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CHINA ECONOMY UPDATE

5 ACCELERATING TRENDS IN CHINA SINCE COVID19

Feb 2021 report

Source: McKinsey China Consumer Report 2021

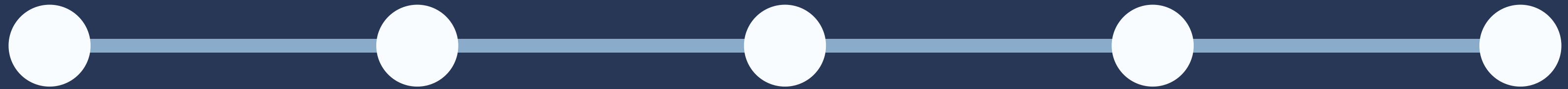


Over 2020 till now, COVID-19 has spread across the world, uniting humanity in a shared experience that has highlighted the vulnerability of our societies. As the first country to grapple with the crisis, China has been on the frontlines both of post-COVID-19 economic recovery, and of the societal changes the pandemic has precipitated.

As that recovery takes shape, several important shifts in the make-up of China's economic landscape have already become apparent. COVID-19 has accelerated pre-existing trends, ushering in the arrival of a future we were likely already on track to realize.

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5 ACCELERATING TRENDS IN CHINA SINCE COVID19



DIGITIZATION

Digital tools become increasingly popular solutions, expanding from B2C to B2B.

DECLINING GLOBAL EXPOSURE

Rising importance of domestic markets, technology, and capital.

RISING COMPETITIVE INTENSITY

Technology and agility drive winners to capture the lion's share of industry value.

CONSUMERS COME OF AGE

Consumers (especially the young) are becoming more prudent and health-conscious.

PRIVATE AND SOCIAL SECTORS STEP UP

Presentations are communication tools that can be used as demonstrations and lectures.

TREND 1: DIGITIZATION



B2C & B2B

COVID-19 has not only accelerated digitization in business-to-consumer (B2C) applications and channels, but also the traditionally less digitized part of the economy, such as areas requiring physical interactions, and business-to-business (B2B) processes.

MOBILE SURVEY

Based on our mobile surveys of Chinese consumers, about 55 percent are likely to continue buying more groceries online after the peak of the crisis.

Nike's first-quarter digital sales in China increased 30 percent on year after the company launched home workouts via its mobile app, while property platform Beike said agent-facilitated property viewings on its virtual reality showroom in February increased by almost 35 times compared with the previous month.

DIGITIZATION

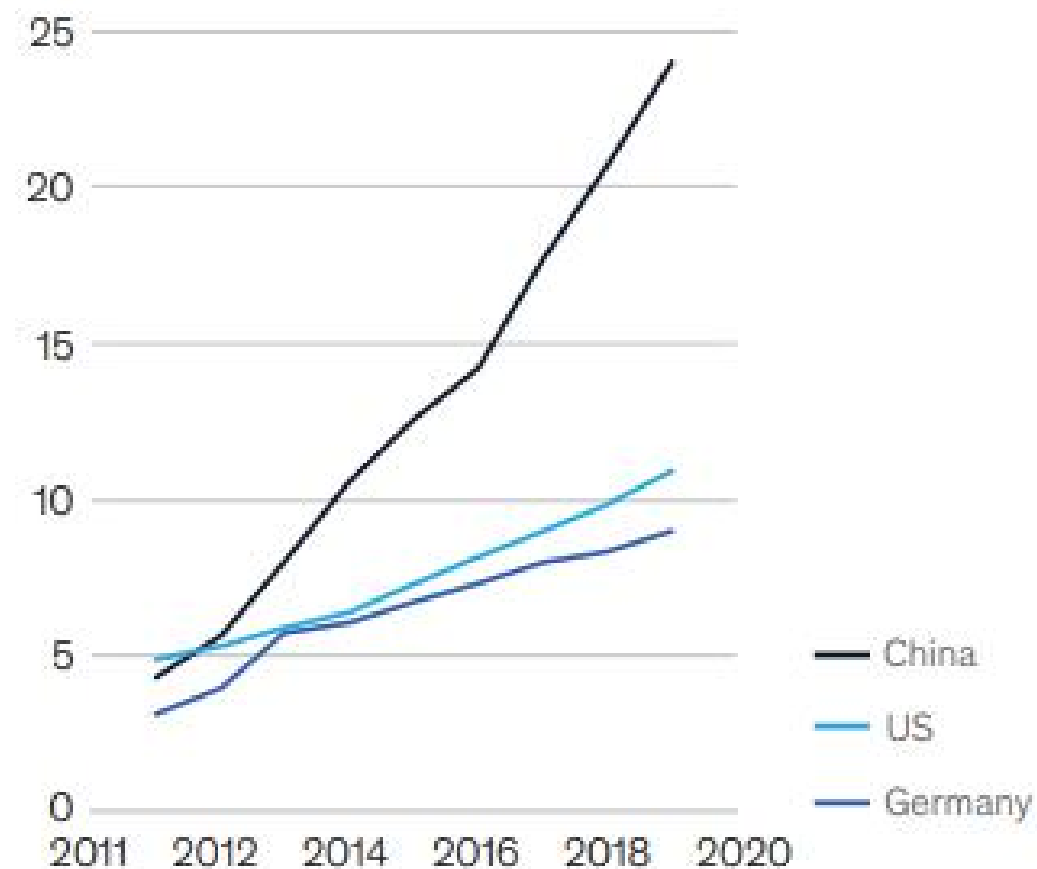
digitization is not only accelerating in the typical business-to-consumer (B2C) applications and channels, but is also gaining traction in the traditionally less digitized part of the economy, such as areas requiring heavy physical interactions and business-to-business (B2B) processes.

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Digitization

China has long been a global leader in the digital economy

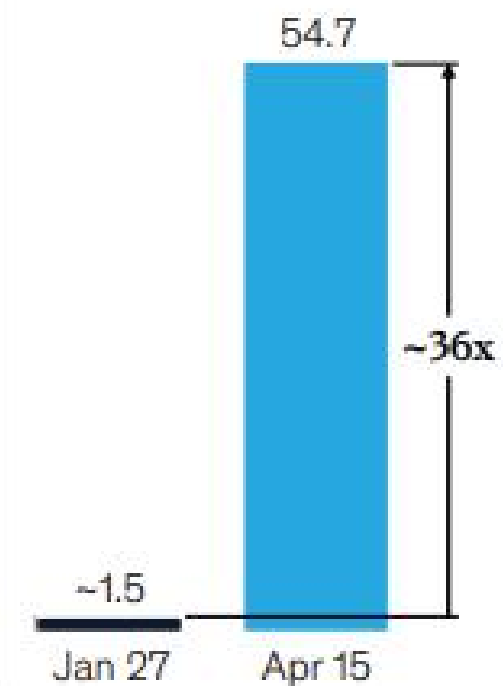
E-commerce as share of total retail value, %



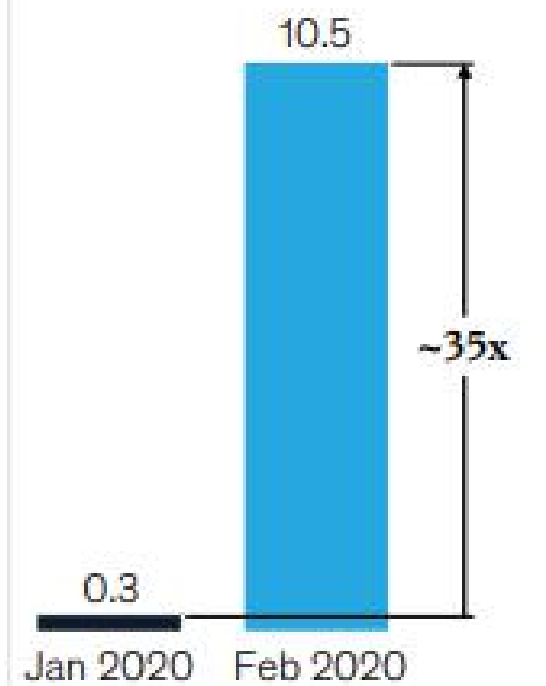
Source: iResearch and MOFCOM for China; eMarketer for other countries; literature search; McKinsey analysis

Consumers and businesses have accelerated their use of digital since COVID-19

Online medical consultations, WeDoctor number of registered doctors on their free consultation platform (in K)



Virtual property "showrooms", Beike VR virtual property showing sessions between agents and prospective buyers (in Mn)





TREND 2: DECLINING GLOBAL EXPOSURE

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LOCALISED ECONOMIC

Before COVID-19, China had been reducing its relative exposure to the world as the majority of economic growth was generated by domestic consumption, supply chains matured and localized, and its innovation capabilities were enhanced.

GLOBAL TRADE

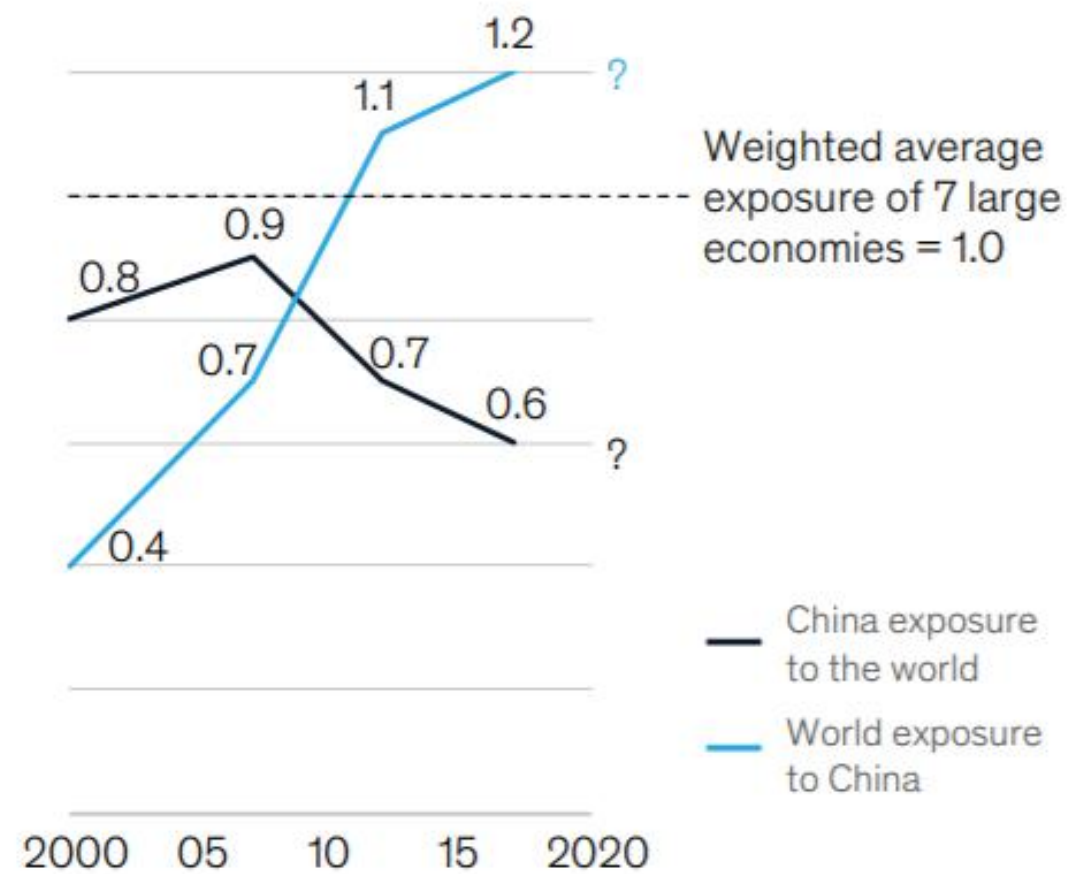
Global trade and investment has slowed sharply, and the movement of people has become highly restricted.

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Declining global exposure

China has been reducing its relative exposure to the world

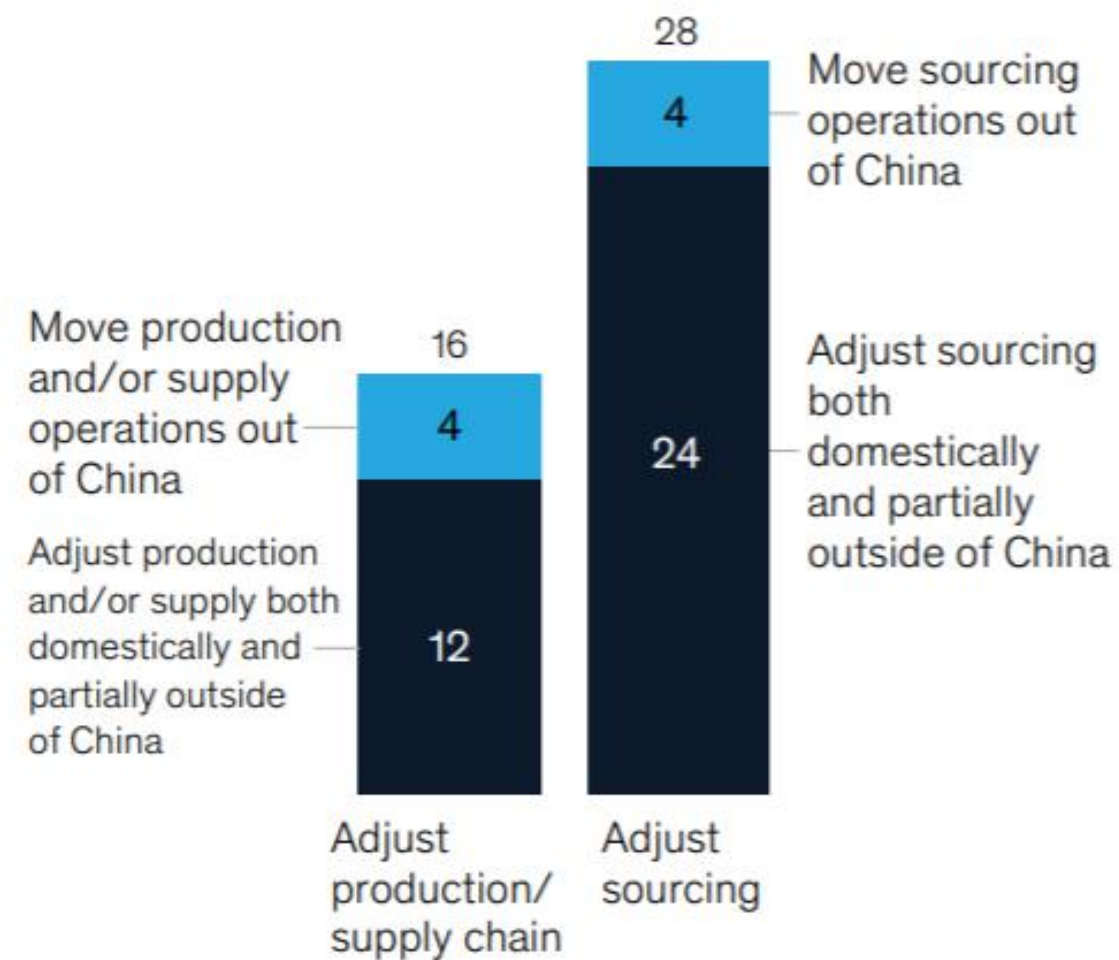
MGI China-World Exposure Index
(trade, technology, and capital)



Source: McKinsey Global Institute; American Chamber of Commerce survey

Diversification strategy is likely to remain important post-COVID-19

AmCham China survey respondents, April 2020, %



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TREND 3: RISING COMPETITIVE INTENSITY

China's leading companies retain an outsized share of profits and return on investment, but cut-throat competition threatens their position. COVID-19 will raise competitive intensity, creating even bigger rewards, and risks, for companies in China.

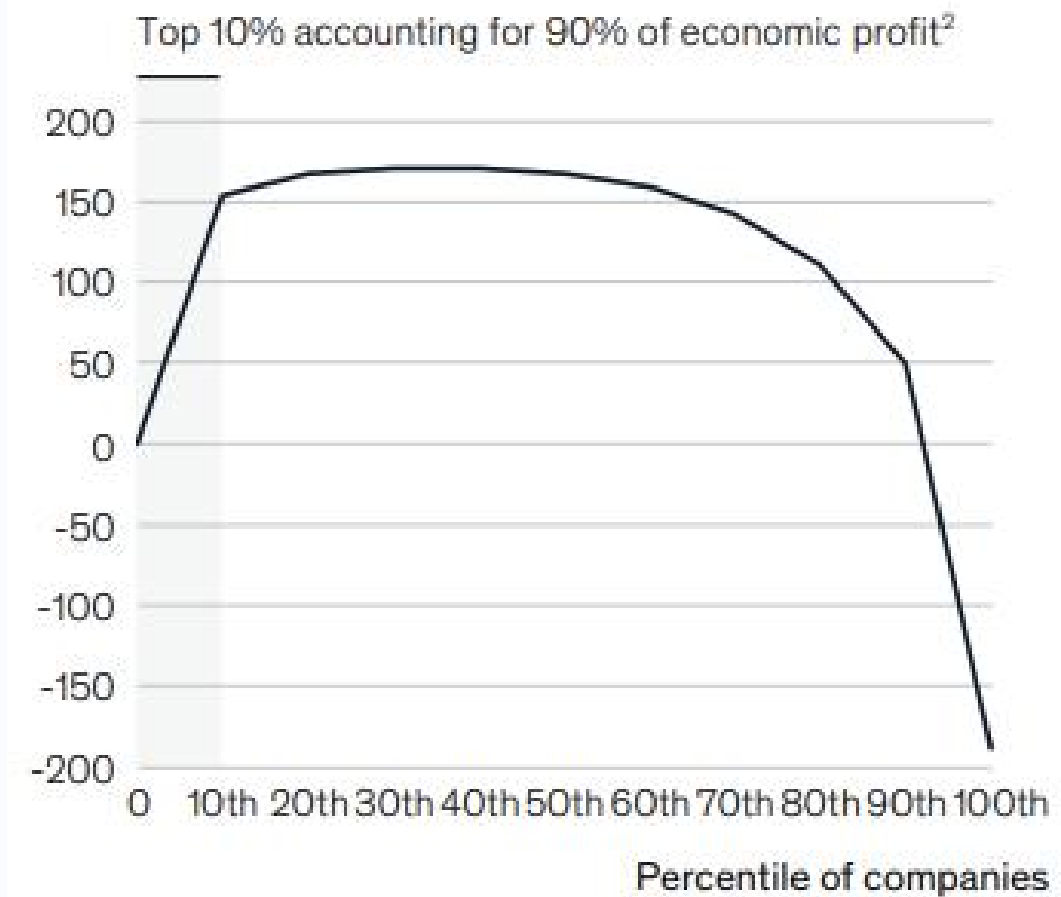


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Rising competitive intensity

In China, top performing firms tend to capture a large share of economic profit

Economic profits generated by each decile company group in China, Cumulative basis, 2015-17 \$ Bn¹



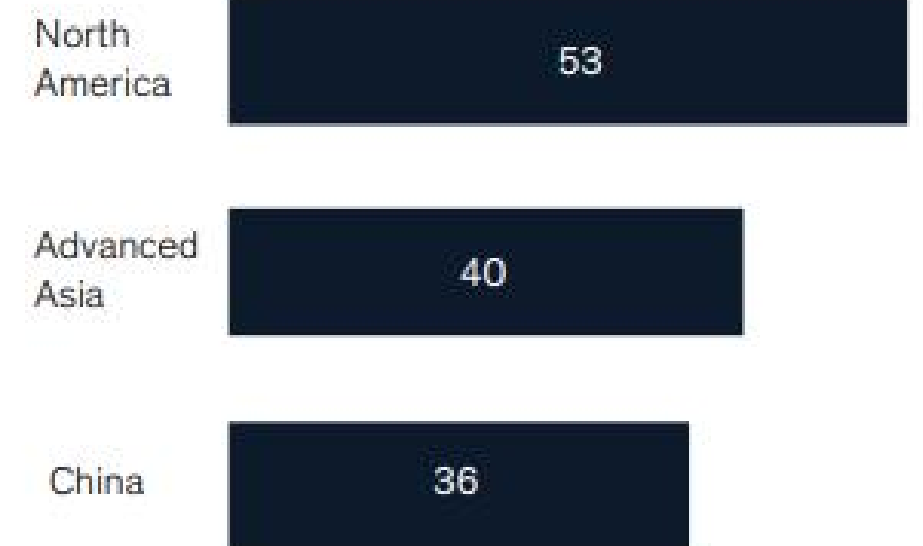
¹Analysis of global top 5,000 companies based on revenue size

²Economic profit measures a company's profit after subtracting the cost of capital

Source: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

Leadership is highly contested in China

Likelihood of staying at the top quintile over a decade¹, %



TREND 4:

CONSUMERS COME OF AGE

China's affluent younger generation had never experienced a domestic economic downturn prior to COVID-19. The virus has forced them to think harder about spending, saving, and trade-offs in purchasing behaviour.

Attitudes to spending among consumers in their 20s and 30s, traditionally the engine of China's consumption growth, have changed markedly in the wake of COVID-19.

The virus has also forced purchasing trade-offs, with consumers seeking better quality and healthier options.

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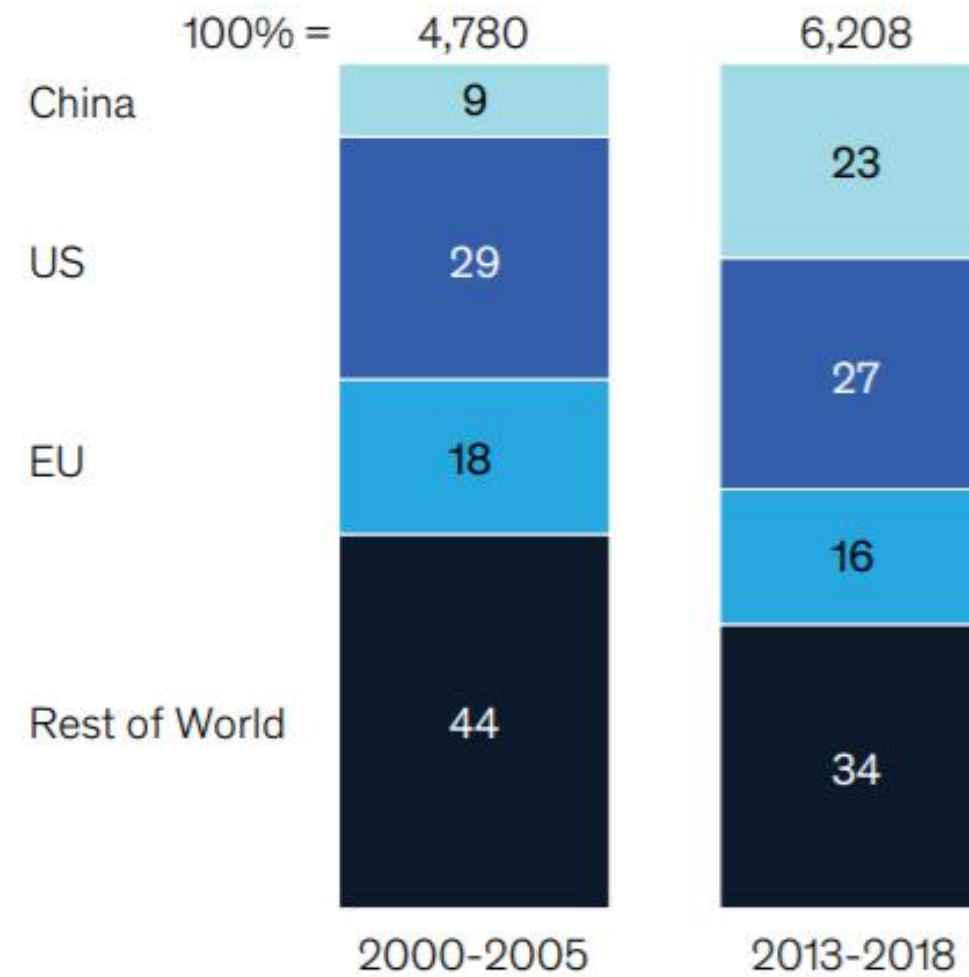
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Consumers come of age

China's consumption power has grown significantly

Global household consumption growth by region, %, billion 2010 US\$

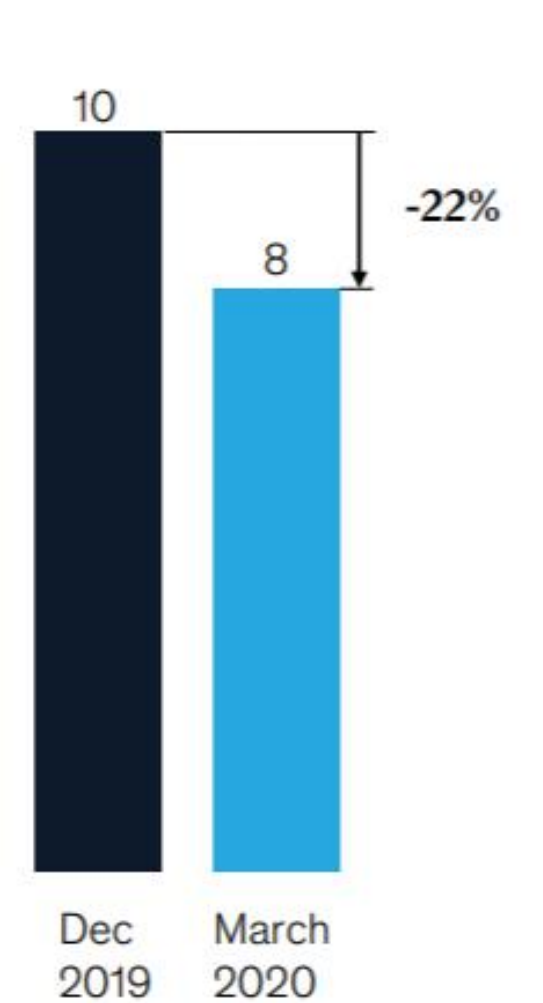


Consumers have become more prudent with personal finances since COVID-19

China household deposit balance, RMB Tn



China consumption loan/consumer credit balance, RMB Tn





TREND 5: PRIVATE AND SOCIAL SECTORS STEP UP

SOCIAL INSTITUTIONS

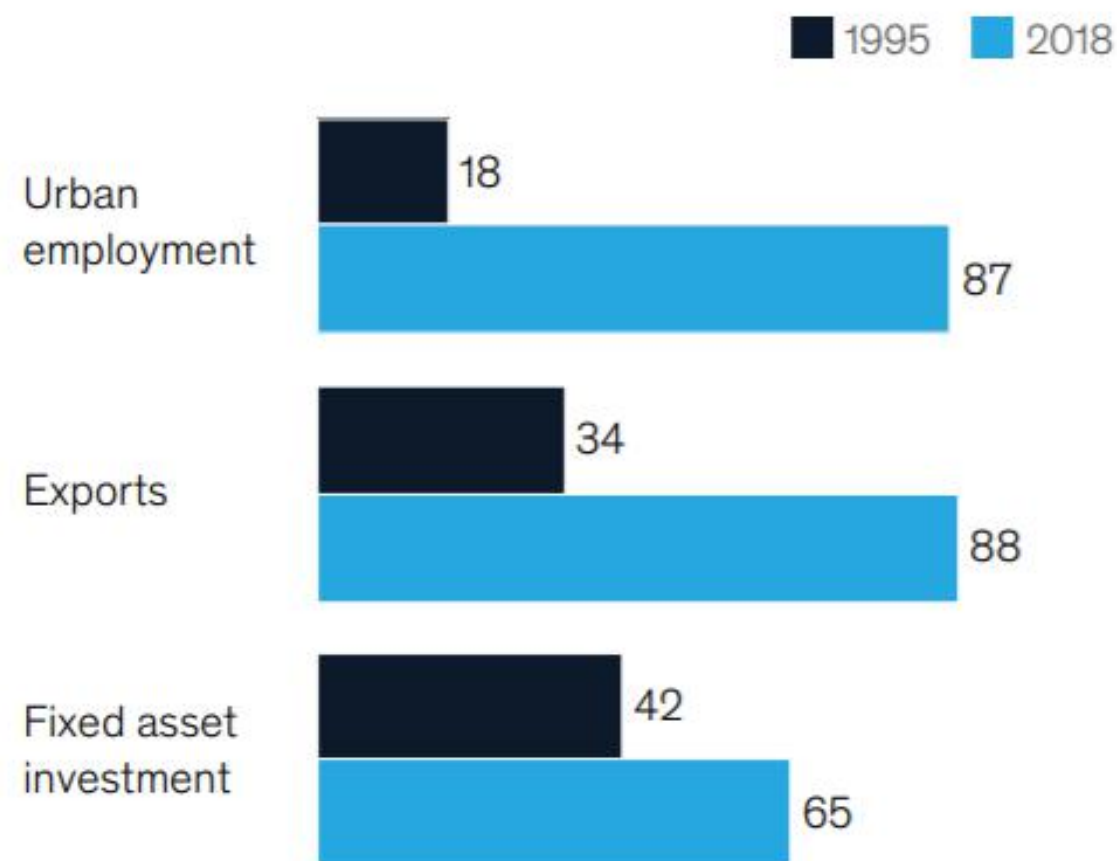
During the 2003 SARS outbreak, the government and state-owned enterprises were the primary actors during the economic recovery. Now, the private sector and leading technology companies are playing a more significant role, making large socioeconomic contributions amid the emergence of powerful social institutions that have donated millions to recovery efforts.



Private and social sectors step up

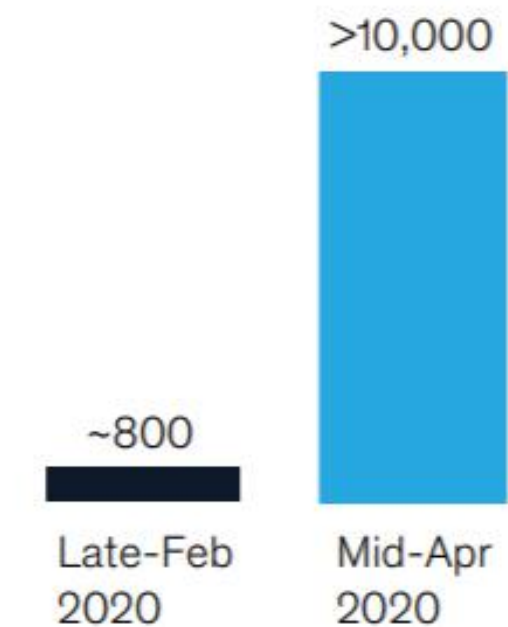
Private sector has become China's main economic driver¹

Private sector's contribution to total economy¹, %

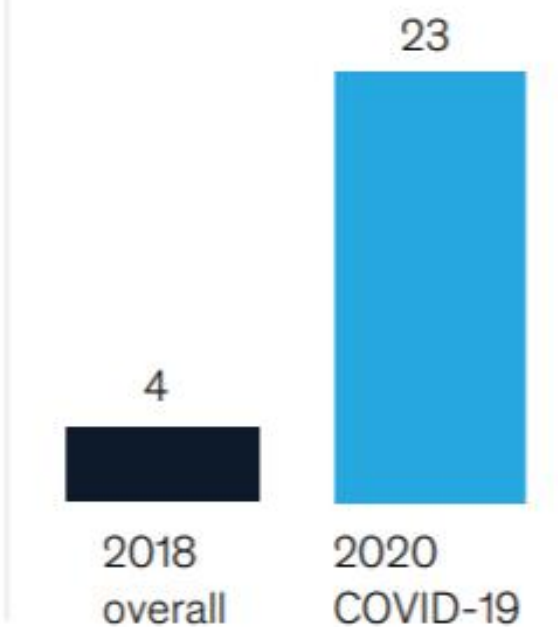


Their influence on the socioeconomic landscape remains important

Personal QR code IDs, # of users of "Suishenma" health codes in Shanghai, powered by Alipay (in thousands)



Information technology sector's donations as share of total corporate donations², % of total



¹Private enterprises defined as private enterprises and foreign enterprises

²2018 data is from "Giving China 2018" report, where 2020 COVID-19 data is based on announced donation information (up to 24 Feb 2020) from collated online literature. Corporate donations include donations from state-owned enterprises, privately-owned enterprises, and foreign enterprises

Source: CEIC; Giving China 2018; literature search; McKinsey analysis

LET'S CHAT



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