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China hopes revenge spending will be enough to lift its economy in 2023

Article

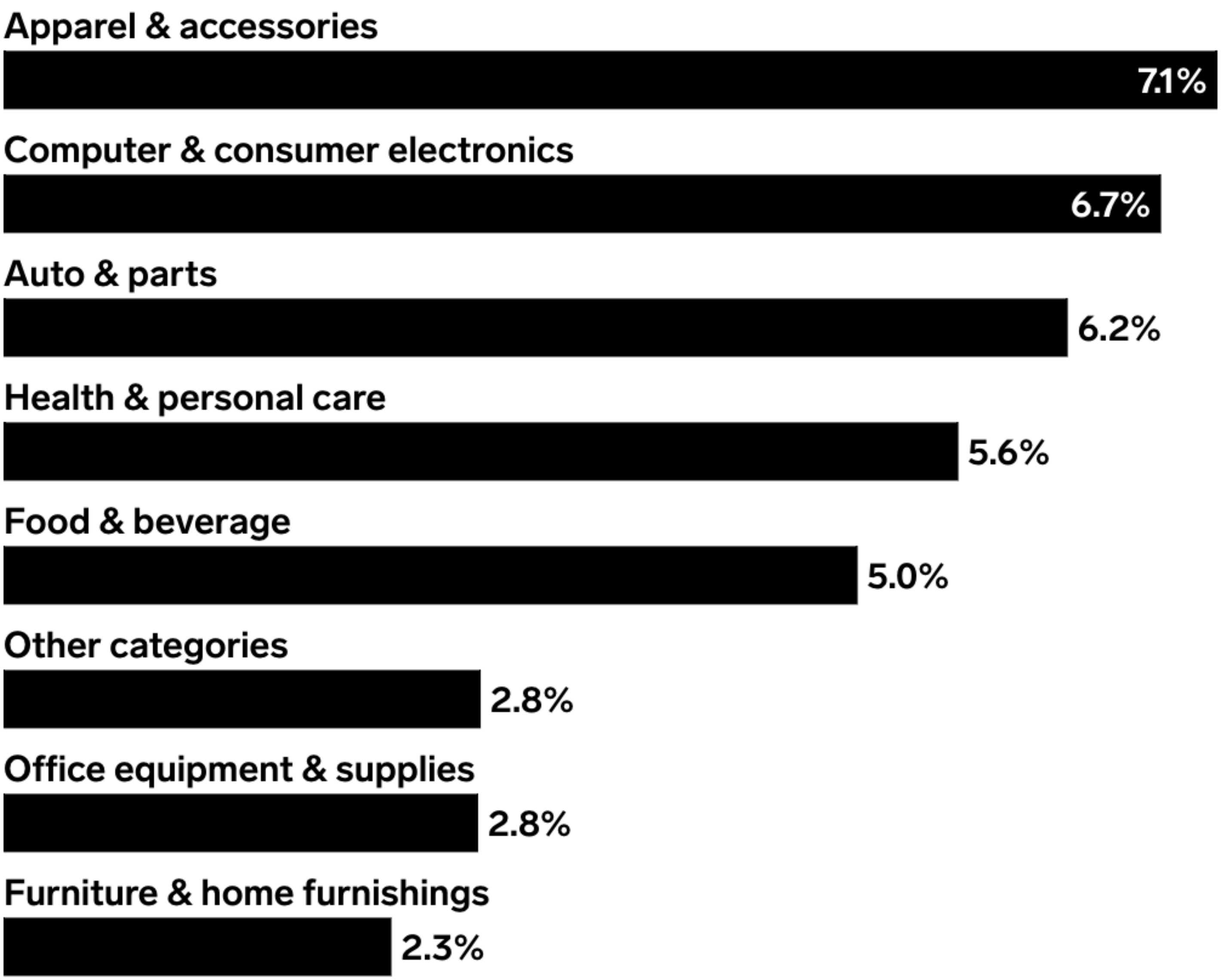
The news: The Chinese government is banking on post-lockdown revenge spending to drive economic growth this year, even as it faces a number of headwinds—global economic slowdowns, a depressed property market—that could slow recovery.

Reasons for optimism: Plenty of signs point to a robust recovery in spending this year as consumers revert to prepandemic purchasing behaviors and spend heavily on services.

- **Consumers are sitting on a tremendous pool of savings.** Deposits held by Chinese households grew by a record 17.84 trillion yuan ($2.642 trillion) in 2022, up 80% year-over-year (YoY), per the People's Bank of China.
- **Service sector activity expanded for the first time in five months in January**, per Caixin's purchasing managers' index (PMI), while businesses reported their highest confidence levels since February 2011.
- **Travel demand is booming.** Domestic tourism during the Lunar New Year rose 23% YoY, reaching 89% of its 2019 level, per China's Ministry of Culture and Tourism. Domestic tourism revenues rose 30% YoY, to 375.8 billion yuan ($55.79 billion).
- Brands and retailers ranging from **Nivea** owner **Beiersdorf** and **Walmart** to **Ralph Lauren** noted an uptick in demand and traffic from Chinese consumers, per Reuters.

Retail Sales Growth, by Product Category

China, 2023, % change



Note: excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and drinking place sales, gambling and other vice goods sales
Source: eMarketer, December 2022

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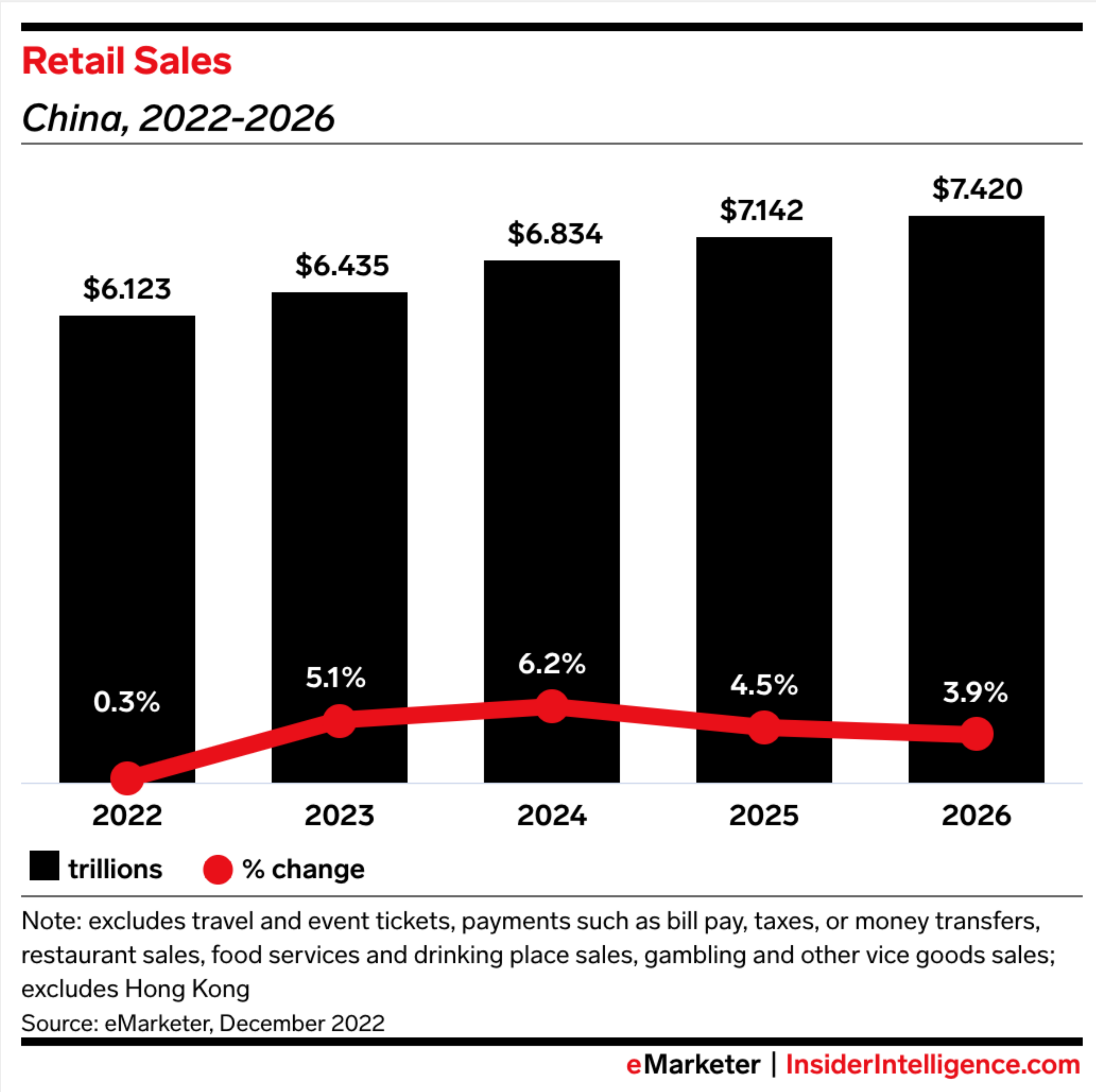
Causes for concern: Despite indicators that China's economy is on the upswing, there are signs of turbulence that may prevent a full recovery from occurring this year.

- Beijing's 5% GDP growth target relies almost entirely on an increase in consumer spending, but its decision to largely forgo fiscal stimulus and continue cracking down on the property market could cause households to keep their money in the bank.
- In addition to weighing on consumer confidence, a difficult housing market means fewer shoppers in the market for household appliances, furniture, and other big-ticket purchases.
- Demand for Chinese exports is dropping amid economic uncertainty in the US and Europe, further hurting the chances of recovery. Exports fell 9.9% YoY in December and continued to fall in January and February, per Reuters.
- And ballooning debt among local governments will lead to reduced spending on infrastructure projects this year, which have historically been the government's preferred way to stimulate the economy and create jobs. That means less room for Beijing to offer stimulus payments to jolt spending, as well as another potential dampener of consumer sentiment.

The big takeaway: China's path to recovery in 2023 will be made difficult by both internal and external factors. The global slowdown in consumption coupled with Beijing's decision to clamp down on property speculation and avoid fiscal stimulus could drive consumers to avoid big-ticket purchases and hold on to their savings.

- Still, spending on services will likely bounce back quickly as households take advantage of their restored mobility to venture back to restaurants and resume traveling.
- Despite the headwinds, we expect total retail sales in China to grow 5.1% this year, more than in the US.



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