

# China Economic Update

## by NAB Group Economics

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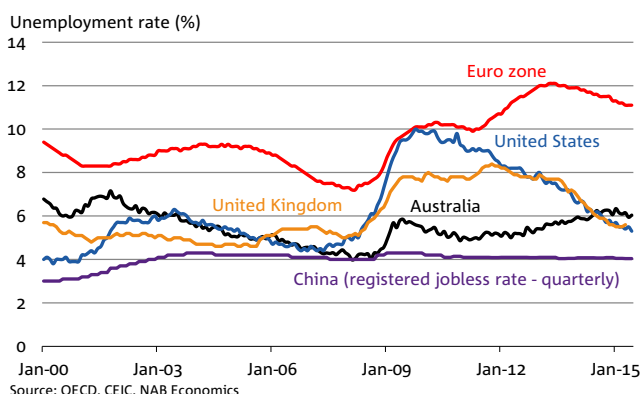
### China's new labour force survey could finally provide unemployment clarity

In 2016, China's National Bureau of Statistics is expected to release the results of a new monthly labour force survey. While there are only limited details as to the scope of this survey, the results may finally shed some light on one of the most opaque elements of China's economy – its unemployment rate. The stability of China's official unemployment rate over the past fifteen years has been a source of scepticism, with most observers considering the measure as an unreliable indicator of underlying labour market conditions.

#### The stability of China's unemployment rate raises suspicion

China's registered jobless rate – produced by the Ministry of Human Resources and Social Security and considered the official measure at present – was just over 4.0% in June, essentially the same level it has recorded since 2010. In fact, between late 2002 and 2015, the registered jobless rate has ranged between 4.0% and 4.3%, despite the impact of the global financial crisis during this period (when anecdotal evidence suggested that tens of millions of export-oriented factory workers lost their jobs), along with the slowdown in economic growth in recent years. Its stability is in stark contrast to the volatility of unemployment in advanced countries over this period.

#### Lack of volatility in China's official unemployment rate compared with other economies

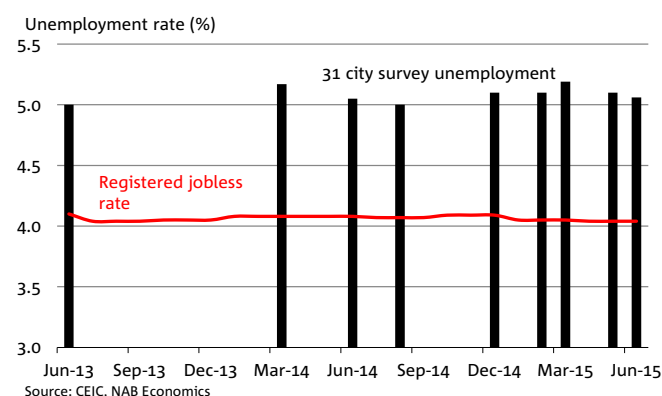


Irrespective of any assumptions around the rigour of this measure, there are considerable limitations in its known methodology. The measure only counts individuals who have registered with local governments for unemployment benefits – which requires holding an urban hukou (or household registration) for their locality. The registration process for benefits is reportedly difficult, meaning many unemployed workers fail to register. As a result of the hukou requirement, the measure excludes migrant workers – who at around 270 million in 2014 accounted for almost one-fifth of China's population. Finally, as a measure of the

urban workforce, it overlooks around 45% of China's population, who remain in rural areas. Various Chinese officials and academics have publicly dismissed the value of the registered unemployment rate.

More recently there has been an alternative official unemployment measure that has pointed to a higher unemployment rate. Since mid-2013, the National Development and Reform Commission has released results from a 31 city survey on an irregular basis, with the most recent result showing unemployment at 5.1% in June (compared with a surveyed high of 5.2% in March 2015). The discrepancy between the two government measures – at around one per cent – is particularly significant when the size of China's labour force is considered – this discrepancy could be well over seven and a half million people.

#### The NDRC 31 city survey points to higher unemployment than recorded by the registered jobless rate



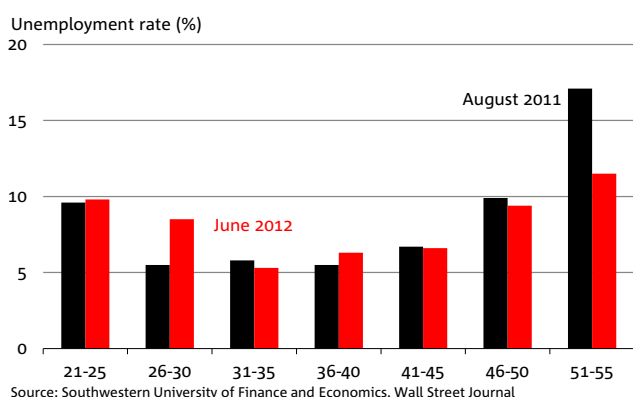
That said, the scope of the survey – at just 31 cities – is quite limited, meaning that this is not necessarily an accurate representation of the broader labour market.

#### Independent sources suggest higher unemployment rates

Unofficial sources suggest that China's unemployment rate is even higher than the NDRC survey levels. The Economist Intelligence Unit (EIU) published an estimate of Chinese unemployment in this year's IMF International Jobs Report, which argued that there was a slow but steady increase in the rate between 2010 and 2013, from 6.1% to 6.6% (around 250 basis points higher than the registered jobless rate). The EIU forecast a falling rate for unemployment in the short term – down from 6% in 2015 to 5.7% in 2016.

The China Household Finance Survey, produced by the Southwestern University of Finance and Economics, reported an even higher rate in 2012. The survey suggested that the unemployment rate in June 2012 was around 8.1%, marginally higher than it was in August 2011. Of particular interest was the rise in migrant worker unemployment between these two periods – from 3.4% to 6%.

## Rates of unemployment climb for older workers and for recent graduates



The survey also offers some interesting insights into demographics, with a rising rate of unemployment among older members of the labour force. The rate jumped substantially for those aged over 45, with many of these workers likely to have lost positions at state owned firms during periods of reform (during the 1990s and 2000s) and struggled to find regular work since. Rates were also higher for those aged 21 to 25, in line with anecdotal reports of university graduates finding the labour market challenging.

While these measures lack timeliness – as they are unable to offer any insights into current labour market conditions – they highlight the concerns related to the current official measures.

### Will the new survey provide greater clarity?

The National Bureau of Statistics started conducting its new labour force survey in July – initially in 65 large cities, but will soon expand it to all district level cities (which depending on the cut-off for population size, could extend the survey to between 180 and 240 cities). Importantly, the NBS intends to include migrant workers who have been living in cities for over six months. It is believed that around 120 000 households will be surveyed each month.

Despite this expansion, it will remain limited to urban centres, meaning that no greater clarity around rural unemployment will be achieved.

According to media reports, the motivation for establishing broader (and hopefully more accurate) data related to the labour market was primarily to provide the State Council with timely data around the health of the economy. This seems consistent with the stated aim of transforming the economy into one centred on domestic consumption – closely tied to household income and wealth – rather than investment.

However, that does not mean that there aren't incentives to distort the data. At the national level, China's leaders have always put a high value on social stability. A sudden upward revision to unemployment rates (towards the levels suggested by independent analysis) could create adverse commentary – and potentially delay much needed reform to industries that are large scale employers.

In addition, there remain incentives for local government officials to artificially improve their unemployment results – in an effort to promote their economic management credentials. Such distortions have long been present in local GDP data, with strong performances used to gain promotion to the central government. It is unclear at this stage whether local governments will have any role in the survey.

From our perspective, we hope the greater benefit that policy makers will derive from timely labour market data will be sufficient to limit the potential distortions. That said, this will only become clear with time.

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