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RESEARCH

Luxury spending higher than pre-recession levels: American Express

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By PETER FINOCCHIARO

Luxury retail spending has eclipsed pre-recession levels as affluent consumers continue to regain confidence, according to a study from American Express Business Insights.

The upscale retail sector continued its trend of improvement in the third quarter. Furniture and home furnishings sellers, department stores and apparel and accessories retailers all recorded spending increases as individual consumer spending increased across all sectors.

“As costumer confidence slowly improves, we saw that the luxury retail sector show matched improvement across all categories,” said Ed Jay, senior vice president of business insights at American Express, New York. “Luxury spending is solidly higher then pre-recession levels and we’re seeing a new group of luxury consumers emerge.”

American Express released the findings in a study titled, "Q3 2010 Spend Sights Report: Luxury Retail."

The research tracked consumption trends across four luxury retail categories: furniture and home furnishings, apparel and accessories, jewelry and department stores.

Redecorating before relocating

The furniture and home furnishings category recorded the greatest year-over-year improvements in the third quarter, as overall spending increased 13 percent, when including expenditures from individuals, small businesses and large businesses.

Meanwhile, individual consumer spending in the sector was up 12 percent.

Consumers performed 4 percent more transactions on high-end furniture and home furnishings. The average transaction size was 8 percent higher than in the third quarter of 2009.

Individuals ages 26-45 did 46 percent of all spending in the category during the quarters.

American Express attributes the gains to homeowners opting to improve their current residences rather than test an unpredictable real estate market.

Still, overall spending grew every month for two consecutive quarters, including a 28 percent jump in July.

“[American Express findings show] clear correlation between a weak housing market and nesting” Mr. Jay said. “Many likely opted to upgrade their current homes with new furniture, decorations and home improvement projects rather than risk the unstable housing market.”

Apparel, jewelry growth slows

Meanwhile, luxury apparel and accessories recorded more modest gains in the third quarter, following a strong first-half.

The sector produced 19 percent and 21 percent growth in March and April, respectively.

However, by the time July rolled around their purse strings tightened as growth fell back into the single digits.

Consumer spending was up 3 percent year-over-year for the third quarter, nearly 87 percent of that spending coming from individual consumers.

Meanwhile, consumers were buying high-end apparel and accessories less frequently as the number of shoppers making four or more purchases in the sector dropped 53 percent.

Women dominated shopping in the category, accounting for nearly 60 percent of all consumer expenditures.

The upscale jewelry category registered a spending bump of only 3 percent, as average number of transactions per consumer dropped below 2009 levels.

However, average transaction size made up for the dip by growing 6 percent, year-over year.

The category experienced a similar trend as apparel and accessories, as it jumped out to nearly 20 percent sales increases in March and April, while slipping to gains of less than 6 percent in each of the last four months covered by the study.

Men accounted for 71 percent of jewelry spending during the quarter, while consumers older than 46 did 56 percent of spending.

However, younger consumers recorded gains, constituting a quarter of all jewelry expenditures, as compared to 21 percent in 2009.

Dip in repeat buys

Finally, upscale department stores raked in 9 percent more revenue from consumer spending than during the comparable period last year.

Repeat shoppers, those with four or more purchases in 2009, upped their transaction volume by 24 percent, while 49 percent bought items less frequently.

Overall spending in department stores increased for the tenth straight month.

Adapting to a new consumer

The American Express findings match findings from other analyst firms such as Stockcall.com (see story) and Bain & Co. (see story) that suggest that luxury spending has rebounded significantly faster than consumption in the economy at large.

However, Mr. Jay echoes the sentiments of other analysts who warn that upscale brands need to do more to adjust to the behavior of younger consumers who will continue to grow and collectively become a dominant force in the luxury market (see story).

“While we cannot make forward looking statements, the spend data for [the third quarter] specifically shows positive growth in the luxury retail sector, and this will likely continue,” Mr. Jay said.

“The biggest challenge for luxury retailers will be addressing the new normal,” he said. “During the economic recovery, new groups of customers are emerging in the luxury retail sector, such as Generation Y and aspirational luxury shoppers – those who were not shopping in luxury retail prior to the recession.

“For example, online luxury discount merchants were solidly positive through the recession and continue to grow, and luxury retailers will need to tailor their multichannel offerings accordingly."

Final Take
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