

China's Retail Sector Begins Long and Winding Recovery

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Weeks after China lifted its lockdowns to mitigate the spread of the coronavirus, there's a sliver of hope for the country's retail sector.

According to data from China's National Bureau of Statistics (NBS), April retail sales rebounded to -7.5%. While still negative, it's an increase from -15.8% in March and certainly a change from the sharp fall to -20.5% in the first two months of the year.

"China's retail sales took a huge hit in Q1 and is starting to see some improvement," said Shelleen Shum, eMarketer forecasting director at Insider Intelligence. "We expect sales to return to growth in H2, but the full year's performance will be dragged down significantly by a weak first half.

"China's return to growth depends on whether the risk of a second wave of the virus can be curbed and on how the economy worldwide performs," she said. "A weak global economy will lead to slumping external demand, which will weigh heavily on China's exports, a negative sign for employment and consumer spending."

We estimate that retail sales in China will decline by 4.0% in 2020, a sharp contrast from our previous forecast of 4.5%, before returning to positive territory of 3.5% in 2021 and 5.4% in 2022. It's important to

note that our data differs from NBS's because we don't include restaurants and catering in our forecasts.

Retailers are starting to see early glimpses of hope as early as late March. H&M, which operated 520 stores in China by the end of 2019, saw year-over-year sales plummet 89% during the week ending on January 30, when 64% of its stores were closed, according to GlobalData cited by Inside Retail. By the week of March 26, nearly all of H&M's stores were back in business, with sales down 23%.

Coronavirus Impact: H&M Retail Sales and Closed Stores in China, Dec 2019-March 2020		
<i>% change vs. same period of prior year and % of total</i>		
	% change of retail sales vs. same period of prior year	% of total stores closed
Dec 26	16%	0%
Jan 16	63%	2%
Jan 30	-89%	64%
Feb 27	-79%	11%
March 26	-23%	1%
<i>Note: read as in the week commencing Jan 30, H&M retail sales in China declined by -89% vs. the same period of the prior year, with 64% of stores being closed</i>		
<i>Source: GlobalData as cited by Inside Retail, April 14, 2020</i>		
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adidas, whose Q1 2020 net sales worldwide declined 19% year over year, noted a rebound at its retail stores in China during March. The sports apparel giant also cited that its ecommerce business in China outperformed its global growth of 55% during the same month.

Adults in China are showing an increased appetite to spend, while the desire to save trends slightly lower, according to a March 2020 study from McKinsey & Co.

Change in Household Spending of Adults in China as a Result of the Coronavirus Outbreak, March 2020

% of respondents in each group

March 20-23

Past 2 weeks



March 23-30

Past 2 weeks



Next 2 weeks



■ Increase slightly/increase a lot ■ Reduce slightly/reduce a lot
■ About the same

Note: ages 18-65; n=1,225 during March 20-23; n=1,048 during March 23-30; household spending is based on overall available income and spending; numbers may not add up to 100% due to rounding
Source: McKinsey & Company, "Survey: Chinese Consumer Sentiment During the Coronavirus Crisis," April 1, 2020

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In a late April GlobalWebIndex survey, nearly half of internet users in China said they're going to be shopping digitally more frequently after the pandemic ends.

However, there's still uncertainty over when many consumers will feel comfortable stepping into a brick-and-mortar location. Nearly half of internet users in China said they'll be eating out at restaurants less often post-pandemic, while fewer said the same about bars and pubs (35%), fast-food outlets (31%) and cinemas (33%), per GlobalWebIndex.

Coronavirus Impact: Expected Post-Pandemic Leisure Behaviors Among Internet Users in China, April 2020

% of respondents

Eat out at restaurants less often 47%

Visit bars/pubs less often 35%

Visit the cinema less often 33%

Eat at fast-food outlets less often 31%

Cancel a gym membership 12%

None of these 24%

Note: ages 16-64; after the pandemic is over
Source: GlobalWebIndex, "Coronavirus Research: Multi-Market Research Wave 3," April 29, 2020

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Retailers are aware of these apprehensions, but in an effort to begin this new normal, many stores in China are opening with new measures

in place. “Retailers that are reopening to the public have employed a safety-first approach,” said Eva Qin, head of planning at AQKA China. “Among some of the measures are temperature checks, asking shoppers to show their mobile QR-code-based health certificate and contactless services in stores like 7-Eleven.”

Local governments are also encouraging consumers to help revive the economy by distributing digital vouchers via WeChat and Alibaba’s ecommerce platforms. The city of Shanghai has been particularly bold, announcing a two-month shopping festival in collaboration with dozens of retailers, digital platforms and entertainment sites, including product launches, discounts and sales promotions. There's little information on how an outdoor shopping festival will look post-pandemic, but heightened measures like temperature checks and social distancing may be applied.

The municipality is also encouraging museums, restaurants and other stores to boost the nighttime economy by extending their operating hours. Altogether, there will be 130 promotional activities in the Tier 1 city, according to Shanghai Daily.

While retailers worldwide are looking to China for clues on how the sector may rebound, there are some major differences in how the outbreak has been unfolding globally. In China’s case, 81.2% of coronavirus cases were contained within the province of Hubei as of April 27, according to data from Johns Hopkins University. And while swift and aggressive containment measures have brought the number of new locally transmitted coronavirus cases to (mostly) low single digits three months after the lockdown, fear of a “second wave” still persists.

There isn’t a lack of confidence in China’s retail health in the long run. Walmart recently announced that it’s investing \$425 million in the city of Wuhan over the next five years. Wanda, the parent company of AMC Theatres, plans to increase the number of cinemas it owns in mainland China by more than a quarter to 765 within the next two years.