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Russian Luxury Spending Abroad Continues Nosedive

By The Moscow Times

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PARIS — Spending by Russian tourists abroad has plunged, diving 51 percent in January after falling 44 percent in December because of the ruble's freefall, according to figures released by tax-refund company Global Blue.

The ruble, which lost 40 percent against the euro last year, has crippled demand from Russians for luxury goods, and many labels are growing concerned the trend could last, with no end in sight for the conflict in Ukraine.

Several luxury brands, particularly Italian brands such as fashion label Salvatore Ferragamo, have been severely hit by the Russian economic crisis.

Last week, Jean-Francois Palus, No.2 at Gucci owner Kering, said the group's Italian tailor Brioni had witnessed a significant drop in sales to Russian tourists, adding that it looked as though "Russia has entered into a severe recession."

Russians, who until last year ranked second after the Chinese by spending, make up 5-7 percent of the total luxury goods market.

"The Russian luxury market is made by relatively few consumers with very high discretionary spending power, as epitomized by the 'Russian oligarch'," said Luca Solca, a luxury goods analyst at Exane BNP Paribas.

"These consumers have higher exposure to high-end versus accessible luxury brands and categories ... such as Brioni and Cartier."

Global Blue said Russian spending had been in decline for more than a year, having dropped nearly 17 percent in 2014.

Broker Barclays said in a note published on Friday that the trend reflected "the weakness of the ruble and ratcheting up of international sanctions against Russia."

Global Blue said Chinese spending rose 34 percent in January after a 49 percent jump in December, however. The 2014 increase was 18.3 percent.

Many Chinese tourists come to Europe to buy luxury goods such as 700-euro ($791) Louis Vuitton handbags, which can be 40 percent cheaper than in places such as Hong Kong. However, a growing number of Chinese now also shop in Korea, Singapore and Japan.

In Europe, where tourist spending can account for over half of sales at luxury brands like Cartier in cities such as Paris, London and Milan, total tourist spending fell 1.5 percent in January, Global Blue said. Overall tourist spending rose 4.3 percent last year, versus 10.1 percent in 2013.

The figures, based on VAT refund applications, do not take into account the United States, Hong Kong and Dubai, where VAT refund services do not apply.

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