

LABOR MARKET PROSPECTS FOR THE FIRST QUARTER OF 2001

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Rising Unemployment is Worrisome

Employment growth has been decelerating because of a cyclical downturn and the government's restructuring policy, and the declining trend in the unemployment rate reversed in November 2000. The number of jobless reached 797,000 that month - more than 4.9 percent up from 760,000 as of the previous month - indicating the worsening job situation and economic stagnation. Until October of last year, the number of jobless decreased by 32.7% down from 1,127,000 in January 2000. The country's unemployment rate reached 3.6% in November, the first upward turn of unemployment last year.

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In 2000, the unemployment trend reflected a seasonal pattern, with the rate peaking during the first quarter and falling thereafter. Thus, if one considers the ongoing business and financial market restructuring, employment is expected to continue declining through the first quarter of the year. The total number of unemployed will probably reach more than 1.21 million, and the employment rate is

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Figure 1. Current Trend of Unemployment



expected to rise to 5.5% by March. However, due to seasonal changes in employment and aggressive government policy for reducing unemployment, the jobless rate will decrease rapidly thereafter, and the year's average is forecast at 4.4 percent and the number of unemployed at 0.97 million.

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Factors of Unemployment

The increase in unemployment in the first quarter of 2001 will mainly come from the cyclical economic downturn. In addition, corporate and financial restructuring, as well as seasonal patterns will probably cause the employment condition to deteriorate more rapidly.

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If one considers cyclical factors, the number of unemployed in the first quarter of 2001 is estimated to increase by 196 thousand. Although one can use Okun's Law to look at the relationship between the growth rate and the unemployment rate and estimate the change in the number of unemployed due to cyclical factors, structural changes after the financial crisis have brought about a situation where this law does not apply.¹⁾ If one includes the data from last year to predict the change in unemployment according to Okun's Law, the unemployment rate in the first quarter of 2001 will increase by 0.9%, or about 196 thousand more unemployed persons.

Table 1. Number of Unemployed (1991~1999 Average)

(thousands)

Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
23.6	88.8	-9.1	-57.0	-39.7	-19.2	12.9	-18.0	-23.2	-11.8	14.8	38.0

1) If Okun's number is derived for the 1990's, a 1% increase in economic growth would result in a 0.32% reduction in the unemployment rate. According to this, the year 2000, which experienced a 1.1% reduction in the growth rate from 10.7% to 9.6%, would have seen a 0.35% increase in unemployment. However, the unemployment rate for 2000 is expected to record a 2.3% drop from 6.3% to 4.0%. This may be due to structural change in the economy after 1998 as well as policies to tackle unemployment such as public works.

Seasonal factors predict that the number of unemployed will increase by another 103 thousand. Looking at the monthly change in the number of unemployed during the 1990's, one can see that seasonal factors have caused the number of unemployed to rise during December to February. Therefore, if one considers seasonal factors, the increase in number of unemployed is expected to increase by another 103 thousand.

Finally, if one includes the effects of restructuring, the number of unemployed is expected to increase by a further 30 thousand. The Korea Labor Institute estimates that about 28 thousand persons will join the ranks of the unemployed as a result of the announcement made in November 2000 to close ailing firms. If the effects of restructuring on the banking sector are considered, the number of new unemployed is estimated to grow by another 30 thousand.

In the first quarter of 2001, the number of unemployed is expected to reach 1.2 million, with an unemployment rate of 5.5%. According to the above analysis, the number of unemployed is expected to increase by a total of 329 thousand. If this is added to the government forecast of 876 thousand unemployed for this year, the number of unemployed in the first quarter will be 1.2 million. If one assumes that the number of persons in the labor market during that period increases by 1.5% year-over-year, the unemployment rate will be 5.5%. After the first quarter however, the unemployment rate is expected to decrease due to seasonal factors, re-hiring of workers let go due to restructuring, and active policy to stimulate the economy and employment, to result in an unemployment rate of about 4.4% and about 970 thousand unemployed for the year. **VIP**

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Table 2. Unemployment Forecast in 2001

(% , thousands)

	1999	2000	2001		
			1/4	2/4~4/4	annual average
Economic Growth Rate	10.7	9.6	5.5 (annual average)		
Unemployment Rate	6.3	4.0	5.5	3.6~4.3	4.4
No. of Jobless	1,353	880	1,205	800~950	970

Note: Figures for 2000 and 2001 are HRI forecasts.