

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 4/24/2013

GAIN Report Number: HK1315

Hong Kong

Post: Hong Kong

Rising Prices of Fresh Beef Impact Hong Kong Market

Report Categories:

Agricultural Situation

Agriculture in the News

Livestock and Products

Approved By:

Erich Kuss

Prepared By:

Caroline Yuen

Report Highlights:

Hong Kong's fresh beef prices have been escalating in 2012 and do not show any signs of slowing down in 2013. The consumer price index (CPI) for beef last year rose 19.1 percent compared to 2011, ranking at the top of CPI growth rates among all food items. In stark contrast, another key staple meat for Hong Kong consumers – pork – had its average price rise only 3.7 percent between 2011 and 2012. Hong Kong's live cattle supplies rely entirely on China, thus the great demand for live cattle in China's domestic market has been the driving force for the rising prices of fresh beef in Hong Kong. The substitution effect has come to play as a result of rocketing prices. Consumption of fresh pork and frozen beef has increased. U.S. chilled beef, however, is generally offered for the high-end market (that is not as price sensitive) and not considered a direct substitute for fresh beef.

General Information:

Live Cattle Supplies

Live cattle supplies rely entirely on China. No cattle are raised in Hong Kong. All supplies are imported by a Chinese government related sole agent – Ng Fung Hong. Between 2008 and 2011, live cattle supplies were in the region of 28,500 each year. But supplies dropped to 26,035 head in 2012, declining 10 percent compared to 2011. Supplies were maintained at an average of 71 head each day. However, in early 2013 there was another sharp drop in cattle imports. Supplies in the first two months in 2013 amounted to only 3,061, a decrease of 31 percent compared to January – February 2012 and on average imported only 51 head of live cattle from China.

Table 1: Hong Kong's Live Cattle Supplies

	2011	2012	2013
			(Jan - Feb)
Live Cattle (head)	28,912	26,035	3,061
Live Cattle (@297 kg) MT	8,578	7,732	909

Source : Hong Kong Agricultural, Fisheries and Conservation Department

The decreased supply of live cattle has resulted in corresponding prices changes. Both the wholesale prices of live cattle and retail prices of beef rose in 2012 and the trend has deepened in 2013 (table 2). For January 2013, the wholesale prices of cattle soared by 47 percent. Apparently, retailers could not raise their retail prices proportionally, but only to a lesser degree of around 33 percent, as they are well aware that too exorbitant prices increases will drive consumers away leaving them with even less profit margins.

Table 2: Hong Kong's Changes of Wholesale Prices of Live Cattle and Retail Prices of Fresh Beef

	2011	2012	% change	2012 Jan	2013 Jan	% change
Whole sales prices of live cattle (US\$/MT)	5,420	6,774	25%	6,020	8,822	47%
Retail Prices of Best quality Beef (US\$/kg)	13.74	16.38	19%	14.96	19.88	33%
Retail Prices of Beef, Belly flesh (US\$/kg)	11.16	13.51	21%	12.31	16.53	34%

Source : Hong Kong Census & Statistics Department

There are accusations that the sole agent does not offer competitive prices to farmers in China, they therefore have not been able to secure adequate supply of live cattle to Hong Kong. Being the sole agent in Hong Kong, they can still manage to maintain profits by raising the wholesale prices of cattle.

On the other hand, the sole agent explained that they have encountered challenges in obtaining cattle supplies for Hong Kong. In recent years, consumers in China have become more affluent and are able

to afford higher prices. Thus a strong domestic demand for beef has been created. The sole agent further pointed out that the cattle farming industry in China has been shrinking as the operation costs associated with transportation, labor and feed have increased tremendously in recent years. The young generation does not want to continue working in the livestock industry given the high investment and slow return nature of the industry. Thus, they argue that the contraction of the industry is what has ultimately led to the reduced supply of cattle to Hong Kong.

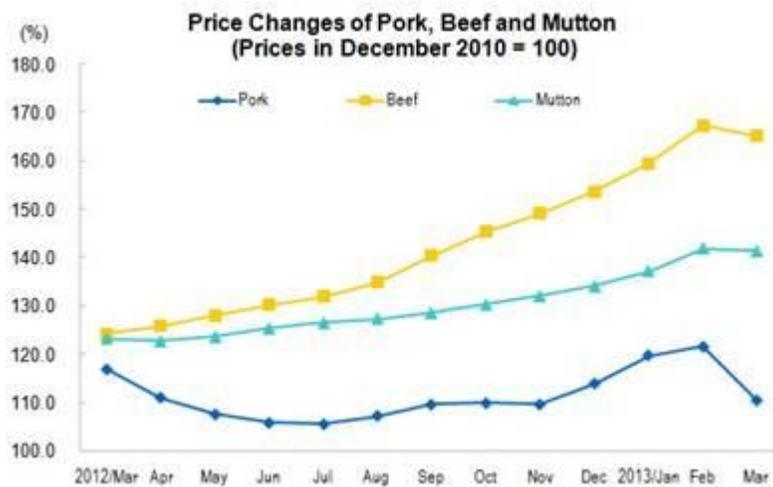
In an attempt to have a better control of live cattle supply to Hong Kong and preempt grave price fluctuation, the sole agent – Ng Fung Hong- has planned to buy two existing cattle farms in China. When the plan is fully materialized, which is expected to be completed by the end of 2013, the two farms are able to provide about 30 head of cattle daily, or over half of the current supply, to Hong Kong.

Beef Prices in China

Consumption price data in China confirmed that beef prices soared tremendously in the past year when compared to overall food products and other types of meat such as pork and mutton (figure 1). The rising prices reflected the high demand for beef. When consumers in China already can afford paying high prices for beef, farmers no longer have any special incentive to sell to Ng Fung Hong if the offered prices are just comparable. Consequently, cattle supply for Hong Kong has been reduced.

Between January – March 2012 and 2013, beef prices rose 33 percent, which stood out conspicuously among other food and meat items. Eggs had a CPI rise of only 15 percent despite being the second highest. In contrast, pork prices showed a reverse trend by dropping 4 percent.

Figure 1. Price Changes of Pork, Beef and Mutton in China between March 2012 – March 2013



Source: Press Release April 10, 2013 by National Bureau of Statistics of China

Table 3. Consumer Price Index of Meat Items in China in March 2013

Items	March Y/Y %	Average (Jan – March) Y/Y %
Consumer Prices	2.1	2.4
Food	2.7	3.8
Grain	5.2	5.0
Grease	4.7	4.7
Meat, Poultry and Related Products	2.9	3.2
Pork	-5.5	-3.8
Beef	33	32.5
Mutton	14.8	13.3
Eggs	13.9	14.8
Aquatic Products	1.6	3.9
Fresh Vegetables	-10.3	0.5
Fresh Fruits	5.0	0.7
Milk and Dairy Products	4.5	4.2

Source : Press Release April 10, 2013 by National Bureau of Statistics of China

Comparison of Beef CPI between Hong Kong and China

A comparison of the beef CPIs of Hong Kong and China will clearly illustrate the correlation of prices between the two places. Both depict similar price trends fully reflecting the fact that high prices in China will reduce supply in Hong Kong and ultimately push up prices in Hong Kong as well. The underlying reason is that Hong Kong relies entirely on China for its live cattle supply and there is no local production. The table below shows their CPIs' correlation. The CPI for beef in Hong Kong and China were very similar and were in the region of 30 percent.

Table 4. Comparison of Beef CPI between Hong Kong and China

	Hong Kong's CPI changes, Y/Y %	China's CPI changes, Y/Y %
January	30.4	30
February	30.9	34.6
March		33

Source : Hong Kong Census & Statistics Department

Press Release April 10, 2013 by National Bureau of Statistics of China

Substitution Impact – Increase in Frozen Beef Consumption

Fresh, chilled and frozen beef each have a different target market. Fresh beef has always been a major staple meat for Hong Kong households, with some consumption in Chinese restaurants. Chilled beef from the U.S., Canada and Australia are primarily used in high-end steak houses. But they are also

used in Chinese cuisine in high-end restaurants. Occasionally, there are special promotions highlighting the use of premium imported beef as an ingredient for Chinese cuisine. Frozen beef is extensively used in Hong Kong's catering industries. Price and handling convenience are key reasons. For some mid-end restaurants, the choice between chilled beef (primarily from South America) and frozen beef depend very much on the prevailing prices.

The rising fresh beef prices have triggered some substitution to frozen beef, particularly for the catering industries. Back in 2011, fresh, chilled and frozen beef accounted for about 10, 6 and 84 percent respectively of total beef consumption. According to the first two months of 2013 figures, fresh and chilled beef already dropped to 3 and 2 percent of total beef consumption respectively while that for frozen beef surged to 95 percent. The shifting of consumption pattern is mainly due to price consideration. In order to save cost, the catering industry has largely replaced chilled and fresh beef with frozen beef. While this change in consumption pattern also occurs for some households, it is not as noticeable for the catering industry. It is because consumers are still reluctant to use chilled or frozen beef for traditional Chinese cuisine prepared at home. Also, the household consumption of premium chilled beef as steak is not yet common in Hong Kong as consumers generally prefer to have steaks in restaurants' rather than at home.

For some time, the Hong Kong government tried to introduce chilled beef from China in an attempt to supplement consumers' demand for fresh beef but market forces proved that it did not work out as desired. The HKG approved two large meat processing plants in China's northern provinces to provide chilled beef to Hong Kong. China supplied 160 MT of chilled beef to Hong Kong in 2011. Supply drastically dropped to 16 MT in 2012 and has stopped entirely in the first few months of this year. It took almost a month for the slaughtering, production and transportation of chilled beef to Hong Kong. Given the short shelf life and unfamiliar favor, it has not been accepted in Hong Kong.

Table 5: Hong Kong's Beef Consumption, MT

	2011	2012	2013	% changes
			(Jan - Feb)	2012/2011
Live Cattle	8,578	7,732	909	-10%
Chilled Beef	5,347	5,441	765	2%
Frozen Beef	70,541	119,931	33,121	70%
Total	84,466	133,104	34,795	58%

Source : Hong Kong Census & Statistics Department

Table 6 : Hong Kong's Beef Consumption Share by Various Categories

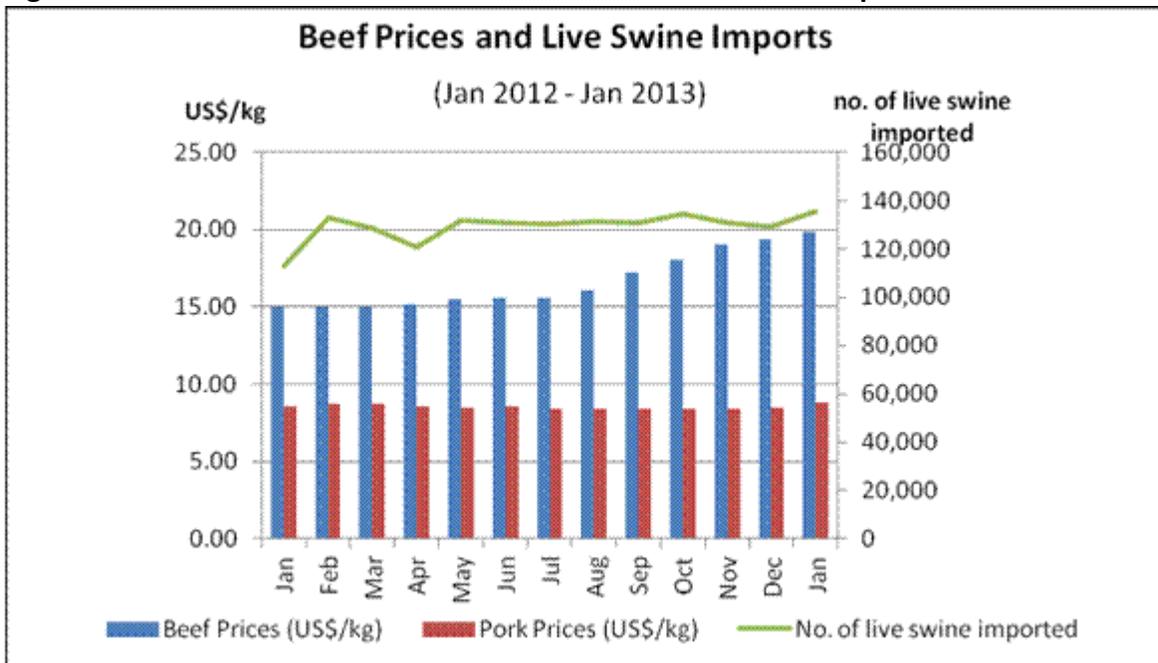
	2,011	2012	2013
			(Jan - Feb)
Live Cattle	10%	6%	3%
Chilled Beef	6%	4%	2%
Frozen Beef	84%	90%	95%
Total	100%	100%	100%

Source : Hong Kong Census & Statistics Department

Substitution Impact - Increased Consumption for Freshly Slaughtered Pork

While the rising prices of beef have encouraged the catering industry to replace fresh beef with frozen beef, households tend to buy more freshly slaughtered pork instead. (Live poultry supply has been limited by government due to bird flu considerations.) The 2012 CPI for freshly slaughtered pork remained 3.7 percent which was in sharp contrast with beef which stood at 19.1 percent. A clear correlation between the rising prices of beef and the increased consumption of freshly slaughtered pork is depicted in figure 2. In January 2012, Hong Kong imported 112,850 head of swine from China for the production of freshly slaughtered pork. As the beef prices rose over the year from US\$15/kg to US\$20/kg and pork prices remained in the range of US\$8/kg, the number of imported swine increased steadily, demonstrating that consumers had a tendency to replace beef with pork due to price considerations. (A particularly sharp increase of live swine imports in February 2012 was seen because it was the Chinese New Year season which is a traditionally high meat consumption period.) Compared between January 2012 and 2013, the number of imported swine increased by 20 percent, reaching a total of 135,699.

Figure 2: Substitution Effect of Beef Prices on Fresh Pork Consumption.



Role of Beef in Hong Kong Food Inflation

Hong Kong's food prices in 2012 rose 6.5 percent when meals eaten out were excluded. Despite less significant expenditure weight of beef in the CPIs (0.22%), the price of beef became the 6th top food group that contributed to the 6.5 percent increase of overall food prices because of the significant increase in its price by 19.1 percent.

However, the impact of beef prices on Hong Kong's overall food inflation is still not as high as pork. Pork is the major meat item favored by Hong Kong consumers. It therefore carried a relatively higher expenditure weight of 1.15%. Despite its lower increase rate (3.7%), it was the 5th top food group contributing to the overall food inflation rate. The most significant contributors to Hong Kong's inflation in 2012 were seafood and fresh vegetables.

Table 7: Hong Kong Food CPI

	Weight %	Price Index Growth %		Contribution to rate of change in section index %
		Feb 13/12	2012/2011	
All items	100	4.4	4.1	
Food	27.45	5.0	5.8	100
Meals bought away from home	17.07	4.8	5.4	56.5
Food, excluding meals bought away from home	10.38	5.4	6.5	43.5
Rice	0.33	-3.9	-0.9	0.2
Other cereals and cereal preparations	0.26	2.6	4.4	0.7
Bread, cakes, biscuits and puddings	0.79	2.9	4.5	2.2
Salt-water fish	0.75	6	17.5	9.4
Fresh-water fish	0.41	3.3	11.5	3.1
Other fresh sea products	0.29	15.7	16.7	3.6
Processed sea products	0.48	2.4	6.7	2.2
Pork	1.15	3.9	3.7	2.9
Beef	0.22	30.9	19.1	2.7
Poultry	0.40	20.8	5.9	1.5
Meat, frozen	0.42	1.7	5.5	1.5
Meat, canned	0.07	-4.6	6.1	0.3
Meats, others	0.42	3.9	8.4	2.3
Fresh vegetables	1.16	6.9	5.4	3.8
Processed vegetables	0.05	5.9	4.6	0.1
Fresh fruit	0.71	11.1	4.0	1.9
Processed fruit	0.03	1.5	4.4	0.1
Dairy products	0.47	3.7	6.8	2.0
Eggs	0.13	-2.7	5.5	0.5
Edible oils	0.16	1.9	5.4	0.5
Carbonated drinks	0.08	1.5	9.5	0.4
Other non-alcoholic beverages	0.31	2.1	3.3	0.6
Sugar	0.02	4.1	4.8	0.1
Confectionery	0.15	-1.3	2.8	0.3
Flavorings and additives	0.13	1.6	4.3	0.3

Food, others	0.99	-0.3	1.0	0.6
--------------	------	------	-----	-----

Source : Hong Kong Census & Statistics Department