



MONTHLY REPORT

TRADE SERVICING

– WUSATA



September 2023

Monthly Trade Servicing Report

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

Executive Summary

China's imports of U.S. agricultural products are forecasted to be lower than the past few years, where record-setting numbers were set in 2021 and 2022. Based on monthly export figures from USDA, total U.S. agricultural exports to China from March to August 2023 have failed to match its 2022 numbers. The drop off in exports of bulk products, where exports from June to August were slashed by nearly 2/3, was a major reason for the decline, but for consumer-oriented products, exports have been able to maintain close to its 2022 figures, and is still competitive comparing both 2021 and 2022. Meat such as beef, pork, poultry and dairy made up the top exports, with a surprise increase for chocolate and confectionery products. Beverages have also saw positive growth in recent months, suggesting that while China continues to show strong demand for proteins from the U.S., demand for non-essential indulgent products is also showing signs of growth, an indication of consumers gradual process of stepping out of the post-Covid behavior.

Market Intelligence Update

China emerges from deflation as August prices rebound

China's consumer price index rebounded in August as the world's second-largest economy emerged from deflation, official data released Saturday (September 9) showed, despite sluggish domestic consumption that is complicating the country's post-Covid economic recovery.

Last month's CPI, the main gauge of inflation, rose 0.1 percent year on year, the National Bureau of Statistics said.

China briefly slipped into deflation in July for the first time in over two years, with prices falling 0.3 percent, year on year.

Analysts surveyed by Bloomberg had anticipated a rebound in August of 0.2 percent, year on year.

Deflation indicates falling prices of goods and services, and is the opposite of inflation.

China experienced a short period of deflation at the end of 2020 and early 2021, due largely to a collapse in the price of pork, the most widely consumed meat in the country.

Prior to that, the last deflationary period was in 2009.

Despite the August rebound, many analysts do not rule out a relapse into deflation in coming months, as China's main growth engines stall and after youth unemployment reached a record level of more than 20 percent in June.

Authorities suspended the publication of official data on youth unemployment in August.

A crisis in the real estate sector -- long providing around a quarter of China's GDP -- presents a major obstacle to recovery, while exports, traditionally a main growth engine, are also flagging.

Exports fell in August by 8.8 percent, year on year, for the fourth consecutive month of decline, according to official statistics, as weak overseas demand continued to take its toll.

The downturn has a direct impact on employment, as China's tens of thousands of export firms bear the brunt.

Meanwhile, the producer price index contracted again in August by 3 percent, marking the eleventh consecutive month of decline, according to official data.

The PPI measures the cost of goods leaving factories and gives an overview of the general health of the economy.

Falling producer prices mean reduced margins for companies.

Analysts polled by Bloomberg had anticipated this decline, following the 4.4 percent drop recorded in July.

China's slowing economy raises issues for ag

Discourse in recent days about China's sputtering economic growth has centered on potential ramifications for the global economy and geopolitical conflict as well as whether political stability in China will endure. Signs China's decades long economic boom may be winding down also raise important issues for global agricultural trade.

Concerns have been on the rise ever since a robust economic rebound failed to materialize after China loosened its suffocating COVID-19 restrictions last December. Worries the music has stopped have mounted more recently. Data last month showed no improvement in an extended real estate slump, rising unemployment, disappointing manufacturing activity amid an export lull and

sluggish consumer spending.

A look back at the seemingly unstoppable growth China has enjoyed over the past generation helps put the current stumble, and its potential impact on agriculture trade, into perspective.

It's difficult to fathom what nearly uninterrupted economic growth over such a long period of time has meant for China. During the 11-year tenure of Deng Xiaoping, considered the architect of China's economic wonder, per capita gross domestic product doubled to \$311 in 1989 from \$156 in 1978, according to World Bank data. With consistent growth afterward, the figure grew to just shy of \$1,000 in the year 2000, \$4,550 in 2010 and \$12,720 last year.

In agricultural trade, China's cumulative impact also has been dramatic, over an even shorter period of time.

Growth in China's appetite for meat over the past 20 years was made possible only by a transformation of global soybean trade. In the late 1990s, China was importing roughly 3 million to 4 million tonnes of soybeans per year, accounting for less than 10% of global trade averaging 40 million tonnes per year.

Around 2010, China's soybean imports rocketed to more than 40 million tonnes per year, a figure eclipsing total global trade in the 1990s and accounting for about 50% of total trade that had swelled to about 80 million tonnes. By the late 2010s, China's appetite for soybean imports had doubled, hitting 82 million tonnes in 2018-19 and 94 million tonnes the following year, accounting for 71% of total trade the first year and 74% in the second. The United States during this period exported around 45 million tonnes of soybeans per year to all destinations — about 40% of its crop.

For 2023-24, China is projected to import 99 million tonnes, or about 60% of global trade with the United States forecast to export 50 million tonnes.

Diminution of China's appetite for soybeans would ease upward pressure on global prices for soybeans and products and perhaps would have spillover effects on feed grains and wheat.

Even before the weakness of China's economy became apparent, parsing prospects for its meat consumption was complex. While the percentage of China's population who consume meat regularly is greater than in many developed countries, per capita consumption is far behind the United States.

Still, a growing number of consumers in China are avoiding meat consumption for health and other reasons, and analysis by McKinsey said the mix of meats

consumed is changing. Pork accounts for 60% of meat consumption followed by chicken and then beef. But chicken is growing fastest, and shifts may have a marked effect on soybean import needs.

Notwithstanding the seemingly endless expansion of China's soybean imports, growth in meat consumption has slowed. A July study by Fred Gale and Fengxia Dong from the Economic Research Service (ERS) of the US Department of Agriculture showed per capita meat consumption grew 39% between 2000 and 2014 but has only grown 6% since then. China's per capita consumption grew to 154 pounds in 2022 from 106 pounds in 2000.

The ERS said meat consumption since the 1990s has been relatively insensitive to price swings. The department currently is forecasting future disappearance to grow 46 pounds between 2021 and 2031. What remains to be seen is the effects economic weakness, a rarity since the 1990s, and a growing mistrust of China's ruling government may have on this outlook. The impact will be felt across the world.

Xiliin Gol launches regional cheese brand

Xiliin Gol League in North China's Inner Mongolia autonomous region launched its regional cheese brand in the region's capital city Hohhot on Sept 25.

On the same day, the official flagship store of the new cheese brand was inaugurated, along with 17 authorized operational stores in nine banners of Xilingol League and eight authorized exhibition stores in the city.

Situated on the premium 45-degree latitude golden milk belt, Xiliin Gol boasts around 180,000 square kilometers of natural grassland. The environment and traditional farming techniques provide exceptional conditions for high-quality dairy farming.

The cheese from Xiliin Gol, made with a time-honored technique dating back hundreds of years, retains the rich nutrients of the source milk, including proteins, fatty acids, vitamins and trace elements such as calcium and phosphorus.

Xiliin Gol cheese has received the national agricultural product geographical indication registration.

The brand has also won the "Influential Regional Dairy Product Brand of the Year" from the China Dairy Industry Association.

Given its increasing recognition and influence in the market, it is helping to shape the development of China's cheese brands. Currently, six production

enterprises and 11 workshops have been authorized to use the Xiliin Gol cheese brand.

Xiliin Gol has invested 150 million yuan (\$21.39 million) in this area in recent years, such as dairy base construction, standardization, product research and development upgrades, and the establishment of an improved regulatory system, to promote the rapid and healthy development of local dairy product industries.

As of now, the total number of dairy cows in the league has reached 260,000; annual milk production exceeds 520,000 metric tons; and another 702 local specialty dairy product workshops have officially been registered, covering 5,000-plus farming households.

Xiliin Gol produces 54,000 tons of cheese and related products annually, driving the employment of nearly 30,000 farmers and relevant industry practitioners, with an annual production value reaching 1.7 billion yuan.