

Grassroots Research®

Market Monitor

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Automobile Demand – US

Grassroots® commissioned interviews with auto dealers in the US to check on the automobile demand outlook, assess demand for hybrid models, as well as to examine the current financing and inventory situations.

60% expect demand for new automobiles to increase in the next 12 months due to improved inventory, while 40% expect it to remain flat – overall expected up an average 5%. Meanwhile, 88% do not see customers rushing to buy new cars, expecting prices to increase.

Among the 66% who commented, 52% said Korean brands are most price competitive now in the CUV/ SUV (crossover utility vehicle/sport utility vehicle) market, while 39% said Japanese brands, and 9% said US brands. Among the 42% who commented, 62% said European brands are least price competitive now in the CUV/ SUV market, while 38% said US brands.

When asked about EVs (electric vehicles), 66% expect interest in EVs (including plug-in and battery-powered electric vehicles) to increase in the next 12 months, while 34% expect it to remain flat. At the same time, among the 74% who commented, Toyota (Toyota Motor) and Honda (Honda Motor) are the brands expected most to grow sales for hybrid and battery-powered vehicles.

Regarding customer reactions to interest rates, among the 94% who commented, 49% said customers are seeking longer repayment periods in response to rising interest rates, while 40% said customers are opting for a lower proportion of down payment, 19% said customers are paying cash, 11% said customers are opting for higher proportion of down payment, and 13% said there has been no change.

Looking ahead, among the 98% who



commented, 71% said more inventory will be needed in the next two to three years compared to pre-COVID in order to catch up with the current lack of inventory, while 18% said inventory will be stable, and 10% were unsure.

Consumer Sentiment Survey – China

Grassroots® conducted an online panel survey with general consumers ages 18 to 64 in China to understand consumers' point of view on the overall economy, and to track household spending power.

70% of sources expect China's economy to improve in next 12 months, and 26% expect it to stay flat – a less optimistic outlook than in the January 2022 Grassroots® survey.

Indeed, COVID-related worries (such as health issues after infection, reinfection, potential lockdowns, etc.), inflation, and worsening domestic economy were the top concerns for 2023.

65% of sources expect household spending to increase in 2023 vs. 2022, with household supplies; groceries; and apparel, footwear, and accessories cited as the top three categories likely to increase most in consumer spending.

In terms of intentions to buy a car in next 12 months, 50% of sources plan to do so, with BYD the most preferred brand, followed by Tesla.

74% of sources have plans for leisure travel—mostly domestic, and, among those who do not have plans for outbound travel, 52% will likely do so in 2023. Japan and Thailand are the top-two desired destinations.

In the sportswear sector, 46% of sources prefer both domestic and foreign brands, while 22% are shifting preferences from foreign brands to domestic brands.

In the skincare sector, domestic brands continue to be preferred over foreign brands, with Chando (Jala Group) and Proya gaining the most consumer interest, followed by KanS (Chicmax Cosmetic) and Winona (Yunnan Botanee Bio-Technology).

Property Market – South Korea

Grassroots® commissioned interviews with real estate agents in South Korea to examine the underlying demand for housing as well as to understand the relevant drivers.

60% expect housing prices to fall for the rest of 2023 due to economic downturn and people trying to sell off property, while 33% expect it to be flat as prices have already dropped significantly, and 7% expect prices to go up due to demand for low-priced, fast sale property.

80% believe that the prices of *jeonse* leases [lump-sum deposit on a rental property at up to 80% of the market value, which is returned at the end of lease term] are dropping and that it will lead to a decrease in housing prices because they usually move in the same direction, while 20% said that *jeonse* prices are flat and that the impact on housing prices varies.

Indeed, 47% said the demand to buy property has gone down this year compared to last year, while 27% believe it is flat and 27% believe it is going up. 47% believe that the demand to sell has risen this year compared to last year, while 40% said flat and 13% said down.

Still, 47% said that lowering interest rates would help trigger a rise in housing transactions, while 33% believe that there are no regulatory changes that could help trigger an immediate change.

All said that the rise in loan interest rates could have either a minimal or significant impact on the demand to buy property and *jeonse* prices. Those who said a significant impact cited mortgage loans playing an important role in the financing of houses, while those who said minimal impact cited the rising cost of living and economy as more important factors.

Animal Health Products – Germany



To assess the competitive environment in the animal pharmaceutical and the diagnostic equipment markets, Grassroots® commissioned interviews with veterinarians and veterinary practice managers in Germany.

46% said the number of appointments is down vs. the same period last year, driven by prices increase from the new federal veterinary fee schedule, Gebührenordnung für Tierärzte (GOT), as well as downturn of the pet adoption trend during the pandemic, while 31% said year-over-year appointments were flat, and 23% said up.

54% said the total amount spent on animal health products is up vs. the same period last year due to visibly increased prices for medication, more spending based on animal wellbeing, and an increasing number of geriatric patients with extended needs, while 31% said spending is down due to economic downturn, GOT-driven prices increases, and less spending on supplements.

One source said, “besides the overdue price increase for treatments, we record visible price increases for health care products as well, mostly for medication and in the extended area of geriatric treatments. But we need to keep in mind the increased abilities of these products. Medication and prevention are continuously fine-tuned and that is a convincing fact to pet owners. Animals have very limited skills to say what is going wrong with them, therefore testing is an issue of

(Cont. from page 2)

highest importance. Spending is visibly up, but it is also caused by inflation.”

Compared to the same period last year, spending was up so far in 2023 for Zoetis, Virbac and Merck, respectively, for 46%, 38% and 8%, while 38% each said spending is down for Dechra (Dechra Pharmaceuticals), Virbac, Merck, and Elanco (Elanco Animal Health). All said that the main five companies are among their leading suppliers and undergo regular shifts in spending, dependent upon current needs of patients.

One source commented, “[These companies] are some of our major suppliers...in regard to innovation and price, and we also like to purchase alternative solutions in the homeopathic area. Our team consists of 12 veterinarians, so there are regular shifts [in spending on products], due to the varying needs of patients and preferences of each team member, plus an increasing number of temporary shortages that need to be replaced by products from competitors or generics. Volume orders are always an important issue and all five have agreed on good volume contracts.”

Regarding diagnostic testing, 46% said the number of diagnostic tests is trending up so far this year due to a better understanding of point of care/preventative tests – 23% commented that a higher number of elderly pets are in need of tests, and 15% said full insurance coverage helps pet owners to manage the expense – while 31% said down due to less patients being treated, and 23% said flat. One commented, “the use of diagnostic tests is up compared to last year because preventative care is of increasing importance, and pet owners are understanding this fact. Additionally, the percentage of pets with a higher age is increasing, and we notice a higher number of insured animals where the owners are becoming pretty generous regarding a comprehensive treatment.”

Online Shopping Survey – Taiwan

To examine preferences for online shopping platforms among consumers and assess preference shifts between key players, Grassroots® conducted an online panel survey of general consumers in Taiwan who shop online.

42% of sources shop online at least once a week and 35% said two to three times a month. Compared to a year ago, 62% have increased their online shopping frequency, while 27% cited no change.

While sources mostly use more than one e-commerce platform, Shopee (Sea Limited) is by far the most used e-commerce platform, followed by Momo. Shopee is extremely appealing to the younger generation (ages 18–30) vs. Momo which has relatively more middle-aged and above customers.

In general, most competitive pricing

is the predominant reason when choosing which e-commerce platform to use most, particularly for those who chose Shopee. Aside from pricing, Shopee is preferred for its extensive product categories and user-friendly website/app; Momo is preferred for its reliable product quality and customer loyalty program; and PChome (PChome Online) is preferred for its logistic services and reliable product quality.

Preferred product categories on Momo, Shopee and PChome differ slightly – overall, household supplies are most popular on Momo and Shopee, while personal electronics and home appliances remain the strength of PChome. Personal electronics are the second most-preferred product category on Momo, which may imply a gain of customers from PChome.

Machine Tools Demand – China

Grassroots® commissioned interviews with machine tool dealers in China who have exposure to all major machine tool brands, including foreign and domestic, to track demand trends and outlook of machine tools, identify key drivers, and examine the competitive landscape among machine tool makers.

53% said trends in machine tools orders have been slowly improving in the past three months due to lifting of COVID lockdowns and modest demand recovery, while 17% said stable, and 30% said deteriorating.

50% expect a solid pickup in demand in 4Q 2023, while 30% said in 3Q 2023, and 20% said beyond 2023. Indeed, 53% are unsure of their expectations, citing that the market is struggling to find a direction due to the recessive domestic economy and uncertain global market outlook,

while 37% are quite confident, and 10% are highly confident.

Overall machine tools sales are expected to grow an average 3% for the full year 2023 vs. 2022 due to lifting of COVID lockdowns and economic recovery. However, growth momentum is weak due to the recessive macroeconomic situation.

EVs (electric vehicles), consumer electronics, infrastructure construction, and major manufacturing (ships/planes) are key drivers for machine tool demand in 2023 and beyond due to their respective industry size and the amount of machine tools needed.

Demand for foreign machine tool brands, mainly German and Japanese, is trending higher vs. Chinese brands due to superior technology/quality and wide-use in EVs and electronics manufacturing.

About Grassroots Research®

Grassroots® services are unique to Allianz Global Investors. The Grassroots Research® division combines in-house employees, a global network of over 300 independent, experienced journalists and Field Force researchers, and more than 50,000 industry contacts. We use this network to apply innovative market research and investigative journalism techniques to identify stock and sector trends before our competitors do.

Advantages:

- 30+ years of experience conducting customized investigative market research around the world.
- Utilizes expertise of independent journalists and Field Force Investigators to reach sources on the ground.
- Utilizes technological tools to target consumer and business panels online and to extract alternative data from the Web.
- Continuous exchange of information between Grassroots® analysts and our investment professionals.
- Provides timely business insights via quick turnaround times.

Resources:

- Access to thousands of consumers in more than 60 countries via targeted online consumer and business panels.
- 50,000+ industry contacts worldwide from a wide range of industries, including consumer, technology, healthcare, materials, industrials, energy and financial companies
- 300+ Field Force Investigators who conduct quantitative market research among consumers
- 55+ reporters who conduct interviews with industry experts
- In-house team in Europe and Asia Pacific

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