

GOVERNMENT

What impact will a Trump presidency have on the luxury market?

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Donald Trump's economic and trade policies may create challenges for luxury activities

By SARAH JONES

As United States President-elect Donald Trump prepares to take office next January, luxury marketers will have to recalibrate their strategies and wonder if the billionaire will keep all his campaign promises.

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Mr. Trump ran on the promise of change, as the self-professed political outsider vowed to shake up established policies on the campaign trail. The Republican candidate's campaign centered on a protectionist platform, which may prove a challenge for global luxury brands that rely on international production and trade.

"Since [Mr. Trump] seems to be a fan of everything for and in America, the European luxury brands might face a challenge of increased tariffs on foreign goods, which will indirectly result in a big drop in American revenues for these brands," said Ambika Zutshi, CEO of **Fashionbi**, Milan.

"However, he is also going to cut taxes and, so, in the long-run, as the purchasing power of the people increases, perhaps we can see an increasing trend back on the graph," she said.

Economic outlook

While on the campaign trail, Mr. Trump came out strongly against free trade, something the Republican party has traditionally supported. Citing what he believes are unfair deals, he has promised to impose high tariffs on goods coming into the United States.

Mr. Trump has been particularly vocal about his dislike of the proposed Trans-Pacific Partnership, a trade agreement between 12 Pacific Rim countries including Australia, Canada, Japan and Mexico.

The U.S. Fashion Industry Association came out in support of TPP, backing what it sees as a possible boon to the industry.

Trade as a whole is important to producers and retailers of luxury goods, as most products are made in specific locations and then exported around the world. An Italian leather goods brand, for instance, cannot create a factory in the United States to avoid taxes without damaging its positioning.



Image courtesy of Dior

If tariffs were to be imposed, costs associated with luxury retail would likely rise, and it would possibly create obstacles in getting the right raw materials from an international supply chain.

"Say bye to American luxury companies making it in China or Mexico," Ms. Zutshi said. "It seems most of the brands would need to make the product home-grown, which will ultimately increase the costs for the company and hence the final price of the goods to a whole new level.

"This can also mean companies laying off employees, closing stores and making such adjustments to meet the target forecast," she said. "On the other hand, European and other outside items will be imposed heavy taxes on and, hence, will result in a drop in their revenue stream coming from American consumers, as well.

"As most of the fashion luxury labels are coming from outside USA, mainly Europe, this could be a disaster for the luxury sector, in general."

A survey conducted by YouGov for GT Nexus before voters headed to the polls found that retailers fear more difficulties, including higher costs for goods and more delays in getting merchandise ([see story](#)).

In addition to trade, Mr. Trump's proposed economic policies are expected to reduce the U.S.' real GDP by about 4.7 percent compared to the projected forecast from 2017 to 2021, according to Euromonitor.

Even with his proposed tax cuts for the wealthiest, the predicted economic downturn may negatively impact the affluent the most. Stock market drops and other declines in economic activities mean that the population of those with disposable incomes of at least \$50,000 and total assets of at least \$200,000 will grow more slowly than it would have otherwise.



Image courtesy of Michael Kors

Compared to a non-Trump economy, in which 42.4 million adults are expected to reach this level of affluence by 2020, a Trump presidency may mean that only 38.5 million will make this benchmark in the same time period.

"If nothing else, [Mr. Trump] will make bling acceptable once more," said Alan Behr, chairman of the fashion practice at [Phillips Nizer LLP](#). "Remember, Trump's idea of luxury is heavy on the gold gilding, plush carpeting of the nouveau riche.

"The last time I was looking to buy an apartment, a real estate broker offered me one in a Trump building, reminding me that they trade at a premium to the market," he said. "I had to explain, 'Where I come from, anything with the Trump name on it would have to trade at a discount to the market.'"

Uncertainty ahead

Aside from tightening trade, Mr. Trump's impact could also extend to other areas of the luxury industry.

Zillow found that the U.S. president could play a large role in shaping the housing market's future.

More than 100 housing experts were asked specifically about the impact candidates would have would have on the housing market if elected. Forty-five percent said that a Trump presidency would necessitate adjusting expectations either "very negatively" or "somewhat negatively," compared to just 16 percent who expressed positivity.

Those attempting to predict the real estate market's future under the prospective president were stumped by his unpredictability.

"Although Mr. Trump is well known as a real estate developer and, presumably, understands housing issues very well from his decades of experience in the real estate sector, he has not taken a clear stance on housing finance reform or the appropriate role that the federal government should or should not play in housing markets," Aaron Terrazas, senior economist at [Zillow](#), told *Luxury Daily* about the survey conducted earlier this year.



Zillow listing in Scottsdale, AZ

The housing market is also at liberty to the uncertainty surrounding Mr. Trump.

"This is not to say that a Trump presidency will necessarily have a negative effect on the high-end market, but the fact is that the economic impact of a Trump presidency is largely unknown," said Nela Richardson, [Redfin](#) chief economist. "Markets do not respond well to uncertainty and tend to contract when a clear path forward is not well understood.

"The uncertainty surrounding Trump's administration may cause some volatility in the stock market, which is closely tied to high-end real estate since investors are the primary owners of high-end homes," she said. "With Trump in the White House we are very much in a wait-and-see scenario when it comes to many things, including luxury home sales and prices."

Euromonitor has also predicted that Mr. Trump's win will mean a less bright outlook for U.S. travel and tourism. Foreign policy plays a large role in how attractive a destination is to potential international travelers.

Mr. Trump campaigned on a nationalistic platform, which included proposals to ban non-citizen Muslims from the country and deporting illegal immigrants, primarily those who crossed the border from Mexico. This, coupled with racially insensitive language, may make the U.S. seem like a less appealing locale.

Mexico is currently the number one destination for outbound Americans, while the Mexicans are the second most common travelers to the U.S. Mr. Trump's promise to build a wall on the border may make relations and travel more strained.

Likewise, if the U.S. were to fight with China over trade, the relationship may sour, making Chinese travelers rethink visiting.



Image courtesy of Peninsula

Shopping tourism, a main driver of inbound U.S. leisure trips, could also be negatively impacted if trade is tightened.

"A Trump victory could ignite demand for status-symbol luxury brands that communicate, 'I'm rich and I've arrived,'" said Marie Driscoll, CEO and chief consultant of [Driscoll Advisors](#), New York.

"With a promise of reduced tax rates across the business and individual landscape, consumers will have visions of increased discretionary income, and in the spirit of celebrating the season and providing oneself with a just reward having endured this election process, this holiday could see a jump in self-gifting and a move to luxury products from the cautious spending behavior of the American middle class since the Great Recession," she said.

"Retail sales, luxury demand and, recently, even casual dining have blamed recent weakness on the U.S. population's preoccupation with the presidential election.

"This holiday season we will begin to see whether in fact consumers have been distracted or if a deeper issue, disinterest and/or lack of discretionary funds are the culprits. We will know soon enough."

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