



“Luxury goods enjoy boom as mass-market stores suffer.”

“US consumers split into two camps”

-*Financial Times*, August 30, 2010

It may seem somewhat counterintuitive, but there is actually a mild boom underway in luxury goods. This is particularly strange given that our current financial predicament started as a “rich man’s recession,” as it was concentrated in the financial sector.

“This bifurcation of the US consumer”, *The Financial Times* writes, “has become apparent across the spectrum, from restaurants and grocery stores to products such as coffee and beer.”

Even within high-end retail stores, it is the higher-end merchandise that is moving off the shelves faster. Tiffany & Co., for example, reported in the company’s recent earnings release that sales of items priced less than \$500 (cheap by Tiffany’s standards) were selling quite slowly, while sales of higher-priced merchandise remained brisk.

What’s going on here? High-end diamond rings shouldn’t be selling in a recession...or should they?

There are a couple explanations for this tale of two American consumers. The first is that the luxury sector got hit disproportionately hard in 2008 and 2009. Some of the buying we are seeing today is simply pent-up demand from prior years. Wealthier Americans also tend to have less of their net worth in their homes and more in financial assets. So, the continued downward grind in the American housing market has hurt them less than the average middle-class working man.

Interestingly, demographics also play a role here. The proximate cause of the recession in consumer spending was the financial crisis of 2008 and the fear it instilled in a shell-shocked population. But this does not explain the longevity of the pullback in spending. For this, we can blame demographic trends. The average American reaches their peak age for consumer spending at age 48, and the bulk of the Baby Boomer generation—the most powerful force in the history of American consumerism—is now past that age. Americans with higher incomes and larger net worths tend to peak in their spending years significantly later, in their mid-50s.

So, we have an interesting set of circumstances in which certain areas of luxury spending could continue to hold up relatively well even while overall consumer demand remains tepid in an “epidemic of thrift,” in the words of IHS Global Insight.

We will take this bit of news as cautious optimism. After the past three years, we are happy to see growth sprouting up anywhere. It is still a rough economy marked by high unemployment and falling home prices. But the uptick in luxury spending offers a glimpse of hope that perhaps things have at least stopped getting worse. It’s a step in the right direction and one that we’re glad to see.

Sincerely,

Jeremy E. Portnoff

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Sources:

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