



MONTHLY REPORT

TRADE SERVICING

– WUSATA

January 2023



Monthly Trade Servicing Report

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

Executive Summary

Further evidence of China's gradual return to normalcy was displayed during the Lunar New Year holiday period on January 20-26, where domestic travels surged 74% from the same period in 2022, though still only half of pre-Covid levels. The estimated 226 million trips made was the first mass traveling event since 2020, where curbs on Covid testing and lockdowns were first imposed. In the meantime, inbound/outbound travel spiked 120% from 2022 to 2.88 million, signaling an intent from Chinese and overseas consumers and businesses to resume international traveling. This is also evident when it comes to recruitment for activities such as inbound trade missions, where interests from buyers from China, and also Hong Kong, have had a clear change from the previous year. Traders are welcoming the opportunity to travel abroad and meet with suppliers, and many are ready to purchase new products and work with new partners. With several inbound/outbound trade missions in sight for WUSATA in 2023, the prospect for WUSATA suppliers to create business opportunities with Chinese buyers looks promising as people in China begin to put Covid in the past.

Market Intelligence Update

China's food industry enters uncertain 2023 amid end to zero-Covid policy

Until social unrest in November forced China's Communist Party to abandon its tough Covid-19 controls, the country's packaged food industry seemed in decent shape to produce solid growth in 2023.

Data from China's National Bureau of Statistics showed the cumulative retail value of grain, oil and food products produced in China were worth CNY903.2bn (US\$130bn) in the first half of 2022, up 9.9% year-on-year. But this was before protests erupted across the country and Beijing abandoned its stringent zero-Covid policy, sparking surging infections that will challenge the Chinese economy in this new year.

A spokesperson for Danone shortly before Christmas told Just Food that "on consumption patterns, the current sanitary situation in China makes consumer trends quite unpredictable at the moment". China's official data continue to show low infection figures and few deaths despite media reports hospitals and morgues are overwhelmed.

That uncertainty is underlined by the fact some observers believe the lifting of

the strict controls on movement could in fact boost the economy, despite the resulting increase in infections. Dan Wang, the chief economist at Hang Seng Bank (China), predicts economic activities will start to return to normal after an initial few months of surging infections. “Catering, tourism, entertainment, business travelling and events, which were depressed the most during lockdowns, will be among the first to revive,” Wang says, boosting packaged retail food sales.

Chim Lee, a China/Asia analyst for the UK-based Economist Intelligence Unit (EIU), predicts the end of China’s zero-Covid policy will have a mixed but – ultimately – net-positive impact on packaged food sales. Lee notes that, relative to other retail categories, food sales were a bright spot in 2022, as the packaged food industry benefited from people stockpiling food in anticipation of lockdowns and other restrictions on mobility. Lee, however, emphasizes how the impact has been mixed across categories.

“Over the last few quarters, [parts of] the sector – such as some snack brands – has been suffering from weak consumer sentiment as China’s economic outlook deteriorated under the ‘Zero Covid’ policy but China’s exit from Zero Covid will lead to a recovery in consumer confidence, which will likely benefit the sector eventually, although the short-term effect could be a bit shaky as people stop hoarding packaged food,” added Lee.

Research and intelligence company group GlobalData – Just Food’s parent company – is also bullish, noting the overall value sales of packaged food in China crossed the US\$1trn milestone in 2022, with an increase projected in 2023. GlobalData says meat, dairy, soy, bakery and cereals are set to be the largest categories in 2023, contributing well over half of overall packaged food sales in China by value.

“As consumers learn to live with Covid-19, economic and social activity will improve steadily in the second half of 2023,” says Bobby Verghese, a consumer analyst at GlobalData.

“After nearly three years of financial and psychological stress due to the intermittent pandemic control measures, the recall of the Zero Covid policy will unleash pent-up demand, powering up China’s consumption engine. “The upcoming Chinese New Year festival celebrations will be a bellwether for consumer sentiment and business confidence.”

Guiyang-based Hua Chuang Securities, which mainly offers bank investment, asset management and securities brokerage, has noted in Chinese-language stocks analysis service Stockstar that although some of the major names in China’s food and beverage industry saw pressure on profits due to the pandemic,

their revenue has expanded steadily. That said, it added there has been some rationalisation seen in parts of the sector. The brokerage, meanwhile, said the pressure seen on the costs of inputs such as packaging materials, edible oil and sugar has eased, giving packaged food companies more flexibility heading into 2023.

Citing a recent survey conducted among several securities brokerages, Stockstar found that a total of 30 food stocks traded on Chinese bourses achieved growth in net profits in 2022. It singled out Guangxi-based Yanjin Shop Food, which mainly manufactures and sells snack foods containing nuts, tropical fruits and marine products for its year-on-year profit growth (up 102.3%). The service also highlighted three other companies: Sichuan-based Teway Food Group, which mainly manufactures hot pot ingredients (for the home-based cooking of tabletop hot pot recipes), seasonings and condiments; Shandong-based Delisi Food, which mainly processes and sells meat products; and Shanghai-based dairy-maker Milkground (each exceeding 70% year-on-year profit growth).

Even as China pursued its Zero Covid policy and implemented sporadic lockdowns across major conurbations, the country's packaged food industry still attracted investment in the last 12 months.

Multinational cheese maker Bel snapped up 70% of Chinese cheese maker Shandong Junjun Cheese Co. Bubs Australia entered into a venture for infant-formula production in China, while Thai Union Group set out plans to invest in China's pet food market. Major south-east Asian dairy group Vinamilk invested in its domestic production in part to help support exports to China.

Research by GlobalData suggests there was a dip in deal-making in China last year but some observers suggest the country's packaged food sector may be headed into a period of consolidation, as the shift away from Zero Covid could cause issues along the supply chain and upend consumer demand patterns.

"There is going to be quite a bit of disruption to the supply chain with workers becoming sick on production lines and last-mile delivery is having some major challenges at the moment," Ben Cavender, managing director at the Shanghai-based China Market Research Group, says. "In general, the overall situation should benefit the larger players who have better funding to weather a very disjointed consumer market over the next one to two quarters and who tend to have better distribution and ability to get products into home pantries.

"I think right now it's very hard to say how things are going to land for the various market players as there are a lot of unanswered questions regarding both the supply chain as well as consumers."

China's retail sales of consumer goods hits \$6.51tn

China's retail sales of consumer goods totaled 43.97 trillion yuan (\$6.51 trillion) in 2022, declining 0.2 percent from a year ago, the National Bureau of Statistics said on Tuesday (January 17).

The retail sales of consumer goods in urban and rural regions were respectively 38.04 trillion yuan and 5.93 trillion yuan, according to the NBS. While the figure for urban region fell 0.3 percent year-on-year, that for the rural area stayed flat from a year ago.

Merchandise retail sales increased 0.5 percent year-on-year to 39.58 trillion yuan, while that for the catering industry declined 6.3 percent to 4.39 trillion yuan.

Specifically, retail sales of edible oil and food and that of beverage from enterprises above designated size jumped 8.7 percent and 5.3 percent, respectively, on a yearly basis.

Online retail sales rose 4 percent year-on-year to 13.79 trillion yuan. Among that, tangible merchandise retail sales reached 11.96 trillion yuan, up 6.2 percent from a year ago and accounted for 27.2 percent of total retail sales of consumer goods.

In December, total retail sales of consumer goods fell 1.8 percent year-on-year, 4.1 percentage points slower than that in November.

Alibaba's grocery brand Hema Xiansheng break even as China's Covid lockdowns boost need for online groceries shopping and deliveries

Hema Xiansheng, the grocery brand under Alibaba Group Holding's supermarket chain Freshippo, broke even last year in China when its sales of fresh produce including vegetables, seafood and meat via online applications were boosted during the country's Covid-19 lockdowns and quarantines.

Sales of fresh foods at the chain, known in Chinese as Hema – homonyms that sound like the words for the hippopotamus – were profitable after seven years of development, according to a letter to staff by Freshippo's chief executive Hou Yi.

The break-even showed that Alibaba's "new retailing is finally bearing fruit" after years of investments, putting Freshippo on track to serve 1 billion customers with the estimated sales value of 1 trillion yuan (US\$145 billion) over the next decade, Hou said, without divulging the company's current customers and sales figures.

Freshippo was created to take advantage of the supply chain prowess of Alibaba's e-commerce platforms Taobao and Tmall, offering consumers the convenience of online ordering with door-to-door deliveries and in-store dining. Over the years, it diversified into a range of services like the takeaway lunchboxes called Hema F2, its membership store Hema X, and the street-corner convenience store called Hema Mini.

The break-even is a milestone in the new frontier of China's fiercely competitive retail industry, where a number of internet-powered retailers like Meituan's Maicai unit and the independently run Dingdong Maicai are vying to deliver fresh produce to consumers.

Freshippo will continue to source products from around the world to win customers, wrote Hou, who personally led a tour to Europe last month to search for boutique beers, drinking water and chocolates.

The chain's path to profit was marked by quick turnarounds and changes in directions: Freshippo closed dozens of shops under the Hema Neighbourhood Business last year within months of opening them, according to an October report by 36kr. The agility to adapt helped Freshippo generate healthy growth in its same-store sales and pared its losses, which in turn "benefited" Alibaba's earnings in the September quarter, according to the company's latest filings. Alibaba owns the South China Morning Post.

Freshippo operates about 350 stores across mainland China, most of them concentrated on the eastern seaboard around the commercial hub Shanghai, and Alibaba's home city Hangzhou, as well as across Beijing and Shenzhen.

➤ ***Activities & Achievement***

This month's activity is mainly related to trader contact for Mainland China and Hong Kong markets.

Thank You!

Submitted by SMH, China/Hong Kong In-market Representative

