

## China Consumer

## Mixed but better than a low bar: all you need to know about CNY spending

Industry Overview

## Mixed but better than a low bar; pending more data

**CNY consumption was less bad than feared**, led by travel, services and lower-tier cities (traffic inflow). We attribute the momentum to 1) a longer holiday (8 days vs 7 days before), 2) favorable weather during CNY and 3) pent-up demand (travel & services). CNY data might help soothe market sentiment (partly reflected in the recent share price rally, after the January sell-off). **But the devil is in the details.** We believe it is too early to be complacent, as 1) CNY only beat a low bar (vs. very bearish expectations before CNY), 2) performance was mixed across categories and regions (services > goods, lower-tier cities > big cities, household > business spending), and 3) promotional intensity was among the highest in recent years, especially in the restaurant segment, and 4) hyper-seasonality (spending now more concentrated in holidays) might mean likely deceleration post CNY. **Pending more data...** We also note that China is just back to work, and companies & distributors are still in the stage of data collection. Therefore, the current findings are based on early prints, preliminary data, and limited channel checks in select regions. More data points in coming days could lead to new findings or even deviation from the current channel check results.

## CNY data bites: government/industry stats

**1) Service industry retail sales** (daily average, based on VAT invoices) were +52% YoY, led by tourism, lodging and restaurant (State Taxation Administration). **2) Total passenger traffic** (26 Jan-16 Feb) was +14% YoY, or +13% vs. 2019 (Ministry of Transportation). **3) Tourism traffic/revenue** (daily average) were +34%/+47% YoY, or +19%/+8% vs. 2019 (Ministry of Culture and Tourism). **4) Box office sales/traffic** were +18.5%/+26% YoY, a record high. Average daily sales/traffic were +4%/+11% YoY (China Film Association).

## CNY data bites: channel checks by sub-sector

**1) Baijiu.** The industry in general saw slightly positive sell-out growth, better than bearish expectations. Low/mid-end and premium brands performed better than sub-premium brands. Among premium brands, Moutai and Wuliangye were estimated to enjoy around 5%+ sell-out YoY growth on average. Wuliangye's near-term sell-in could be much stronger than sell-out, given pull-forward orders ahead of price hikes. Laojiao was overall positive, with varying performance across regions (North China faring better, driven by low-proof Guojiao). Among sub-premium, Fen Wine posted double-digit growth, while other brands were mixed – many still saw decline in various regions, but sub-premium in Anhui and Jiangsu provinces delivered better growth, based on channel checks. By occasion, household banquet/gifting demand had a nice recovery while corporate purchase and business banquets were soft. Post-CNY growth could likely be weaker, due to solid business demand post CNY last year. The current inventory edged down from January and wholesale prices also edged up slightly. **Continues next page for more on sportswear, restaurant, other F&B, lodging & Hainan.**

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## Acronyms

CNY: Chinese New Year

VAT: value added tax

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2) **Sportswear.** Offline retail sales declined YoY in Jan due to calendar shifts, but were estimated to grow single-digit during the CNY holiday period. Lower-tier cities saw better growth than upper-tier cities. We estimate that YTD offline retail sales could be largely flattish for most brands. Discounting trended largely flat to slightly deeper vs. 4Q23 due to fall/winter inventory clearance. Inventory stayed at a similar level to 4Q23.

3) **Restaurant.** Despite very strong industry data, we witnessed sharp diverging trends across regions – lower-tier cities, tourist locations and transportation hubs saw strong growth, but big cities might suffer from traffic outflow, especially cities of Yangtze River Delta (such as Shanghai and Suzhou). Companies with different regional exposure could thus see difference performance. Dine-in in general fared better than delivery, and small restaurants better than large chained-operators (partly due to easy comps, as many smaller names were disrupted by COVID outbreak post reopening in early 2023, and not well prepared for CNY back then). Promotional intensity was also at the highest level in recent years.

4) **Other F&B.** **Dairy** channel checks suggested single-digit sell-out growth during the holiday season. Household gifting demand was still strong, with premium milk products growing faster than entry-level products. Discounting was mixed across regions but channel inventory in general was still relatively healthy. **Beer** faced tough comps and whether January & February could see positive volume growth still remains to be seen. However, CNY is not the peak season for most beer companies, and premiumization was still on track, with premium products growing much faster than mass. Among other F&B, **condiment** benefitted from the overall restaurant strength. **Nut snacks** appeared one of the best-selling categories and most popular gifting choices, partly given their price promotions. In terms of **gift packs** during CNY, we also observed trade-down as the average price was normally RMB50-100/case, with much fewer products priced at RMB100/case or above than before.

5) **Lodging & Hainan.** **Lodging:** based on the overall domestic travel trends and our checks, we estimate leading hotel operators' RevPAR (revenue per available room) to post 35-60% YoY growth and be 40-50% above the 2019 level. To put things in perspective, operators' RevPAR recovery in CNY'23 created a relatively low base, only 90-105% of the 2019 level, vs. 120-130% during May/Oct Golden Week (GW) 2023.

**Hainan Duty Free (DF):** according to Haikou Customs, total Hainan DF sales were RMB2.49bn (daily average: RMB311mn) during the 8-day holiday. This compared to RMB1.33bn (daily average: RMB166mn) during Oct GW'23, RMB883mn (daily average: RMB177mn) during May'23 GW and RMB1.56bn (daily average: RMB223mn) during CNY 2023. Total number of purchasers in CNY'24 was 298k and average spend was RMB8,358. The daily average level in CNY'24 was well above that of major holidays in 2023.

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