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Should luxury worry as China's GDP drops sharply?

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China is struggling with an energy crisis, new COVID-19 outbreaks and a prolonged downturn in the property sector amid Evergrande's recent default. Image credit: Shutterstock

By Julienna Law

Despite a strong rebound in the first half of 2021, China's economy has started to cool down.

According to a report issued by the World Bank on Dec. 22, the world's second-largest economy is expected to see GDP growth slow to 8 percent this year, before dropping to 5.1 percent in 2022. This comes as the country struggles with an energy crisis, new COVID-19 outbreaks and a prolonged downturn in the property sector amid Evergrande's recent default.

The Jing Take: But slow growth does not mean no growth.

While this 5.1 percent forecast would mark the second-slowest pace of expansion for China since 1990, luxury conglomerates showed resilience in the market even in 2020 when China was struck hardest by the pandemic and GDP swelled at just 2.2 percent.

LVMH, for example, saw recovery for fashion and leather goods in China as early as April 2020, while Herms' Asia region posted an impressive 47 percent growth in its fourth quarter thanks to Greater China.

Of course, this does not mean global businesses will be insulated from the looming headwinds.

The Omicron variant, which cropped up in the port city of Tianjin in December, is already threatening to disrupt supply chains and travel retail as authorities shut down manufacturing and impose restrictions on movement until March 2022.

The real estate crisis only adds to this instability: with the property market accounting for as much as 30 percent of China's GDP and roughly 70 percent of household's wealth, Evergrande's collapse could have a disastrous impact on homeowners and alter their consumption habits.

Yet luxury brands should not fret just yet. This particular industry has proven resilient, returning to pre-pandemic levels well ahead of predictions, and China is still set to become the world's largest luxury market by 2025.

Moreover, as the World Bank noted, "Though growth is projected to slow next year, we expect momentum to pick up, aided by a more supportive fiscal stance."

In fact, the government has stepped in to stabilize the economy in just the last few weeks, from lowering the reserve ratio requirement for banks to free up $188 billion to cutting its lending benchmark loan prime rate for the first time in 20 months.

While a lot of question marks surround 2022 and business should brace for the worst, at least they are not going in completely blind.

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