The Impact of Coronavirus on FMCG and Service Sectors in China

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Scope

A new strain of the respiratory disease Coronavirus was first encountered in Wuhan, China, in December 2019, and has spread globally, although China remains the epicentre. The Chinese economy has been one of the worst-hit globally as a result of COVID-19. This report will focus on the impact across 12 industries in China. Lessons can be learnt from how consumer behaviour in China changed amid the outbreak for other crisis-hit countries.

- Alcoholic Drinks
- Apparel and Footwear
- Beauty and Personal Care
- Cooking Ingredients and Meals (CIM), Staple Food, Fresh Food
- Consumer Appliances
- Consumer Foodservice
- Consumer Health
- Dairy
- Home Care and Tissue and Hygiene
- Luxury
- Travel
- Video Games

Disclaimer

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The Coronavirus (COVID-19) outbreak is set to deliver significant impacts on the Chinese economy and key industries throughout 2020 and beyond. This report will utilise Euromonitor International’s numerous analysts on the ground in China to deliver insights into the impacts on 12 industries. Changes in consumer behaviour in China will also follow in other crisis-hit countries.
## Key findings

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<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic decline in Q1 2020</strong></td>
<td>The overall impact on the Chinese economy and industries as a result of the COVID-19 outbreak is negative in the short term with neighbourhood/housing lockdowns and strict preventative and surveillance measures by Chinese authorities effectively keeping consumers at home.</td>
</tr>
<tr>
<td><strong>Dramatic downturns in some industries</strong></td>
<td>Some industries in China have already seen dramatic downturns in the short term. These are mainly offline segments requiring physical contact or presence in a store, such as travel, consumer foodservice, alcoholic drinks and luxury.</td>
</tr>
<tr>
<td><strong>Health-focused segments to see short-term boom</strong></td>
<td>The outbreak has benefited categories that consumers believe can help alleviate the effects of COVID-19, such as air purifiers, detergents and antibacterial creams. Industries to be positively impacted by this are consumer health, home care and tissue and hygiene.</td>
</tr>
<tr>
<td><strong>Industries with a strong online presence prove resilient</strong></td>
<td>With various restrictions on travel and public spaces, many households are reliant on e-commerce to purchase goods and services. Industries with a mature online presence will see a strong boost in demand in the short term, while still-developing online segments can mature over this period as companies race to build the necessary online foundations.</td>
</tr>
</tbody>
</table>
Since the outbreak of COVID-19 in mainland China, joint efforts from central and local governments include an extension of the Spring Festival holiday, neighbourhood/housing complex lockdowns, and compulsory temperature checks. The measures have proved effective in keeping people at home and containing the virus from a wider spread.

Some industries have already seen dramatic downturns in the short term, starting with travel, consumer foodservice, alcoholic drinks and luxury. By contrast, the outbreak also benefits categories in consumer health, home care, tissue and hygiene, and online gaming.

The overall retailing space is going through polarised performances: non-grocery offline retailers plummeted while O2O platforms boomed.

As COVID-19 spreads globally, the impact on and trends that emerged from changes in consumer behaviour in China will also be evident in other crisis-hit countries.
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The closure of a large number of restaurants and bars amid the outbreak in China during the Spring Festival, is severely impacting alcoholic drinks sales in Q1 2020.

This will be especially impactful in the on-trade channel where alcoholic drinks play an important role in social and festival gathering occasions. The on-trade channel accounted for 46.7% of alcoholic drinks volume sales in China in 2019. The negative impact may extend to future quarters.

Because of the temporary shutdown of most on-trade establishments, restaurants and bars may have larger inventory left compared with the same period in Q1 2019. This may lead to less re-stocking in the on-trade in the following quarters, and will be reflected in alcoholic drinks players’ quarterly or annual reports.

Although facing the same negative impact from outdoor sales, the Q1 sales volume in the off-trade channel is less affected than that in the on-trade, given consumers’ habit of stocking up on alcoholic drinks such as still red grape wine and baijiu before the Spring Festival and during the outbreak. However, if the epidemic continues to spread into Q2, or even longer, the negative impact will be further aggravated.

![Alcoholic Drinks Volume Sales in China 2014-2019](source: Euromonitor International from trade sources/national statistics Note: 2019 data are forecast.)
As the largest category in alcoholic drinks, beer recorded total sales volume in China of 45.6 billion litres in 2019. Euromonitor estimates the negative impact of COVID-19 on the beer industry in 2020 will be minimal, largely thanks to Q1 being the off season for beer sales. And if the epidemic is contained by the end of Q1 2020, beer sales during the upcoming Tokyo Olympic Games (assuming it is held as planned) and the European Football Championships, as well as other international sports events in Q2 and Q3 2020, will largely offset the sales loss in Q1, just as the industry benefited from the FIFA World Cup in 2018. Thus, the collaboration with events is one of the growth opportunities for alcoholic drinks players, especially in beer.

**Alcoholic Drinks Volume Sales by Type in China 2014-2019**

- **Beer**
- **Spirits**
- **Wine**

*Source: Euromonitor International from trade sources/national statistics*
*Note: 2019 data are forecast.*
Although e-commerce only accounted for 8.8% of alcoholic drinks value sales in China in 2019, it registered the fastest growth rate in the off-trade channel.

Although the Chinese government has called for the cancellation of social and festival gatherings, there is still demand for alcoholic drinks due to drinking occasions shifting from bars and restaurants to the home. E-commerce may partially cushion the loss in both on-trade and off-trade channels, thanks to the wide availability of alcoholic drinks across major online business-to-consumer channels such as Tmall and JD.com.

Moreover, contactless delivery service during the epidemic will also contribute to the growth of e-commerce. It is anticipated that e-commerce will see significant growth in 2020, which further drives up its value share.
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Offline apparel and footwear sales severely hit

- The Chinese apparel and footwear industry reached CNY2,621 billion in 2019 in retail value, with healthy growth momentum over the past five years. However, it is currently going through a rough period given its heavy reliance on offline channels. Closed stores and disrupted marketing campaigns due to the virus outbreak will negatively impact many apparel and footwear companies’ 2020 sales forecast. Q1, during which time the Spring Festival occurs, is normally the peak season for the industry, therefore, the sales loss in this quarter might be difficult to compensate for throughout the year. As a result of this, it is very likely that Euromonitor will adjust its 2020 forecast growth downwards for this segment.

- As COVID-19 keeps families indoors and together, there is strong potential to cultivate online shopping habits among the older generation; with apparel and footwear categories most likely to benefit. This may further accelerate the online penetration rate.

### Sales of Apparel

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Value RSP - USD million</th>
<th>% Y-O-Y Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>131,414.6</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>147,541.3</td>
<td>12.3</td>
</tr>
<tr>
<td>2007</td>
<td>158,558.1</td>
<td>7.5</td>
</tr>
<tr>
<td>2008</td>
<td>166,665.1</td>
<td>5.1</td>
</tr>
<tr>
<td>2009</td>
<td>185,220.9</td>
<td>11.1</td>
</tr>
<tr>
<td>2010</td>
<td>202,582.6</td>
<td>9.4</td>
</tr>
<tr>
<td>2011</td>
<td>219,143.4</td>
<td>8.2</td>
</tr>
<tr>
<td>2012</td>
<td>235,333.9</td>
<td>7.4</td>
</tr>
<tr>
<td>2013</td>
<td>247,150.5</td>
<td>5.0</td>
</tr>
<tr>
<td>2014</td>
<td>257,544.8</td>
<td>4.2</td>
</tr>
<tr>
<td>2015</td>
<td>268,195.0</td>
<td>4.1</td>
</tr>
<tr>
<td>2016</td>
<td>277,644.9</td>
<td>3.5</td>
</tr>
<tr>
<td>2017</td>
<td>291,085.0</td>
<td>4.8</td>
</tr>
<tr>
<td>2018</td>
<td>307,287.8</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>2019</strong></td>
<td><strong>317,178.5</strong></td>
<td><strong>3.2</strong></td>
</tr>
</tbody>
</table>

Source: Euromonitor International from trade sources/national statistics
Besides the impacts on the retail landscape, China also plays a core role in the production of apparel globally, with a production share of around 56% in 2019. The COVID-19 outbreak has directly resulted in a temporary halt of production capacity, which will in turn pose a challenge to apparel brand owners’ supply chain management, mainly in quickly adapting to stock shortages.

As an important apparel and footwear category, sportswear has enjoyed healthy growth in recent years in China. Leading players in sportswear, including Nike and adidas, have closed many offline stores in mainland China during the epidemic period; which will inevitably lead to a sales drop in the short term. However, Euromonitor is optimistic about sportswear enjoying a faster bounce-back in the medium term, due to Chinese consumers’ enhanced “healthy-living” mindset, with exercising and sports becoming essential.
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China’s beauty and personal care market reached around CNY470 billion in retail value in 2019, with a dynamic CAGR of around 9% over 2014-2019. The COVID-19 outbreak is expected to have some level of negative impact on certain categories, including colour cosmetics and fragrances in the short term. Products such as liquid soap, on the other hand, are observed to have experienced a dramatic boost in sales.

As consumers’ self-protection awareness has increased rapidly during the epidemic period, liquid soap with disinfectant and hand sanitisers have sold out. Some local skin care brands, such as Inoherb and Chando, have plans to launch liquid soap and hand sanitiser products.

Although negatively impacted during the epidemic period, basic skin care products and toiletries may only witness a small degree of turbulence throughout the year, as these products see more rigid demand, hence sales could rebound quickly after the quarantine period. However, colour cosmetics, due to many female consumers being kept indoors and wearing face masks during the period, will see a decrease in demand in the short term. Nevertheless, partial sales loss is cushioned by an obvious boost of colour cosmetics via online sales.
In the longer run, the COVID-19 outbreak will further accelerate the speed of online sales penetration across beauty and personal care categories (BPC).

E-commerce is already one of the biggest sales channels of BPC in China, accounting for 30% of retail sales value for skin care, and 38% for colour cosmetics in 2019.

Domestic brands with an internet presence tend to benefit from the ongoing contagion, as consumers are more dependent on online purchases. For example, Perfect Diary, a fast-rising local beauty brand with an online sales focus, witnessed strong sales growth during the epidemic period, supported by aggressive promotion, uninterrupted delivery and live-streaming events.

Another thought-provoking trend in the longer term will be Chinese consumers’ growing 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.
During the outbreak of the epidemic, convenience-driven categories that have a long shelf life have enjoyed temporary prosperity, including frozen and shelf-stable ready meals, instant noodles, as well as processed meat and seafood, mainly attributed to the urge to stockpile food under the strict quarantine controls implemented by local authorities. Sauces, dressings and condiments, rice, edible oils as well as fresh food, are expected to experience a decline in total volume consumption in the foodservice channel in the short term.

During the epidemic period, people are choosing to cook themselves instead of dining out, leading to increased consumption from the retail side. Nevertheless, the increase from the retail side may not be enough to compensate for the decreasing consumption from foodservice due to the latter’s sharp decline.
▪ Fresh food, a category with rigid demand and a high consumption frequency, is expected to witness accelerated online sales value growth in 2020, under the COVID-19 scenario. Online sales of fresh food account for 6.3% of 2019 retail value, and this share is expected to increase, at least in the year 2020, due to quarantine policies and people’s reluctance to go to crowded areas such as supermarkets.

▪ Many e-commerce platforms, facing an unprecedented increase in orders from both existing and new users, have enhanced cooperation with production bases and borrowed manpower to guarantee stable supply and timely delivery of fresh food. The growth momentum of e-commerce after the epidemic also has the potential to be sustained once the habit of purchasing fresh food online is cultivated.
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The outbreak of COVID-19 will further drag down the currently stagnant housing market and have adverse consequences for major appliances, especially large cooking appliances in 2020, which already struggled with negative retail sales volume growth of 4.1% in 2019. As store-based retailing still accounts for the vast majority of consumer appliances’ distribution, online purchases will not offer much compensation for the sales slump in offline channels.
Despite the impact of COVID-19, some categories are expected to see opportunities. During the SARS outbreak, in 2003, cooling fans registered solid retail volume growth of 20%, almost doubling 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. Consumer demand for ventilation to prevent SARS viruses from accumulating in the indoors air was the primary driver behind the dynamism of cooling fans and A/C sales. Similarly, COVID-19 is projected to positively impact cooling fans and A/C models with built-in ventilating functions. Air purifiers in China suffered a downturn with negative retail volume growth of 10% in 2019, but are expected to see a revival in 2020 due to consumers’ concerns about indoor air quality.

Besides ventilation, disinfection is another driver behind sales of irons, A/C units, washing machines and dishwasher models with disinfection features. Because COVID-19 is suppressed by high temperatures and ultraviolet rays, the washing machine and dishwasher products bearing high-temperature wash functions, A/C models with UVC disinfection features and irons that can disinfect fabrics with high-temperature vapour are expected to be the specific beneficiaries of this outbreak.
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Temporary restaurant closures hit foodservice

- Driven by rising disposable incomes and a stronger desire for time convenience, consumer foodservice maintained strong growth momentum over the past decade in China and reached CNY4.9 trillion in 2019. However, the growth momentum has been seriously disrupted by the unexpected outbreak of COVID-19, resulting in a large number of restaurants, of all sizes, closing temporarily. Full-service restaurants, which accounts for roughly 75% of revenue share in total consumer foodservice, faces the sharpest plunge.

- Compared to full-service restaurants, limited-service fares better as more of its business is takeaway. Of all types of consumer foodservice, food delivery is less impacted by the epidemic. No-contact delivery services will increasingly be the most preferred option. We have already observed many creative food delivery methods, such as unmanned aerial vehicle (UAV) delivery provided by JD.com.

Source: Euromonitor International from trade sources/national statistics
Once the epidemic is contained and the government lifts the strict home quarantine measures, consumer foodservice is likely to enjoy a temporary period of “compensatory rebound”, especially for certain types providing ‘indulgent food’ for the Chinese, including but not limited to hot pot, barbeque, milk tea, etc. Nevertheless, the loss during the epidemic period is almost impossible to be fully compensated throughout 2020. Benchmarking the after-effect of SARS, some consumers might also be reluctant to dine out for months. As a result, it is highly likely that Euromonitor will adjust downwards the growth forecast for the consumer foodservice industry in 2020.

The outlook for the consumer foodservice industry may be bleak in 2020 but it provides an opportunity to reshuffle this industry. The consumer foodservice industry is likely to shift towards a more standardised and chain-orientated direction to better absorb unexpected risks in the future. Capital will favour brands with highly standardised 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.
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Immune-improvement products likely to see sales boost

- Based on the newly launched Novel Coronavirus Diagnosis and Treatment Plan in early 2020, over-the-counter (OTC) drugs which contain traditional Chinese medicine (TCM) ingredients (such as forsythia, ginseng, houttuynia, radix isatidis and roasted ephedra) can be specifically used to have a certain effect in clinical therapeutics against the virus. Thanks to dedicated state support in consumer education, OTC drugs with relevant herbal/traditional elements therefore might usher a peak in the short term. COVID-19 is known to be far more contagious than SARS, which leads to Chinese consumers’ increasing awareness of improving their immune system, especially when currently there are no designated medicines or cures.

- General healthcare and immune system improvement products including but not limited to single vitamins, such as vitamin C, fish oils, mineral supplements, as well as protein supplements, will likely see a sales boost. Additionally, given the state’s recent discovery that advantageous 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 further accelerate its growth over the forecast period.

### Sales of Consumer Health by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Retail Value RSP - USD million - Current - 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTC</td>
<td>14,955.2</td>
</tr>
<tr>
<td>Sports Nutrition</td>
<td>449.7</td>
</tr>
<tr>
<td>Vitamins and Dietary Supplements</td>
<td>23,722.0</td>
</tr>
<tr>
<td>Weight Management and Wellbeing</td>
<td>1,943.2</td>
</tr>
<tr>
<td>Herbal/Traditional Products</td>
<td>12,941.1</td>
</tr>
<tr>
<td>Allergy Care</td>
<td>225.6</td>
</tr>
<tr>
<td>Paediatric Consumer Health</td>
<td>3,781.0</td>
</tr>
<tr>
<td><strong>CONSUMER HEALTH</strong></td>
<td><strong>41,070.2</strong></td>
</tr>
</tbody>
</table>

Source: Euromonitor International from trade sources/national statistics
During the quarantine period, online pharmacies are indispensable for residents to purchase medicines and healthcare products. Online pharmaceutical platforms, including Ali-Health, JD Health and 360kad.com, are actively offering support by ensuring a sufficient and efficient drug delivery service. It is reasonable to expect that after the epidemic, online purchasing behaviour for consumer health products will continue among a wider consumer group in China. Pharmaceutical and healthcare product manufacturers are therefore strongly recommended to diversify their online product portfolios and improve corresponding dispensing services.

Source: Euromonitor International from trade sources/national statistics
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The rise of coffee specialists and milk tea shops has been an important driver for the Chinese dairy industry. Milk, for example, recorded a 98% CAGR in foodservice volume in 2014-2019. However, with COVID-19 hitting, many outlets are closed, and consumers turned to hot drinks as alternatives to making coffee and milk tea at home; negatively impacting fresh milk sales in the foodservice channel. Although Euromonitor is optimistic about a rebound of foodservice overall, especially milk tea shops and specialist coffee shops, the fresh milk sales loss in foodservice during Q1 will be difficult to compensate throughout the year.

In the long run, the epidemic will accelerate consumer awareness of nutrition and enhance the connection between dairy and immunity. Dairy is likely to benefit from that, especially functional/fortified products such as high-protein milk and probiotic yoghurt.

Source: Euromonitor International from trade sources/national statistics
DAIRY

Increased stock pressure for offline retailers

- On the retail side, dairy demands mainly consist of milk and yoghurt in China. Demand remains strong as consumers view dairy products as a key protein source. Since the COVID-19 outbreak, Euromonitor has observed more consumer attention to milk and yoghurt as the authorities advise sufficient dairy intake to boost immunity and stay healthy. Although transportation is strictly limited for the delivery of many other products during the epidemic, the Chinese government has specifically instructed not to restrict livestock products to ensure milk supply. However, dairy product sales are still quite severely affected in offline channels, resulting in increased stock pressure for retailers.

- Packed shelf-stable milk and yoghurt products are seeing reduced demand for gifting purposes but increased demand for their shelf-stable properties as they can be stored longer when people are unable to or are reluctant to go out shopping. All dairy products have seen a stronger sales increase through online channels during the epidemic period.
E-commerce cushions the decline

- Even though the outbreak of COVID-19 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. Unlike 2003 when SARS broke, China's advanced e-commerce and delivery system nowadays can satisfy consumers' cleaning and disinfection demands in a timely manner even though consumers have to stay at home abiding by authorities' instructions.

- Certain categories are expected to gain from the outbreak. According to Euromonitor, laundry sanitiser in China posted a retail sales value CAGR surpassing 90% during 2002-2004 amid the SARS outbreak, but growth dropped to only 34% in 2005. Such a growth surge pattern was mainly due to Chinese consumers' dramatically increasing demand for fabric disinfection in 2003, concerns about residual impacts of the viruses even in 2004, one year after the SARS epidemic, and extensively rising hygiene awareness. Laundry sanitiser will once again benefit from the Coronavirus outbreak during 2020 and 2021.

<table>
<thead>
<tr>
<th>Sales of Home Care by Category</th>
<th>Retail Value RSP - USD million - Current - 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Care</td>
<td>205.2</td>
</tr>
<tr>
<td>Bleach</td>
<td>20.8</td>
</tr>
<tr>
<td>Dishwashing</td>
<td>2,035.6</td>
</tr>
<tr>
<td>Home Insecticides</td>
<td>1,057.5</td>
</tr>
<tr>
<td>Laundry Care</td>
<td>10,534.6</td>
</tr>
<tr>
<td>Polishes</td>
<td>462.6</td>
</tr>
<tr>
<td>Surface Care</td>
<td>2,066.8</td>
</tr>
<tr>
<td>Toilet Care</td>
<td>416.7</td>
</tr>
<tr>
<td><strong>HOME CARE</strong></td>
<td><strong>16,799.7</strong></td>
</tr>
</tbody>
</table>

Source: Euromonitor International from trade sources/national statistics
Hygiene concerns incubate opportunities

Liquid detergents, liquid tablet detergents and home care disinfectants saw retail sales value in China at USD3,789 million, USD73 million and USD488 million, respectively, in 2019. Liquid detergents containing disinfectant ingredients are attractive to consumers seeking convenience and to those who have second thoughts about buying additional laundry sanitiser due to limited purchasing power in rural areas. Driven by consumers’ concerns about surface contact transmission, home care disinfectants are also expected to see strong growth.

Due to the highly contagious nature of COVID-19, disposable wipes in portable format that contain 75% alcohol and kill viruses have been in great demand. However, such products are not widely available and are in short supply, so consumers turn to the next best thing - personal wipes positioned with germ-killing and antibacterial functionalities - to improve personal hygiene. Personal wipes is expected to enjoy a temporary win, or at least a slight bump in sales.

There’s also a short-term, negative impact on Away-from-Home tissue demand, with the drop in travel, foodservice, and business activities, conversely there are opportunities in disinfecting wipes in all public places, including healthcare facilities, office buildings.

### Brand Shares of Liquid Detergents

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Moon</td>
<td>21.3%</td>
</tr>
<tr>
<td>Liby</td>
<td>10.2%</td>
</tr>
<tr>
<td>Chaoneg</td>
<td>8.6%</td>
</tr>
<tr>
<td>Fresh’n Hygiene</td>
<td>8.1%</td>
</tr>
<tr>
<td>Omo</td>
<td>6.3%</td>
</tr>
<tr>
<td>Ariel</td>
<td>4.8%</td>
</tr>
<tr>
<td>Tide</td>
<td>4.4%</td>
</tr>
<tr>
<td>Kispa</td>
<td>3.7%</td>
</tr>
<tr>
<td>Amway</td>
<td>2.1%</td>
</tr>
<tr>
<td>Diaco</td>
<td>1.2%</td>
</tr>
<tr>
<td>Lonkey</td>
<td>1.0%</td>
</tr>
<tr>
<td>Whitocat</td>
<td>0.8%</td>
</tr>
<tr>
<td>Kaimi</td>
<td>0.7%</td>
</tr>
<tr>
<td>Walch</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

*Source: Euromonitor International from trade sources/national statistics*
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The outbreak of COVID-19 has thrown the luxury industry into a vulnerable time as China constitutes a large part of the global luxury market. The luxury industry relies heavily on offline channels as store service is identified as a crucial factor of luxury brands’ success, which is also the case for the mainland China market even with mature online sales distribution. Experiential luxury will be most negatively impacted due to the quarantine measures imposed by authorities. Closed department stores and shortened business hours will also hit offline sales of personal luxury, not to mention that consumers are cooped up at home and reluctant to go out shopping due to health concerns.

Chinese consumers contribute to the global luxury market with consumption generated at both home and abroad. To make things worse, travel restrictions enforced by popular travel destinations of the Chinese have blocked tourists of Chinese nationality, impacting luxury sales in those regions as well, especially during the Spring Festival. With the ongoing spread of Coronavirus, Valentine’s Day, when many luxury brands normally record a huge sales boost during the year, was another opportunity lost especially for those brands without decent online sales presence.

Source: Euromonitor International from trade sources/national statistics
Luxury groups adjusting their forecasts for 2020

- Luxury groups such as Burberry, Tapestry and Capri are adjusting downwards their sales forecasts for 2020. Further impacts such as delayed product launches and postponed fashion weeks may follow with the spread of COVID-19 beyond the mainland. The epidemic will have a significant negative impact on the entire industry in the short to medium term. If the epidemic can be contained before the end of Q1 2020, the rebound of entertainment and travel demands of Chinese consumers will remain a strong driver for luxury sales in the remainder of the year. Additionally, the epidemic will also likely accelerate the digitalisation of the luxury industry in the foreseeable future; which may not take the form of fast expansion in sales due to the uniqueness of the industry, but more as an effective way to increase customer loyalty and stickiness as well as to build brands’ profiles amid their rejuvenation strategies.
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Travel restrictions hit industry in the short term

- Travel, both inbound and outbound, is severely affected by the COVID-19 outbreak. The outbreak emerged right before Chinese New Year, which is normally the busiest season for the tourism industry. According to our industry research experience, tourism income generated during the Chinese New Year in recent years typically contributes to almost 10% of the industry’s annual total.

- In the short term, the strict travel restrictions imposed by authorities and safety concerns by travellers have been contributing to the plunge of the tourism industry ever since the outbreak of COVID-19. On 24 January 2020, the government ordered travel agencies to suspend all group tours, “Flight and Lodging” products and offer free cancellations for travellers who already booked such services during the period. So far, there are still no definite dates to re-open such business.

![Travel Current Retail Value in China 2014-2019](chart.png)

Source: Euromonitor International from trade sources/national statistics
Lodging is one of the most negatively impacted sectors within the travel industry. According to Euromonitor’s observation, the COVID-19 outbreak in 2020 has led to a drop of 80% in hotel occupancy rate compared to the Spring Festival period in the previous year. As an emerging part of the industry in China, short-term rentals may fare even worse as the profile of operators are often small and micro entrepreneurs who have low risk tolerance for mass unexpected events like this. Platforms are also restricting their services. For example, Airbnb announced a halt to short-term rental bookings in cities such as Beijing until May 2020, preliminarily.

Losses for the travel industry are inevitable in 2020. Nevertheless, experience-orientated consumption is more and more valued by Chinese consumers nowadays. Once the virus is contained and suspended, and domestic and international airlines are re-introduced, consumer demand for travel will quickly recover, if not stronger than the pre-epidemic period. As businesses resume normality, business travel demands will also see a rebound. We remain optimistic about the mid- to long-term growth outlook for the travel industry.
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Stay-at-home measures boost gaming

- Demand for video games has seen a boost with the increase in Chinese consumers’ screen time at home since the outbreak. Advised not to go out by the authorities, consumers are opting for gaming as one of their few at-home entertainment choices. Leading game titles, eg Tencent’s Arena of Valor (Honor of Kings) achieved stellar numbers in terms of revenue and daily active users, while card/board games, role-playing detective games, and dance/workout games also gained popularity for virtual socialising and exercising features - The Ring Fit Adventure for Nintendo Switch has gone viral even though it has not yet been officially introduced to the market.

- Under such circumstances, Q1 2020 is expected to be an especially strong quarter for video games software, given China is the largest market in the world with a substantial base - 2019 market size is estimated to reach USD35.6 billion, based on Euromonitor International’s data. However, back in 2003 during the SARS outbreak, China’s video games market size was approximately 100 times smaller than in 2019; the market was neither big or developed enough to project fluctuations in the face of public health issues, where strict administrative measures for households to stay at home were also absent.

Source: Euromonitor International from trade sources/national statistics
Chinese consumers may increase willingness to spend on gaming

- In the medium to long term, consumers’ devotion to gaming will eventually return to normal as the public situation recovers. The real benefits for China’s video games software industry might be beyond just an uptick in monthly or quarterly sales, but consumers’ higher willingness to pay - a big step for most Chinese gamers who are used to not spending (much) on gaming.

- Despite strong consumer demand, the situation for video games hardware, eg consoles, is less positive than software due to the shortage of logistics services as well as the shutdown of physical stores and factories caused by the Chinese New Year holiday and COVID-19. While the demand is still on for the online retail space in China, the global supply chain has already encountered profound challenges due to China’s current capacity to produce: as reported by Nintendo on its official website, domestic shipment of Nintendo Switch and Joy-Con controllers to Japan would be impacted.
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Profound changes are expected in China’s organisations

Better prepared for future risks

- From sales planning to operational strategy, corporates will consider multiple factors and restructure accordingly, build omnichannel distribution and become more agile at handling potential risks and disruption in the future. For example, the consumer foodservice industry is likely to shift towards a more standardised and chain-orientated direction to better absorb unexpected risks in the future.

Boost to e-commerce

- For Chinese consumers, changes in behaviour will likely focus on attitudes towards health and hygiene, as well as a more diversified path to purchase with the boost to e-commerce likely to remain a more permanent shift beyond the epidemic. For example, the epidemic will likely accelerate the digitalisation of the luxury industry in the foreseeable future, while creating more diverse paths to purchase in areas such as fresh food and personal care.

Short-term negative hit on specific industries

- Some industries reliant on in-store purchases and crowded gatherings will suffer in the short term. In particular, industries reliant on major events and celebrations to boost sales will be hardest hit. For example, a large number of restaurants and bars are temporarily closed in China during the Spring Festival, which is severely impacting alcoholic drinks sales in Q1 2020.

Strong recovery anticipated

- Most affected segments are expected to see a healthy rebound once the virus is contained and suspended. Particularly, as consumers look to enjoy a more optimistic period and regain some of their purchasing habits. For example, in travel, as domestic and international airlines are re-introduced, consumer demand for travel will quickly recover, if not stronger than the pre-epidemic period.
Thank you

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