



China Sourcing Update

March 22, 2019

Labour Cost

1. Minimum wage levels in Chongqing are adjusted upward in January

The Chongqing municipal government raised the minimum wage levels in its jurisdiction on 1 January. Afterwards, on 24 January, the Shaanxi provincial government announced to increase the minimum wage levels in its province effective from 1 May this year. See below for details:

Chongqing

The minimum monthly wage levels in various districts within Chongqing will be adjusted to 1,800 yuan and 1,700 yuan on 1 January 2019, compared with the previous levels of 1,500 yuan and 1,400 yuan respectively.¹

Shaanxi province

On 24 January, the Shaanxi provincial government announced to increase the minimum wage levels in various districts within the province to 1,800 yuan, 1,700 yuan and 1,600 yuan effective 1 May this year.² Currently, the minimum monthly wage levels in the class 1, the class 2, the class 3 and the class 4 districts in the province are 1,680 yuan, 1,580 yuan, 1,480 yuan and 1,380 yuan respectively.³ Therefore, the wage adjustment on 1 May implies that the number of class districts will be decreased to three from four.

¹ See <http://www.chinanews.com/sh/2018/12-07/8695204.shtml>; See also http://cq.cqnews.net/html/2015-12/04/content_35913415.htm

² <http://rst.shaanxi.gov.cn/html/100077/1014053.html>

³ <http://www.shaanxihrss.gov.cn/html/100478/1011847.html>

2. Local governments in Xinjiang and Ningxia issue new guidelines on salary rise

During 4Q18, the local governments in Xinjiang and Ningxia autonomous regions also issued new guidelines on salary rise, following the moves of the local governments in Beijing, Gansu, Guangxi, Liaoning, Qinghai and Hubei (see exhibit 1).⁴

For example, according to the announcement issued by the Ningxia government, enterprises with normal operations and improving performance in Ningxia are recommended to raise the salaries of their workers by around 7%, the pay rise benchmark for 2018.⁵ Enterprises with rapidly improving performance and strong capability of paying wages can increase workers' salaries by 7% to 13% (the upper limit of the pay rise benchmark). Meanwhile, after going through the 'necessary democratic process', enterprises with operating difficulties and worsening performance can consider freezing or even reducing the salaries of their workers, though the salaries should not be set lower than the minimum wage levels.

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 costs.

Exhibit 1: Guidelines on 2018 salary rise issued by local governments in selected regions, October to December 2018

Province/ autonomous region/ municipality	Upper limit	Benchmark	Lower limit	Month of issue
Xinjiang	10%	7%	3%	October-18
Ningxia	13%	7%	2.5%	November-18

Source: Various local governments

3. Income of migrant workers gains 6.8% yoy in 2018

According to China's National Bureau of Statistics (NBS), the average monthly income of migrant workers in China increased by 6.8% yoy to 3,721 yuan in 2018, compared to the growth of 6.4% yoy in 2017.⁶

⁴ The details about the guidelines on salary rise released by the local governments in Beijing, Gansu, Guangxi, Liaoning, Qinghai and Hubei are covered in the last issue of *China Sourcing Update (Labour Cost)*.

⁵ http://www.gov.cn/xinwen/2018-11/22/content_5342406.htm

⁶ http://www.stats.gov.cn/tjsj/zxfb/201901/t20190121_1645752.html

We have noticed two major trends in the migrant worker market. First, the migrant workforce is ageing. According to the NBS, the average age of migrant workers rose from 35.5 in 2010 to 39.7 in 2017. Second, more migrant workers work closer to home. According to the NBS, the proportion of local migrant workers in the migrant workforce went up from 36.7% in 2010 to 40.0% in 2017.⁷

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

⁷ http://www.stats.gov.cn/tjsj/zxfb/201804/t20180427_1596389.html

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