

Snap | 15 June 2022

SOUTH KOREA

Korea: May unemployment rate rises, but labour market conditions appear healthy.

Labour market conditions held up relatively well in May despite rising inflation and the rising interest rate environment.



Source: shutterstock.com

2.8%

Unemployment rate

Seasonally adjusted

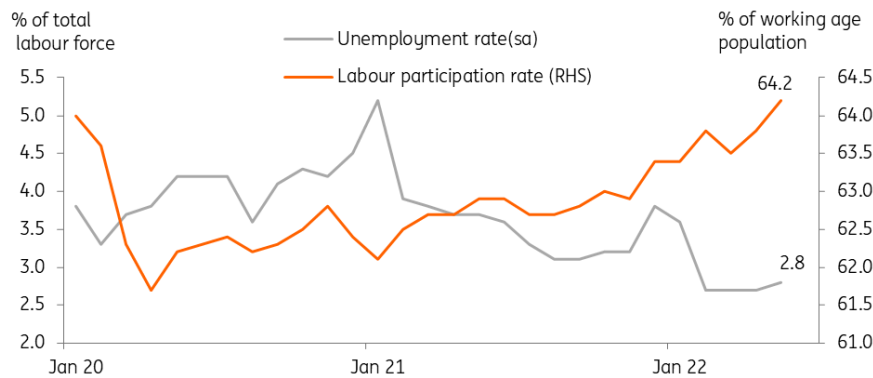
Higher than expected

Unemployment rate rose mainly due to rise in labour participation

The seasonally adjusted unemployment rate ticked up to 2.8% in May (vs. 2.7% market consensus and April), while the labour participation rate rose to 64.2% (vs. 63.8% in April), suggesting that employment recovery momentum has continued. Reopening appeared to

have a positive impact on the service sector as employment in hospitality and leisure services rose. Temporary employment related to the June local elections also added jobs for "other private services".

Labour market continued to recover



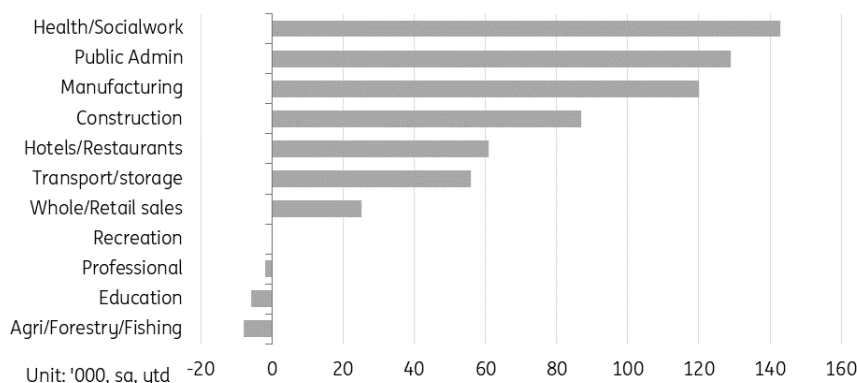
Source: CEIC

Looking ahead, some temporary factors will push up unemployment

We expect employment growth to slow after June. The on-going truckers' strikes are expected to negatively impact transportation and storage and, if extended beyond two weeks, could have negative spillover effects in construction and other sectors. Also, some public employment programs are due to end in the coming months. However, while unemployment will rise, overall labour market conditions will continue to recover as key drivers of employment shift from the public to the private sector and labour participation expands.

Meanwhile, the Ministry of Employment and Labor will expedite the entry of foreign workers and the issuance of work visas. In the aftermath of the COVID-19 pandemic, entry into Korea for a significant number of foreign workers has been restricted for the past two years. We think the issuance of work visas will help solve some of the labour shortages in agriculture and SMEs.

Employment gain accelerating in service sector



Source: KOSTAT

Implication for the Bank of Korea

The Bank of Korea will closely monitor labour market conditions given the tightness in the labour market and the potential for more rapid wage increases putting upward pressure on inflation. Concern over wage-spiral inflation was addressed multiple times by several committee members in the minutes of the May MPC meeting released yesterday. Today's labour market data should give the Bank of Korea some reassurance as there are still no significant signs that the current macro environment has yet had a negative impact on the labour market.

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