



China Market Insights

An analysis by Beef + Lamb New Zealand Insights Team

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Executive summary

China remains an important market for New Zealand red meat, however the weaker Chinese economy and competition from other countries has meant headwinds for NZ processors/exporters over the past two years.

Sheepmeat prices in China are now lower than in the 2016-17 season when prices first started to accelerate.

As China is New Zealand's largest market for sheepmeat, our domestic lamb and mutton farmgate prices are highly correlated with the value of sheepmeat exported to China.

For the rest of the 2023-24 season, China's market is expected to remain challenging, with no significant price increases anticipated.

Sheep prices in particular, are likely to stay at multi-year lows due to competition from Australian supply and China's abundant domestic pork supply.

At this stage, the outlook for the next season is also weak as the Chinese economy is not expected to recover for some time.

The Chinese economy, however, is notoriously opaque and hard to predict. The Financial Times reports that China's National Bureau of Statistics has progressively reduced the number of economic indicators it has made available since 2010.

The Chinese economy therefore *could* improve more quickly than currently expected, but the chances are low. Much will depend on growth in the rest of the world and whether that can help boost China's manufacturing exports and economy.

Historically, New Zealand lamb commanded a premium over Australian lamb in the Chinese market, however the values converged in 2022, suggesting China now views New Zealand and Australian lamb as close substitutes.

Consequently, New Zealand exporters have had to align their prices with the lower rates offered by Australia in recent years.

In the medium to long term, China's economy is anticipated to recover, supported by a growing middle class with increasing disposable incomes. As global economies rebound, they are likely to demand more from China, potentially boosting its growth.

However, geopolitical uncertainties, such as US tariffs and EU trade challenges, add further unpredictability to the outlook.

The purpose of this report is to discuss:

- The current economic situation,
- What is driving consumption

- Recent foodservice performance and what the average consumer is most likely to eat,
- China's sheepmeat production and how it competes with imports,
- Competition from other countries that export sheepmeat to China, and
- Prospects for China as a market for New Zealand meat exports in the short and medium-term.

Economic Situation

China experienced rapid economic growth in the past four decades (with average GDP growth at 7-8 % per year) due to incentives, cheap labour, infrastructure investment, exports, and foreign investment.

From 2020, the economy experienced its first major correction as the speculative property market came under pressure and the economy has struggled to get back on track since.

The weakness in the property market, which is one of the few investment options for Chinese citizens, has had a major impact on the economy and on consumer sentiment.

Global demand for China's manufacturing exports also slowed, because of the global economic slowdown following the COVID-19 pandemic and inflation. China has been trying to combat this through major subsidies to manufacturing companies (as shown in Figure 1) and there are major concerns about this in the US and EU.

Unlike other countries, China is also facing deflation. In late 2023, there was mildly negative inflation for four consecutive months. In early 2024, there was some inflation – consumer prices rose 0.7% year-on-year¹ in February and 0.1% in March².

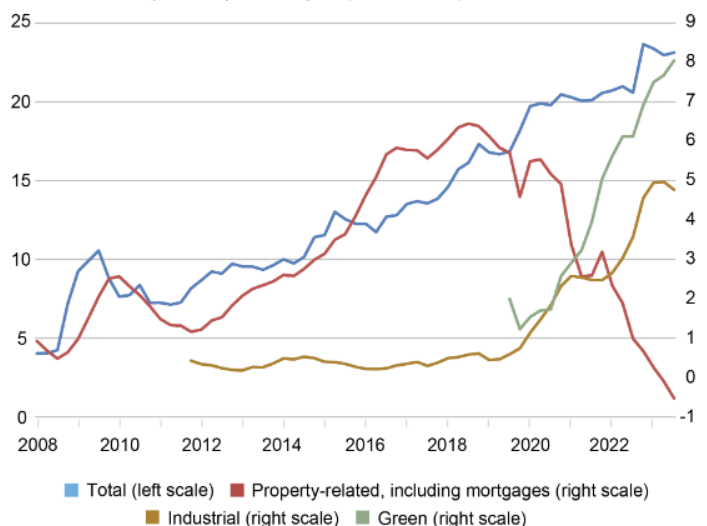
However, it is still too early to conclude that concerns about deflation are unwarranted, although inflation is expected to be under 1% for the remainder of 2024.

China's economy is not expected to rebound in 2024 or 2025 because of the continuing problems in the property sector and therefore continued low consumer sentiment is likely to stifle domestic demand and activity.

Figure 1 Credit Allocation

A Notable Rotation in Credit Allocation

New bank loans by sector, year-over-year (RMB, trillions)



¹ <https://www.reuters.com/world/china/chinas-feb-consumer-prices-rise-07-year-earlier-2024-03-09/>

² <https://www.reuters.com/world/china/chinas-consumer-prices-rise-2nd-month-factory-deflation-persists-2024-04-11/>

In April 2024, the International Monetary Fund (IMF) forecast economic growth in China of 4.6% in 2024 and 4.1% in 2025 – below the 5.2% experienced in 2023.³

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The Chinese economy therefore *could* improve more quickly than currently expected, but the chances are low. Much will depend on growth in the rest of the world and whether that can help boost China's manufacturing exports and economy.

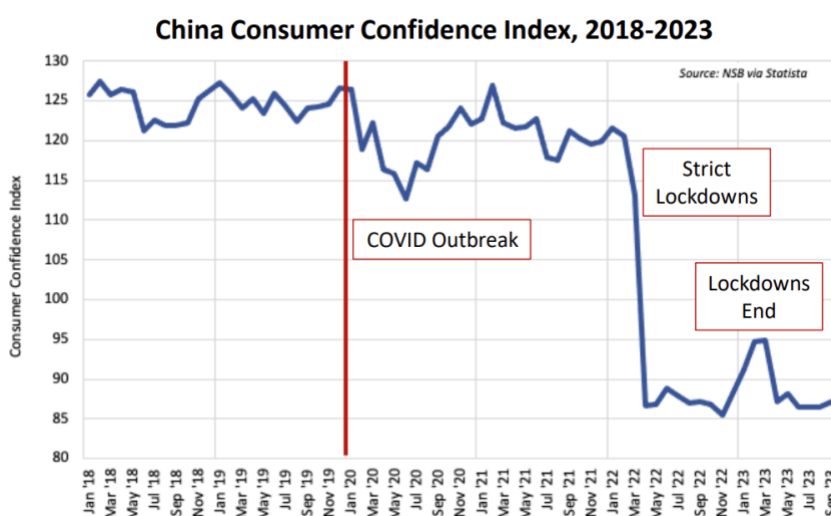
Consumption: Why are Chinese Consumers not spending?

Consumer sentiment plunged in early 2022 and has not recovered (see Figure 2). This can be attributed to:

- The hangover of the COVID-19 pandemic and lack of a social safety net, which compels citizens to save more,
- Saving for education and retirement,
- Deflationary effects, which can make future prices seem more attractive and that reduces spending in the short term,
- The negative wealth effect from falling property prices, which makes people feel poorer, despite incomes remaining the same,
- High youth unemployment and a lack of jobs available for fresh university graduates, meaning fewer people earning incomes that they spend on goods and services,
- Trade activity being lower than it has been for the past few years, which means less export receipts for the economy to flow into incomes, and
- Weak consumer sentiment as a result of the weak economy

All these factors contribute to citizens being very conservative with their spending.

Figure 2 Consumer Confidence



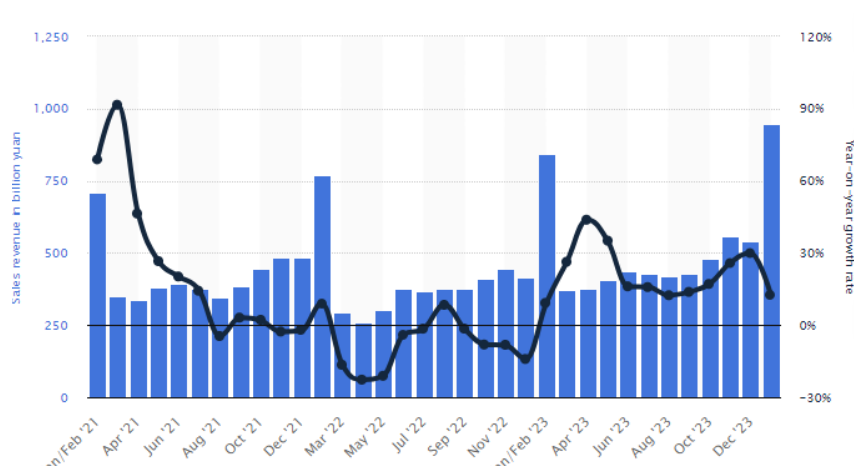
³ International Monetary Fund. 2024. World Economic Outlook—Steady but Slow: Resilience amid Divergence. Washington, DC. April.

Foodservice & Retail Performance

There is evidence of restaurant sales improving with revenue in January and February this year being 12.5% above the same period in 2023. However, most of New Zealand's sheepmeat exports to China go into food manufacturing as opposed to direct to high-end restaurants so a pickup in restaurant dining is unlikely to result in higher returns.

This also did not translate into an improvement in New Zealand red meat exports because it was out-competed by pork, which is much cheaper and preferred by price-sensitive Chinese consumers, and the increased availability of Australian sheepmeat (see more about Australian exports later in the report).

Figure 3 Monthly Restaurant Sales Revenue (Billions Chinese Yuan) to Jan-24



Sheepmeat and beef are highly priced in China compared to pork and chicken, making the former relatively luxurious goods.

Also, pork and poultry are more familiar and popular in Chinese cuisine and they are relatively cheaper to produce.

As sheepmeat and beef prices are elevated comparatively, and consumer and economic sentiment has suffered, consumers are more price sensitive to what they buy and are more likely to substitute cheaper food products for beef and lamb.

Figure 4 Retail Meat Prices in China

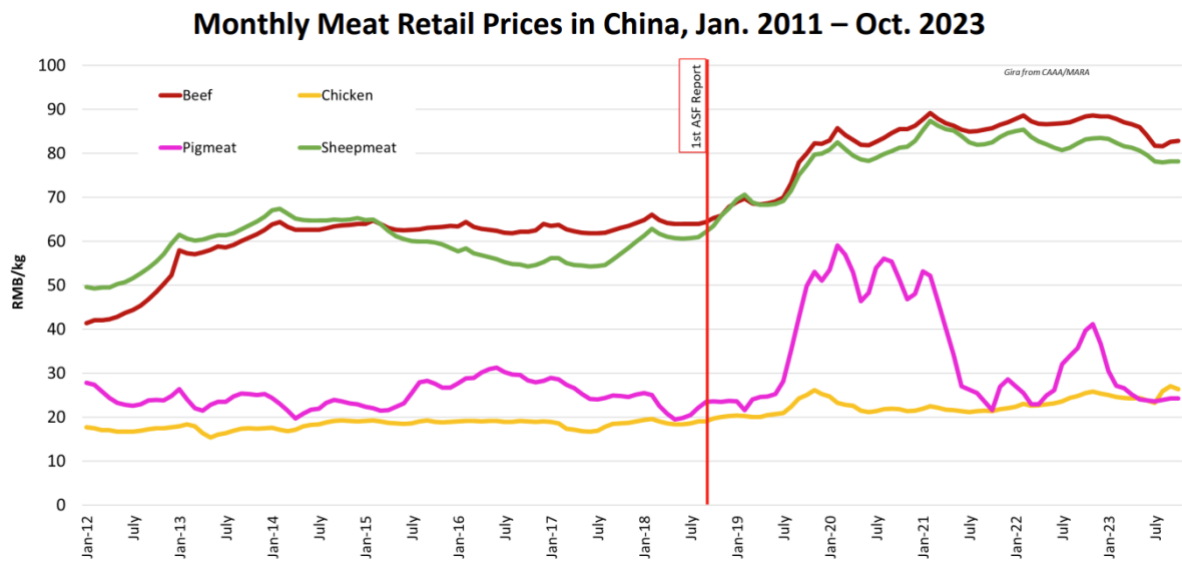
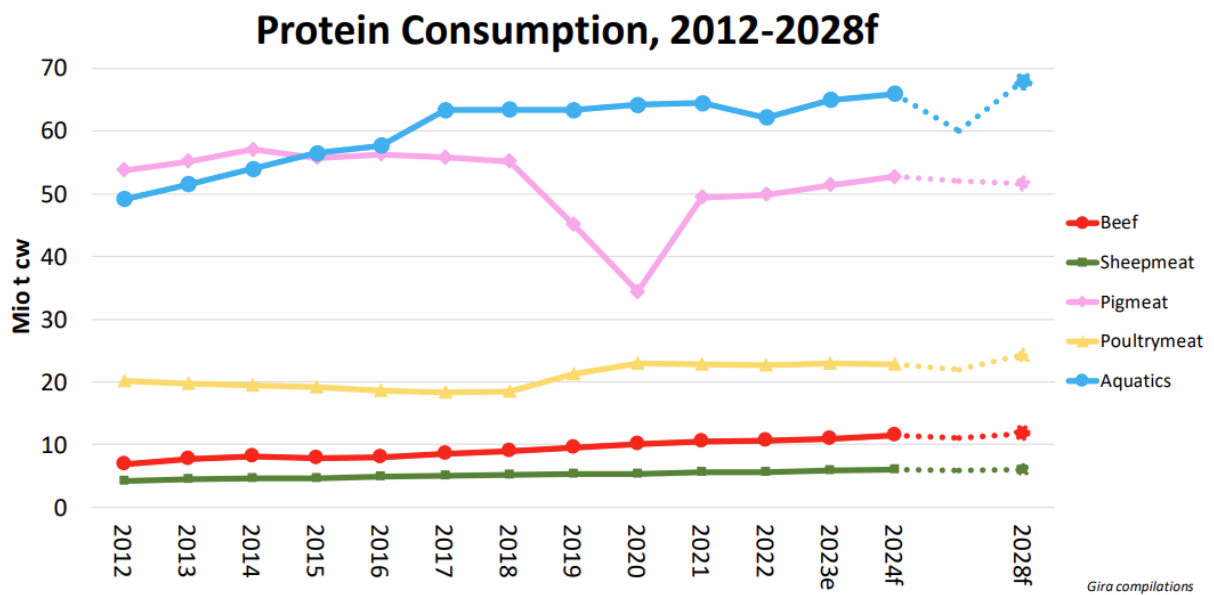


Figure 5 Protein Consumption

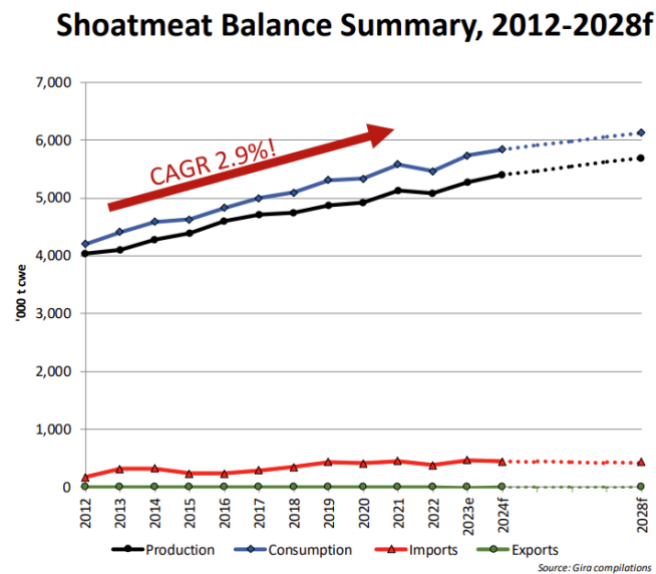


Sheepmeat Production in China

Sheepmeat (and goat meat) production in China has grown rapidly for many years, before the current downturn in sheepmeat demand, but it's difficult to determine if this dynamic has impacted New Zealand's red meat exports.

Total imports are less than 10% of Chinese consumption (see Figure 6). Also, local sheepmeat production is cheaper, and traditionally has met a different need/market segment, than imported sheepmeat.

Figure 6 Sheepmeat and Goat Meat Balance



Competitor Changes

Sheepmeat

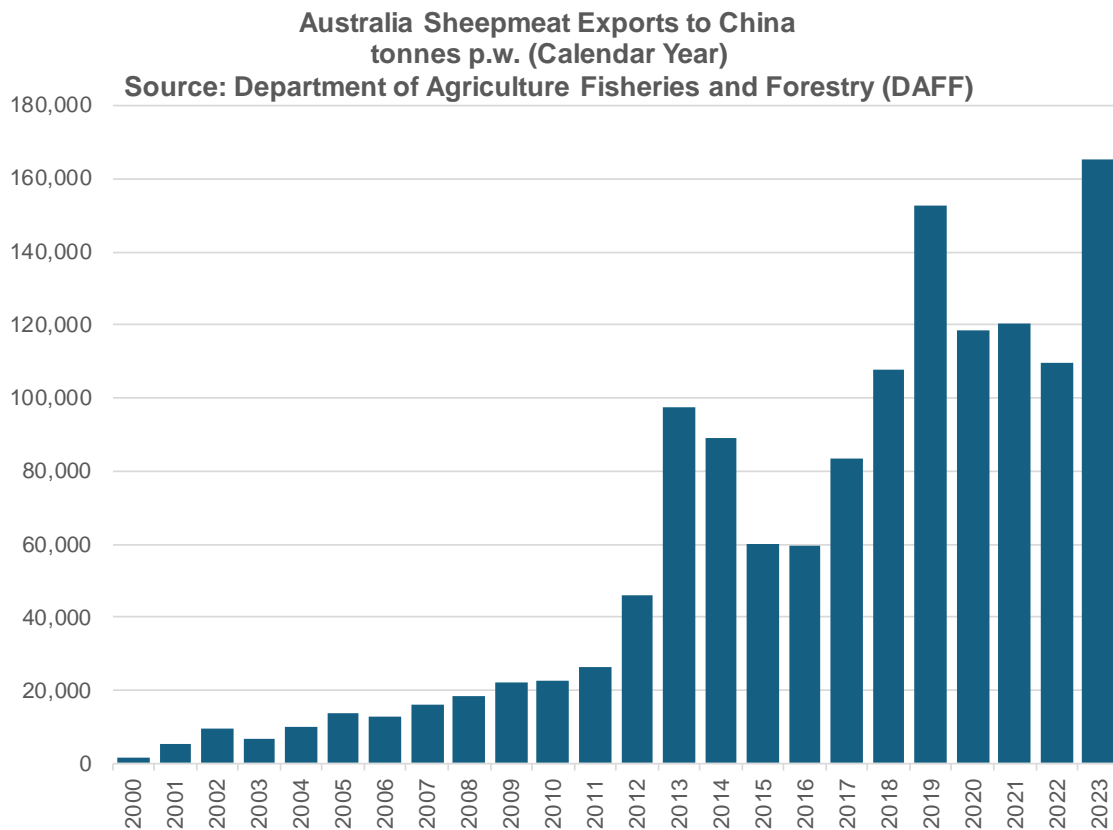
Australia and New Zealand are the biggest exporters of sheepmeat in the world and make up the overwhelming majority of imports into China.

Australia's sheepmeat exports to China have significantly increased due to dry conditions, which saw farmers across the Tasman significantly reduce their flocks last year and this has had a major impact on a weak market.

According to Meat & Livestock Australia (MLA), Australia's sheepmeat exports to China in calendar 2023 were 51% higher than in 2022 (see Figure 7 **Error! Reference source not found.**), and exports in January and February 2024 were 10% higher than in the same period in 2023.

The combination of a weak Chinese economy and strong exports from Australia has placed major downward pressures on farm-gate prices for mutton and lamb in New Zealand.

Figure 7



New Zealand lamb historically achieved a premium of AUD1.00-1.30/kg over Australian lamb in China, but in 2022, values converged (see Figure 8).

This indicates that Chinese consumers, customers, and importers now see New Zealand and Australian lamb as close substitutes and are more sensitive to higher prices.

New Zealand exporters have therefore had to match the lower prices that Australia has been offering in the last couple of years.

Figure 8 Prices for Frozen Lamb Exported to China



Beef

China's beef market has also been weaker, but this has had less of an impact on global prices and on New Zealand's farm gate prices.

Strong demand for beef from the US, due to lower domestic supply of beef there, is limiting any major decrease in cattle prices.

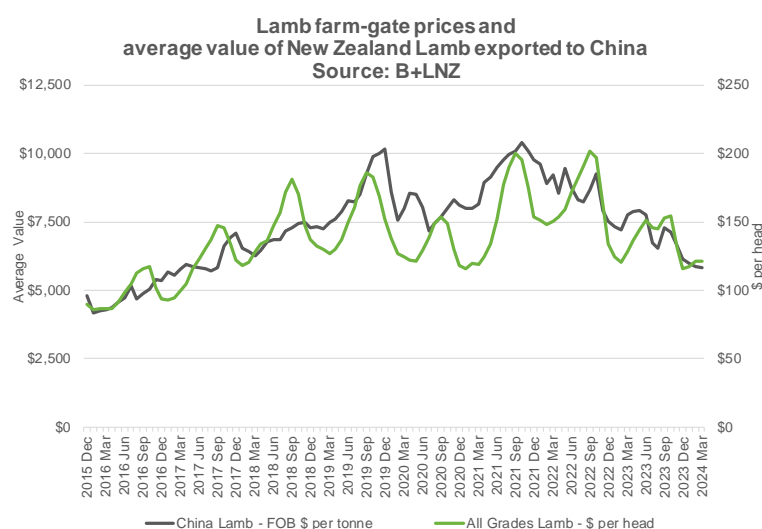
The Impact of China on New Zealand Farm Gate Prices

In a world first for any developed country, New Zealand and China concluded a bilateral Free Trade Agreement – the New Zealand–China Free Trade Agreement – which entered into force in 2008 and opened up the Chinese market.

Prior to this FTA, New Zealand's red meat exports to China were close to zero. In the 2022-23 meat export season, China was New Zealand's largest single-country market for lamb, mutton and beef, accounting for **48%**, **84%** and **39%** of total exports by volume respectively.

Since China is New Zealand's largest market for sheepmeat, lamb farm-gate prices are highly correlated with the value of lamb exported to China (see Figure 9).

Figure 9



Outlook

For the rest of the 2023-24 season and 2024-25:

- We expect China will continue to be a challenging market as outlined in our [Mid-Season Update 2023-24](#)
- There is not enough positive evidence to suggest a significant increase in prices before the end of the 2023-24 season (and the general lack of transparency in economic data from China makes assessing the situation difficult)
- Sheep prices are most likely going to persist at their multi-year lows for mutton exports to compete against strong Australian supply and against large supplies of domestic pork in China
- Given China's economy is expected to remain weak next, at this stage, it is hard to see a major upturn in lamb and sheepmeat prices next season either.

In the medium to long-term:

- China is expected to recover and still has one of the largest middle classes in the world with growing disposable income to spend on different proteins
- Like economic downturns in other countries, and because wealthy economies around the world are, for the most part, turning positive and can start demanding more of what China produces, growth should return.

The question of when that happens is hard to answer, particularly when the following wider geopolitical issues add further uncertainty:

- President Biden's tariffs on imports from China such as EVs, semiconductors, solar equipment, steel and aluminium and other goods
- The EU's challenges to some trade practices of China, e.g. on EVs
- Presidential candidate Trump's suggestion of a 10% tariff across all imports if he is re-elected.