



Live more,  
Bank less

# China Food & Agricultural Sector: Decoding Spending Behaviours

Group Research

November 2024



## Introduction & Summary

We have conducted proprietary consumer surveys in Oct 2024 that garnered responses from over 1,000 respondents across various cities of Mainland China. By gauging spending trends over the next 12+ months, with an emphasis on the food & beverage (F&B) sector, the surveys predominantly capture consumer preferences of middle-class individuals that represent a majority of China's private consumption, providing insights on their evolving spending behaviours.

Aside from analysing consumption patterns according to age, location, and income, the research also delves into other aspects, such as offline channel preferences, online spending propensity, brand desirability by key product category, shifts in packaging sizes, as well as the pet food landscape. All the multifaceted findings could empower businesses to comprehend the latest consumption preferences across Mainland China, and align their strategies on marketing efforts and product offerings more smoothly to optimise returns from the Chinese market.

In our research, we also include projections on medium-term growth trajectories as well as the impending input cost trends to highlight and compare the outlook of various F&B pillars. Together with our findings on the current transformative forces that shape China's food and agricultural sector, driven by technological advancements and rising focus on environmental and social sustainability, they should give a more comprehensive picture on where we currently are - initiatives could span from sustainable farming, water conservation and waste reduction, to renewable energy and social responsibility programs.

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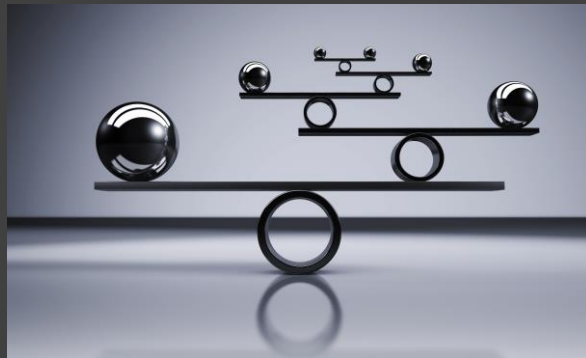
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# Our China Survey

## – Latest Consumption Trends

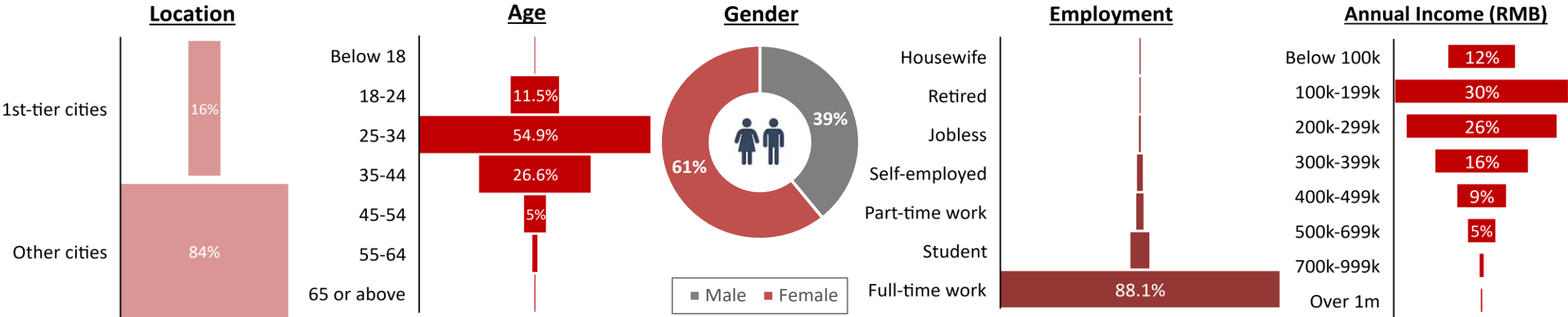




# Proprietary consumer surveys

- We conducted consumer surveys across multiple regions in Mainland China during Oct 2024, receiving over 1,000 respondents with the following profile:
  - 16% were from the 1st-tier cities and 84% from new 1st-tier, 2nd-tier and lower-tier cities;
  - 98% were aged 18-54;
  - 61% female and 39% male;
  - 88% were in full-time jobs, and
  - 81% were middle class consumers (i.e., RMB100,000 - 500,000 annual household income) – providing good indicators particularly for the food & beverage sector.

## Respondent profile:



Source: DBS HK

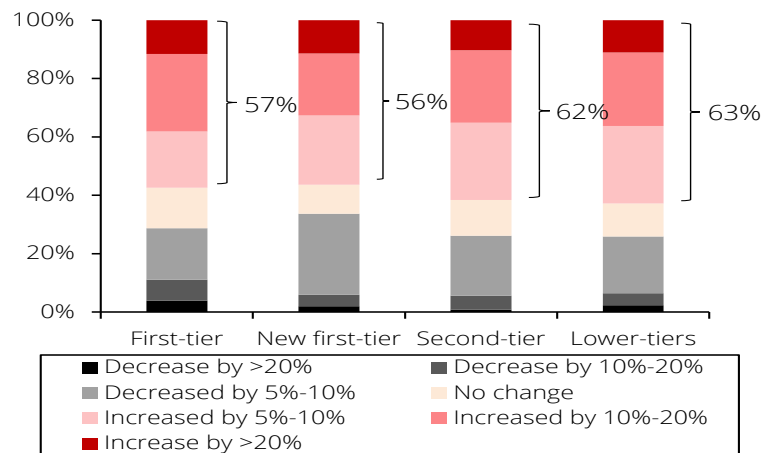


# Expenditure plans over the next 12 months

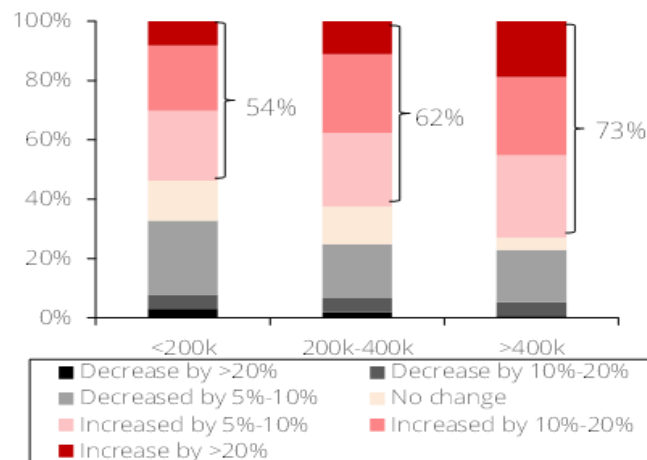
## A majority looks to spend more

- Overall, 60% of respondents plan to increase spending by 5% to over 20% in the next 12 months.
- 63% in the lower-tier cities plan to increase spending, as compared to 57% in the first-tier cities.
- 73% of the higher income group also look to increase their spending, vs. 54% of the lower income group.
- Younger consumers (<34 years old) and those over age 45 (mainly >55) show slightly stronger intent to spend more.
- All these suggest good growth drivers for F&B plays, especially by expanding their reach to inland cities, the higher income groups, younger consumers as well as customers >55 to ride on their relatively better readiness to spend – aligning well with leading operators’ growth strategies.

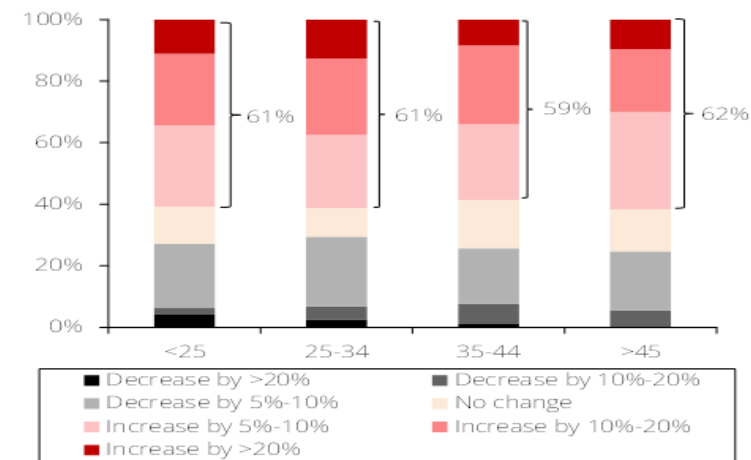
**Change in spendings  
(by tier of cities)**



**Change in spendings  
(by income group)**



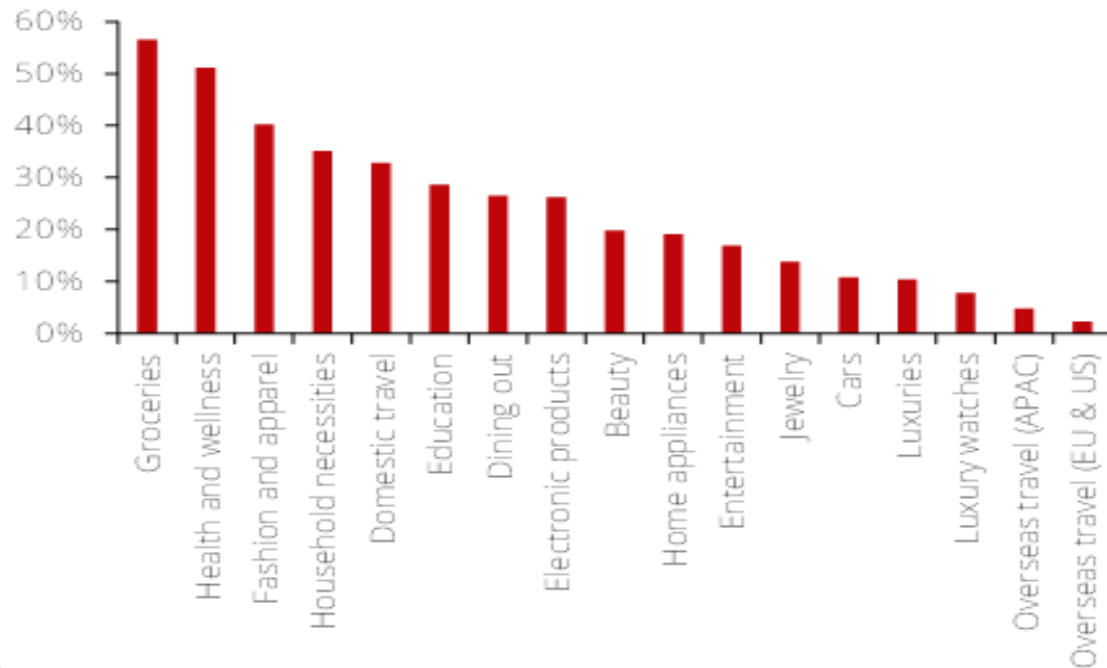
**Change in spendings  
(by age group)**



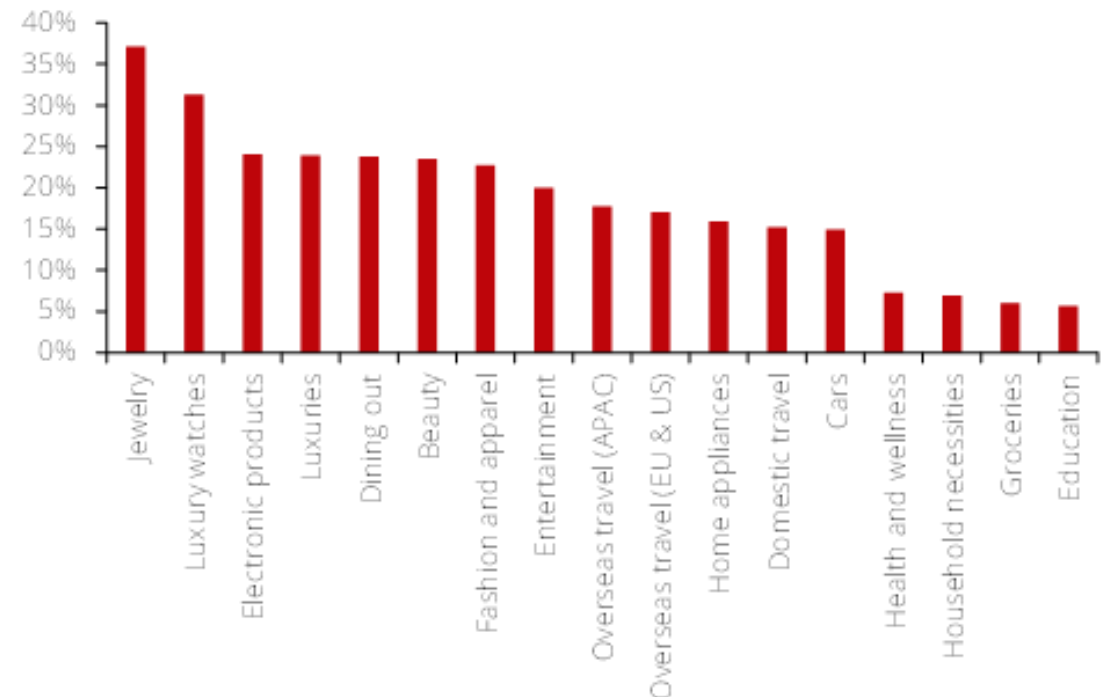
# Shifting spending patterns ...

- Over the next 12 months, most respondents prefer to increase spending on **groceries** and **health & wellness**.
- In particular, 1st-tier cities, the higher income group, as well as the >45 age group rank health & wellness as their top category to consume more. Products targeting at well-being and vitality could see better consumer preference ahead.
- On the other hand, spendings on jewelry and luxury watches might see a bigger retrench, as overall consumer sentiment takes some time to recover.

Categories with potential increase in spendings



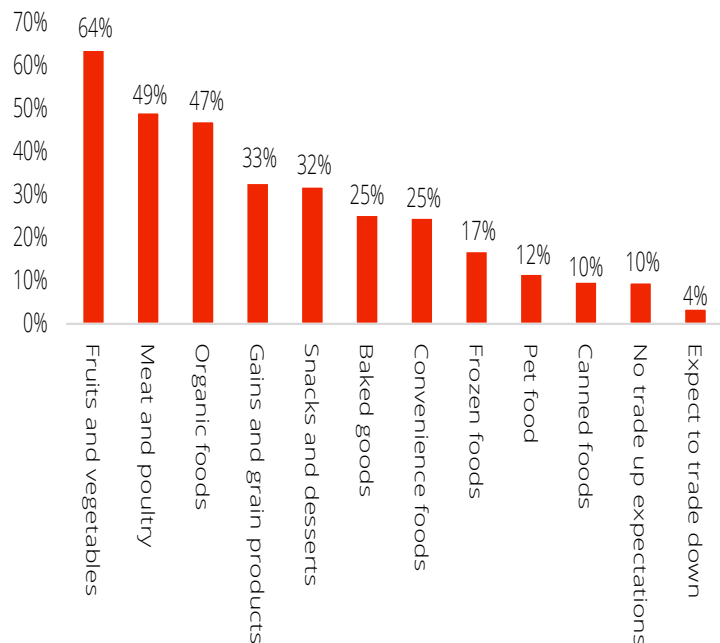
Categories with potential decline in spendings



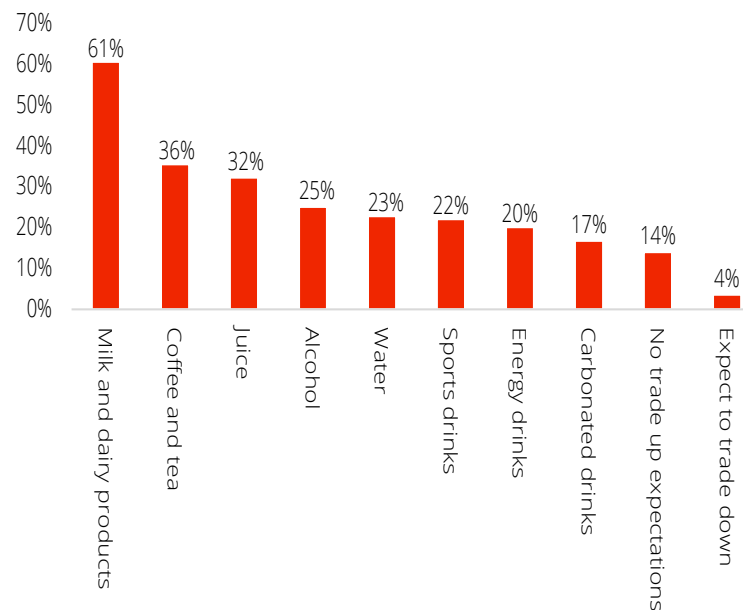
# F&B consumption choices: trade-up, trade-down?

- **Top priority: Quality Food and Beverages:** Many respondents plan to upgrade their spending on quality food products, especially for **fruits and vegetables** (64%), **meat and poultry** (49%), and **organic foods** (47%). Similarly, **milk and dairy products** (61%) and **coffee and tea** (36%) are among the top choices for beverage upgrades.
- **Cost-Saving and Promotional Influences:** Cost-saving measures (43%), promotional brands (36%), and better value offerings (36%) could be key reasons to opt for cheaper brands or smaller package sizes.
- Besides, 22% of respondents also consume products based on their needs or preferences, implying a stable demand for essential / popular items regardless of price.

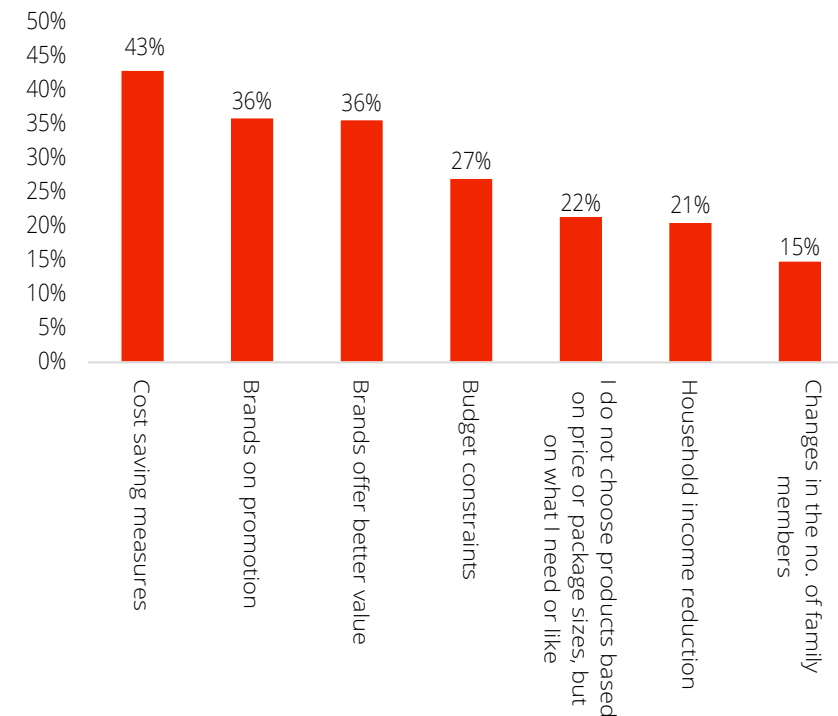
Which categories will you upgrade your spending on food in the next 12 months?



Which beverage categories will you upgrade your consumption choice in the next 12 months?



What are your main reasons for choosing cheaper brands, or smaller packages of food or drinks?





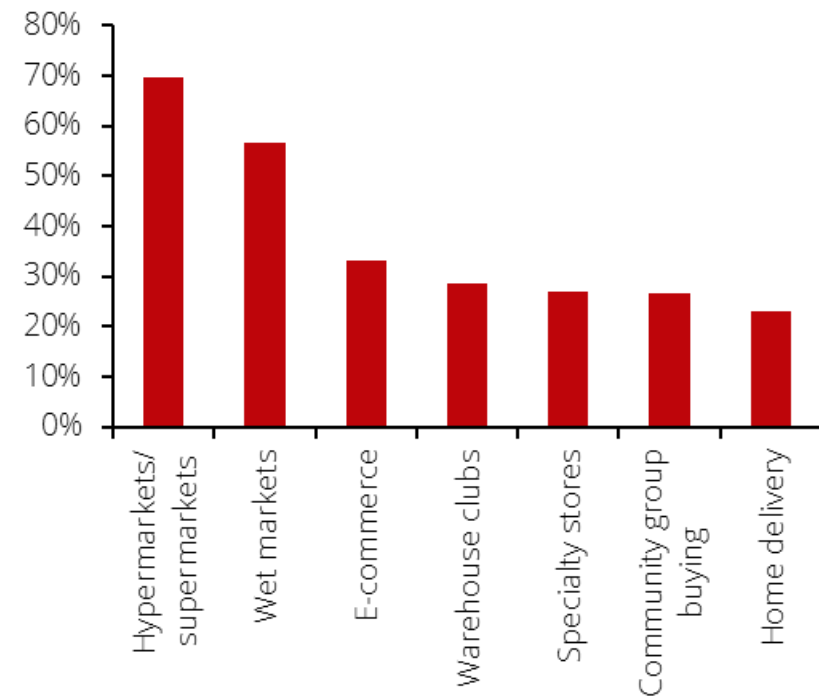
# Emerging private labels of F&B retailers

- A majority of respondents prefer private labels of hypermarket / supermarket chain stores over third-party brands, mainly because of consumers' confidence in their quality as well as their more affordable prices. Meanwhile, some respondents choose to buy third-party brands also for their better quality and brand reputation.
- In our survey, specifically for meat purchases, hypermarket / supermarket chain stores are also the most preferred channel, followed by the wet markets.

**Preference of private labels vs. other brands**



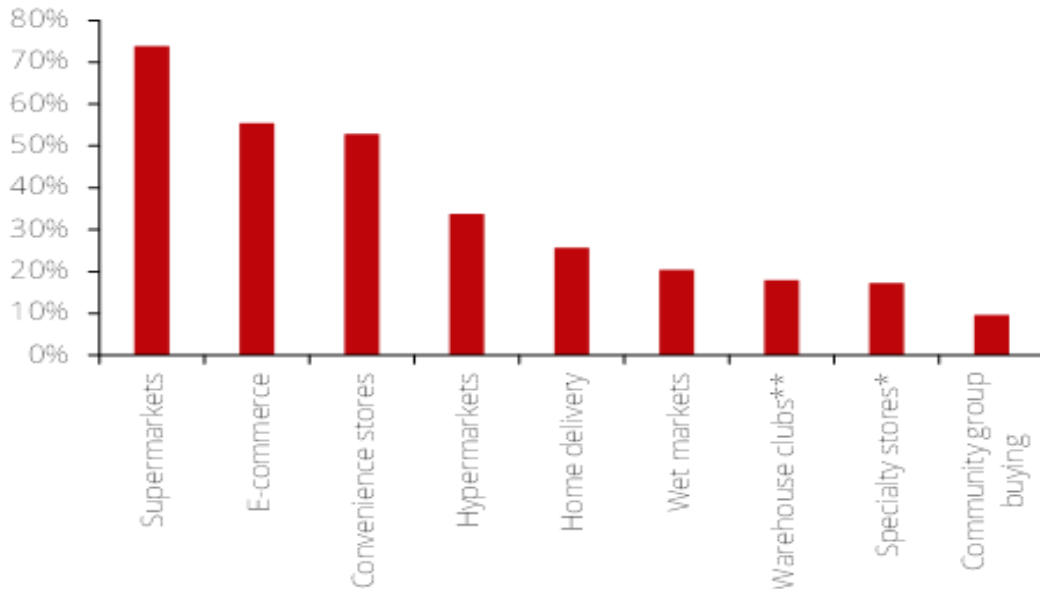
**Channel preferences of meat purchase**



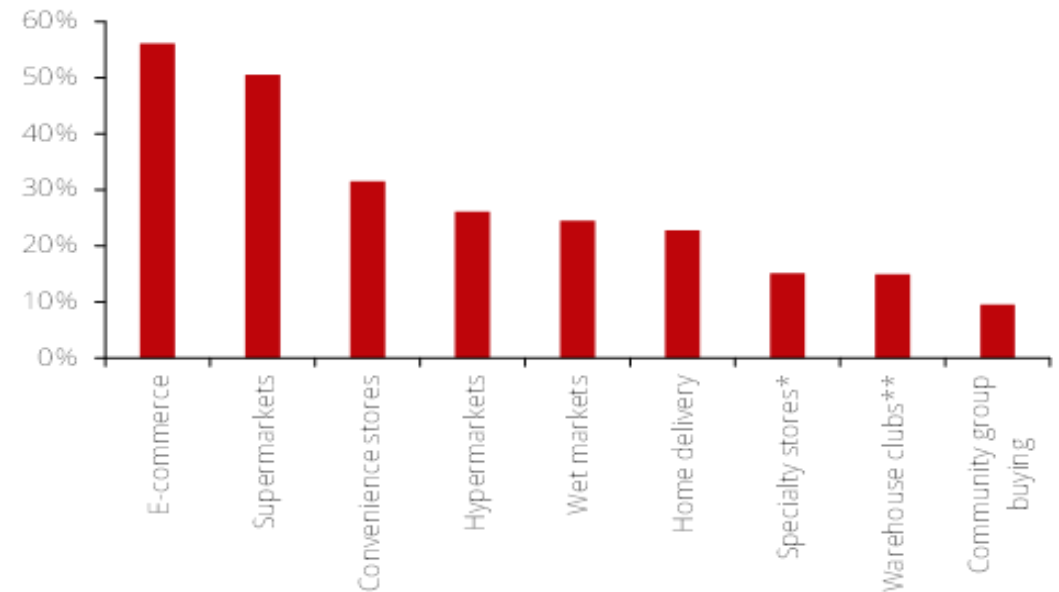
# General channel preferences in F&B consumption

- **Supermarket** (74%) dominates as the top channel of preference for F&B product consumption, followed by **e-commerce** (55%) and **convenience stores** (53%).
- Specifically, first-tier cities show a higher preference for supermarkets and e-commerce, while lower-tier cities prefer to shop more in supermarkets and convenience stores.
- Among various channels, a larger amount of respondents are looking to buy more on e-commerce in the next 12 months. This could prompt brand players to increase their online penetration.

### Preference of channels



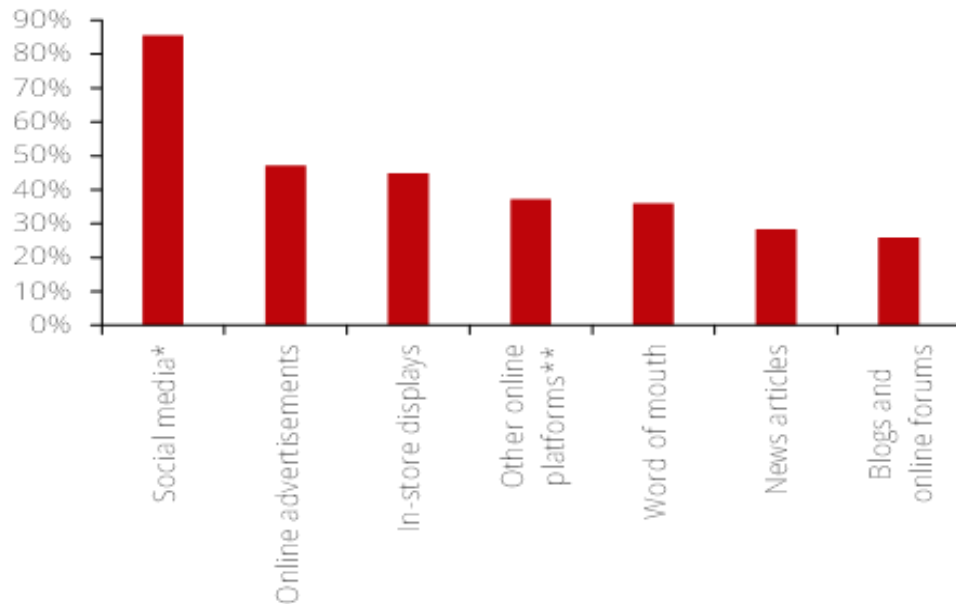
### Plans to increase spending in next 12 months



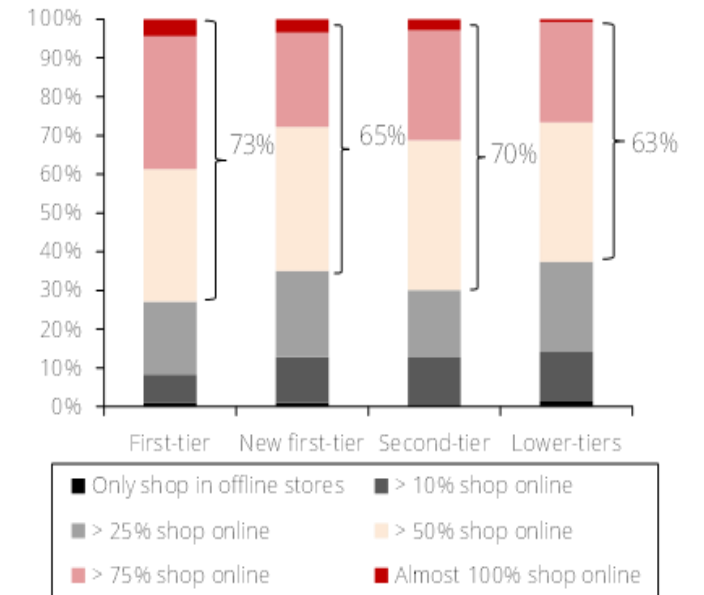
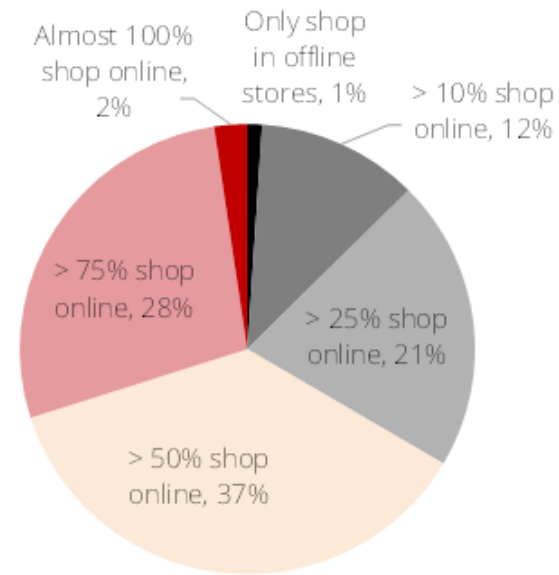
# Rising online penetration could accelerate growth

- Across all income groups, **social media** currently stands as the top medium that consumers get to know about new products in the market.
- In terms of shopping frequency, 65% of respondents purchase over half of their needs online, with another 21% buying over 25% of their consumption online.
- Broadly speaking, consumers in higher tier cities also tend to shop more frequently online as compared to the lower tier cities.

## Sources of learning about new products



## Frequency of shopping online

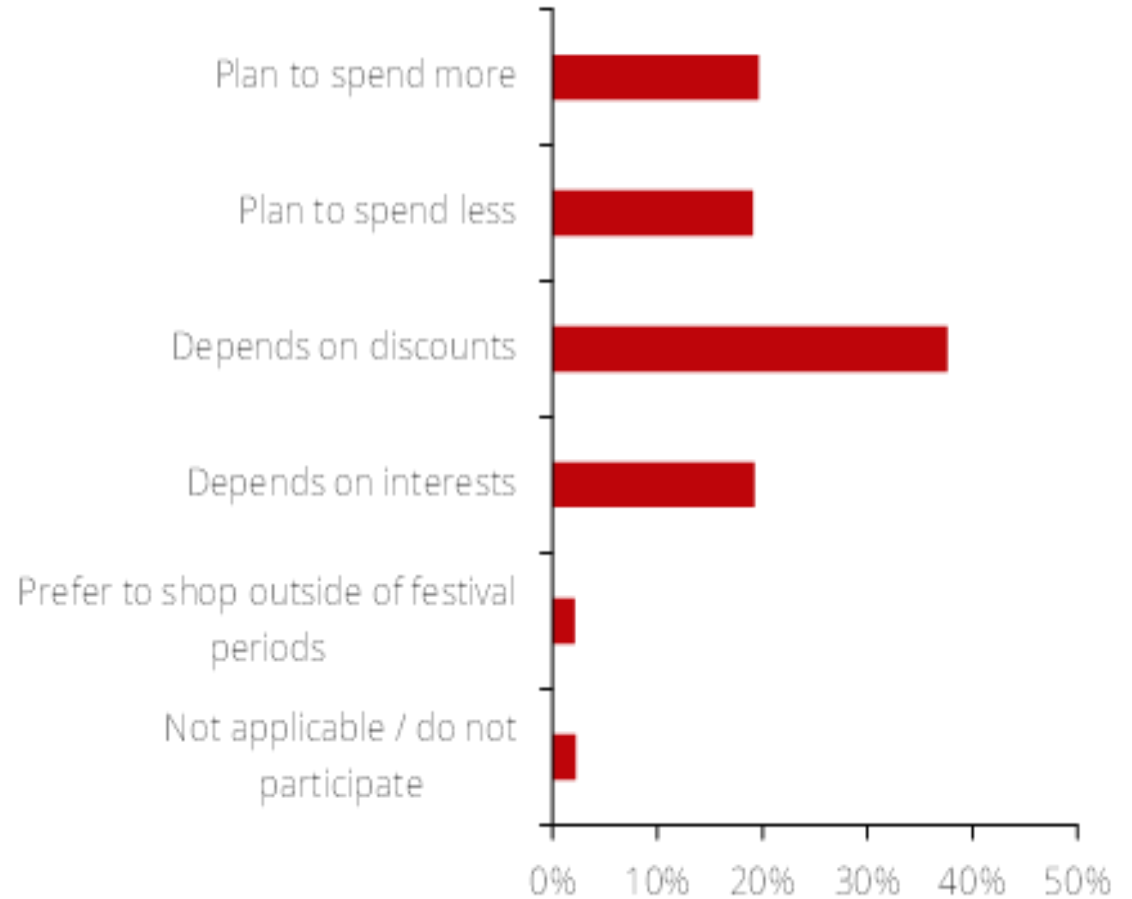


# Online spending appetite

- For the online festivals (e.g., Double-11, Double-12), consumers still focus more on the magnitude of discounts & promotions when making their purchases.
- Relatively speaking, product promotions play a slightly smaller factor in affecting spending patterns across the new first-tier cities as well as younger consumers (<35 years old)



## Plans for online shopping festivals



Source: DBS HK

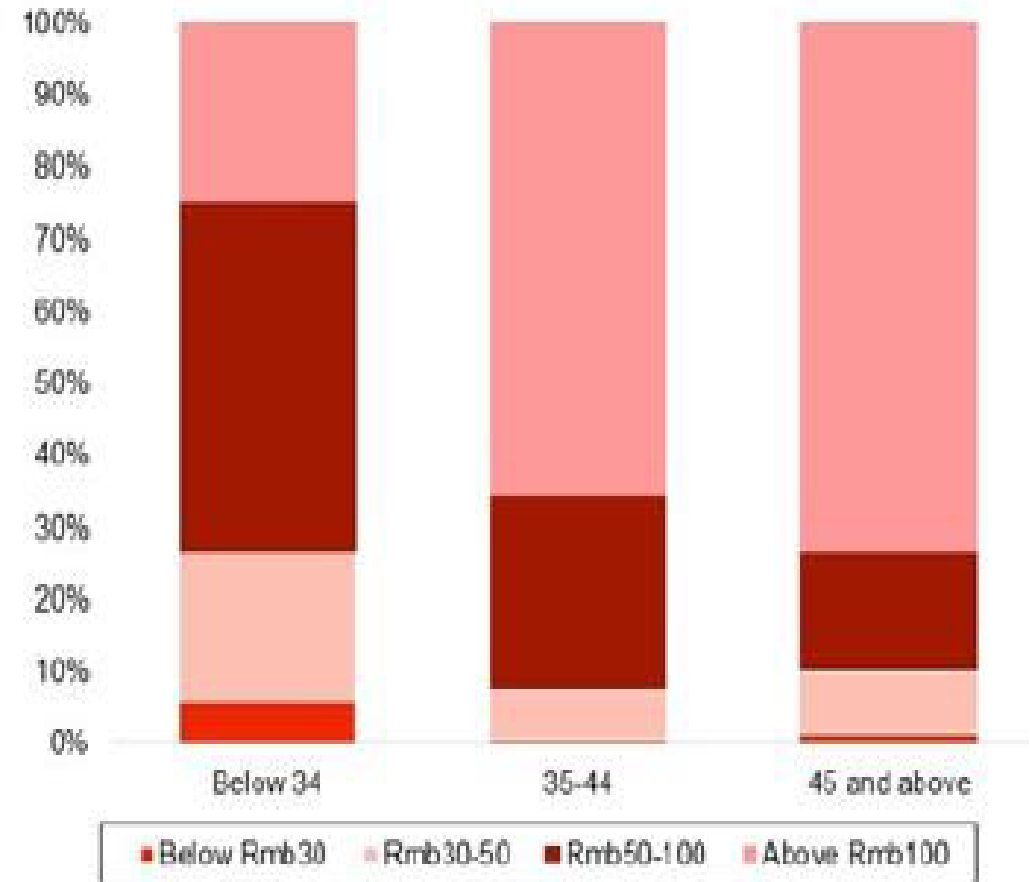
# Dining out and delivery spending trends

## Spending differences between age groups

- As age of consumers increases, those above 35 have a higher average spend of >Rmb50 when dining out, versus ages below 34
- For delivery orders / takeaways, the average spend per meal of above Rmb50 accounts for a lesser proportion of consumption



## Average spending by age group (dining out)



Source: DBS HK

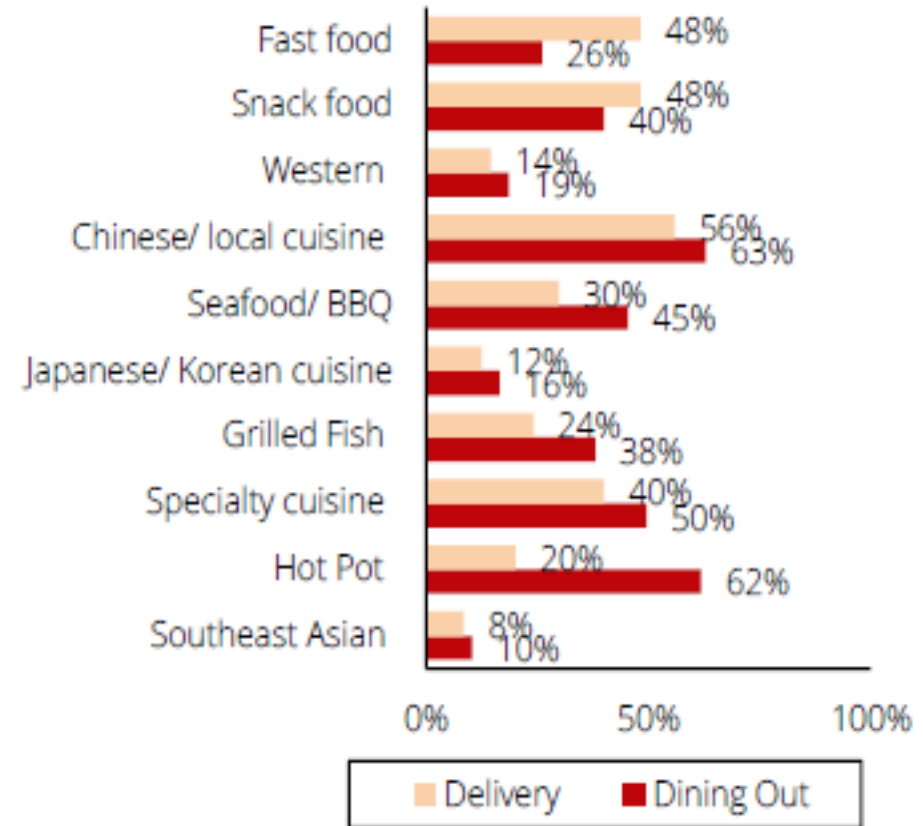


# Preferred cuisine for delivery orders vs. dining out

## Varied cuisine preferences between delivery and dining out

- There is a preference for **fast food** and **snack food** when ordering delivery versus dining out
- **Chinese / local cuisine** and **hot pot** are most preferred when dining out
- As income rises, consumers diversify their cuisine preference towards Western cuisines, Japanese/ Korean
- When comparing delivery vs. dining out, participants tend to be more adventurous when dining out, preferring seafood, BBQ, grilled fish, Japanese / Korean, Western food and Southeast Asian cuisine
- Chinese and specialty cuisines are key staples for both delivery and dining out

## Preferred cuisines

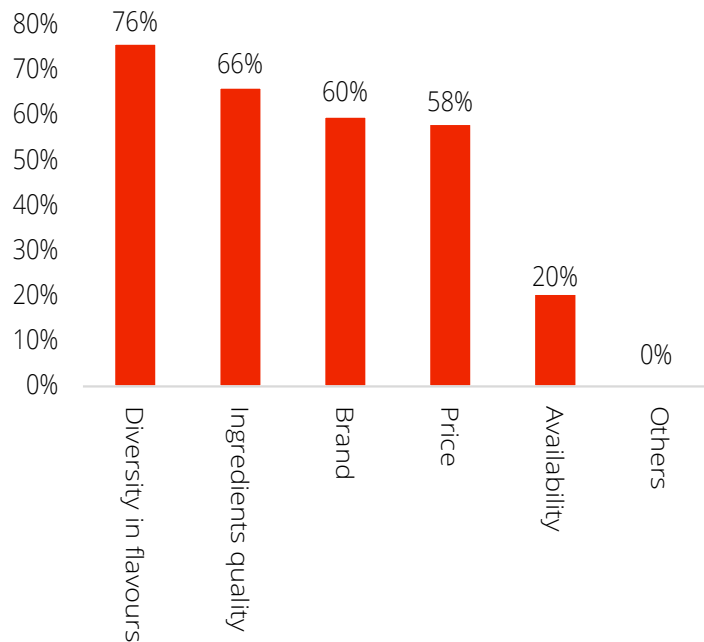


Source: DBS HK

# Influences on instant noodle preferences

- **Flavour and quality drive choices:** The majority of respondents prioritize diversity in flavours (76%) and ingredients' quality (66%) upon choosing an instant noodle brand, with brand reputation (60%) also playing a significant role.
- **Preference for family packs:** The family pack (47%) is the most preferred, followed by single-serving bowls (43%) and single-serving bags (37%)
- **Top brands for upcoming purchase over next 12 months:** Respondents prefer Baixiang (67%), Master Kong (63%), and Uni-President (50%).

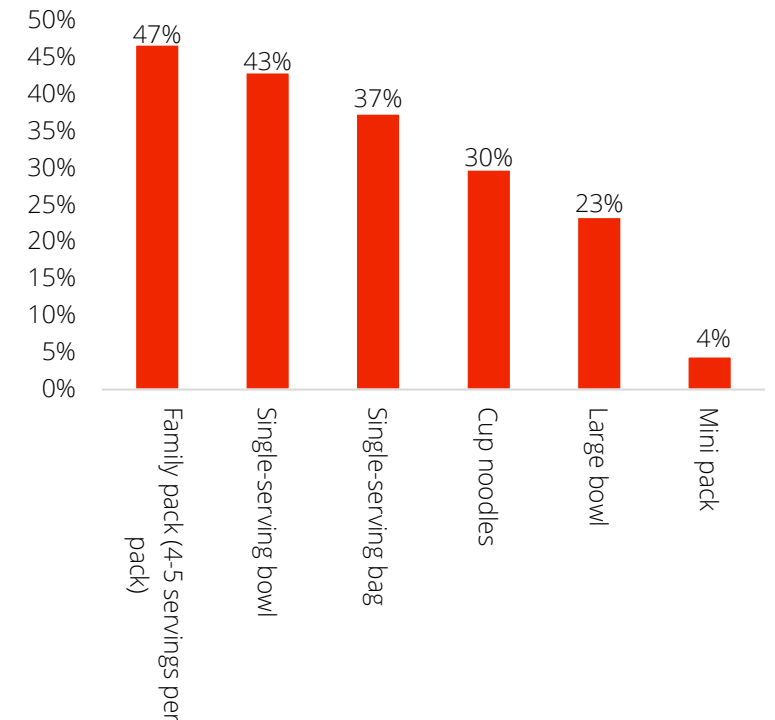
What influences your choice of instant noodle brand?



Which instant noodle brand would you like to buy in the next 12 months?



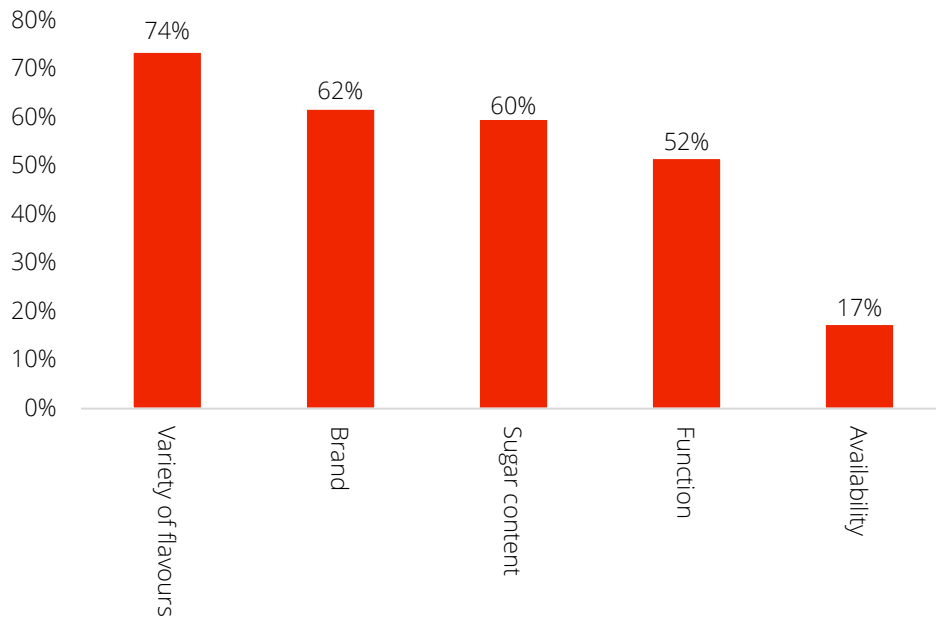
Which instant noodle packaging do you prefer to buy?



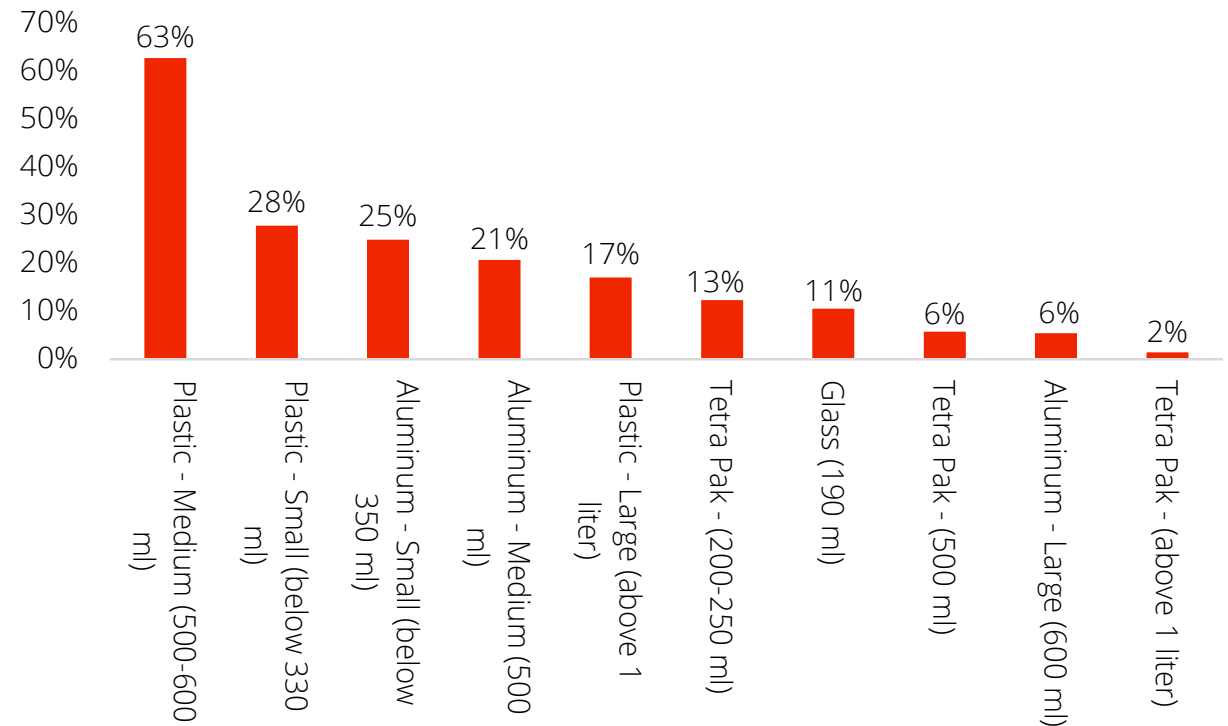
# Influences on non-alcoholic beverage preferences

- **Key factors affecting beverage brand choices:** The top-three factors influencing consumers' choices of beverage brands are the variety of flavors (74%), brand recognition (62%), and sugar content (60%). This indicates that consumers prioritize taste options, brand loyalty, and health considerations.
- **Package preferences:** The most preferred type of packaging is medium-sized plastic bottle (500-600 ml), with 63% of consumers favoring this option. Smaller plastic bottle (below 330 ml) and small aluminum can (below 350 ml) are also popular, preferred by 28% and 25% of consumers, respectively. This suggests a preference for convenient, portable packaging sizes among middle class consumers, especially post-COVID-19 as consumer mobility recovers.

## What factors influence your choice of beverage brand?



## Which beverage packaging do you prefer to buy?



# Non-alcoholic beverages: top brand preferences

- **Juice brand preferences:** Huiyuan (52%), Coca-Cola (Minute Maid) (46%), and Nongfu Spring (45%) are top-3 preferred brands
- **Coffee/Tea brand preferences:** Genki Forest (28%), Starbucks RTD coffee (27%), and NESTLE/Nescafe (27%) are amongst the top-3 preferences
- **Bottled water:** Nongfu Spring (51%) and Yibao (47%) are the leading choices for bottled water
- **Sports drinks, energy drinks, and carbonated drinks:** Mizone (38%) and Coca-Cola (28%) are top preferred brands, indicating their significant market presence in this category.

Which of the following fruit juice brands will you prefer to buy in the next 12 months?

Which coffee/tea brand would you like to buy in the next 12 months?

Which bottled water brands would you like to buy in the next 12 months?

Which sports drink / energy drink / carbonated drink brands would you like to buy in next 12 months?



Source: DBS HK

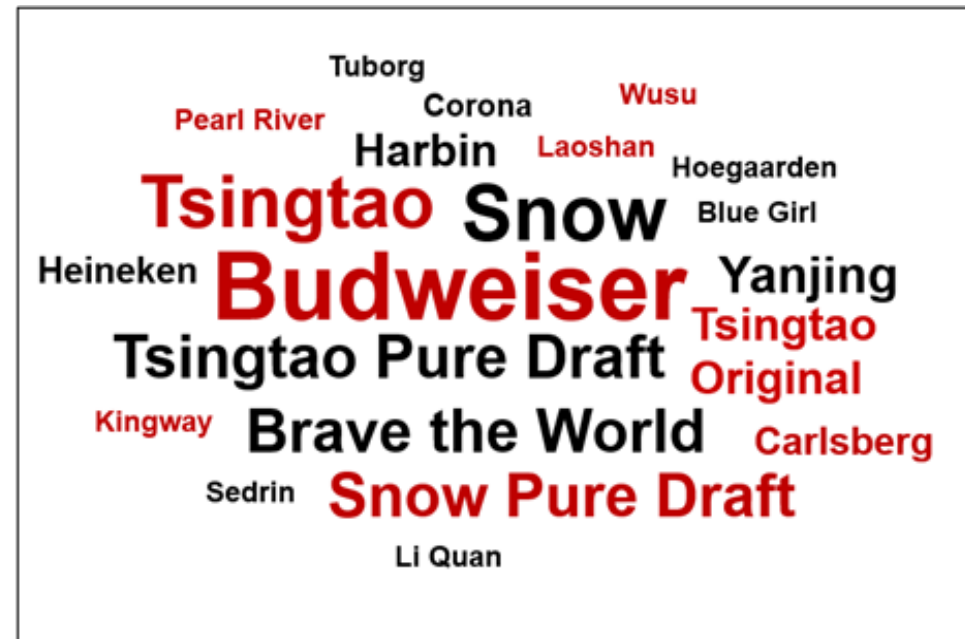
# Beer brand preferences

- In general, Tsingtao, Budweiser and Snow Beer are the top-3 brands favoured by our respondents. However, certain brands like Budweiser, Snow, and Tsingtao Original are more popular amongst the higher-income group.
- In addition, higher-income groups tend to drink more as they have lower percentage of non-drinkers.

Beer brand preferences (overall respondents)



Beer brand preferences (high-income groups)



Source: DBS HK



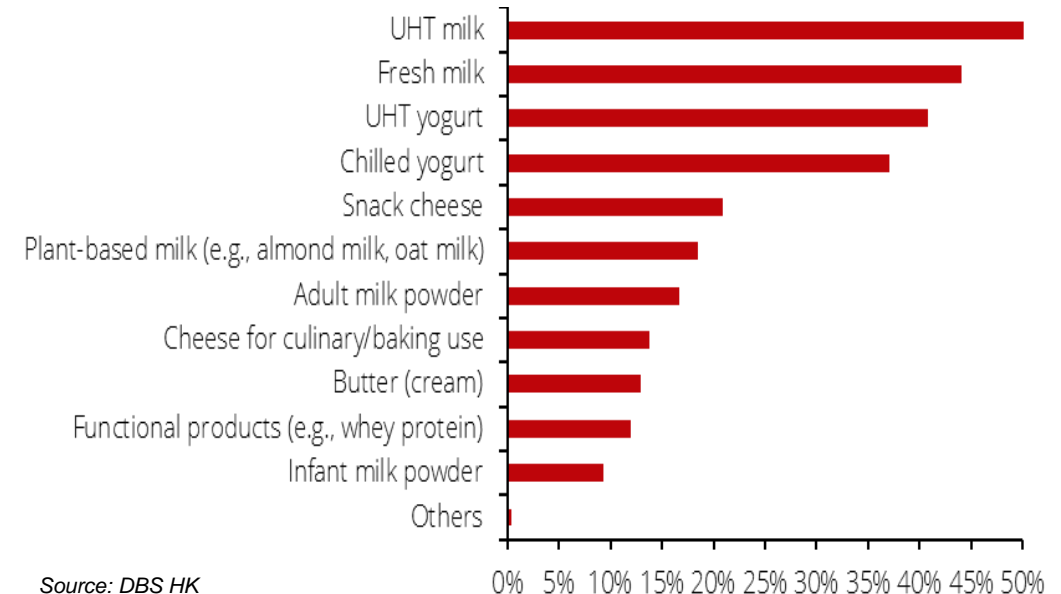
# Dairy brand & category preferences

- In general, Mengniu is slightly more popular vs. Yili among our respondents. Premium brands (e.g., Deluxe and Satine) are particularly attractive to the higher-income group. Ambrosial is also a top choice within the yoghurt category.
- Adopt A Cow, despite its currently small market share in China, is chosen by 22% of total respondents, indicating growing popularity.
- By category, UHT milk remains the key preference in the coming 12 months, with strong potential observed in fresh milk products. For milk powder, adult formula shows much stronger growth potential vs. infant formula.

## Dairy brand preferences



## Preference by product categories

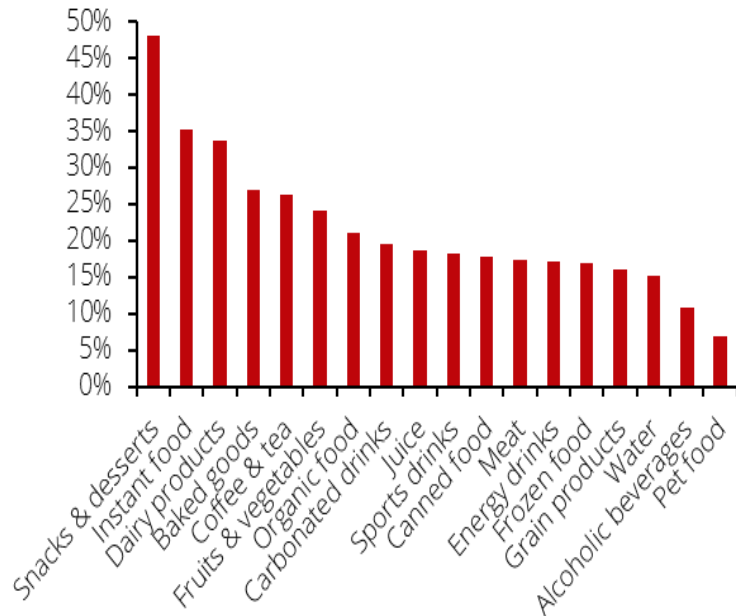


Source: DBS HK

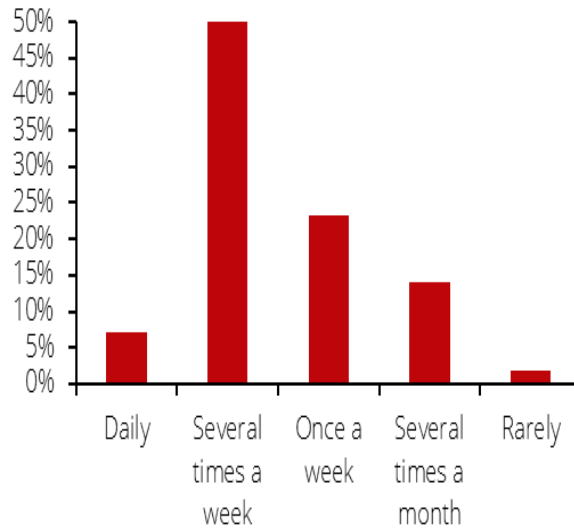
# Large vs. small pack size?

- The predominant reasons for choosing different pack sizes could be due to consumption occasions – e.g., family / party sharing; portability.
- As consumer mobility recovers post-COVID, small-packaged products are gaining popularity. Consumers also tend to buy snacks, instant food and dairy products in smaller packages.

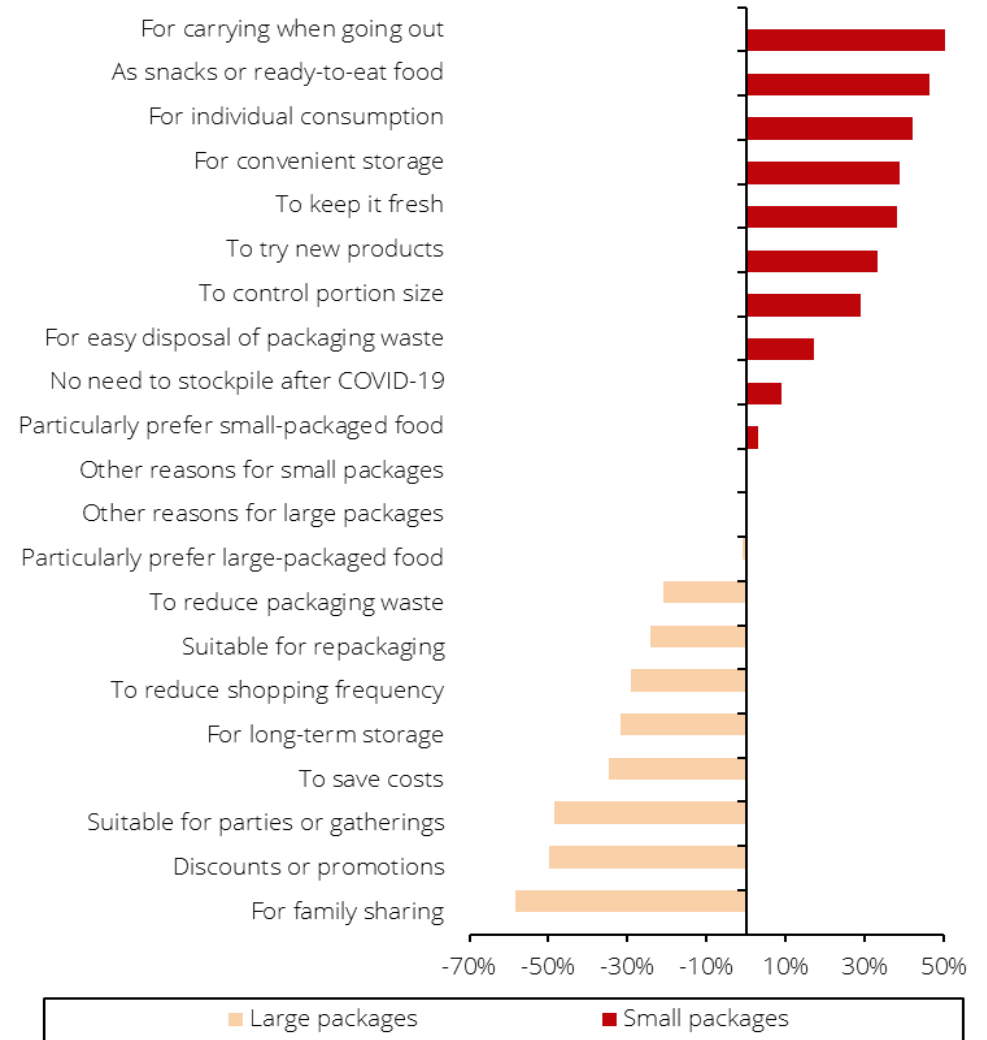
**Categories for which consumers prefer small packaging**



**Frequency of F&B purchase**



## Reasons for choosing large/small-packaged food & beverages

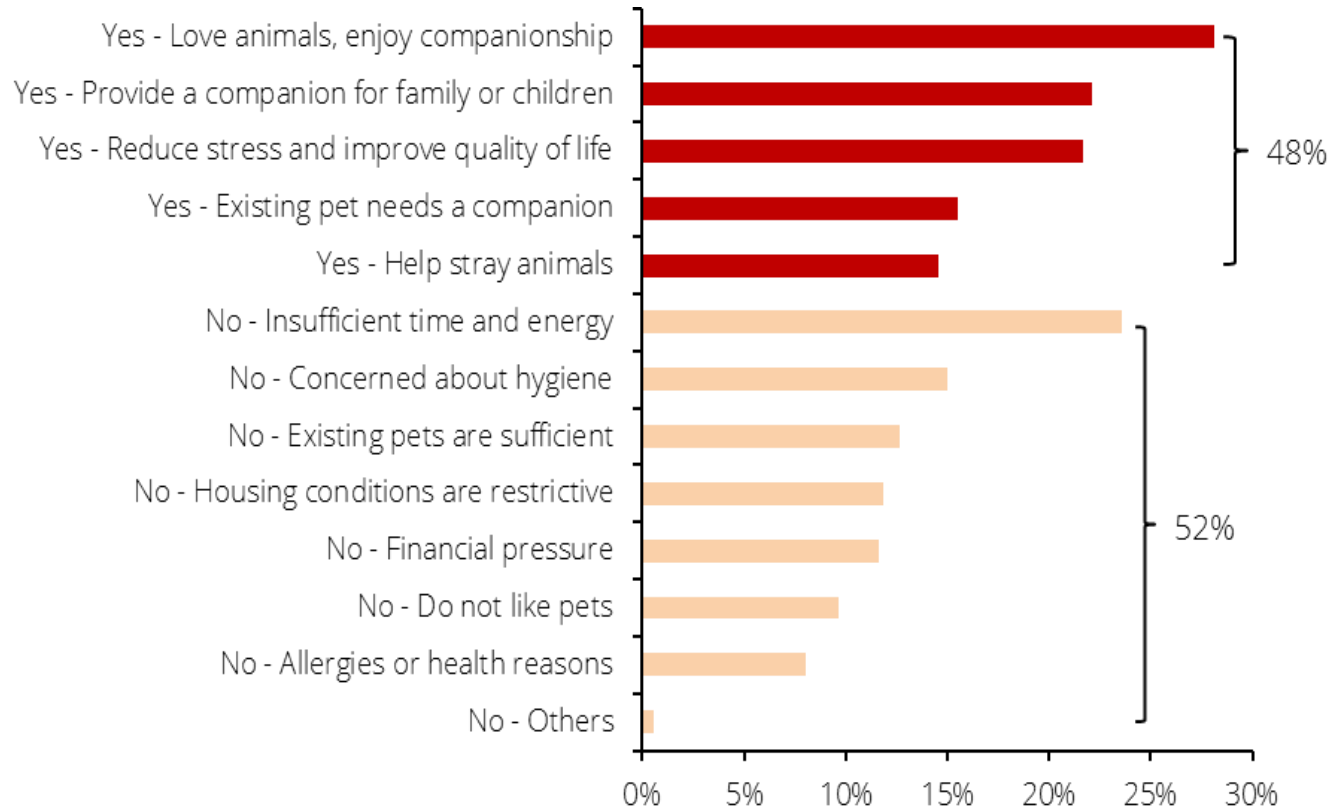


\* Negative numbers represent the percentages of responses for choosing large-packaged products  
Source: DBS HK

# Pet food market: More new pets ahead?

- Around 48% of our respondents would consider adopting or buying a new pet in the next 12 months, with companionship being the biggest incentive.
- When considering pet foods among the pet owners, 27% plan to buy only foreign brands, 18% prefer only domestic brands, while 55% plan to spend on both foreign and domestic brands.

## Whether to adopt/purchase a new pet and why



## Brand preferences of pet foods





# Industry Trends: China Growth Prospects by Industry



# Staples: better resilience vs. discretionaires

- China F&B sector has shown more stable growth than discretionary spending in recent year. Aside from the essential nature of food, changing consumer habits and rising demand for health-focused products also support the trend.
- The rise of e-commerce, which accounts for over 20% of food sales, as well as government support for food security further bolster the sector, while discretionary consumption remains relatively more vulnerable to economic fluctuations.





# China food & agricultural industry outlook

## Restaurants

- China restaurant sector recorded a good recovery as dine-in volumes recover
- Pent-up store openings saw a record number across the chained-operators, concentrated in fast food and crafted beverages
- Expect normalised growth cycle ahead
- The sector is expected to deliver a **CAGR of 8% in 2023-27**

## Breweries

- The market size of alcoholic drinks in China is expected to see **5.5% CAGR in 2023-2027F**, with beer sector posting **8.3% CAGR**.
- Beer sector to see **6% ASP growth** over medium-term, as high-end beers remain more affordable v.s. other alcoholic drinks in China.
- Rising Chinese household income also sees further room for its beer prices to gradually increase to levels closer to similar beer products sold in Japan, S. Korea, US, UK, etc.

## Dairy

- Overall dairy sector in China is expected to see **2% CAGR in 2023-2027F**, mainly driven by liquid milk, which could see a **CAGR of 4%**.
- Upstream continues to consolidate with ongoing herd size expansion by leading players.
- Average raw milk price may see a low-teens y/y decline in 2024.

## Snack foods

- Expect snack foods will continue to rely on product-mix enhancement to drive improvement in average pricing
- Volume is expected to be unsurprising, at flattish or low single-digit growth over the medium-term
- The sector is expected to deliver a **CAGR of 4.5% in 2023-27**



# China food & agricultural industry outlook (cont'd.)

## Instant noodles

- Disadvantaged by China's reopening, volume pressure is expected to linger in 2024
- ASP is also expected to see limited upside due to high competition and minimal pressure on raw material costs
- The sector is expected to deliver a **CAGR of 3.7% in 2023-27**

## Non-alcoholic RTD

- Health and wellness remains the key driving trend, with a growing demand for reduced sugar, low calorie and health related beverages
- Key growth drivers include bottled water, RTD coffee, functional drinks such as flavoured water, sports drinks, energy drinks
- The sector is expected to deliver a **CAGR of 2.0% (by volume) in 2023-27**

## Pork

- Hog price cycle in China is mainly driven by changes in pork supply. Industry sow inventory level dropped by 5.6% to 41.4m heads in Dec 2023 amid ongoing consolidation.
- We expect hog **production volume to drop by a mid single-digit rate in 2024**, supporting sequential hog price uptrend in China

## Agri-commodities

- China and global agri-commodities have seen softened prices in 2023 amid normalising supplies.
- The **easing cost pressure** for major F&A players could continue in 2024/2025, as selected agri-commodities are expected to see further price downtrend, despite uncertainties from extreme weather conditions.



# Agri-commodities

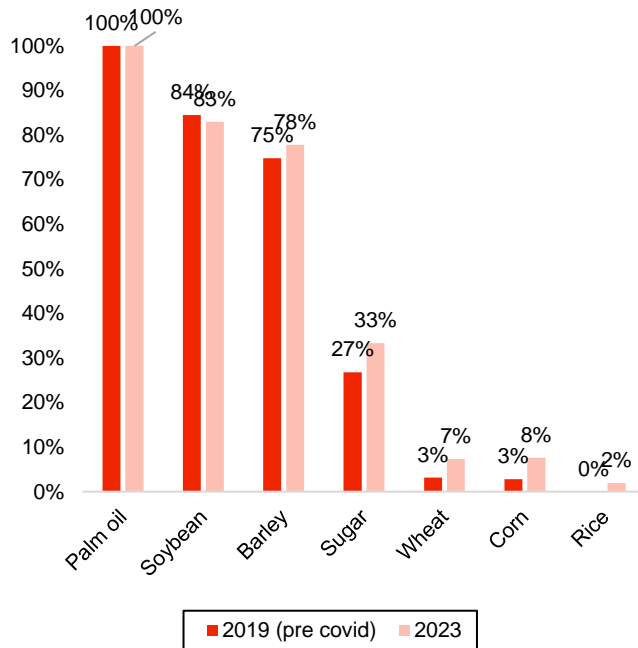
- where prices are heading



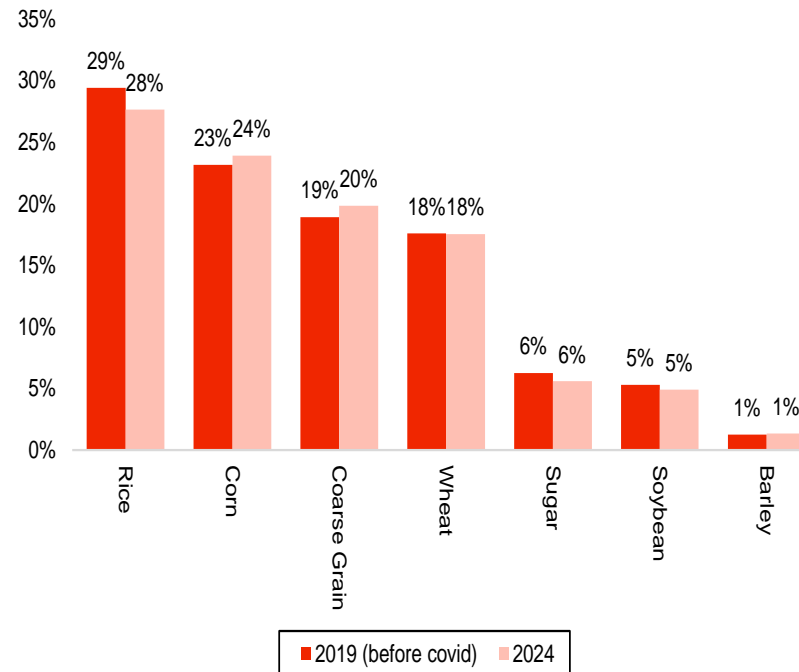
# China's position in the commodities market

- China has focused on self sufficiency on maize, wheat and rice, hence its reliance on such commodity imports have largely remained low relative to the global import levels.
- China is the largest soybean importer globally, accounting for 109m tons annually or c.62% of global import. Soybean is mainly crushed to create soybean oil used for cooking, and soybean meal for animal feed.
- China has issued plans to (a) encourage soybean farming, (b) motivate the interchanging of soybean with corn, and (c) reducing soymeal used in animal feed.

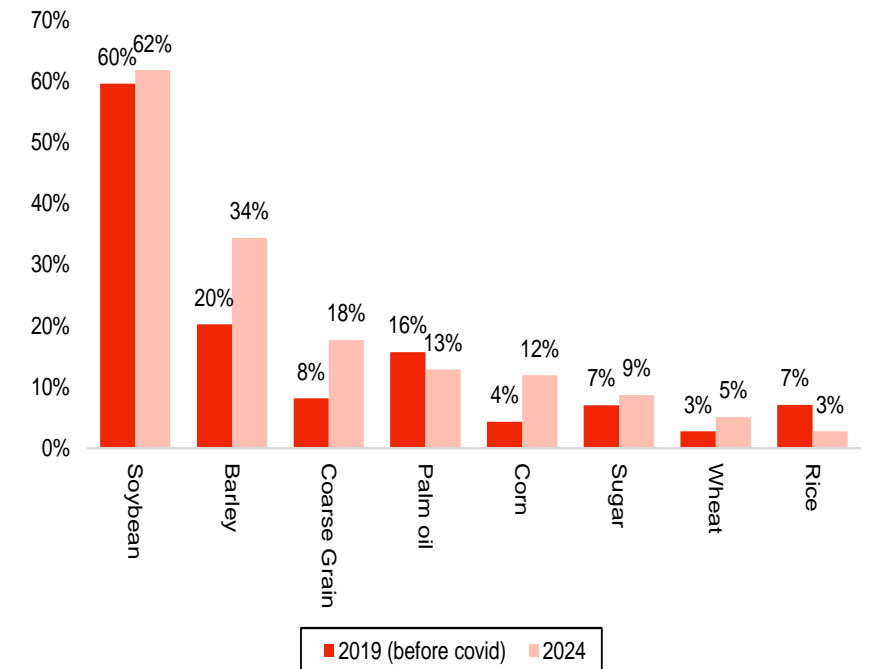
China's reliance on imports (%)



China as % of global production



China as % of global imports



Source: WIND, DBS HK



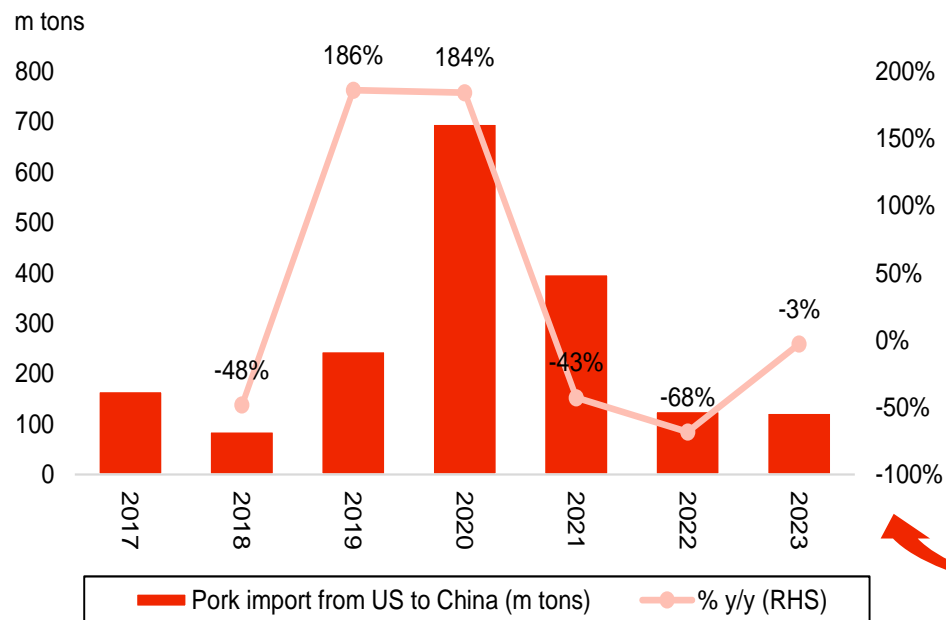
Source: USDA, DBS HK

Source: USDA, DBS HK

# US-China trade

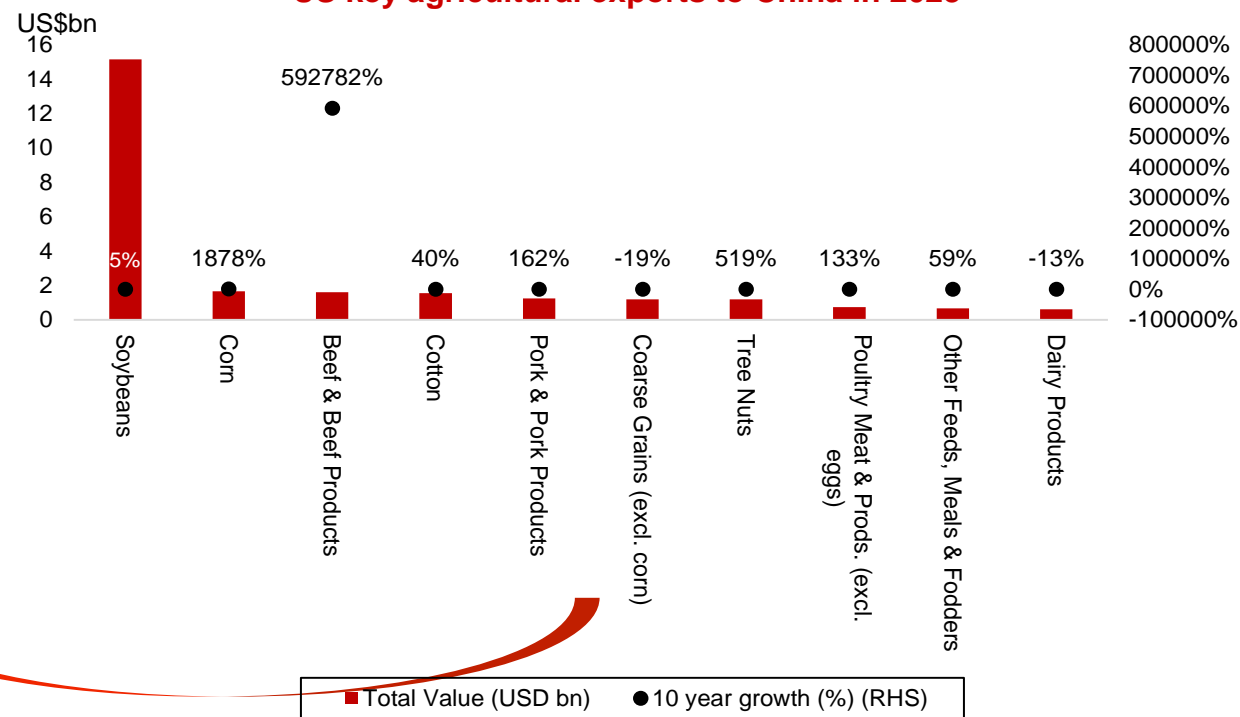
- US-China agricultural trade totaled US\$29bn in 2023.
- China's tariff rates traditionally favours feed imports over livestock imports. However, as China's income per capita rises and competition intensifies, import demand for midstream products (e.g., beef, pork & poultry) grew firmly over the past 10 years.
- Soybean remains the dominant commodity that is imported into China (c.30% of total based on 3-year import volumes).
- At the height of US-China trade tensions in 2018-2019, China's retaliatory tariff rose up to 37% for pork, which was then gradually exempted the next year

**US export to China – 2018 recorded a 48% y/y drop in exports to China, thereafter an 186% rebound**



Source: China Customs, WIND, DBS HK

**US key agricultural exports to China in 2023**



Source: USDA, DBS HK



## Commodity price changes % y-o-y (China) (2019 – 1H25F)

	Source	1H19	2H19	1H20	2H20	1H21	2H21	1H22	2H22	1H23	2H23	1H24	YTD	2H24F	FY24F	1H25F
<b>% y/y</b>																
<b>Cereal Grain</b>																
Corn	DCE	3	1	6	30	41	8	2	7	-2	-5	-12	-14	-14	-13	-6
Soybean	DCE	-4	-3	31	47	31	20	6	-3	-14	-13	-11	-12	-15	-13	-15
Wheat	NBS	-3	-6	-0	5	5	9	22	19	-4	-6	-10	-13	n.a.	n.a.	n.a.
Rough rice	NBS	-16	13	15	2	-1	-1	13	-6	-16	-2	0	0	0	0	0
Barley	China Custom:	17	-6	-14	-7	11	29	25	30	13	-21	-28	-26	n.a.	n.a.	n.a.
<b>Oilseeds</b>																
Peanut oil	NBS	13	31	35	15	-0	-10	-14	14	28	1	-15	-16	n.a.	n.a.	n.a.
Palm oil	DCE	-14	5	19	28	54	50	58	-11	-40	-12	1	5	19	10	21
Soybean oil	DCE	-2	8	8	18	53	35	22	4	-23	-16	-8	-7	-3	-5	10
Rapeseed oil	DCE	6	14	7	27	44	24	24	4	-30	-26	-11	-9	0	-6	19
<b>Feed</b>																
Corn	MARA	1	3	5	17	37	18	-1	4	1	-2	-13	-14	-14	-13	-6
Soybean Meal	MARA	-11	-10	1	6	31	16	16	28	-4	-5	-16	-22	-29	-23	-12
Fattening Pig	MARA	-0	1	4	8	15	10	6	10	4	-2	-8	-9	n.a.	n.a.	n.a.
Broiler Chicken	MARA	-0	1	3	6	12	10	5	9	5	-0	-7	-8	n.a.	n.a.	n.a.
Egg Chicken	MARA	-0	1	3	6	14	11	6	9	5	-1	-7	-8	n.a.	n.a.	n.a.
<b>Protein prices</b>																
Live hog	MARA	16	106	137	21	-24	-55	-43	52	3	-33	3	10	20	12	-6
Pork price	MARA	8	91	121	19	-22	-51	-40	43	5	-30	-2	6	n.a.	n.a.	n.a.
Piglet prices	MARA	17	152	185	58	-10	-67	-65	39	26	-35	-6	9	n.a.	n.a.	n.a.
Raw milk prices	MARA	3	7	3	4	15	11	-2	-5	-6	-10	-12	-13	-15	-13	-10
Whole milk powder	Fonterra	-3	13	-7	-3	35	24	9	-7	-25	-16	4	9	n.a.	n.a.	n.a.
<b>Other soft commodities</b>																
Sugar	ZCE	-9	13	8	-6	-2	10	8	-0	10	22	-0	-6	-13	-7	-9
<b>Packaging prices</b>																
PET	DCE	-12	-21	-21	1	23	17	9	-7	-9	1	2	1	1	2	-2
Tin	LME	-3	-12	-22	8	77	102	42	-39	-34	13	11	15	25	18	10
Aluminium	DCE	-4	-1	-4	7	32	36	23	-9	-14	2	7	7	7	7	5

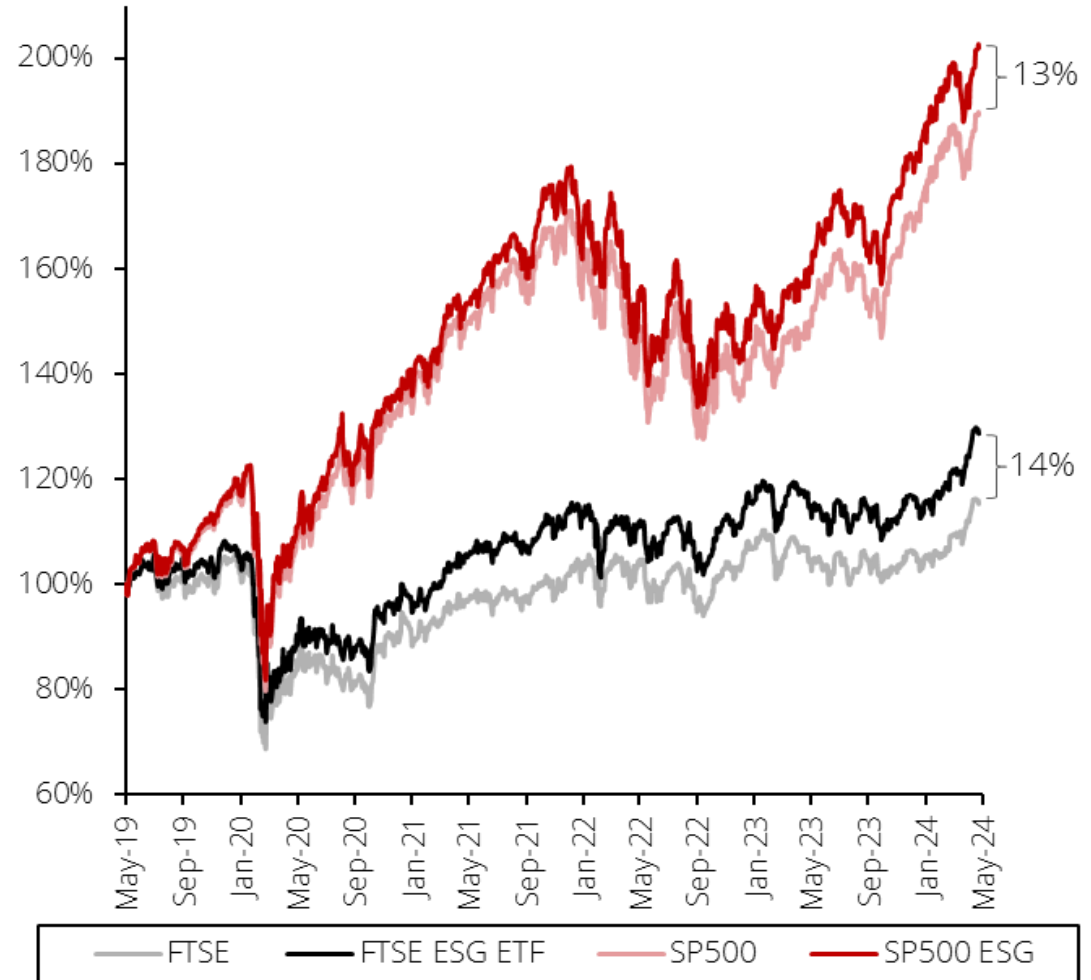
# Environment, Social & Governance



# ESG stocks outperformed the market

- In general, companies with high ESG ratings are more likely to be perceived as more responsible and ethical, enhancing their reputation and brand value and attracting more customers and investors.
- Companies with higher ESG ratings also have easier access to funds that incorporate ESG criteria into their investment strategies.
- Over the past five years, ESG indexes and ESG-linked ETFs have outperformed the market by >13% in US and UK markets. While such trend has not been as apparent in China/Hong Kong markets, we have seen a gradually widening gap in recent years.

## ESG indexes have outperformed the market in the past five years

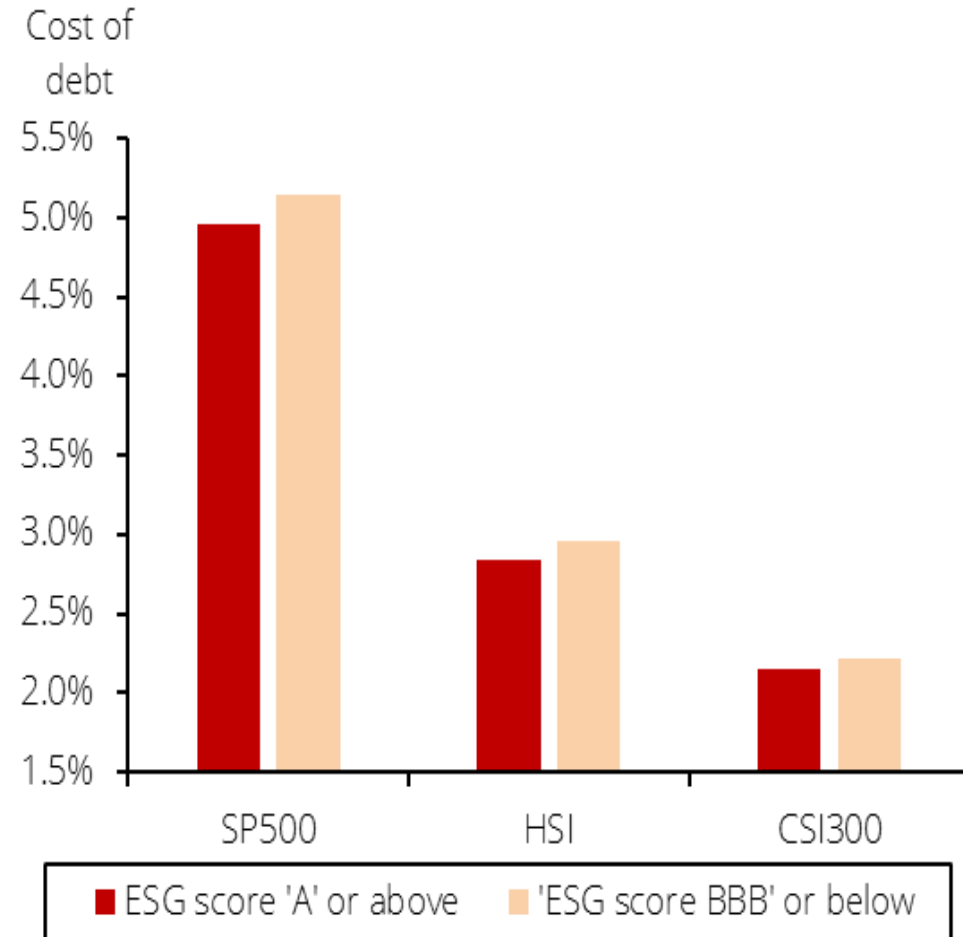


Source: Bloomberg, DBS HK

# Riding on sustainability-linked financing

- Effective environmental management, strong governance structures, and positive social practices potentially help lower the risks of companies with higher ESG ratings.
- Companies with higher ESG ratings also tend to have larger access to green financing (e.g., **green bonds** and **sustainability-linked loans**) where they can benefit from interest rate discounts.
- The average cost of debt of companies with higher ESG ratings are lower than that of companies with lower ESG ratings in China / Hong Kong and the US markets.

## Index constituent stocks with higher ESG ratings tend to have lower cost of debt



Source: MSCI, Bloomberg, DBS HK

# Key sustainability improvements



## Carbon footprint



### Increasing the use of **renewable energy**

- Rooftop photovoltaic power generation in farms / factories
- Use of air energy for temperature control in dairy farms
- Green logistics - use of LNG / electricity / hydrogen powered transport



### **Energy savings**

- Use of automation technologies – e.g., thermal control in hog / dairy farms
- Optimised facilities – e.g., steam boilers and sterilisers in beverage production



### **Carbon sequestration**

- Use of automation technologies – e.g., thermal control in hog / dairy farms
- Capturing of carbon dioxide produced in fermentation process in alcoholic beverages - up to 99.99%

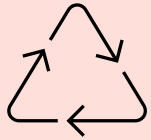


### **Progress and targets**

- Brewery leader – up to 66% renewable energy use, targeting 100% as early as 2025, net zero by 2040
- Hog / dairy – GHG emission intensity reduced by 5-13% in 2023–2030.



# Key sustainability improvements (cont'd.)



## Waste management



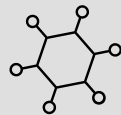
### Circular agriculture in hog / dairy farms

- Collection of **biogas** (for power generation) and fertile water (for feed planting)
- Average manure utilisation rate to reach 80% by 2025 in China
- Potentially reduce up to 80% of chemical fertilisers in farms of circular agriculture



### Returnable packaging

- Returnable packaging - e.g., returnable cans and glass bottles (refill rate up to 80%)
- Increase the use of recycled materials (up to 90% in glass bottles)



**Biological treatment** – e.g., aerobic treatment and anaerobic digestion) of wastewater to prevent pollution

## Water efficiency

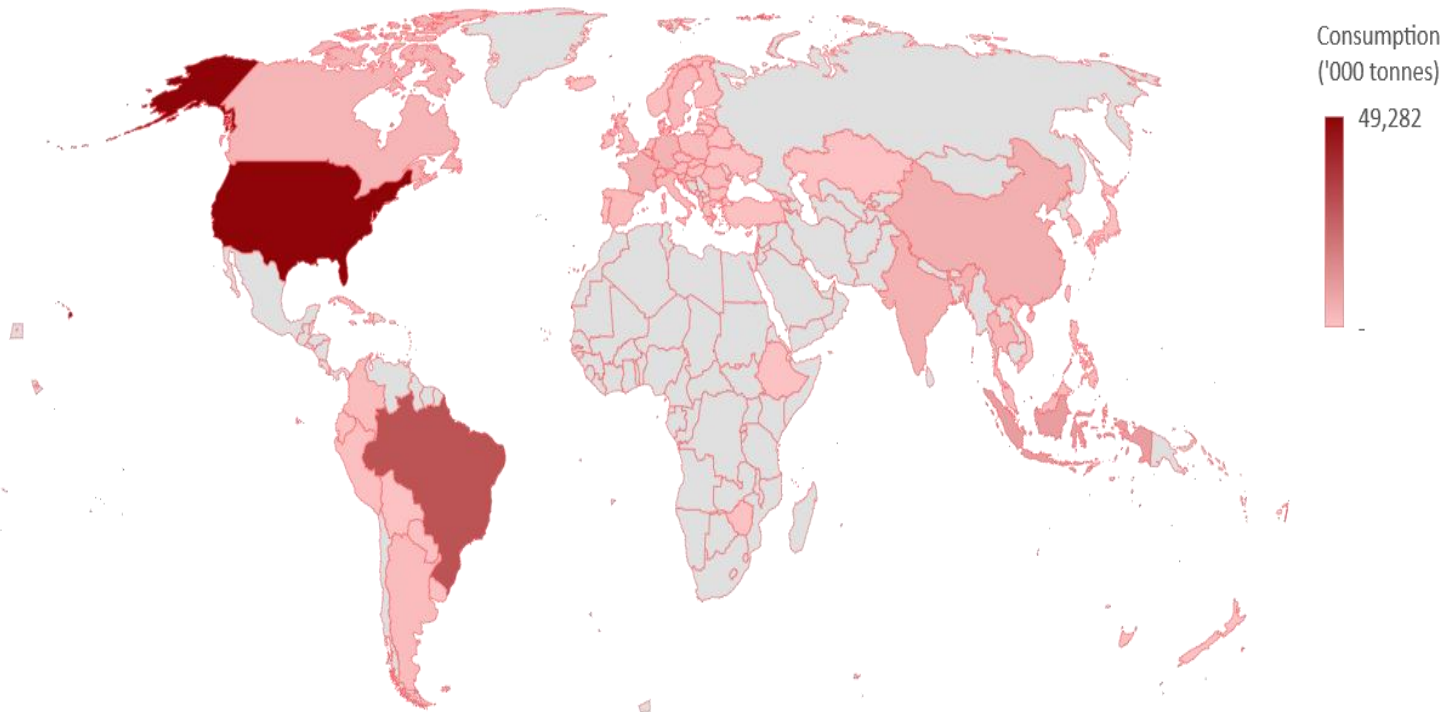


- **Reuse of treated water** for non-potable processes (e.g., cooling, cleaning and irrigation)
- Enhanced processes for water use (e.g., shorter time interval for flushing)

# How can biofuel help on sustainability?

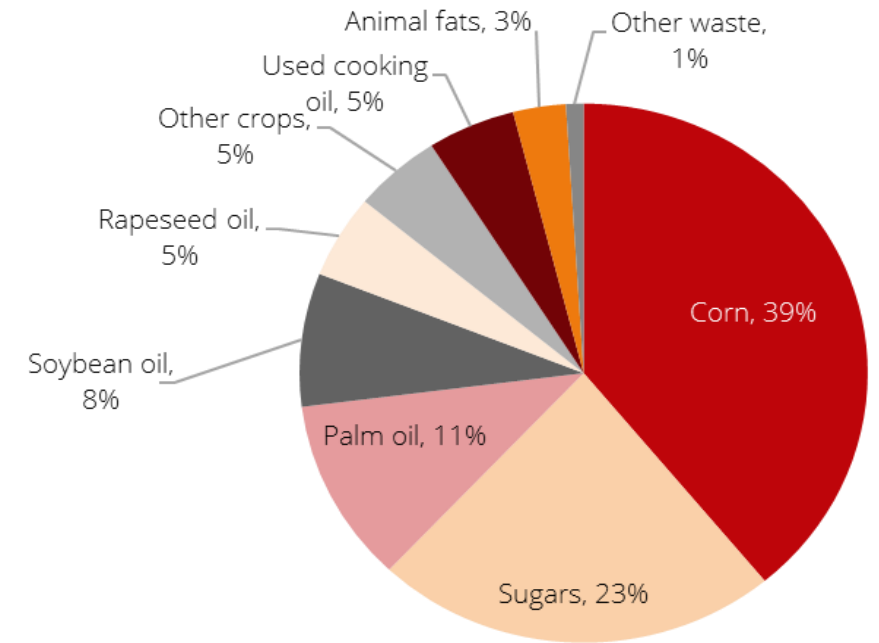
- Biofuels in general produce **fewer carbon dioxide emissions** than fossil fuels due to their cleaner combustion. The impact on carbon intensity varies based on the feedstock used, with average emission reductions between **36% and 74%**.
- Regarding biofuel consumption needs, US and Brazil are the largest markets while China is also among the leading countries, with annual consumption of c.4.6mn tonnes.

## World consumption of biofuel (2023)



Source: Euromonitor, DBS HK

## World biofuel by categories



Source: IEA, DBS HK





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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)  
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)  
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)  
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\* *Share price appreciation + dividends*

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