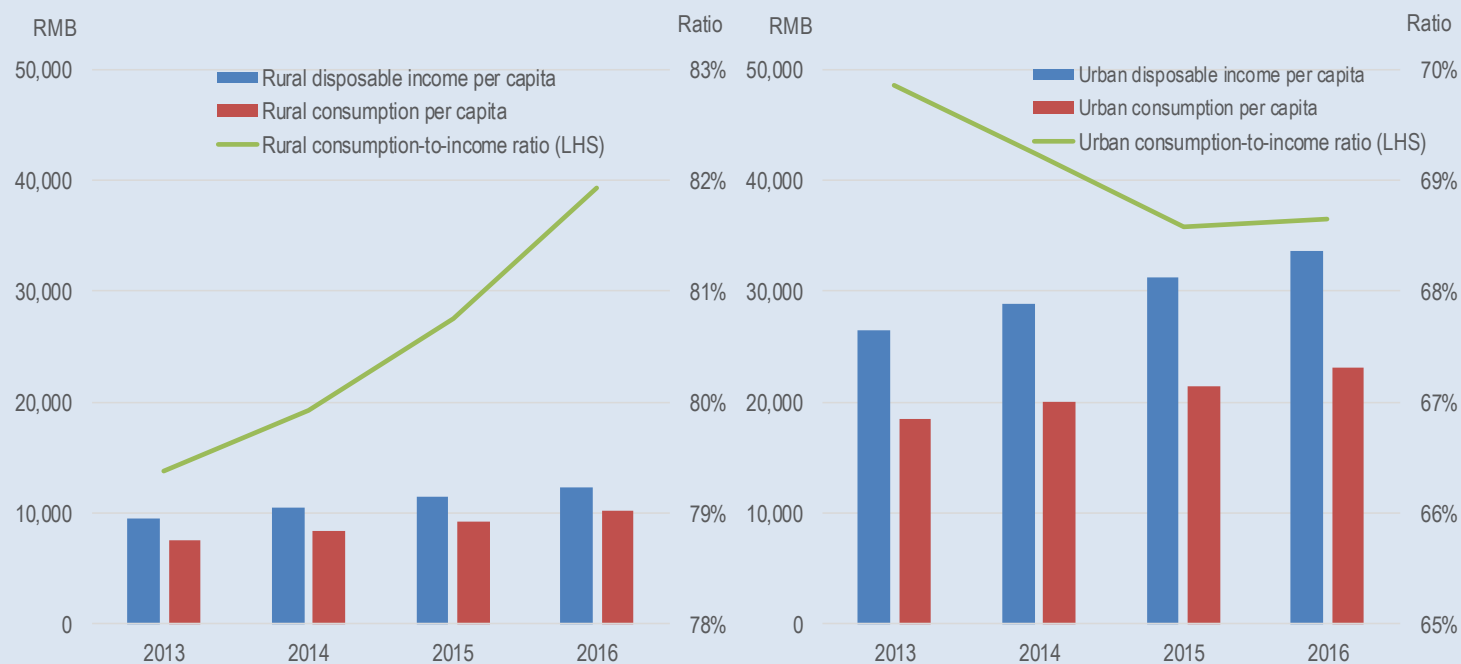




Household spending ratio increased in rural areas but decreased in urban areas

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Sources: NBS, CEIC, The Conference Board

Building on the previous Chart Dive, "[Changes in discretionary spending patterns indicate emergent consumerism in China, especially in rural areas](#)," the data show that rural residents are beginning to save less in order to spend more. Specifically, spending as a percentage of income among rural residents is increasing as their disposable income increases (left chart, green line). This is not the case in urban locations, where spending as a percentage of income is decreasing (right chart, green line). One reason for this may be that many basic consumption needs (one-offs such as kitchen appliances, etc) have been met for many urban dwellers. It also could be that urban dwellers are facing increasing pressure to save for rapidly rising prices for property, education and healthcare.

From 2013 to 2016, urban per-capita expenditure (left chart) increased 5.7 percent per year on average, but per-capita disposable income increased more quickly at a 6.2 percent growth rate. With the consumption-to-income ratio for urban dwellers decreasing from 69.9 percent in 2013 to 68.7 percent in 2016, this means that urban households are saving a greater share of their growing income even while they are consuming more. By contrast, rural residents spent an increasing share of their income and saved less. Income growth in rural areas (right chart) increased at 7.0 percent per year from 2013 to 2016, while their expenditure growth rate was 7.9 percent. Therefore, the consumption-to-income ratio for rural dwellers increased from 79.4 percent in 2013 to 81.9 percent in 2016.

Given the income gap between urban residents and rural residents (average RMB 33,616 vs RMB 12,363 in 2016), it's not a surprise that the spending ratio is higher in rural areas. But the shift cannot be explained by lower incomes alone, as income growth in rural areas is greater than the price growth for consumer goods. There are several possible reasons for the decline in rural saving ratio. Strengthened medical insurance and pension subsidy provisions may have served to alleviate some precautionary savings tendencies¹. Improved access to retail and engagement in the consumer culture via ecommerce channels is another possible contributor. To point, telecommunication and transportation services is the quickest growing spending category in rural areas.

The future of Chinese consumption depends on Chinese households spending more as a function of both earning more and saving less. On the first driver, the household share of national income continues to rise, but from a low base. Considerably more progress is needed. On the second driver, for the 57 percent of the Chinese population living in cities, the propensity to save is on the increase. The picture is different for rural areas as of 2016, but will it last?

¹ For example, the "new rural cooperative medical insurance" program was initiated in 2002. It covered most counties and rural residents by 2014 (see [link](#)). The "new rural social pension insurance" program started in 2009, and by the end of 2013 it involved 128 million rural residents (see [link](#)).