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Topics China's consumption-boosting measures lack potency

The Chinese government has formulated its first five-year plan dedicated exclusively to expanding consumption. However, a rapid recovery from the real-estate slump and anxiety surrounding employment, particularly among young people, which lie at the root of consumers' growing preference for saving money, appears unlikely. Achieving the plan's goals is therefore expected to prove difficult.

■ Services consumption is positioned as top priority

In July, the Chinese government formulated a plan to expand consumption during the 15th Five-Year Plan period. This is the first time China has released a five-year plan dedicated exclusively to consumption. The plan's overarching goal is to increase the share of household consumption, including consumption of a broad range of services, in the overall economy. The aim is to transform China's economic growth model. China's economy has traditionally relied heavily on investment-led growth, and household consumption accounts for less than 40% of GDP, significantly below the 50–60% seen in major European countries and Japan and the figure of almost 70% in the U.S. Meanwhile, with the real-estate slump and excess production capacity becoming increasingly serious problems, the traditional investment-oriented growth model has reached its limits, making a shift to consumption-driven growth an urgent priority.

<Plan to Expand Consumption during The 15th Five-Year Plan Period>

Numerical Target

Raising total retail sales of consumer goods to **around 60 trillion yuan**

Crucial Areas

1. **Qualitatively enhancing services consumption**
2. Expanding and upgrading goods consumption
3. Fostering new consumption forms, models, and scenarios
4. Raising consumption capacity
5. Optimizing the overall consumer environment
6. Enhancing platforms and strengthening support mechanisms to boost consumption

Source: Prepared by JRI based on information from the State Council of the People's Republic of China

As a specific numerical target, the plan calls for raising total retail sales of consumer goods (goods retail + catering industry income) to around 60 trillion yuan by 2030. Achieving this target will require consumption to expand at an average annual rate of 3.7% over the five-year period. Unlike the overarching goal described above, however, this numerical target does not include consumption of services other than the income of the catering industry.

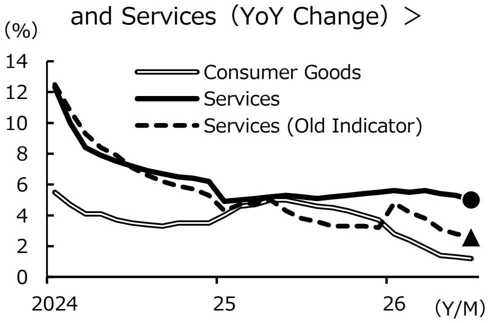
The plan presents six "crucial areas" for advancing initiatives to expand consumption: 1) qualitatively enhancing services consumption, 2) expanding and upgrading goods consumption, 3) fostering new consumption forms, models, and scenarios, 4) raising consumption capacity, 5) optimizing the overall consumer environment, and 6) enhancing platforms and strengthening support mechanisms to boost consumption. Regarding services consumption, which is positioned at the top of this list, policies include supporting consumption in elderly care (silver economy) and childcare services, developing cultural and tourism consumption, promoting consumption in health and sports, and enhancing education and training services. At the meeting of the CCP Politburo at the end of July, the need to unlock the potential of services consumption was also emphasized, suggesting that the focus of the Chinese government's consumption-boosting measures is shifting from goods to services consumption.

■ Services consumption is being affected by keenness to save money

In conjunction with the formulation of the plan, in June the government began publishing a new indicator designed to capture trends in consumption of a broad range of services: total retail sales of consumer goods and services. In addition to the income of the catering industry, which was captured by the previous retail sales indicator (total retail sales of consumer goods), this new metric includes consumption of various other services, such as communication/information services, tourism/culture, and sports/leisure. A comparison of recent trends in the old and new indicators shows that while growth in the old indicator has continued to slow since 2024, the new indicator is relatively solid.

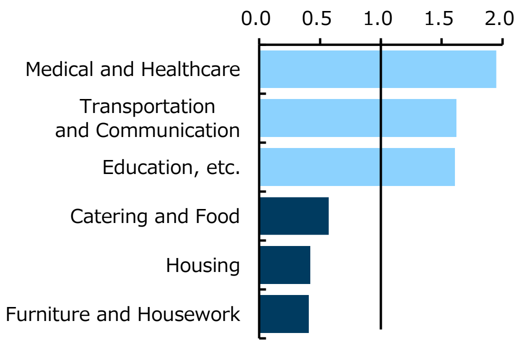
Overall services consumption is therefore firm in comparison to goods consumption, though it still lacks the strength to become a driver of overall consumption. Looking at the breakdown of services consumption, spending patterns have diverged amid the economic slowdown since 2025, when the gap between the old and new indicators widened, as consumers have increasingly sought to save money. Expenditure on items for which it is difficult to cut spending, such as medical/healthcare, transportation/communication, and education, has tended to increase faster than disposable income. In contrast, spending on services that can be substituted with alternatives within the household, such as catering and domestic help, has stagnated. Housing-related expenses, including rent, have also remained weak against the backdrop of the real-estate slump. Furthermore, even tourism consumption, which the government has positioned as a pillar of consumption expansion, has been affected by economic considerations. Travelers are increasingly favoring low-cost, close-to-home, and short-duration trips, with domestic travel more popular than overseas travel. Per capita spending by domestic tourists has also declined.

<Total Retail Sales of Consumer Goods and Services（YoY Change）>



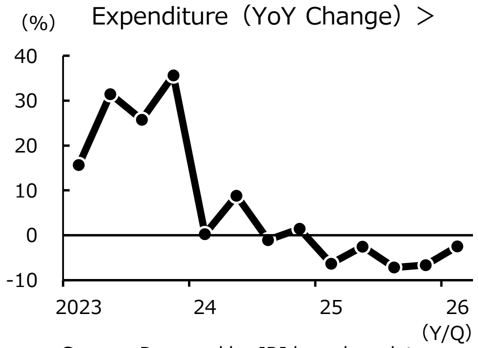
Source: Prepared by JRI based on data from CEIC
Note: Cumulative since start of year. Services (old indicator) is income of the catering industry, which was included in total retail sales of consumer goods.

<Consumption Growth Relative to Income Growth>



Source: Prepared by JRI based on data from CEIC
Note: YoY change in expenditure / YoY change in disposable income.Medians for 2025 Q1 to 2026 Q2.

<Per Capita Domestic Tourism Expenditure（YoY Change）>



Source: Prepared by JRI based on data from CEIC

■ Lack of measures to overcome structural weakness in consumption makes target difficult to achieve

Among the other crucial areas, 3) fostering new consumption forms, models, and scenarios is expected to generate some additional demand through measures such as developing digital consumption by integrating artificial intelligence with consumption, promoting green (eco-friendly) consumption, and developing the "first-launch economy" in line with local conditions. The first-launch economy is a catch-all term for economic activities involving "firsts," such as companies launching new products and introducing new business formats, technologies, and services, and overseas and domestic brands opening their first stores.

However, a full-fledged recovery in consumption appears unlikely. The root causes of consumers' preference for saving are the negative wealth effect of the real-estate slump and a soft employment environment, particularly for young people. Although cities have introduced measures such as easing requirements for home purchases, structural factors, including a decline in the pool of potential home buyers, continue to weigh on housing sales. Prices of both new homes and used homes, which tend to better reflect actual market conditions, have continued to decline, and inventory turnover periods also appear to be getting longer. A full-fledged recovery in the housing market is therefore unlikely to happen for a few more years. The employment situation also shows little sign of improvement. Looking at unemployment rates by age group since the beginning of this year, rates for those aged 16–24 and 30–59 have remained at the high levels seen before 2025, while the rate for those aged 25–29 has deteriorated to above last year's level. Consumer confidence, which has been in "pessimistic" territory since 2022 amid the real-estate downturn, has worsened further since the start of this year.

The five-year plan mentions such measures as promoting high-quality and full employment, optimizing the supply of affordable housing, and increasing asset income via various channels, such as by improving the health of the real-estate market. However, it does not set out specific policies. In addition, advances in artificial intelligence could lead to job displacement, causing a further heightening of household anxiety about the future, so paradoxically, the technology could actually worsen consumer confidence. Because the five-year plan does not adequately address the root causes of weak consumption, the transition to a consumption-driven economy is expected to prove challenging.

(Hiromu Komiya)

Topics *AI boom is stoking inflation concerns in South Korea*

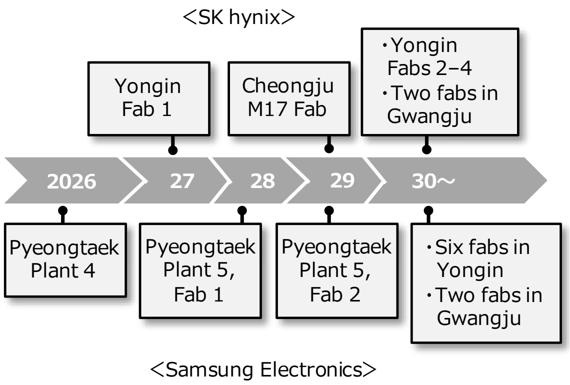
Rising semiconductor prices are spilling over into durable goods prices in South Korea. In addition, widening demands for "N% performance-based bonuses," which originated in the semiconductor industry and involve a certain percentage of the company's profit being returned to employees in the form of bonuses, could lead to broader-based price increases.

■ Semiconductor prices soar amid the AI boom

Against the backdrop of the worldwide AI boom, prices of memory chips, in which South Korean companies hold a large share of the global market, have surged. Price increases are spreading beyond advanced memory chips for AI data centers to general-purpose memory chips used in a wide range of digital devices, including PCs and smartphones. Semiconductor manufacturers have shifted production capacity toward more profitable advanced products, resulting in shortages of general-purpose products and pushing up their prices.

Such supply-demand pressures are likely to persist for the time being. In South Korea's semiconductor industry, fabs are operating at high utilization rates, leaving limited scope for increasing output at existing facilities. Meeting the brisk demand thus necessitates a build-out of new production capacity. In response, major South Korean chipmakers Samsung Electronics and SK hynix are planning large-scale investments, but a substantial expansion in supply is not expected until 2027 at the earliest. Building large-scale fabs and putting them into operation takes considerable time, and even after a facility begins operating, it typically takes several months to a year to complete adjustments to improve yields and establish mass-production capabilities. There will therefore be a significant wait before increased production capacity leads to price stabilization.

<Scheduled Start of Operations at New Fabs>



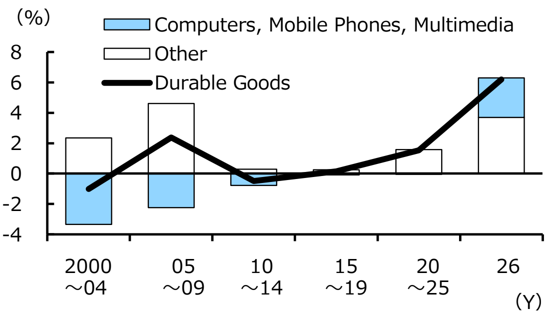
Source: Prepared by JRI based on various media reports

■ Wave of price increases spreads to semiconductor-containing products

The surge in chip prices has already spilled over into prices of finished goods. Price increases have been particularly noticeable with products that contain large numbers of memory chips, such as PCs, smartphones, game consoles, and storage devices. Prices of these durable goods had generally been on a downward trend over the past 20 years, reflecting improvements in performance driven by technological advances as well as declining production costs. Recently, however, they have turned upward, pushing up consumer prices. PC prices, in particular, have risen markedly, increasing by approximately 20% between January and July this year.

Going forward, inflationary pressure is expected to remain strong, particularly for durable goods. In the case of products containing large quantities of semiconductors, manufacturers are likely to continue passing higher memory chip costs through to selling prices. Furthermore, such developments are not limited to digital devices. The wave of price increases could spread to automobiles and smart home appliances, which also contain numerous chips. In the auto industry, in particular, the increasing sophistication of vehicles has led to greater semiconductor usage, making it likely that soaring manufacturing costs will be passed on to consumers.

<Consumer Price Index (Durable Goods)>

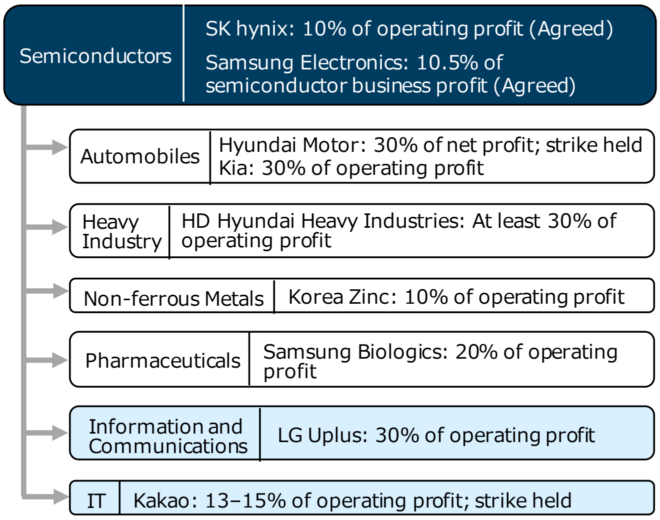


Source: Prepared by JRI based on data from CEIC
Note: The annual increase for 2026 is estimated based on the rate of increase in January-July. For the other five years, the annual increase is the average of the YoY increase and degrees of contribution each month.

■ Demands for "N% performance-based bonuses" are spreading across South Korea

At South Korean semiconductor giant SK hynix, employees received exceptionally large performance-based bonuses in February this year, with the payouts exceeding their annual salaries. This was attributable not only to a sharp increase in the company's earnings, which were boosted by the global AI boom, but also to a revamp last year of the firm's bonus system, whereby 10% of operating profit would be allocated to a pool for performance-based bonuses. In May, following SK hynix's enormous bonus payout, the labor union at Samsung Electronics threatened a strike unless employees received performance-based bonuses on a similar scale. Although the strike was ultimately avoided, labor and management in the semiconductor division agreed to allocate 10.5% of the business's profit to special bonuses. Estimates based on this agreement and earnings forecasts for this year indicate that the average performance-based bonus to be paid next year by the semiconductor divisions of SK hynix and Samsung Electronics will exceed 50 million yen per employee.

<Demands for N% Performance-based Bonuses in South Korea>



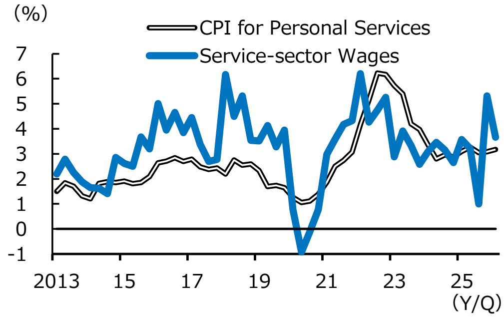
Source: Prepared by JRI based on various media reports

Demands for "N% performance-based bonuses," whereby a certain percentage of profit is returned to employees, are spreading beyond the semiconductor industry into other sectors, too. In manufacturing, labor unions in the automobile, heavy industry, non-ferrous metals, and pharmaceutical sectors are calling for a certain percentage of operating or net profit to be allocated to performance-based bonuses, and in the service sector, unions in segments such as information and communications are making similar demands. At major IT company Kakao, for example, the labor union launched a strike after demanding that 13–15% of operating profit be allocated to a special bonus pool. Later, following 18 rounds of wage negotiations, the union and management reached an agreement entailing a substantial increase in annual salaries. Meanwhile, the labor union at Naver, another IT firm, secured a significant hike in base pay relatively quickly by refraining from demanding N% performance-based bonuses.

■ Rising labor costs could lead to higher prices

If such trends spread, they could push up wage levels across a broad range of industries, rather than simply resulting in temporary increases in performance-based bonuses at highly profitable companies. While firms remain cautious about introducing N% performance-based bonuses, labor unions are leveraging calls for such schemes in wage negotiations, and as noted above, there have already been cases in which negotiations surrounding performance-based bonuses have resulted in increases in base pay. If the high levels of compensation paid in the semiconductor and IT industries are emulated by other sectors, upward pressure on wages could spread more broadly. This is particularly likely in industries where competition among companies to attract talent is intense, as the firms are conscious of wage increases by other companies and tend to follow suit to stay competitive in the job market. If such wage competition continues, wage hikes at highly profitable companies could lead to similar moves at firms whose earnings environment is far less favorable.

<Service-sector Wages and Prices (YoY change)>



Source: Prepared by JRI based on data from CEIC

There is a danger of widespread wage rises intensifying inflationary pressure by pushing service prices higher. Wage increases that are not accompanied by productivity gains squeeze corporate earnings as they push up labor costs, which creates an incentive for companies to raise selling prices. This is particularly significant in South Korea's service sector, where labor productivity growth has remained sluggish for many years, leaving companies with limited scope to absorb wage increases through productivity gains. Indeed, in previous periods of rising wages in the service sector, service price inflation has tended to accelerate, so the situation will need to be watched closely.

(Thoma Imagawa)