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## Wage Trends in 2017 and Wage Outlook for 2018

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### I. A Significant Slowdown in the Rate of Nominal Wage Increase in 2017

In 2017, the Korean economy registered a 3.1% growth (preliminary estimate) exceeding the original forecast of 2.5% (January 2017) thanks to the expansion of the manufacturing sector and the increase in investment. Amid the rebound of the global trade, the exports of the IT sector – led by the semiconductor sector in particular – accounted for 31.4% of Korea's total exports; and the rise in construction investment and the growth in investment in plant and equipment turning to a positive figure played a major role in Korea's economic growth recovering to the 3% range in 3 years.

Under such economic circumstances, the 2017 real wage growth rate (based on the total wage of all workers

at establishments with five or more permanent employees; hereinafter referred to as “all workers”) fell by 2.0%p year-on-year (y-o-y) to 0.8%. This is the lowest since the 2011 growth rate of -2.9%, and can be attributed to the slowdown in nominal wage growth and the accelerating consumer price growth. In 2017, nominal wage growth decreased by 1.1%p y-o-y to 2.7%, while consumer price growth jumped by 0.9%p y-o-y to 1.9%, resulting in a real wage growth in the 0% level.

The 2017 per capita nominal wage growth rate for permanent workers (establishments with five or more permanent employees) was 2.3%, which was below per capita nominal GDP growth of 5.0%. This trend has been continuing since 2014.<sup>121</sup> In 2017, the gap between the two indicators widened y-o-y, and the labor share of income in 2017 dropped by 0.3%p y-o-y to 63.0%, showing

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Figure 1. Nominal GDP Growth Rate and Nominal Wage Growth Rate Trends (Per Capita)

(Unit : %)

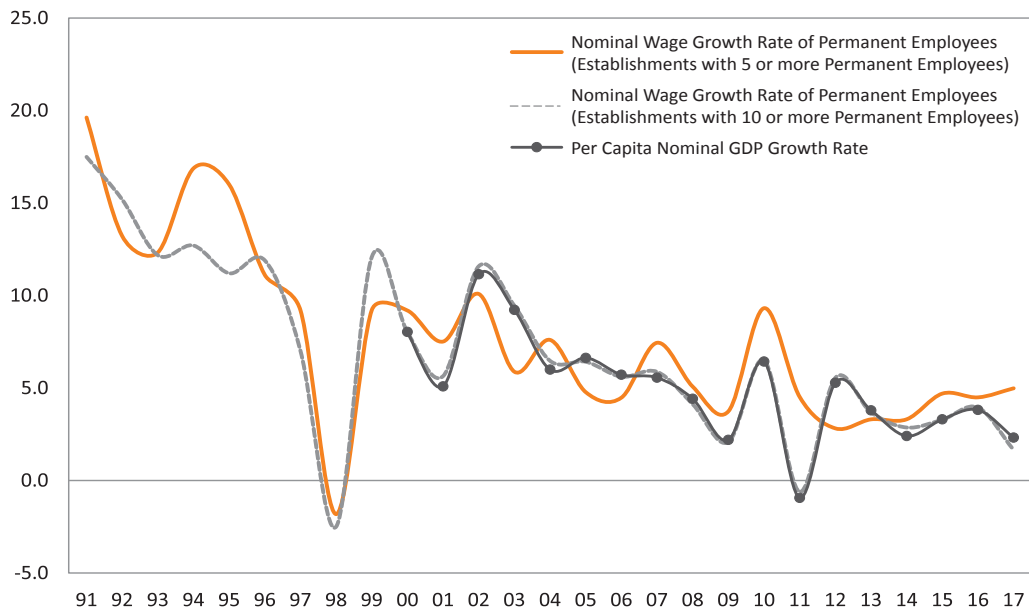
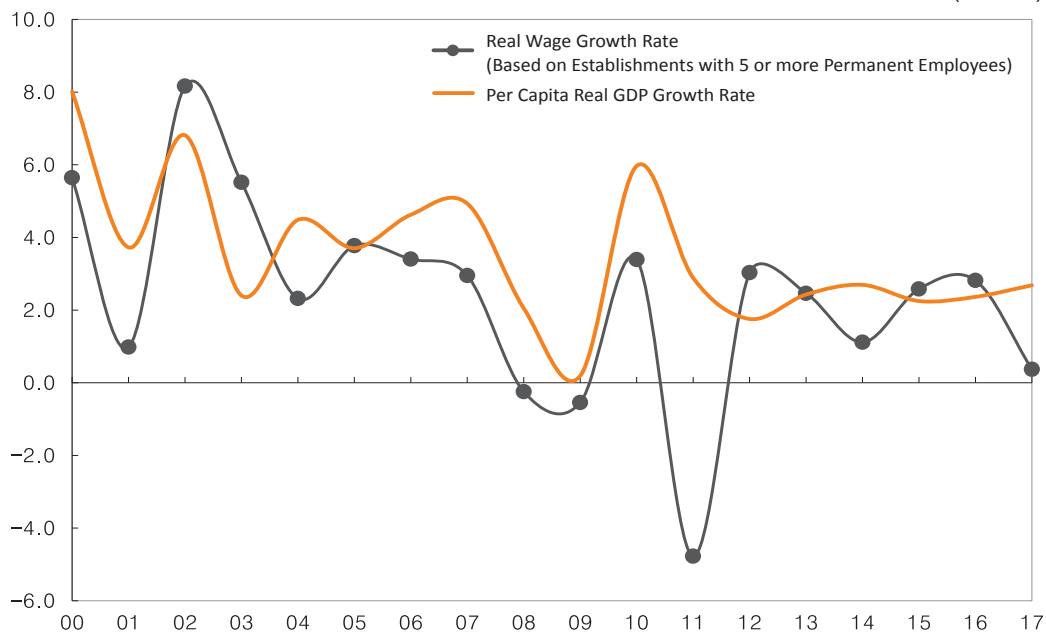


Figure 2. Real GDP Growth Rate and Real Wage Growth Rate Trends (Per Capita)

(Unit : %)



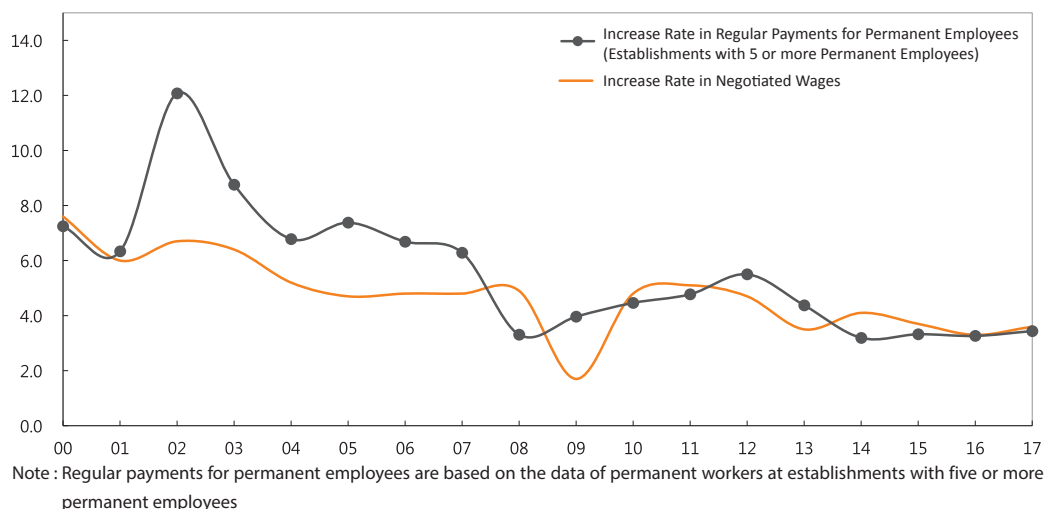
Note : 1) Nominal wage growth rate is based on the total earnings of permanent workers at establishments with five or more employees.

2) Real wage growth rate is based on the total earnings of permanent workers at establishments with five or more permanent employees; Consumer Price Index 2015=100.

3) Calculated by dividing real GDP from per capita real GDP growth rate by population projections (Consumer Price Index 2010=100)

Source : *The Labor Force Survey at Establishments*, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>  
*Economic Statistics System*, The Bank of Korea, <http://ecos.bok.or.kr/>

Figure 3. Trends in the Increase Rate of Negotiated Wages and Regular Payments for Permanent Employees  
(Unit : %)



Source : *The Labor Force Survey at Establishments*, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>  
*The e-Nara Indicators*, <http://www.index.go.kr>

a slight slowdown in the rising trend since 2010 (59.4%).

On the other hand, for establishments with 100 or more employees, the 2017 increase rate in negotiated wages was 3.6%, up 0.3%p from the previous year. As can be seen in [Figure 3], such a slight increase in 2017 came about amid a gradual, long-term downturn in the rise of negotiated wages. Here, negotiated wages should be differentiated from the nominal wage actually paid to workers as they do not include variable pay such as overtime pay and special bonuses. According to *the Labor Force Survey at Establishments*, regular payments – excluding overtime pay and special cash payments – for permanent workers also increased in 2017 by 0.3%p y-o-y, showing a similar trend to that of the rise in negotiated wages.

## II. Wage Trends in 2017

In 2017, the economic growth rate (preliminary estimate) increased by 0.2%p y-o-y to 3.1%, while both nominal and real wage growth rate slowed significantly. The rate of wage increase of all workers has been on the rise since bottoming out at 2.5% in 2014, and it fell by 1.1%p y-o-y in 2017. The slowdown in wage growth rate in 2017 is attributed to the slowing of wage growth – in particular, of permanent workers by employment status, and of large enterprises by establishment size. And, it seems that the reduction of special cash payments for permanent workers had the greatest impact on both of these factors. On the other hand, the size of wage increase of non-permanent workers including temporary workers and daily workers expanded from the previous year (see Table 1).

One of the main features of the 2017 wage trends is that

1) Since 2008, the data on labor conditions under *the Labor Force Survey at Establishments* published by the Ministry of Employment and Labor has covered all workers at establishments of five or more permanent employees. During 1999-2007, the data covered all permanent workers at establishments with five or more permanent employees; and during 1993-1998, all permanent workers at establishments with ten or more permanent employees. Nominal wage growth rate and real wage growth rate show a similar pattern even when the survey subjects are expanded.

2) According to *the Economically Active Population Survey* (Supplementary Survey in August) findings released by Statistics Korea, the 2017 real wage growth rate (based on all wage earners) decreased by 0.2% y-o-y in 2017, reflecting a similar trend to that in *the Labor Force Survey at Establishments*. In this paper, we will examine wage trends based on total earnings of permanent employees.

Table 1. Recent Trends in Wages and Working Hours

(Unit : Thousand Won/Month, Hour/Month, %, Consumer Price Index 2015=100.0)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
The Labor Force Survey at Establishments	All workers (Establishments with 5 or more Employees) (Rate of Increase)	2,569 (-)	2,636 (2.6)	2,816 (6.8)	2,844 (1)	2,995 (5.3)	3,111 (3.9)	3,190 (2.5)	3,300 (3.5)	3,425 (3.8)	3,519 (2.7)
	Real Wage Growth Rate	-	-0.1	3.8	-2.9	3.1	2.5	1.3	2.7	2.8	0.8
	Permanent Workers	Total Earnings (Rate of Increase)	2,802 (4.4)	2,863 (2.2)	3,047 (6.4)	3,019 (-0.9)	3,178 (5.3)	3,299 (3.8)	3,378 (2.4)	3,490 (3.3)	3,623 (3.8)
		Real Wage Growth Rate	-0.2	-0.5	3.4	-4.7	3.0	2.5	1.1	2.6	0.4
		Regular Payments (Rate of Increase)	2,057 (3.3)	2,139 (4.0)	2,234 (4.5)	2,341 (4.8)	2,470 (5.5)	2,578 (4.4)	2,660 (3.2)	2,749 (3.3)	2,838 (3.2)
		Overtime Pay (Rate of Increase)	179 (7.5)	175 (-2.2)	196 (12.2)	179 (-8.4)	181 (1.0)	184 (1.7)	201 (9.3)	216 (7.4)	225 (4.2)
		Special Cash Payments (Rate of Increase)	566 (7.7)	550 (-2.8)	617 (12.3)	498 (-19.3)	527 (5.8)	537 (1.8)	516 (-3.7)	525 (1.6)	560 (6.7)
	Non-permanent Workers Total Earnings (Rate of Increase)	1,052 (-)	1,073 (1.9)	1,056 (-1.6)	1,215 (15.1)	1,293 (6.4)	1,377 (6.5)	1,387 (0.7)	1,424 (2.7)	1,469 (3.2)	1,539 (4.8)
Economically Active Population Survey (Supplementary Survey)	Total Earnings (Rate of Increase)	1,846 (5.8)	1,852 (0.3)	1,949 (5.2)	2,032 (4.3)	2,104 (3.5)	2,181 (3.7)	2,231 (2.3)	2,297 (2.9)	2,368 (3.1)	2,423 (2.3)
	Real Wage Growth Rate	0.1	-1.6	2.5	-0.2	1.9	2.2	0.7	2.2	2.5	-0.2
Consumer Price Growth Rate		4.7	2.8	3.0	4.0	2.2	1.3	1.3	0.7	1.0	1.9
Real GDP Growth Rate		2.8	0.7	6.5	3.7	2.3	2.9	3.3	2.8	2.9	3.1
Working Hour (Month)	All workers (Establishments with 5 or more Employees) (Rate of Increase)	176.7 (-)	176.1 (-0.3)	176.7 (0.3)	176.3 (-0.2)	174.3 (-1.1)	172.6 (-1.0)	171.4 (-0.7)	172.6 (0.7)	171 (-0.9)	167.8 (-1.9)
	Permanent Workers (Rate of Increase)	184.8 (-1.9)	184.4 (-0.2)	184.7 (0.2)	182.1 (-1.4)	179.9 (-1.2)	178.1 (-1.0)	177.1 (-0.6)	178.4 (0.7)	176.9 (-0.8)	173.3 (-2.0)

Note : 1) Since 2011, the *Labor Force Survey at Establishments* published by the Ministry of Employment and Labor has expanded the survey subjects to include establishments with one worker or more, increased the survey frequency from quarterly to monthly, used the updated industrial classification (8th KSIC to 9th KSIC), and re-generated the time-series data from 2008.

2) The wage statistics of the *Labor Force Survey at Establishments* published by the Ministry of Employment and Labor are the data from establishments with 5 or more permanent employees, while those of the *Economically Active Population Survey* (Supplementary Survey by Employment Type in August) apply to all wage workers.

3) The real wage growth rates are calculated using the June~August CPI of respective years from the *Economically Active Population Survey*.

4) For real GDP growth rate, we set Consumer Price Index 2010=100.

5) The number inside brackets denotes the differences from the previous year.

Source : The *Labor Force Survey at Establishments*, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

Yearly raw data from the *Economically Active Population Survey* (Supplementary Survey by Employment Type in August), Statistics Korea

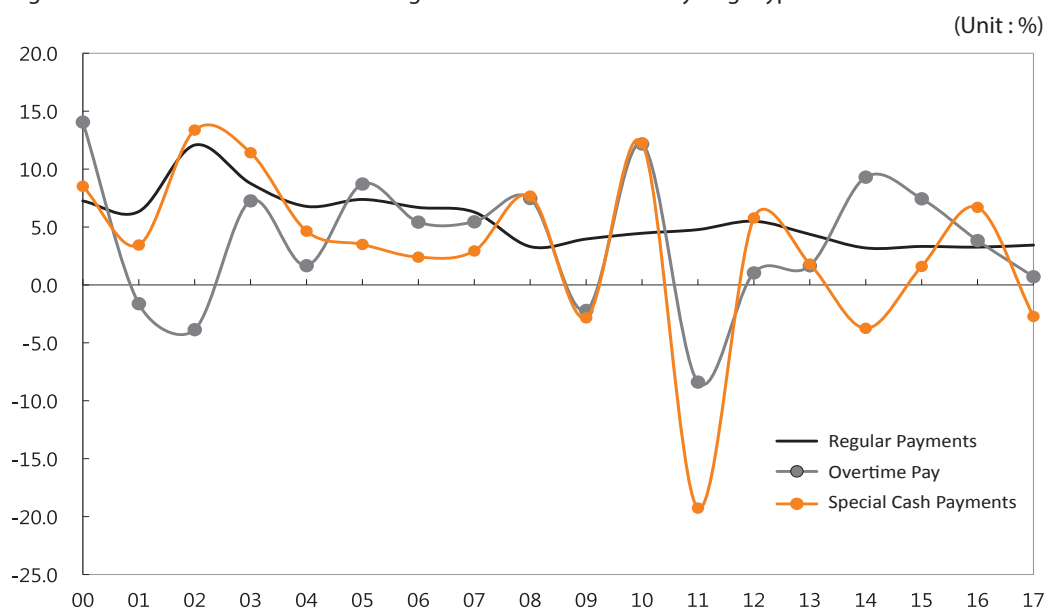
*Household Income and Expenditure Survey*, Statistics Korea, KOSIS

*Economic Statistics System*, The Bank of Korea, <http://ecos.bok.or.kr/>

the growth of special cash payments for permanent workers turned negative. In 2017, the wage growth rate of permanent workers fell by 1.5%p to 2.3% from the previous year, which was due to the 2.7% drop y-o-y in permanent workers' special cash payments. As shown in [Figure 4], fluctuations were relatively larger in overtime pay and special cash payments than in regular payments.

Owing to the drop in raw material prices resulting from low oil prices in 2016, the profitability of the energy-related industries – electricity, gas, steam and water services – greatly improved. And a major boom in the construction industry led to the accompanying growth of other industries related directly or indirectly with construction, such as professional, scientific and technical

Figure 4. Trends in the Increase Rate of Wages for Permanent Workers by Wage Type



Note : Based on the total earnings of permanent workers at establishments with five or more permanent employees.

Source : The Labor Force Survey at Establishments, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

services; and real estate activities, renting and leasing. As a result, these industries in particular saw a great increase in variable pay—largely paid in the form of special payments—and the actual amount of special cash payments rose 6.7%. In fact, in 2016, special cash payments increased in all industries except in the business facilities management and business support services industry and the mining industry. In the case of electricity, gas, steam, and water services, which had the largest increase in special cash payments in 2016, the operating profit ratio (one of the profitability indicators) to the Q3 2017 sales dropped 3.6p y-o-y to 7.43%, leading to a decline in special cash payments in 2017. In addition, most industries including the construction industry and those directly or indirectly related to the construction industry that drove a rise in special cash payments in 2016, experienced a drop in special pay in 2017, resulting in a slowdown in wage growth for permanent workers.

Although special cash payments dropped for the entire group of permanent workers, they rose in certain industries focused on the domestic market: accommodation and food service activities (42.5%), wholesale and retail

trade (7.7%), educational services (13.2%), publishing, video, broadcasting and telecommunication and information (10.6%), arts, sports and recreation related services (8.5%), and financial and insurance activities (1.1%). However, we were able to confirm that the growth rate of special cash payments in these industries also showed a decline y-o-y, except in accommodation and food service activities, and publishing, video, broadcasting and telecommunication and information.

Changes in permanent workers' special cash payments varied somewhat in each industry, but apparently the overall decline in 2017 was caused, to a certain extent, by the unusual delay in wage negotiations and settlement unlike in previous years, and the resulting failure to pay out negotiated wages—including incentives and retroactive pay raise—to workers.

Another key feature of wage trends in 2017 is the slowdown in wage increase for large businesses with more than 300 employees. The wage gap between SMEs (small and medium-sized enterprises) and large-scale businesses has widened further in 2017 than in 2016. While the wage growth rate of SMEs with less than 300 employees

Table 2. Trends in Wage by Establishment Size (Establishments with 5 or more Employees)

(Unit : Thousand Won, %)

		2015	2016	2017
SMEs	Subtotal	2,938 ( 3.6)	3,048 ( 3.7)	3,176 ( 4.2)
	Total Earnings of Permanent Workers	3,110 ( 3.4)	3,228 ( 3.8)	3,351 ( 3.8)
	Regular Payments	2,577 ( 2.9)	2,660 ( 3.2)	2,772 ( 4.2)
	Overtime Pay	184 ( 6.6)	197 ( 7.3)	202 ( 2.6)
	Special Cash Payments	349 ( 5.3)	371 ( 6.1)	377 ( 1.5)
	Total Earnings of Non-permanent Workers	1,434 ( 3.2)	1,486 ( 3.6)	1,554 ( 4.6)
Large Enterprises	Subtotal	4,849 ( 3.7)	4,959 ( 2.3)	4,983 ( 0.5)
	Total Earnings of Permanent Workers	5,017 ( 3.9)	5,131 ( 2.3)	5,145 ( 0.3)
	Regular Payments	3,438 ( 5.1)	3,519 ( 2.3)	3,598 ( 2.3)
	Overtime Pay	349 (10.4)	331 ( -5.2)	324 ( -2.1)
	Special Cash Payments	1,230 ( -0.7)	1,281 ( 4.2)	1,223 ( -4.5)
	Total Earnings of Non-permanent Workers	1,329 ( -1.8)	1,311 ( -1.4)	1,400 ( 6.9)

Note : 1) Nominal wages of wage workers

2) The number inside brackets denotes the differences from the previous year

Source: *The Labor Force Survey at Establishments*, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

increased by 0.5%p y-o-y to 4.2%, that of large enterprises fell by 1.8%p y-o-y to remain in the 0% range. Given that the wage growth rate of non-permanent workers, including temporary and daily workers, employed in large firms rose by 8.2%p from the previous year, it can be concluded that the slowing of wage growth in large-scale enterprises is due to the deceleration of permanent workers' wage growth.

The aforementioned changes in permanent workers' special cash payments seem to have been relatively larger in large-scale businesses than in SMEs. According to the wage statistics by establishment size in <Table 2>, special cash payments of large-scale businesses decreased 8.7% from the previous year. Looking at the changes in special cash payments by industry, some industries saw a large drop in 2017: electricity, gas, steam, and water services 40.4% (2016) → -1.3% (2017), real estate activities, renting and leasing 15.7% → -15.5%, wholesale and retail trade 4.0% → -18.0%, and manufacturing 7.6% → -1.2%. As shown in [Figure 5], although special cash payments in the whole accommodation and food service industry

increased sharply in 2017, they dropped from 2.2% to -11.9% in large enterprises of the same industry. Interestingly, special cash payments in large-scale construction firms showed an increase of 11.5% y-o-y with investment in construction remaining strong since 2016.

Meanwhile, unlike the slowdown in wage growth of permanent workers in large firms, the wage growth rate of permanent workers in SMEs continued to show the same size of growth in 2017 as in the previous year (see Table 3).

According to *the Wage Decision Status Survey* in 2017, the progress (rate of settlement) in wage decisions of large-scale businesses was 83.7%, sluggish compared to the previous year; and that of the manufacturing industry was also weak at 86.8% due to the delay in wage negotiations and settlement of the automobile industry.<sup>3)</sup> Accordingly, it is highly probable that the size of reduction in special cash payments was quite big for large firms that belong to the manufacturing industry or the professional, scientific and technical services industry with the headquarters of the manufacturing businesses.

A key feature of wage trends in 2017 is a wide variation

3) The progress (rate of settlement) in wage decisions of businesses with 1,000 or more employees was 79.2% in 2017, with 442 out of 558 businesses having completed wage negotiations within the year; and it is lower than the 2016 settlement rate of 81.3%.

[Table 3] Wage Levels and Wage Increase Rate of Permanent Workers by Establishment Size

(Unit : Thousand Won/Month, %)

	All Permanent Workers	Less than 300 workers					300 or more workers
			5~9 workers	10~29 workers	30~99 workers	100~299 workers	
2005	2,404 ( 6.6)	2,158 ( 6.7)	1,783 ( 8.6)	2,081 ( 7.0)	2,259 ( 6.3)	2,517 ( 5.4)	3,357 ( 6.1)
2006	2,542 ( 5.7)	2,283 ( 5.8)	1,886 ( 5.8)	2,187 ( 5.1)	2,413 ( 6.8)	2,646 ( 5.1)	3,493 ( 4.1)
2007	2,683 ( 5.6)	2,426 ( 6.2)	1,957 ( 3.7)	2,331 ( 6.6)	2,574 ( 6.7)	2,836 ( 7.2)	3,744 ( 7.2)
2008	2,802 ( 4.4)	2,493 ( 2.7)	2,055 ( 5.0)	2,385 ( 2.3)	2,593 ( 0.7)	2,928 ( 3.2)	3,921 ( 4.7)
2009	2,863 ( 2.2)	2,557 ( 2.6)	2,115 ( 2.9)	2,442 ( 2.4)	2,682 ( 3.4)	2,957 ( 1.0)	3,934 ( 0.3)
2010	3,047 ( 6.4)	2,699 ( 5.5)	2,212 ( 4.6)	2,561 ( 4.9)	2,837 ( 5.8)	3,126 ( 5.7)	4,291 ( 9.1)
2011	3,019 (-0.9)	2,675 (-0.9)	2,186 (-1.2)	2,562 ( 0.0)	2,864 ( 0.9)	3,113 (-0.4)	4,273 (-0.4)
2012	3,178 ( 5.3)	2,834 ( 5.9)	2,295 ( 5.0)	2,711 ( 5.8)	3,046 ( 6.4)	3,355 ( 7.7)	4,424 ( 3.5)
2013	3,299 ( 3.8)	2,938 ( 3.7)	2,389 ( 4.1)	2,815 ( 3.8)	3,145 ( 3.2)	3,484 ( 3.9)	4,583 ( 3.6)
2014	3,378 ( 2.4)	3,008 ( 2.4)	2,434 ( 1.9)	2,931 ( 4.1)	3,258 ( 3.6)	3,443 (-1.2)	4,827 ( 5.3)
2015	3,490 ( 3.3)	3,110 ( 3.4)	2,539 ( 4.3)	3,063 ( 4.5)	3,351 ( 2.8)	3,487 ( 1.3)	5,017 ( 3.9)
2016	3,623 ( 3.8)	3,228 ( 3.8)	2,634 ( 3.7)	3,183 ( 3.9)	3,462 ( 3.3)	3,668 ( 5.2)	5,131 ( 2.3)
2017	3,707 ( 2.3)	3,351 ( 3.8)	2,754 ( 4.5)	3,267 ( 2.6)	3,519 ( 1.7)	3,881 ( 5.8)	5,145 ( 0.3)

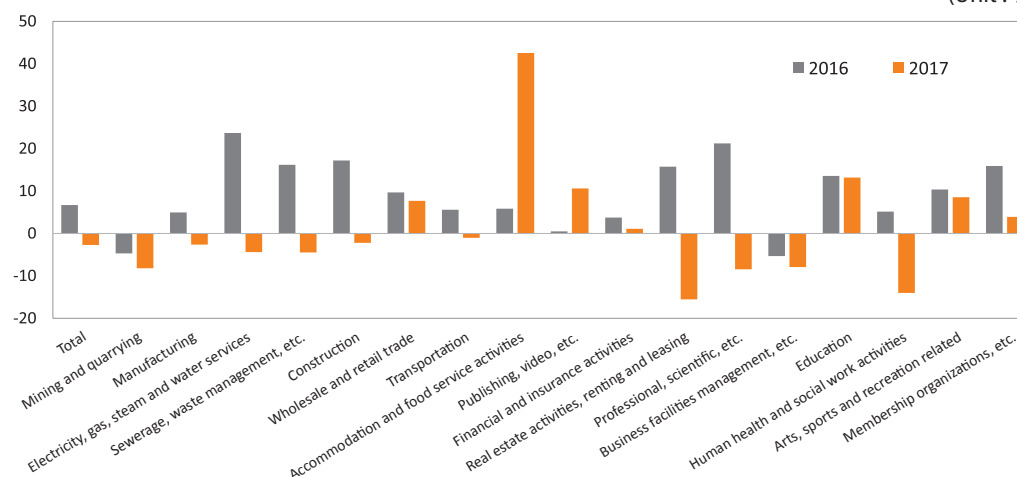
Note : 1) Based on total earnings of permanent workers at establishments with 5 or more employees

2) The number inside brackets denotes the differences from the previous year

Source : The Labor Force Survey at Establishments, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

Figure 5. Changes in Special Cash Payments for Permanent Workers by Industry (2016-2017)

(Unit : %)

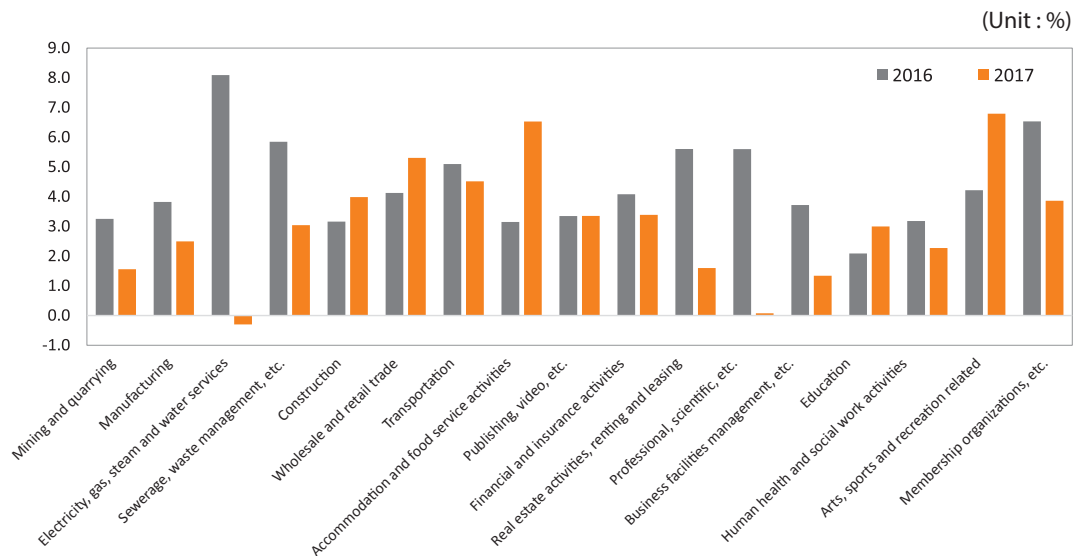
Source : The Labor Force Survey at Establishments, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

in wage growth rates across industries. The reason for the lower average wage growth rate across all industries from the previous year seems to have been largely influenced by the weak wage growth rate of the electricity, gas, steam and water services industry, the professional, scientific

and technical services industry, the real estate activities, renting and leasing industry, and the business facilities management and business support services industry. In particular, the electricity, gas, steam and water services industry exceeded by a large margin the average wage



Figure 6. Wage Growth Rate by Industry (2016-2017)



Note : Based on the data of all workers at establishments with five or more permanent employees

Source : The Labor Force Survey at Establishments, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

growth rate (3.8%) at 8.1% in 2016, but the growth turned negative (-0.3%) in 2017. In addition, the real estate activities, renting and leasing industry as well as the professional, scientific and technical services industry also recorded a weak wage growth rate of the 0~1% range in 2017.

On the other hand, there were certain industries that surpassed the average wage growth rate of 2.7% in 2017 and experienced a rise of wage growth rate from the previous year: the construction industry (4.0%, 0.8%p ↑), wholesale and retail trades (5.3%, 1.2%p ↑), accommodation and food service activities (6.5%, 3.4%p ↑), and arts, sports and recreation related services (6.8%, 2.6%p ↑).

Although a wide variation was observed by industry for different wage types (regular payments, overtime pay, special cash payments), large fluctuations in special cash payments were commonly seen in the industries that experienced large wage fluctuations in 2017.

### III. Changes in the Wage Structure

We have confirmed that the weakness in wage increase rate, despite GDP growth recovering to the 3% level in 2017, was related to the reduction in special cash payments for permanent workers, especially in large enterprises. Now, using the wage data collected under *the Labor Force Survey at Establishments* (respondents: business establishments) and *the Economically Active Population Survey* (respondents: households) in 2017, we will examine the problem of dual-structure that persists in the South Korean labor market.<sup>4)</sup>

First of all, according to *the Labor Force Survey at Establishments* conducted by the Ministry of Employment and Labor, the wage increase rate of SMEs went up (3.7 → 4.2% for all workers) while that of large-scale businesses slowed considerably (2.3 → 0.5% for all workers). The wage increase rate of SMEs surpassing that of large firms for two consecutive years contributed to raising the rela-

4) The two surveys differ in terms of survey subjects, timing and respondents. In the case of *the Economically Active Population Survey* (Supplementary Survey in August), all wage earners were surveyed on wages, whether or not they participate in the four major public insurance schemes, welfare benefits, etc.



Table 4. Trends in Relative Wage Levels under Different Characteristics

(Unit : %)

	Hourly Wage		
	Non-permanent Workers (Permanent Workers=100)	Non-regular Workers (Regular Workers=100)	SMEs (Large Enterprises=100)
2004	51.0	73.5	58.3
2005	48.8	70.5	56.3
2006	49.5	71.0	55.5
2007	47.7	70.9	54.4
2008	47.5	68.0	54.6
2009	46.5	61.5	55.5
2010	47.2	62.5	54.0
2011	49.2	65.3	55.1
2012	48.8	64.3	54.9
2013	49.3	64.8	55.3
2014	50.5	64.3	56.0
2015	52.0	65.0	57.2
2016	52.2	65.4	56.0
2017	55.5	67.0	59.7

Note : Wage statistics of all wage workers under different characteristics.

Hourly Wage = Average Monthly Wage/((Average working hours per week\*30.4)/7).

Source : Yearly raw data from the *Economically Active Population Survey* (Supplementary Survey in August), Statistics Korea.

tive wage level of SMEs (wage of large businesses = 100) to a moderate extent. After improving to 60.3% (based on hourly wage) in 2009 just after the global financial crisis, the relative wage level stayed in the 59-60% range for several years, and rose to 62.1% in 2017, reaching the highest figure since the global financial crisis. Even in terms of average monthly wages, the relative wage level of SMEs in 2017 was 63.7%, confirming a significant narrowing of the wage gap.

In addition, the relative wage level of non-permanent workers compared to permanent workers was at its lowest in 2010 (55.5%, based on hourly wage) but the gap has been narrowing rapidly since then. In 2017, the figure reached 65.5%, showing the most improved level of relative wage.

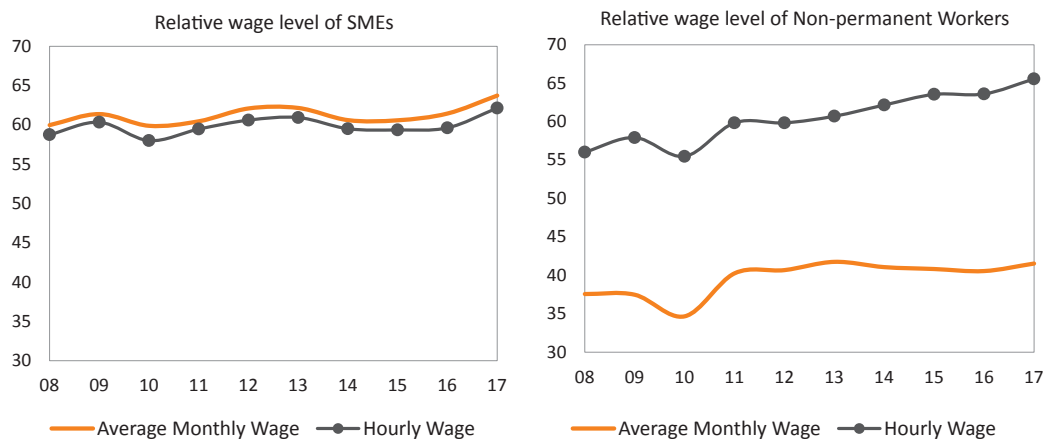
Statistics Korea's *Economically Active Population Survey* results in 2017 also confirm that, whether compared on establishment size, employment status (non-permanent

vs. permanent workers), or employment type (regular vs. non-regular), all the relative wage levels improved from the previous year (See Table 4).

Although the narrowing of wage gap across different characteristics in 2017 is a positive sign, both surveys – whether the survey subjects are business establishments or households – show that the difference in relative wage levels by establishment size or by employment type still exists. As shown in [Figure 8], a significant difference is observed in terms of employment stability and welfare between the most advantageous group in the labor market (large enterprises, unionized, regular workers) ('D') and the relatively disadvantaged group (SMEs, non-unionized, non-regular workers) ('E'), showing the reality of the dual structure of Korea's labor market.<sup>51</sup>

The *Economically Active Population Survey* also shows that there are 4.73 million low-wage workers (earning less than two-thirds of the median hourly wage) in Korea,

Figure 7. Trends in Relative Wage Level (Average Monthly Wage, Hourly Wage) of SMEs, Non-permanent Workers  
(Unit : %)



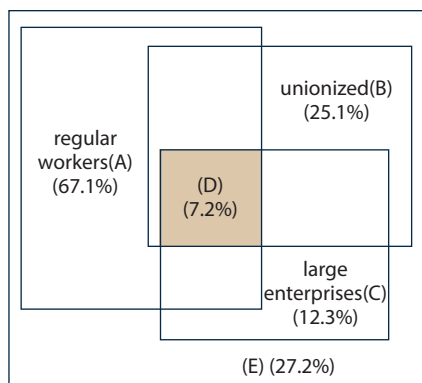
Note : Based on the total earnings of all workers at establishments with five or more permanent employees.

Hourly wages are calculated using the average hours worked per month for different characteristics.

Source : The Labor Force Survey at Establishments, Ministry of Employment and Labor, <http://laborstat.moel.go.kr/>

Figure 8. Korea's Labor Market Structure

(Unit : %, thousand won, won)



		D	E
Number of Workers		1,435	5,408
Average Monthly Wage		397	142
Hourly Wage		22,277	9,482
Seniority		13.6	2.3
Social Insurance	National Pension Participation Rate	98.8	31
	Employment Insurance Participation Rate	77.5	38.6
	Health Insurance Participation Rate	99.5	39.8
Welfare Level	Rate of Severance Payment	99.7	36.9
	Rate of Bonus Payment	97.2	35.2
	Rate of Overtime Payment	89	19.9
	Education/Training Availability	99.4	37.5

Note : Hourly Wage = Average Monthly Wage / ((Average hours worked per week \* 30.4) / 7).

'D' = large enterprises, unionized, regular workers

'E' = SMEs, non-unionized, non-regular workers

Source : Yearly raw data from the *Economically Active Population Survey* (Supplementary Survey in August), Statistics Korea.

accounting for 23.8% (0.5%p ↑, 2017) of all wage earners. This proportion is significantly higher than that of OECD member countries (10% range). In particular, the

proportion of low-wage workers in SMEs is 26.6%, while that among non-regular workers in SMEs is a whopping 43.5%. Meanwhile, the proportion of workers who earn

5) The *Economically Active Population Survey* (Supplementary Survey in August) collects data not only on wages for different employment types of wage earners but also on working conditions such as social insurance and welfare. Even in these items, it is possible to observe a gap among workers by establishment size and by employment type.

less than the minimum wage per hour dropped from 12.8% during the global financial crisis to 9.6% in 2012, but increased again to 13.4% in 2017. It seems such an increase may have been influenced by the recent sharp rise in the country's minimum wage.

Along with the effort to alleviate the deep-rooted dual structure of the labor market, it is essential to establish a system to strengthen social protection for low-wage workers.

## IV. Wage Outlook for 2018

### 1. Wage Guidelines of Two Major Umbrella Unions and KEF in 2018

Every year, Korea's two major umbrella unions and Korea Employers Federation (KEF) deliver their wage guidelines. In their finalized requests for 2018, the FKTU demanded a 9.2% wage increase (318,479 won per month, same amount of increase for regular and non-regular workers, assuming the fixed amount of monthly earnings (regular monthly payment + bonuses evenly divided as

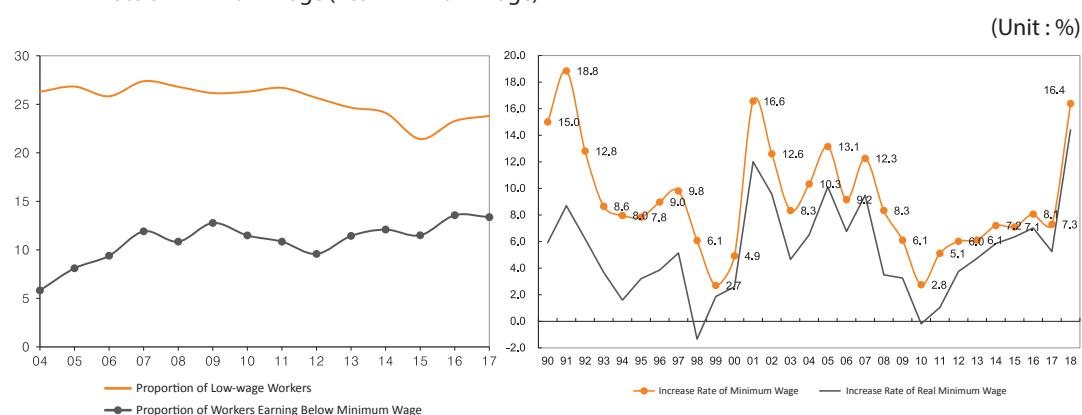
a monthly payment)); and the KCTU also proposed the same amount of wage increase for regular and non-regular workers (224,000 won per month, assuming the fixed amount of regular payment) as part of its solidaristic wage policy.<sup>6)</sup>

Through *the 2018 Wage Adjustment Recommendations for Business*, the KEF recommended to increase wages in the range of 2.0% from the previous year.

## 2. Macroeconomic Indicators and Labor Market Indicators: Outlook for 2018

According to the Bank of Korea (Jan. 2018), Korea's economy in 2018 is expected to maintain a steady growth in 2018, benefitting from the continuous recovery of the global economy, booming exports and a strong rebound of domestic consumption. Although the strong investment in plant and equipment that played a major role in Korea's economic growth recovering to the 3% range in 2017 is expected to slow down somewhat, the Bank of Korea announced Korea's economic growth rate outlook for 2018 at 3.0%, assuming that the country will continue its growth due to relatively stable private consumption

Figure 9. roportions of Low-wage Workers and Those Earning Below Minimum Wage, and Trends in the Increase Rate of Minimum Wage (Real Minimum Wage)



Note : Low-wage workers refer to those whose average hourly wage is less than two-thirds of the median hourly wage

Source : Yearly raw data from *the Economically Active Population Survey* (Supplementary Survey in August), Statistics Korea  
*The e-Nara Indicators*, <http://www.index.go.kr>

6) The FKTU and the KCTU commonly demanded that regular and non-regular workers benefit from the same amount wage increase. If applied, the rate of wage increase for non-regular workers requested by the FKTU is 20.4%, and that requested by the KCTU is about 14%.

and the government's economic stimulus policies including the execution of a supplementary budget. However, uncertainties in the external environment, especially the possibility of deterioration of the trade environment due to the spread of protectionism, may serve as a risk factor for Korea's economic growth.<sup>7)</sup>

Along with the expected economic growth, the minimum wage increase of 16.4% is a condition that may serve to expand the overall wage growth in 2018 compared to the previous year. Some sectors where it is not possible to apply the increase of the minimum wage in the form of monthly pay raise choose to adjust the number of working hours, so it means that the total earnings do not go up by the amount of the actual increase of the minimum wage. However, as part of the government project to mitigate the impact from the minimum wage increase, the Job Stability Fund is being provided to help small business owners and financially weak SMEs to alleviate the management burden and help workers facing job insecurity. Therefore, it can be expected that the wage increase in the low-wage

sector will be considerably higher than in the previous year.<sup>8)</sup> Furthermore, the public sector is now taking the lead in implementing measures to convert non-regular workers into regular positions, which can also contribute to the overall wage increase.

In addition to these economic factors and a strong policy commitment of the government, other factors relating to labor relations also play an important role in determining the wage growth rate. The KEF proposed a 2% wage raise instead of freezing it as it did in 2016 or 2017. The FKTU also proposed a raise in the 9% range, higher than its 2016 and 2017 proposals of the 7% range.

### 3. Wage Outlook for 2018

Theoretically, looking at the national economy as a whole, when the rate of wage increase is matched with the rate of increase in labor productivity (measured by the rate of increase in the national economic productivity), wage increase will be achieved relative to the contribution

Table 5. 2018 Economic Outlook

(Unit : %)

		2017			2018p		
		1 <sup>st</sup> Half	2 <sup>nd</sup> Half	Yearly	1 <sup>st</sup> Half	2 <sup>nd</sup> Half	Yearly
The Bank of Korea (Jan. 2018)	GDP	2.8	3.4	3.1	3.2	2.8	3.0
	Private consumption	2.1	2.8	2.5	2.9	2.5	2.7
	Investment in plant and equipment	15.9	12.8	14.3	2.1	2.9	2.5
	Investment in construction	9.4	5.4	7.2	-0.5	0.0	-0.2
	Commodity exports	4.2	3.0	3.6	3.0	4.2	3.6
	Commodity imports	9.3	5.3	7.3	2.2	4.1	3.2
	Consumer Prices	2.0	1.9	1.9	1.5	1.8	1.7
Korea Labor Institute (Dec. 2017)	Rate of growth in employment	1.2			1.1p		
	Unemployment rate	3.7			3.7p		

Note : Figures with "p" means forecasts.

Source : 2018 Economic Outlook, Press Release (January 2018), The Bank of Korea; *Monthly Labor Review*, December 2017 issue, Korea Labor Institute.

7) Recently, the OECD (Mar. 2018) revised up the global GDP growth outlook for 2018 to 3.9%, and announced the upward revision of growth outlook for most of its member countries. However, it maintained Korea's economic growth rate outlook at 3.0%, the same level as the original forecast.

8) As of now (April 2, 2018), a total of 1,509,000 workers and 463 establishments have applied for the Job Stability Fund since its start on January 2, 2018.

of workers, and income distribution can be maintained at the current level. If we assume that the labor share of income does not change, the theoretical wage growth rate corresponding to the productivity increase can be represented by the relationship among real GDP growth rate, consumer price growth rate, and the rate of growth in employment.<sup>9)</sup> In this case, if all the 2018 outlooks for the national economy and the labor market – i.e. the Bank of Korea's 2018 economic growth outlook (BOK 3.0%), inflation outlook (BOK 1.7%), and employment growth outlook (Korea Labor Institute 1.1%) – come true, the wage increase rate for the national economy as a whole in 2018 will be about 3.6%.

However, the wage increase rate based on national economic productivity cannot be achieved in reality because, apart from productivity, other factors that may impact wage growth such as labor market conditions and labor-management relations have not been taken into account.

It is forecasted that the economic growth achieved in

2017 will be sustained in 2018 due to the expectation of increase in exports following the recovery of the global economy as well as the growth in private consumption boosted by the government's income-driven growth policy measures such as the increase in basic pension and the introduction of child allowances. In addition to stable economic growth, factors such as the sharp minimum wage increase of 16.4% and the execution of a 3-trillion-won job stability fund are likely to boost wages further in 2018. There are, however, potential factors dampening wage growth: the decline in wage growth rate for government employees by 0.9%p y-o-y to 2.6%, and reduced working hours for large-scale enterprises with 300 or more employees that will go into effect from July 1, 2018 which may result in the reduction of overtime work. Taking these factors together into consideration, it is forecasted that the wage growth rate in 2018 will be in the 3.8% range, well above the growth rate in 2017 (2.7%) and the 2018 economic growth outlook (3.0%).

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9) Assuming a perfectly competitive market and a linear homogeneous production function, and that the profit maximization condition and the labor share of income are constant, the theoretical wage increase rate based on the productivity-linked wage system can be calculated as "real GDP growth rate + consumer price growth rate - rate of growth in employment."