

Fancy that: Rising tourism has boosted luxury retail

By Kim Do

The Luxury Retailing industry has grown rapidly over the past five years, as rising tourism and market polarisation has boosted demand for high-end fashion.

The market for clothing has become increasingly polarised over the past five years

The Luxury Retailing industry has grown rapidly over the past five years, with revenue expected to grow at an annualised 9.1% over the five years through 2018-19, to \$2.2 billion. This represents a significant outperformance of the overall Clothing Retailing industry, which has suffered from cautious consumer spending, intense competition and rising rent costs over the period. Revenue for the Clothing Retailing industry is expected to grow at an annualised 2.0% over the five years through 2018-19.

Many clothing retailers have struggled to adjust to changing consumer spending behaviour over the past five years.

Consumers have increasingly focused on saving and paying down debt, increasing the prevalence of bargain hunting. As retailers have discounted stock to boost sales, consumers have become accustomed to price reductions. Consumers have also become comfortable using websites to compare prices and purchase the best-value items from both domestic and international retailers. These changes in consumer behaviour have put immense pressure on traditional bricks-and-mortar clothing retailers, which were once largely insulated from external competition.

The market for clothing has become increasingly polarised over the past five



years. Consumers are increasingly buying most of their clothes and accessories at a discount and complementing them with some high-end luxury pieces. Therefore, while consumers are looking for discounts and price comparing most of their wardrobe, they are also splurging out on designer items, benefiting luxury retailers. Furthermore, upmarket retailers tend to target households with high disposable income and are therefore less sensitive to market conditions. For these reasons, upmarket and luxury clothing retailers have generally outperformed most mid-market industry players.

The Luxury Retailing industry has therefore gone from strength to strength

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over the past five years. While sales from local buyers have grown due to market polarisation, inbound tourism, particularly from Asian countries with a rapidly growing middle class such as China, has also driven industry growth.

Approximately 30 % of revenue in the Luxury Retailing industry is expected to come from inbound tourists in 2018-19. Growing demand from this market has helped the Luxury Retailing industry weather the effects of widespread economic uncertainty.

According to Tourism Research Australia (TRA), China has overtaken New Zealand as Australia's largest source of international visitors. Rising middle-class wealth in China has allowed Chinese visitors to spend more money on discretionary activities such as travel. TRA also estimates that visitors from China spend more as tourists than any

other international market. According to the latest available information from Tourism Australia, Chinese tourists collectively spent over \$10.9 billion in Australian retail over the year ending March 2018. However, the inbound tourism market is typically drawn to heritage luxury labels and large flagship stores, rather than niche brands. This is largely due to the prestige and popularity of brands such as Chanel, Louis Vuitton and Gucci across Asia. Many outlets have changed their product range to capitalise on this growing trend. Shopping centres and airports are updating their retail offering to take advantage of the burgeoning growth in luxury retail spending.

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