

December 2017

Mastercard Caixin BBD China New Economy Index

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Overview

In December 2017, the Mastercard Caixin BBD New Economy Index (NEI) reading came in at 31.4, indicating that the New Economy accounted for 31.4% of overall economic input activities that month, up 1.1 pts from November (Chart 1). The rising NEI was due to the increase of technology 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

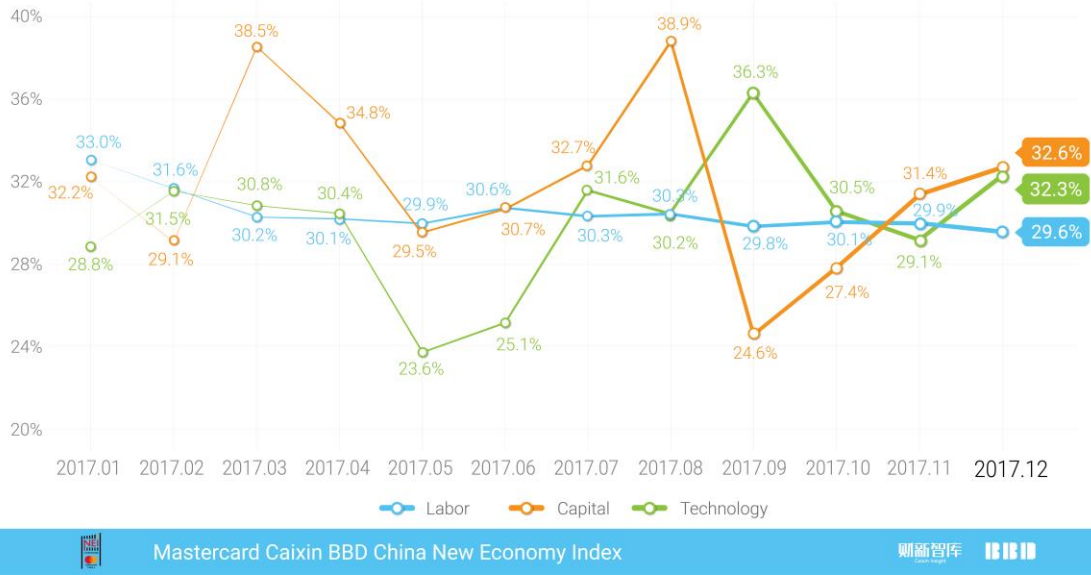
The NEI includes labor, capital and technology inputs that account for 40%, 35% and 25% of the total weights of the index, respectively. The rise in the December NEI reading came from the increase of technology inputs (Chart 2). Technology input index showed strong growth trend. After declining in November, it increased to 32.3 this month, with 3.2 MoM increase. Capital investment fluctuated widely in the recent half year. In December, it continued to rise to 32.6, with 1.2 MoM increase. Labor input index remained stable with slightly decrease to 29.6.



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Chart2: NEI Primary Input Index



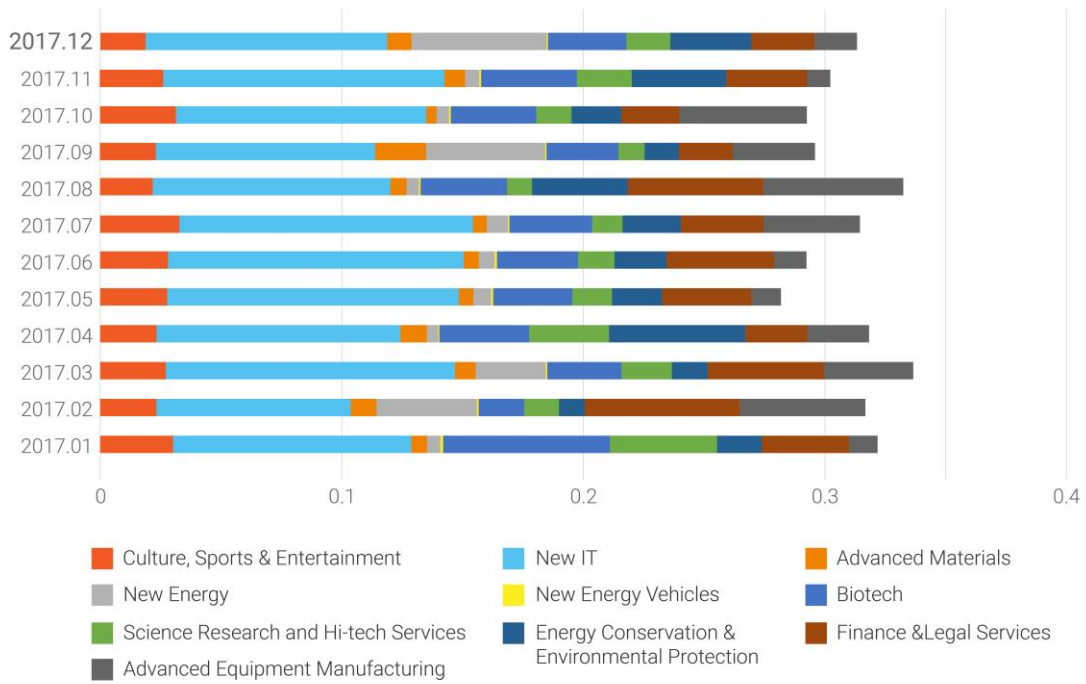
Taking the weight into account, percentage changes in labor, capital and technology inputs were -0.1, 0.4, and 0.8 ppts, respectively. The net NEI change was 1.1 ppts in total (Chart 3).

Chart3: Primary Input Contribution to NEI



Looking at the sectors, the New IT industry formed the largest proportion of the New Economy Index, contributing 10 ppts to NEI. New Energy was the industry with fast growth in December, contributing 5.6 ppts and ranking the second. Biotech came fourth from second, the biggest drop in ranking, contributing 3.3 ppts in December (Chart 4).

Chart4: New Economy Sector Contribution Breakdown



New Economy Employment

In December 2017, the average monthly entry level salary of the New Economy was RMB 10,261 per month, increasing from last month’s level of RMB 10,122 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



Hiring in the New Economy sectors accounted for 28.9% of total hiring in December, slightly lower than the previous month's 29.2%. At the same time, the total compensation share of New Economy sectors decreased slightly to 30.3%, which meant the average entry salary level of New Economy was higher than national average entry wage level. The entry level salary premium of the New Economy was 5.1% as compared to economy-wide counterparts, increasing from 4.8% in November (Chart 6). In the recent half year, the average salary premium of the New Economy was lower than the first half year generally, while we saw an uptrend.

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

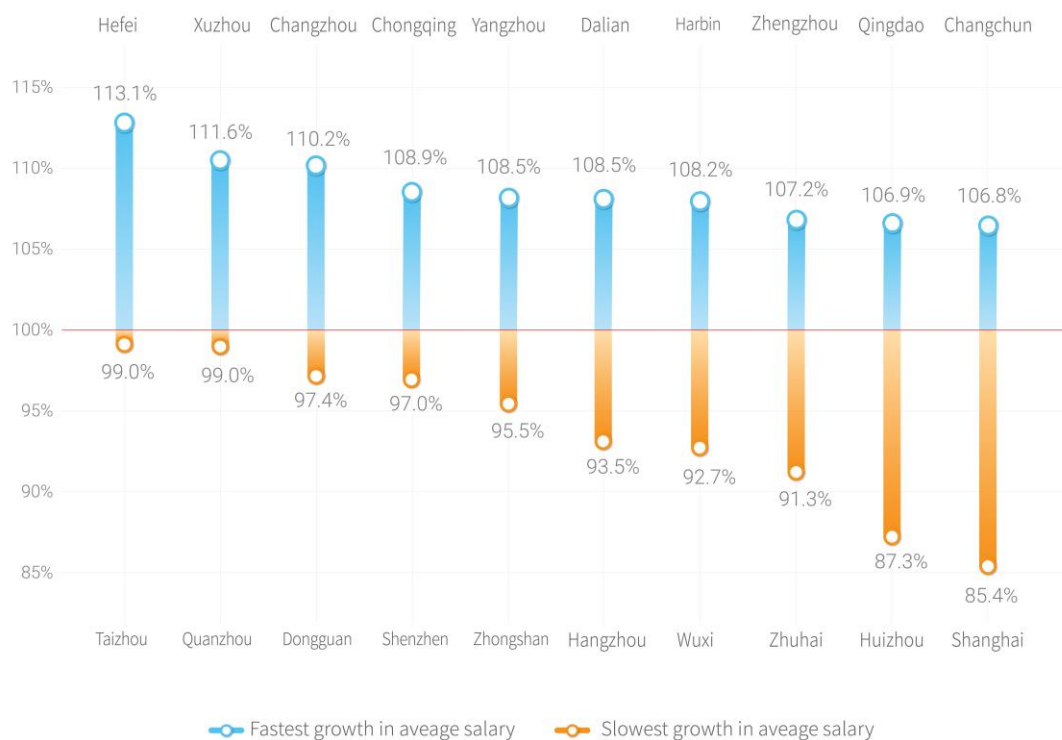


Change of Average Salaries across Cities



In 2017, the changes of average salaries in different cities diverged. The top five cities with the fastest growth in average salary were Hefei, Xuzhou, Changzhou, Chongqing and Yangzhou (Chart 7), most of which were second-tier industrial cities located in east coast and midwest of China. In addition, the average salaries in northeastern cities such as Harbin and Changchun also rose rapidly, which might indicate a recovering northeastern economy.

Chart7: Cross-city Comparison in Change of Average Salaries



Among the cities with the slowest growth in average salary, Shanghai ranked the first, which saw a decrease of average salary for new employees in 2017. Shanghai was followed by Huizhou, Zhuhai, Wuxi, Hangzhou and Zhongshan. Most of cities with slow growth were traditionally coastal industrial cities.

Combining the results and our findings in previous reports, we might observe the business cycle began to shift geographically from coast to inland. This might make room for growth of New Economy in coastal cities.

Change of Passengers Inflow Based on Major Airports

We tracked the change of daily passengers inflow at major airports in 2017 (Chart 8). We calculate the changes of net daily passengers inflow average by subtracting daily net passengers inflow average in 4Q16 from that in 4Q17. Based on the methodology, we got the growth in daily net passengers inflow. Some cities with the fastest population growth in 2016 experienced decrease in net inflows, such as Wuhan, Changsha, Guiyang, Nanning and Zhengzhou. Other cities like

Kunming, Beijing, Chengdu, Guangzhou and Shanghai experienced increase in net inflows.

Chart8: Growth in Daily Passengers Inflow at Major Airports



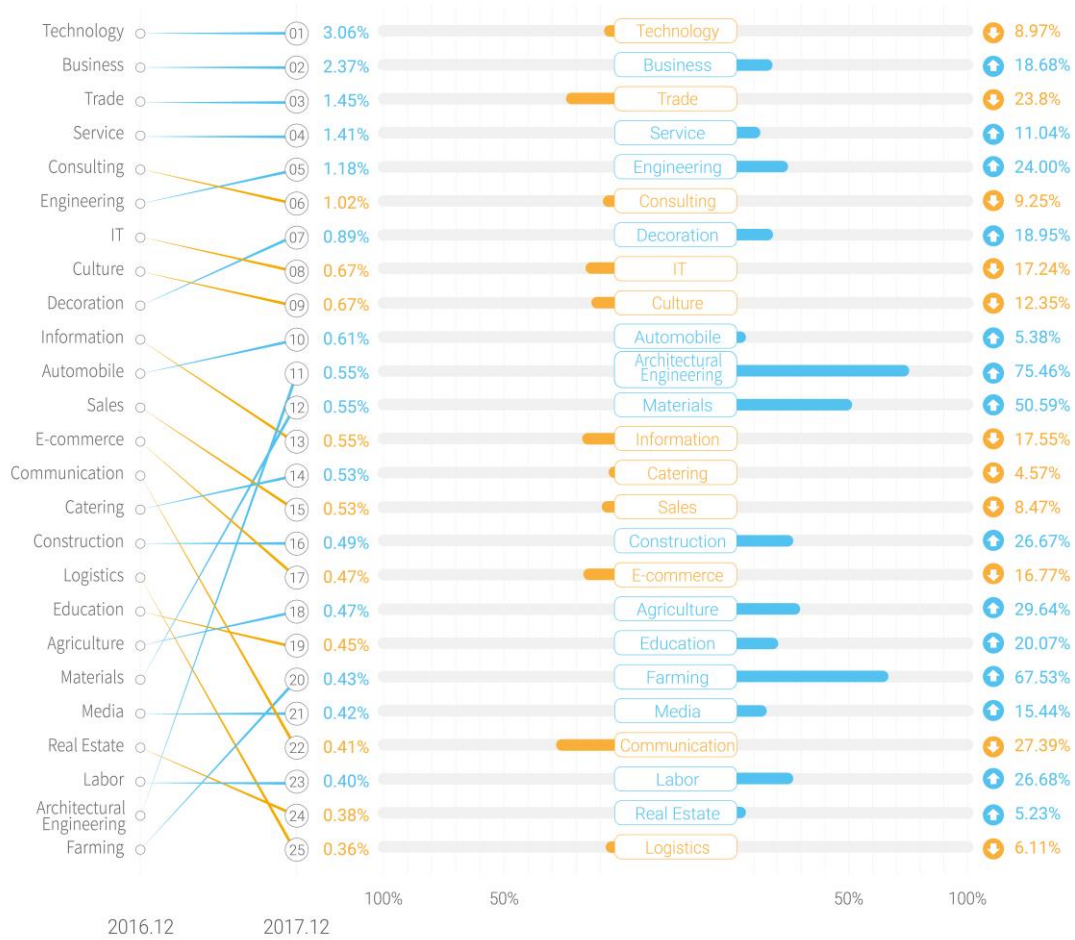
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Decomposition of New Established Enterprises

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



Chart9: Decomposition of New Enterprises by Sub-Sector



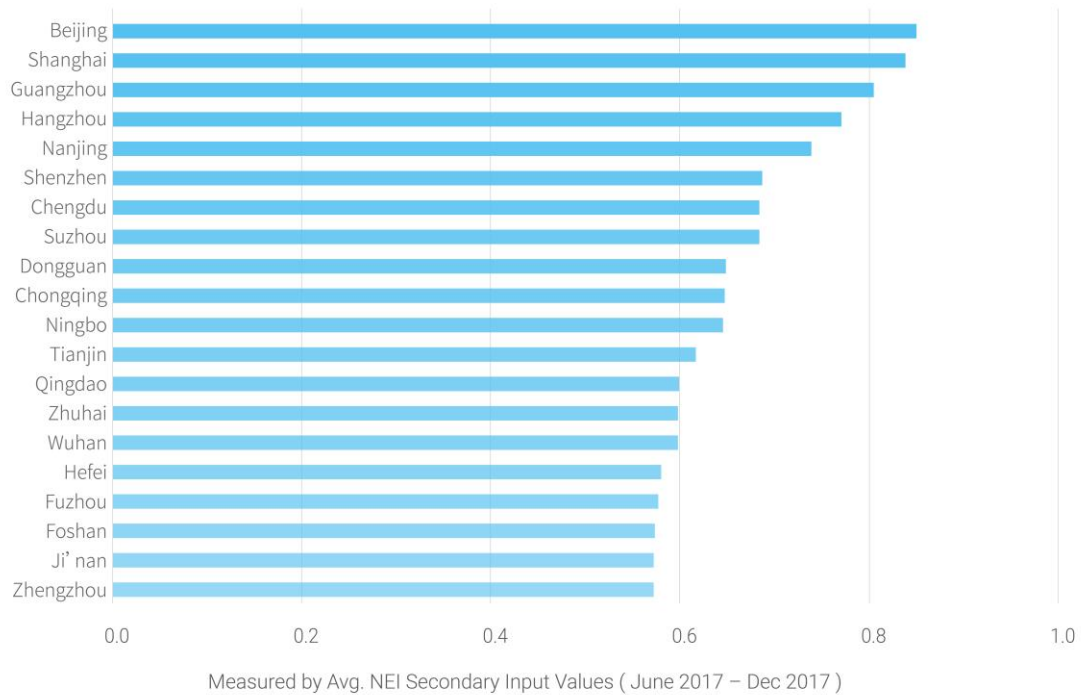
Ranking up sub-sectors (from December 2016 to December 2017) include the following. Architectural Engineering (No.24 to No.11, 75.5% increase in proportion, the fastest growth sector in terms of ranking in December), Materials (No.20 to No.12, 50.6% increase in proportion), Farming (No.25 to No.20, 67.5% increase in proportion), Decoration (No.9 to No.7, 18.9% increase in proportion). In addition, Engineering, Automobile, Catering and Agriculture saw a ranking up as well.

Ranking down sub-sectors (from December 2016 to December 2017) include the following. Communication (No.14 to No.22, 27.4% decrease in proportion, the largest drop this month), Sales (No.12 to No.15, 8.5% decrease in proportion), Logistics (No.17 to No.25, 6.1% decrease in proportion), E-commerce (No.13 to No.17, 16.8% decrease in proportion), Information (No.10 to No.13, 17.5% decrease in proportion). The other ranking down sub-sectors were IT, Education, Culture, Real Estate 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 Beijing, Shanghai, 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 Cities Ranked by New Economy Sector Output

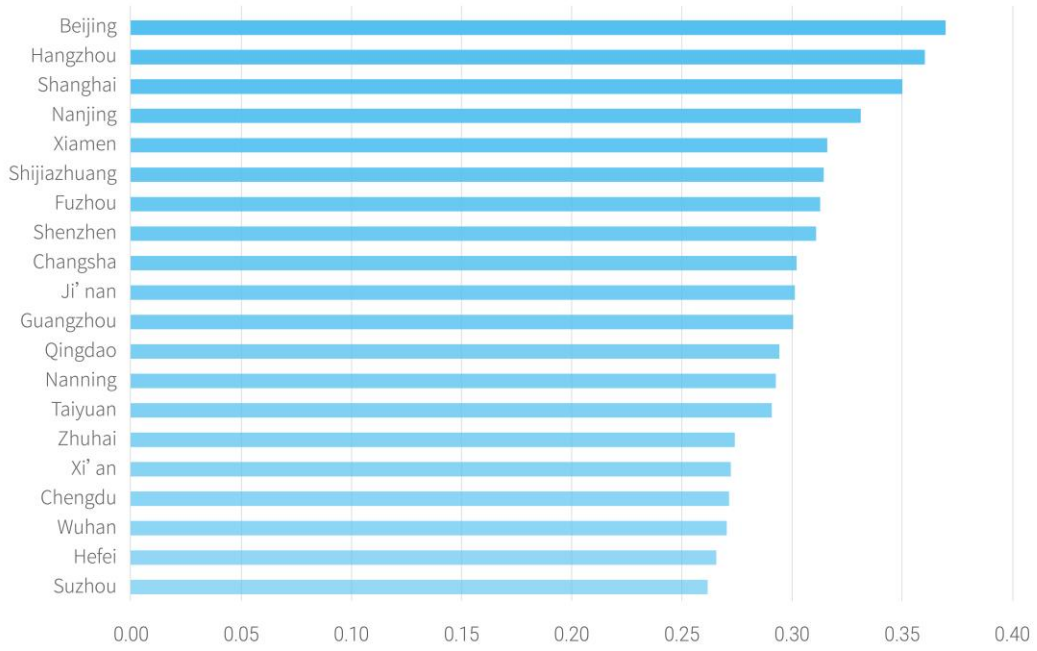


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Chart 11 showed the average NEI city rankings between April 2017 and December 2017. The top five cities were Beijing, Hangzhou, Shanghai, Nanjing and Xiamen.

Chart11: China's Top 20 Cities Ranked by Average NEI



Measured by Avg. NEI Secondary Input Values (June 2017 – Dec 2017)

Information graphic design - Wuyi

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

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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