

# Impacts of Chinese's household financial asset allocation on consumption

Tianzhu Zheng

Shenyang Institute of Science and Technology, Shenyang, Liaoning, 110167, China

laurelzheng@163.com

**Abstract.** With the development Chinese economy in recent years, property income plays an important role on the income sources of Chinese households. It is inevitable to pay more attention on property income. Property income mainly comes from the financial asset income and real assets income. Both of income sources are transmitted to the mechanism through the wealth affect the consumption status of urban residents. This paper will analyze how the wealth effect of financial assets and physical assets to affect the whole economy and consumption, and then put forward corresponding policy recommendations.

**Keywords:** Household financial asset allocation; Property income; Wealth affect.

## 1. Introduction

Within the past 30 years, the economic development in China has mainly relied on the investment, consumption, and exports, which are known as the 'troika' that drives the economy. In recent years, the investment and exports have encountered bottlenecks. Meanwhile, the economic structure is unbalanced, and the domestic demand is insufficient. Therefore, with the development of economy in China, it is a key point to increase the domestic consumption to maintain the smooth operation of the 'troika'. The family assets of households are the foundation to ensure the stable development of the family, and it is also an important factor for social and economic development. Household assets can be classified into physical assets, such as houses and land, and financial assets, including cash, savings, and insurance. Therefore, a reasonable allocation of family assets is beneficial to increase the wealth of family and to meet the higher consumption needs of family members, thereby promotion the consumption level and economic development for the whole country.

With the rapid development of economy and market in China, the accumulated wealth of households has continued to increase, and then the net asset value has also continued to increase. However, the proportion of property income to total income of Chinese residents is still low. Property income is mainly derived from financial assets, including bank deposits, securities and stocks, and real assets, such as houses, vehicles, and land.

Comparing with other developed countries in aspect of the difference between residents' consumption and GDP, the financial asset allocation tends to be stable and safe for Chinese's household, and Chinese residents are more willing to choose bank deposit business. Due to risk aversion, their holdings of securities, stock, funds, and insurance are relatively low, which is the main reason for the lower property income of Chinese residents' households. In this way, increasing residents' property income and thereby promotion residents' consumption has become an important focus of our country's strategy of expanding domestic demand. Therefore, Chinese residents should reasonably invest in existing household assets and optimize the allocation of household financial assets, thereby increasing residents' property income and prompting economic and consumption development.

## 2. Impact of property income on consumption

The 'Wealth affect' points out that the wealth and asset level of a family will directly affect the consumption demand of residents. Pigou proposed in 'Employment and Equilibrium' that the increase of real money balance reflects the continuous improvement of residents' total assets and wealth, and

then increase in consumption demand. It is a positive wealth effect. By comparing the proportion of Chinese and American residents' income, consumption, and savings in GDP, it can be clearly seen that the savings and consumption have an inverse relationship, which makes the consumption level of Chinese residents at a lower level [1]. Therefore, it is necessary to reduce the level of residents' savings and to increase the level of residents' property income. Only taking the above measure, can increase the consumption of Chinese residents. Property income is classified into financial asset income and real asset income. The impact of the two assets on consumption is correspondingly different. Therefore, this paper will analyze impacts on consumption from financial assets and real assets specifically.

### **2.1 The impact of household financial asset income on consumption**

The wealth effect of financial assets refers specifically to the changes in the currency balance caused by the income of financial assets held by residents or dividends of investors, which in turn changes consumption expenditures. The transmission mechanism of financial assets wealth effect of urban residents can be classified into the positive wealth effect and negative wealth effect. The positive wealth effect means that the price of financial assets rises steadily, and the effect of future income on residents is greater than the utility of residents' consumption. Currently, residents are willing to delay the consumption and then to maximize their wealth. However, when the price of financial assets falls, residents' wealth will be decrease. At this time, residents may choose to delay or reduce the current consumption demand, thereby solving the dilemma caused by the loss of financial assets. It is the negative wealth effect. Specifically, the price change of marketable securities will cause changes in nominal income and expected income. If the price of marketable securities rises, the nominal wealth of securities holders will increase. At this time, if the holders sell the securities, the income will correspondingly increase, thereby promoting consumption. If the holders choose to continue to hold securities, the income of its future assets will increase, which will lead to a stronger desire to consume. On the other hand, the rise in marketable securities prices will bring capital gains, which are also a component of property income. Then, the capital gain will in turn promote household consumption. When the financial assets of urban residents increase stably, the expected permanent income will increase, and the residents will increase their current consumption expenditures. If this situation can sustain for a long time, it will be beneficial to have a good effect on economic development.

In recent years, with the financial market improving, the channels for household financial asset allocation have been expanded to a large extent to be more diversification rather than single cash and deposits. According to the CHFS data survey results, bank deposits account for the highest proportion in the financial structure of urban resident households in China, which ranks the first in the total allocation of all financial assets. This is determined by the traditional investment concept and risk preferences for Chinese [2]. However, the data also shows that the proportion of bank deposits is also declining year by year. The reason is that the financial market become more mature, the residents have more channels to invest. Meanwhile, the awareness of investment and the rate of property accumulation for residents are gradually increasing. The total allocation of stocks is smaller than bank deposits, and the allocation of financial wealth management products is also improving with each passing year. However, compared with the developed countries, the total allocation of insurance, securities, and funds in the financial assets of Chinese residents is still at a relatively low level. Therefore, in comparison with the mature financial market, there will be more to be improved for optimization in the allocation of financial assets of Chinese households with the liberalization of interest rate and the gradual improvement of the capital market.

### **2.2 The impact of resident real estate assets income on consumption**

Real estate assets also have the wealth effect on urban household consumption which is the same as the financial assets. Many scholars have studied relevant data and found that the wealth effect of housing assets is not as significant as that of the financial assets [3]. The main reason is that the

financial assets such as stocks, securities, and saving deposits have stronger liquidity and ability. That's why the financial assets have a greater impact on household consumption expenditures. While real estate assets are usually considered long-term assets and the realization cost is higher, in this situation, it has less impact on household consumption expenditure.

With regard to the wealth effect of real estate assets, as the price of real estate continues to rise, the net asset value of households will increase, and the whole financial capacity of the market will also be improved. Both of aspects are conducive to consumption and economic growth [4]. If real estate prices continue to rise steadily, the income for the property owners who get will change from temporary income to permanent income. It will not only guarantee a relatively stable income for residents, but also help stimulate residents' interest in the consumption of real estates, which will enhance market confidence. Specifically, the rise in real estate prices will help the real estate holders to accumulate the net asset wealth. If the holders choose to sell the real estate at this time, the current consumption will increase [5]. At the same time, the increasing housing prices will also have a crowding effect. For the residents who have plans to buy real estates, they will need to pay more cash for the purchase of houses, which will relatively reduce expenditures on other aspects. This is the crowding effect of real estate on consumption. Also, with the development of real estate market in China, real estates have become an indispensable asset for residents. The continuous and rapid growth of housing prices will bring about the 'housing slave effect' to a certain extent for residents who are willing to buy real estate. Since the residents will hold real estate with loans, thereby reducing the whole household consumption and negatively affecting the economy development.

### 3. Conclusion

With the development of the financial market in China, the residents have more diversified investment channels, but the residents' financial assets are still dominated by the bank deposits. Although the bank deposits are safe, their returns are correspondingly low, which is not beneficial for residents to increase the property income. The main reasons are as following. Firstly, the traditional concept of Chinese residents' risk aversion has not completely changed for a long time. Secondly, although the investment channels are diversified, the residents still have no key investment channels. It is particularly important to improve and perfect the multi-layered capital market.

To give a play to the wealth effect, it is necessary to ensure that the value of assets owned by households have a relatively stable growth. Among them, stocks, securities, and real estates are the important components of household assets. Therefore, maintaining the stability of stock market prices and the stability of the real estate market plays a key role in exerting the wealth effect and promoting consumption.

Hence, it is essential to vigorously develop the financial market to ensure the stable growth of the value of financial assets and the good liquidity of financial market, thereby promoting the continuous improvement of the consumption level of residents. At present, the total amount of stocks and funds in financial assets of Chinese residents is relatively small. Therefore, it is necessary to enrich investment products in the stock market and strengthen market supervision measures. If there are the illegal operations, it is necessary to timely investigate and collect evidence and report to relevant departments. For China's economy to enter a high-quality development model, promoting and maintaining the stability of the stock market has also become the basis for the reform of the economic system. For the insurance industry, it is essential to facilitate the promotion of the scope of the insurance market, promote the product innovation, meet the needs of residents, and contribute to the expansion of consumer demand.

In recent years, housing prices have been too high and have risen too much in China. Due to people's expectations of large rigid expenditures, urban residents have to reduce their current consumption and increase their saving instead in China. Therefore, the excessively rapid growth of housing prices has severely weakened the wealth effect and negatively affected the economy and consumption. Within the recent years, our country's macro-control of the housing market has brought

the value of real estate assets from ‘real estate speculation’ which led to a bubble and a state of steady value growth. It has greatly promoted overall consumption. At present, as long as the measures and results of macro-control of the real estate market are maintained, housing assets will play a more favorable role in promoting consumption.

## Acknowledgements

This paper is supported by the fund from the project of Shenyang Institute of Science and Technology Humanities and Social Sciences Research Project: Financial asset allocation and wealth effect analysis of rural households under the background of digital inclusive finance (MS-2021-12).

## References

- [1] Xianjun Jia. Empirical study on the impact of household financial asset structure on residents' consumption upgrading. *Statistics and Decision Making*, Vol.36(2020): 154-157.
- [2] Bo Li. The Impact of financial risk asset allocation on consumer spending in Chinese urban households- Empirical analysis based on Micro-survey data CHFS. *Study of International Finance*, Vol.01(2015): 83-92.
- [3] Yuefeng Hu, Jianhe Liu and Meijuan He. Research on the impact of household financial assets and real estate consumption expenditure. *Zhejiang Finance*, Vol.04(2018): 60-66+23.
- [4] Yishan Zhang, Shurui Hua and Wensheng Zhao. Chinese household income structure, financial asset allocation and consumption. *East China Economic Management*, Vol.20(2015): 6-10+185.
- [5] Xingjian Yi, Liwei Zhu and Biyun. Yang. The impact of financial assets on household consumption- Empirical Test from the Perspective of Asset Structure. *Consumption Economy*, Vol.36(2020): 3-16.