



Luxury heavyweights struggle to shake off shopper fatigue

By Mimosa Spencer



PARIS, July 23 (Reuters) - LVMH (LVMH.PA), opens new tab and Kering (PRTP.PA), opens new tab are expected to report another drop in quarterly sales, deepening investor worries about a prolonged downturn in the \$400 billion luxury market as brands face the threat of hefty U.S. import tariffs.

The results, kicking off with LVMH on Thursday, will likely show that any revival in demand for pricey fashion in the key U.S. and Chinese markets remains elusive.

Uncertainty unleashed by U.S. President Donald Trump's trade war has caused volatility in stock markets, weighing on consumer confidence.

Trump's threat of 30% tariffs on imported EU goods risks hurting luxury houses that make products in France and Italy. They will be wary of lifting prices for U.S. consumers after signs that previous rounds of price hikes slowed demand.

"The level of price increases has been too much" at a number of brands, alienating the "aspirational" middle-income shoppers, said Caroline Reyl, head of premium brands at Pictet Asset Management.

LVMH's fashion and leather goods division, home to Louis Vuitton and Dior, is expected to show sales down 6% year-on-year, its fourth consecutive quarterly decline, according to a Visible Alpha consensus forecast.

Gucci, Kering's main earner which is undergoing an overhaul, has struggled for twice as long and is seen reporting sales down nearly a quarter from a year earlier.

After two years of slowing sales, unease about the health of the industry is growing, with customers balking at higher price tags.

Shares of LVMH are down nearly 27% since the start of this year, while shares of Kering are down 15%. Shares of Hermes (HRMS.PA), opens new tab and Richemont (CFR.S), opens new tab, which cater to mostly wealthy clients, were little changed, with the former down 0.9% and the latter up 1.6% over the same period.

LVMH, Europe's most valuable listed company as recently as January, has slipped to fifth place.

"It seems that investors are starting to worry about the long-term structural attractiveness of the industry," UBS analysts said last week.





Sales of handbags - previously a growth engine - have been weak as shoppers opt for timeless, investment-grade jewellery.

Brands including Dior, Gucci and Chanel have recruited new designers, but it takes time for fresh styles to enter stores.

LOWER-PRICED PRODUCTS

Brands like Louis Vuitton and Prada (1913.F), opens new tab are offering more products below \$1,000, like a new hybrid ballerina-sneaker shoe, for example, and emphasising beauty products, said Bain consultants.

But that carries risks.

"The aspirational skew of the brand is unhelpful currently," said HSBC analysts, highlighting problems at Louis Vuitton. "Some inconsistencies, we feel, are likely starting to have consumers wonder."

Consensus forecasts peg organic sales of LVMH down 3%, while Kering is seen down 13%; Hermes and Prada are expected to show a 10% rise, as Prada's Miu Miu label takes market share from rivals.

Kering will report its results on July 29, while Hermes and Prada are due to report on July 30.

Reporting by Mimosa Spencer; Editing by Jamie Freed

