



China Sourcing Update

June 22, 2016

Labour Cost

1. Minimum wage levels in a number of provinces/ municipalities are adjusted upward

From April to June 2016, local governments in three provinces/ municipalities increased the minimum wage levels in their jurisdictions. Besides, the Tianjin municipal government announced to raise the minimum wage level in the municipality, effective from 1 July 2016. See below for details:

Shanghai

On 1 April 2016, the minimum monthly wage level in Shanghai was adjusted to 2,190 yuan, compared with the previous level of 2,020 yuan.¹

Hainan province

On 1 May, the minimum monthly wage levels in various districts within Hainan province were adjusted to 1,430 yuan, 1,330 yuan and 1,280 yuan, compared with the previous levels of 1,270 yuan, 1,170 yuan and 1,120 yuan respectively.²

Shandong province

On 1 June, the minimum monthly wage levels in various districts within Shandong province were adjusted to 1,710 yuan, 1,550 yuan and 1,390 yuan, compared with the previous levels of 1,600 yuan, 1,450 yuan and 1,300 yuan respectively.³

¹ See http://www.12333sh.gov.cn/201412333/xxgk/flfg/gfxwj/ldbc/gzzl/201604/t20160401_1243660.shtml; also see http://www.12333sh.gov.cn/2009wza/zcfg/06/201507/t20150721_1212488.shtml

² See http://xxgk.hainan.gov.cn/hi/HI0101/201603/t20160301_1777236.htm; also see <http://www.hainan.gov.cn/data/hnzb/2015/02/3213/>

³ See http://www.shandong.gov.cn/art/2016/5/25/art_285_9765.html; also see http://www.shandong.gov.cn/art/2015/3/2/art_285_6961.html

Tianjin

The minimum monthly wage level in Tianjin will be adjusted to 1,950 yuan starting from 1 July, compared with the previous level of 1,850 yuan.⁴

It is noteworthy that the 13th Five-Year Plan adopts a more flexible approach to minimum wage. Instead of stipulating a specific target for minimum wage increase, the 13th Five-Year Plan stresses “to reasonably set minimum wage level” and “to perfect the mechanism of minimum wage increase”.⁵

2. Local governments in some provinces/ regions issue new guidelines on salary rise

From April to June 2016, local governments in four provinces/ regions, including Shanghai, Shandong, Inner Mongolia and Shanxi, issued new guidelines on salary rise (see exhibit 1).

For example, according to the announcement issued by the Shanxi provincial government, enterprises with average performance in the province are recommended to raise the salaries of their workers by 7%, the pay rise benchmark for 2016. Enterprises with good performance can offer higher pay rise of at most 11%, the upper limit of the pay rise benchmark, to their workers in 2016. Meanwhile, enterprises with worsening performance or difficulties in operating their businesses can consider raising the salaries of their workers by no less than 4%, the lower limit of the pay rise benchmark.⁶

Although these guidelines are not mandatory for employers to follow, they will affect workers' expectations of salary rise and are thus regarded as an important reference of labour cost.

⁴ See http://www.gov.cn/xinwen/2016-03/02/content_5048048.htm

⁵ http://news.xinhuanet.com/politics/2016lh/2016-03/17/c_1118366322.htm

⁶ <http://www.shanxigov.cn/n16/n8319541/n8319612/n8322038/n8322218/19470871.html>

**Exhibit 1: Guidelines on salary rise issued by local governments,
April to June 2016**

Province/ autonomous region/ municipality	Upper limit	Benchmark	Lower limit	Issue date
Shanghai	14%	9%	4%	April-16
Shandong	13%	8%	3%	May-16
Inner Mongolia	13.5%	8.5%	3%	May-16
Shanxi	11%	7%	4%	May-16

Source: Announced by various local governments

3. Income of migrant workers gains 7.2% yoy as of end-February 2016

According to China's National Bureau of Statistics (NBS), the number of rural migrant workers in China in 2015 totalled 277.47 million. Of which, the numbers of local migrant workers and outside migrant workers were 108.63 million and 168.84 million respectively.⁷ Also, according to the NBS, the average monthly income of migrant workers increased by 9.1% yoy to 3,273 yuan as of end-February 2016.⁸

We notice two major trends in the migrant worker market. First, the supply of migrant workers in China has increased at a slower pace in recent years. According to the NBS, the year-on-year growth of the number of migrant workers registered 1.3% in 2015, compared to the growth of 1.9% yoy in 2014 and 2.4% yoy in 2013. The other trend is the aging of the migrant workers. According to the NBS, the average age of migrant workers increased from 35.5 in 2010 to 38.6 in 2015.⁹

Looking forward, we expect that the wages of migrant workers will continue to increase, due to the limited supply of migrant workers. The continuous increase in labour costs will keep posing challenges to manufacturers in China in the foreseeable future.

⁷ http://www.stats.gov.cn/english/PressRelease/201601/t20160119_1306072.html

⁸ http://www.stats.gov.cn/english/PressRelease/201604/t20160415_1343971.html

⁹ http://www.stats.gov.cn/tjsj/zxfb/201604/t20160428_1349713.html

4. Wages in urban private units grew 8.8% last year

The average annual wage of employees in urban private units grew by 8.8% yoy to 39,589 yuan in 2015.¹⁰

Amongst regions in the country, the average annual wage of employees in urban private units in the eastern region reached 43,439 yuan in 2015, significantly higher than those in the central region (32,773 yuan), the western region (36,478 yuan) and the northeastern region (32,176 yuan). Except the northeastern region, all regions witnessed wage growth of above 8% last year, which ranged from 8.1% to 9.0%, while the average annual wage of employees in urban private units in the northeastern region grew by 5.3% yoy in 2015 (see exhibit 2).

Exhibit 2: Average annual wages of employees in urban private units, 2014 to 2015

	2014	2015	
	Average annual wage (RMB)	Average annual wage (RMB)	yoy growth (%)
China (overall)	36,390	39,589	8.8
Of which: Manufacturing sector	35,653	38,948	9.2
Eastern region	39,846	43,439	9.0
Central region	30,276	32,773	8.2
Western region	33,749	36,478	8.1
Northeastern region	30,548	32,176	5.3

Source: National Bureau of Statistics, PRC

5. Wages in urban non-private units rose 10.1% last year

The average annual wage of employees in urban non-private units rose by 10.1% yoy to reach 62,029 yuan in 2015.¹¹ Amongst various regions, the western region saw the strongest growth of 11.9% yoy, while the growth in the central region was the slowest (8.6% yoy) (see exhibit 3).

¹⁰ http://www.stats.gov.cn/tjsj/zxfb/201605/t20160513_1356093.html

¹¹ http://www.stats.gov.cn/tjsj/zxfb/201605/t20160513_1356091.html

Exhibit 3: Average annual wages of employees in urban non-private units, 2014 to 2015

	2014	2015	
	Average annual wage (RMB)	Average annual wage (RMB)	yoy growth (%)
China (overall)	56,360	62,029	10.1
<i>Of which:</i> Manufacturing sector	51,369	55,324	7.7
Eastern region	64,279	70,611	9.9
Central region	46,828	50,842	8.6
Western region	51,209	57,319	11.9
Northeastern region	46,512	51,064	9.8

Source: National Bureau of Statistics, PRC

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