

Consumer Confidence Weakens in China Amid a Slowing Economy

Contributed by Euromonitor International
Monday, 15 December 2008
Last Updated Monday, 15 December 2008

Author: Countries and Consumers

Date published: 9 Dec 2008

After growing by an annual average rate of more than 10.0% for five years until 2007, China is experiencing an economic slowdown as exports and production weaken amid the global financial crisis 2008. As a result, consumer confidence has declined in 2008. A weakening consumer sentiment will impact consumer spending, investment and business profits. The government's stimulus package announced in November 2008 should help boost economic growth and private consumption.

Issue

As China's economy slowed to 9.9% annually in the first nine months of 2008 compared to 11.9% in 2007, consumption sentiment has weakened reflected by a declining consumer confidence index and slower growth of retail sales. Falling consumer confidence will affect consumer spending, investment and business profits.

Importance

After growing by an annual average of 10.6% during 2003-2007, China's economy has slowed amid the global economic downturn and financial crisis 2008:

Real GDP growth slowed to 9.9% year-on-year during the first three quarters of 2008 compared to 11.9% in 2007, driven by tighter monetary policy, rising prices and sluggish exports caused by weaker external demand;

The stock market has weakened due to investor concerns. As of 14th November 2008, the benchmark Shanghai Composite Index slumped by 62.2% compared to 1st January 2008.

Consumption sentiment has weakened in China over 2008:

The country's consumer confidence index dropped from 95.6 points in January 2008 to 93.4 points in September 2008. The index shows the degree of optimism that consumers have for the economy with April 2007 results set as the benchmark (100);

Growth of total retail sales of consumer goods reached 22.0% in October 2008 year-on-year. While the rate is still higher than in the same period in 2007, it was down from 23.2% in August and September 2008.

Implications

Declining consumer confidence in China has important implications:

As consumers cut back on spending, consumer-facing businesses will be hit by lower demand. This will put downward pressure on business profits;

Big-ticket purchases including houses, cars and home furnishings would decline as people are less able or willing to invest in these items. Growth of car sales in China, for example, slowed to 19.6% year-on-year in the year to October 2008, compared to 29.1% in September 2008. The property industry has experienced a slowdown since early 2008, with price decreases of around 55.5% in Beijing and 38.5% in Shanghai;

Slowing private consumption will affect China's economic growth as consumer expenditure accounted for 35.1% of GDP in 2007;

However, inflation has eased since its peak in February 2008 as a result of slowing production and the global slump in commodity prices. The consumer price index, the main gauge of inflation, rose 4.0% in October 2008 compared to 4.6% in September 2008. Declining inflation will have a positive effect on consumer purchasing power;

Source: National statistics

The appreciation of the yuan, China's currency, will also help prop up consumer spending as it makes imported goods cheaper. The yuan has appreciated since July 2005 as the government removed its fixed peg to the US dollar. On 17th November 2008, the yuan stood at 8.6 against the euro, compared to 10.8 on 1st January 2008;

China's exports and manufacturing activity have declined amid the global financial crisis. In October 2008, export growth was 19.1% year-on-year, down from 21.5% in September 2008. The country's Purchasing Management Index (PMI) dropped to 44.6 points in October 2008, down from 51.2 points in September. Over 50 points signifies increasing

manufacturing activity, while below 50 represents a contraction;

The decline of exports and manufacturing activity could affect job creation in China since firms are not only reluctant to invest and expand but may have to reduce their production. China's unemployment rate was 4.0% in 2007; Rising unemployment would affect the income of Chinese consumers, which will put further pressure on consumer spending.

Future Scenarios

The Chinese government has since October 2008 put sustaining growth as its first priority:

On 9th November 2008, China announced a stimulus package of 4 trillion yuan (nearly US\$600 billion) to be spent until 2010. The main spending areas are social welfare and infrastructure projects. By propping up investment and thus economic growth, the package would also help spur consumer spending;

Other measures to stimulate growth and consumer spending include interest rate cuts, raised export-tax rebates and cost cuts for home buyers. The key one-year lending rate has been reduced from 6.93% to 6.66% with effect from 30th October 2008.

China's economy is forecast by the IMF to moderate to 9.7% in 2008, from 11.9% in 2007. As the global financial crisis curbs exports and production, economic growth is estimated to slow further to 8.5% in 2009. Since China has proven not to be immune from the global financial crisis, its growth forecasts have been revised downwards. These rates are, however, still impressively high on a global scale and consumer spending in China should continue being supported by rising incomes overall.

To see more related articles please [click here](#)

[Euromonitor's Homepage](#)