

China Economy

China Facing Less Than Optimal Employment

June 6, 2024

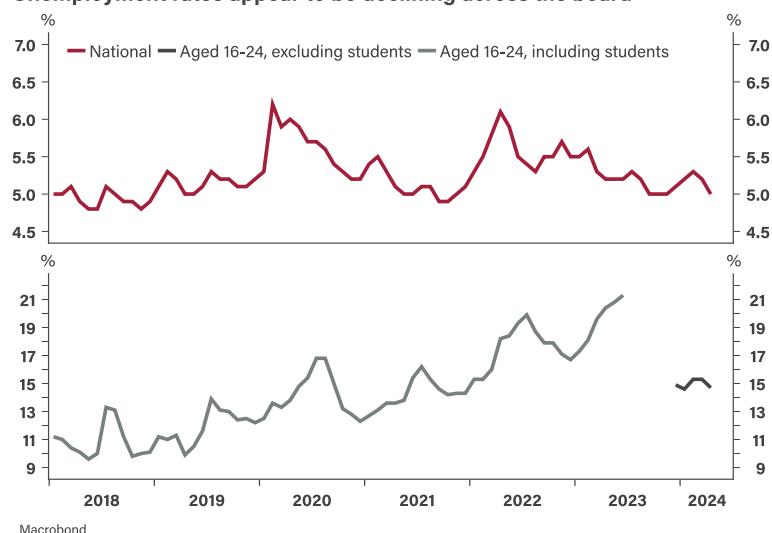
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- Xi remains concerned about China's labor market, calling for more job creation and "new perspectives on career choices" for youth
- This summer, youth unemployment rate may once again hit 20%
- Job-seeking graduates will face fiercer competition, as they are both greater in number and target a narrower range of preferred jobs
- Growth in green industries last year offered a critical cushion to layoffs in finance, real estate, retail and wholesale, and petrol
- Policies in support of startups and flexible employment may increase employment but not necessarily income

On 28 May, Xi Jinping chaired a Politburo study session in which he identified employment as a top priority for local party committees and governments. In particular, he called for higher-quality jobs for university graduates and "open[ing] up new horizons for employment with new perspectives on career choices."

This rhetoric may initially seem at odds with China's latest unemployment data, which shows an improvement that ought to be comforting. In April, the National Bureau of Statistics (NBS) recorded a surveyed urban unemployment rate of 5%, down from 5.2% in March. Youth unemployment—that is, for those aged 16-24—also fell to 14.7% from 15.3% in the same timeframe.

Unemployment rates appear to be declining across the board



Xi's concern is nonetheless justified. The 14.7% rate for youth is still quite high versus 8.2% in the US and 6.4% in the Eurozone. As well, the recent declines may just be seasonal: In all years but 2020 and 2022, when the pandemic prompted serious lockdowns, China's national unemployment rates declined from March to April due to resumption of economic activity post-Chinese New Year.

The apparent fall in youth unemployment may also be misleading due to a methodological change by the NBS last July: The main reason why the rate dropped from around 20% in 2023 is that it began to exclude students from the survey. This indicates that job-seeking students uncounted in April will inflate the figure if unable to secure employment by June, after graduation.

Youth unemployment will worsen

This summer, 11.8mn students will graduate from university and enter the job market—0.2mn more than in 2023. This is the latest of successive record highs, amounting to 70% of those aged 22. We estimate that, **if half cannot secure jobs by June, youth unemployment may once again surpass 20% despite the methodological change.**

China’s youth unemployment rate may still surpass 20% this summer

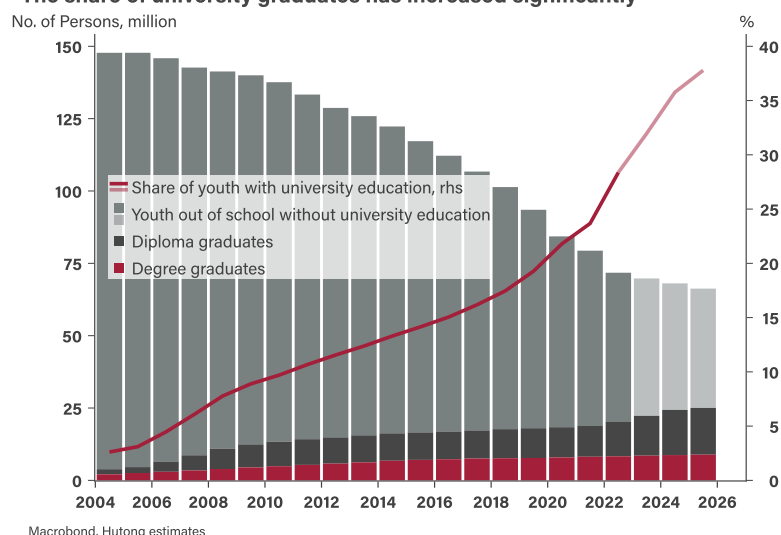
Number / percentage of persons aged 16-24; absolute figures in millions

	Youth out of school	Youth unemployment rate	Youth unemployed
April total	56.2	14.7%	8.3
2024 graduates	11.8	50%	5.9
June total	68	20.8%	14.2

(Source: NBS, Hutong estimates)

Based on birth figures, China’s population aged 16-24 will number 147mn this year. Admissions records further indicate that 79mn are in university and will remain at least for rest of the year, while 68mn are out of school or will have graduated by June. The latter includes 43.7mn with no postsecondary education, 11.8mn graduating in 2024, and 12.5mn who have graduated earlier. In total, university graduates comprise 36% of the workforce in this age group.

The share of university graduates has increased significantly



Clearly, Beijing’s decision in 2019 to increase university admissions as an economic cushion against the US-China trade war has backfired. In that year, universities accepted 1.3mn more students than in the prior year, versus a 0.4mn increase from 2017 to 2018. Nearly 90% of the increase were admitted into three-year diploma programs from which

they graduated in 2022; the remainder entered four-year degree programs with graduation in 2023.

These graduates have had significant difficulties in securing jobs. To be fair, the job market was not too bad. As of June 2023, China recorded 14.2mn unemployed youth, only 1mn more from the prior year. The youth unemployment rate has been rising partly because the youth workforce has been shrinking. Across the same period, China had 24.3mn university graduates, a 1.9mn increase. In other words, 0.9mn more people found jobs, but excess supply remains. 2024 presents a greater challenge, with 2.1mn more graduates entering the market than in 2023.

More university graduates will seek jobs this year

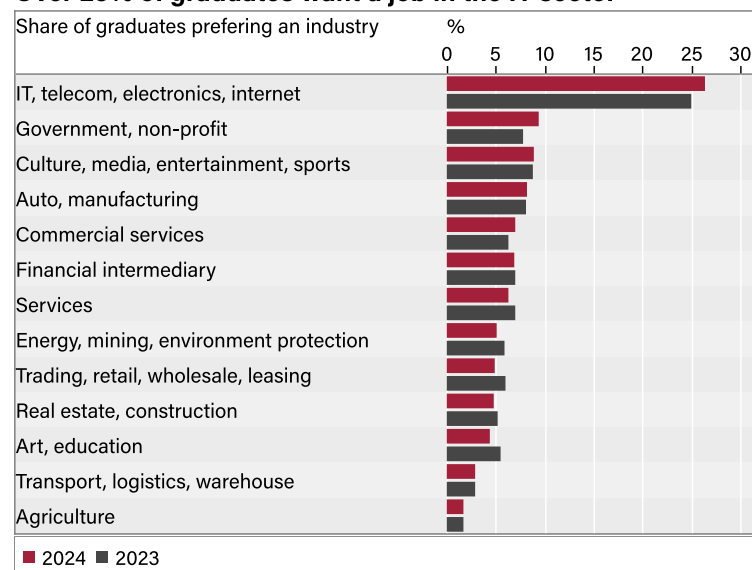
Number of persons aged 16-24; absolute figures in millions

Year	Total	W/o uni	W/ uni	Unemployment rate as of June	Unemployed as of June	Increase in unemployed	Increase in uni-educated
2018	101.3	83.7	17.6	10.0%	10.1		
2019	93.5	75.5	18.0	11.6%	10.8	0.7	0.4
2020	84.3	65.9	18.4	15.4%	13.0	2.1	0.4
2021	79.4	60.6	18.8	15.4%	12.2	-0.8	0.4
2022	71.8	51.4	20.4	19.3%	13.9	1.6	1.6
2023	69.8	47.5	22.3	21.3%	14.9	1.0	1.9
2024	68.1	43.7	24.3				2.1

(Source: NBS, Hutong estimates)

Competition over jobs is also becoming fiercer. According to an April survey by leading Chinese human-resources agent Zhilian Zhaopin, 26.4% of graduates sought jobs in IT, followed by government (9.4%) and entertainment (8.9%)—each higher than in 2023. Latest figures from the Labor Statistics Yearbook, however, show that these sectors employed only 4.7%, 4.0%, and 2.7%, respectively, of youth in 2021. As well, IT giants such as Alibaba and Tencent have been cutting jobs since 2021; the former eliminated 14,000, or 7% of its total headcount, just in Q1 2024.

Over 25% of graduates want a job in the IT sector



Zhilian Zhaopin

“New horizons for employment”

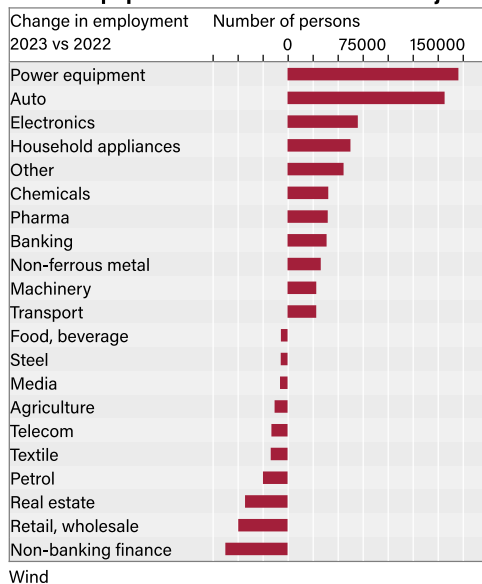
Such clear mismatch between graduates’ preferences and market demand is what likely prompted the study session calling to “open up new horizons for employment with new perspectives on career choices.” **This implies fostering new industries to create more jobs, as well as encouraging graduates to accept less preferred jobs, to opt for flexible / irregular employment, or to start their own businesses.**

The former-most has already seen progress. Automotive and manufacturing roles are back in vogue thanks to the success of China’s green industries. Today, 8.2% of graduates seek employment therein, up from 8.1% in 2023 and only 6.1% in 2022.

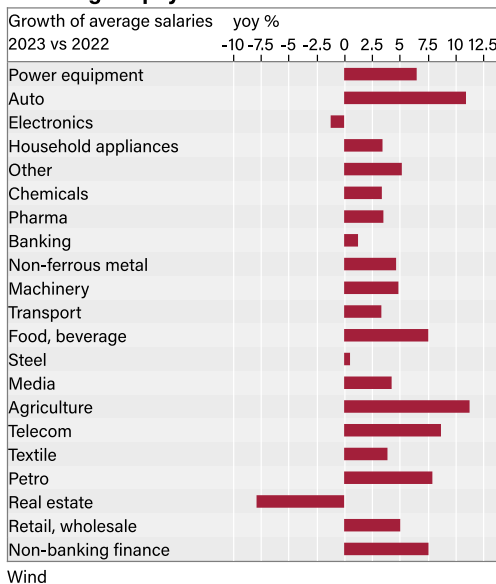
Green industries have indeed been rich with opportunity. Data from A-share listed firms show that, in 2023, power equipment and automotive companies hired 170,000 and 157,000 more employees, respectively, than in 2022. These industries thus grew in total by 11% and 7%, respectively. The two combined industries contributed to 68% of listcos’ new hiring in 2023. In addition, average salaries in these industries grew by 6.5% and 11%, respectively, exceeding the listco average of 4.1%.

Conversely, the old growth engines are downsizing. In 2023, retail and wholesale listcos cut 50,000 jobs, followed by real estate (42,000) and petrol (25,000). Nonbanking finance topped the list with 62,000 cuts, a result of the stock-market adjustment and anticorruption campaign. This said, only real estate recorded a substantial decline (8%) in average salary; those in nonbanking finance, retail and wholesale, and petrol grew by 7.6%, 5%, and 7.9%, respectively—all faster than average.

Power equipment and auto offered more jobs



...and higher pays



Policymakers are also attempting to change young jobseekers’ preferences. In 2022, the State Council [released](#) a notice exhorting localities to expand grassroots employment and offer training and financial support to graduates pursuing entrepreneurship and flexible employment. So far, local governments have heeded the call.

In April, for example, Guangdong announced a [plan](#) to hire nearly 100,000 graduates to governmental and state-owned entities before August. It has also offered legal assistance and subsidized social insurance to afford graduates more security in flexible roles. It has also

offered graduates RMB 24,000 in annual tax cuts, RMB 10,000 in subsidies, and discounted rent and loans if they choose to start their own businesses.

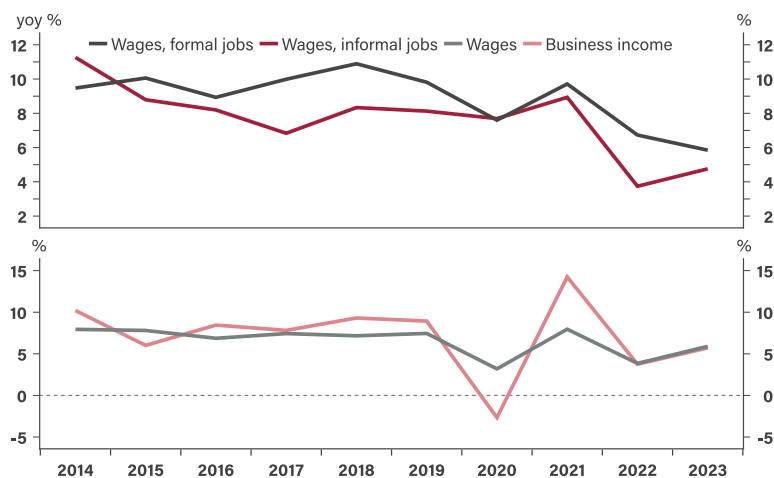
Policies in support of flexible employment and startups are increasingly important. In the past decade, the role of informal or irregular jobs has grown in China’s economy. In 2014, the NBS counted 183mn urban “formal” employees—that is, those of any large firm that is state-, foreign-, or privately owned—which then comprised 46% of urban total employment. In 2022, these figures fell to 167mn and 36%, respectively. The remaining 64% included roughly 200mn who held flexible employment and 100mn working for small businesses.

Despite policy support, informal employment may not be ideal. According to the NBS, formal jobs still pay better than informal ones. In 2023, the average annual salary of former was RMB 120,698, or 77% higher than the latter’s RMB 68,340. The former also grew faster, by 5.8% from 2022, versus 4.8% by the latter. As a result, the gap has been widening.

Startup owners may earn more but face higher risks. Household surveys by the NBS yielded that, while business income per capita outgrew wages in most years, it suffered a significant setback in 2020, when it fell by 2.7% yoy against 3.2% yoy growth in wages. Thus, business income accounts for 11.4% of households’ total income—the same today as in 2014. **In other words, neither flexible employment nor startups appear to be a better option than formal employment in terms of income growth.**

Informal employment and startups remain sub-optimal choices

Growth of wages and business income per capita



Macrobond