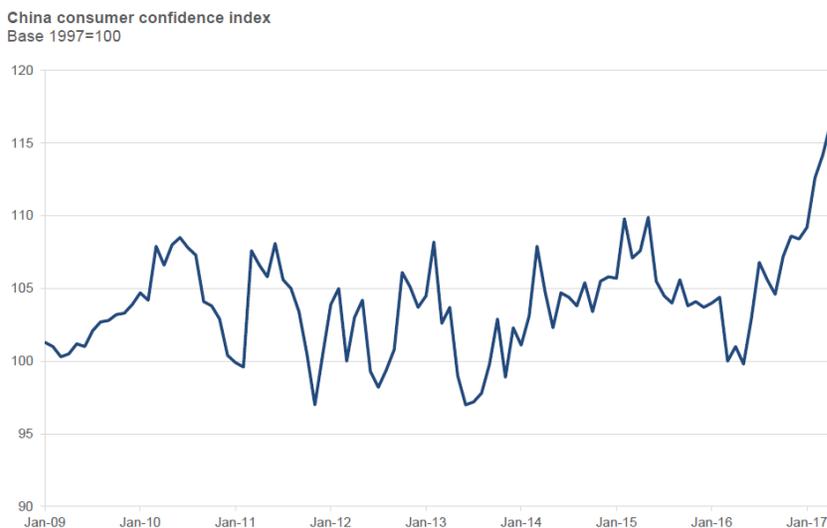


## Chinese consumption: Five charts that might surprise you

Chinese consumer confidence has taken off since reaching a multi-year low at the beginning of 2016, spurred on by expansion in the local economy and a strong yuan. Growth has stabilized at 6.7% year-on-year and sentiment has responded in kind, posting its strongest showing in over two decades (Chart I). China’s annual consumption market is on track to more than double in the next decade from \$4.4 trillion in 2016 to \$9.7 trillion by 2030<sup>1</sup>, driven largely by growth in Tier 3 and Tier 4 cities. According to McKinsey’s 2016 consumer report, 55% of Chinese consumers were confident that their incomes would significantly increase over the next 5 years. In comparison, only 32% of American and 30% of UK consumers agreed with the same statement in 2011<sup>2</sup>.

### Chart I: Chinese consumer confidence is soaring



Source: Bloomberg

<sup>1</sup> “Why we are bullish on China.” *Morgan Stanley*. February 13, 2017.

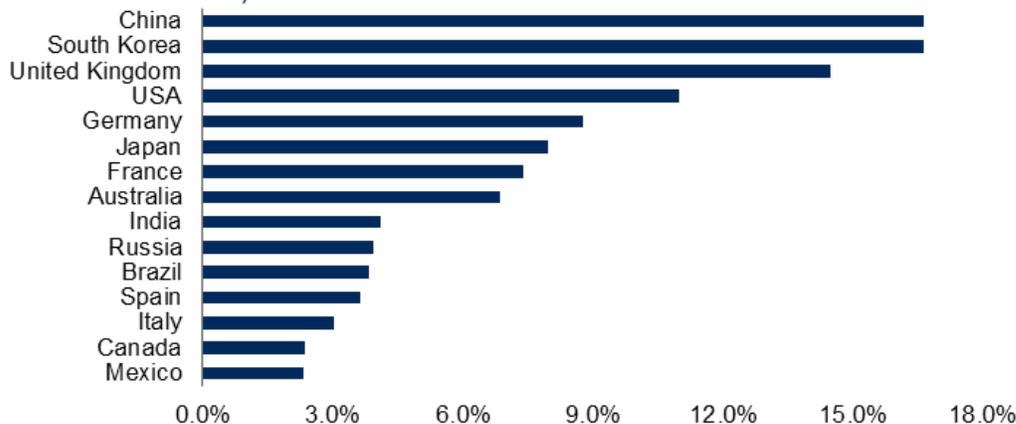
<sup>2</sup> “2016 China Consumer Report: The Modernization of the Chinese Consumer.” *McKinsey&Company*. March 2016.

It may surprise the reader to know that a developing economy like China boasts the highest e-commerce penetration rate<sup>3</sup> in the world (Chart II). According to China’s National Bureau of Statistics, Chinese consumers spent US\$750 billion online in 2016, a figure that is more than the US and the UK combined<sup>4</sup>. Apps like WeChat that incorporate social networking, e-payments, ride-sharing, group buying, user reviews, messaging and more into an all-in-one platform have served to catalyze this exponential growth in e-commerce.

**Chart II: More consumers in China and South Korea prefer to do their shopping online**

**E-commerce penetration by country**

(% of B2C retail sales) 2016



Source: Euromonitor

A good example of the growing dominance of online shopping channels is the surge in fresh food delivery, an area that was previously dominated by supermarkets and wet markets. In Tier 1 and 2 cities, the share of consumers purchasing groceries online rose from 3% in 2014 to 19% in June 2017. Similarly, over the same period in Tier 3/4/5 cities, this share grew from 1% to 13%<sup>5</sup>.

Yet as impressive as this is, the current internet penetration rate in China as at the end of 2016 is still only 53%, well below its Western counterparts (Chart III). By 2030, this figure is expected to rise to 75% along with the median age which will rise to 43 and disposable household income which will increase to US\$8,800<sup>6</sup>.

<sup>3</sup> As measured by e-commerce sales as a percentage of total B2C retail sales.

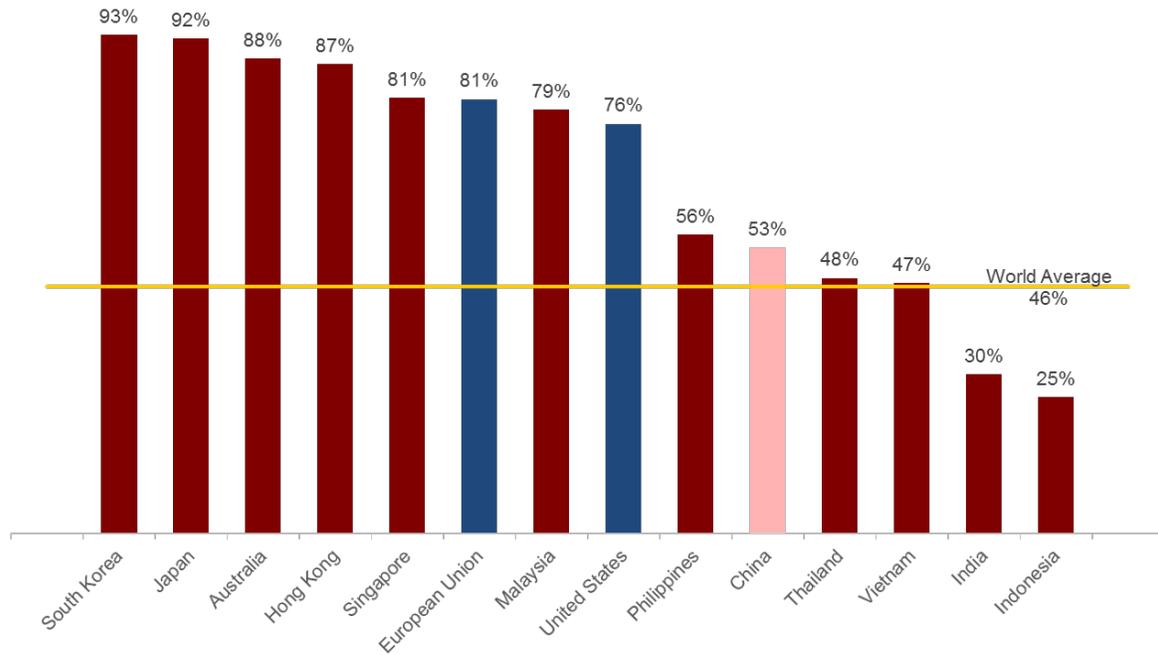
<sup>4</sup> “What China reveals about the future of shopping.” *The Boston Consulting Group*. May 4 2017.

<sup>5</sup> “Healthier Beat: China’s economic rebalancing takes shape.” *CLSA*. September 2017.

<sup>6</sup> “Why we are bullish on China.” *Morgan Stanley*. February 13, 2017.

**Chart III: Chinese internet usage has room to grow**

**2016 Individuals using the internet<sup>1</sup>**  
% of population



<sup>1</sup> Individuals who have used the internet (from any location). Internet may be accessed via a computer, mobile phone, PDA, games machine, digital TV etc.

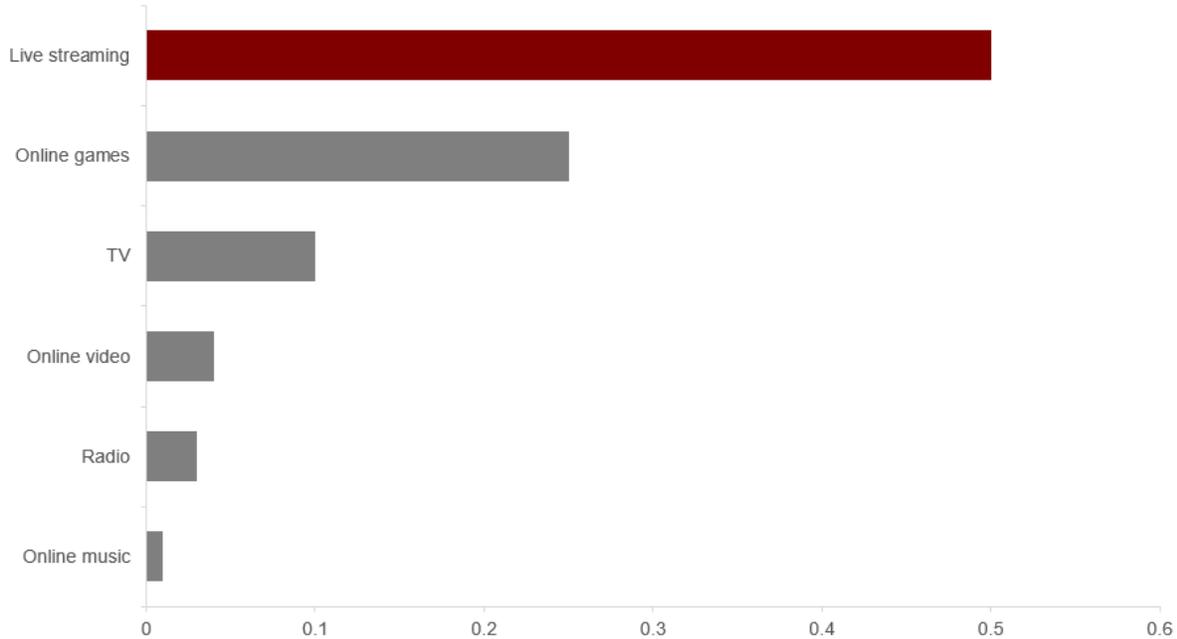
Source: World Bank, “World Development Indicators” (Sep 15, 2017).

Easy e-payment systems have also ushered in the rise of livestreaming in China. Followers can send virtual gifts—from roses to sports cars—to social media influencers that showcase their lives online. These virtual gifts are then cashed in for real currency, with some online personalities earning salaries of up to six-figures a month. Last year livestreaming produced revenues of more than 30 billion yuan (US\$4.3 billion) and is targeted to triple this figure by 2020<sup>7</sup>. As Chart IV shows, livestreaming brings in over double the revenue per hour than the next most lucrative activity in China – online gaming. From an industry that barely existed three years ago, this highlights the sheer scale of China’s potential consumption market if something goes mass market.

<sup>7</sup> “China live streaming: Would-be internet stars boost billion-dollar market.” *Reuters*. April 12, 2017.

**Chart IV: Where do Chinese spend online**

Estimated revenue per user hour in China in 2016  
US\$



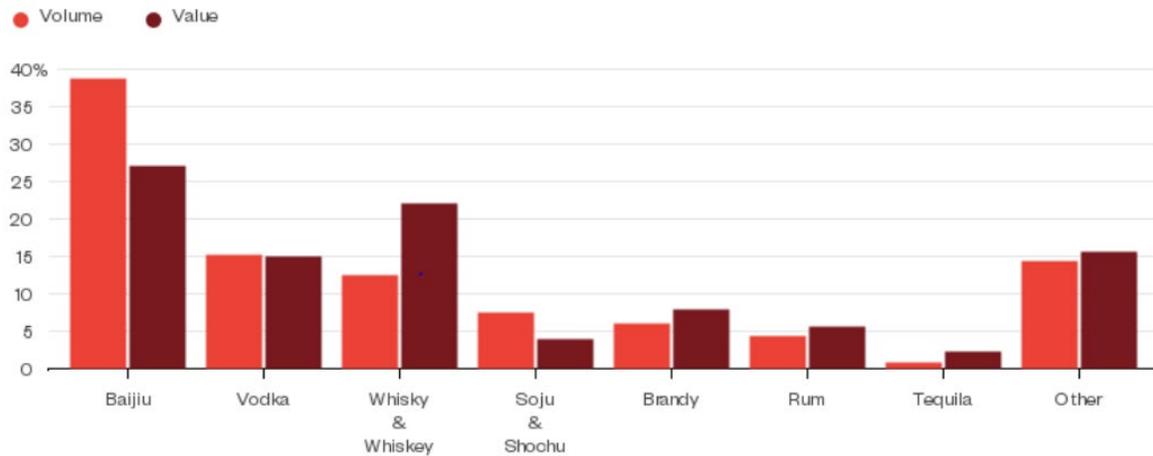
Source: “Internet Trends 2017 – Code Conference”. *Kleiner Perkins*. May 31, 2017.

If you were to guess that the most popular alcoholic spirit in the world was vodka or whiskey, you would be wrong. The answer believe it or not, is *baijiu*, a Chinese rice wine liquor that starts at a throat-burning 80% proof. As Chart V below shows, baijiu accounts for more than a third of all spirits drunk globally and more than a quarter of sales value<sup>8</sup>. This is despite President Xi’s crackdown on corruption in 2012 which hit sales of high-end baijiu. Today sales have rebounded and China’s Kweichow Moutai Co. is now the world’s most-valuable liquor distiller after its shares increased 55% over the past year, more than twice the gain of Diageo Plc. One distinctive difference? 95% of Moutai’s sales came from the domestic China market.

<sup>8</sup> “China’s Fiery Liquor Regains Its Investment Palate.” *Bloomberg*. October 12, 2016.

**Chart V: Global sales of alcoholic spirits**

Baijiu is the most-consumed spirit in the world, and the highest-value market by turnover



Source: Bloomberg.

Despite the economic slowdown in China, which has mainly affected the ‘old economy’, the above illustrate that the opportunity set within the consumption space is vast. This is in part due to its function as the world’s most populous country, but also points to the innovation and ingenuity present in many of these businesses. In the coming decade Chinese consumers will be wealthier, older and more technologically savvy, and we anticipate that this is only the beginning for companies looking to capitalize on this structural shift.

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