Luxury Daily®
The News and Intelligence You Need on Luxury

FINANCIAL SERVICES

Luxury stocks take tumble amid China uncertainty

December 12, 2018

Image from Salvatore Ferragamo's spring/summer 2018 campaign. Image courtesy of Ferragamo

By SARAH JONES

The looming trade war between the United States and China and crackdowns on the daigou market are weighing on luxury stocks, as the business' biggest public companies saw their share price slide last month.

In November, the Savigny Luxury Index that tracks the stock trajectory of 18 firms fell 11.3 percent, putting the average share price below where it started in January. With uncertainty surrounding China, the luxury business is in turn facing a slowdown in both sales growth and stock performance.

"China's woes are pivotal to the luxury goods sector as evidenced by investor reaction to any sign of slowdown in the dragon economy," said Pierre Mallevays, managing partner at Savigny Partners LLP, in the report. "So far, it is Chinese tourist spending that is showing signs of abatement, with demand in mainland China remaining robust, partly due to the Chinese government's restrictions on personal imports of luxury goods coupled with a harmonization of prices in and outside of China."

Trending down

Jeweler Tiffany & Co. saw growth across regions in the third quarter, but its sales increases slowed down from earlier in the year.

Despite a decline in international tourist spending, including that of Chinese travelers, Tiffany still achieved 4 percent sales growth in the quarter ended Oct. 31 (see story). Tiffany noted that consumers were buying more at home than abroad.

Tiffany has seen slower sales from Chinese tourists. Image credit: Tiffany & Co.

In October, reports surfaced of Chinese border agents 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).

Along with Tiffany, Richemont and Michael Kors are also seeing slower growth. When Michael Kors announced its results on Nov. 7, its shares fell after its sales growth failed to reach expectations (see story).

In contrast, Hermès' sales grew 11 percent in the first half of the year, rising above anticipations (see story).

While Burberry's revenues were down 3 percent in the third quarter, the brand showed optimism that its revamp under chief creative officer Riccardo Tisci is putting it on a growth trajectory (see story). Tod's and Salvatore Ferragamo are also undergoing makeovers, but their most recent results showed continued revenue declines.

Ferragamo's fall/winter 2018 campaign. Image courtesy of Ferragamo

Even with a range of financial figures, luxury brands on the whole saw their stocks take a dive this past month. Seventeen of the 18 companies tracked by the Savigny Luxury Index had their share prices fall through November, marking the second month in a row that this has happened.

Tod's and Michael Kors' share prices took the steepest drop, with declines of more than 20 percent. Five other companies saw double-digit decreases.

The only outlier in the index was Estée Lauder, whose stock grew 3.8 percent.

Estée Lauder Companies saw positive sales reports thanks to increased demand in China.

Estée Lauder's has balked the trend, with rising stocks. Image credit: Estée Lauder

For its first quarter of the 2019 fiscal year ended on Sept. 30, Estée Lauder saw a net sales increase of 8 percent, beating its estimates. Before the opening bell, its shares rose 7.3 percent to $140.74 (see story).

China concerns

Savigny attributes much of the falls in share prices this past month to dashed hopes of an end to the U.S.-China trade dispute.

In December, the ongoing trade feud between the two nations was put on hiatus, as the two countries have entered an agreement not to put additional tariffs on goods after Jan. 1.

President Donald Trump had threatened to raise the existing 10 percent tariffs on Chinese goods to 25 percent in the new year, but he has agreed to leave the taxes where they stand. Over the next 90 days, the nations will undergo further discussions in an effort to solve the trade dispute before it escalates further (see story).

While the relationship between China and the U.S. is causing concerns, in the long-term, researchers are still projecting positive luxury growth. In 2018 the overall luxury business grew 5 percent to $1.4 trillion, primarily propelled by rising demand from affluents in mainland China.

Luxury sales in mainland China alone grew 18 percent in 2018, according to the 17th edition of Bain & Company's Luxury Study, produced in partnership with Altagamma. The personal luxury goods market is expected to grow at a rate of 3 to 5 percent annually through 2025 for a value of $360 billion (see story).

"Despite the recent truce agreed at the G20 summit, China and the U.S. are still staring down the barrel of a gun at each other in relation to trade," Mr. Mallevays said. "The outcome of this standoff has significant repercussions for the luxury sector, as the health of its two largest markets hangs in the balance."