

August 2017

Mastercard Caixin BBD China New Economy Index

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Overview

In August 2017, the Mastercard Caixin-BBD New Economy Index (NEI) reading came in at 33.3, indicating that the New Economy accounted for 33.3% of overall economic input activities that month, up 1.8 pts from July and back to March average level, the highest level in the recent year (Chart 1). The rising NEI was due to the increase of capital. 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



NEI Mastercard Caixin BBD China New Economy Index



Primary Inputs

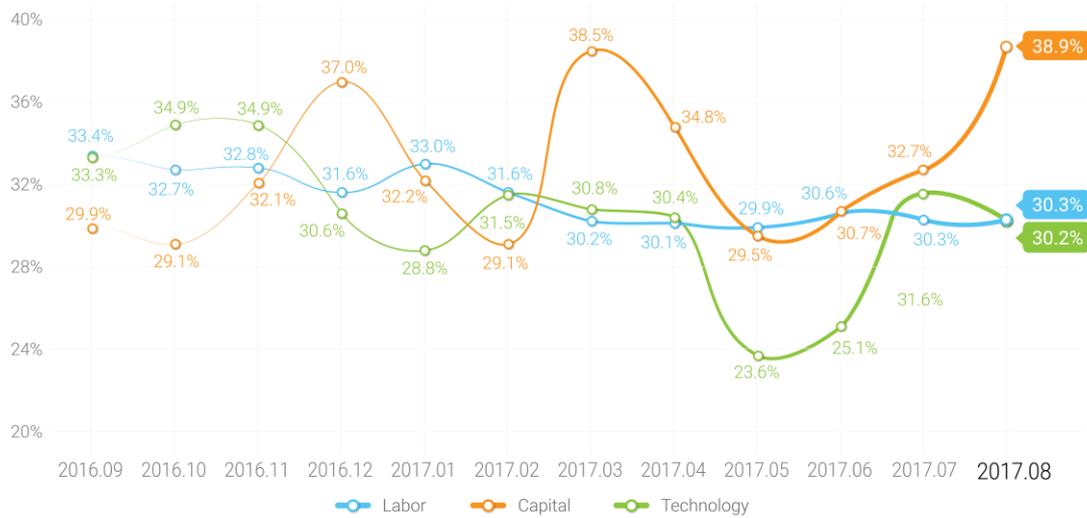
The NEI includes labor, capital and technology inputs that account for 40%, 35% and 25% of the total weight of the index, respectively. The rise in the August NEI reading came from the increase of capital inputs (Chart 2). Capital investment grew fastest in August, increasing from 32.7 last month to 38.9 this month. Technology input index has relatively wide fluctuations in the recent half year, and went a little bit down in August after a two-month growth. It was 30.2 this month. Labor input was 30.3, the same rate as in July.



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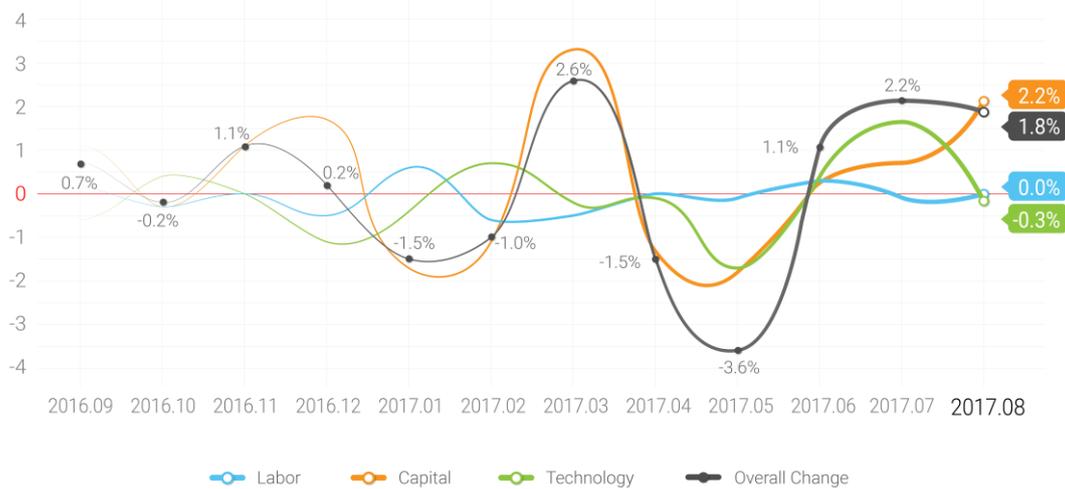
Chart2: NEI Primary Input Ratios



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Percentage changes in labor, capital and technology inputs were 0, 2.2, and -0.3 ppts, respectively. After accounting for the sum of their weights, the net NEI change was a 1.8 ppts increase from July (Chart 3).

Chart3: Influence of Each Primary Input on NEI (pps)

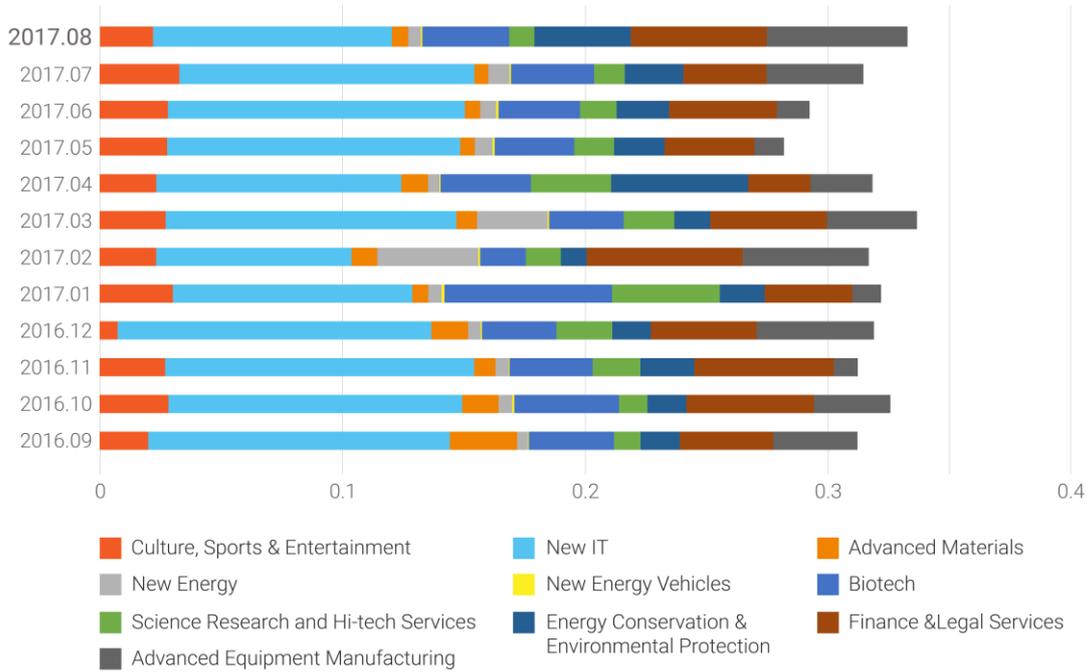


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Looking at the sectors, the New IT industry formed the largest proportion of the New Economy Index, contributing 9.8 ppts to NEI. Advanced Equipment Manufacturing came second, the highest rate since 2016, contributing 5.8 ppts. Financial & Legal Services ranked the third, contributing 5.6 ppts in August (Chart 4).



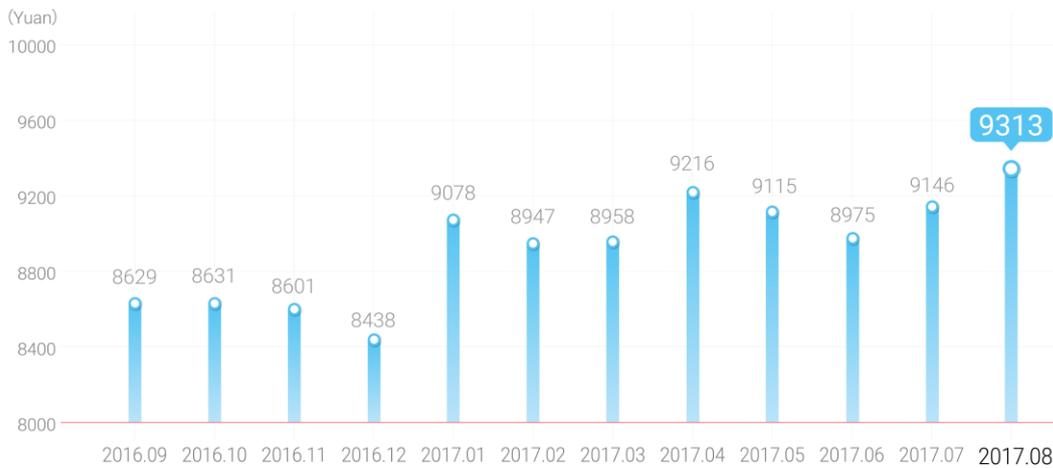
Chart4: New Economy Sector Contribution Breakdown



New Economy Employment

In August 2017, the average monthly entry level salary of the New Economy was RMB 9,313 per month, increasing from last month's level of RMB 9,146 (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



Hiring in the New Economy sectors accounted for 29.4% of total hiring in August, higher than the previous month's 29.2%. At the same time, the compensation share of New Economy sectors dropped slightly to 31.1%, 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 6.0% as compared to economy-wide counterparts, lower from 7.6% in July (Chart 6). In the recent half year, the average salary premium of the New Economy saw a small decline after a three-month stable growth, but still higher than 5.0%.

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



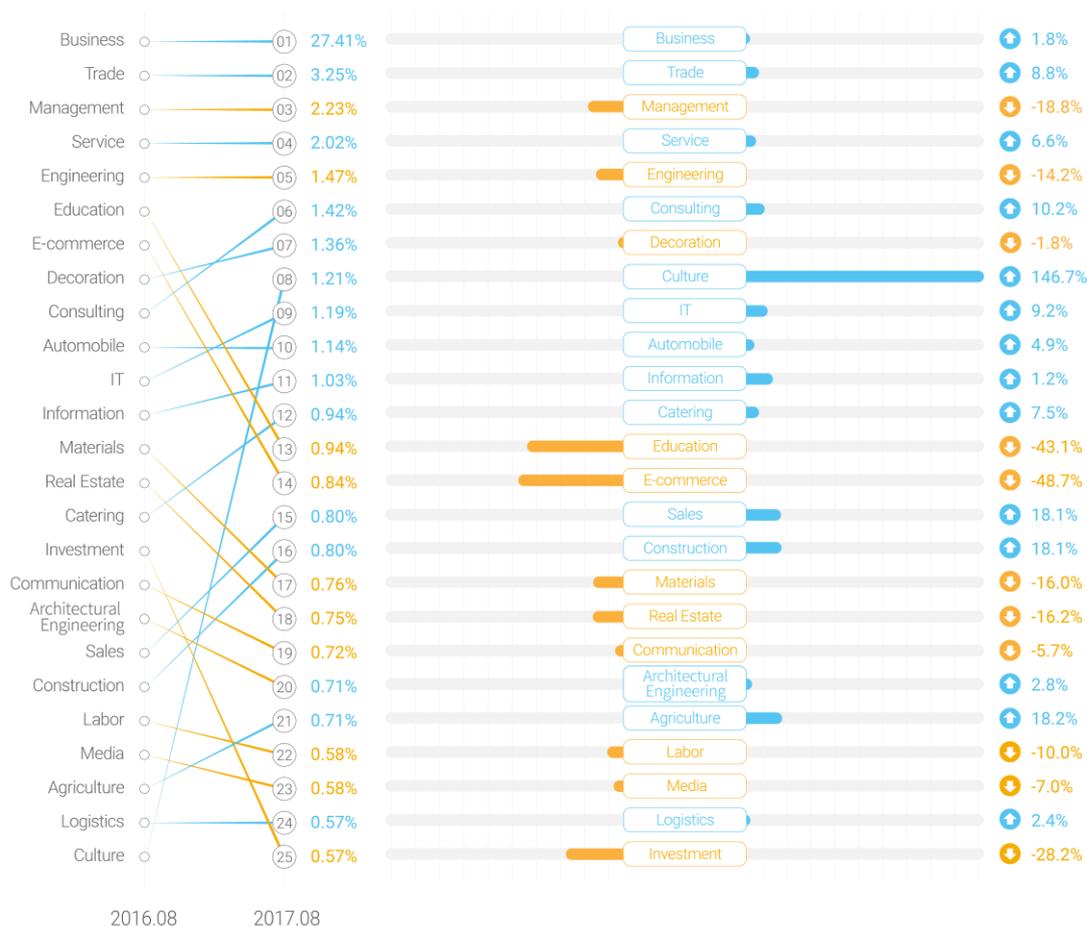
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Decomposition of New Established Enterprises

We use newly-established enterprises data to monitor new enterprises in sub-sectors (Chart 7).



Chart7: Decomposition of New Enterprises by Sub-Sector



Ranking up sub-sectors (from August 2016 to August 2017) include the following. Construction (No.20 to No.16, 18.1% increase in proportion), Decoration (No.8 to No.7, 1.8% decrease in proportion), Agriculture (No.23 to No.21, 18.2% increase in proportion). Part of traditional investment saw a growth, mainly driven by government. Moreover, some industries with light capital were developing. Culture saw a ranking up to No.8 from No. 25 with a proportional increase of 146.7 pts, the fastest growth sector in terms of ranking and proportion in August. Consulting saw a ranking up to No.6 from No.9 with a proportional increase of 10.2%. Information saw a ranking up to No.11 from No.12 with a proportional increase of 1.2%. IT saw a ranking up to No.9 from No.11 with a proportional increase of 9.2%.

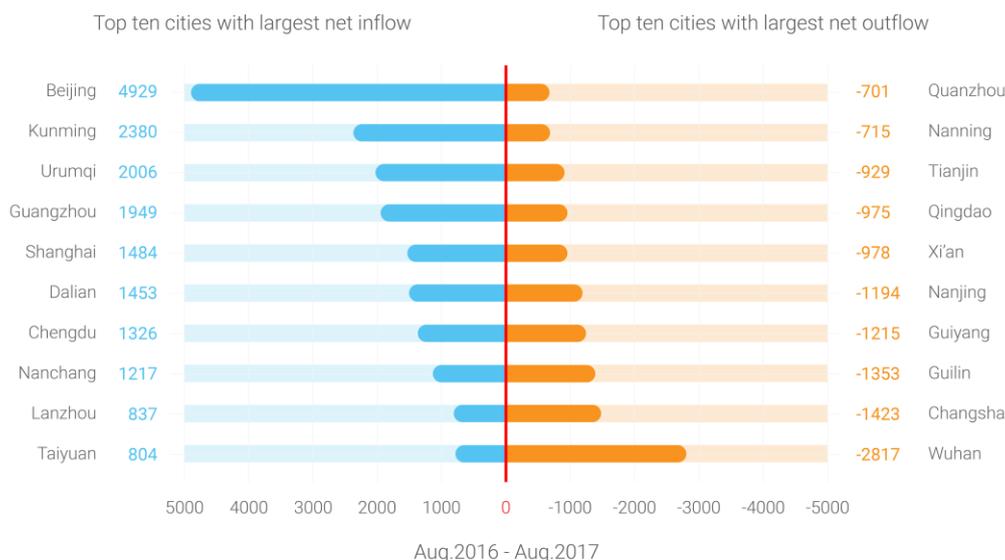
Ranking down sub-sectors (from August 2016 to August 2017) include the following. Investment (No.16 to No.25, 28.2% decrease in proportion, the largest drop this month), E-commerce (No.7 to No.14, 48.7% decrease in proportion), Education (No.6 to No.13, 43.1% decrease in proportion), Communication (No.17 to No.19, 5.7% decrease in proportion), Media (No.22 to No.23, 7.0% decrease in proportion), Labor (No.21 to No.22, 10% decrease in proportion). Also,

the ranking of Real Estate and Materials went down, both with a proportional decrease of around 16%.

Economic Activities Based on Major Airport Traffic

This month, we explore airports traffic data and compare passengers inflow of major airport in August 2017 and August 2016.

Chart8: Growth in Daily Passengers Inflow at Major Airports



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We calculate the changes of daily net passengers inflow average by subtracting daily net passengers inflow average in August 2016 from that in August 2017. Based on this methodology, cities with the fastest increases in net inflows are Beijing, Kunming, Urumqi, Guangzhou and Shanghai, whose prosperous economy keeps attracting people (Chart 8). Urumqi ranked number 3rd in August, showing its increasing capacity in attracting people. Southwestern cities like Chengdu and Kunming kept strong ability in attracting people since 2016. Shenzhen still failed out of the top list.

Cities with the fastest decreases in net inflows are Wuhan, Changsha, Guilin, Guiyang and Nanjing. This shows the attractiveness of these cities went down during the past year.

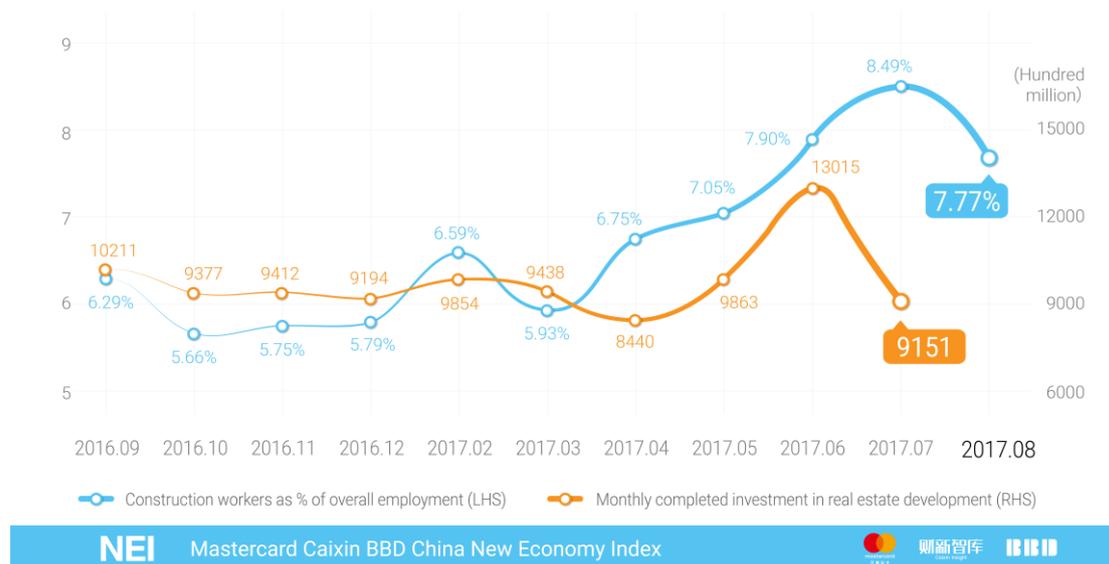
Recovery in Investment Based on Employment Data

We use monthly completed investment in real estate development and demand for construction employees to analyze the current state of investment (Chart 9). The demand for construction employees and completed investment in real estate development showed a similar trend. They synchronized in most times, although diverging in July. In July 2017, ratio of demand for construction employees reached 8.49%, an increase by 0.59% from 7.90% in June. At the same time, the completed investment in real estate development in July was RMB 915.1 billion, a



decrease from RMB 1301.5 billion in June, or a 29.7% MoM decrease.

Chart9: Demand for Construction-related Employees



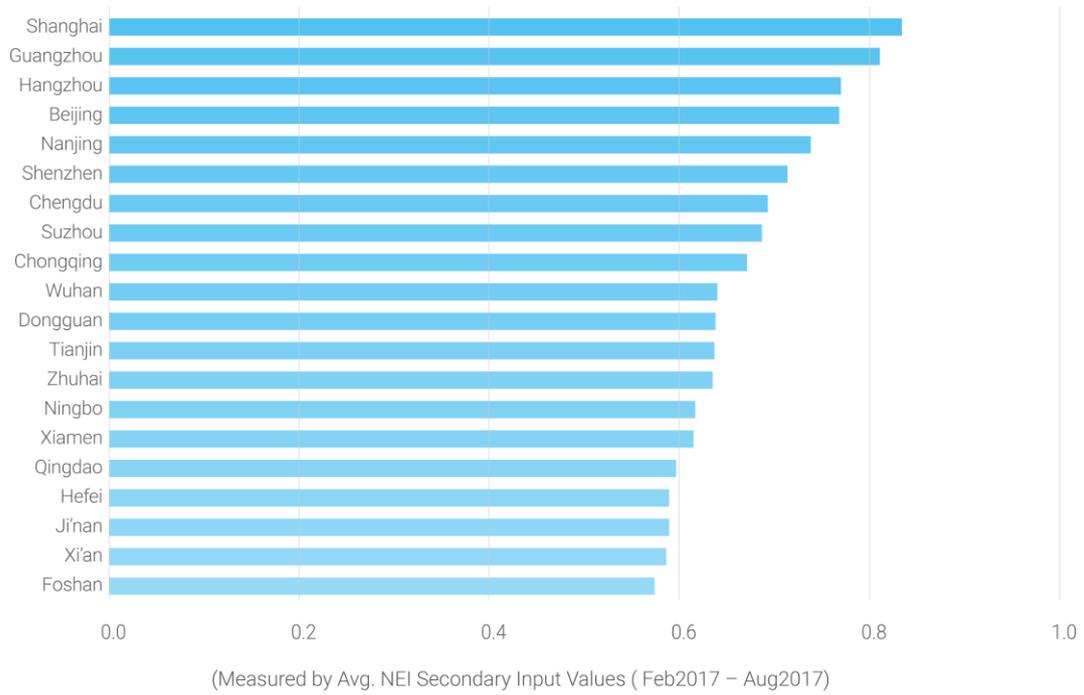
This month starts seeing a decrease in demand for construction employees, reaching the level at 7.77%, with a 0.72% MoM decrease. Given the historical accuracy of the index, we predict that real estate investment decreases next month.

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, Guangzhou, Hangzhou, Beijing 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

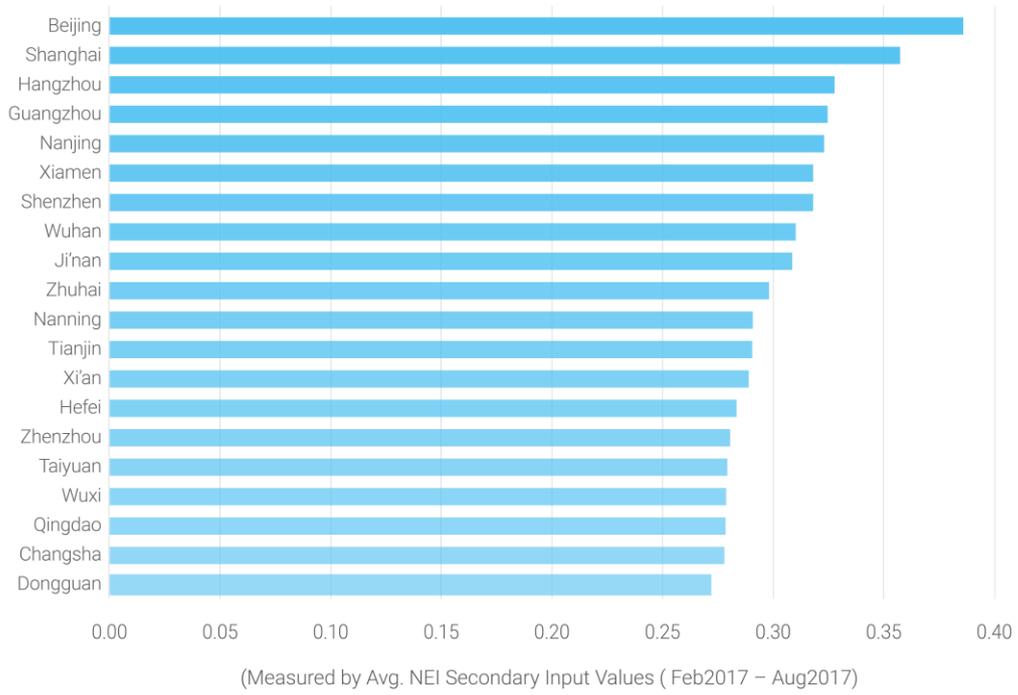


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Chart 11 showed the average NEI city rankings between February 2017 and August 2017. The top five cities are Beijing, Shanghai, Hangzhou, Guangzhou and Nanjing.



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



Information graphic design - Wuyi

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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 2nd of every month at 10:00am China Standard Time.

About Caixin

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