



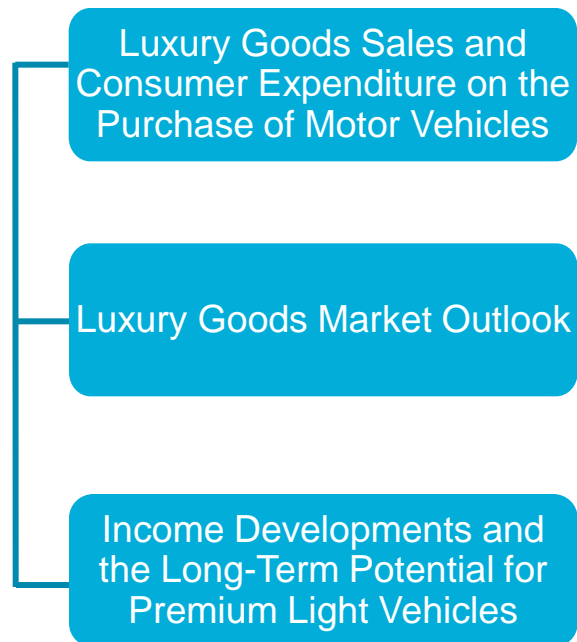
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**CARS AND LUXURY GOODS: COMPLEMENTS OR
SUBSTITUTES FOR SHARE OF CONSUMERS'
WALLET?**

December 2013

Scope

- This briefing initially compares and contrasts the retail sales of luxury goods and consumer expenditure on the purchase of motor vehicles, identifying whether consumers have a greater, lesser or equal propensity to spend on cars or luxury goods. Subsequently, sales of luxury goods and premium light vehicles are analysed in the context of income developments, mapping the long-term potential for key growth markets.



Disclaimer

Much of the information in this briefing is of a statistical nature and, while every attempt has been made to ensure accuracy and reliability, Euromonitor International cannot be held responsible for omissions or errors.

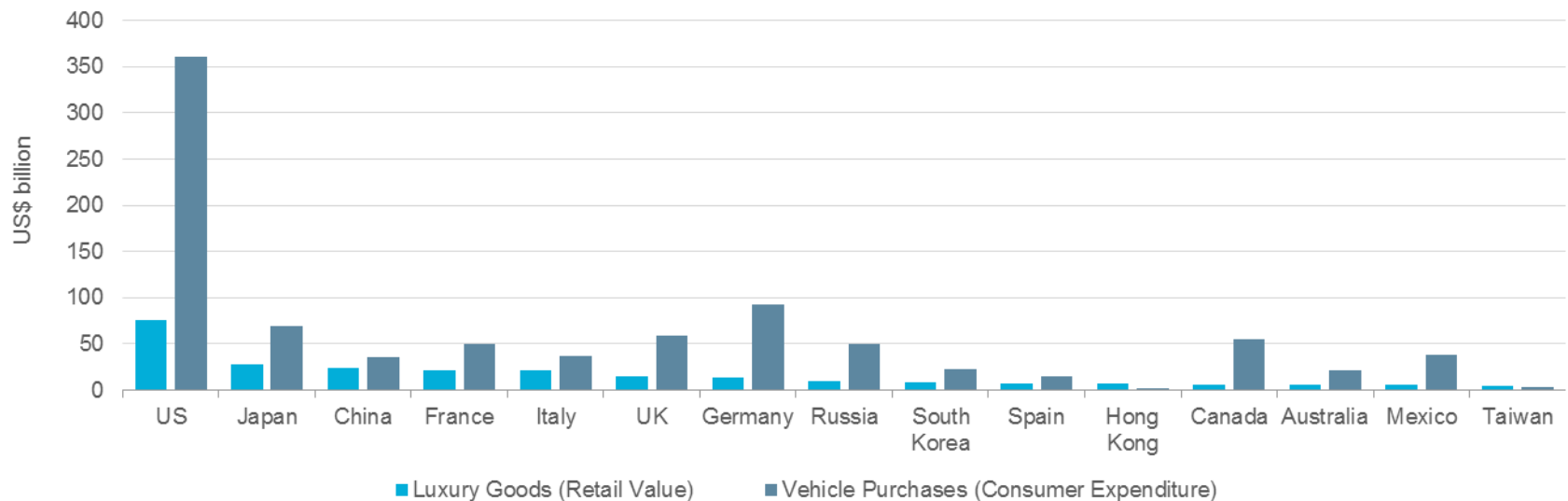
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Growth in consumer expenditure on the purchase of cars has typically lagged growth in the retail value of luxury goods in mature markets but the situation is generally reversed in emerging markets. This report considers whether cars will compete against luxury goods to empty the contents of consumers' expanding wallets or if they will be complementary.

Luxury goods sales and expenditure on vehicle purchases

- When considering the top 15 luxury goods markets in 2013, the primary observation is the sheer dominance of the US, which towers above all other markets in both the retail value of luxury goods sales and consumer expenditure on motor vehicles.
- The US's luxury goods market is three times the size of the second largest market, Japan, and consumer expenditure on motor vehicles is four times that of the next largest country, Germany. It is also noteworthy that Germany ranks second in terms of consumer expenditure on motor vehicles but only seventh in terms of retail sales of luxury goods. Similarly, China is already the third largest luxury goods market in the world but is expected to rank just 12th as far as consumer expenditure on motor vehicles is concerned.

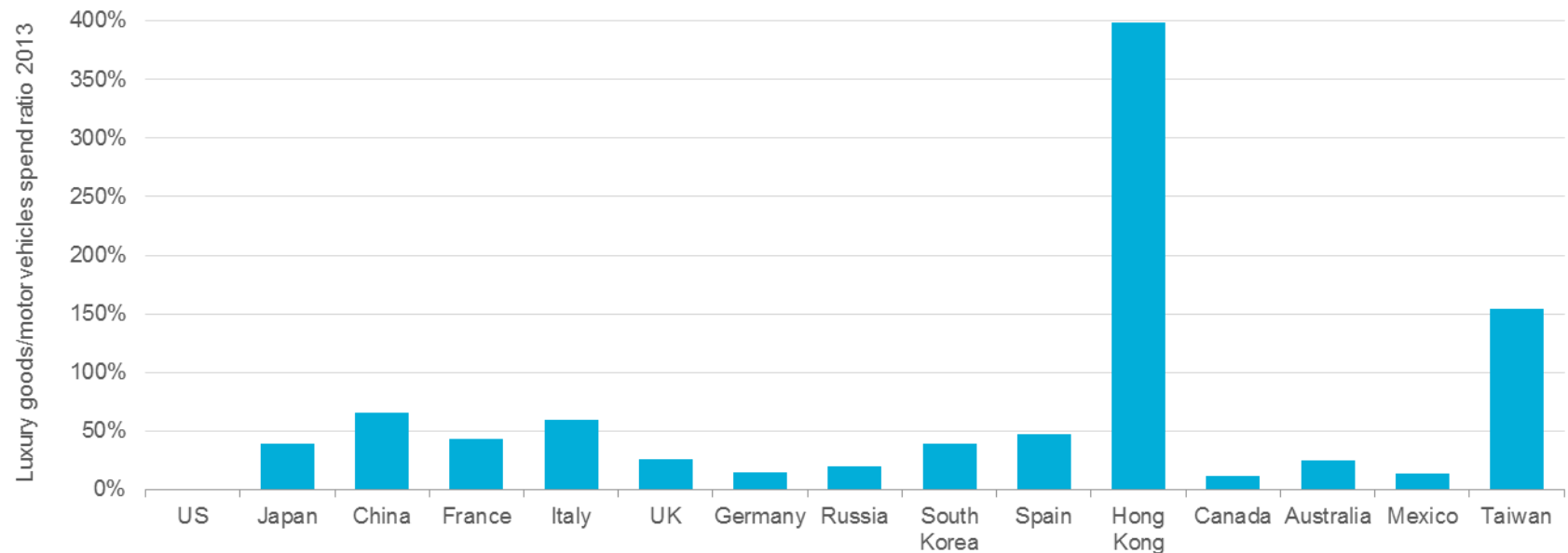
Luxury Goods Retail Value and Consumer Expenditure on the Purchase of Motor Vehicles 2013



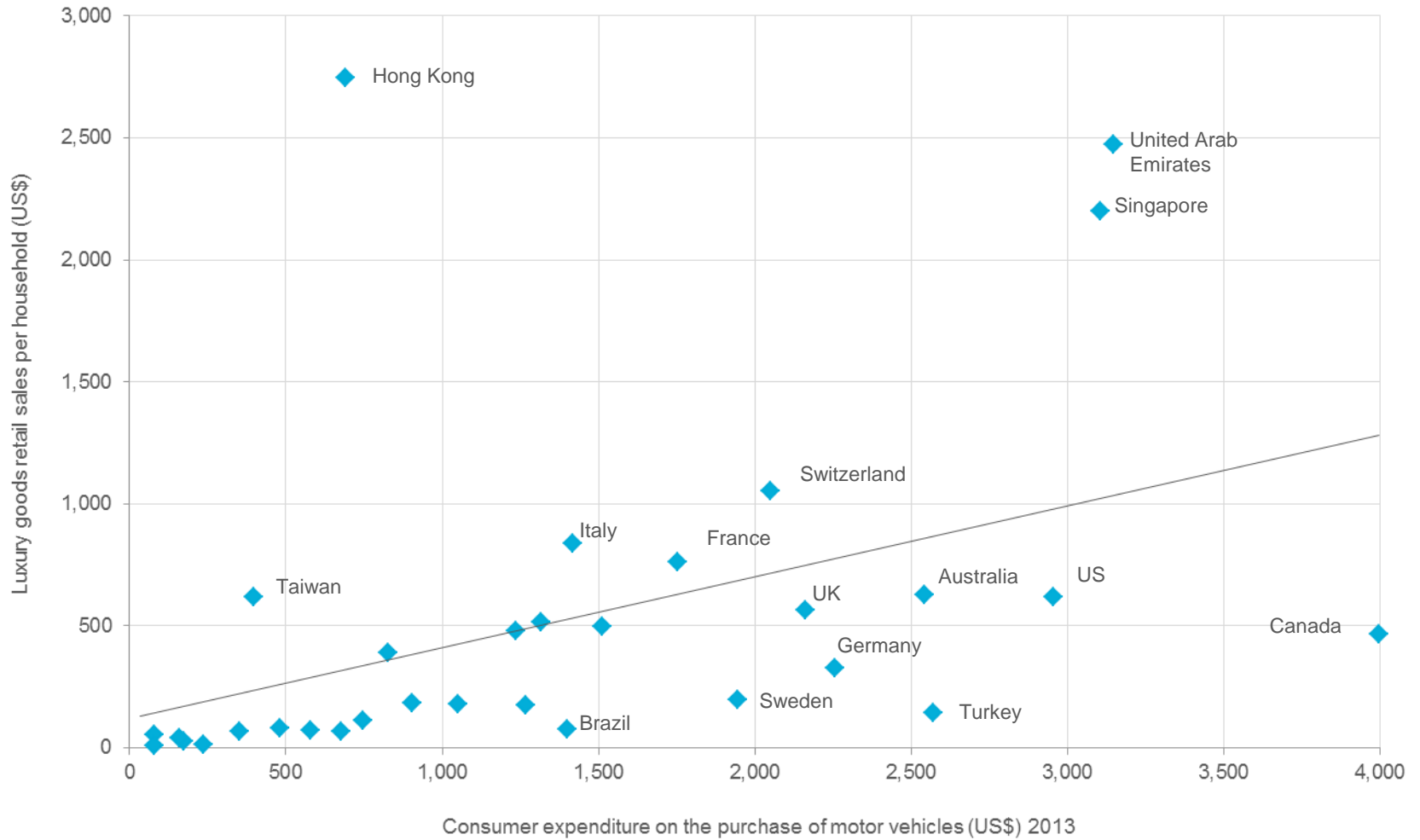
Luxury goods as share of consumer spending on vehicle purchases

- When considering the retail value sales of luxury goods and consumer expenditure on the purchase of vehicles, it is immediately striking that of the top 15 luxury goods markets worldwide, only Hong Kong and Taiwan spend less buying vehicles.
- Even in China, luxury goods sales only amount to 66% of the expenditure on motor vehicles. At the other end of the spectrum, retail value sales of luxury goods only amount to less than 15% of consumer expenditure on the purchase of vehicles in Germany, Canada and Mexico.

Luxury Goods Retail Value as a Percentage of Consumer Expenditure on the Purchase of Motor Vehicles 2013



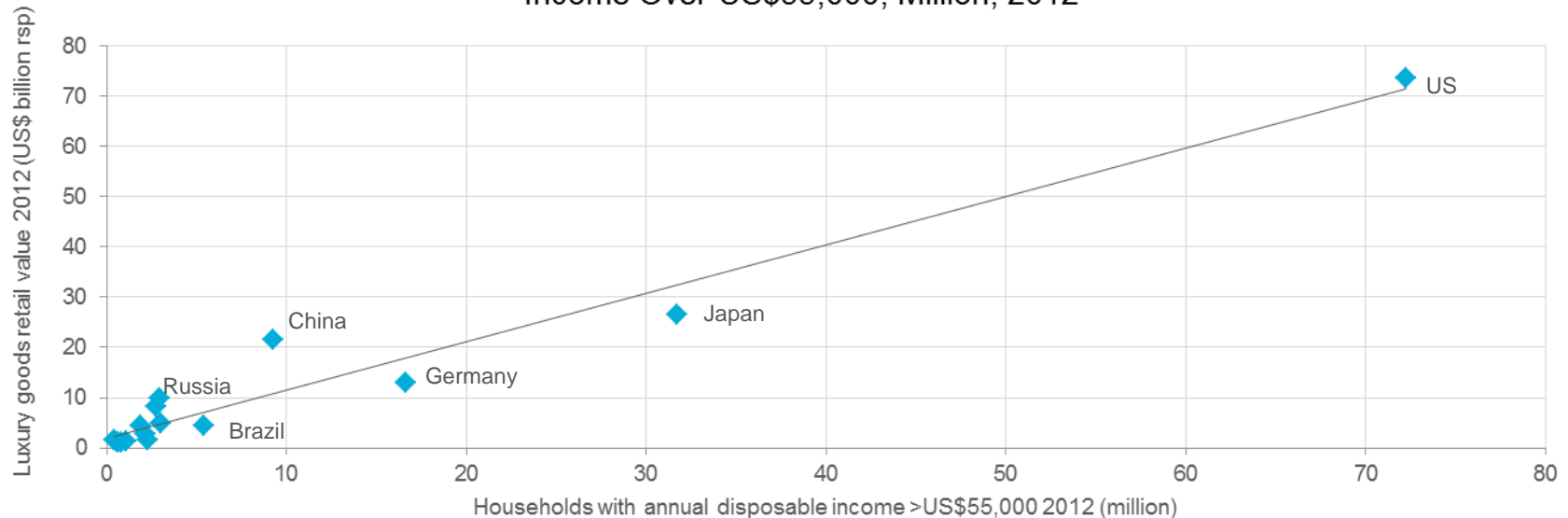
Luxury goods and vehicle purchase spend per household in 2013



Household incomes underpin demand for luxury goods

- Household incomes naturally underpin demand for luxury goods and a review of the number of homes with annual disposable income (ADI) over US\$55,000 and luxury goods retail value reveals a clear correlation.
- The US had 72 million households with ADI in excess of US\$55,000 in 2012 and luxury goods retail value sales amounted to US\$74 billion, thus equating to just over US\$1,000 spend on luxury goods per household with over US\$55,000 ADI. Using this as a benchmark, it becomes immediately apparent that China and Russia are essentially over-represented at global level in terms of spend on luxury goods, whereas the luxury goods markets of Brazil, Germany and Japan are arguably underperforming.

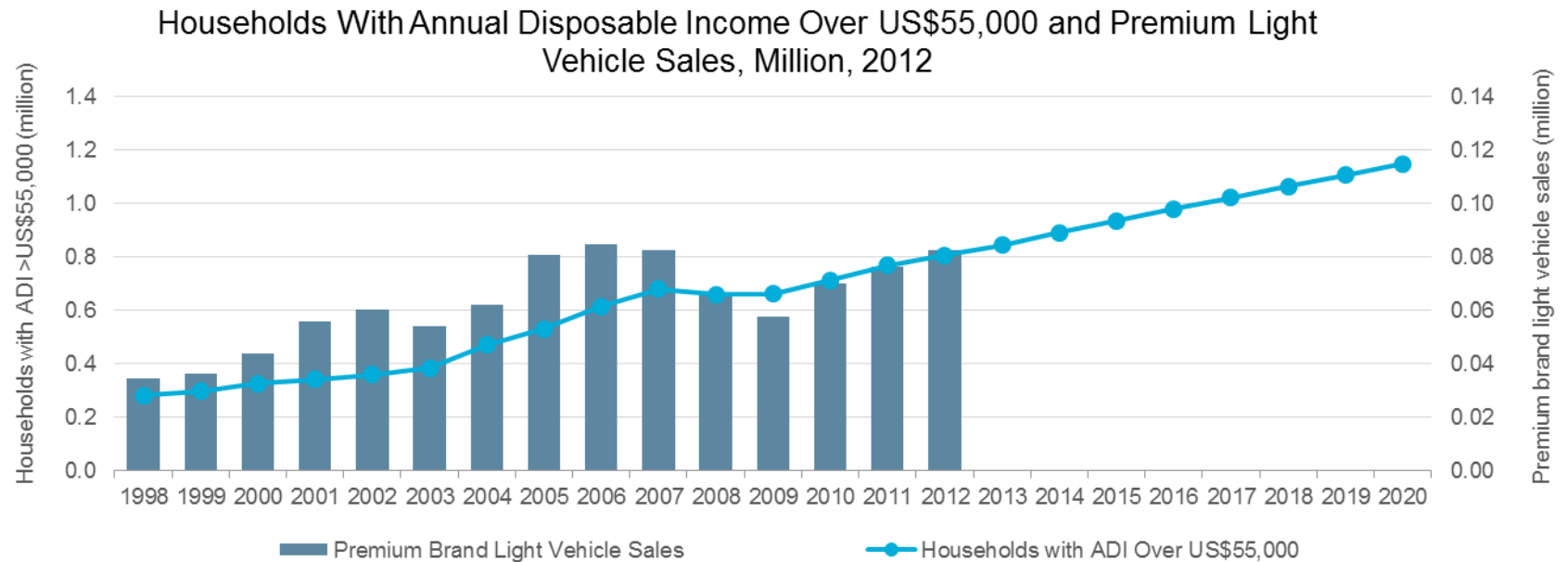
Luxury Goods Retail Value, US\$ Billion, and Households With Annual Disposable Income Over US\$55,000, Million, 2012



Source: Euromonitor International, JATO Dynamics, Wards Auto

Household incomes and premium brand light vehicles: South Africa

- South Africa is perhaps surprisingly a market where premium car brands sell in incredibly high volumes given the number of households that are theoretically in the market for such vehicles.
- Prior to the global financial crisis, premium car sales consistently equated to more than 10% of the number of eligible households and sales recovered to exceed this ratio again in 2012. This in itself sets a benchmark for demand potential in other markets.
- Admittedly, the local manufacturing presence of BMW and Mercedes bolsters demand but the popularity of premium car brands is staggering nevertheless, expected to easily exceed 100,000 units by 2016.

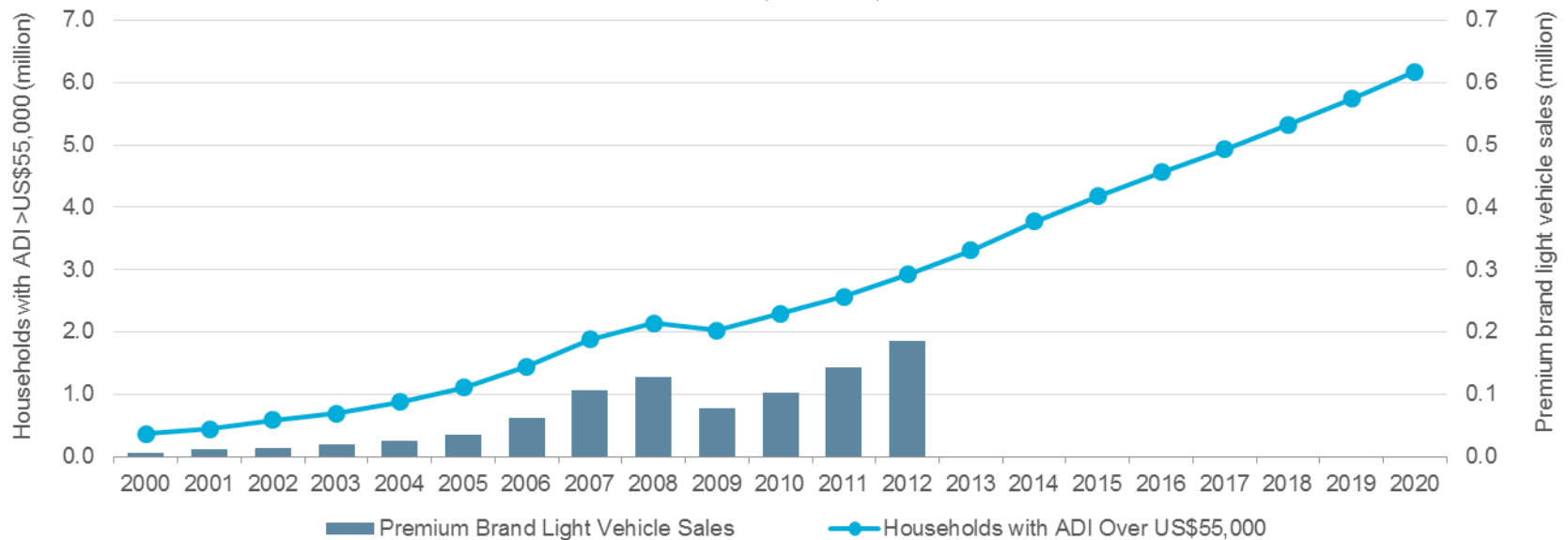


Source: Euromonitor International, JATO Dynamics

Household incomes and premium brand light vehicles: Russia

- Although not as pronounced as in China, premium vehicle sales in Russia still equate to a comparatively high 6% of the number of households with over US\$55,000 annual disposable income. Moreover, demand has once again consistently followed the development of these Russian households over recent years. Although Russia's light vehicle sales have fallen by 6% from January to November 2013 overall, demand for premium brand light vehicles has risen by 5% over the same period and is thus on track to match the 2012 sales level of Japan in 2013, possibly even overtaking Japan.

Households With Annual Disposable Income Over US\$55,000 and Premium Light Vehicle Sales, Million, 2012



Source: Euromonitor International, JATO Dynamics