AMERICAN MARKETER

Business at its best

Luxury stocks dipped in December as China casts investor doubt

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An impending Chinese slowdown is causing investors to be cautious. Image credit Vipshop

By MICKEY ALAM KHAN

Ongoing trade tensions between China and the United States and signs of a slowdown in Chinese spending are causing a slump in luxury stock prices.

The Savigny Luxury Index, which measures the share performance of 18 of the largest luxury companies including conglomerates LVMH, Richemont and Kering, declined 1 percent during December. Investors seem apprehensive as geopolitical and economic uncertainties continue to loom over the luxury business.

"The verdict has yet to come in on Christmas trading," said Pierre Mallevays, managing partner at Savigny Partners LLP, in the report. "The run-up to Christmas in Europe...has not been encouraging, although America still seems to be spending.

"Spending in Asia is dictated by the Lunar New Year, which is coming up soon, with China also having had a Black Friday equivalent on 11/11," he said. "That's a lot of money to be made in a very short amount of time. No wonder investors are holding their breath for upcoming trading results."

Global tension

In the United States, luxury is seeing an impact from a lack of progress in the ongoing trade dispute between the nation and China (see story).

Tiffany & Co., Tapestry and Capri Holdings all lost more than 10 percent of their stock price throughout December. Este Lauder and Ralph Lauren also saw declines, with their shares falling a respective 8 and 7 percent.

In Paris, luxury companies faced a challenging holiday season as yellow vest protestors' demonstrations disrupted the major shopping thoroughfares.

As one of the most prominent countries in the world for luxury retail, France's violent protests and the impact they have had on tourism could severely damage the sector.

Paris' Eiffel Tower Image credit: Atout France

For the last few weeks, France has seen dramatic, violent and damaging protests over a proposed hike in diesel fuel taxes. With so much violence and chaos in the streets of France, retailers including Galeries Lafayette and Printemps had to temporarily shut their doors (see story).

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Despite the unrest in France, the French companies included in the SLI saw growth. Kering's stock rose 6 percent, while LVMH's shares grew 1 percent.

During the month, LVMH announced its plans to acquire hospitality group Belmond, seeking to capture more of the growing travel market (see story).

Herms' stocks also saw a slight bump of 0.5 percent.

The biggest SLI stock decreases came from Italian companies.

Eyewear group Safilo saw its shares decline 21 percent. However, its stock price at the end of December was 14 percent higher than the price of the 121 million euro, or $139 million, capital raise that happened during the month.

Jimmy Choo's Gotha sunglasses are made by Safilo. Image credit: Jimmy Choo

Meanwhile, Salvatore Ferragamo's shares fell 15 percent after it announced that its chief financial officer Ugo Giorcelli had resigned.

China concern

Luxury brands have seen their stock prices stumble amid concerns that weakening sales of iPhones in China could foreshadow slowed consumer spending in the world's second largest economy.

Technology giant Apple announced that its $84 billion in revenues for the quarter ending Dec. 31 would fall short of the company's projections of up to $93 billion. Since CEO Tim Cook specifically mentioned slumping sales of its high-priced smartphones in China, many investors are worried that sales of luxury goods may further slip amid other economic tensions (see story).

Chinese border agents are reportedly tightening their inspection of goods brought back from overseas, levying hefty customs on luxury products stowed in travelers' suitcases.

According to Bloomberg, posts are circulating on social media that show guards searching luggage for purchases over the duty-free limit and taxing some merchandise at up to 60 percent. Chinese consumers are driving the bulk of luxury's growth and most of these shoppers make their luxury acquisitions while abroad, making this stricter cross-border movement of goods a potential disruptor for the business (see story).

Morgan Stanley anticipates that China will see a slowdown of luxury purchases in the high single digits in the next two years.

"China sneezes and the world catches a cold these days," Mr. Mallevays said. "Retail sales in China grew at their slowest rate in 15 years this November and industrial growth was its slowest in three years."

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