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Revalued: Australia's Luxury Sector is Enduring Through COVID-19

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The Australian Luxury Retailing and Luxury Accommodation industries have been impacted by the COVID-19 outbreak, but at a more moderate level than other countries.

COVID-19 has severely impacted the Australian Luxury Retailing and Luxury Accommodation industries

The Australian Luxury Retailing and Luxury Accommodation industries have performed well over the past five years. Revenue has increased strongly over the period in both industries, due to growing inbound tourism and market polarisation. However, the outbreak of COVID-19 is severely impacting these industries. Globally, luxury retailers were initially impacted when the outbreak began in China, the largest and fastest growing luxury goods market. However, many Chinese consumers purchase luxury goods overseas rather than buying them domestically. As a result, market conditions worsened when COVID-19 outbreaks began in Europe, particularly in Italy and France, where most industry players are headquartered.

Due to the COVID-19 outbreak, expected industry revenue for the Luxury Retailing industry has been revised, from an increase of 5.7 % to a decline of 3.8 % in 2019-20. This trend is mainly due to a few key factors:

- Government mandated travel restrictions on inbound international tourism,
- Falling consumer sentiment,
- A disruption in upstream supply chains.

As a result, industry profit margins are expected fall as a share of industry revenue.

Despite declining GDP, difficult trading conditions and growing unemployment, luxury retailers in Australia have stayed relatively insulated compared with the global luxury retail sector. In March 2020, the Australian dollar fell to its lowest level since 2003. This trend has encouraged international consumers to purchase luxury goods from Australia, by making high fashion labels from Chanel to Prada comparatively more affordable. Furthermore, industry players have launched online campaigns and enhanced their ecommerce capabilities to maintain sales while boutiques are closed.

Apart from expanding their ecommerce capabilities to maintain clients, industry operators have also donated resources and converted production facilities to produce medical supplies. For example, LVMH, the conglomerate behind brands including Louis Vuitton, Dior and Bulgari, has converted some perfume and skincare manufacturing facilities to produce hand sanitiser. While items stamped with Dior or Bulgari usually attract a hefty price tag, these products are being donated to French hospitals for free.

COVID-19 related travel restrictions have strongly impacted the Tourism and International Airlines industries, which closely relates to demand for the Luxury Accommodation industry. Industry revenue is expected to grow at an annualised 0.2 % over the five years through 2019-20, to $6.0 billion. However, this trend includes an anticipated revenue decline of 7.1 % in the

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current year, due to a significant decline in the number of inbound international tourists.

Despite the current setbacks, the Luxury Retailing and Luxury Accommodation industries are well-positioned to recover after the outbreak of COVID-19 is brought under control. Crucially, luxury retailers are typically less crowded than traditional retailers and emphasise one staff member per customer. As a result, these retailers are most likely to reopen first as restrictions on non-essential services are relaxed. On 30 April 2020, luxury retailer Hermès is expected to partially reopen their Australian boutiques by enforcing strict social distancing measures, such as serving customers by appointment. The Luxury Retailing industry revenue is projected to grow at an annualised 5.6 % over the five years through 2024-25, to total $3.0 billion. Independent boutique retailers that target affluent young consumers are expected to benefit most, due to the greater flexibility of their inventory and ability to stock the latest niche labels.

Revenue from the Luxury Accommodation industry is also forecast to grow at an annualised 3.8 % over the five years through 2024-25, to $7.3 billion. Household discretionary incomes are forecast to rise over the next five years, supporting industry demand. International travel to Australia is also likely to recover after COVID-19 is brought under control. However, this recovery will take longer than domestic travel, due to travel restrictions and less people opting to travel overseas in the short term. Among inbound international tourists, the Chinese market is projected to experience the strongest recovery, further supporting growth in the Luxury Retailing and Accommodation industries.

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