

Review of Factors Behind the Decline of Employment-to-Population Ratio: Focusing on the Changes in the Service Sector

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The employment-to-population ratio in Korea has been on a continual upward trend over the long term, but the pace of increase has slowed greatly since 2000 compared to the previous periods. Maintaining an upward trend in the employment-to-population ratio is important as employment plays a big part in the economy's virtuous circle, in which growth leads to more employment which in turn generates more income and consumption. This paper reviews factors behind changes in the employment-to-population ratio in Korea, and provides policy implications for sustaining an upward trend in the ratio in the future.

The analysis of the employment-to-population ratio by factor shows some stylized facts. First, weaker growth in the employment-to-population ratio is attributable to a moderate increase in the economic activity participation rate. It is also due to the fact that the effect of employment growth stemming from the output increase has shrunk greatly due to a secular decline in the economic growth rate. By industry, the service sector has been leading a slower growth in the employment-to-population ratio. This is because changes in the service sector employment mostly explain changes in the overall employment, as the service sector has lower labor productivity and accounts for a higher share of aggregate demand, compared to the goods sector, such as the manufacturing industry. Within the service sector, decelerated growth in employment is evident in certain industries that have a high proportion of self-employed businesses, such as accommodation & food service activities, and wholesale & retail trade.

The simulation test using a two-sector general equilibrium model (goods and services) shows that changes in the employment-to-population ratio since the 2000s have been largely accounted for by changes in the service sector. In a scenario where the economic activity participation rate would decline, the employment-to-population ratio is estimated to have decreased more in the service sector than in the goods sector. When we relate this result to recent economic conditions, if declines in the economic activity participation rate are entrenched amid the prolongation of COVID-19, there is the possibility of a huge employment shock, mainly in the service sector.

The growth in the employment-to-population ratio in Korea could be restrained even further in the future by changes in the industrial and job structures, reduced economic participation of prime-age labor force, etc. Therefore, maintaining an upward trend in the employment-to-population ratio is all the more important to boost growth potential. In particular, as job growth slowdown is highly likely to be most evident in the service sector, it is necessary to continue to encourage women and the elderly — who make up a large share of the labor force in the service sector — to participate in the labor market. At the same time, multi-faceted efforts are needed to enhance employment capacity in the service sector, such as diversifying employment forms, e.g., part-time work, and cultivating the producer service industry which plays a key role in creating jobs. In such a situation where the COVID-19 pandemic has led to the contraction of employment and economic activity mainly in some service sector which requires high degree of face-to-face interactions, it is necessary to ease the employment shock through policy support for maintaining jobs in the corresponding sector.

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