

Segments of Chinese Consumer Market Remain Troubling

As we highlighted often in our Weekly China Reports last year, several segments of consumer spending in China were showing clear signs of recession — with furniture sales routinely showing the largest amount of weakness. As we continued to stress last year, the weakness in furniture sales was a clear sign to us that China's housing market was continuing to fare much worse than was widely being reported. Of note this year is furniture sales remain in contraction, but the last two months have at least shown improvement (as the overall Chinese economy has undergone a significant post-coronavirus rebound starting in April). Chinese furniture sales in May totaled 13.4 billion yuan, which marks a year-on-year contraction of 12%. China's furniture sales have now contracted on a year-on-year basis for twenty-nine consecutive months. Last month's contraction did mark the smallest contraction seen since March 2019, but still twenty-nine consecutive months of contraction remains troubling.

We continue to believe there exists much greater weakness in China's housing market than is generally being reported. This is not a coronavirus issue; it is simply a Chinese economy issue. At times, it is almost even difficult to remember (considering just how tumultuous 2020 has become) that prior to the coronavirus outbreak China's economy was already mired a very significant consumer-driven slowdown. This slowdown never ended. In addition to furniture sales in China remaining in contraction, clothing sales have remained in contraction as well. Clothing sales (which includes garments, footwear, hats, and knitwear) in China totaled 101.8 billion yuan in May, which marks a year-on-year contraction of 3%. China's domestic clothing sales have now contracted on a year-on-year basis during twenty-eight out

of the last twenty-nine months, but the 3% decline at least marks the lowest contraction seen since December. Of note is that as recently as in March, clothing sales had contracted on a year-on-year basis by 36%.

The automobile sector continues to fare better than other consumer segments. 2.19 million vehicles were sold in China last month. This marks a year-on-year increase of 14% and is the largest number of vehicles sold since December. Vehicle sales have now increased on a year-on-year basis for two consecutive months. Prior to April, vehicles sales had contracted on a year-on-year basis for twenty-one consecutive months.

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