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Luxury goods resist the global economic downturn

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EVEN as many Americans are pulling in their purse strings, spending on key categories of high-end luxury goods is proving surprisingly resilient, underscoring the industry's progress at broadening its reach beyond the upper crust and into the growing ranks of the affluent.

Luxury-goods makers have reported that US sales of expensive jewellery, Swiss watches and French scarves are holding firm, helped by the fact many brands offer more entry-level items than in the past and by foreign tourists who have money to burn because of the weak dollar.

As well, a growing number of affluent Americans are still splurging on what they regard as investment-grade luxury goods.

Wall Street recruiter Jordan Shapiro, 25, is not sure what his income will be this year, so he put his plans for an African-safari honeymoon on hold, but he splurged a few weeks ago on a \$US3000 (\$3100) Omega watch that he considers an investment.

"I hope it's going to retain or gain value," he said.

Hermes International has reported its sales between April and June in the Americas had climbed 10 per cent; Compagnie Financiere Richemont, which owns Cartier and Montblanc, reported a 6 per cent sales increase in the Americas over the same period; and Burberry Group reported a 27 per cent climb.

Patek Phillippe, which makes wristwatches that sell for a minimum \$US17,500, is on track to sell out of its entire inventory for the year in the US, according to company president, Lawrence Pettinelli.

LVMH Moet Hennessy Louis Vuitton reports its first-half results tomorrow and analysts expect its Louis Vuitton label, the source of about half the group's profit, to show resilience to the consumer-spending slump.

Luxury-goods makers report a similar buoyancy to sales in Europe and strong growth in developing nations such as China and Russia.

Some industry analysts warn, however, that spending could turn down in the second half of the year as the US and European economic slowdowns drag on.

The US Federal Reserve projects gross domestic product to grow between 1 per cent to 1.6 per cent this year and 2 per cent to 2.8 per cent in 2009, but warns that significant downside risks remain for the economy.

Europe also is facing the risk of recession, the European Central Bank forecasting the euro-zone economy to grow by 1.8 per cent this year and 1.5 per cent in the next. Economists expect those projections to be revised down.

Offsetting the weakness in the West are fast-growing emerging markets, where the ranks of the newly rich are crucial sources of revenue for luxury labels.

Russia's GDP is growing at a 6.8 per cent this year and China's economy will grow by 9.3 per cent in 2008, according to International Monetary Fund estimates.

"They've got the mad money there, and they're spending it," Global Insight economist Brian Bethune said.

The largest luxury-goods firms have expanded in emerging markets such as China, India, Russia and the Middle East.

Sales of luxury goods in North America last year accounted for a third of world's \$US233.04 billion luxury sales, according to consulting firm Bain & Co.

But growth in the North American region slowed to 2 per cent last year, compared with 18 per cent growth in the Asia-Pacific and 12 per cent growth in Europe, which accounted for 38 per cent of overall sales, Bain said.

However, US luxury sales had weakened in many categories, including designer apparel, because consumers had cut overall spending, and the luxury market in big cities such as New York and Los Angeles had been partially propped up by foreign tourists capitalising on the weak dollar.

After several airlines trimmed international flights to the US, Bank of America Securities analyst Dana Cohen downgraded jeweller Tiffany & Co to "sell", saying a fall in tourism could hurt sales at Tiffany's US stores.

The spending spree, of course, could come to a halt at any time and many analysts expect a slowdown in the second half of the year.

HSBC analyst Antoine Belge points to a forecast rise in unemployment as a significant factor.

And investors seem to be betting that the boom won't last, luxury stocks falling 13 per cent between the end of May and the beginning of July, according to London luxury-goods advisory firm Savigny Partners.

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