

Luxury postcard from Asia

Love is in the air

Free to View
Equities - Global Luxury goods

- ◆ Trip to Hong Kong and Singapore unveils unmitigated corporate enthusiasm over the grand reopening of mainland China
- ◆ Domestic sales have picked up after a chaotic 4Q22; Macau and Thailand sales as well; Hong Kong is next
- ◆ Only cautious comments concern South Korea where a logical landing seems to be occurring, a bit like that of the US

Three years in the making. After three years, we were back in Hong Kong and Singapore meeting investors and, importantly for our coverage, many managers in the luxury world. The gist of the conversations? How relieved they are that COVID-19 policies have shifted in mainland China and how strong the next 12 months are going to be for luxury demand at home and abroad. The concerns? How will brands adapt to the returning mainland Chinese clientele now that local clienteles have stepped up dramatically in the past 18 months. In Tokyo, Hong Kong, Bangkok, and Singapore, we heard the same as in Paris and Milan: How can we welcome mainland Chinese tourists back appropriately while continuing to cater to locals and other clienteles? Greater opening hours? More segregated selling spaces (e.g. the Ginza neighborhood in Tokyo or historically the Galeries Lafayette in Paris were targeting mainland Chinese shoppers mostly)? Larger stores? Very Important Customer (VIC)-specific square footage (not only are megabrands taking more floor space in consolidating malls, they are also looking at smaller, intimate spaces for high net worth shoppers)? Staff re-training? To be honest, if your only issue as a store manager is being smart about selling more units per hour, which sounds more like you are selling fast-moving consumer goods (FMCG) rather than luxury, you don't really have many issues. We previously published on this idea that luxury demand would slow in Western markets. We still believe that will be the case with the US likely seeing pedestrian growth for the industry in 1H23. However China's reopening affects sales growth in the sector over the next few quarters, it is clear from our conversations that this should not be short of transformational.

Pickup closer to home for now. Where are we seeing rebounds linked to mainland Chinese shoppers? Well, quite bluntly, a lot in mainland China itself since last month as well as in Macau where traffic has rebounded swiftly and hotel occupancy is high. Hong Kong is lagging for now as the city was likely affected by quotas, testing (until 6 February) and its mandatory mask policy, but we see hopes for a rebound here as well. Thailand is growing swiftly with both locals and mainland Chinese, which is prompting many brand managers to think that the luxury retail footprint will be insufficient to sustain demand. Singapore is strong without many mainland Chinese shoppers and Japan as well with Hong Kong shoppers. Taiwan residents and many other nationalities are moving the needle while mainland Chinese are taking a bit longer to return. The only weak spot? South Korea. This is partly because locals seem to finally be in a landing phase, which reminds us of what we are seeing in the US, i.e. headwinds affecting aspirational consumers, notably real estate, and the market is also not the easiest one to travel to just yet for mainland Chinese.

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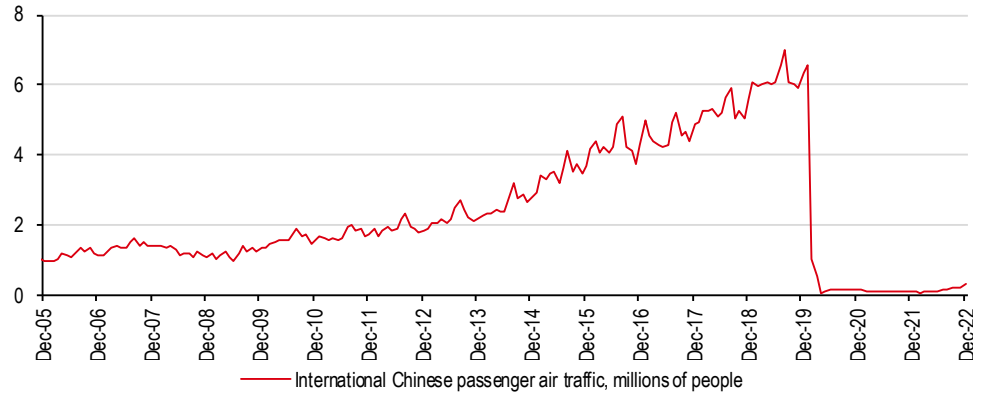
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What's going on with mainland Chinese travel?

International mainland Chinese travel still well below pre-pandemic levels...



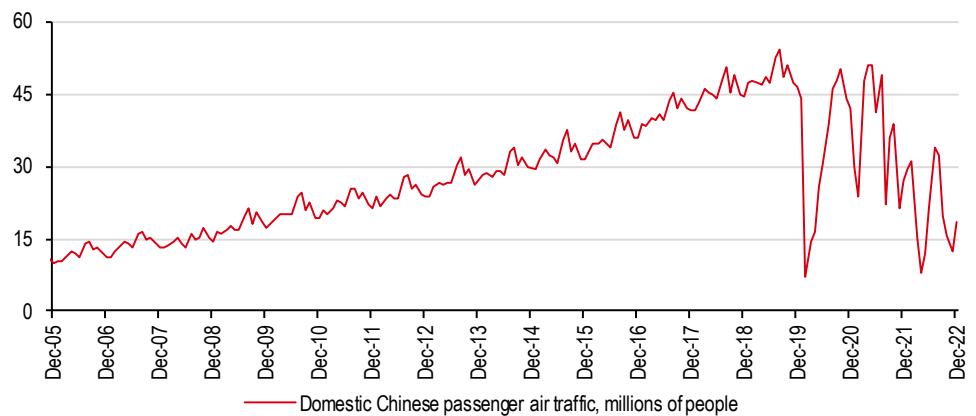
Source: CEIC, HSBC

Mainland Chinese visitor* arrivals in key Asian markets

(000s)	2019	2019 y-o-y	2020	2020 y-o-y	2021	2021 y-o-y	2022*	2022 y-o-y**	2022 vs 2019
1. Hong Kong	43,775	-14%	2,706	-94%	66	-98%	308	420%	-99%
2. Macau	27,923	11%	4,754	-83%	7,045	48%	5,106	-28%	-82%
3. Thailand	10,995	4%	1,250	-89%	13	-99%	274	1997%	-98%
4. Japan	9,594	14%	1,069	-89%	42	-96%	156	284%	-98%
5. Korea	6,023	26%	686	-89%	170	-75%	200	26%	-96%
6. Vietnam	5,806	17%	872	-33%	4	-100%	72	1953%	-99%
7. Singapore	3,627	6%	357	-90%	88	-75%	131	48%	-96%
8. Malaysia	3,114	7%	405	-87%	8	-98%	108	1988%	-96%
9. Taiwan	2,714	1%	111	-96%	13	-88%	19	59%	-99%
'Divine 9'	113,571	0%	12,212	-89%	7,449	-39%			

Notes: *Inbound mainland Chinese visitor figures; **YTD as of September: Malaysia; YTD as of November: Taiwan, Korea, Hong Kong, Japan; full-year 2022: Macau, Singapore, Thailand, Vietnam. Source: JNTO, KNTD, DSEC, HKT, STB, TTB, MOT, VNAT, Tourism Malaysia, HSBC

Meanwhile, domestic travel in mainland China is recovering in a zigzag pattern but the outlook remains positive



Source: CEIC, HSBC

Disclosure appendix

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