



The Nielsen Company

www.nielsen.com

New Release

FOR IMMEDIATE RELEASE

CONTACT:

Wendy Wang: wendy.wang@nielsen.com

Mobile: 008613681695919

Chinese Consumers' Reluctance to Spend Weakens Confidence

23rd February, Beijing: China's consumer confidence index fell four points to 100 at the end of 2010, according to the latest Chinese Consumer Confidence Report jointly released by CEMAC (China Economic Monitoring & Analysis Center) and The Nielsen Company. Rural consumers' confidence remained relatively stable while urban consumers' confidence experienced a pull back.

Working together to analyze the latest results, CEMAC and The Nielsen Company found that the decrease of consumers' willingness to spend is the main reason behind the pullback of this quarter's Chinese consumer confidence. The primary driver behind this decline: inflation in consumer prices, particularly food. This, in turn, has led to a decrease in consumers' willingness to spend money. The high price of homes and rising interest rates have also impacted spending.

"Total retail sales in China grew by double digits throughout 2010, indicating that even though consumers may be less confident, there is no large-scale reduction in consumption occurring...yet", said Jiancheng Pan, Deputy Director General, CEMAC. "Lower confidence still seems to be more 'psychological' at this point. Consumers know there are issues affecting their purchasing power and some are feeling less secure, but their behavior remains mostly unchanged, a sign that consumer society is maturing. Consumption is still growing. Maybe it would be growing even more if concerns about inflation were reduced, but consumption is still showing solid growth nonetheless."



“China’s economy continues to roll ahead with strong GDP and consumer sales growth”, said Mitch Barns, President Greater China, The Nielsen Company. “Concerns over inflation are affecting consumer confidence and how they think about their spending, but so far the actual affect on consumer behavior and sales volume growth is modest. This won’t continue indefinitely—either inflation concerns will subside or we will see a growing effect on consumer purchasing behavior and volume growth.”

“For marketers, the key is to find the right balance on pricing in this environment. Many are feeling pressure from growing labor and materials costs. But consumers are on alert. A marketer who pushes price too far risks losing buyers; a marketer who is too cautious and holds prices steady risks losing margin. Marketing intelligence and good pricing models are especially valuable right now,” continued Barns.

Positive Performance Among Consumers in Rural and Central/ East China

The Chinese Consumer Confidence Report also revealed that consumers’ confidence in rural areas is higher than in cities due to how rural consumers view their future job prospects and personal finances. China’s rural areas defied the trend and posted an increase of one point to 107. On a city tier basis, cities in Tiers 3 and 4 declined the most, dropping nine and seven point respectively to a confidence level of 95 each. Declines were also seen in Tier 1 cities, which fell six points to a confidence level of 95.

Across China’s regions, Central and Eastern China (103) both ranked the highest, followed by West China (96), and East/North China (94), respectively. Personal job prospects for the next 12 months are perceived to be fairly strong for Central China consumers, with 72 percent showing a positive attitude. The increasing speed of industry transfer in Central China is helping to boost consumers’ confidence.

Mid- and high-income consumers still show stronger confidence than low-income consumers. Mid- and high-income consumers’ confidence level reached 105 and 104, while low-income consumers’ confidence dropped to 94.

Optimism Regarding Future Job Prospects

Consumer sentiment towards the other key issues that CEMAC and Nielsen tracks tended to be relatively stable, with a few exceptions. For example, personal job prospects for the next 12 months are perceived to be fairly strong for the vast majority of those surveyed. Nationally, that index declined by just one point quarter on quarter, to 67% in Q4. On a regional level, consumers in Central China (72%) were more optimistic about job prospects while those living in the East (66%), West (64%), and East/North (63%) were relatively the same. Residents in rural areas (83%) actually felt

better about job prospects during the quarter, as did those living in cities. Urban consumers' view of future job prospects was similar, with more than half expressing positive attitudes.

Positive Outlook for 2011 Personal Finances

When it comes to the state of personal finances over the next 12 months, there is a fairly stable trend across city tiers with 62 percent of Chinese consumers saying their finances are “good” or “excellent”. Residents of rural areas felt better about the state of their personal finances, posting a three point rise in Q4. A positive outlook towards future job prospects and macro-economic trends are key drivers behind the optimism in personal finances. According to the latest report, 81 percent of Chinese consumers said they feel positive about the economy in 2011.

Overall Price Increases Put Spending On Hold

Inflation in consumer prices, particularly food has led to a decrease in consumers' willingness to spend money. This “willingness to spend” metric declined to 30 points in the latest quarter, compared to 41 in the previous quarter. Declines were seen across all city tiers and regions, with the East/North particularly affected (from 40 points in Q3 to 18 in Q4).

Overall, the cost of food has become the third largest concern of Chinese consumers (24%), up 10 points from last quarter and among the top three concerns of consumers at each income level. Saving (58%, up one point) remains the top priority for spare cash, but intention to spend on entertainment and eating outside of the home showed a slight decline, as did new technology purchases, home improvements, and paying off debt. According to the report, 83 percent of consumers expect overall prices will increase in the next 12 months, an increase of 6 percent from last quarter. And 84 percent of consumers believe food prices will increase in the near 12 months, up 6 percent compared to the previous quarter.

Two-thirds (67%) of consumers expect real estate prices will increase in the next 12 months, an increase of 5 points from last quarter. Consumers in West and Central China have a higher expectation than those live in Eastern China, reaching 80 percent and 74 percent, respectively. Results show that increasing food prices has a larger impact on lower income consumers, while consumers with higher incomes are more concerned about the real estate prices.

Saving is still the number one priority when it comes to how to spend spare cash. Bank saving/term deposit are the key investment options. Thirty-nine percent of consumers said they will increase their bank savings in the next 12 months, followed by insurance (28%), investment type of insurance (20%), funds (11%) and education (11%).



About The Nielsen Company

The Nielsen Company (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and related assets. The company has a presence in approximately 100 countries, with headquarters in New York, USA. For more information on The Nielsen Company, visit www.nielsen.com

#