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China’s Consumption: Trends, Challenges and Outlook

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China's consumption has continuously expanded as its economy has grown. In 2024, China's final consumption expenditure reached 10.6 trillion US dollars (World Bank), marking the world's second-largest consumption volume following the United States. Since 2021, consumption has been the largest contributor to China's economic growth; in 2024, the contribution of consumption to GDP growth stood at 2.2%p, 0.9%p higher than that of investment, the traditional growth engine. Driven by quantitative expansion, consumption is becoming a major growth engine behind China's economic growth.

However, despite the rapid expansion of Chinese consumption, its share of GDP remains significantly lower compared to other countries. Looking at the share of consumption in GDP in 2024, China accounted for 56.6%, which was lower than that of the United States (82.9%), as well as other major BRICS countries such as Brazil (82.7%), Russia (67.9%), and India (71.4%), according to World Bank data.

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China's consumption trends over the past few years reveal a characteristic pattern of unstable recovery following the pandemic. The average propensity to consume, which exceeded 70% prior to 2019, fell significantly to 65.9% in 2020 and has remained stagnant at around 68% since 2023. Although the annual consumption growth rate in 2025 recorded 3.7%—an increase of 0.2%p from the previous year—consumption would have barely increased without the consumption-inducing effect (2.6 trillion yuan) from the consumer goods replacement subsidy policy (*Yijiuhuanxin*, 以旧换新). The continued weakness of Chinese consumption sentiment is supported by the consumer confidence index, which has remained below the benchmark for 45 consecutive months since April 2022 (89.5 in December 2025), and the low consumer price inflation rate (0% in 2025). Currently, Chinese households are focusing more on saving or reducing debt rather than increasing spending. However, while consumption of goods remains sluggish, spending in the service sector—such as travel and culture—is showing a relatively robust recovery, suggesting a shift in the consumption structure, as indicated in China’s 2026 Government Work Report.

The following factors are acting as structural reasons preventing China's consumption from expanding rapidly.

First, the low proportion of household income and its unequal distribution are key constraints. Household disposable income accounts for approximately 61% of China's GDP, which is lower than the average for developed nations (Rhodium 2024). It is difficult for consumption to increase rapidly when income growth for the majority of the middle class remains stagnant.

Second, there is the entrenchment of preventive savings due to a weak social safety net. Due to inadequate healthcare, education, and pension systems, Chinese households are compelled to save a significant portion of their income to prepare for future uncertainties, such as old age and illness. In particular, pensions in rural areas are very low, and migrant workers (*Nongmingong*，农民工) exhibit a stronger propensity for preventive savings because they lack urban household registration (*Hukou*，户口) and cannot fully access urban public services.

Third is the negative wealth effect resulting from the prolonged slump in the real estate market. With approximately 70–80% of Chinese household assets concentrated in real estate, falling housing prices are reducing household net assets, severely dampening consumer sentiment (Rhodium 2024). While rising housing prices stimulated consumption during past real estate booms, the current trend is the opposite: falling asset values are suppressing consumption. The growth rate of real estate development investment, an indicator of China's real estate market, has experienced negative growth for 45 consecutive months since April 2022, which surprisingly matches the trend of the consumer confidence index exactly. China's real estate development investment growth rate for 2025 recorded –17.2%.

Fourth is the burden of high household debt. Over the past decade, household debt has surged primarily due to the increase in mortgages, reaching approximately 64% of GDP in 2024 (IMF 2024). According to IMF estimates, the debt-to-disposable income ratio is approximately 144%, which is higher than that of the United States or Japan. As a significant portion of income is used to pay off debt, consumption is being restricted.

For decades, the Chinese economy has sustained high-speed growth centered on exports and investment while serving as the "world's factory," but this growth model is now facing its limits. Recognizing this, the Chinese government has begun to prioritize "expanding consumption" and "fostering the domestic market" as top policy priorities. In line with this policy direction, the government is implementing subsidies for replacing consumer goods and introducing interest rate cuts. The 15th Five-Year Plan also sets strengthening residents' consumption capacity as a major goal, emphasizing the reinforcement of the social safety net and the improvement of income distribution.

However, these policies remain insufficient to significantly boost consumption. A significant portion of government spending is concentrated on the supply side—such as infrastructure investment and corporate support—rather than on consumption, while direct income support to the household sector and welfare expansions are proceeding very slowly. Furthermore, local government debt is another obstacle that constrains the fiscal capacity to support consumption.

Given these realities, China's consumption growth rate is projected to remain stagnant in the future. The Chinese government's policy of matching per capita income growth rate to the level of economic growth rate implies that both income and consumption growth may stagnate, considering the country is entering a low-growth phase.

The future of the Chinese economy depends on how successfully household consumption can fulfill its role as a key growth engine. For China to transition to a "consumption-led growth" model, fundamental structural reforms, rather than short-term economic stimulus, are essential. Reforms to the distribution system to increase household income, the urbanization of migrant workers through household registration reform, stronger healthcare and pension systems, and tax reforms aimed at income redistribution must all be pursued simultaneously. Whether the Chinese government can successfully implement these difficult and arduous reforms, moving away from its familiar investment and export-oriented path, will be a key variable determining the future of not only China but the global economy.