

FOXCONN'S WAGE INCREASES MAY IMPACT WORLD ELECTRONICS INDUSTRY



Following Foxconn's increase in wages for its workers in China, Hewlett-Packard and Dell Inc. are keeping a close watch on developments, and may be compelled to increase prices for their own products if the cost of labor continues to rise. Foxconn Technology Group, the major contract manufacturer for players such as Apple, HP, Dell, Nokia and Motorola Mobility, last week raised wages for its workers in China by 16-25 percent. This, Foxconn's third hike in labor wages since 2010, mirrors a rising trend across the Chinese electronics manufacturing industry, which could impinge on margins at the likes of HP and Dell. In what HP Chief Executive Meg Whitman described as a potential industry-wide phenomenon, she said, "If Foxconn's labor cost go up, their product cost to us will go up. We have to decide how much do we pass on to our customers versus how much cost do we absorb". She said rising wages in China could eventually have a ripple effect across the world electronics industry. Dell Chief Financial Officer Brian Gladden said labor costs are a "very, very small piece" of the total cost of its products. "It's not clear to us how that will play out in terms of our costs," he said. "It remains to be seen how that flows through the overall supply chain. We will continue to watch that". For companies like HP and Dell who operate on razor-thin profit margins and ultra-efficient supply chains, any rise in expenses could spell trouble. Shaw Wu, an analyst at Sterne Agee in San Francisco said, "HP and Dell's PCs could cost a bit more. Those companies have been trying to pass on extra costs. It may or may not work. Their products aren't as differentiated as Apple's". Foxconn, Apple's main manufacturer of iPads and iPhones, has been under intense scrutiny since media carried reports of its poor labor conditions and a spate of employee suicides that took place in 2010. Foxconn announced its wage hike days after Apple said a U.S. non-profit labor group had begun an "unprecedented" inspection of working conditions at its main contract manufacturers, including Foxconn. The Foxconn wage increase comes at a time when Chinese electronics manufacturers face higher costs to attract workers. The government of Shenzhen, southern China, announced an increase of 13.6 percent in its minimum wage in January. According to Foxconn, the pay of a junior level worker in Shenzhen had risen to 1,800 yuan (\$290) per month and could be further raised above 2,200 yuan if the worker passed a technical examination. This is in comparison to a monthly pay of 900 yuan three years ago.