



China Sourcing Update

December 30, 2016

Labour Cost

1. Local governments in a number of provinces/ regions issue new guidelines on salary rise

From October to December 2016, local governments in six provinces/ regions issued new guidelines on salary rise (*see exhibit 1*).

For example, according to the announcement issued by the Guizhou provincial government, enterprises with normal operations and improving performance in Guizhou are recommended to raise the salaries of their workers by 10%, the pay rise benchmark for 2016. Enterprises with rapidly improving performance and worker salaries below the market level by 30% or more can offer higher pay rise of at most 15%, the upper limit of the pay rise benchmark, to their workers. Enterprises with markedly worsening performance and operating losses can consider raising the salaries of their workers by 4%, the lower limit of the pay rise benchmark. Meanwhile, with the agreement of labour unions or employee representatives, enterprises with heavy operating losses and difficulties in paying salaries can consider freezing or even reducing the salaries of their workers, on condition that the salaries should not be set lower than the minimum wage levels.¹

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.

¹ http://gz.hrss.gov.cn/art/2016/11/16/art_35_37978.html

**Exhibit 1: Guidelines on 2016 salary rise issued by local governments,
October to December 2016**

Province/ autonomous region	Upper limit	Benchmark	Lower limit	Month of issue
Guangxi	12%	8%	3%	October-16
Gansu	14%	8%	4%	October-16
Guizhou	15%	10%	4%	November-16
Qinghai	13%	7%	3%	November-16
Jilin	11%	6%	3%	November-16
Fujian	12%	8%	2%	November-16

Source: Announced by various local governments

2. Income of migrant workers gains 5.9% yoy in 3Q16

According to China's National Bureau of Statistics (NBS), the average monthly income of migrant workers in China increased by 5.9% yoy to 3,232 yuan in 3Q16.²

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 0.5% as at the end of 3Q16, compared to the year-on-year growth of 1.3% in 2015 and 1.9% in 2014. The other trend is the ageing of the migrant workers. According to the NBS, the average age of migrant workers increased from 35.5 in 2010 to 38.6 in 2015.³

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.

² http://www.stats.gov.cn/english/PressRelease/201610/t20161019_1411211.html

³ http://www.stats.gov.cn/tjsj/zxfb/201604/t20160428_1349713.html

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