China's consumption deficit

Say's law meets the demand constraint

- Weak household demand has been a recurring concern in J.P. Morgan's post-COVID-19 China analysis. The need to tackle it has gained urgency amid the severe property-led downturn, weaker employment and income expectations, demographic deterioration and renewed retail-sales weakness, which are eroding household wealth, confidence and spending capacity.
- The weakening of Say's law transmission is increasingly visible: production no longer generates sufficient household income and demand to absorb output. In August, industrial production rose 5.2%oya and high-tech manufacturing 16.7%, while retail sales increased only 0.4%oya and were flat sequentially. Services were more resilient at 4.9%oya ytd, versus 1.0% for consumer goods, but remain structurally underdeveloped in household spending.
- In our view. n does not automatically produce mass consumption. Britain's transition took more than a century, while Japan and Korea advanced only after productivity gains increasingly reached households through wages, services and social protection. China has compressed capital accumulation, but not the transition to broad purchasing power.
- We believe that the 15th FYP consumption plan improves policy direction more than transmission. The September 28–29 measures signal greater urgency, but remain state-guided and supply-heavy. Faster fiscal delivery, targeted credit and limited housing support may cushion consumption through income and wealth effects, but do not constitute a household-demand pivot.
- Time is not on China's side, in our view. Property adjustment, rapid aging, and a shrinking workforce are intensifying the domestic constraint, while higher tariffs, industrial-policy competition, and pressure to localize are making external demand less reliable. We believe that delaying the household-demand pivot risks deeper disinflation, margin pressure and trade friction.
- Our base case remains continued production strength but weak domestic absorption, with low inflation, weak nominal growth and margin pressure. A genuine consumption turnaround requires a durable shift in national income toward households, stronger private service employment and social protection, lower household saving and firmer downstream pricing power. Property stabilization and fiscal support matter only insofar as they improve these household-demand indicators.

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Weak household demand has anchored J.P. Morgan's post-pandemic China outlook. The property downturn, softer income expectations, aging and a less supportive external environment are weakening the channels through which production once generated demand. The central distinction is between stabilizing output and rebalancing growth: manufacturing and fiscal support can sustain real activity, but durable gains in household income and service employment are needed to restore pricing power, nominal growth and margins.

Policy has moved from recognition to execution, in our view. The rapid September 28–29 follow-through signals greater urgency, but not a different model: support remains concentrated in bonds, projects, infrastructure, technology upgrading and targeted credit. Consumption may benefit through employment and compensation and, if housing stabilizes, through wealth and confidence; however, these channels are limited and lagged because the measures do not broadly raise household cash flow or its share of national income.

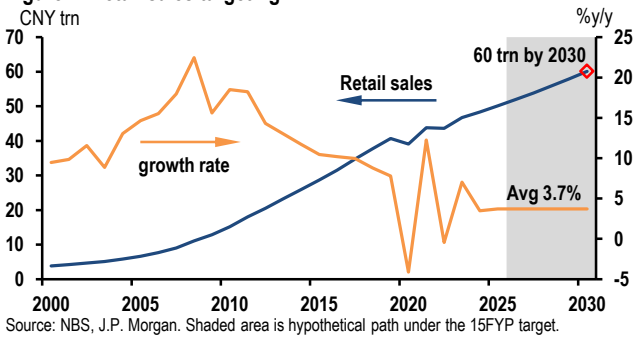
Our base case remains unchanged: policy composition improves, but the household income share and precautionary saving do not shift materially. Production continues to outpace domestic absorption, sustaining pressure on inflation, nominal growth and margins. Evidence of a genuine turnaround would include stronger real income and wages, broader private service employment, a higher service share of spending and a lower household saving rate.

A not-so-grand plan, with a familiar toolkit

Consumption has moved to the top of the policy agenda. The 2025 Government Work Report already made "vigorously boosting consumption" the first major task for the year, while the State Council's 15th Five-Year Plan (FYP) for consumption gives the issue a dedicated medium-term framework. The plan sets 28 measures across six areas and targets retail sales of about CNY60tn by 2030, up from CNY50.1tn in 2025—a compound annual growth rate of roughly 3.7% (Figure 1). It also explicitly aims to raise the household consumption and the service-consumption share, making the objective broader than headline retail-sales growth.

The plan matters, as stronger consumption is necessary to turn near-term stabilization into sustainable growth. Household consumption fell from 47.0% of GDP in 2000 to 34.6% in 2010 and recovered only to 39.2% in 2023. While comparisons with today's advanced economies require caution as their income levels and economic structures differ substantially from China's, preliminary comparisons suggest China's household consumption remains below that of economies with similar income levels and economic structures. Despite rapid growth in consumption, it has not risen fast enough to absorb productive capacity or close this peer-adjusted gap.

Figure 1: Retail sales targeting

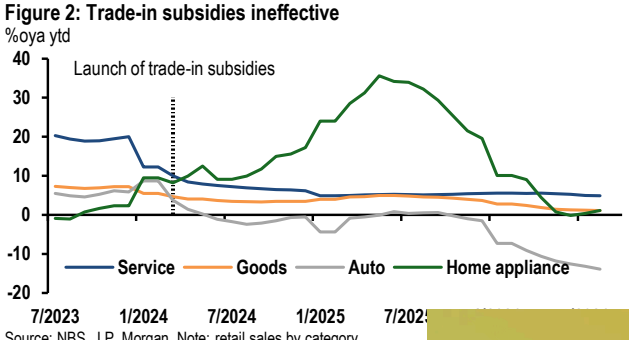


Source: NBS, J.P. Morgan. Shaded area is hypothetical path under the 15FYP target.

The plan gives appropriate priority to services where the structural consumption shortfall appears largest. Retail sales of services rose 4.9%oya ytd in August, versus 1.0% for consumer goods, yet services accounted for only about 45% of household spending, compared with 56% in Japan and 67% in the US. As services are generally labor-intensive and private-sector-led, stronger service consumption could raise both household welfare and wage income.

The main weakness is the operating model, in our view. Although the plan calls for a "market-led, government-guided" approach, many instruments remain supply-side heavy: designated services, product categories, consumption scenarios and supporting infrastructure expand capacity without specifying how household income and effective demand will rise alongside it. Trade-ins illustrate the limitation. Subsidies can bring forward replacement purchases and reallocate spending across categories, but they do not relax the household budget constraint once eligible demand is exhausted (Figure 2). Repeating this approach risks widening the gap between capacity and purchasing power, deepening discounting and margin pressure.

Figure 2: Trade-in subsidies ineffective



Source: NBS, J.P. Morgan. Note: retail sales by category.

Implementation nevertheless remains pre
guided, through administrative priorities,
and public provision. The human-resourc
service-sector employment, wage-setting
to AI-related labor-market change, flexib

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and a 15-minute employment-service circle. It also sets measurable volume targets: surveyed unemployment below 5.5%, 25mn re-employed urban unemployed workers and more than 50mn subsidized training participants over the plan period.

Government has an essential role in social insurance, public services, macro stabilization and market-failure correction. These measures can improve coordination and coverage, but volume targets reveal little about job quality, hours, wages or benefit adequacy. Nor can administrative guidance substitute for stronger private returns, competitive entry and business confidence. Consistent with the principle that "markets should play the decisive allocative role" (Third Plenary Session of the 18th Central Committee of the Communist Party of China, November 2013), consumption policy should strengthen purchasing power, fair competition and private incentives rather than prescribe purchases or production.

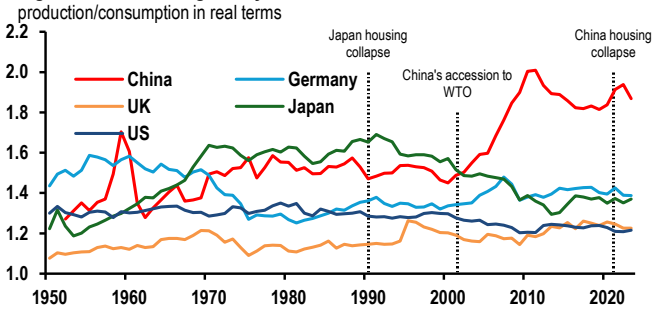
Nor is the constraint simply the size of the fiscal envelope. The 2026 framework includes a 4% headline deficit-to-GDP target, CNY1.3tn of ultra-long special treasury bonds and CNY4.4tn of local-government special bonds, alongside CNY250bn for trade-ins and a CNY100bn fiscal-financial fund. The State Council called for faster bond use and deployment of unused local-government debt quotas, but the official statement specified neither the amount to be used nor its timing or allocation. Subsequent policy-bank deployment, re-lending and first-home mortgage measures may support projects and selected borrowers, yet remain narrow relative to weak household and property demand. They strengthen the growth floor more than household purchasing power and provide no quantified permanent income support, consumption milestones or mechanism to revive private returns and confidence.

Say's law may not work in a balance-sheet downturn

Say's law is often reduced to the claim that supply creates its own demand. In practice, the mechanism requires that production income be spent rather than saved, and that finance be used to transmit purchasing power rather than trap it. China's earlier model approximated this logic: housing, infrastructure, manufacturing, logistics, and exports created labor-intensive employment, urban migration and household formation; credit financed firms and homebuyers; rising land and property values supported local revenue and household wealth; and export earnings sustained profits and wages. Investment added not only capacity, but also the cash flow and collateral needed to absorb it.

History also shows the limits of Say's law during capital-intensive transitions (Figure 3). In Britain from 1800 to 1840, GDP per worker rose by 37% and the profit rate doubled, while real wages stagnated; across the broader 1700–1870 expansion, labor, physical investment, and human-capital accumulation together accounted for about two-thirds of the increase in output growth. The rising profit share financed factories, transport and machinery, but constrained contemporaneous mass purchasing power. n expanded the future consumption frontier long before it democratized access to it.

Figure 3: The working of Say's Law?
production/consumption in real terms



Source: Penn World Table, J.P. Morgan.

That transmission has weakened sharply in China today, in our view. New-economy sectors are productive and strategically important, but many are capital-intensive and labor-light; manufacturing and export growth therefore generate fewer jobs and less wage income than the housing, construction, and service expansion they are replacing. August captured this production–absorption divide: industrial production rose 5.2%oya and 0.8%m/m sa, and high-tech manufacturing output increased 16.7%oya, while retail sales rose only 0.4%oya and were flat sequentially.

Fiscal under-execution reinforced the weakness through mid-year, weighing on investment in 2Q and much of 3Q. In August, fixed-asset investment contracted 10.6%oya, with manufacturing down 6.1%, infrastructure 6.9% and real estate 25.4%; excluding real estate, FAI still fell 8.8%. Faster government-bond issuance and deployment of the policy-bank tool in late 3Q point to a catch-up, but the effect will arrive with a lag. This may stabilize activity; without stronger household income and private returns, however, it is unlikely to close the production–absorption gap.

Household data show why income growth is not translating fully into spending. In 1H 2026, per-capita consumption expenditure rose 3.7% nominally and 2.7% in real terms, versus disposable-income growth of 5.2% nominally and 4.2% in real terms. Urban spending increased only 3.0%, compared with 4.6% in rural areas, while youth unemployment remained elevated at 15.6% among 16–24-year-olds excluding students.

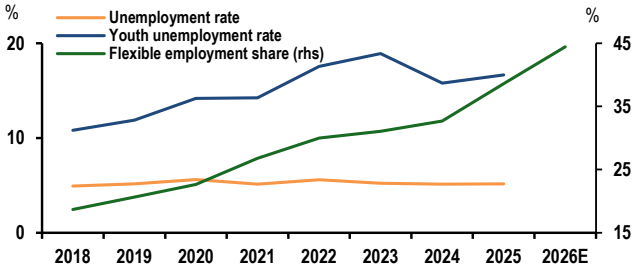
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The property correction compounds this weakness: new- and secondary-home prices are about 14.2% and 23.3% below their 2021 peaks, respectively, while residential floor-space starts fell 31.3%oya and sales 16.2%oya in August. Together, weaker labor demand and housing wealth are depressing confidence among households at the stage of family formation and durable-goods purchase.

Flexible and platform work reveals underemployment and income insecurity not captured by headline unemployment. An official State Council report puts flexible employment above 200mn; under a broader definition, the China New Employment Forms Research Center estimates 280mn in 2025 and 320mn in 2026, or about 44% of employment (Figure 4). Flexible work does not equal unemployment, but stability and protection are weak: 40.1% of workers had changed jobs more than three times in three years, 52.1% had no employment contract, and at end-2024 only 70.57mn and 66.16mn were enrolled in employee pension and medical insurance, respectively. Uncertain hours, earnings, and benefits weaken permanent-income expectations, raise precautionary saving, and constrain consumption.

Figure 4: Rising job uncertainties



Source: NBS, China New Employment Forms Research Center, J.P. Morgan. Note: Flexible employment includes workers in ride-hailing, delivery/courier, gig-platform, etc. The flexible employment share is calculated as percentage of total employment.

Consumption has become K-shaped rather than broad-based. In August, autos fell 18.5%oya and furniture 7.9%, while communications appliances rose 27.3% and household appliances 2.3%. Among other factors, subsidies may lift select categories into year-end, but underlying demand remains weak: sales excluding autos and home appliances have risen only 2–3% ytd. Corporate results corroborate the macro signal: consumer-sector revenue rose only 2%oya in 1H26, earnings fell 4%, and 22 of the 50 key companies missed both sales and profit expectations. Policy support is shifting spending across categories and time rather than generating a sustained increase in aggregate household consumption.

The current envelope is broader than trade-ins alone. The 2026 program allocates CNY250bn to consumer-goods trade-ins, down from CNY300bn in 2025, and creates a CNY100bn fiscal-financial fund for interest subsidies, guarantees and risk compensation related to consumption, services and equipment upgrading. These measures lower financing costs and support select purchases, but remain product-specific or credit-enhancing rather than direct additions to household cash flow.

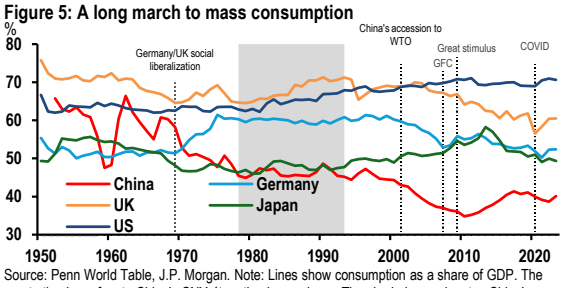
Evidence from retailers and distributors points in the same direction. Refrigerators and kitchen appliances remain soft; effective prices for some mid- and low-end air conditioners were roughly 10% lower than a year earlier; and distributors earn net margins of only 2–6%, despite brand rebates equal to 10–18% of sales. Subsidies support sales and distributor profitability, but demand remains policy-dependent rather than self-sustaining.

This is not unique to China: industrial capacity has often developed well before mass purchasing power. China's transition is best understood against that longer history.

History does not repeat, but it often rhymes

In the advanced economies, the shift from n to mass consumption took well over a century and broadly followed Say's law during the accumulation phase: production generated profits and savings that financed new capacity before supporting household demand (Figure 5). Britain's first industrial revolution ran from roughly 1760 to 1840; n broadened after the mid-19th century; and the Second Industrial Revolution of about 1870–1914 scaled steel, electricity, chemicals, machinery, railways, and communications. German industrial production increased about fivefold from 1870 to 1914, with steel output surpassing Britain's by 1893—evidence of rapid capital deepening.

Figure 5: A long march to mass consumption



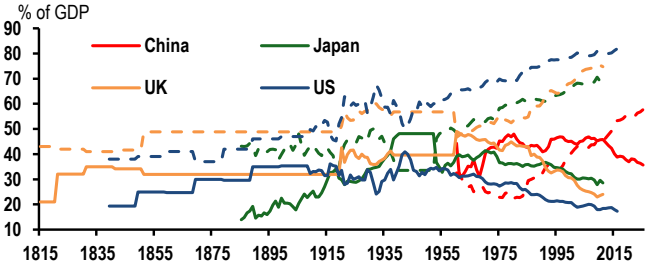
Source: Penn World Table, J.P. Morgan. Note: Lines show consumption as a share of GDP. The great stimulus refers to China's CNY 4trn stimulus package. The shaded area denotes China's transition period from planned economy to socialist market economy.

Two world wars and an interwar depression delayed the diffusion of productivity gains into wages and consumption. Mass consumption consolidated only after 1945, when full employment, real-wage gains, social insurance, public services, housing finance, consumer credit and mass distribution converted accumulated capacity into purchasing power in the 1950s–1970s. n built the productive base; institutions that distributed its returns completed the transition.

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China followed a compressed version of this accumulation path within a state-led framework of high domestic saving, financial repression, directed bank credit, local-government investment and land finance. Public resources built nationwide electricity and water systems, expressways, ports, airports, ns and the world's largest high-speed rail network. These investments lowered logistics costs, integrated labor and markets, supported urbanization and manufacturing scale, and raised future productivity and consumption potential. Yet, the same model directed a large share of national income toward gov't, SOEs, property, and infrastructure rather than households, constraining the income and service demand required for mass consumption (Figure 6).

Figure 6: Fast rising services, not fast enough



Source: Our World in Data, World Bank, J.P. Morgan. Note: Solid lines show the share of secondary industry in GDP, while dashed lines show the share of services. The same country is represented by the same color across both series.

Japan in the 1950s–1970s and Korea in the 1970s–1990s offer closer historical parallels to China since 2000 than today's advanced economies. All three used high savings, directed finance, rapid urbanization, and manufacturing-led investment to accelerate n. At comparable stages, household consumption was initially compressed as manufacturing expanded and resources were retained for reinvestment. The transition toward mass consumption began only when urban employment broadened, wage compensation and household disposable income rose relative to GDP, and services gained weight in both output and spending.

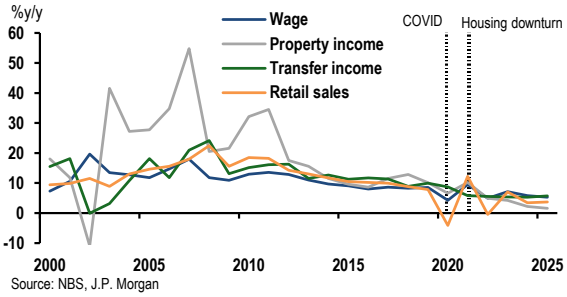
The subsequent paths differed. Japan's high-growth era combined productivity-led wage gains, a decline in household saving from earlier peaks and a widening social-insurance system, while service consumption expanded alongside urbanization. Korea's heavy-industrial drive likewise held down consumption initially, but democratization, real-wage catch-up, urban service employment, and broader pension and health coverage gradually shifted income toward households from the late 1980s. In both cases, manufacturing remained important, but its gains increasingly financed household income, social welfare and services rather than another round of capital deepening alone.

Since 2000, China has compressed the industrial and urban transition more sharply. Urbanization surged, manufacturing retained an unusually high share, and infrastructure reached advanced-economy scale, yet household consumption fell as a share of GDP in the 2000s and recovered only partially. The resulting gap reflects not n itself, but the weak conversion of productivity into household income, social protection and mass service consumption.

Productivity gains bypass households

The household-income deficit has three components (Figure 7). At the aggregate level, household disposable income was only 43.9% of GDP in 2023 on a national-accounts basis. First, labor income: NBS household-survey data show that wages and salaries supplied 56.2% of disposable income in 2023, while national-accounts estimates put wage income at only 24.7% of GDP. Both measures point to a limited and falling household claim on national output.

Figure 7: Slowing income, decelerating consumption



Source: NBS, J.P. Morgan

Second, non-wage income: net property income slowed sharply from the early 2010s and was only 8.0% of disposable income, consistent with low deposit returns, limited direct equity ownership and weak rental income. Third, transfers: net transfer income accounted for 18.5%, but this figure includes public and private transfers and does not measure government benefit generosity. The relevant policy gap is the adequacy and portability of pensions, healthcare, unemployment, housing and family support, and not the gross transfer share alone.

The mechanism is distributional as well as behavioral. Research by the IMF and BIS finds that China's low consumption reflects a low household share of national income across wages, investment income and government transfers, alongside unusually high saving across households, corporations and government. More recent work links household saving to weak rural social spending, hukou restrictions and housing-related risks. Together, these findings suggest that China's development model financed rapid capital accumulation partly by retaining income outside the household sector, while incomplete social insurance reinforced precautionary saving.

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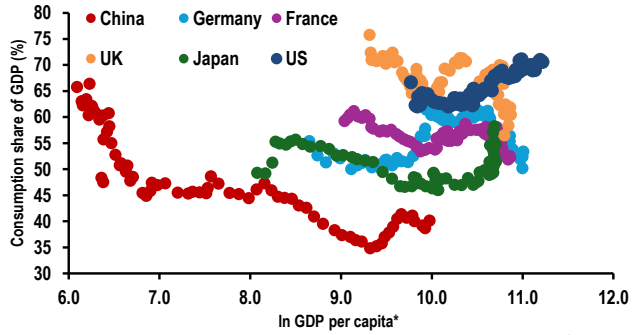
The next phase of investment must improve this distributional transmission. As the initial infrastructure build-out matures, new capital spending, including AI-related investment, is becoming less labor-intensive and less effective at generating household income, even where it raises productivity. The relevant test is not investment volume alone, but whether accumulated physical capital supports innovation, private services and broader employment.

AI will test whether China can improve this income transmission or repeat the capital-intensive pattern. In the U.S., hyperscaler investment is spreading beyond technology through data-center construction, electrical equipment, grid investment, utilities, real estate, finance, consulting and other business services. Private capital markets and broad equity ownership also convert part of the valuation gains into household wealth and spending, while labor-market competition diffuses wages and skills across sectors. The income and employment spillovers are uneven, but not confined to semiconductor and software producers.

China may not generate the same consumption dividend. Its AI and digital-infrastructure build-out is concentrated in capital-intensive hardware, state-linked investment, industrial upgrading and public infrastructure. These activities can raise productivity and strategic capacity, but employ fewer workers than property, construction, and consumer services. Narrower household participation in equity wealth and weak private confidence also limit hiring and wage competition. If AI gains remain concentrated among producers, SOEs and local investment vehicles, they may strengthen output without generating broad income, wealth and service-demand effects. The policy task is to widen diffusion through private services, SME adoption, labor mobility, skills, competition and broader household participation in financial and business ownership.

Cross-country consumption ratios must be interpreted conditionally rather than mechanically. A high consumption share in a poor economy may reflect limited saving capacity or higher marginal propensity to consume at low income levels, rather than mass affluence, while a low share may partly reflect industrial structure and capital deepening. As per-capita income increases, consumption eventually catches up and rises reflecting growing affluence. Still, these factors cannot explain China's exceptionally low consumption-to-GDP ratio, even considering the cultural similarity to Japan's consumers (Figure 8). Urbanization and sector composition also matter, but the evidence is consistent with China under-consuming at its stage of development. The distinctive gap lies less in production capacity than in the transmission of productivity gains into household disposable income, services and lower precautionary saving.

Figure 8: China's consumption exceptionalism



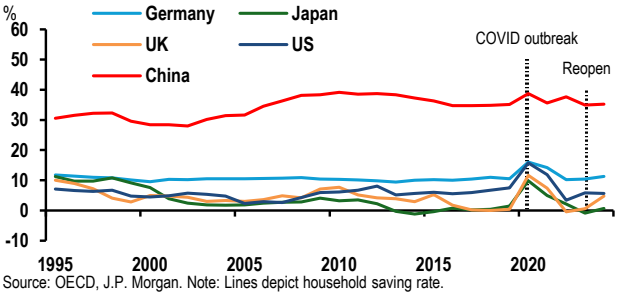
Source: Penn World Table, J.P. Morgan. *real GDP per capita at chained PPPs (in 2021 US$)

Income distribution explains why less of the national output reaches households; demographics explain why households continue to save so much of the income they receive.

China's demographics–saving puzzle

China's demographics should gradually lower aggregate household saving as the retired population rises, yet the saving rate remains exceptionally high. The share of people aged 65 or above increased from about 7% around 2000 to 14% around 2023, while the household saving rate was still 35.2% in 2024 (Figure 9). This demographics–saving puzzle suggests that lifecycle dissaving is being offset by uncertainty over retirement, healthcare, long-term care, housing and intergenerational obligations.

Figure 9: Addicted to saving

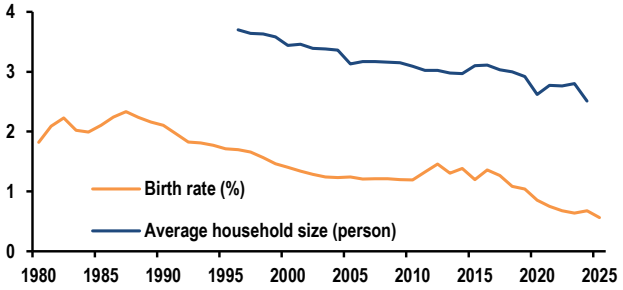


Source: OECD, J.P. Morgan. Note: Lines depict household saving rate.

Several structural forces are delaying the shift toward dissaving. Falling births, smaller families and later household formation reduce spending on housing, durables, childcare and education, while concentrating elder care obligations on fewer working-age children. Average household size fell to 2.52 people in 2025, births to about 7.9mn and the old-age dependency ratio rose to 23.1% (Figure 10). High-saving working-age cohorts still dominate aggregate behavior (Figure 11), while pension, healthcare and long-term-care benefits remain uneven and often inadequate, particularly for rural residents, migrant workers, and flexible employees. These demographic pressures reinforce the cyclical drag from weaker housing wealth, job prospects and income expectations.

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Figure 10: Demographic challenges loom larger

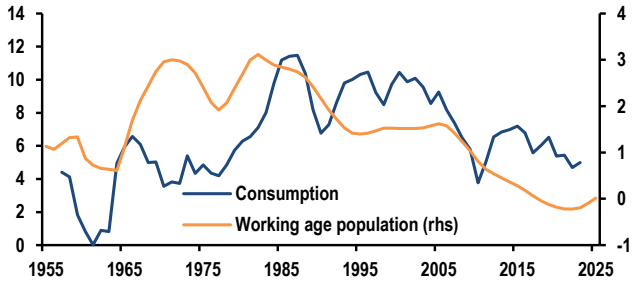


Source: NBS, J.P. Morgan

Housing and the cyclical downturn reinforce these pressures. Property is both a principal retirement asset and a source of mortgage, completion and price risk; falling values weaken perceived retirement wealth and discourage elderly households from running down liquid savings (Figure 12). At the same time, weaker job prospects, softer wages and falling income expectations raise precautionary saving, precisely when an incomplete safety net offers limited protection against unemployment, medical costs, balance-sheet losses.

Figure 11: Dwindling workforce, declining consumption

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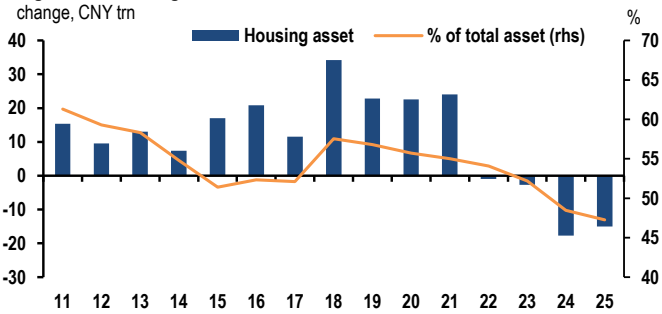


Source: World Bank, Penn World Table, J.P. Morgan

The Japan comparison is institutional rather than demographic alone. As Japan aged, mature and broadly universal pension and health systems gave retirees greater confidence to draw down savings, allowing lifecycle dissaving to lower the aggregate household saving rate. China is aging before its social protection and mass consumption have fully matured. Uncertain benefit adequacy, uneven coverage, and limited portability can initially raise precautionary saving among both workers and retirees, delaying and weakening the normal aging-to-dissaving transition.

Figure 12: Housing wealth tanks

change, CNY trn



Source: Wind, J.P. Morgan estimates

Aging will not raise saving indefinitely, but lifecycle dissaving will remain muted until households have greater confidence that adequate pensions, healthcare, long-term care, and housing wealth can finance retirement and reduce the need for self-insurance, allowing demographic aging to translate more normally into lower saving and stronger consumption.

The savings puzzle is only one part of the Japan comparison. Property, finance, fiscal transmission and external demand determine whether weak household spending becomes a prolonged balance-sheet adjustment.

Beyond demographics

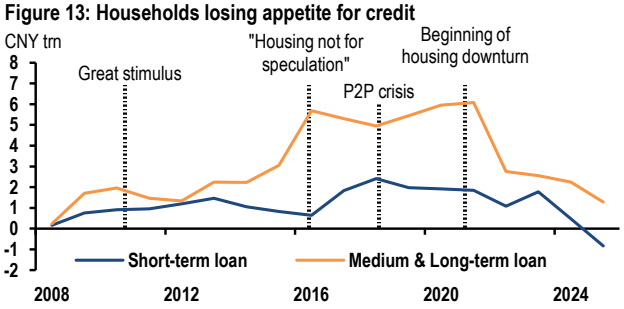
The domestic parallels with Japan extend beyond demographics. Japan's equity prices fell about 60% by mid-1992, land prices declined for years, impaired collateral weakened banks, and heavily indebted firms cut investment and repaid debt. Real GDP growth averaged about 1% in the subsequent decade—one-quarter of the 1980s pace—while nominal GDP in 2001 was roughly unchanged from 1995 as deflation became entrenched. China's adjustment is less abrupt but structurally similar: gradual price adjustment reduces immediate financial stress while shifting the correction into sales volumes, land revenue, investment, employment and income.

Financial and public-sector stress comparison matters. Japan's delayed recognition of non-performing loans suppressed lending and investment even after rates approached zero; repeated fiscal packages stabilized activity without restoring nominal growth. China's banks are more liquid and state-controlled, but property losses, local-government debt and falling land revenue still weaken transmission. Household borrowing has slowed markedly since the housing downturn, especially for mortgages and other medium- and long-term loans, indicating that ample banking-system liquidity is not generating strong household credit demand (Figure 13). Faster bond issuance and policy-bank deployment in late 3Q should support investment with a lag, but cannot repair household balance sheets or private risk-taking. Liquidity can prevent financial seizures; stronger nominal income and final

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demand are needed to improve credit quality, collateral values and private risk appetite.

Figure 13: Households losing appetite for credit



Source: PBOC, J.P. Morgan. Note: "Housing is for living, not for speculation" was proposed by President Xi Jinping at 2016 Central Economic Work Conference.

External demand offers a similar cushion, but not a cure. China exported about 5.35mn passenger vehicles in the first seven months of 2026, up 72.5%oya; its OEMs' ex-China market share rose to 8.2% from 6.4% in 2025, reaching 44% in PHEVs and 23% in BEVs. These gains support production and profits but invite tariffs, local-content rules and pressure to localize. Exports can soften domestic weakness; they cannot rebuild household demand.

Inflation highlights a Japan-like risk: weak final demand is limiting price transmission even as upstream costs rise. In August, headline CPI increased 0.8%oya and core CPI 1.0%, while PPI rose 3.8%, leaving a 3.0%pt gap between PPI and CPI. As in Japan's deflationary spiral, weak household demand and balance-sheet repair could suppress pricing power, compress margins and keep real debt burdens elevated, reducing the effectiveness of low interest rates and fiscal support. China is not yet in a generalized deflationary spiral or a conventional liquidity trap: upstream prices are rising as the Middle East conflict persists, banks remain liquid, and credit allocation is more state-directed. The risk is instead a prolonged low-inflation equilibrium in which policy supports production but weak income expectations and precautionary saving prevent reflation from reaching households.

The comparison turns on sequencing and policy capacity. Japan entered a balance-sheet recession after mass consumption had matured; China faces similar property, financial, fiscal and deflationary pressures while household consumption and services remain structurally weak. In addition, demographic decline is faster, lower-tier housing overhangs are larger, and export demand faces stronger policy and geopolitical constraints.

Yet, China has greater catch-up potential, lower per-capita income, a larger domestic market, full-recourse mortgages, capital controls and a more liquid state banking system. These advantages make Japan's outcome avoidable, but China's earlier stage of consumption development makes a household-demand pivot more urgent. Stronger domestic absorption is more than a social objective: it is the condition for reducing dependence on external demand and investment as marginal drivers of growth.

Demand self-sufficiency: Putting consumers in the driver's seat

China has achieved production self-sufficiency faster than demand self-sufficiency. This asymmetry supported the export- and investment-led model, but is becoming a strategic vulnerability. When households, firms, and local governments do not absorb output, adjustment must occur through exports, policy-supported investment, inventories, lower margins, or weaker prices. Each channel is now more constrained. In an increasingly segmented global economy, a large and dependable domestic market is not only a rebalancing objective; it is a key part of economic and national security.

External absorption will remain important, but it cannot remain the marginal solution to every domestic shortfall. Higher US tariff walls, tighter European responses to EVs, batteries, solar and capital goods, and greater scrutiny of trade diversion through ASEAN make foreign demand less reliable. The quality of export growth also matters: price-led gains can lift nominal exports and the trade surplus, while generating weaker spillovers to real production, employment and household income than volume-led growth. The next phase of export growth is likely to rely more on localization, partnerships and sustainable pricing than on shipment growth alone. A deeper domestic consumer base would stabilize revenues and give innovation and industrial upgrading a more secure home market.

Demand self-sufficiency does not mean autarky or a retreat from exports. It means household-led final demand is strong enough to absorb more of the national output and anchor private returns when external markets weaken. The relevant test is not the number of consumption categories, facilities or credit products, but whether policy raises household cash flow, confidence and permanent-income expectations. The 15th FYP consumption plan does not yet meet that test: it directs supply more effectively than it strengthens purchasing power. We think a better balance would combine public provision of social protection and public goods with stronger household cash flow, lower entry barriers and greater scope for private firms and consumers to allocate resources toward genuine demand.

Three channels may define a sustainable consumption turnaround. The first is to raise disposable income and improve

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its durability (Figure 12). Near-term support should target low- and middle-income households, unemployed workers, and low-income retirees, whose propensities to consume are highest. Higher basic pensions, stronger unemployment support, healthcare reimbursement, childcare subsidies and repayment of wage and supplier arrears would support cash flow more directly than product subsidies. The post-war experience is clear: mass consumption followed broad-based income growth and stronger social protection.

The income constraint is structural. Household disposable income was only 43.9% of GDP in 2023 and wage income 24.7%, limiting the purchasing-power base from which consumption can grow. Distribution also matters: in 1H 2026, median per-capita disposable income was CNY19,036, only 82.8% of the CNY22,981 average. Raising the household income share and directing gains toward households with higher propensities to consume are as important as lifting the propensity to consume.

Structurally, labor-intensive services are the most direct bridge from productivity to household income. Stronger private hiring in healthcare, elderly care, education, leisure, business services and other consumer-facing sectors would expand the missing component of consumption while generating recurring wages and reducing reliance on capital-intensive manufacturing. The 15th FYP human-resources plan supports this direction through service-sector job creation, wage-setting reform, and AI-related labor adjustment. The macro payoff depends on whether these measures raise job quality, hours, and wages—and whether stronger household income then sustains service demand.

The second channel is to reduce precautionary saving by lowering future liabilities. Uncertainty over employment, unfinished housing, medical bills, education, childcare and retirement discourages durable spending. Near-term policies should complete housing projects and strengthen predictable unemployment and medical support; structural reforms should raise pension adequacy, expand healthcare and long-term-care protection, reduce education costs, and make benefits portable for migrants and flexible workers.

The mechanism is material: a Federal Reserve study suggests that precautionary saving accounted for about 40% of SOE household wealth accumulation between 1995 and 2002 following the late-1990s restructuring. The human-resources plan broadens coverage, but does not quantify replacement rates, benefit levels, eligibility or duration—key tests of whether social policies will reduce saving and support demand.

The third channel is to restore private returns through stronger final demand. Higher revenues and pricing power would support hiring and investment, reversing the current Say's law dynamic. Policy should repay government and SOE arrears, reduce arbitrary local enforcement, widen private participation in services, and provide predictable tax and fee relief. Public investment should prioritize project completion and labor-intensive social and urban services that lower household costs and crowd in private providers.

Together, these channels would raise permanent income, reduce future liabilities, and restore private returns. The September 29 measures reach them only indirectly: investment and private-firm support must generate durable gains in jobs and compensation, while housing support must stabilize prices enough to improve household wealth and confidence. At the current scale, the package can cushion the consumption downside but cannot make consumption a new growth driver.

Show me the money: Jump-starting growth

The central issues are scale and financing. Near-term policy must prevent the balance-sheet downturn from deepening; a durable recovery requires redirecting support toward household cash flow and reducing dependence on property, public investment and exports. The transfer counterfactual illustrates the scale required: well-targeted support could have a larger immediate demand effect than subsidies tied to selected durables because it relaxes the household budget constraint directly. Illustratively, CNY1tn of support would generate CNY0.5tn–0.8tn of consumption at a 50–80% marginal propensity to consume. This is not a forecast, but an indication of the demand shortfall and the potential payoff if support reaches households with high propensities to spend.

The US COVID-19 response offers a limited comparison. Six relief laws enacted in 2020–21 provided about US$4.6tn, including US$858.6bn of Economic Impact Payments and US$701.6bn for unemployment insurance. The Federal Reserve cut rates to near zero, expanded its balance sheet from US$4.3tn in mid-March 2020 to nearly US$7.2tn by early June, and later maintained monthly purchases of US$80bn in Treasuries and US$40bn in agency mortgage-backed securities. This large, coordinated package helped bridge an exceptional demand shock, but does not imply that China is likely to adopt a comparable package or that temporary transfers alone can create durable consumption.

In our view, a politically plausible package would favor durable, centrally financed support over generalized transfers: higher pensions, stronger unemployment and healthcare benefits, childcare and low-income support, housing-project completion and arrears repayment, reinforced by employment-intensive public services and predictable support for private

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hiring. Measures must persist long enough to raise income expectations and reduce precautionary saving. Confirmation would come from durable benefit increases and measurable gains in private service employment, wages and the household income share. Generalized transfers remain an upside departure rather than the base case; these markers distinguish the scenarios below.

Transitioning to a purchasing superpower

Three scenarios define the path toward a consumption-led economy. In the base case, policy composition improves but the core constraint persists. The 15th FYP consumption plan supports selected services and policy-backed purchases, yet does not materially raise the household share of national income or reduce precautionary saving. Retail sales may remain broadly on track toward CNY60tn through nominal growth and targeted support, while consumption remains weak relative to productive capacity. China therefore remains ly reliant on exports and public investment, with low inflation, weak nominal growth, margin pressure and recurring external friction.

The upside requires a genuine household-demand pivot. A sizeable multi-year central fiscal package would raise disposable income, reduce future liabilities, support service consumption and restore private confidence. Success would be measured not merely by exceeding CNY60tn of retail sales, but by a material rise in household consumption as a share of GDP, stronger private hiring and investment, lower household savings and firmer downstream pricing power.

The downside is continued reliance on trade-ins, designated sectors and public projects while household cash flow and confidence remain weak. Even if the CNY60tn target is approached, the plan would fall short in substance if services, household income and the consumption share fail to rise. China would remain in a high-production, high-saving and low-consumption equilibrium.

The scenarios are distinguished by policy inputs and transmission, not by the achievement of the headline retail-sales target alone. Property stabilization, bond issuance and headline retail sales are enabling conditions, not proof, in our view. Risks remain skewed to the downside. Further housing or labor-market weakness would depress wealth, income expectations and consumer confidence, while persistent precautionary saving would constrain the demand multiplier. If fiscal support fails to crowd in private activity, reliance on exports and public investment will entrench the high-production, low-consumption equilibrium.

Closing the consumption deficit is now a policy imperative. The 15th FYP consumption plan gives the objective greater strategic weight, and the September 28–29 measures signal rising urgency over domestic demand and housing. Yet the policy mix remains largely state-guided and supply-heavy, offering only limited and indirect support to household demand at its current scale. Achieving mass consumption will require a more decisive shift in national income toward households, stronger private service employment, adequate and portable social protection, lower precautionary saving, and market incentives that convert China's production strength into broad purchasing power.

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