IN FOCUS

Uncertain Terms

Slow growth, currency shifts and deflation are painting a complex economic picture for 2016.

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There's one word that captures the essence of growth in the first six months of 2016 for global economies and fashion brands: Slow. ¶ It's the word on everyone's lips, from Christine Lagarde, managing director of the International Monetary Fund, and European Central Bank chief Mario Draghi, to economic and sector analysts from banks around the world. ¶ The market dynamics are many. The strong dollar, weaker euro and persistently low energy prices will continue to be a positive for European companies and consumers – key barometers as buyers and planners head out to trade shows around the world in the first half of 2016.

Yet, the threat of deflation is looming, with consumer prices in September falling 0.1 percent year-over-year in the euro zone and the U.K. on the back of low fuel prices.

As a result, the ECB is likely to expand its quantitative easing program as early as December, and is said to be mulling a variety of measures to stimulate the region's economy, including a further cut to the negative bank deposit rate.

Adding to the uncertainty, it remains unclear whether U.S. interest rates will increase in 2016.

A question mark is also hovering over China's economy, which is slowing. Imports fell 20 percent in September, and luxury brands including Burberry, Hugo Boss and Interparfums SA all saw their businesses contract in the latest quarter ended Sept. 30, due partly to a slowdown in mainland Chinese consumption.

"We see global growth that is disappointing and uneven," said Lagarde during a speech in Washington, D.C., in October. "In addition, medium-term growth prospects have become weaker. The risk of low growth for a long time looms closer."

In her remarks, Lagarde pointed to low productivity, an aging population, legacies of the global financial crisis, high debt, low investment and weak banks as factors slowing economies worldwide.

According to the IMF's October economic outlook, global growth for 2015 is projected at 3.1 percent, a 0.3 percentage point lower than in 2014 and 0.2 percentage points below the forecasts the organization made in July.

Those trends are already infecting the sales of fashion and luxury worldwide – and the future holds more of the same.

"We anticipate that personal-luxury market growth will moderate to 3 to 5 percent in the next three to five years," said Luca Solca, managing director, global luxury goods at Exane BNP Paribas.

"The slower macroeconomic growth we are seeing will have an impact on discretionary and luxury goods spending, as it typically did in past years, too.

"China and the U.S. are both likely to moderate," he told WWD. "I don't expect these markets will derail, but I do expect them to grow at a more muted rate – in the low- to midsingle digits in 2016."

Solca's not the only analyst posting a "Slowdown Ahead" sign. In a report following extensive meetings with luxury brands across Asia last month, Rogerio Fujimori and his team at RBC Capital Markets said a material pickup in luxury-goods demand in greater China "should take longer and be quite uneven, especially in Hong Kong and Macau."

RBC pointed to the more price-conscious Chinese consumer due to Internet price visibility and an increasingly competitive luxury market overall. He said the bank remains cautious on the luxury goods sector, although brands with stores in Japan, South Korea and continental Europe will continue to benefit from Chinese tourist consumption.

But big-spending Chinese tourists may not be enough to drive growth.

In October, Hugo Boss was forced to issue a profit warning, citing the deterioration of the market environment in Asia and a slowdown in the Americas in the three months to September. The company blamed sales declines in China, as well as its retail and wholesale businesses in the U.S. that saw weaker demand from tourists.

Analysts at Barclays, meanwhile, are expecting a "tough" third quarter for Tod's and Salvatore Ferragamo owing to the overall performance of luxury brands in the U.S. and Asia. ▶

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While luxury-goods sales may be suffering in China and the U.S., RBC pointed out that younger, more contemporary and niche fashion brands continue to outperform the megabrands and that "sporting and beauty category dynamics look healthy."

Even Ernst & Young was forced to temper its short-term outlook in its latest euro zone forecast.

It argued that the risks of a widespread fiscal crisis and deflation are fading, with investment spending expected to pick up in 2016, lifting growth 1.8 percent in the region.

The EY report also proffered the hope that the "new normal" of slower growth in Europe would also recede "as some euro zone economies have demonstrated, ambitious reform can boost job creation, spur investment and accelerate the pace of recovery."

Bernstein, meanwhile, is maintaining a positive outlook for the U.K., adding, "Spending power is continuing to increase, with the average household's discretionary income increasing 10.4 percent year-on-year in August, boosted by continued earnings growth and price deflation in essential items."

The report added that September was the ninth consecutive month of positive consumer confidence in the region.

As for China, retail sales are bucking the trend, maintaining growth rates of around 11 percent over the past quarter. But some analysts warn that growth is tightly focused on specific retail segments.

"Many of the traditional beneficiaries of consumer spending are facing wrenching structural change," said Ernan Cui, an analyst at Gavekal Dragonomics, a Beijing-based economic research unit.

According to Linkshop.com, which tracks data on Chinese retailing, 120 department stores and supermarkets shut down in the first half of 2015.

The woes of traditional retailers, however, should not be read as a sign that Chinese consumption is collapsing.

Most notably, online shopping is driving much of the growth in retail, as consumers transition from off-line to digital channels. Gavekal estimates one-third of the growth in total retail sales in China comes from online.

In Japan, a weak yen and eased visa restrictions for visitors from China have led to an influx of tourists over the past several months. This increase in international visitors has proved to be a bright spot for an otherwise lackluster economy.

Per-capita expenditures by Chinese visitors to Japan were up 19 percent on the year between July and September, according to preliminary figures published by the Japan Tourism Agency.

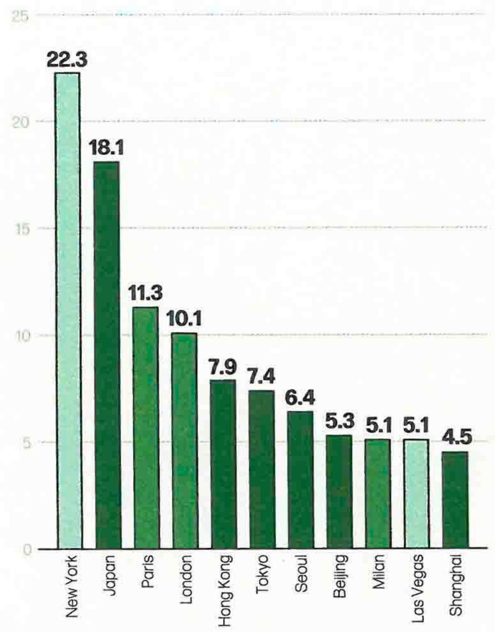
"We see no impact on travel expenditure in Japan from deteriorating economic sentiment in China," research analyst Masaharu Hirokane wrote in a report published by Nomura Securities on Oct. 21. "For 2016, we forecast 21.46 million inbound visitors (up 15 percent) and 6.42 million visitors from China (up 30 percent)."

According to second preliminary estimates by Japan's Cabinet Office, the country's GDP fell 0.3 percent year-on-year in the period from April through June. Private consumption was also down 0.7 percent.

Japan's exports in September grew 0.6 percent compared with the same month last year, while imports fell 11.1 percent, according to provisional data from Japan's Ministry of Finance. In the six months from April through September, exports increased by 5.2 percent year-on-year, and imports dropped 5.5 percent. ■

Luxury goods market size by city

In billions of euros (2014)



Source: Bain & Company, RBC Capital Markets

Airport personal luxury goods sales breakdown

By region (2014)