

Richard McCreery's Business Blog

The Return of the Big Spenders?



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Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding *RivieraLife.tv* team as Business Editor. Richard publishes a weekly Financial Editorial every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur.

The French Riviera is renowned for its glamorous hotels, it's fancy restaurants and its designer clothes shops. Cannes, Nice, Monaco and St Tropez are all target destinations for those tourists and Riviera residents who want to splash out. After a rough time during the financial crisis, spending on luxury goods could be bouncing back.

Last week LVMH, the French luxury goods group, reported stronger than expected quarterly sales with an 11% increase in Europe and a standout performance from the watch division of 33%. The news was followed this week by good figures from the maker of the traditional English raincoat Burberry which saw same store sales increase by 10%. After five consecutive quarters of decline even champagne sales have bounced back to some extent, although this is thought to be mainly due to restocking. These results highlight the rebound in spending in a sector that was particularly hard hit by the financial crisis.

During 2009, with the beginning of the year characterised by plunging stock markets and evaporating consumer confidence, the luxury goods market suffered a sharp fall in sales as consumers and retailers postponed purchases but this started to pick up again in the 4th quarter. Demand from emerging markets has been particularly strong but French consumer spending is also expected to remain relatively resilient as economic growth picks up. This is all good news for the regions shopkeepers and service industries.

However, rather than being the initial stage of a return to the good times experienced before the financial crisis, the rebound could be relatively short-lived. Countries in the developed world such as France are currently enjoying a sweet spot in financial conditions due to historically low interest rates, low inflation, stable asset prices and the effects of high levels of government spending, but we could just be experiencing the calm before the storm. Business conditions could soon get much tougher as borrowing costs rise and the government introduces spending cuts in order to reduce the budget deficit that has ballooned as a result of fiscal stimulus and bailout schemes. We have yet to start paying back the money spent keeping the economy afloat and interest rates can't stay close to zero forever so this situation can't be sustained indefinitely.

The bad news may be offset by rising employment at some point, although this is likely to happen very slowly in France, and if the Euro weakens further then we should see more tourists from outside the Eurozone coming here for their shopping, but the likelihood of a return to the spending habits seen before the crisis is unlikely in Europe. Household debt levels are still high by historical standards and we are seeing an increase in the savings rate in some countries as consumers attempt to pay down debt, which has damaging consequences for consumer spending. If the credit crunch taught us anything it should be that too much easy borrowing can be dangerous and as a result we can't expect consumers to take up new credit to fuel new spending in any significant way.

For a while we might see that shops, hotels and restaurants enjoy a sense of reprieve without any apparent hangover from the financial crisis but at some point soon, politicians will start to roll back the stimulus measures that are in place and disposable incomes will be squeezed once more. Unless consumer confidence is bolstered by decent rises in house prices and salaries, both of which seem unlikely in the near term, the retail and service industries along the Riviera should not get too excited about a return to the pre-crisis era of the big spenders.

Richard McCreery 23rd April 2010 Send us your comments for publication email: richard@rivieralife.tv