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Luxury brands bracing for more stateside declines in Chinese tourist spending

June 6, 2019

U.S. jeweler Tiffany has seen profits decline. Image credit: Tiffany

By SARAH RAMIREZ

Tensions between the world's biggest economies have taken a new direction, with luxury retailers in the United States likely to see the repercussions of a new travel warning from China.

Even amid an economic slowdown, outbound travel from China has exponentially increased in recent years. Luxury retailers have continued catering to affluent Chinese, who aim to purchase luxury goods while traveling abroad, but the government warning might impact the rate at which these tourists travel to the U.S.

"Chinese planning trips today are likely to think twice before buying tickets and lodging in the U.S., and this will impact Chinese tourism to the U.S. in six to nine months," said Marie Driscoll, managing director for luxury and fashion at Coresight Research. "We don't expect an immediate impact as travelers have made plans long in advance, up to 6 months, especially for group travelers."

Tourist trouble?

On June 4, China's Ministry of Culture and Tourism issued a safety alert to tourists visiting the U.S.

"Recently, shootings, robberies and thefts have occurred frequently in the United States," the statement said. "The Ministry of Culture and Tourism reminds Chinese tourists to fully assess the risk of travel to the United States, keep abreast of information on public security, laws and regulations and improve their awareness of safety and security."

Chinese travelers are growing in numbers, and increasing their spend. Image credit: Ssense

According to the *Associated Press*, China also accused U.S. law enforcement agencies of harassing Chinese tourists.

The travel warnings come as the trade war between the U.S. and China reaches new heights.

In May, the current White House administration announced plans to roll out tariffs as high as 25 percent on Chinese imports. The tariffs could impact the wallets of the American people, changing what is designated as a luxury purchase and how consumers shop for these goods (see story).

As retaliation, China raised the rate on imports for $60 billion of U.S. goods to 25 percent (see story).

Meanwhile, Chinese consumers are one of the most valuable segments in the luxury business.

McKinsey & Company predicted that Chinese shoppers both at home and abroad would spend approximately $180 billion on luxury goods by 2025, accounting for 40 percent of the worldwide consumption (see story).

Travel now accounts for 31 percent of affluent Chinese consumers' spending, up from 24 percent in 2018, according to Agility Research. This figure includes tickets, accommodations and experiences (see story).

However, the increasingly tense relationship between the U.S. and China has already had an influence on tourism in the states.

Chinese millennials are more likely than their older counterparts to travel solo. Image credit: Resonance

According to the National Travel and Tourism Office, travel from China to the U.S. fell 5.7 percent in 2018 to 2.9 million visitors. Chinese visitors spent $36.4 billion during trips to the U.S. last year, including spending on high-value categories such as jewelry and other luxury goods.

"Chinese and European travelers have been spending less on their U.S. trips for the past 12 months due to the strength of the U.S. currency and its impact on luxury goods prices in the U.S.," Ms. Driscoll said.

Luxury sales

Luxury brands are already feeling the impact of decreased spending by Chinese tourists.

This week, U.S. jeweler Tiffany & Co. revealed that its profits this past quarter were below those from the same period last year, exhibiting a shift in foreign tourism. The Americas saw sales decline by 4 percent to $406 million, due to travelers spending less (see story).

In mainland China, luxury brands have reportedly lowered their prices after the government implemented a revised value-added tax in April.

Part of an effort to reinvigorate the world's second-largest economy, China reduced the VAT by up to 3 percent for import companies, based on industry. Luxury fashion labels Louis Vuitton and Gucci are among those that slashed suggested retail prices (see story).

"Most likely the impact in Europe would be positive over time as Chinese tourists opt to visit, and shop, European capitals rather than the U.S.," Ms. Driscoll said. "For a sophisticated shopper, Europe will most likely be the first choice for luxury shopping with better exchange rates and net pricing post-VAT return.

"Flagships in growing Chinese cities, while expensive, are also integral to developing a brand relationship with Chinese consumers" she said. "The Chinese consumer loves the allure of scarcity, so a strategy around product drops and limited time collaborations creates brand heat."