

China unveils special action plan to boost consumption

China unveiled a multi-part plan to increase household demand in the short run and improve the consumption environment in the long run



China's economy is showing signs of weakness

Policymakers unveil the plans for consumption

Less than a week after the Two Sessions meeting, the Central Committee of the Communist Party of China and the State Council released a "[special action plan](#)" outlining key strategies to support consumption. Separated into eight major themes, the plan targets many challenges facing Chinese households.

The Two Sessions emphasised that boosting consumption has become a top priority. As such, it's the first of the main work tasks listed for 2025. While there are few new details on how the government will increase spending, the details of the plan show a greater determination to tackle China's consumption problem this year.

Increasing households' capacity and willingness to consume

Most importantly, in our view, there's considerable focus on increasing both the capacity and

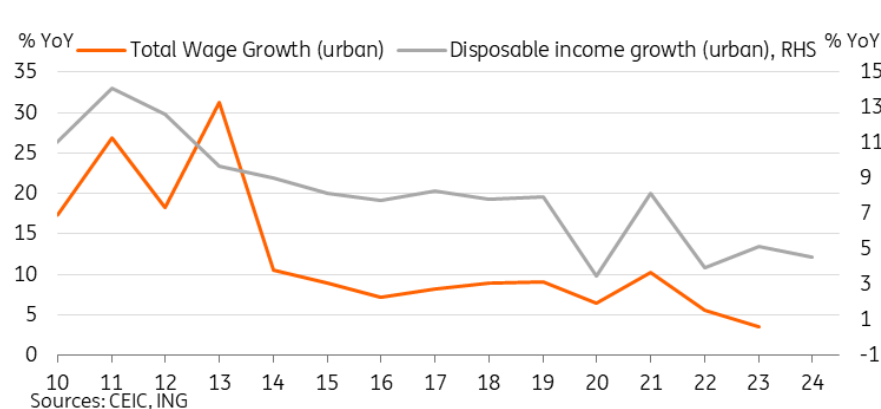
willingness of households to consume. The special action plan starts with targets for increasing the income of both urban and rural residents. Households can't spend what they don't have. Wage growth has slowed since the pandemic with various cases of pay freezes, pay cuts, and redundancies. Many households have experienced a negative wealth effect given the performance of property and equity markets over the past few years.

The plan takes aim at both headwinds. On the wage side, it calls for "reasonable wage growth" and steps to "scientifically and reasonably" improve the minimum wage. It includes qualitative measures to improve the job market, such as providing employment support, special skills training, and improving unemployment insurance.

On the wealth effect side, the plan calls for multiple measures to support the stock market, increasing bond market products for retail investors and other financial market reforms. China reiterated calls to stabilise the housing market, which represents the largest part of household balance sheets.

Additionally, there are measures to increase households' willingness to consume. China has one of the world's highest savings rates. Top reasons for this include the need to provide old-age care, save for children's education, and meet healthcare costs. The plan highlights improving safeguards in a variety of areas, including expanding aid for students, increasing pensions, and improving health insurance.

Slower wage growth is likely a headwind on consumption



Improving the consumption environment

China's transition toward a consumption-driven economy involves creating a suitable economic environment, especially building out middle-class consumption. Given China's rapid development, the current consumption landscape still tends to be weighted toward either end of the scale. Many products are on the low-price and low-quality side or on the ultra-premium side. Many key livelihood services remain inaccessible or unaffordable for many households.

The new plan takes on various aspects to improve the consumption environment. One is building out the services sector, including childcare and elderly care, so-called "life services" like catering, domestic services, healthcare and tourism.

There's also a mention of ensuring policies for worker rest and leave. This follows earlier comments during the Two Sessions to reform the holiday system. This would be a boon for consumption, in

our view. The current system has a limited number of flexible annual leave days, while the frequency of public holidays tends to overload tourism and consumption into a few key sectors. Rebalancing efforts would help consumption, resulting in more aggregate demand. More flexible leave policies could encourage the more crowd-averse consumers to travel and spend.

Furthermore, the plan sheds light on some long-term strategic directions to strengthen the development of quality brands, "new consumption" strategies including digital consumption, e-commerce, and the "AI+" sector. This emphasizes bringing artificial intelligence-supported products to market.

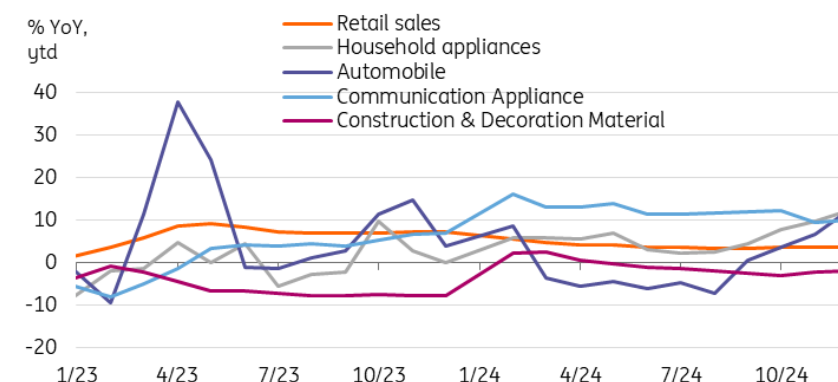
Key policy support will continue to roll out

The prior two categories involve bigger-picture themes that take time to unfold. As such, the plan also highlights near-term priorities.

Unsurprisingly, the main policy focus appears to be the trade-in policy, one mentioned repeatedly over the last year. The [Two Sessions outlined](#) that RMB 300bn would be dedicated to expanding the programme. It targets support for automobiles, home appliances and decoration, electric bicycles, and electronics such as mobile phones, tablets, and smartwatches.

The plan speaks of removing unreasonable restrictions on consumption. It guarantees car purchase rights to households that failed to win the license lottery in recent years. It aims to increase consumer loans and incentivise banks to harness subsidies for consumer loans and service-industry operators.

Trade in policy beneficiaries will likely outperform in 2025



Sources: CEIC, ING

Special action plan takes steps in the right direction but uncertainty remains

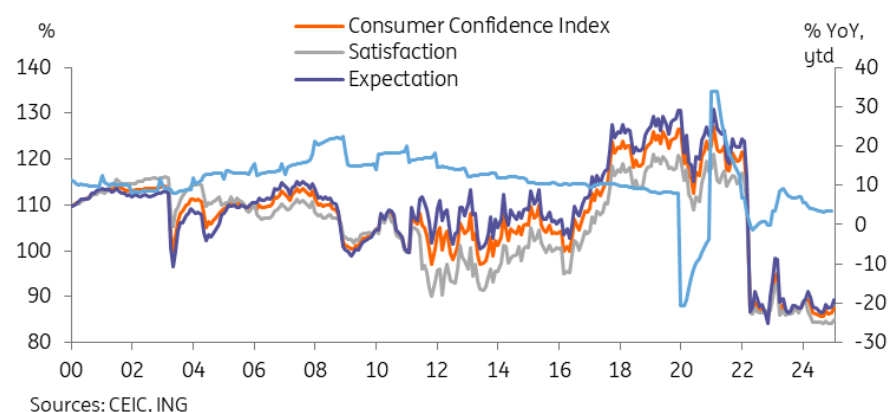
If implemented successfully, the plan will help China's [economic transition](#) toward a consumption-driven growth model.

Trade-in policies will likely be effective in encouraging short-term consumption. But this arguably frontloads consumption and results in an uneven recovery. Non-beneficiary categories will continue to see sluggish consumption. And as soon as the policies end, there's likely to be a slump in these beneficiary categories. The biggest hurdle to a more sustainable consumption recovery is

weak confidence. It remains unclear how quickly these measures will roll out and how effective they will be in restoring confidence. The direction looks positive, but implementation is everything. It's far from certain that these measures will be sufficient to propel consumer confidence back to healthy levels.

We think this year's attention to boosting consumption, combined with last year's relatively low base, will help consumption growth recover to mid-single-digit growth in 2025. Further upside would likely hinge on a sustainable recovery of consumption.

Restoring consumer confidence is the key to sustainable consumption recovery



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