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MARKETING

Luxury market pattern to continue for foreseeable future: Bain

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Image courtesy of Luxury Aircraft Solutions

By STAFF REPORTS

The remainder of 2016 will echo last year's single-digital growth for the luxury goods market, according to a new report by Bain & Company.

Bain and Fondazione Altagamma's spring update of the "Luxury Study 2016" report found that the slowdown of 2015 "seeped" into the first quarter of 2016 with only 1 percent of growth. The slowing seen in 2015 is attributed to a lackluster holiday season in the United States, decreased tourism in Europe, Middle Eastern instability and slowdown of China.

"The luxury market is stuck in a holding pattern for the foreseeable future," said Claudia D'Arpizio, a Bain partner and lead author of the study, in a statement. "All eyes are again on Mainland China, which is the key to unlock recovery around the world, and the U.S., where local consumption is failing to offset decreased tourism.

"Consumers' changing purchase patterns, including a reshuffling of tourism and revitalized local spending in Europe, will likely do little to drive luxury brand growth much beyond the low single digits."

Outlook hazy

The report looked at specific markets to gain insight into how the luxury goods industry is faring overall.

Bain and Altagamma found that in the Americas, luxury growth decreased by 2 percent at current exchange rates. The U.S. is in decline due to limited support from tourism and "uneven" local demand, the Latin American market is trending positive due to a resurgence of tourism and Canada is expected to keep its stable course.

Terrorism in Europe has had a lasting effect causing a drop in tourism, but the report suggests that local consumers have the spending power to make up the difference. Europe's luxury market saw a 1 percent increase at current exchange rates.

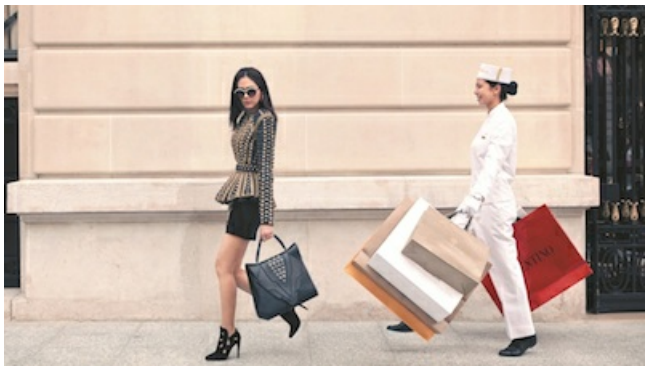

Image courtesy of Peninsula Hotels

Despite news that the market is slowing, Greater China is showing that it may bounce back, with Mainland China up 2 percent at current exchange rates. According to the report, these rates may reflect a reverse in China's three-year decline.

While Mainland China may be improving, Hong Kong and Macau will continue to struggle for the remainder of 2016.

The Japanese market kept its position as the top market for luxury growth, up 5 percent at current exchange rates. Although its market is strong, Japan does show signs of slowing down due to a stronger Yen and a reduced number of Chinese tourists. Unlike local Europeans, Japanese consumers are unlikely to spend as much at home to make up the difference.

Image courtesy of Rolls-Royce

Southeast Asia, with the exception of Singapore, is performing well due to regional tourism and localized spending. In South Korea, the market is largely supported by Chinese luxury buyers.

Bain and Altagamma found that the Middle Eastern market is still "rather depressed" regardless of interest in Iran, Australia is remains "healthy" and Africa is expected to become a "breakout star" in the future.

Along with market slowdowns, retailers' stock values are plummeting, with stocks reaching historic lows as earnings falter.

Nordstrom stock stood at more than $82 a share on March 20, 2015, but on May 20, 2016, opened at $37.25, its lowest in almost six years, and its competitors have had even rougher fortunes. Retailers are trying a variety of strategies to get out of the rut, but broader economic turmoil has walloped the industry, and no clear solutions are visible (see story).