

Help wanted: Charting the challenge of tight labor markets in advanced economies

For almost two decades, labor markets across advanced economies have tightened—and the trend is set to continue. This article provides a data-driven look via charts to understand the implications.

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At a glance

- **Labor markets in advanced economies today are among the tightest in two decades**, not merely a pandemic-induced blip but rather a long-term trend that may continue as workforces age.
- **Tightness means forgone economic output.** We estimate that GDP in 2023 could have been 0.5 percent to 1.5 percent higher across these economies if employers had been able to fill their excess job vacancies.
- **Companies and economies will need to boost productivity and find new ways to expand the workforce.** Otherwise, they will struggle to exceed—or even match—the relatively muted economic growth of the past decade.
- **Actions for companies and policy makers include:**
 - Focus on skilling and reskilling, including attracting talent from unconventional pools, offering more flexible work, and internal mobility.
 - Encourage foreign-born workers with programs to properly integrate them into the workforce.
 - Shape retirement policies to encourage people to work beyond standard retirement ages and take steps to attract more women into the workforce, for example, by offering elder or childcare infrastructure.
 - Prioritize investment in labor-complementing and labor-substituting AI and automation to unlock productivity.

Labor market tightness is a persistent challenge. Though loosening somewhat since their 2022 peaks, labor markets in advanced economies remain tighter than at any other time over the past two decades. This is not a pandemic-induced phenomenon. Rather, it continues a long-term trend that started in 2010, when advanced economies began their protracted recovery from the 2008 financial crisis.

Shifting demographic forces could intensify this trend in the future. As workforces age and population growth decelerates, countries cannot count on excess workers to power economic growth. Absent concerted efforts to boost productivity or increases in the workforce through higher participation or immigration, many advanced economies will struggle to exceed—or even match—the relatively muted economic growth of the past decade.

So far, the impact of the labor market squeeze has been unevenly distributed. Job vacancies have

climbed most steeply in sectors that traditionally have low productivity, such as healthcare and hospitality, as well as those with stagnant productivity, like construction. Without action, labor shortages may continue to hit sectors that struggle to increase productivity.

Tight job markets present both challenges and opportunities. Job seekers find work more easily and may garner higher wages. Yet upward wage pressure can spur inflation and stress businesses, particularly smaller ones. For instance, companies may need to turn down orders because they can't hire enough workers to satisfy demand. At the economy level, we estimate that GDP in 2023 could have been 0.5 to 1.5 percent higher in the biggest advanced economies if employers had been able to fill their job vacancies.

Businesses large and small will need strategies to confront persistent labor shortages. Deploying and adopting technologies is one way they can power productivity growth. Retraining programs can help

workers gain new skills needed as technologies shift, and matching programs can pair people with jobs. Businesses also can expand their hiring pools, including by seeking to attract immigrants and people who might otherwise sit on the sidelines.

Against this backdrop, this article examines labor markets in advanced economies, using 20 charts to illustrate conditions in labor markets today, future prospects, and actions to address shortages. These labor markets range across 30 economies in Asia, Europe, and North America, with a particular focus on the eight largest: Australia, Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

Tightness is the trend

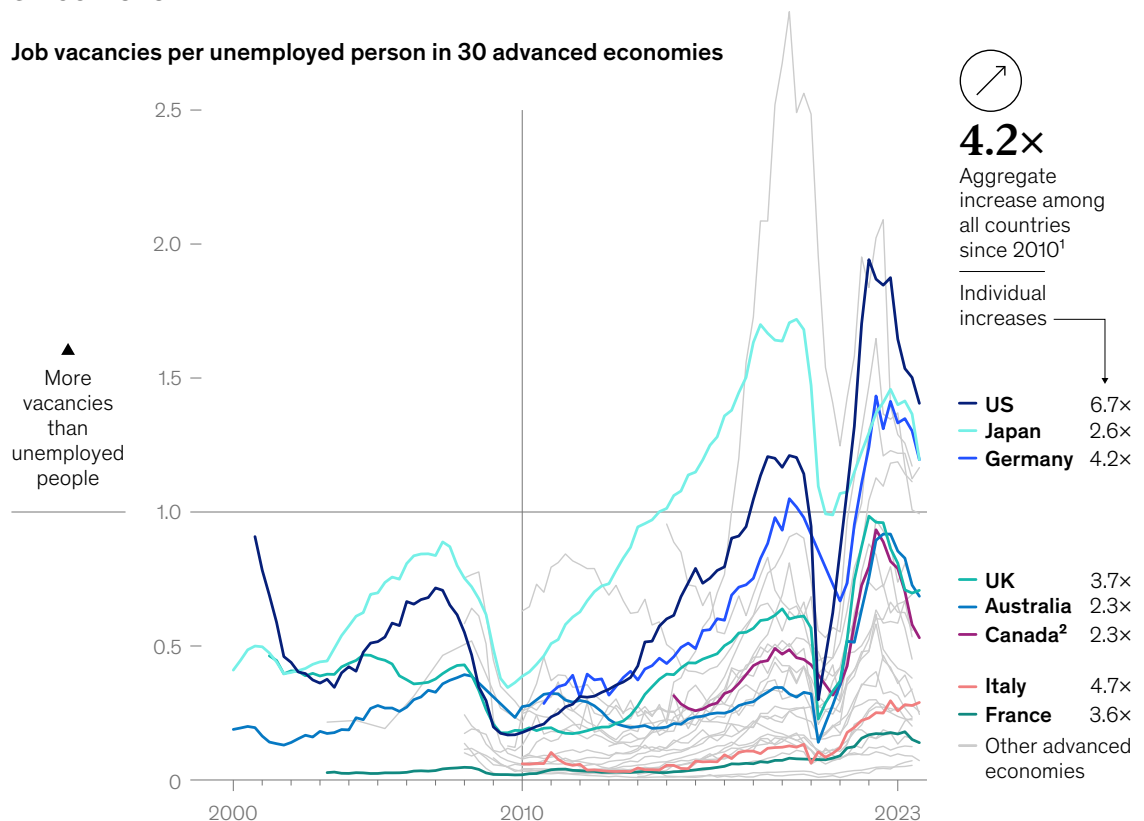
Today's tight labor markets reflect longer-term trends in vacancy and unemployment rates across advanced economies.

Since 2010, labor markets have tightened across all 30 advanced economies we analyzed (Exhibit 1).¹ Comparing job vacancies with numbers of unemployed job seekers provides one measure of labor market tightness. The number of job vacancies per unemployed person increased by more than four times on average across these economies between 2010 and 2023, and by almost seven times in the United States.

Exhibit 1

Labor markets in most advanced economies have been tightening since 2010.

Job vacancies per unemployed person in 30 advanced economies



¹For 24 countries with data since 2010.

²Canada's increase calculated from 2015.

Source: International Labour Organization; Eurostat; UK Office for National Statistics; Ministry of Health, Labor and Welfare, Japan; DARES, France; Statistics Canada; US Bureau of Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

Labor shortages have appeared across a diverse group of countries that have no apparent common features other than their stage of development. Tightness is particularly acute in seven countries—the Czech Republic, Germany, Japan, the Netherlands, Norway, Singapore, and the United States—that have more vacancies than unemployed workers. Together these countries account for 53 percent of the total labor supply of the 30 advanced economies in our research, and 64 percent of collective GDP. In another seven countries, the number of job vacancies is 0.5 to 1.0 times the number of unemployed workers. Australia, Canada, and the United Kingdom are in this group.

But not all large economies have labor shortages. For example, labor markets in France and Italy remain relatively slack, as they do in 14 other countries among the 30. This group collectively accounts for 31 percent of total labor supply and 20 percent of total GDP. Yet even in most of these places, labor markets have tightened. Vacancies per unemployed person have increased by five times in Italy and by almost four times in France.

The tightening trend began after the 2008 financial crisis, when job vacancies were dwarfed by a vast number of unemployed people. The recovery was slow: labor markets in these 30 economies took 8.2 years on average to reach the degree of tightness they had before the crisis.

The desire to hire carried on apace, and labor markets continued to tighten until the COVID-19 pandemic took hold in early 2020. During the

pandemic, many labor markets oscillated, first to extreme looseness and then to extreme tightness. Generous fiscal stimulus measures during the crisis fueled a comparatively fast job recovery, and by 2022, labor markets had achieved the highest ratio of job vacancies to unemployed people in two decades. Today, labor markets remain historically tight but have cooled somewhat from that peak. For instance, as of April 2024, the vacancy-to-unemployment ratio in the United States had dropped to 1.2 from 1.4 at the end of the prior year.

Across the eight focus economies, labor markets have retreated from peak tightness during the COVID-19 pandemic toward conditions more similar to the rising prepandemic trend (Exhibit 2). Only Italy, which had one of the loosest labor markets among developed economies before the pandemic, shows no signs of declining tightness yet. This could be the result of the Italian government's fiscal response to COVID-19, which the International Monetary Fund estimates exceeded 45 percent of the country's GDP, making it the most generous relief package among advanced economies.² Japan, where the labor market was among the tightest before the pandemic, lags its prepandemic trend, in part because a weakening yen increased costs in the import-dependent economy. Nonetheless, job vacancies remain 1.2 times the number of job seekers.

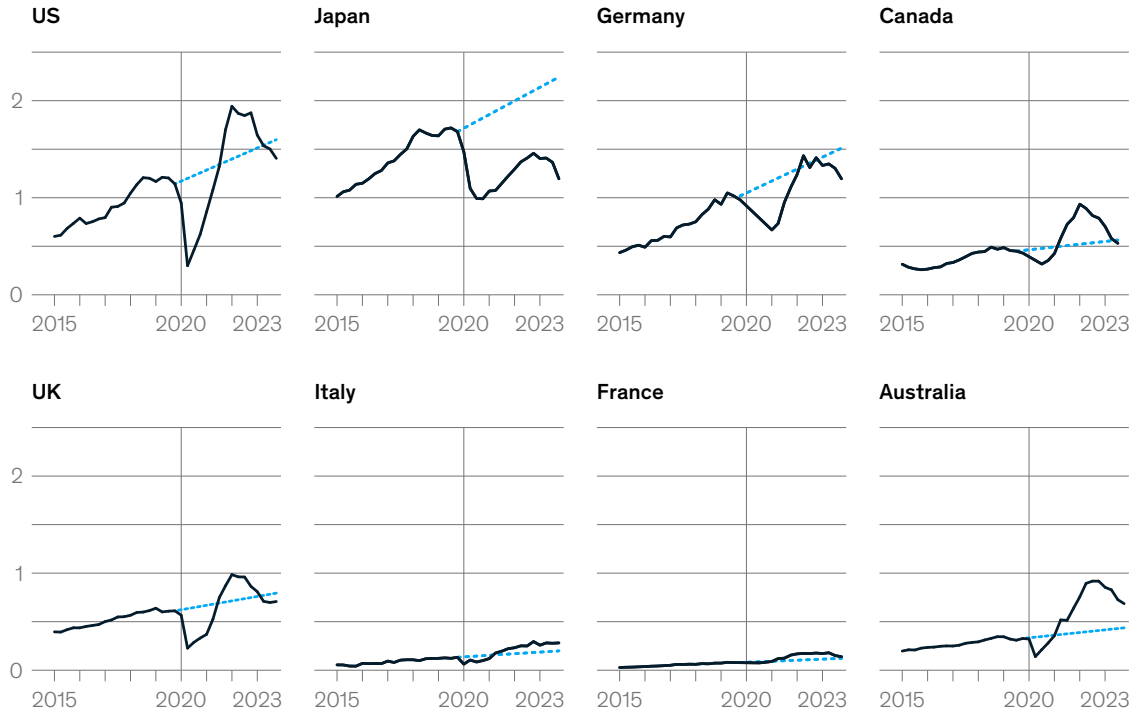
Overall, the appetite to hire continues along a rising trend line, outpacing the number of workers seeking jobs.

Job vacancies per unemployed person increased by more than four times to more than seven times depending on the country from 2010 to 2023.

Labor market tightness is returning to trend in many economies after a period of disruption during the COVID-19 pandemic.

Job vacancies per unemployed person

— Actual - - - Continuation of 2015–19 trend



Source: International Labour Organization; Eurostat; UK Office for National Statistics; Ministry of Health, Labor and Welfare, Japan; DARES, France; Statistics Canada; US Bureau of Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

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The devil is in the details: Decoding the labor data

In the internet era, posting job listings is easy and motivation to take them down is low, raising questions about the reliability of data on job openings.¹ In this research, we examined trends in labor market tightness using a variety of data that economists typically employ to understand labor market dynamics, drawing data from multilateral and country statistical agencies. These included the following:

- Labor supply, or all the people seeking work, is the sum of the people with jobs (employed people) and people looking or recently looking for jobs (unemployed people).
- Labor demand, or all jobs that need workers, is the sum of filled positions (equal to employed people) and unfilled positions (vacancies or job openings).
- Unemployment rate, or the percentage of people seeking work who haven't found jobs, is unemployed people divided by labor supply (the sum of employed and unemployed people).
- Vacancy rate, or the percentage of jobs that remain unfilled, is job vacancies divided by labor demand (the sum of filled jobs and job vacancies).

We focus on measuring labor market tightness as the ratio of vacancy rates to unemployment rates, but our conclusions hold if we examine unemployment rates only (Exhibit 3). In 2023 in all countries but Denmark, Luxembourg, Norway, and Sweden, the unemployment rate was lower than the median observed since 2000, and the average unemployment rate across 30 advanced economies was among the lowest one-fifth of unemployment rates observed since 2000.

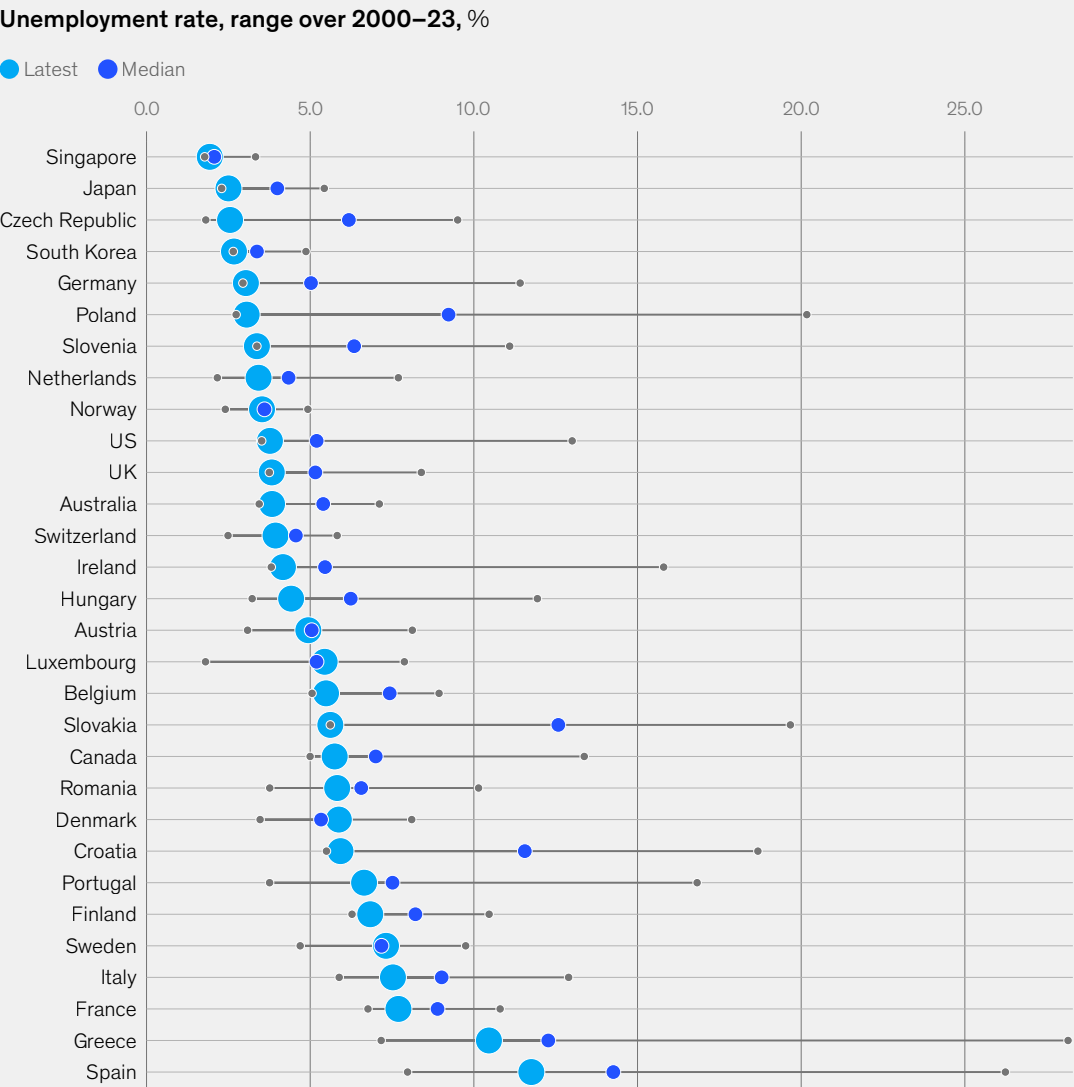
To explore the micro underpinnings of labor shortages, we analyzed vacancy and employment data at the sector level in seven of the eight focus countries.

¹ "Measuring job openings in the U.S. labor market," Congressional Research Service, February 28, 2024.

The devil is in the details: Decoding the labor data (continued)

Exhibit 3

Low unemployment rates reflect historically tight labor markets.



Source: International Labour Organization; UK Office for National Statistics; McKinsey Global Institute analysis

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(We were unable to extract the same data for Japan.) Additionally, we combined US occupational data from the Bureau of Labor Statistics with McKinsey Global Institute's skills taxonomy to understand the types of jobs and workers most affected by the labor shortage.

We also tested whether labor market tightness was a result of mismatches between workers and available jobs. This happens when vacancy rates rise without a commensurate decline in unemployment rates or vice versa. While we found evidence of such mismatches in Australia,

Canada, and the United States during the COVID-19 pandemic, by the end of 2022 they were resolving, and so that analysis is absent from this report.²

² This can be seen on the Beveridge curve, which illustrates the relationship between unemployment rates and job opening rates. For an example, see *The Beveridge curve (job openings rate vs. unemployment rate), seasonally adjusted*, US Bureau of Labor Statistics, accessed May 20, 2024; Gadi Barlevy et al., *The shifting reasons for Beveridge-curve shifts*, IZA discussion paper number 16517, IZA Institute of Labor Economics, October 2023.

Increased labor input drove economic growth in many countries

What was behind the robust appetite for labor?

Since 2010, countries that have increased GDP fastest have done so primarily by adding more workers rather than by improving productivity (Exhibit 4). In markets such as Australia, the United Kingdom, and the United States, where labor has been relatively plentiful and consequently easier to hire, companies had a business rationale to add hours and employment rather than tackling the harder job of improving productivity. Countries where labor wasn't so plentiful—Germany and Japan, for example—relied more on productivity growth to propel their economies, although that did not fully compensate for low labor force growth. In fact, labor productivity has stagnated in many

advanced economies, as documented in previous McKinsey Global Institute reports.³

Even though all countries experienced a productivity slowdown after the financial crisis, some countries were more negatively affected than others. In Australia, productivity benefited from a commodity boom, while in the United Kingdom, underinvestment in regions other than the southeast may have exacerbated stagnating productivity.⁴

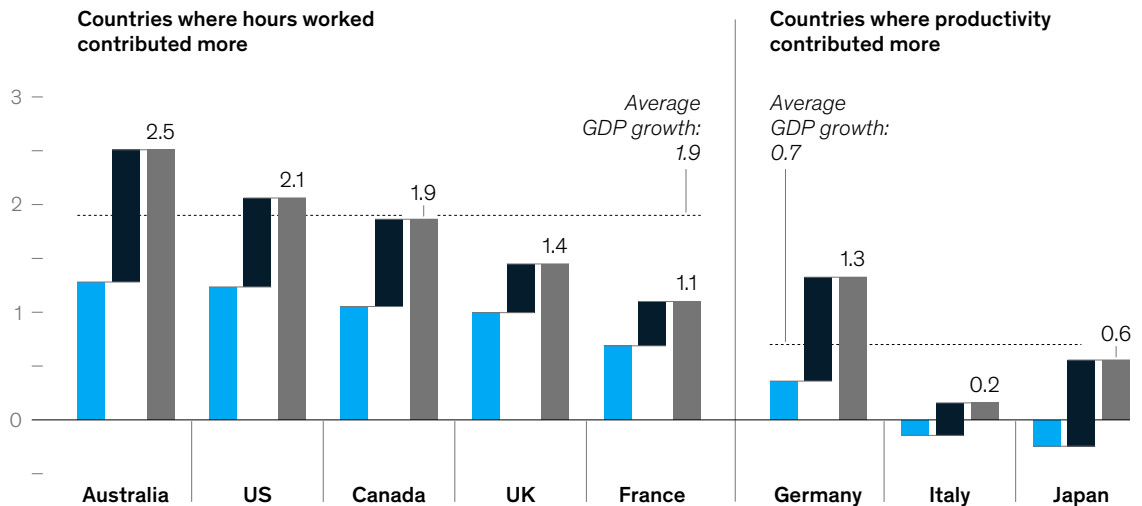
The excess supply of labor has dwindled

In the wake of the financial crisis, many people struggled to find work. In 2010, there were roughly 24 million excess workers, as measured by comparing the number of job seekers with the number of job openings across the eight countries.

Exhibit 4

Real GDP growth, CAGR, 2010–22, %

Change due to: ■ Hours worked ■ Productivity



Source: The Conference Board Total Economy Database; McKinsey Global Institute analysis

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Today the number of job seekers is close to the number of job vacancies (Exhibit 5).

However, the degree of excess supply (or no excess supply at all, in some cases) varies at the country level. Labor demand exceeded supply in Germany, Japan, and the United States at the end of 2023. Recently, Germany enacted a law aimed at increasing immigration of highly skilled workers, and in the United States efforts are under way to establish a federal commission to study labor shortages and find ways to address them.

The excess supply of unemployed workers relative to job openings in France and Italy was two million and one million, respectively. While these economies have meaningful slack in their labor markets today, even they have tightened. Their excess labor figures are 7.1 and 5.7 percent,

respectively, down from pre-pandemic peaks well above 10 percent.

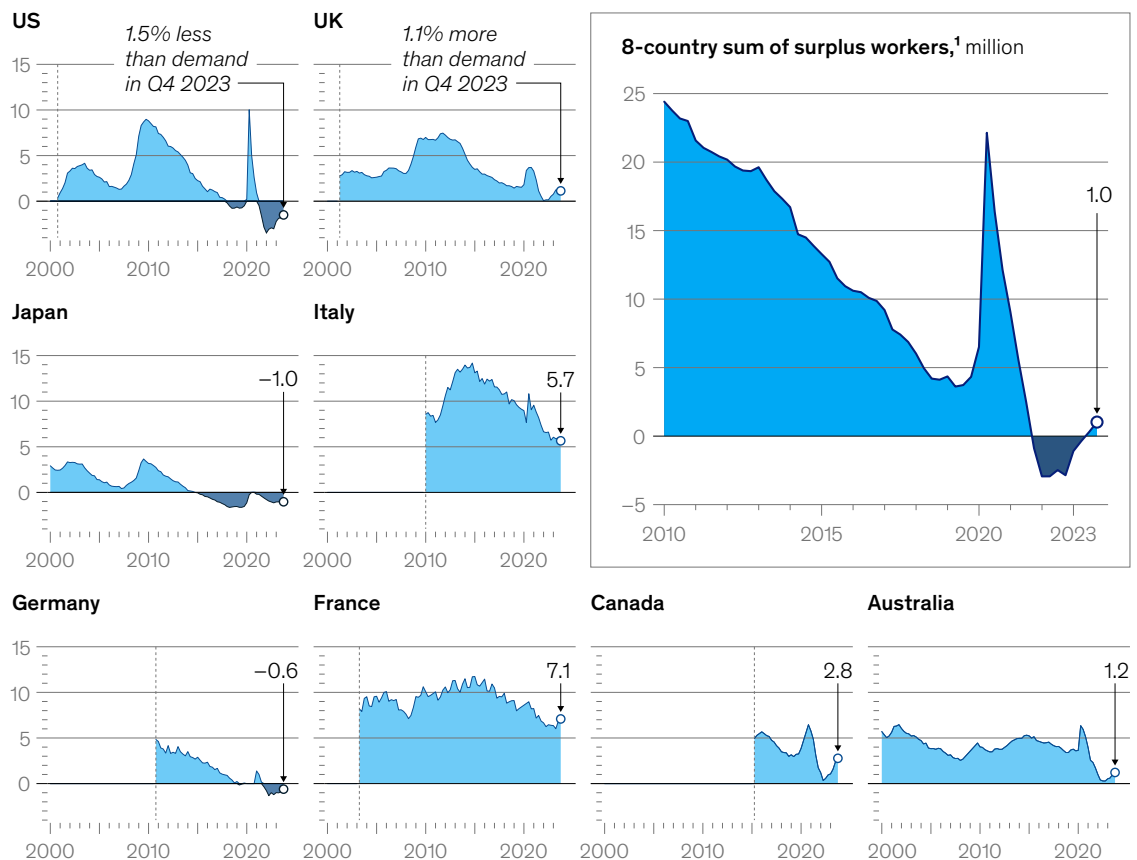
The factors that drove labor market tightness also varied across countries. Unemployment rates in Germany, the United Kingdom, and the United States came down from highs in 2010, while Australia never had very high unemployment. Italy continued to have a relatively high rate of unemployment but also increased vacancies, suggesting either a mismatch or a higher natural rate of unemployment. Meanwhile, demand increased markedly in Japan while its shrinking population constrained its labor supply.

The labor surplus has fallen from 24 million to 1 million since 2010 in eight advanced economies

The number of excess workers dwindled as growth in labor demand outpaced growth in labor supply.

Exhibit 5

Surplus workers as a share of labor demand, %



¹Canada and Germany numbers begin after 2010; it was therefore assumed their excess supply was flat until 2015 for Canada and Q4 2010 for Germany. Source: International Labour Organization; Eurostat; UK Office for National Statistics; Ministry of Health, Labor and Welfare, Japan; DARES, France; Statistics Canada; Job Openings and Labor Turnover Survey, US Bureau of Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

The labor surplus has fallen from 24 million to 1 million since 2010 in eight advanced economies.

Labor forces in these eight countries grew between 2010 and 2023. Propelled by population growth and increased labor force participation that outweighed the impact of aging, 33 million workers in total joined their labor forces.

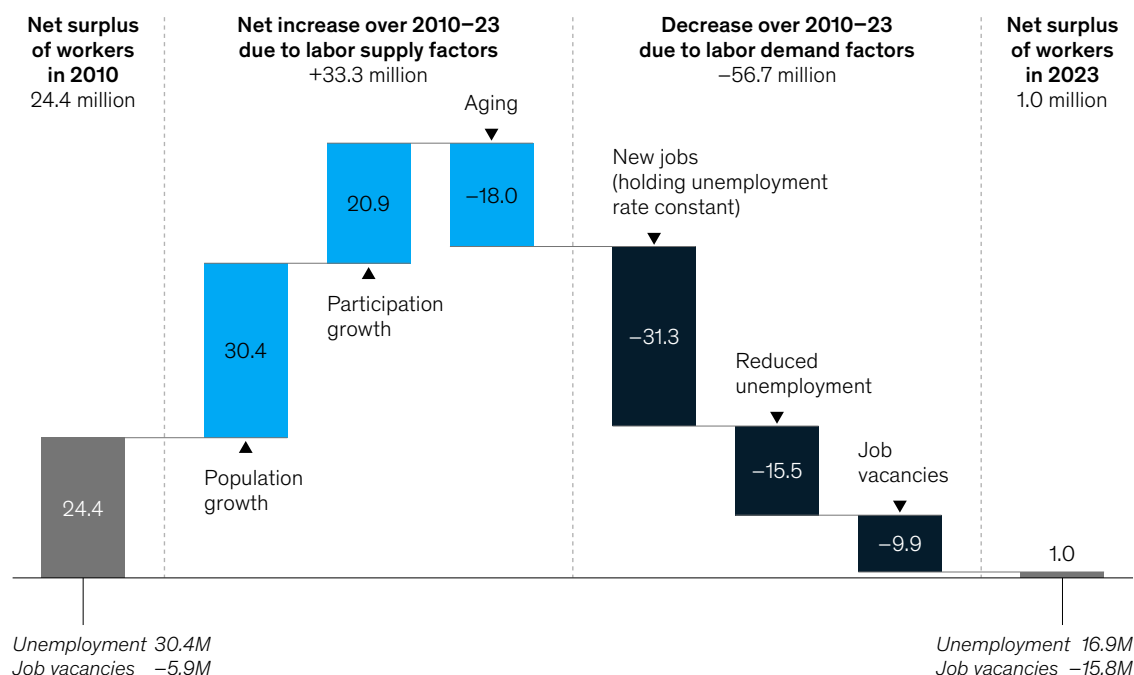
Over the same period, labor demand grew strongly, fueled by expansive monetary and fiscal policies as these countries recovered from the financial crisis. Employers needed to fill some 57 million additional jobs over the same period, or 24 million more than the number of available workers (Exhibit 6). Most advanced economies avoided subsequent downturns. This uninterrupted growth in demand

not only drove average unemployment down from 8 percent to 4 percent but also created an additional ten million unfilled jobs across the eight economies. (For views of each country's change in number of surplus workers, please see the Appendix.)

During that time, people worked fewer hours on average, but the imbalance between job seekers and available jobs wasn't due to that change. From 2010 to 2023, the average number of hours worked per employee fell from 37 to 36, a 3 percent decline roughly equivalent to just 33,000 workers in 2023. Declining working hours affect labor supply and labor demand equally, meaning the net effect is negligible.

Exhibit 6

Change in number of surplus workers across 8 advanced economies, 2010–23, million



Note: The eight countries are Australia, Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. Canada data spans only 2015–23. Figures may not sum because of rounding.
Source: Employment data from International Labour Organization; vacancy data from Eurostat; UK Office for National Statistics; Ministry of Health, Labor and Welfare, Japan; DARES (France); Statistics Canada; Job Openings and Labor Turnover Survey, US Bureau of Labor Statistics; Australian Bureau of Statistics; population data from UN Population Prospects; McKinsey Global Institute analysis

Countries today have fewer than one million excess workers in aggregate: the number of job seekers is close to the number of job vacancies. What appears to be a perfectly matched labor market is in reality an extremely tight one, since some degree of excess supply is always the norm—matching is never perfect, and demand and supply are always in flux as workers switch jobs and employers shift strategies.

GDP could have been higher by 0.5 to 1.5 percent in 2023 if excess vacancies had been fewer

Increased job vacancies can constrain real economic output; they represent demand for goods and services that businesses are unable to fulfill. In seven of the eight countries—Japan is the exception—unfilled job vacancies in 2023 were higher than in 2019, before the onset of COVID-19, when they were in turn higher than their median levels from 2010 to 2019.

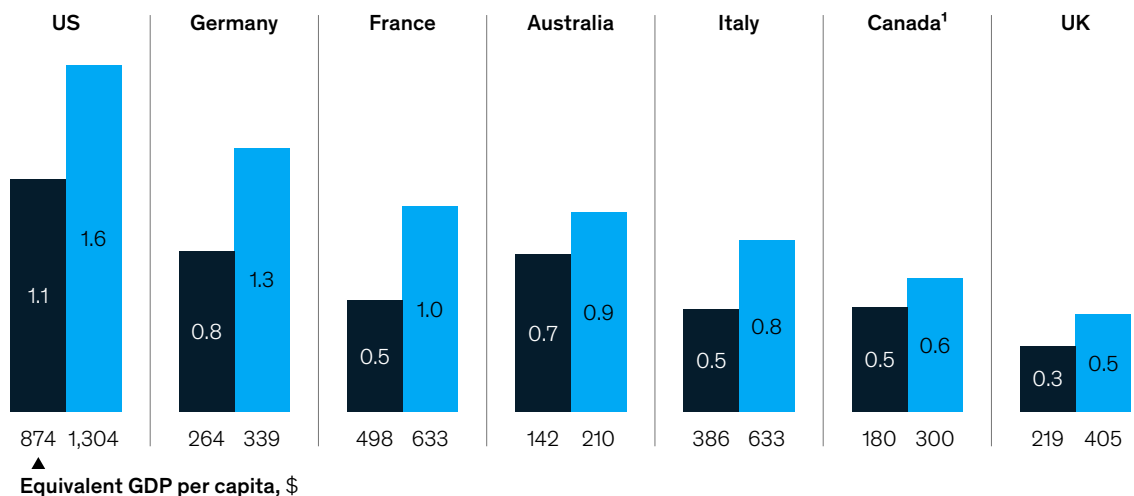
Unmet demand for labor can be addressed by finding additional new workers or by raising the productivity of existing workers. This can restore balance to labor supply and demand while creating additional output.

We estimate the additional output that would have been produced if labor markets were not so tight by examining the degree to which vacancy rates are higher than a structural or natural rate of vacancies. Structural vacancy rates vary across industries and countries and can even vary over time. To account for this, we compared sector-level vacancy rates in 2023 to vacancy rates in 2019 as well as to the median rate from 2010 to 2019. We find that, depending on the country, GDP could have been 0.5 percent to 1.5 percent higher in 2023 if that unmet labor demand had been filled (Exhibit 7).⁵

Exhibit 7

GDP gains in 2023 if employers had filled their job vacancies to historical levels, %

If 2023 vacancies matched: ■ 2019 levels ■ 2010–19 median levels



Note: Japan was excluded from this analysis due to lack of available data. GDP value is calculated based on average productivity by sector, although productivity from marginal workers may be lower. Full 2023 data for all countries except Germany, for which data on employment and vacancy goes to Q3 2023.

¹Data for Canada spans only 2015–23.

Source: International Labour Organization; Eurostat; UK Office for National Statistics; Statistics Canada; US Bureau of Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

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Who's feeling the crunch?

Employers in some sectors have felt the impact of the labor shortage more than others, and the appetite for physical and manual skills has unexpectedly intensified.

All sectors have higher job vacancy rates today than in 2010

Across economies, average vacancy rates, or job vacancies as a share of total labor demand, increased by more than two percentage points from 2010 to 2023 in the healthcare, leisure and hospitality, and construction sectors (Exhibit 8).⁶ Conversely, job vacancy rates in the financial and real estate sector and the information sector, both high-productivity sectors with well-paid jobs, changed by less than one percentage point on average.

The pandemic hit the leisure and hospitality sector particularly hard as travel and tourism slowed. As restaurants and hotels reopened, they struggled to restaff. In Europe, some hotels hired people with

little or no experience, and fast-food restaurants in the United States raised wages and shortened hours to cope with a shortage of staff.⁷ Aggregate employment levels indicate that previous restaurant and hotel workers have rejoined the workforce, but they appear to have taken jobs in other sectors.

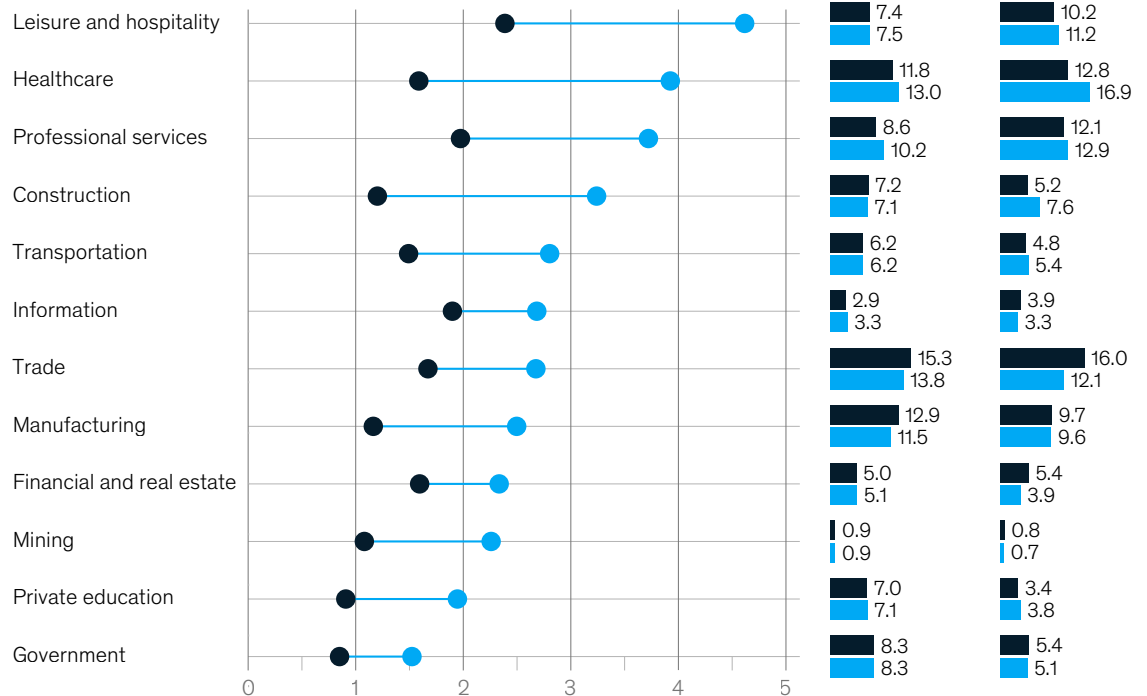
The healthcare sector has been strained as aging populations have driven demand for these services. The sector had the highest number of job vacancies among the sectors in our research, or 16.9 percent of all vacancies in 2023.

Vacancy rates also markedly increased in the construction sector, in part due to its cyclical nature. Demand in the sector began climbing in 2010 after dropping sharply during the financial crisis. Today, strong demand for housing and government spending on large infrastructure projects, such as a €45 billion construction relief package in Germany and a \$1.2 trillion package for infrastructure in the United States, have propelled vacancies.

Exhibit 8

Job vacancy rate by sector, 7-country average, %

2010 ● 2023



Note: Japan was excluded from this analysis due to lack of available data. Also excluded is the Other services sector. Full year 2023 data for all 7 countries, except Germany, for which employment and vacancy data goes to Q3 2023.
Source: Eurostat, UK Office for National Statistics; Statistics Canada; US Bureau of Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

Vacancies have not grown in lockstep with employment

Sectors fall into four groups depending on how vacancies grew in relation to employment: “labor hungry,” “labor attracting,” “labor disrupting,” and “labor efficient” (Exhibit 9).

Labor shortages have had the biggest impact on labor-hungry sectors, such as healthcare and construction, as previously noted. Demand for labor has risen faster than the sector’s ability to attract workers. Vacancies have increased in public and private healthcare systems despite efforts in countries such as the United Kingdom to attract immigrants to the sector, and construction is booming in most advanced economies due to housing shortages and

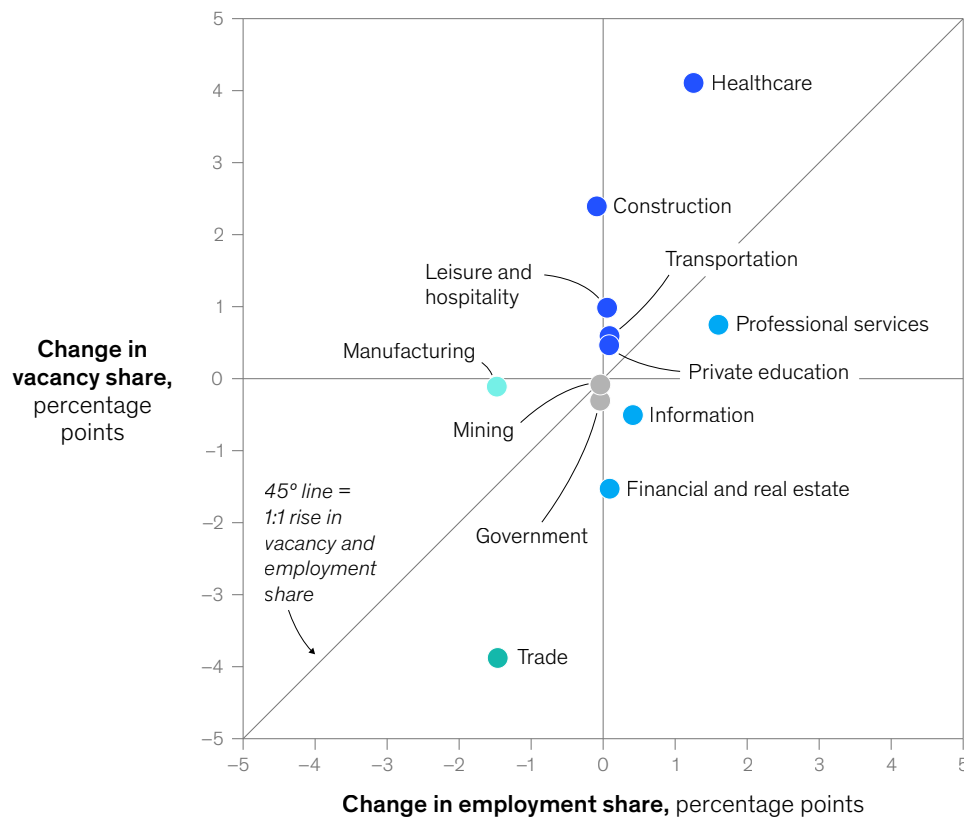
infrastructure needs. Typically less capital intensive and more difficult to automate, these sectors added jobs at or faster than the average clip but not fast enough to keep pace with demand. In Canada, for instance, a recent House of Commons committee report acknowledged that the country has “longstanding issues with lack of supply of health professionals,” in part due to mental health issues and burnout exacerbated by the COVID-19 pandemic, which have led to retention issues.⁸ And some Italian construction companies are turning to workforce development programs and partnerships with African universities to recruit and train new workers.⁹

Conversely, labor-attracting sectors like financial and real estate, information, and professional

Exhibit 9

Vacancy and unemployment share, 2010–23

Sector group: ● Labor hungry ● Labor attracting ● Labor disrupting ● Labor efficient ● Other



Note: Japan was excluded from this analysis due to lack of available data. Also excluded is the Other services sector. Opportunity value is calculated based on average productivity by sector, although productivity from marginal workers may be lower. Includes full 2023 data for all countries except Germany, for which data on employment and vacancy goes to Q3 2023.

Source: Eurostat; UK Office for National Statistics; Statistics Canada; US Bureau of Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

services have also added employment faster than average—they have attracted workers at a faster pace than their demand for labor has grown. In this group, only the professional services sector increased its share of overall vacancies.

Manufacturing is a labor-disrupting sector. Although the sector accounted for a smaller part of the workforce in 2023 than in 2010 across the eight countries, its job vacancies nonetheless increased significantly, especially after 2019. Research by economist Richard Baldwin found that since 2013, the manufacturing sector has lost 20 million jobs globally due to productivity gains from increasing automation.¹⁰ The mix of workforce skills has been changing, as some manufacturing jobs require more customer relations or analytics, and as corporate manufacturing footprints are themselves changing. For example, areas such as semiconductors and electric vehicle manufacturing are demanding more workers as a result of shifts in industrial policy and “friendshoring.”

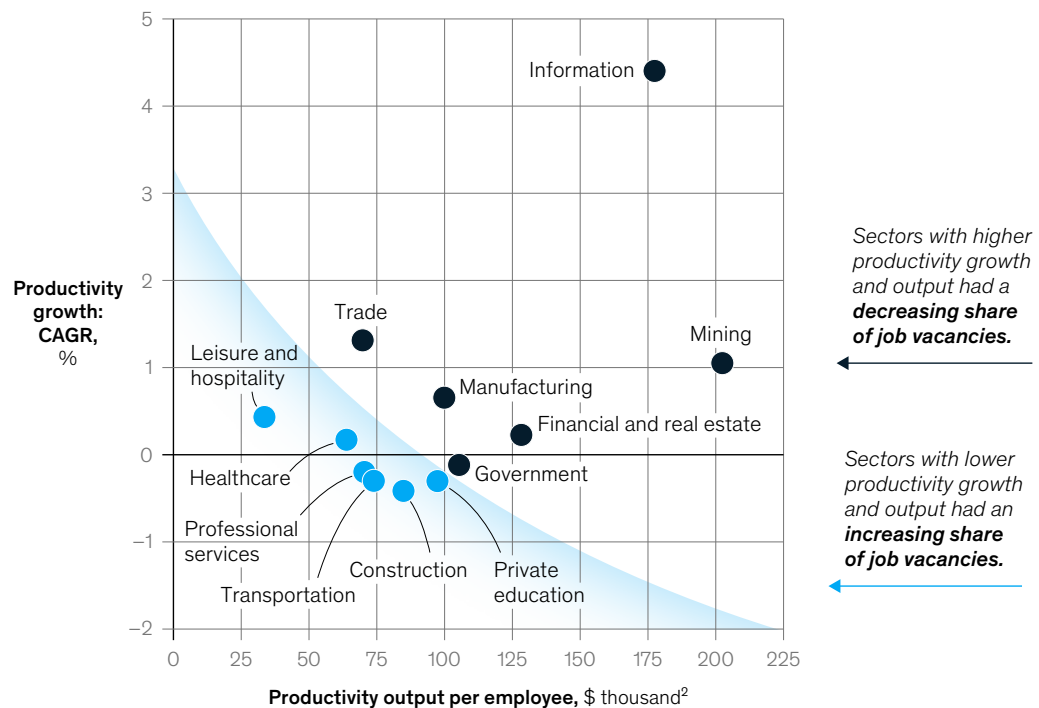
Trade is a labor-efficient sector, in which productivity enhancements have eased the pressure to hire. As consumer demand has shifted, the retail segment of the trade sector has increasingly automated and digitized, increasing productivity and mitigating the impact of labor shortages. In Japan, for example, convenience stores are responding to staff shortages not only by relying on immigrant labor but also by rolling out technology like self-checkout and cleaning robots.¹¹

Sectors struggling with productivity contributed disproportionately to vacancy growth

What explains the differences between the shifting employment share and the shifting share of vacancies? Productivity and productivity growth are crucial factors: sectors with lower productivity and productivity growth had steeper increases in vacancy share (Exhibit 10). In a growing economy with a tight labor market, low-productivity sectors requiring the most labor per unit of additional output are likely to be most constrained.

Exhibit 10

Sector productivity, 7-country average, 2010–23¹



¹Japan was excluded from this analysis due to lack of available data. Also excluded is the Other services sector. Data for the Government sector includes only data from Australia, Canada, Germany, the United Kingdom, and the United States due to data availability.

²2015 dollars.

Source: Eurostat; UK Office for National Statistics; Statistics Canada; US Bureau for Labor Statistics; Australian Bureau of Statistics; McKinsey Global Institute analysis

Spotlight: Physical and manual skills in demand

Demand for skill types is another lens through which the impact of a labor shortage can be examined (Exhibit 11). Our skills taxonomy comprises five broad categories—technological, social and emotional, higher cognitive, basic cognitive, and physical and manual skills, mapped to detailed occupations.¹ Here we analyze skills to understand increased job vacancies in the United States. While some conclusions could be extrapolated to other peer countries, they may not be universally true.

In an era of technological change, the most significant absolute shortage is in technological skills. Occupations relying

on these skills, like software developers and other IT-related jobs, have been the hardest to fill since 2015, although the advent of generative AI may restore some balance. The changing skill mix within occupations has already shown up in the United Kingdom in increased references to the need for technological skills in occupational postings.²

However, a shortage of physical and manual skills has likely exacerbated recent labor market tightness. Jobs requiring these skills had the lowest vacancy rate among the five broad skill categories, and job vacancies seeking these skills increased most since

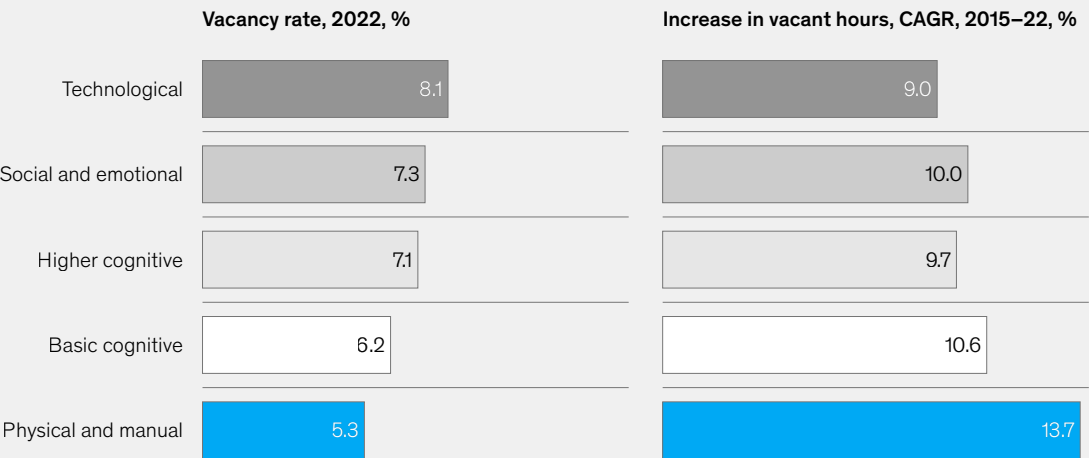
2015. This reflects growing demand for manufacturing and repair workers as well as for some types of healthcare workers, like nursing assistants. For instance, Delaware has begun offering tuition assistance and other incentives to attract workers to study nursing in an effort to address a shortage of trained nurses.³

The occupations with the biggest increase in share of vacancies are associated with labor-hungry sectors such as food service, healthcare, and construction. Workers in these occupations mostly use physical and manual skills, which in many cases are challenging to automate and, in the

Exhibit 11

Unmet demand for physical and manual skills has grown the fastest in the United States, while technological skills remain hardest to fill.

US job vacancies in terms of their skill components



Source: US Bureau of Labor Statistics; Lightcast; McKinsey Future of Work database; McKinsey Global Institute analysis

McKinsey & Company

¹ See *A new future of work: The race to deploy AI and raise skills in Europe and beyond*, McKinsey Global Institute, May 2024.

² Rui Costa et al., “Old skills, new skills—what is changing in the UK labour market” *The Pissarides Review into the Future of Work and Wellbeing*, Institute for the Future of Work, February 2024.

³ See Johnny Perez-Gonzalez, “Delaware responds to nursing shortage with ‘Tuition Incentive Program,’” WHYY, December 13, 2023.

Spotlight: Physical and manual skills in demand (continued)

case of healthcare occupations, likely to face unabated increases in demand as populations age (Exhibit 12).

Workers in occupations in which the share of vacancies declined most, by contrast, use physical and manual skills for only a small part of their work. Instead, these occupations, which include management, sales, financial operations, and computing, rely most heavily on social and emotional skills. Across all

sectors, such occupations are often more highly paid; in some cases, they are likely to be a shrinking slice of the total workforce. Office support occupations could shrink as basic cognitive skills are increasingly automated, while sales is already a shrinking occupational category as e-commerce becomes a bigger part of retail trade and technological changes shift marketing dollars to other channels and assets.⁴ Research by McKinsey has

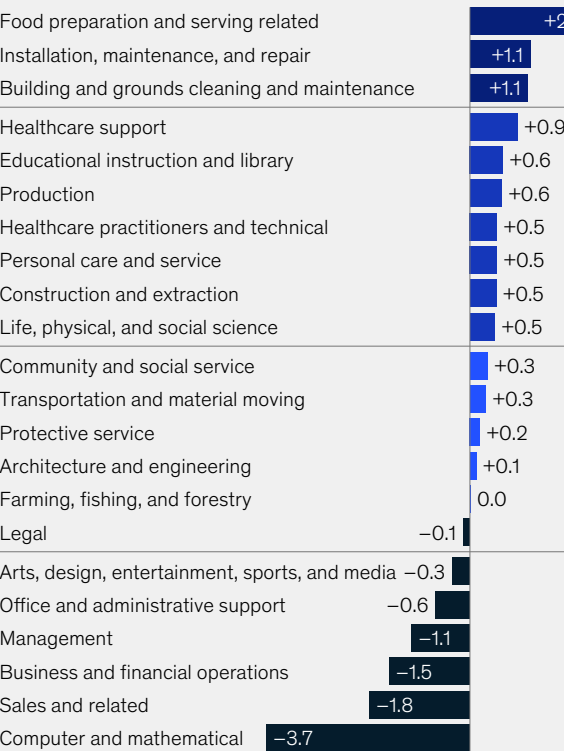
found that generative AI might accelerate the trend of automation in both of these occupational categories.⁵

Jobs requiring a high proportion of physical and manual skills often have lower wages. In tight labor markets, wage dynamics shift based on workers' changing opportunity costs, including options to move into higher-paying jobs. As US labor markets tightened, wages grew across the board, especially among workers in the lowest-

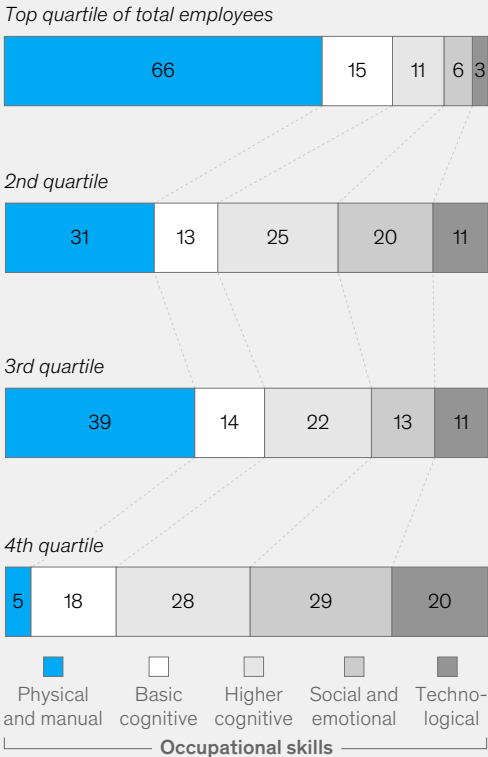
Exhibit 12

In the United States, occupations with the biggest increases in job vacancies disproportionately require physical and manual skills.

Change in job vacancy share by occupational group, 2015–23, percentage points



Average distribution of time spent using skills, by occupation, 2023, %



Note: Figures may not sum to 100%, because of rounding.
Source: Lightcast; McKinsey Future of Work database; McKinsey Global Institute analysis

McKinsey & Company

⁴ Michael Riely, *Inside the decline of sales occupations*, US Bureau of Labor Statistics Beyond the Numbers series, May 2020.

⁵ See *The economic potential of generative AI: The next productivity frontier*, McKinsey Global Institute, June 2023.

Spotlight: Physical and manual skills in demand (continued)

paying occupations, and the biggest beneficiaries were workers who switched jobs (Exhibit 13).⁶ Given that the labor share of production is about 60 percent across advanced economies, rising labor costs are highly relevant for employers and policy makers.⁷

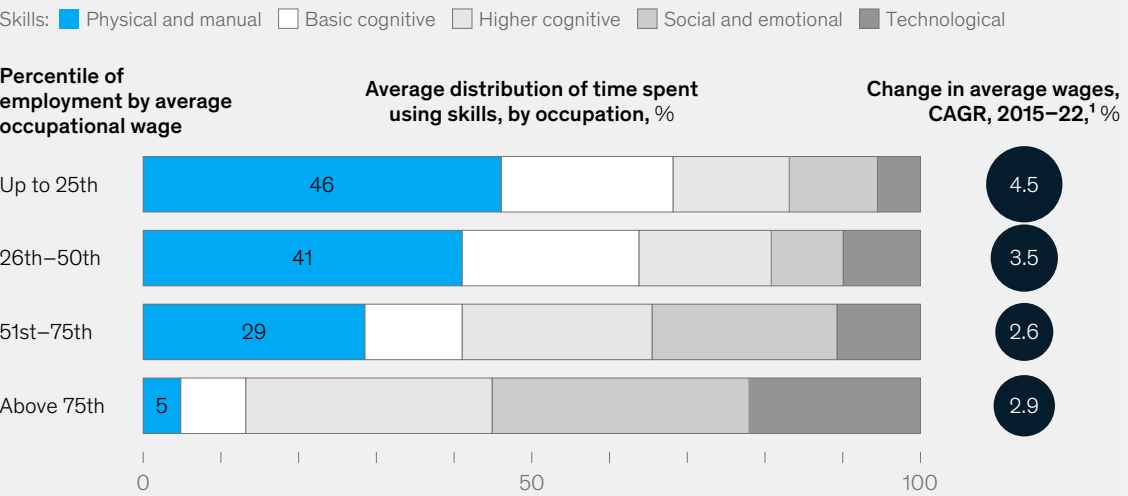
Grouping US occupations based on average salaries, the occupations in the bottom half of the income range require physical and manual skills more than 40 percent of the time. Those lower-paying occupations in the third and fourth quartiles by income had the fastest

wage growth from 2015 to 2022. The top half of occupations by income require physical and manual skills much less, and just 5 percent of the time among the top quartile of occupations by pay.

Exhibit 13

In the United States, wages are growing faster in lower-paid occupations that rely more on physical and manual skills.

Distribution of time spent on occupational skills, by average wages, 2022



¹Weighted average by full-time equivalent by occupation.
Source: US Bureau of Labor Statistics; McKinsey Future of Work database; McKinsey Global Institute analysis

McKinsey & Company

⁶ David Autor, Arindrajit Dube, and Annie McGrew, *The unexpected compression: Competition at work in the low wage labor market*, National Bureau of Economic Research working paper number 31010, November 2023.
⁷ Based on data through 2013 for Germany, Japan, and the United States. See Loukas Karabarbounis and Brent Neiman, *The global decline of the labor share*, National Bureau of Economic Research working paper number 19136, June 2013.

Opportunities exist to boost productivity across sectors. The leisure and hospitality sector in the United States provides a case study. In 2021, the sector accounted for 16 percent of all job vacancies, a comparatively big share that was three percentage points higher than its average from 2010 to 2020. The sector responded to challenges posed by the

COVID-19 pandemic by automating more processes and raising wages by an average of 29 percent from mid-2019 to mid-2023. Those steps increased the sector’s productivity by 6.4 percent over that period, decreasing pressure to hire and reducing its share of vacancies as its vacancy rate fell to 6 percent in 2023 from a decade high of 11 percent in 2021.

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