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The Chinese youth unemployment phenomenon

One in five is now out of work



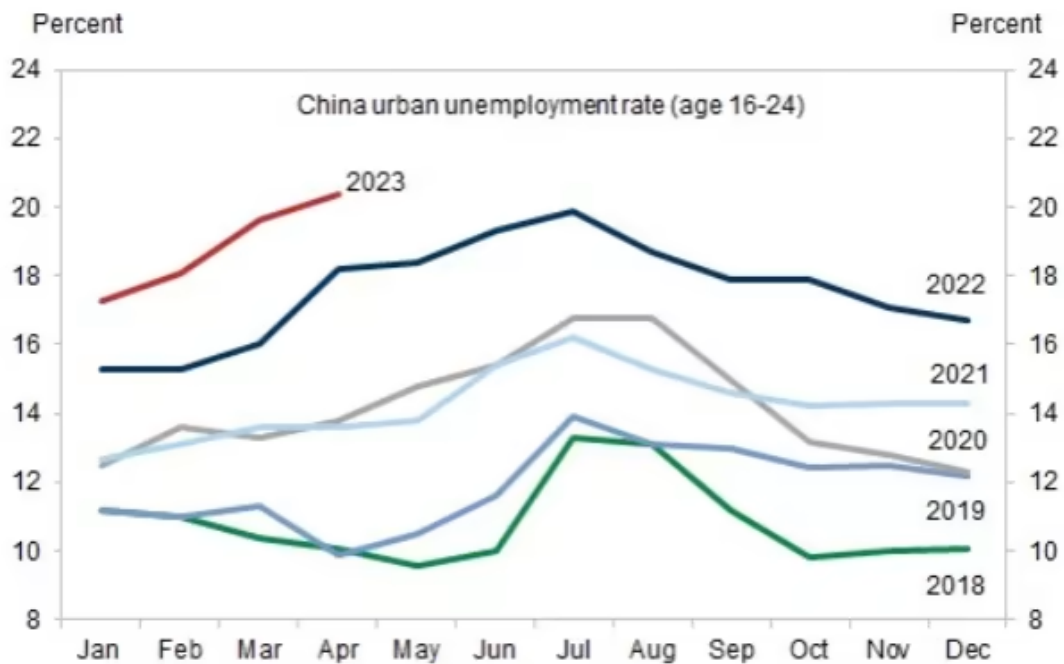
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Robin Wigglesworth MAY 24 2023



The odd sight of Chinese youth unemployment climbing to record highs despite a post-Covid boomlet is [baffling](#) a lot of people. That's understandable, because the employment divergence is pretty stark.

The unemployment rate of Chinese people between the ages of 16 and 24 rose to **20.4 per cent** in [April](#), topping the previous peak from last summer, when the country was still in full lockdown. But the overall jobless rate fell to **5.2 per cent**.



Source: NBS, Goldman Sachs Global Investment Research

Youth unemployment rate continued to climb in the first four months of the year despite China's post-reopening recovery. © Goldman Sachs

This chart is from a new Goldman Sachs report examining the causes of the discrepancy, [which you can read in full here](#). Here are the main takeaway points:

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— We think both cyclical and structural factors have contributed to the elevated youth unemployment rate in China. On the cyclical front, the correlation between unemployment rate and services sector output gap is much stronger for the 16-24 age group compared with the 25-59 year-olds. NBS's labor survey shows that services industries such as hotel and catering, education, and information technology sectors tend to hire more young workers. Services sector slackening before reopening therefore contributed to the high youth unemployment rate. The improvement in service sector activity growth in Q1 should lower youth unemployment rate in Q2 by 3pp based on our estimate. While the improvement in service activity growth implies rising demand for young workers, this increase in demand could be more than offset by strong supply seasonality. As we enter the graduation season, youth unemployment rate could rise by 3-4pp and peak in summertime (usually in July or August) before starting to decline from end of Q3, if we look at the seasonal pattern in 2018 and 2019 (prior to Covid).

— Structural imbalance is another reason behind the high youth unemployment rate. Despite the fact that a rising share of unemployed persons aged 16-24 years old have higher education, there appears to be misalignment of academic disciplines with business requirements. For example, the number of graduates from vocational schools who majored in education and sports rose by more than 20% in 2021 vs 2018, but hiring demand of education industry weakened meaningfully during the same period. Regulation changes over the past few years likely contributed to the weakening of labor demand in sectors such as Information Technology, Education and Property, which tend to hire more young workers. Skillset mismatches can only be dealt with gradually and might be a factor that contributes to high youth unemployment rate in the next few years.

— We might see youth unemployment continuing its upward trend in the next few months on the back of strong supply seasonality despite government policies to create more jobs for graduates. Promoting further recovery of the services sector while exploring ways to reduce misalignment between discipline and business requirements seems key to reduce the youth unemployment rate over the medium term.

Goldman also stresses that Chinese youth unemployment is not massively out of line with what you see in European countries like Italy and Spain, or other countries at a similar stage of development.

But it's twice the US level. And obviously, that level of joblessness among younger people is more politically sensitive in countries like China, where there aren't any viable electoral outlets for discontent. So it might be a phenomenon worth watching.