

Is the U.S. a Good Benchmark for the Chinese Tissue Industry Development?

By Xia Min, Senior Consultant, Fisher International

Tissue has been an increasingly hot investment sector in China, driven by the rising wealth and changing consumer habits. Tissue is replacing cloth handkerchiefs and rags as China is gradually adopting Western living styles and increasing hygiene awareness.

Figure 1 shows how rapid the growth of tissue was in China between 2010 and 2017. Its capacity tripled and the growth rate was incredible at 19% CAGR. China surpassed the U.S. to be the biggest tissue producer in 2013 and since then it has kept a leading position in the total tissue production and consumption (Figure 2).

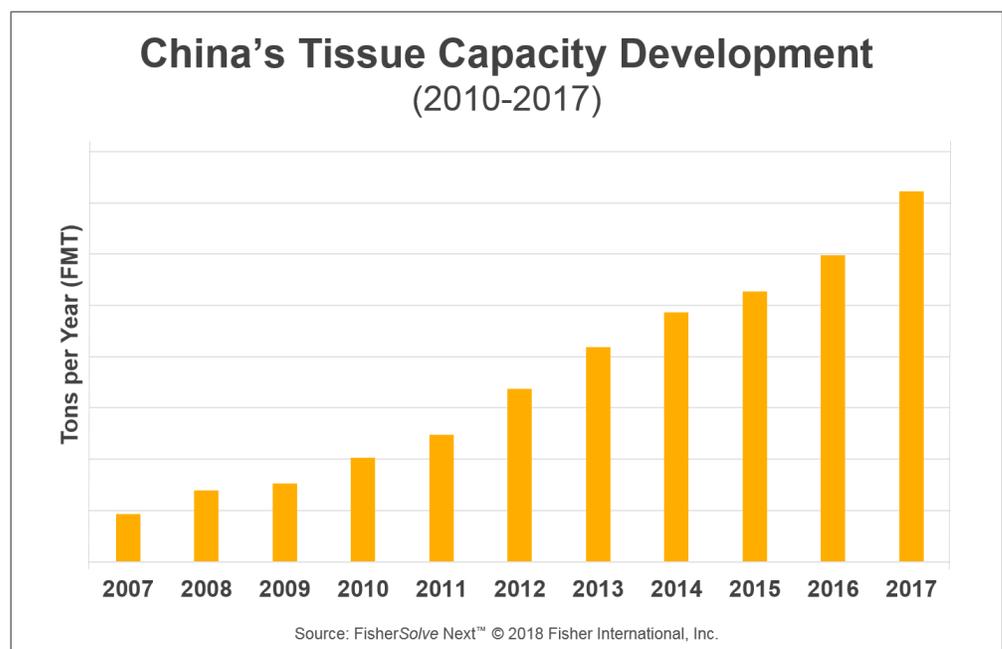


Figure 1

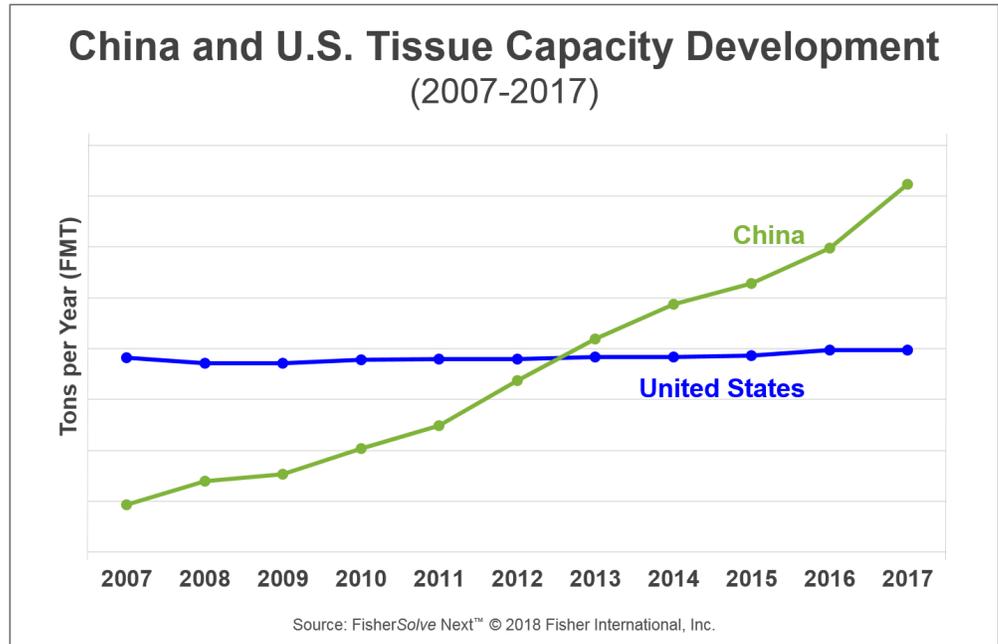
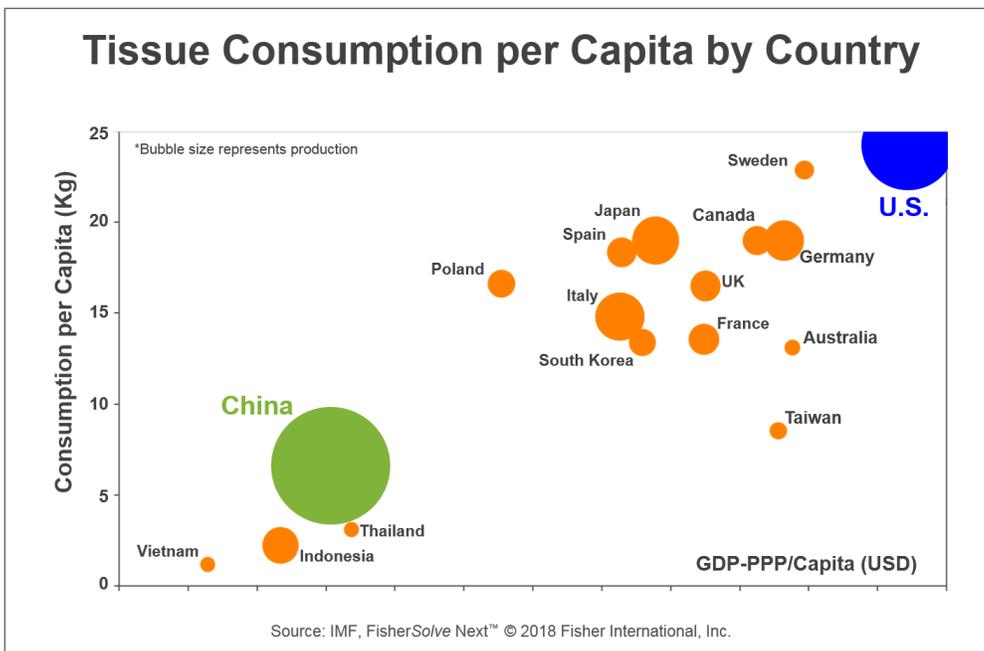


Figure 2

With the worldwide largest population base, China is no wonder a promising market for tissue products. But how large can it get? As a mature market, the U.S. is always mentioned as a benchmark indicator for China, especially in terms of consumption per capita. But, will China achieve the same individual consumption level as that of the U.S.? The answer is not that straightforward.

GDP per capita is a well-known significant driver for tissue demand. At the current GDP per capita level, China is far behind the U.S. in individual tissue consumption (Figure 3).



In the future, could China catch up to the U.S., assuming its GDP per capita reaches a comparable level as that of the U.S. today?

The answer lies in consumer behavior, which is an important micro driver as well as a macro GDP per capita driver.

Countries with similar GDP per capita could have very different consumer habits, thus impacting tissue consumption. Canada, Germany, Taiwan and

Figure 3

Australia are good examples. While these countries have similar GDP per capita, their tissue demand is at a very different level (Figure 3).

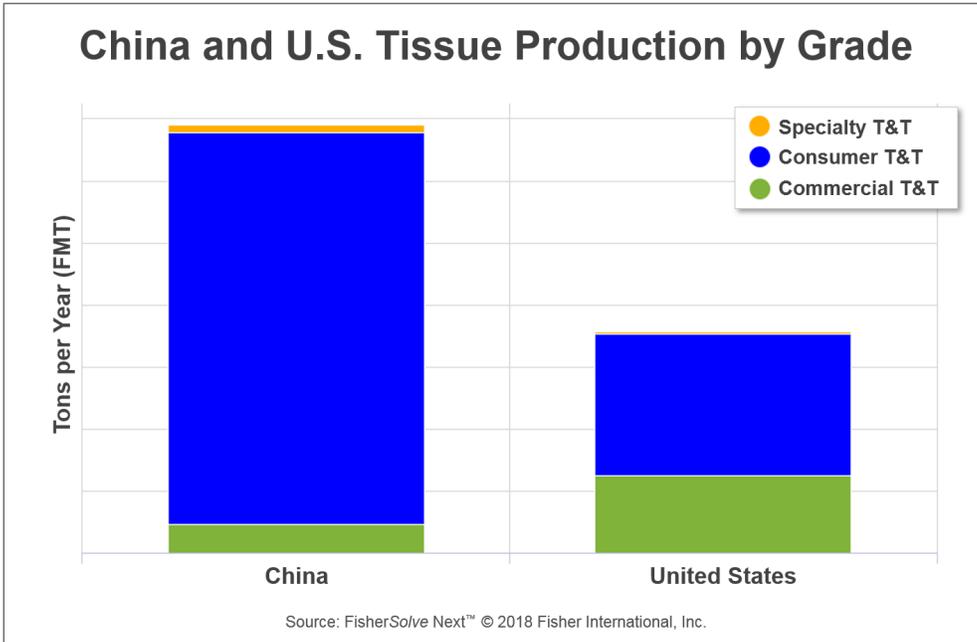


Figure 4

Let's have a closer look at the Chinese and U.S. markets. Eating out accounts for 43% of the annual food expenditures for the average U.S. family¹. Consequently, the away-from-home market or commercial sector is significant in the U.S., accounting for over 30% of total tissue production (Figure 4). In China, the commercial sector is still small but eating out is currently a growing trend accelerated by online fast food delivery, so share of commercial tissue usage will increase.

But, will China achieve that high level of eating out as the U.S. in the future? Maybe, or maybe not. Chinese culture is more large-family oriented, and it is true that parents stay with their sons and daughters especially when they have babies. This tradition will reduce eating out times as the older generation loves to cook for the family, which is also economic for them.

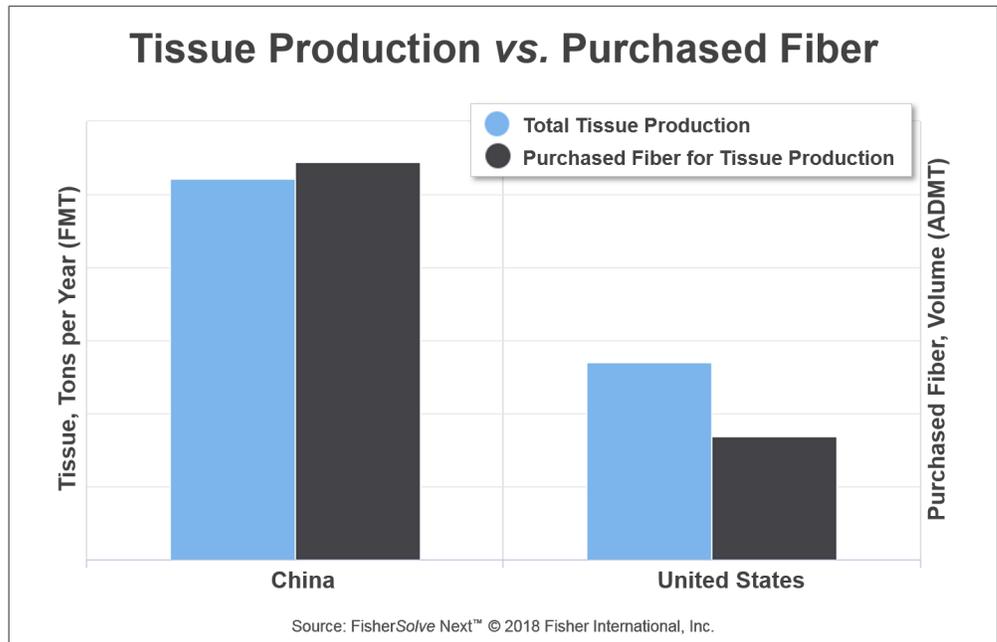


Figure 5

Compared with the U.S., China heavily depends on market pulp (Figure 5). Fiber cost is even more critical to Chinese producers, as the majority of them are non-integrated manufacturers. To reduce fiber cost, recovered fiber could be considered. However, it is not quite an option for facial and napkin tissue, other than toilet paper usage, due to the government rules in China. At the same time, Chinese consumers are biased towards recovered fiber usage, regarding it as unclean and inferior compared to virgin fiber.

Figure 6 shows the fiber furnish of tissue in China and the U.S., and we can see it is clear China uses limited recovered fiber. Under these circumstances, other than using recovered fiber, it is reasonable for Chinese producers to save on fiber costs by reducing slightly the size of the tissue sheet.

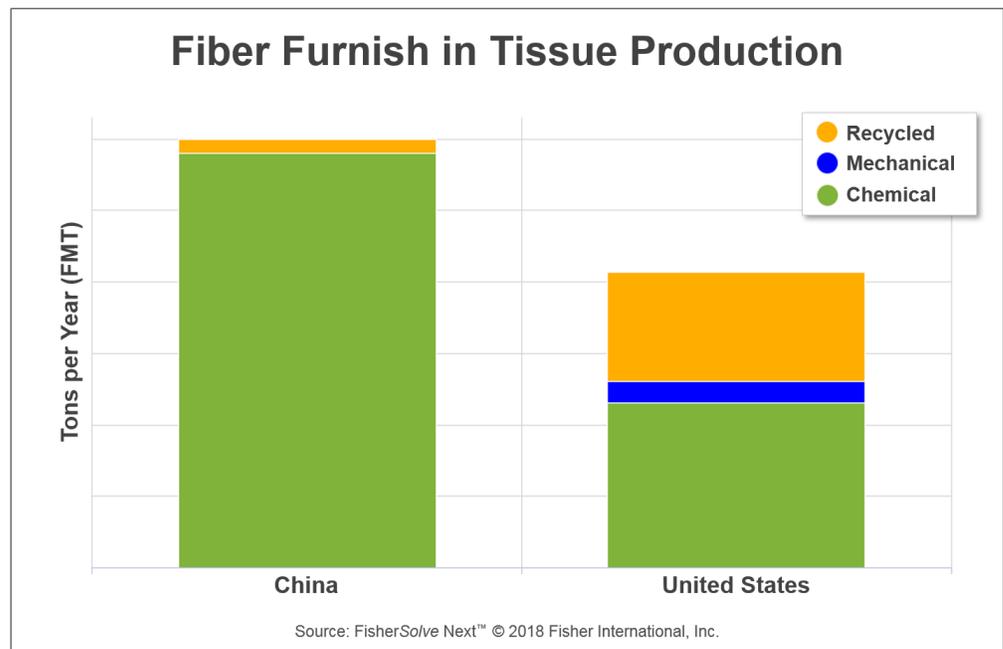


Figure 6

For example, Chinese APP Qingfeng handkerchief (top seller) is slightly smaller than U.S. Kleenex 3-ply handkerchief (21 x 21 cm vs. 21.8 x 21 cm). Napkins used at McDonalds in China and the U.S. are another good example (25 x 26 cm virgin pulp vs. 30.5 x 33 cm recovered pulp, respectively).

There is little motivation in the future for the Chinese producers to enlarge the size of its tissue sheet, but the size might actually be reduced further for cost savings. As a result, it's not easy for China to achieve the current U.S. individual consumption levels even if they catch up in GDP.

If benchmarking the U.S., there could be room for 23 million tons incremental tissue capacity development in China (Figure 7). But if not the U.S., which other country could be a better benchmark for Chinese tissue consumption? Japan, South Korea or Taiwan might be better options as they are similar to China in culture, and also less abundant in raw material sources than the U.S.

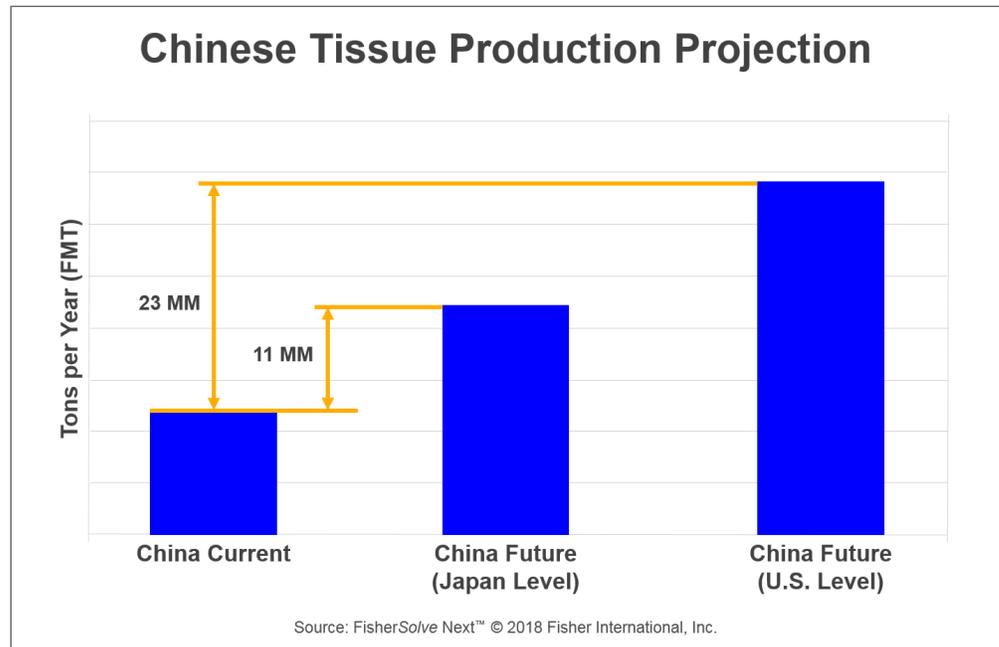


Figure 7

If using Japan as a benchmark, as shown in Figure 7, 11 million tons of tissue capacity could be expected when China achieves a similar GDP as that of Japan now.

Evolving consumer behaviors in different countries may affect future projections. We at Fisher are happy to help pulp and paper producers plan investments with the right information.

Xia Min can be reached at xmin@fisheri.com.

1. Bureau of Labor Statistics

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Fisher International, by virtue of its deep expertise in the pulp and paper industry, provides insights, intelligence, benchmarking, and modeling across myriad scenarios. By arming companies with the knowledge that will help them gain a better understanding of their strengths and help identify weaknesses, Fisher is helping businesses stave off challenges and better position themselves for long-term growth.

Corporate Headquarters

50 Water Street
 Norwalk, CT 06854 USA
 +1 203 854 5390
www.fisheri.com

