

# Potential and Vitality of China’s Consumer Market

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## 1. Executive Summary: “Prioritize the Recovery and Expansion of Consumption”

**Over the past decade, consumption has emerged as the main driving force for China’s economic growth.** Investment, consumption and net exports constitute a “troika” of economic growth. Data from China’s National Bureau of Statistics (NBS) showed that since 2013, the final consumption rate in China has stayed higher than the capital formation rate, and the final consumption expenditure has contributed a higher percentage to GDP than the investment and net exports in most years.

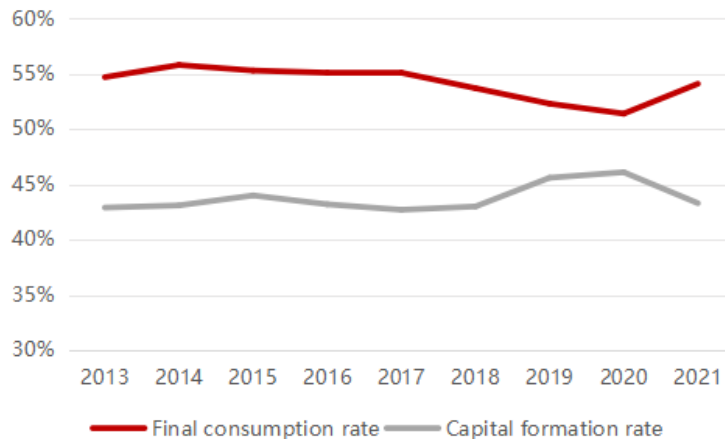


Figure: Final consumption rate & capital formation rate in China (2013-2021)

Source: Data sorted out from China’s National Bureau of Statistics by Dataway.

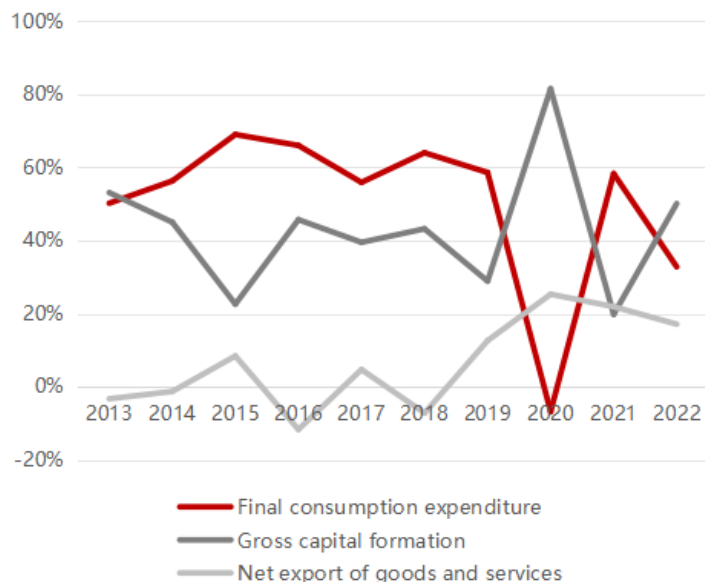


Figure: The contribution rate of the “Troika” to GDP growth (2013-2022)

Source: Data sorted out from China’s National Bureau of Statistics by Dataway.

**China’s economy is more resilient compared with other major economies in the world.** According to the UN report “World Economic Situation and Prospects 2023”, the global economic growth is projected at 1.9% in 2023. Among the world’s major economies, the economic growth rate is forecast at 0.4% and 0.2% respectively in the United States and the European Union, 1.5% in Japan. The GDP is projected to contract by 0.8% and 2.9% respectively in the United Kingdom and Russia. The economic growth in China is forecast to reach 4.8%.

**In 2023, China has been ready, both objectively and subjectively, to boost consumption in terms of policy environment, market environment, and consumer confidence.**

**In terms of policy environment, the Chinese government has sent out many positive signals to boost consumption.** At the Central Economic Work Conference held in December 2022, it was pointed out that China will give priority to the recovery and expansion of consumption in 2023. The domestic demand will be further leveraged to drive economic growth by fully tapping the potential of domestic demand, increasing consumption capacity, improving consumption environment, and innovating consumption scene. China will perfectly coordinate the deepening of supply-side structural reforms with the expansion of domestic demand, create effective demands and expand domestic demand through high-quality supply, while improving the quality and efficiency

of the supply system, with a view toward a high-level virtuous cycle and dynamic balance between supply and demand. In the Government Work Report delivered at the First Session of the 14<sup>th</sup> National People's Congress on 5 March 2023, Premier Li Keqiang pointed out that China will expand domestic demand as a strategic move and fully tap the potential of the domestic market. Personal incomes will be increased through multiple channels, improve the networks for the flow of goods and services in urban and rural areas, encourage steady increases in spending on home appliances, automobiles, and other big-ticket items, promote consumption of services such as healthcare, culture, tourism, and sports, ensure that convenience stores, shops, and other neighborhood services are well-run, promote integrated development of online and offline businesses in more fields and create new forms and models of business, thus providing more convenient and satisfying services for consumers. Furthermore, additional measures, such as building a unified national market and developing key cities for international consumption, will all help stimulate domestic consumption.

**In terms of the market environment, the size of domestic consumer goods market has shown an upward trend with fluctuations.** Despite wider annual fluctuations in China's total retail sales of consumer goods during the Covid-19 pandemic than that of the same period in previous years, the overall upward trend has persisted. Following the dynamic adjustment of the Covid-19 policies, the consumer demands of residents were released in January and February 2023, evidenced by "explosive" growth of tourism, dinner parties and performances. According to data from the Ministry of Culture and Tourism, domestic tourism revenue amounted to RMB 375.843 billion during the Spring Festival holiday in 2023, registering an increase of 30% year-on-year and returning to 73.1% of the level during the same period in 2019. The survey by the China Cuisine Association showed that during the Spring Festival holiday lasting from 21 to 27 January 2023, the revenue of key catering companies grew by 24.7% and 1.9% respectively compared with the Spring Festival holiday in 2022 and 2019. According to data from China Association of Performing Arts, some 9,400 performances were staged during the Spring Festival holiday in 2023, with a year-on-year increase of 40.92%. The revenue from ticket sales and the number of audiences returned to 80% of the level in 2019.

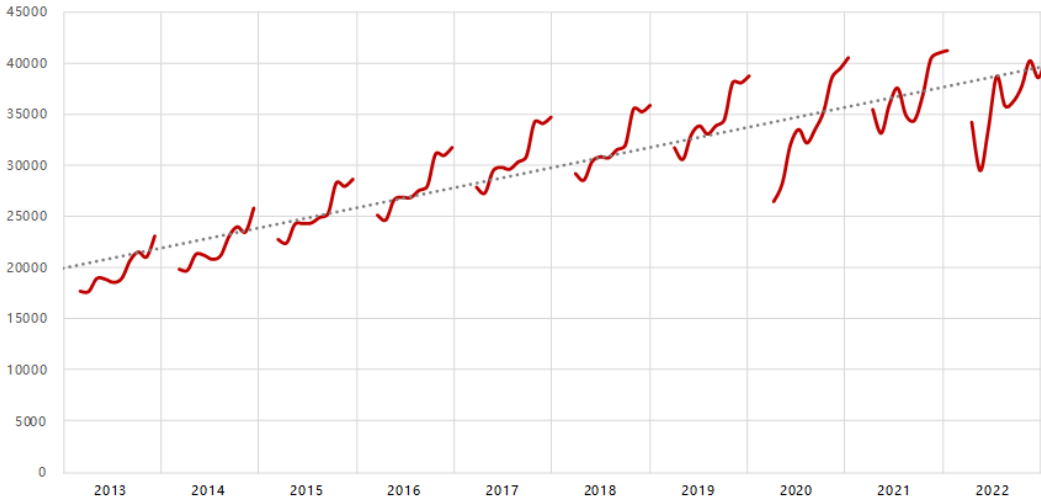


Figure: Overall trend of China's total retail sales of consumer goods (2013-2022)  
\*RMB 100 million

Source: Data sorted out from China's National Bureau of Statistics by Dataway.

**In terms of consumer confidence, the limited consumption opportunities during the Covid-19 pandemic have led to a significant increase in residents' savings, signifying great potential for the stock and increment of consumption capacity.**

Judging by stock, the total household saving deposits have continued to rise since 2017. Its annual growth rate during the three years of Covid-19 pandemic from 2019 to 2022 has remained at a relatively high level in the past decade, amounting to RMB 115.54 trillion by the end of 2022. High deposits provide consumers with sufficient reserves of consumption funds.

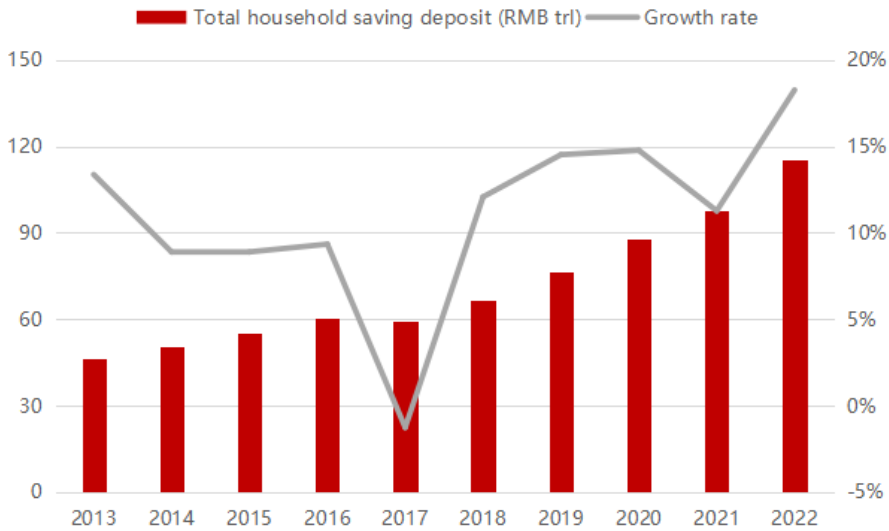


Figure: Total household saving deposit and development trend (2013-2022)

Source: Data sorted out from the People’s Bank of China by Dataway.

The substantial increase in household savings cannot simply be interpreted as a decline in consumption willingness. In fact, the proportion of urban depositors inclining to “consume more” has basically remained at around 22% since 2013.

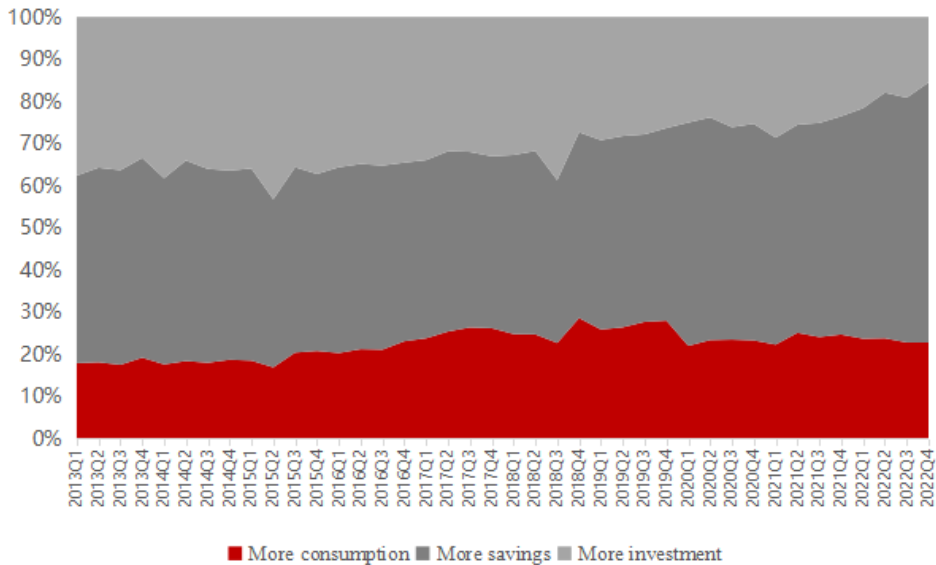


Figure: Urban depositors’ intention to consume, save and invest (2013-2022)

Source: Data sorted out from the People’s Bank of China by Dataway.

Judging by increment, on the one hand, consumers are seeking to increase income for greater consumption capacity against the backdrop of continued support from policies to stabilize growth and dynamic adjustment of anti-pandemic measures. Due to the impact of Covid-19, the income sentiment index and the income confidence index of Chinese residents hit a low level over the past decade. On the other hand, as more people returned to the workforce to increase personal and family income, the overall social purchasing power will increase. The Sinomonitor International’s survey report *China Marketing and Media Study* showed that the number of potential gig workers, including housewives/husbands, retirees, laid-off workers, unemployed people, students, and non-permanent workers, has been slowly decreasing.

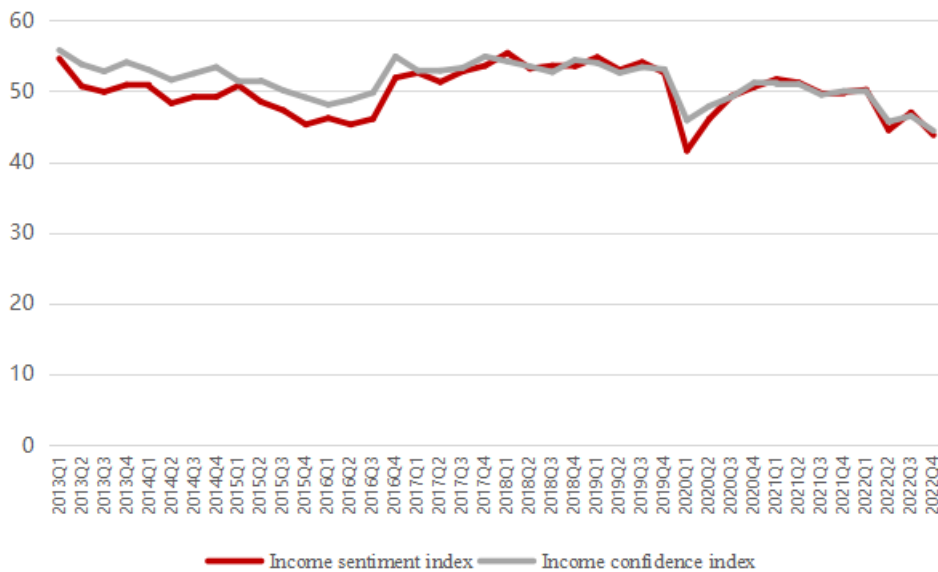


Figure: Income sentiment index & income confidence index (2013-2022)

Source: Data sorted out from the People’s Bank of China by Dataway.

Despite difficulties facing China’s economic recovery, consumers are optimistic about the sound economic fundamentals over the long term, reckoning that it is necessary to speed up the economic recovery. According to the survey on residents’ consumer confidence conducted by Dataway in December 2022, Chinese consumers are positive about the stability of social economy and personal finances, among which 73.2% of consumers are fully confident about social development and the improvement of living standards.

**Regarding the approximate time and degree of consumption recovery in China, the mainstream research institutions at home and abroad have**

**published their predictions.** The Goldman Sachs Research concluded that the optimized Covid-19 policies may be followed by a strong rebound in consumption in 2023. China's economy will start low before rising in 2023, and the cyclical policies may gradually return to normal. According to the "Outlook 2023: China's Consumption Prospect and Policy Recommendations" released by JD.com, consumption is expected to rebound significantly in the second quarter of 2023 as the consumption scene recovers and life returns to normal. Wang Tao, Head of Asia Economic Research and Chief China Economist at UBS Investment Bank, forecast that as the economy and labor market recover, a rebound in income may emerge as the main driver of consumption recovery in 2023. In general, the nominal growth rate of Chinese residents' consumption was predicted at 10-11%, and the actual growth rate at 7.8%. China Securities predicted that the Chinese residents' consumption growth rate will return to about 10.7%. Given the steady growth of government consumption, the final consumption growth rate could reach 8.4%. Bian Quanshui, Chief Macro Analyst with Western Securities, believes that the rebound in economic growth in 2023 may boost the residents' nominal disposable income to increase by about 6%. Assuming a growth rate of 2-6% in residents' savings, residents' consumption may grow by 6-8%.

According to Dataway, the Chinese market is expected to see a significance consumption recovery in the second half of 2023, with the nominal growth rate of residents' consumption at around 10.7% and the actual growth rate at around 6.9%. Judging by the structure of future consumer market, consumption growth will give rise to new market scenes and new business models, featuring "four transformations".

**First, the transformation in macro space, with growing consumption potential in low-tier cities.** Since 2017, Wuhan, Xi'an, Changsha, Chengdu, Zhengzhou, Jinan, and other new first-tier cities have introduced preferential policies for household registration to attract talents from other provinces and cities. During the Covid-19 pandemic, the new first-tier cities, second- and third-tier cities brought in a large number of young talents, along with their consumption capacities. Under such circumstance, the consumer goods and brands increased their attention to the markets in low-tier cities. According to "Foresight—Trend Insight' Annual Observation Report 2022" jointly produced by Dataway, Trend Insight and other institutes, the rapid development of the Internet and logistics systems has blurred the geographical boundaries of consumption, paving the way for narrowing regional differences in consumer goods.

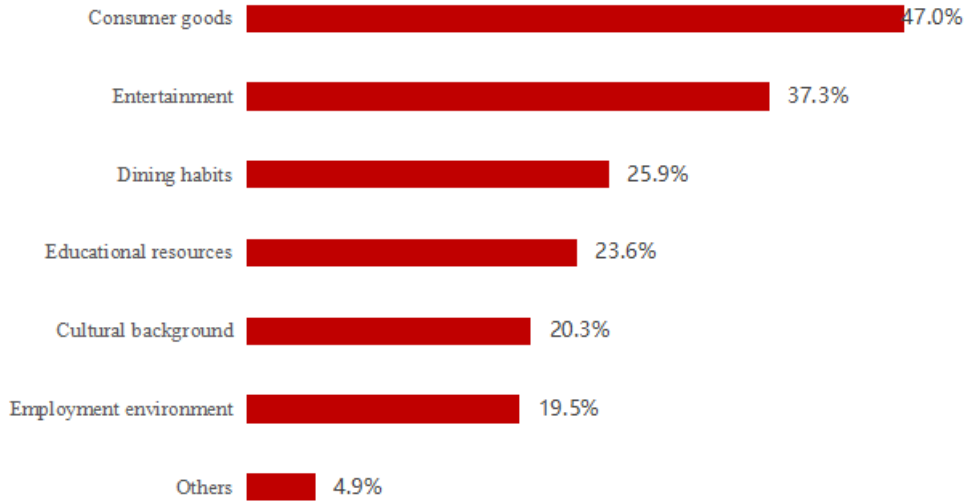


Figure: Categories with smaller regional differences in China

Source: “Foresight—Trend Insight’ Annual Observation Report 2022” by Trend Insight.

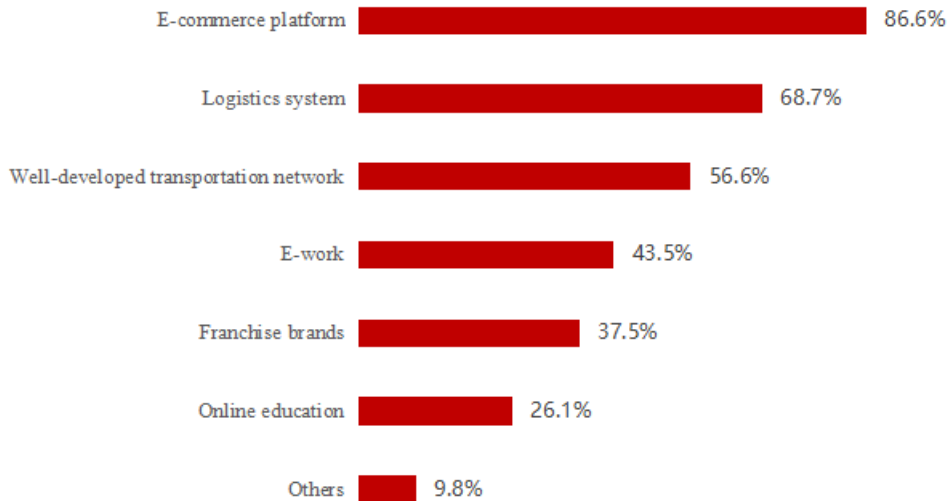


Figure: Key factors for narrowing regional differences

Source: “Foresight—Trend Insight’ Annual Observation Report 2022” by Trend Insight.

**Second, the transformation in micro space, with attention shifting to**



**near-home or at-home scenes.** In 2022, Xiaohongshu (or Red in English), a social media and e-commerce platform in China, saw a year-on-year increase of 287% and 213% respectively in the number of posts about “glamping” and “closer neighborhood”, which marked the rise of consumption in near-home scenes. From October 2021 to September 2022, on the short-video platform Douyin, the short videos relating to new styles of home life received more than 698.85 billion views and over 990 million likes, and there were over 37.27 million searches with the keyword “home”. According to data from Analysys, the online sales of air fryers and electric steamers respectively increased by 136.1% and 54.3% year-on-year in the first eight months of 2022, expanding the consumption scenes at home. Despite their emergence during the Covid-19 pandemic, the near-home and at-home consumption scenes did not die out with the end of the pandemic, representing a lasting change of life styles brought about by the pandemic. As the 15-minute living circles began to be incorporated into urban development plan and took shape, the near-home and at-home consumption scenes will develop sustainably.

**Third, the transformation in product positioning, featuring the parallel trends of blurred boundaries of target consumers and increasingly clear vertical segmentation.** On the one hand, the products that used to have obvious gender tendency, such as clothing, cosmetics, home furnishing, e-sports, and motor vehicles, have gradually attracted the attention and purchase of opposite genders. Traditional culture and “yangsheng” (a Chinese way of life allowing for old age to be a time of contentment, peace & wisdom) have attracted the attention of a growing number of young people. On the platform of Xiaohongshu, posts about the “trendy four treasures of the study” increased by 239% year-on-year. Meanwhile, the middle-aged and elderly people began to enjoy the fun of young people. On the Douyin platform, the growth rate of creators aged 31-50 (22%) and creators aged over 50 (20%) exceeded that of creators aged 18-30 (15%). On the other hand, consumers of different genders, ages, and classes are shaping a fragmented consumer market, while vertical-category products are further classified based on innovative features like co-creation and customized demands.

**Fourth, the transformation in industrial scenes, with cross-industrial development expanding the production and marketing boundaries of enterprises.** The mobile phone companies began to engage in auto manufacturing, integrating the development of the two industries. Tea brands cooperated with entertainment IP for cross-industry marketing, launching limited-edition products to go viral while creating a buzz for the brand. The energy and logistics companies began to engage in coffee business, grabbing market shares by virtue of network advantages of offline stores. Brand crossover is a vital feature of the new consumer market, and the formation of “brand clusters” in different tracks

has become a strategic choice for many companies, especially Internet companies and smart manufacturing companies.

## 2. Urban perspective: continuous display of development resilience and lure for consumption

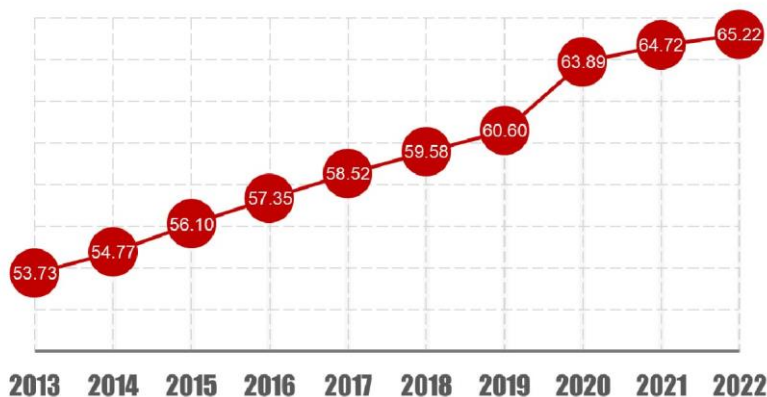
City is a symbol of well-developed commercial civilization and plays an important role in socio-economic development. The upgrading of the economic structure and the development level depends on the high-quality development of the city. In the year of economic recovery, the vitality of urban development somehow determines the degree of rebound and growth rate of consumption, which will in turn facilitate the in-depth urban development.

### 2.1. Sound foundation of urban development provides guarantee for fundamentals of consumption

In general, China features a solid foundation for urban development, with a vast space for consumption recovery.

First, the scale of urban development has further increased. As of the end of 2022, nearly 65.22% of China's permanent residents lived in cities, leading to increasingly prominent scale effect of cities. It has thereby given rise to higher demands on the efficiency of urban operation and the quality of urban life.

Urbanization rate of China's permanent residents (2013-2022), %



Data source: Sorted out by Dataway from the statistical yearbooks of the National Bureau of Statistics

Second, the urban pattern is diversified and differentiated. Data from China's seventh national population census showed that there are seven super-megacities with a population of more than 10 million, 14 megacities with a population of 5-10 million, 14 first-tier large cities with a population of 3-5 million, and 70 second-tier large cities with a population of 1-3 million. Based on varied resource

endowments and economic levels, the uneven urban patterns have created more possibilities for urban upgrading and higher-quality consumption.

Third, the development of metropolitan areas exerts a wide-ranging effect on the development of surrounding areas. By the end of 2022, the development plans of seven metropolitan areas in Nanjing, Fuzhou, Chengdu, Changsha-Zhuzhou-Xiangtan, Xi'an, Chongqing, and Wuhan had been approved. The metropolitan areas have since entered a stage of rapid development. As a spatial form of urbanization within the city clusters, the metropolitan area can exert the function of super megacities and megacities to stimulate the development of surrounding areas. The one-hour commuting circles will give rise to more refined units and serve as important pillars for the integration, interaction and commercial prosperity of different cities.

## **2.2. New pattern of urban development creates space for consumption growth**

The urban vitality fundamentally comes from people. Given the future trend of negative population growth, a focus on talent dividends and attracting talents is of critical importance for urban vitality and development. On the one hand, in line with the basic logic that people tend to gather at places with booming industries, the urban industrial structure needs to be constantly optimized and adjusted to create more competitive job opportunities and better employment environment. On the other hand, measures should be taken to promote job-housing balance, better public supporting services for living, transportation and education, and improve the quality of life. By now, with the integration of urban development into the new development pattern in China, there is a considerable room to explore and stimulate the domestic consumption.

First, the southern cities are particularly vibrant, featuring the development of key cities for international consumption that has boosted domestic consumption. According to the *2022 Evaluation Report on the Prosperity and Vitality of Chinese Cities*, the “vibrant cities” mainly include central cities in the Yangtze River Delta, the Pearl River Delta and the central region, such as Guangzhou, Shenzhen, Hangzhou, Nanjing, Hefei, Wuhan, Zhengzhou, Changsha, and Chengdu. This trend is also reflected in the distribution of convenience stores in cities across the country. Convenience stores, as a form of retail business, are like the “capillaries” in the urban vein, reflecting the supply of urban necessities. The “2022 Understanding Cities – Convenience Store Index” released by the New First-Tier Cities Research Institute found that the Pearl River Delta region leads the country in terms of the development of convenience stores, with Dongguan City ranking the top. Meanwhile, Shanghai, Beijing, Guangzhou, Tianjin, Chongqing and other cities took the lead in developing key cities for international

consumption, in a bid to give better play to the “spillover effect” on upgrading consumption.

### Cities by the measure of vitality



Source: “2022 Evaluation Report on the Prosperity and Vitality of Chinese Cities” by China Academy of Urban Planning & Design.

Second, cities at different tiers have adopted varied ways of boosting business and consumption, with an obvious trend of shifting to lower-tier cities. First-tier cities feature a relatively high degree of commercial agglomeration and almost saturated market of some businesses, and thus more appropriate for testing business models to meet vertical and individualized needs. For example, people in first-tier cities rely more on close-distance life scenes, giving rising to commercial spaces around the neighborhoods that proved to be a success and kept expanding. New types of business such as fresh food e-commerce and community group buying have greatly improved the efficiency to meet basic living needs. In the meanwhile, the brands of cafes and supermarkets have gradually turned their attention to low-tier cities. Such sinking strategy will quickly gain the favor of consumers in low-tier markets with the help of “first store” effect.

### 2.3. The night economy in cities heats up and the consumption is booming

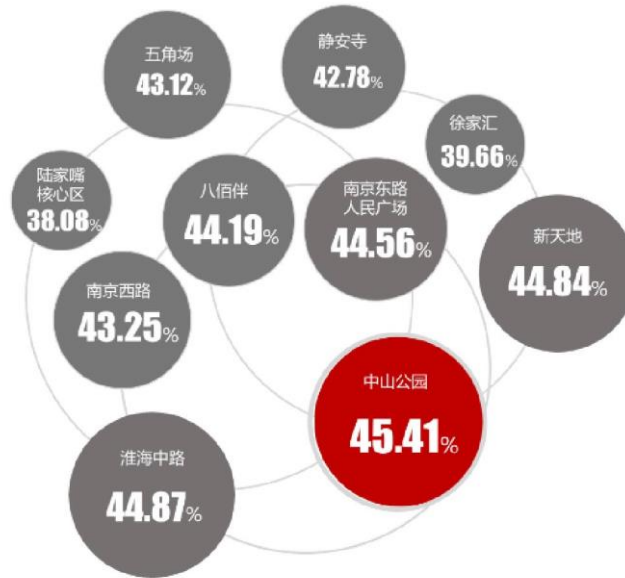
“Night economy” has become a measure of urban economic development and residents’ life quality. By extending the business hours, the night economy expands the space of daytime economic activities, which will naturally create more economic benefits. Nonetheless, its value obviously goes beyond this. From the perspective of urban prosperity, it breaks the mode of “getting up to work at sunrise till sunset”, allowing people to enjoy a night life. It showcases the diverse and open urban values that respect and satisfy refined demands of people. At the same time, the consumption demand of the night economy facilitated a vibrant

public atmosphere.

On the one hand, the business forms of night economy have been constantly enriched. The diverse forms of night economy range from night sightseeing, performances, exhibitions, street tours, to night bazaar. According to the China City Night Economic Index released by yicai.com, Shanghai is the most vibrant city in China at night, Shanghai tops the list of Chinese cities by virtue of its comprehensive strength in night economy. Shanghai had owned more than 400 shopping malls, 80,000 restaurants and 4,000 entertainment venues that are active during the night by February 2022, which contribute to the city's vibrancy at night. Besides, over 4,000 sports venues, 700 bookstores, 3,700 24-hour convenience stores, and 800-plus starred hotels add to the spotlights of the city at night. The activities of night economy have upgraded from street stalls in the beginning to a series of complex and integrated consumption, involving dining, touring, shopping and entertainment at night. The night economy not only enriches urban life, but also promotes the recovery of cultural and tourism markets.

On the other hand, the market potential for nighttime consumers is huge. According to the *Survey Report on Consumption Habits of Urban Residents* issued by the Ministry of Commerce, 60% of consumption in China occurs at night, and consumption in large shopping centers from 18:00 to 22:00 every day accounts for more than half of that of the whole day. The scale of customers at night cannot be underestimated. The China City Night Economic Index released by yicai.com (as shown in the figure below) also found that in 2021, the customers in Shanghai's top business districts from 7:00 pm to 6:00 am in the next day accounted for about 40% of that in the entire day. The customers are quite active at night. With the rise of young consumer groups, particularly those born in the 1990s and 2000s, new business models of night economy emerged and expanded rapidly, such as murder mystery games, escape room, tavern, Live House, late night canteen, and late night bookstore, with a bright prospect of development.

### Ratio of night customers to the whole-day customers during holidays in Shanghai's top business districts



Source: data from Smart Steps in June 2021.

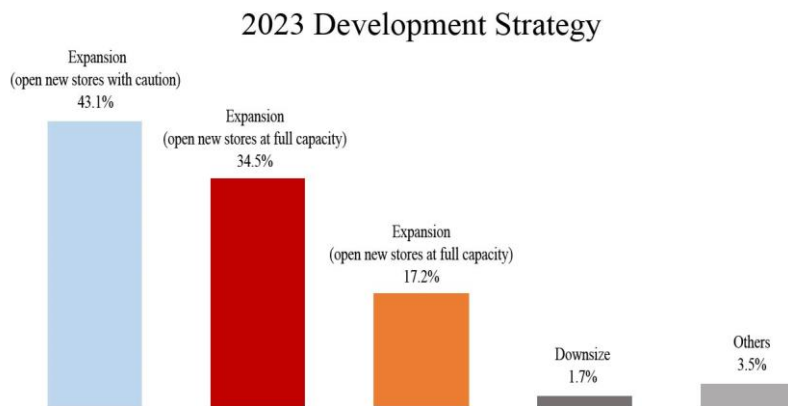
### 3. Industrial perspective: recovery better than expected and multiple measures to optimize supply and stimulate consumption potential

The consumer industry has always been a “barometer” of the market and supply-demand situation. At the beginning of 2023, the recovery of multiple industries such as catering, tourism, and film have accelerated, attracting a huge group of customers. It has greatly bolstered the people’s confidence in sustainable industrial development and raised people’s high expectations for China’s consumer market to move into the fast lane in 2023. On such a basis, the Dataway conducted predictive analysis of the development trend of key consumer industries in 2023.

#### 3.1. Cost reduction for higher benefits and diversified services: The consumption of consumer services resumes fast development

In 2023, the market demand will be further diversified. The consumer service industries such as catering, bathing, beauty salons, and portrait photography will also show a trend of diversification. To achieve sustained steady operation, a growing number of consumer service industries are paying more attention to brand effect, while the demand for further specialization and cost reduction for

higher benefits has become more urgent for single-store model. On the basis of maintaining steady development, enterprises have significantly bolstered their confidence in structural rebound in the market in 2023. According to a survey by China Chain Store & Franchise Association, 51.7% of chain catering enterprises have plans for “expansion” this year. Digital consumption scenes have been applied on a wider range. Consumer service companies have accelerated the pace of digital transformation, getting engaged in online promotion activities to stimulate offline consumption. In the meanwhile, the improvement in public awareness of health and the pursuit for quality services have created opportunities for exquisite and high-end service providers.



Data source: “Catering Survey Express 2022-2023” by China Chain Store & Franchise Association

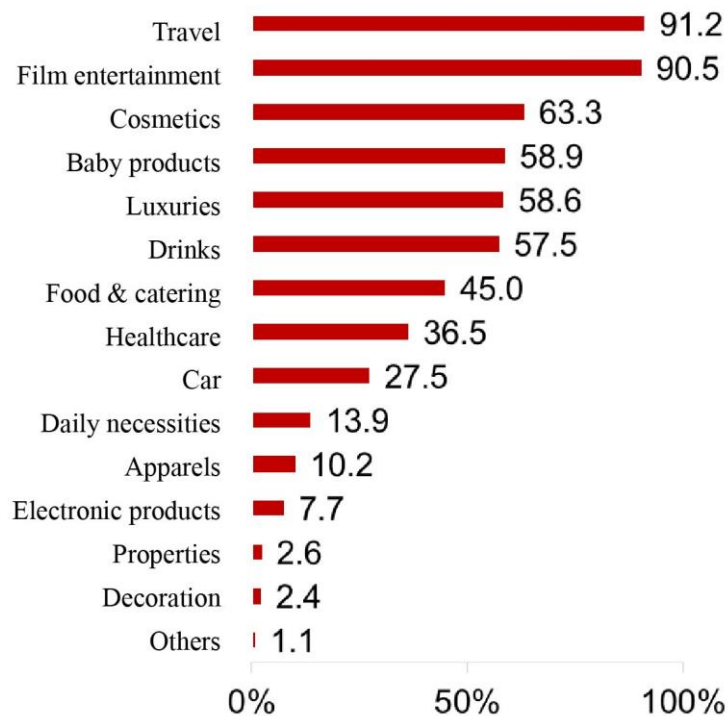
Domestic research institutions have conducted predictive analysis of the revenue of China’s catering industry in 2023. For example, iResearch estimated it to reach RMB 5,564.6 billion and Askci Consulting Co.,Ltd. forecast it to rise to RMB 5,570 billion. Dataway is also optimistic, if not more so, about the development of consumer service industries represented by catering. The Dataway predicted that the annual revenue of catering industry in 2023 will be close to RMB 5.7 trillion, up by about 30% over the that in 2022 (RMB 4.3941 trillion).

### **3.2. Consumption upgrade and higher quality: cultural and entertainment consumption such as tourism and movie viewing is steadily increasing**

During the Spring Festival holiday in 2023, consumption of entertainment such as tourism and movie viewing embraced a recovery. In the post-Covid-19 era, the unleashed huge demand for leisure and entertainment activities show that consumers do not lower their quality of life amid the economic downturn. They have instead paid more attention to relaxation and engaging in pleasant experiences, in the pursuit of “small yet beautiful” experience, quality-price ratio,

and instant pleasure. According to the survey of yicai.com (as shown in the figure below), among categories of consumer expenditure, over 90% of Chinese respondents are more willing to spend on traveling and watching movies than on catering, properties and other traditional needs. Faced with the improvement in the views of consumption and the pursuit of individualized and entertaining services, higher quality of goods and services will be the key to expanding the consumption space and maintaining the growth trend of industries such as tourism and movies in the future.

### Consumer goods or services that appeal to respondents (%)



Data source: Survey by yicai.com on “Consumption recovery: what will you buy?”, N≈1200

Discussions on such topics as short-distance tourism, domestic tourism, and overseas tourism have heated up. China Tourism Academy predicted that in 2023, the number of people going for domestic tours will reach about 4.55 billion, up by 73% year on year. The revenue from domestic tourism will amount to about RMB 4 trillion, registering a year-on-year increase of about 89%. The number of inbound and outbound tourists is expected to exceed 90 million, up by 100% year-on-year. Dataway forecasts the number of domestic tourists in 2023 to return



close to the level in 2019. Driven by strong demand, the revenue from domestic tourism is expected to exceed RMB 4 trillion.

The consumption in the film market has been impressive. China's 2023 Spring Festival movies raked in RMB 6.758 billion at the box office, second only to RMB 7.843 billion for the 2021 Spring Festival movies over the years, according to data from the ticket platform Denga. Based on the actual situation and multiple professional forecasts, Dataway predicted that the annual box office takings will amount to RMB 48 billion, higher than RMB 47 billion in 2021.

### **3.3. Product first and refined management: consumption in retail industry steps up to a new level**

With the booming development of offline scenes, China's retail industry has entered a new era of well-coordinated online and offline development. In this context, a trend that cannot be ignored is that consumers will be wiser to choose appropriate shopping channels to meet their diverse consumption needs. The focus on reliable product quality, combined with high-cost performance, will become the mainstay of consumption decisions. For the retail industry, it is of critical importance to understand the needs and preferences of consumers and develop a service system to provide high-quality customer services and great shopping experience. For a start, it is necessary to increase the operating value of offline retail stores. With the rise of e-commerce, offline retail stores have become "outposts" for product and brand experience of consumers, but also the "main front" for enterprises to convey brand connotation and improve customer engagement. Secondly, enterprises should refine their internal management in terms of supply chain, offline and online channels, and others. The only way to survive and win in the fierce competition is to shorten the circulation link to the greatest extent and maximize operation efficiency.

According to the NBS data, the online retail sales of physical goods for the whole year of 2022 was RMB 11.9642 trillion, accounting for 27.2% of the total retail sales of consumer goods (RMB 43.9733 trillion). In 2023, driven by continuous expansion of domestic demand, the consumer market is expected to achieve double-digit growth. Under this trend, the total retail sales of social consumer goods are expected to exceed RMB 50 trillion. In the meanwhile, the driving force of online retail will be further strengthened, contributing nearly 30% to total retail sales.

### **3.4. Expansion into lower-tier markets & intelligent drive: auto consumption rides the wave**

In 2023, on the basis of inherently stable market demands, preferential policies

and technological empowerment will continue to boost demands for cars. More stable supply chains will be aligned with the domestic market in a better and faster way. On the one hand, more preferential policies will greatly boost auto consumption. Since the beginning of this year, government departments have issued a slew of preferential policies to stimulate auto consumption, involving tax incentives, car purchase subsidies, promotion of cars in the rural market, and expansion of the second-hand car circulation, among others. Favorable policies will help stimulate enthusiasm for car purchasing. In the meanwhile, policies should continue to focus on unleashing the potential of auto consumption. On the other hand, in the face of opportunities created by electrification and intelligent transformation, domestic car firms of independent brands have been riding the wave to leverage their accumulative advantages and striving for technological breakthroughs in the fields of electrification, intelligent development, and network connections, so as to significantly improve user experience, brand value and competitive edge of their products.

The China Association of Automobile Manufacturers predicted China’s total auto sales in 2023 to reach 27.6 million vehicles, registering a year-on-year increase of 3%. According to data on 2023 sales target of 13 auto companies, their total annual sales targets have reached 27.44 million vehicles. The annual auto sales are expected to continue with strong growth to amount to 28 million vehicles, up by 4% compared with that in 2022.

**Table: Annual sales targets of 13 car companies in 2023**

<b>Auto Companies</b>	<b>2023 sales target (10,000 vehicles)</b>
<b>SAIC</b>	600
<b>Geely Auto</b>	165
<b>Dongfeng Motor</b>	350
<b>FAW Group</b>	400
<b>Chang’an Auto</b>	280
<b>GAC Group</b>	267
<b>GWM Group</b>	160
<b>BYD</b>	400
<b>Hozon Auto</b>	30
<b>Li Auto</b>	30

<b>NIO</b>	20
<b>Xpeng Motors</b>	20
<b>Leap Motor</b>	22
<b>Total</b>	2744

Data source: sorted out by Dataaway from open sources

#### **4. Group perspective: intergenerational differences shape the core consumer base of the Chinese market, and the middle-income group still needs particular attention**

As the economy and society enter a new phase of high-quality development, consumers are having more options and their consuming behaviors, pattern and habits are becoming increasingly diversified. In the supply side, product makers and service providers should be more agile to capture the trend of demassification, and develop accurate consumer profile by gender, intergenerational difference, region, city level and income level.

##### **4.1. Young people are pursuing their true self, and they are shaping the trends of our times**

Young people bring niche culture to the attention of the general public and also integrate the virtual world with the real life. According to the *Study of Consuming Trends of Adults of the Post-95 Generation*, 72 percent of the age group said they highly recognize traditional Chinese culture, and fashion inspired by traditional Chinese culture will provide important nutrients to world fashion in a sustainable manner. A survey by Dewu App on the age group of the post-95 generation showed that by 2024, the market value of metaverse worldwide will reach USD 800 billion, and more than 24 percent of people of the post-95 generation in first-tier and new first-tier cities are attracted by digital way of interacting with brands.

The country has put in place policies to encourage child birth, but in the short run, “solo economy” is still a trend deserving attention. Products and services including solo apartments, mini KTV bars, small home appliances, and matchmaking for players of murder mystery games are becoming popular. A research report on the post-2000 generation by Tencent showed that young people are more willing to pay for interests, that 62 percent of people of the post-2000 generation are willing to spend time and money in their interests, and that 77 percent of people of the post-2000 generation would pay for products with elements they are familiar with or fond of. OMG data showed that young people

think that high-quality and cost effectiveness are equally important. Around 40 percent of posts on “ice cream at astronomical price” on social media came from Internet users of the post-95 generation, who know better than other generations to get information from the Internet. The age group return consumption to its very nature and buy products and services focusing on their value in use.

## **4.2. The middle-aged are trying to discover themselves, but they are invisible in the times**

The middle-aged seem to have obvious preference in their consumption. For example, a report by the Consumption and Industry Development Research Institute of JD.com showed that the share of consumption on medical and healthcare products and jewelry has been growing the fastest over the last three years in the total consumption of middle-aged people. Statistics from the White Paper on China’s Consumption of Gold and Jewelry showed that the proportion of consumers aged from 35 to 50 account for 82 percent of the total. But in fact, middle-aged people are still willing to pay for their interest and free time. The share of users aged above 35 in all active users of six leading reading apps lies in somewhere between 25 to 40 percent.

The 2022 consumption report by Cyanhill Capital noted that middle-aged people are financially better off than young people, but they fall short in the consumption of some categories of products, because they only pay for rigid demand. Statistics by Beike Research Institute showed that 35 is the median age for people who have purchased their housing in 35 cities. A report on China’s auto industry showed that the average age of car owners in China in 2020 was 35, and it predicted that the average age will approach 40 in 2025. The proportion of males aged above 35 who have purchased vehicles will hit 40 percent from 2021 to 2030. The middle-aged have more money to buy and they are more resilient. People of the age group are rapidly developing a habit of shopping online, and their share in the total online transactions is on the rise. According to statistics by the Consumption and Industry Development Research Institute of JD.com, middle-aged people account for 38 percent of the total population, and in 2022, they purchased 38 percent of total goods sold online.

## **4.3. Silver-haired economy has great potential, and the task of modifying facilities to accommodate the elderly is arduous**

Population aging is becoming an increasingly serious problem, and consumption demand of the elderly is becoming increasingly diverse. Statistics showed that China’s population is aging at a fast pace as 10 million people turn to 60 every year. It is estimated that during the 14<sup>th</sup> Five-Year Plan period, the total number of people aged 60 and above will hit 300 million in China. Accordingly, the

consumer market of elderly care is rapidly expanding. According to predictions by the report on the industry of products and services for the elderly in China, the market value of products and services targeting people aged 60 and above will hit RMB 106 trillion by 2050. Apart from clothing, food, housing, groceries and travel, senior people's spending is expanding to services.

According to the *Blue Book on the Study of Adapting Digital Products to the Needs of Silver-haired Consumers* jointly released by Dataway, Alibaba Cloud and the School of Design of the Shanghai Jiao Tong University, lack of design represented by digital gap has restricted the development of silver-haired economy. A core reason for the digital gap is that existing products have no design specifically for the elderly. The *Outline for Building a Country of Quality Manufacturing* released by the CPC Central Committee and the State Council laid out requirements for promoting industries regarding elderly care, which include increasing supply of products and services for the elderly, improving the safety, functionality and convenience of such products, enhancing R&D and quality design of special consumer products such as those for elderly care and assistive devices, and scaling up effective supply of day care, and catering and traveling services for the elderly.

#### **4.4. Women's spending power is stable and strong, and is expected to further increase in the post-Covid-19 era**

Women care more about the emotional value in paying for goods and services. According to the *2022 Report on Women's Quality of Life Index* jointly released by Dataway and Ruiwen She Power, a stable job and well-planned career become the pursuit of more women in modern society. The increased social status of women is conducive to stabilizing the current consumption pattern dominated by "she economy" and in turn spurs the market and injects strong momentum to economic development. The *2022 Insights on the New Trends of Consumption by Women* summarizes the latest trends of "she economy": female consumers tend to choose cosmetics products of higher quality and make purchase decisions more rationally; female consumers are easily swayed by fashion trends and emotional value the products contain in paying for clothing; female consumers spend on household products to enhance their life quality. As short videos and livestreaming are leveraged for promoting household products, female consumers' consumption is being upgraded.

Consumption sectors that have direct connection with women are exhibiting strong momentum. The *2022 Report on Female Consumers* released by Qichacha data research institute noted that there are a huge number of market players in the cosmetics sector, with the total number across China hitting 18.53 million, the most in consumer sectors targeting women. Newly registered businesses in the

sector went up 80.5 percent year on year in number to 2.578 million. The number of newly registered businesses in the mother and baby sector grew at a whopping speed, with the year-on-year growth rate reaching 225.6 percent and the number reaching to 667,000. As Chinese couples are encouraged to have a third child with greater policy support, the sector is expected to welcome a new round of business growth in the late 2022 and 2023. The cosmetic medicine sector registered RMB 12 billion in earnings over six years, and the compliance drive of the sector will spur a new round of development.

#### **4.5. Rising middle-income class and new social classes are emerging as a stable and huge consumer base**

Although China has had the largest middle-income class in the world, it is still necessary to expand the group to realize Chinese modernization and maintain economic growth. New social classes are those which gradually grow strong in the development process of China's socialist market economy since the reform and opening-up in 1978. According to a survey conducted by Dataway in 2021 commissioned by the United Front Work Department of the CPC Central Committee, the total number of new social classes in China was around 91 million, an increase of 26.3 percent over five years. Close to half of the social classes belonged to the middle-income class. In the next five to 10 years, the new social classes will continue to grow in size and expertise.

According to the *2023 McKinsey China Consumer Report*, middle-income consumers still trade up to more premium brands when they spend. They are very creative at finding the cheapest way to buy the brand they want, whether it is through WeChat groups, parallel imports, or the latest livestreaming deals. The special strategies employed by middle-income consumers in terms of consuming channels and bidding deserve attention from products and service providers.

### **5. Technological perspective: digital transformation will be an important part of China's consumer market**

Along with the development of new technologies, digitalization has become a distinctive feature of China's economy. Against the backdrop of digital economy, consumption is being profoundly affected, and is at a critical stage of structural upgrading. We should attach great importance to consumer demand shaped by new technologies and make analysis of consumers' new behaviors so as to grasp the trend of consumption and leverage the role of consumption in spurring the economy.

#### **5.1. Into a smart new retail era**

**Driven by consumption trade-up and technological changes, new retail sector**

is developing into a smart era defined by brand awareness, delicacy management, services as a priority and aggregation. In the past, it was impossible to completely control stores and implement targeted marketing. Now, these problems can be solved by algorithm. Algorithm-empowered smart retailing system helps businesses learn about consumer behaviors and deliver them with customized products in a more convenient and efficient manner, and also improves consumers' shopping experience.

## **5.2. Digital transformation of consumer finance**

**Calculations showed that consumer credit in China will hit 28.8 trillion yuan in 2026, and that over the next few years, it is expected to grow by RMB 9.3 trillion. In the era of digital economy, both society and economy at the macro level and client demand at the micro level fuel banks and other consumer financial service providers to go digital.** According to the *2022 Survey Report on Digital Transformation of Consumer Finance* jointly released by Dataway and the Financial Digital Development Alliance, users' satisfaction with consumer financial service providers increased by 9.1 percentage points to reach 70.6 percent. Total credit line granted to consumers was 5.4-folds of credit card holders' monthly income. A total of 91.2 percent of consumer finance service providers had moved credit application online, 9.8 percentage points higher from that of the previous year, and 75.9 percent of these institutions adopted intelligent customer services, close to 40 percentage points higher from that of the previous year.

## **5.3. Digital governance reinvigorated traditional business areas**

**To reinvigorate traditional business areas in old towns at the stage of digital transformation in the post-Covid-19 era, equal emphasis should be placed on residents' demand and data governance.** Building business areas is an important focus of efforts to diversify urban functions and better satisfy people's demand for a better life. In 2021, the Ministry of Commerce released draft guidelines for building urban business areas. According to the document, new ideas, technologies, business forms and models can be introduced to upgrade urban business areas. Data collected by Dataway showed that urban residents' demand for traditional business areas in old towns did not "disappear." What has changed are the consumer groups, ways of visit and consumption demand. The employment of more data-powered digital ways of governance will make it possible to capture urban residents' demand for consumption in a timely manner and create urban life scenarios with distinctive features. For example, coordination can be established between public services and business areas, and traditional business areas can be turned into a destination for recreational activities so as to attract more customers. These will help greatly reinvigorate traditional

business areas.

#### **5.4. Contributing innovation to the establishment of a residential community with everyday services available in 15 minutes' walk**

**A residential community with everyday services available in 15 minutes' walk is the core consumption scenario for many consumers, and the residential community should be improved from the perspective of product and service innovation.** Statistics showed that consumers spent 75 percent of their spending budgets in scenarios in their 15 minutes' walk. To realize balanced and sound development of such residential communities, the Ministry of Commerce and other 11 ministries and commissions jointly released guidelines for building residential communities with convenient everyday services in urban areas in 2021. Series surveys on policies for people's livelihoods initiated by Dataway showed that people's satisfaction with and attention to such residential communities are both at low levels. Overall, there are enough service facilities, but distributing unevenly in cities of different sizes. There is lack of basic service supplies targeting vulnerable groups. The residential communities are not only about infrastructure and facilities, but also about supply of cultural products and services.

Generally speaking, core change of digital and intelligent consumption is about in-depth integration of technology and business models. New technologies including big data, machine learning, artificial intelligence, Internet of Things, cloud computing and block chain are employed to empower consumption and are playing a more and more important role in unleashing consumption potential, promoting consumer trade-up, and innovating ways of consumption.

### **6. Epilogue: Five trends about China's future consumption market**

As restrictions on household consumption are lifted, household consumption mix and capacity are improving. Dataway believed that businesses dedicated to China's consumption market and Chinese consumers should pay attention to the following five trends.

**First, the Chinese government's efforts in improving the business environment will lead to a more orderly and dynamic consumption market.** Continuous efforts in stabilizing employment and increasing households' disposable income will boost consumer confidence and increase consumers' spending power. The reform of personal income tax and increase of personal incomes free of taxation will alleviate people's life pressure, and increase middle- and low-income groups' spending power and unleash their spending potential.



**Second, integration of different consumption sectors deserves attention.** Businesses should explore consumer demands in catering, entertainment, retailing and auto sectors and deliver high-quality products and services to consumers. They should pay attention to the trend in which industries and sectors are integrating, and break the boundaries between production and manufacturing.

**Third, due attention should be given to emerging consumer groups and those with potential spending power.** Businesses shall pay attention to youngsters' demands for interest-oriented, high-quality and niche products and services, provide more diversified products and services to middle-aged consumers, and understand middle-aged consumers' spending decisions are influenced by recommendations on social media and their experience rather than efficiency. Modification of infrastructure, facilities and housing should be accelerated. Special attention should be paid to the spending potential of middle-income class and emerging social classes, and efforts should be made to further tap into spending potential of women consumers.

**Fourth, the diversified consumption landscape deserves attention and efforts should be made to explore the consumption market in smaller cities.** Due attention should be paid to the role of metropolitan area in integrating and boosting consumption markets, and exploration should be made to integrate consumption sector. Diversified products and services should be delivered based on the resource endowment and economic development of different cities. Consumption scenarios for nighttime economy should be developed.

**Fifth, efforts should be made to accelerate digital transformation of businesses and foster the competitiveness of digital market.** Continuous efforts should be made to launch innovative products and services, and smart retailing and digital consumption among other forms of technology can be harnessed to empower business transformation. Data-empowered governance and digital public services can be used to reinvigorate traditional business areas. The quality of services available to residents living within 15 minutes' walk can be improved with better infrastructure and facilities as well as improved technology.

The year of 2023 is crucial for China's consumption recovery. Given positive policy and market environment and greater consumer confidence, the Chinese consumption market has sustained momentum to recover and grow, offering opportunities for businesses to explore. In the post-Covid-19 era, businesses need to embrace the ever-changing opportunities in the Chinese market, capture an advantageous competitive position and get involved and witness robust recovery of the Chinese consumption market.

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