

Shopping Malls in China

Spending Power Decline Continues

China's economic downturn has continued to hurt consumer spending at shopping malls during 4Q23, especially on high-ticket items, and few managers expect consumer spending power to improve in 1Q24.

- 4Q23 Chinese mall/department store sales below plan for 11 of 20 sources (vs. 7 of 20 in 3Q23); sales up 16%–21% yy (vs. up 7%–12% yy in 3Q23) because of easy comps
- 4Q23 luxury brand sales up 8%–13% yy (vs. up 2%–7% yy in 3Q23), aided by easy comps but hurt by luxury consumers spending less, less frequently vs. 6 months ago
- Restaurants, gold and outdoor outperformed; non-athletic apparel and shoes lagged
- 1Q24 yy mall sales expected up 4%–9% yy; consumer spending expected to be similar qq for 8 of 20 sources, weaker for 7

KEY DATA

4Q23 Mall/Department Store Sales in China vs. Expectations

(number of sources)

	MIDLEVEL	UPPER-MIDDLE	HIGH-END	TOTAL
Exceeded	-	-	-	-
Met	6	1	2	9
Fell below	1	8	2	11
OTR Comparative Index	-	-	-	-55
3Q23 Index	-	-	-	-20

“Consumers’ purchasing power this year continues to be affected by the economic downturn.

Many consumers come to the mall just to hang out with friends and drink a cup of milk tea, but do not buy anything else.”

Upper midlevel mall source

RESEARCH LEAD

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SOURCES & BACKGROUND

20 floor managers or procurement managers in China at high-end shopping malls (4) and upper-midlevel (9) and midlevel (7) malls and department stores

REPEAT SOURCES 20 from OTR Global's September report

INTERVIEWS Dec. 5–17

AVERAGES Straight

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Weak Demand for High Ticket Items

Sales growth: Retail sales in China were weak during 4Q23 as consumers were cautious with spending amid a slowing economy. Although shopping malls and department stores' sales in China increased an average 16%–21% yy during 4Q23, an acceleration compared with 7%–12% yy in OTR Global's September report on 3Q23, increases were attributed primarily to lapping easy comparisons. (During 4Q22, most Chinese cities experienced weeks-long COVID-19 lockdowns in October and November and extremely low traffic in December, when large portions of the population were infected in December.) However, malls and department stores' 4Q23 sales have still not fully recovered to pre-pandemic levels; sales were down 3%–8% yy on average when compared with pre-pandemic levels (4Q19), a slight deceleration compared with decreasing 2%–7% in 3Q23 findings.

Sources also reported disappointing plan attainment through mid-December: 11 of 20 have fallen below plan for 4Q23, a deterioration compared with seven of 20 in 3Q23. (Note: sources said sales could improve during the last two weeks of December because of recent nationwide temperature drops and even easier comparisons). Sources listed a slew of factors that have weighed on consumers of all income levels and hurt spending power during 4Q23, including depreciating home values, a slow economic recovery and a sluggish job market, while warm weather in October and November also disrupted sales of many categories. "Consumers' purchasing power this year continues to be affected by the economic downturn. Many consumers come to the mall just to hang out with friends and drink a cup of milk tea, but do not buy anything else," a source said. Of the nine sources who met plan, most had lowered their targets for 4Q23, and two said their malls launched aggressive promotions in December to increase sales.

Upper-middle level malls and department stores have underperformed the most this quarter; eight of nine sources fell below plan, as higher-priced products and categories — especially luxury, electronics (mainly major appliances) and apparel and shoes — were particularly weak in these locations, reflecting spending cuts on non-essential items by middle and upper middle-class consumers.

Performance has been healthier at midlevel malls and department stores; 4Q23 sales met plan for six of seven sources, albeit helped by lowered plans. Sources credited more affordable price points across categories and a higher portion of restaurant and beverage stores (among the most robust categories) adapting to middle-class' trading down.

High-end mall sales were inconsistent and dependent on the overall economic recovery of their cities; one-half of sources met plan and the other one-half fell below. A source at a luxury mall in Chengdu, Sichuan province, said, "Our overall sales during 4Q23 to date increased 13% yy, helped by an improving economy. This year, the number of Chengdu tourists increased more than 100% yy, which drove our mall traffic up more than 20% yy. But there are quite a few new luxury shopping centers that have opened, and competition in the luxury space has intensified significantly yy — that's why we had to lower our sales plan."

Consumer sentiment: Although 13 of 20 sources said 4Q23 consumer sentiment improved yy, nine of 20 said consumers spending power deteriorated qq. Conversely, six sources said consumer spending power increased qq during 4Q23, a slight improvement compared with four of 20 in 3Q23. All sources who reported an increase were in the northern part of China or close to it, where consumers have spent more because of the price hikes of down jackets during this winter.

An increasing number of sources noted that even high-income consumers have reduced spending, especially on luxury watches and jewelry, which sources attribute to declining asset values (e.g.,

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housing and stocks). “Large orders are declining, the purchasing power of high-end consumers is declining, and sales of luxury goods decreased 11% [qq],” one said. Consistent with previous OTR Global findings, sources said younger consumers have continued to trade down and stayed away from higher-price products across all categories.

Consumers have traded up qq during 4Q23 according to eight of 20 and traded down according to seven; in 3Q23, five of 19 reported consumers trading up and seven reported trading down. Sources attributed higher-priced winterwear, especially down jackets for the difference.

Outlook Cautious

Sources’ mall-sales outlook for 1Q24 was cautious because of a sluggish economy and the absence of a clear catalyst. Eight of 20 sources expect consumer spending to remain similar qq and seven expected it to weaken. Sources expect 1Q24 sales to increase an average 4%–9% yy at their malls and department stores, up for 13 of 20 sources, flat for four and down for three who did not provide figures. One said, “I expect 1Q24 to increase no more than 10% since ... 1Q23 sales were strong in our mall. Traffic is up now, but sales are weak.” Another said, “I think consumers’ purchasing power will continue to decline. High-end consumers may choose to shop more overseas during the Spring Festival.”

Restaurants Continue to Perform Well

Sources most often said restaurants has been among the mall categories with the strongest sales growth during 4Q23 (mentioned by 10 of 20). Restaurants’ traffic and sales growth significantly outpaced most categories as consumers have spent more on services and entertainment, instead of goods. Many malls added new restaurants and beverage chains aggressively at the beginning of 4Q23 to capture the year-end holiday season. “In our mall, 35% of our new brick-and-mortar stores are restaurants and beverage shops, and restaurants performed better than all other categories,” a source said. Another said, “Restaurant sales were up more than 30% [yy] this quarter to date, and [it] is the only category in line with our expectations, helped by strong performance during the National Day holiday period and new stores. We replaced underperforming restaurants before October — the restaurant category has had quite good yy growth during Q4 to date.”

Gold and outdoor were both mentioned by eight sources each among the leading categories this quarter. Sources said gold sales increased by low-to-mid-teens yy as consumers — especially young consumers — see the product as a good investment. Sales of many leading outdoor brands were up low triple digits yy following the continuing rise of the gorpcore trend (outerwear worn as streetwear). In addition to jackets, demand for skiing outfits and down coats soared as the snow season arrived. The athletic and cosmetics categories were mentioned by four sources each, followed by luxury with three mentions — yet all three received fewer mentions compared with last quarter. Non-athletic apparel and shoes, home appliances and electronics were mentioned by nine sources each as some of the weakest categories in malls.

Luxury Underperforms

Luxury brands’ sales in malls and department stores have increased an average 8%–13% yy during 4Q23, higher compared with 2%–7% in 3Q23, bolstered by easy comparisons. Sources said 4Q23 luxury sales were flat on average compared with pre-pandemic levels (4Q19), slightly lower compared with a low-single-digit increase in 3Q23 findings. Nine of 13 sources said luxury sales fell

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below plan, while nearly all 13 said luxury consumers have been spending less frequently compared with six months ago. Two sources from Beijing noted gifting of luxury watches has decreased. “Sales of the watch category have slowed. People have reduced their desire to buy high-end watches, and gift purchases are also decreasing,” one said. The other said, “Some high-end luxury customers are shopping less frequently. They have not shifted to buying lower-priced luxury brands. Many VIP members have only reduced their number of visits to the store and have not reduced the quality of their purchases.” Sources also said the secondhand market for luxury watches has been shrinking.

The slowdown in luxury sales in tier-2 and 3 cities was even more pronounced than in tier-1 cities. A high-end mall source from a tier-2 city said, “Luxury sales are down 22% compared with six months ago. Only one-third of brands reported positive sales growth. This quarter, [Kering SA’s] Gucci, [LVMH Moët Hennessy Louis Vuitton S.E.’s] Louis Vuitton and [Compagnie Financière Richemont S.A.’s] Cartier sales are down about 30% compared with six months ago. Consumers are buying luxury products less frequently, and we believe their purchasing power has declined.” Only one source each mentioned luxury consumers trading down to either lower-priced brands or lower-priced products from the same brands.

Similar to previous OTR Global findings, sources said younger consumers have continued to pull back on luxury spending; more reported the proportion of luxury sales originating from young consumers has continued to drop. “People born in the 1990s are more rational and cautious when purchasing luxury goods. They conduct thorough research and price comparisons before making a purchase and tend to not [make impulse buys]. They pay more attention to the cost-effectiveness and practicality of products and have a more mature understanding of the value of luxury goods,” one said.

Although the luxury watch category has slowed, sales of leading brands — especially those that were newly added to the mall — have performed well. **The Swatch Group AG’s** Blancpain, Omega and Longines, Richemont’s Jaeger-LeCoultre, Cartier, IWC and **Rolex S.A.’s** Tudor were mentioned as top-selling brands in the category in their malls. In handbags, three sources each mentioned Louis Vuitton, **Chanel S.A.’s** Chanel and **Hermès International SA’s** Hermès among the best-selling brands in their malls (sales growth ranged between 10%–20% yy for most). Two said Gucci was one of the leading brands in their malls. One source said **Burberry Group plc** underperformed in the category and another said Burberry closed in their mall for an upgrade during the summer and has not reopened yet. **Canada Goose Holdings Inc.’s** Canada Goose and **Moncler S.p.A.’s** Moncler were also mentioned by two and one source, respectively, as the top-selling brands in luxury and sources noted sales of these brands increased quickly, starting the second week of December when the average temperature dropped sharply nationwide.

Cosmetics Competition Intense

Four of 20 sources said the cosmetic category was one of the strongest growing categories in their malls and department stores during 4Q23, fewer compared with six of 20 mentions in 3Q23. Sources said consumers reduced their purchasing frequency, especially on the prestige beauty subcategory, and noted that competition from online sales hurt cosmetics sales at malls and department stores. Within the high-end cosmetics sector, **Beiersdorf A.G.’s** La Prairie, **Shiseido Co. Ltd.’s** (4911 JP) Clé De Peau and **L’Oréal S.A.’s** Helena Rubinstein remained on top. In the prestige beauty segment, **The Estée Lauder Cos. Inc.’s** Estée Lauder and L’Oréal’s Lancôme have remained the two strongest brands with eight and seven mentions, respectively. Shiseido was mentioned by three sources, similar to September. Chinese local brand Mao GePing has grown quickly in the prestige segment during 4Q23; three sources reported nearly triple digits growth yy (only one source mentioned Mao GePing in September findings).

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Outdoor Robust, Athletics Muted

The “gorpcore” trend has become one of the main fashion trends in 2023 and has extended into winter with skiing outfits and equipment. **VF Corp.**'s North Face, **Anta Sports Products Ltd.**'s (2020 HK) Kolon Sport, Arc'teryx, Descente, **Columbia Sportswear Co.**'s Columbia and **Aigle International S.A.**'s Aigle were mentioned as top-selling brands and most of them have maintained robust sales growth yy. A number of small, niche outdoor brands were added to malls including **Klattermusen AB**, **Patagonia Inc.** and **Mammut Sports Group Inc.** this year.

In athletics, **Nike Inc.** received the most mentions (nine) among the strongest growing athletic brands, although sources reported its growth rates were not particularly high (mid-single digits to mid-teens yy for most of the nine). Conversely, four sources reported Nike sales decreased yy. Anta's Fila was mentioned by eight sources as one of the top-selling brands, second only to Nike, followed by the Anta brand and **Adidas AG** with six mentions each. **Skechers USA Inc.** has continued to perform well, and sources who mentioned it reported sales growth ranging from high teens to triple digits yy. **Puma SE** and **New Balance Sportswear Co. Ltd.** were both mentioned as selling well this quarter, and **Lululemon Athletica Inc.** has continued to outperform the category.

Trading Down Hampers Apparel

Nine sources said the non-athletic apparel and shoe category was the weakest category in their malls despite price hikes and higher ticket averages of winter clothes, especially down jackets. Consumers have traded down within the category throughout 2023, a trend that has continued into 4Q23, benefiting **Fast Retailing Co. Ltd.**'s Uniqlo (six mentions as bestseller). **Ralph Lauren Corp.**, **PVH Corp.**'s Tommy Hilfiger and Calvin Klein, **Mulsanne Group Holding Ltd.**'s (1817 HK) GXG and **Bosideng International Fashion (China) Co. Ltd.**'s (3998 HK) Bosideng were mentioned by at least one source as one of the best-selling brands in the category.

Top-Selling Categories at Malls/Department Stores in China During 4Q23

(number of mentions)

3Q23		4Q23	
Gold/jewelry	9	Restaurants	10
Restaurants	9	Gold/jewelry	8
Luxury (watches/handbags)	7	Outdoor	8
Cosmetics/skin care	6	Non-athletic apparel/footwear	6
Non-athletic apparel/footwear	6	Athletic apparel/footwear	4
Outdoor	5	Cosmetics/skin care	4
Athletic apparel/footwear	2	Luxury (watches/handbags)	3
Beverage chains	2	Beverage chains	2
Electronics	2	Children's products/toys	1
Wedding products	2	Electronics	1
Nail/hair beauty salons	1	Supermarkets	1
Other	3	Wedding products	1
		Other	5

Note: Some sources gave multiple responses

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Top-Selling Brands at Malls/Department Stores in China During 4Q23

(number of mentions)

	LUXURY	COSMETICS	ATHLETICS	NON-ATHLETIC APPAREL AND SHOES			
Cartier	3	Estée Lauder	8	Nike	9	Uniqlo	6
Chanel	3	L'Oréal's Lancôme	7	FILA	8	Bosideng	2
Hermès	3	Shiseido, Aupres	4	Adidas	6	GXG	2
Louis Vuitton	3	Dior	3	Anta	6	PVH's Tommy Hilfiger	2
Emporio Armani	2	L'Oréal	3	Skechers	5	H&M	1
Kering's Gucci	2	Mao GePing	3	Li Ning	3	PVH's Calvin Klein	1
Swatch brands*	2	History of Whoo	2	Puma	3	Ralph Lauren	1
Tudor	2	BEI's La Prairie	1	Descente	2	The North Face	1
Moncler	1	Elizabeth Arden	1	Lululemon	2	Timberland	1
Richemont's IWC	1	LV's Guerlain	1	New Balance	2	UGG	1
Other	5	Other	9	Other	7	Youngor	1
						Other	10

* Longines, Mido

Note: Some sources gave more than one answer while others did not respond.

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1a. Have 4Q23 overall sales at your mall/department store increased, remained the same or decreased yy?

	MIDLEVEL	UPPER-MIDDLE	HIGH-END	TOTAL
Up 81%–90%:	-	1	-	1
Up 51%–60%:	1	-	-	1
Up 31%–40%:	-	1	-	1
Up 21%–30%:	1	-	-	1
Up 11%–20%:	3	1	2	6
Up 1%–10%:	2	6	1	9
Up:	-	-	1	1
Flat:	-	-	-	-
Down 1%–10%:	-	-	-	-
Average:	Not averaged	Not averaged	Not averaged	Up 16%–21%
3Q23 average:	Not averaged	Not averaged	Not averaged	Up 7%–12%

1b. Have 4Q23 overall sales at your mall/department store exceeded, met or fallen below expectations?

Exceeded:	-	-	-	-
Met:	6	1	2	9
Fallen below:	1	8	2	11
OTR Comparative Index:	-	-	-	-55
September Index:	-	-	-	-20

Note: The OTR Comparative Index is a quantitative representation of qualitative responses. The Index is calculated by subtracting the “worse” from the “better” responses, dividing by the total responses and multiplying by 100. An Index below zero indicates a negative trend; above zero indicates a positive trend.

2. Have 4Q23 overall sales at your mall/department store increased, remained the same or decreased compared with pre-pandemic figures (4Q19)?

Up 21%–30%:	-	1	-	1
Up 1%–10%:	1	2	1	4
Up:	2	-	-	2
Flat:	1	1	-	2
Down:	1	-	-	1
Down 1%–10%:	1	1	2	4
Down 11%–20%:	-	3	1	4
Down 31%–40%:	1	-	-	1
Not applicable:	-	1	-	1
Average:	Not averaged	Not averaged	Not averaged	Down 3%–8%
September Average:	Not averaged	Not averaged	Not averaged	Down 2%–7%

3a. Have 4Q23 luxury brand sales at your mall/department store increased, remained the same or decreased yy?

Up 31%–40%:	-	2	-	2
Up 11%–20%:	-	1	2	3
Up 1%–10%:	-	1	1	2
Up:	-	2	1	3
Flat:	-	1	-	1
Down 1%–10%:	-	1	-	1
Down 21%–30%:	-	1	-	1
Not applicable:	7	-	-	7
Average:	Not averaged	Not averaged	Not averaged	Up 8%–13%
3Q23 average:	Not averaged	Not averaged	Not averaged	Up 2%–7%

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3b. Have 4Q23 luxury brand sales at your mall/department store exceeded, met or fallen below expectations?

	MID-LEVEL	UPPER-MIDDLE	HIGH-END	TOTAL
Exceeded:	-	-	-	-
Met:	-	2	2	4
Fallen below:	-	7	2	9
Not applicable:	7	-	-	7
OTR Comparative Index:	-	-	-	-69
September Index:	-	-	-	-46

4a. Has consumer spending power during 4Q23 increased, remained the same or decreased qq?

Increased:	2	3	1	6
Remained the same:	3	1	1	5
Decreased:	2	5	2	9
OTR Comparative Index:	-	-	-	-15
September Index:	-	-	-	-45

4b. Have consumers traded up, down or shown no change during 4Q23 qq?

Up:	2	5	1	8
No change:	3	1	1	5
Down:	2	3	2	7
OTR Comparative Index:	-	-	-	5
September Index:	-	-	-	-11

5. Do you expect 1Q24 sales at your shopping mall to increase, remain the same or decrease yy?

Up 11%–20%:	1	-	1	2
Up 1%–10%:	4	3	1	8
Up:	1	1	1	3
Flat:	-	4	-	4
Down:	1	1	1	3
Average:	Not averaged	Not averaged	Not averaged	Up 4%–9%

6. Do you expect 1Q24 consumer spending to be stronger, similar or weaker qq?

Stronger:	3	-	2	5
Similar:	2	5	1	8
Weaker:	2	4	1	7

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