

China Economy

Employment situations in light of COVID-19

It has always been a challenge to dissect the job market in China given scarce data and this is even so under the backdrop of COVID-19. In this report, we try to combine evidence from multiple aspects and gauge what industries, firms or populations are likely to suffer greater levels of job displacement.

Although the outbreak of COVID-19 has gradually been contained in China, the road ahead is still riddled with formidable challenges pertaining to the virus' aftershocks on job creation, wage growth and consumption. The good news is that, both governments and corporates are beefing up efforts to safeguard jobs and create new posts. Efforts, often play a decisive role getting through hardship.

- **COVID-19 took a toll on employment; marginal improvement in Mar.** In 1Q20, employed population in urban areas added 2.29 million vs. 3.24 million in 1Q19. Surveyed unemployment rate recorded 5.9% in Mar, edging down 0.3ppt from Feb peak. Real disposable income decreased 3.9% YoY. Recruitment demand, measured by job posts on zhaopin.com, shrank 27% in 1Q20, before climbing back in Apr.
- **...but still formidable challenges ahead.** Rather than tightening of labor market, we think the marginal improvement in Mar was more a result of alleviating frictional unemployment as stringent travel restrictions gradually unwound and workers returned.
- **What industries and firms are likely to suffer most?** We are most concerned about the **service sector**, because it i) experienced slower pace of recovery; ii) accounted for the majority of job increase in urban areas; iii) was dominated by non-SOE firms. We also worry about **export-oriented manufacturing firms**, which are suffering from global demand plunge as well as the ongoing US-China tensions. In addition, we expect softer job market with respect to private firms, foreign firms and JVs than SOEs.
- **Policy actions to prioritize employment**, including, **1)** Reducing burdens for firms via cutting tax payments and fees, postponing social security contributions etc. **2)** Creating more jobs in the public sector, SOEs, etc.; **3)** Ensuring social security to those in need; **4)** Specifying support for most affected populations, such as migrant workers and college graduates.
- **More on policy suggestions.** **1)** Extend job support to workers in consumer-facing service industries and export-oriented manufacturing, those who work for non-SOE firms, and those with lower income and less work experience. **2)** Prepare workers for new skills or jobs via professional training because aftershocks such as digitization of the economy and US-China tensions could lead to permanent job loss to robots and to ASEAN counterparts. **3)** Nurture burgeoning sectors that create future jobs.

Data Summary

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	1Q20	1Q19
Surveyed urban unemployment rate (%)	5.2	5.3	6.2	5.9	N.A.	5.9	5.2
New urban employed population ('000)	730	690	390	1,210	N.A.	2,290	3,240
Real disposable income, YoY (%)	5.8	N.A.	N.A.	-3.9	N.A.	-3.9	6.8
PMI manufacturing employment (%)	47.3	47.5	31.8	50.9	50.2	N.A.	N.A.
PMI non-manufacturing employment (%)	48.3	48.6	37.9	47.7	48.6	N.A.	N.A.

Source: NBS, Wind, CMBIS

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Stylized facts of China's employment situations

776 million employed, 56% in urban areas

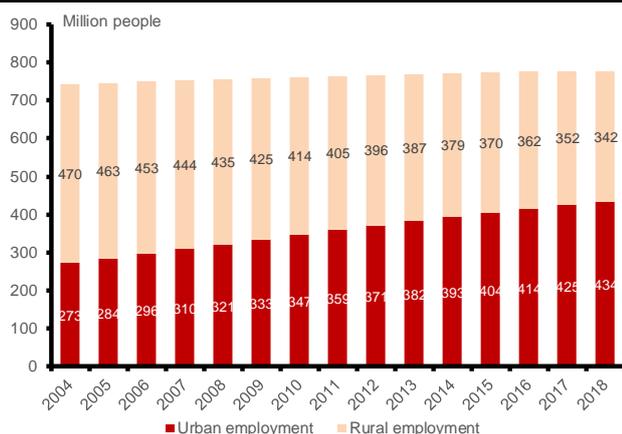
China's employed population amounted to 776 million in 2018. Along with the progress of urbanization, more people have been employed in cities. In 2014, urban employment exceeded rural employment for the first time. At YE18, 56% of the employed population, or 434 million work in urban areas.

Service sector accounted for 46.3% of the jobs

As the economy shifts toward consumption-driven growth, the tertiary sector has surpassed the primary sector since 2011 and become the largest employer in China. The trend has much to do with the burgeoning development of internet and mobile internet during the 2010s when a lot of new jobs were created particularly in the wholesale & retail industry.

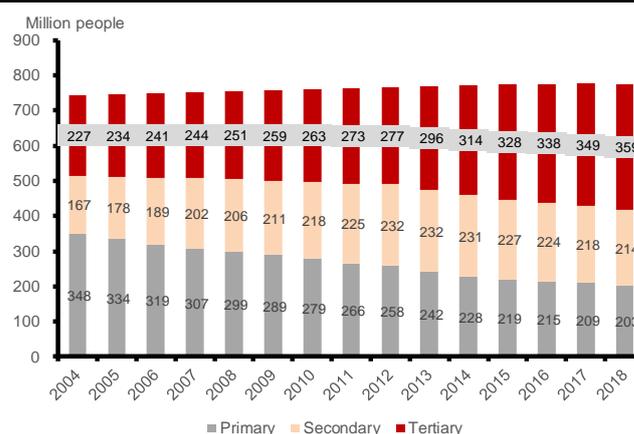
In 2018, 359 million people worked in the service sector, representing 46.3% of the total employed population in China whereas primary sector employed 203 million (or 26.1%) and secondary sector employed 214 million (or 27.6%).

Figure 1: Urban employment accounted for 56% of total employment (434 million) in China in 2018 while rural employment had been declining



Source: NBS, Wind, CMBIS

Figure 2: The tertiary sector has become the largest employer, absorbing 46% of total employment (359 million) in 2018



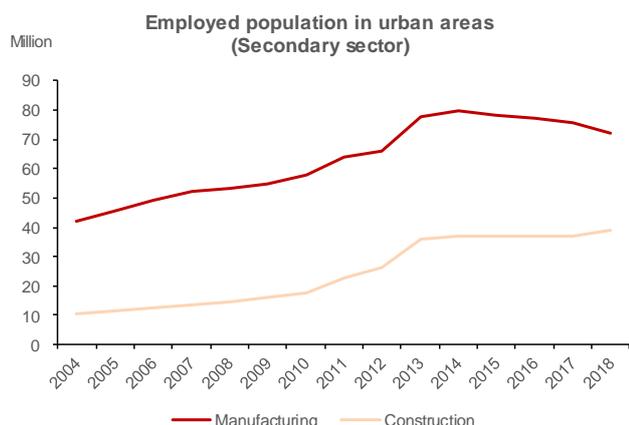
Source: NBS, Wind, CMBIS

Urban employment by subsectors

Analysis of urban employment by sectors yields several noteworthy trends.

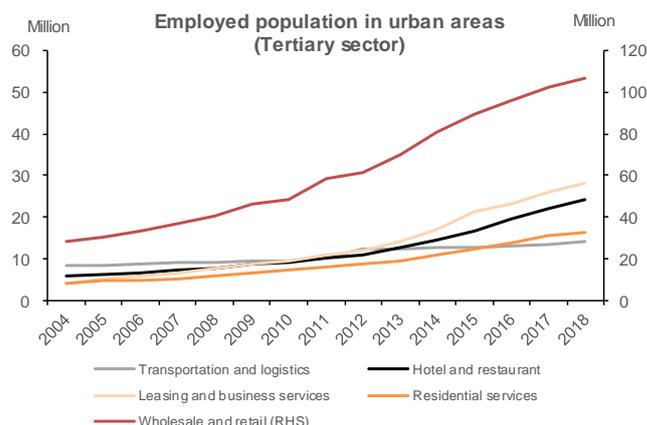
- Urban manufacturing employment has been shrinking over time.** As of 2018, there were 71.86 million manufacturing employees in urban areas, representing 9.7% decline from its peak in 2014.
- Construction sector employment is edging up in urban areas since 2018.** We expect in 2020, the number of construction workers will continue to increase driven by stepping-up infrastructure investment, steady housing constructions and etc.
- Service sector employment surged.** The wholesale & retail subsector gained nearly 50 million urban jobs since 2011, being the largest service sector employer. Leasing & business services, hotel & restaurants, residential services all witnessed more than doubling employment headcounts since 2011.

Figure 3: Urban manufacturing employment has been shrinking gradually



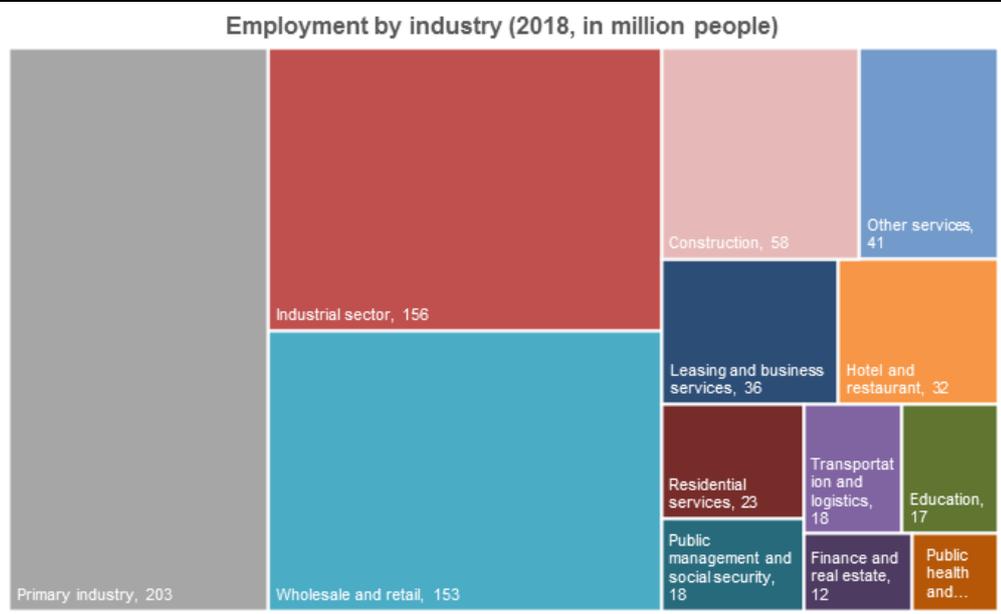
Source: NBS, Wind, CMBIS

Figure 4: ... accompanied by a surge in service sector employment



Source: NBS, Wind, CMBIS

Figure 5: Employment by industry (2018)



Source: NBS, CMBIS estimates

Urban employment by shareholding structure of employers

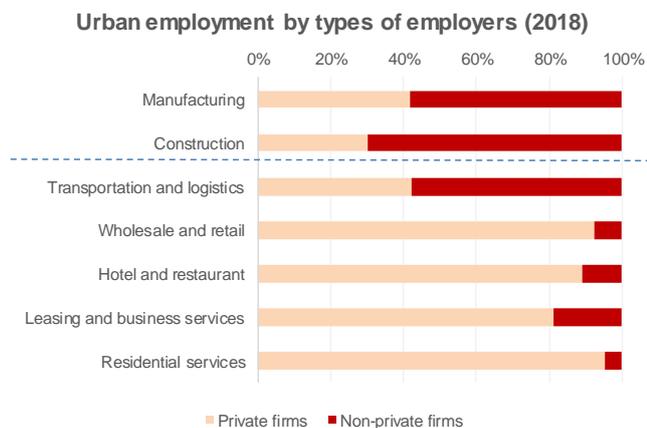
We also examined urban employment by shareholding nature of employers, i.e. private firms vs. non-private firms (SOEs, governments, etc.).

Manufacturing sector employment was still dominated by non-private firms; but private firms are gaining share. In 2018, about 42 million manufacturing workers were employed by non-private firms, accounting for 58% of urban manufacturing employment, vs. 53 million (or 68%) in 2013. On the other hand, private firms are gaining employment both in share and in absolute number, reaching 30 million (or 42%) in 2018.

Urban service sector jobs were mainly contributed by private firms. We plotted employment by firm type for selected service sectors. Private firms accounted for over 90% of urban jobs in wholesale & retail and residential services as well as more than 80% of jobs in hotel & restaurant and leasing & business services (Figure 6). Moreover, job gains

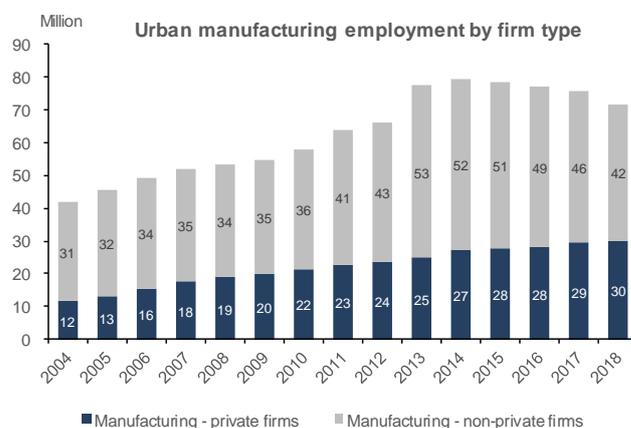
in the above subsectors during the past few years were contributed primarily by private firms (Figure 16 and 17).

Figure 6: Secondary sector employment dominated by non-private firms, while tertiary sector by private firms



Source: NBS, Wind, CMBIS

Figure 7: Manufacturing employment – private firms are gaining share and increasing in absolute headcounts



Source: NBS, Wind, CMBIS

COVID-19 took a toll on employment

There are three commonly-used official metrics to gauge employment situations in China, 1) urban new employed population, 2) surveyed urban employment rate, and 3) disposable income growth of residents. Normally in each year's government work report, goals are set for these employment measures.

Urban new employed population added 2.29 million in 1Q20

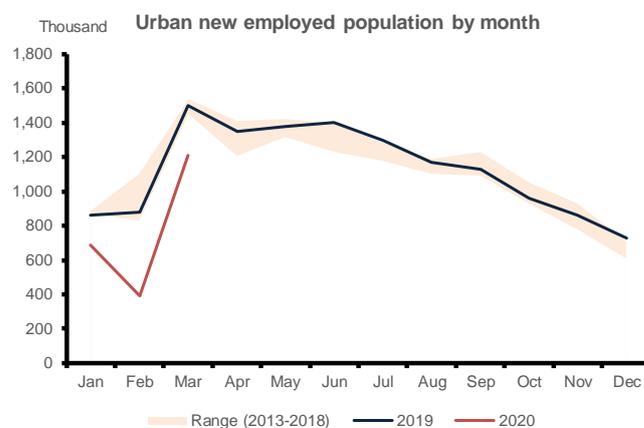
In 1Q20, new employed population added only 2.29 million in urban areas, which was 1 million short of the average of 3.31 million during 2013 and 2019. In 2017-2019, the central government set annual goal to add at least 11 million employed populations in urban areas.

Figure 8: In 2019, 13.52 million employed population were added in urban areas, exceeding annual target of 11 million



Source: NBS, Wind, CMBIS

Figure 9: In 1Q20, urban new employed population added only 2.29 million (vs. an average of 3.31 million during 2013 and 2019)

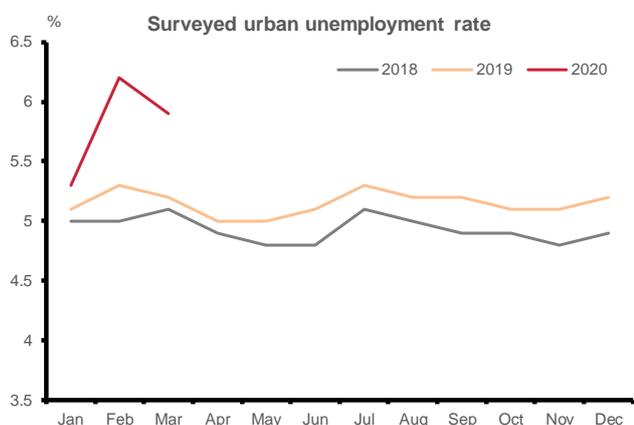


Source: NBS, Wind, CMBIS

Surveyed unemployment rate posted 5.9% in Mar

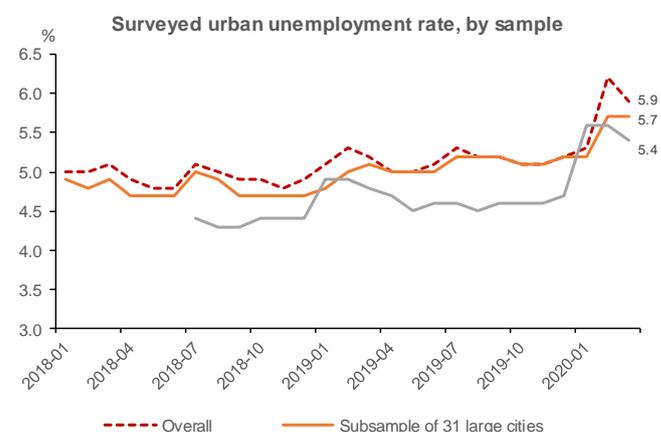
Surveyed urban unemployment rate has been trending up gradually since the NBS publicly announced the figure in 2018, though remained below the 5.5% threshold specified in the government work report each year prior to 2020. Due to the COVID-19 outbreak, it surged to 6.2% in Feb but improved a bit to 5.9% in Mar. Unemployment rate of population aged 25 to 59 was 5.4% in Mar, 0.5ppt lower than overall.

Figure 10: Surveyed employment rate overshoot to 6.2% in Feb 2020 before edging down to 5.9%



Source: NBS, Wind, CMBIS

Figure 11: For large city sample and people aged 25-59, unemployment rate was 5.7%/5.4% in Mar

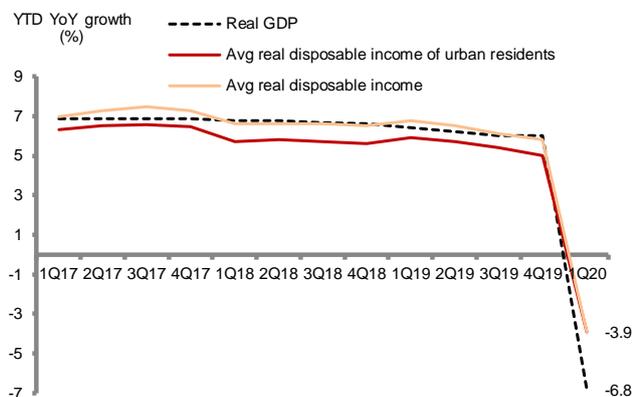


Source: NBS, Wind, CMBIS *Data ended Mar 2020

Real disposable income dropped 3.9% YoY in 1Q20

Average real disposable income, one of the most important determinants for household consumption, declined 3.9% YoY in 1Q20 for the whole nation as well as for urban residents.

Figure 12: Real disposable income dropped 3.9% YoY in 1Q20



Source: NBS, Wind, CMBIS

Alleviating frictional unemployment in Mar

Decline of new urban employed population narrowed in Mar whereas surveyed urban unemployment rate edged down 0.3ppt in Mar from that in Feb. We think the improvement primarily reflected alleviating frictional unemployment in Mar as stringent travel restrictions gradually unwound and migrant workers were able to return to their workplace. Overall employment situation, however, still remained soft. For the 31-large-city sample, surveyed unemployment rate stayed at 5.7% in Mar, same as that in Feb.

Recruiting demand down 27% YoY in 1Q20; gradually coming back in Apr

Job posts shrank 27% YoY in 1Q, largely recovered by mid Apr. A recent report published on 15 Apr by Peking University and zhaopin.com provided insightful evidence regarding job demand in face of COVID-19 by analyzing more than 23 million recruiting data samples available at zhaopin.com. They found that job posts were down 27% YoY in 1Q20. As COVID-19 is gradually being contained, daily job postings has climbed to similar levels as 2019's by mid Apr. However, lost jobs in 1Q may not be fully compensated later.

What sectors and firms are likely to face greater pressures?

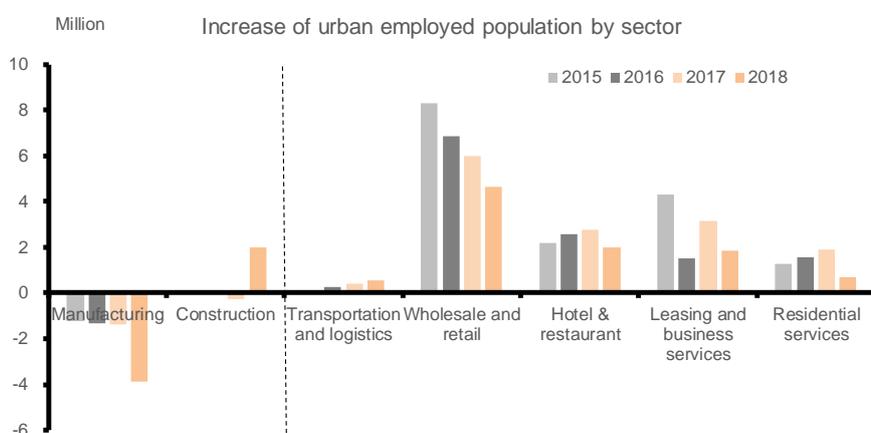
While trustworthy data is basically non-existent to depict employment pictures by industry or by populations, we try to offer some insights by combining evidence on sector-wise business recovery and the scale of employed populations of each sector.

Service sector

We are most worried about service sector employment because,

1) The service sector represents an indispensable source of job creation. It offered ~46% of job positions nationwide now and accounted for the majority of urban job increase in recent years. In 2015-2018, the service sector added more than 50 million new jobs in urban areas, wholesale & retail being the largest contributor, while manufacturing lost over 7.7 million job positions (Figure 13).

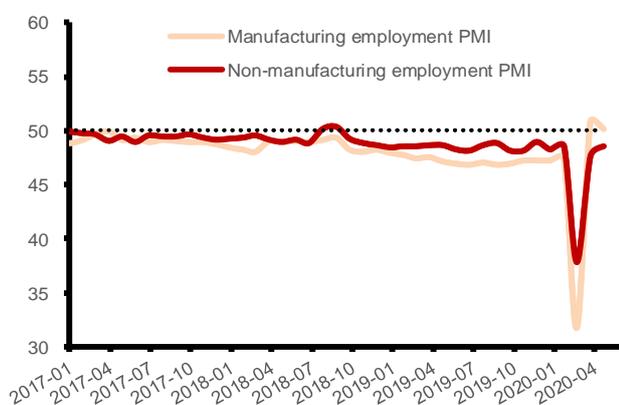
Figure 13: The service sector contributed most to job gains in urban areas during the past few years while manufacturing were losing jobs



Source: NBS, CMBIS estimates

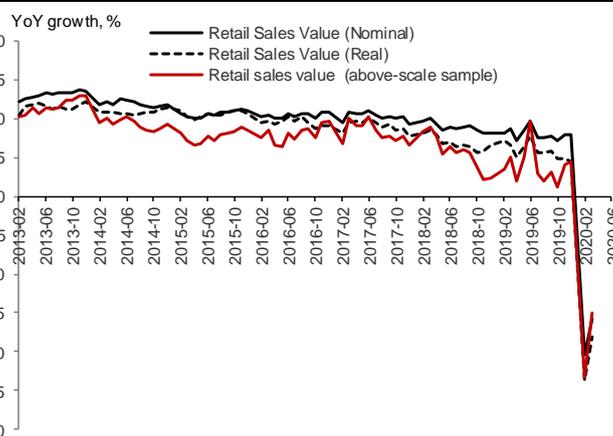
2) Service sector, especially those consumer-facing industries, are more vulnerable to both shocks and aftershocks from the COVID-19. Economic metrics indicated that the demand side or service sector recovery lagged behind the supply or production side. Retail sales growth only rebounded slightly in Mar (Figure 15). As a result, service sector employment remained in contraction in Mar and Apr, if we look at the PMI employment subindices.

Figure 14: Employment PMI of non-manufacturing remained in contraction in Mar and Apr



Source: NBS, Wind, CMBIS

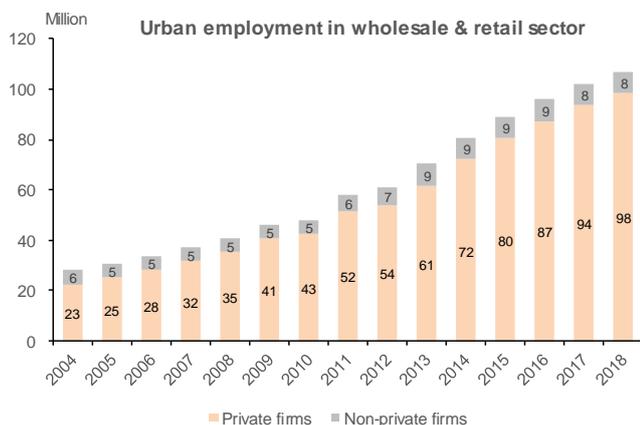
Figure 15: Retail sales growth rebounded only slightly in Mar



Source: NBS, Wind, CMBIS; *Data ended Mar 2020

3) Service sector jobs have been primarily dominated by private firms, which tend to be more fragile and have less buffer to shocks. Moreover, unlike their SOE peers who shoulder all kinds of social responsibilities, private firms normally are not mandated to “guarantee” employment.

Figure 16: Private firms contributed to the majority of wholesale & retail sector employment



Source: NBS, Wind, CMBIS

Figure 17: ... so is the case with hotel & restaurant



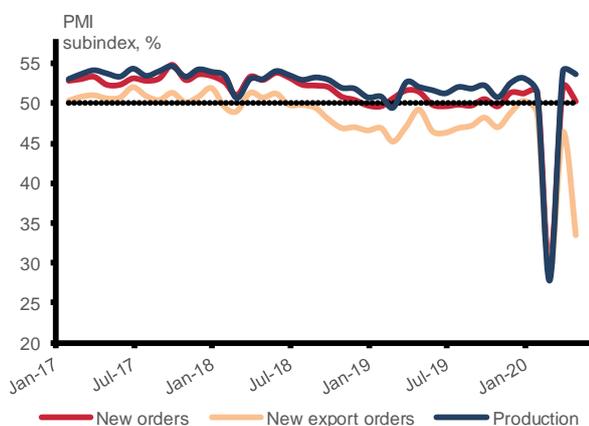
Source: NBS, Wind, CMBIS

Export-oriented manufacturers

We are also worried about employment in export-oriented manufacturing primarily due to lockdowns of global markets, muted overseas demand, as well as trade tensions. New export orders plunged again in Apr, after a short-lived rebound in Mar (according to PMI new export orders index).

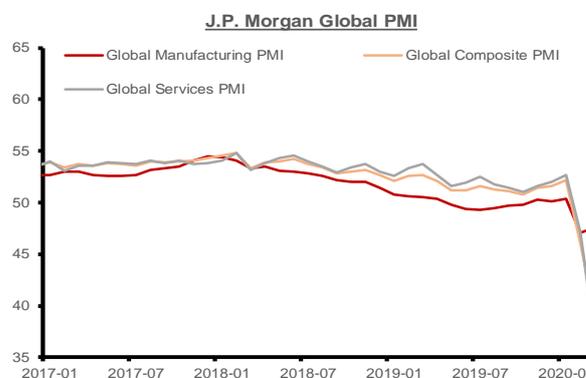
Since the world’s major economies, particularly the U.S. and Europe, have not fully “reopened” yet, China’s export-oriented industries and firms may continue to endure hardship in 2Q. Even after COVID-19 is well contained globally, however, softened overseas economic growth and trade tensions could loom large for export-oriented manufacturers, particularly for those involved in processing trade.

Figure 18: Export orders plunged in Apr (China)



Source: NBS, Wind, CMBIS

Figure 19: JP Morgan Global PMI

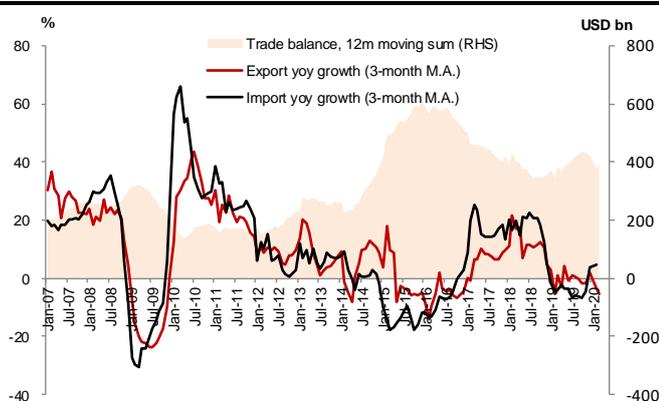


Source: JP Morgan, Wind, CMBIS

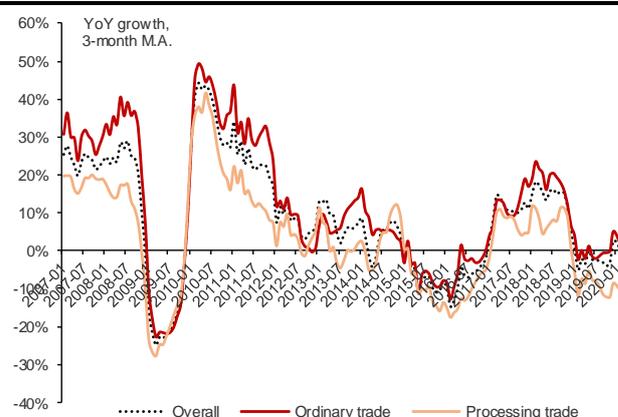
Figure 20: JP Morgan Global Manufacturing PMI – drop in new orders accelerated in Mar in spite of narrowing decline in production

	2019-09	2019-10	2019-11	2019-12	2020-01	2020-02	2020-03
Headline PMI	49.70	49.80	50.30	50.10	50.40	47.10	47.60
- Production	50.10	50.30	51.00	50.40	50.80	43.50	45.40
- New orders	49.40	50.00	50.40	50.30	50.80	45.20	43.80
- Input price	51.00	50.40	50.30	51.30	51.80	51.90	50.10
- Employment	49.50	49.20	50.10	49.60	49.80	47.20	47.50
- Output price	50.00	49.70	50.10	51.00	50.60	49.90	48.90

Source: JP Morgan, Wind, CMBIS

Figure 21: Export dropped 13.3% in 1Q20 (in US\$)


Source: NBS, Wind, CMBIS

Figure 22: Processing trade experienced more severe decline than ordinary trade


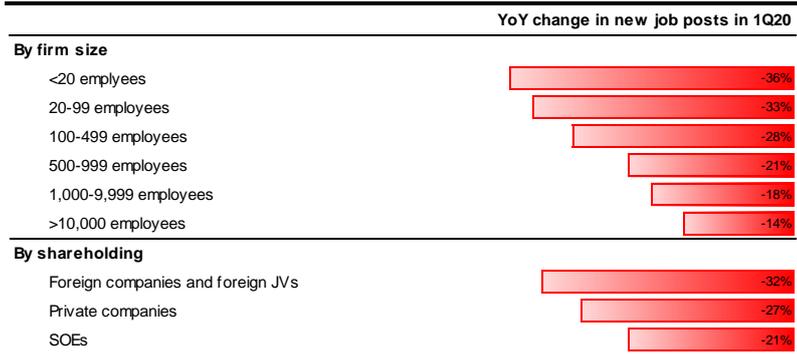
Source: NBS, Wind, CMBIS

What kind of companies are likely to be affected most?

By firm type, we think **i) small and micro-sized firms (SMEs)** and **ii) non-SOEs** are likely to incur greater job displacement in light of COVID-19 and its aftershocks. SMEs are more vulnerable and financially constrained. Moreover, quite a few SMEs operate in the service sector, which exhibited slower recovery and sustained pressure. Non-SOEs, all else equal, are not mandated to “stabilize employment” as their SOE peers.

Recruiting data from zhaopin.com bolstered the above view. It showed that 1) firms with less than 20 employees posted 36% fewer job openings in 1Q20 than in 1Q19 and the magnitude of cut fell linearly with firm size, measured by total employee count. 2) Cuts in job offering were most drastic with respect to foreign companies or JVs (>30%), followed by private companies (>25%) and SOEs (~20%).

Figure 23: Change in recruiting demand in 1Q20 by employers



Source: PKU, zhaopin.com, CMBIS
Note: Rough numbers reported

Most affected populations

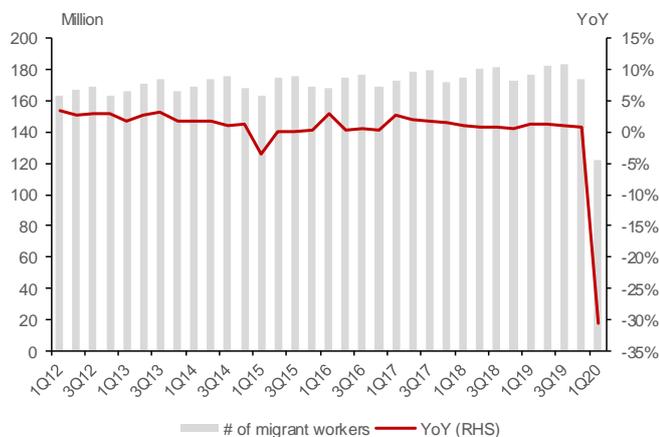
1) Migrant workers

The population of migrant workers amounted to 123 million at the end of 1Q, representing YoY decline of 30.6%, or over 50 million from YE19. Part of the decline, we believe, was temporary and frictional as a result of lockdowns and traffic restrictions. As the economy reopened and inter-provincial travel resumed, some migrant workers are able to return. Local governments have also made plans to increase infrastructure investment so that more construction workers can be employed locally (As of 2018, 19% migrant workers were employed in the construction sector).

2) College graduates

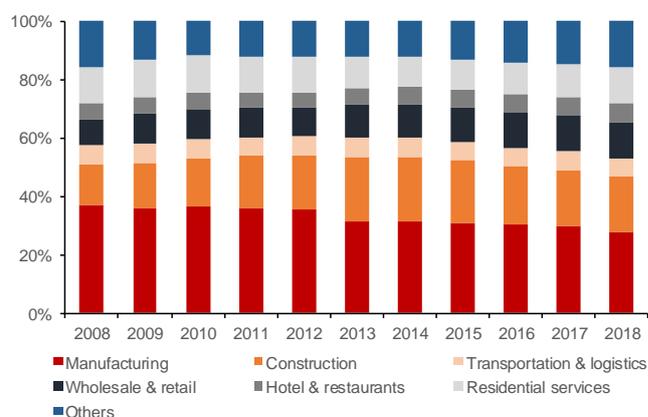
China is expected to have 8.74 million college graduates entering market this year, up 400 thousand from the previous year. The government called upon efforts to expand outlets for college graduates, by increasing recruitment scale of SOEs, public institutions, the military as well as enlarging graduate school enrollment and internship posts.

Figure 24: Migrant worker population shrank to 123 million at the end of 1Q20 from 174 million at YE19, representing YoY decline of 30.6%



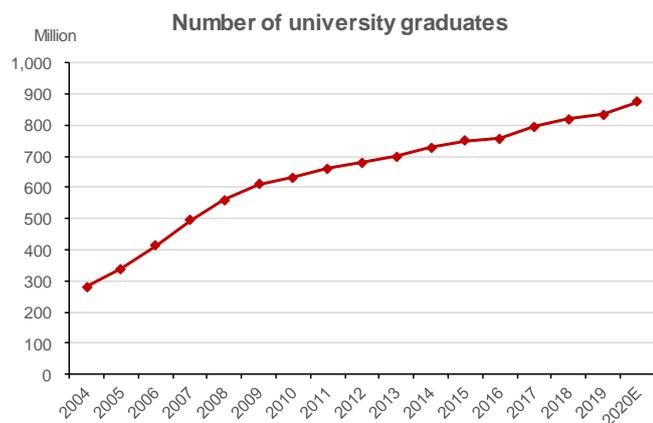
Source: NBS, Wind, CMBIS

Figure 25: Migrant workers by industry – over 53% migrant workers are employed in the service sector in 2018



Source: NBS, Wind, CMBIS

Figure 26: China is expected to have 8.74 million college graduates entering market this year



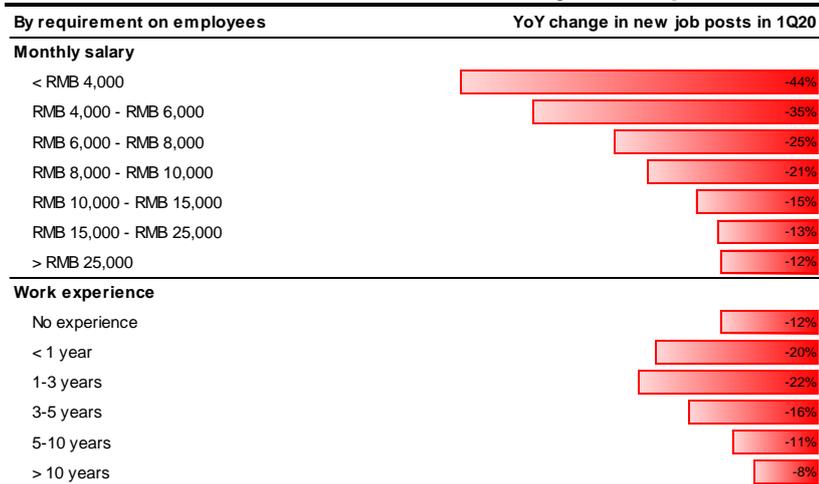
Source: Ministry of Education, CMBIS

3) Low income and less experienced workers

Recruitment demand shrank most for people in the lower-income brackets according to zhaopin.com. Job posts with monthly salary below RMB 4,000 declined by over 43% YoY whereas jobs with monthly salary over RMB15,000 decreased 12-13%.

Meanwhile, change in job demand exhibited a U-shape pattern with respect to work experience. Employees with 1-3 years' work experience faced tougher situations in finding a new job.

Figure 27: Recruitment demand shrank most for employees in the low-income bracket and those with 1-3 years' experience



Source: PKU, zhaopin.com, CMBIS

Note: Rough numbers reported

Policy reactions to counter the COVID-19 impact

The State Council guidelines specified five initiatives

Since the outbreak of COVID-19, China has rolled out comprehensive measures to safeguard jobs. In the State Council's 21 Mar guideline, five aspects of initiatives were outlined to stabilize employment against the backdrop of COVID-19 and its aftershocks. These include 1) prioritizing employment; 2) help migrant workers return to work; 3) expanding job opportunities for college graduates; 4) ensuring social security to those most in need; 5) improving professional training and employment services.

Prioritizing employment

1) Reduce financial burdens for firms

On 18 Feb 2020, in order to ease the financial stress faced by enterprises, the State Council decided to reduce or exempt the portion of social insurance contributions borne by employers and defer payments of the housing provident fund. Starting from Feb 2020, SMEs in provinces other than Hubei and all enterprises in Hubei will be exempt from paying premiums on pension, unemployment and work injury insurance borne by the employers for up to five months.

Moreover, China has eased the tax burden for firms in the most vulnerable regions and sectors, including transportation, tourism and hospitality services, offered income and value-added-tax extensions to firms with cash flow shortfalls, and etc.

2) Create more jobs

Governments have been frontloading planned public spending on infrastructure and prioritizing job-creating investment projects so as to absorb idling workers. In order to create a better environment for entrepreneurship, local governments and banks are expanding coverage of guaranteed loans for startups and policy support for venture investments.

Specific support to migrant workers and college graduates

Specific support has been offered to migrant workers, for example, via providing one-stop transportation so that workers can return to their workplace safe and healthy. Local governments have also expanded job positions in infrastructure and public services so that displaced migrant workers can find jobs in nearby cities. For college students, career outlets are also expanding in regards to SOEs, public institutions, and graduate school enrollment.

Figure 28: The State Council's guideline to expedite the recovery of employment and keep it stable to counter the impact from COVID-19

1	Prioritizing employment	<ul style="list-style-type: none"> - Targeted tax and fee reduction; - Promote investment in industries that can create more jobs; - Expanding coverage of guaranteed loans for startups and policy support for venture investments;
2	Help migrant workers return to work	<ul style="list-style-type: none"> - Support "point-to-point" nonstop transportation; - Establish urban infrastructure and public service facilities to help migrant workers find nearby work;
3	Expanding job opportunities for college graduates	<ul style="list-style-type: none"> - Expand recruitment scale for state-owned enterprises, public institutions and the military; - Expand graduate school enrollment and professional internship posts;
4	Ensuring social security to those most in need	<ul style="list-style-type: none"> - Unemployment insurance available upon application online by the end of Apr; - Provide temporary posts and timely support to those most affected by the pandemic;
5	Improving professional training	<ul style="list-style-type: none"> - Conduct professional training with focus on key groups of labor, such as migrant workers.

Source: The State Council, CMBIS

More on policy suggestions

Other affected working populations may need extra support

Besides the aforementioned migrant workers and college students, we think employees working in consumer-facing service industries and export-oriented industries, those employed by non-SOE firms, and those with lower income and less working experience, may need extra help in safeguarding their jobs or finding new ones.

To get workers prepared for aftershocks

We might think of multiple aftershocks of COVID-19 in addition to weaker economic growth. For example, digitization of the entire economy may result in labor-intensive industries hiring more robots instead of human being. Escalated tensions between China and U.S. could be more nerve-wrecking. Employees in export-oriented industries, especially those who previously work as assemblers, may lose their jobs to their counterparts in ASEAN as a result of supply chain migration.

Occupational training and career services. To cope with the above aftershocks, policy support could come in the form of occupational training and career services sponsored by governments or other social entities, to help workers build new skills and adapt to evolving work environment.

Bring up new jobs

While some industries may lose jobs permanently, others are calling for more. Governments could create jobs themselves by initiating investments in new infrastructure projects, for example. But more importantly, we think governments should take a more active role encouraging the education and training of talents in areas that may require a larger pool of employees in the future.

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