Changes in Consumption Patterns and Tourism Trends in China

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I. Changes in Consumption patterns (1)

- Anti-corruption campaigns leads to the sharp deduction of government corruption consumption;

The change of consumption of the specific group

**Most Influenced Group:**
Administrative organs, parties and social organizations, financial appropriation institution staff and state-owned enterprise employees, etc.;
**The total number:** more than 75 million;

- ‘grey income’—public secret
- annual bonus: quite a little
- welfare tourism: 1-2 times yearly
- Cadres consume, while enterprises pay

→ deduction of ‘grey income’
→ annual bonus: very little
→ welfare tourism: none
→ Desires are not allowed to be filled relying on political power

→ Deduction of consumption afforded by themselves
→ Deduction of general welfare consumption
→ Deduction of ‘grey’ consumption
## Leading to Changes in Luxury Consumption

<table>
<thead>
<tr>
<th>Consumption Items</th>
<th>Before publishing of ‘8 rules’</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Luxury goods</td>
<td>Spring Festival of 2012: 1.75 billion US $ (PRC.);</td>
<td>Spring Festival of 2013: 0.83 billion US $ (PRC.)</td>
</tr>
<tr>
<td>Luxury hotels</td>
<td>Spring Festival of 2012: Average price-14000 RMB (Ritz-Carlton, Sanya)</td>
<td>Spring Festival of 2013: Average price-5999 RMB (Ritz-Carlton, Sanya)</td>
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<td>Spring Festival of 2012: Dinner-1000 RMB per person (Hilton, Sanya)</td>
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Increase of national income leads to expansion of consumption scale and the change of consumption structure;

- From daily necessity consumption to leisure consumption;
- Change of consumption concept;

I. Changes in Consumption patterns (2)
## Annual Income Per Capita of Urban Residents (2014)

<table>
<thead>
<tr>
<th>省份</th>
<th>按全体居民数排名</th>
<th>全体居民</th>
<th>增速</th>
<th>城镇常住居民</th>
<th>增速</th>
<th>农村常住居民</th>
<th>增速</th>
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</thead>
<tbody>
<tr>
<td>上海</td>
<td>1</td>
<td>45966</td>
<td>42174</td>
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<td>48841</td>
<td>44878</td>
<td>8.8</td>
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<td>北京</td>
<td>2</td>
<td>44489</td>
<td>40830</td>
<td>9.0</td>
<td>48532</td>
<td>44564</td>
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<td>浙江</td>
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<td>32658</td>
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<td>37080</td>
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<td>26359</td>
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<td>28980</td>
<td>8.7</td>
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<td>江苏</td>
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<td>27173</td>
<td>24776</td>
<td>9.7</td>
<td>34346</td>
<td>31585</td>
<td>8.7</td>
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<td>广东</td>
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<td>25685</td>
<td>23421</td>
<td>9.7</td>
<td>32148</td>
<td>29537</td>
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</tr>
<tr>
<td>福建</td>
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<td>23331</td>
<td>21218</td>
<td>10.0</td>
<td>30722</td>
<td>28174</td>
<td>9.0</td>
</tr>
<tr>
<td>辽宁</td>
<td>8</td>
<td>22820</td>
<td>20818</td>
<td>9.6</td>
<td>29082</td>
<td>26697</td>
<td>8.9</td>
</tr>
<tr>
<td>山东</td>
<td>9</td>
<td>20864</td>
<td>19008</td>
<td>9.8</td>
<td>29222</td>
<td>26882</td>
<td>8.7</td>
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<tr>
<td>内蒙古</td>
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<td>20559</td>
<td>18693</td>
<td>10.0</td>
<td>28350</td>
<td>26004</td>
<td>9.0</td>
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<tr>
<td>全国</td>
<td>-</td>
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<td>18311</td>
<td>10.1</td>
<td>28844</td>
<td>26467</td>
<td>9.0</td>
</tr>
<tr>
<td>重庆</td>
<td>11</td>
<td>18352</td>
<td>16569</td>
<td>10.8</td>
<td>25147</td>
<td>23058</td>
<td>9.1</td>
</tr>
<tr>
<td>湖北</td>
<td>12</td>
<td>18283</td>
<td>16472</td>
<td>11.0</td>
<td>24852</td>
<td>22668</td>
<td>9.6</td>
</tr>
<tr>
<td>湖南</td>
<td>13</td>
<td>17622</td>
<td>16005</td>
<td>10.1</td>
<td>26570</td>
<td>24352</td>
<td>9.1</td>
</tr>
<tr>
<td>吉林</td>
<td>14</td>
<td>17520</td>
<td>15998</td>
<td>9.5</td>
<td>23218</td>
<td>21331</td>
<td>8.8</td>
</tr>
<tr>
<td>海南</td>
<td>15</td>
<td>17476</td>
<td>15733</td>
<td>11.1</td>
<td>24487</td>
<td>22411</td>
<td>9.3</td>
</tr>
<tr>
<td>黑龙江</td>
<td>16</td>
<td>17404</td>
<td>15903</td>
<td>9.4</td>
<td>22609</td>
<td>20848</td>
<td>8.4</td>
</tr>
</tbody>
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(Ranking) (RMB) (RMB) (+%) (RMB) (RMB) (+%) (RMB) (RMB) (+%)
Changes of consumption concept

Consumption concept: from ‘frugal living’ to ‘society of consumption’;

Consumption scale: Consumption scale increase rapidly;

Film market as the case:
17.1 Billion RMB in 2012; 3.96 Billion RMB (30.18%) more than box office earning of 2011; annual growth rate 34% in the past 10 years;

Younger audience: average age of 25.7 in 2009; average age of 21.7 in 2013;
II. The Impact of Changes in Consumption patterns to Tourism development (1)

**On the Demand Side**

- The number of domestic tourists still increases;
- Consumption level of domestic tourists changes (mainly due to the government campaign of anti-corruption consumption);
- Domestic tourists' spatial activities change;
- The number of outbound tourists still increases.
Effect of increase of national income on domestic tourism demand

- Potential tourists → Practical tourists (rural market and youngster market)

Annual total number of domestic tourists (2004-2014)

- 2012-2013, +10.5%
- 2013-2014, +10.7%
Deduction of luxury and irrational consumption

- **Characters of tourists paid by government and state-owned enterprise:**

  “they never bargain, and they are the main producer of our revenue…the main customers of luxury goods……” (manager of a local travelling agency in Sweden, 2013.06)
Domestic tourists' spatial activities change

- Demand of long-distance, trans-provincial routine — decrease
- Demand of short-distance, provincial routine — increase

Reception of Kanas scenic area during ‘golden week’ of 2014 as the case

- Number of tourists from areas out of Xinjiang — a decrease of 50% below last year;
- Number of tourists from areas within Xinjiang — an increase of more than 100% over last year
2014——Outbound tourism still increase

中国年度出境旅游总规模（1993年-2014年）

(10,000 person time)

2012-2013 Increase rate 18.3%
2013-2014 Increase rate 11%

出镜旅游规模（百万人次）
More Reasonable Consumption Demand

- More demand of short routine;
- 90%—— within Asia;

- Less than 10%——first class hotels;
- More than 80%——budget hotel;
- Average spending on accommodation——1031 RMB.
Decrease of luxury consumption demand

- According to investigation of Challenges, during September of 2013, 18 of 24 high-end watch brands in Galleries de Lafayette reported falls in sales;

- ‘Showing off wealth’ has become a dangerous thing for many Chinese consumers;

Chinese tourists will be still keen on overseas shopping:

- Lower price than shopping within China (Tariff —— 30-40%);
- Lower price (Drawback —— 10%);
- More choices and brands;
- Increasing influence of consumerism;
II. The Impact of Changes in Consumption patterns to Tourism development (2)

On the Supply Side

- Lower prices, especially luxury hotels at the destination (Example of Sanya, Hainan Province);
- More rational investment at the destination;
- Slower development speed, especially the development of second-home real estate;
More mass-affordable tourism products;

Case: Luxury hotels in Sanya

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Lower prices especially luxury hotels at the destination

Case: Luxury hotels in **Haitang Bay, Sanya** (2015, Golden Week)

<table>
<thead>
<tr>
<th>Date</th>
<th>Frontline sea-view hotel Average Rental rate</th>
<th>Frontline sea-view hotel Average price (RMB/n/r)</th>
<th>Highest Rental rate among individual hotels</th>
<th>Highest average price among individual hotels (RMB/n/r)</th>
</tr>
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<tr>
<td>2015/9/30</td>
<td>68%</td>
<td>———</td>
<td>90%</td>
<td>2737</td>
</tr>
<tr>
<td>2015/10/1</td>
<td>86%</td>
<td>———</td>
<td>100%</td>
<td>3940</td>
</tr>
<tr>
<td>2015/10/2</td>
<td>96.40%</td>
<td>1536</td>
<td>100%</td>
<td>3788</td>
</tr>
<tr>
<td>2015/10/3</td>
<td>99%</td>
<td>1618</td>
<td>100%</td>
<td>3834</td>
</tr>
<tr>
<td>2015/10/4</td>
<td>98%</td>
<td>1477</td>
<td>100%</td>
<td>3406</td>
</tr>
<tr>
<td>2015/10/5</td>
<td>83%</td>
<td>1219</td>
<td>96%</td>
<td>3883</td>
</tr>
<tr>
<td>2015/10/6</td>
<td>63%</td>
<td>1237</td>
<td>92%</td>
<td>3531</td>
</tr>
</tbody>
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Conrad, Sheraton, Hilton, Westin, InterContinental, Shangri-La hotel …
Lower prices especially luxury hotels at the destination

Case: Luxury hotels in Yalong Bay, Sanya (2015, Golden Week)

Yalong Bay: "The price of a basic room in our hotel during the Golden week of last year was 3280RMB per night, while during the Golden week of this year, the price is 2688 RMB per night, with a discount of 82%, to attract more guests who are more interested in a more reasonable price (Marketing Chief of a luxury hotel in Yalong Bay, Sanya, 2015.9.22);

- Lower prices might stimulate the demand of inbound tourism;
What are changes of tourist destinations in China on the context of consumption transition?
Decrease of revenue of luxury hotels

RevPAR (average price × average rental rate) of 5 star hotels in China——nine season of year-on-year decline since the fourth quarter of 2012;
Slower development of second-home real estate

Effect of anti-corruption campaigns:
• deduction of anticipated income; more rational tourism real estate buyers;
• Difficult to gain large area of land at a low price through ‘guanxi’ with officials;

Effect on tourism real estate:
• Cooling the invest on real estate (second home) in tourist destinations;
• Slower exploitation of recourses in tourist destinations;

Erhai Lake. Tianyu
Clear Water Bay. Sanya
Sanya. High housing vacancy rate
(1) Benefit from the increase of national income, the number of both domestic and outbound tourists still increases; Tourism consumption has become a regular consumption for Chinese people;
(2) The continuous anti-corruption campaign and the deduction of ‘grey income’ will lead to the deduction of corrupted luxury consumption both within China and abroad and will gradually transfer national consumption towards a rational ‘budget life’ pattern;
(3) The ‘budget life’ consumption pattern is pushing tourism destinations to adjust the price of their tourism products; the prices have to comply with the demands of the ‘real’ market.
III. Conclusion

(4) Rational consumption and demand will lead to more rational investment at destinations and slower development speed of second-home real estate in China;

(5) Sustainable tourism development has both become an urgent issue and consensus that Chinese local governments concern.
Thank you!

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