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Luxury should brace for impact as COVID resurfaces in China

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New cases of the Delta variant are shutting down China's major cities, including Beijing and Wuhan, which could spoil luxury's summer sales and more. Image credit: Shutterstock

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A year and a half ago, Wuhan was placed under a strict 76-day lockdown to curb the spread of COVID-19. Now, the Hubei capital is going back into isolation as cases of the new Delta variant crop up.

On Aug. 4, China announced it would tighten cross-border movement and suspend entry and exit documents for non-essential travel after **more than 400 people** tested positive for the virus in the past month surpassing the total number of infected people in the **previous five months**.

Wuhan, Beijing and Nanjing, among others, have halted trains and flights in and out of their cities, while Wuhan, flood-hit Zhengzhou and Macau have launched city-wide testing.

On top of this, China has **expanded its vaccination campaign** which has administered **1.7 billion doses** as of Aug. 3 to minors aged 12 to 17, although there have been doubts about whether these will be effective against the new strain.

The Jing Take: Considering China's pivotal role in propping up the global luxury industry, this news is not promising. Already, spiking cases have taken a toll on business.

In Guangzhou, for example, the **shutdown of one of the world's busiest ports** has caused a huge backlog of containers, threatening to disrupt year-end shopping.

This latest wave is now causing domestic tourist destinations such as Zhangjiajie and Macau to **close their entertainment venues**, while **textile and apparel trade shows** scheduled to take place in Shanghai at the end of this month have been postponed.

If things worsen, brands could see stores temporarily closing and events such as Shanghai Fashion Week going digital.

Worryingly for travel retail, one case was recently reported in Hainan, and **stiffening border controls** including no past visits to risky areas such as the aforementioned cities could dampen summer sales and beyond.

And while many luxury giants have bounced back thanks to repatriated Chinese spending, it is important to note that overall economic recovery in the market has actually been uneven, meaning that household spending may continue to lag in the coming months.

On the bright side, this is not China's first rodeo.

Although the Delta variant is more aggressive, the country has the know-how and resources to wrangle the increasing cases, including the ability to enforce strict localized lockdowns and mass-testing drives. If China's swift recovery in 2020 is any indication, luxury brands should not panic just yet.

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