

LGT Vestra Snapshot

The rise of the Chinese consumer

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For a long time, the Chinese economy was characterised by high investment and low consumption. While this combination has contributed to China's strong economic expansion over the past decades, it has also caused many structural problems such as excess industrial capacity and increased corporate debts. To protect the sustainability of its growth, China needed to rebalance its economy from an investment-driven model to one that was more consumption oriented.

For example, for many China observers, 2010 was an archetypal year. After a massive stimulus in 2009, the economy was still growing at over 10%. Furthermore, 74.3% of the population was of working-age (By comparison, the equivalent figure for Germany was around 64.5%). A large working-age population implies an abundant supply of labour, low labour costs, high savings rate, and high returns for capital investment. These conditions, when combined with the right policies (such as opening-up to foreign investment and institutional reforms that allowed increasingly free markets) had generated strong economic performance.

By the end of 2016, the working-age population had dipped to 72%. However, according to the UN, this decline will accelerate to 59.7% by 2050. This major shifts in China's demographic structure will have a profound impact on the economy. The favourable conditions that underpinned high growth are gradually disappearing. The decline in the share of the working-age population and the rise in the old-age population is leading to increased consumption.

As its share of GDP rises, consumption is becoming an increasingly important driver of growth in China. Another consequence of the shifting demographic structure is a change in labour market conditions from structural over-supply to shortage. A tight labour market leads to increased wages, which also boosts consumption.

With the growth of the middle class and rising incomes, Chinese consumer behaviour has undergone remarkable changes. First, consumption upgrades are under way, with consumers moving from mass products to premium products. Second, consumption is shifting from predominantly physical goods to services. Third, retail sales are rapidly moving online with online sales surging at over 30% year on year.

The Chinese consumer is truly on the rise.

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