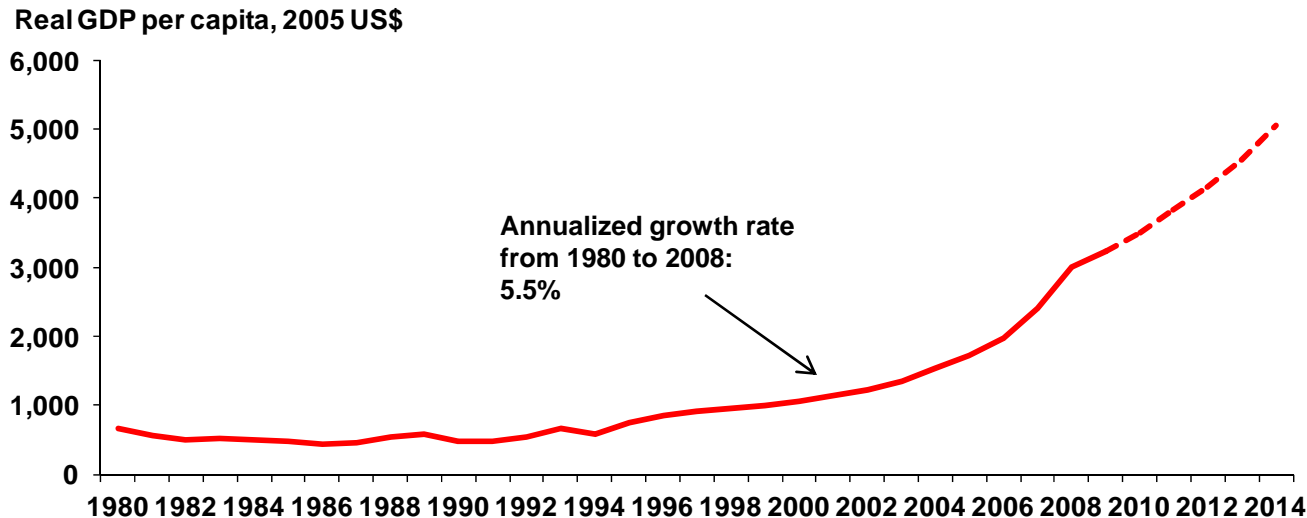


# **Building China's Middle Class**

# Real GDP per capita grew three-fold from 1980 to 2007, and is expected to double again by 2014

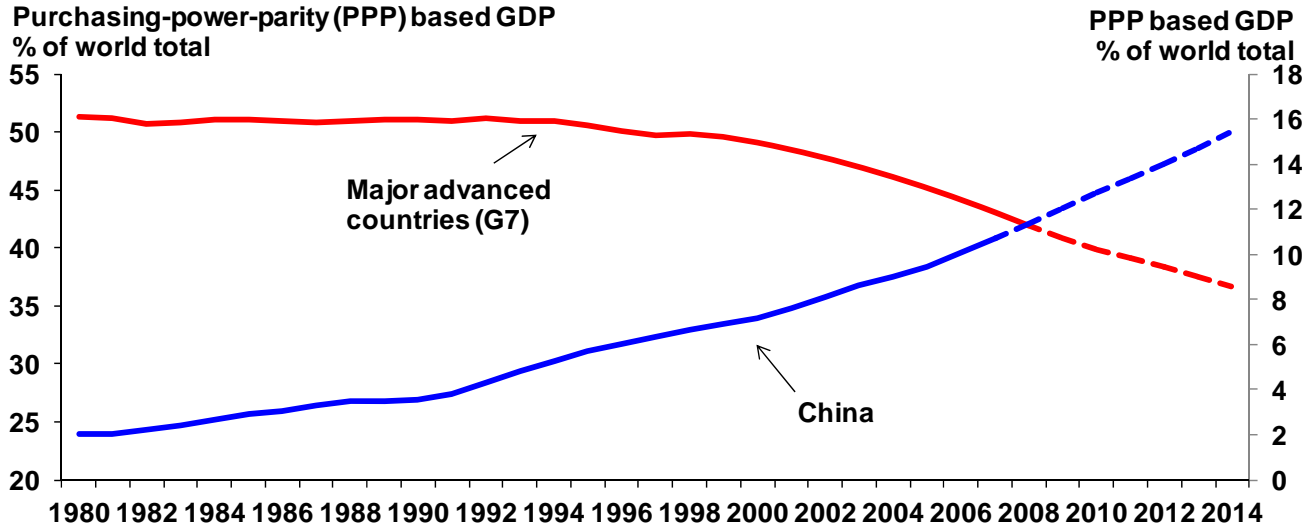


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Source: International Monetary Fund, *World Economic Outlook*.

# China's rising purchasing power: Will domestic demand be the new engine of growth?



Source: International Monetary Fund, *World Economic Outlook*.

# Middle class consumption, now and future

2009			2020		
	2005 PPP\$ (billions)	Share of world total		2005 PPP\$ (billions)	Share of world total
U.S.	\$4,377	21%	China	\$4,468	13%
Japan	\$1,800	8%	U.S.	\$4,270	12%
Germany	\$1,219	6%	India	\$3,733	11%
France	\$927	4%	Japan	\$2,203	6%
U.K.	\$889	4%	Germany	\$1,361	4%
Russia	\$870	4%	Russia	\$1,189	3%
China	\$859	4%	France	\$1,077	3%
Italy	\$740	3%	Indonesia	\$1,020	3%
Mexico	\$715	3%	Mexico	\$992	3%
Brazil	\$623	3%	U.K.	\$976	3%

Source: Brookings Institution.

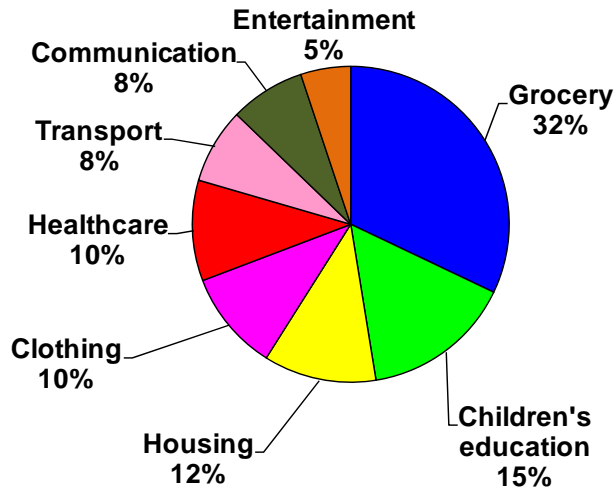
## A snapshot of China's middle class

- Disposable income per capita in 2008: **\$1500-\$3700**;
- Save **22%** of their income. Nine percent have no savings;
- **46%** invested in stocks, 80% of whom took a loss in 2009;
- **32%** own a car, 25% plan to buy a car within three years;
- More than **70%** of families have at least one credit card; 98% have at least one debit card;

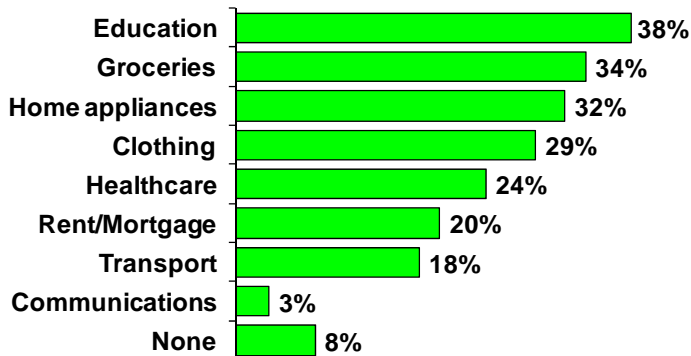
# Consumption patterns of China's middle class families: Education is a top priority



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What would you increase spending on if you had higher income?



Percent of all families surveyed



## What keeps them up at night?

- Income decline
- Unemployment
- Children's education
- Medical costs
- Home prices/rents
- Retirement/pension

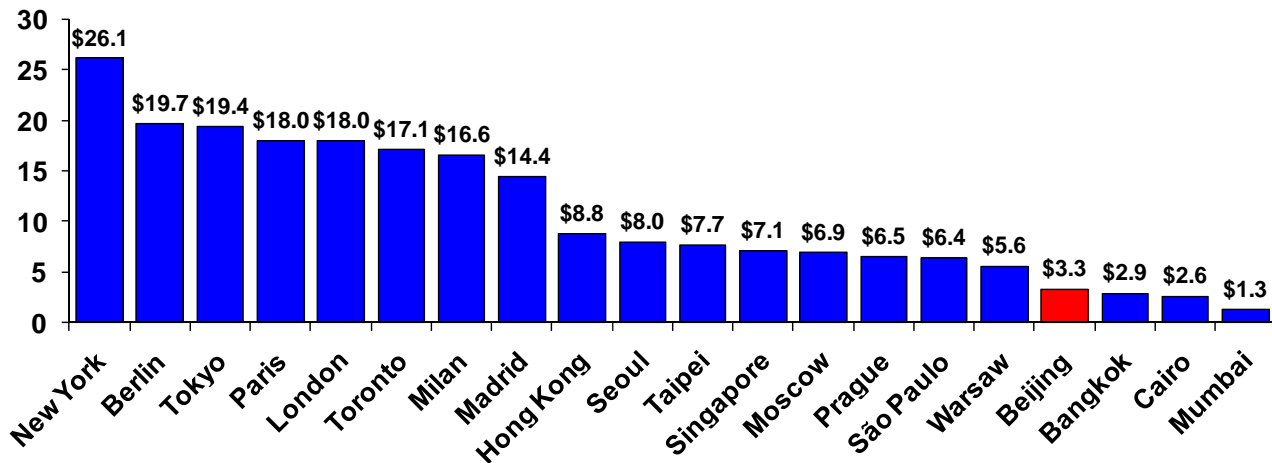
# Thoughts on the Chinese government

- 78% have confidence in how the government is handling the economic downturn
- Think the government's top priority over the next 12 months should be:
  - Unemployment
  - Property price
  - Healthcare
  - Stimulus plan
  - Education



# Gross income in big Chinese cities is still low on an international scale

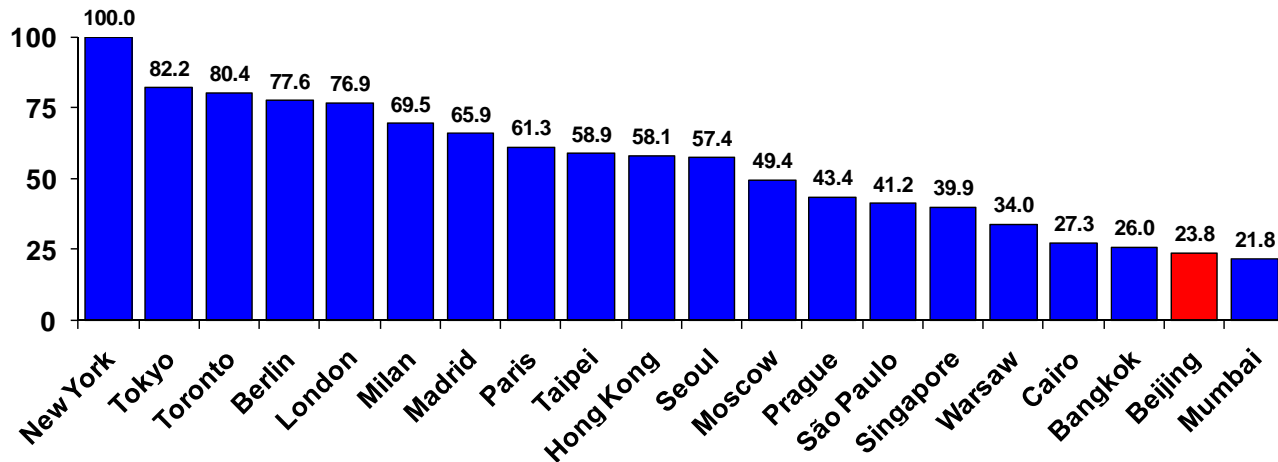
Gross income per hour, US\$



Sources: UBS, Milken Institute.

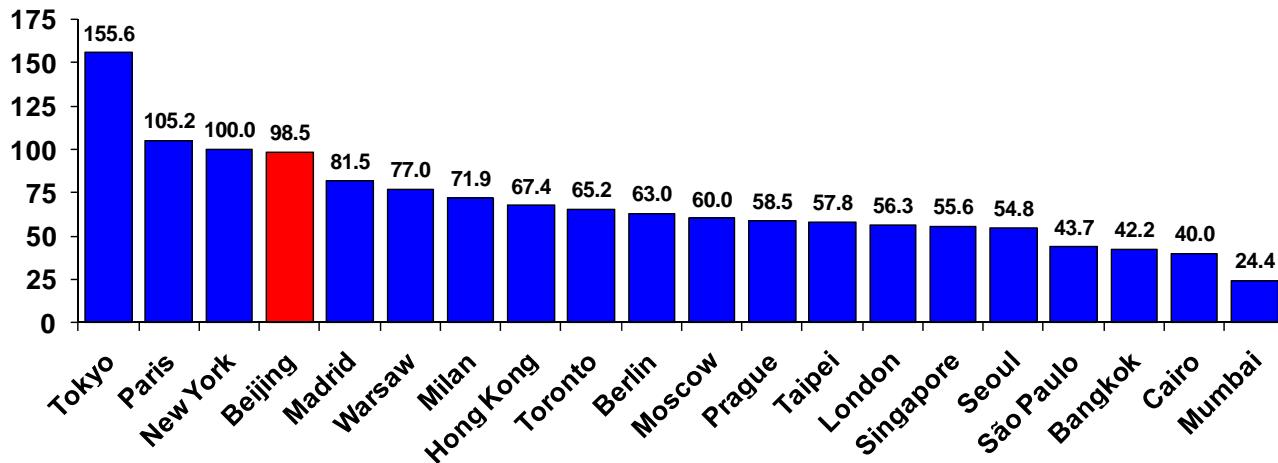
# Purchasing power is the key

Domestic purchasing power adjusted annual income, New York = 100



# Dressing for success is expensive

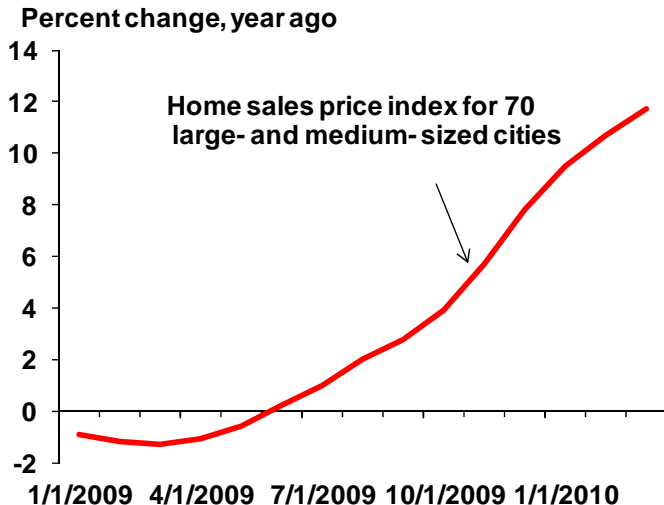
Price index for clothing, New York = 100



Sources: UBS, Milken Institute.



# Homeownership is a yardstick for success



Source: Chinese National Bureau of Statistics.

## Housing condition of China's middle class

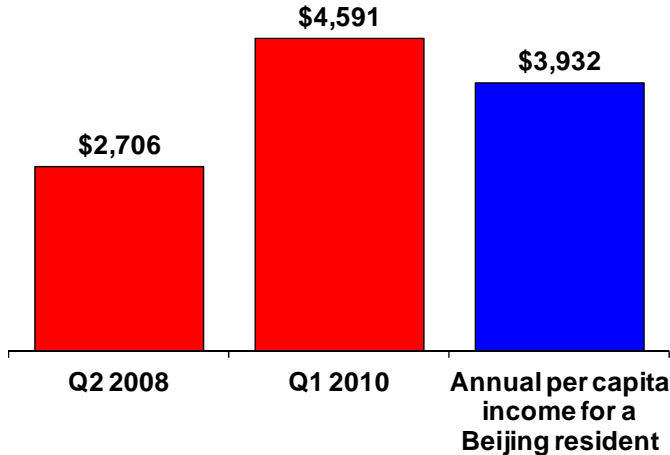
- 87% are homeowners
- 13% are renting
- 24% have a mortgage
- Two-thirds of mortgage holders have a loan-to-value ratio less than 40%
- 14% plan to buy property in the next 12 months
- Among those who plan to buy a house in the next 12 months, 29% are first-time buyers, 23% already own two or more apartments.

Source: CLSA.

Note: This survey was conducted by CLSA in 2009. 250 middle-class families were interviewed in five major cities.

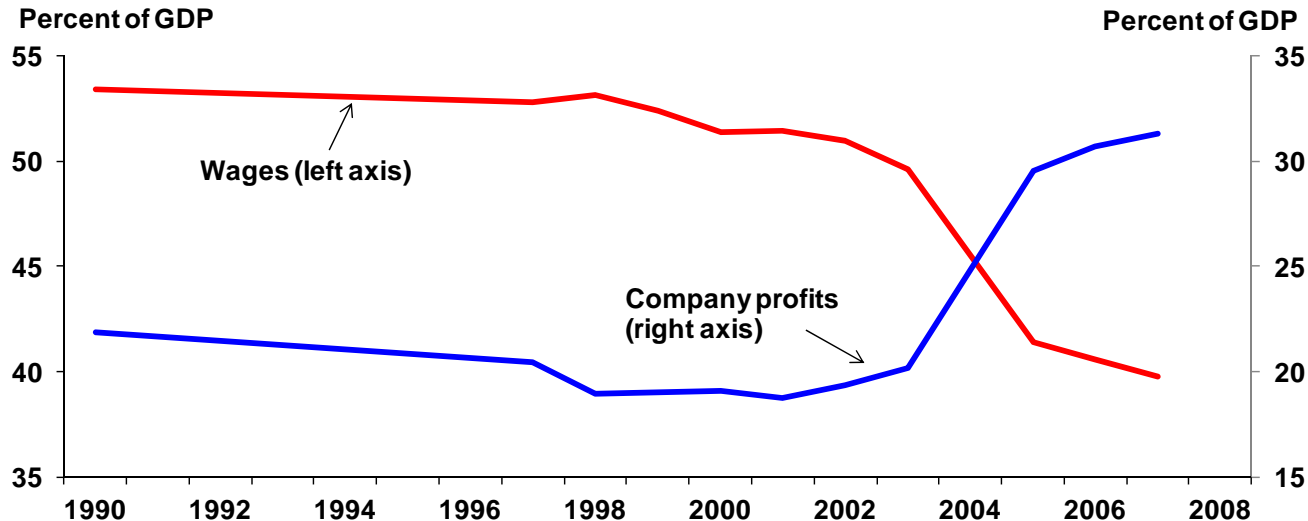
# “A sweet home” is getting out of reach for most middle class families in Beijing

US\$ per square meter



- Price for a house located within Fourth Ring is growing by 35 percent a year;
- In 2009, per capita income for a typical Beijing resident grew by 8 percent;
- Some estimate speculation accounts for more than 40 percent of transactions.

# Wages account for a declining share of GDP



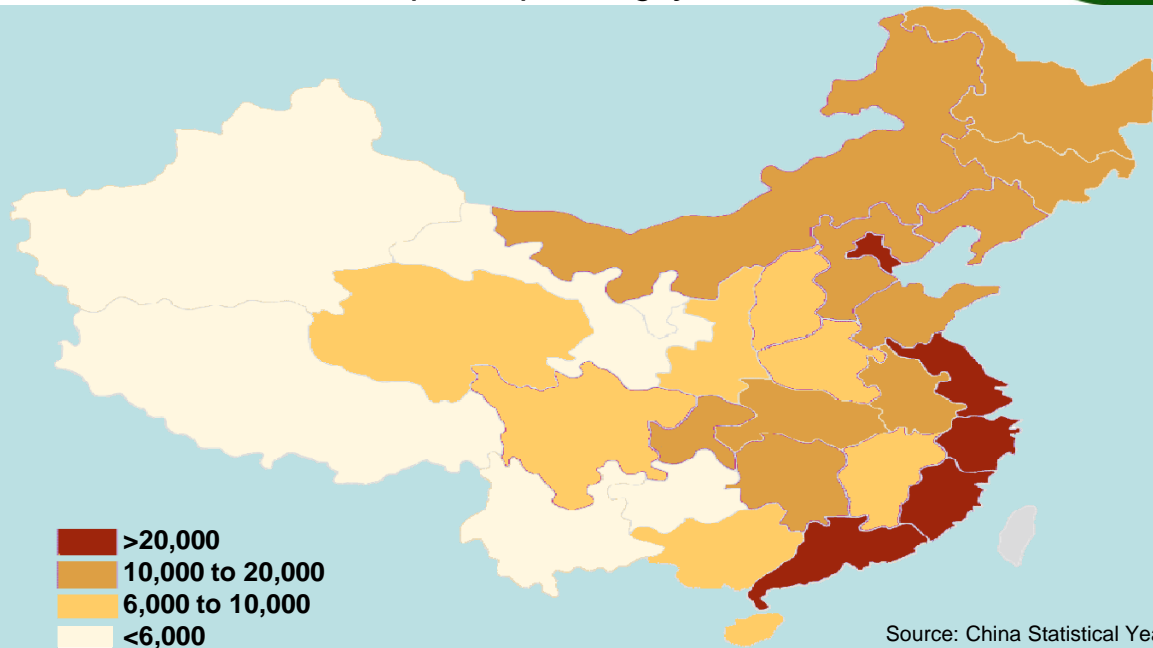
Source: Chinese National Bureau of Statistics.

# One China, many faces

*2008 households' consumption spending, yuan*



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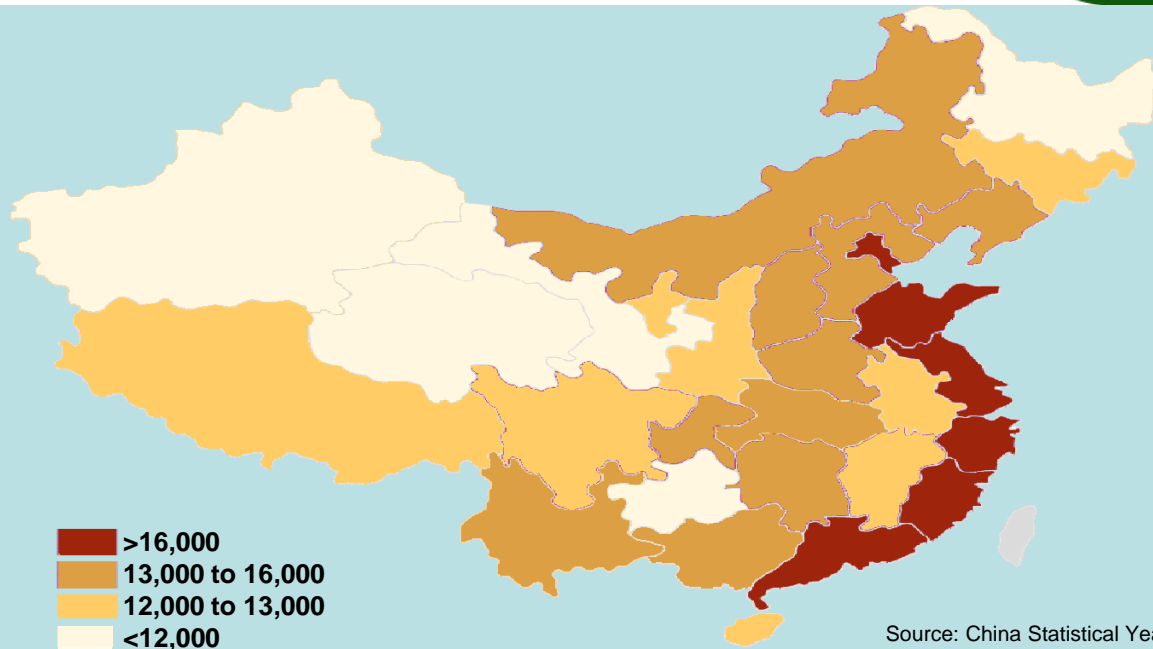
Source: China Statistical Yearbook 2009.

# One China, many faces

*2008 disposable personal income for urban residents, yuan*



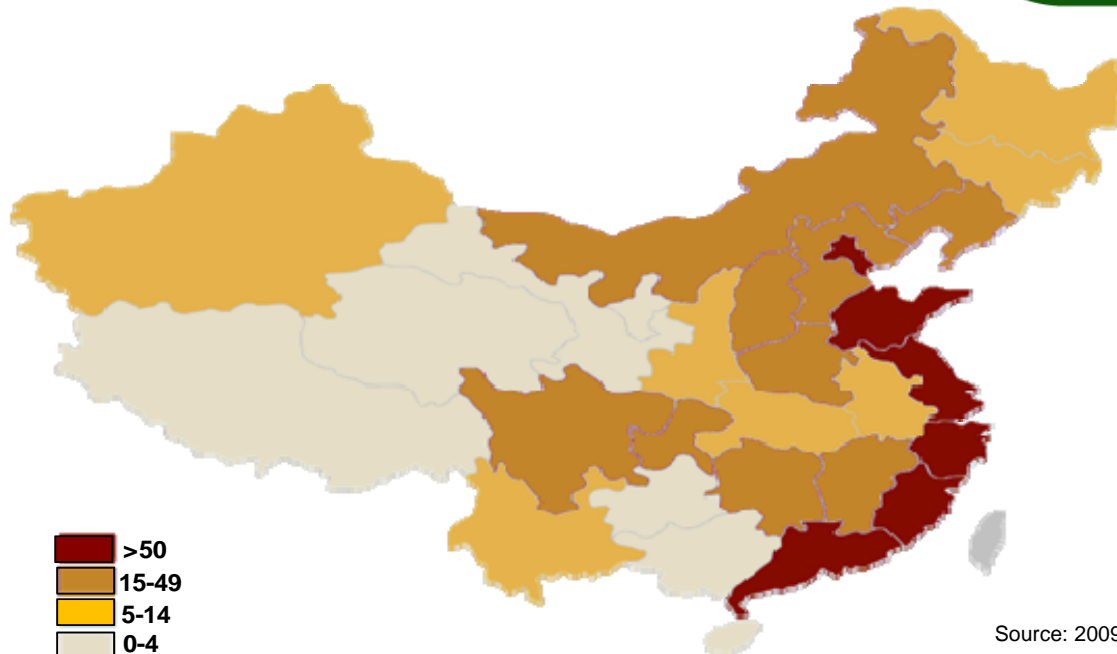
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Source: China Statistical Yearbook 2009.

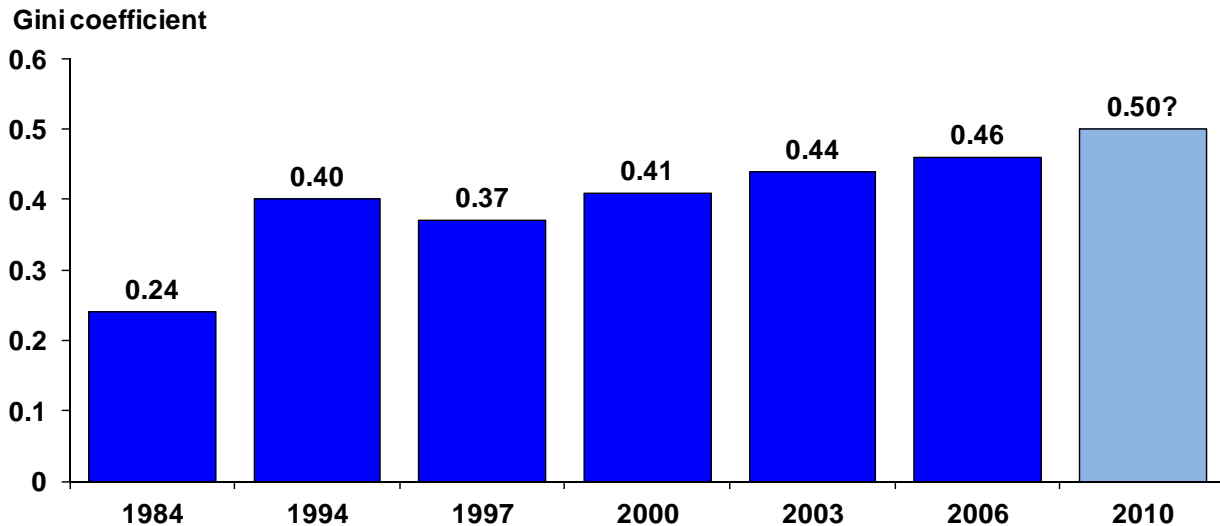


# Where are Chinese millionaires located?



Source: 2009 Hurun Report.

# Rising inequality in China



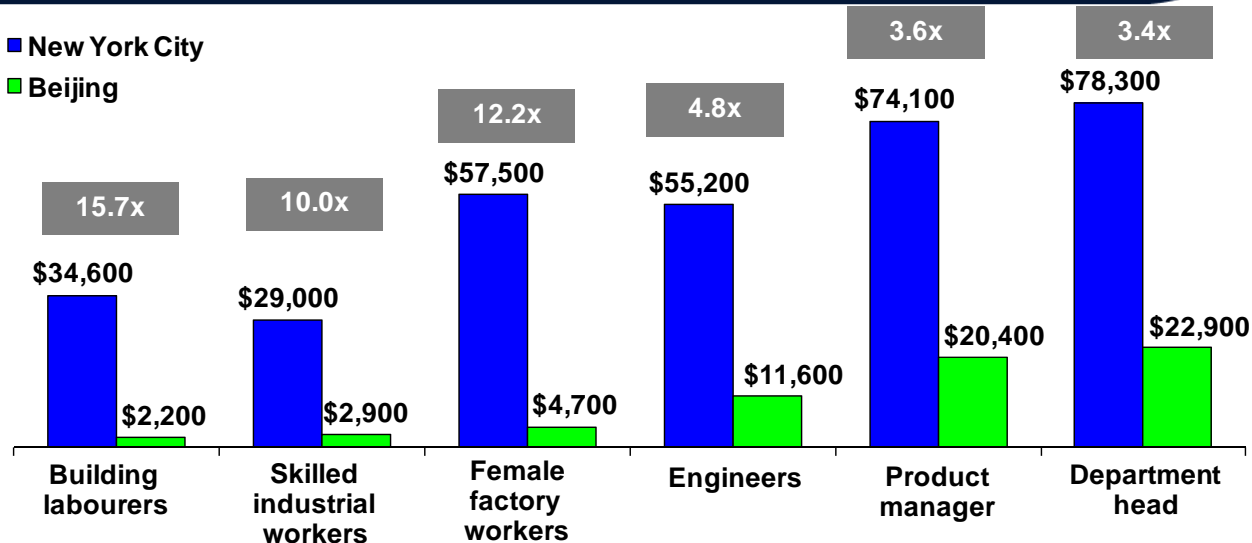
Sources: Chinese National Bureau of Statistics, Milken Institute.

# Moving up to be part of the middle class...



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*Net annual income by occupation*



Sources: UBS, Milken Institute.

# What are the barriers for social mobility and for becoming middle class?



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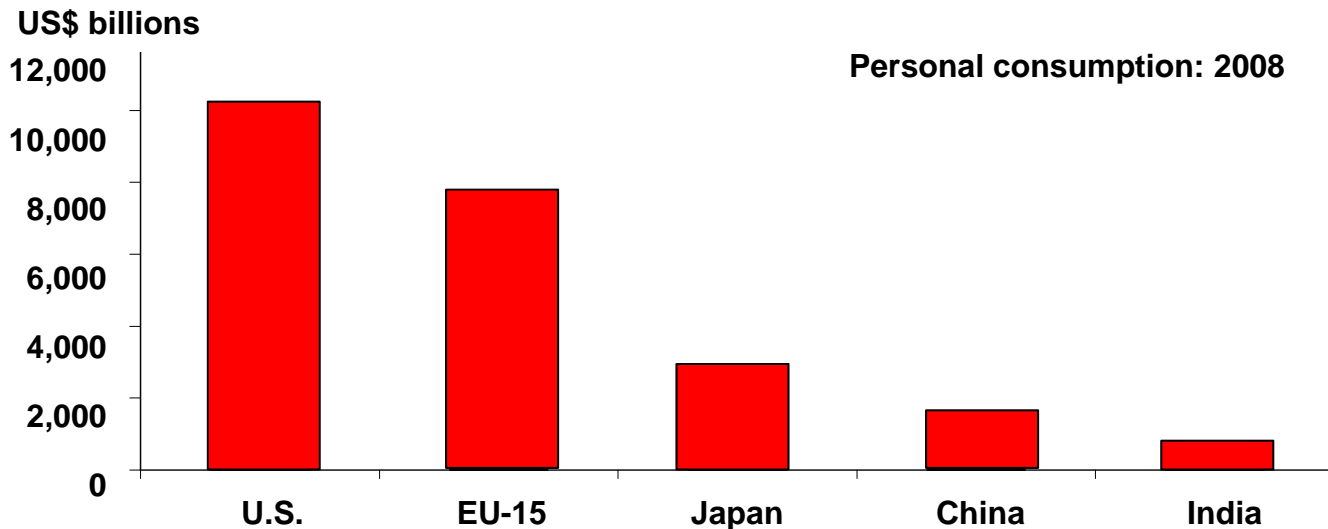
- Unequal distribution of educational resources
- Political representation for middle class
- Hukou system
- Tax structure
- Distorted housing markets

# Why should building China's middle class be a policy priority?

- Social stability
- Social consensus
- Domestic demand
- Tax

## **Steven Roach slides**

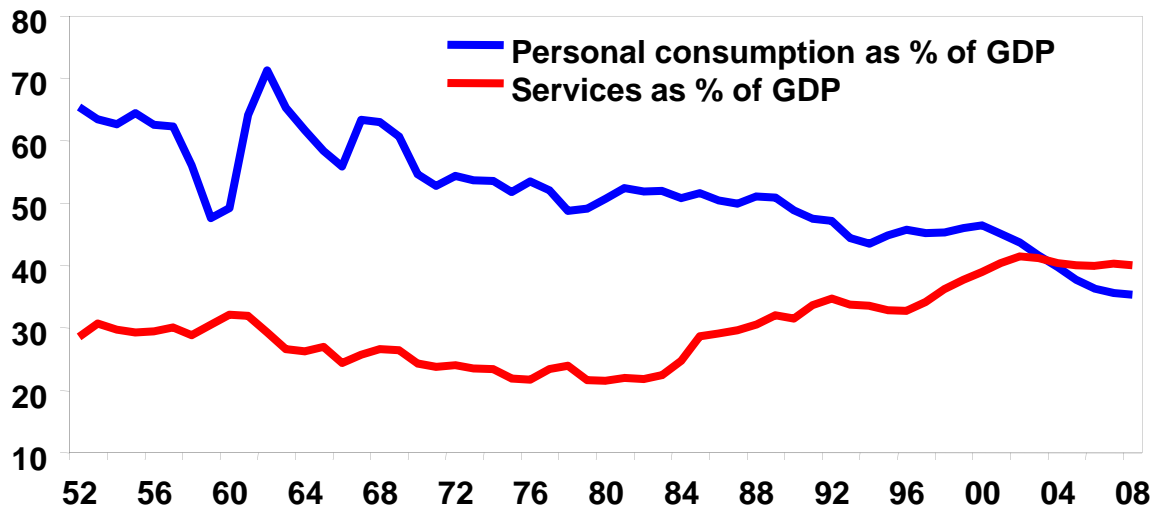
# The global consumer



Sources: National Sources, UN, Morgan Stanley Research.



# China's untapped macro potential



Sources: CEIC, Morgan Stanley Research.



# Pro-consumption agenda for China's 12th Five-Year Plan

Mechanism		Goal
Support to rural household incomes	➔	Harmonious society
Blueprint for large-scale services industries	➔	Labor absorption
Safety net imperatives	➔	Reduce precautionary saving

# A brief history of the world

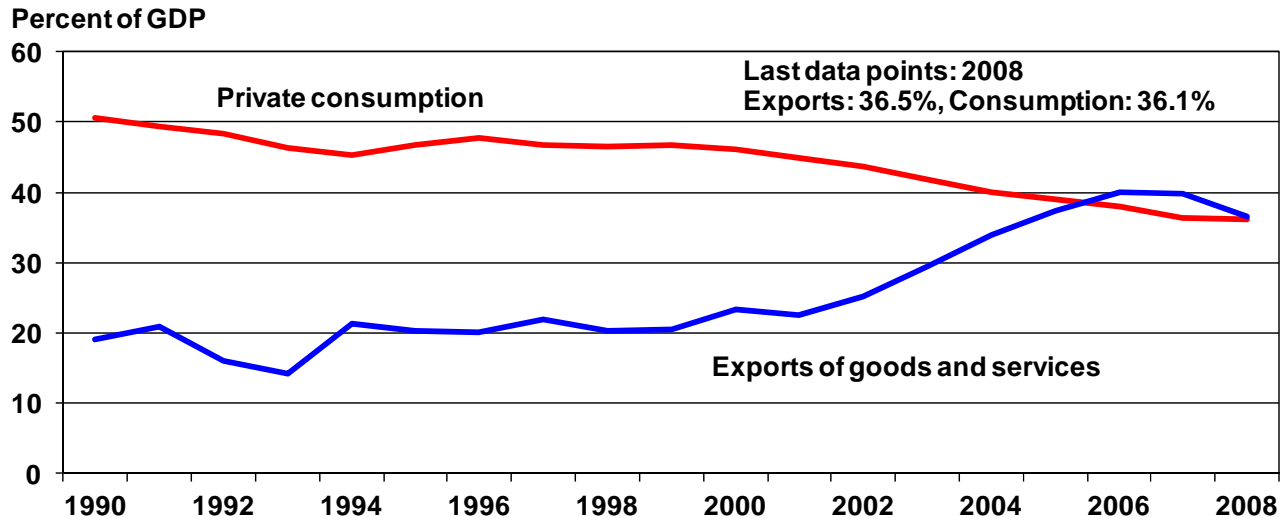
	Western Europe	Former Soviet Union	United States	Japan	China	India
<b>1500</b>	17.9%	3.4%	0.3%	3.1%	25.0%	24.5
<b>1600</b>	20.0	3.5	0.2	2.9	29.1	22.5
<b>1700</b>	22.5	4.4	0.1	4.1	22.3	24.4
<b>1820</b>	23.6	5.4	1.8	3.0	32.9	16.0
<b>1870</b>	33.6	7.6	8.9	2.3	17.2	12.2
<b>1913</b>	33.5	8.6	19.1	2.6	8.9	7.6
<b>1950</b>	26.3	9.6	27.3	3.0	4.5	4.1
<b>1973</b>	25.7	9.4	22.0	7.7	4.6	3.1
<b>1998</b>	20.6	3.4	21.9	7.6	11.5	5.0
<b>2008</b>	17.1	4.4	18.6	5.7	17.5	6.7
<b>2015e</b>	15.9	4.0	18.3	5.5	17.8	7.6

Sources: Angus Maddison, The World Economy: A Millennial Perspective, OECD (2001), IMF, Morgan Stanley Research.

Note: Based on 1990 international PPP dollars.

## **Gary Shilling slides**

# Chinese exports and consumption



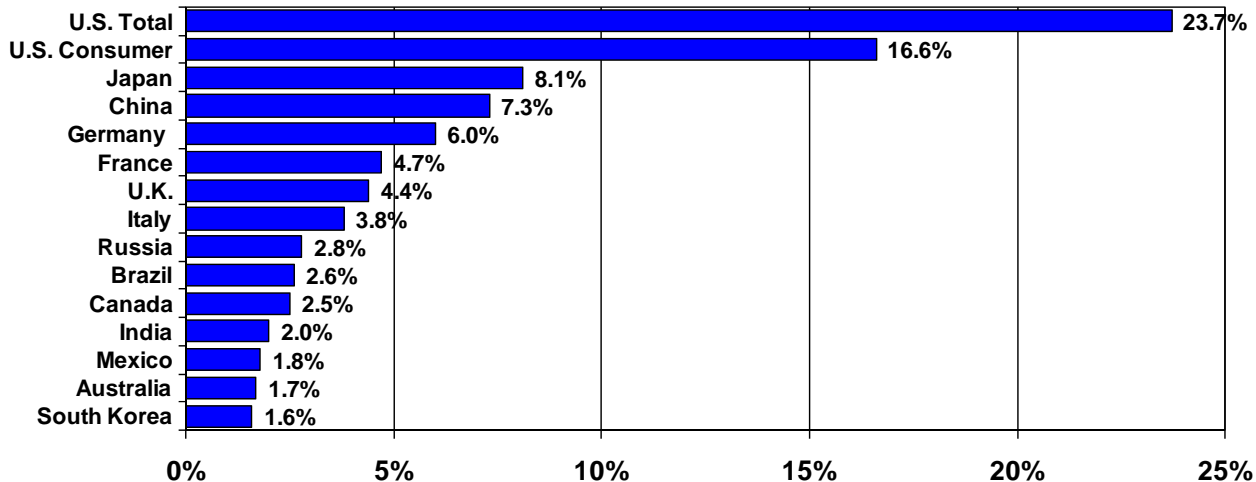
Source: Asian Development Bank.

# Country shares of global GDP

2008



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Sources: International Monetary Fund, U.S. Bureau of Economic Analysis.

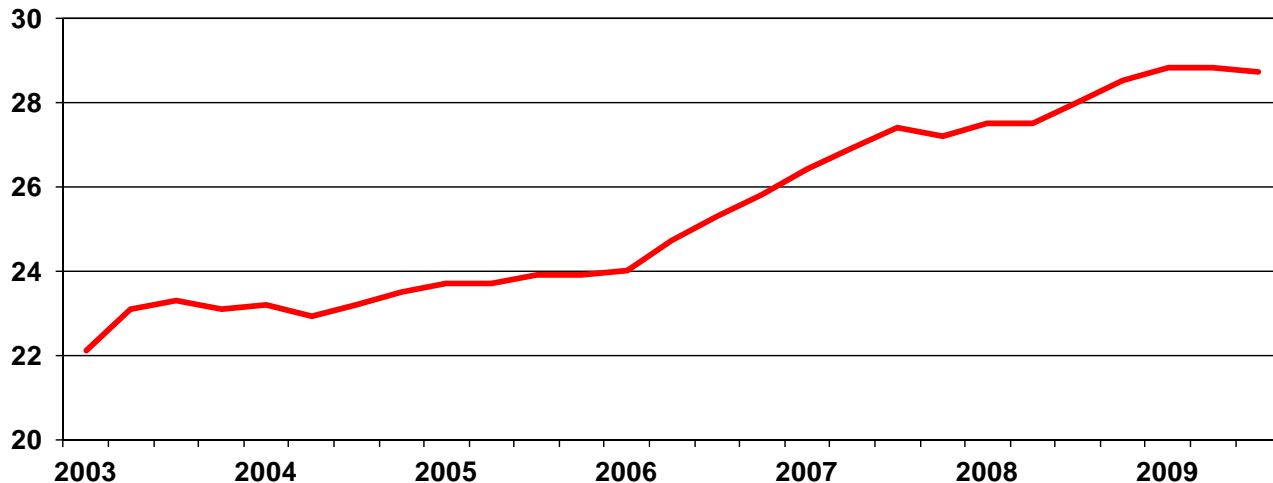
# Chinese households saving rate

*Annual average, Q1 2003 to Q3 2009*



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Chinese household saving rate, percent



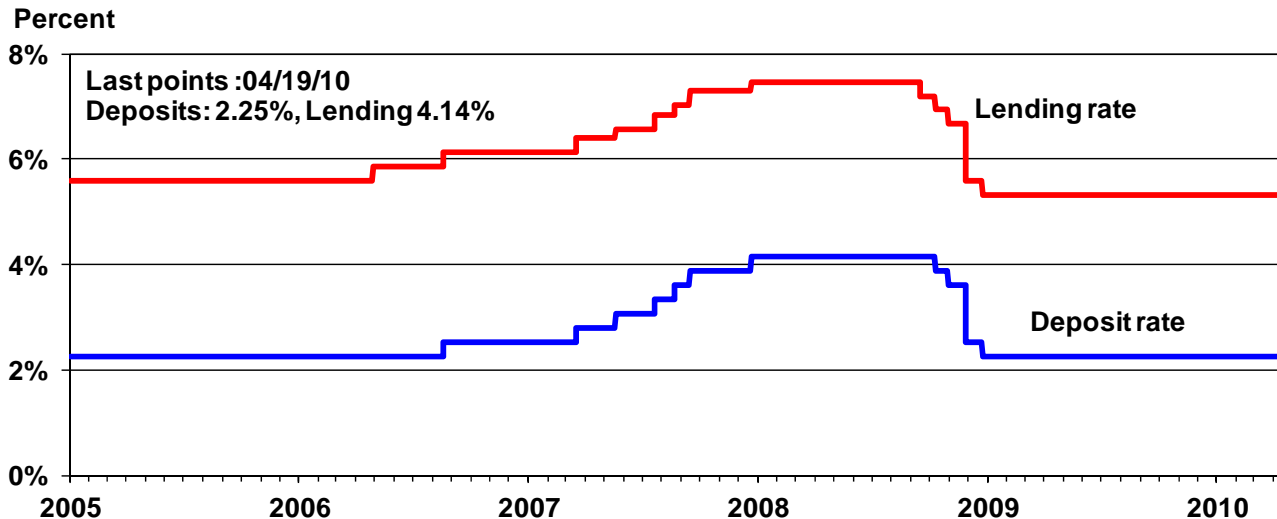
Source: China National Bureau of Statistics.

# One-year benchmark Chinese deposit and lending rates



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*January 1, 2005 to April 19, 2010*



Source: People's Bank of China.

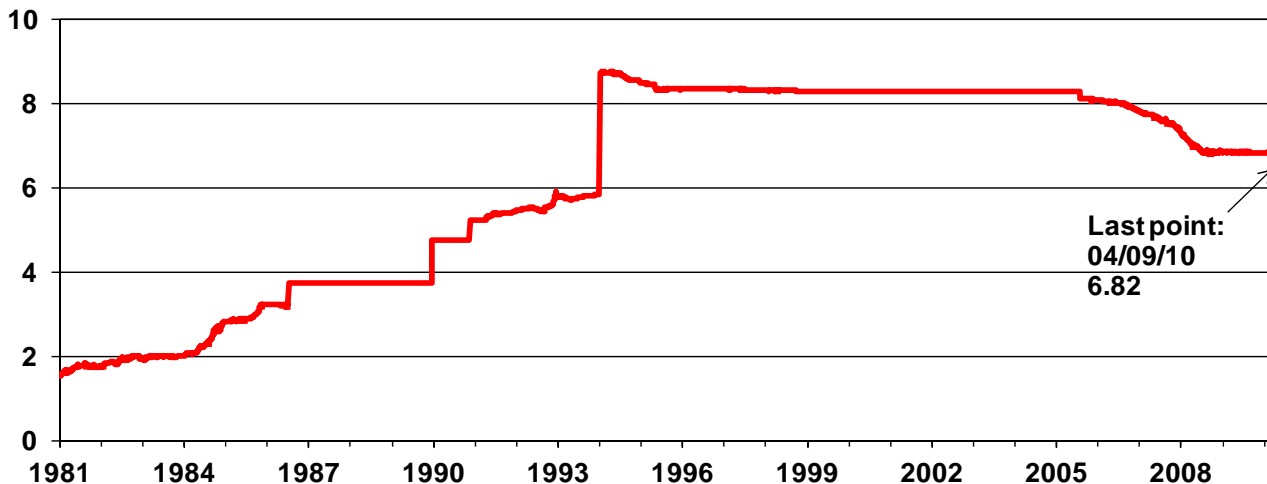
# Exchange rate for the Chinese yuan

*Daily, January 1, 1981 to April 19, 2010*



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Chinese yuan per U.S. dollar



Source: Federal Reserve Bank of St. Louis.



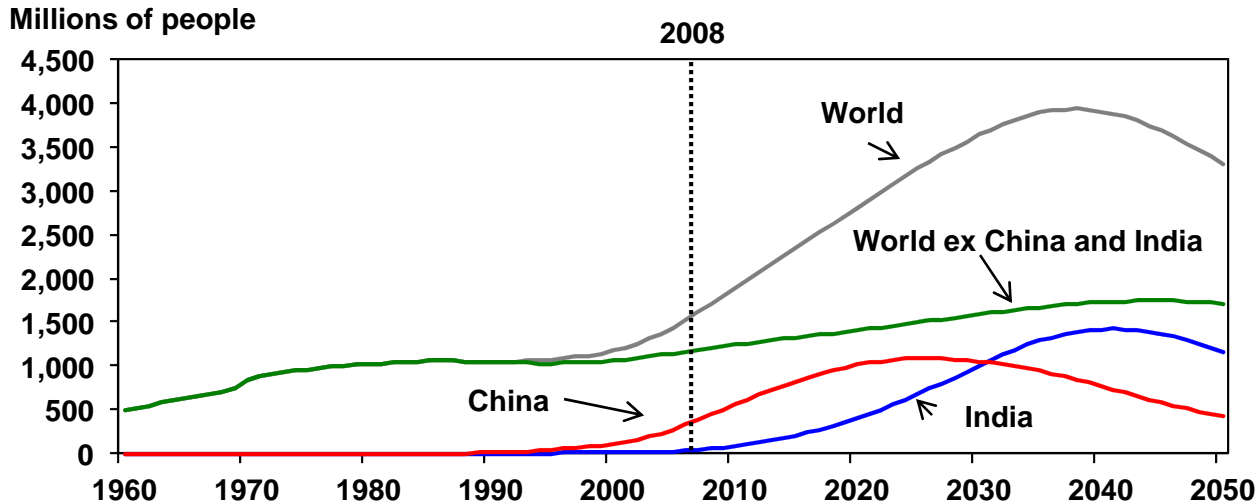
## **Matt Crakes slides**

# The expanding world middle class

*People with incomes between \$6,000 and \$30,000*



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Source: Goldman Sachs.

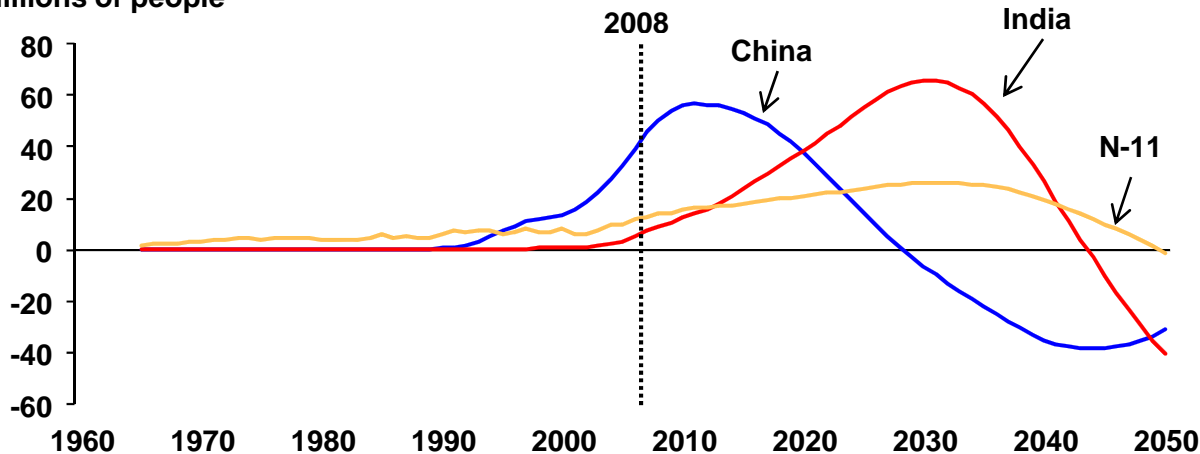
# New entrants to the world middle class:

**China, then India and the N-11** *Five-year moving average of annual changes in people with incomes between \$6,000 and \$30,000*



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Millions of people



Source: Goldman Sachs.

# The exploding middle class

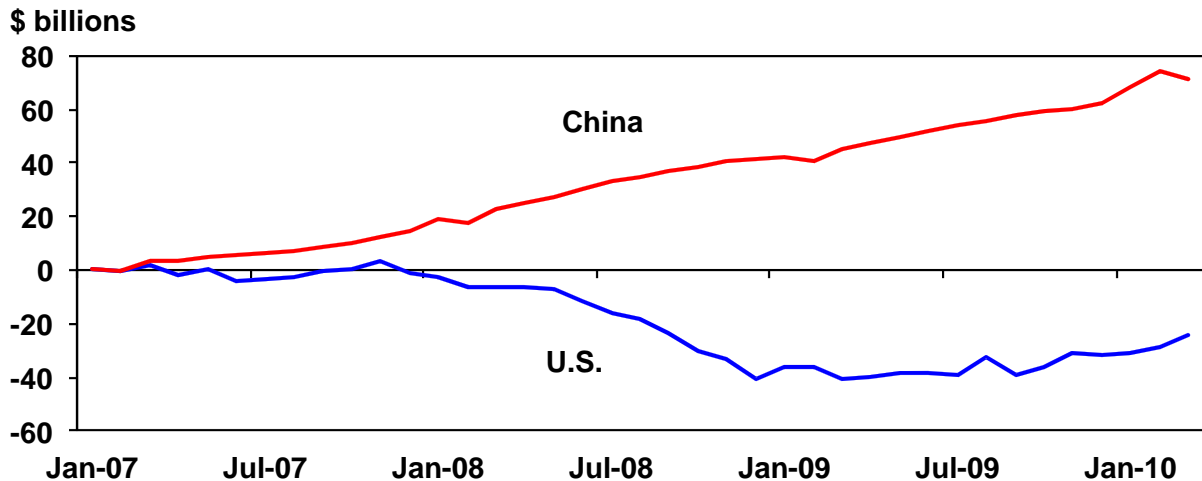
*Top seven countries: Shifting towards middle income countries*

1980			2007			2030			2050		
Country	GDP rank	Income rank	Country	GDP rank	Income rank	Country	GDP rank	Income rank	Country	GDP rank	Income rank
U.S.	1	12	U.S.	1	9	China	1	49	China	1	45
Japan	2	19	Japan	2	22	U.S.	2	12	U.S.	2	15
Germany	3	17	Germany	3	16	India	3	63	India	3	61
France	4	9	China	4	56	Japan	4	29	Brazil	4	46
U.K.	5	18	U.K.	5	10	Brazil	5	47	Russia	5	28
Italy	6	21	France	6	17	Russia	6	35	Indonesia	6	60
Canada	7	15	Italy	7	20	Germany	7	22	Mexico	7	44
<b>Average</b>		<b>16</b>	<b>Average</b>		<b>21</b>	<b>Average</b>		<b>37</b>	<b>Average</b>		<b>43</b>

Source: Goldman Sachs Economic Research.

# Real retail sales

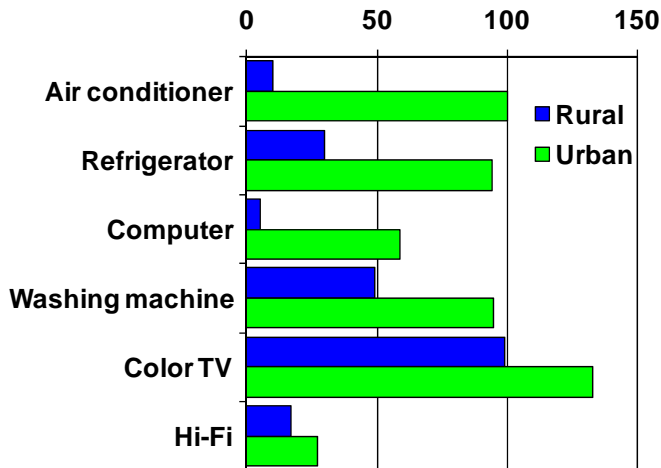
*Change from January 2007 to present*



Sources: National Sources, GS Global ECS Research.

# Asian structural themes

Number of appliance  
per 100 households in China



Source: UBS Investment Research.

Correlation of Asian agricultural consumption  
to GDP, household expenditure and urbanization

	GDP per capita	Household expenditure	Urbanization
Wheat	0.22	-0.15	0.44
Rice	-0.45	0.20	-0.64
Vegetables	0.38	0.14	0.53
Dairy	0.46	-0.14	0.71
Meat	0.58	-0.05	0.87

Source: UBS Investment Research.