

RETAIL

## What inflation is doing to luxury buyers in China, US and the EU

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*Rising prices have only added to inflation worries, and consumer attitudes and purchasing behaviors are starting to affect luxury buyers worldwide. Image credit: Shutterstock*

By [Adina-Laura Achim](#)

Right before the holiday season, Federal Reserve Chair Jerome Powell shifted his position on inflation, saying during a congressional hearing that **it is time to retire the word "transitory" when talking about inflation.**

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After downplaying inflation risks for months, the Democrats finally caught up with economists and American consumers who were raising the alarm over soaring consumer prices.

But the United States is hardly the only advanced economy struggling to keep up with inflation. In fact, China and Europe are also battling this danger.

A rise in producer and commodity prices has only added to inflation worries, and consumer attitudes and purchasing behavior are starting to change.

Moreover, as consumer sentiment continues to plunge, retailers and investors wonder what another year of inflation will do to earning growth.

How is inflation impacting luxury consumers?

Even the affluent class is concerned about inflation eroding their wealth. Consequently, the rich will choose to invest in hard assets such as real estate, gold and crypto instead of soft assets including luxury accessories, which depreciate during turbulent times.

Thanks to inflation, luxury goods will become even more expensive as raw-material prices climb. To be sure, this situation will put luxury brands in a tricky situation as it will force them to pass on price hikes on consumers.

In China, lower-income households and the country's new "aspirational" middle class will get hit the hardest. Making ends meet will become more important than irrational purchases, so premium brands will lose lower earners who buy entry-level luxury goods.

Against this backdrop, even the attitudes and behaviors of China's affluent class will change as financial prospects

and consumer sentiment dip. Equally important: The government will crack down on wealthy consumers who ignore its "[common prosperity](#)" plan by flaunting their wealth.

Over the past few months, the producer price index (PPI) rose, and "Made in China" goods got more expensive, sinking consumer confidence. In China, this consumer confidence dropped to [120.20 points in October](#), down from 121.20 points in September 2021.

China's consumer price index (CPI) rose by [1.5 percent in October](#) from a year earlier, while the CPI in the U.S. jumped 6.2 percent in October over the same period.

According to [The New York Times](#), the U.S. experienced "its sharpest increase since 1990." In other words, American consumers took a harder hit than their Chinese equivalents as they saw larger price hikes.

And soaring inflation did not relent in the U.S., even during November when the [CPI rose by 6.8](#) percent, according to a Labor Department report.

Meanwhile, [Fox Business](#) reports that energy prices have increased by 33.3 percent since November 2020. Gasoline prices are 58.1 percent higher than at this time last year, and used cars now cost 31 percent more.

A [Pew Research Center analysis](#) of data from 46 countries shows that the third-quarter 2021 inflation rate was higher in 39 countries compared to the pre-pandemic third quarter of 2019. However, the U.S. recorded one of the highest inflation jumps, placing third after Brazil and Turkey.

Over the past year, the costs paid by a typical American family have increased by roughly \$4,000, [according to calculations by Jason Furman](#), a Harvard economist and former Obama White House aide.

Lower-income U.S. households are more likely to skip the holiday season altogether or buy fewer gifts. A survey by Deloitte shows that a record number of U.S. consumers ([11.5 percent](#)) are not buying any gifts this Christmas.

At the same time, middle-class consumers will transition to cheaper goods and brands. Accordingly, the secondary lines of major brands, such as Armani Exchange or O by Oscar de la Renta, will face new opportunities.

Meanwhile, higher prices in the Eurozone are discouraging even European consumers.

Consumer confidence in the euro area [plunged to 117.5 points in November 2021](#). But outside the Eurozone, the situation is not merrier. For example, in Hungary, consumer confidence dropped to its lowest level since April, according to a [survey by GKI](#).

As the economic situation deteriorates in the European Union and inflation hits its highest level in over 13 years, consumers will lose their buying capacity.

Moreover, the educated middle class will prioritize investments in hard assets and shopping for essentials instead of aspirational purchases. That is especially true for older millennials who are more likely to trade down, as they still have not overcome the price-conscious habits that they adopted after the market crash in 2008.

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