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Getting Granular: In Search of Pockets of Growth in China

2024 McKinsey China Consumer Report

Daniel Zipser

Daniel Hui

Junna Shi

Cherry Chen



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Introduction

As consumer confidence continues to hover at all-time lows, it's clear that China's consumption growth is experiencing a new normal of single-digit increases. And as we reach the mid-point of 2024, consumer marketers in China are expressing concern about how the remainder of the year will play out.

Marketers are closely monitoring key consumption indicators, and are seeking answers to a host of challenging questions that will help them recalibrate their strategies: Where are the pockets of growth? Which groups of consumers are more confident? What categories of products and services are growing, and which are flat or declining? What should we do to better attract and serve consumers in these growth categories?

To provide an additional fact base to help marketers answer these questions, McKinsey's Consumer & Retail Practice in China conducted a comprehensive nationwide survey of nearly 12,000 Chinese consumers. Completed at the end of 2023, our survey segmented Chinese consumers into 108 distinct demographic groups based on city tier, age, household income, and other factors. We asked them about their confidence levels, purchasing intent, and a host of other questions that shed light on Chinese attitudes and behavior.

In this article, we highlight four key trends shaping consumer behavior and consumption in China:

- Trend 1: While consumer confidence remains low, we see promising signs of a consumption recovery.
- Trend 2: Young consumers in lower tier cities are still confident.
- Trend 3: Consumers are shifting purchases toward services and experiences.
- Trend 4: Mindset matters.

These trends illustrate a complex and evolving consumer landscape in China, where businesses must adopt a granular and targeted approach to cater to varying consumer needs and preferences. By understanding these key trends, companies can better navigate the challenges and seize the opportunities within the Chinese market.

Trend 1

While consumer confidence remains low, we see promising signs of a consumption recovery

Sentiment remains at an all-time low, as Chinese consumers continue to harbor uncertainty about their future financial prospects and the broader Chinese economy. High living costs, job security concerns, and income disparities are among the top reasons cited by approximately 3,000 respondents in our survey who indicated they were either neutral or pessimistic regarding the state of China's economy.

The leading concern, cited by 38 percent of respondents, is the increase in daily consumption costs driven by rising prices. Although China has not experienced inflation, and even shows deflationary tendencies, consumers believe their daily cost of living has become much more expensive than in the past. Anxiety about job security due to poor employer performance was cited by 36 percent of respondents, while fear of unemployment was mentioned by 30 percent. (Exhibit 1)

Additionally, respondents expressed concern over falling house prices and asset depreciation, tense international relations, and social issues stemming from an aging society and a shrinking labor force. These findings underscore a wide range of economic and social factors undermining consumer confidence in China.

Nonetheless, the results of our survey, combined with an analysis of recent consumption indicators, underscore a few promising signs of a gradual recovery in Chinese consumption. Retail sales in the first quarter saw a 4.7 percent bump up, followed by a 3.7 percent increase in April and May.

The first two months of the year also saw 37 percent growth in sales of electric vehicles, and a 17 rise in overall auto sales. And after years of pandemic-related travel restrictions, Chinese consumers are getting back on the road again, with domestic and international travel bouncing back to pre-COVID-19 levels in the first few months of the year. Domestic travel during this year's Lunar New Year holiday jumped by 34 percent compared with the same period in 2023, representing a 19 percent increase over the level reached in 2019.

It's also worth putting China's persistently low consumer confidence into perspective. When compared to most other major consumer markets, China has one of the highest rates of consumer confidence in the world, higher than many advanced economies including the UK, Germany, and Japan.

As we move into the second half of the year, we will continue to closely monitor consumer confidence and consumption indicators, and share periodic updates.

Exhibit 1

High living costs and concerns about job security and income are the top reasons consumers are pessimistic or neutral toward the economy.

Reasons for concern¹

%, total of about 3000 respondents that said they are “pessimistic” or “neutral” about today’s economy



¹Corresponding to the question in the “China Consumer Survey” questionnaire: B.a.5 You are pessimistic about the macro economy, why? Top 3 reasons combined.

Source: 2024 McKinsey China Consumer Survey

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Trend 2

Young consumers in lower-tier cities are still confident

While some of the key top-line consumption numbers may continue to appear discouraging, simply focusing on aggregate measures usually doesn't offer a complete picture of the reality on the ground. Our survey shows that consumer sentiment and willingness to spend vary significantly across different city tiers, regions, income levels, and age groups. By taking a more granular view of China's consumer market, we are able to identify several pockets of higher consumer confidence and positive growth in consumption.

For example, one of the most striking findings from our survey is the substantial difference in confidence levels between millennials (ages 26-41) in higher-tier cities and lower-tier cities. Of the millennial consumers we surveyed in lower-tier cities, 75 percent expressed confidence in China's economy, compared with 65 percent of millennials in higher-tier cities. This confidence gap widens even further when we look at mid- and high-income millennials in tier-3 and tier-4 cities, where confidence levels exceed 80 percent. (Exhibit 2)

Why are tier-3 millennials more confident than their tier-1 counterparts? One reason is they typically enjoy lower living costs compared to millennials in tier-1 cities. Second, unlike millennials in tier-1 cities, millennials in tier-3 cities usually enjoy lower housing prices and have less pressure to pay off their mortgage, freeing up a substantial share of their financial resources.

Millennials in tier-3 cities usually enjoy better job security and are subject to less fluctuation in the job market, compared to millennials in tier-1 cities, where the internet boom has led to more volatile swings in the job market, putting many jobs at risk. Many millennials in tier-3 cities are employed by large companies or hold government jobs, offering a higher level of job security.

Exhibit 2

Confidence among Chinese consumer groups varies widely.

Confidence in the economy and share of daily consumption

Percentage of optimistic respondents¹, share of daily consumption², n =11,930

Percent of optimistic respondents <65% 65-70% 70-76% 76-87% >88%

Most optimistic group Most pessimistic group Percent of consumption Expected growth in daily consumption

City tier	Monthly household income (RMB)	GenZ (18-25)	Millennial (26-41)	GenX (42-57)	Baby Boomer (58-65)	Total	Income total
1 st tier cities	High > 30.1K ³	87% 3.3%	76% 1.6% 82% 1.2% 95% 1.0%	60% 6.5% 71% 5.2% 88% 0.8%	86% 4.8%	High	82%
	Middle 14.5-30.1K	87% 3.3%	60% 6.5% 71% 5.2% 88% 0.8%	70% 13.9%	17%		
	Low < 14.5K	61% 0.3% 78% 0.5% 81% 0.7%	80% 2.3%	3.1%			
2 nd tier cities	High > 21K	83% 3.9%	67% 13.4% 72% 12.2% 82% 5.5%	81% 3.8%	Middle	75%	
	Middle 14.5-21K	83% 3.9%	67% 13.4% 72% 12.2% 82% 5.5%	73% 21.1%		50%	
	Low < 14.5K	83% 3.9%	74% 10.1%	2.5%			
3 rd tier cities	High > 21K	89% 2.3%	83% 1.1% 93% 0.4% 87% 1.2%	87% 3.5%	Low	75%	
	Middle 14.5-21K	89% 2.3%	81% 4.0% 93% 5.3% 92% 0.5%	89% 10.7%		34%	
	Low < 14.5K	89% 2.3%	66% 2.9% 74% 3.4% 80% 3.0%	75% 10.0%		2.0%	
4 th tier cities	High > 14.5K	88% 2.5%	77% 1.5% 75% 0.9%	80% 2.9%			
	Middle 7.6-14.5K	88% 2.5%	83% 0.4% 86% 0.5%	86% 2.1%			
	Low < 7.6K	88% 2.5%	71% 1.0% 83% 4.6%	82% 6.4%			
Rural	High > 7.6K	77% 0.2% 72% 0.5% 68% 0.7%	71% 1.5%	68% 1.5%			
	Middle 5-7.6K	86% 0.3% 47% 0.7% 62% 1.1%	60% 2.2%	60% 2.2%			
	Low < 5K	74% 2.0% 86% 1.4% 51% 1.5%	68% 4.9%	68% 4.9%			
Total by age group		83% 15% 70% 35% 76% 34% 79% 16%	76% 100%				
		2.6%	2.6%	2.0%	2.6%	2.4%	

¹Some consumer groups with similar confidence levels were combined for simplicity.

²Contribution of consumption by each group is measured.

³Average monthly disposable income, in RMB.

Source: National Bureau of Statistics; McKinsey Global Institute; 2024 McKinsey China Consumer Survey; Team analysis

Other consumer groups worth watching

Urban Generation Z

This group is particularly interesting to marketers for a number of reasons. Despite high youth unemployment rates, they nevertheless express a high level of confidence and optimism in their family's financial situation. Even if they are not currently employed, or their incomes are low, they feel the future remains bright due to strong family support.

Having parents and grandparents to support them, and few or no siblings due to China's previous one-child policy, relieves them from many of the financial pressures faced by prior generations. They are in line to inherit the homes that their parents have spent years working hard to purchase, and hence are not directly impacted by heavy monthly mortgage payments or the broader issues that the real estate market is currently facing.

Urban Gen Z consumers spend more on dining out and cultural entertainment, reflecting their pursuit of social companionship and spiritually fulfilling activities. They also tend to possess a more health-conscious mindset than other consumers and like to spend on sportswear to support their active lifestyles. Consistent with this mindset, they consume less tobacco and alcohol than other consumers.

Baby Boomers in Tier-1 Cities

Older consumers in tier-1 cities are also still very positive. This group includes many senior executives or business owners with high household disposable income. Although their current share of daily consumption is low and not expected to grow significantly, they hold relatively positive consumption views. They have been some of the biggest beneficiaries of the last two decades of rapid economic growth and have built substantial nest eggs, driven by the enormous appreciation in the value of the apartments they invested in 10-15 years ago, for example.

Millennials in Tier-1 and Tier-2 Cities

Millennials in tier-1 and tier-2 cities remain the growth engine for most companies across categories, accounting for almost one-quarter of current consumption. Although they are somewhat less confident than their tier-3 counterparts, consumer marketers need to continue to find ways to foster closer brand affiliation and loyalty with them.

Trend 3

Consumers are shifting their purchases to services and experiences

By comparing the net expenditure intentions and expected consumption growth rates of each category, our survey identified four potential growth categories—education, food and beverages, health products and services, and travel. These categories are linked to people's increasing health consciousness and willingness to spend on services and experiences that improve their lives. (Exhibit 3)

Conversely, categories linked to the broader economy and the real estate market, such as home appliances and consumer electronics, are not growing as fast. These categories, along with alcohol and tobacco, we identified as “at-risk” categories due to the expected decrease in consumption, according to our survey.

Consumers are exhibiting a dual behavior of trading up in certain categories while cutting back in others. This selective spending pattern indicates that consumers prioritize value and quality in specific areas, even as they seek to economize in others. For instance, while some may spend more on premium personal care products, they might simultaneously reduce their spending on everyday household items.

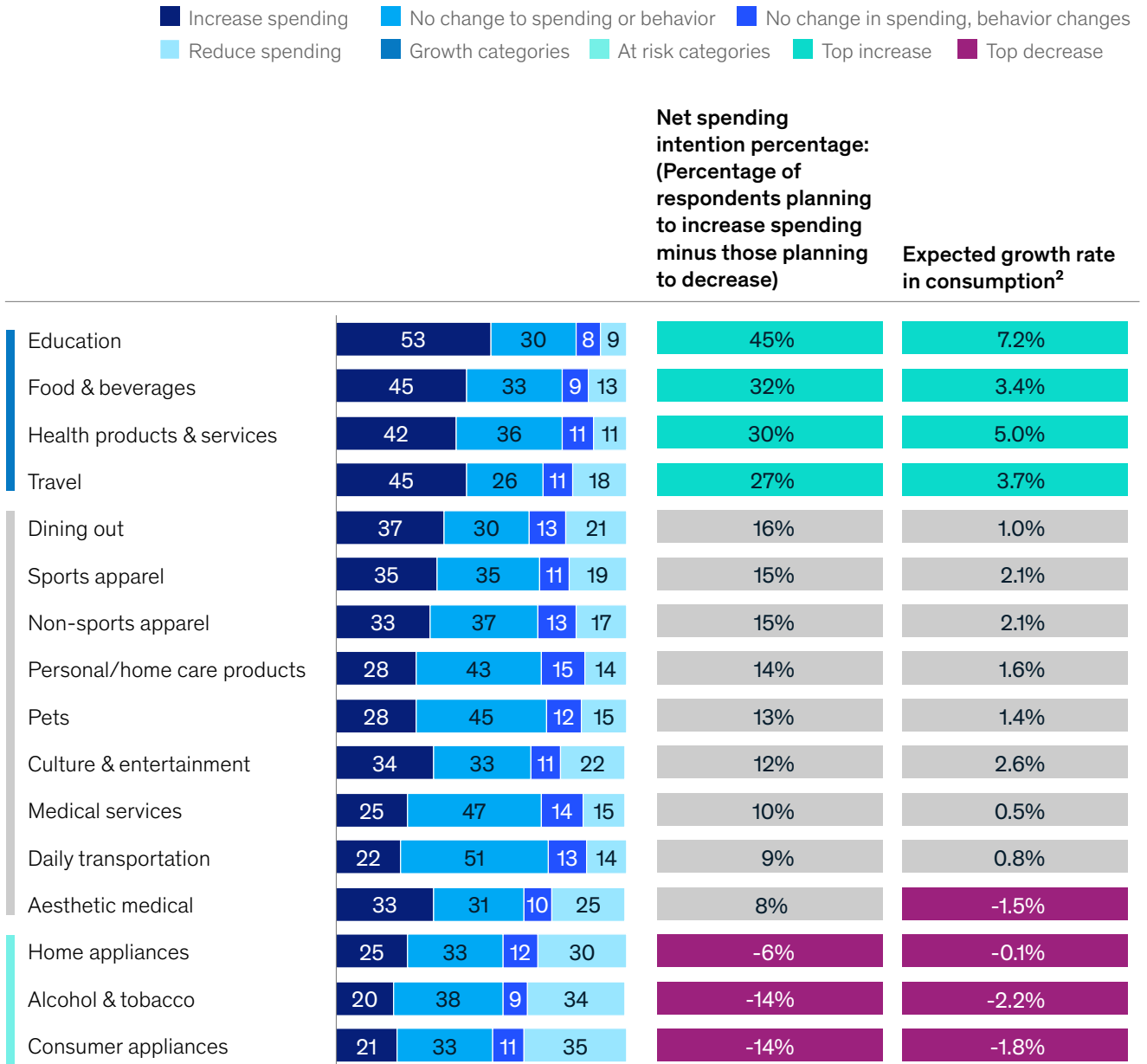
There's a noticeable trend of consumers becoming more cost-conscious. They are buying products less frequently, opting for entry-level products, and actively seeking the cheapest options for desired brands and products. This behavior underscores the need for businesses to offer value-driven propositions and competitively priced products to attract budget-conscious consumers. (Exhibit 4)

Interestingly, growth categories do not necessarily correspond to consumption upgrading. For example, Chinese consumers are traveling more but spending less per trip. They're opting for shorter, more frequent trips to closer domestic travel spots or overseas destinations, for example. Additionally, many Chinese travelers are still staying at five-star hotels, but are saving money by not dining at the hotel's restaurants. Instead, they often prefer to leave the hotel in search of a greater variety of more affordable restaurants, they may order meals delivered to their room, or will even enjoy instant noodles they bring from home.

Exhibit 3

Chinese consumption expectations vary across product categories.

Percentage of key decision-makers in each secondary category surveyed, Total 11,930 respondents¹



¹Question A.c.1 from the "China Consumer Survey": "In the next 12 months, how do you expect your household's spending in the following categories to change?".

²The growth rate for each category is calculated based on current category expenses and expected changes over the next 12 months, either by average or the minimum absolute change (e.g., if the expectation is a reduction of 20%-40%, it is calculated as -30%).

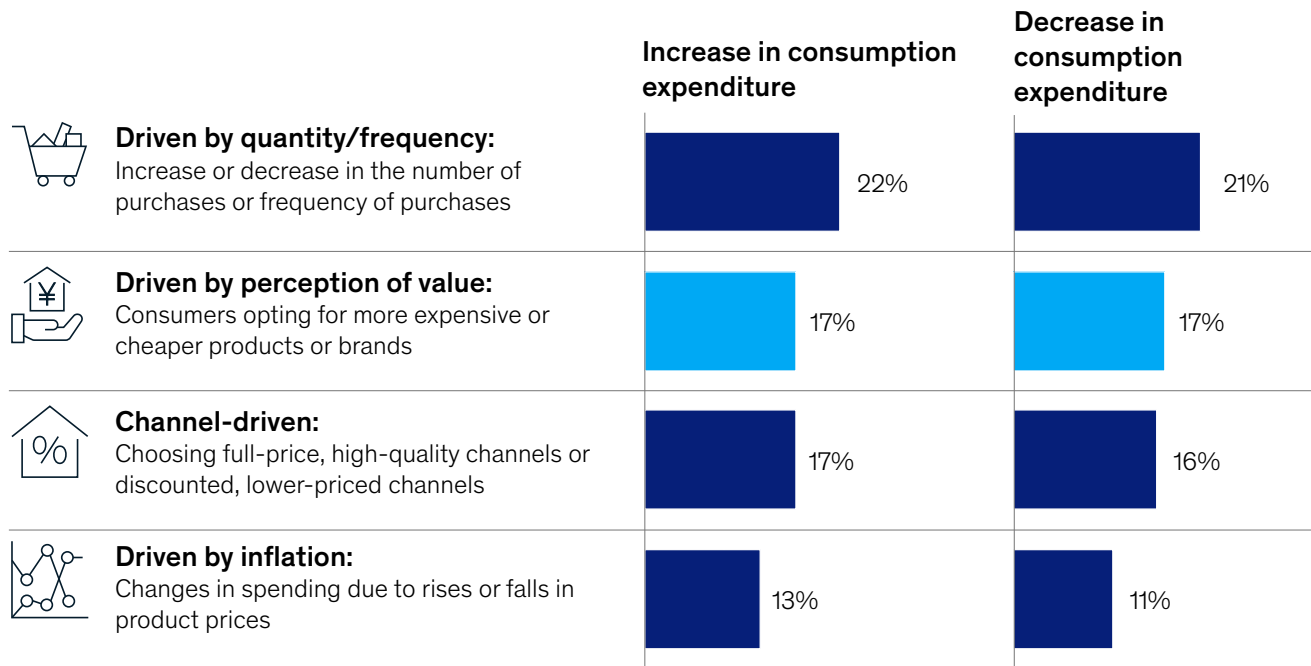
Source: 2024 McKinsey China Consumer Survey; Team analysis

Exhibit 4

Changes in consumption are primarily driven by quantity and frequency of purchases, followed by perception of value.

Reasons for changes in consumption expenditure¹

Percentage of respondents who chose this reason as the cause for changes in consumer spending/ number of options corresponding to this reason, weighted average across all categories



¹Increase in consumption expenditure: Defined as consumers explicitly stating that their reason for increased spending in a category is due to opting for more expensive products or brands; Decrease in consumption expenditure: Defined as consumers planning to choose cheaper or more affordable products or brands as their reason for decreased spending in a category.

Source: 2024 McKinsey China Consumer Survey; Team analysis

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Trend 4

Mindset Matters

One of the more striking findings from our survey is seen in the factors that drive their purchases. Among the top four growth categories that we identified in our survey—education, travel, food and beverages, and health products and services—the top driver of consumers' purchase of these categories is their mindset regarding the lifestyle they choose to pursue. (Exhibit 5)

For example, despite travel typically being a high-ticket expenditure for most consumers, they continue to prioritize it, even if it means spending less on other categories. Regardless of low consumer sentiment, Chinese consumers continue to prioritize spending on experiences that bring personal and familial joy and fulfillment. Spending on these areas is not viewed as a one-off consumption of a product, but as an investment in creating memorable experiences with their family and friends. A week-long holiday or an evening out at a nice restaurant is often treasured more than the purchase of a material item.

Education is another category that Chinese consumers value highly, and remains one of the top growth categories, even during periods of low consumer sentiment. Even when financial resources are limited, spending on education remains a priority because it is considered essential for a family's future well-being. This mindset is particularly strong among Chinese parents, who have long been known for their dedication to their children's education. They see education as the most important lever to ensure their children's success and growth.

In contrast, when consumers are uncertain about their financial prospects or hold a pessimistic view of the economy, they tend to delay or avoid purchases of durable goods such as consumer appliances. For instance, they might keep using an old washing machine as long as it works rather than investing in a new one. Similarly, they'll reduce their spending on clothing and other non-essential items because they feel that their existing items suffice. While sales of home appliances are getting a temporary boost in growth thanks to trade-in rebates this year, respondents to our survey said they plan to reduce their expenditures on them.

Exhibit 5

Mindset factors are the top driver of purchases of high growth categories such as education, travel, food & beverages, and health products & services.

Reasons for increased category spending share¹ (only significant factors shown²)

Percentage of respondents, n = 11,930

XX% Top 2 driving factors for consumption increase in each category

	Education	Travel	Food & beverages	Health products & services
Driving factors	Mindset factors 38%	Mindset factors 38%	Mindset factors 31%	Mindset factors 34%
	Life stage/demand 33%	Industry innovation 21%	Industry innovation 22%	Life stage/demand 38%

¹Percentage of people choosing this reason as the cause for the increase in category spending/Number of options corresponding to this reason.

²Top 2 driving factors.

Source: 2024 McKinsey China Consumer Survey; Team analysis

Conclusion

The 2024 McKinsey China Consumer Report reveals a multifaceted consumer landscape characterized by low but gradually recovering confidence. Consumer behavior varies significantly across demographics and regions, with notable confidence among millennials in tier-3 cities due to lower living costs, fewer financial obligations, and better job security. This contrasts with the more cautious outlook of their tier-1 counterparts. Despite economic uncertainty and cautious spending, Chinese consumers prioritize experiences and investments that bring personal and familial joy, such as travel, dining out, entertainment, and education.

These trends underscore the need for businesses to adopt a granular and flexible approach to effectively cater to the diverse and evolving needs of Chinese consumers. By focusing on these insights, businesses can better navigate the challenges and seize the opportunities within the Chinese market, positioning themselves for sustainable growth amid a cautiously optimistic consumer environment.

Authors



Daniel Zipser

Senior Partner, Leader of Asia Consumer & Retail Practice, Shenzhen



Daniel Hui

Partner, Hong Kong



Junna Shi

Partner, Shanghai



Cherry Chen

Senior Knowledge Expert, Shanghai

This article was edited by **Glenn Leibowitz**, a Senior Manager in the Taipei office.

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