

# ASIA MONTHLY

## November 2023

<i>Topics</i>	<i>Mismatch driving rise in youth unemployment in China .....</i>	<i>1</i>
<i>Topics</i>	<i>Another drop in housing prices is a concern in South Korea .....</i>	<i>4</i>



<https://www.jri.co.jp/en/reports/asia/>

This report is the revised English version of the November 2023 issue of the original Japanese version (published 26th Oct.).

This report is intended solely for informational purposes and should not be interpreted as an inducement to trade in any way. All information in this report is provided “as is”, with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will JRI, its officers or employees and its interviewee be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any damages, even if we are advised of the possibility of such damages. JRI reserves the right to suspend operation of, or change the contents of, the report at any time without prior notification. JRI is not obliged to alter or update the information in the report, including without limitation any projection or other forward looking statement contained therein.

## Topics *Mismatch driving rise in youth unemployment in China*

In China, the number of young unemployed people continues to increase, mainly due to a mismatch between the types of jobs university graduates want and the types of workers employers want. Solving this problem will not be easy, and the rise in youth unemployment could lead to a decline in the medium- to long-term growth potential of the Chinese economy

### ■ Struggle by young people to find jobs now a social problem

The difficulties faced by young Chinese in finding employment has become a major social issue. The unemployment rate for young people (aged 16-24) has been following an upward trajectory since 2018, when data began being released, and reached a record high of 21.3% in June 2023. Compared with youth unemployment rates in other countries, China's figure stands out. At around the same time, the rate in Japan (15-24 years old) was 4.2%, while the rates in the U.S. (16-24 years old) and France (15-24 years old) were 7.5% and 16.3%, respectively.

Unemployment among the young is seen as a problem in many countries, and various reasons have been given for it, such as the economic downturn and intergenerational conflicts. However, the rise in youth unemployment in China can also be attributed to factors specific to that country.

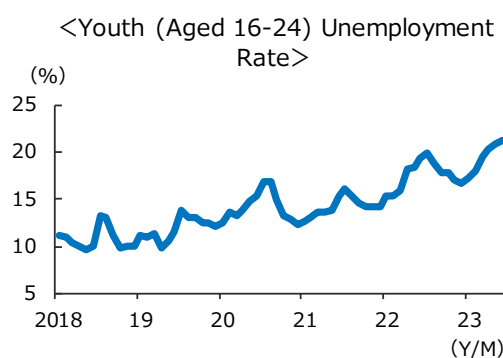
### ■ Increase in youth unemployment caused by rise in the number of university graduates

The rise in the number of unemployed young people in China can be attributed primarily to the number of students entering and graduating from universities exceeding graduate recruitment demand. Based on International Labour Organization (ILO) labor force estimates, United Nations population estimates, and publicly available data from the Chinese government, the total number of unemployed youth in China has increased by approximately four million over the five-year period beginning in 2018.

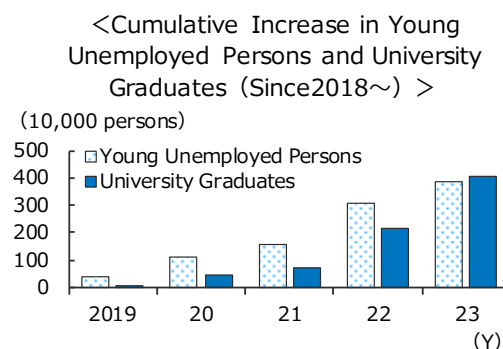
At the same time, numbers of university graduates (including graduates of junior colleges etc.) have also climbed significantly in recent years. In 2018, 7.53 million people graduated from university, but this figure has risen to 11.58 million (government projection) in 2023, implying an increase of 4.05 million in five years. From this trend, it can be inferred that the rise in youth unemployment is due to the new graduate hiring market being unable to absorb the increasing number of university graduates.

### ■ Mismatch in university graduate recruitment market

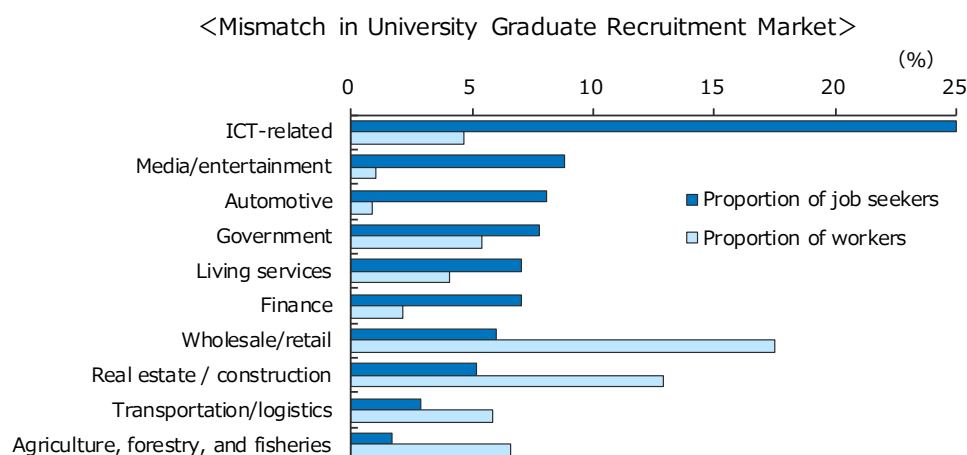
A key reason for this growing trend is a mismatch between the jobs desired by university graduates and the human resources sought by companies. In China, jobs in sectors such as ICT (information and communication technology), automobiles, and finance are the most prized by university graduates because they offer generous salaries and good career prospects. However, data on the proportion of workers in these industries indicates that job opportunities in them are limited relative to their popularity among university students. In other words, there is excess demand on the job seeker side. Just 6.9% of people graduating university in 2022 landed a job with the coveted monthly salary of 10,000 yuan or more, and the majority of them started their working lives with much lower-than-ideal monthly pay packets (average of 5,990 yuan).



Sources: Prepared by JRI based on data from the National Bureau of Statistics of China and CEIC

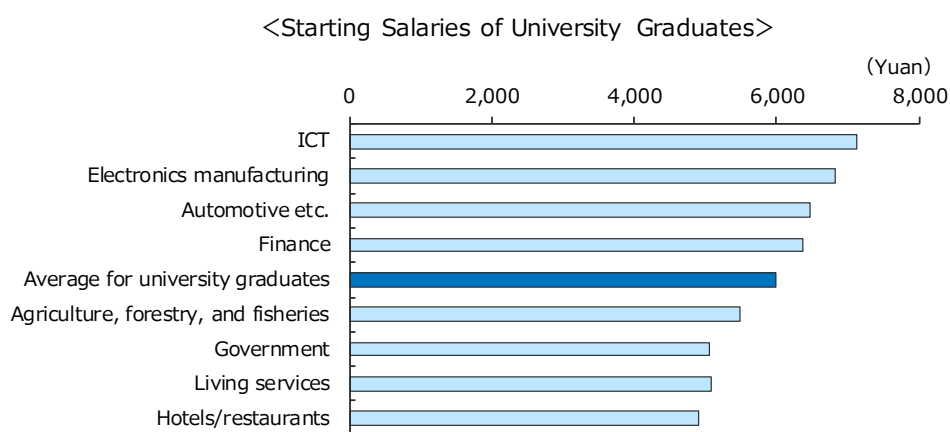


Sources: Prepared by JRI based on data from the ILO, Ministry of Human Resources and Social Security, Ministry of Education, United Nations, and CEIC



Sources: Prepared by JRI based on data from Zhaopin, Ministry of Human Resources and Social Security, and National Bureau of Statistics of China

Note: Proportion for each sector in all sectors.



Sources: Prepared by JRI based on data from MyCOS and various news reports

Note: All figures are monthly pay of graduates of four-year degree programs six months after joining their companies.

In stark contrast to the preferences of university graduates, companies are looking for frontline workers for factories, stores, and so on. In the manufacturing industry, for example, there is a dearth of skilled workers (one estimate puts the shortage at 30 million by 2025), so many manufacturers urgently need to secure highly skilled personnel. There are also serious shortages of sales clerks, delivery staff, and restaurant servers. However, the percentage of college graduates seeking employment in these occupations is low.

Due to this mismatch in the job market, Chinese society faces a double headache: a large number of young people who have undergone higher education are unable to find jobs, while there are growing shortages of labor in low-wage sectors.

### ■ Structural factors impeding elimination of the mismatch

Structural factors on both the demand and supply sides of the labor market are behind the worsening mismatch in the job market for university graduates.

On the demand side, ICT and other high value-added industries have not developed to the extent that people's expectations can be satisfied. Although China is the world's second largest economy, it remains a middle-income country, with a per capita GDP of about \$13,000, and it is difficult to provide enough high-

income positions to meet the employment needs of university graduates, which have increased rapidly in number in recent years to top 10 million people.

And on the supply side, China's longstanding one-child policy made parents passionate about educating their children. In the summer of 2021, restrictions were imposed on tutoring schools, and regulations covering private tutors were substantially tightened in the fall of 2023. Nevertheless, parental enthusiasm for education remains strong in China. While the government has tightened controls on tutoring schools, it has made no moves to reform the "Gaokao" (Nationwide Unified Examination for Admissions to General Universities and Colleges), so the zeal for education among parents is unlikely to subside. Furthermore, the possibility that the measures taken by the government over the past 20 years to expand higher education may have amplified the job mismatch in the recruitment market cannot be denied.

Looking ahead, the pace of China's economic growth is expected to slow, and there is unlikely to be a sharp increase in the sorts of high-paying posts that university graduates hope to fill. Moreover, there is a risk that the government will tighten its regulation of companies, hampering the growth of high-value-added sectors such as ICT. In light of these factors, the mismatch in the job market is going to remain difficult to resolve, and the number of young unemployed people is likely to continue to increase over the medium term. If this turns out to be the case, there is a danger of more and more young people experiencing setbacks in developing their careers, which could result in a long-term decline in the growth potential of the Chinese economy.

**(Junya Sano)**

## Topics *Another drop in housing prices is a concern in South Korea*

In South Korea, housing prices have stopped falling thanks to real-estate deregulation, but they are likely to drop once again due to domestic and international factors. A decline in housing prices could put downward pressure on the country's economy through the negative wealth effect and other factors.

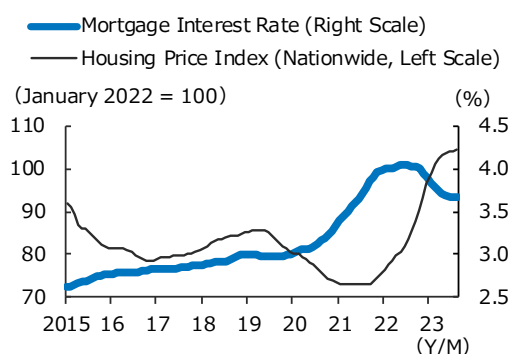
### ■ South Korean government starts shoring up the real-estate market

In South Korea, surplus funds from monetary easing after the COVID pandemic helped drive a real-estate bubble. Housing prices rose sharply, but peaked last summer and began to decline as monetary policy was tightened. Since last year, consumer prices have soared due to higher energy prices resulting from rising resource prices and the depreciation of the South Korean won in response to the widening interest rate gap with the U.S. As a result, inflation far exceeds the monetary policy target rate of +2%. The Bank of Korea (central bank) has raised interest rates by a cumulative three percentage points since the summer of 2021 in order to control inflation and defend the currency. In response to the rapid rate hikes, mortgage rates have risen by 1.6 percentage points over the past two years, putting significant downward pressure on housing demand.

Real estate accounts for 70% of household assets, and as asset values decline, households tend to become more cautious in their consumption. Given that housing prices have fallen 10% since last summer, it is estimated that the negative wealth effect (where falling asset prices leads to reduced consumption and investment) of this drop will push down consumer spending by about 1.4%, with a time lag of six months to one year. Since personal consumption in the April-June quarter of 2023 was sluggish, increasing by just 1.6% compared to a year earlier, the negative wealth effect in the current phase will be considerable, and weigh heavily on the economy.

Wary of falling housing prices, the South Korean government has been taking steps to ease real-estate regulations since the end of 2022, with the aim of applying the brakes to the sharp decline in prices. The main measures include 1) easing of regulations covering lending to homebuyers, 2) tax cuts for homeowners, 3) action to expand the supply of housing, and 4) tax incentives for landlords. As a result of this comprehensive support on both the supply and demand sides of the housing market, the number of housing transactions in August increased by 18.1% year over year (YoY), recording a double-digit increase for the second consecutive month. In addition, housing prices in September edged up by 0.1% from the previous month, signifying a halt to the sharp decline in housing prices.

### <Housing Prices and Mortgage Interest Rates in South Korea>



Sources: Prepared by JRI based on data from CEIC and ECOS

Note: Mortgage interest rates are weighted averages with weights based on loan balances.

### <Housing-related Policies in South Korea (Abridged) >

Measures for real-estate market (November 2022)
<ul style="list-style-type: none"> <li>• Relaxation of caps on real-estate lending</li> <li>• Relaxation of tax incentive eligibility criteria for first-time homebuyers</li> <li>• Provision of low-interest loans to young people</li> <li>• Expansion of assistance for housing-related project finance</li> </ul>
Housing-related policies set out in "The 2023 Economic Policy Directions" (December 2022)
<ul style="list-style-type: none"> <li>• Relaxation of restrictions on lending to owners of multiple homes</li> <li>• Additional removal from designation of regulated areas and relaxation of restrictions on reselling</li> <li>• Adjustment of pace of implementation of already-announced housing supply plans</li> <li>• Reduction of taxes (e.g. real-estate acquisition tax) for landlords</li> </ul>

Sources: Prepared by JRI based on information from the Ministry of Economy and Finance, various news reports, etc.

## ■ Danger of factors inside and outside South Korea putting downward pressure on housing prices

However, three factors are likely to cause housing prices to fall again.

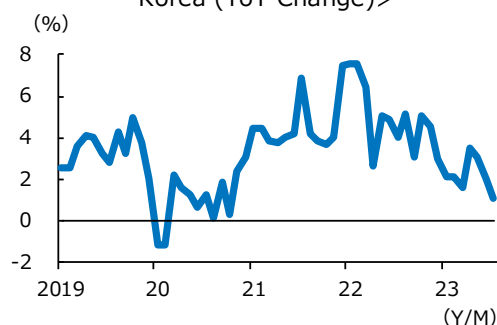
First, high interest rates will persist. The Bank of Korea places importance on monetary stability as well as price stability, and tends to try to head off large exchange rate fluctuations. When domestic interest rates are lower than U.S. rates, downward pressure on the South Korea builds quickly, so the Bank of Korea is expected to steer its policy to prevent any significant widening in the interest rate differential going forward. In the U.S., interest rates have been raised rapidly, and an immediate reversal of tight monetary policy will remain unlikely. U.S. interest rates are therefore projected to stay high for the time being. The Bank of Korea is thus expected to keep its policy rate high. Housing investment may be pushed down due to the burden on households of heavier interest payments on housing loans.

Second, the upward momentum in wages is weakening. Growth in average monthly wages per worker slowed to +2.2% YoY in January-July 2023 from +4.9% YoY in 2022. Sluggishness in key industries, caused by such factors as lackluster

exports resulting from a plunge in demand for PCs and smartphones as the stay-home consumption of the pandemic receded, has put downward pressure on wages. In addition, labor market reforms by the government may actually be constraining wage growth, contrary to policy intentions. The previous administration's extreme pro-labor policies, including a substantial increase in the minimum wage, eroded the strength of companies, especially small and medium-sized enterprises (SMEs). The government of President Yoon Suk Yeol, who came to power in May 2022, has been pressing ahead with labor market reform, calling on companies to move away from seniority-based wage structures to performance-linked pay. But with corporate earnings deteriorating, no rise in the wage growth rate has been seen. As a result, the capacity of households to purchase housing is declining, which may lead to another drop in housing prices.

The third factor is the South Korean government's measures to address the declining birthrate. The total fertility rate (i.e., the number of children a woman has during her lifetime) in South Korea in 2022 was 0.78, lower than that of Japan (1.26), another country grappling with a falling birthrate, and the lowest among OECD member countries. According to the results of a survey released in August this year by Statistics Korea, 33.7% of those aged 19-34 cited lack of funds for marriage as a reason for not getting married. In South Korea, the fact that it is common to purchase a house when tying the knot also acts as a hindrance to marriage. In light of this situation, in August 2023 the government launched new measures to boost the birthrate through support for home ownership by newlyweds and couples that have just had a child. These include 1) laxer criteria for moving into public housing and 2) preferential interest rates on mortgage loans. Measures like these to support home purchases have the effect of stimulating housing demand and shoring up prices, though the government is also determined not to allow housing prices to skyrocket as a side-effect of its efforts to combat the declining birthrate. For this reason, the government has so far adopted a policy of price support, but depending on the situation, may review measures that could lead to higher prices.

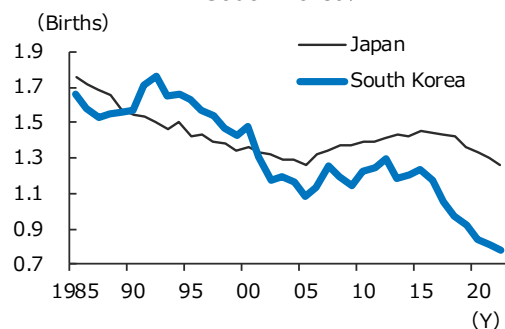
<Average Monthly Wage in South Korea (YoY Change)>



Source: Prepared by JRI based on data from CEIC

Note: To adjust for the effect of the Lunar New Year, figures for January and February are the averages of these two months.

<Total Fertility Rates in Japan and South Korea>



Source: Prepared by JRI based on data from the Ministry of Health, Labour and Welfare and Statistics Korea

If housing prices fall again, the negative wealth effect is likely to further depress consumption. While Korea's economy has been hampered by stagnant exports, caution must be exercised as to the possibility that a decline in consumption through the negative wealth effect could trigger a recession in the future.

**(Soichiro Tateishi)**