MONTHLY REPORT

TRADE SERVICING

– WUSATA

July 2022

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Market: China & HK **Submitted by**: China In-market Representative **Month & Year:** July 2022

Executive Summary

On July 22, invited by ATO Beijing, SMH represented WUSATA at the China Pet Food Industry Development Forum and China Chamber of Commerce of I/E of Foodstuffs, Native Produce and Animal By-Products (CFNA)'s inaugural conference of its Pet Industry chapter in Hangzhou. At the conference, SMH provided a presentation on the pet food industry in the U.S., and also export overview on U.S./western U.S. pet food export to China. The conference was attended by the President of the CFNA, various secretaries of the CFNA and the new pet industry chapter, chamber of commerce in Hangzhou, as well as a number of industry leaders in China's pet food industry, for example China Pet Foods, MyFoodie, Nestle and more. Via attending the event, SMH was able to generate new contacts within the higher-ups at the CFNA, brought interests from domestic enterprises for pet food products from the U.S., and increase working opportunities with these enterprises.

Through discussing with the various members from the CFNA and industry players, SMH can observe that the U.S. is well-recognized as the world leader in pet food/pet products, and sees the U.S. as the market which China is hoping to learn from, and create an industry that values the research and development of domestic products, citing the nature of America's demographic naturally attracts top talents to innovate new products, something that China trails far behind. With that being said, China's pet food market is teemed with potential due to the fact that despite the number of pet-owning household is closing in on the U.S., the per capita ratio is still relatively low compared to the U.S., thus industry players are having their sight set at this enormous market.

Market Intelligence Update

China tells local governments to drop COVID tests on some goods
China's health authority said on Tuesday (July 12) that local governments no longer need to test some imported goods for the coronavirus, in a move aimed at reducing the cost of its strict COVID-19 prevention measures.

China began testing the packaging of chilled and frozen food imports for the virus in June 2020, after a cluster of infections among workers at a wholesale food market in Beijing.

Six months later, Beijing also advised testing on ambient products too, even as scientists said the risk of coronavirus infection through contact with contaminated surfaces was low.

Local governments no longer need to test ambient foods or other goods for the virus, said the National Health Commission on its website, but it was not clear if the products would still be subject to checks at customs.

Chilled and frozen foods will continue to be tested, however, but exporters will not face import suspensions when their goods test positive at customs checks, added the NHC.

The steps come amid growing efforts to support China's flagging economy.

China has linked previous COVID-19 outbreaks among dock workers with the detection of the virus on frozen food. But its intensive scrutiny and testing and disinfection of imported produce has added significant cost and disrupted trade.

The virus has been detected on hundreds of chilled and frozen food shipments since 2020, with major suppliers of meat, seafood and other products suspended for weeks.

Some local governments have gone beyond national rules, with the city of Lhasa, capital of Tibet, banning imported frozen foods outright in an effort to reduce risk of the virus.

China's consumer prices rise 2.5% in June

China's consumer price index (CPI), a main gauge of inflation, rose 2.5 percent year on year in June, the National Bureau of Statistics said on Saturday (July 9).

On a monthly basis, June's CPI reversed the 0.2-percent decline in May to remain flat due to effective COVID-19 control and a sufficient supply of consumer goods, noted Dong Lijuan, a senior statistician with the NBS.

Food prices went down 1.6 percent month on month, expanding from the 1.3-percent decline logged in May, which lowered the monthly consumer inflation by about 0.3 percentage points, according to the data.

Specifically, the price of pork, a staple meat in China, increased by 2.9 percent in June over the previous month. Dong attributed the growth to some farmers' activities such as hoarding and reluctance to sell, as well as consumer demand increase amid waning epidemic.

Non-food prices rose 2.5 percent from a year earlier, compared to the

2.1-percent rise in May, lifting the yearly consumer inflation by about 2.01 percentage points.

The prices of gasoline and diesel continued the upward trend with year-on-year growth of 33.4 percent and 36.3 percent, respectively, while airfare surged by 28.1 percent from a year ago.

Saturday's data also showed that China's producer price index, which measures costs for goods at the factory gate, went up 6.1 percent year on year in June.

China’s economy shrinks 2.6% during virus shutdowns

China’s economy contracted in the three months ending in June compared with the previous quarter after Shanghai and other cities shut down to fight coronavirus outbreaks, but the government said a “stable recovery” is under way after businesses reopened.

The world’s second-largest economy shrank by 2.6%, down from the January-March period’s already weak 1.4%, official data showed Friday (July 15). Compared with a year earlier, which can hide recent fluctuations, growth slid to 0.4% from the earlier quarter’s 4.8%.

Activity was “much weaker than expected,” Rajiv Biswas of S&P Global Market Intelligence said in a report.

Asian stock markets were mixed following the news. Hong Kong was down 0.8% at mid-morning while Shanghai, Tokyo and Seoul gained.

Anti-virus controls shut down Shanghai, site of the world’s busiest port, and other industrial centers starting in late March, fueling concerns global trade and manufacturing might be disrupted. Millions of families were confined to their homes, depressing consumer spending.

Factories and offices were allowed to start reopening in May, but economists say it will be weeks or months before activity is back to normal. Economists and business groups say China’s trading partners will feel the impact of shipping disruptions over the next few months.

“The resurgence of the pandemic was effectively contained,” the statistics bureau said in a statement. “The national economy registered a stable recovery.”

Data on factory output, consumer spending and other activity suggest overall growth was even weaker than the headline figure, Julian Evans-Pritchard of

Capital Economics said in a report.

“Even accounting for June’s strength, the data are consistent with negative y/y (year-on-year) growth last quarter,” Evans-Pritchard wrote. “This isn’t the first time that the official GDP figures have seemingly understated the extent of an economic downturn.”

The slump hurts China’s trading partners by depressing demand for imported oil, food and consumer goods.

China’s infection numbers are relatively low, but Beijing responded to its biggest outbreak since the 2020 start of the pandemic with a “zero-COVID” policy that aims to isolate every person who tests positive. The ruling party has switched to quarantining individual buildings or neighborhoods with infections but those restrictions covered areas with millions of people.

Repeated shutdowns and uncertainty about business conditions have devastated entrepreneurs who generate China’s new wealth and jobs. Small retailers and restaurants have closed. Others say they are struggling to stay afloat.

The ruling Communist Party is promising tax refunds, free rent and other aid to get companies back on their feet, but most forecasters expect China to fail to hit the ruling party’s 5.5% growth target this year.

Investment in factories, real estate and other fixed assets climbed 6.1%, reflecting the ruling party’s effort to stimulate growth by boosting spending on public works construction and ordering state-owned companies to spend more.

China also faces headwinds from weak global demand. Exports jumped 17.9% in June over a year earlier, but forecasters say that reflected ports clearing out cargo after anti-virus curbs lifted. They say growth is likely to fall back.

➢ *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