

RETAIL

What does the delta surge mean for luxury retail?

August 13, 2021



Hermès opened or reopened several stores in HI, including this one in Troy, Michigan. Image credit: Hermès

By SARAH RAMIREZ

With most of the United States experiencing high or substantial rates of COVID-19 transmission, shifts in consumer sentiment and spending may have fallout for the luxury retail sector.

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In a matter of weeks, the state of the pandemic has worsened in the U.S. to the point that more cities and businesses have turned to new mask mandates or vaccination requirements. Major companies, including tech giants and banks, have also pushed back plans to reopen offices further threatening the tenuous economic recovery.

Despite this widespread uncertainty, however, major luxury players have thrived in 2021.

"The results for the world's major luxury brands have been truly astonishing," said Pamela Danziger, president of **Unity Marketing**, Stevens, PA. "They've recovered most of what they lost in 2020 and are going into the second half of 2021 stronger than ever.

"That said, it seems these big luxury brands are taking all the oxygen and the smaller players are struggling for air," she said. "As a result, the strong will only get stronger and the weak may not be able to hold on."

COVID changes

In mid-May, the Centers for Disease Control and Prevention had eased face mask guidelines amid climbing vaccination rates and falling COVID-19 cases and hospitalizations.

The exponential spread of the more contagious delta variant, however, led to a reversal from the CDC on July 27. The updated guidelines recommend indoor mask use, including for fully vaccinated people, in areas where community transmission is "high" or "substantial."

In the two weeks since the announcement, 90 percent of the country falls into those two levels of "community transmission" as measured by case counts and positivity rates. The risk for severe illness, including hospitalization and death, remains significantly higher for unvaccinated people.

Retailers are taking notice and are working to protect staff and shoppers, including reinstating mask requirements or

encouraging vaccinations.

"It is truly unfortunate that mask recommendations have returned when the surest known way to reduce the threat of the virus is widespread vaccination," the National Retail Federation said in a July 27 statement. "The CDC's latest guidance underscores the urgency for more Americans to become fully vaccinated so we can all emerge from this pandemic."

To avoid potential shutdowns, New York and San Francisco are the first cities to require proof of vaccination at least one dose in New York, compared to proof of full vaccination in San Francisco for certain indoor activities, including restaurants, bars and gyms.

New Orleans is also following suit by requiring vaccines or negative COVID tests, with Los Angeles expected to follow with its own restrictions. Philadelphia now requires indoor mask use, except for businesses requiring proof of vaccination.

According to Google Trends, searches about stores' mask and vaccine policies have increased in recent weeks after dipping earlier this summer. However, most retailers are not checking for proof of vaccination, instead of opting for tactics such as mask use, social distancing and limited capacity.

"We need to learn the lessons from last year," Ms. Danziger said. "Rather than companies establishing blanket policies across all their stores about masks, they should leave it up to the local jurisdictions and how the virus is spreading in the local community."

"I think retailers need to practice good hygiene in the stores but try to avoid as much as possible putting people's face behind a mask," she said. "As humans, we need to see faces to communicate effectively."

Outside of the U.S., French President Emmanuel Macron has ordered all health workers to get vaccinated by Sept. 15, and will now require COVID-19 vaccine passports for restaurants, shopping malls and hospitals ([see story](#)).

What is next?

It may be too soon to see whether these setbacks in the fight against COVID-19 have drastically impacted consumer sentiments and spending.

The Dow Jones and S&P 500 closed at record highs on Aug. 12, marking the third consecutive day of record closings.

However, vacation rental platform Airbnb saw its stock stumble despite strong revenues in its second quarter due to concerns around the delta variant. Aviation firm Wheels Up saw record revenue growth in Q2, and climbing share prices another indicator that the luxury industry is better insulated than the general market during this financial uncertainty.

"My guess is that in times of stress like we have gone through, people feel the need to indulge in things that make them feel good," Ms. Danziger said. "Luxury is the ultimate feel-good indulgence and shopper therapy is proven as a stress reducer."

One risk for luxury's retail sector is delays in office reopenings, which will likely slow the recovery of foot traffic in city corridors.

Wells Fargo has delayed office requirements to at least October, as has Google. Both Google and Facebook will be requiring employees to be vaccinated against COVID-19, but Facebook has pushed its office return to early 2022.

Ecommerce will continue being essential for luxury brands looking to maintain their recoveries.

French luxury conglomerate LVMH Mot Hennessy Louis Vuitton recorded revenue of 28.7 billion euros, or \$33.89 billion at current exchange, in the first half of 2021, up 56 percent compared to the same period in 2020 ([see story](#)). Other luxury rivals, including Kering and Richemont, also saw strong performances with momentum from online sales.

According to [McKinsey & Company](#), as of June 2021, ecommerce has grown by more than 40 percent year-over-year while bricks-and-mortar sales stayed flat. Higher-income consumer spend also outpaced that of other income demographics in June 2021.

"I think the main difference in how people react to Covid is by age not income, though the most affluent in society have the luxury of exerting more control over their lifestyles than lower-income folks," Unity Marketing's Ms.

Danziger said. "But since age and income are correlated income rises with age the younger consumers feel more immune from the severe consequences of the virus so they may be less concerned about contracting the virus."

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