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Tapestry, Apple, and other brands feel the brunt of China's zero-COVID policy

Article

The news: Retailers around the world have experienced significant headwinds since March due to mainland China's tightening restrictions and imposing stay-home orders in many parts

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of cities to combat the COVID-19 virus.

- The policy has hurt retail sales in China, prevented many factories from producing at full capacity, and hindered the flow of goods.

More on this: The zero-COVID policy has led **retailers and other foreign companies' confidence in doing business in China to decrease.**

- **Fifty-eight percent of businesses have decreased their 2022 revenues projections** following the recent COVID-19 outbreak in China, up four percentage points from the previous month, per an American Chamber of Commerce in China survey.
- **Fifty-nine percent have slowed or reduced their production capabilities** due to a lack of employees, inability to get supplies, or government-ordered lockdowns.

In China: China's National Bureau of Statistics acknowledged that **the country's approach had a "big impact" on the economy in April**, but suggested the effects are likely to be short-lived, per Bloomberg.

- **Retail sales fell by 11.1% in April** year-over-year (YoY), which is more than the 6.1% decline experts predicted in a Reuters poll, per CNBC.
- **Industrial production dropped by 2.9%** in April YoY, while experts expected a 0.4% increase.
- **China's consumer and producer prices both rose more than expected** in April due to mounting transportation costs and restocking demand from tighter Covid restrictions, according to the National Bureau of Statistics.

The fallout: The shutdowns have hurt retailers' sales in China, as well as **hindered their ability to maintain their supply of products.**

- **Tapestry**—parent company of **Coach**, **Kate Spade**, and **Stuart Weitzman**—trimmed its profit outlook for fiscal 2022, as the lockdowns in China are poised to hurt consumer demand for its high-end products.
- **Apple** said the COVID-19 disruptions would have a nearly 300-basis-point headwind to its YoY growth rate.
- **Sony** cut its **PlayStation 5** fiscal year forecast to about 18 million units from its previous estimate of 22.6 million due to supply chain complications.

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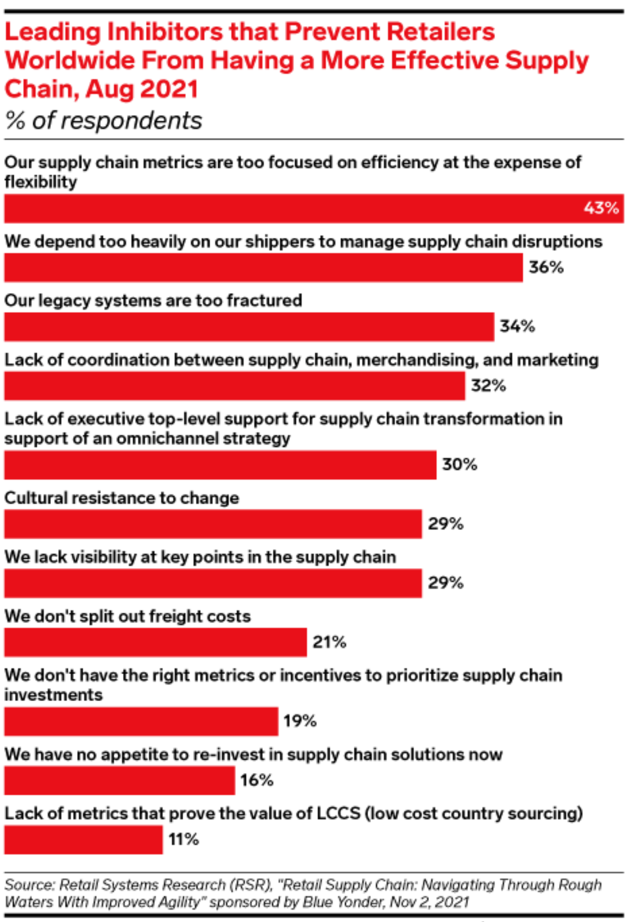
- **Under Armour** said lockdown disruptions contributed to its Asia-Pacific revenues falling 14% in the quarter, as well as affected transportation, which caused delivery delays.
- Luggage manufacturer **Samsonite** had one of its worst sales months in China in the past two years in April, and while sales are improving this month, they are still “significantly down.”
- **Adidas’ revenues from China fell by 35% YoY**, which forced the brand to lower its fiscal expectations for 2022. The ramifications from the lockdowns were wide-ranging as its store traffic declined significantly even in areas not directly impacted.

The big takeaway: The Chinese government’s pandemic response has highlighted the consequences of relying on China as the world’s factory.

- The situation has driven a host of manufacturers to reassess their production and supply chain strategies to mitigate their risk.
- Yet there’s no simple way to counteract the ripple effects of slowing Chinese retail sales.



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