CHINA ECONOMIC UPDATE MAY 2019

Looking for work: the health of China's labour market is still hard to ascertain

NAB Group Economics

In recent months, conditions in China's manufacturing sector and broader economy have deteriorated considerably, as a worsening trade environment has hit firms. Anecdotal evidence suggests that there have been significant job losses, particularly among export oriented manufacturers, however official evidence to support this view remains lacking and a range of other measures point to vastly different trends.

LABOUR MARKET DATA IS INCONSISTENT

The quality of Chinese labour market statistics has long been an issue for analysts and policy makers. One of the longest running labour force measures is the Urban Registered Unemployment rate – which stretches back to the late 1990s. Between late 2002 and late 2016, this measure barely moved – ranging between 4% and 4.3% - and has subsequently trended down – to just under 3.7% in March 2019.

Aside from any concerns around manipulation of this data, there are substantial limitations on this measure. By focusing on urban populations, it overlooks the 40% of China's population that lives in rural areas. Eligibility for unemployment benefits further reduces the pool – as migrant workers (who are almost 21% of the population) do not qualify for benefits, while the limited support from, and difficulty in applying for, benefits mean that historically many eligible unemployed workers have not bothered to register.

DIFFERING UNEMPLOYMENT MEASURES
Difficult to ascertain the true rate
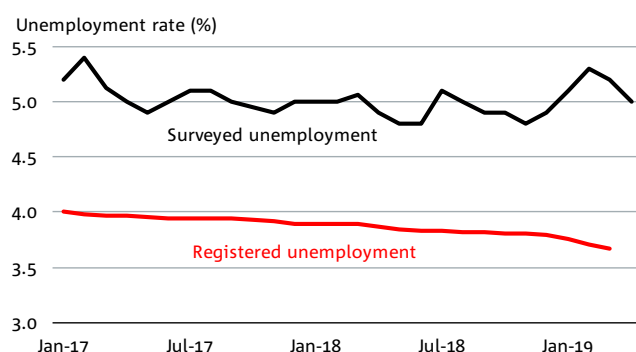
Source: CEIC, NAB Economics

An alternative survey based measure of unemployment was released last year and it shows more volatility than the registered rate. Reports suggest that this methodology is consistent with international standards and covers all urban workers over the age of 16 – including migrant workers who have lived for over six months in individual localities. It is also built on the existing National Household Survey, meaning that it is free from potential manipulation at local authority levels.

According to the survey, unemployment rose from a low of 4.8% in mid-2018 to 5.3% in February 2019, before easing back to 5.0% in April. At present, there is no additional break down of this data – such as location or demographic data of unemployed persons – meaning we can't identify job losses in key manufacturing regions.

## ALTERNATIVE MEASURES SUGGEST TOUGH JOB CONDITIONS

Although surveyed unemployment has showed a little more volatility than the Registered Unemployment rate, the modest increase over the second half of 2018 and subsequent decline in recent months appears at odds with some anecdotal evidence – particularly job losses in export oriented manufacturing. That is not to say that the survey data is incorrect (as some critics have suggested), however it is difficult to verify. It is possible – as some have speculated – that workers cut from manufacturing roles have been absorbed by the services sector or, in the case of migrant workers, may have returned home.

There is some indication of increased service sector employment in the Caixin Markit Composite PMI –

where the aggregate employment measure was positive across March and April, with growth in services employment enough to offset declines in manufacturing. However, this trend is not evident in the official PMI surveys produced by the National Bureau of Statistics – where employment measures have been negative for both manufacturing and services since September 2018.

BROAD WEAKNESS IN OFFICIAL PMIS
Not just the manufacturing sector

Index (50=breakeven)

Source: CEIC, NAB Economics
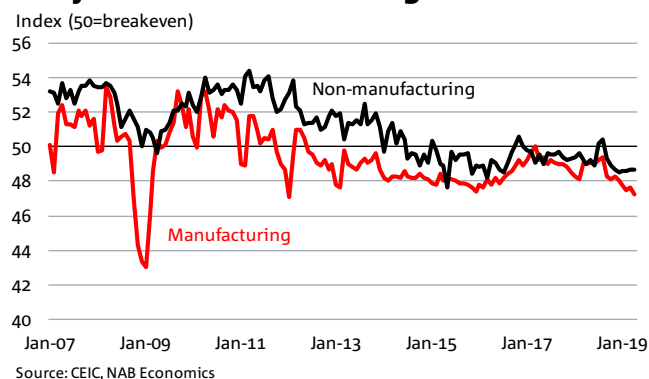
One alternative indicator is produced by the China Institute for Employment Research at Renmin University. The study uses job recruitment data from online sources and suggests that in Q1 2019 the number of potential applicants rose to its highest level since 2011, while the number of job openings declined. According to the CIER, the ratio of open positions to job applicants fell to its lowest level since 2014, having declined for six quarters in a row.

According to the CIER research, in one key manufacturing region – the Pearl River Delta – the local labour market had fewer jobs available than applicants. This area is known as the Factory of the World, given its importance in export-oriented manufacturing. That said, manufacturing is not the only sector to see weak employment conditions, with falling open job positions in both finance and IT & e-commerce – at least in part tied to the crackdown on peer-to-peer lending. However, news reports – later denied by the companies – suggest that major tech firms such as Huawei, Baidu, Tencent and Alibaba froze recruitment late last year, reflecting broad weakness in domestic demand, rather than just a narrow segment of finance.

This is consistent with research from the China Beige Book, which found broad based weakness in employment growth across both industries and regions of the country. The study noted that private firms – who accounted for around 90% of jobs growth in 2017 – were particularly weak in the latter part of 2018, likely reflecting the impact of last year's deleveraging program. China's private firms have often been forced to borrow from shadow banks due to poor access to traditional finance, and these firms account for almost 80% of total employment.

CONCLUSIONS

Employment is a critical issue at the highest levels of power in China – with the need to stabilise employment the key agenda item at the December 2018 Politburo meeting (ahead of any other economic concerns).

However the confusing readings and lack of disaggregation in various Chinese labour market indicators pose significant problems for Chinese authorities. It is difficult to address short term challenges and structural issues in the labour market if data is unreliable. This may become a growing issue if these problems are not addressed. China faces longer term challenges for its labour market – including the falling size of its workforce, rising labour costs (which is impacting competitiveness) and the increasing automation in industry – with China already the largest buyer of industrial robots. Timely and accurate labour data will be necessary to direct policy makers through these challenges.

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