THE LABOUR MARKET IMPACT OF THE COVID-19 CRISIS

A health emergency turning into a severe economic crisis

The COVID-19 pandemic has triggered a deep economic crisis not seen since the Great Depression. With respect to the fourth quarter of 2019, OECD-wide GDP is projected to have fallen by almost 15% by the second quarter of 2020. The OECD-wide unemployment rate rose from 5.2% in February to 8.4% in May. In those countries for which data are available, during the first three months of the crisis, total worked hours have collapsed on average 10 times more than in the same period of the global financial crisis (Figure 1).

- Korea was among the first countries hit by COVID-19 but the spread of the virus was contained without strict confinement measures thanks to early testing and tracing.
- About 476 thousand jobs were lost in April compared to a year earlier and 1.5 million employees took temporary leave, resulting in a decrease of 11.1% of total worked hours.

Unemployment is projected to reach a record-high level by end 2020 and only start declining in 2021

The OECD projections are based on two scenarios (with and without a second pandemic wave later in 2020). In the absence of a second wave, OECD-wide employment is projected to fall by 4.1% in 2020 and grow by only 1.6% in 2021. Consequently, the OECD unemployment rate is projected to reach record highs of up to 9.4% by the end of 2020 (Q4) and only fall back to 7.7% in 2021. In the case of a second wave, the crisis would be worse and more protracted.

- Despite the sharp economic contraction, the rise in Korea’s unemployment rate has been modest, from 3.3% in February to 4.5% in May. However, this was partly the result of a substantial fall in labour force participation, especially for women. As in other OECD countries, the labour market recovery in Korea will likely be slow and gradual until the end of 2021.
- Employment in Korea is projected to fall by only 0.6% in 2020 and grow by 0.5% in 2021 in the single-hit scenario, and fall by 0.7% in 2020 and grow by 0.1% in 2021 in the double-hit scenario (Figure 2). The unemployment rate is projected to rise further but remain at close to 4.8% for the remainder of this year under the single-hit scenario (5.1% under the double-hit scenario) before slowly declining to 4.4% (4.7%) in 2021, still well above the 2019 average of 3.8%.

Some groups are paying a heavy toll

The crisis has disproportionately affected some groups more than others (e.g. self-employed, temporary and low-pay workers, youth, women), either because of their greater difficulty in protecting themselves from infection or via the impact on their jobs. This may exacerbate existing labour market inequalities. In April 2020, on average across 11 OECD countries, workers in the top earnings quartile were on average 50% more likely to work from home than those in the bottom quartile who, conversely, were twice as likely to have stopped working.
The labour market in Korea has contracted for three straight months since March 2020. The COVID-19 outbreak has hit temporary and daily workers hard, with the number of temporary workers plunging by 501 000 in May 2020. By industry, the number of jobs in the wholesale and retail sector and the accommodation and food service, which are heavily reliant on face-to-face contact, fell significantly by 189 000 and 183 000 respectively.

The uneven labour market impact of COVID-19 crisis may exacerbate already large income disparities in Korea. In the first quarter of 2020, the average monthly income of the lowest quintile households remained the same as the first quarter of 2019 while that of the highest quintile increased by 6.3%.

The labour market and social policy response has been unprecedented

OECD countries have taken massive steps to enhance income support as well as to introduce or expand job retention schemes, whose take-up has been unprecedented in some countries. As economies re-open and activity picks up, however, policy makers must accompany the recovery by striking the right balance between providing continuous support and encouraging business activity and the necessary restructuring.

The Korean government has introduced a range of measures to support households and protect businesses and employment, including relief checks (emergency disaster relief payments) to all households, emergency employment security subsidy for vulnerable workers, and increased subsidies for job retention scheme.

The one-time relief checks of up to KRW 1 million are being sent to all households. Supporting households directly was considered necessary given the incomplete coverage of unemployment insurance. However, any further support could be targeted towards low-income households to enhance equity and boost the economy.

The government has provided an emergency employment security subsidy of KRW 500 000 a month for three months to vulnerable workers not covered by Employment Insurance (EI), including small business owners, dependent self-employed and freelancers. In order to reduce social protection gaps for vulnerable workers, legislation for the expansion of EI for artists and the introduction of an unemployment assistance scheme was enacted in May 2020.

To help employers facing a temporary setback, the Korean government has relaxed the conditions for receiving the employment retention subsidy, and temporarily raised the level of support up to 90 percent of the allowance paid to workers by employer.

Figure 2. Labour market developments in Korea

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