

# China's Golden Week 2020

— *A speedy and robust recovery is underway in China*



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Considering domestic consumption as a substantial contributor to China's economic growth, we expect that more government policies and initiatives will be directed towards boosting local consumer spending both in the short and long term.

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**Helen Chin**

Vice President

E: [helenchin@fung1937.com](mailto:helenchin@fung1937.com)**Tracy Chan**

Research Manager

E: [tracychansy@fung1937.com](mailto:tracychansy@fung1937.com)**Fung Business Intelligence**

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)W: <http://www.fbicgroup.com>

Falling on 1 October, this year's National Day overlaps with the Mid-Autumn Festival, which has extended the usual seven-day break to an eight-day public holiday spanning from 1 to 8 October. The National Day holiday, also known as the Golden Week, is the first major holiday for the Chinese since the country emerged from the COVID-19 pandemic. With domestic travel bans lifted after the pandemic was brought under control in the country, millions of travel-starved Chinese have embarked on domestic trips, marking a prime time for travel and spending, and more importantly, a fillip to a broader economic recovery for the country.

Barred by travel restrictions and quarantine requirements imposed around the world, coupled with a lack of international flights due to the pandemic, most Chinese vacationers continue to stay close to home and explore domestic destinations during the weeklong holiday. The pent-up demand for travel among Chinese tourists, who are considered the world's biggest travel spenders and account for around 20% of global tourism spending, has provided a much-needed boost to domestic tourism and consumption, which are recovering at an accelerating pace to approach pre-pandemic levels.

## **Revenge spending spurs consumption rebound**

Emerging from weeks of stringent lockdown and quarantine measures, Chinese consumers are rushing to make up for lost time by spending more – this so-called “revenge spending” spree has fueled a robust recovery of domestic consumption, which is regarded the mainstay driving China's economic growth under the country's “dual circulation” policy first announced in May.

The domestic tourism industry saw promising signs of revival over the extended National Day Holiday. During the eight-day break, the number of tourists across the country topped 637 million, reaching 80% of last year's levels, with total tourism revenue hitting 466.6 billion yuan, around 70% of last year's levels, according to China's Culture and Tourism Ministry<sup>1</sup>. For the first three days of the holiday, store traffic of over 4,700 shopping malls across the country totaled 305 million, recovering to 84% of the pre-pandemic levels. Store traffic at top tourist attractions across the country, including Kunming, Xi'an and Suzhou snapped back to more than 90% of pre-pandemic levels, while store traffic in Nanjing, Shanghai, Chengdu and Beijing also rebounded to over 85% of pre-pandemic levels<sup>2</sup>. Sales of 100 key monitored retail enterprises in Beijing amounted to 6.6 billion yuan, with major players including Wangfujing Department Store, Guiyou Department Store and Badaling Outlets posting more than 30% sales growth from the same period last year<sup>3</sup>. Bolstered by the pent-up demand among Chinese consumers, some major payment platforms and online travel agencies also experienced a boom in transactions around the National Day holiday (Exhibit 1).

### Exhibit 1: Transaction values/ volumes of some major payment platforms and online travel agencies over the National Day holiday

Digital platform	Transaction values/ sales during the National Day holiday
UnionPay	<ul style="list-style-type: none"> <li>Transaction values hit 2.16 trillion yuan between 1 and 7 October, up 6.3% yoy, with majority of the transaction values contributed by travel-related expenditure<sup>4</sup></li> </ul>
Alipay	<ul style="list-style-type: none"> <li>Over the eight-day holiday, transaction values generated from consumer spending in duty-free stores in Hainan, and local department stores grew drastically by 300% mom and 250% mom respectively</li> <li>Transaction volumes related to domestic tourist attractions surged 316% mom, while spending on accommodations also doubled as compared to the Labor Day holiday in 2019<sup>5</sup></li> </ul>
WeChat Pay	<ul style="list-style-type: none"> <li>During the first three days of the holiday, transaction values generated from consumer spending on domestic tourist attractions, and accommodation surged 83% and 71% respectively as compared to this year's Labor Day Holiday from 1 to 3 May</li> <li>Transaction values from consumer spending in local department stores and supermarkets rose 30% from this year's Labor Day holiday, while spending in retail stores across lower-tier cities showed a stronger growth of 52% versus this year's Labor Day holiday<sup>6</sup></li> </ul>
Ctrip-backed travel service platform Qunar.com	<ul style="list-style-type: none"> <li>The total number of domestic flight passengers is estimated to exceed 15 million, up 10% yoy, a record number of domestic flight passengers for the Golden Week travel period<sup>7</sup></li> </ul>
Alibaba's online travel service unit Fliggy	<ul style="list-style-type: none"> <li>Hotel bookings and flight reservations went up 50% yoy and 16% yoy respectively</li> <li>Car rental reservations skyrocketed by 160% yoy, with stronger demand for rentals in Qinghai, Gansu, Yunnan and Hainan<sup>8</sup></li> </ul>
Meituan App	<ul style="list-style-type: none"> <li>Bookings for travel packages rose 61% yoy</li> <li>Catering service orders increased sharply by 166% as compared to this year's Labor Day holiday in May<sup>9</sup></li> </ul>

**Exhibit 2: Top 10 popular domestic destinations over the Golden Week<sup>1 0</sup>**

Source: Ctrip, Fung Business Intelligence

## Government initiatives to boost domestic consumption

Looking to boost domestic consumption to keep the country's economy afloat, over 20 provincial and municipal governments issued travel vouchers during the National Day holiday, with more than 1,500 tourist spots across the country, including those in Hubei, Guizhou and Xinjiang Uyghur, offering free or discounted tickets<sup>1 1</sup>. In view of the country's close to zero local transmission since mid-August, China's Culture and Tourism Ministry further relaxed restrictions on local tourist sites in late September, allowing them to operate at 75% capacity, up from a limit of 30% to 50% from previous months<sup>1 2</sup>. Meanwhile, the Ministry has also issued a notice on COVID-19 prevention, calling on tourists to learn about the epidemic prevention measures required by tourist attractions in advance, and make appointments before their visits, as a way to protect themselves and others while enjoying the holiday.

In addition, the central government further relaxed the duty-free policy on Hainan island just two months ahead of the Golden Week, considering that the island is playing a key role in the revival of China's domestic travel and duty free industry. As outlined in a master plan for the Hainan free trade port jointly issued by the Central Committee of the Communist Party of China (CPC) and the State Council on 1 June<sup>1 3</sup>, starting from July, the annual offshore duty-free quota for shoppers visiting Hainan island has been raised from 30,000 yuan to 100,000 yuan, while the number of duty-free product category allowed for stores on the island has also been increased from 38 to 45 categories<sup>1 4</sup>.

As what we expected, the new duty-free policy in Hainan has successfully encouraged local people to purchase larger amounts of luxury goods on the Island and triggered a spike in duty-free sales during the Golden Week. According to the data released by China Customs, between 1 and 8 October, duty-free sales value and volume in Hainan hit 1.04 billion yuan and 999,890 units respectively, up 148.7% and 97.2% from the same period in 2019, with the number of visitors hitting 146,800, up 43.9% yoy<sup>1 5</sup>.

China's duty-free giant China Duty Free Group also reported a sale boom of some 90% over the first three days of the National Day holiday as compared to this year's Labor Day holiday, with the number of customers also surging 155.79% from May<sup>16</sup>.

Capitalizing on the strong purchasing power of Chinese shoppers, Swiss duty-free giant Dufry announced on 5 October that the company and Alibaba have agreed to form a strategic joint venture in China, while Alibaba has also planned to acquire a stake of up to 9.99% in Dufry. Through the tie-up with Alibaba, Dufry aims to pursue further growth opportunities in China and to accelerate its digital transformation in the country<sup>17</sup>.

## Our Take

Chinese consumers have further released their pent-up demand over the eight-day National Day holiday. Their revenge spending provides us an indication of how swiftly consumer appetite and economic activities in China could approach pre-pandemic levels, making it clear to us that a robust recovery is underway. Considering domestic consumption as a substantial contributor to China's economic growth, we expect that more government policies and initiatives will be directed towards boosting local consumer spending both in the short and long term.

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## Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

## Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 34,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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