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Impact of Coronavirus in China to Last Beyond Outbreak in Some Sectors

By Connie Zhou and Daniel Keohane
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This article is part of a series on COVID-19 focusing on how the outbreak is affecting industries.

China has been at the center of the Coronavirus (COVID-19) outbreak in Q1 2020, prompting extreme measures from central and local governments, including an extension of the Spring Festival holiday, neighborhood/housing complex lockdowns, and compulsory temperature checks. Quarantine measures have helped to contain the virus but have impacted China's economy, fast-moving consumer goods (FMCG) industries and service sectors, which will worsen if the situation extends beyond Q1 2020.

Some industries have already seen dramatic downturns, starting with travel, consumer foodservice, alcoholic drinks, and luxury goods. Conversely, the outbreak is benefiting categories such as liquid soap, probiotics, and online gaming. The overall retailing space is going through polarized performances; non-grocery offline retailers have plummeted while O2O platforms boomed. The insights in the following sections come from our analysts on the ground in China with sharp industry knowledge. As COVID-19 continues to spread beyond Asia, we expect similar trends and changes in consumer demand in other crisis-hit countries, such as Italy.

Beauty and Personal Care: The Awakening of "Healthy Beauty" Demand

China's beauty and personal care market reached some CNY470 billion in 2019, with a dynamic CAGR of around 9% over the past five years. Although negatively impacted during the epidemic period, basic skincare products and toiletries may only witness a small degree of turbulence throughout the year, as these products see more rigid demand and hence sales could rebound quickly after the quarantine period.

Products like liquid soap have seen a dramatic boost in sales. As consumers' self-protection awareness tends to increase rapidly during the epidemic period, liquid soap with disinfectant claims has been quick to sell out, as have hand sanitizers. Some local skincare brands, for example, Inoherb and Chando, have plans to launch liquid soap and hand sanitizer products accordingly.

Another thought-provoking trend in the longer term will be Chinese consumers' demand for 'healthy beauty' which might take many forms including but not limited to, a focus on healthy ingredients, products promoting a healthy lifestyle, and holistic beauty tastes.



Photo by Lian Rodriguez from Pexels

Cooking Ingredients and Meals, Staple Foods, Fresh Food: Temporary Win for Instant Food and Intensified Reliance on E-commerce for Fresh Food

During the outbreak, convenience-driven categories that have a long shelf life have enjoyed temporary prosperity, including frozen and shelf-stable ready meals and instant noodles, as well as processed meat and seafood, primarily due to the tendency to stockpile food under strict quarantine controls.

Fresh food, a category with rigid demand and high consumption frequency, is expected to witness an accelerated online sales value growth in 2020. Online sales of fresh food accounted for 6.3% of retail value in 2019, and this share is expected to increase in 2020, due to the quarantine policies and people's reluctance to go to crowded areas such as supermarkets or hypermarkets.

Consumer Appliances: Ventilation Demands Power Certain Products

The outbreak of COVID-19 will further drag down the currently stagnant housing market and is likely to have adverse consequences for major appliances, especially large cooking appliances, in 2020, a category which was already struggling in 2019, with volume sales down by 4%.

Some categories are expected to see opportunities, however. During the SARS outbreak, in 2003, cooling fans registered a solid retail sales volume growth of 20%, almost double that of 2002, and air conditioners witnessed strong growth of 54%, which was also higher than the previous year, according to the National Bureau of Statistics of China. Similarly, COVID-19 is projected to positively impact cooling fans and air conditioning models with built-in ventilating functions.

Consumer Foodservice: Short-term Crisis but Long-term Opportunities

Consumer foodservice has maintained strong growth momentum over the past decade in China, reaching CNY4.9 trillion in 2019. However, COVID-19 has resulted in a large number of restaurants closing temporarily. Full-service restaurants, which account for roughly 75% of the revenue share of consumer foodservice total sales, face the sharpest plunge.

No-contact delivery services will increasingly be a preferred option. We've already observed many creative food delivery methods, such as unmanned aerial vehicle (UAV) delivery provided by JD.com.

Post the Coronavirus period, the consumer foodservice industry is likely to orient towards a more standardized and chain-oriented direction to better absorb unexpected risks. Capital will favor brands with highly standardized operations and diversified restaurant portfolios, accelerating the trend. Furthermore, enhancing online operations and seeking flexibility or balance between in-store versus takeaway and delivery offerings will be another key focus for foodservice players.

Consumer Health: A Rare Winner in the COVID-19 Outbreak

COVID-19 is known to be far more contagious than SARS, which has led to Chinese consumers' increasing awareness of the importance of enhancing their immune systems, especially when there are currently no designated medicines or cures for the outbreak.

General healthcare and immune system improvement products, including but not limited to single vitamins such as vitamin C, fish oils, and mineral supplements, as well as protein supplements, will likely see a sales boost.

Given the state's recent discovery that probiotics can be used to resist secondary bacterial infections for disease prevention, probiotic supplements will likely see robust growth as well. The category registered value growth of 18% in 2019 and is anticipated to see a further acceleration in growth.

Dairy: Decreased Demand from Foodservice Impacting Fresh Milk Sales

The rise of coffee specialists and milk tea shops has been an important driver for the dairy industry. Milk, for instance, recorded a 98% Compound Annual Growth Rate (CAGR) in foodservice volume 2014-2019. However, with COVID-19's hitting, many outlets are closed, and consumers turn to hot drinks as alternatives to making coffee and milk tea at home; negatively impacting fresh milk sales in the foodservice channel.

In 2019, milk reached CNY128 billion in retail sales value and yoghurt, CNY149 billion. Ever since the COVID-19 outbreak, demand by Chinese consumers for milk and yoghurt has risen as authorities advise sufficient dairy intake to boost immunity and stay healthy. The epidemic will accelerate consumer awareness of nutrition and enhance the connection between dairy and immunity. Dairy is likely to benefit, especially functional/fortified products such as high protein milk and probiotic yoghurt.

Home Care and Hygiene: E-commerce Cushions the Decline

Even though the outbreak of the Coronavirus will hamper home care product purchases in physical stores, online purchases are expected to offset any negative impacts and alleviate the retail sales pressure in this market. As was the case in the SARS epidemic, laundry sanitizer will once again benefit from the Coronavirus during 2020 and 2021.

Due to the highly contagious nature of COVID-19, disposable wipes in a portable format that contain 75% alcohol and kill viruses are in great and urgent demand among Chinese consumers. However, such products are not widely available for limited daily usage and are in short supply, so consumers are turning to the next best thing – personal wipes positioned with germ-killing and anti-bacterial functionalities, to improve personal hygiene. Personal wipes are expected to enjoy a temporary win or at least a slight bump in sales as a result of increased consumer demand in 2020. ■

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