



2023: the year of consumer spending in China

54%

Urban households in the upper-middle and high-income brackets by 2025

Source: 2023 McKinsey China Consumer Report

>5%

Of GDP by 2023, compared with 3% in 2022

Source: Bloomberg

USD 2.5 billion

Savings accumulated in the last 12 months. Additional funds available for consumption

Source: Bloomberg



The re-opening of the Chinese economy boosts consumer spending

Higher savings in 2022 are the main driver. According to McKinsey, the propensity to save was at its highest since 2014¹

End of zero-COVID policy, resumption of growth

Chinese consumers had a difficult year in 2022 for different reasons than in other geographies. Neither inflation nor interest rates were to blame. **The main threat to economic growth was the zero-COVID policy that kept many areas of the country idle for almost three years.**

Moreover, after acting as the growth engine in recent years, **real estate** has shed that role following regulatory changes that sought to strengthen the balance sheets of companies in the sector.

The tone is different as 2023 begins, and this is expected to enable China to regain growth levels above 5%².

Strict lockdowns (zero-COVID policy) were lifted in December 2022, and domestic demand is expected to rebound strongly.

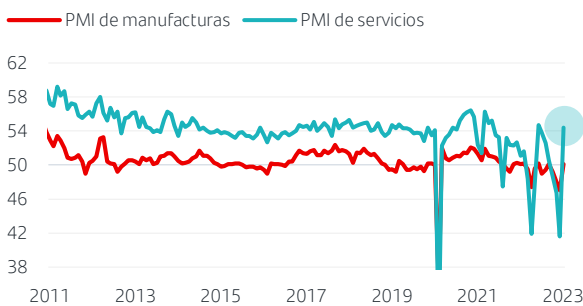
As for **real estate**, the government has relaxed the requirements regarding companies' indebtedness somewhat and is trying to boost demand for housing.

Regulatory pressures on internet platforms have also eased in recent months.

Re-opening boosts confidence and mobility

Business confidence indicators

Source: Bloomberg. Data as of 31/01/2023



Business confidence indicators, a barometer of economic activity, have been quick to react: in January 2023, the Purchasing Managers' Index (PMI) for services rose by more than 12 points (to 54).

This indicator reflects the expectations of sectors such as hospitality, tourism and out-of-home leisure activities, among others, and is a clear sign that the policy change is having an immediate effect on economic sentiment. Levels above 50 indicate that an economy is expanding.

Commercial flights in mainland China

Source: Reuters, Variflight January 12, 2023



Commercial flights also evidence the recovery in activity. The chart shows a recent upturn in mainland China, which has registered a 2.5-fold increase.

Domestic tourism will recover faster due to persisting travel restrictions in third countries, according to Julius Baer³. That same report estimates that **domestic travel should recover to 70-80% of pre-pandemic levels** in the first half of this year. And it projects even higher volumes in the second half of the year as herd immunity is achieved.

1 2023 McKinsey China Consumer Report | 2 Bloomberg Economic Forecasts | 3 Investor confidence returns amid China's cyclical boost (<https://www.juliusbaer.com/en/insights/market-outlook/investor-confidence-returns-amid-chinas-cyclical-boost/>)

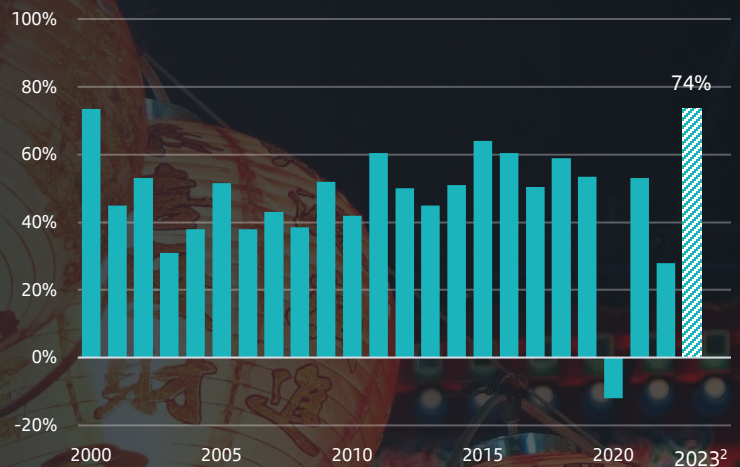
China's burgeoning middle class will drive growth

Citigroup estimates suggest that consumer spending will account for 74% of growth by the Chinese economy in 2023.

The middle class has expanded by double digits in recent years. It is expected to account for 54% of urban households by 2025 according to McKinsey¹. These are aspirational consumers looking for premium products and demanding quality at good prices. Local brands have been able to detect the population's needs and have positioned themselves in the market based on quality and innovation, rather than low prices.

Consumption's contribution to GDP growth

Source: Citigroup, National Bureau of Statistics.



Of the total 1.4 billion population (2019 World Bank figure), the Brookings Institution estimates that 400–500 million enjoy a middle-class lifestyle with private property, personal automobiles, better healthcare, accumulation of financial assets, and the ability to afford foreign travel and education abroad for their children. Brookings also states that by 2019, 40 years after China began its economic reforms, GDP had increased 60-fold and per capita income was 25 times higher. **GDP per capita** rose from about USD 1,000 in 2001 to USD 10,000 in 2020 and is expected to reach USD 30,000 in 2035.

Savings accumulated in the last 12 months (through November 2022) amount to 17 billion Renminbi, equivalent to USD 2.5 billion.

Accumulated savings (RMB trillion) (12-month moving average)

Source: Bloomberg. Data as of 31/12/2022



¹ 2023 McKinsey China Consumer Report | ² Estimate

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