

China Healthcare

Key takeaways from our conference call
with Consumer team

Industry Overview

We invited BofA Global Research analysts Chen Luo and Lynn Wu to discuss our recent observations on consumption in China.

Consumption confidence yet to recover

Chen holds a cautious outlook on China consumer market, due to weak macro, deflation, low consumer/business confidence, etc. The Consumer Confidence Index, which usually was at 110-120, dropped to around 80 after the Shanghai lockdown in April 2022 and remained low at <90. In Chen's view, overall consumption confidence might remain weak in the short term due to the cautious income outlook and the sluggish real estate market. Additionally, Chen does not expect major policy stimulus in the short term, given the government's tight budget.

Opportunities in bearish market

Chen believes that consumers have become more value focused. According to Chen, China consumers are still willing to pay for products that could create functional or emotional value, but they would become increasingly practical, given the abundant supply and reduced information asymmetry. Thus, Chen believes companies that could provide emotional/functional value to its consumers would still have a relatively strong pricing power, but the ones that could not would be impacted. Specifically, he observed that in categories such as functional sportswear, dermatological beauty, and sugar-free tea, China consumers are still embracing the consumption upgrade. Further, he expects the consumer sectors that have undergone supply-side reforms (e.g., education and beer) would be relatively resilient during the down-cycle considering the better visibility due to favorable supply-side dynamics, while the sectors with over-supply issues would suffer from high levels of inventory and fierce competition. Additionally, Chen shared his perspective on going aboard that he believes apparel OEMs, and select retail and white goods companies with non-China business could benefit from overseas opportunities given the weak domestic consumption.

Lunar New Year is critical

According to Chen, China consumers tend to concentrate their limited budgets on holiday seasons, given the low consumption confidence, and consumption recovery will likely exhibit a wave-like pattern (up during holiday season, and down during low season). Lunar New Year (LNY) is the peak season for many consumer categories in China, thus it is critical for the related consumption categories and would set the tone for 1H24. Besides, Chen shared that the 2024 LNY performance would benefit from the calendar shift (LNY in 2024 comes 19 days later than in 2023). As a result of the calendar shift, the pre-LNY sales, some of which used to happen in Dec previously, will shift to 1Q24, leading to a longer peak season. If the LNY turns out to be weaker than expected, investors would walk away during the following low seasons.

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