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New indicators offer a glimmer of hope for China's retail industry

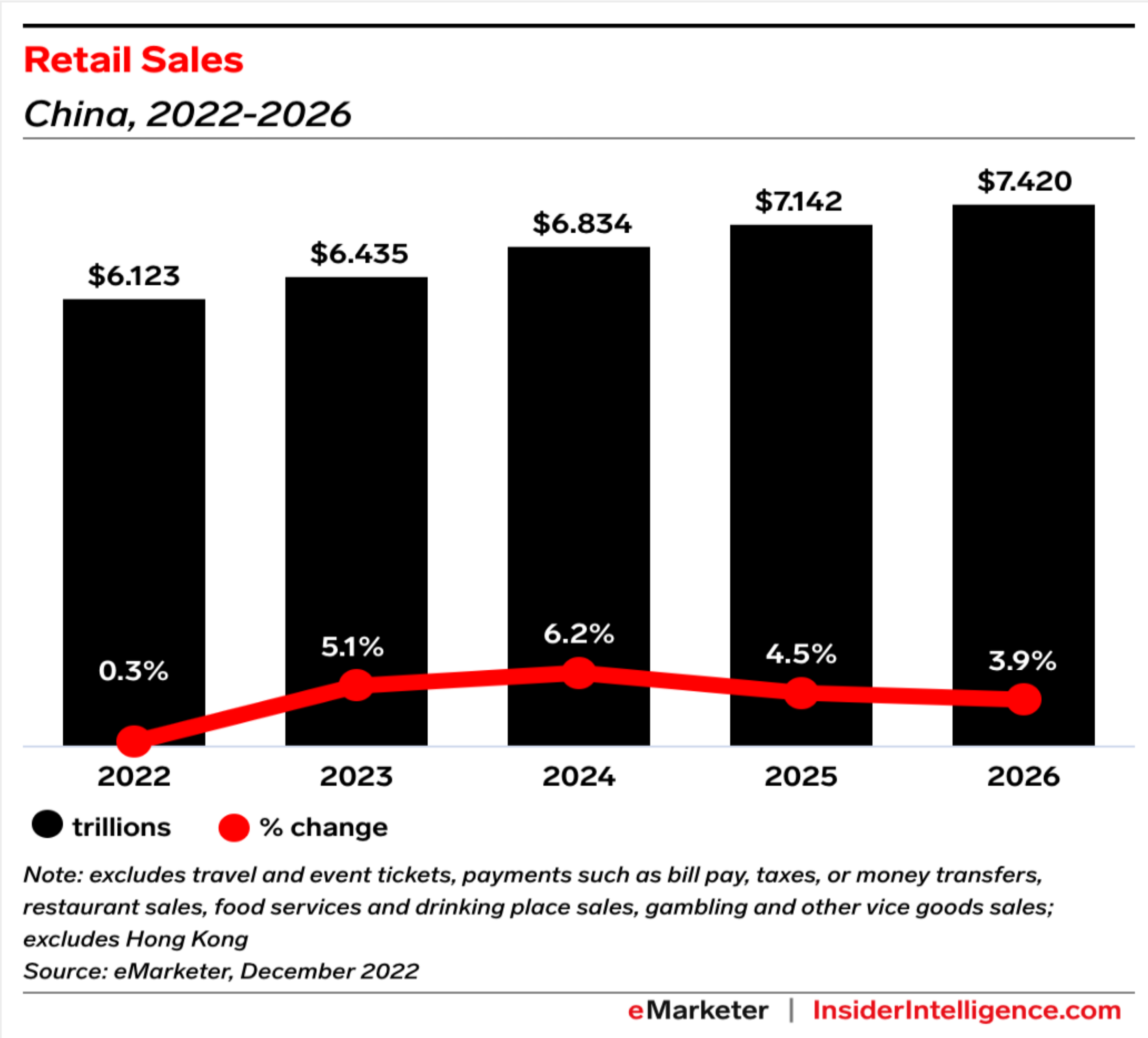
Article

The signals: The Chinese economy is beginning to show signs of improvement roughly two months after it abruptly pivoted away from its zero-COVID policy.

- **A Bloomberg index that aggregates eight early indicators showed a slight uptick in activity in January.** That's compared with a contraction in December when a massive Covid-19 outbreak caused the economy to slow.

- **Major retail and catering firms saw their sales rise nearly 7% year-over-year (YoY) during the Lunar New Year holiday period** (January 21-27), according to China's Ministry of Commerce figures cited by Bloomberg. That would be a marked jump from December when retail sales fell 1.8% YoY.
- **Restaurant revenues rose nearly 25%** during the same period, per a survey from the China Cuisine Association.

Those signals suggest that the Chinese economy is turning a corner. **We expect retail sales in China to grow 5.1% this year**, which would be a notable increase after sales inched up just 0.3% last year.



A modest recovery: The days of hockey stick-type retail sales growth in China are in the past. While China's National Bureau of Statistics reported 3.0% GDP growth last year, the second lowest in at least four decades, many China-watchers are skeptical of the validity of those numbers.

- Now companies are looking to see if China's pro-business policy changes, such as reducing tariffs on imported goods, will bolster the economy. Consumer spending is critical to that growth. **Nick Marro**, a senior analyst with Economist Intelligence Unit, told NPR he believes there will be some pent-up consumer demand and consumers will have money to spend after boosting their savings during the pandemic.

- **We expect retail ecommerce sales in China to grow 8.0% this year,** a slight uptick from 6.1% last year but a far cry from the double-digit growth that the region regularly generated before the pandemic.

The new normal: We expect China's ecommerce growth to remain in the single digits through 2026.

- That type of modest growth is forcing companies to adjust their strategies from long-term bets to short-term profits. For example, **JD.com** is shuttering its Indonesia and Thailand retail ecommerce sites as it shifts focus to supply-chain and logistics services.
- Meanwhile, several beauty brands—including **Estée Lauder**-owned **Too Faced**, **Huda Beauty**, and South Korean skincare label **The Face Shop**—have left China due to tight competition and the challenges inherent in navigating evolving marketing rules and consumer preferences, according to Glossy. Too Faced and Huda Beauty shuttered their shops on **Alibaba**'s **Tmall Global**, with the latter also closing all 38 of its physical stores.

The big takeaway: Although China is no longer the juggernaut it used to be, it remains the second-largest retail market in the world.

- However, it may not realize a full economic recovery until 2024 given the possibility of a global recession limiting its export-oriented growth.
- That said, any signs of growth are welcome news for a retail market that has struggled throughout the last two years.