

RETAIL

What the Chengdu and Shenzhen lockdowns mean for luxury this fall

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Another month, another lockdown. There are serious fears for China's retail as major cities go on high alert. Image credit: Weibo screenshot

By [Zihao Liu](#)

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On Sept. 1, Chengdu, the provincial capital of China's southwestern Sichuan province, **announced** that all residents should "stay at home in principle" and that daily city-wide COVID tests would be conducted until Sept. 4. All schools and retail outlets, except those providing daily necessities, were ordered to suspend operations.

The announcement prompted many residents to **flock** to supermarkets to secure necessities, fearing that Chengdu will be a repeat of Shanghai earlier this year.

On Sept. 5, the Chengdu government **stated** that the lockdown will extend until Sept. 7 aside from two remote suburban regions as in the past three days, new daily cases have remained between 120 and 160.

The Jing Take: Chengdu is a major luxury hub and tourist destination in southwestern China, and its lockdown will have an adverse impact on luxury retail.

In 2021, Chengdu's International Finance Square and Sino-Ocean Taikoo Li, its two leading luxury retail outlets, took **revenues** of \$1.44 billion (10 billion RMB) and \$1.37 billion (9.5 billion RMB), respectively.

Gucci's Taikoo Li store even had the **highest** revenue among all of the house's global stores in 2021. However, lockdowns across the mainland in the first half of 2022 had already taken a toll on Chengdu, with revenues of Taikoo Li **declining** 8.2 percent year on year.

A prolonged lockdown in the city will only aggravate the downward momentum.

Already, there are **reports** indicating that luxury brands such as Bottega Veneta and Jaeger-LeCoultre have canceled their scheduled events there.

More importantly, city-wide lockdowns may take place in other parts of the country in the near future.

On Aug. 29, the northeastern metropolis of **Dalian** was put under restrictions that are not expected to end until at least Sept. 10.

In the technology hub of Shenzhen, most residents went into **lockdown** over the weekend of Sept. 3, and districts with infections continue to enact **strict** quarantine measures. On Sept. 5, Shenzhen **reported** 71 new cases.

Meanwhile, multiple localities across China are **calling on** the public to refrain from returning home, traveling far, or making large gatherings during the upcoming mid-Autumn Festival on Sept. 10.

It is, therefore, unlikely that the tourism and travel retail sectors will have bright performances during the mid-Autumn Festival weekend. The slump could even extend to the National Day holiday week on Oct. 1.

Luxury groups need to think carefully about hosting any large physical events in the next two months in China.

As the pivotal 20th National Congress of the Chinese Communist Party will be held on **Oct. 16** in Beijing, limiting outbreaks is the **top priority** for both local and central governments. Pandemic prevention measures will be even stricter than usual.

If an outbreak, even a limited one, is connected to a label's promotional event or crowded store, the ensuing reputational damage will be enormous.

As such, companies should keep a relatively low profile for the time being and shift any marketing initiatives online. They should also brace for unexpected shutdowns, such as the one in Chengdu.

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