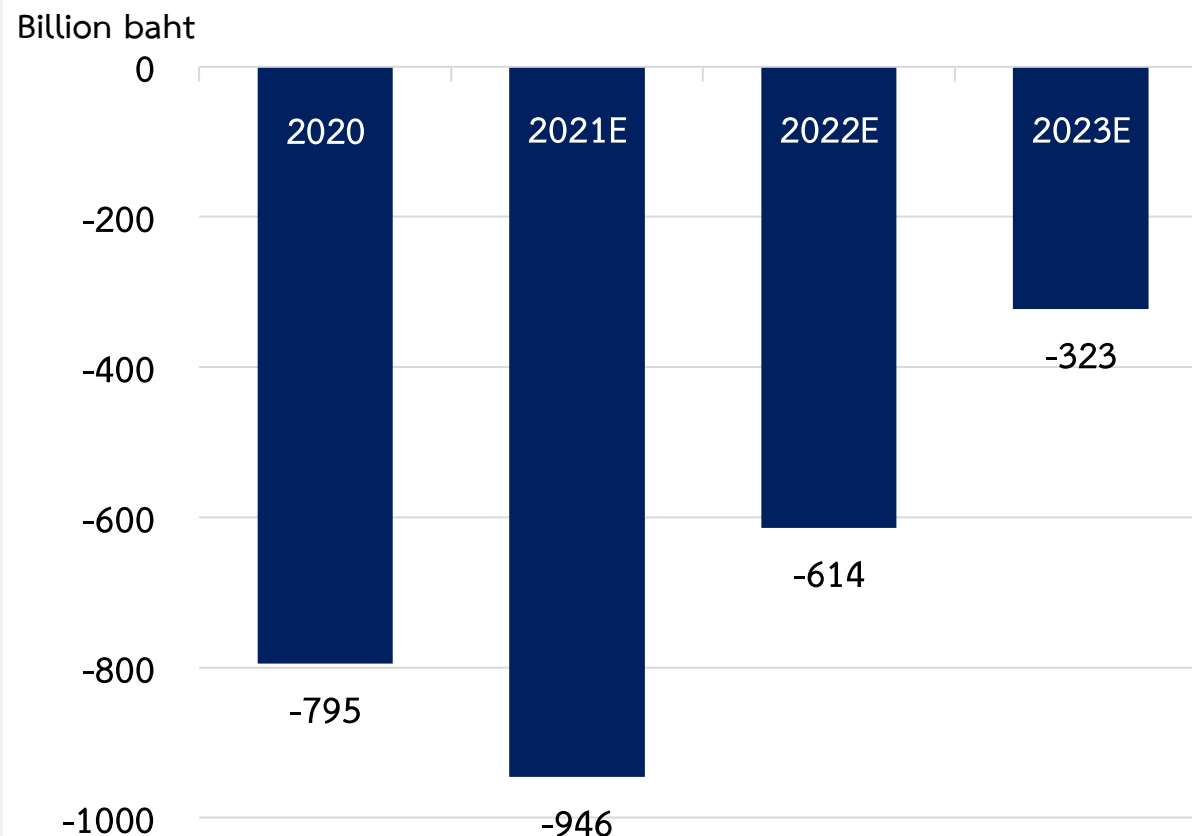


Over the next 1-2 years, labor market conditions in Thailand would gradually improve in tandem with the overall economic recovery. However, **improvements in labor market conditions would likely be fragile and not broad-based** as reflected in non-farm income, which is expected to remain below pre-COVID levels in 2022 and 2023 (Chart 1) especially for those who are self-employed and workers in the service sector. This is due to both the slow recovery of the tourism sector, adaptation by both businesses and workers amidst large degrees of economic uncertainties, and demand-supply mismatches in the labor market. Details of these factors are as follow:

(1) Slow recovery of the tourism sector would impact the income recovery of the self-employed as well as wages and employment of workers in tourism-related services. While the latest BOT forecast projects foreign tourists arrival to be 5.6 million persons in 2022 and 19 million persons in 2023, those figures are only about half of the arrival seen during pre-COVID periods at 40 million persons. Furthermore, the recovery of the tourism sector remain highly uncertain and would be mainly be determined by the developments of the COVID-19 pandemic. As a result, the recovery in income and employment of both groups of workers is also highly uncertain.

Chart 1: Projected income gap for non-farm workers in 2019



Note: E = estimated

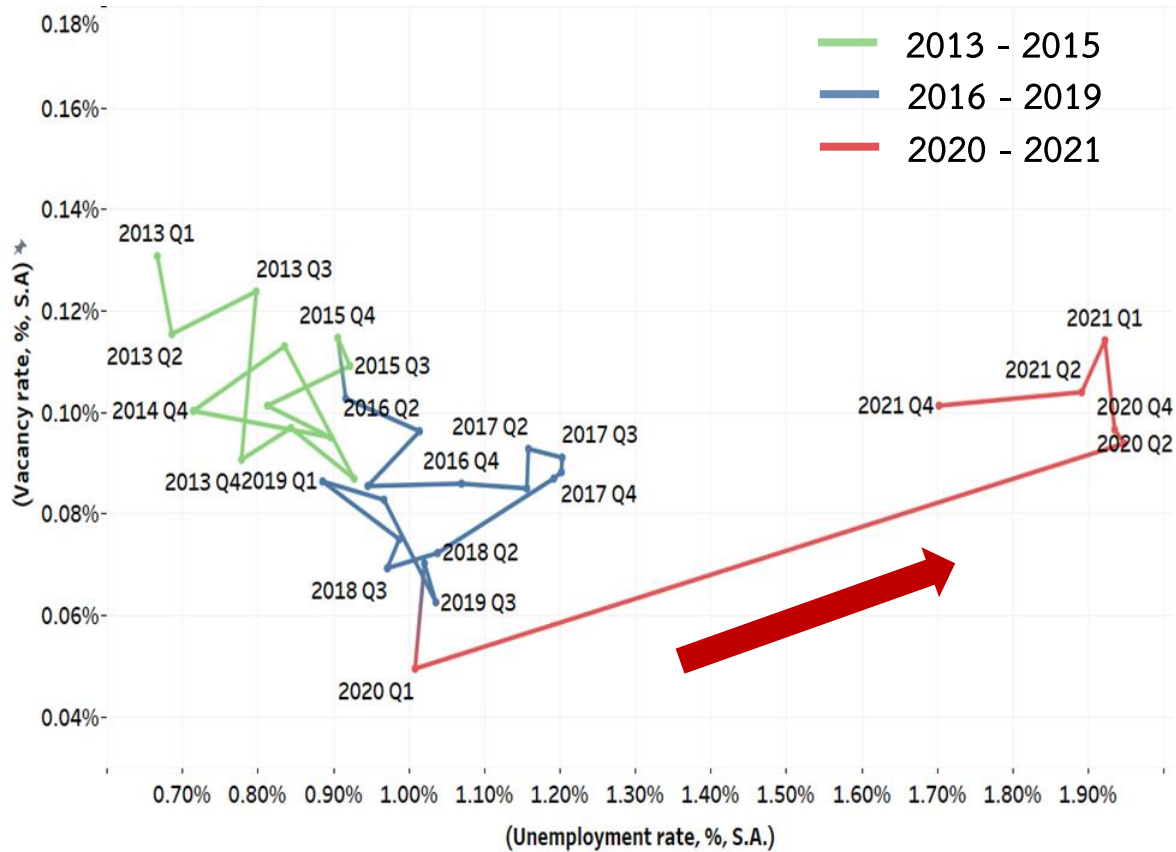
Source: Labor Force Survey and Economic and Social Conditions Survey conducted by the National Statistical Office of Thailand, calculated by the Bank of Thailand

(2) Businesses adapted by hiring less workers while COVID-19 uncertainties remain, resulting in less new hirings. It is expected that businesses, especially tourism-related services, would adapt by keeping labor costs down at least until there are no uncertainties related to COVID-19. Employers do so by increasing the number of working hours instead of hiring more workers. If there is a need to hire more workers, the employers would hire part-time workers instead of full-time workers because they are more flexible and less expensive. This is reflected in the employment figures in the fourth quarter of 2021 where employment in the service sector grew only about 1 percent from the third quarter even though the government had already relaxed containment measures and started permitting foreign tourists into the country. Meanwhile, employment in hotel businesses grew by about 10% but most of these were part-time workers. As a result, the ratio of part-time to full-time workers increased from 16% to 18% in the third quarter of 2021. In addition, investment by manufacturing businesses have mostly been in automation to replace manual labor and thus did not contribute much to the number of new hiring.

(3) Workers adapted to the outbreak of COVID-19 as some workers decided to move back home or to work in the informal sector. As such, the recovery in income has been limited and remain below pre-COVID levels. Currently, around 1.7 million workers have moved back to their home provinces are still reluctant to return to economic areas such as Bangkok and Phuket. This is due to many reasons such as uncertainties pertaining to the COVID-19 outbreak, wages being insufficient to cover living costs, and age limitations preventing workers from returning to the labor force. It is expected that most workers would move to the informal sector where productivity and labor income are low such as agriculture and self-employment. Workers who are out of jobs and have not yet returned home might also transition to the informal sector as well. This is reflected in the number workers in the agricultural sector and the self-employed in the fourth quarter of 2021 which increased by 5% and 4%, respectively, from pre-COVID levels. Meanwhile, workers in non-agricultural sectors declined by about 2%.

Looking ahead, it is expected that some of the workers who returned back to their home provinces would return to work in economic areas if the sector they previously worked in has clearly recovered. Meanwhile, some of those workers might have returned back home permanently, especially the elderly and those with the capital or land ownership for starting a new career or a local farm. The income of this particular group of workers would likely remain below pre-COVID levels.

Chart 2: Relationship between unemployment and job vacancy rate (Beveridge Curve)

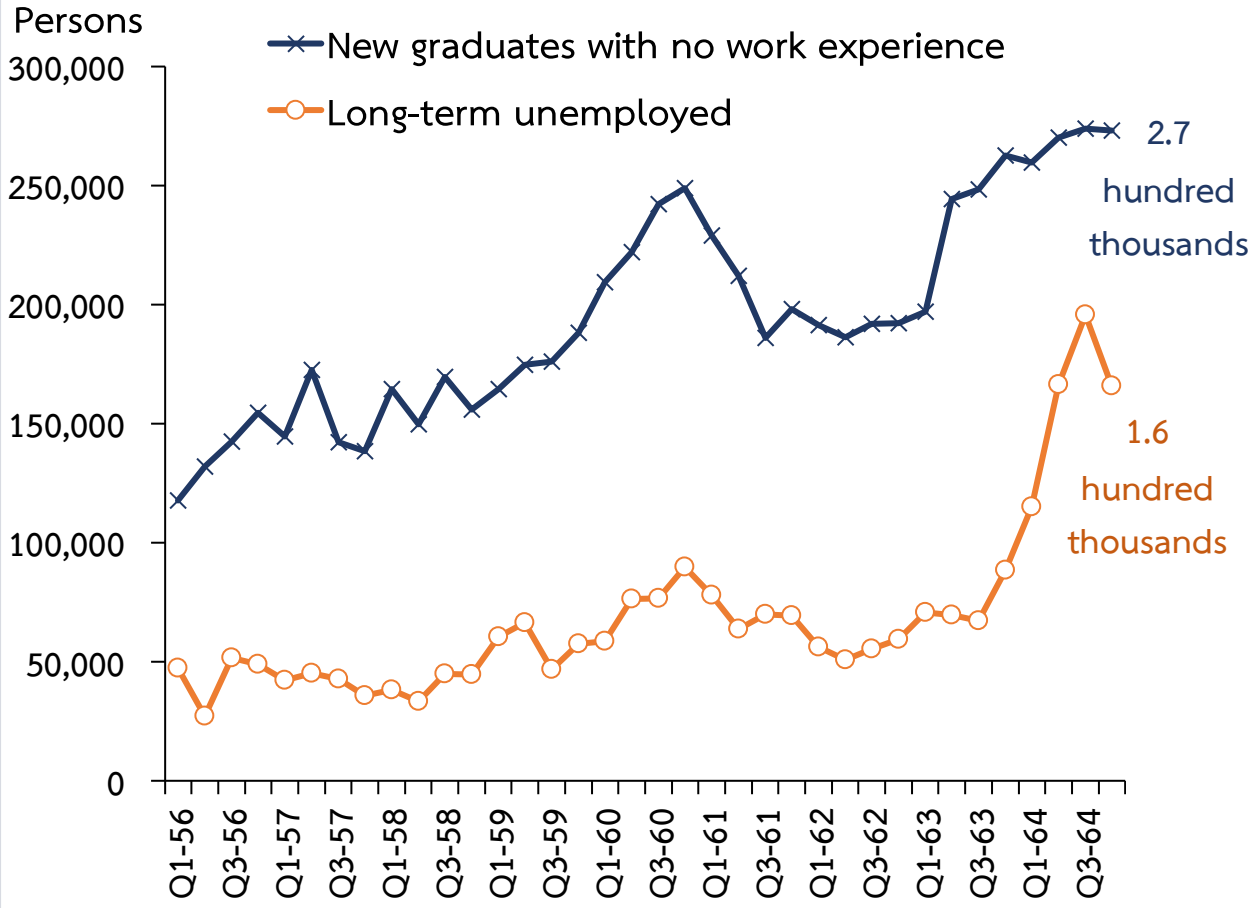


Source: Labor Force Survey by the National Statistical Office of Thailand, calculated and estimated by the Bank of Thailand

(4) Demand-supply mismatches in the labor market especially between the qualifications of the unemployed and the needs of the employers. Labor market data in 2021 indicates that some employers still need to hire additional employees as the number job vacancies did not decline (Chart 2). Some sectors were still hiring and likely to employ more workers to replace migrant workers who returned home. Meanwhile, workers found it more difficult to get a job as reflected in the number of long-term unemployment (workers who have been looking for a job for more than 1 year) which rose significantly (Chart 3) from 60,000 to 160,000 persons in the fourth quarter of 2021. The number of those who are unemployed and never had a job before also increased to 270,000 persons, a number of which were new graduates who mostly hold a bachelors’ degree. However, employers were looking for workers who do not have such high level of education.

The Beveridge curve represents the relationship between the unemployment rate and the vacancy rate which typically has negative correlations. During periods of economic slowdown, for instance, unemployment rate would increase while the vacancy rate would decrease. However, if the unemployment rate increases significantly while the vacancy rate is largely unchanged (Beveridge curve shifted to the right), it indicates that there may be structural problems in the labor market preventing workers from taking up those job vacancies. In the second quarter of 2020, the Beveridge curve for the Thai labor market shifted to the right. This reflected the demand-supply mismatches in the Thai labor market whereby most job vacancies were for factory workers which do not require high level of education and were previously filled by migrant workers, and thus was not attractive to those currently unemployed.

Chart 3: Unemployment rate (seasonally adjusted)



Note: Long-term unemployment refers to those who were unemployed for more than one year, both previously employed and new graduates.

Source: Labor Force Survey conducted by the National Statistical Office of Thailand, calculated and estimated by the Bank of Thailand

In summary, the recovery of wages over the next 1-2 years would be held back by many factors. The slow recovery of the tourism sector would result in the slower recovery in wages of the self-employed and those in the service sector compared to other occupations. Meanwhile, adaptation by both employers and the employees amidst high economic uncertainties due to the COVID-19 outbreak, and demand-supply mismatches in the labor market would both weigh on the recovery in employment and wages as well. As such, it would be necessary to closely monitor the recovery in labor market given its significant implications for private consumption and the overall economic recovery, as well as financial stability going forward.