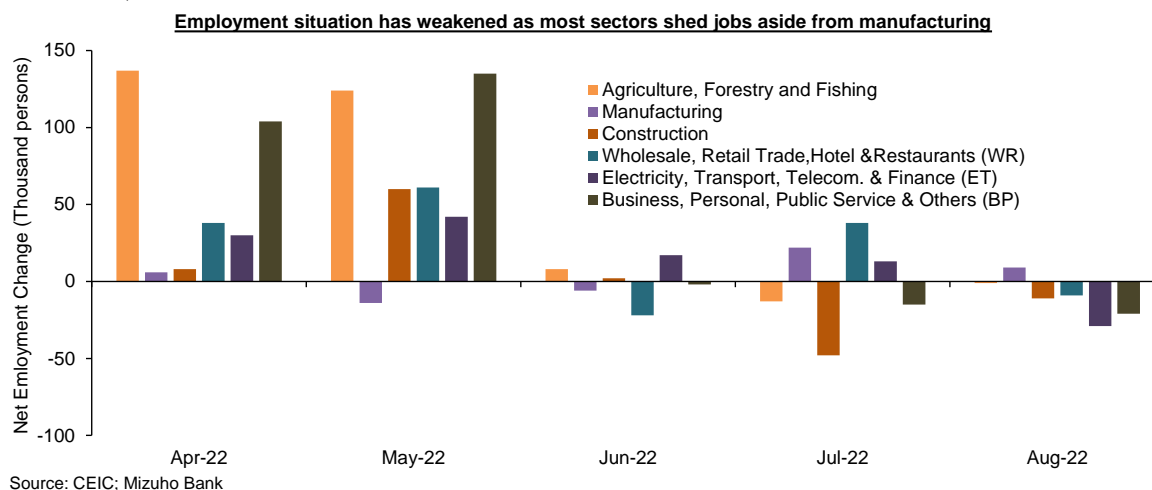
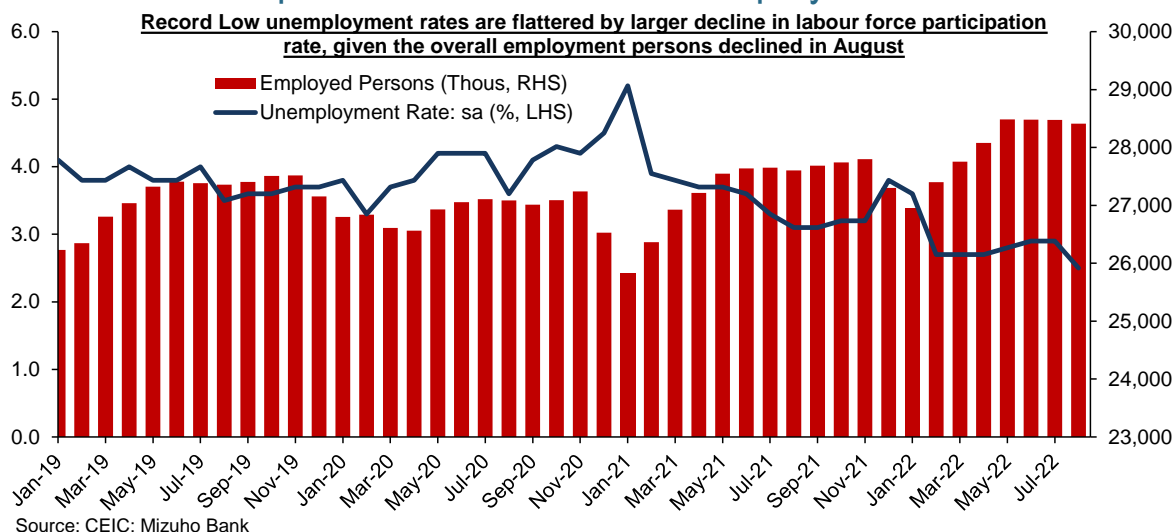


Korea: Lower Participation Rates Flatters Unemployment Picture



- While South Korea's employment rate hitting record low of 2.5% on a seasonally adjusted basis has ignited talk of large hikes, **all that glitters is not gold; as a look under the hood reveals soft spots.**
- First, record low unemployment rate is **flattered by markedly lower participation rates**. Admittedly, there is a seasonal aspect to lower participation rates for August. But this decline is notably larger.
- Second, and crucially, **actual employment deteriorated**; with *64K jobs shed* almost ubiquitously across all sectors, save for a modest *9K jobs added in manufacturing*. And so what this means is the despite record low unemployment rates, **job market conditions have arguably worsened**.
- Bottom-line being, insofar that soft spots in jobs mitigate risks of accelerating inflation, **record low unemployment** should **not be misconstrued as grounds to mechanically reinstate upsized rate hikes**. Fact is, *if the BoK steps up tightening, this will be despite, not because, of the job market.*
- Specifically, in response to inflation shocks conspiring with **Fed-induced capital flight and attendant KRW stability risks**. Whereas *instalments of calibrated 25bps hikes at the remaining two meetings is the default course* of action for the BoK.

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