MONTHLY REPORT

TRADE SERVICING

– WUSATA

December 2023

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Market: China & HK **Submitted by**: China In-market Representative **Month & Year:** December 2023

Executive Summary

China's retail sector, long relied upon for double-digit growth, has entered a period of more modest increases. The third quarter of 2022 saw retail sales of goods grow by only 3%, a marked slowdown across various categories. China's household savings rate is significantly higher than pre-Covid levels, indicating potential for future consumer expenditure.

Despite a broader retail slowdown, China's service sector, especially travel and entertainment, is surging back to life. Domestic travel has now surpassed pre-pandemic levels, and is suggested to be more than a mere rebound; it represents a profound shift in consumer behavior. With current constraints on international travel due to visa processing times and high-priced flights, there's an increased focus among Chinese consumers on premium domestic experiences, such as high-end dining and luxury accommodations. Such restaurants and hotels often have strong demand for meat and seafood from the U.S., in addition to the likes of tree nuts, dairy, fruits and alcohol. This is expected to provide more opportunities to U.S. suppliers looking to access the market in 2024.

Market Intelligence Update

Dairy and red meat exports to China forecast to grow in next decade
Exports of red meat and dairy to China will continue to grow in the next decade, however, the amount will eventually taper off as the country looks to produce more of its own food.

That is according to the 2023-2032 China Agricultural Outlook Report recently released by China's Ministry of Agricultural and Rural Affairs.

New Zealand's Ministry of Foreign Affairs and Trade has crunched the numbers in the report which forecasts consumption and trade trends of key agricultural commodities over the next decade.

Last year China imported 18.5 million metric tonnes of dairy products and that is forecast to grow by 25 percent in the next decade.

It is increasing its own domestic dairy supply, with production forecast to grow by nearly 40 percent by 2032 - however demand is forecast to increase by nearly 35 percent - leaving room for imported product.

But MFAT said eventually the growth in production would outpace the growth in consumption.

"Dairy imports will continue to grow over the projection period but the rate of growth will decline over time."

Production of beef and sheepmeat within China is also forecast to grow but at a slower rate of 9.2 percent and 10.2 percent respectively.

Imports of beef will lift 17.2 percent and sheepmeat imports are forecast to grow 33.3 percent in the next decade.

China will continue to eat more red meat than it can produce - so will have a continued reliance on imports.

"For imported beef, the projected increase of 17 percent amounts to 460,000 metric tonnes, which, for context, is more than double New Zealand's total beef exports to China in the year-ending September 2023," MFAT's report said.

"An opportunity exists for beef exporters to China but New Zealand currently is only a small player, holding only eight percent of the market share in the very competitive imported beef market."

China also continues to grant access to export beef, with Denmark and Poland signing agreements this year.

"While sheepmeat imports are expected to grow significantly, China already accounts for more than 57 percent of New Zealand's total sheepmeat exports.

"Given New Zealand's current sheepmeat production and the limited capacity to ramp up production in the short-term, New Zealand is unlikely to fill the supply gap without expanding supply," MFAT said.

Horticulture is set to become the biggest growth opportunity due to higher household disposable income combined with consumer preference for premium imported fruit.

China's imports of fruit are forecast to grow by 92 percent over the next decade, however, the report does not break that down into different fruit varieties.

Battle of China’s e-commerce titans

Pinduoduo has usurped Alibaba for the title of China’s most valuable e-commerce company.

On November 29, parent company PDD Holdings' market capitalization hit 195.9 billion, surpassing Alibaba Group's 190.5 billion. Although the figures have dipped since then, PDD Holdings remains in the lead.

The news comes after PDD Holdings reported blockbuster third-quarter earnings on November 27, with revenue surging 94 percent YoY to 9.7 billion (68.8 billion RMB) and operating profit increasing 60 percent YoY to 2.3 billion (16.7 billion RMB).

In comparison, revenue at rival Alibaba Group grew far slower at 9 percent YoY to 30.81 billion (224.79 billion RMB) during the same period. Upon the news that the company would not spin off its cloud business, Alibaba's US-listed shares fell about 8 percent on November 16, with Morgan Stanley downgrading the stock from buy to hold.

PDD Holdings attributed its strong performance to China's robust demand for consumption upgrades. "It's the balance of quality and price that consumers care most about. Recognizing this trend, we are more confident about our value proposition of more savings and better services," said co-CEO Chen Lei in a call with investors.

In the three months ended September 30, the Chinese retail and agriculture conglomerate launched special promotions on its flagship platform, Pinduoduo, that are "typically only available a few times a year during major shopping festivals," according to the company. These campaigns included the National Brand Festival, held in collaboration with over 100 domestic brands, and the Duoduo Harvest Festival, connecting shoppers to 3,000 agricultural merchants.

During this year's Singles' Day, Pinduoduo's 10 billion RMB (1.4 billion) subsidy program attracted over 620 million customers, providing discounts on high-ticket items. The platform's aggressive pricing strategy, combined with its group-buying feature, is gaining popularity as local consumers tighten their belts.

"Pinduoduo originally engineered a consumer-to-manufacturer (C2M) model that connected suppliers to consumers, with the intent of catering to a lower-spending demographic," Jacob Cooke, CEO of WPIC Marketing + Technologies, said.

"Due to economic pressures of the past two years, Pinduoduo has expanded beyond its original target demographic, with many higher-spending consumers coming on the platform to seek savings on everyday essentials. Pinduoduo's rise is linked to the fact that certain segments of the consumer base are price conscious.”

China's new thirst for coffee spurs cut-throat cafe competition

Chinese coffee consumption is growing quickly, spurring cut-throat competition between local and foreign coffee chains that have opened thousands of branded shops in recent months and surpassed the number of coffee stores in the United States.

Analysts expect China's growing thirst for coffee to be a key driver of future demand for the beans as coffee shops expand beyond Beijing and Shanghai to dozens of mid-sized cities where young professionals have warmed to the beverage.

China's rising coffee demand is an opportunity for international chains like Starbucks and Tim Hortons that are investing heavily in China, though they face a steep challenge from rapidly expanding local brands.

Data from the International Coffee Organization sent to Reuters shows coffee consumption in China grew 15% in the year-long season ended in September from the previous cycle to 3.08 million bags.

"The Chinese consumer is increasingly adopting Western life styles and coffee is obviously one of the beverages that represent that," said Jason Yu, greater China managing director of market research firm Kantar Worldpanel.

The number of branded coffee shops in China grew a staggering 58% in the last 12 months to 49,691 outlets, according to Alegra Group, a company that tracks growth of coffee chains.

There is harsh competition between the local chains and international chains, said Matthew Barry, a beverages analyst for Euromonitor. Each one is trying to grab as big a share as they can of the growing market, he said.

Alegra Group estimates China's Luckin Coffee added 5,059 stores in the last 12 months, while another Chinese chain, Cotti Coffee, opened 6,004 outlets in the period.

"The scale of the opportunity is such that both (local and international chains) will have to be very aggressive in facing off against the other and I think that should ensure a very dynamic marketplace in the next few years," Barry said.

U.S.-based Starbucks opened 700 stores in China in the last year and said it is on track to operate around 9,000 stores in the country by 2025, while Canada's Tim Hortons plans to have 3,000 stores in the country in four years.

Store openings are now happening in China's smaller cities, Jason Yu said, which still have millions of inhabitants each.

The development is good news for coffee producers already benefiting from high prices due to adverse weather in some growing regions. Arabica coffee futures are trading near the highest in eight months, while robusta coffee hit the highest in 15 years last week.

China imports coffee mostly from Africa and South America.

Brazil's coffee exporters group Cecafe said that shipments to China will nearly triple in 2023 to surpass 1 million bags for the first time, making China its eighth-largest market.

The United States Department of Agriculture sees China using 5 million bags of coffee in the new season (2023/24), which would make it the world's seventh-largest consumer.

Chinese coffee consumption still pales when compared to top consumers the United States and Brazil that use more than 20 million bags per year. But the growing demand signals China is undergoing a cultural change similar to other tea-loving Asian countries including Japan and South Korea.