

LUXURY GOODS

Who buys where: Decrypting cross-border Luxury Demand Flows

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*We continue to explore the “real nature” of luxury goods in this note, the third instalment of this series (please see LUXURY GOODS: Myths and Reality of Luxury Demand – Investment implications going into 2016 as well as LUXURY GOODS: Entry Price Points and the real Nature of Luxury Goods). We focus this time on the nagging question of who actually buys luxury goods products and where they come from, in an effort to complement what we consider to be less-than-ideal industry disclosure, largely limited to geography of sales. We leverage data from digital and physical retail with *ContactLab* to create a “first” in luxury analysis: a detailed breakdown by nationality of luxury spend in all geographies worldwide.*

We leverage data from digital and physical retail to dovetail the geography and nationality of luxury sales

We record the % of sales in every country, from both domestic and foreign customers. At the same time, we ascertain where exactly in the world each nationality buys luxury goods products. We track the nationality vs. geography of luxury demand over the past three years. This is relevant: in 2015 30% of luxury goods products were bought abroad– with huge interchange between Asia and Europe. We identify five clusters: 1) the USA, Japan and Korea have relatively limited interchange with the ROW; 2) Europe – France, Italy, Spain, Switzerland and the UK – benefit from massive inflows and low outflows; 3) Hong Kong and Macau are like Europe on steroids; 4) EMs are the largest contributors to international luxury sales, while benefitting from very limited inflows; 5) the UAE and the Gulf in general are in a unique position, with both relatively large inflows and outflows.

The good news is that international luxury spending seems to be holding up

Our analysis suggests that international luxury goods spend is not as bad as feared. Overall, the data in our sample point to a 5% rise in domestic and overseas luxury spend in the first four months of 2016. Chinese overseas spend decreased by 5%, but domestic spend increased by 5% – leaving a net positive balance. Hong Kong and Macau were net losers vs. Japan, Korea and Europe.

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Executive Summary

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1. The USA, Japan and Korea have relatively limited interchange with the ROW

Japanese and USA nationals make more than 90% of their luxury purchases in their respective countries – the proportion is 80% when we look at the South Koreans. Foreigners account for only 5–15% of luxury goods sales in Japan, South Korea and the USA. This is even though luxury goods purchases by Chinese nationals in Japan and Korea have risen in recent years, on the back of favourable FX. The USA accounts for 31% of the global luxury goods market, while Japan is at 8% and South Korea 4%.

2. Europe – France, Italy, Spain, Switzerland and the UK – benefit from massive inflows and little outflows

French, Italian and Spanish consumers buy 85-95% of their luxury goods in their respective countries. But foreigners account for the bulk of luxury sales in those countries, ranging from 70–80%. These countries have benefitted materially in recent years from a weakening EUR. France accounts for 7% of the global luxury goods market, Italy is at 7% and Spain c.1%. The UK and Switzerland resemble Southern Europe – but are a little less extreme. Swiss and British consumers buy 80–85% of their luxury goods in their respective countries, while foreigners account for 50–55% of luxury sales in Switzerland and the UK. Switzerland accounts for less than 1% of the global luxury goods market, and the UK 6%.

3. Hong Kong and Macau are like Europe on steroids

Hong Kong and Macau are the most extreme in benefiting from inflows. More than 80% of domestic luxury demand stays in Hong Kong & Macau, while foreigners represent 90% of luxury goods sales in Hong Kong & Macau. This despite Hong Kong & Macau suffering a fall in their share of global luxury goods sales made to foreigners worldwide from c.37% in 2013 to c.25% in 2015, as Chinese demand moved elsewhere. Chinese consumers were spending 70% of their luxury goods dollars in Hong Kong in Jan-Apr 2014 vs. 35% in January–April 2016. Hong Kong & Macau combined account for 3% of the global luxury goods market.

4. EMs are the largest contributors to international luxury sales, while benefitting from very limited inflows

Russia is the most extreme: 2/3 of Russian luxury spend goes abroad, while inflows account for just over 5% of luxury sales in the country. China is next: >40% of Chinese luxury goods purchases are made abroad, while China sees virtually zero inflows. Brazil, India, Mexico and Taiwan are in the same ballpark, albeit less extreme: 2/3 of luxury spend stays at home, while inflows account for 5–15% of luxury goods sales in each country. China accounts for c.7% of the global luxury market, Russia and Brazil for 1% each, while India, Mexico and Taiwan combined represent 4%.

5. The UAE and the Gulf are in a unique position, having both relatively large inflows and outflows

Half of luxury goods sales in the UAE and the Gulf are made to overseas consumers. At the same time, UAE and Gulf nationals buy approximately 50% of their luxury goods abroad. Russian and Chinese nationals are the most important luxury goods spenders in the UAE, while Middle Eastern consumers spend a significant amount of their luxury goods dollars in Europe. The UAE and the Gulf represent a combined 3% of global luxury sales.

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Interestingly, Chinese spend in Europe appears to be rising – possibly because our data captures a portion of Daigou spending (i.e., spend in Europe by Chinese students, whose visas don't allow tax refunds, and which are therefore not captured by Global Blue statistics). If this is what we saw in the wake of the November 2015 Paris terrorist attacks, then 2H16 could reasonably be expected to be even more positive = this should comfort luxury goods investors.

Important Caveat Our analyses are based on a sample of luxury goods companies which may not represent the whole market.

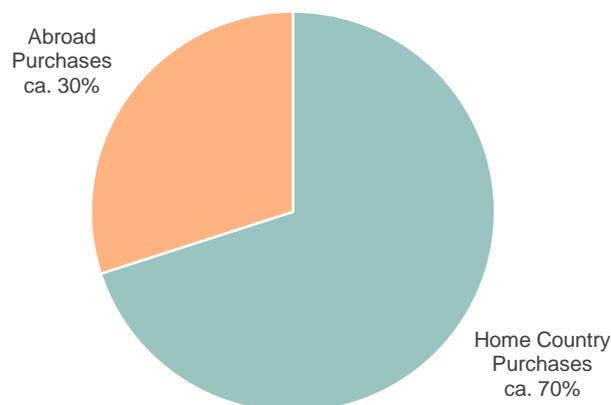
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Figure 1: 30% of luxury goods products were bought abroad in 2015 (+3.5% vs 2014)
% of Home Country vs Abroad purchases of luxury goods (2015)



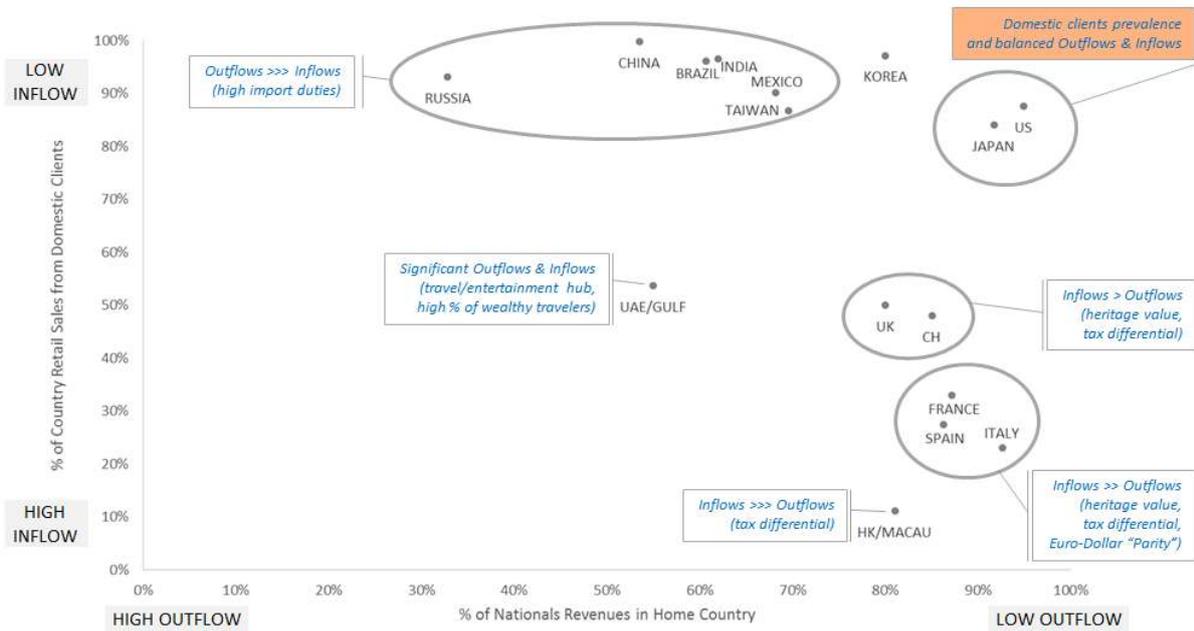
Source: ContactLab Analysis, World Travel Tourism Council

1. The USA, Japan and Korea have relatively limited interchange with the ROW

Japanese and USA nationals make more than 90% of their luxury purchases in their respective countries – the proportion is 80% when we look at the South Koreans. Foreigners account for only 5–15% of luxury goods sales in Japan, South Korea and the USA. This is even though luxury goods purchases by Chinese nationals in Japan and Korea have risen in recent years, on the back of favourable FX. The USA accounts for 31% of the global luxury goods market, while Japan is at 8% and South Korea 4%.

Figure 2: The USA, Japan and Korea have limited interchange with the ROW

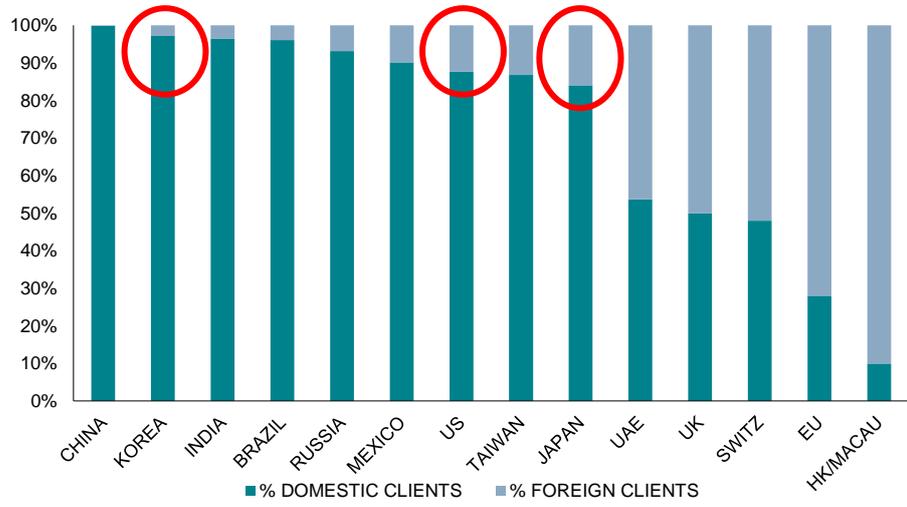
% of luxury revenues - 2015



Source: ContactLab analysis

Figure 3: Foreigners account for only 5–15% of luxury goods sales in Japan, South Korea and the USA

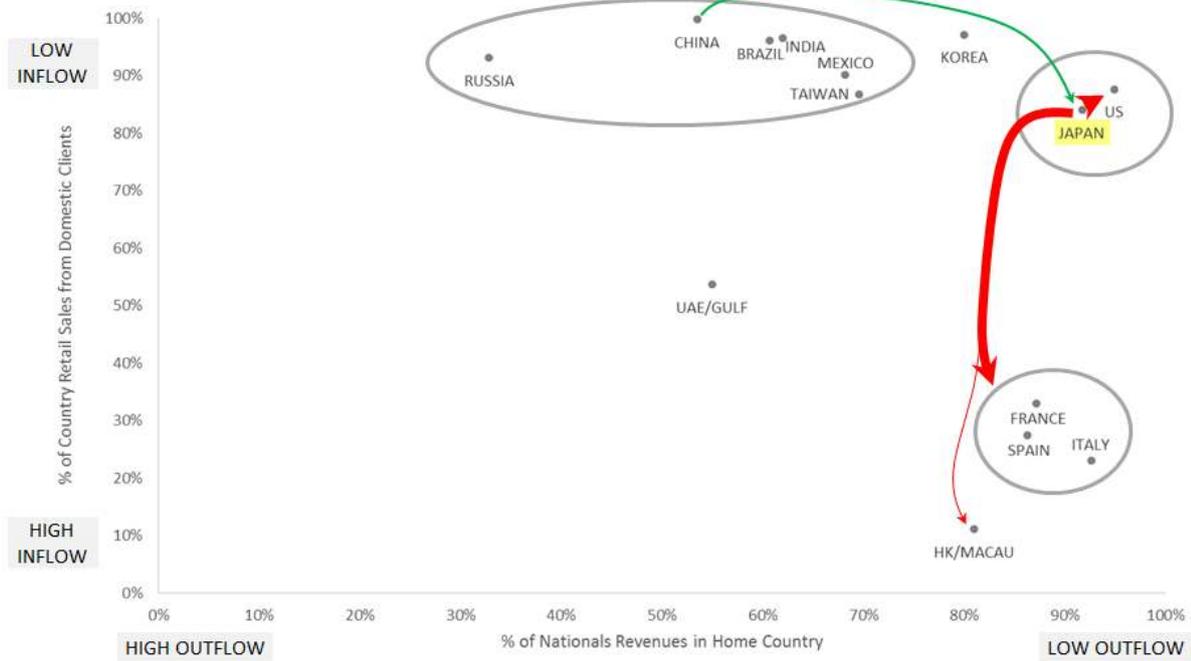
Revenues split by country



Source: ContactLab analysis

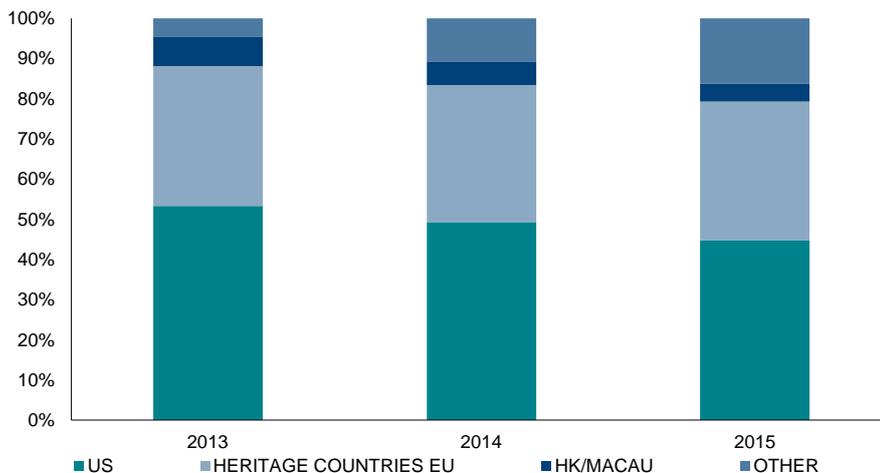
Figure 4: Japan inflows are mostly from China. Outflows are mostly to the US and the European heritage countries

% of luxury revenues - 2015



Source: ContactLab analysis

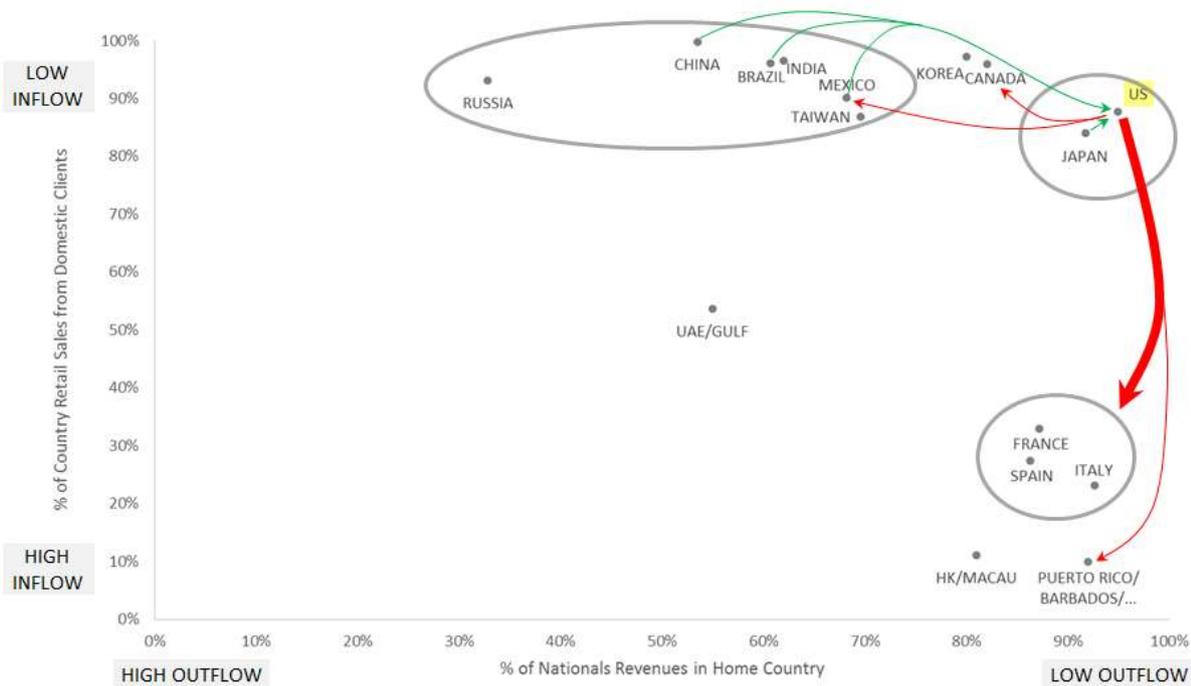
Figure 5: Japanese luxury spending abroad by country



Source: ContactLab analysis

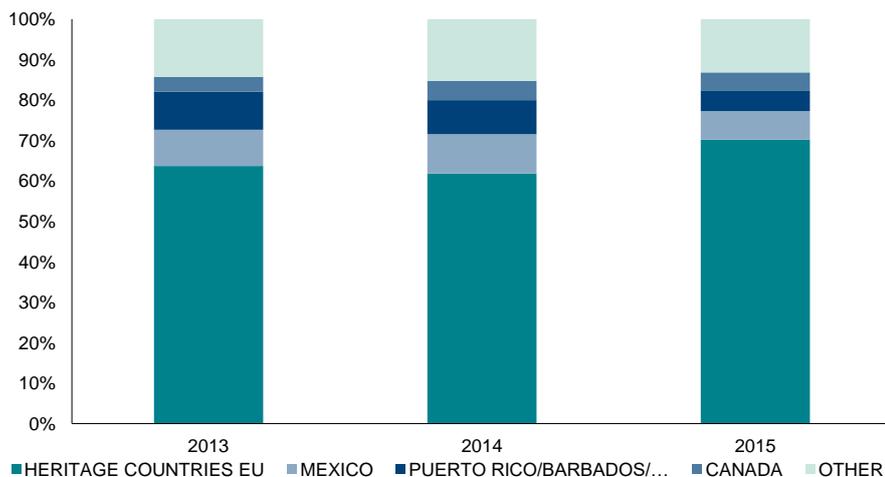
Figure 6: Inflows into the US are decreasing and fragmented across many Latin and Asian countries, while outflows are focused toward Europe

% of luxury revenues - 2015



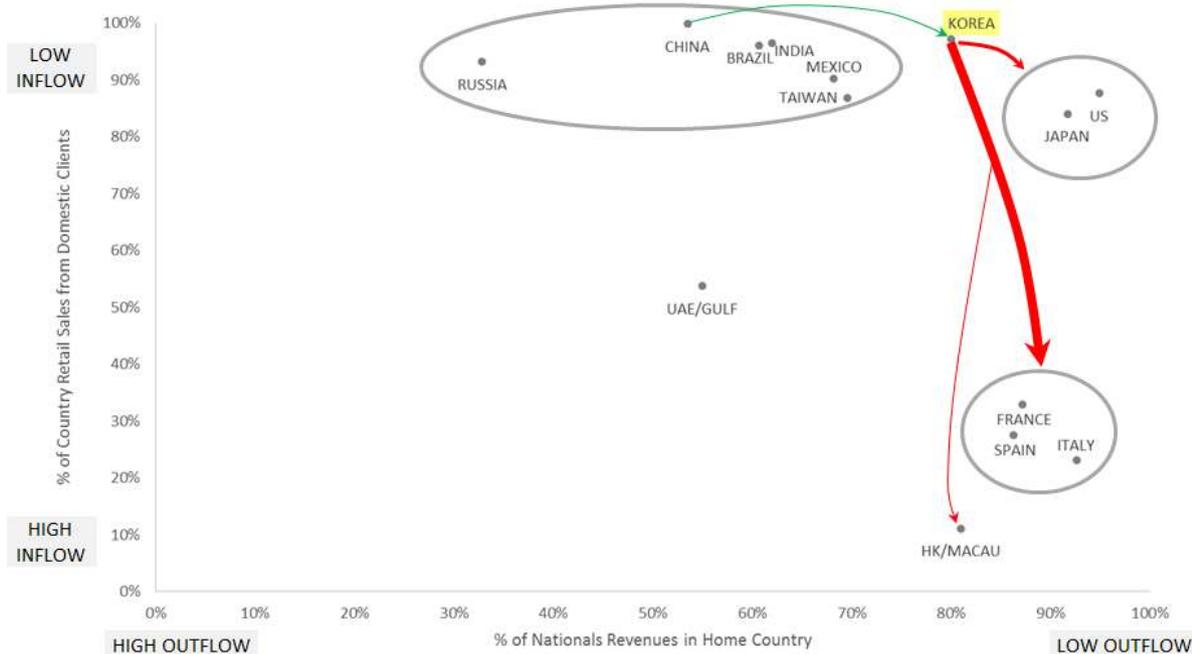
Source: ContactLab analysis

Figure 7: US luxury spending abroad by country



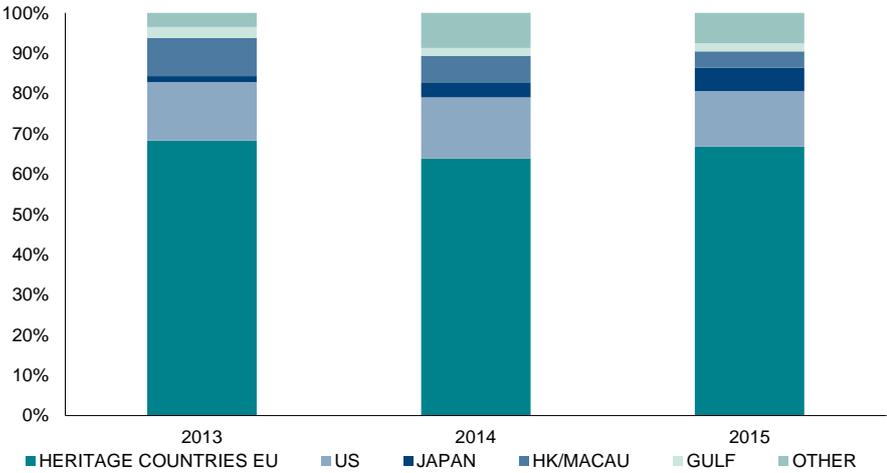
Source: ContactLab analysis

Figure 8: Korea is mostly an outgoing traveller country with some limited but growing inflows from China
% of luxury revenues - 2015



Source: ContactLab analysis

Figure 9: Korean clients' luxury purchases abroad by country



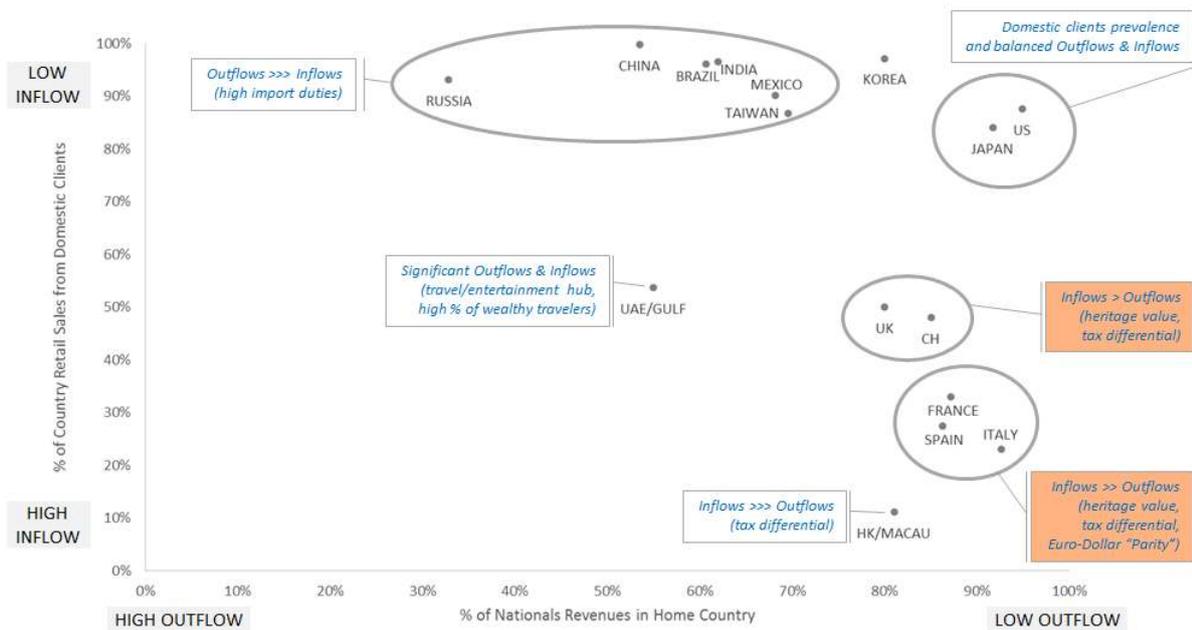
Source: ContactLab analysis

2. Europe – F, I, E, CH and the UK – benefit from massive inflows and little outflows

French, Italian and Spanish consumers buy 85-95% of their luxury goods in their respective countries. But foreigners account for the bulk of luxury sales in those countries, ranging from 70–80%. These countries have benefitted materially in recent years from a weakening EUR. France accounts for 7% of the global luxury goods market, Italy is at 7% and Spain c.1%. The UK and Switzerland resemble Southern Europe – but are a little less extreme. Swiss and British consumers buy 80–85% of their luxury goods in their respective countries, while foreigners account for 50–55% of luxury sales in Switzerland and the UK. Switzerland accounts for less than 1% of the global luxury goods market, and the UK 6%.

Figure 10: Europe – F, I, E, CH and the UK – benefit from massive inflows and little outflows

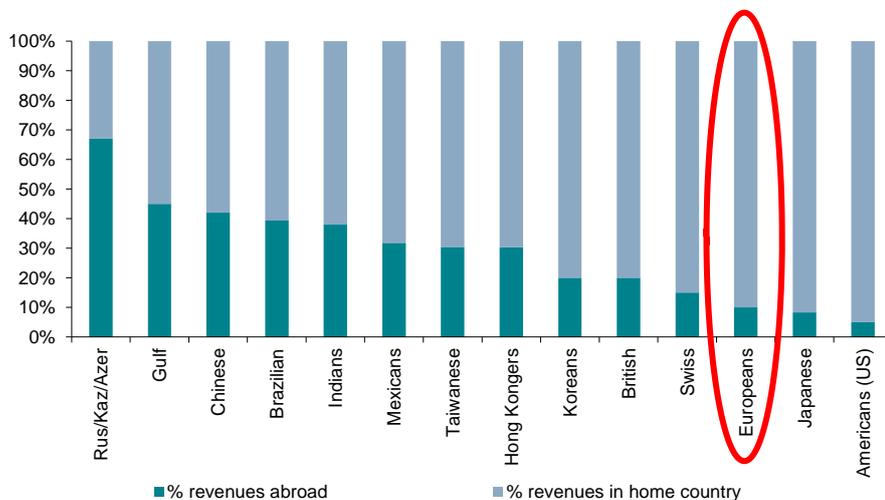
% of luxury revenues - 2015



Source: ContactLab analysis

Figure 11: French, Italian and Spanish consumers buy 85-95% of their luxury goods in their respective countries

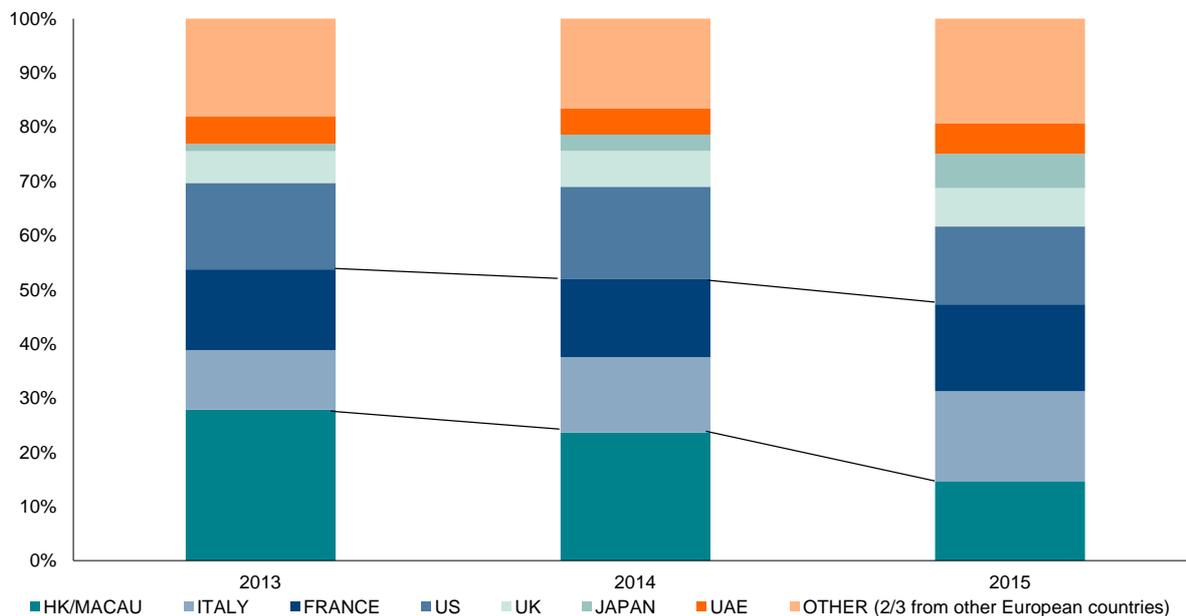
Revenue split by nationality (2015)



Source: ContactLab analysis

Figure 12: France, Italy and other European countries have benefitted materially in recent years from a weakening EUR

WW Foreign Luxury revenues by country (% -2015)



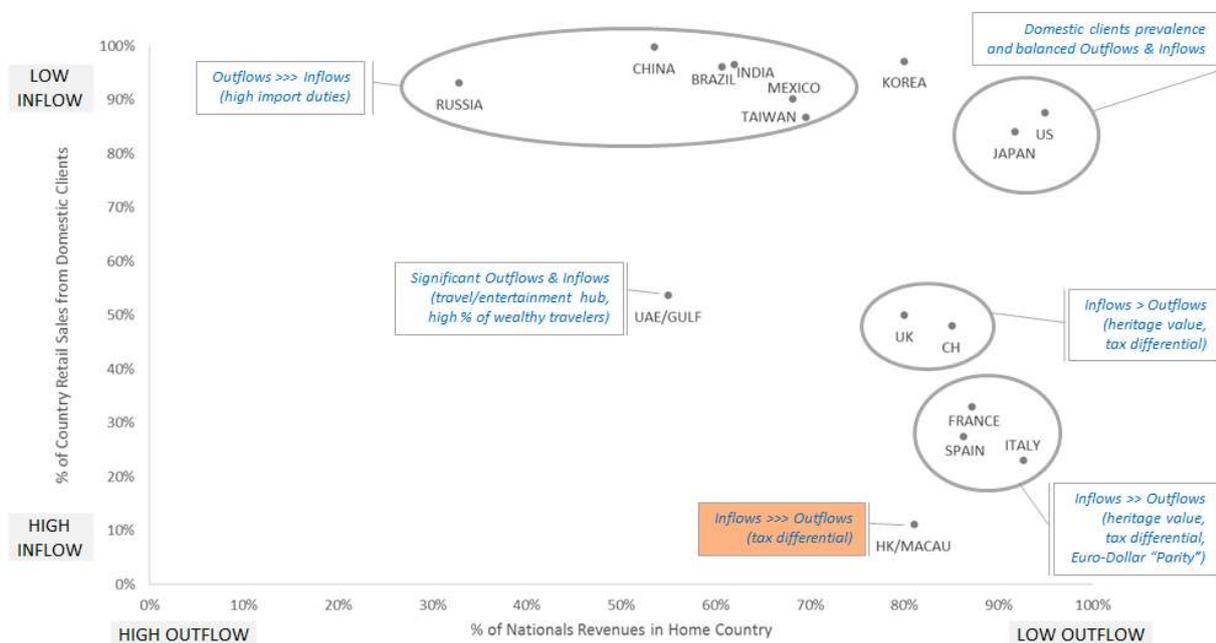
Source: ContactLab analysis

3. Hong Kong and Macau are like Europe on steroids

Hong Kong and Macau are the most extreme in benefiting from inflows. More than 80% of domestic luxury demand stays in Hong Kong & Macau, while foreigners represent 90% of luxury goods sales in Hong Kong & Macau. This despite Hong Kong and Macau suffering a fall in their share of global luxury goods sales made to foreigners from c.37% in 2013 to c.25% in 2015, as Chinese demand moved elsewhere. Chinese consumers were spending 70% of their luxury goods dollars in Hong Kong in Jan-Apr 2014 vs. 35% in January-April 2016. Hong Kong & Macau combined account for 3% of the global luxury goods market.

Figure 13: Hong Kong and Macau are like Europe on steroids

% of luxury revenues - 2015



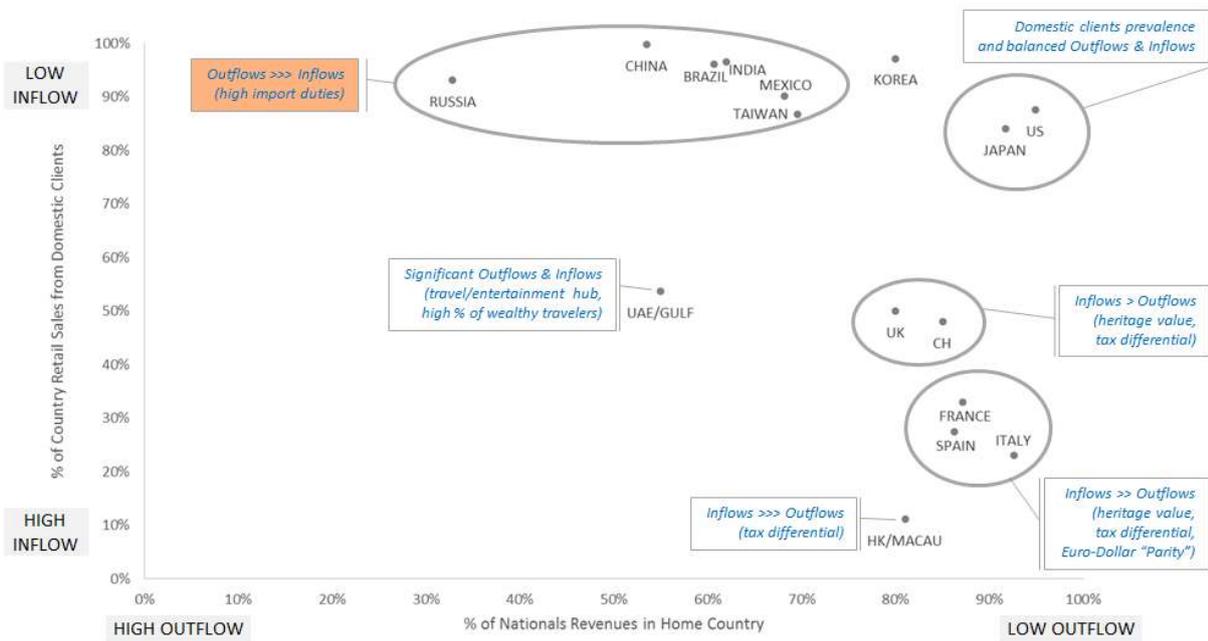
Source: ContactLab analysis

4. EMs are the largest contributors to international luxury sales, while benefitting from very limited inflows

Russia is the most extreme: 2/3 of Russian luxury spend goes abroad, while inflows account for just over 5% of luxury sales in the country. China is next: >40% of Chinese luxury goods purchases are made abroad, while China sees virtually zero inflows. Brazil, India, Mexico and Taiwan are in the same ballpark, albeit less extreme: 2/3 of luxury spend stays at home, while inflows account for 5-15% of luxury goods sales in each country. China accounts for c.7% of the global luxury market, Russia and Brazil for 1% each, while India, Mexico and Taiwan combined represent 4%.

Figure 14: EMs are the largest contributors to international luxury sales, while benefitting from very limited inflows

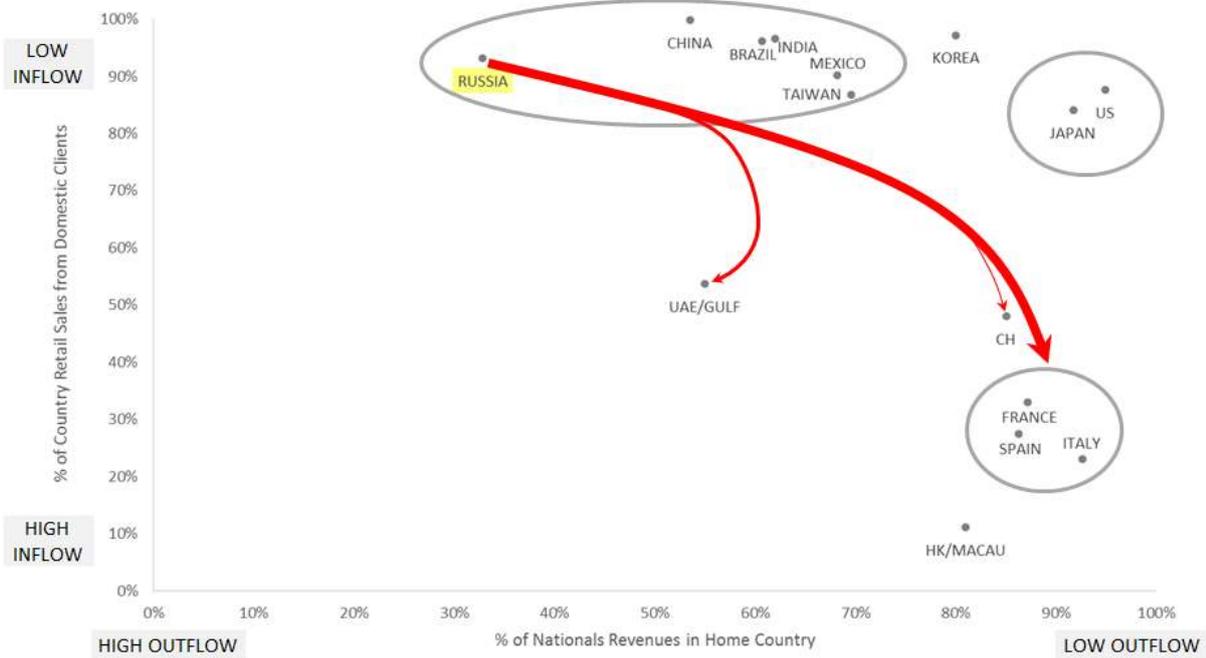
% of luxury revenues - 2015



Source: ContactLab analysis

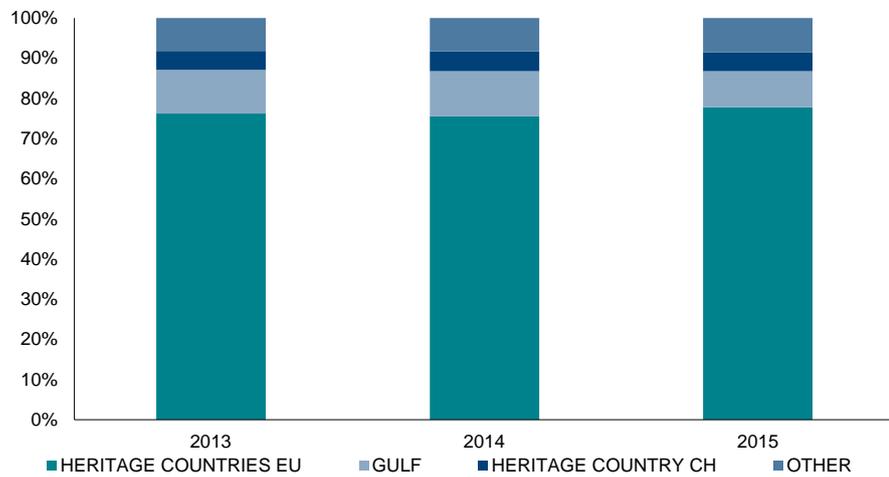
Figure 15: 2/3 of Russian luxury spend goes abroad, while inflows account for just over 5%

% of luxury revenues - 2015



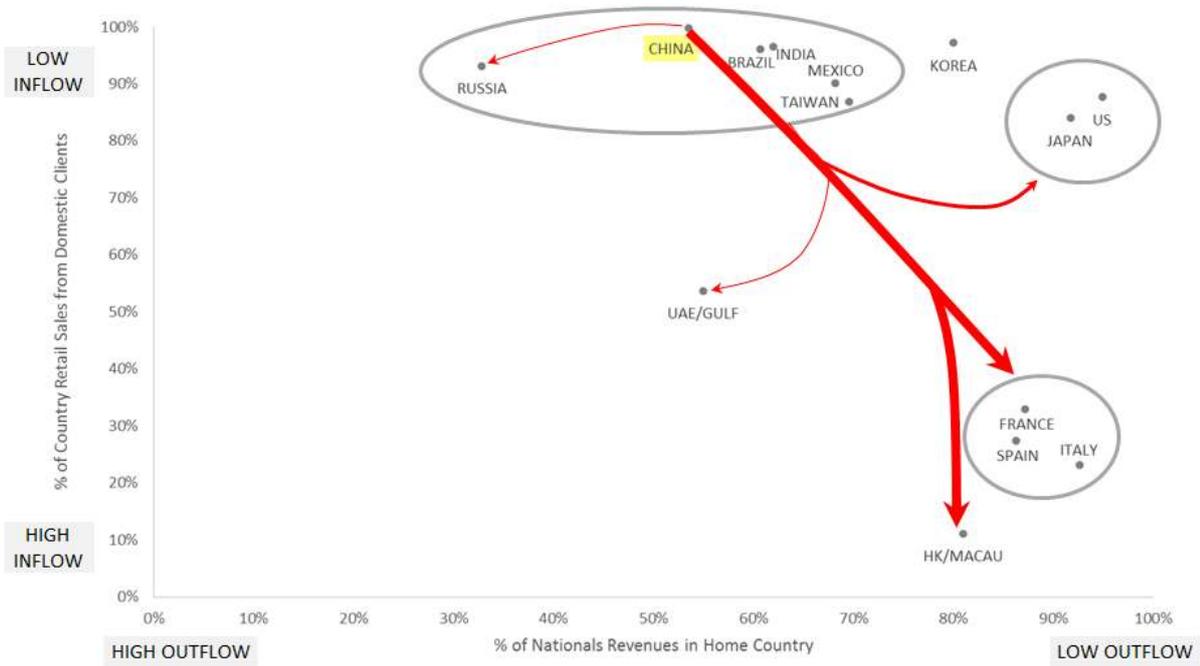
Source: ContactLab analysis

Figure 16: Russian luxury spending abroad by country



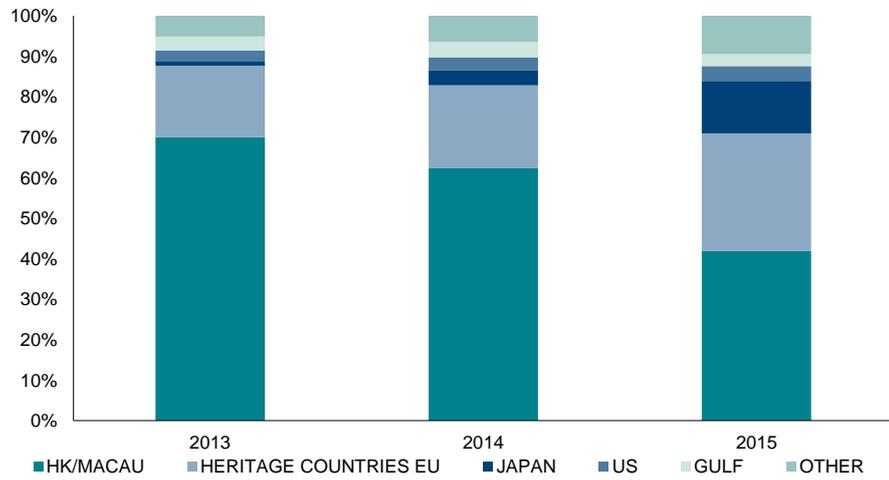
Source: ContactLab analysis

Figure 17: >40% of Chinese luxury goods purchases are made abroad, while China sees virtually zero inflows
 % of luxury revenues - 2015



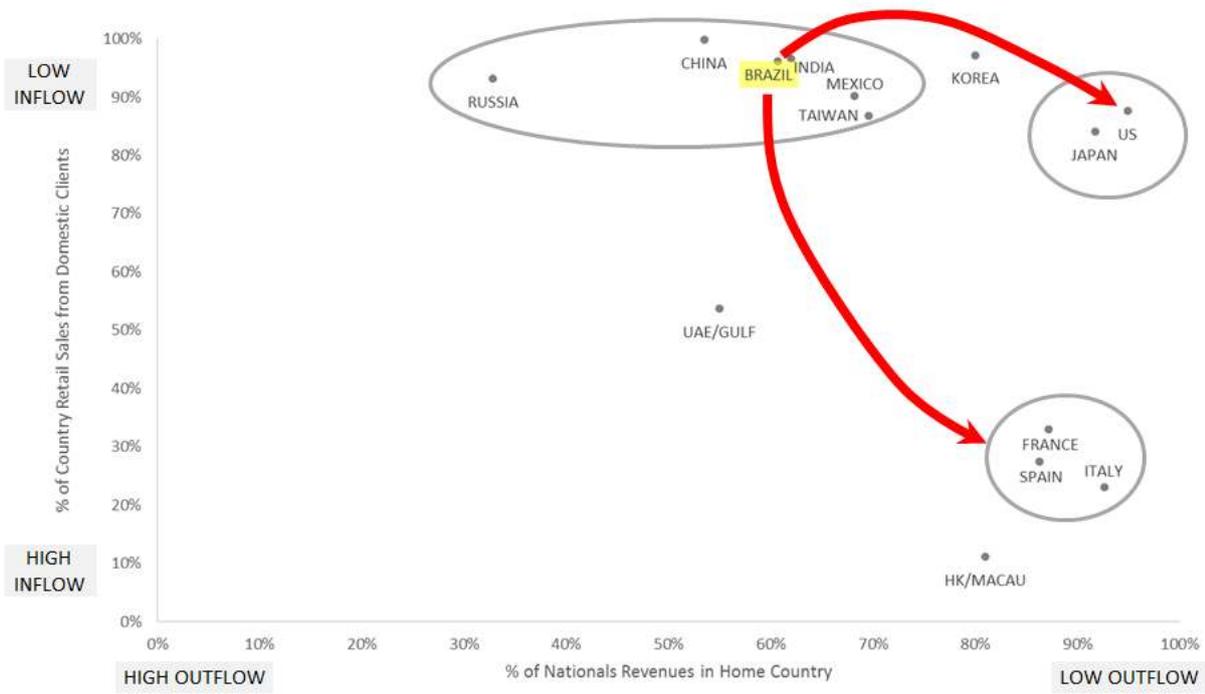
Source: ContactLab analysis

Figure 18: Chinese luxury spending abroad by country



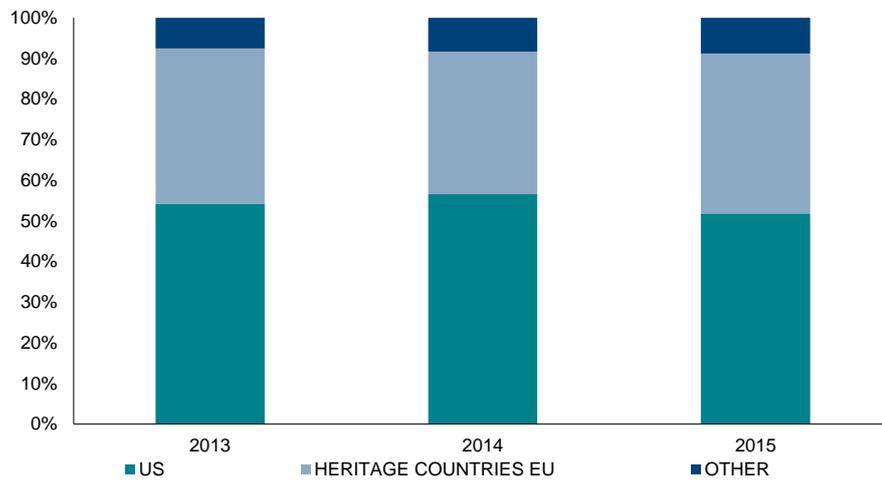
Source: ContactLab analysis

Figure 19: c.2/3 of Brazilian luxury spends stays at home while inflows account for c.5% of luxury goods sales
 % of luxury revenues - 2015



Source: ContactLab analysis

Figure 20: Brazilians' luxury spending abroad by country

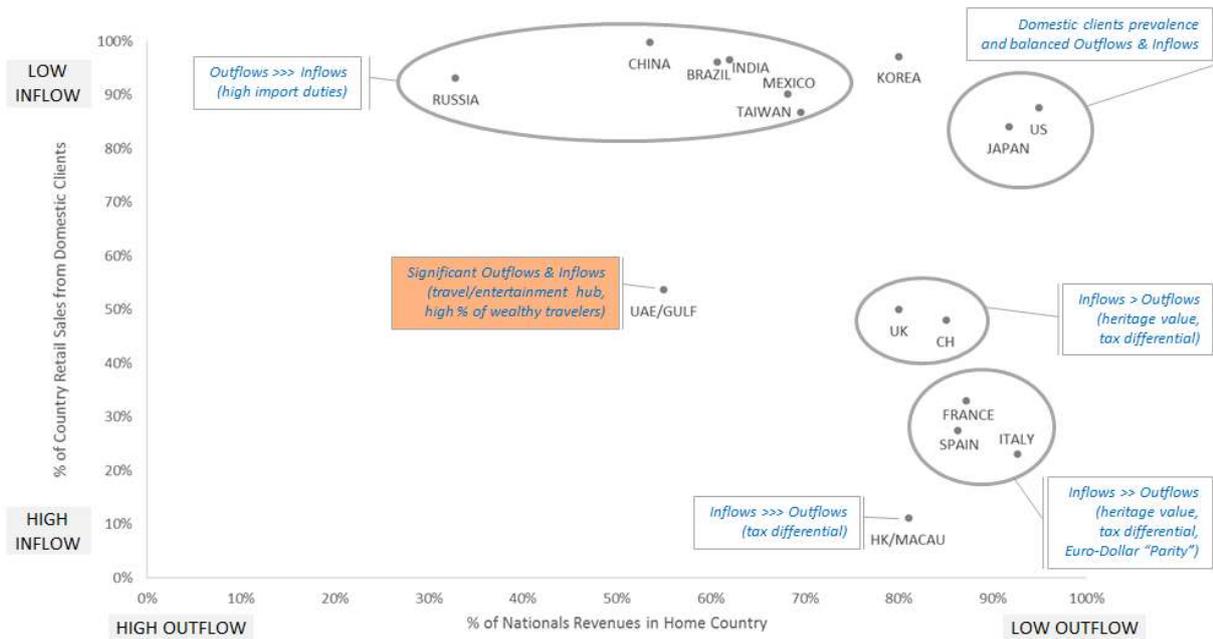


Source: ContactLab analysis

5. The UAE and the Gulf are in a unique position, having both relatively large inflows and outflows

Half of luxury goods sales in the UAE and the Gulf are made to overseas consumers. At the same time, UAE and Gulf nationals buy approximately 50% of their luxury goods abroad. Russian and Chinese nationals are the most important luxury goods spenders in the UAE, while Middle Eastern consumers spend a significant amount of their luxury goods dollars in Europe. The UAE and the Gulf represent a combined 3% of global luxury sales.

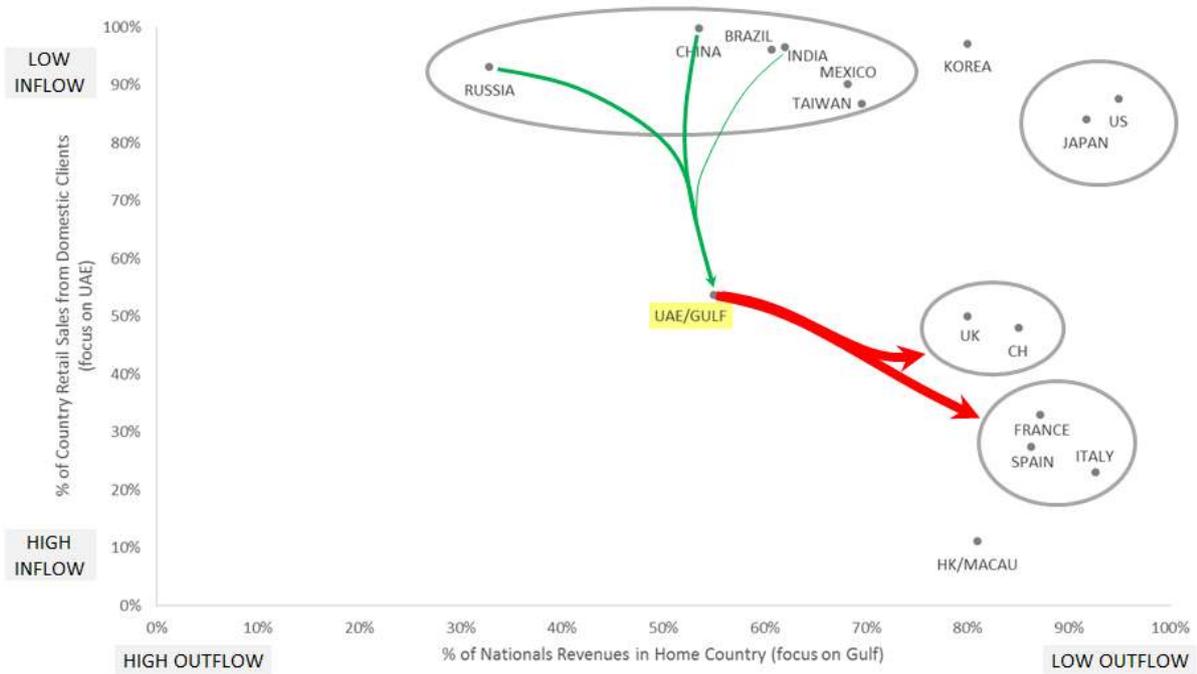
Figure 21: The UAE and the Gulf are in a unique position, having both massive inflows and material outflows
% of luxury revenues - 2015



Source: ContactLab analysis

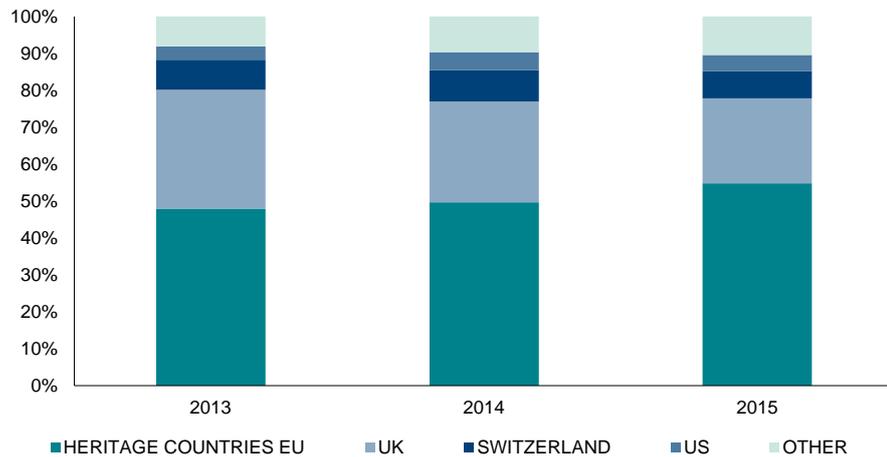
Figure 22: Russians and Chinese nationals are the most important luxury goods spenders in the UAE, while Middle Eastern consumers spend a significant amount of their luxury goods dollars in Europe

% of luxury revenues - 2015



Source: ContactLab analysis

Figure 23: Gulf countries luxury spending abroad by country



Source: ContactLab analysis

The good news is that international luxury spending seems to be holding up

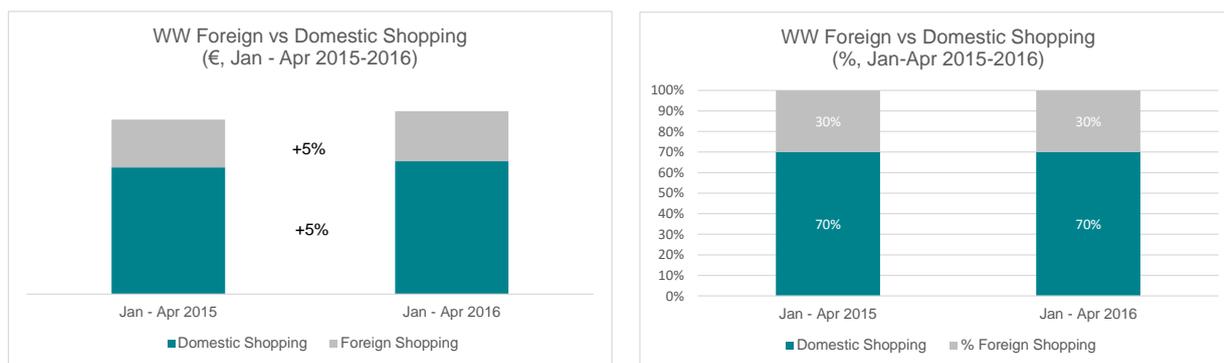
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Figure 24: The data in our sample point to a 5% rise in domestic and overseas luxury spend in the first four months of 2016

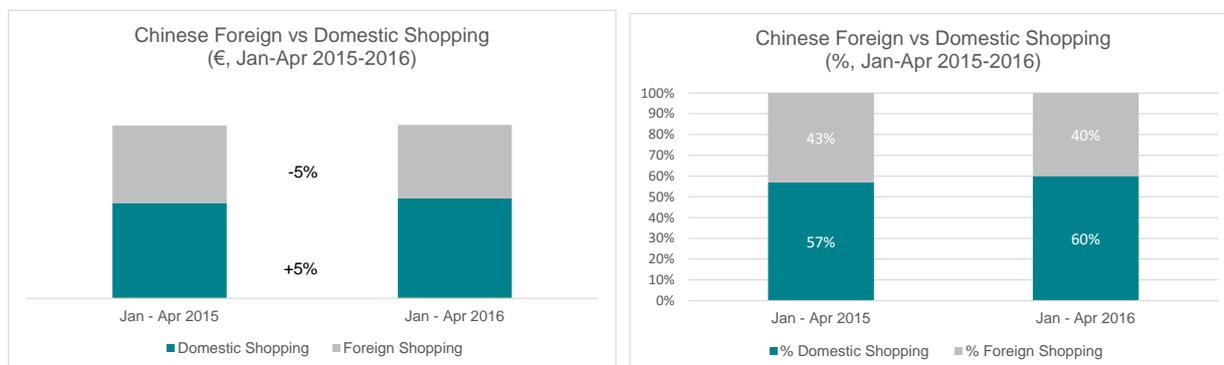
WW foreign vs domestic shopping



Source: ContactLab analysis

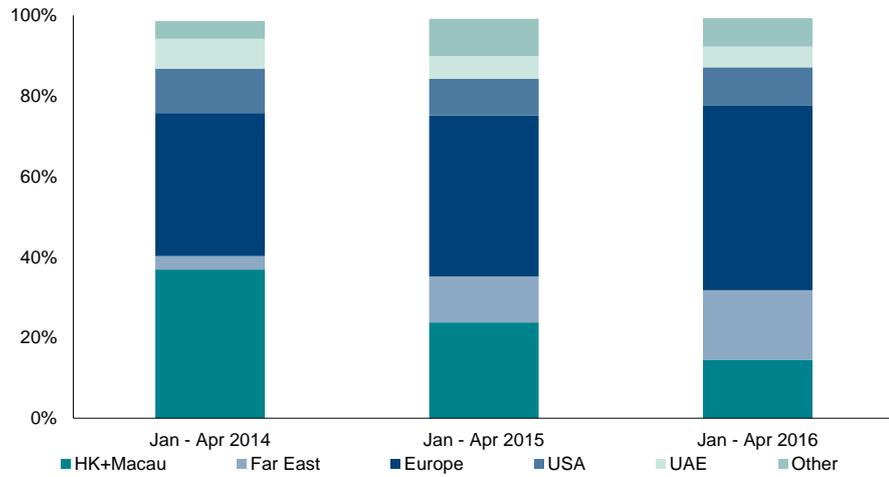
Figure 25: Chinese overseas spend decreased by 5%, but domestic spend increased by 5% – leaving a net positive balance

Chinese foreign vs domestic shopping



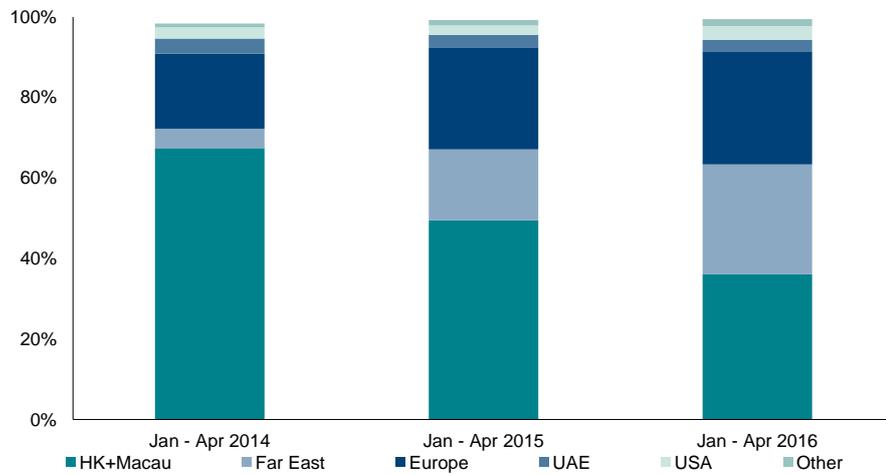
Source: ContactLab analysis

Figure 26: Hong Kong and Macau were net losers vs. Japan, Korea and Europe (1/2)
 WW Foreign Shopping by Major Destination (% , Jan-Apr 2014-2016)



Source: ContactLab analysis

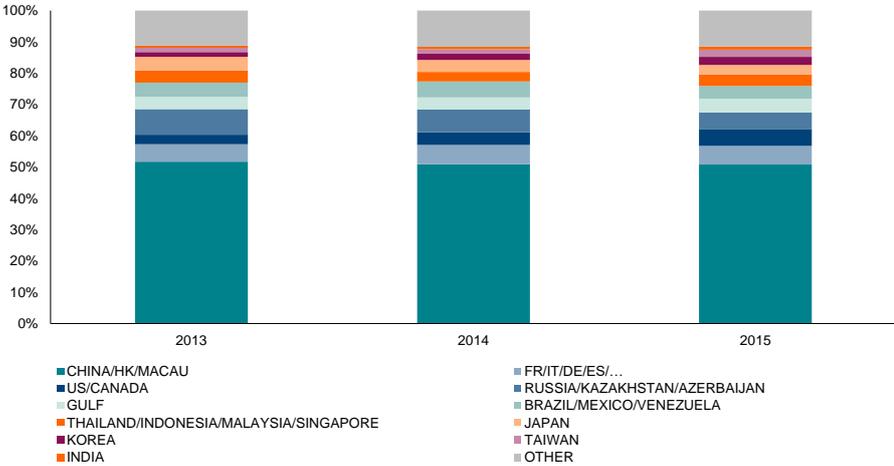
Figure 27: Hong Kong and Macau were net losers vs. Japan, Korea and Europe (2/2)
 Chinese Foreign Shopping by Major Destination (% , Jan-Apr 2014-2016)



Source: ContactLab analysis

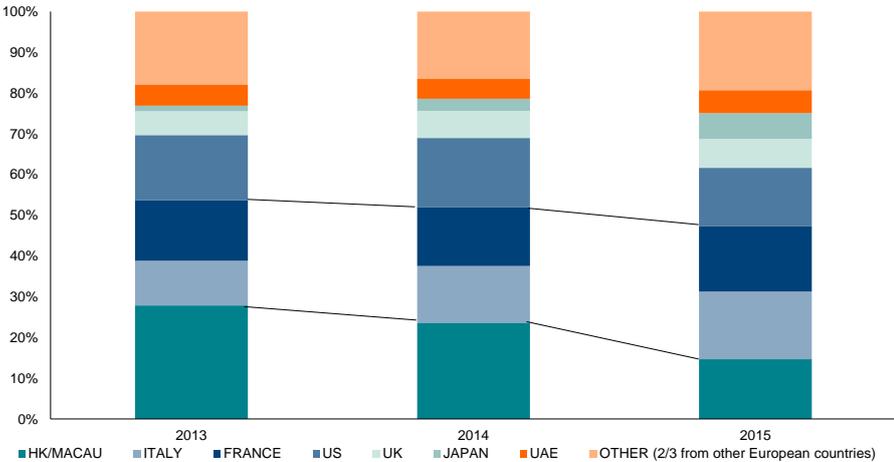
Appendix

Figure 28: Worldwide Foreign Luxury revenues by nationality (2013-2015)



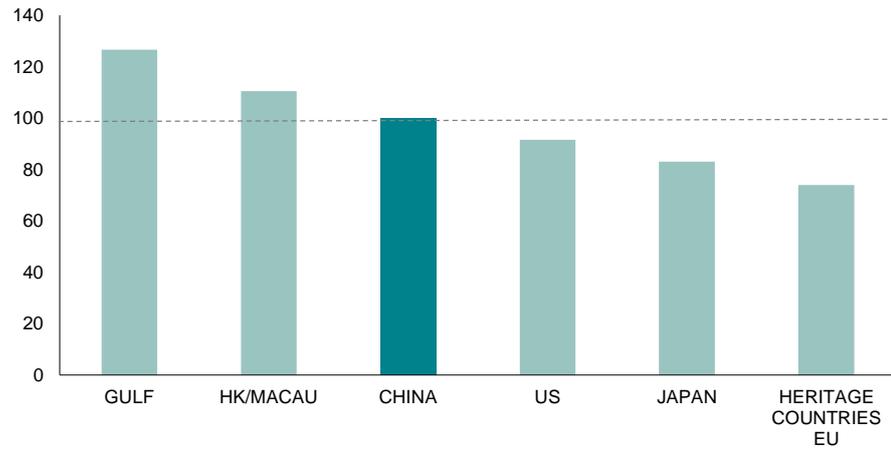
Source: ContactLab analysis

Figure 29: Worldwide Foreign Luxury revenues by country (2013-2015)



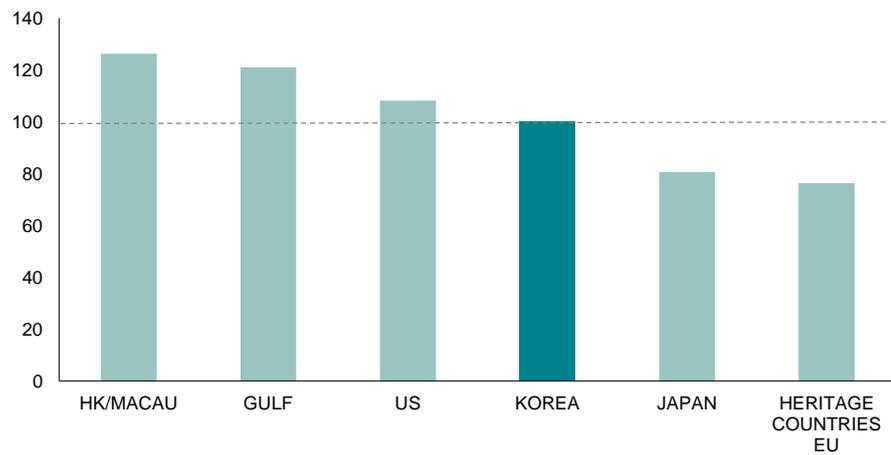
Source: ContactLab analysis

Figure 30: Chinese travellers' average spending (Indexed to 100=China)



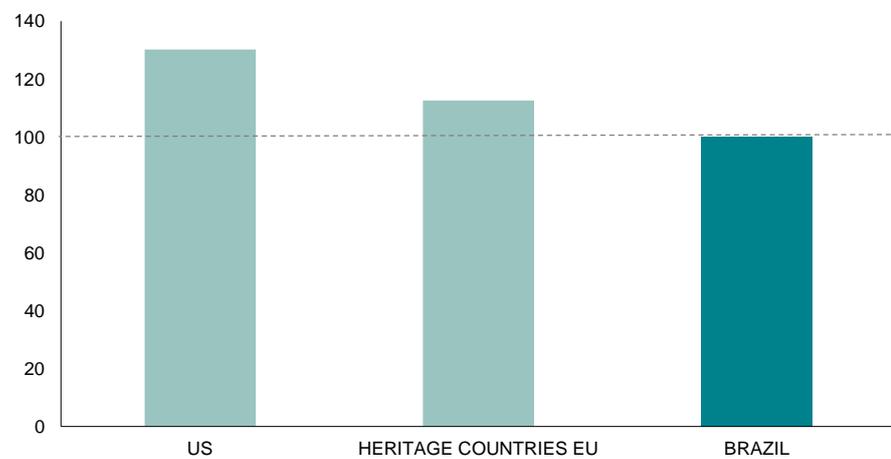
Source: ContactLab analysis

Figure 31: Korean travellers' average spending (Indexed to 100=Korea)



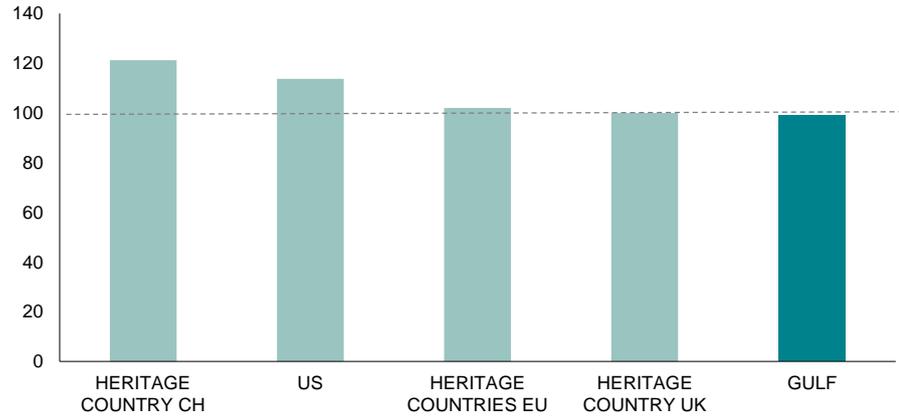
Source: ContactLab analysis

Figure 32: Brazilian travellers' average spending (Indexed to 100=Brazil)



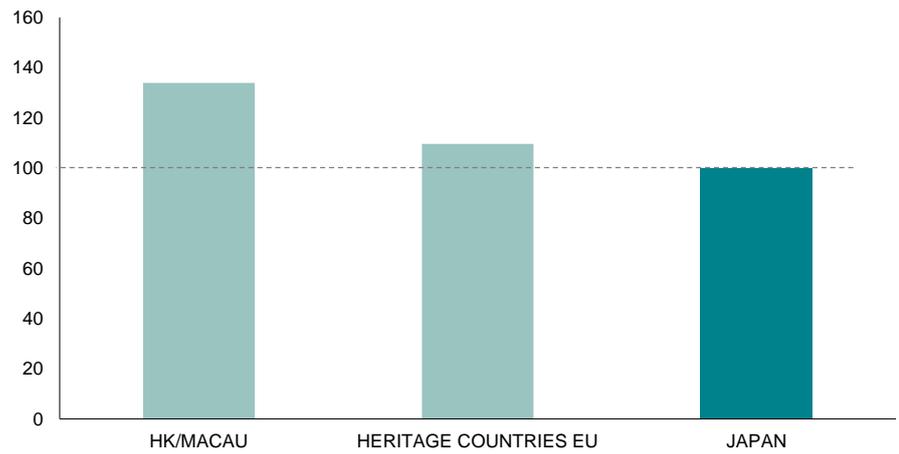
Source: ContactLab analysis

Figure 33: Gulf travellers' average spending (Indexed to 100=Gulf)



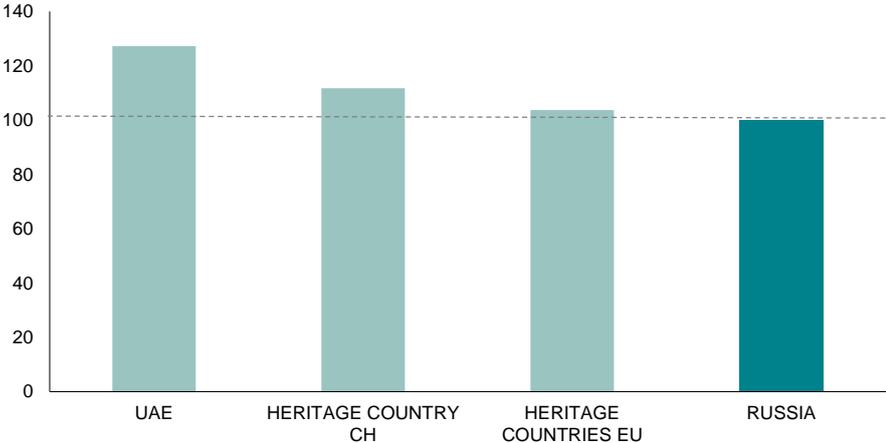
Source: ContactLab analysis

Figure 34: Japanese travellers' average spending (Indexed to 100=Japan)



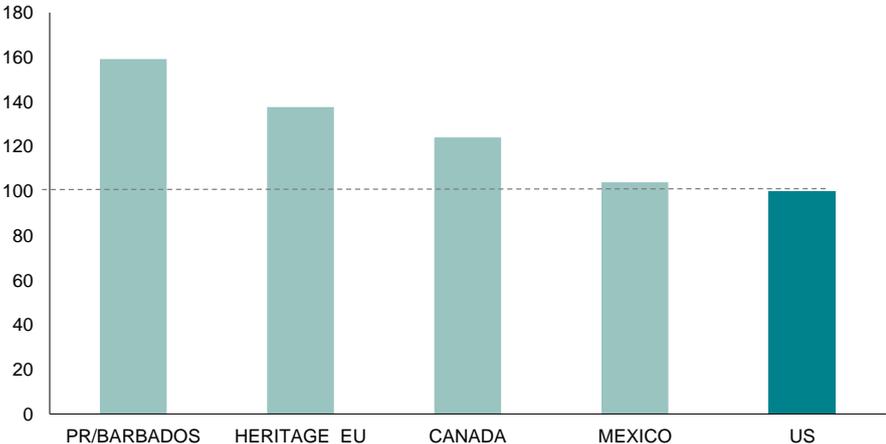
Source: ContactLab analysis

Figure 35: Russian travellers' average spending (Indexed to 100=Russia)



Source: ContactLab analysis

Figure 36: US travellers' average spending (Indexed to 100=USA)



Source: ContactLab analysis

Exane – presentation

Specialising in European equities, Exane is active in three businesses:

- Cash Equities: under the brand name Exane BNP Paribas, Exane provides institutional investors with a range of services, such as research, sale and execution on European equities;
- Equity Derivatives: Exane Derivatives has built a robust structured products franchise, based on its longstanding leadership in European convertible bonds and options;
- Asset Management: Exane Asset Management is one of the leaders in long/short equity fund management in Europe.

The agreement between Exane and BNP Paribas, signed in 2004 and strengthened in 2010 and 2011, was renewed in its entirety in April 2015 for a five-year period, revolves around three core elements:

- An operational partnership in European cash equities where BNP Paribas conferred exclusivity on secondary equity brokerage and the distribution of primary market activity to Exane under the Exane BNP Paribas brand;
- A balance sheet partnership, which is particularly well suited to our Equity Derivatives business, providing financing and support for our rating;
- A capital partnership uniting the strength of BNP Paribas with the independence of Exane.

Exane works primarily with institutional clients worldwide (pension funds, fund managers for banks and insurers and hedge funds), and markets its derivatives products to a broader pool of clients comprising private asset managers and investment advisors. Exane has a workforce of c.900 employees operating from offices in Paris, London, Frankfurt, Geneva, Madrid, Milan, New York, Stockholm and Singapore. Exane BNP Paribas equity research team covers over 591 companies. UK companies represent the biggest part of our coverage universe (26% of covered market cap), followed by France (16%) and Germany (14%). Our research receives regular acclaim in leading industry surveys.

For further information, log on to our website at www.exane.com

Exane has worked in collaboration with ContactLab on this report and the sections provided by ContactLab are clearly highlighted. Marco Pozzi, and Francesca Borgonovo from ContactLab have contributed to this report.

Contributors from ContactLab are not Research analysts and are not FCA or AMF registered. Contributors from ContactLab have only contributed their expertise on clearly delineated sections of the report and did not have access to the full report or its conclusions prior to publication.

ContactLab presentation

ContactLab provides the leading **engagement marketing platform for commerce-focused companies and fashion & luxury brands** to develop successfully digital communication programs that enable personalized marketing to unlock demand and build lasting customer preferences. Founded in 1998, ContactLab is led by its founder Massimo Fubini, an internet industry veteran and opinion leader in the marketing field since 1995.

Thanks to our **own enabling PaaS technology** and to the experience of our navigated professionals, **we enable brands** to achieve a deeper understanding of customers, to deliver uniquely relevant messages at every touchpoint of the customer journey and to measure performances with real-time dashboards that display all the relevant data. Our enterprise-grade platform is built with the highest **security level, reliability, management, scalability**.

Our solutions enable brands to gain insights into the context of each customer and **deepen the retail experience by delivering highly individualized digital contact plans** across channels based on events, preferences and product lifecycle.

Today, we work with more than **1000 clients in different industries** across the world and serve **most of the world-class brands in the Luxury and Fashion sectors**

Disclosures

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