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# African Swine Fever Affects China's Pork Consumption

## Summary

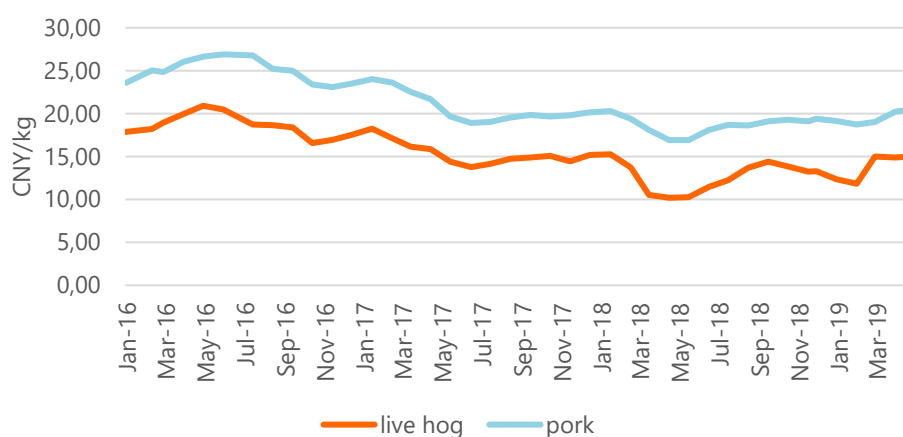
- China's pork consumption has dropped by 10% to 15%, year-to-date, by our estimates, driven by food safety concerns.
- The level of consumption change varies greatly between the different distribution channels.
- Looking forward, and reflecting on the current situation and trends, it is quite possible we have seen the 'peak' of pork consumption.

## Pork Consumption in China has Dropped by 10% to 15%

The losses in China's pig herd are very difficult to estimate – estimated losses range from 20% to 70%. Data from the Chinese Ministry of Agriculture and Rural Affairs (MARA) has the sow herd down by 22% in the year to April – this is one of the most optimistic estimates we have seen. However, hog and pork prices struggled in April and May, after a brief surge in March, raising significant questions about the size of the herd. Two obvious explanations for the stagnant price performance include the panicked release of frozen pork from storage before the mandatory authority inspections start on 1 July, and panicked hog liquidation in some newly disease-affected regions in the south. In our view, however, the more likely explanation, albeit one that can be easily overlooked, is declining consumption.

We believe pork consumption in China has been weak due to concerns held by consumers and processors over food safety. According to MARA, hog slaughter by large-scale slaughterhouses in the first four months of 2019 was down by 8% YOY. Given the share of large-scale slaughterhouses in total production (and assuming some increase in their market share as small slaughter houses have shut down since the first reported ASF case), total slaughter in China should have dropped by about 10% to 15% in the first four months of the year. As pork prices have been flat (see *Figure 1*), suggesting supply and demand are relatively well-balanced at the moment, we conclude consumption is down on average by 10% to 15%.

Figure 1: Chinese pork and hog prices have been relatively stable in recent months



Source: Boyar, Rabobank 2019

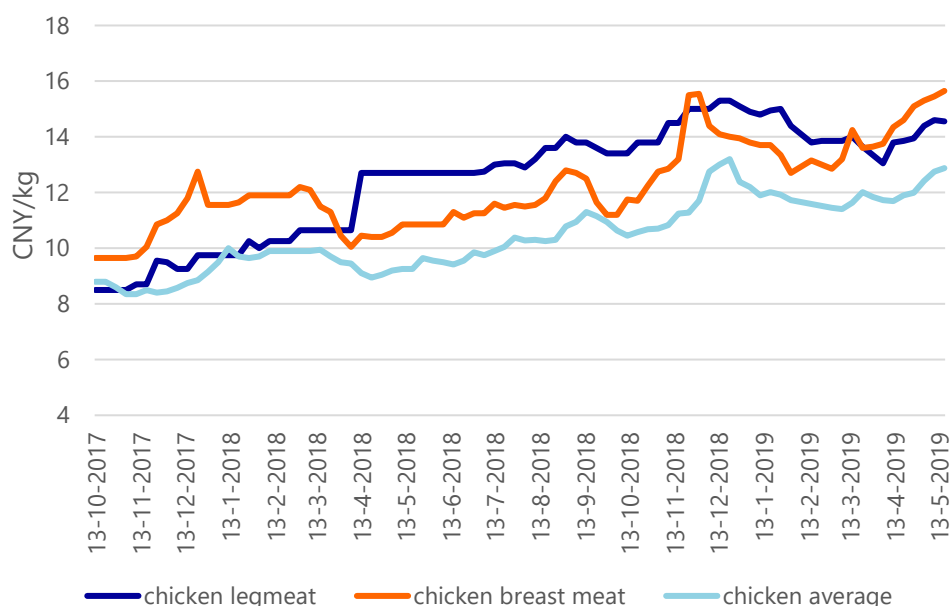
## Distribution Channels Respond Differently

The main market channels for pork, after slaughter, are: agricultural markets/wet markets; modern food retail; meat processing (such as sausage and ham products); food processing (such as frozen dumplings, processed foods); foodservice; and e-commerce.

We believe the changes in pork consumption vary greatly between the different channels. In general, retail channels are relatively resilient to the implications of ASF, while the B2B channels – food processing and foodservice – have seen the strongest response to ASF.

Food processing, particularly branded consumer foods, may have already shifted to imported pork or other animal proteins such as poultry, as product ingredients. Among foodservice sub-categories, group dining, such as canteens at schools or factories, and on-site catering for large companies, is also believed to have shifted from pork to poultry and other animal proteins. Chicken breast meat, which is heavily used in meat processing and foodservice, has seen large price increases this year, and is up by 44% YOY in May (see Figure 2). In contrast, the prices of beef, sheep meat, and chicken meat in food retail markets have increased more modestly, and are up by 6%, 11%, and 8% YOY in May. This implies that pork substitution is mainly occurring in B2B channels, and largely based on the perception of consumers' food safety concerns.

Figure 2: Chicken meat prices have risen sharply in response to ASF



Source: Boyar, Rabobank 2019

## Further Changes in Pork Consumption Expected

While the changes in consumption thus far in 2019 are mainly attributed to food safety concerns, we hold the view that this is only one driver of reduced pork demand in China following the spread of ASF. The other driver of change in pork consumption will be price.

As the price factor driver is not yet in the market, we see scope for further changes in pork consumption in 2019. We believe price will influence overall consumption levels and the preference for imports over locally-produced pork (with demand for imported pork set to grow). And, as with food safety concerns, the response to higher prices will differ between the various channels.

Looking forward, and reflecting on the current situation with ASF and our outlook for its impacts this year and next, it is possible that we have seen the peak in pork consumption. We hold the view that it will take over five years for China's pork production to recover fully from ASF. This will

be time enough for consumers to get used to less pork and more other proteins in their dishes, accelerating the trend away from pork consumption as seen in recent years. However, even with the declining pork share, we believe pork will continue to be the major protein consumed in China.

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