

# AT A GLANCE | China

July 21, 2023

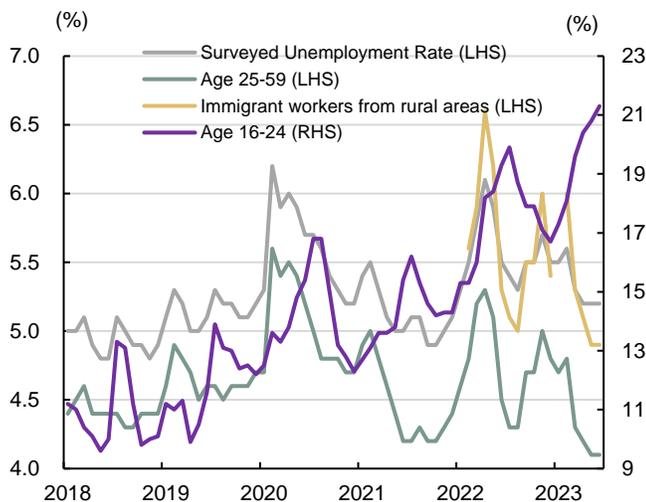
## Structural Factors in the Soaring Youth Unemployment Rate

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The soaring youth unemployment rate is one of the most notable indicators of China's weak economy. Since the beginning of 2023, the unemployment rate among young people aged 16-24 has continued to deteriorate, rising to an all-time high of 21.3% in June (Figure 1).

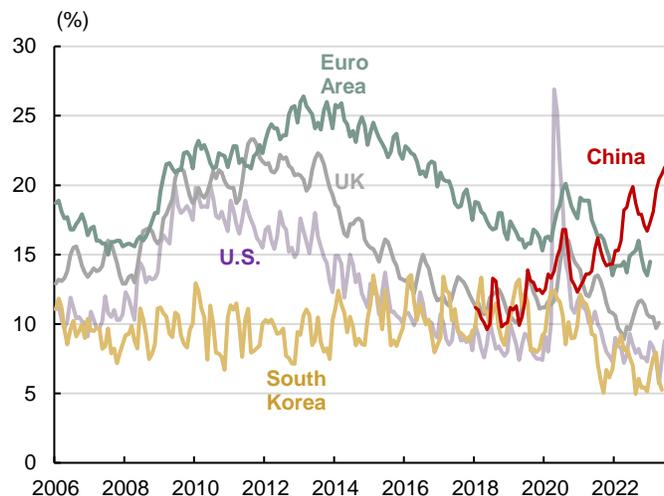
As graduation season begins in late June, the youth unemployment rate is likely to rise further in the coming months and may temporarily exceed 25%. This level is similar to the peak of the youth unemployment rate in Europe and the United States after the Lehman Brothers shock and the European debt crisis (Figure 2).

**Figure 1: China's Urban Unemployment Rate**



Sources: National Bureau of Statistics, Wind

**Figure 2: Youth Unemployment Rates in Major Countries Around the World**



Note: The youth unemployment rate in developed countries is the OECD Harmonized Unemployment Rate, and the target age group is 15-24. China has a youth urban unemployment rate for ages 16-24.

Sources: OECD, National Bureau of Statistics, Bloomberg

It should be noted that the 16- to 24-year-old labor force accounts for only 6%-7% of the total urban labor force, so the rising youth unemployment rate does not necessarily indicate an overall decline in employment.<sup>1</sup> In fact, the overall urban unemployment rate has declined so far this year, mainly due to a

<sup>1</sup> At the end of 2022, the total number of urban employees was 459 million, and the unemployment rate was 5.5%, so the urban labor force was 486 million. "As of May, there were 33 million people in the labor force aged 16-24, of whom about 6 million were unemployed," the National Bureau of Statistics said at a press conference on June 15 ([http://news.china.com.cn/2023-06/15/content\\_87582870.html](http://news.china.com.cn/2023-06/15/content_87582870.html)). According to the above calculation, the labor force of 16- to 24-year-olds is about 6.8% of the urban labor force. However, given the possibility of an increase in the urban labor force due to the return of peasant workers in January-May 2023, the ratio of 16- to 24-year-olds in the labor force would be lower than 6.8%.

recovery in face-to-face services. However, it has been pointed out that the rise in the youth unemployment rate is likely to lead to a decrease in discretionary consumption by middle aged and senior citizens and a deterioration in the economic outlook, since the parents often bear the cost of living for unemployed children in Chinese society.

Amid increasing financial pressures and uncertainty about the business environment, various media reports have shown that companies are increasingly reluctant to hire new graduates, which can be described as a kind of long-term investment, and this appears to be the main reason for the rise in the youth unemployment rate. On the other hand, from the perspective of the labor supply side (university graduates), the lack of jobs that match their aspirations and skills also contributes to the difficulty of finding employment. This qualitative mismatch in labor supply and demand could lead to so-called structural unemployment, and even if the economy recovers in the short term, the youth unemployment rate may remain higher than in the past in the medium term.

In the next section, we will examine the qualitative mismatch between labor supply and demand among young people, based on a job application survey for college graduates.<sup>2</sup>

### The Wide Gap Between Hopes and Realities for Graduates

First, (1) let's look at the difference between graduates' expectations and the reality about the type of company they are employed in (Figure 3).

In the four years since 2020, the ratio of state-owned enterprises (SOEs) as the first choice rose 10% to 46.7% in 2023. On the other hand, the ratio of private companies as the first choice fell by about 10%.

This increased preference for state-owned enterprises and the avoidance of private enterprises is due to changes in the composition of factors that graduates value when choosing a job (Figure 4). First of all, the percentage of graduates who chose "job security" has increased for three consecutive years in the face of increasing uncertainty in the economic environment, ranking second to "salary and treatment" in the 2023 survey (Figure 4).

Even during the economic slowdown, state-owned enterprises tend to refrain from firing under political guidance, and since they pay social insurance premiums, including unemployment insurance premiums, they are able to obtain guarantees in case of emergency, which seems to lead to the preference for state-owned enterprises among young people.

In contrast, the ratio of those who chose "obtaining new skills", or career prospects, dropped by 20% in three years.

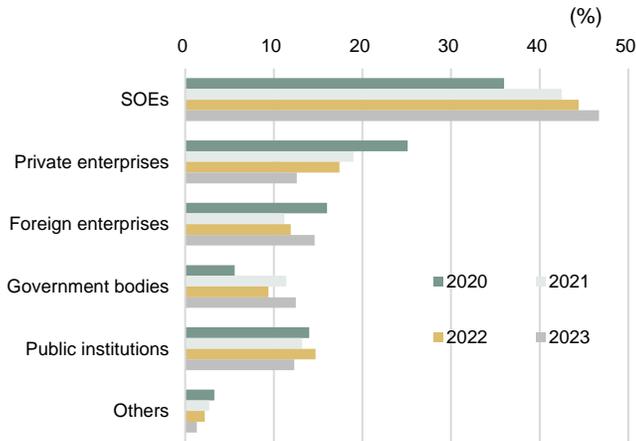
Another change is the increased emphasis on work-life balance. It has been pointed out for several years that although private companies can offer relatively high salaries, they often have long overtime hours and employees are not even guaranteed legal leave. This way of working has antagonized today's young people, who have a stronger sense of self, and since the middle of 2022, the phrase "tidy workplace after 00 (born 2000 years later, came to tidy the workplace)" has often become a social topic.

However, 80% to 90% of new jobs in urban areas are created by private companies, and the ability of state-owned enterprises, government agencies, and public works corporations to create jobs is relatively poor. In 2022, the number of new graduates hired by state-owned enterprises nationwide was 760,000, which was the result of an increase of more than 20% in the hiring quota to cope with employment measures, but it was only about 6% of the total number of new jobs created (12.06 million) for the whole year. While the government continues to make efforts to hire more graduates from state-owned enterprises in 2023, the ratio of graduates who can work for state-owned enterprises as they wish will remain below 1/5.<sup>3</sup>

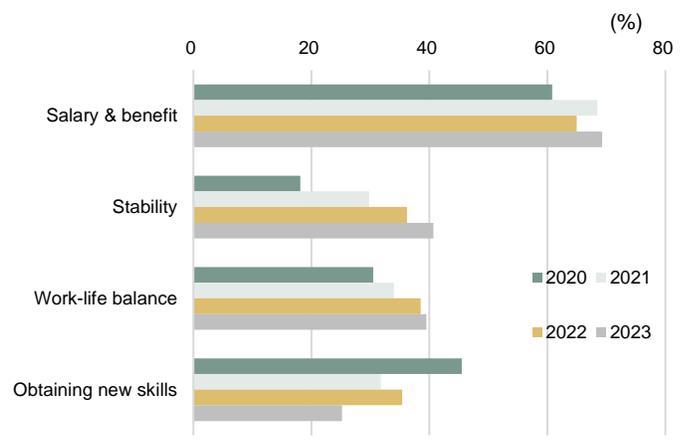
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2 The sum of the faculties of general universities and technical colleges (equivalent to junior colleges in Japan). Part-time education for working adults is not included. The same method shall apply hereinafter.

3 The total number of university graduates in 2022 was about 8 million (the sum of general universities and junior colleges, as mentioned in footnote 2), and 44.4% of them chose state-owned enterprises as their first choice, according to the survey. In other words, the number of

**Figure 3: Graduates' First Choice for the Corporate Form of Employment**


Source: SMBC

**Figure 4: Factors to Consider When Choosing a Place of Employment (excerpt)**


Source: SMBC

Next, we will look at (2) the difference between graduates' expectations of the job industry and their reality (Figure 5).

In the three years since 2021, about half of the graduates have applied to the so-called TMT industry (Technology, Media and Telecommunications) and the financial and commercial services industry.

Despite increased regulation of internet companies and cuts in salaries in the financial sector, TMT and financial industries remain high on the survey's quarterly job rankings, attracting college graduates.

On the other hand, the ratio of applicants to the manufacturing industry, which rose slightly in 2023 due to the strong performance of the electric vehicle industry, is still less than 10%. This is not only because they do not want to apply for regular jobs in manufacturing, but also because they lack skills such as programming and cannot apply for jobs that require such skills, according to various reports.

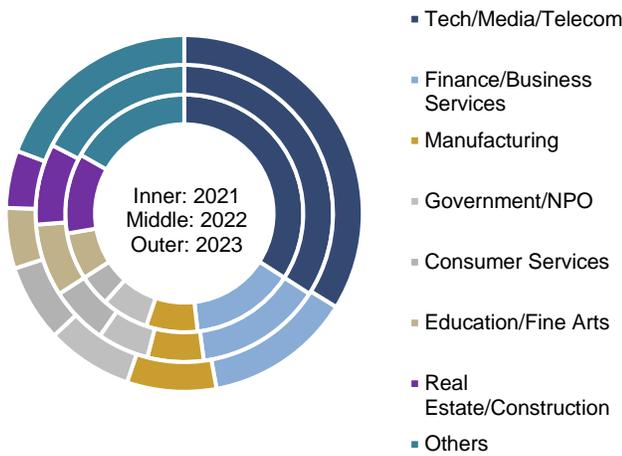
In particular, the latter is a problem that has been pointed out for several years. In 2017, the government released the "Guidance on Human Resource Development Plan for Manufacturing", which predicted that the demand for human resources in 10 key manufacturing sectors would increase by 19 million from 2015 to 2020 and by another 11 million by 2025 to realize the "Manufacturing China 2025" plan. However, the total number of science and engineering graduates at universities between 2016 and 2020 was only about 18 million, calculated using education statistics for each academic year. The number of human resources alone suggests that manufacturing (especially advanced manufacturing) is facing a shortage of human resources.

As a result, the ratio of science and engineering graduates who received job offers was significantly higher than that of humanities graduates at the time of the survey (Figure 6), even though the employment situation of university students has generally intensified over the past several years. Under such circumstances, the survey found that more than 80% of non-science and engineering graduates were willing to go on to specialize in science, such as computer science. However, less than 15% of the students were able to go on to higher education as they wished, and the remaining 60% gave up because they lacked basic knowledge. About 60% of all university graduates are not science or engineering graduates, but it is difficult under the current education system to increase competitiveness in the job market by entering graduate schools in science after graduating from undergraduate schools.

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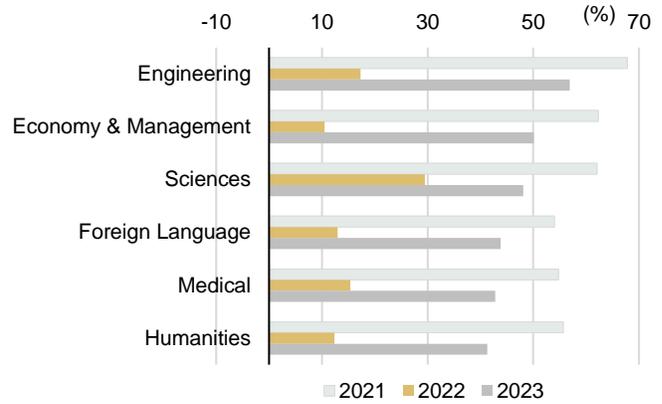
applicants to state-owned enterprises was 3.55 million, and the ratio of those who applied to state-owned enterprises was about 21%. Even if we assume that the number of university graduates in 2023 is estimated to be about 9.5 million and that the number of new graduates hired by state-owned enterprises will increase to 1 million, the ratio of those employed by state-owned enterprises as desired is about 22.5%.

**Figure 5: Graduates' First Choice for Employment**



Source: SMBC

**Figure 6: Ratio of Job Offers Received at the Time of Survey Compilation (by specialty)**



Note: In 2022, due in part to the spread of COVID-19, the percentage of job offers received as of April was generally low.

Source: SMBC

### Time Needed to Resolve Structural Unemployment

(1) Unemployment resulting from the difference between graduates' desire for stability and state-owned enterprises' ability to create jobs is also a cyclical form of unemployment. In other words, if a certain level of economic growth can be maintained, graduates' desire for stability will change and their aspirations for private companies will naturally recover.

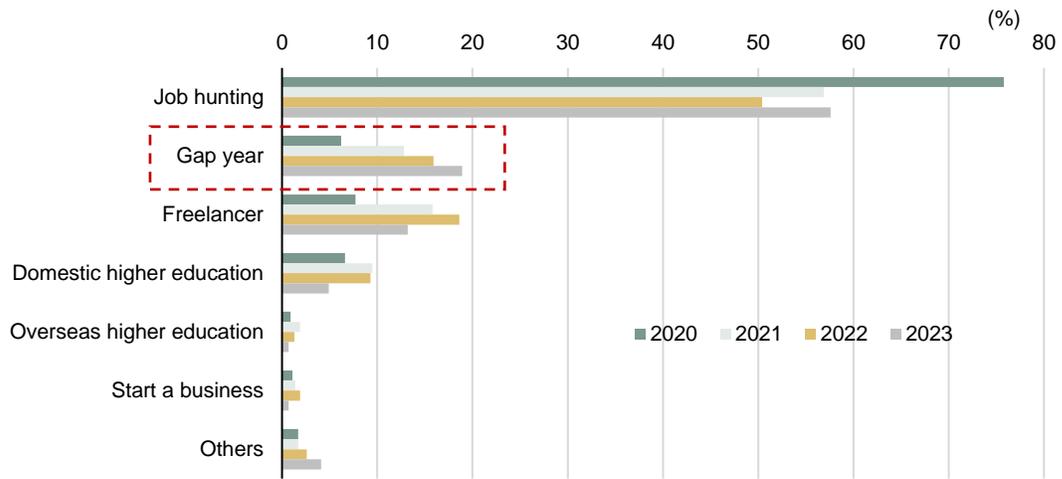
On the other hand, it is also undeniable that young people are concerned about the working conditions of private companies. Behind these problems, the government has pointed out that there are insufficient laws and enforcement systems to protect workers' rights. It will take considerable time to improve labor conditions.

In addition, with the aim of improving (2), the Chinese government has been implementing the Employment Support Plan (the so-called "1 million Intern Job Recruitment Plan") since 2022, which provides more than 1 million intern positions for graduates in cooperation with manufacturing companies, and subsidizes participating companies. However, in the medium to long term, there are problems that the current university education system is not able to develop human resources who can adapt to the industrial structure that the authorities want, and it is expected to take 10 years of time to fundamentally solve them.

In the short term, it can be expected that the above employment-support measures will absorb the unemployed among young people in the form of non-regular interns (i.e., reduce the rise in the unemployment rate). However, like the unemployed young people mentioned in the introduction, the non-regular workers are more likely to receive help from their parents to maintain their lives. Younger parents seem to be helping their children not only when they are unemployed but also when they are employed on a non-regular basis, which is presumed to be a factor that is putting pressure on various generations to increase consumption.

From the perspective of young workers, in recent years, the rate of entering a gap year without rushing to choose a career path has increased significantly if they are unable to find employment immediately after graduation (Figure 7). This is an inevitable consequence of the fact that people have been able to afford to live with economic development, but it also suggests that further efforts by the authorities will be needed to improve the employment environment and education system. Until these efforts show real results, the youth unemployment rate is likely to remain high.

Figure 7: My First Choice for the Future Path



Source: SMBC

## Economic Outlook: 2023-2024 Forecast

**Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates**

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	3.2	2.6	2.0	1.5	-0.8	0.6	0.9	1.4	1.8	2.2	5.9	2.2	1.4	1.0
	Inflation	5.0	4.9	4.8	4.8	4.6	4.2	3.9	3.2	2.8	2.5	2.2	3.3	5.0	4.4	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.5	3.7	4.3	4.6	4.7	4.7	4.6	5.4	3.7	3.7	4.7
Euro Area	Real GDP	0.8	0.4	-0.1	0.0	0.3	0.2	0.1	0.2	0.3	0.3	0.2	5.3	3.3	0.6	0.9
	Inflation	8.0	9.3	10.0	8.0	6.2	4.8	3.2	3.1	2.9	2.7	2.5	2.6	8.4	5.6	2.8
	Unemployment	6.7	6.7	6.7	6.6	6.6	6.6	6.7	6.8	6.8	6.9	6.9	7.7	6.7	6.6	6.9
Japan	Real GDP	5.6	-1.5	0.4	2.7	1.7	1.0	0.9	0.9	0.8	0.8	0.7	2.3	1.1	1.0	0.9
	Inflation	2.1	2.7	3.8	3.5	3.2	3.0	2.5	3.0	2.8	2.5	2.1	-0.2	2.3	3.1	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	6.3	5.0	5.7	4.7	5.0	5.0	5.0	8.4	3.0	5.8	4.9
	Inflation	2.2	2.8	1.8	1.3	0.2	1.4	1.5	1.6	1.9	2.0	2.0	0.8	1.7	1.1	1.9
	Unemployment	5.8	5.4	5.6	5.5	5.2	5.3	5.2	5.1	5.0	5.0	5.0	5.1	5.1	5.3	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

**Figure 2: Forecast for Rates**

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25 ~ 4.50	4.75 ~ 5.00	5.00 ~ 5.25	5.25 ~ 5.50	5.25 ~ 5.50	5.00 ~ 5.25	4.75 ~ 5.00	4.50 ~ 4.75	4.25 ~ 4.50	4.25 ~ 4.50	5.25 ~ 5.50	4.25 ~ 4.50
	2yr	3.43	4.03	4.90	4.20	4.00	3.80	3.60	3.40	3.20	3.43	4.00	3.20
	10yr	3.87	3.47	3.84	3.60	3.60	3.60	3.60	3.50	3.50	3.87	3.60	3.50
Germany	Policy rate	2.50	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	2.50	4.25	3.75
	Deposit rate	2.00	3.00	3.50	3.75	3.75	3.75	3.75	3.50	3.25	2.00	3.75	3.25
	2yr	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	-0.07	0.10	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr	0.42	0.35	0.40	0.75	0.75	0.75	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.65	2.55	2.55	2.55	2.55	2.55	2.55	2.75	2.55	2.55
	2yr	2.39	2.41	2.11	2.16	2.24	2.32	2.39	2.49	2.59	2.39	2.24	2.59
	10yr	2.83	2.85	2.64	2.64	2.69	2.74	2.79	2.84	2.89	2.83	2.69	2.89

**Figure 3: Forecast for FX and Oil Price**

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58 ~ 151.95	127.23 ~ 137.91	130.64 ~ 145.07	128.00 ~ 147.00	125.00 ~ 138.00	121.00 ~ 135.00	119.00 ~ 133.00	116.00 ~ 130.00	116.00 ~ 130.00	113.47 ~ 151.95	125.00 ~ 147.00	116.00 ~ 135.00
	End of quarter	131.12	132.86	144.31	137.00	133.00	130.00	128.00	126.00	123.00	131.12	133.00	123.00
EUR/USD	Range	0.9633 ~ 1.0735	1.0806 ~ 1.1033	1.0635 ~ 1.1095	1.0300 ~ 1.1300	1.0200 ~ 1.1200	1.0100 ~ 1.1100	1.0000 ~ 1.1000	1.0100 ~ 1.1100	1.0100 ~ 1.1100	0.9536 ~ 1.1495	1.0200 ~ 1.1300	1.0000 ~ 1.1100
	End of quarter	1.0705	1.0839	1.0909	1.0700	1.0600	1.0500	1.0500	1.0600	1.0600	1.0705	1.0600	1.0600
EUR/JPY	Range	138.81 ~ 148.40	124.40 ~ 145.67	142.55 ~ 158.00	145.00 ~ 159.00	136.00 ~ 150.00	131.00 ~ 145.00	128.00 ~ 142.00	127.00 ~ 141.00	123.00 ~ 137.00	124.40 ~ 150.00	136.00 ~ 159.00	123.00 ~ 145.00
	End of quarter	140.41	144.01	157.43	146.59	140.98	136.50	134.40	133.56	130.38	140.41	140.98	130.38
Crude Oil Prices (WTI)		82.64	75.99	73.67	75.00	80.00	80.00	75.00	77.00	78.00	98.74	76.17	77.50

※ Crude oil prices are averages for each period. Source: SMBC.

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