German Chamber of Commerce Hong Kong 德國商會

GERMAN CHAMBER of Commerce in China 中国德国商会

Labor Market and Salary Developments 2015/16 - China

Presentation of results of GCC Wage Survey

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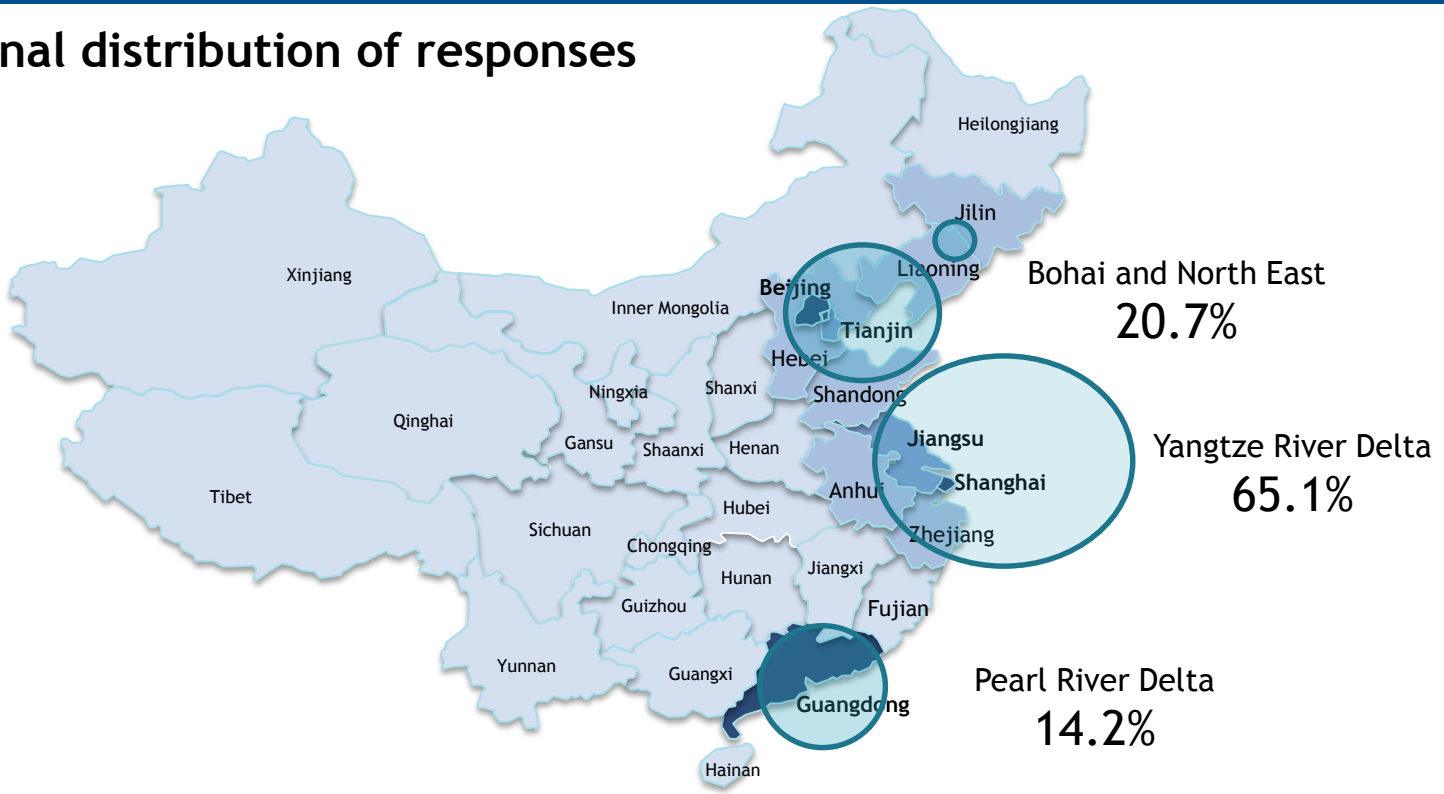
About the Survey

- Survey conducted from August 27th to September 18th 2015
- Total of 393 valid responses were collected from companies in Mainland China
- Responses from main economic centers
- Industrial distribution dominated by machinery and automotive sector

Regional distribution of responses



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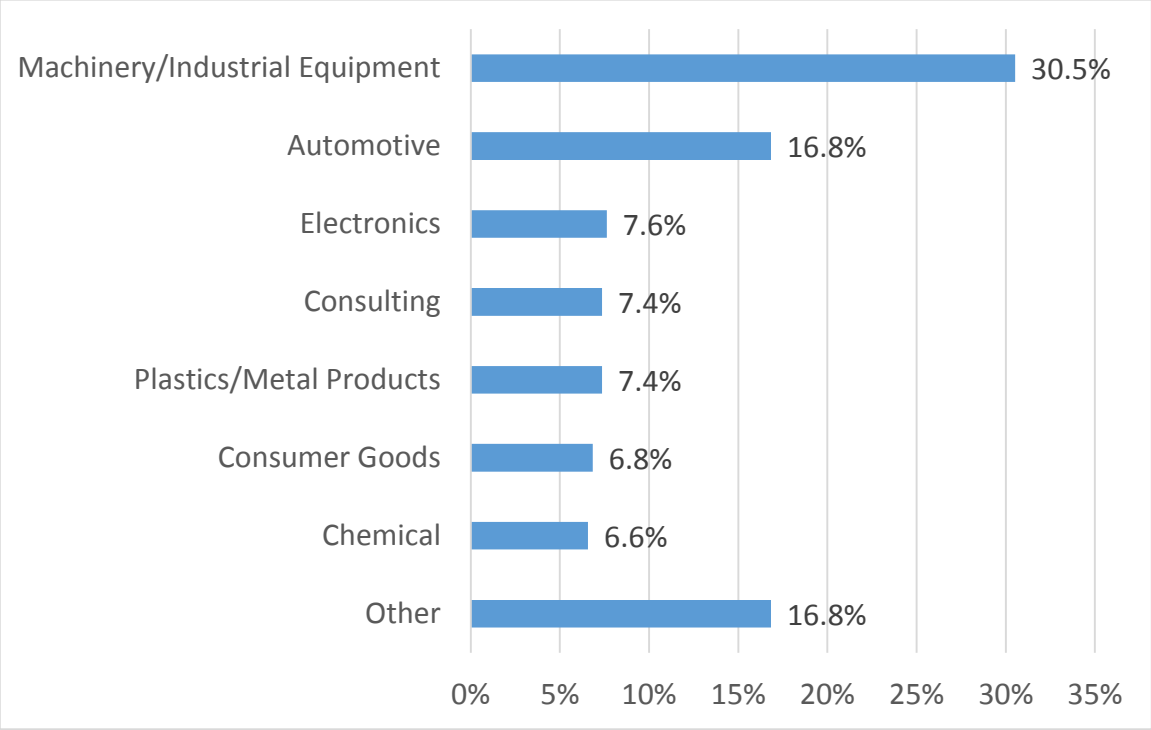
Industrial distribution

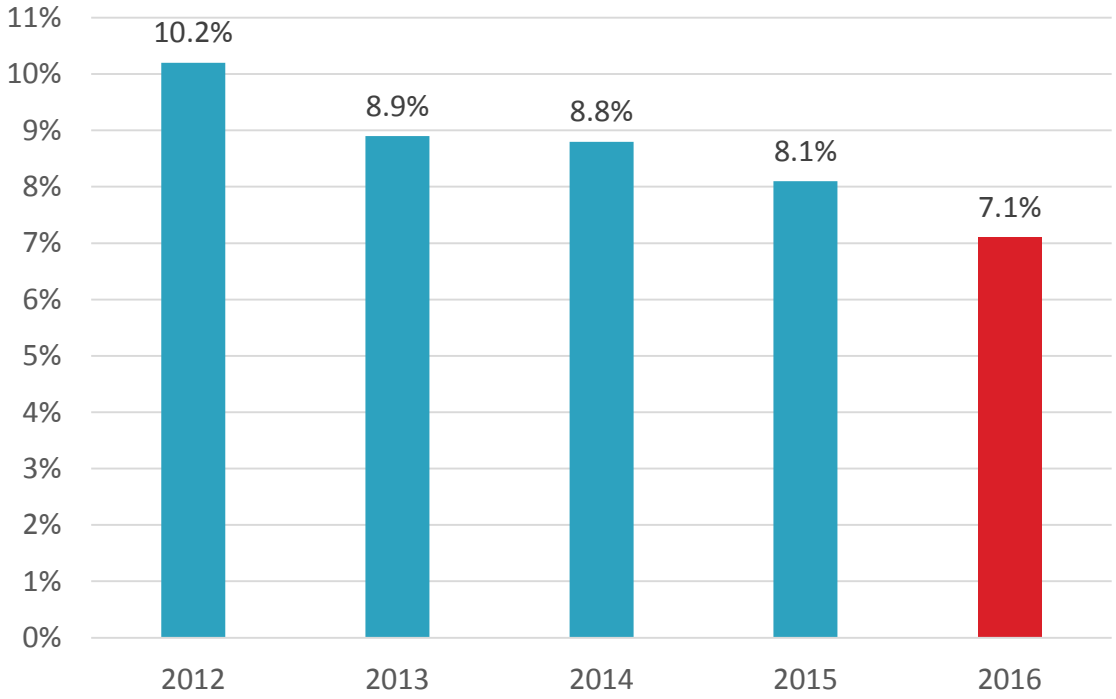


Agenda

1. National Wage Developments
2. Regional Focus
3. Evaluation of Wage Increases
4. Labor Market Environment
5. Economic Outlook

- Average wage growth at German companies continues to fall
- After years of relative stability, significant downward adjustment
- Wage forecast of 8.1% for 2015 confirmed

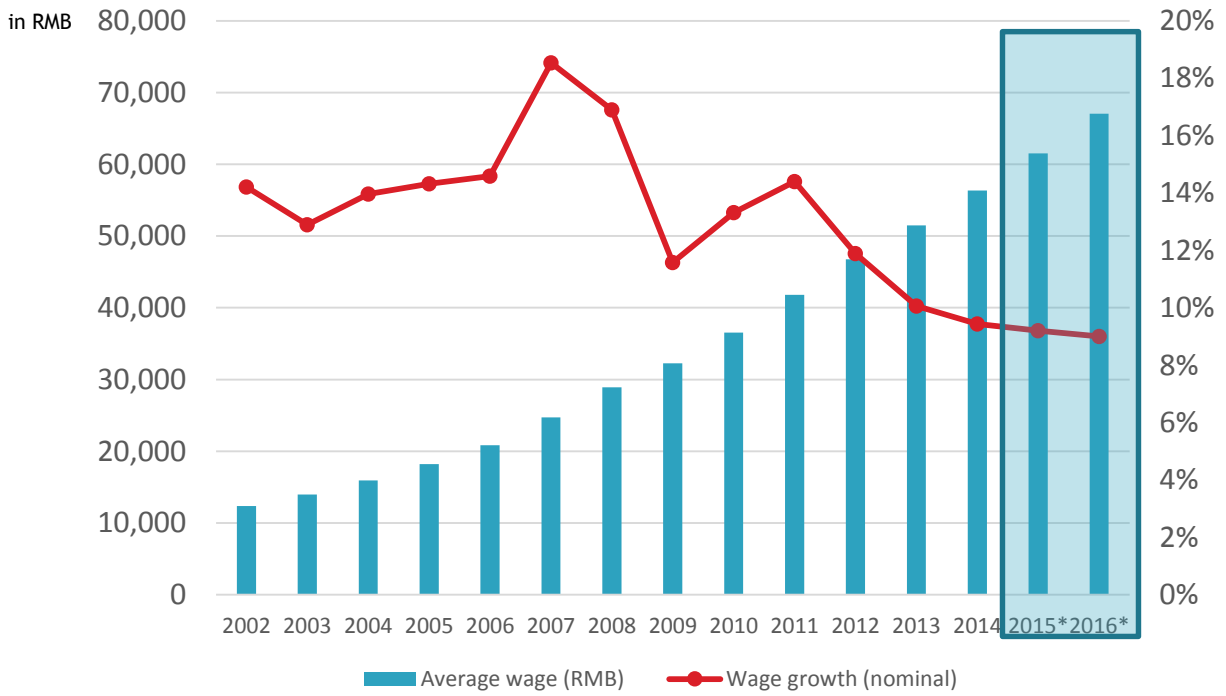
Wage developments of GCC surveys



National Wage Developments

- Average wage growth in China has fallen below 10% since 2014
- In 2015 average wages were 1.7 times higher compared to 2010 levels
- Government target doubling 2010 level income by 2020 well on track
- Minimum wage growth target of 13% for the five year period ending 2015 achieved

National Annual Wage Developments

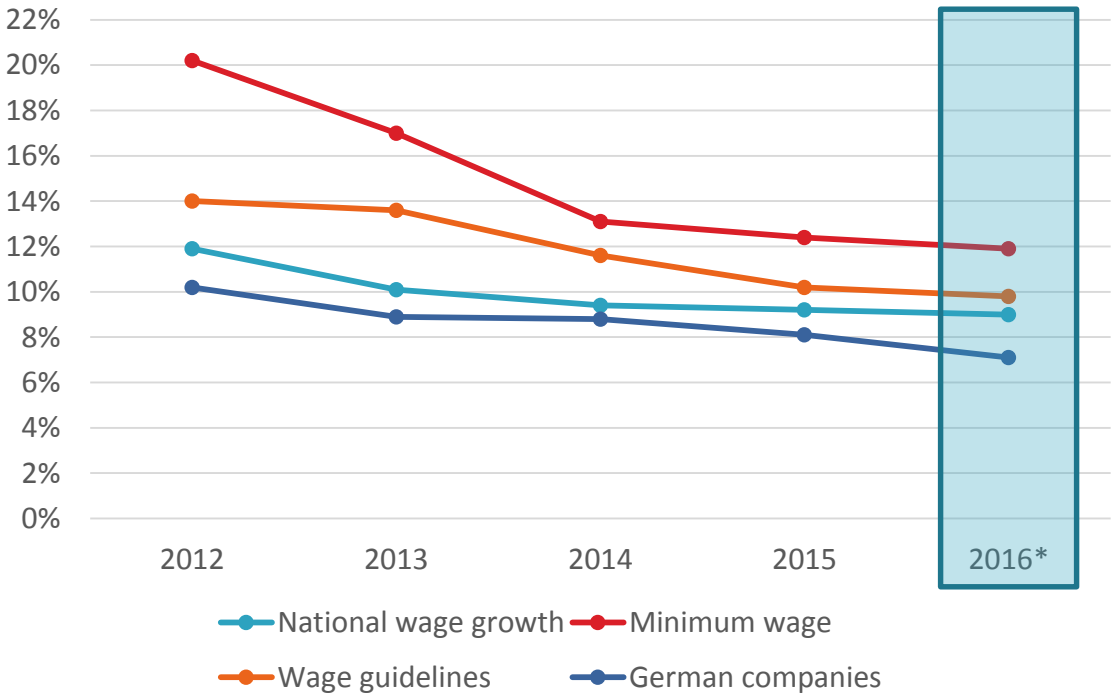


Source:NBS / GCC /* forecast

National Wage Developments

- Upward pressure on wages from government targets easing
- Growth of all main wage indicators is slowing
- Wage indicators moving in similar manner within a more narrow band
- Expected wages increases at German companies at lower end of forecasts

Wage developments



Source:NBS / GCC /* forecast

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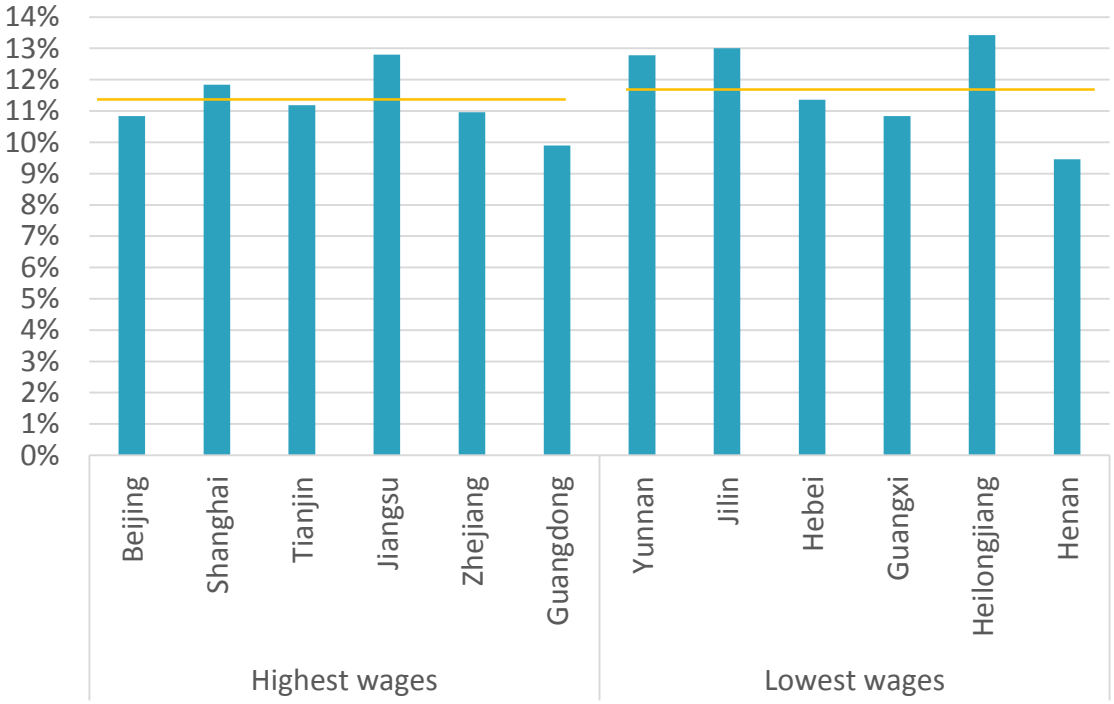
- Poorer regions only with minimal faster wage increases
- Wage gap only slowly closing
- 5-year average wage increases in richest provinces/municipalities: 11.3%
- 5-year average wage increases poorest provinces/municipalities: 11.8%
- However, some second and third tier cities with faster wage growth

5-year average wage increases



Regional Wage Focus

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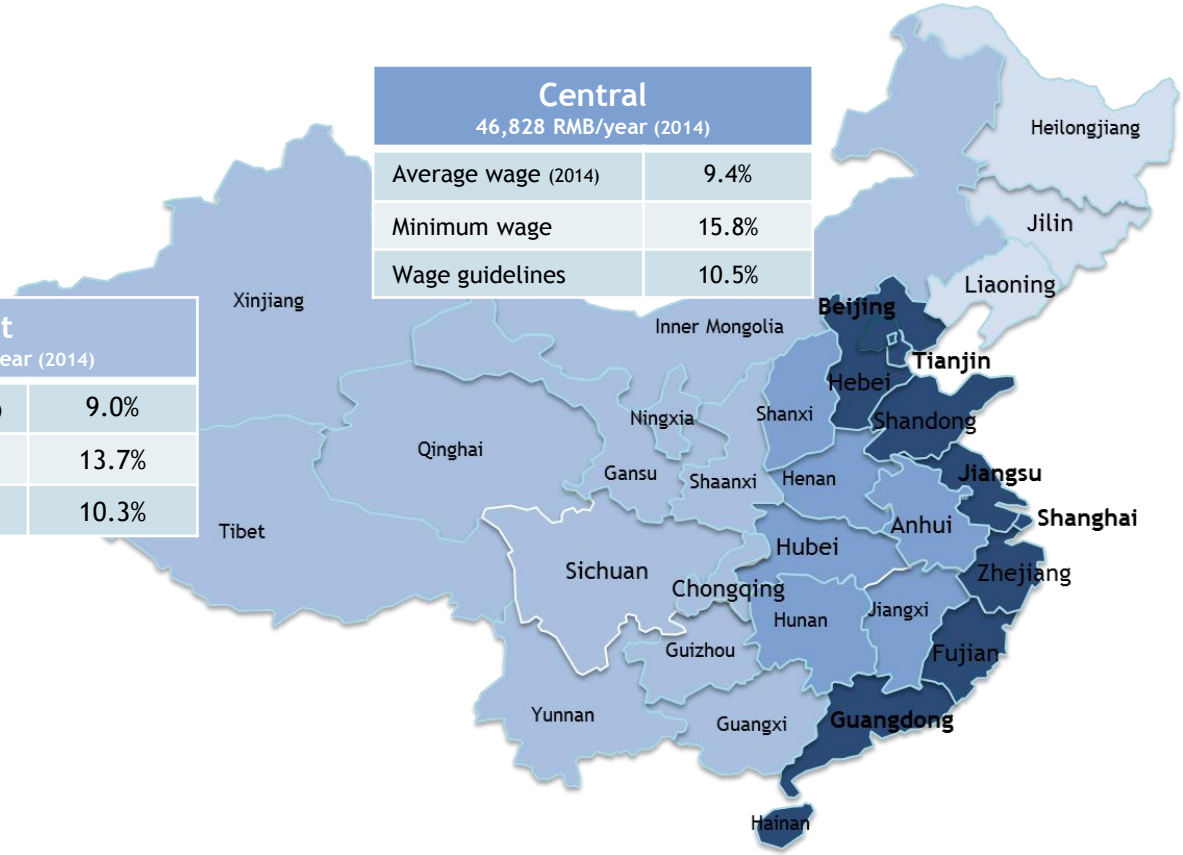
Central	
46,828 RMB/year (2014)	
Average wage (2014)	9.4%
Minimum wage	15.8%
Wage guidelines	10.5%

North East	
46,512 RMB/year (2014)	
Average wage (2014)	7.1%
Minimum wage	0%
Wage guidelines	8.0%

West	
51,204 RMB/year (2014)	
Average wage (2014)	9.0%
Minimum wage	13.7%
Wage guidelines	10.3%

East	
58,561 RMB/year (2014)	
Average wage (2014)	9.7%
Minimum wage	13.0%
Wage guidelines	10.5%

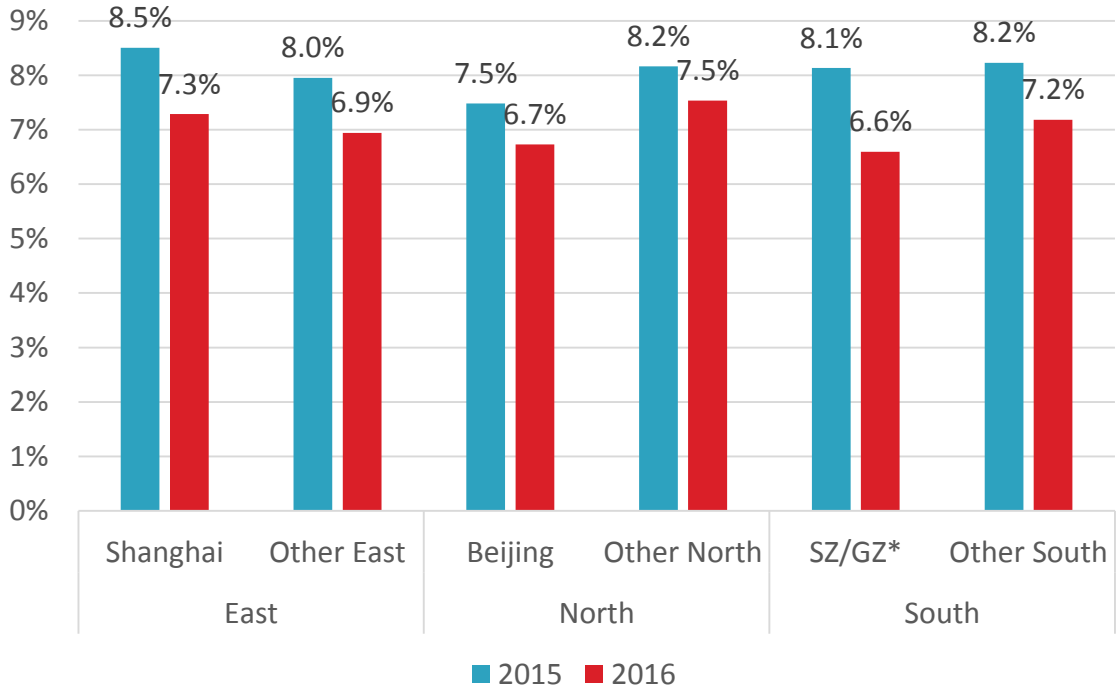


Source:NBS / GCC

Regional Wage Focus

- Wage increases falling across all regions at German companies
- Generally downward adjustments similar in main economic centers
- Wage increases in second and third tier cities typically slightly higher

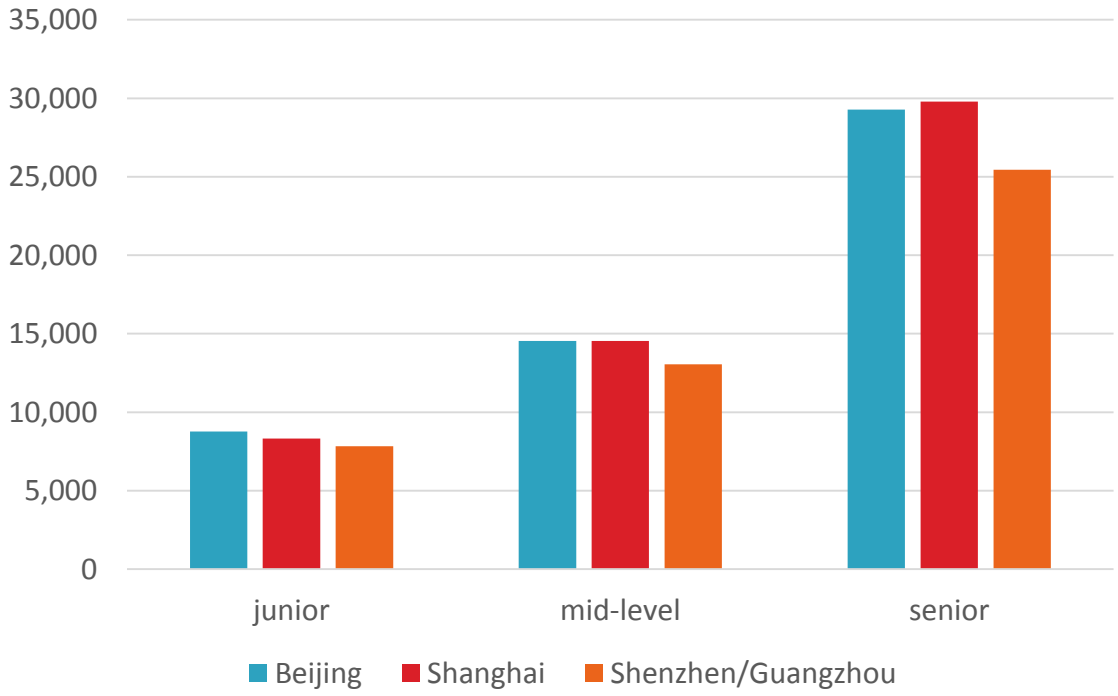
Regional wage increases at German companies



*SZ/GZ=Shenzhen/Guangzhou

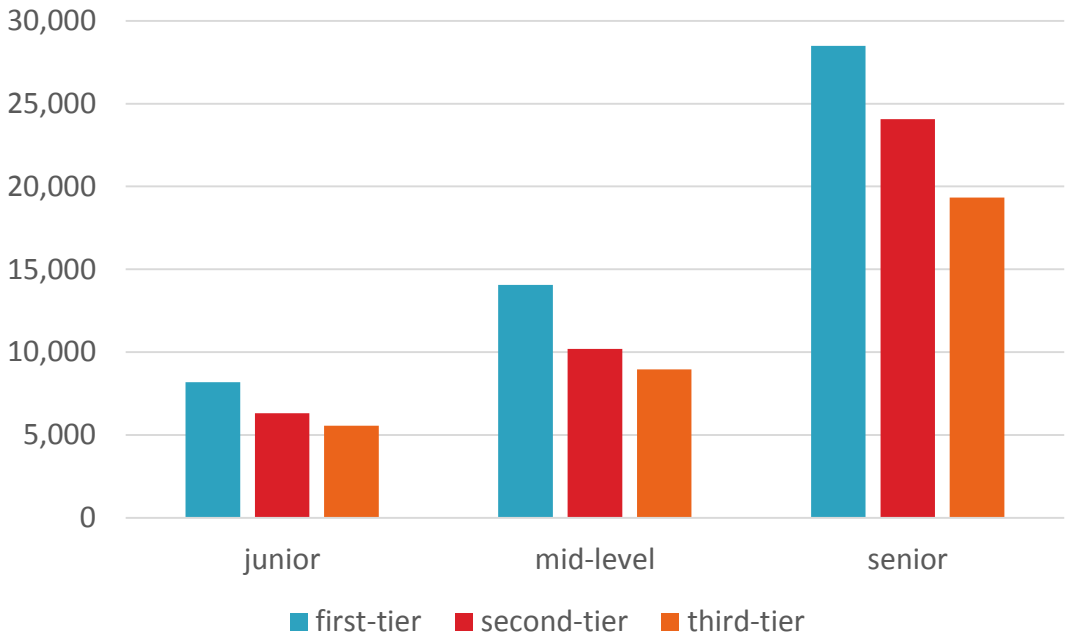
- Comparable wage levels in Shanghai and Beijing
- Wage levels at German companies in Shenzhen and Guangzhou on average more than 10% lower compared to other first-tier cities

Wage levels first-tier cities: by seniority



- Lower wage levels in second and third tier cities
- Difference in pay levels in region increases with seniority of position
- Relatively similar wages levels for production workers

Wage levels first and lower tier cities: by seniority



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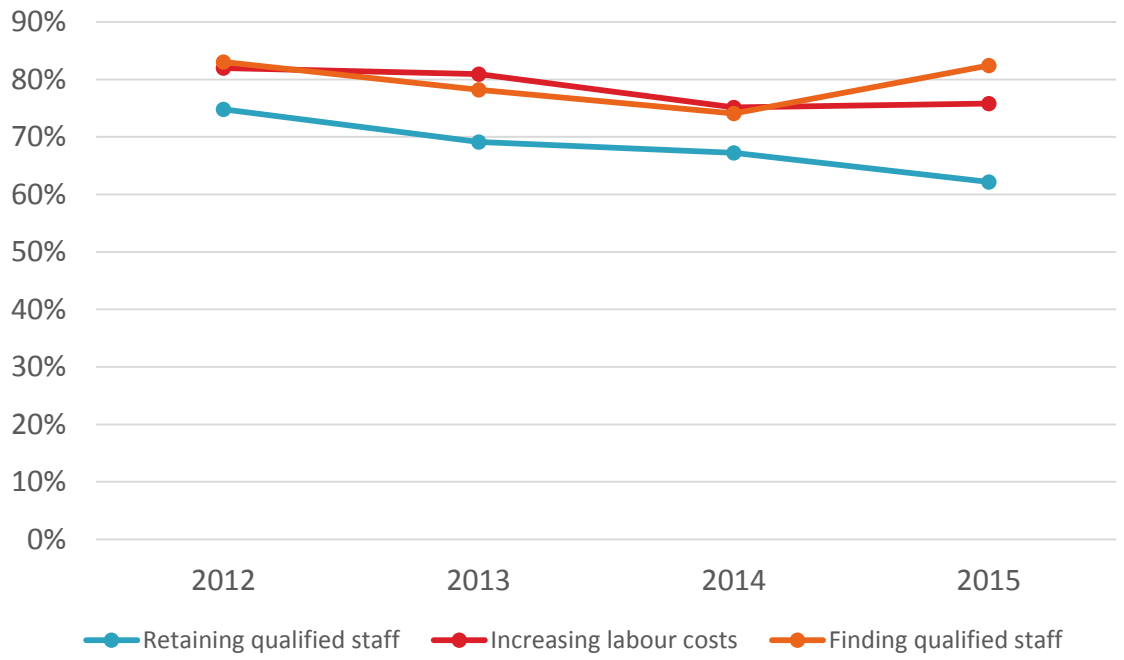
Evaluation of Wage Increases

- HR problems continue to dominate business challenges despite cooling labor market
- Increasing labor costs remains one of the main problems for German companies
- Problem of finding qualified staff highlights lack of skilled labor

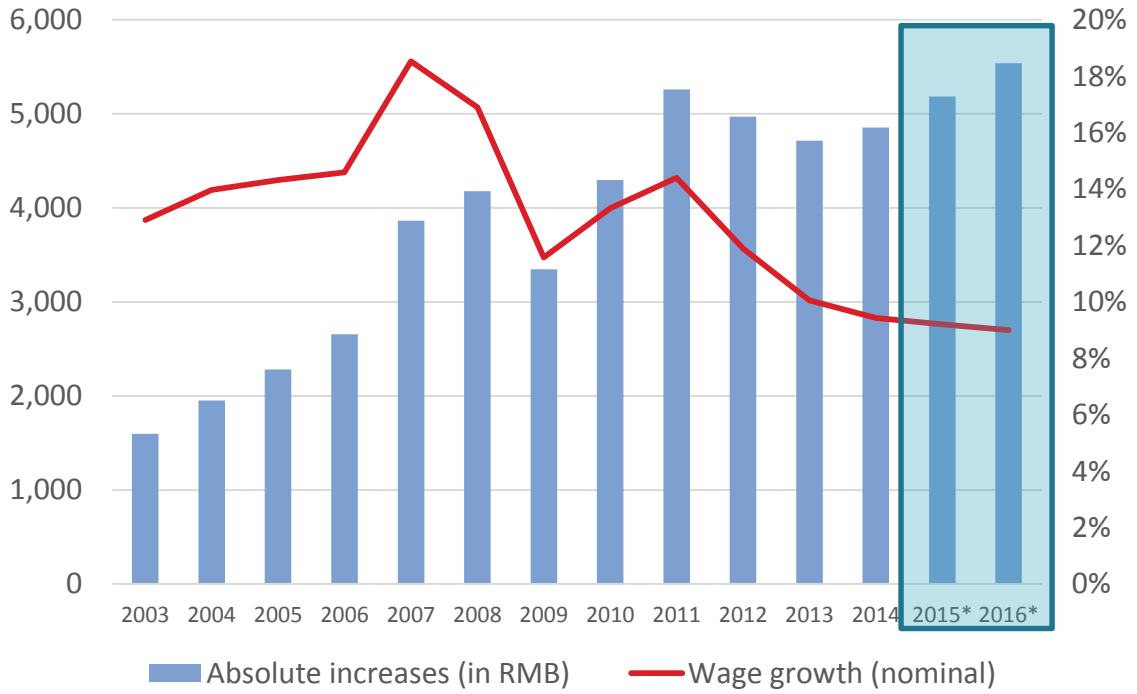
Top 3 Business Challenges



Evaluation of Wage Increases

- Wage growth measured in % has been declining steadily since 2011
- Measured in absolute terms wage growth has increased
- Impact of wage adjustments affecting cost of labor stronger despite slowing increases

Absolute and nominal wage increases (of average national wage)

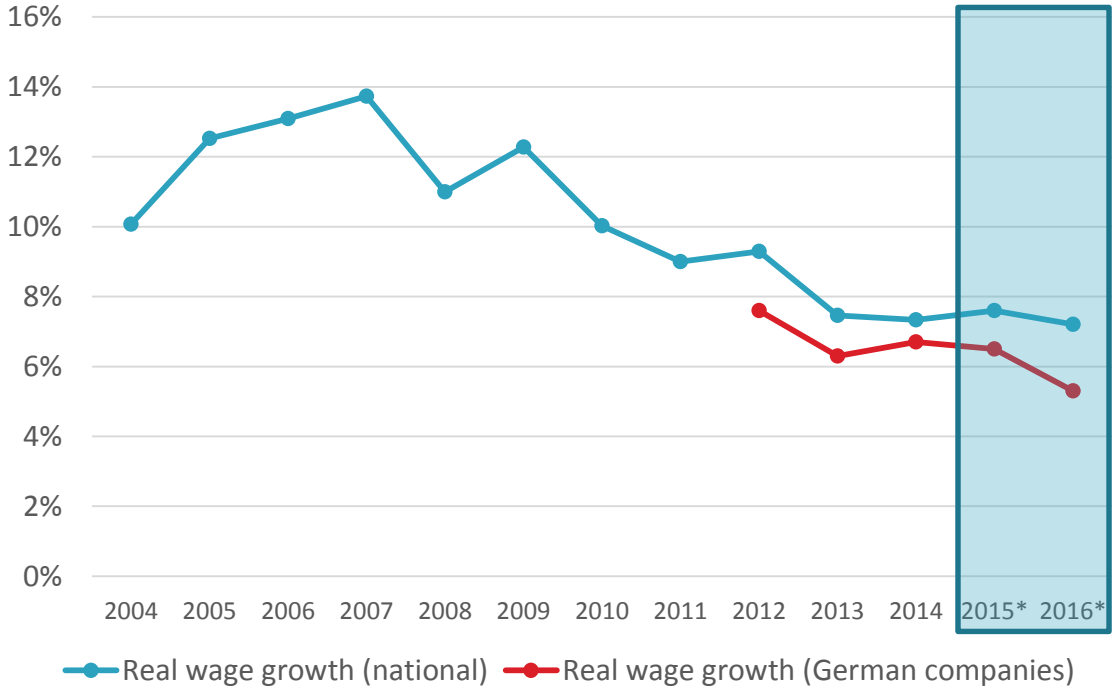


Source:NBS / GCC /* forecast

Evaluation of Wage Increases

- Adjusted for inflation real wage increases have been stable since 2012
- Low inflation environment suggest that there is no real downward adjustment of wage growth

Real wage development

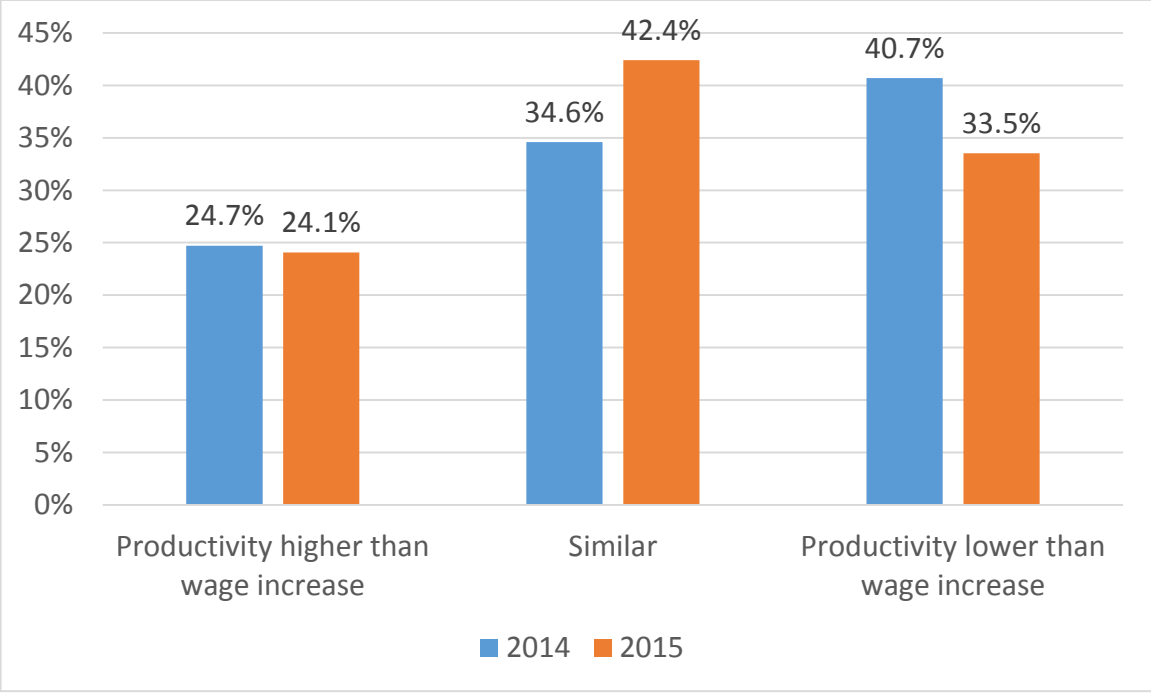


Source:NBS / GCC /* forecast

Evaluation of Wage Increases

- Productivity increases have been higher or similar for 2/3 of companies
- Survey suggests that average productivity at German companies increased by 8.1% in 2015

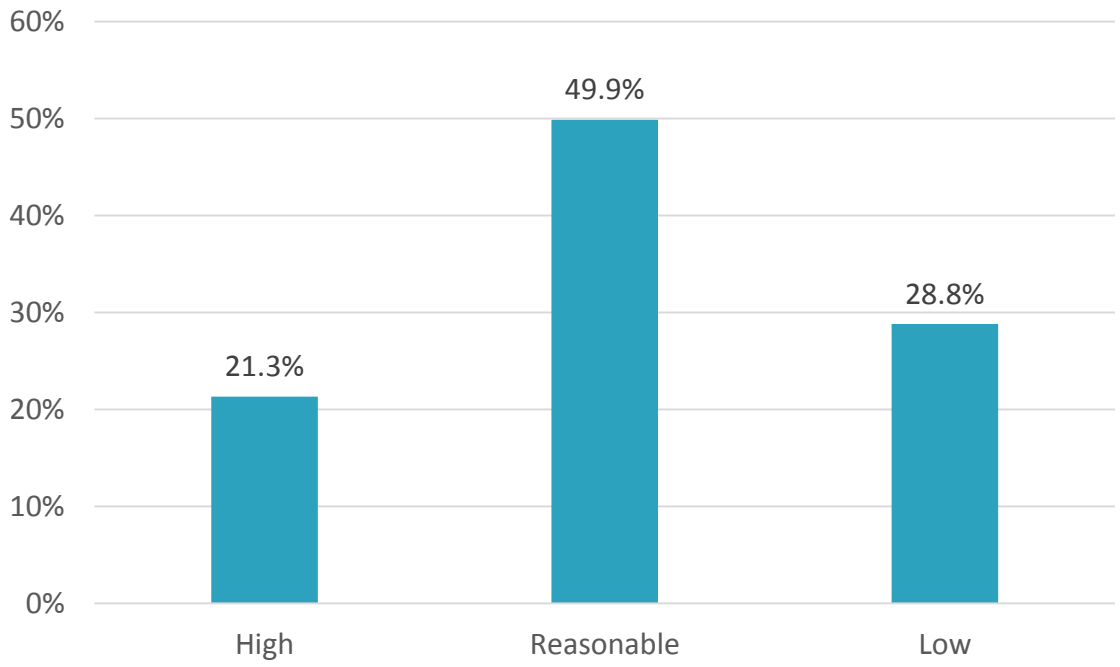
Wage increases and productivity at German companies



Evaluation of Wage Increases

- Taking employees' productivity and qualifications into account majority perceive wage levels as reasonable or low
- Just over 20% already perceive wage levels as being too high

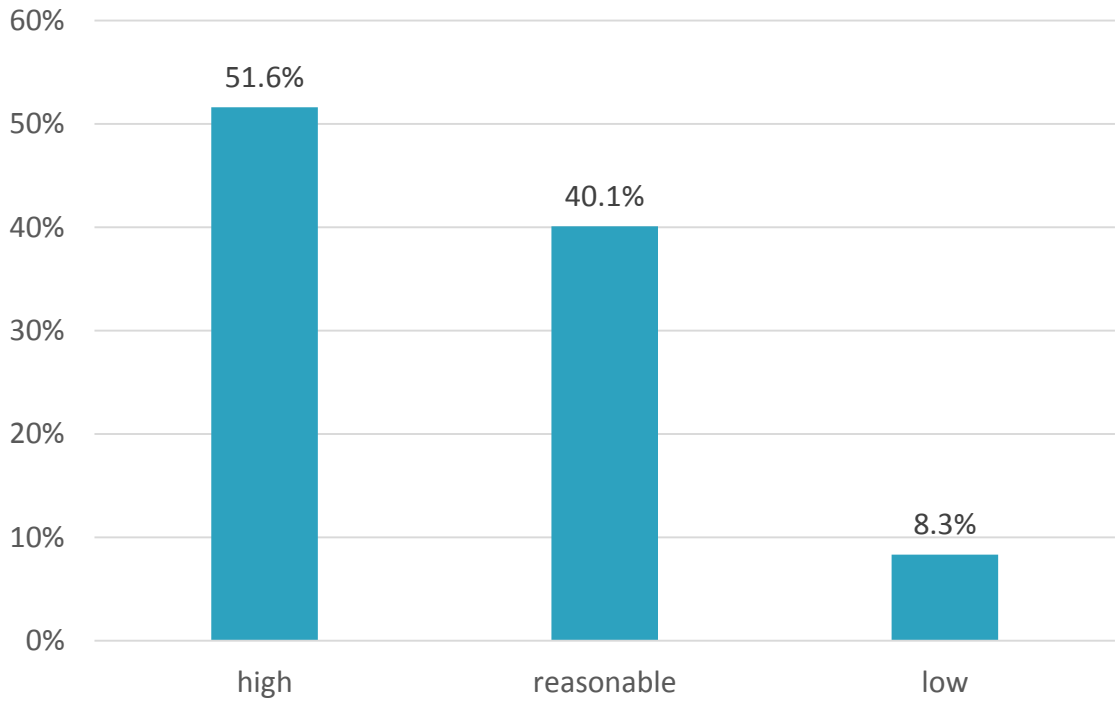
Perception of wage levels



Evaluation of Wage Increases

- Foreign managers with different evaluation of wage levels and productivity
- Only minority perceive wage levels as being low

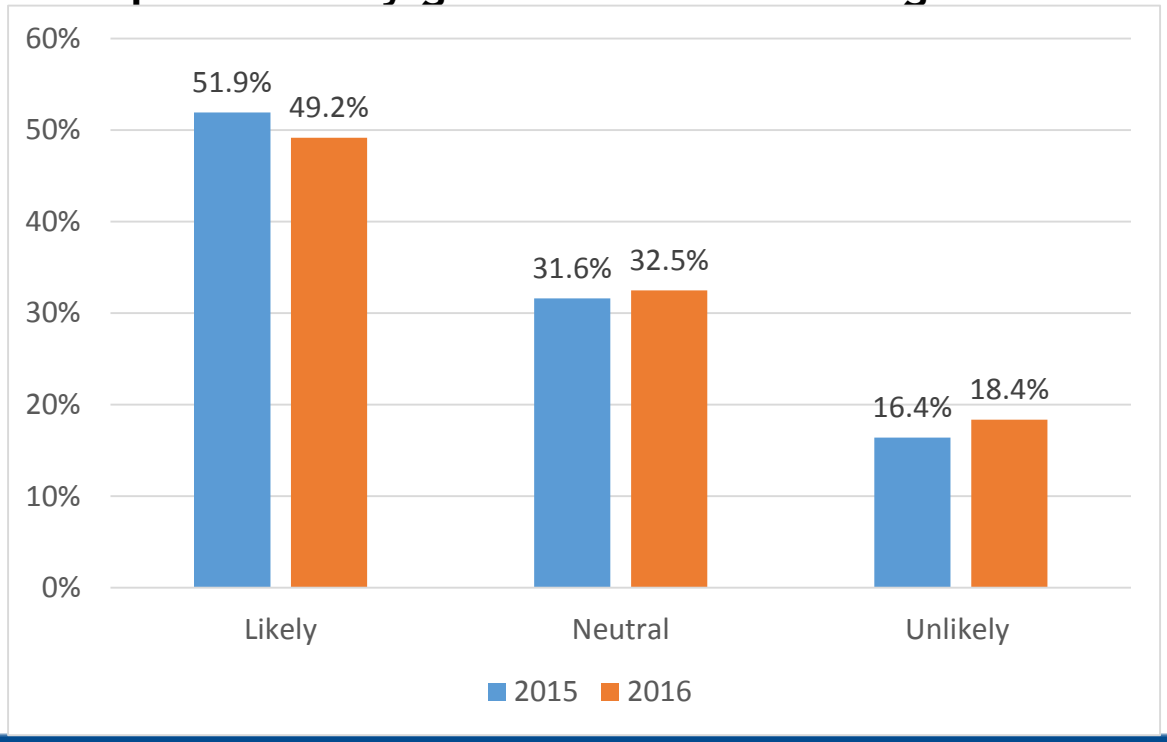
Perception of wage levels by foreign managers



Evaluation of Wage Increases

- German companies remain mostly optimistic about future productivity gains
- Evaluation stable compared to previous year
- Majority of foreign managers more pessimistic

Likelihood future productivity growth will match wage increases



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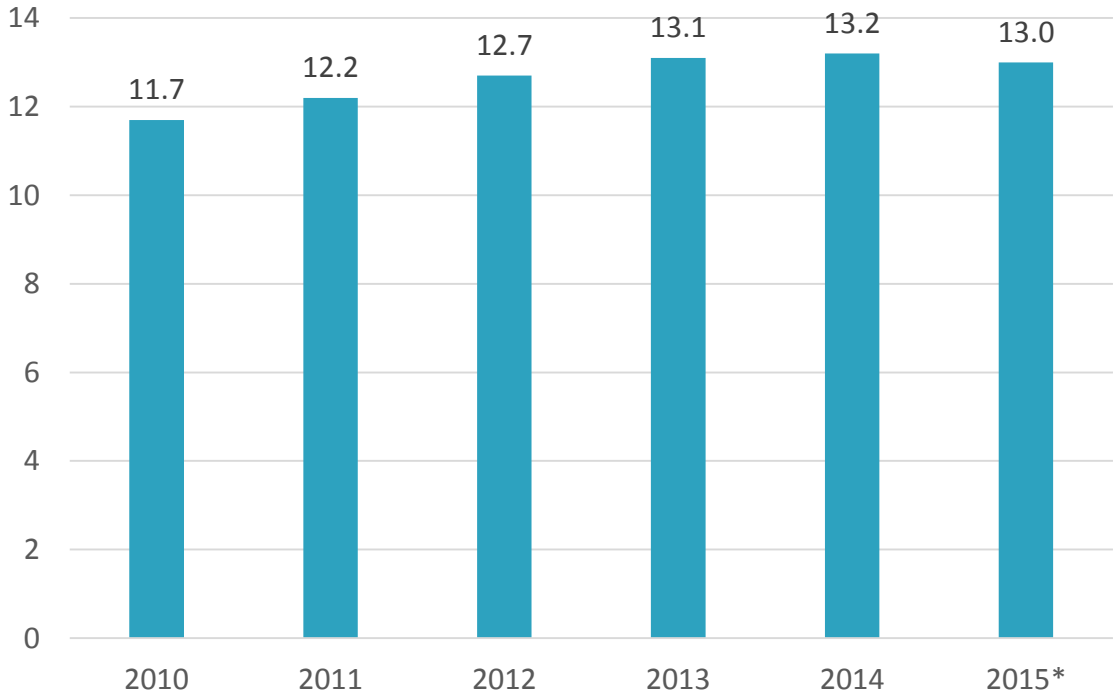
Labor Market Environment

- Labor market has remained resilient as economy slows
- Strong growth in service sector jobs has been compensating slowdown in other areas
- However, the job growth is increasingly starting to be affected, -2.6% in H1
- Government has already launched several support projects

New urban jobs (in million)

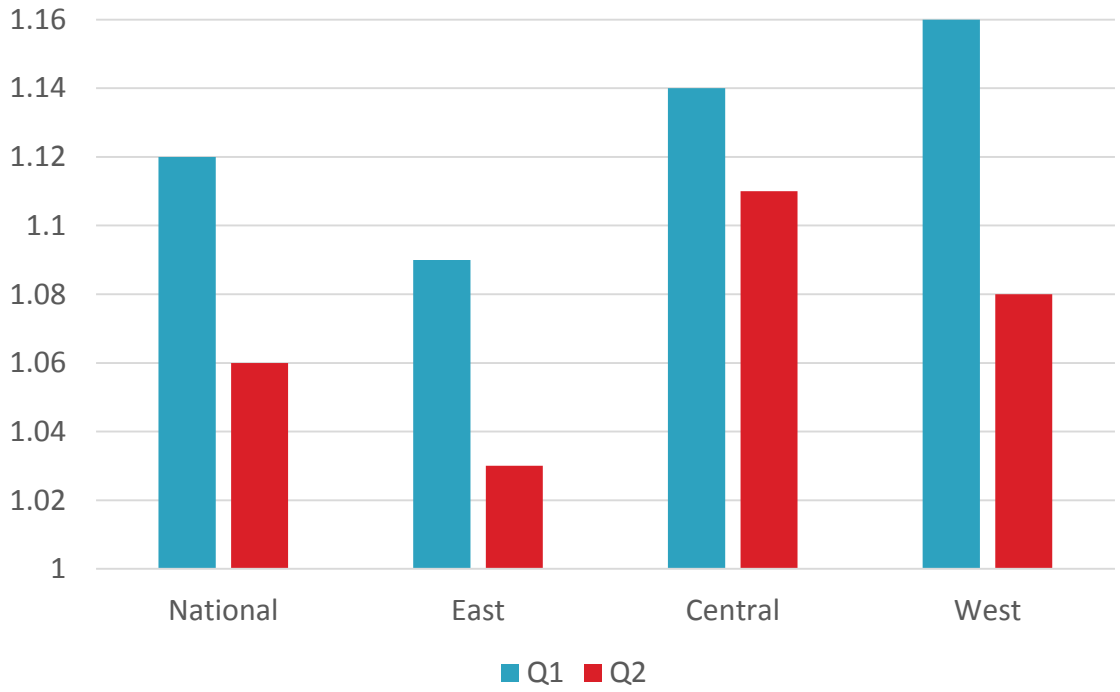


Source:NBS / GCC /* forecast

Labor Market Environment

- Labor demand continues to be larger than labor supply (>1)
- Significant downward adjustment in Q2
- Sectors supporting job growth also coming under pressure

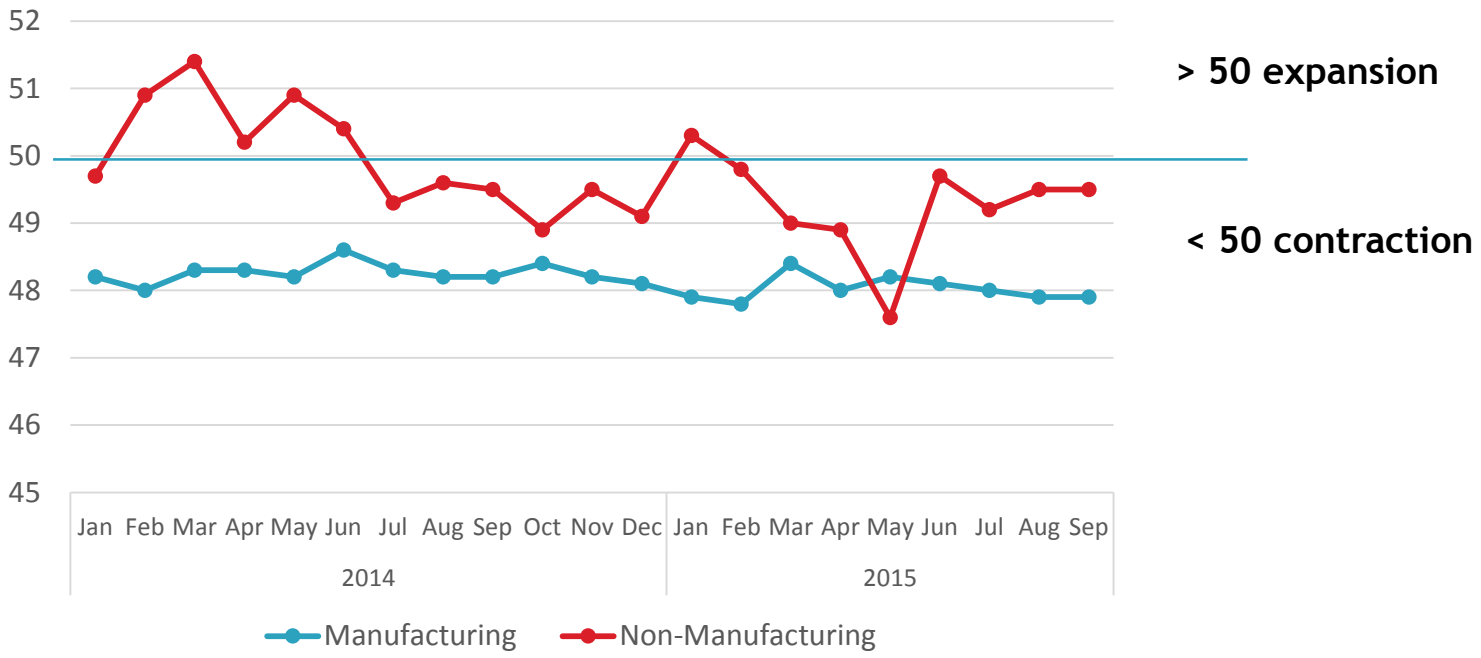
Labor demand



Source:NBS

- Manufacturing industries have been laying off workers since 2014
- Employment demand at service sector better, but also indicating contraction

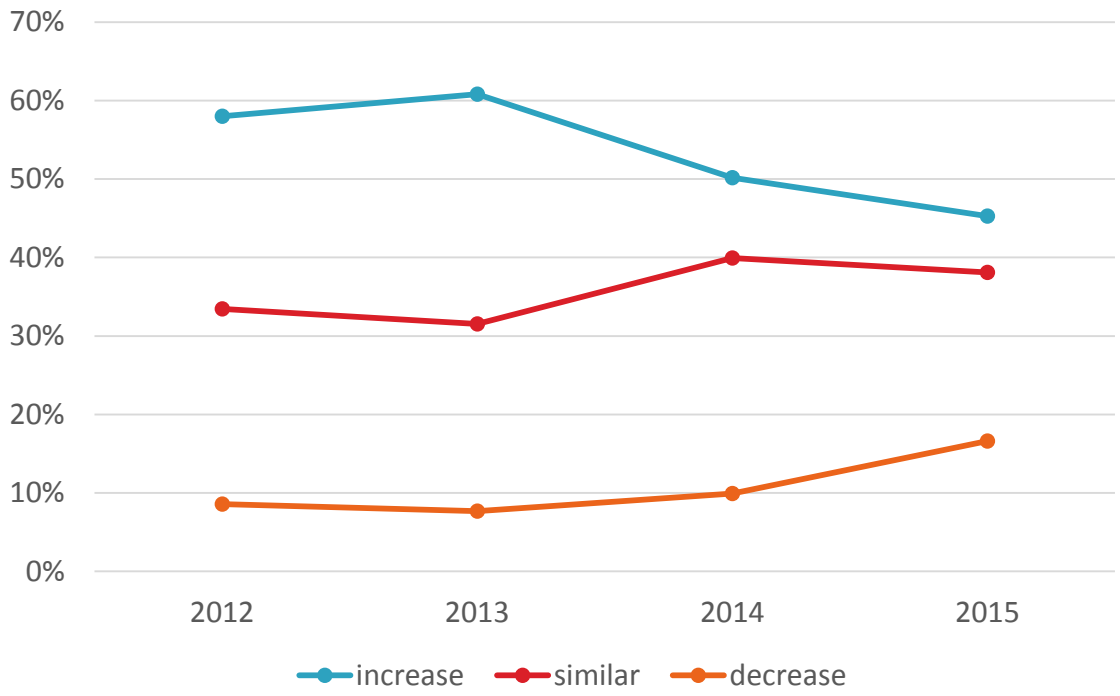
PMI sub-index on employment



Source:NBS

- Expansion of labor force at German companies slowing since 2013
- Slowdown in key German industries affecting growth prospects and reducing demand for labor

Employment intentions German companies

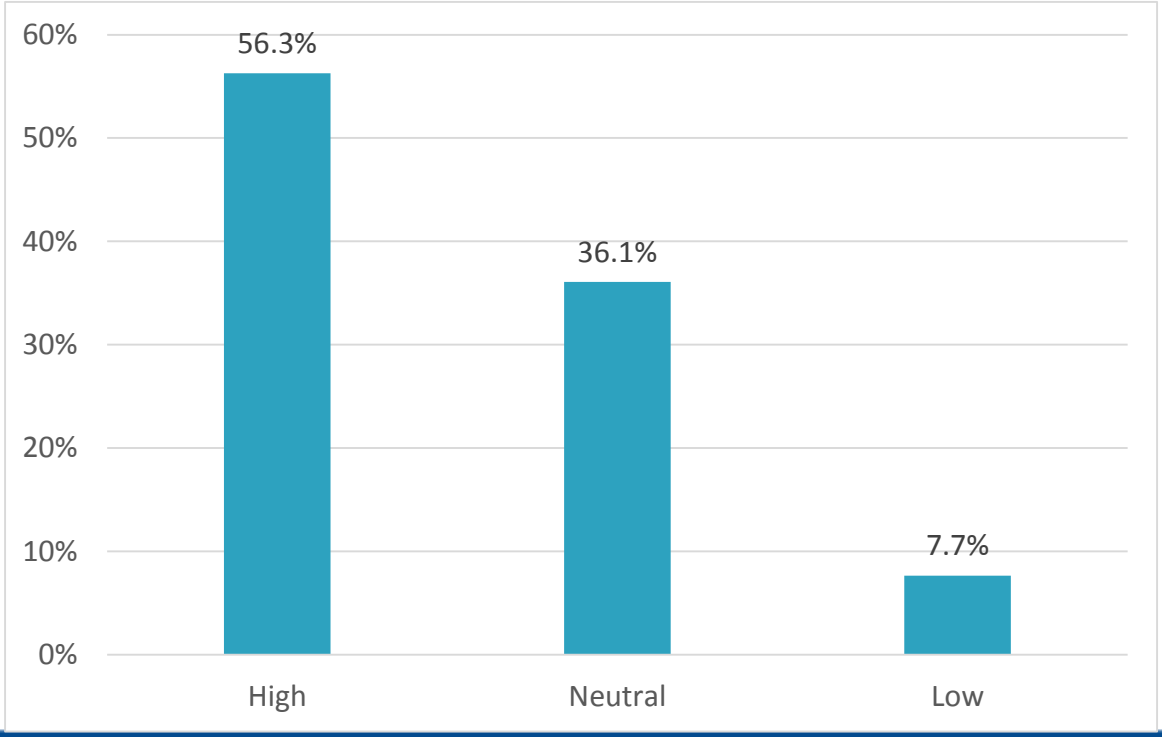


- Skills mismatch on labor market persists
- Despite lower labor demand, finding qualified staff remains a major problem
- Insufficient professional skills and too high salary expecations major reason vacant positions cannot be filled

Reasons vacancies cannot be filled

- Effort of training needed in order to obtain necessary skill level of staff is high
- Qualification of labor pool a major problem
- Deficiencies in educational system need to be compensated

Required training to achieve necessary skills



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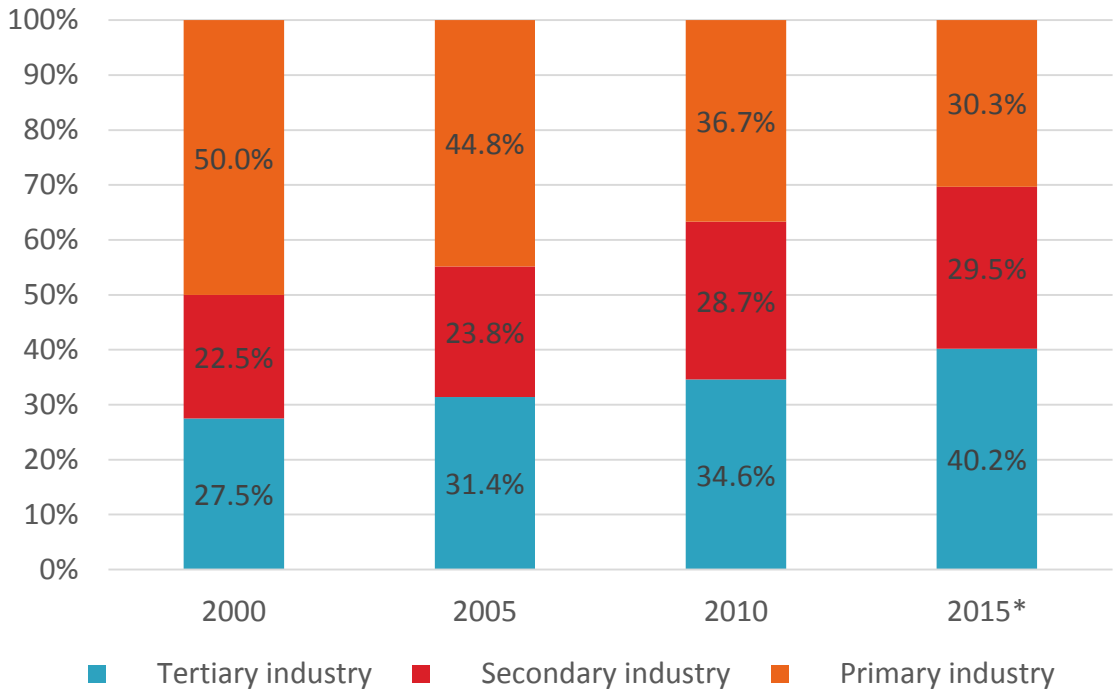
- China's labor market structure is transforming
- Importance of service sector expanding
- Share of labor in manufacturing likely to start declining

Employment structure

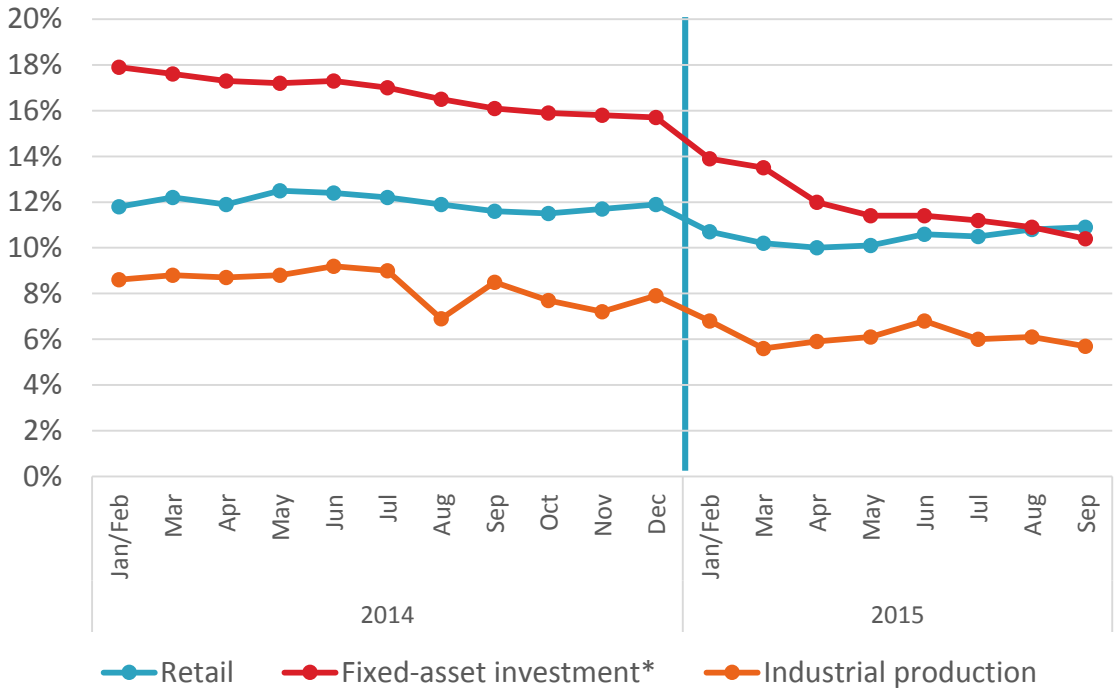


Source:NBS / GCC /* forecast

Economic Outlook

- Economic slowdown has not bottomed out yet, weak Q3 data
- Slight recovery possible in Q4
- 2015 GDP growth likely to achieve 7%
- But overall growth will shift to lower levels in 2016

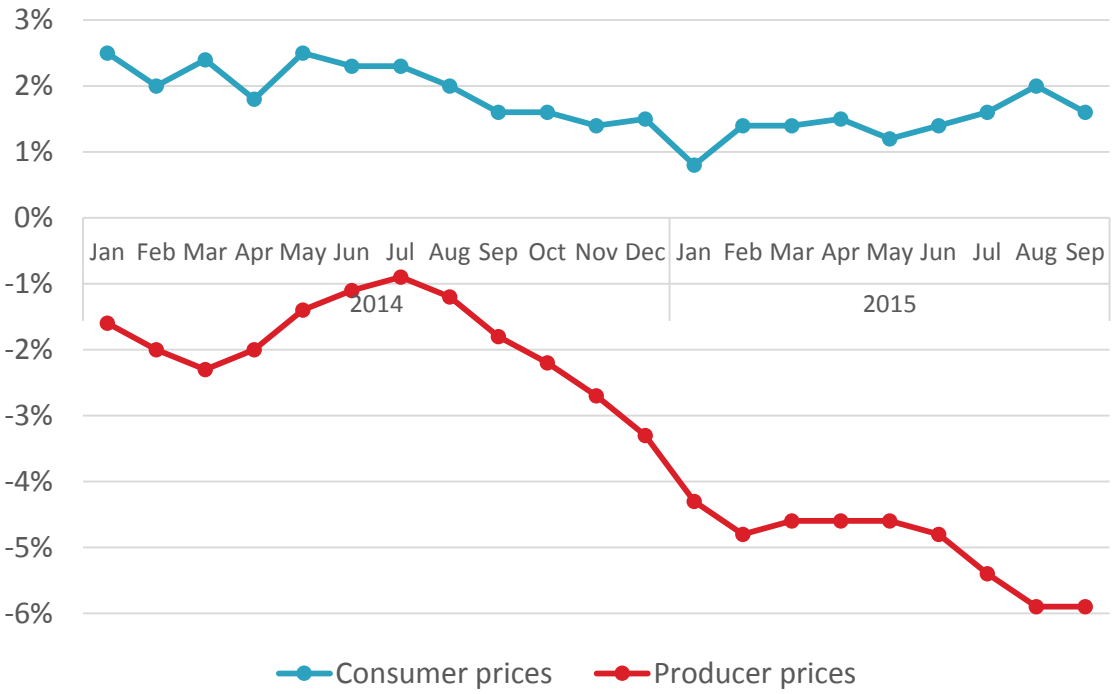
Development of key macroeconomic indicators



Source:NBS

- Low inflation environment to continue
- CPI slightly recovering, but at low levels
- Overcapacities and slower growth affecting producer prices

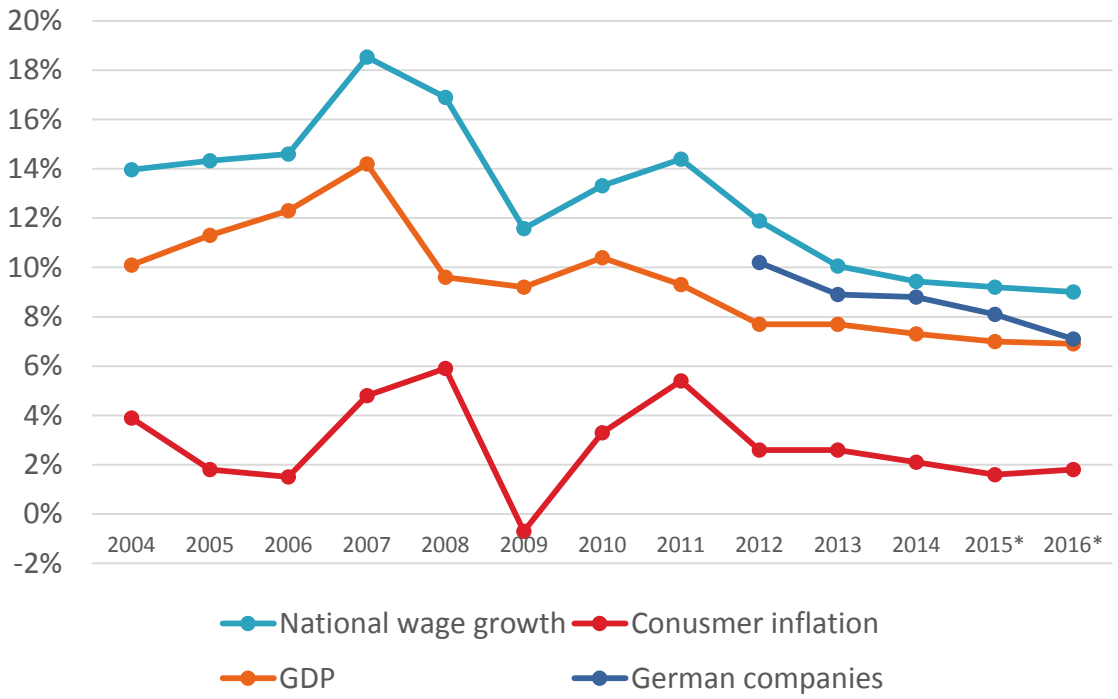
Development of price levels



Source:NBS

- Slower economic growth to affect labor market
- Low inflation to contribute to easing wage increases

Wage growth and economic development



Key developments

Wage increases

- Despite lower wage increases, rising labor cost a key business challenge
- Achieving productivity growth remains crucial

Labor market environment

- Skills mismatch persists with high competition for highly skilled professionals and workers
- High level of training necessary

Outlook

- Economy shifting to lower growth levels
- Look out: labor contract law, social insurance, retirement age, new 5-year plan

- Full Labor Market and Salary Report 2015/16 available for GCC members
- Flash survey will follow in March 2016
- PPT available on request

Thank you!

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