



BOX 1.2:

Factors behind the recent performance of the labor market

The Central Bank of Chile implements a monetary policy strategy aimed at bringing inflation back to 3% within the two-year policy horizon. This requires a clear assessment of the persistence and nature of the factors affecting the labor market and their implications for inflationary pressures, given the market's role as a determinant of consumption and domestic demand, as well as its relevance as a source of information on economic slack. This motivates the Bank's ongoing research^{1/}.

This Box continues that line of work by assessing the factors that explain developments in Chile's labor market since the pandemic. To this end, it examines employment in relation to activity, updates estimates of benchmark unemployment rates, reviews international evidence, and analyzes the incidence of persistent and cyclical factors. The Box documents the weakness of Chile's labor market since 2019, confirming the importance of higher labor costs in this outcome, a fact documented in September 2025, and providing additional evidence on the relevance of automation. More recently, these factors have been compounded by a cyclical element associated with the economy's weak performance.

Chile's labor market in international comparison

Chile's labor market has not fully recovered from the pandemic. Compared with mid-2019, the employment rate is 2.1 percentage points (pp) lower, the labor force participation rate is 0.9 pp lower, and the unemployment rate is 2 pp higher. During 2026, the seasonally adjusted unemployment rate has risen by 0.8 pp, reaching 9.3% (9.5% in the unadjusted series).

[Albagli et al. \(2026a\)](#) show that Chile's labor market performance ranks among the weakest in a broad group of economies. Between March 2020 and 2022, unemployment in Chile increased more and declined less. By 2025, unemployment was below its 2019 level on average across OECD and Latin American economies, whereas in Chile it remained higher (Figure I.24a). One possible explanation relates to developments in labor costs^{2/}, bearing in mind that real hourly wages in Chile have grown significantly faster than the average for the group analyzed. This would be explained, among other factors, by regulatory changes, greater indexation, and adjustments in labor force participation (Figure I.24b).

The role of cyclical and persistent factors in labor market performance

A useful way to understand labor market performance and its likely evolution is to distinguish between the cyclical and persistent components affecting it. A first approach involves estimating benchmark unemployment rates, particularly the non-accelerating inflation rate of unemployment (NAIRU). In [December 2024](#), the range of NAIRU estimates was documented to have risen by between 1 and 2 pp since the pandemic. [Albagli et al. \(2026a\)](#) update this estimate and obtain similar results (Figure I.25a). This suggests that the current unemployment rate partly reflects persistent factors and, more recently, a cyclical slowdown consistent with the evolution of activity so far in 2026.

^{1/} Over the past two years, boxes have been published in the [March 2024](#), [December 2024](#), and [September 2025](#) IPoMs.

^{2/} The estimates use the Kaitz index (the minimum wage relative to the median wage) as a proxy for labor costs.



A second approach uses error-correction models that relate employment to activity and can be estimated both for the economy as a whole and by sector. [Albagli et al. \(2026a\)](#) show that, since 2020, the level of employment has remained significantly below that implied by its historical relationship with activity (Figure I.25b). This result is robust across different employment data sources and economic sectors. More recently, once this persistent shift in the employment level is controlled for, the estimates consistently indicate that the economy's recent weakness has contributed to lower job creation.

The role of automation

In addition to higher labor costs, another factor that appears to be influencing labor market developments is the adoption of technology, driven both by changes in production methods and by the decline in the relative cost between technology and labor. These processes could have a material impact on Chile's workforce because it is more exposed to automation than those of other OECD countries (Figure I.26a).

[Albagli et al. \(2026a\)](#) analyze the labor market transitions of different workers between 2022 and 2025, distinguishing them by the degree to which their jobs are exposed to automation and by age. The results show that workers who were in occupations highly exposed to automation in 2022 were less likely to remain employed in the formal sector three years later than workers in jobs with lower exposure to automation. Moreover, the decline in this probability is even greater among workers under 30. These results are complemented by firm-level evidence suggesting that companies with greater exposure to automation, defined by the share of their workforce in highly exposed occupations, reduced employment more than less-exposed firms (Figure I.26b).

Evidence gathered from surveys and interviews with firms reinforces these findings. Various respondents indicate that the adoption of new technologies is reducing the pace of worker hiring, whether through slower job creation when production increases or, in some cases, through the substitution of technology for labor.

Conclusions

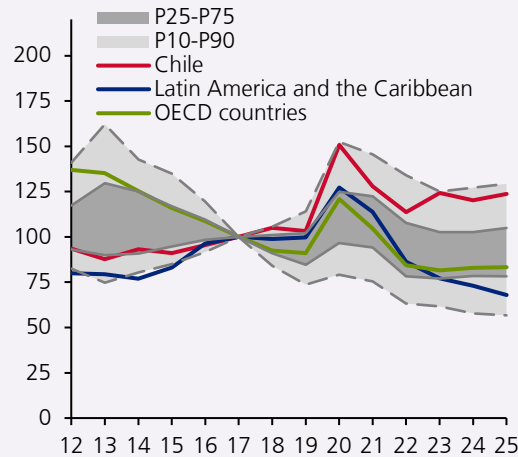
Monitoring the labor market, and in particular distinguishing between cyclical and persistent phenomena, is important for the appropriate conduct of monetary policy. An accurate assessment of this market helps determine its outlook and its implications for consumption, potential and trend output, and inflationary pressures.

The weak performance of Chile's labor market in recent years is explained to a significant extent by persistent factors, including substantial increases in labor costs amid an accelerating process of technology adoption. This has given rise to dynamics that appear to be persistently weakening job creation and placing upward pressure on unemployment, and that are expected to continue affecting labor market developments. Nevertheless, the most recent evolution of employment also reflects cyclical factors, consistent with the recent weakness of economic activity, which should dissipate as the output gap closes.

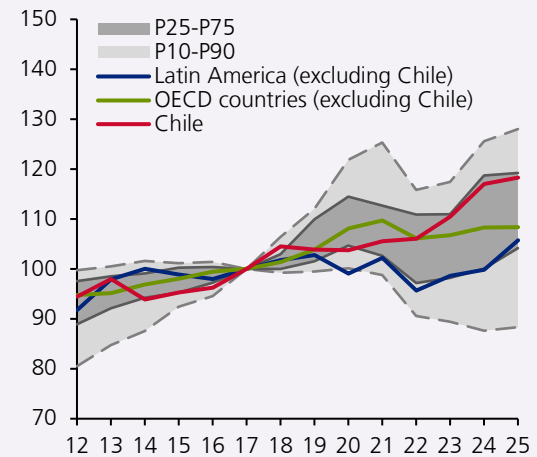


FIGURE I.24

(a) Unemployment rate (1)
(index 2017 = 100)



(b) Real hourly wage (2)
(index 2017 = 100)

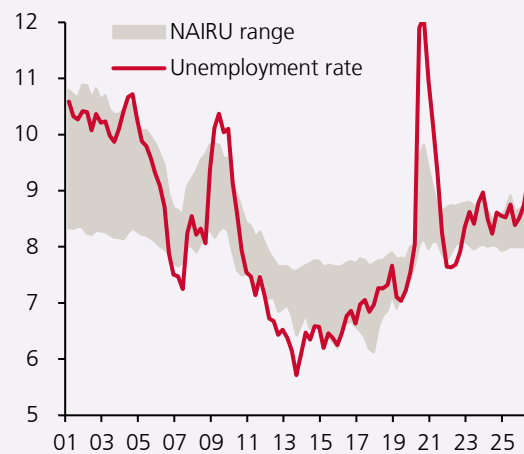


(1) The reported index is calculated separately for each country, using the value of the variable in 2017 as the base. (2) The reported real wage corresponds to average real hourly earnings for employees reporting positive hours worked. Based on [Wages and Working Time Statistics \(COND\)](#).

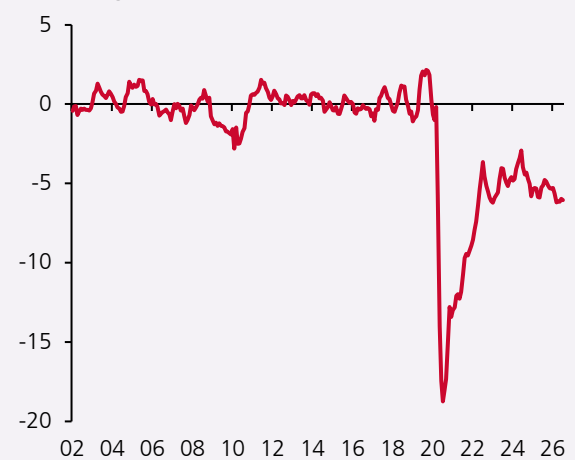
Sources: [Albagli et al. \(2026a\)](#), Central Bank of Chile, International Labour Organization, and World Bank.

FIGURE I.25

(a) Unemployment rate and NAIRU (1)
(percent, seasonally adjusted quarterly data)



(b) Employment residual relative to activity based on the long-run relationship (2)
(percentage points)



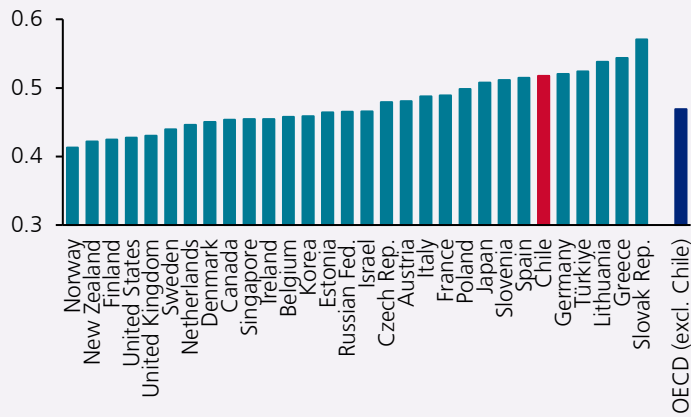
(1) NAIRU range estimated using the methodologies presented in [Levenier et al. \(2024\)](#). (2) Long-run relationship between total employment (INE data) and activity, estimated using data through 2019. For further details, see [Albagli et al. \(2026a\)](#).

Sources: [Albagli et al. \(2026a\)](#), Central Bank of Chile, and National Statistics Institute (INE).

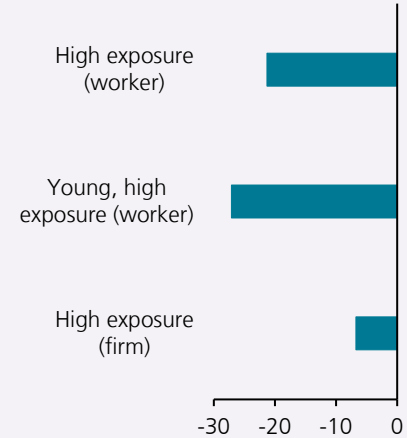


FIGURE 1.26

(a) Exposure to automation
(probability of automation, average)



(b) Employment effects by exposure to automation (1)
(percentage points)



(1) Effects on the probability of remaining employed in the formal sector (worker) and average employment (firm) in 2025, by exposure to automation in 2022, relative to the lowest-exposure group. See [Albagli et al. \(2026a\)](#).
Sources: [Albagli et al. \(2026a\)](#), Central Bank of Chile, and [Nedelkoska & Quintini \(2018\)](#).