

**TRENDS OF PRIVATE CONSUMPTION
IN THE RESTRUCTURING OF
CHINA'S ECONOMY**

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Executive Summary

1. In the process of economic transformation, China has to meet the challenge of rebalancing its economy. The Chinese government is working towards boosting consumption as the driving force behind economic growth after economic recovery in developed countries remains sluggish.
2. The high and still rising saving rate of China's households has triggered a decline in the ratio of private or household consumption to gross domestic product (GDP) over the past 30 years from an average of more than 46.0% in the 1990s to 36% in 2013, well below the 60% global average.
3. Due to the lack of provision on the part of the Chinese government for social security, such as health, pension and education services, the consumption behaviour of households will lead to an increase in precautionary saving and to a decrease in consumption.
4. Population ageing may also be a factor to increased saving as more people need to save more for old age.
5. Most of the middle class and wealthy people live in the urbanised areas, where housing has also become a good investment target.
6. This development has led to ever-increasing housing prices in the big cities, in particular, first-tier and second-tier cities.
7. A spike in housing prices gave homeowners a sense of wealth, thus leading to higher consumption. The impact of the change in housing wealth on consumption is called the housing wealth effect. The recent significant housing price boom in urban cities has greatly impacted housing wealth.

8. The upper middle class accounts for 20% of China's urban private consumption. As the pace of China's urbanisation speeds up in the near future, the upper middle class will play an important role in boosting China's consumption.
9. The benefits coming from rapid economic growth have chiefly accrued to capital returns. Consequently, the decline in the share of Chinese GDP accounted for by labour income has been most pronounced.
10. To sustain growth, China will have to ensure robust consumption. Increasing the labour share in GDP and hence promoting domestic consumption will play a decisive role in rebalancing China's economy.