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War in Ukraine, COVID in China, the global economy braces for impact

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With a resurgence of COVID-19 in China and South Korea putting further pressure on the global economy, Jing Daily looks at the implications for luxury. Image credit: Shutterstock

By Adina-Laura Achim

A resurgence of COVID-19 cases in China and South Korea has impacted luxury stocks.

LVMH, Kering, Herms and Compagnie Financire Richemont all reported losses of 1.45 percent, 1.31 percent, 3.13 percent and 3.26 percent, respectively.

In the mainland, tech hub Shenzhen has suspended production, halting operations at Apple supplier Foxconn, whereas Shanghai schools have reverted to online classes, *CNBC* reports.

Meanwhile, South Korea marked a record daily death toll, with 293 fatalities reported in the latest 24 hours and 1,196 virus patients in serious or critical conditions.

Jing Take: These new COVID-19 outbreaks are putting further pressure on the global economy, which is also bracing for impact from the Russian war against Ukraine and the resultant ongoing sanctions.

The pandemic has already strained supply chains and created unprecedented chaos, causing severe shortages and driving up prices.

As such, new waves of COVID-19 and subsequent lockdowns in manufacturing superpowers such as these could cause significant damage to the already fragile global economy.

Moreover, China's zero-COVID policy could severely impact luxury brands and their stocks, as consumer confidence may fall again after stabilizing in January.

Evidently, this will put more downward stress on luxury stocks, which are already suffering because of the loss of Russian consumers who account for roughly $9 billion in annual luxury sales, according to Investment bank Jefferies.

Furthermore, the suspension of businesses in Russia and temporary store closures in the mainland could set off considerable economic shocks for luxury brands, as they are forced to pay the agreed rents despite having their operations shuttered.

Negotiations for rent deferrals or abatements are unlikely to happen during these highly contentious times: luxury brands will need to respect their payment obligations.

Equally important, trade restrictions and limits on mobility might reduce the availability of luxury goods.

Accordingly, luxury giants will most likely decide to increase prices again, especially on handbags and best-selling leather items.

Moreover, they will further accelerate digital transformation and invest in seamless experiences with AI, virtual try-on features and livestream ecommerce, while moving away from "livestreaming queens" like Viya and groom their own employees to become livestreaming hosts; this will offset the cost of the influencer marketing strategy.

Meanwhile, independent European labels might decide to select new cooperations models and partner with ecommerce players such as JD.com and Alibaba to boost their cross-border sales. There is too much at stake to not change the status quo.

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