

January 2017

## MasterCard Caixin BBD China New Economy Index

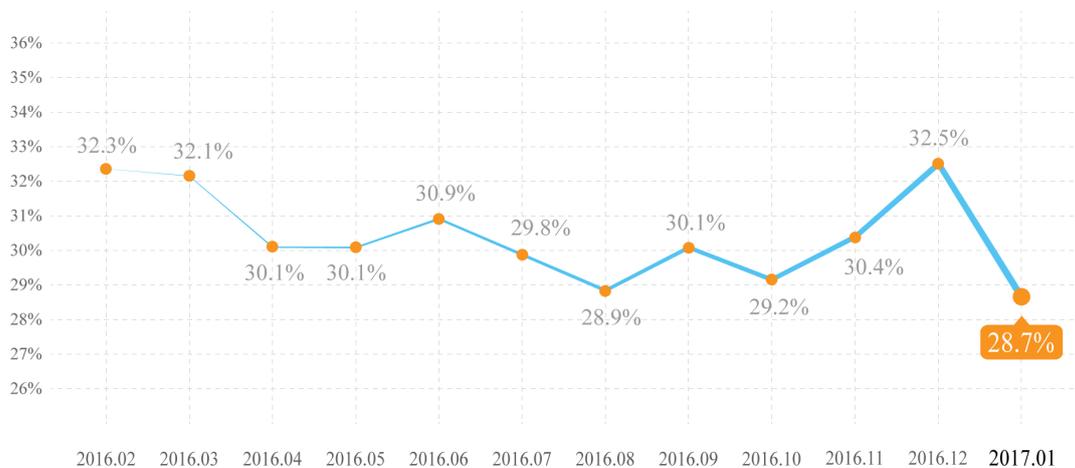
Released: 10:00am Beijing Time February-02-2017

In an effort to increase transparency on the structural changes underway in China's economy, the MasterCard Caixin BBD China New Economy Index (NEI) was established. The subject of a year of research, the NEI was first publicly released on March 2, 2016 and will be issued the 2<sup>nd</sup> of every month at 10:00am China Standard Time.

### Overview

In January 2017, the MasterCard Caixin-BBD New Economy Index (NEI) reading came in at 28.7, indicating that the New Economy inputs accounted for 28.7% of overall economic input activities that month. This reading recorded a 380 basis point decrease from December, the largest single month drop since the release of the NEI (Chart 1).

Chart 1: MasterCard Caixin BBD China New Economy Index



### Primary Inputs

The NEI includes labor, capital and technology inputs that account for 40%, 35% and 25% of the total weight of the index, respectively. Among the primary inputs, the increase in the January NEI reading came primarily from a rise in capital investment. In 2H16, capital investment has fluctuated greatly, with a substantial decline to 29.8 in January after a 38.8 reading in December, down by 9 ppts (Chart 2). The technology input reading decreased to 27.2 from 34.1. The labor input index increased to 28.6, up from 26.0 last month, ending a trend of continuous decline since March and marks the lowest reading since the NEI has been released.

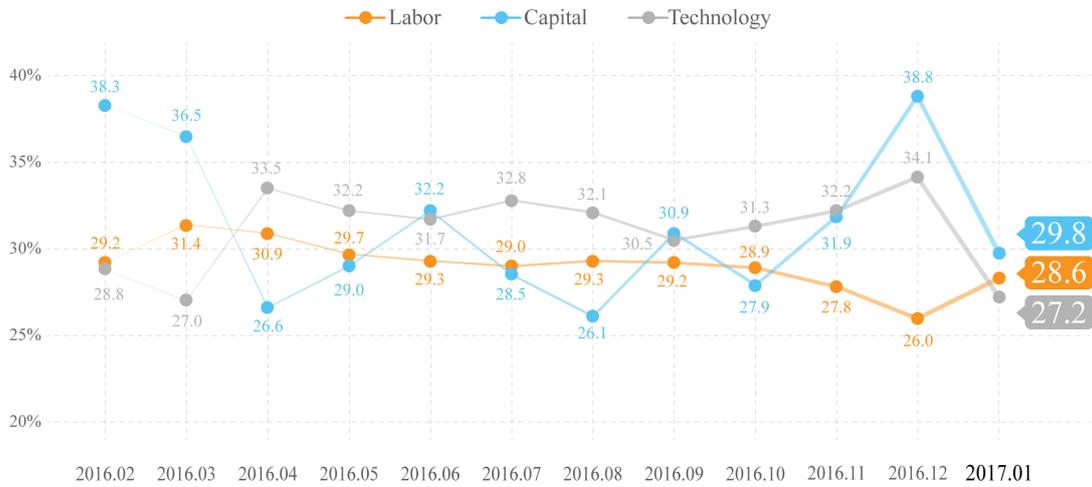


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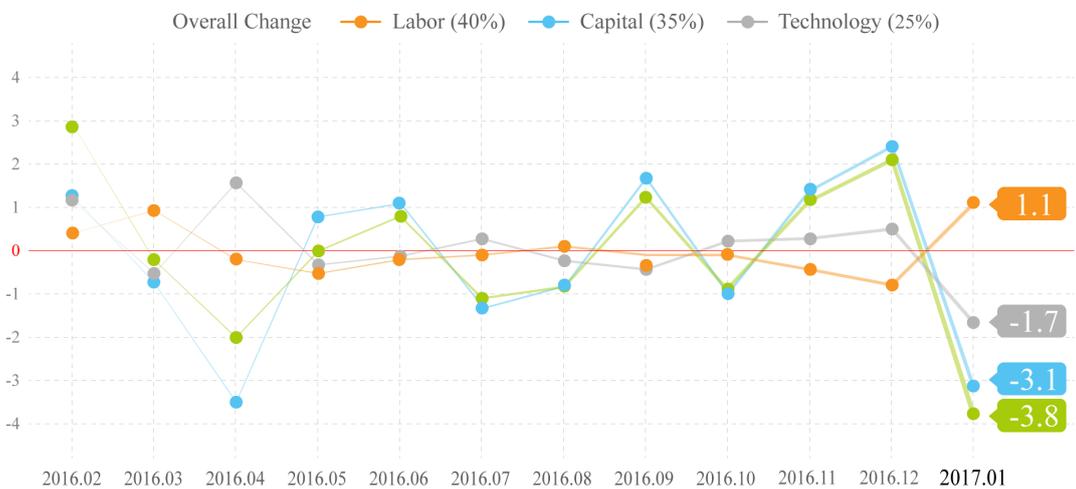
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Chart 2: NEI Primary Input Ratios



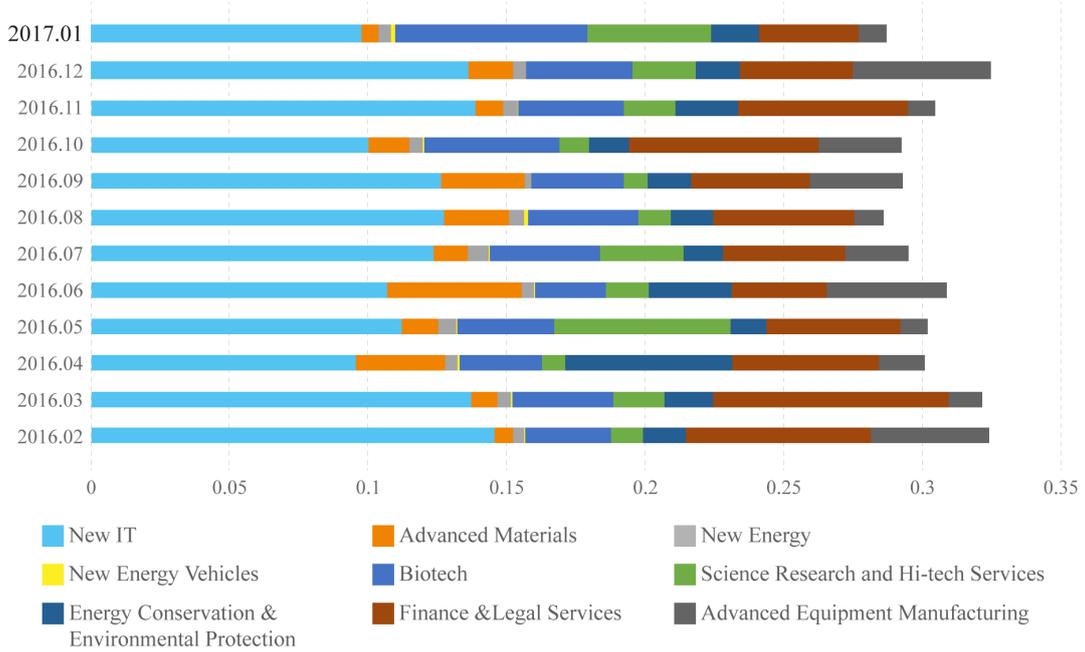
Percentage changes in labor, capital and technology inputs were 1.1, -3.1 and 1.7 percentage points, respectively. After accounting for the sum of their weightings, the net result for the NEI was a 3.8 pp decrease in January from December figures (Chart 3).

Chart 3: Influence of Each Primary Input on NEI (Bps)



Looking at the sub-sectors, the New IT industry formed the largest proportion of the New Economy Index, contributing 9.8 pp to the NEI, a noticeable drop from December figures. Biotech moved into second, contributing 6.9 pp. The third largest contributor was Advanced Materials with 6.1 pp (Chart 4).

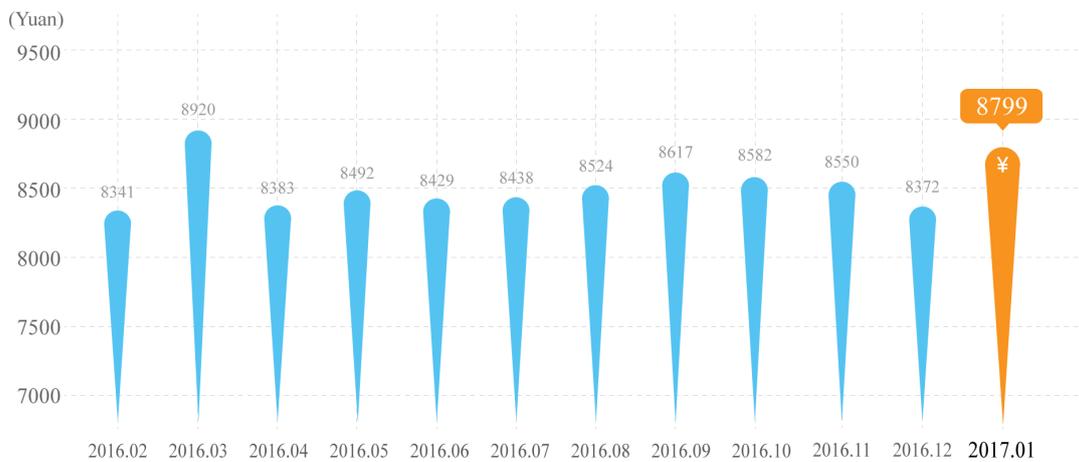
Chart 4: New Economy Sector Contribution Breakdown



## New Economy Employment

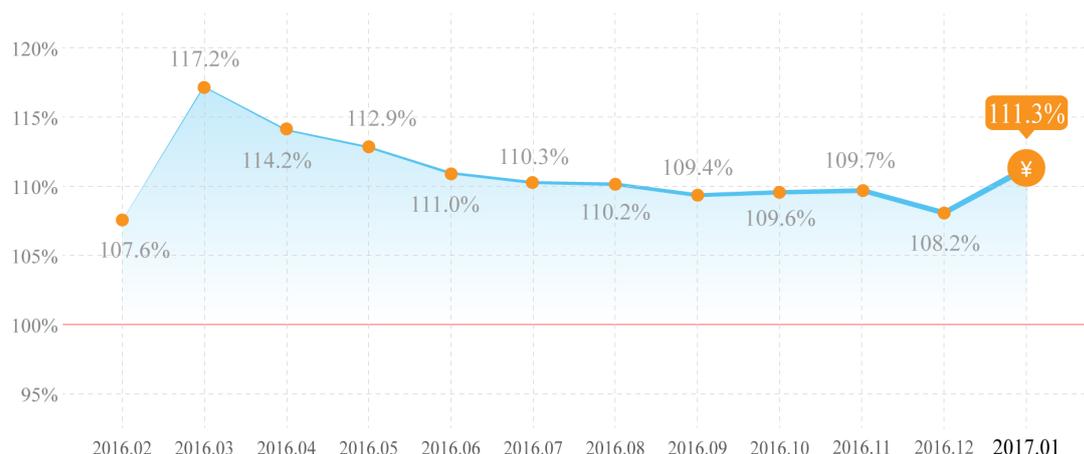
In January 2017, the average monthly entry-level salary of the New Economy was RMB 8,799 per month, an increase from December figures (Chart 5). New Economy wage information is compiled from online websites of career platforms and recruitment services including 51job and Zhaopin, as well as other sites that list job demands.

Chart 5: New Economy Avg. Monthly Entry-Level Salaries



Hiring in the New Economy sectors accounted for 27.1% of total hiring in January, a significant increase from the 24.9% figure in December. The compensation share of New Economy sectors increased, from 27.0% to 30.2%. The entry level salary premium of the New Economy was 11.3% as compared to economy-wide counterparts (Chart 6).

Chart 6: New Economy Entry Level Salary Premium Over Economy-wide Entry Level Salaries

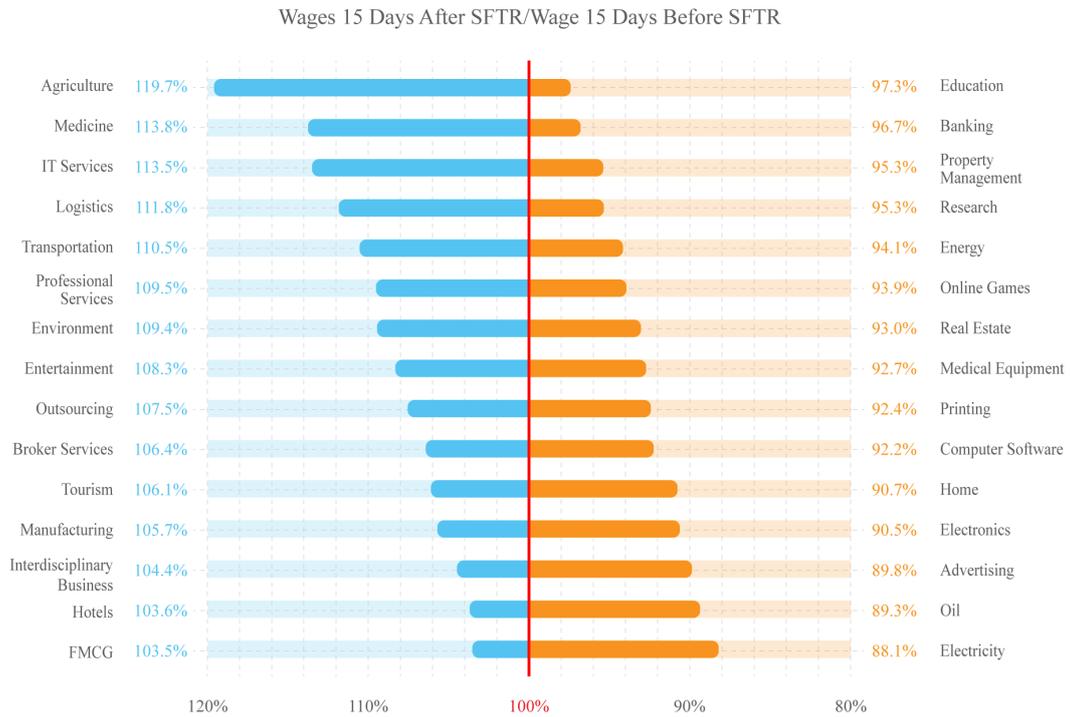


## Labor Demand

From September onwards, we have used new data sources to examine several leading indicators in labor demand. This month, we observe changes in various cities and industries in the data prior to the Spring Festival Holiday. To facilitate the definition of the data we use, we divide the 30 days before Spring Festival into two periods: the first and second 15 days, as the official *Spring Festival Travel Rush* starts 15 days before the holiday.

First, we observe the wage changes in different industries before and after Spring Festival Travel Rush (Chart 7). The right hand side of the chart highlights the 15 industries observed the fastest rise of entry level wages. These are industries that may have a large supply of migrant workers with low demand elasticity. Relatively speaking, the left hand side of the chart lists those industries with wage decline.

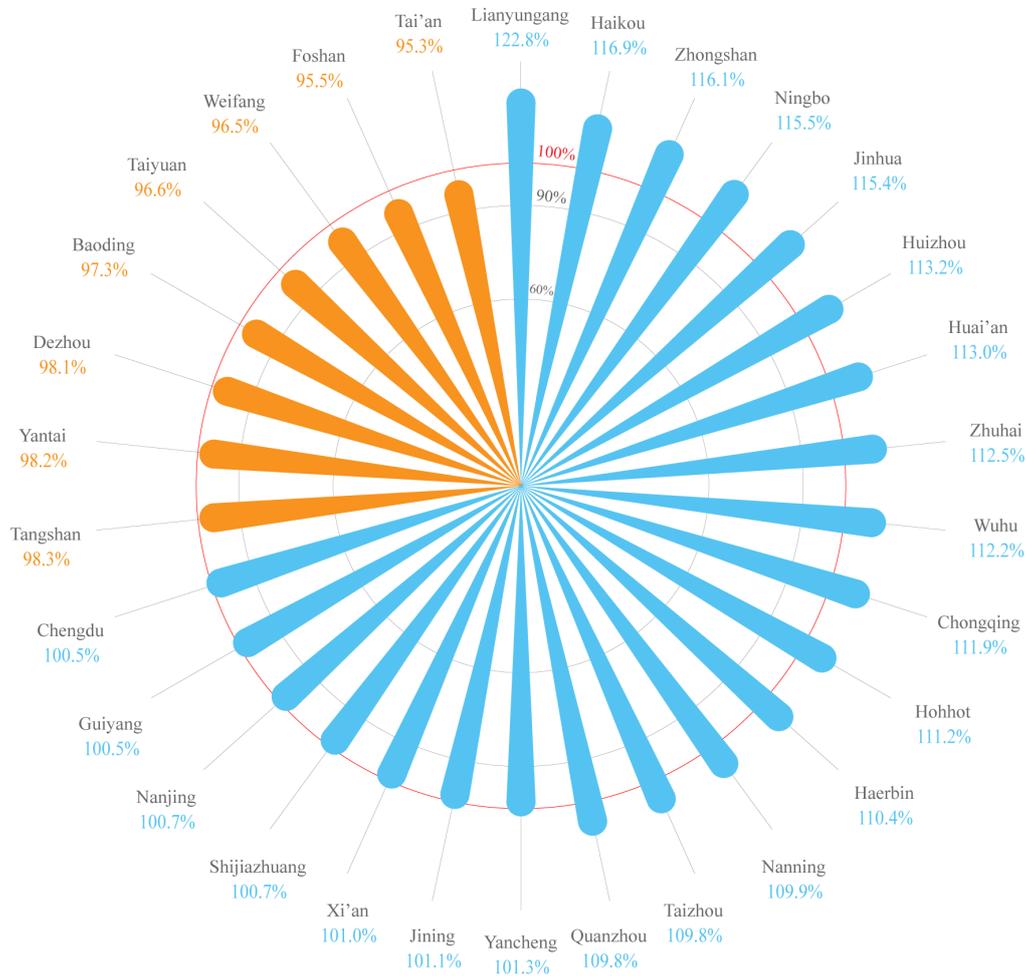
Chart 7: Wage Changes by Industry Pre and Post Spring Festival Travel Rush



Second, we conduct a similar analysis in different cities (Chart 8). On the left side, Lianyungang, Haikou, Zhongshan, Ningbo, Jinhua and other cities had observed rapid wage increase while Tai'an, Foshan, Weifang, Taiyuan and Baoding, among other cities saw wage decline.

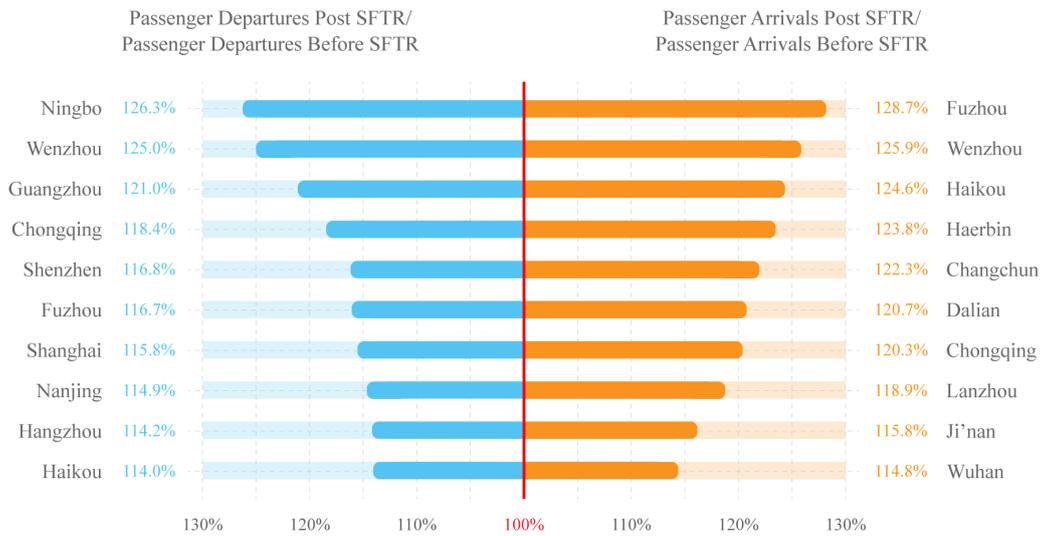
Chart 8: Wage Changes by City Pre and Post Spring Festival Travel Rush

Wages 15 Days After SFTR/Wages 15 Days Before SFTR



Finally, we use flight data to calculate before and after Spring Festival Travel Rush among cities (Chart 9). The left hand side of the chart indicates that Ningbo, Wenzhou and Guangzhou, among others, have seen pre-Spring Festival departures approximately 1.2 times more than post-Spring Festival departures as they have a high proportion of non-local employment. The right hand side of the chart highlights Fuzhou, Wenzhou and Haikou, among other cities, that pre-Spring Festival arrival flights exceed post-Spring Festival arrivals by approximately 1.2 times. It is worth noting that some cities, including Fuzhou and Wenzhou, appear on both left and right hand sides. This indicates that there are both a large amount of non-local workers and natives who work outside of the city.

Chart 9: Passenger Flows by City Airport Pre and Post Spring Festival Travel Rush

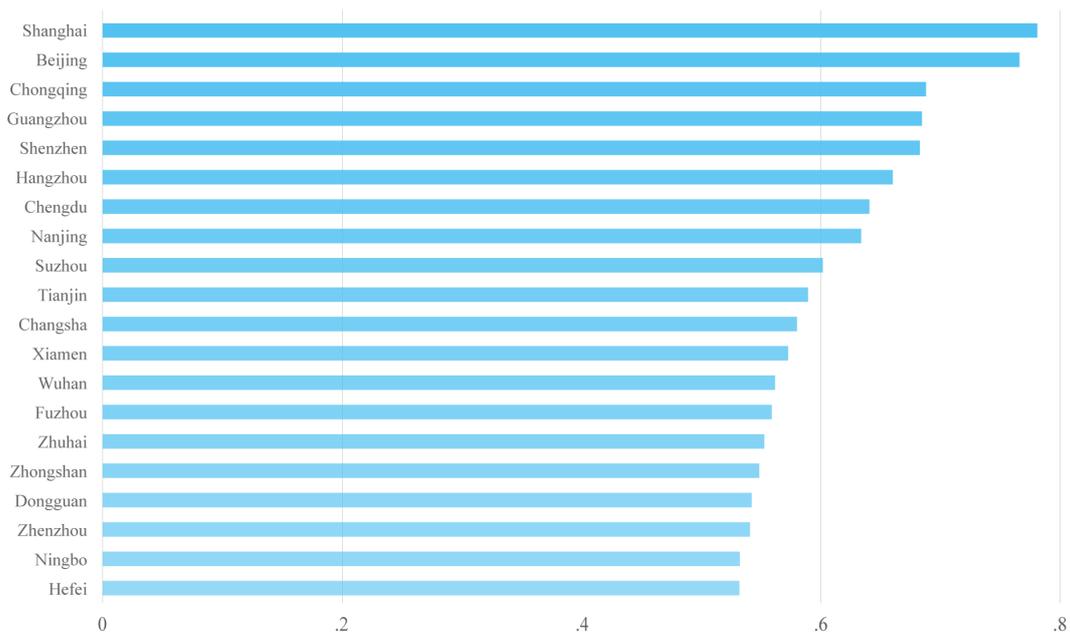


### City Rankings of the New Economy

Based on overall New Economy rankings, the top twenty cities are shown in Chart 10. The top five cities are Shanghai, Beijing, Chongqing, Guangzhou and Shenzhen. The rankings are based on a moving average of the percentile rank of indicators for the city in the past 6 months.

Chart 10: China's Top 20 City Rankings by New Economy Sector Output

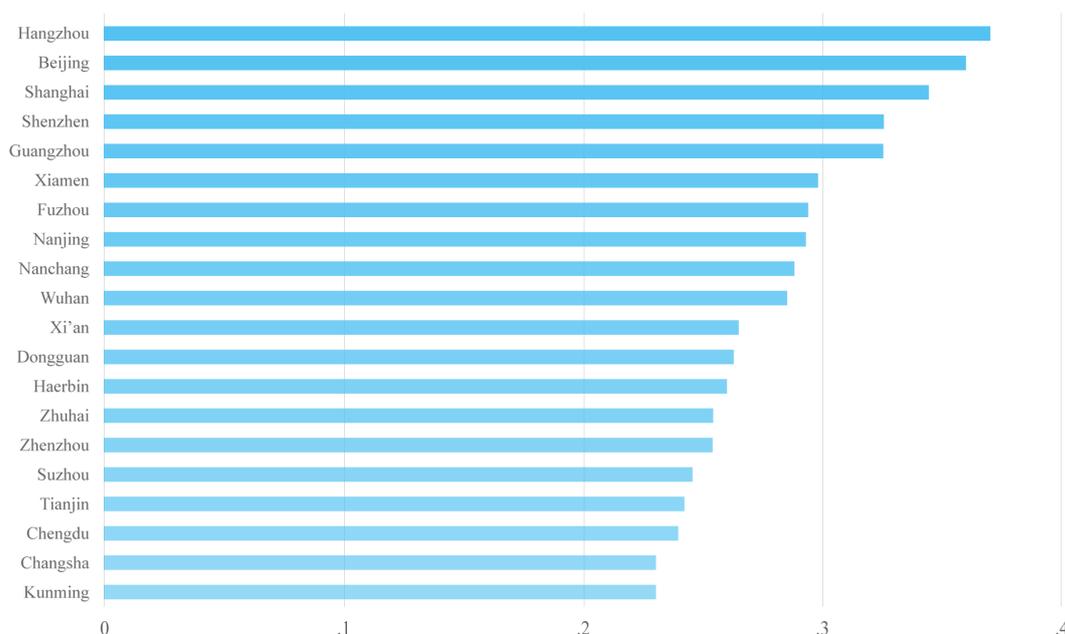
(Measured by Avg. NEI Secondary Input Values ( Jul2016 – Jan2017))



When looking at the city NEI rankings based on average NEI from July 2016 to January 2017, the top five are Hangzhou, Beijing, Shanghai, Shenzhen, and Guangzhou (Chart 11).

Chart 11: China's Top 20 City Rankings by Average NEI

Ranked by Avg. NEI Values (Jul2016 – Jan2017)



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The MasterCard Caixin BBD China New Economy Index is the fruit of a research partnership between Caixin Insight Group and BBD, in collaboration with the National Development School, Peking University. The subject of a year of research, the NEI was first publically released on March 2, 2016 and will be issued the 2<sup>nd</sup> of every month at 10:00am China Standard Time.

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BBD is a leading Big Data and quantitative business analytics firm specializing in the analysis of the high-growth industries emerging in Mainland China. Through dynamic data tracking, credit analysis, risk pricing and economic index construction, BBD provides its clients with a wide range of services at both the macro and micro level. For more information, please visit <http://www.bbdservice.com/>.





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