

November 2017

Mastercard Caixin BBD China New Economy Index

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Overview

In November 2017, the Mastercard Caixin-BBD New Economy Index (NEI) reading came in at 30.2, indicating that the New Economy accounted for 30.2% of overall economic input activities that month, up 0.9 ppts from October (Chart 1). The rising NEI was due to the increase of capital input. New economy is defined as following: 1) human capital intensive, technology intensive and capital light; 2) sustainable rapid growth, and 3) in line with the strategic new industries defined by the government. Please refer to our previous reports (March 2016 and March 2017) for the list of NEI sectors.

Chart1: China Monthly New Economy Index



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Primary Inputs

The NEI includes labor, capital and technology inputs that account for 40%, 35% and 25% of the total weights of the index, respectively. The rise in the November NEI reading came from the increase of capital inputs (Chart 2). Technology input index showed strong growth trend since June, but declined in October. It further declined in November, coming in at 29.1. Capital investment fluctuated widely in the recent half year. After sharply declining in September and rebounding in October, it continued to rise to 31.4, with 4.0 MoM increase. Labor input index remained stable with slightly decrease to 29.9.



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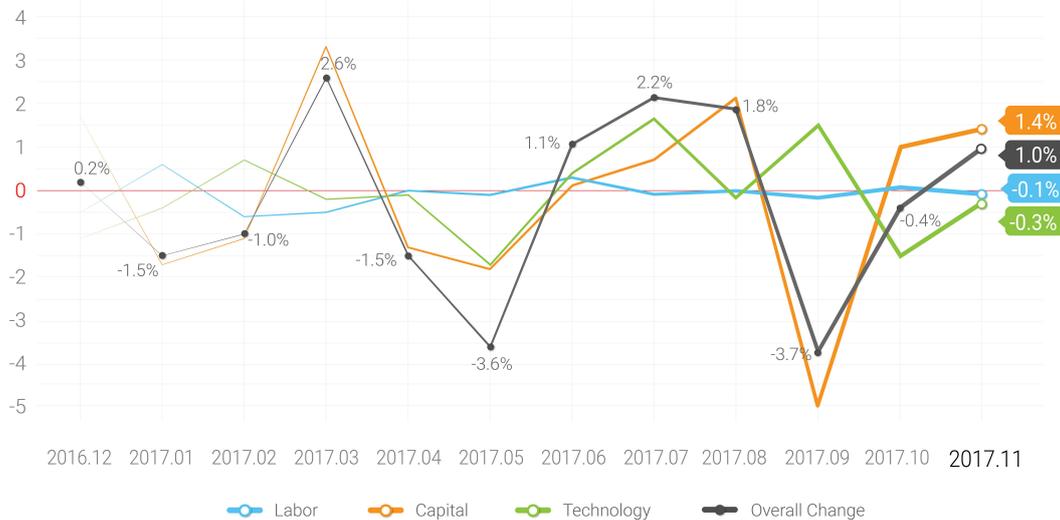
Chart2: NEI Primary Input Index



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Percentage changes in labor, capital and technology inputs were -0.1, 1.4, and -0.3 pts, respectively. After accounting for the sum of their weights, the net NEI change was a 1.0 pts increase from October (Chart 3).

Chart3: Primary Input Contribution to NEI

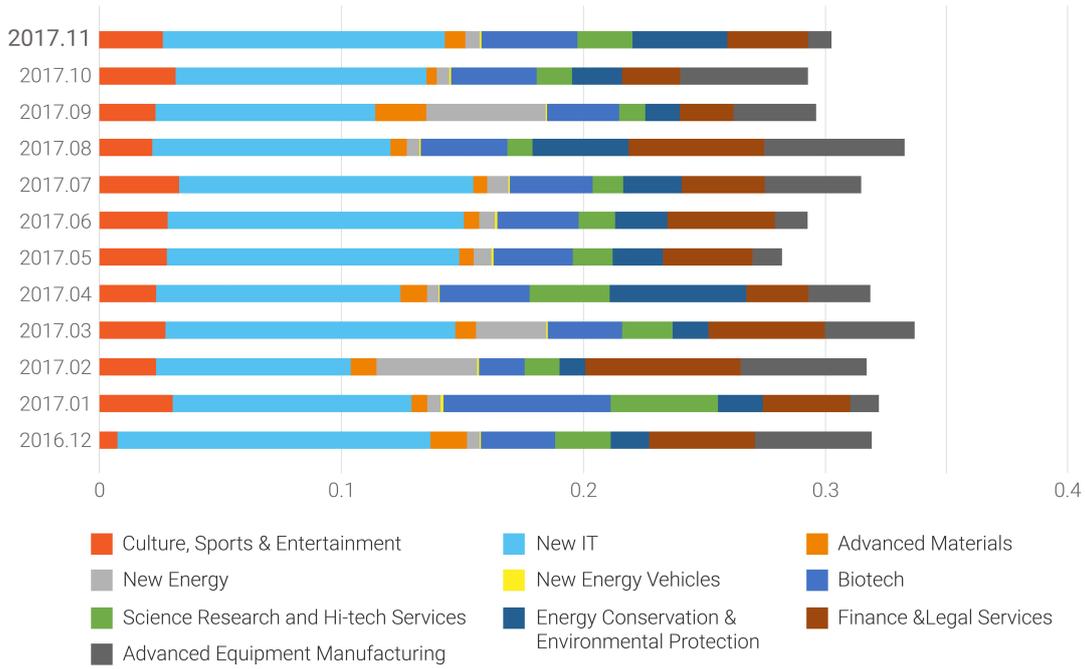


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Looking at the sectors, the New IT industry formed the largest proportion of the New Economy Index, contributing 11.6 pts to NEI. Energy Conservation& Environmental Protection and Biotech were industries with relatively faster growth in November, contributing 3.9 and 4.0 pts and ranking the third and second, respectively. Advanced Equipment Manufacturing’s contribution came seventh from second, the fastest drop in ranking, contributing 1.0 pts in November (Chart 4).



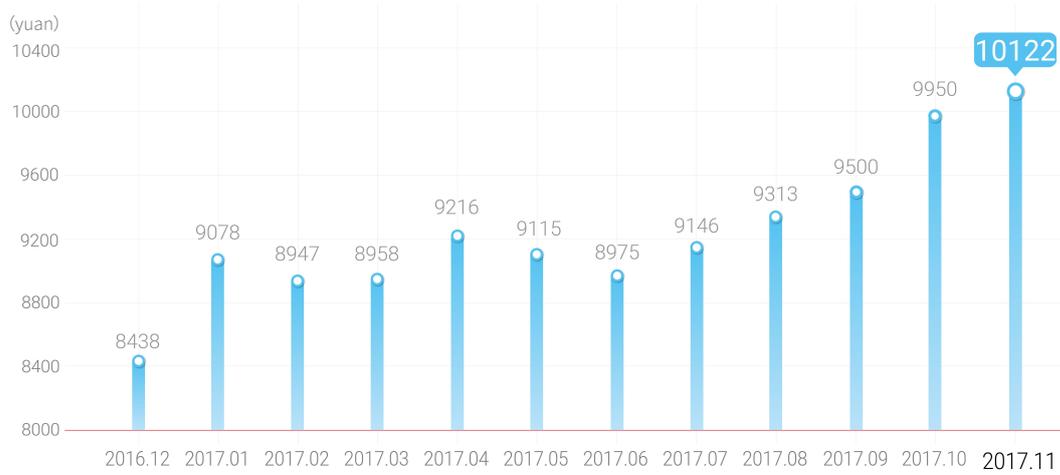
Chart4: New Economy Sector Contribution Breakdown



New Economy Employment

In November 2017, the average monthly entry level salary of the New Economy was RMB 10,122 per month, increasing from last month’s level of RMB 9,950 and reaching the highest level since 2016 (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.

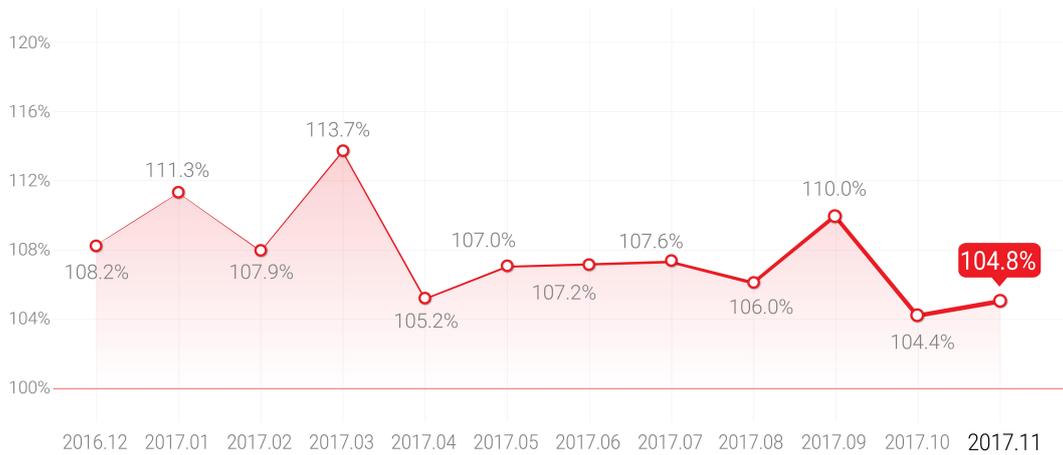
Chart5: New Economy Avg. Monthly Entry-Level Salaries



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Hiring in the New Economy sectors accounted for 29.2% of total hiring in November, lower than the previous month's 29.4%. At the same time, the compensation share of New Economy sectors decreased slightly to 30.6%, which meant the average entry salary level of New Economy remained stable compared to national average entry wage level. The entry level salary premium of the New Economy was 4.8% as compared to economy-wide counterparts, increasing from 4.4% in October (Chart 6). In the recent half year, the average salary premium of the New Economy was lower than the first half year generally.

Chart6: New Economy Entry-Level Salary Premium over Economy-wide Entry Level Salaries



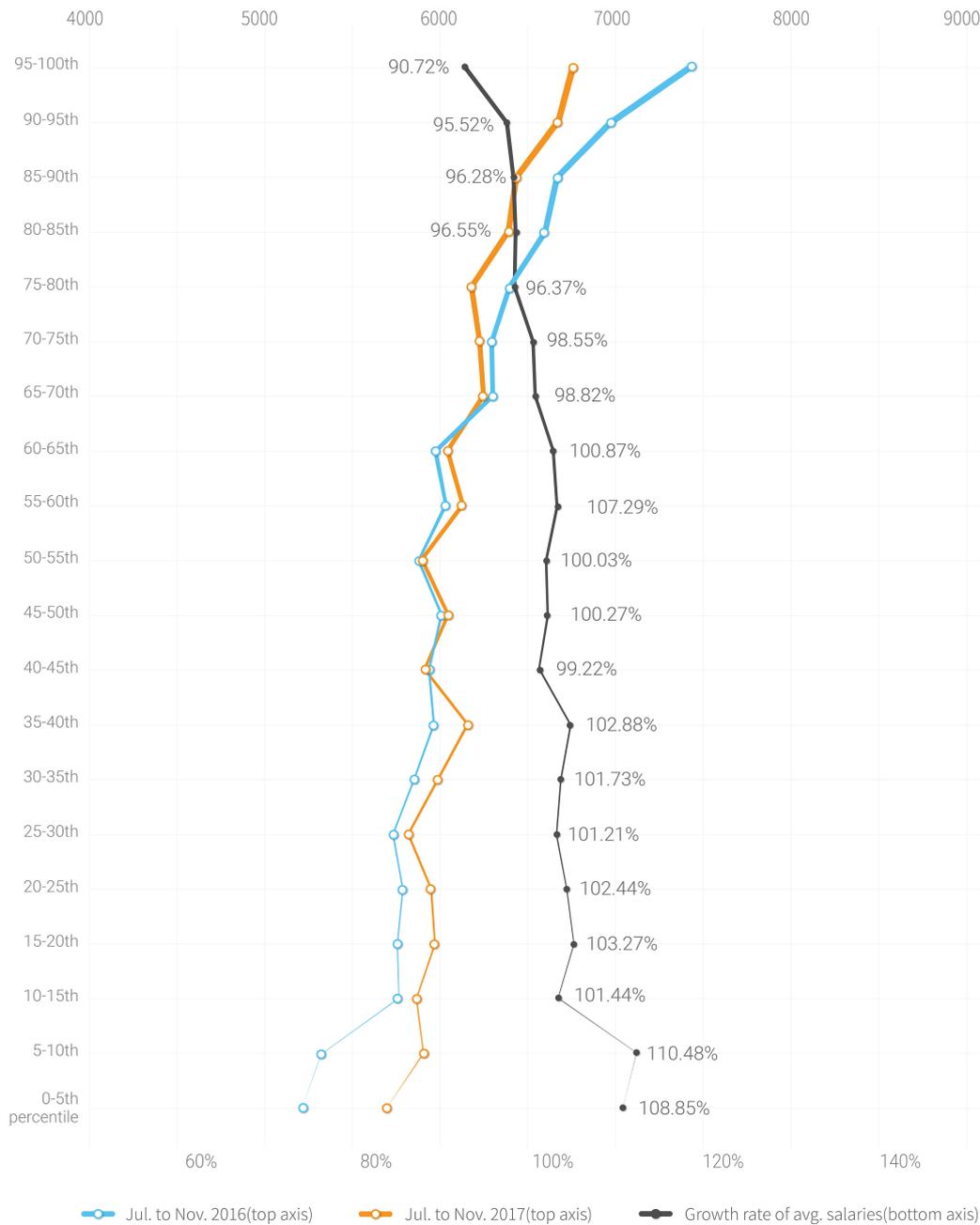
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Jobs created by industrial enterprises above designated size

We showed the recruitment percentage of enterprises of different sizes and capital-to-labor ratios in October, respectively. We found that the enterprises with higher revenues or higher capital-to-labor ratios absorbed more new employees in 2017 than they did in 2016, which was inconsistent with higher demand of labor old economy to new economy transitions.

Chart7: Comparison of Average Salaries Across Industrial Enterprises Categorized by Revenues



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We further explored this in November. Chart 7 showed the comparison of average salaries across

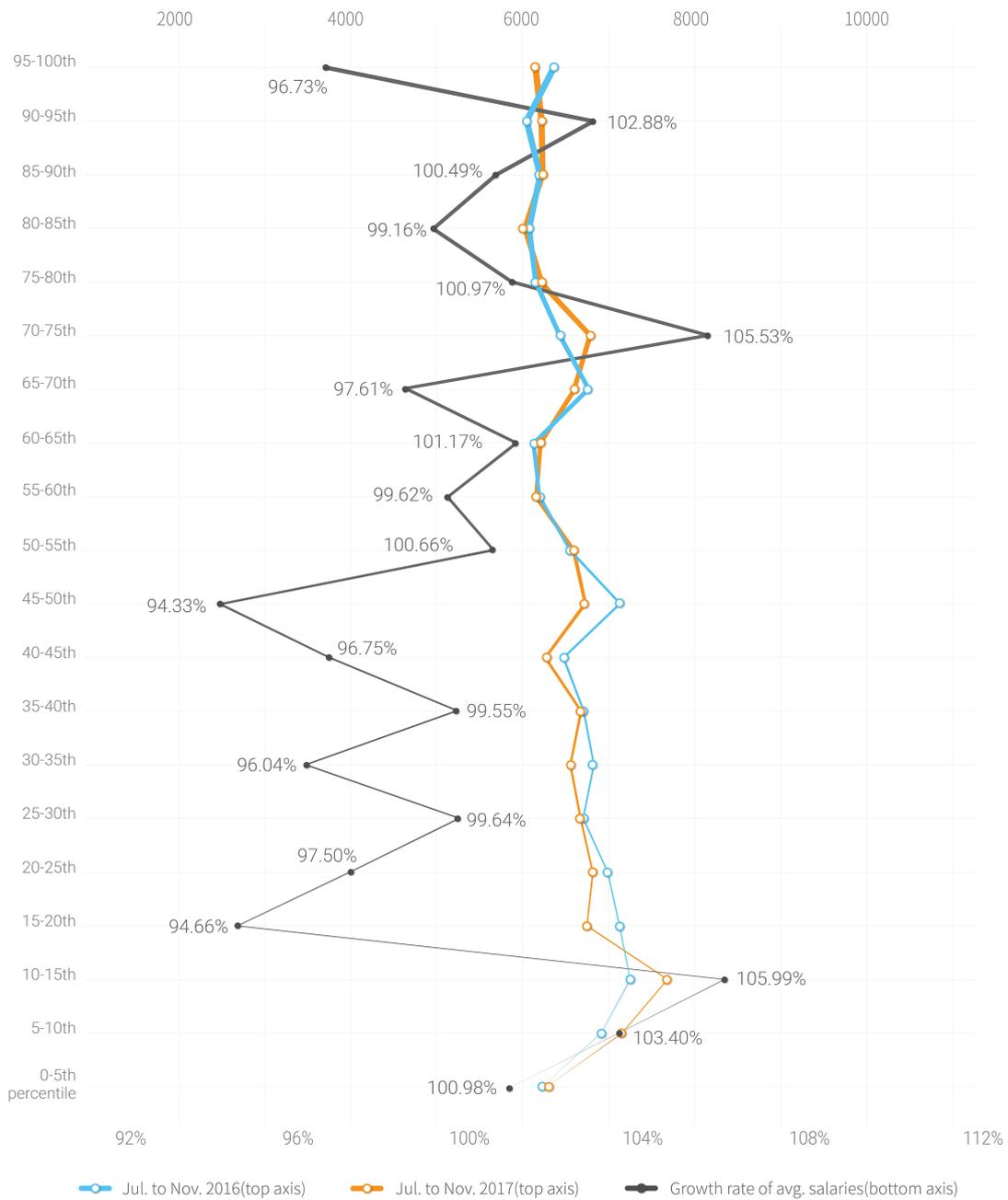


industrial enterprises. Compared to 2016, statistics showed that average salaries in small enterprises rose faster and average salaries in large companies were even declining by 9.9%. Average salaries in enterprises with different capital-to-labor ratios diverged. Industrial enterprises with light capital offered higher average salaries than capital intensive ones. If we divided all industrial enterprise into two halves by capital-to-labor ratio, the average salaries in capital light half were 7.4% higher than that of capital intensive half. But we did not observe similar pattern in terms of salary change from 2016 to 2017.

When we combined job creation numbers in October and November, we noticed that industrial enterprises with large scale and high capital-to-labor ratio were experiencing declining marginal labor productivities. In this case, more job creation might leads to further misallocation of resources.



Chart8: Comparison of Average Salaries Across Industrial Enterprises Categorized by Capital-to-Labor Ratios

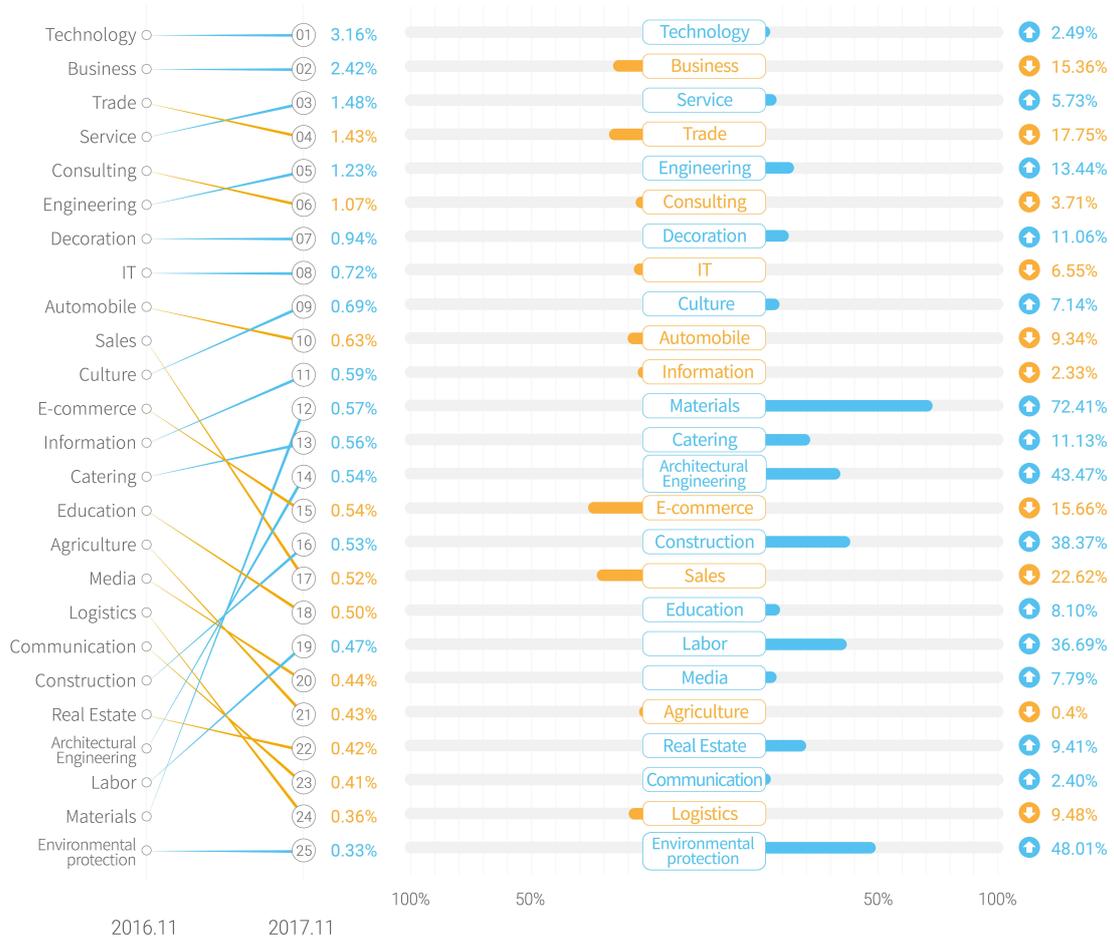


Decomposition of New Established Enterprises

We use newly-established enterprises data to monitor new enterprises in sub-sectors (Chart 9).



Chart9: Decomposition of New Enterprises by Sub-Sector



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Ranking up sub-sectors (from November 2016 to November 2017) include the following. Materials (No.24 to No.12, 72.4% increase in proportion, the fastest growth sector in terms of ranking in November), Architectural Engineering (No.22 to No.14, 43.5% increase in proportion), Construction (No.20 to No.16, 38.4% increase in proportion), Labor (No.23 to No.19, 36.7% increase in proportion), Engineering (No.6 to No.5, 13.4% increase in proportion), Catering (No.14 to No.13, 11.1% increase in proportion). In addition, Culture, Service and Information saw a ranking up as well.

Ranking down sub-sectors (from November 2016 to November 2017) include the following. Sales (No.10 to No.17, 22.6% decrease in proportion, the largest drop this month), Agriculture (No.16 to No.21, 0.4% decrease in proportion), Logistics (No.18 to No.24, 9.5% decrease in proportion), E-commerce (No.12 to No.15, 15.7% decrease in proportion), Trade (No.3 to No.4, 17.8% decrease in proportion), Automobile (No.9 to No.10, 9.3% decrease in proportion). The other ranking down sub-sectors were Education, Media, Real Estate, Communication and Consulting.



City Rankings of the New Economy

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

Chart10: China's Top 20 City Rankings by New Economy Sector Output

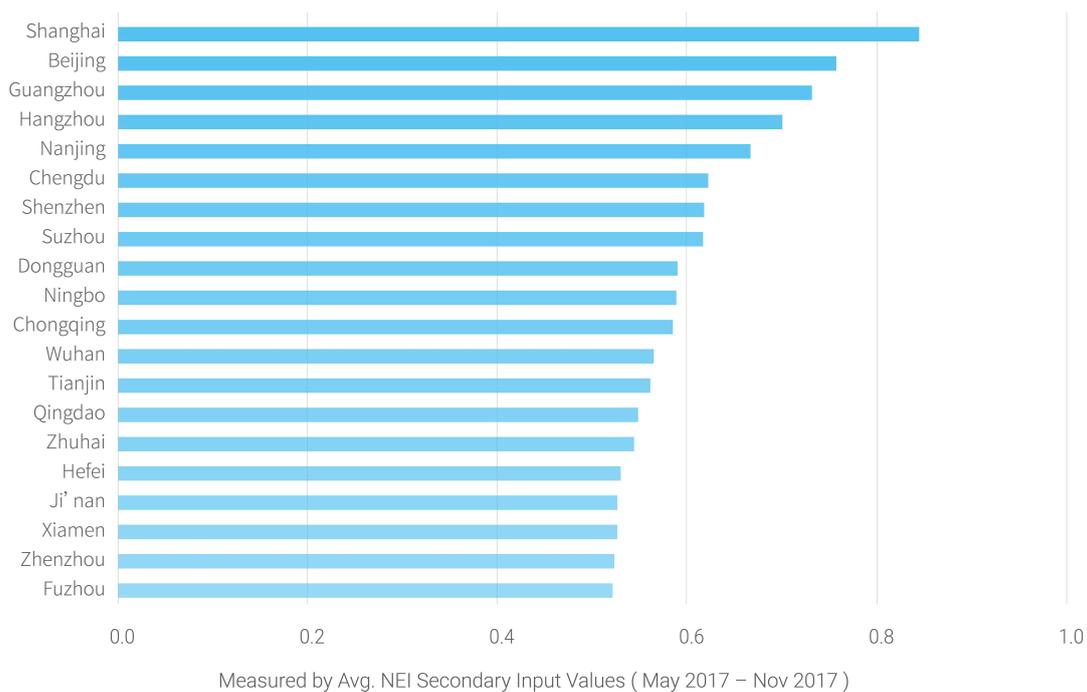
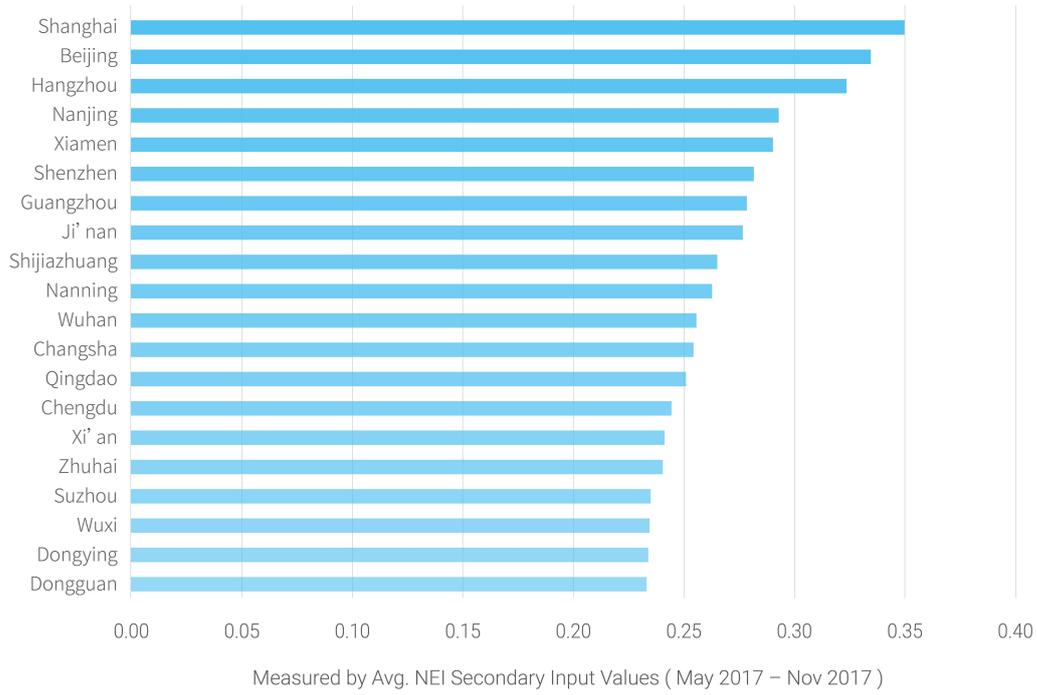


Chart 11 showed the average NEI city rankings between April 2017 and November 2017. The top five cities were Shanghai, Beijing, Hangzhou, Nanjing and Xiamen.



Chart11: China's Top 20 City Rankings by Average NEI



Information graphic design - Wuyi

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For further information please contact:

Mastercard

Mr. Wu Huanyu, Director, Communications

Tel : +86-10-8519-9304

Email : Huanyu_wu@mastercard.com

Caixin Insight Group

Dr. Wang Zhe, Senior Economist

Tel : +86-10-85905019

Emails : zhewang@caixin.com

Ma Ling, Public Relations

Tel : +86-10-8590-5204

Email : lingma@caixin.com

BBD

Dr. Chen Qin, Chief Economist

Tel : +86-28-65290823

Emails : chenqin@bbdservice.com

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About Caixin

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