

Implications of low unemployment rate in Thailand

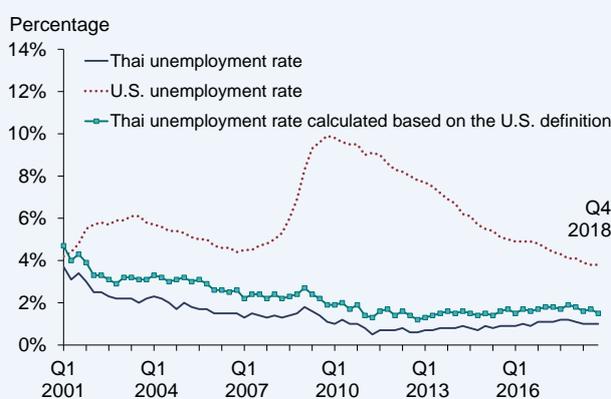
A ranking by the World Bank in 2018 reveals that Thailand's unemployment rate of 1.1% was the 9th lowest out of 233 countries worldwide. Such low unemployment rate may reflect the tightness of the Thai labor market following a solid economic growth in recent periods. However, it may not reveal structural problems in the Thai labor market. **Hence, this article aims to analyze implications of Thailand's low unemployment rate in 3 main aspects, namely 1) definitions of unemployment rate in Thailand and the international standard, 2) structural problems in the Thai labor market that are not reflected in unemployment figures, and 3) alternative indicators to assess the Thai labor market in a wider scope.**

1. Definitions of unemployment rate in Thailand and the international standard

The International Labour Organization (ILO) defines **the unemployed as all persons who are without work or work less than one hour per week**. This definition is adopted by countries all over the world including Thailand. However, the U.S. has added to the definition to include those who work for family businesses without any compensation and work for less than 15 hours per week. Using the U.S. definition, **Thailand's unemployment rate will edge up from 1.1 percent to 1.5 percent, which is still considered very low compared to 4 percent of the U.S.** (Chart 1).

Chart 1 Thailand's unemployment rate is still much lower than that of the U.S., despite using the same calculation based on the U.S. definition

Unemployment rate (seasonally adjusted)



Source: National Statistical Office of Thailand, Calculation by the Bank of Thailand

2. Structural problems in the Thai labor market

The low unemployment rate in Thailand cannot reflect the following 4 structural problems in the Thai labor market.

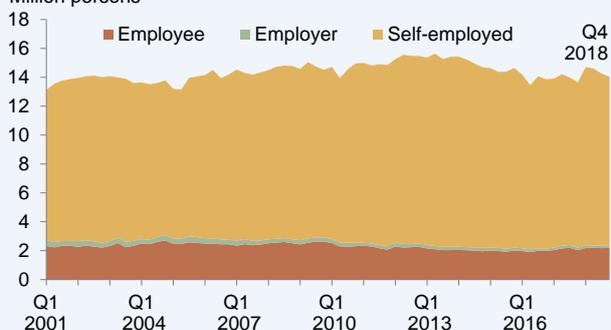
First problem Some workers have unstable jobs.

In terms of work status, **most workers in the agricultural sector, which constitutes nearly one-third of the labor force, are self-employed and are not in the social security system.**

Thus, they may not have access to significant social benefits for, such as childbirth, childcare, disabilities, death, or unemployment (Chart 2). For workers in the non-agricultural sector, one-third of non-agricultural workers are not in the social security system. This is particularly the case for workers in the trading sector, where most of the firms are small firms that face high competition and are financially vulnerable. Examples of these firms include retail businesses, street stalls, mom-and-pop shops, or stalls in front of shops.

Chart 2 Most workers in the agricultural sector are self-employed and are not in the social security system

Workers in agricultural sector by work status (seasonally adjusted)

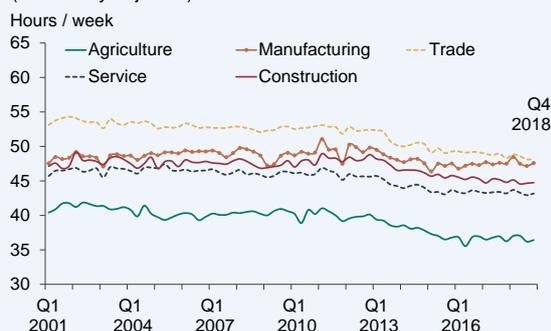


Source: National Statistical Office of Thailand, Calculation by the Bank of Thailand

Second problem Some workers in the agricultural sector are underemployed^{13/}.

The average working hours of the agricultural sector is 36 hours per week, which is lower than the average of non-agricultural sector at 46 hours per week, and averages of each non-agricultural sector (Chart 3). Furthermore, the number of workers in the agricultural sector who work less than 35 hours per week and prefer to work more is larger than that of the non-agricultural sector. Taken together, a larger number of agricultural workers, compared to non-agricultural workers, is underemployed. Therefore, difficulties for agricultural workers to relocate to other economic activities reflect a structural problem in the Thai labor market.

Chart 3 Workers in the agricultural sector have lower working hours than those in the non-agricultural sector
Average working hours per week in agricultural sector (seasonally adjusted)



Source: National Statistical Office of Thailand, Calculation by the Bank of Thailand

Chart 4 The number of houseworkers out of labor force, age between 51 and 60, is trending upward



Source: National Statistical Office of Thailand, Calculation by the Bank of Thailand

Third problem Some workers have given up seeking jobs and are therefore excluded from the labor force.

The low unemployment rate is partly due to **the early retirement of some workers who are thus not counted in the labor force**. This can be observed in the rising number of houseworkers out of the labor force with age between 51 and 60 (Chart 4). However, it is likely that **some of these people have attempted to seek a new job for some time before giving up and becoming discouraged workers**, which are neither considered as unemployed nor part of the labor force. Unlike surveys in developed countries, Thailand's labor force survey is still unable to separate discouraged workers from those out of the labor force. Thus, Thailand's unemployment rate calculated based on this data is relatively lower than if discouraged workers were to be categorized as unemployed and part of the labor force.

Fourth problem Some workers confront skill mismatch given their educational levels or fields of studies.

Although workers are employed, if their jobs do not match their qualifications, they might not be able to reach their full potential. A study reveals that 1 in 10 of non-agricultural workers in Thailand is underpaid given his or her educational level, since the job does not match his or her skills. In other words, worker experiences a job mismatch with regard to both educational levels (vertical mismatch) and fields of study (horizontal mismatch). Among various fields of study, job mismatch is found to be most common among social science graduates.

3. Alternative indicators to assess the Thai labor market in a wider scope

Given four structural problems above, it is clear that **the unemployment rate alone is not sufficient to capture all aspects of labor market development**. Thus, other indicators are

^{13/} Underemployed workers refer to workers who work less than 35 hours per week and prefer to work more.

necessary to monitor additional aspects of the overall Thai labor market, including the following 3 dimensions.

1) Labor market confidence, such as business employment outlook which represents confidence among employers

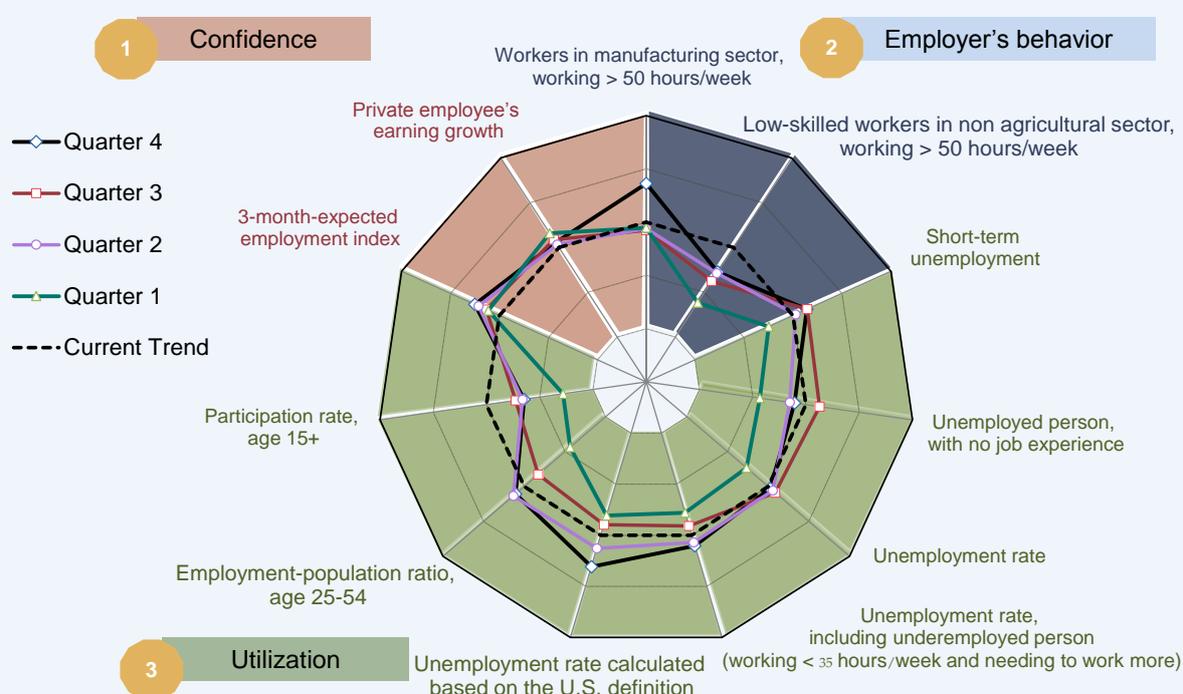
2) Employers' behavior, such as the number of workers who work more than 50 hours per week. More workers working overtime imply a higher demand for labor and signals tightness in the labor market.

3) Labor market utilization, such as the number of unemployed workers without job experiences. This reflects whether the labor force is fully utilized.

Chart 5 shows labor market cyclical indicators, which can be used to assess the overall Thai labor market in wider dimensions. For example, the Thai labor market in the fourth quarter of 2018 improved in many dimensions. Labor market utilization was close to a historical average, while employment was expected to increase further thanks to confidence in economic growth outlook. Moreover, employment for overtime work rose in the manufacturing sector in order to meet higher demand. Nevertheless, demand for low-skill workers continued to fall.

In summary, Thailand's unemployment rate is calculated in accordance with the international standard definition. However, unemployment rate that remains low does not reflect structural problems that plague the Thai labor market. For example, some workers do not work to their full potential, while others have given up seeking jobs and are thus excluded from the labor force. Hence, monitoring various dimensions of labor market development through labor market cyclical indicators will allow for a more comprehensive understanding of the market, and thus economic policy formations will be based on a more comprehensive data set.

Chart 5 Labour market cyclical indicators in 2018



Note: Based on Federal Reserve Bank of Atlanta's framework; the weighted average (current trend) represents mean value (Z-score=0); the more indices deviate from the center point, the more tightening labour market becomes (the index in each dimension is determined by Z-score, ranking from -2 to 2)

Source: National Statistical Office of Thailand, Calculation by the Bank of Thailand