

Pulse of China

October 2024

THE ECONOMY ISSUE

**WE LOOK AT THE MID YEAR ECONOMY REPORT
TO SEE HOW CHINA IS DOING**

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TRAVEL IS OFTEN A BELLWETHER FOR CONSUMER TRENDS

WE LOOK AT RECENT TRAVEL DATA TO SEE HOW CONSUMERS
ARE FEELING AND ALSO EXPLORE IF OUTBOUND TRAVEL IS
RECOVERING

A LOOK AT A RELATIVELY UNEXPLORED ASPECT OF CHINA'S ECONOMY

THE GDPS OF SMALL TOWNS

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Still growing, cautiously optimistic

Ever since COVID hit, there has been much speculation and focus on the state of the Chinese economy as well as its impact on the rest of the world. Remarkably, China weathered the COVID storms well during 2020 and 2021

, and while the widespread lockdowns of 2022 did slow growth, it was nowhere near the dire predictions of many external observers. It was only in 2023 that optimism became slightly cautious, but suddenly, 2024 became a year of reduced targets and consumer pessimism. A large factor in this has been the impending real-estate crisis with big property developers on the verge of bankruptcy while large sums of consumer money are locked up in unfinished residential projects. That had an impact on consumer spending, the stock market and also business sentiment and 2024 has been a pretty slow year for the Chinese economy, especially against the backdrop of the heady growth of the last couple of decades.

Indicators for the first half of 2024 all show continued growth, although not at the levels that we're used to seeing from the last couple of decades. A press release from the National Bureau of Statistics of China continues to show positive news for the first half of 2024 across various economic indicators.



China H1 2024: Slow but steady growth

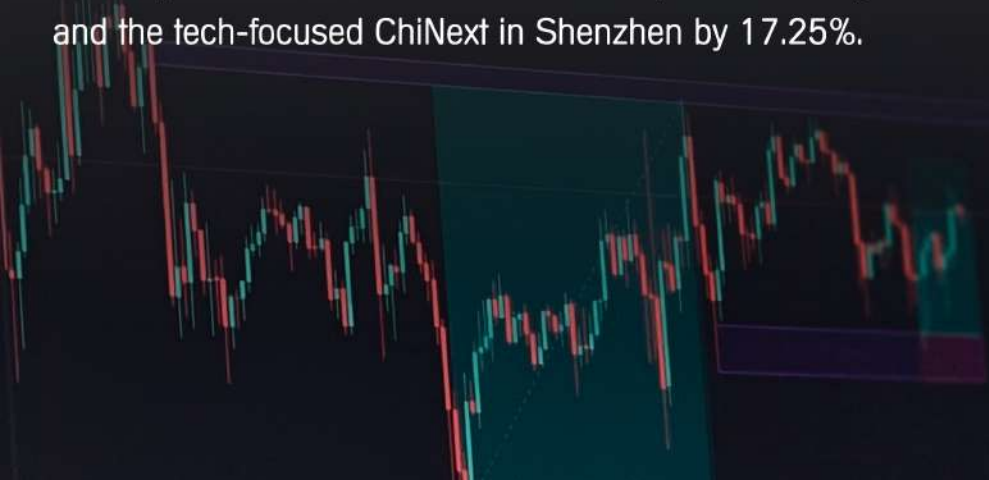
| Economic Indicator | Value H1 2024 (billion RMB) | H1 2024 v/s Year Ago |
|----------------------------------|--------------------------------|----------------------|
| GDP | 61,684 | +5.0% |
| Primary | 3,066 | +3.5% |
| Secondary | 23,653 | +5.8% |
| Tertiary | 34,965 | +4.6% |
| Retail Sales (Consumer Goods) | 23,597 | +3.7% |

Source: National Bureau of Statistics, China

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The press release does note “the complex and intertwined external environment”, “insufficient effective domestic demand” and a need for strengthening the foundation for strong economic recovery and growth. All of which suggests a strong measure of caution rather than optimism in the outlook.

However, announcements of “stimulus” measures seem to have already started affecting sentiment. According to the China Daily, the Shanghai Composite Index gained 4.59% on the first day of trading after the National Day holidays, closing at 3489.79 points on Tuesday, October 8. The Shenzhen Composite Index grew 9.17% and the tech-focused ChiNext in Shenzhen by 17.25%.



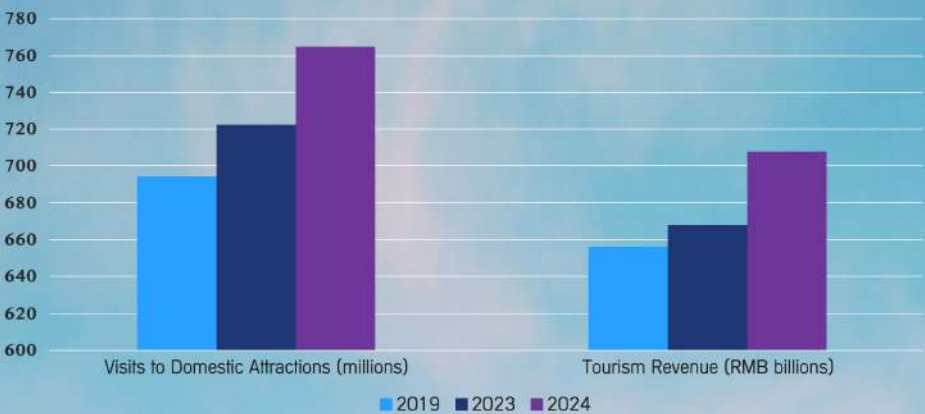
PENCHANT for TRAVEL

A BELLWETHER for CONSUMER SENTIMENT

The problem in China over this year has been pessimistic consumer sentiment. One category that reflects the propensity of consumers to spend their disposable income is travel and we looked at some recent travel data from over the October holidays to see what we might learn from that.

1. Visits and revenue to domestic attractions show growth over 2023 as well as Pre-Covid

2024 Golden Week domestic travel data shows growth v/s 2023 and Pre-COVID (2019) comparable time periods



Source: Ministry for Culture and Tourism, China

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2. Outbound travel still has not recovered to pre-COVID levels

Different sources estimate that 2024 outbound travel will be between 70 – 80% of 2019 levels. Fastdata estimates around 70% while China Trading Desk estimates closer to 80%. Overall, there is still some way to go for outbound travel to resume, as the table below shows. Data is sourced from a Fastdata report on the industry.

China outbound travel still not back to 2019 levels

Estimates for 2024 outbound trips vary by source but range from 70-80% of 2019 numbers

SEA destinations already up to 2019 levels, UK, Italy, Spain close to 2019

Proportion of online travel booking users planning an outbound trip in next 12 months increased from 56 % in July 2023 plan outbound trips to 66% in July 2024

**Spending moves away from shopping to more experiences and services
(EIU survey of Chinese tourists to Japan shows shopping dropped from 51% (2019) to 39% (2023) of spending)**

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Sources: Fastdata 2024 H1 Travel Report, Economist Intelligence Unit and China Trading Desk

Overall, it seems Chinese consumers are as willing as ever to spend money on travel, but the shift towards more domestic travel that happened during COVID is here to stay. Countries that have made visa-free entry possible for Chinese citizens have benefited – particularly Thailand and Singapore, and in 2024 we should see about 70-80% of the numbers we saw in 2019. A full recovery to pre-COVID numbers may take up to 2025. All good and positive signs, however, and a sign that consumer confidence is returning.

A BROAD AND DIVERSIFIED BASE for **ECONOMIC STABILITY and GROWTH**

A recent report in the Economic Observer (经济观察报) had some interesting data on China's small towns and their economic status. A town (镇) is the 3rd level of administrative unit in China and refers to relatively small towns. The table below shows, in a few key provinces, how many towns are at different GDP levels – with the highest level being above 100 Billion RMB. Not surprisingly, there are only 2 towns at this level, one in Guangdong and another in Guizhou, but the overall spread of towns shows a healthy number at significant GDP levels. The town in Guizhou, incidentally, is the town of Maotai – home of the world famous Chinese rice wine brand that is one of the most valued liquor businesses globally.



| Province | Number of Towns by 2023 GDP levels (RMB) | | | |
|----------------|--|----------------|---------------|--------------|
| | > 100 Billion | 50-100 Billion | 20-50 Billion | < 20 Billion |
| Jiangsu | | 5 | 25 | 7 |
| Guangdong | 1 | 6 | 23 | 3 |
| Zhejiang | | | 6 | 4 |
| Anhui | | | 3 | 1 |
| Shandong | | | 4 | |
| Fujian | | 1 | 2 | |
| Shaanxi | | 2 | | |
| Hebei | | | 2 | |
| Guizhou | 1 | | | |
| Inner Mongolia | | | 1 | |
| Hubei | | | 1 | |
| Henan | | | 1 | |
| Hunan | | | 1 | |
| Total | 2 | 14 | 69 | 15 |

Source: The Economic Observer (Sep 23, 2024)

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Data like this illustrates the width and depth of the Chinese economy – a factor that underpins its resilience even when the rest of the world is facing recessionary pressures. It also illustrates the fact that the economic opportunity for brands and businesses in China is not restricted to a few key cities – there are consumers and disposable income at every level of the Chinese economy and sometimes, the most overlooked opportunity may be the best one to pursue.



Image Source : m.thepaper.cn

Summary

Overall, while global media paints a gloomy picture of the China economy, it seems in reasonably good health. There is still growth, although the numbers are lower than what everyone got used to seeing over the last 20-30 years. The stock market has responded well to recent news of stimulus measures. Travel, an indicator of consumer spending propensity, is also up at least in the domestic sector, while outbound travel is steadily returning to its pre-COVID levels.

Underpinning all this is an economy that, over the last few decades, has created decentralized growth that is reflected in the GDP levels at the level of towns.

Overall, while some caution is obviously necessary, it does seem as if the China economy is still on a very stable, steady growth path and while it may not have the heady growth of recent years, is still set to be a large market both on the domestic and the international stage.





ABOUT US

Searchlight

Set up in early 2020, Searchlight is a boutique management consulting firm headquartered in Shanghai. We focus on helping brands understand and prioritize their opportunities and overcome their barriers to growth. We do this by working closely with our client teams over an extended period of time, facilitating their process of decision-making, building capability by guiding and training their teams, and also helping with organization redesign if necessary.

Our team of 14 associates covers a wide range of specialist areas – business management, brand management, marketing, communication, media, HR, CRM, sales management, technology, and. Each of us has at least 20 years of work experience, a large part of that in China

We coach and assist client teams to make quality decisions for the business. We also assist in the design of organizational processes and financial models, especially building internal and external capabilities for strategy implementation.

We've worked with both international and local brands, startups and public listed companies - J&J, Hollister Medical and Pandora as well as SUNNER Foods (a listed food processing company that has become one of the fastest growing B2C brands now) and startups like Little Ondine, LeBunna and Youxin coffee. For more about us visit

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