GOVERNMENT

What comes next for China's COVID comeback?

May 17, 2022

Shanghai is widely considered the most glamorous city in China. Image credit: Mandarin Oriental

By SARAH RAMIREZ

With this spring's Shanghai lockdowns well into their second month, and other major hubs dealing with COVID-19 restrictions, the economic impact of China's pandemic response is becoming clearer.

According to China's National Bureau of Statistics, retail sales in April were down 11.1 percent year-over-year an indication of growing downward pressure on the economy. The country's stringent zero-COVID policy has shuttered businesses and factories in Shanghai for several weeks, suppressing economic activity and snarling global supply chains and luxury is taking a hit.

"Chinese affluents, just like many other global luxury consumer markets, will have reduced access to certain luxury goods for the foreseeable future and need to delay spending," said Marc Liu, head of strategy at ELMNTL, Dallas. "This will have a severe short-term impact on those brands that are heavily dependent on Chinese consumers."

Lockdown fallout

More than 30 Chinese cities are under full or partial lockdowns, per CNN most notably Shanghai, China's most cosmopolitan and wealthiest city.

Initially, the Shanghai lockdown was expected to last less than two weeks and be staggered over different parts of the city starting in late March (see story).

The lockdown in Shanghai has dragged on for weeks. Image credit: Shutterstock

More than a month later, Shanghai remains locked down despite the economic costs and criticisms from residents. City leaders announced this week that select businesses such as grocery stores can reopen, with the expectation of resuming normal activity in mid-June if COVID cases continue falling.

Elsewhere, while Beijing is not under a citywide lockdown, the capital is not experiencing business as usual with dining halted and residents in four districts being told to work from home, according to *The Guardian*.

In addition to the dramatic drop in retail sales, China is also facing an uptick in the unemployment rate. The country's 31 major cities had an average unemployment rate of 6.7 percent in April.

April also saw growth in consumer prices, which climbed 2.1 percent year-over-year.

In a more promising indicator for China's economy, however, April's online retail sales were up 3.3 percent y-o-y accounting for almost 24 percent of all consumer retail sales. This is despite ecommerce being hampered by issues due to shuttered warehouses and fulfillment centers, as well as a shortage of delivery workers.

Slow and stalled manufacturing is also hitting brands, including automakers such as Tesla and fashion houses that offshore some of their production to China (see story). Luxury groups and brands including LVMH, Kering and Este Lauder Cos. have already cited concerns over China's COVID situation in recent earnings reports from both a production and sales perspective.

Chinese actress and singer Zhou Jieqiong for Lanvin. Image credit: Lanvin

Luxury should not be too discouraged, as revenge spending is likely to resume eventually.

According to Agility Research & Strategy's "China Outlook for 2022," affluent consumers' outlook has improved significantly since the start of the pandemic but this recovery slowed in the second half of 2021. Nonetheless, Chinese affluents and millionaires were optimistic about spending on luxury goods a promising sign for brands' bottom lines (see story).

"Chinese consumer appetite for luxury is unlikely to diminish and if anything will rebound with great fervor," Mr. Liu said. "While it is unclear when the situation in China will improve, luxury brands should continue to invest in staying top of mind for the Chinese consumer."

Ripple effects

As one of luxury's most vital markets, the impact of prolonged lockdowns reverberates beyond China's borders.

Both inbound and outbound travel remain severely curtailed in China. Not only does this impact hard and soft luxury goods as many brands rely on international tourists for sales but it extends hospitality's post-pandemic recovery.

With global outbound travel still limited in key markets, market researcher Euromonitor expects that Chinese luxury consumers will continue to shop domestically, at least in the near future. As the luxury travel and hospitality industries look to recover and consumer trends begin to normalize, however, wealthy Chinese travelers will prioritize travel in Asia Pacific a trend marketers should keep in mind (see story).

"China is the primary point of origin for most nearby tourism markets and the restriction of travel for Chinese tourists will have a negative dramatic impact on inbound tourism, which may be mitigated to some degree by increased domestic spending and inbound tourism from other markets Australia, U.S. but certainly not enough to close the gap," Mr. Liu said.

"The exact impact on nearby markets will vary from country to country, depending on their individual COVID policies, public health situation and economic resiliency," he said. "Luxury brands, including hospitality, should remain optimistic about the Chinese market as any decreased short-term consumption is being stored as pent-up demand, which will eventually seek to be satisfied.

"Luxury consumption behavior and preferences are unlikely to have shifted significantly just because transaction ability has been limited, and Chinese consumers will probably not be seeking alternatives to their preferred brands and destinations."