

Labor shortage, developer funding, crime

■ The most severe labor shortage we have seen

A CFO we interviewed recently told us that the latest labor shortage is the most severe she has ever experienced (China on the beat issue No. 15, "[An interview with a CFO on labor shortage](#)"). For the first time, a shortage of labor has become a serious headache for her company (with about 9,000 workers in the Pear River Delta, or PRD). This is inline with our observations elsewhere. After surveying press reports over the past 10 years, we noticed that the first round of labor shortage in 2003/04 largely centered around the PRD (Chart 1). The second round in 2007/08 had spread to the Yangtze River Delta (YRD) – Chart 2. What's particularly worrying with the current round is that it has even affected traditional migrant worker exporting regions such as Hubei (Chart 3). More anecdotes inside.

In general, we believe cost pressure in the low end labor market should hurt labor intensive, low value add and export oriented industries the most, e.g. some apparel, shoe, furniture, electronics makers and construction companies. On the other hand, low end consumption related companies, e.g. some sportswear companies and F&B companies (Want Want, China Resources), should benefit the most.

A turning point of the property policy? Not so fast

China Securities Journal, citing an unnamed authority, reported that China Securities Regulatory Commission (CSRC) and Ministry of Land and Resources (MOLR) have agreed on approval procedures for developers' secondary fund raising exercises. CSRC had de-facto suspended all such activities by developers since October 2009, although no official announcement was made. The market expects that developers will be allowed to raise funds again soon. As a result, A share property stocks went up by ~3% on average yesterday. We doubt the latest development represents a turning point of government's property market policy. Nevertheless, we like developers for their valuation and our belief that the market has misjudged the impact of government's crackdown on the property market. More inside with a list of government property related policies over time.

Crime rate, property, income distribution

Ever wondered why the Chinese government is so concerned about slow economic growth and why one of the key focuses of the upcoming National People's Congress is on income distribution? The newly released Blue Book on Crimes by China Academy of Social Science (CASS) shades some light on this. More inside.

Equity Strategy

Investment Strategy | China
26 February 2010

**Bank of America
Merrill Lynch**



David Cui >> +852 2536 6477
Strategist
Merrill Lynch (Hong Kong)
david.cui@bamf.com

Andy Zhao >> +852 2161 7907
Strategist
Merrill Lynch (Hong Kong)
andy.zhao@bamf.com

Tracy Tian, CFA >>>
Research Analyst
tracy.tian@bamf.com



- Labor shortage spreading to traditional migrant worker exporting regions
- Hurting low end export oriented manufacturing but benefiting low end consumption
- Developers may be allowed to do secondary fund raisings again
- What the surge in crime cases in 2009 tells us.

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

>>> Licensed by The Securities and Futures Commission of Hong Kong and not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 11 to 13. Analyst Certification on Page 11.

Chart 1: Labor shortage: 2003/04 largely in Guangdong

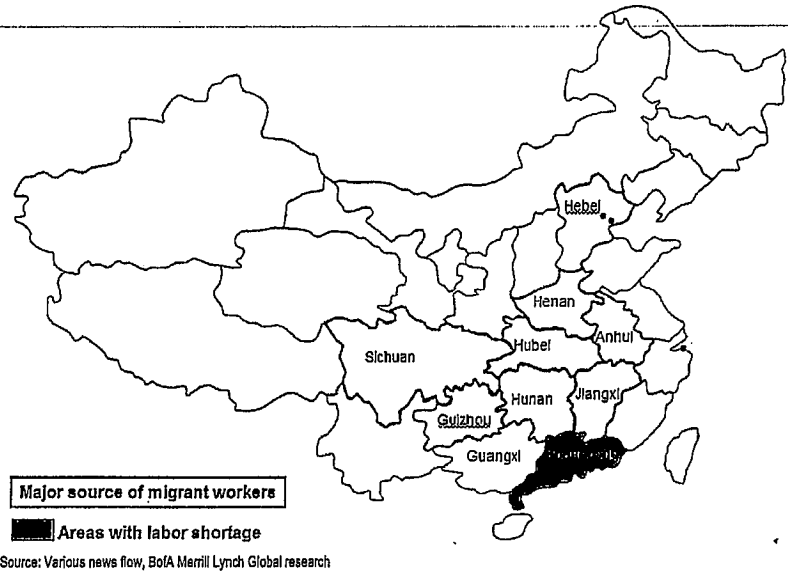


Chart 2: Labor shortage: 2007/08 in Guangdong, Jiangsu and Zhejiang

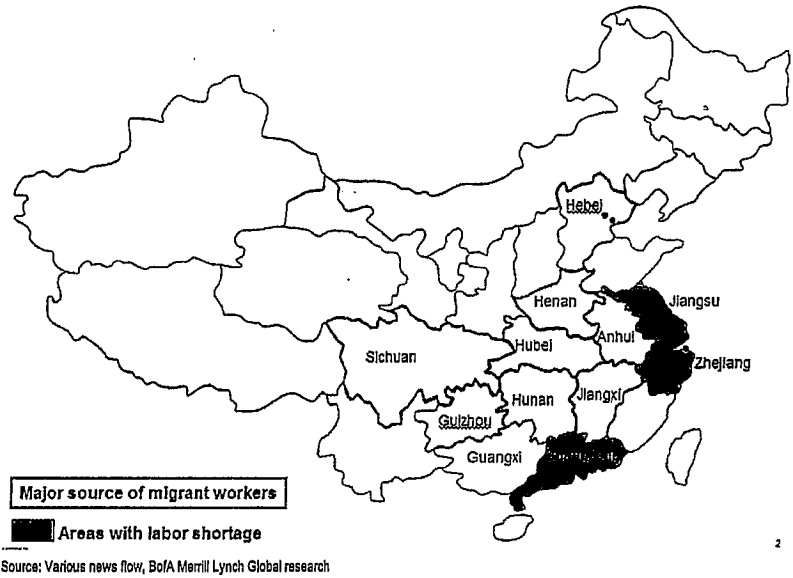
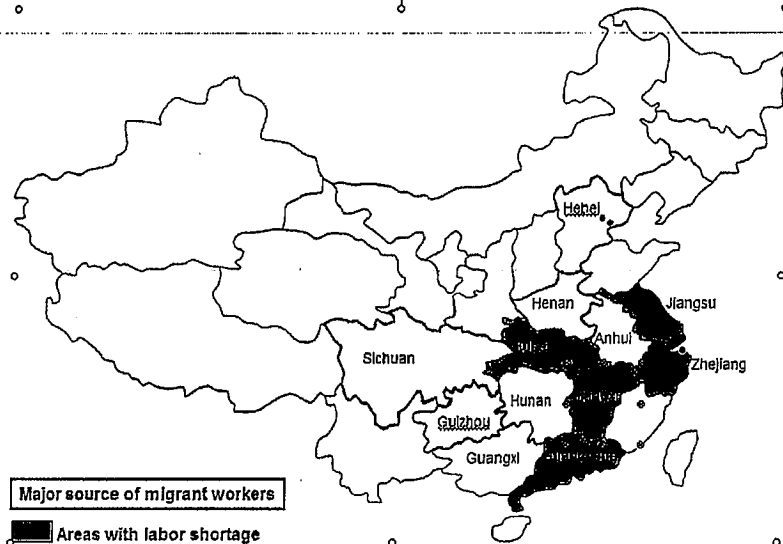


Chart 3: Labor shortage: 2010 in Guangdong, Jiangsu, Zhejiang, Hubei and Jiangxi so far



Source: Various news flow, BoFA Merrill Lynch Global research

Labor shortage anecdotes

One of the reasons for the labor shortage in the coastal manufacturing regions we identified in our CFO interview is that workers nowadays much prefer to work near their hometowns because living and transportation expenses are much lower. 21st Century Business Journal reported a couple of such cases in Hubei Province, traditionally a big source of migrant workers for the coastal areas. Mr. Guo and his wife are 68 and 64 years old respectively, but just changed jobs as their new employer "is located in a more developed village". They are chicken farm workers. For 5 to 6 hours of easy work a day, they can now make Rmb14K a year each. In contrast, an average migrant worker makes about Rmb16K per year in the PRD in 2009, including about 80 hours overtime per month, according to the article. Shortage is so serious, chicken farm owners have to venture into mountains to find people to hire. Industries closed to senior people previously now welcome them. A 64 year old relative of the old couple is working at construction sites, climbing scaffold. His employer initially hesitated to hire him because of his advanced age but had no choice after looking around.

According to the same article, a textile maker in Jiangxi province now has about 10% of its work force in the 55-70 year old age group of 55 – 70. Note that both Hubei and Jiangxi are China's major sources of migrant workers.

Oriental Morning Post reported that a 25-year old worker in Zhejiang Province rejected a polishing job offer with a monthly salary of Rmb4,000 because he considered the occupancy not good for his health. In Shanghai, some employers in the manufacturing and service industries are so desperate that they pay commissions to taxi drivers at railway/long distance bus stations if they can bring just-arrived migrant workers to their factories.