

## South Korea: the weaker-than-expected labour report is another sign of a recession ahead

The weaker-than-expected labour report flags that interest rate hikes may have begun to weigh on the broader labour market and eventually consumption. The Bank of Korea will pay attention to the slowdown in the labour market as well as inflation



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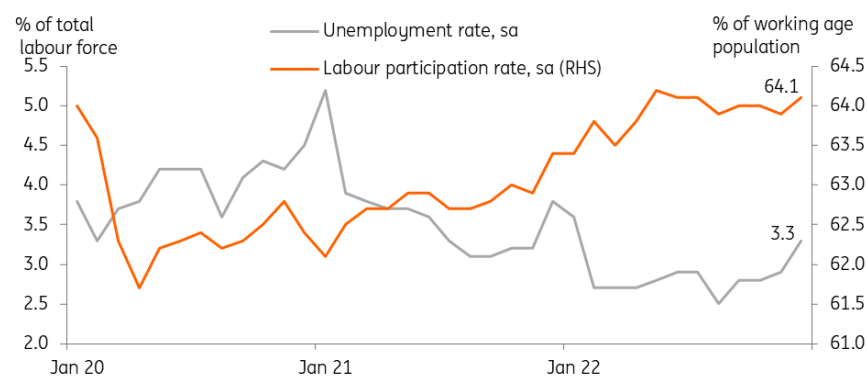
3.3% Jobless rate

Higher than expected

## The jobless rate rose to 3.3% in December (vs 2.9% in November and 3.0% market consensus).

By industry, manufacturing (-26k) and construction (-27k) jobs declined while services (+18k) added jobs in December. Manufacturing employment accounts for about 16% of total employment and has fallen for four months in a row. And given the weak business surveys on employment, the outlook is quite gloomy. Construction employment also declined for a second month, reflecting the difficulties the industry is experiencing. As we expect the downturn for construction to continue throughout this year, employment also will likely worsen. Overall, the service sector has increased jobs, but the details were disappointing as major services such as wholesale/retail sales and transportation stayed weak. The reopening boost appears to be gradually disappearing as hotels/restaurants added only a smaller number of jobs (+12k) than before and recreation and leisure fell for the third month. In addition, with the Covid-19 policy getting normalized, health and social work dropped for the first time in five months. We think health and social work will continue to decline this year.

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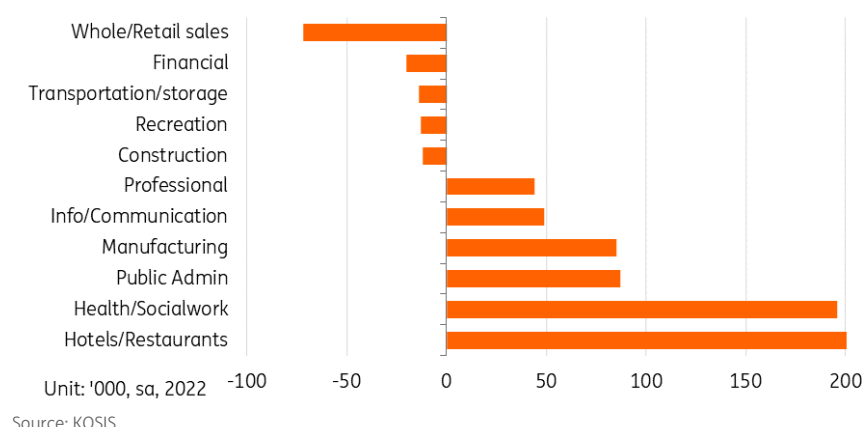
Source: KOSIS

## Labour outlook and BoK watch

Today's report is in line with our view that labour market conditions will likely deteriorate considerably this year. Companies have been encouraging employees to take "voluntary early retirement" packages since last quarter, which has not yet been reflected in December data, and workforce restructuring is expected to increase further in the future. Thus, the unemployment rate will head towards 4% this year.

Usually, we think the labour report is secondary data for the Bank of Korea (BoK) when they decide policy rates. But, currently, with a sharp and sudden rise in unemployment and a bleak outlook for this year, it could have a greater impact on policy decisions. We maintain our non-consensus view for an "on-hold" decision at the BoK's Friday meeting.

## Service employment was strong in 2022



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