

China's Spenders Are Saving. That's a Problem for Everyone.

By ALEXANDRA STEVENSON/ © 2019 The New York Times

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ZHENGZHOU, China--Forty years after China began its near-miraculous run as the world's most powerful economic growth engine, its people are experiencing something new and unsettling: A feeling that the best times may be behind them.

The Chinese economy is slowing, and the cost of living is rising. The trade war with the United States shows no sign of ending. Wage growth is sluggish. More young people are chasing fewer job prospects.

Chinese consumers, who have become more cautious over the past year, are now staging a broad retreat. They are buying fewer cars, smartphones and appliances. They are going to the movies less and taking fewer trips abroad. They would rather stick their money in the bank.

For China's young people, who have never experienced a prolonged slump in their lives, the shift is especially stark. China has seen slowdowns before, but its consumers kept spending through most of those downturns.

Now young people have more reasons to be worried. Job prospects for recent college graduates have worsened over the past year, according to data from job search website Zhaopin.com, and graduates seeking jobs outnumber openings. Many of those openings are low-paying service-sector jobs.

"For young people in their 20s, it's the first real economic downturn that they've been through and they are experiencing as young adults," said Andrew Polk, founder of Trivium, a consulting firm in Beijing.

"They are now starting to think, maybe this inexorable increase in economic growth is not so inexorable," Polk said.

Wang Junda works at a sprawling complex where Apple phones are made in the city of Zhengzhou on a short-term contract. The fresh-faced 27-year-old has been a driver for Didi, China's version of ride-sharing company Uber, and he is working toward getting a truck driver's license in hopes of being able to make more money. Still, he worries that he will never make enough.

"Whatever you earn is never enough to match your spending," Wang said.

The retreat of Chinese consumers--a powerful force representing \$4.9 trillion in economic activity a year--will have repercussions around the world. Their appetite for homes, cars and iPhones transformed the world, powering global growth and making fortunes for companies like Apple and General Electric.

It also poses an immediate challenge to China's leadership, which draws its legitimacy from the wealth and confidence of the Chinese people.

The new unease can be found across China, from the glittering business capitals of Shanghai and Shenzhen to more working-class places like Zhengzhou, an industrial metropolis of 10 million in the country's interior.

At a downtown Zhengzhou mall, Wang Li watched as a few desultory shoppers wandered by. She was among a dozen bored shopkeepers sitting on lawn chairs and stools, watching shows on their smartphones while waiting for customers.

"Nothing is good. It's not just this one type of business," said Wang, whose shop sells towels, water bottles and keepsake mugs. "Every kind of business is not doing so great."

There are still indications of strength. Headline retail sales figures have slowed significantly but are still growing at a pace that other countries would envy. Some sales drops, like those of smartphones, are due in part to the natural maturing of the Chinese market.

Still, signs of a slowdown abound. The 100 biggest retailers in China have seen their sales decline sharply in recent months, according to Capital Economics. Sales of instant noodles, seen as an indicator because newly affluent Chinese would rather eat out or order in, are rising after declining for several years.

“The bad news is that all indicators of consumer spending are still softening, and the underlying trend is probably somewhat worse than the headline data indicate,” said Ernan Cui, a consumer analyst at research firm Gavekal Dragonomics.

The slowdown is coming just as the cost of living is rising. Young people have been priced out of the housing market in affluent places like Beijing and Shanghai. More people have mortgages and credit cards, however, boosting their spending prowess while adding to their debts.

Mengjie Wu, a Shanghai resident and technology company employee, worries about the price of basic food staples, like meat, and medicine for her mother, which must be imported from the United States. She has a mortgage and loans to pay off. Now she and her fiancé are considering putting off the ultimate act of consumption: a wedding.

“We haven’t decided if we will do it yet because it is not a small cost,” said Wu, 30 years old, whose dreams included a Tiffany ring and a ceremony in Bali, the Indonesian resort spot. “We won’t do it soon.”

China’s leaders are moving to get them spending again. The central government last month pushed out new measures, including discounts on big-ticket appliances.

In past years, those shoppers were part of a seemingly unstoppable growth engine. China’s opening to the outside world in the late 1970s connected global companies with 1 billion people eager to leave grinding poverty behind. As China’s economy developed, a new consumer culture emerged, powered by hundreds of millions of spenders. Spending by households now accounts for nearly 40 percent of China’s roughly \$13 trillion in annual economic activity.

They have become an essential part of the global economy as well. Chinese consumers alone accounted for one-seventh of the world’s growth over the past decade, according to the Boston Consulting Group. General Motors and its Chinese partners sell more cars in China than they do in the United States.

Now growing numbers of people in China are reluctant to spend. A survey by China’s central bank showed rising numbers of urban residents would rather deposit their money in the bank rather than spend or invest it.

As income growth slows, households are making fewer discretionary purchases and choosing to save more. Sectors like automobiles and smartphones are shrinking as fewer people buy these items for the first time. E-commerce is still booming, but growth in online spending has more than halved over the past four years, the Boston Consulting Group found.

The trade war has raised costs for U.S.-grown food, part of an overall surge in food prices. A devastating pig disease has led to soaring pork prices. In online forums, Chinese shoppers are calling for “fruit freedom” and “pork freedom.”

A desire for deals drove Chinese shoppers to the country’s first Costco, the U.S. discount warehouse retailer, when it opened near Shanghai in August.

Wu, the technology company employee, recently looked for a better deal on some of the food she buys each month.

She and her fiancé spend nearly all of their monthly paychecks--about \$5,600 before taxes--to pay off loans and their mortgage, she said. But the small amount of money they spend on groceries, roughly \$300, has risen by a tenth since the start of the year.

As hundreds of shoppers around them pushed large shopping carts that were mostly empty except for basics like eggs, milk and meat, Wu thought about the Tiffany ring she had been dreaming of. Now, that purchase is up to her fiancé, she said.

“The cost for the Tiffany’s ring is much more expensive,” she said, “so I will give him the choice to buy any brand.”

Cao Li contributed reporting (Oct. 2, 2019)