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Zak Stambor

China's COVID lockdowns drive Estée Lauder and Canada Goose to lower their outlooks

Article

The trend: Several high-end brands are growing increasingly pessimistic about their prospects for the holiday season**.** Namely, both **Estée Lauder** and **Canada Goose** cut their full-year outlooks due to the continuing economic fallout from China's zero-COVID policy, as well as the broader uncertainties in the global economy.

- Estée Lauder—parent company of **Origins**, **M·A·C**, **La Mer**, **Bobbi Brown**, and **Aveda**—expects its earnings per share in the current fiscal year to be between $5.01 to $5.21, which is a sizable shift from its previous target of $7.11 to $7.33. The company expects its net sales to fall between 6% to 8% in the current fiscal year, including a 17% to 19% decline in current quarter.
- Canada Goose projects its full-year fiscal 2023 adjusted earnings per share to be $1.31 to $1.62—down from its previous target of $1.60 to $1.90. The Canadian manufacturer of high-end parkas and apparel expects its total revenues to be between $1.2 billion to $1.3 billion down from the $1.3 billion to $1.4 billion.

China's impact: Estée Lauder generates about one-third of its revenues from China, which is why the country's pandemic restrictions weigh heavily on the company's earnings.

- China's lockdowns are costing the country at least 335 million yuan ($46 million) a month, or 3.1% of GDP, in lost economic output according to economists at the **Chinese University of Hong Kong**.
- That's one reason we expect China's ecommerce sales will increase by 9.1% this year, the lowest growth since we began our tracking in 2008.
- "COVID-19 restrictions in China presented a greater challenge than expected," Estée Lauder wrote in a press release that noted the policy largely curtailed tourism in Hainan, an island province that's a popular travel destination and major revenue generator for the company. In turn, several retailers were stuck with excess inventory and pulled back on new orders. It also noted that the zero-COVID policy meant that foot traffic to brick-and-mortar stores in the rest of China was limited.
- Canada Goose also stated that the intermittent store closures in China contributed to a 0.7% drop in Asia-Pacific revenues in fiscal Q2. Despite that short-term pain, the company remains confident in China as a long-term growth market, said CEO **Dani Reiss** during the retailer's earnings call, noting that Canada Goose continues to seek leases in key locations throughout China.

Global headwinds: The economic challenges facing high-end brands extend far beyond China.

- A number of signs point to weak sales this holiday season in the UK and continental Europe.
- Meanwhile, US consumer confidence in October fell to a three-month low, per the Confidence Board. That data point is often correlated with a pullback in spending.

The big takeaway: While high-end brands have fared fairly well throughout this year, there are growing signs of strain from China's COVID policies, Europe teetering on the edge of recession, and US merchants tightening their inventory.

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