COVID-19: LESSONS FROM HONG KONG

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April 08, 2020
Hong Kong is further ahead than most other regions along the pantry stockpiling curve due to its geographical proximity to the COVID-19 outbreak in Wuhan. Also important is an ingrained mentality among citizens to prepare for the worst.

Hong Kong is therefore a compelling contextual case study in terms of how people respond to the unique dynamism of the global COVID-19 pandemic – both in general, and from an FMCG industry perspective.

A unique confluence of political, social and economic tensions have combined to be a highly influential backdrop in how COVID-19 related events in Hong Kong unfolded. As such, any implied cross-country learnings should be used with caution.

The Hong Kong experience suggests FMCG stakeholders should plan for the possibility of multiple waves of pantry stockpiling, and expect that the initial sales spike from ‘wave 1’ to last around 6 weeks for food and 4-5 weeks for non-food.

Given the possibility for multiple waves of infection to occur, we would expect infection containment measures (and the related lifestyle implications) to only be relaxed very cautiously and to include ongoing close monitoring and surveillance.

The duration and velocity of the spike in FMCG sales from a second or third wave of infections will likely prove less significant for non-food items. Across both food and non-food, the sought after FMCG items will largely remain consistent.

Source: IRI analysis
Hong Kong was a territory in crisis before the COVID-19 pandemic…

A confluence of political, economic and social challenges equated to a ‘perfect storm’ of discontent

**Ongoing civil unrest**
- Large-scale, prolonged demonstrations (in pursuit of democratic and police reforms) has disrupted retail and other consumer-related sectors (including tourism)
- Lack faith in government to handle crisis, further fuelling protest tensions

**Declining economy & retail sales**
- Fell into recession for first time in a decade in Q3’19 amid falling private consumption
- Economy shrank 3.0% in Q3’19, and by -1.2% in the 2019 calendar year
- Retail sales fell >30% in Jan & Feb (Y/Y), with a decline of 30-50% expected in H1

**Ingrained coronavirus angst**
- The chastening experience of being an epicentre of the SARS outbreak 17 years ago is still etched in the psyche of citizens
- COVID-19 outbreak will likely extend the pre-existing recessionary cycle (and the cautious ‘recessionary mindset’) further

Source: IRI analysis; statistics.gov.hk; censtatd.gov.hk; reuters.com; wsj.com
…which meant that **stockpiling was already boosting sales in 2019**

**South China Morning Post**

*Hong Kong / Society*

Hong Kong shoppers clear shelves as panic grips a city struggling to cope with chaos of anti-government protests

- Supermarkets, shopping centres and MTR stations all remain closed for second day

**FOOD navigator-asia.com**

Hong Kong protests: Supermarket sales increase while other retail sectors feel the pinch

**YOY retail sales value growth by type of retail outlet**

<table>
<thead>
<tr>
<th></th>
<th>All retail outlets</th>
<th>Supermarkets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-19</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Feb-19</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Mar-19</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Apr-19</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>May-19</td>
<td>-5%</td>
<td>-10%</td>
</tr>
<tr>
<td>Jun-19</td>
<td>-10%</td>
<td>-15%</td>
</tr>
<tr>
<td>Jul-19</td>
<td>-15%</td>
<td>-20%</td>
</tr>
<tr>
<td>Aug-19</td>
<td>-20%</td>
<td>-25%</td>
</tr>
<tr>
<td>Sep-19</td>
<td>-25%</td>
<td>-30%</td>
</tr>
<tr>
<td>Oct-19</td>
<td>-30%</td>
<td>-25%</td>
</tr>
<tr>
<td>Nov-19</td>
<td>-25%</td>
<td>-20%</td>
</tr>
<tr>
<td>Dec-19</td>
<td>-20%</td>
<td>-15%</td>
</tr>
</tbody>
</table>

*Throughout 2019, Hong Kong’s supermarket retail sales proved to be far more resilient than retail overall*

*Supermarkets being generally located in high density neighbourhood areas has protected sales vs. mall based outlets*

Source: IRI analysis; statistics.gov.hk; censtatd.gov.hk; scmp.com
Hong Kong was one of the first places* to report COVID-19 infections.

*outside of mainland China

**First case of new mystery virus identified outside of China**

**Two cases of Wuhan coronavirus confirmed in Hong Kong**

**Hong Kong Reports Its First Coronavirus Death as Outbreak Widens**

And one of the first nations to experience anxiety-induced stockpiling of toilet paper...

...which is credited for propelling rumours of toilet paper shortages (and thus further stockpiling) in other nations.

Source: IRI analysis; nytimes.com; time.com; edition.cnn.com; abcnews.go.com;
But the city’s COVID-19 infection rate is comparatively low

Moved from the ‘China period’ to the ‘pandemic period’

Global cases: 1,429,437

Countries impacted: 184

Hong Kong cases: 935

Hong Kong deaths: 4

Global deaths: 82,074

Global recoveries: 300,767

<table>
<thead>
<tr>
<th>Country</th>
<th>Infections</th>
<th>Deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>398,785</td>
<td>12,893</td>
</tr>
<tr>
<td>Spain</td>
<td>141,942</td>
<td>14,045</td>
</tr>
<tr>
<td>Italy</td>
<td>135,586</td>
<td>17,127</td>
</tr>
<tr>
<td>France</td>
<td>110,070</td>
<td>10,343</td>
</tr>
<tr>
<td>Germany</td>
<td>107,663</td>
<td>2,016</td>
</tr>
<tr>
<td>China</td>
<td>82,751</td>
<td>3,337</td>
</tr>
<tr>
<td>Iran</td>
<td>62,589</td>
<td>3,872</td>
</tr>
<tr>
<td>UK</td>
<td>55,949</td>
<td>6,171</td>
</tr>
<tr>
<td>Turkey</td>
<td>34,109</td>
<td>725</td>
</tr>
<tr>
<td>Switzerland</td>
<td>22,253</td>
<td>821</td>
</tr>
</tbody>
</table>

63 Hong Kong 935 4

Source: IRI analysis; Johns Hopkins University; Data recorded at 08/04/2020, 11:33am; NB: Hong Kong data is included in China numbers
HK’s **low rate** is even **more apparent** when factoring in population…

<table>
<thead>
<tr>
<th>Country</th>
<th># COVID-19 cases per million people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>3,036</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2,571</td>
</tr>
<tr>
<td>Italy</td>
<td>2,243</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,915</td>
</tr>
<tr>
<td>France</td>
<td>1,686</td>
</tr>
<tr>
<td>Germany</td>
<td>1,285</td>
</tr>
<tr>
<td>US</td>
<td>1,205</td>
</tr>
<tr>
<td>Canada</td>
<td>474</td>
</tr>
<tr>
<td>N. Zealand</td>
<td>241</td>
</tr>
<tr>
<td>Australia</td>
<td>231</td>
</tr>
<tr>
<td>Singapore</td>
<td>253</td>
</tr>
<tr>
<td>South Korea</td>
<td>202</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>125</td>
</tr>
<tr>
<td>China</td>
<td>57</td>
</tr>
<tr>
<td>Japan</td>
<td>34</td>
</tr>
</tbody>
</table>

Hong Kong stands out alongside other Asia Pacific territories as having relatively low rates of infection, despite their geographic proximity to mainland China and large number of travellers.

Source: IRI analysis; worldometers.info; Johns Hopkins University; Data recorded at 08/04/2020, 11:33am.
…and with the city having been the epicentre of SARS in 2003

Hong Kong accounted for 38.6% of the 774 global SARS deaths

No other city on earth had as many cases

Led to record high in unemployment

Prompted a local property market crash

A population with prior experience with a health emergency

A population with an ingrained instinct for self-preservation

Source: IRI analysis; time.com; scmp.com; image sourced from hongkongfp.com
The legacy of the **SARS trauma aided initial COVID-19 containment**

The public and institutional response to COVID-19 was mostly aggressive from the outset in Jan/Feb

### OFFICIAL

- Medical community put on alert as early as 31 Dec.
- Proactively implemented travel restrictions on passengers coming from the mainland
- Cancellation of Chinese New Year activities
- Closure of schools, public facilities, and early implementation of home-office arrangements
- Further implementation of border closures, with medical workers’ striking in late Jan/early Feb to make it happen
- Prison sentences for anyone breaching quarantine rules

### PUBLIC

- Residents routinely taking precautions (e.g. wearing face masks; avoiding crowded places, strict personal hygiene)
- Maintaining faith in the health system, and related public health measures, in spite of wavering trust in government

Source: IRI analysis; time.com; scmp.com; fortune.com; globalhealthnewswire.com; theguardian.com; nytimes.com
Strong public vigilance was also propelled by government distrust…

<table>
<thead>
<tr>
<th>Year</th>
<th>Trust</th>
<th>Distrust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 2016</td>
<td>42%</td>
<td>40%</td>
</tr>
<tr>
<td>Feb. 2017</td>
<td>42%</td>
<td>40%</td>
</tr>
<tr>
<td>Feb. 2018</td>
<td>47%</td>
<td>36%</td>
</tr>
<tr>
<td>Feb. 2019</td>
<td>34%</td>
<td>47%</td>
</tr>
<tr>
<td>Feb. 2020</td>
<td>14%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Amid the COVID-19 outbreak, public trust in the HK government reached an all-time low. Expressed trust in the government fell 28pp; distrust increased by 36pp. Reflects a growing viewpoint of an unrepresentative and unresponsive government.

Source: IRI analysis; hkupop.hku.hk
...by further spurring Hong Kongers to prepare for the worst

If Hong Kong avoids a large-scale epidemic it will be down to the...

- The governments’ handling of the crisis
  - Agree: 24%
  - Neutral: 18%
  - Disagree: 56%

- The community response
  - Agree: 72%
  - Neutral: 17%
  - Disagree: 6%

Hong Kong’s early stockpiling was influenced by low trust in the government to handle the crisis.

Mistrust and disaffection towards the government made it easy for misinformation to spread.

And it further cultivated a self-preservation mentality: ordinary citizens acting to protect themselves and their families.

Source: IRI analysis; Chinese University of Hong Kong Survey/scmp.com
Preparing for the worst influenced early pantry stockpiling...

...driving double-digit growth in supermarket sales, an anomaly in a largely bleak retail landscape.

…which was clearly evident in IRI measured triple-digit growth

Top 20 fastest growing food fixtures

1) Pork
2) Pasta
3) Canned Vegetable
4) Rice
5) Canned Meal
6) Frozen Ready Meal
7) Frozen Meat
8) Baking Aids
9) Froz. Bakery & Desserts
10) Canned Meat

11) Chinese Deli
12) Frozen Seafood
13) Canned Seafood
14) Frozen Chinese Meals
15) Oil
16) Meat Counter
17) Prepared Meat
18) Butter & Margarine
19) Soup
20) Bakery Bread

Top 10 fastest growing non-food fixtures

1) Household Cleaning
2) Tissues
3) Dishwashing
4) Soap & Deodorant
5) Toilet Tissue
6) Paper Towels
7) Household Wraps And Bags
8) Household Care
9) Laundry
10) Feminine Care

Over half of consumers spending more

51% report spending more on household cleaners offline, and 27% spent more online*

Source: IRI analysis; IRI Hong Kong MarketEdge Grocery, 4wks to 27/2/2020; *ipsos.com
...and like global markets that followed, **toilet paper was a coveted item**

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**The New York Times**

The Coronavirus Hits Hong Kong? Quick, Toilet Paper!

The irrational comforts of a panic-shopping spree.

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**FORTUNE**

Hong Kong has a coronavirus face mask shortage. Now rumors have sparked toilet paper panic buying

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**The Guardian**

Hong Kong armed gang steals toilet rolls as coronavirus panic-buying spreads

Hundreds of toilet rolls were seized by robbers outside a supermarket in Mong Kok as shortage begin to bite

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Source: IRI analysis; IRI Hong Kong MarketEdge Grocery, timeframes as referenced
HK’s **toilet paper sales trajectory** reflect many top growth categories

HK$ sales of the top 20 fastest growing food categories, and top 10 fastest non food categories

Top 20 food growth categories

Top 10 non food growth categories

6 wks from peak stockpiling to normalised sales

4 wks from peak stockpiling to normalised sales

Why the 2\textsuperscript{nd} surge?

Source: IRI analysis, IRI Hong Kong MarketEdge Grocery, week ending 12/12/19 to 02/04/20; NB: specific sales details are not given due to commercial sensitivity of the data
Because the effectiveness of **HK’s coronavirus containment wavered**…

…and global media was left trying to ascertain the fallibility of what was a beacon in COVID-19 containment

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**CNN**

Hong Kong appeared to have the coronavirus under control, then it let its guard down

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**The Guardian**

'We can't let up': Hong Kong battles complacency amid new wave of Covid-19

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**Business Insider**

Hong Kong is bracing for a 2nd wave of coronavirus cases brought by people travelling from outside the city

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**TIME**

Hong Kong Records Its Biggest Rise in Coronavirus Cases as New Wave of Infections Crashes Into Asia

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Source: IRI analysis; edition.cnn.com; theguardian.com; time.com; businessinsider.com
…as the city recorded a ‘2nd wave’ acceleration in cases from mid-March

In the first 54 days since Jan. 23., when Hong Kong started to report confirmed cases, there were 36 days of three new cases or fewer

Until Mar. 17, the highest number of new cases reported in one day in Hong Kong was 10, which had happened only on two instances

2nd wave
From mid-March onwards, the number of new cases has crept upwards

Source: IRI analysis; Johns Hopkins University; scmp.com
The acceleration of COVID-19 infections stemmed from the following...

1. Complacency & lack of forced lockdown/distancing

   Despite largely diligent containment measures, Hong Kong had not been in forced lockdown mode. Shops, bars, and restaurants remained open. Glimpses of normality emerged as the atmosphere of fear eased, people returned to offices and some public spaces re-opened.

2. Anxiety-induced stockpiling subsides

   Staffing and logistical improvements evident after the CNY holiday helped to improve OSA* of key stockpiled items to near-normal (toilet paper, rice, sanitiser, and face masks). Fear of foreign influence on supply chain subsides against backdrop of few virus related deaths.

3. Second wave of mostly imported infections

   March 17 marks the beginning of a second wave of COVID-19 infections among returning citizens from territories struggling to mitigate the spread; 36 of the 48 COVID-19 cases reported on March 20 had overseas travel records suggesting a reimporting of the virus.

And a third wave to come?

In the w/c Apr. 05, warning emerged about a third wave from mainland China due to a new wave of cases coming from the China mainland (and then flowing into Hong Kong).

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Source: IRI analysis; scmp.com; time.com; wired.com; amnesty.org; lowyinstitute.org; *On Shelf Availability
The specifics of recent cases & measures have garnered attention...

**Apr. 02**
A 40-day-old baby boy became the youngest confirmed coronavirus case in Hong Kong

**Mar. 31**
A Hong Kong based pet cat becomes the 2nd cat globally to test positive for coronavirus, and the 2nd animal (after a dog) to become infected in the city

**Apr. 02**
Fears of large-scale community outbreak as number of local infections increases from 57 to 103 in one week

**Apr. 08**
Extended to Apr. 23 a recent ban on public gatherings of 4+ people and the closure of venues such as gyms, bars and karaoke parlors. Restaurants are required to run at half capacity and space out tables

Source: IRI analysis; asiatimes.com; thestandard.com.hk; timeout.com
...as a **majority** share of HK citizens feel some **impact** on their daily lives

Source: IRI analysis; Chinese University of Hong Kong Survey/scmp.com
And now **rice** is leading household essential that’s top-of-mind…

**South China Morning Post**
Coronavirus: two arrested for allegedly stealing rice from Aeon supermarket in Hong Kong amid shortage fears due to pandemic

**The Guardian**
'It’s like a war': the fight for rice and toilet roll as coronavirus convulses Hong Kong

**South China Morning Post**
Coronavirus: ‘Hong Kong food shortage risk’ after mainland China tightens border virus checks

Rice supplies say fears over Vietnam ban are overcooked

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**Source:** IRI analysis; IRI Hong Kong MarketEdge Grocery, timeframes as referenced; scmp.com; thestandard.com.hk
…and exists as more **extreme example of ‘second wave stockpiling’**

HK$ sales select top supermarket growth categories during the COVID-19 outbreak

- Pork
- Pasta
- Rice
- Household Cleaning
- Tissues
- Toilet Tissue

Source: IRI analysis; IRI Hong Kong MarketEdge Grocery, week ending 12/12/19 to 02/04/20; NB: specific sales details are not given due to commercial sensitivity of the data
Many sought after essentials returned to triple-digit growth in early Apr.

Top 20 fastest growing food fixtures

1) Pork
2) Rice
3) Canned Seafood
4) Canned Meal
5) Total Frozen Meat
6) Pasta
7) Baking Aids
8) Canned Meat
9) Frozen Ready Meal
10) Beer
11) Canned Vegetable
12) Ice Cream
13) Frozen Seafood
14) Butter & Margarine
15) Oil
16) Frozen Chinese Meals
17) Cooked Meat
18) Boxed Eggs
19) Meat Counter
20) Cheese

Top 10 fastest growing non-food fixtures

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2) Paper Towels
3) Household Cleaning
4) Tissues
5) Toilet Tissue
6) Household Care
7) Household Wraps And Bags
8) Soap & Deodorant
9) Polishes Air Fresheners
10) Laundry

Source: IRI analysis; IRI Hong Kong MarketEdge Grocery, 1wk to 02/04/2020
We have concurrently **observed a return of barren looking stores**

45% of Hong Kong respondents told Ipsos that they had increased their fresh food spend offline (vs. 9% online)

And with stronger social distancing measures restricting out-of-home occasions, supermarket sales are likely prosper further in April

Source: IRI analysis; IRI store visits
Most Hong Kongers do not think the COVID-19 crisis will be ending anytime soon, with just 14% expecting the pandemic to end by June.

We would therefore expect to see anxiety-influenced supermarket stockpiling to continue, albeit to a lesser extent than in wave 1.

<table>
<thead>
<tr>
<th>Will end in</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2020</td>
<td>14%</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>30%</td>
</tr>
<tr>
<td>2021</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: IRI analysis; ipsos.com; select answers only in a survey conducted 16-20 March.
And with more time spent at home, alternative commerce models can thrive

DayDayCook is a multimedia cooking platform that has seen users grow by more than half from Jan-Mar. – the most significant user gains since the 2012 launch. While young Hong Kongers have grown up accustomed to eating out regularly, COVID-19 could prove to be a key catalyst in the revival of cooking at home.

Source: IRI analysis; daydaycook.com; nypost.com; scmp.com
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Source: IRI analysis
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