

RETAIL

Coronavirus could affect luxury goods sales to Chinese consumers and travelers

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Most luxury groups are highly dependent on Chinese consumers, both buying domestically and overseas on travel. Image credit for China map: CIA

By STAFF REPORTS

The spread of the coronavirus in China, especially during the busy Lunar New Year season, may affect tourism and luxury consumption in that market, threatening near-term revenue for leading European luxury houses.

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An estimated 200 people in Chinese city Wuhan and overall 300 in China have been infected with the affliction a pneumonia-like virus which jumped from animals to humans with cases reported in the southern province of Guangdong, Taiwan, Thailand, South Korea, Japan and the United States. Six deaths have been reported so far.

Airports around the world are now screening for the virus, particularly singling out visitors from Wuhan, a city of 11 million where the outbreak is said to have originated in a local seafood market.

Further spread of the virus could spook Chinese travel domestically and overseas.

Labels exposed

Per data from a Bain study for Italian trade body Altgamma, Chinese consumers account for around 33 percent of the total spending in the global luxury market.

An estimated 43 percent of all luxury purchasing worldwide is conducted while traveling.

The loss of Chinese travel overseas could result in short-term loss of revenue since not all luxury consumption can be recovered back at home, according to UBS.

So who is most exposed to the vagaries of this new Chinese virus?

Per UBS, an estimated 50 percent of Swatch Group sales are to Chinese consumers, with around 45 percent for Richemont and roughly 40 percent for Burberry.

Similarly, Chinese consumers account for an estimated 35 percent of sales at Kering, Moncler and Prada, and around 30 percent at LVMH, Salvatore Ferragamo, Hermès and Tod's.

In terms of tourism exposure, Chinese travelers account for an estimated 45 percent of sales at Ferragamo, Moncler, Richemont, Prada, Swatch Group, Kering and Ferragamo, with 40 percent for Herms and LVMH and around 35 percent for Tod's, according to UBS.

THE SWISS bank said it is hard to estimate the near-term negative effect on individual company sales. But it cited the 2003 SARS outbreak when share prices of luxury goods stocks fell 20 percent between November 2002 and April 2003.

The luxury sector stocks overall currently trade at an estimated 70 percent premium to the MSCI Europe Index, way above the roughly historic 45 percent average.

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