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RETAIL

Why supply chain disruptions in China signal a rough retail market

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Supply chain disruptions due to COVID-19 are weakening retail sales in China. How will the country adapt? Image credit: Shutterstock

By Adina-Laura Achim

China's manufacturing activity slowed down this January, thanks to a COVID-19 resurgence and strict lockdowns that disrupted the supply chain.

The National Bureau of Statistics Manufacturing Purchasing Managers Index dropped to 50.1 in January from 50.3 in December.

Reuters reports that the PMI barely remained above the 50-point mark, separating growth from contraction.

Nevertheless, government figures contradict data from a private survey, which shows factory activity fell at its fastest rate in 23 months.

The Jing Take: As local coronavirus cases surge in China, the government has intensified its zero-COVID strategy. Intermittent travel restrictions and lockdowns have kept consumers in place and away from domestic shopping meccas such as Hainan and Hong Kong.

China's retail activity started stumbling last autumn when its sales missed expectations. Retail sales increased by 3.9 percent in November, year-on-year, but fell below the 4.6 percent rise forecasted by a *Reuters* poll.

In quarterly results, Alibaba slashed its sales forecasts sharply, citing sluggish growth in Chinese consumer spending.

According to the *Financial Times*, Alibaba's U.S.-listed shares fell more than 10 percent after the ecommerce giant forecasted 20-23 percent sales growth for 2022, thanks to "softer market conditions."

At the same time, consumer confidence dipped in November and December, showing signs that shoppers are turning toward mindful consumption.

As such, retailers should prepare for a demanding year during which Chinese consumers will shop less and spend more time at home.

Meanwhile, supply chain chaos could worsen in 2022, with global consumers buying more goods online. Therefore, global demand for Chinese-made goods will continue to soar. But power rationing and strict lockdowns in China will inevitably add to the manufacturing pressure.

Last December, China's top leaders warned at an economic planning meeting that growth faces "triple pressure" from shrinking demand, supply shocks and weakening expectations," according to *CNBC*.

Without a doubt, global companies should prepare for a challenging first half of 2022 in China.

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