

## Korea records “bad” fall in July unemployment rate

Yes, you can have a “bad” fall in the unemployment rate, when falling unemployment is driven by a falling labour force and few jobs are being created



Korean won

# 3.3%

July unemployment rate

Down from 3.7%

Lower than expected

### Unemployment rate not a good barometer for the economy

As well as being a lagged indicator for the rest of the economy, there are good reasons for being very careful when interpreting the meaning of shifts in a country's unemployment rate. This is very much the case with the upbeat sounding fall in Korea's July unemployment rate to 3.3% from 3.7% in June. At first glance, this looks to be a much stronger outcome than the small rise to 3.8% that the consensus had expected.

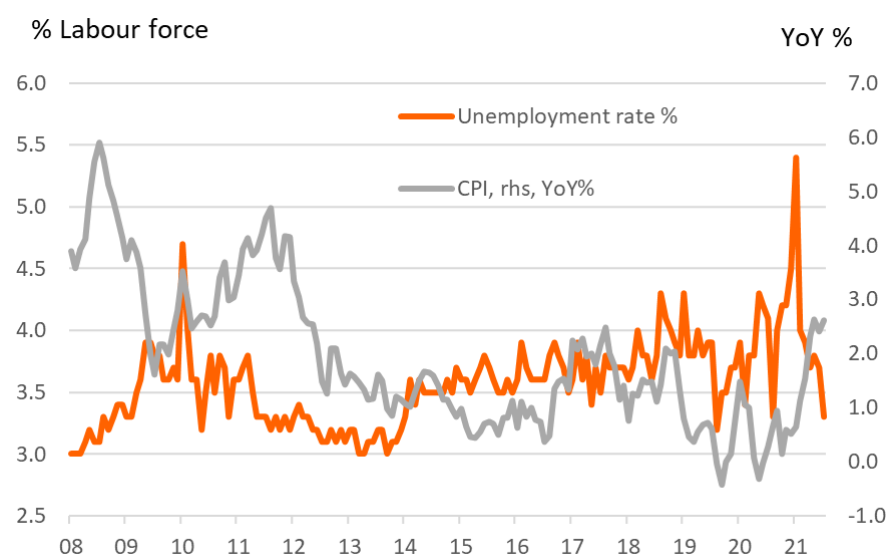
So what's going on?

The labour market release is quite a detailed piece of data, and we can see exactly what is driving the numerator of the unemployment rate (numbers of unemployed) as well as the denominator (labour force).

As far as the numbers of unemployed are concerned, the news looks good. There were 173 thousand fewer unemployed in July compared to June. The question is, where are all these people going? When you look at the numbers of employed, you see that these only rose by 11 thousand in July, so the unemployment rate is not falling because the unemployed are finding jobs. So where are they going?

The answer is a vague one, but "out of the labour force" is the basic story. This might include retirement, or simply disaffection with employment prospects leading to a "choice" not to work, or a return to homemaking or other non-paid work (looking after elderly, sick, young etc).

## Korean unemployment rate and inflation



Source: CEIC

## Does this mean anything for the BoK?

A release like this poses some headaches for policymakers. On the one hand, any fall in the available labour supply could be viewed as potentially inflationary, though Korea does not really suffer from the same labour market bottlenecks that are affecting economies such as the United States, and its inflation rate remains very low. So that isn't a worry.

But a decline in the labour force long term will weigh on Korea's productive potential - its long-term growth prospects. Again though, this is a long-run story and won't probably have much bearing on any decisions taken by the Bank of Korea (BoK) in the near term.

After giving a clear signal of their intent to start raising rates this year, the biggest risk to our October rate hike forecast remains the Covid-19 backdrop, not the labour market. For now, the Covid situation in Korea is reasonably steady. An October hike still seems plausible. But we will keep watching the data - all it would take would be a few days of bad Covid data and hints of

movement restrictions for this forecast to require revising.

## Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.