



## Luxury sector pins hopes on Middle East despite clouds from conflict

Item 1 of 4 Saint Laurent women high-heel shoes are seen on display at the Dubai Mall in Dubai, United Arab Emirates, April 18, 2019. REUTERS/ Hamad I Mohammed/File Photo Summary

### Companies

Middle East a bright spot for high-end luxury as China, U.S. fade

Geopolitical tensions could risk dampening appetite to splurge

Tourist flows have fuelled sales in Gulf

PARIS, June 26 (Reuters) - With Middle East airspace reopening and the U.S.-brokered ceasefire between Israel and Iran appearing to hold, the luxury sector is still counting on the region's wealthy shoppers to help offset weakness in its main U.S. and Chinese markets - for now.

The Middle East, helped by strong tourist flows and local wealth, has bucked a recent global slowdown in luxury sales that is expected to deepen this year, with some brands growing sales there at double-digit rates.

Luxury sales in Gulf countries were up 6% to \$12.8 billion of the nearly \$400 billion market last year, outpacing a global drop of 2%, with strong appetite for high-end fashion, jewellery and beauty products, retail consultant Chalhoub Group said.

However, that trade is heavily dependent on the region's burgeoning tourist trade, with consulting firm Bain estimating that some 50-60% of the Middle East's luxury sales come from tourists.

This month's outbreak of an air war between Israel and Iran emphasised the ongoing risks in a region in which unrest was already simmering, with airlines cancelling flights and rerouting planes following Israel's strikes against Iran on June 13 - measures that are now being unwound.

"At this point, we have not adjusted our long-term growth forecast, as we continue to see considerable potential in the region," said Federica Lovato, senior partner at Bain.

"However, short-term volatility has increased in the last few weeks and may continue, depending on how the situation develops."

The region is an important hub for travel spending, favoured by Russian oligarchs but also wealthy Asians, and has increased in importance since Russia's invasion of Ukraine triggered sanctions and the rerouting of flights between Europe and Asia from more northerly routes to the Middle East.

It also serves as a gateway for high-end brands to reach wealthy shoppers from India, where high tariffs have kept companies like LVMH (LVMH.PA) , opens new tab from expanding store networks.

Max Heinemann, co-CEO of travel retail group Gebr Heinemann, which recently expanded into Saudi Arabia and operates airport fashion retail stores carrying luxury brands in Jeddah, said the region's travel market has shown long-term resilience despite unrest. He remains optimistic.

"Dips may be witnessed, but growth will remain," he said.

At Prada (1913.F) , opens new tab , first-quarter sales in the region rose 26%



year-on-year, while Hermes' (HRMS.PA) , opens new tab sales there were up 14%.

High-end fashion and jewellery brands have been opening new stores and hosting splashy events. Milan-based menswear label Zegna (JN0.F) , opens new tab this month took its spring collection to the opera house in Dubai, the region's leading luxury hub, for a catwalk show in an elaborate set evoking an Italian villa.

Elie Saab held its 45th anniversary show in Riyadh last November, featuring a performance from Celine Dion.

Dior, Saint Laurent and Valentino last year opened stores in Bahrain, while this year Louis Vuitton brought guests to the Dubai desert for a dawn meal and Chanel hosted a dinner in Abu Dhabi linked to a high jewellery launch.

But maintaining visitor numbers to Middle Eastern destinations will be vital to bringing shoppers through the doors. Luxury travel agency Global Travel Moments says that for now, its long-term travel volumes to the Middle East have been unaffected by the latest unrest.

However, given recent events, there is currently "certainly more caution" before finalizing trips to the broader Middle East, it said.

(\$1 = 0.8546 euros)

Our Standards: The Thomson Reuters Trust Principles. , opens new tab

