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Dressing, driving and dining in style: Canada's luxury sector is buzzing along



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Some people are all about keeping up with the Joneses. Others believe if you've got it, flaunt it. Whatever the attitude, Thorstein Veblen's words of 1899 still ring true. As the American economist and sociologist put it: "Conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure."

Even as the economy fluctuates and employees are being packaged out, luxury goods are flying off the shelves with Canadians dressing, driving, eating and vacationing in style. According to Toronto-based Investor Economics, at the end of 2010, there were 560,000 households in Canada with more than \$1-million in financial wealth excluding equity in real estate or private companies. The number is expected to grow by 6% annually over the next decade.

Typically described as high-net-worth individuals, these folks control \$1.8-trillion of financial wealth in such vehicles as savings accounts, stocks, bonds and mutual funds. Further, by the end of 2010, there were 638,000 households in Canada with annual income above \$200,000, representing 4.3% of total Canadian households. When defined by occupation, entrepreneurs were by far the fastest growing group. The number is expected to increase to 922,000 by 2020.

While the numbers make a good case for the popularity of all things luxury, it's not just those people with money who are contributing to the sale of fine wines and cars, exquisite jewellery, lavish homes and pamper-perfect lifestyle services.

"The luxury market covers a whole host of things, but it essentially refers to consumption, and consumption is not only driven by accumulated wealth but by the level of income and the willingness to use disposable income to satisfy various needs," explains Keith Sjögren, Investor Economics' director of research and advisory services.

"For example, you can get a plumber buying a very expensive set of golf clubs. He's participating in the luxury market yet he himself is neither high-income nor high-net-worth."

David Andrews, director of investment management and research at Richardson GMP, attributes Canada's luxury uptake to two things: immigration and the economy. Many people — particularly from Southeast Asia and Europe — are arriving on Canada's doorstep looking for new opportunities and have the financial means to buy what they want. And with Canada's economy weathering the downturn far better than the United States, Europe and Japan, retailers have become the big winners.

"From a luxury-goods perspective, American and European retailers who wouldn't usually take a second look at Canada — because historically it was always viewed as a small, fragmented, multilingual market — are now looking twice at it because consumers in Canada are actually spending and doing well and feeling more confident about the domestic economy," Mr. Andrews says.

Until recently, he says, Canadians who coveted luxury were in their early fifties and typically Toronto professionals and businesspeople, Alberta oil patch players and Vancouver-based immigrants from Asia-Pacific. But with Baby Boomers taking an earn-and-save mode, he says, today's Gens X and Y who have done well are more interested in enjoying life along the way. Theirs is an earn-and-spend mentality, with drama factoring big.

“They’re looking for those exotic trips and life-changing experiences,” Mr. Andrews says. “It’s no longer going to the Caribbean for seven days at an exclusive resort. They’re taking 14 days and going to Tibet or to Southeast Asia, to places that are more remote and a lot different than the traditional pre-packaged vacation. They’re seeking these things out and enriching their life and living their life with their new-found means from their business or from their professional career.”

Customization is the big draw. Sandra Henderson, vice-president and managing director at BMO Harris Private Banking, says her high-net-worth clients are building homes to suit their lifestyles and taking their kids and grandkids on experiential trips such as Kenyan safaris. They’re buying real estate in sunny U.S. locales because it’s inexpensive and diversifies their assets. As the high-income earner category continues to climb, she says, there’s more focus on luxury than ever before.

“There’s a new phase of wealth that they like to be flashier,” she says, adding that luxury accounts for just 3% of Canada’s gross domestic product. “There’s still the old money that likes to be private. They certainly don’t spend a lot of their money on luxury brands. But the new high-income earner who loves the luxury market is willing to spend whatever they want on cars. If you’re in Oakville, you still see designer cars. Designer boutiques are still doing very well. [There are] new clients coming into this market every day.”

Then again, there’s still that plumber who simply wants a sleek and stylish golf iron.

Michael Mulvey, assistant professor of marketing at the University of Ottawa’s Telfer School of Management, says luxury goods have two defining qualities. There’s the aspiration to have the best, which in turn fuels a “trading-up mentality” whereby people make sacrifices so they can indulge. And there’s the status aspect of luxury, which signals membership and belonging. For some, he says, it’s all about conspicuous “look-at-me” consumption while for others it’s more discreet, with only a secret society knowing that a signature stitch at the bottom of a shirt means something special.

“The luxury market is going to continue to prosper,” Mr. Mulvey says. “You’re going to see it more refined, more fragmentation in it, more niche opportunities. And luxury is going to follow the money. You’ll find the expansion of luxury into Asian and Latin American markets. As companies do that, you’ll inevitably be more attuned to those cultures and you’ll find some reciprocal influences. You’ll see perhaps a bit more Asian and Latino aesthetic sensitivities in luxury goods here. You’ll find more of an exchange. It’s not going to be a pure West buy but more of a globalization of luxury. That’s one that I’d keep my eye on.”