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New Building Materials Rebate Program to Boost Rural Demand

Over the weekend, China's State Council and the Central Committee of the Communist Party jointly released the country's annual "Number 1 Central Document," which in recent years has set the policy framework for boosting rural development. This year's document notably makes reference to the objective of boosting rural consumption, while taking advantage of the current supply surplus of building materials. According to domestic reports, a proposal recently drafted by the China Strategy Institute of Building Materials (CSIBM) will be submitted to government agencies and later released by the National Development and Reform Commission.

A CSIBM spokesman indicated that the rebate proposals will likely generate RMB80 billion in rural consumption of building materials. This move is likely to benefit cement, steel and glass producers, especially companies with established distribution networks in rural markets. Since 2009, China's largest cement producer Rural consumption accounts for about 30 – 40% of total cement sales in China.

- The CSIBM's draft proposal provides that farmers will receive rebates ranging from RMB5,000 to RMB 20,000 on the purchase of building materials, when building houses at a cost of over RMB10,000. The plan is expected to be in effect for a three-year period.
- Commenting on the plan, a researcher with the Chinese Academy of Social Sciences estimated that RMB312bn (based on RMB400 per 780mn rural residents) in sales of building materials will be generated per year.
- Additionally, the Number 1 document highlighted broad objectives concerning the expansion of pension and healthcare coverage, agricultural modernization, infrastructure development and the strengthening of financial services.

In part due to the government's stimulative policies, rural consumption growth increased 15.7% in 2009 versus urban growth of 15.5%. Much of the government's RMB4 trillion stimulus program focused on boosting domestic consumption, with a strong emphasis on rural development.

Appliances sold under the last year's rural subsidy program accounted for approximately 20% of total household appliance sales. The appliance replacement program has recently been renewed and expanded to cover more regions, up from 9 provinces in 2009. Approximately RMB9.0bn in subsidies has been granted, with the value of appliances sold reaching RMB69.3bn in 2009. Additionally, RMB8.68 billion in subsidies was extended for rural vehicle purchases last year; 1.67 million cars and 4.16 million motorcycles were sold in rural areas in 2009 under the subsidy program.

We expect consumption growth in rural areas to continue outpacing urban regions as rural incomes continue to increase, and government incentive programs aim to bridge the urban-rural divide.

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