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COMMERCE

Are affluent consumers numb to stock market turbulence?

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By RACHEL LAMB

Turbulence in the stock market is only growing due to debt crises in Greece and Italy, causing investors to pull back in fear of an economic downturn. Whether or not this is a permanent setback is uncertain, especially since consumer confidence itself is up and down.

Parallel to the stock markets, consumer confidence has been rocky during the last year and, therefore, willingness to spend changes with news. Most affluent consumers are tapped into news and even invest in the stock market, meaning that as the economy changes, so might spending habits.

“I think the issue is actually more on the buy side than on the sell side,” said Paula Rosenblum, managing partner at RSR, Miami.

“Philosophical questions about what currency to pay suppliers in and how to hedge bets on the value of the Euro versus other currencies probably trump ‘How do I keep selling?' questions," she said. “Beyond some portfolio issues, which people seem to be growing numb to because it’s so up and down, I think the U.S. luxury shopper will play on.”

Peaks and valleys

Meanwhile, Italian investors pushed a 7 percent yield on the country's bonds. This high interest rate makes it difficult for Italy to borrow money to pay for its debts.

Although yields over 7 percent led bailouts for Greece, Ireland and Portugal, Italy's economy may be too big for the European Union to rescue, according to a report from Women's Wear Daily.

This past week, stocks – even luxury ones – plummeted.

Most Italian companies were hit the hardest – Salvatore Ferragamo dropped 5.6 percent on Wednesday, Nov. 9, for example.

On Wednesday, Nov. 9, the S&P Retail Index in the United States dropped 2.9 percent and the Dow Jones Industrial Average fell 3.2 percent.

In addition, stocks from Ralph Lauren, LVMH Moet Hennessy Louis Vuitton, PPR, L'Oreal, Burberry, Nordstrom, Tiffany & Co., Saks, Richemont and Macy's fell significantly.

"This is the ultimate price of globalization: our economy is tied to the economies across the world," said Pam Danziger, president of Unity Marketing, Stephens, PA.

"The luxury consumers, in particular, are more globally-sensitive since these are people at the highest levels of business, with management and budgetary responsibilities in their companies and who are reading The Wall Street Journal, The New York Times, watching CNBC and tapped into Bloomberg," she said.

"They know what is going on in the world and will make personal spending decisions with an eye toward that."

Holiday cheers

Even though the stock markets are shaky, there still may be hope for luxury brands especially since a dip in the bourses is not incredibly shocking to consumers anymore.

"To be honest, I don't think consumers are so concerned," RSR's Ms. Rosenblum said.

"The global stock markets are clearly freaked about it, but apart from portfolio issues, I think the problem is a bit over the head of most people," she said.

This will probably remain true in the fourth quarter since end-of-year holidays will always be a time for splurging.

Nonetheless, marketers cannot assume that consumers will spend if the stock market is uncertain.

Emphasizing quality and value of products and services will likely help to coerce consumers to buy, especially since shoppers may be more likely to buy one thing that will last a long time than a few cheap things.

"My advice to luxury companies is to keep your expectations low and maybe you'll get a happy surprise at the end of the quarter," Unity's Ms. Danziger said.

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York