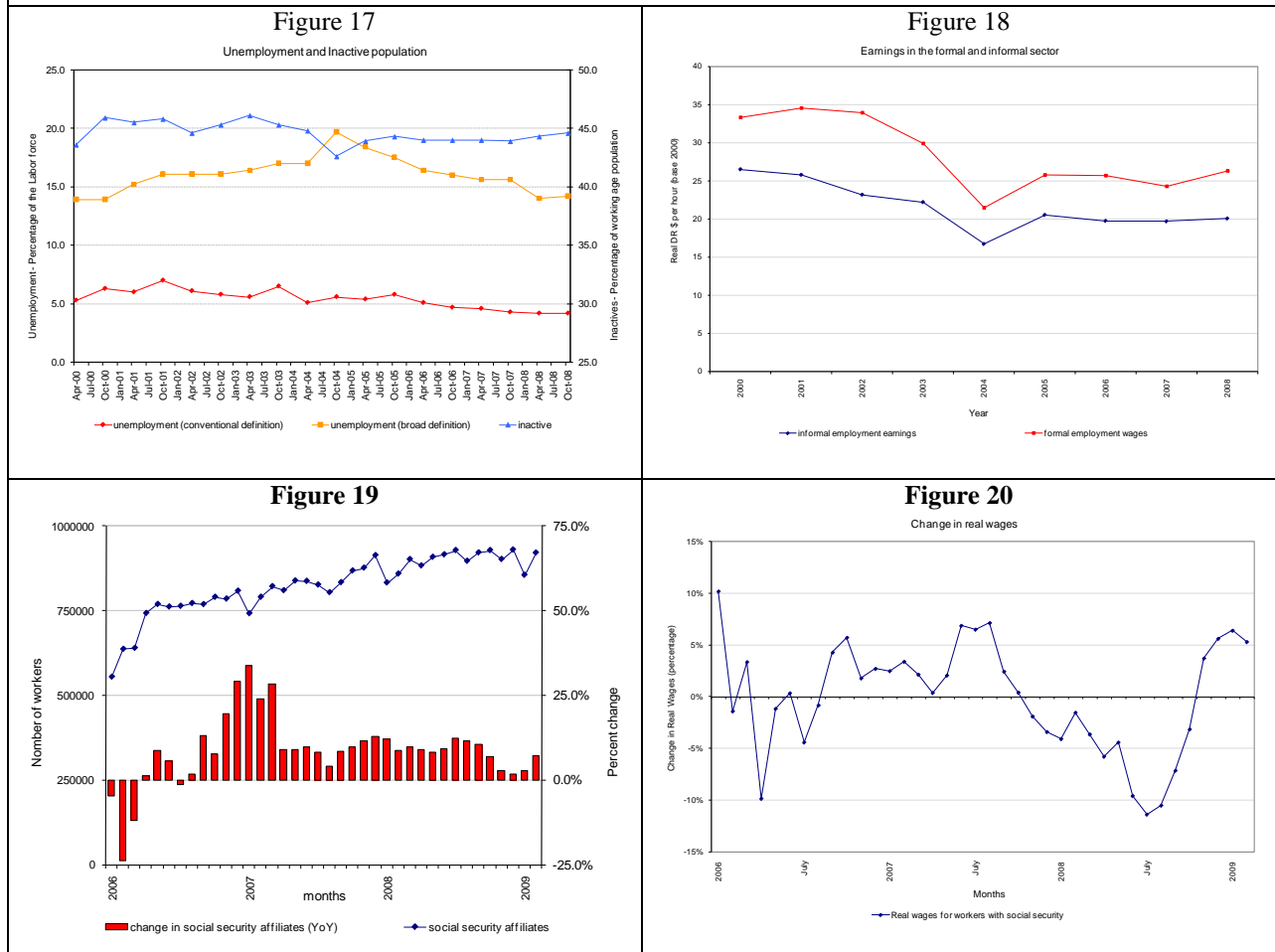
Labor market facts

Unemployment rates in the Dominican Republic have been declining since year 2005. However, there seems to be a reversion of this trend during the second semester of 2008. In fact, the unemployment rate (broad definition) grew to 14.2 percent in October 2008, a 0.2 percentage point increase with respect to April 2008. The conventional unemployment rate leveled off at 4.2 percent, after five consecutive semesters in decline. Meanwhile, the inactivity rate increased for a second consecutive semester to 44.6 percent: the highest since April 2004.

The former rates can be interpreted as early indicators of worsening labor market conditions (see Figure 17). Another indicator is the deceleration in the number of workers affiliated to the Dominican Republic pension system. During most of years 2007 and 2008, the annual increase of affiliated workers was above 8%. In the last quarter of 2008, the rates of growth declined noticeably (see Figure 19)

Annual data for real wages have recorded a slight increase in 2008, although still remain well below the levels before the financial crisis of 2004 (see Figure 18). Monthly data from the Pension System shows that the increase in real wages among affiliated workers occurred during the second part of year 2008 (see Figure 20).

Dominican Republic Labor Market Indicators (2006-2009)



Recent Labor Market Policies

The Government of the Dominican Republic initially responded to the crisis by creating a social dialogue mechanism called “National Unity Summit to confront the International Crisis”. The Summit deals with a wide range of issues, among them employment and social policy. As a result of this dialogue, many specific proposals have been suggested in relation to (i) employment generation, (ii) support to micro and medium enterprises, (iii) temporary employment programs, (iv) boosting housing construction, and (v) supporting business incubation centers.

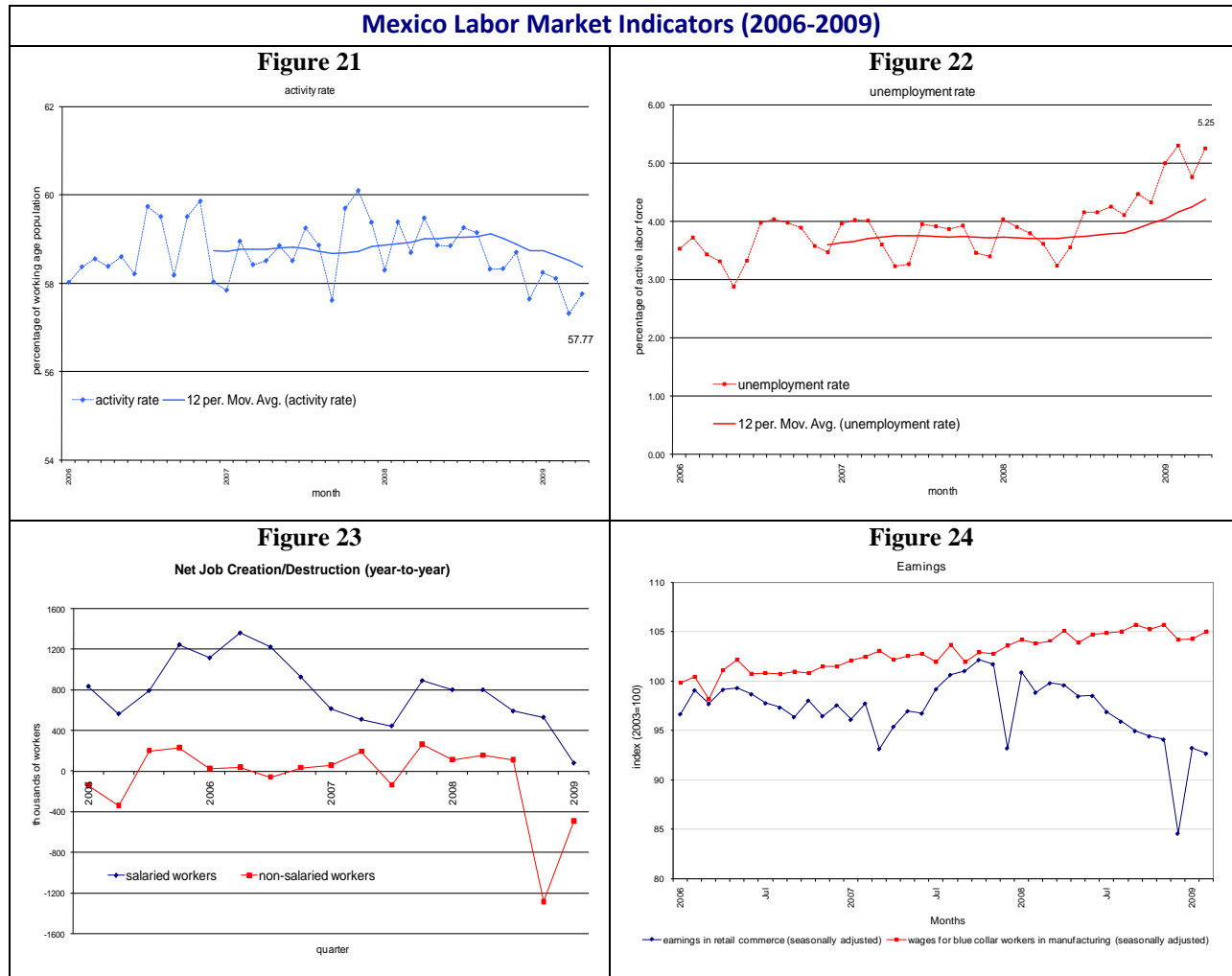
More recently, the government has announced a one year extension of health coverage for unemployed workers who earned less than DR\$10,000 (around US\$285) and their families. Furthermore, a US\$ 400 million (1% of GDP) public works plan will be adopted in 2009 to promote both employment and economic growth.

On a related matter, the government has responded to the crisis with measures that reduce costs of transportation, trying to maintain exports and tourism, two major drivers of employment. The impact of these measures has not been assessed yet.

MEXICO
Labor market facts

Recessions have been accompanied by a rapid deterioration of labor markets in Mexico. The Tequila crisis of 1995 and the deceleration of economic growth of 2001-2002 both brought about increases in unemployment and in informal employment rates. The current developments show that Mexico is heading to a severe fall in output growth (GDP fell -8.2 percentage points y-o-y in the first quarter of 2009) which will be accompanied with rising unemployment and informality.

Monthly data on unemployment records 5.3 percent for the month of February 2009. This is the highest mark since the third quarter of 1996, when the Mexican economy was getting out of the Tequila crisis. The rate for April was 5.26, still higher than the rate for any month during the last five years (see **Error! Reference source not found.**).



As another indicator of the death of jobs, the activity rate has also been declining and reached 57.3 percent of the working age population in March 2007. This is the lowest activity rate in three years. By the fourth quarter of 2008, Mexico's total employment fell by nearly 750,000 workers with respect to

the fourth quarter of 2007. Interestingly, salaried employment grew by 530,000 workers for the same period, whereas self-employment, employers and non-salaried workers declined by 1.28 million. **Error! Reference source not found.** shows that year 2008 recorded the highest destruction of self-employment of the last five years.

The impact of the crisis is felt not only in loss of employment, but in falling wages as well. On the one hand, wages are declining in sectors such as commerce. On the other hand, wages have remained stable in the sectors that showed a sharp reduction in employment, such as manufacturing (see **Error! Reference source not found.**)

Recent Labor Market Policies

The Mexican economy has had both active and passive labor market programs in place for several years. However, the country is the member of the OECD with the lowest expenditure in labor policies as a percentage of GDP.

As a response to the crisis, President Felipe Calderón announced in early January 2009 a National Agreement for the Economy and Employment (Acuerdo Nacional en Favor de la Economía Familiar y el Empleo). The agreement includes 25 activities grouped into five pillars. The activities directly related to labor markets are the following:

- an expansion of 2.2 billion pesos (a 0.02% of GDP) of the Temporary Employment Program (Programa de Empleo Temporal, PET);
- 2 billion pesos (a 0.02% of GDP) for employment subsidies for exporting firms;
- extended ability to withdraw funds from retirement accounts for unemployed individuals;
- extension of coverage of health insurance up to six months after dismissal for unemployed workers and their families; and
- 1.25 billion pesos (a 0.01% of GDP) for enhancing the employment intermediation services of the Labor Secretary. In addition, the “Acuerdo” announced a national infrastructure program for 2009 of 570 billion pesos (a 5.87% of GDP) in combined investment between the public and private sectors.

Some Distribution aspects

A preliminary analysis of the Mexican Labor Force Survey (ENOE) allows for a first look at the distributive impact of the recent labor market performance. Sorting employment changes by position of employment and type of economic activity reveals if the patterns in net job creation/destruction are the same across different industries. Manufacturing is the only economic activity that has recorded a net destruction of salaried jobs. It also registers net destruction of all types of non-salaried jobs. Actually, manufacturing represents more than 60 percent of all the job losses between the fourth quarter of 2007 and 2008 (see Table 3). All the other activities, with small exceptions, have a different pattern: net job creation of salaried positions and net job destruction of non-salaried jobs. Very few activities, however, have net employment creation. Even non-tradable activities as construction register net job destruction.

The severity of the impact on the manufacturing sector highlights the international channel of diffusion of the crisis in Mexico. Another piece of the evidence in this regard is the distribution of household

income by geographic region. The regions in the north of Mexico (where tradable activities concentrate) have experienced the most severe fall in nominal household incomes. Income losses are registered for households in all quintiles of the distribution in Northern Mexico, whereas in the rest of the country household income losses are mostly concentrated in the bottom quintiles. (see Table 4)

Table 3: Distribution of Net job creation by employment position: Fourth quarter 2008 (year-to-year)

	Salaried	Employer	Self-employed	Non-paid	Total
Non specified	(2,834)	(1,859)	77	(14,713)	(19,329)
Agriculture	142,157	(62,270)	(59,752)	(122,918)	(102,783)
Power generation and mining	21,009	591	(852)	224	20,972
Manufacturing	(246,251)	(78,733)	(107,208)	(28,247)	(460,439)
Construction	129,022	(92,764)	(113,050)	(100)	(76,892)
Trade and Commerce	108,647	(114,572)	(185,711)	(83,832)	(275,468)
Restaurants and Hotels	42,061	11,544	(5,445)	(12,454)	35,706
Transport and communications	108,765	(3,055)	(19,909)	3,533	89,334
Financial and private services	50,425	(29,623)	(42,864)	10,531	(11,531)
Social services	121,898	(19,534)	(11,119)	(6,854)	84,391
Other services	45,553	(46,332)	(41,115)	(4,719)	(46,613)
Government and diplomatic services	11,103	0	0	1,562	12,665
Total	531,555	(436,607)	(586,948)	(257,987)	(749,987)

Table 4: Changes in household income per capita by region and initial family labor income quintile: Fourth quarter 2008 (year-to-year) (in nominal Mexican pesos)

Region	Quintile					Total
	1	2	3	4	5	
Northwest	-13.7%	-4.3%	-2.8%	-4.5%	-6.8%	-5.6%
North	-34.9%	-7.4%	-3.2%	-1.7%	-6.3%	-5.4%
Northeast	-39.4%	-9.6%	-6.0%	-4.7%	-5.6%	-6.6%
Midwest	-38.8%	-6.4%	-3.3%	-2.6%	1.4%	-1.5%
Mideast	-20.9%	-2.9%	-0.8%	1.9%	0.4%	0.0%
South	-16.2%	-3.7%	-1.2%	0.1%	-0.1%	-0.4%
Eastern	-32.0%	0.3%	1.9%	0.9%	2.5%	1.5%
Yucatan	-5.6%	2.3%	4.1%	2.0%	-4.5%	-1.6%