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China's Alcohol Market Stumbles: Spirits and Wine Dive

China's Middle Class Drives New Drinking Habits

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The alcoholic beverage market in China is undergoing significant changes in 2024, following a turbulent year in 2023. According to a report by IWSR Drinks Market Analysis, the overall volume growth of alcoholic beverages in China between 2022 and 2023 was marginal, with notable declines in the spirits and wine sectors offset by slight increases in beer and ready-to-drink (RTD) beverages. The report highlights a 9% decrease in spirits and a 14% decrease in wine, contrasted by a 3% increase in beer

and a 1% increase in RTDs.

One of the critical issues facing the market is the high inventory levels of certain high-end products, such as Cognac XO and aged whisky, which have led to a persistent destocking process in early 2024. This trend is also evident in the baijiu market, although premium and superpremium segments are performing better than lower-priced products.

Shirley Zhu, Director of Research for China at IWSR, notes that despite efforts by brands and wholesalers to reduce stock, high inventory levels persisted at the end of 2023. For the first time since 2000, Scotch malt whisky experienced a volume decline across all price levels, dropping by 11% in 2023. This decline is expected to continue into 2024, though a compound annual growth rate (CAGR) of 4% is projected between 2023 and 2028.

The challenging market conditions have also affected companies like the Artisanal Spirits Company, owner of the Scotch Malt Whisky Society, which identified China as a significant hurdle to growth in a mid-year trading update.

The Cognac sector faces uncertainty, particularly regarding potential tariffs on European brandy imports. The real estate crisis in China has had a notable impact on demand for high-end spirits used for entertainment and gift-giving, significantly affecting Cognac XO and expensive whiskies. However, the volumes of Cognac VSOP and blended whiskies have remained stable, with Cognac VS seeing moderate growth due to its more accessible price range.

Chinese consumers have shown a preference for discretionary spending on travel and experiences over alcohol purchases. The real estate sector's downturn has significantly affected the Chinese economy, impacting both business and consumer confidence. Despite an initial improvement in consumer sentiment following the lifting of pandemic restrictions in 2023, confidence later waned and has remained low.

There are emerging signs of a more modest consumption trend among middle-class consumers with lower incomes, specifically those earning between 5,000 and 15,000 RMB per month (approximately $700 to $2,000 USD). IWSR forecasts that the total

volumes of alcoholic beverages will remain essentially flat from 2023 to 2028, although the total market value is expected to increase, adding an incremental value of over $14 billion USD by 2028.

Baijiu is projected to account for about two-thirds of this total growth, supported by an increase in the number of middle-upper and upper-income households, which will sustain sustainable growth in the medium to long term. Generally, there is a noticeable trend towards less ostentatious consumption, with a decrease in the purchase of spirits or champagne bottles at night events and a growing preference among younger consumers for beer served in buckets or drinks served by the glass.

As China navigates through a period of economic uncertainty and changing consumer preferences, the alcoholic beverage market is adapting to new realities. Brands and producers must navigate inventory challenges, shifting consumption patterns, and broader economic factors to find a path to sustainable growth. The landscape suggests a future where value growth outpaces volume, driven by a more discerning and experience-oriented consumer base. As these trends unfold, the market will likely continue to evolve, reflecting the dynamic interplay of cultural, economic, and consumer forces shaping China's approach to alcoholic beverages.