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Revival of the China consumer post stimulus

April 2025

Key Takeaways

- China's consumption has risen year-to-date and is expected to maintain its growth momentum particularly after the government introduced their "Consumption Boosting Action Plan" in mid-March.
- The plan aims to reduce costs for households and improve wealth effects in higher tier cities. It also seeks to encourage job creation in tech-driven industries.
- Given this recent consumption boost, we are positive on investment opportunities in China's consumer sector.

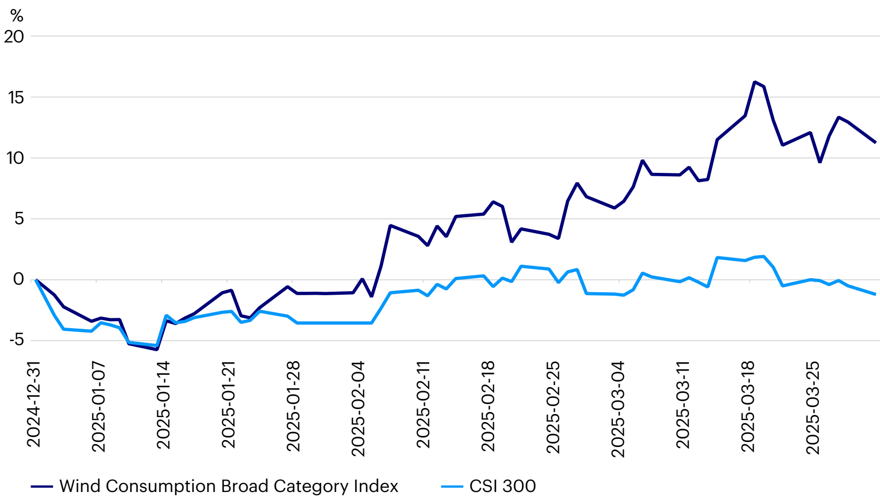
China's consumption has weakened over the past few years due to the pandemic, property market and stock market correction, as well as weak income expectations with lower corporate profits driven by oversupply issues in many sectors. However, in 2025 year-to-date, and specifically after the government announced its consumer stimulus plan in March, we have seen a rise in consumption and a boost in market expectations and investor sentiment on the consumer sector.

During the recent Two Sessions, China's major annual political meetings held in early March, the 2025 Government Work Report proposed a focus on promoting consumption and benefiting people's lives, along with related consumption-boosting measures and policies.

On 16 March 2025, the General Office of the Communist Party of China Central Committee and the State Council jointly issued a "Consumption Boosting Action Plan" which specified eight actions, namely: 1) increasing the income of urban and rural households; 2) protecting the people's spending power; 3) improving the quality of service consumption; 4) upgrading the consumption of big-ticket items; 5) improving the quality of consumption; 6) optimizing the consumer environment; 7) refining restrictive measures; and 8) enhancing policy support.

The consumer sector has outperformed the CSI 300 year-to-date, and particularly in March after the consumer stimulus plan was announced, helping to improve market expectations and investor outlook on the consumer sector (Figure 1).

Figure 1 – Performance of Wind Consumption Broad Category Index relative to CSI 300



Source: Wind, data as of March 27, 2025.

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In the past, during economic downturns, China's government policies focused on boosting supply-side investment as both domestic infrastructure and property demand as well as China's significant export potential were able to help absorb the new supply of products. At the same time fixed asset investment (FAI) and export growth could also generate new jobs which could in turn increase per capita income and generate more household consumption power.

However, this time around, FAI and particularly property investment cannot be the main driver of China's economic stimulus due to the oversupply of property and weak demand. Given the significant tariffs imposed by the US on China and increased trade tensions around the globe, exports also cannot absorb the excess supply of products. This is why China's recent economic stimulus has had to focus more on demand than supply. We believe the recent consumption stimulus will impact China's households from both an income and cost perspective. While households will not be receiving direct cash handouts, the impact of the stimulus is likely to be more indirect and lead to cost reduction, wealth effects, new consumption creation, and job creation from new industries.

Cost reduction measures are expected to continue with the implementation of the Consumption Boosting Action Plan

In terms of cost reduction methods, the government will continue to expand their consumer goods trade-in program[1], which offers the largest near-term cost savings for Chinese households. The trade-in program started last year and helped boost retail sales in China. The quota for trade-in subsidies is expected to double to RMB 300 billion this year from 2024's RMB 150 billion, which could help continue to support retail sales growth in 2025.[2]

The Consumption Boosting Action Plan also aims to improve the social security safety net for households by relieving the cost of childcare and pensions for example, which could help to improve consumer purchasing power. Local governments are expected to allocate more fiscal resources to cover social security subsidies such as childcare, education, medical care, skills training and elderly care, etc.

Considering the backdrop of declining birth rates in China, childcare support has become quite critical to boosting consumption in the short term and the long term. Some local governments have already announced these new measures, such as in Hohhot in Inner Mongolia:[3]

- Hohhot offers households RMB 10,000 per child per year for up to one year old for the first child, up to five years old for the second child and up to 10 years old for the third child.
- The "One Cup of Milk" program of Hohhot provides year-round nutritional support for postpartum mothers. Mothers holding a Hohhot hukou[4] of newborns born after March 1, 2025, can receive RMB 3,000 worth of vouchers to buy milk products (including two RMB 1,500 worth of vouchers offered by China's two major dairy brands).

If similar Hohhot standards are applied in the rest of the country, we believe we can expect a strong boost to consumption for low-income families in China.

Aside from childcare, there are other social security areas that are expected to receive policy support, namely: 1) raising basic pensions for urban and rural residents and increasing government subsidy standards for basic medical insurance; 2) implementing an individual pension system nationwide; and 3) leveraging big-data systems to monitor low-income households and launching tiered assistance programs targeting vulnerable seniors.

1. The consumer goods trade-in program covers various consumer products including cars, home appliances and electronics.
2. How China is doubling down on trade-ins to boost sluggish consumption, March 2025, reuters/world/china/how-china-is-doubling-down-trade-ins-boost-sluggish consumption-2025-03-17/
3. Chinese cities offer generous subsidies to boost birth rates, March 2025, globaltimes.cn/page/202503/1330172.shtml
4. Hukou is a household registration certificate identifying the residential status of a citizen.

Household incomes are expected to benefit from property and stock market stabilization measures

On income side, middle income households are expected to benefit from the wealth effect if China's property market and stock market start to recover. Historically it has been rare to see the government emphasize stabilizing the stock market and the real estate market in a consumption stimulus plan. The fact that this is a part of the 2025 plan indicates that policymakers believe the wealth effect is very important for consumption.

The value of property is a significant component of a household's wealth in China. On average, housing assets account for more than 70% of Chinese households' wealth. In major cities like Beijing and Shanghai, this percentage can be even higher, reaching around 80%.[5] The wealth effect from property can therefore have huge impact on a household's willingness to consume. One of the key reasons behind weak consumption in the past few years is that property prices have corrected significantly. Stabilizing property prices in Tier 1 cities is key to generating positive wealth effects for middle class households. The government's new policy focus is to stop property price declines at least in the Tier 1 cities.

We've also seen some positive developments recently in China's property sector. First, home loan interest rates may continue to decline in 2025 and efforts to cut home loan interest rates could further reduce the interest payment burden for homebuyers. Second, rental yields have exceeded the 10-year treasury yield after the property price correction over the past few years and thus property prices have now reached relatively reasonable levels.[6]

On the supply side of the equation, the use of funds raised by special purpose local government bonds for the acquisition of land reserves could also be very powerful in boosting property prices. On February 24, the Department of Finance of Guangdong Province released a policy document on issuing two batches of special purpose Guangdong provincial government bonds, with a planned issuance quota for the two batches of bonds totaling RMB 30.72 billion. Funds raised by these bonds will be used to acquire idle land, involving 86 projects in 19 cities in Guangdong.

The plan also mentioned stock market stabilization and developing more suitable bond products for individual investors, which could increase household financial income. In Tier 1 cities in China, households typically allocate around 20 to 30% of their wealth to stocks and funds.[7] A recovery of stock markets will help to further enhance the wealth effect for households in higher tier cities.

Policymakers also recently announced a basket of measures to stabilize the stock market by encouraging insurers, pensions funds, annuities and mutual funds to increase their asset allocation into domestic equities. On January 22, six government agencies, including the Central Financial Office, CSRC (China Securities Regulatory Commission), MoF (Ministry of Finance), PBOC (People's Bank of China), NFRA (National Financial Regulatory Administration) and MoHRSS (Ministry of Human Resources and Social Security), jointly announced the "Implementation Plan for promoting Medium-to Long-term Capital into Capital Markets". This includes encouraging an increase in equity investment for insurers, the National Social Securities Fund (NSSF), pension funds, enterprise annuities, and mutual funds. On top of that, corporations are being encouraged to buy back shares and increase the frequency of their dividend payments.

New policies in the plan are also aimed at increasing disposable income for low-income families. Increasing household disposable income and thereby driving up consumption is a more sustainable method of boosting consumption even though the scale might not be as big at least in the short term. The government is taking measures to drive the reasonable growth of wage income by implementing a policy of unemployment insurance premium refunds, supporting enterprises to stabilize jobs, and helping workers improve their skills. The government is also enhancing their efforts to raise minimum wage standards in a scientific and logical manner, and to adjust minimum wages steadily over time.

5. Is property really 29% of China's GDP?, June 2024, ncesc.com/geographic-faq/is-property-really-29-of-chinas-gdp/
6. Keep an eye on recovery of the real estate market, CICC Research, data as of March 2025.
7. The Rise of Wealth, Private Property, and Income Inequality in China, August 2023, sccei.fsi.stanford.edu/china-briefs/rise-wealth-private-property-and-income-inequality-china

We also expect supply side reforms to generate demand and create new jobs

By boosting supply side reforms, policymakers are looking to avoid excessive investment into oversupplied industries, which can cause fierce competition and poor profitability, and therefore hurt household incomes and consumption. At the same time the aim is to create demand in new industries that can help boost profitability and create new higher paying jobs which can support consumption in the long run.

The Two Sessions meetings pledged to bolster tech innovation by improving the market ecosystem and increasing support for AI applications. The plan also involves supporting innovation in emerging consumption sectors, such as accelerating the development and commercialization of autonomous driving systems, smart wearables, ultra-high-definition video technologies, brain-computer interface (BCI) applications, robots, and 3D printing. It also emphasizes the need to promote the healthy development of the internet platform economy to stabilize the job market and boost consumption.

In terms of culture and tourism, the government is further supporting the development of scenic spots, the "ice and snow economy" (economic activities centered around winter sports and areas with snow), inbound travel, and "low-altitude tourism" (manned and unmanned activities within airspace at below 1,000 meters).

The plan also encourages the development of new products, new business formats, and new operation models. Key measures include: 1) expanding overseas markets for Chinese brands; 2) advancing debut economy initiatives (new products and store launches) tailored to different regions; 3) deepening digital transformation for consumer goods sectors; and 4) fostering integrated service ecosystems through scenario-based innovations and developing industrial clusters.

Investment implications

China's latest consumption stimulus plan is expected to significantly reduce household costs. To a lesser extent the plan is also expected to improve wealth effects for higher tier city households as well as encourage job creation in tech-driven industries. We expect gradual consumption recovery given the combination of direct and indirect measures, as well as those that will take effect either in the short or long run. Cash handouts in the US and other western countries during the pandemic did boost the domestic consumption in these markets however in China this method may not be as effective given the strong savings culture (causing households to simply save this cash in the bank).

China's consumer sector has gone through a large de-rating process in the past 3 years, and we believe valuations are almost at historical lows (Figure 2). With the recent consumption boost, we are positive on investment opportunities in China's consumer sectors such as home appliances, electric vehicles and tourism.

Home appliances:
We are seeing the consumer goods trade-in program continue to advance in 2025, with an increase in the variety of categories such as microwave ovens, water purifiers, dishwashing machines and rice cookers, benefiting the domestic demand for home appliances.

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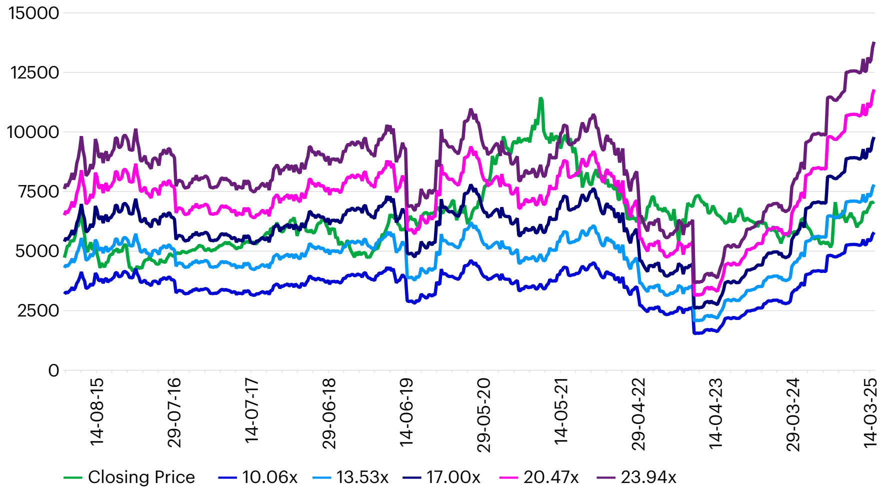
Electric vehicles:
We expect 2025 to be a significant year for both electrification and smart technologies. We believe the continuation of the consumer goods trade-in program will stabilize market consumer confidence, and domestic demand is likely to grow this year. 2025 is the last year for car buyers to gain an exemption on their purchase tax for new energy vehicles (NEVs) and therefore we expect the total volume of NEVs this year to exceed expectations.[8] The speed at which we are seeing iterations of mid- and high-level smart driving technology continues and we are also seeing leading car companies vigorously promote affordable smart technologies in vehicles.

Tourism:
In 2025, both the number of domestic tourists and revenue is expected to see continuing growth momentum with the introduction and implementation of policies supporting China's tourism industry.

Figure 2 – PE/PB bands of Wind Consumption Broad Category Index (2015-2025 year-to-date)



Source: Wind, data as of March 2025.

8. China releases latest NEV catalogue eligible for purchase tax exemption, December 2024, globaltimes.cn./page/202412/1324394.shtml

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