

Chinese Government's Efforts To Spur Consumer Electronics Sales

Contributed by Euromonitor International
Thursday, 11 October 2012

ChineseGovt-BlogAnalyst Insight By Mykola Golovko, Consumer Electronics Analyst at Euromonitor International

As leading indicators point to a looming sharp slowdown in economic growth in China, attention is focused on the steps that the Chinese government may take to spur economic activity, like accelerating technology adoption and introduction of subsidy programs.

Stimulus measures are likely to be a combination of monetary easing and fiscal intervention, with the latter doing much of the heavy lifting. International pressures to raise the value of the Yuan, combined with historically high savings rates and prevalence of potentially bad loans in the market, is likely to severely limit the government's monetary response options.

The 2008-2009 global recession triggered a series of fiscal measures by the government aimed at stimulating domestic demand as exports started to decline. One policy response was the sale of subsidised appliances and electronics to rural Chinese consumers. The program encompassed products like computers, televisions and washing machines and was largely successful in driving consumer electronics demand in a volatile macroeconomic environment.

Given the success of the program in 2008-2009, a similar program could be implemented in early 2013 should export markets continue to show weakness, leading to declining manufacturing activity. Should a subsidy program be implemented, the Chinese consumer electronics market is likely to see stronger growth than the 7% annual growth forecast for total consumer electronics retail volume sales in 2013 and 2014.

The looming slowdown may have played a role in accelerating the plans of the Chinese Ministry of Industry and Information Technology (MIIT) to auction off 4G spectrum frequency bands. The auction was originally not going to be scheduled till at least 2014, but in September 2012 the MIIT made public statements about plans to push the date up to Q3 2013. In anticipation of the auction, Chinese mobile network operators are expected to expand their 4G networks aggressively. This expansion will create demand for new LTE capable phones and base stations, benefiting local Chinese manufacturers.

Despite recent economic growth, the Chinese population is still among the poorest in the world, and with a high propensity to save. Weakness in export markets will force the government to enact swift and far reaching fiscal stimulus programs to increase domestic consumption. Given the Chinese government's long-term goal of modernising the economy by shifting to services, it is likely that much of this fiscal stimulus will be funneled into electronics, telecommunications, and information technology.

Therefore these sectors of the economy can be expected to outperform the overall economy, and likely to continue growing dynamically even in a slowing or recessionary macroeconomic environment.

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