

Investment Comment

CHINA REOPENING: EXCESS SAVINGS TO UNLEASH CONSUMER BOOM

Luxury goods and consumer discretionary companies to benefit as China reopens

China is opening up, giving us cause to be optimistic – but what is life like on the ground in China right now, and how are Chinese consumers behaving? Our Senior Equity Analyst, Zhixin Shu has been visiting family – her first visit since the pandemic was declared – and today sent us this note from Beijing.

Chinese consumers have accumulated significant savings during a prolonged COVID lockdown – savings that are set to be unleashed as the country reopens. Just over a month ago, China abandoned its zero COVID policy. This sudden change has caused a sharp and short-term dislocation. Many have been infected by Omicron and normal life has been disrupted.

What a difference a month makes! Beijing is quickly coming back to normality. Today, public transport is busy, roads are jam-packed with cars, banks and public offices are open as normal and restaurants are full of diners. These are in sharp contrast to a month ago at the start of re-opening. It is hard to imagine that within just a month, peak infection has passed and herd immunity is in sight. People are going about their lives as normal.

Beijing is one of the first cities that went into peak infection and is also one of the first coming out of it. Based on what is happening in Beijing, we at J. Stern & Co. anticipate most major cities in China will have gone through the current Omicron wave by the end of January and life will soon be back to normal again.

During nearly three years of COVID restrictions, Chinese consumers have accumulated significant excess savings. Some analysts estimate that up to 12 trillion RMB (equivalent to 10% of GDP) have been saved by consumers during the pandemic.

With the re-opening, we anticipate that these excess savings will be unleashed in a similar fashion to what we have already experienced in the West in the past few years when COVID restrictions were lifted. We believe retail sales in China will register double-digit growth this year. The re-opening will particularly fuel spending on discretionary, services, travel and cross-border duty-free shopping.

The luxury goods sector will be a major beneficiary of these excess savings. Pre-pandemic, Chinese consumers accounted for a third of the global luxury goods consumption and most of the growth. COVID restrictions, both within China and in international travel, had significantly reduced Chinese consumption of luxury. But that is all set to change. We expect significant pent-up demand for luxury goods from Chinese consumers this year, potentially more than offsetting the possible slowdown in demand in the West.

*Zhixin Shu
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