

## China's labour market can cope with a decline in GDP growth without weakening

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China's GDP growth has greatly decelerated in recent years. The slowdown has caused worries and uncertainty about how the economy will be able to withstand a continuing growth deceleration. However, **Chinese policymakers** emphasise that they are **focusing on labour market performance rather than GDP growth**. Their goal is to achieve a gradual slowdown in growth, while avoiding an overly abrupt deceleration leading to a sharp weakening of the labour market and high unemployment, which in turn would create a breeding ground for social instability. One consequence is that large-scale official measures to stimulate the economy will only be launched if the labour market is seriously weakened.

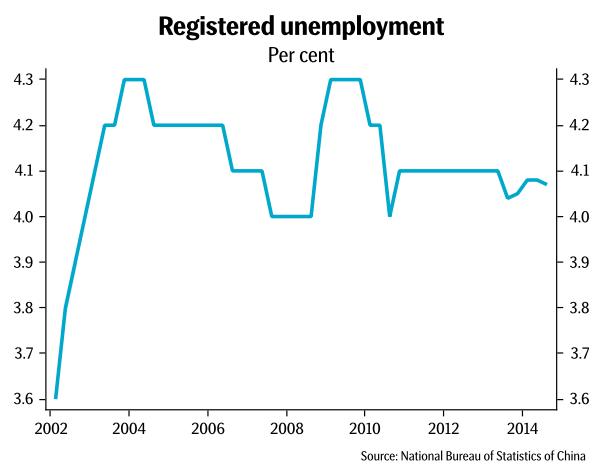
### The labour market has been resilient to slower growth

According to official statements, the labour market remains strong and the employment outlook is stable. China has implemented a gradual easing of monetary and fiscal policies but has not pushed through any large-scale stimulus programmes even though GDP growth continued to slow in 2014. The official picture of a strong labour market is supported by anecdotal information from employers, especially in the manufacturing sector, who cite recruitment difficulties.

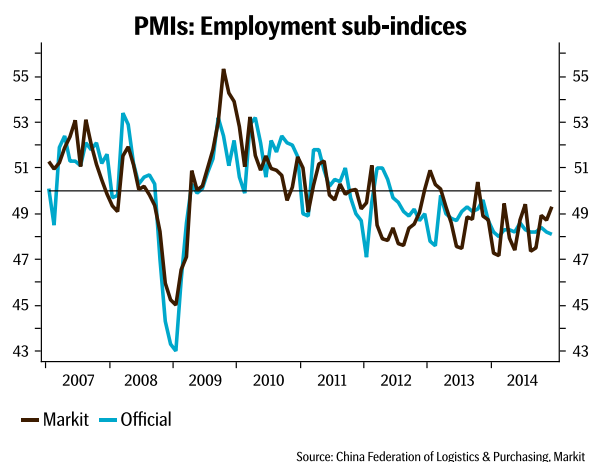
Because of the shortage of reliable statistics, it is generally difficult to get an idea of the Chinese labour market by analysing hard data, but there is a handful of more or less usable labour market indicators.

**Registered unemployment.** There is no reliable measure of unemployment in the Chinese economy as a whole. The statistic that comes closest is "registered unemployment", which measures the jobless rate in cities. Unemployment in rural areas and among migrant workers is excluded, and the figure only comprises people who are officially registered as jobless. Data are published on a quarterly basis, making it harder to pick up quickly on trend shifts, and the **overall usefulness of this measure as a labour market indicator is limited**. Since late 2010, registered unemployment has stood at a bit above 4 per cent, but actual unemployment is believed to be higher. Chinese

policymakers have access to a survey-based measure of unemployment, but this is not published openly. According to official statements, unemployment using this measure is around 5 per cent.



**Employment sub-indices in purchasing managers' indices.** There are two purchasing managers' indices for China: the official PMI and the one published by Markit /HSBC. In both cases, the employment sub-index (except for one single instance) has been below the growth threshold of 50 since spring 2013. However, the weak trend is difficult to reconcile with the substantially more positive picture from the rest of the indicators.



**Ratio of vacancies to job seekers.** This figure is based on information from employment agencies in cities and is **probably the most usable labour market indicator.** Since its most recent low during the sharp slowdown in economic growth during 2008-2009, the ratio of job vacancies to job seekers has risen. Although this ratio fell slightly in the third quarter of 2014, the indicator remains at a high level.



**Urban employment and earnings.** The official target for 2014 was to increase employment in urban areas by 10 million, in order to absorb the continuous flow of migrants from the agricultural sector to the cities. In 2013, China created 13 million new urban jobs and showed GDP growth of 7.7 per cent. The country will also surpass the 2014 target by a wide margin. Meanwhile wages and salaries of both migrants and the urban population continue to rise rapidly.

Although the usefulness of each individual indicator is limited, together they still provide a **relatively clear picture of a labour market that has not weakened to any great extent, even though GDP growth has already decelerated greatly.** As recently as 2010, the Chinese economy grew by more than 10 per cent, but in the past ten quarters, growth has remained below 8 per cent. For 2014 as a whole, we estimate that the increase in GDP was close to the target of "around 7.5 per cent".

### Structurally resilient labour market

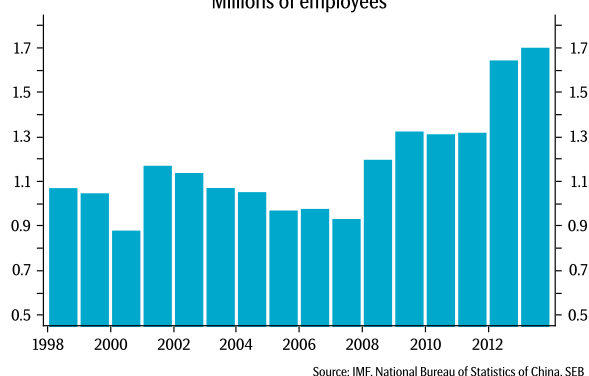
It is not possible to state any exact lower growth threshold, at which the labour market would seriously begin to weaken. **We believe that the economy will gradually be able to cope with lower and lower GDP growth,** without triggering large-scale negative labour market effects. The two **main reasons are demographic changes and a growing, labour-intensive service sector.**

China is facing a very rapid and far-reaching demographic change. The working-age population has already begun to shrink and is expected to continue shrinking until 2030. Although labour force participation can be boosted, for example by raising the retirement age, demographic change is occurring too rapidly to be offset completely.

This implies that **the labour supply will shrink in the years ahead.**

One cornerstone of China's ongoing reform efforts is to shift from a growth model driven by exports and investments to one driven by private consumption. As household consumption becomes more important to economic growth, the role of the service sector also increases. Since the service sector is more labour-intensive than the manufacturing sector, GDP growth that is increasingly being driven by provision of services will mean that **the number of new jobs created at a given pace of growth is rising.** A one percentage point increase in GDP growth now creates more than one and a half million new jobs, compared to around one million jobs ten years ago.

**Increase in urban employment for each percentage point of GDP growth**  
Millions of employees



Because of a combination of demographic change and an economy that is generating more new jobs at a given growth rate, it will be easier to gradually guide GDP growth lower. China thus no longer needs to aim at rapid traditional growth in order to deal with unemployment. To summarise, there are **no signs of clear weakening in the Chinese labour market** – although our analysis is made more difficult by the quality of labour market indicators. Looking ahead, such weakening will be offset by a shrinking labour supply and by a growing service sector.

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