Special Report

7 August 2026

Reshaping Income Prospects to Unleash China's Consumption Potential

Summary:

- Significant upside in household income growth remains, acting as a key policy catalyst for unleashing consumption potential.
- Targeted policy initiatives across labour upskilling, digital entrepreneurship, expanded social security and capital market reforms will serve as key catalysts to reshape income prospects.
- Bolstering household financial security and enhancing social protections will be key to reducing precautionary savings and ultimately building a robust consumer market.

A Firmer Foundation for Consumption Expansion

Household demand is steadily playing a larger role in China's economy. During the 14th Five-Year Plan (FYP) period, China made strong efforts to expand domestic demand. China's household consumption-to-GDP ratio rose from 38.4% in 2021 to 40.1% in 2025, while services spending rose from 44.2% to 46.1% of total household consumption. This indicates that household consumption grew at a faster pace than the overall economy, with services consumption serving as the primary driver. As consumers pursue lifestyle upgrades, spending in experience-driven services such as catering, accommodation, transportation, sports, tourism and entertainment is poised to remain on a solid expansionary trend.

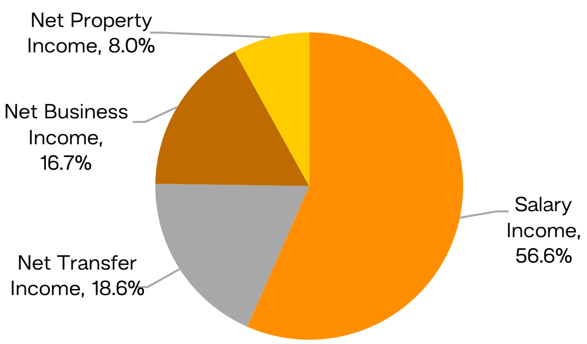
To sustain this momentum, bolstering income expectations remains a critical policy lever. While evolving consumer preferences have catalysed new bright spots in the services sector, a positive income outlook is essential for boosting consumers' willingness and capacity to spend, thereby supporting resilient consumption growth.

Enhancing Income Growth to Expand the Middle-Income Population

China has maintained steady household income growth. During the 14th FYP period (2021-2025), per capita disposable income grew at an annual rate of 6.1%. Structurally, salaries remain the bedrock of household finances, accounting for 56.6% of total disposable income in 2025, followed by transfer payments (18.6%), business income (16.7%) and property income (8.0%). This composition underscores that household finances remain fundamentally anchored to labour market health and fiscal support. Although property income presents a smaller share of actual income flows, real estate generally accounts for the bulk of household asset portfolios [1]. Consequently, property market consolidation has weighed on consumer sentiment markedly, as falling house prices have dampened the wealth effect and reduced households' willingness to spend.

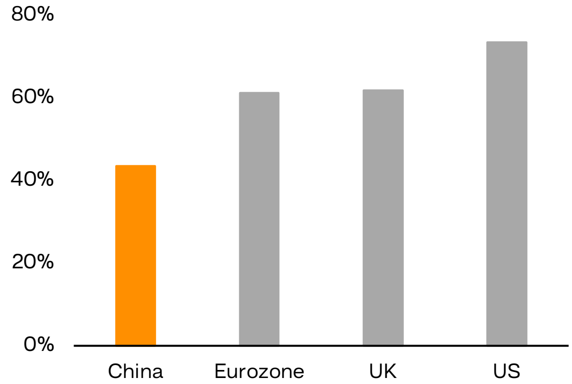
There remains significant room to elevate household income relative to China's overall economic scale. China's per capita disposable income accounted for 43.5% of GDP per capita in 2025, compared to other major advanced economies such as the US (73.6%), UK (61.9%) and Eurozone (61.2%). This divergence highlights profound potential to expand the household sector's share of national income over the medium term.

Major Components of Disposable Income per Capita (2025)



Source: National Bureau of Statistics

Disposable Income-to-GDP Ratio (2025)



Source: CEIC

Mainland authorities have consistently emphasised the policy goal of expanding the middle-income demographic. In 2022, President Xi Jinping put forward a strategic objective to double the middle-income class[2] from 400 million to 800 million people over a 15-year horizon. Building on income-boosting initiatives during the 14th FYP period, the 2026 Government Work Report outlined a structured framework: implementing an income enhancement plan for urban and rural residents; elevating low-income earners; expanding social security coverage; and boosting property income through capital market reforms. The primary objective of these measures is to expand the middle-

[1] According to Goldman Sachs' estimates, real estate accounted for 52% of China's household assets in Q1 2026, followed by cash & deposits (25%) and other financial assets such as equity and bonds (20%).

[2] According to the National Bureau of Statistics, the middle-income class is defined as a three-person household with annual income between RMB 100,000 and 500,000.

income class, thereby unlocking greater consumption potential and reinforcing domestic demand as a driver of growth.

Multi-Faceted Policies to Reshape Income Prospects

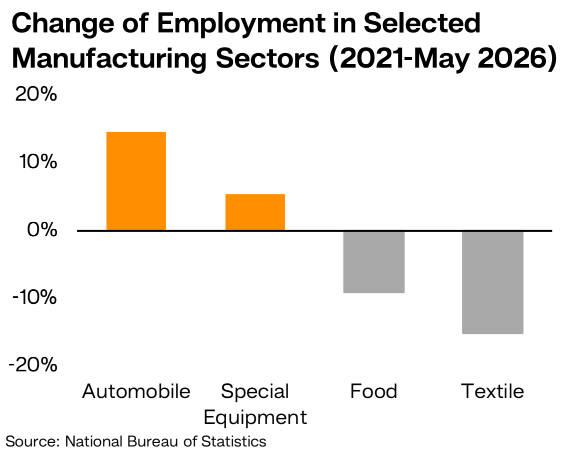
Coordinated policy initiatives across labour upskilling, digital entrepreneurship, social security and capital market reforms are enhancing earnings potential across four income drivers.

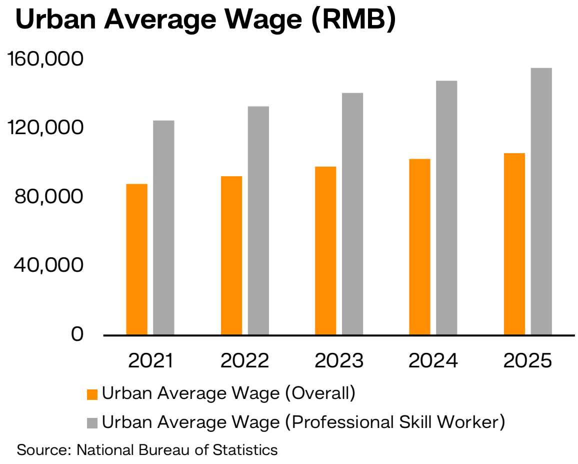
1) Salary Income: Increased Job Opportunities for Upskilled Workforce

Upskilling initiatives are helping workers better prepare for high-value-added job opportunities. While industrial transformation may create transitional frictions by reducing labour demand in some traditional sectors, it is also creating structural growth in high-value-added, skill-intensive positions. In response, the authorities are strengthening workforce development policies to equip workers with the skills needed to meet the evolving demands of emerging industries. According to the Ministry of Human Resources and Social Security, subsidised vocational skills training reached 92 million enrolments during the 14th FYP period, which helped foster employment growth in advanced manufacturing and modern services sectors. The technical labour force exceeded 220 million by 2025, accounting for around 30% of the total employment. This ratio is targeted to increase to 35% by 2030[3]. To support this objective, the "employment-first" strategy under the 15th FYP period (2026-2030) places a strong emphasis on human capital development. Key measures include strengthening the alignment between tertiary education and talent needs of strategic emerging industries[4] and future industries[5], while also significantly expanding vocational skills training. These initiatives are also expected to unlock additional professional job opportunities such as R&D and engineering, advanced technology applications.

High-quality employment in technical industries is improving income prospects. Upskilling policies have accelerated the shift of workers from traditional, lower-value-added sectors into advanced manufacturing and modern services. During the 14th FYP, employment in automobile manufacturing and special equipment manufacturing grew by 14.6% and 5.4%, respectively, while employment in lower-skilled sectors declined, with food and textile manufacturing recording drops of 9.1% and 15.1%. Similar trends are evident in the modern services sector, where employment in information transmission, software & information technology services, leasing and business services increased by 6.6% and 34.0%, respectively, between 2021 and 2024. Skilled professionals commanded an average wage of RMB 155,491 in 2025, higher than the broader urban average of RMB 106,080. Taken together, these trends suggest that upskilling initiatives are supporting the expansion of higher-value-added employment and, in turn, raising salary income.

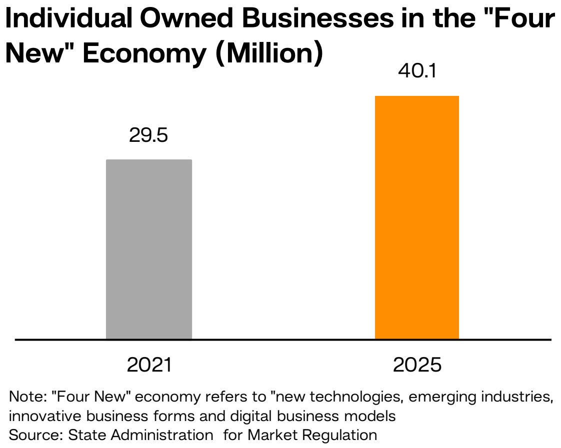
[3] In June 2026, the State Council unveiled a plan on implementing an "employment-first" strategy for the 15th FYP period (2026-2030).
[4] Strategic emerging industries include next-generation information technology, new energy, new materials, intelligent connected new-energy vehicles, robotics, biopharmaceuticals, high-end equipment and aerospace.
[5] Future industries include quantum technology, biomanufacturing, hydrogen & nuclear fusion power, brain-computer interfaces, embodied AI and 6G mobile communications.

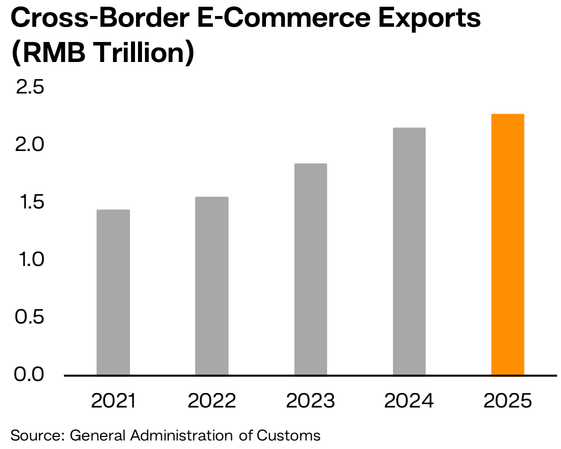




2) Net Business Income: Digitalisation as a Growth Engine for Entrepreneurship

The rapid development of the digital economy has unlocked new opportunities for expanding net business income through entrepreneurship. The authorities have proactively promoted the digital economy, with the value-added of core digital industries exceeding 10.5% of GDP in 2025. Highly developed digital platforms, a complete manufacturing base and efficient logistics networks have lowered entry barriers for small business owners. Notably, individually owned businesses operating in the "Four New" economy (i.e. new technologies, emerging industries, innovative business forms and digital business models) expanded from 29.5 million in 2021 to 40.1 million in 2025. Moreover, cross-border e-commerce exports grew at an average annual rate of 15.2% during 2021-2025, reaching RMB 2.3 trillion, allowing many small- and medium-sized enterprises (SMEs) to generate income from global trade.





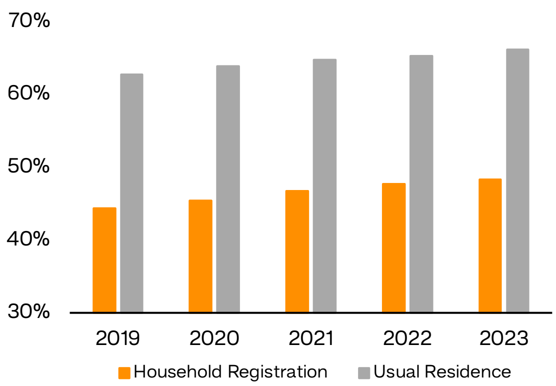
Targeted fiscal support is fostering a favourable business environment for SMEs. In 2023, the Ministry of Finance introduced a fiscal package of tax and fee reductions for small businesses, including raising the taxable income threshold for individually owned businesses from RMB 1 million to 2 million, lowering the value-added tax rate for small-sized taxpayers from 3% to 2%, and reducing a range of levies such as resource taxes, urban maintenance and construction taxes, and urban land use taxes. These measures help ease operational costs and improve business viability. Furthermore, administrative reforms, including relaxed registration requirements for online shops and streamlined ownership transfers, further support SME development as a key driver of business income.

3) Net Transfer Income: Broadening the Social Safety Net

Transfer income for migrant workers is set to benefit from enhanced public service provision. For many years, China's urban population has included a large number of migrant workers residing in cities without a local household registration (hukou), creating gaps in access to public services and social welfare. To address this, the State Council issued new guidelines in May 2026 that shift the provision of basic public services from hukou status to actual place of residence, broadening access to employee social insurance, education for migrant children, and public rental housing. Provincial governments are also encouraged to increase transfer payments to areas experiencing large population inflows. Overall, these reforms are expected to benefit over 250 million urban residents without a local hukou, including migrant workers and their families.

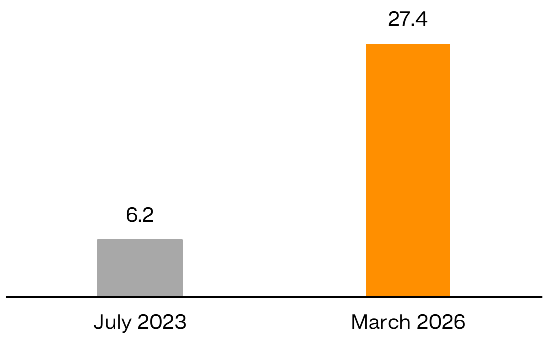
New mechanisms are strengthening welfare for the growing gig economy workforce. In July 2022, the authorities launched a pilot occupational injury insurance programme for workers in ride-hailing, delivery and intra-city freight sectors. The programme was expanded nationwide in 2026, with the number of gig workers covered by this framework rising from 6.2 million in July 2023 to over 27 million by March 2026. This expansion strengthens income security for gig workers by providing protection against work-related risks.

Urbanisation Rate



Source: National Bureau of Statistics

Gig Workers Covered by Occupational Injury Insurance Programme (Million)



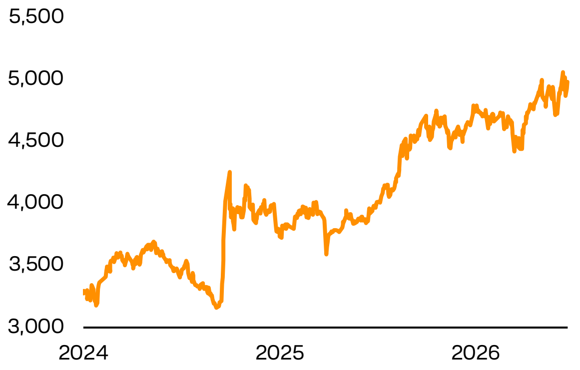
Source: Ministry of Human Resources and Social Security, China

4) Net Property Income: Capital Market Reforms to Drive Diversified Household Income

Deepening capital market reforms is enhancing the appeal of equity investing. A key milestone was the State Council's "New Nine Guidelines" (officially the "Opinions on Strengthening Supervision, Preventing Risks and Promoting the High-Quality Development of the Capital Market"), released in April 2024, which strengthened market regulation and promoted high-quality development of the capital market. Specific measures included tightening issuance and listing controls, encouraging medium- to long-term capital inflows into stock markets, strengthening market valuation management, and promoting stable, continuous and predictable dividend payouts. Reflecting these efforts, total dividends distributed by A-share listed companies reached RMB 2.55

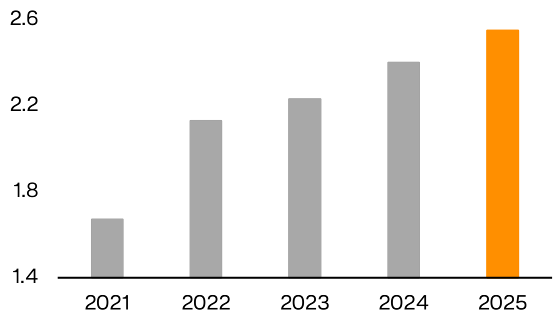
trillion in 2025, up significantly from RMB 1.67 trillion in 2021. The reforms also catalysed a solid stock market recovery, with the CSI 300 index surging by 38.1% between April 2024 and June 2026. These policy initiatives reflect a concerted effort to enhance wealth distribution through capital markets, diversifying household asset portfolios away from their historical over-reliance on property.

CSI 300 Index



Source: Bloomberg

Dividends by A-share Listed Companies (RMB Trillion)



Source: China Securities Regulatory Commission, China Association for Public Companies

Improving Income Dynamics to Unleash Consumption Potential

The foundation for sustainable household income growth is steadily taking shape. Workforce upskilling, support for entrepreneurship, an expanded social safety net, and capital market reforms are expected to provide strong backing for household income growth. Over time, stronger income and wealth expectations should improve consumer confidence and encourage spending. Research by the International Monetary Fund indicates that social security reforms, including higher social spending in rural areas and hukou reforms, could collectively boost consumption expenditure[6], raising the consumption-to-GDP ratio by an additional 3 percentage points over a five-year horizon relative to baseline projections. Taken together, ongoing policy efforts to strengthen household income dynamics are likely to support more sustained consumption growth over the medium term.

[6] Garcia-Macia, Daniel; Jain-Chandra, Sonali; Kothari, Siddharth; Xu, Yizhi. 2026. "How China's Economy Can Pivot to Consumption-led Growth". *International Monetary Fund*, February 18. https://www.imf.org/en/news/articles/2026/02/18/cf-how-chinas-economy-can-pivot-to-consumption-led-growth

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