

# CHINA ECONOMIC UPDATE DECEMBER 2019



## False frenzy – record Single’s Day sales don’t point to Chinese economic recovery

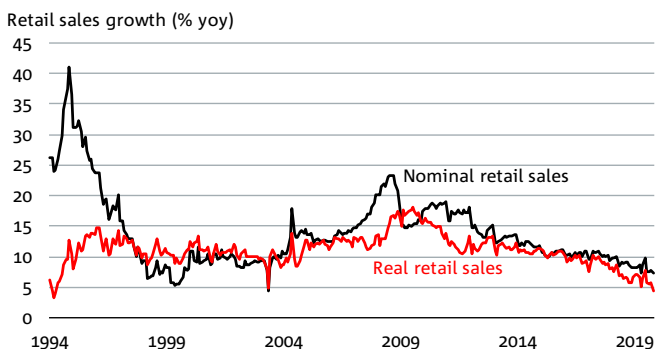
NAB Group Economics

In the space of a decade, Single’s Day has grown from humble beginnings to become the largest online shopping event in the world. This year’s event on 11 November set a new record for total sales, which some have argued points to a potential recovery in China’s economy. We disagree, as a high profile, highly marketed sales event is not representative of broader consumption trends. China’s retail sector has continued to slow and the economy still faces significant headwinds – such as the still-unresolved US-China trade war and longer term pressures due to its declining workforce.

### THE SLOWDOWN IN CHINA’S RETAIL SECTOR

China’s monthly retail sales data are closely watched indicators of underlying trends in China’s economy. However, as we have [previously noted](#), these data are not without their problems. China’s retail sales data includes public consumption – which means that it doesn’t provide a clear indication of household spending – and the National Bureau of Statistics provides no disaggregation between public and private consumption. This measure also excludes spending on a range of key sectors – such as online sales along with travel, education and healthcare services – meaning that it doesn’t give a complete reading of total consumption.

### CHINA’S RETAIL SALES HAVE SLOWED Real sales at their weakest since 1994



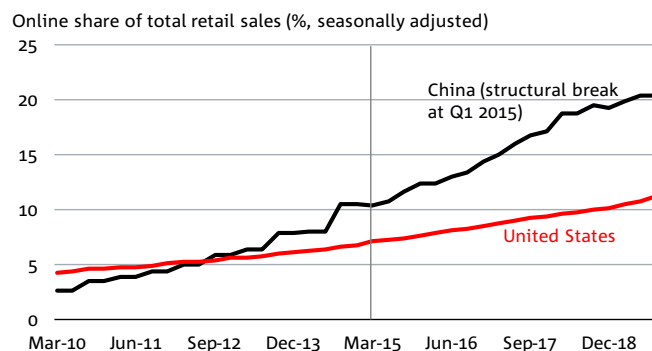
Source: CEIC, NAB Economics

Online retail sales have grown more rapidly than traditional bricks & mortar retail in recent years, supported by increased internet penetration in China – particularly via mobile devices – along with the development of online sales platforms and payment technologies. That said, the rate of growth in online sales has slowed since early 2018 – with sales increasing by 17% yoy in October 2019, compared with an average increase of 26% in 2018 and 39% in 2017.

As online retail spending has grown more rapidly than the traditional sector, its share of total spending (in this case the sum of online sales and China’s official retail sales data) has increased. In the first ten months of 2019, online sales accounted for almost 20% of the total spending, up from around 10% in 2014. In comparison, online sales accounted for 10.8% of total sales in the United States in the first three quarters of 2019.

### ONLINE’S SHARE OF TOTAL RETAIL

#### Online retail much larger in China than the US



Source: CEIC, US Census Bureau, NAB Economics

## WHAT IS SINGLE'S DAY?

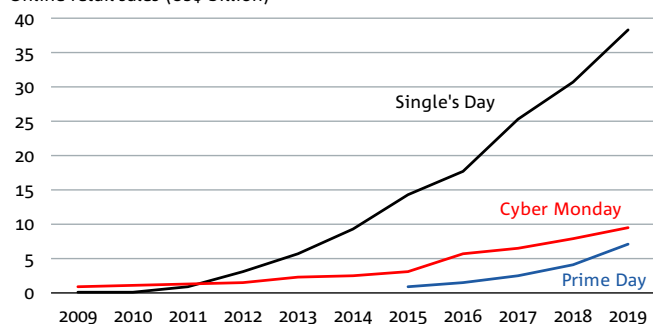
Single's Day started as a joke among single university students in the 1990s, a kind of anti-Valentine's Day where people would purchase gifts for themselves or their single friends. The date – 11/11 – was chosen as the numbers looked like four single people standing in a row. The modern, shopping festival was created by online giant Alibaba in 2009, when it marketed a major sale on its online sales platforms Taobao (a consumer-to-consumer site similar to eBay) and Tmall (a business-to-consumer site similar to Amazon) and it has subsequently grown into the world's largest online shopping day (overtaking Cyber Monday in 2012).

In 2019, Single's Day sales on Alibaba's platforms totalled RMB 268 billion – equivalent to around US\$38.4 billion – exceeding by far similar days in the United States, such as Cyber Monday (where spending totalled US\$7.9 billion in 2018) or Amazon Prime Day (which contrary to its name ran for 48 hours this year) – where spending was estimated at US\$7.2 billion in 2019.

## GLOBAL ONLINE SALES EVENTS

### Single's Day far exceeds major US sales

Online retail sales (US\$ billion)



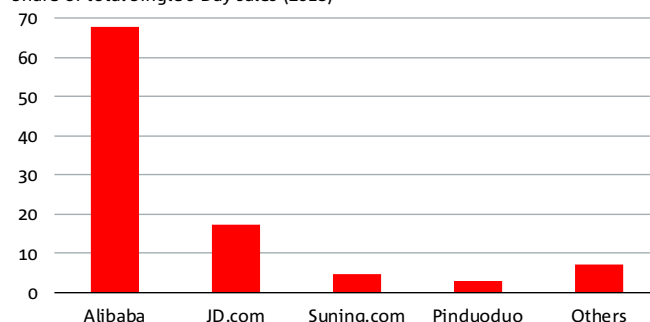
Source: CEIC, Adobe Digital Insights, Internet Retailer, NAB Economics

While Alibaba remains the dominant player in China's online retail space, other firms – such as JD.com, Suning (which focuses largely on consumer electronics and appliances) and Pinduoduo (which has a discount, group buying focus, linked to social media) – have also adopted the festival, with JD.com running a longer sale from 1 November through 11 November. In 2018, Alibaba's platforms accounted for almost two-thirds of total Single's Day sales, with JD.com accounting for around 17% and Suning.com almost 5%. A focus on smaller cities and rural areas has supported the growth of the smaller online retail platforms. In addition, Single's Day sales have extended outside of China, with promotions by 11thStreet in South Korea and Qoo10 in Singapore in 2019.

## CHINA'S ONLINE SALES BY PLATFORM

### Alibaba accounted for the vast majority of Single's Day sales in 2018

Share of total Single's Day sales (2018)



Source: Syntun, Reuters, NAB Economics

## CONCLUSIONS – NEW SALES RECORD TELLS US LITTLE ABOUT CHINA'S CONSUMPTION

Record sales on Single's Day should come as little surprise – the event is highly marketed across Chinese media, with spending tracked and reported on a rolling basis across the day to generate interest. That said, a fresh record in 2019 is not indicative of underlying trends in China's economy – particularly a consumption-led turnaround in economic growth.

We argue that the slowing growth rate of online sales is a better indicator – with Single's Day an outlier. Using Alibaba's platform sales data, Single's Day accounted for 3.7% of total sales in the financial year ended March 2019, up from 2.1% in 2014 – meaning that sales on Single's Day have grown more rapidly than the rest of the year for online retail.

Growth in online sales is likely to slow further in coming years, as the market reaches its maturity. Most of China's population now has internet access and it appears less likely that there will be further technological developments to underpin further expansion – despite JD.com's investment in drone technology for delivery purposes. This suggests a more organic rate of growth over the longer term – eventually in line with broader consumption.

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