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Global Research
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China Economic Perspectives

Tracking Household Income and Consumer Sentiment - UBS Evidence Lab inside

Economics

China

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New UBS Evidence Lab China consumer sentiment survey

UBS Evidence Lab conducted a Consumer Sentiment Survey (> Access Dataset) over 12-18 February, collecting answers from 1,000 respondents on questions about their income growth and expectations, consumption spending and future intentions. We compare the results from the latest survey to our July 2024 Consumer Survey and the March 2024 post-CNY pulse-check survey to track changes in income expectation and consumer sentiment.

Cautious income expectations weigh on consumption sentiment

The latest survey reveals a softening income growth over the past six months, with a greater proportion of respondents reporting weaker salary growth, softer returns from financial investment or property rentals compared to the March or July 2024 surveys. Looking ahead in the next six months, expectation of future salary income growth held largely stable at a relatively soft level. Confidence of wealth effect through financial investment or property letting weakened, compared to previous surveys. This cautious income outlook casts a shadow over spending intentions. Fewer respondents planned to increase consumption, investments, insurance or savings than March or July 2024.

Notable divergence among city tiers and demographic groups

Amid the generally weak income and consumption outlook, respondents in tier 1 cities fared better than others. They reported better income in the past and expectation for future income growth, which translates to stronger spending intentions than their peers. The youngest cohort (age 18-24) reported the strongest income outlook and spending plans among all age groups. Such difference likely reflects unevenly distributed economic conditions, evident by the notable divergence in property market recovery among different tiers of cities. By products, more respondents plan to increase consumption on sports, F&B, cosmetics, and service activities such as domestic helper services, childcare and elderly care. Meanwhile, spending intention for large ticket items, travelling and luxury cooled from the July 2024 survey.

Boosting consumption listed as top priority, but initial stimulus moderate

Total fiscal stimulus to boost consumption activities remains modest so far. Trade-in subsidies for consumer goods were doubled to RMB300bn (0.2% of GDP) and have been expanded to more home appliances & consumer electronics. The government also vowed to increase social insurance spending and establish childcare/childbirth subsidies, although the annual increase of the former is estimated below RMB100bn and details of the latter remain unknown (see NPC takeaways). With a top-level action plan announced recently, the government plans to boost income growth for both employees' salary and financial returns, and expand the supply of service consumption (see more details). We think the government may introduce additional support for labour market and consumption, in the case of more significant external shocks (especially from potentially new higher tariffs after April).

Key uncertainties to watch: property, tariffs, stimulus

The lukewarm income recovery and subdued consumer confidence may continue to weigh on overall household consumption recovery, although modest fiscal stimulus could offer partial offset. Key uncertainties to watch include the property market's uneven recovery, potential additional tariffs, and the scale and timing of any new policy stimulus. Overall, we expect real consumption growth to stay soft at ~4% in 2025, with diverged trends among different city tiers and demographic groups.

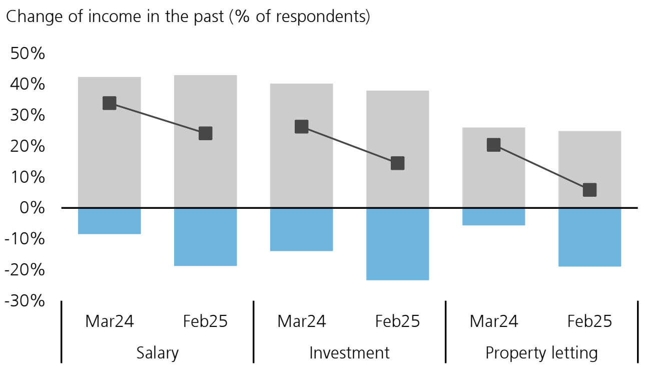
Amid general subdued consumer sentiment, China rolled out consumption policy stimulus in the fall of 2024, which catalyzed a rebound in related sales. How has consumer sentiment evolved into 2025, and what are consumers' expectations for income and consumption? UBS Evidence Lab conducted a Consumer Sentiment Survey (> Access Dataset) involving 1,000 respondents after the CNY holiday between 12 and 18 February 2025. We compare the results from this survey to our July 2024 Consumer Survey (> Access Dataset) and the post-CNY pulse-check survey conducted in March 2024 (> Access Dataset) to track changes in income expectation and consumer sentiment.

General household income growth weakened in the past six months. In the latest survey, 24% of respondents reported rising salary income in the past six months on a net basis (i.e., the percentage of those respondents that reported increased salaries minus those that reported decreased salaries), lower than 35% in the March 2024 or July 2024 survey (where 50% on net basis reported better salary income over the past year). Although the financial market rallied and property sales improved since September 2024, fewer respondents reported increased income from financial investments (net 15% reported an increase) or property letting (net 6% reported an increase), compared with March (26%/20% for investment and rentals, respectively) or July 2024 (47%/45%). For both salary and wealth effect, the weakness in sentiment was due to an increased proportion of respondents that recorded income declines. The results highlight constraints in general spending power. It suggests the financial market recovery and property sales rebound in Q4 2024 have yet to translate into broader household income gains.

Notable divergence among city tiers and demographic groups. Respondents in tier 1 cities seem to be faring better than their peers, with a higher proportion reporting improved salary income and stronger financial returns. In contrast, sentiment on income growth is weaker in lower-tier cities, and across all income sources. In tier 4 cities, for instance, only a net 1% of respondents reported an improvement in property letting income, a sharp decline from 15% in the March 2024 survey.

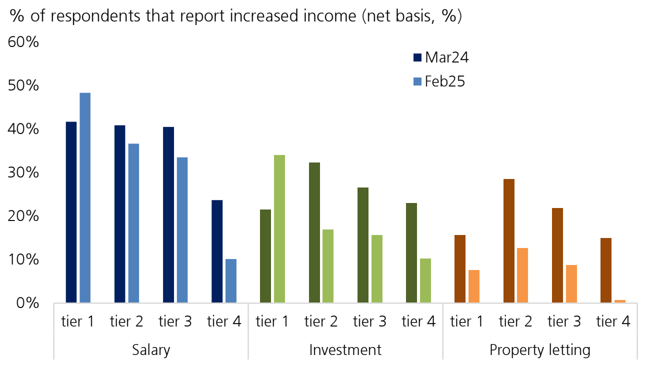
Demographic differences are also pronounced. The youngest cohort (age 18-24) reported the strongest salary income rebound – 48% reported a salary increase on a net basis, up significantly from 14% in March 2024. This perhaps reflects an improvement in labour market conditions for young people. Meanwhile, sentiment was much softer among age groups 25-34 and 35-44. Such divergence likely reflects asymmetric recoveries in economic growth and the property market, with tier 1 cities benefiting more from policy support and uneven improvements in property prices. UBS property team has turned more positive on early recovery signals in tier 1 cities and core tier 2 cities.

Figure 1: General household income growth weakened



Source: UBS Evidence Lab (> Access Dataset)

Figure 2: Notable divergence among city tiers

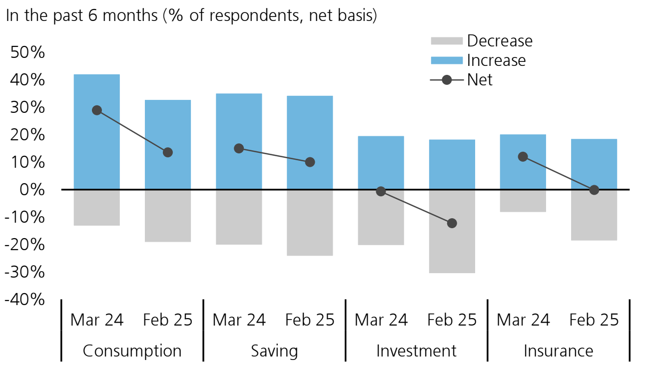


Source: UBS Evidence Lab (> Access Dataset)

Fragile consumer confidence and declining investment intentions in the past six months. Amid softer overall income growth, survey results revealed a more constrained consumption landscape. Only 14% of respondents reported an increase in consumption spending in the past six months on a net basis, halved from 29% in March 2024, and notably lower than 25% in July 2024. In addition, echoing softer returns from financial investments, the bias towards reducing financial investments expanded. A net 12% of respondents said they have decreased investment, from only 1% in March, and in contrast to July 2024 when there was a slight bias towards increasing investment. This reduction in investments was particularly evident among respondents in tier 3 and 4 cities. Similarly, fewer respondents claimed to have increased saving (narrowly defined, bank deposits and cash) or insurance than in the March or July 2024 surveys.

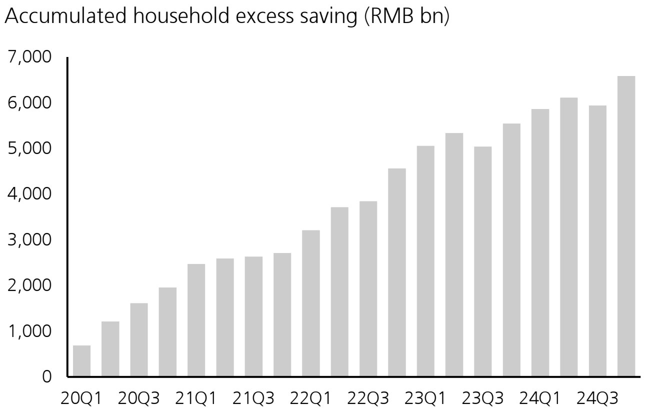
Macro level data showed elevated excess savings and recovering income growth. At the macro level, households continued to accumulate excess savings in the past few years (for more discussion and technical details, please see our earlier report) in 2024, except a mild temporary release in Q3 2023 and Q3 2024. Official household disposable income growth improved to 5.6% y/y in nominal terms in Q4 2024 from 5% y/y in Q3, leading to recovering consumption growth of 4.5% y/y (in nominal terms) from 3.5% y/y in Q3. That said, both income and consumption growth decelerated a bit in Q4 2024 after scrapping out the impact of base effect (on CAGR basis from 2021). Taken together, survey and macro data suggest income growth stayed soft and consumer sentiment remained fragile.

Figure 3: Fragile consumer confidence and declining investment intentions



Source: UBS Evidence Lab (> Access Dataset)

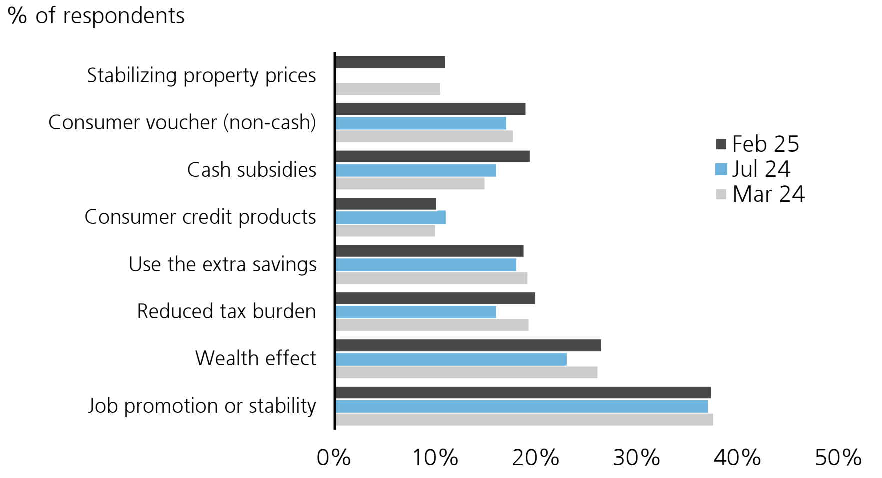
Figure 4: Macro level suggests households accumulated excess savings in the past few years



Source: CEIC, UBS estimates (> Access Dataset)

Looking ahead, income and wealth effect remained the most important drivers of future consumption, with policy stimulus gaining momentum modestly. Among the key drivers for future consumption in 2025, job promotion or stability remains the foremost factor across different surveys (cited by 37% of all respondents in the latest survey), while wealth effect ranked second (cited by 26%). Different from previous surveys, cash subsidies and consumer vouchers (non-cash) both became more important drivers. This shift echoes the government's efforts to boost consumption, particularly through RMB170bn worth of trade-in subsidies in Q424 (more than the planned RMB150bn). The findings also underscore the role of policy boosts in shaping future consumption activities. Indeed, the government doubled the size of trade-in subsidies to RMB300bn in 2025.

Figure 5: The most important drivers for consumption



Source: UBS Evidence Lab (> Access Dataset)

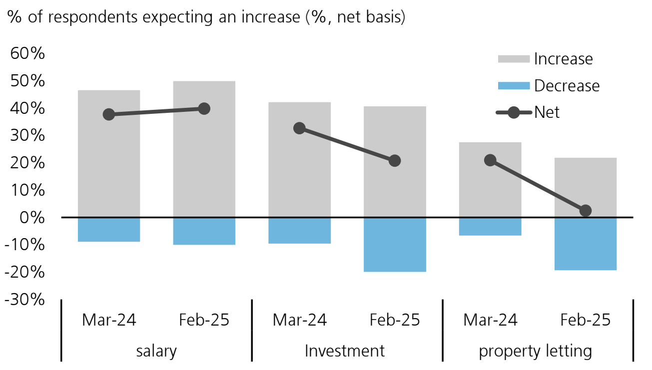
What to expect in 2025?

Respondents remain cautious on future salary growth and expect softer wealth effect. On wage growth, the share of respondents that expected their salary to increase in the next six months was largely stable from previous surveys (a net basis of 40% expected an increase, vs 38% in March 2024). This is still short of the full-year expectation in July 2024, where 50% expected their salary to increase on a net basis. **On wealth effect front**, the gloomy view of past performance may have weighed down respondents' future expectations. Only 21% of respondents (on a net basis) expect their investment return to rise in the future, while just 2% expect an increase in property letting income – both much weaker than March and July 2024 surveys. The weakness is most pronounced in tier 4 cities where only 14% expect investment income to increase (vs 37% in tier 1 and 25% in tier 2/3) and 4% expect property letting income to decline on a net basis (while tier 1-3 expected an increase). Overall, salary and wealth effect expectations remain subdued and divergent across city tiers, which is likely related to respondents' spending intentions.

The government has prioritized "boosting consumption" as the top policy task for 2025, but initial stimulus appears moderate. In 2025, trade-in subsidies for consumer goods have doubled to RMB300bn (0.2% of GDP) and expanded to more home appliances & consumer electronics. The government has also vowed to increase social spending and establish childcare/childbirth subsidies, although the annual increase of the former is estimated below RMB100bn and details of the latter remain unknown (which could possibly exceed RMB100bn or more a year, see NPC takeaways). With a top-level action plan announced recently (see more details), the government continued to emphasize lifting income growth, expanding the supply of service consumption by lowering entry barriers and removing related restrictions, implementing the pay-leave scheme, and increasing central government investment in services and skill trainings. As of now, the total size of stimulus package in 2025 looks modest and some policy details still need to be confirmed later. That said, we think the government may introduce additional support for labour market and consumption, in the case of more significant external shocks (especially from potentially new higher tariffs after April).

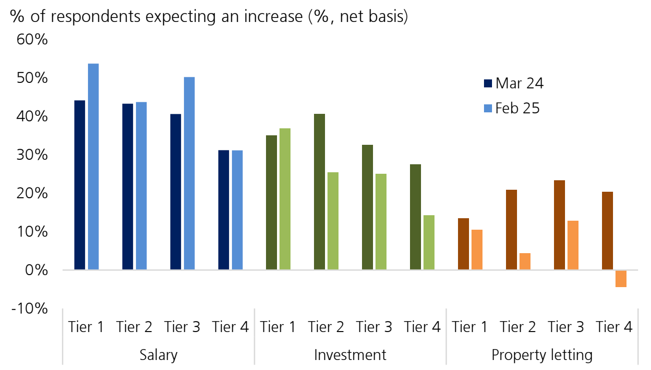
Lacklustre income expectations likely weigh on consumption outlook. Despite larger subsidies for the consumer trade-in scheme, spending sentiment remains weak amid soft and stable income expectation. A net 10% of respondents plan to increase consumption in the next six months, down from 21% in March 2024, while similar to the July 2024 survey. Unevenly distributed income outlook is reflected in consumption expectations. Respondents in tier 1 cities reported a stronger intention to consume than others, while those in lower-tier cities, in particularly tier 4 cities, were much more reluctant. Whereas in March 2024, respondents in tier 1-3 cities showed similar spending intention. Meanwhile, intentions to save, invest and buy insurance also declined from March 2024, likely reflecting subdued income outlook.

Figure 6: Largely stable salary income expectations, softer outlook for wealth effect



Source: UBS Evidence Lab (> Access Dataset)

Figure 7: Income expectation by income types



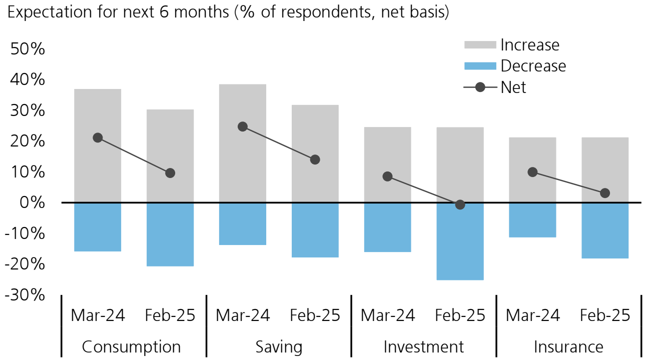
Source: UBS Evidence Lab (> Access Dataset)

What areas to spend on? Compared to the July 2024 survey, more respondents intend to increase spending on sports (22% of all respondents plan to increase spending on a net basis, vs 15% in July), food and beverages, and cosmetics. Respondents also showed stronger intentions to spend on service activities such as domestic helper services, childcare and elderly care; this highlights the importance of fiscal boosts and policy support. Partly reflecting the expansion of trade-in policy, slightly more respondents than in the July 2024 survey prefer to spend on consumer electronics, even as this category includes computers that were already in scope for subsidies in 2024. Meanwhile, purchase intentions for large-ticket items (property purchases and auto), travelling (outbound and domestic) and luxuries (handbags and jewelry) cooled further from July 2024. Comparison with the March 2024 survey revealed a similar pattern – stronger spending intentions for elderly care, house keeping, helper services; lower spending intentions for dining out, travelling, commuting.

Key uncertainties to watch: property, tariffs, stimulus. We expect the lukewarm income recovery and subdued consumer confidence to weigh on household consumption in the coming quarters. While there are early signs of stabilization in the property market to support consumer sentiment, the current improvement is highly concentrated in tier 1 and core tier 2 cities, while a nationwide recovery may be absent till 2026. If and when the US imposes additional tariffs on China after April, weaker exports later in the year may negatively impact the labour market and constrain household income growth.

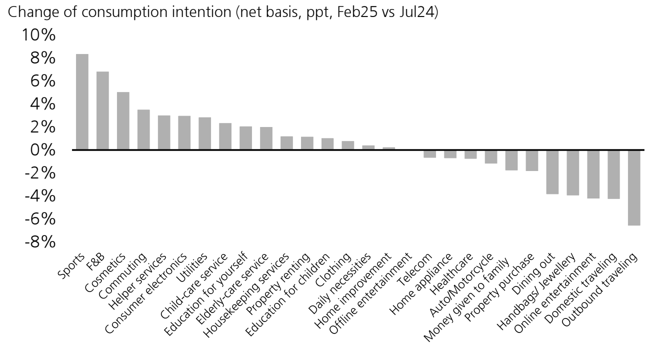
Meanwhile, the expansion of trade-in subsidies is likely to provide some support for consumption, especially for products that were not subsidized in 2024. We also expect more details on childcare/childbirth subsidies to be announced soon. That said, the initial boost of fiscal stimulus to support consumption is still modest, and the policy implementation could take some time. Local governments' fiscal capacity to support consumption remains challenging. Futhermore, the stock market rally, if sustained, could offer some support through wealth effect. Overall, we expect real consumption growth to stay soft at ~4% in 2025, with diverged trends among city tiers and demographic groups.

Figure 8: Spending intentions weakened



Source: UBS Evidence Lab (> Access Dataset)

Figure 9: Spending pattern shifts



Source: UBS Evidence Lab (> Access Dataset)

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This is the 2nd wave of the China Consumer Sentiment Consumer Survey. UBS Evidence Lab conducted an online survey of 1,000 consumers across China. Fieldwork took place from 12 February to 18 February 2025. The distribution of survey respondents was designed to mirror the population of the country by using census data for age, gender & tier. Participants did not have to meet any qualifying criteria in the survey. This report leverages the following UBS Evidence Lab asset: China consumer sentiment consumer survey. The margin of error for 1,000 respondents is +/- 2.60% at 90% confidence level.

Previous fieldwork date for this survey is:

Wave 1: March 2024

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