

Consumer Downgrading in China: Drivers, Consequences and Policy Responses

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Abstract:

In recent years, China has witnessed a noticeable shift in consumer spending patterns, often characterized as “consumption downgrading.” This phenomenon describes a pronounced tendency among consumers to prioritize purchasing more affordable goods and services, stemming from a confluence of factors, such as slower income growth, rising cost of living, employment uncertainty, evolving consumer attitudes, and changes in the global financial environment. This study endeavors to conduct a comprehensive analysis of the underlying causes, multi-faceted economic and social impacts, and potential policy responses associated with this trend. The research is predicated on a diverse array of sources, including official statistics from the National Bureau of Statistics, industry reports, and academic literature, and is supplemented by an in-depth analysis of contemporary consumer behavior. The findings indicate that consumption downgrading is not merely a transient reaction to macroeconomic pressures but potentially signifies a deeper, structural transformation in China’s consumption patterns[1]. While this trend creates opportunities for budget-oriented producers and domestic brands, it also constitutes a significant challenge to maintaining domestic demand in its role as a primary engine of economic growth. The study concludes by proposing actionable recommendations for governments, market participants, and social actors, designed to tackle both pressing immediate concerns and facilitate long-term structural reforms.

Keywords: Consumption Downgrading; Consumer Spending Patterns; Macroeconomic Pressures; Policy Responses

1. Introduction

In recent years, China’s consumer market has exper-

rienced a significant structural transformation, with the term “consumption downgrading” emerging as a pivotal descriptor of changing consumer behavior.

This phenomenon is characterized by a growing preference for more affordable and value-oriented goods and services, moving away from previous trends that emphasized brand prestige, premium experiences, and non-essential consumption. Rather than indicating an overall decline in consumer spending, consumption downgrading reflects a strategic reallocation of household budgets in response to mounting economic pressures. These include slowed income growth, rising costs of living—particularly in housing, education, and healthcare—and heightened employment insecurity, particularly affecting youth and middle-class demographics [2].

While existing research on China's consumption patterns has predominantly focused on consumption upgrading, the phenomenon of consumption downgrading—including its drivers and broader implications—remains comparatively underexplored. To address this gap, the present study examines key contributing factors such as slower income growth, rising living costs, employment instability, and shifts in consumer psychology, along with their macroeconomic and social effects.

This research is grounded in a comprehensive analysis of extant literature and publicly available data. It synthesizes relevant statistics from authoritative sources, including the National Bureau of Statistics, household surveys, and international financial reports, integrating qualitative insights from market studies and consumer behavior research.

The significance of this study lies in its potential to inform policy and business strategies. A deeper understanding of consumption downgrading is essential for sustaining domestic demand, optimizing industrial structures, and mitigating economic volatility. Furthermore, it offers practical insights for enterprises navigating evolving consumer preferences within a dynamic macroeconomic landscape.

2. Overview of Consumption Downgrading

Consumption downgrade represents a major structural shift in consumer behavior, characterized by an increasing preference for more affordable and practical goods and services over premium, luxury or discretionary alternatives. This trend reflects an intentional realignment of consumer priorities rather than an absolute reduction in spending. It typically manifests in weakened consumer purchasing power and diminished consumption motivation, with consumption shifting from development and enjoyment consumption to survival consumption, and from services to physical consumption [3]. It should be noted

that consumption downgrade is not the direct opposite of consumption upgrade. Consumption downgrade usually manifests as residents' insufficient motivation to consume, and consumption changes from development and enjoyment consumption to survival consumption, and from service consumption to physical consumption [4]. Instead, it signifies the emergence of more mature, rational, and conscious consumption patterns that arise after a phase of enhanced purchasing power and ideal consumption, marking a realignment of consumer values in response to prevailing economic and social realities.

Within the Chinese context, this shift in consumption mentality and behavior is evident across diverse income demographics. It is not confined to low-income households; middle-class consumers are also adjusting spending habits, opting for more economical alternatives without completely sacrificing quality or functionality. This pervasive trend suggests that consumption downgrading is a widespread socioeconomic phenomenon, with significant implications for market dynamics, corporate strategies, and public policy discourse .

3. Factors Influencing Consumption Downgrading

3.1 Slowing Income Growth and Rising Living Costs

Real wage growth has decelerated notably since 2018, significantly eroding household discretionary spending capacity. Official data from the National Bureau of Statistics shows that per capita disposable income of residents has declined significantly from the previous year, falling from 7.3% in 2017 to 2.9% in 2022[5]. The widening disparity between stagnant income growth and the escalating costs of essentials has exerted significant financial pressure on numerous households, particularly within urban areas and middle-income brackets. In response, consumers are increasingly shifting their spending behaviors towards more economical alternatives, prioritizing value for money and essential items while reducing discretionary and high-quality products, reflecting both short-term adaptations and long-term structural changes in consumption patterns amid ongoing economic pressures.

3.2 Employment Uncertainty

As shown in Figure 1, the labor market has experienced significant fluctuations and structural pressures in recent periods. Notably, the unemployment rate among young people aged 16 to 24 in Chinese cities (excluding stu-

dents) reached 18.9% in August 2025, an increase from 17.8% in July and a figure that slightly exceeded the 18.8% recorded one year earlier. This represents the highest level recorded since December 2023 [6]. Rising job instability, particularly within formerly high-growth sectors such as technology and real estate—characterized by slowing hiring and increased corporate restructuring—has been a significant contributor to this trend. This pervasive uncertainty regarding employment prospects has significantly weakened consumer confidence, especially among younger demographics who are demonstrating a growing preference for financial security over discretionary purchases. In response, many are adopting more conservative financial behaviors, including heightened precautionary savings and curtailed spending on non-essential goods such as entertainment, dining, and luxury items. This behavioral shift not only reflects short-term economic caution but may also indicate deeper, longer-term changes in consumption habits amid an evolving economic landscape.

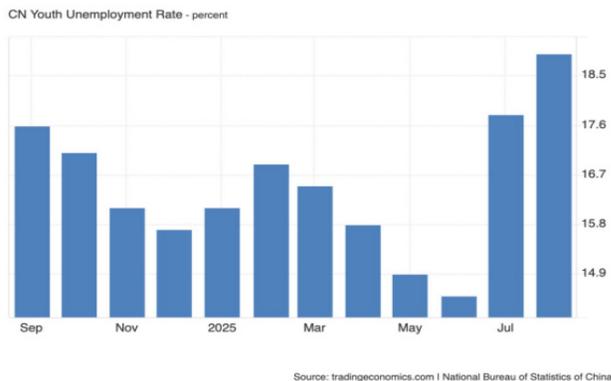


Fig. 1 China youth unemployment rate[7]

3.3 Shifts in Consumer Attitudes and Psychology

Post-pandemic behavioral surveys conducted across multiple consumer groups indicate that the phenomenon termed “rational consumption” by scholars and industry reports is becoming increasingly widespread and persistent [7]. This trend is defined by a greater emphasis on practicality, functionality, and long-term value, often at the expense of brand prestige or impulse purchases. Consumers are increasingly prioritizing durable goods, versatile products and services that provide measurable utility and demonstrate cost-effectiveness over time.

While this movement parallels global consumption patterns, such as minimalism in Japan and sustainability-driven conscious consumption in Western Europe, the primary motivation in the Chinese context is financial prudence.

Economic uncertainty, volatile income prospects, and rising living costs have compelled families to adopt more cautious spending behavior.

This realignment of consumer values is reshaping market demands in industries such as luxury, housing, and entertainment, thereby urging businesses to adapt their product development, marketing strategies, and value propositions. The goal is to enhance product quality and service to better appeal to a more discerning consumer base.

3.4 Global Financial Environment

The continued slowdown in the global economy, coupled with rising geopolitical tensions and trade fragmentation, has exerted considerable pressure on China’s export-oriented manufacturing and supply chains. The decline in external demand not only diminishes export volumes but also indirectly impacts domestic employment and wage stability [8]. Consequently, there is increased income uncertainty for workers in affected industries, further exacerbating financial prudence and spending constraints.

In addition, fluctuations in exchange rates and international financial markets have led to significant currency volatility, raising the cost of imported goods ranging from electronics and luxury goods to raw materials and intermediate goods. In response, price-sensitive consumers are increasingly gravitating towards domestic alternatives, which typically offer greater affordability. This shift reflects not only a pragmatic adaptation to economic conditions but also a broader trend of growing support for local brands.

4. Economic and Social Impacts of Consumption Downgrading

4.1 Impacts on Enterprises and Industrial Structure

The ongoing trend of consumption downgrading has produced divergent impacts across market segments. While premium and international brands are experiencing declining sales, affordable and domestic brands have gained growing market share. This shift has accelerated industrial restructuring toward cost-effective production and intensified competition within the low- and mid-price segments. A notable example can be observed in the smartphone sector, where leading domestic manufacturers have adjusted their marketing strategies to emphasize durability, battery performance, and affordability over high-end specifications and premium pricing. This strategic realignment directly aligns with the growing consumer preference for

functional.

Similar adaptations are evident across other industries, including fast-moving consumer goods and apparel. Many companies are streamlining their product ranges, simplifying packaging, and strengthening “value-for-money” positioning to maintain customer loyalty. These changes have also generated opportunities for local manufacturers that offer competitive pricing and agile responsiveness to shifting demand, further challenging the dominance of foreign premium brands and driving structural evolution within domestic industries.

4.2 Challenges to the Economic Growth Model

China’s ongoing transition to a consumption-driven economic growth model is encountering significant challenges amid the persistent trend of consumption downgrading. The shift in consumer preferences towards basic and value products has resulted in reduced demand for high-margin goods, thereby directly affecting the profitability of consumer-facing industries.

The persistence of this shift in consumption raises broader macroeconomic questions. A prolonged downgrade in consumption may gradually weaken the domestic market’s ability to act as a reliable buffer against fluctuations in external demand. As domestic consumption weakens, the economy becomes more vulnerable to global trade fluctuations and international economic cycles, potentially hindering economic growth led by exports and investment.

5. Response Strategies

5.1 Government Measures

Governments seeking to offset the impact of downgrades in consumption can utilize a range of fiscal and structural policy tools. Targeted policy interventions (such as consumption vouchers for specific demographics or product categories, income tax reductions for low- and middle-income households, and subsidies for basic items, including food, utilities and health care) can immediately alleviate household budgets and stimulate short-term spending. These measures not only increase aggregate demand, but also help restore consumer confidence during periods of economic uncertainty. They aim to promote the demand structure from over-reliance on investment to one primarily reliant on consumption. It is widely acknowledged that stable growth in consumption drives stable growth in long-term investment and promotes long-term economic growth [9].

5.2 Market Adjustments

Businesses can adapt through the development of affordable product lines without compromising quality, a strategy that entails the careful balancing of cost efficiency with consumer expectations. In practical implementation, this involves the redesign of products to preserve core functions and reliability while strategically removing or simplifying premium features that contribute minimally to everyday use but significantly increase production costs. Through such measures, companies are able to maintain consumer trust and avoid the perception of substandard quality.

Concurrent with this, expansion into lower-tier cities and rural markets offers a significant and increasingly viable opportunity for long-term growth. These regions demonstrate a higher degree of price sensitivity in comparison to metropolitan centers, while simultaneously demonstrating rising consumption potential driven by steadily increasing household incomes, gradual improvements in local infrastructure, and the rapid penetration of e-commerce platforms that lower distribution barriers. In such markets, affordability and practicality typically take precedence over brand prestige, rendering them particularly receptive to cost-effective and function-oriented products.

Through the customization of product design, pricing, and marketing strategies to local preferences and socio-economic conditions, firms are not only able to access these emerging demand segments but also foster stronger and more robust brand loyalty. Over time, this localized approach can create a stable consumer base, positioning businesses to weather economic fluctuations while contributing to more inclusive models of consumption-driven growth.

5.3 Social Initiatives

In response to consumption downgrading, this study proposes the implementation of targeted social activities that prioritize value creation over mere price considerations. The first approach involves the organization of immersive events like “Smart Living Weeks,” where consumers can experience innovative products in simulated real-life environments. Through hands-on experiential sessions, participants gain a direct understanding of how such products elevate quality of life, shifting their focus from cost to value and encouraging a transition to quality-driven consumption, thereby fostering the benign transformation of the consumer market from “price-oriented” to “value-oriented”.

The second strategy centers cultural empowerment initiatives such as the “Urban Cultural Consumption Season.”

These initiatives engage in collaboration with heritage brands and artisans to co-create products with profound cultural connotations. Through workshops and interactive formats, consumers learn about product craftsmanship, transforming their perception of consumption from simple transaction into meaningful cultural engagement. Social media campaigns further amplify this by encouraging the sharing of cultural consumption experiences[10].

By generating social momentum and offering practical guidance, these initiatives redefine consumption as a positive personal investment rather than merely a financial burden. This comprehensive approach effectively addresses consumption downgrading by shifting focus from cost to value, from transactions to experiences, and by fostering a sustainable consumption ecosystem that yields benefits for both consumers and the broader economy.

6. Conclusion

This study has systematically examined the phenomenon of consumption downgrading in China, identifying its key drivers, associated economic and social impacts, and potential policy and market responses. The analysis reveals that the growing preference for more affordable goods and services is not just a short-term correction to cyclical recessions but also reflects deeper, persistent structural forces. Key among these factors are slowing income growth, a sustained increase in the cost of living, elevated employment uncertainty, a shift toward frugality in consumer attitudes, and the broader implications of the global financial environment—all of which have collectively shaped lasting shifts in consumer behavior.

The economic implications of this shift are multifaceted. On the positive side, budget-oriented companies and domestic brands are demonstrating increasing competitiveness, leveraging consumer price sensitivity to expand market share and strengthen local industrial ecosystems. This has spurred innovation in cost reduction, lean manufacturing, and digital distribution channels. However, on the negative dimension, the premium and luxury sectors are experiencing declining sales volumes and narrowing profit margins. This not only threatens firms' ability to sustain R&D investments, but also poses risks to broader national strategies aimed at transitioning to consumption-led and innovation-driven growth models.

From a societal standpoint, the normalization of cost-conscious consumption is likely to gradually reshape family lifestyle patterns and long-term household expectations. Consumers are demonstrating a growing emphasis on durability, functionality, and environmental sustainability over status-oriented consumption, which in turn exerts

an influence on the methods by which companies design, market, and distribute their products. Over time, these changes may embed new cultural norms of rational and sustainable consumption, with potential spillover effects on intergenerational attitudes towards wealth, savings, and consumption choices.

Addressing these challenges and opportunities demands a coordinated multi-stakeholder response. In terms of policy, governments should balance short-term demand stimulus with long-term structural reforms aimed at reducing the burden on households in key areas such as housing, health care, and education. The market must adapt to offer a product line that aligns with evolving consumer demands, emphasizing affordability without compromising quality. Simultaneously, the aforementioned social initiatives and public events aim to reframe prudent consumption through a value-oriented perspective - transforming consumption from mere transactional exchanges into meaningful experiences infused with cultural significance. Looking forward, future research should explore the long-term macroeconomic implications of sustained consumption downgrading. Particular attention should be paid to its impact on productivity growth, the pace of industrial upgrading, and environmental sustainability. In an era characterized by structural economic slowdown, elevated global uncertainty, and evolving consumption norms, such insights are essential for the design of resilient and adaptable economic policies.

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