

July 2017

Mastercard Caixin BBD China New Economy Index

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Overview

In July 2017, the Mastercard Caixin-BBD New Economy Index (NEI) reading came in at 31.5, indicating that the New Economy accounted for 31.5% of overall economic input activities that month, up 2.2 ppts from June and back to January to April average level (Chart 1). The rising NEI was due to the rebound of capital and technology. 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 weight of the index, respectively. The rise in the July NEI reading came from the recovery of capital and technology inputs (Chart 2). Technology input index rose fastest, increasing to 31.6 from 25.1 in June. Capital investment showed wide fluctuations in the recent half year; it continued to rise to 32.7 after declining in April and May and rebounding in June. Labor input dropped slightly from June. It was 30.3 this month.

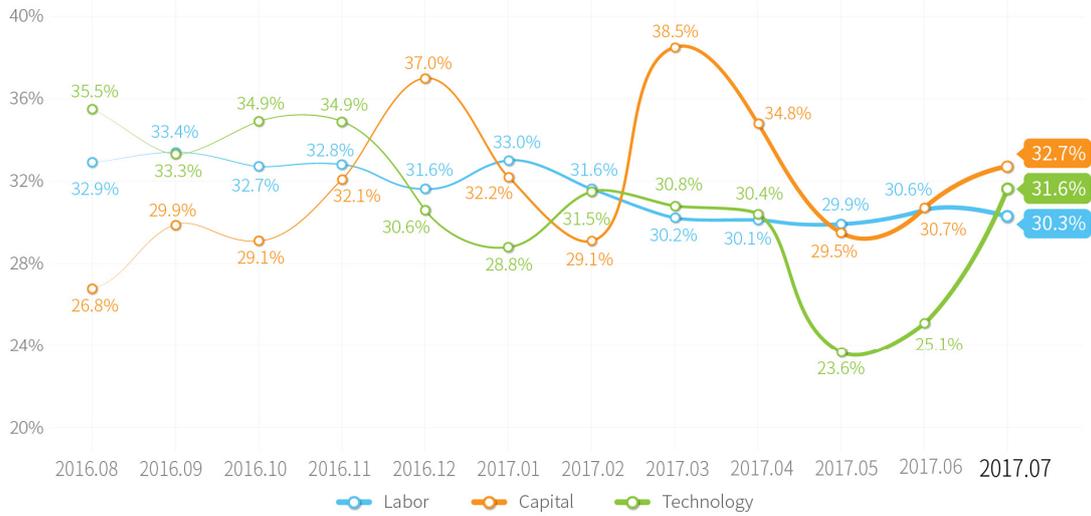


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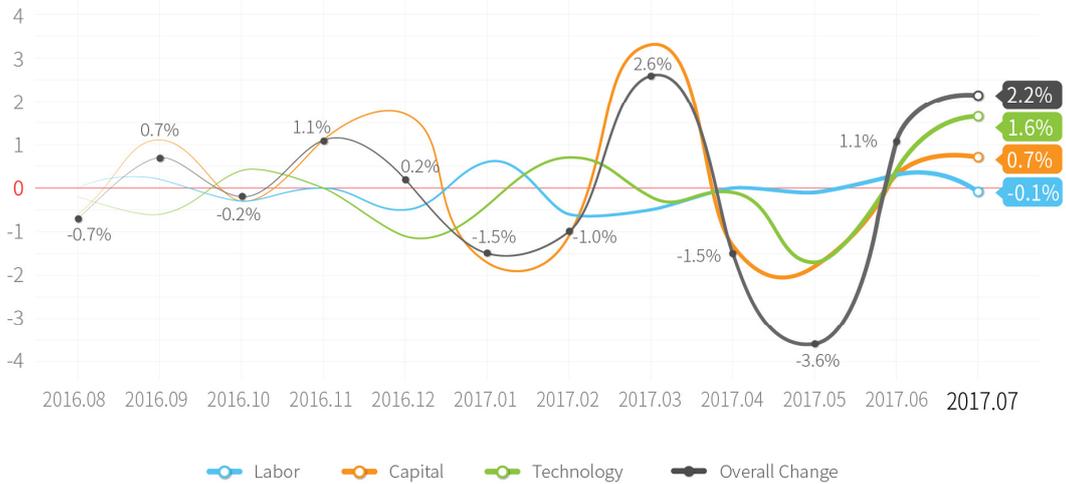
Chart2: NEI Primary Input Ratios



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Percentage changes in labor, capital and technology inputs were -0.1, 0.7, and 1.6 pts, respectively. After accounting for the sum of their weights, the net NEI change was a 2.2 pts increase from June (Chart 3).

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

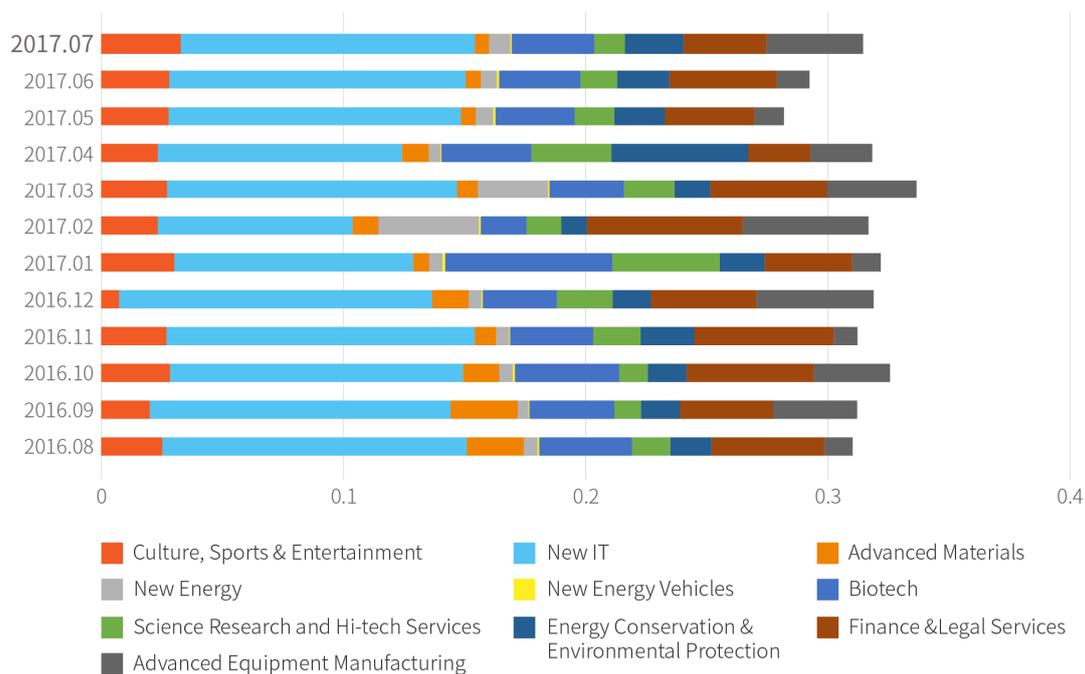


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Looking at the sectors, the New IT industry formed the largest proportion of the New Economy Index, contributing 12.2 pts to NEI. Advanced equipment manufacturing came second, the highest rank in half a year, contributing 4.0 pts. Financial & Legal Services ranked the third, contributing 3.4 pts in July (Chart 4).



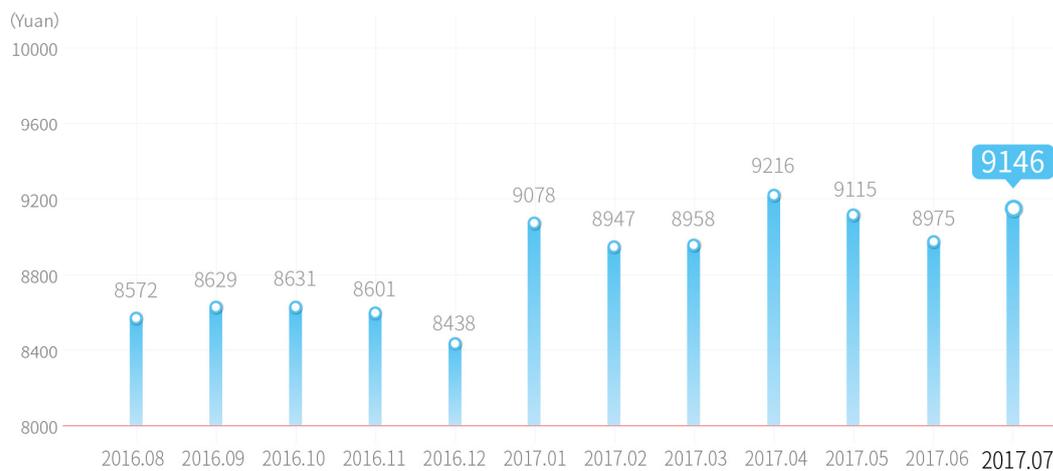
Chart4: New Economy Sector Contribution Breakdown



New Economy Employment

In July 2017, the average monthly entry level salary of the New Economy was RMB 9,146 per month, increasing from last month's level of RMB 8,975 (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 29.2% of total hiring in July, lower than the previous month's 29.5%. At the same time, the compensation share of New Economy sectors dropped slightly to 31.4%, 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 7.6% as compared to economy-wide counterparts, a slight increase from 7.2% in June (Chart 6). In the recent half year, the average salary premium of the New Economy saw a decrease in Feb and Apr, respectively, while other months experienced a solid increase.

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



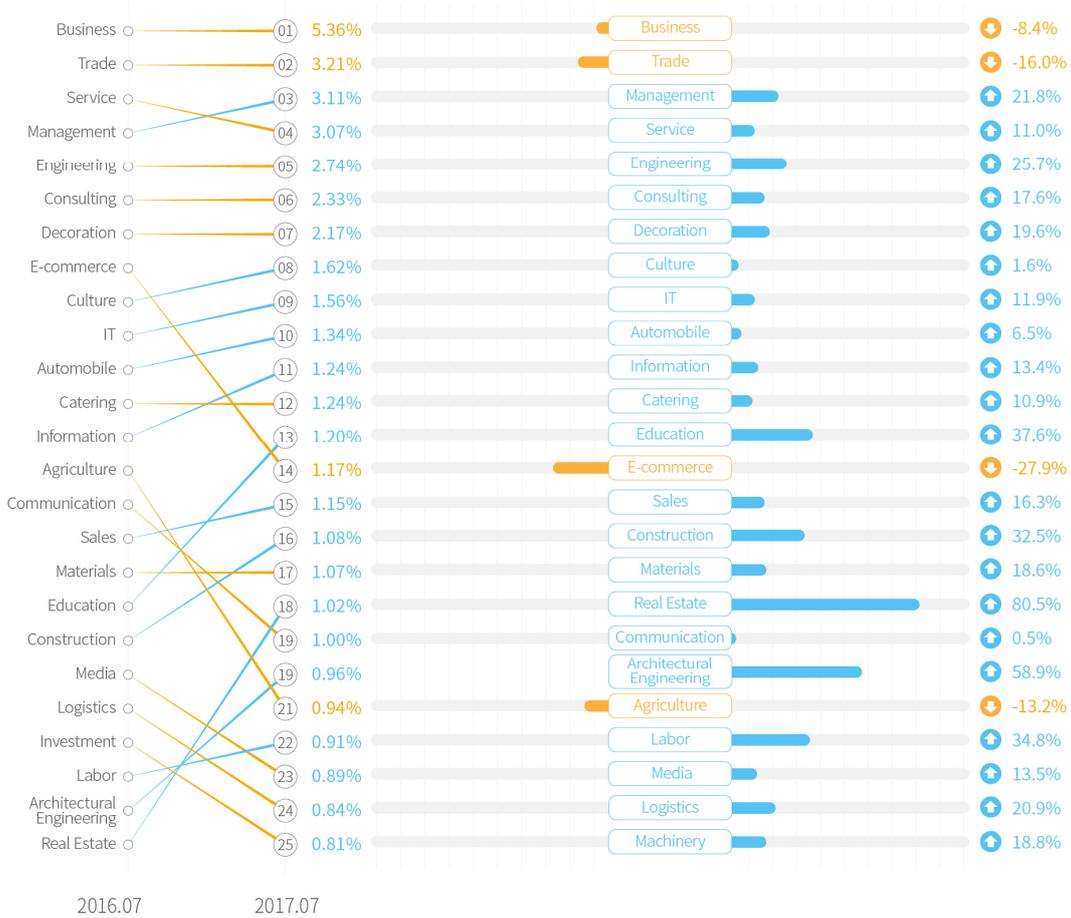
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Decomposition of New Established Enterprises

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 July 2016 to July 2017) include the following. Real estate (No. 25 to No. 18, 80.5% increase in proportion), Construction (No. 19 to No. 16, 32.5% increase in proportion), Architectural Engineering (No. 24 to No. 20, 58.9% increase in proportion). The key words were associated with investment in construction, which were mainly driven by government. Moreover, some industries with light capital were developing. Education saw a ranking up to No. 13 from No. 18 with a proportional increase of 37.6 ppts. Management saw a ranking up to No. 3 from No. 4 with a proportional increase of 21.7 ppts. Information saw a ranking up to No. 11 from No. 13 with a proportional increase of 13.4 ppts.

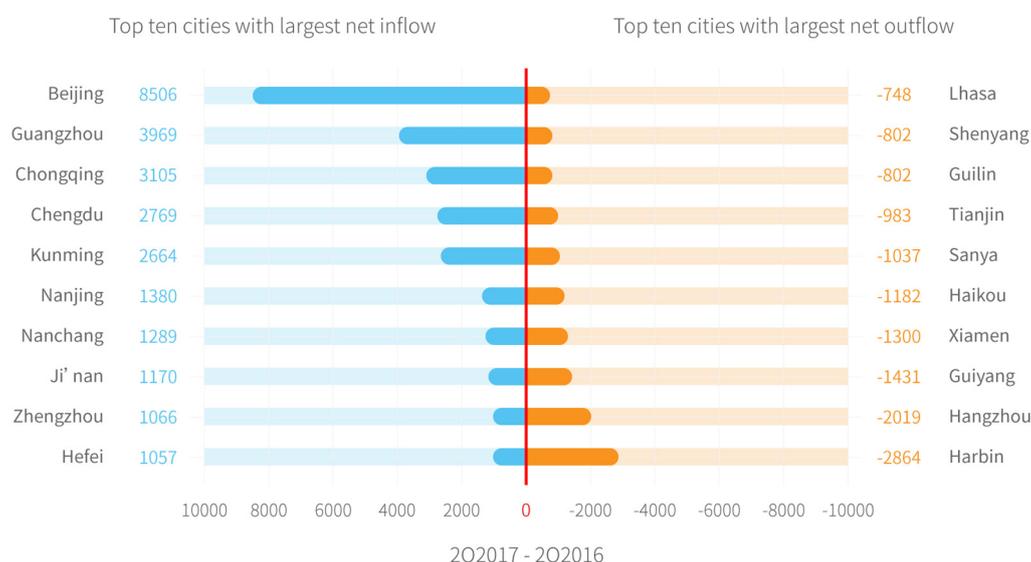
Ranking down sub-sectors (from July 2016 to July 2017) include the following. Agriculture (No. 14 to No. 21, 13.3% decrease in proportion), E-commerce (No. 8 to No. 14, 27.9% decrease in proportion), Communication (No. 15 to No. 19, 0.5% decrease in proportion), Investment (No. 22 to No. 25, 18.8% increase in proportion), Media (No. 20 to No. 23, 13.5% increase in proportion), Service (No. 3 to No. 4, 11% increase in proportion). Noticeably, some ranking down sub-sectors saw an increase in proportions.

Economic Activities Based on Major Airport Traffic

This month, we explore airport traffic data and compare passengers inflow of major airport in 2Q17 and 2Q16.

We calculate the changes of daily net passengers inflow average by subtracting daily net passengers inflow average in 2Q16 from that in 2Q17. Based on this methodology, cities with the fastest increases in net inflows are Beijing, Guangzhou, Chongqing, Chengdu and Kunming, whose prosperous economy keeps attracting people (Chart 8). Among top 10 cities attracting more and more people are mid- and western Chinese cities, where we witnessed increased economic activities. Chengdu and Chongqing headlined the mid- and western cities but Shenzhen and Shanghai falled out of top list.

Chart8: Growth in Daily Passengers Inflow at Major Airports



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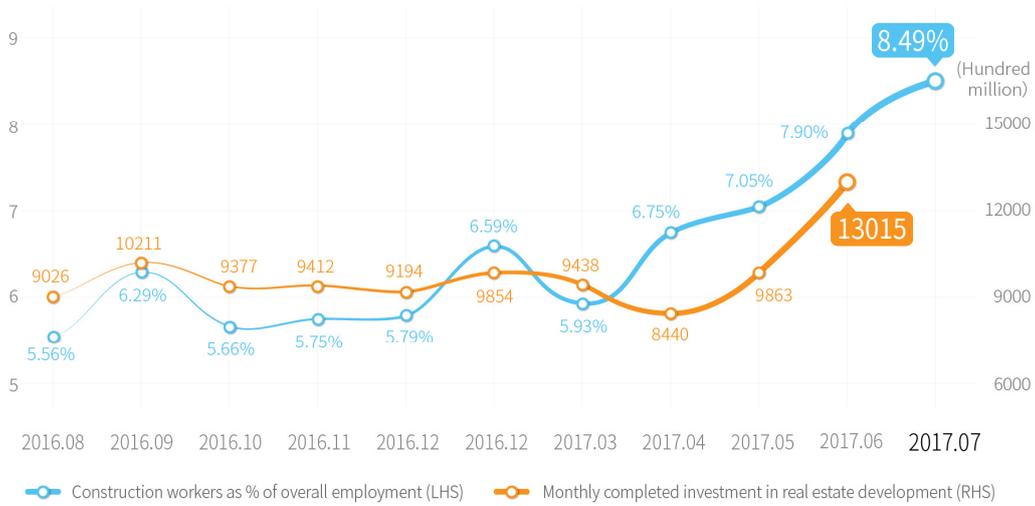
Cities with the fastest decreases in net inflows are Harbin, Hangzhou, Guiyang, Xiamen and Haikong. The lukewarm northeastern economy and negative news associated with tourist cities might contribute to the population outflows.

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 diverged in April 2017 but synchronized afterwards. In June 2017, ratio of demand for construction employees reached 7.90%, a sharp increase by 0.85% from 6.75% in May. At the same time, completed investment in real estate development in June was RMB 1301.5 billion, an increase from RMB 986.3 billion in May, or a 32.0% MoM increase.



Chart9: Demand for Construction-related Employees



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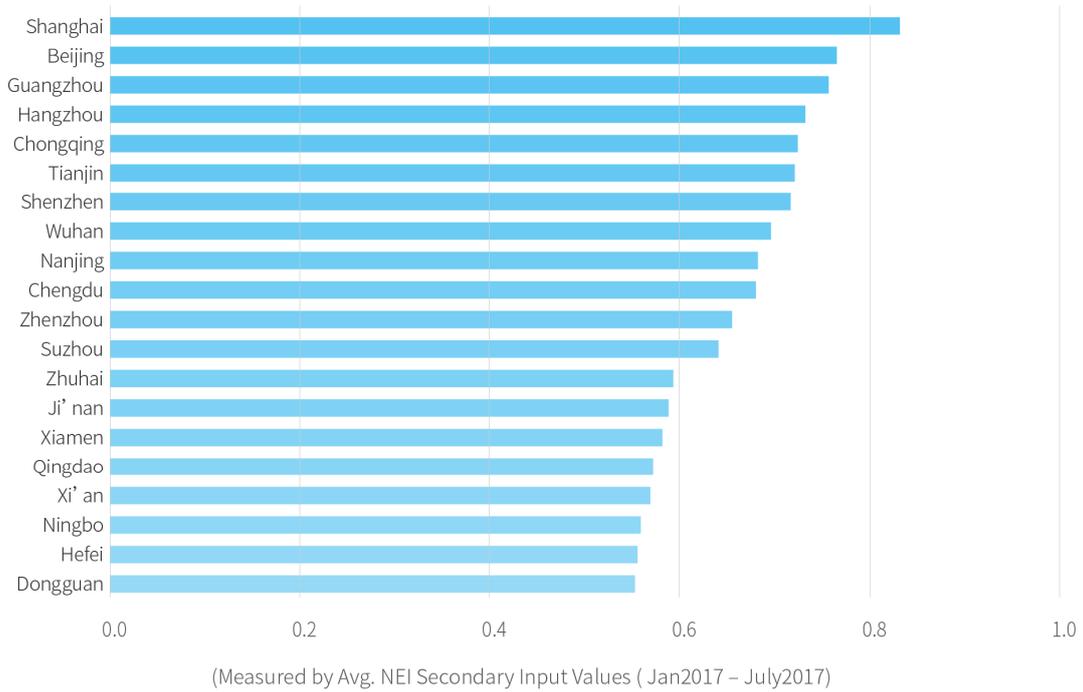
This month continues seeing an increase in demand for construction employees, reaching its historical highest level at 8.49%. Given the historical accuracy of the index, we still predict that real estate investment increases next month.

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, Beijing, Guangzhou, Hangzhou and Chongqing. 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

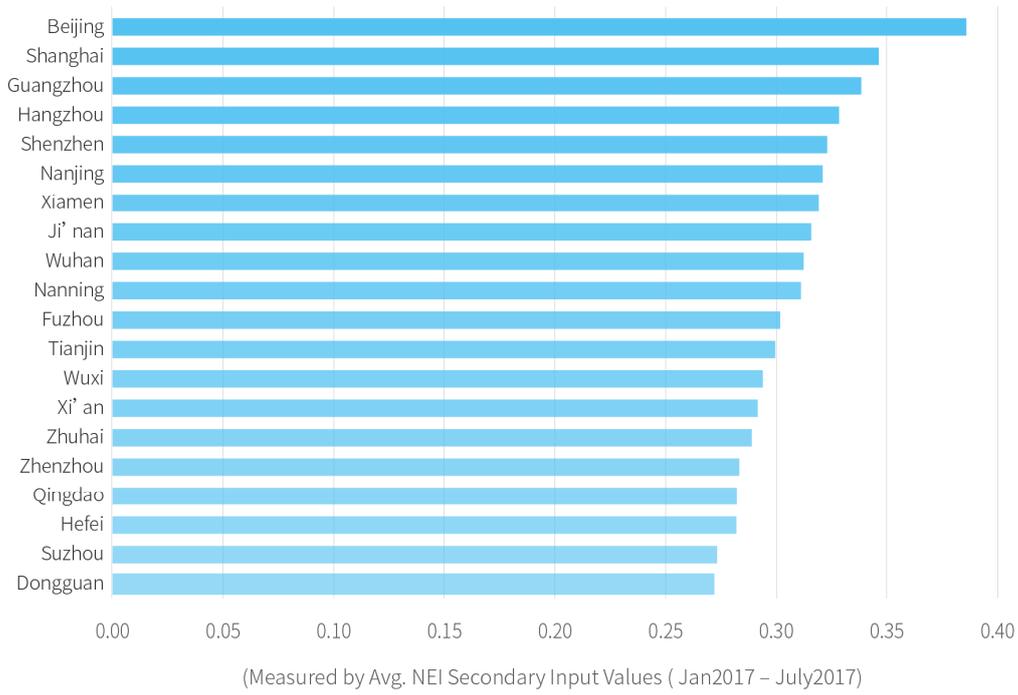


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Chart 11 showed the average NEI city rankings between January 2017 and July 2017. The top five cities are Beijing, Shanghai, Guangzhou, Hangzhou and Shenzhen.



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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