

Consumption Pattern Change by Income Group and China's Economic Growth

Topic: Structural Change and Economic Growth

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Investment-led, export-oriented way of development has led China's economy to achieve rapid growth in the past few decades but may not hold any more. Under the complex global economic environment, how to promote the driving force of household consumption to stimulate the economic growth is one particularly important issue at the present. Consumption pattern may differ by household income. However, in what way will the economic structure response to the changes in consumption pattern related with China's income distribution has not been investigated by now.

This study uses the data from the Chinese Household Income Project (CHIP) in 1995, 2002, 2007 and 2013 to analyze the relationship between income group and consumption pattern. In addition, we perform scenario analysis based on the input-output model to investigate the impact of changes in the income distribution on the structure of industry and employment. The results show that: (1) the income gap of Chinese households still exists, the most serious of which is the urban-rural one; (2) there is a significant dynamic relationship between income level and consumption pattern. The income gap is an important factor influencing the consumption pattern of Chinese households; (3) the result of different scenarios implies that the policy of reducing income gap will have an impact on the economic structure.

These findings suggest that stimulating the domestic demand should focus on upgrading of consumption pattern, especially of the lower income groups. Efforts should be made to increase the income volume of the rural households so as to narrow the income gap between urban and rural areas.