Agriculture and Agri-Food Canada
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MARKET ACCESS SECRETARIAT
Global Analysis Report

Consumer Profile

China

September 2014

EXECUTIVE SUMMARY

Rapid economic growth and development in China has produced over 300 million consumers with higher levels of disposable income and an appetite for shopping. Whether buying fresh food at the local grocery or choosing a ready-meal at the hypermarket, Chinese shoppers are becoming more demanding. It is estimated that this emerging middle class will reach 500 million people by 2020.

Beyond the major cities, a fast-growing middle class is fueling a rapid expansion of the processed food and foodservice sectors. With such a diverse and massive marketplace, makers of value added consumer goods, manufacturers, and retailers are competing to fulfill consumer demands in terms of what they are seeking and how to effectively reach them.

Today, Chinese consumers are motivated more by individualism than in the past, and they are looking for products that are new, exciting, of quality and that offer convenience for their busy lives. With higher levels of disposable income, they are indulging more in premium and specialty products.

It is worth noting that the Chinese markets for food and beverage products are highly fragmented and the logistical capacity varies greatly by region. It is helpful to think of China as a conglomeration of distinct regional markets, rather than as one large one.

As a general rule, the eastern provinces are considerably more developed than the western provinces. International retailers are located predominantly in the primary and secondary cities in the more affluent coastal provinces.

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KEY DEMOGRAPHIC INDICATORS

According to the United Nation Statistics Division, in 2013 the total population of China was estimated at 1.3 billion, and represents close to 20% of the world population. This population has risen from just over 425 million since 1980. It is projected to peak in less than two decades at nearly 1.4 billion.

China's Urban Population versus Rural Population 2005-2030 ('000) Historic/Forecast

	2005	2010	2012	2015F	2020F	2025F	2030F
Urban Population	542,830	645,120	690,790	751,069	842,431	919,861	983,572
Rural Population	757,050	689,380	656,560	615,769	550,284	486,774	426,796
Urban Population %	42%	48%	51%	55%	60%	65%	70%
Rural Population %	58%	52%	49%	45%	40%	35%	30%
TOTAL	1,299,880	1,334,500	1,347,350	1,366,838	1,392,715	1,406,635	1,410,368

Source: *Euromonitor International/ UN Statistics 2014.* *F=Forecast*

China is predominantly urban with 51.3% of the population residing in urban areas in 2013. The urban population is expected to increase rapidly, by close to 40% by 2030, and should reach around 984 million people and account for 70% of the total population.

China, Major Urban Centre Population 2005-2030 ('000) Historic/Forecast

	2005	2010	2012	2015F	2020F	2025F	2030F
Shanghai	17,703	20,218	21,502	23,459	27,007	30,200	32,873
Beijing	13,559	16,447	17,771	19,654	22,786	25,583	27,925
Shenzhen	8,904	10,358	11,078	12,229	14,410	16,421	18,117
Guangzhou	9,073	9,702	10,179	11,092	13,109	15,009	16,617
Tianjin	8,216	9,210	9,714	10,460	11,778	12,932	13,887
Foshan	5,614	6,772	7,324	8,174	9,720	11,144	12,347
Chengdu	5,474	6,317	6,772	7,518	8,960	10,302	11,438
Wuhan	6,625	6,842	7,109	7,660	8,945	10,154	11,176
Chongqing	5,875	6,264	6,531	7,012	8,031	8,965	9,748
Dongguan	5,847	7,271	7,772	8,323	8,921	9,334	9,650

Source: *Euromonitor International/ UN Statistics 2014.* *F=Forecast*

The median age is steadily rising. In 2013, it was 40.3 years, or 17.4 years greater than the figure for 1980 according to Euromonitor. In fact, population aging is occurring more quickly in China than in most other countries; consequently, the Chinese government is reviewing its current methods of population control, and these methods, are being relaxed somewhat as the growth of population slows. The fertility rate is presently 1.8 births per female (below the replacement level). It will rise slightly, reaching 1.9 births per female by 2020.

Chinese Population by Age Group 2005-2030 ('000) Historic/Forecast

	2005	2010	2012	2015 F	2020 F	2025 F	2030 F
0-4	66,127	68,614	67,635	69,300	70,625	65,174	62,003
5-9	77,847	71,783	72,381	69,401	69,010	70,622	64,752
10-14	99,330	79,628	74,209	71,961	69,281	68,869	70,309
15-19	117,582	85,920	80,546	77,582	71,794	69,111	68,534
20-24	81,535	107,089	99,645	81,725	77,268	71,493	68,661
25-29	86,298	87,914	95,853	109,502	81,218	76,779	70,863
30-34	110,750	87,478	88,409	88,628	108,767	80,653	76,054
35-39	127,222	114,723	102,241	88,176	88,055	108,120	79,978
40-44	113,446	130,687	132,318	115,589	87,689	87,595	107,367
45-49	89,390	119,422	131,399	130,650	114,958	87,264	87,037
50-54	94,338	87,947	83,709	119,345	129,814	114,324	86,717
55-59	69,812	94,191	99,380	86,868	117,912	128,490	113,156
60-64	50,465	67,776	76,835	90,804	84,414	115,172	125,783
65-69	42,566	46,790	50,886	62,767	85,690	79,885	110,041
70-74	34,072	37,504	38,312	41,225	55,920	77,159	72,359
75-79	21,455	26,156	27,954	29,518	33,532	46,183	64,772
80+	17,644	20,878	25,639	33,796	46,765	59,741	81,982
TOTAL	1,299,880	1,334,500	1,347,350	1,366,838	1,392,714	1,406,634	1,410,368
Median Age	35.4	38.6	39.7	41.3	43.5	45.3	47.1

Source: *Euromonitor International/ UN Statistics 2014.* *F=Forecast*

China Vital Statistics

	2005	2010	2012	2015F	2020F	2025F	2030F
Birth Rates	12.4	11.9	12.1	11.8	10.6	9.7	9.5
Live births ('000)	16,166.1	15,918.7	16,343.4	16,179.0	14,780.9	13,612.2	13,428.9
Deaths ('000)	8,487.2	9,511.1	9,657.5	10,177.9	11,023.0	12,171.0	13,617.6
Natural change ('000)	7,678.9	6,407.6	6,685.9	6,001.1	3,757.9	1,441.2	-188.6
Rate of natural change	5.9	4.8	5	4.4	2.7	1	-0.1
Fertility rates	1.7	1.8	1.8	1.8	1.9	1.9	1.9
Age at childbirth	27.3	27.6	27.7	28	28.4	28.8	29.1

Source: *Euromonitor International/UN Statistics 2014.* *F=Forecast*
Note: *Birth and death rates and the rates of natural change refer to the number per '000 population and fertility rates to the number of children born per female. Age at childbirth refers to average age of women in years.*

As a result of trends in both fertility and longevity, the elderly share of China's population has been increasing, and those aged 60 and over are set to form a rapidly growing share of the population. By 2030, it is projected that the population aged 60 and over will reach close to 455 million.

However, many of the changes taking place in China are common features of rapid industrialization: rising incomes, urban living, better education, postponed life stages, and greater mobility, but the most important changes will continue to be the per-household disposable income of urban consumers, which is projected to quadruple between 2013 and 2030, from about US$7,781 to US$35,141 (based on a fixed 2013 exchange rate).

First-, Second- and Third-Tier Cities

There are roughly 170 Chinese cities that have more than one million residents, but only four (Shanghai, Beijing, Guangzhou and Shenzhen) are considered “first-tier” in terms of size, per capita gross domestic product (GDP), economic growth and historical significance. Cities such as Hangzhou, Ningbo, Chengdu and Dalian are considered second-tier cities. And there are countless third-tier cities such as Shantou or Dandong, that each boosts a population of over 1 million people.

Example of First-, Second- and Third-tier Cities in China

Tier 1	Tier 2	Tier 3
Beijing	Chengdu	Changshu
Guangzhou	Hangzhou	Dandong
Shanghai	Dongguan	Foshan
Shenzhen	Nanjing	Wuxi
	Suzhou	Yantai
	Tianjin	Shantou
	Wuhan	Yichang
	Dalian	Datong

Please note: *this list is by no mean exhaustive* ***Source*** *Planet Retail.*

Many of the second- and third-tier cities are located primarily in central and western China and have been helped by the Chinese stimulus package which has provided better highways and faster trains to increase access to these areas, signifying their growing importance to the country.

In the past decade, the government has invested in a “go west” an initiative aimed to divert migration away from first-tier cities to the second- and third-tier cities. This move is expected to draw more skilled workers to second-tier cities, which in turn will attract more companies, and it’s in these areas where most of China’s future growth is projected to take place.

FOOD AND BEVERAGE PREFERENCES AND EXPENDITURES

As incomes increase and the young generation becomes the main category of consumers, the Chinese will gradually turn from buying only basic necessities to leading comfortable, high-quality lifestyles. Since early 2000, consumer expenditure on food items saw and sustained growth of around 10%. Euromonitor expects several consumer product categories to expand rapidly in the next 5-10 years.

The thirty-something generation of young working consumers spends significantly less time cooking than their parents, and instead turns to restaurants and convenience foods, such as microwave meals, instant noodles and ready meals. Western food is viewed as generally easier to prepare than Chinese convenience food. Many consumers in this group are well-educated with an ever-growing disposable income. Compared with older generations, Chinese consumers in their thirties save less and spend more on entertainment; they also tend to eat out more often than their parents. They pursue value and quality rather than low prices. These individuals will become the most important consumers in the next decade, buying for their parents, children, and themselves, according to Planet Retail.

Though health and wellness products are still generally expensive, Chinese consumers are paying more attention than ever to their health. Most elderly and low-income Chinese consumers turn to natural solutions and Chinese herbal medicine, while younger and wealthier consumers often look to Western products, which are generally pre-prepared and a synonym of quality and safety.

Finally, another key consumer segment according to Plane Retail, are those under the age of 20. This group is the most Westernized and open to new products. These consumers pursue a Western lifestyle, and are often at the forefront of global trends. Although most in this age group do not yet earn an income, they significantly influence their parents' decisions on food, clothing, electronics, and other purchases.

Historic Annual Per Capita Expenditure on Food and Beverages – US$ and CAGR (%)

Categories	2008	2009	2010	2011	2012	2013	CAGR 2008-13
Total consumer expenditure	1,368.3	1,500.6	1,696.6	2,019.9	2,262.5	2,522.5	13.0%
Food and non-alcoholic beverages	406.0	421.3	463.8	555.9	607.5	658.0	10.1%
Food	369.8	381.4	418.7	502.6	548.5	593.5	9.9%
Bread and cereals	40.7	41.8	48.6	59.4	63.4	66.8	10.4%
Meat	111.1	108.4	115.2	134.6	145.8	157.7	7.3%
Fish and seafood	34.7	37.7	41.2	49.8	55.6	61.0	11.9%
Milk, cheese and eggs	34.9	36.1	37.4	44.3	48.1	51.7	8.2%
Fruit	36.4	41.6	47.7	58.8	64.7	70.9	14.3%
Vegetables	61.0	66.9	76.9	95.4	105.8	115.4	13.6%
Sugar and confectionery	14.8	16.2	17.6	21.1	23.1	24.9	11.0%
Other food	15.8	16.6	18.3	21.7	23.8	25.7	10.2%
Non-alcoholic beverages	36.2	39.9	45.1	53.3	59.0	64.5	12.2%
Coffee, tea and cocoa	7.7	8.6	9.7	11.5	12.6	13.8	12.4%
Mineral waters, soft drinks, fruit and vegetable juices	28.5	31.3	35.4	41.8	46.4	50.7	12.2%
Alcoholic beverages and tobacco	54.1	62.2	64.6	74.1	81.6	89.9	10.7%

Source: *Euromonitor International 2014.*

Forecast Annual Per Capita Expenditure on Food and Beverages – US$ and CAGR (%)

Categories	2014	2015	2016	2017	2018	CAGR 2014-18
Food and non-alcoholic beverages	715.7	782.2	854.1	929.2	1,009.6	9.0%
Food	645.4	704.7	769.0	836.1	907.8	8.9%
Bread and cereals	71.6	77.0	83.0	89.3	96.2	7.7%
Meat	169.6	183.0	198.4	214.3	231.3	8.1%
Fish and seafood	67.4	74.7	82.6	90.8	99.5	10.2%
Milk, cheese and eggs	56.7	62.6	68.7	75.1	82.0	9.7%
Fruit	78.0	86.1	94.8	103.7	113.3	9.8%
Vegetables	126.4	138.5	151.6	165.1	179.4	9.1%
Sugar and confectionery	27.1	29.6	32.3	35.1	38.1	8.9%
Other food	27.9	30.5	33.2	36.0	39.1	8.8%
Non-alcoholic beverages	70.3	77.5	85.1	93.1	101.8	9.7%
Coffee, tea and cocoa	15.0	16.5	18.1	19.8	21.7	9.7%
Mineral waters, soft drinks, fruit and vegetable juices	55.3	60.9	67.0	73.3	80.2	9.7%
Alcoholic beverages and tobacco	98.2	108.7	120.1	132.0	144.8	10.2%
Total Consumer Expenditure	2,806.0	3,134.1	3,488.3	3,858.6	4,251.3	10.9%

Source: *Euromonitor International 2014.*

CONSUMER TRENDS

All indicators point toward Chinese consumers earning more discretionary income, consequently they want the quality, convenience, and services associated with Western brands. Chinese consumers have increasingly unique needs. Consumers expect new varieties of new products constantly.

China's fast-growing middle class consumers often buy goods and services at stores, restaurants, and service establishments with Western affiliations. This group is largely a young, upwardly mobile, and aspirational two-income family demographic with one child and considerable discretionary income. This increasingly demanding consumer base is becoming more sophisticated in its demands. Furthermore, compared to eight to ten years ago, consumers are more diverse across geographies, generations, genders, ages, income levels, lifestyles, and habits.

According to Mintel analysts, the emerging trends in the Chinese processed food scene can be summarized as the following:

- **Local Tastes**
  It is becoming harder and harder to win over Chinese consumers with purely overseas concepts and imported products. Chinese consumers are now more demanding, and seek brands and products that speak to their specific aspirations, interests and needs.

- **Novelty**
  Chinese consumers have become conditioned: they are used to change and now expect it. They are easily dissuaded by old product offerings and frequently try new brands, products, and varieties, a sign of evolving tastes and adventurous palates.

- **Sophistication**
  Luxury goods saw a steady growth during the last decade despite the austerity campaign the government implemented, but wealthy consumers are finding alternatives to luxury products. For example, wine connoisseurs in China used to favor Bordeaux wines, but Californian, Australian, Italian and Burgundy wines are now gaining popularity. High-end products are a sign of social success and status confirmation.

- **Trading Up**
  With growing discretionary income, Chinese consumers are increasingly prepared to pay for value, indulgence, safety, and wellness. Innovation of premium products encourages consumers to trade up, according to Mintel.

Health and Wellness

Prompted by the global trend toward eating healthy, including the consumption of natural ingredients and quality food, coupled with a blurring of the distinction between pharmaceuticals and nutraceuticals, China is a ripe market for increased consumption of high-quality, all-natural ingredients and derivatives for health. Nutraceuticals is the most rapidly expanding sector, benefiting from a 2000-year tradition of herbal medicine, and from a strong Chinese economy, allowing consumers to follow the global trends and make healthier choices.

According to Mintel ("Attitude of Chinese Consumers towards Food Safety, 2013), food additives and doubtful food manufacturing processes, are of high concern for the vast majority of Chinese consumers, who are also increasingly conscious of and influenced by claims of freshness. Concerns surrounding food safety have intensified consumers' focus on food sourcing, while "free-from" food remains a growing niche.

Furthermore, China is recognized as a kingdom of gastronomy and enjoys a long culinary history. Following a long -standing holistic philosophy, meals utilize a rich variety of food products, with particular attention paid to the combination of color, flavour, taste, and nutritional value of the ingredients used. Chinese cuisine is also interconnected with the teachings of traditional medicine, so the Chinese diet is already regarded as serving broader medicinal functions.

Today, Chinese consumers are putting their newly acquired economic power toward a better lifestyle, and are influenced by Western trends. As a result, they often dine out and, when eating at home, they prefer cooked, semi-prepared and packaged foods. These consumers demand that food be recreational, convenient, healthy, and ideally functional.

Fortified/Functional Foods

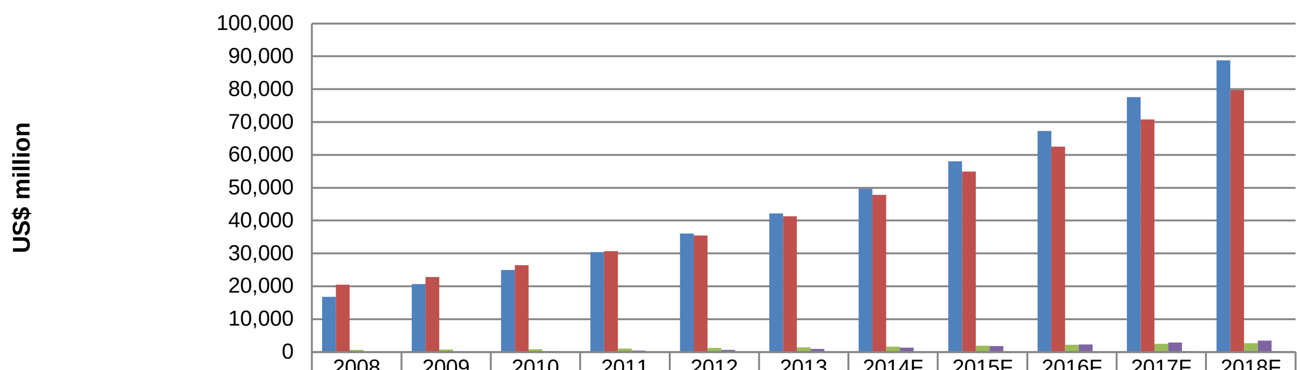
Many Chinese consumers feel that the best food safety measure is to take control of the food preparation themselves and illegal or unnecessary additives are still the biggest area of concern for many consumers. The legacy of the "melamine scandal" was a wake-up call, which drove people to pay much more attention to the state of their health.

Since then, consumers are moving towards the increased consumption of functional/fortified foods, dietary supplements, vitamins, as well as overall healthy eating, physical activities, and illness prevention in all forms. In their report "Health and Wellness in China" (2013), Euromonitor highlights an increasing number of consumers turning to functional foods in search of health benefits. China's entire demographic spectrum is jumping aboard the functional/fortified bandwagon

Organics and Better-For-You Foods

In China, higher earners tend to be more likely to worry about a wide range of food products, highlighting the potential for organics and other premium products that can show clear safety advantages. This group includes, but is not limited to, young professionals, wealthy families, and people who are physically active. In essence, the consumer base for organic products can afford, and is willing to pay, a premium price to benefit their health and the environment. According to Mintel, there is obviously interest in organic food: 39% feel it is safer, and 34% say they prefer to eat organic.

Health and Wellness Retail Market Sizes, US$ millions, Historic/Forecast 2008-2018



	2008	2009	2010	2011	2012	2013	2014F	2015F	2016F	2017F	2018F
Fortified/Functional (FF)	16,812.8	20,674.9	24,933.6	30,369.0	36,043.8	42,184.2	49,706.5	58,034.2	67,315.0	77,569.9	88,794.8
Naturally Healthy (NH)	20,508.4	22,850.7	26,430.5	30,747.5	35,438.4	41,310.4	47,832.5	54,925.6	62,502.0	70,772.7	79,762.4
Better For You (BFY)	660.1	757.1	861.2	1,017.8	1,177.3	1,402.5	1,639.9	1,892.1	2,159.3	2,438.0	2,721.7
Organic	84.7	144.2	284.0	477.6	671.2	977.6	1,364.4	1,839.1	2,338.1	2,883.1	3,443.2
Food Intolerance	48.4	57.6	67.1	79.5	94.2	112.1	134.1	160.4	192.0	229.3	272.8

Source: *Euromonitor International 2014.* *F=Forecast*

FOODSERVICE ENVIRONMENT

As Chinese lifestyles become increasingly urbanised and fast paced for high- and upper-middle-income consumers, and packaged and convenience foods became more popular, dining out and domestic tourism saw also an increase in value. Euromonitor estimates that the Chinese foodservice sector will show relatively rapid growth in the near future.

The Chinese foodservice market has been the fastest growing in the world over the past two decades. Market growth rates have been double digit in this period, and despite the global financial crisis the Chinese market experienced a growth of an estimated 11.8% between 2008 and 2013.

China is one of the world's most food-oriented societies with distinguished food and cuisine traditions. Food is central to everyday family life, holidays, birthdays, weddings and in business dealings and relationships. The foodservice sector is one of the most dynamic sectors of the Chinese economy. At the consumer level, the total market is worth in excess of US$510 billion in 2013, which represents a market size bigger that the foodservice market of the United States (US$485 billion).

According to Planet Retail, the larger part of the Chinese foodservice market is first and foremost concentrated to the eastern seaboard of china including the four main cities - Beijing, Shanghai, Guangzhou and Shenzhen.

For more detailed information on trends in the foodservice environment, please see the February 2014 Agriculture and Agri-Food Canada report entitled *Foodservice Profile: China*.

CONCLUSION

China's economic and population growth represents a significant opportunity for Canadian agri-food exporters. In recent years, the packaged food and foodservice sectors have shown impressive growth, due mainly to the bourgeoning middle-class boasting higher incomes and fast-growing discretionary consumer expenditures. This has fuelled demand for imported agri-food products and has led to a rapidly growing interest in Western cuisine and food products, in addition to indulgence and premium products. Canada is currently well-positioned as a top agri-food exporter to China, but also benefits from its reputation regarding food quality and safety, which is so relevant to Chinese consumers of late. Overall, China's market growth and consumer expenditures are expected to continue surging, particularly with the expansion of supermarkets/hypermarkets and foodservice chains into lower-tier cities, as well as the emergence of China's tourism industry.

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