



# MONTHLY REPORT

TRADE SERVICING

– WUSATA

February 2023



# Monthly Trade Servicing Report

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

## ***Executive Summary***

Chinese port operations are returning to normal with some backlogs. Air and ocean freight rates are far below their peaks but are still elevated. And while demand for imports was depressed by Covid-related requirements, logistical issues, a weak restaurant sector, and low growth, those constraints are dissipating. According to media reports, imports of some cold-chain foods are rebounding. Shipping and trade contacts report that shipping delays for U.S. agricultural products are due to global container shortages and the shortage of U.S. longshoremen and truck drivers.

Importers of U.S. agricultural products have been facing higher tariffs, pandemic controls, and delayed shipments. Their relationship with exporters has changed dramatically. The transfer of costs is not fixed; if China's demand is large enough importers are more willing to accept cost increases. Even if there are alternative suppliers, importers are very cautious. They attach great importance to the smooth flow of logistics and are not willing to change suppliers easily.

## ***Market Intelligence Update***

### **China's economic recovery is off to a slow start**

Migrant workers have mostly returned to work after China's biggest holiday of the year, and children went back to school this week. But preliminary data indicate overall growth isn't roaring back on all cylinders yet, despite mainland China ending its Covid controls in early December.

For example, official loan data for January showed year-on-year growth in loans to businesses, but a sharp drop in that to households. "The mixed data send a clear message that markets should not be too bullish about growth this year," Nomura's chief China Economist Ting Lu said in a report Monday (Feb 13).

"This pattern has rich implications for different asset classes and commodity types, so closely tracking these high frequency data is warranted," he said.

Road and subway traffic in cities is back above pre-pandemic levels in 2019, the Nomura report said, citing mid-February data. Turnover in freight transport is still down from a year ago, the report said.

The "unemployment rate is still high which keeps household confidence weak,"

Zhiwei Zhang, president and chief economist at Pinpoint Asset Management, said in a note about January's loan data. "I'd expect household confidence to improve as well in the coming months, but it will likely be a gradual process."

China's National Bureau of Statistics does not break out retail sales, industrial production or fixed asset investment data for January due to distortions from the Lunar New Year. The holiday's dates on the Gregorian calendar vary each year.

However, the bureau released inflation data for January, which showed tepid demand as consumer prices went up by 2.1% from a year ago — slightly less than what analysts polled by Reuters had expected. Excluding food and energy, the so-called core consumer price index rose by 1% in January, recovering to the same pace as June 2022.

The producer price index that measures input costs for factories dropped by 0.8% in January from a year ago, more than the 0.5% decline forecast by a Reuters' poll.

In another sign of falling global demand, China's yuan hit a five-week low against the U.S. dollar on Monday after data showed South Korea's average daily exports for the first 10 days of February fell by 14.5% after adjusting for the Lunar New Year holiday, according to Reuters.

China's policymakers are expected to remain supportive of the domestic economy. It also remains to be seen how demand from China's growth picks up as businesses resume work and travel after the Lunar New Year holiday.

Robin Xing, chief China economist at Morgan Stanley, pointed out that in-person meetings are particularly important for doing business in China, and that such interactions weren't easily feasible last year.

He expects overall policy will be loose this year, and that regulators have returned to "growth-focused policy pragmatism."

It's "the most favorable backdrop for private sector 'animal spirits' in four years," Xing said in a report. He forecasts China's GDP can grow by 5.7% this year.

Beijing is widely expected to set a GDP target of around 5% or more in March.

While warning of a mixed picture, Nomura's Lu has also raised his GDP forecast to 5.3% due to the earlier-than-expected end to the pandemic and Covid controls.

"We still believe inflation is not a major concern in China this year," he said, "and

we expect policy to remain accommodative in 2023.”

### **Catering sector business bounces back**

Since December, the catering sector in China has witnessed a fast recovery for dine-in business and delivery services, as well as precooked products, after the authorities announced optimized COVID-19 control measures.

This year, the Spring Festival holiday and Lantern Festival witnessed this rebound, which has given those in the industry added confidence for their operations this year.

According to the Ministry of Commerce, during Spring Festival, sales at key national retail and catering enterprises nationwide rose by 6.8 percent year-on-year. Such enterprises' income in Hainan and Hunan provinces rose by 15.3 percent and 10.5 percent, respectively, year-on-year, while those in Zhejiang province witnessed an 8.9 percent rise.

Since December, many provinces and cities, including Hubei, Henan, Guangzhou, capital of Guangdong, and Shenyang, the Liaoning provincial capital, have issued consumption vouchers and announced policies to boost the economy. Some vouchers can be spent on virtually anything, while others are solely for food and beverages.

In Tianjin, the authorities are issuing vouchers worth a total of 115 million yuan (\$16.9 million) in several rounds from Jan 11 to the end of this month, with 20 million allocated for the catering and tourism sectors.

In December, the Guangzhou Municipal Commerce Bureau launched measures to provide financial assistance to catering enterprises investing in infrastructure, such as by upgrading outlets, digital construction and building centralized kitchens.

The measures also encourage such enterprises to open branches outside the city and to raise the profile of intelligent services to improve capability and efficiency.

Precooked dishes were also popular during Spring Festival. By Jan 26, nationwide sales of such dishes reached 130.8 billion yuan, a year-on-year rise of 43.6 percent, according to market observer iiMedia Research. The main reasons customers buy precooked dishes are for the good taste, the variety of cuisines, as well as convenient storage and packaging, the research company said.

Gift boxes of precooked dishes were listed among the 10 most sought-after

items for Spring Festival this year, along with nuts, tea, pastry, and baijiu liquor, according to iiMedia Ranking.

The Spring Festival consumption trend forecast from e-commerce platform JD stated that the business volume for precooked dishes rose sixfold year-on-year.

Fish maw, chicken soup and pickled fish are among the most popular precooked dishes, which are complicated to make and include many expensive ingredients.

Online grocery platform Dingdong Maicai launched several precooked seafood dishes, including king crab, cheese-baked Boston lobster and deep-fried brown crab.

### **US pet food exports to China up nearly 200%**

The United States has become the largest exporter of pet food products to China, according to a trade report shared by US Department of Agriculture (USDA) Foreign Agricultural Service (FAS) on Feb. 10.

This January marks three years since the establishment of a Phase One trade agreement with China, which required China to purchase at least \$32 billion in US agricultural products — including pet food and “non-ruminant derived animal feed,” feed additives, dairy and dairy-based products, meat and poultry, rice, and other commodities — by the end of 2021.

As part of the agreement, China agreed to lift its import ban on US pet food products containing ruminant ingredients and begin allowing importation of US pet food products formulated with poultry products.

These trade negotiations have paid off for US pet food exporters in the long run. Pet food exports from the United States to China totaled more than \$304 million from January to November 2022, up nearly 200% year-over-year, according to China’s General Administration of Customs (GACC). This amounted to more than 44,000 tonnes of pet food and accounted for nearly 50% of all China’s imports over the 11-month period.

“In February 2022, avian influenza outbreaks in Canada led to China’s ban on the importation of Canadian pet foods containing poultry ingredients,” the USDA FAS stated in the report. “As a result, multiple large international pet food enterprises (e.g., Acana) transferred poultry-related exporting capacity from Canada to facilities based in other countries, including the United States, thereby allowing their companies to maintain business with China.”

Additionally, the number of pet food and pet food ingredient facilities registered

by the GACC has steadily increased since the trade agreement. According to the USDA FAS, there are now 88 US facilities registered with the GACC, 25 of which were added or renewed in 2022. This is compared to just 24 US facilities that were registered in 2020. Compared to other trade competitors, the United States has the most GACC-registered pet food facilities by a landslide — Thailand has 33, Germany has 21, Italy has 16, Spain has 13, and Canada, which is the top pet food competitor to the United States, has nine GACC-registered facilities.

China's Ministry of Agriculture and Rural Affairs (MARA) approved 435 SKUs for imported dog and cat food products in 2022, 132 of which were for US pet food products. This marks the second consecutive year that the United States ranked No. 1 in the percentage of approved pet food SKU imports to China.

While the Phase One agreement has certainly supported a more robust pet food trade relationship between the United States and China, shifting attitudes around pet ownership in China have also bolstered the growth.

According to the USDA FAS, the number of pet-owning households in China was estimated to exceed 100 million in 2022, and increased disposable income among pet-owning households is underpinning sales of premium pet food products. Pet product purchases currently make up 6.7% of total household expenditures in China, with annual consumption per pet up 2,041 yuan (\$286 USD). This is significantly higher than average pet spending among US pet-owning households, which is estimated at 1.7% of total household expenditures.

E-commerce is becoming the preferred purchasing method for Chinese pet owners. The USDA FAS shared that 71% of pet owners prefer online shopping, compared to 37% who prefer to shop offline, according to the 2022 China Pet Industry White Paper.

This sentiment is reflected among both Millennial and older generations of Chinese pet owners. The aging Chinese population is increasingly turning to pets to provide companionship, and are even treating pets as members of the family, similarly to Chinese Millennials. According to the report, China's older generations are finding convenience and speed with e-commerce, creating an attractive opportunity for US pet food producers looking to capitalize on the Chinese market.

The latest e-commerce sales data shows online pet food sales reached \$273 million USD, up 38% year-over-year. Online cat treat sales were \$51.7 million, up 32.7% year-over-year, and online dog treat sales totaled \$17.3 million, up 31.4% year-over-year.

# Thank You!

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

