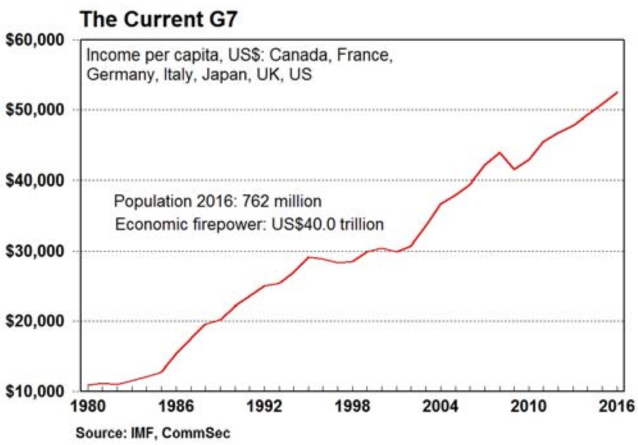
The Asian G7 and the Pursuit of Luxury

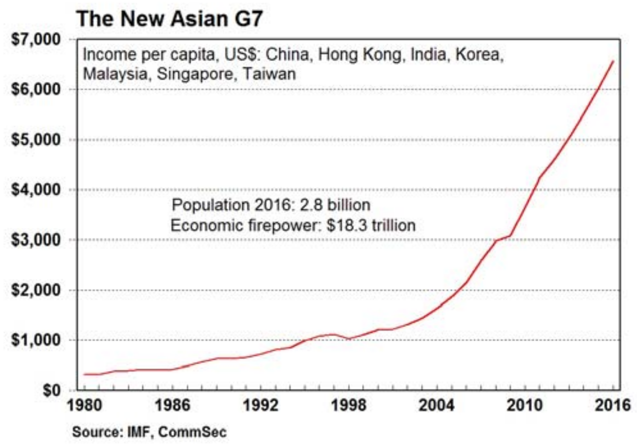
Economic trends

- **Economic power is shifting: Economic power is shifting from the old Group of Seven nations (Canada, France, Germany, Italy, Japan, UK and the US) to the new Asian G7 (China, Hong Kong, India, Korea, Malaysia, Singapore and Taiwan.)**
- **Luxury index hits record highs: A sharemarket index of luxury good companies hit record highs in mid-March before since modestly retreating. The Deutsche Börse World Luxury Index rose by almost 230 per cent in the three years to March 14, underpinned by rising sales in the Asian G7 nations.**
- **Australian luxury car sales lift. The CommSec sales index of 10 super-luxury marques hit a 26-month high in March. Australia has the fifth highest income per capita in the world.**
- **Asian tourism to Australia soars: In February, in-bound tourist arrivals from Asian G7 nations were up by 7.2 per cent on a year ago, ahead of the 2.7 per cent lift in total arrivals. Over the past three years tourists from Asian G7 to Australia have lifted at an 8.2 per cent annual rate.**

What does it all mean?

- The world is in the midst of the biggest economic transition recorded in modern times. The western nations' 'rich club' – the Group of Seven – is in the process of ceding economic power to the new 'Asian G7' of the East.
- The old G7 comprises Canada, France, Germany, Italy, Japan, UK and the US. The combined economic firepower of the G7 stands at around US$34 trillion. The 'new Asian G7' comprises China, Hong Kong, India, Korea, Malaysia, Singapore and Taiwan. The combined economic firepower of the Asian G7 stands at around US$12 trillion – still well below the current 'rich club' gross domestic product (GDP). But the key point is that the GDP of the Asian G7 has grown on average by 16 per cent a year over the past five years, over four times faster than the Western G7.
- It's the combination of a massive population base and fast growing incomes in the Asian G7 that are causing

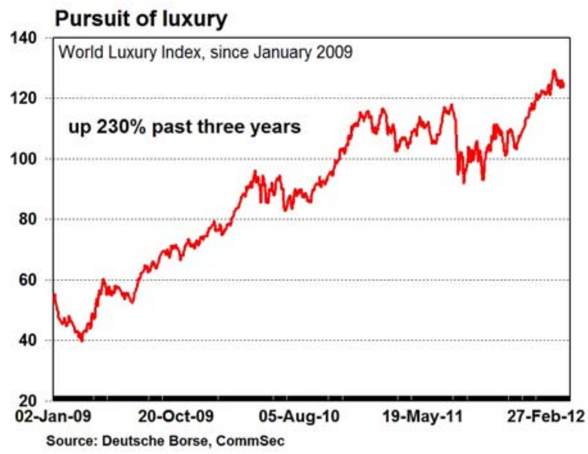




Craig James – Chief Economist (Author)
(02) 9118 1806 (work); 0419 695 082 (mobile), (02) 9525 2739 (home) | craig.james@cba.com.au; Twitter: @craigjamesOZ

companies across the globe to sit up and pay attention. Average income per capita in the Western G7 stands at just over $45,000, dwarfing the $4,200 average income in the Asian G7, but income per capita in the latter is increasing quickly, doubling in just the past five years and likely to continue that trend over the coming decade.

- Luxury good companies are already reaping the benefits of rising incomes across the Far East. And while average incomes are still low compared with the West, the progression from West to East is underway. Of course luxury goods are just an easily identifiable way of tracking the rising incomes of Asian G7 nations. The implications are far broader with a raft of Australian industries poised to benefit from growth in the Asian G7 such as food and wine producers, education providers, tourism operators and property companies.



- Even in Australia companies that sell up-market goods and services may be set for better times – but more a reflection of a stronger Australian dollar and strong Asian demand for mining and agricultural resources. In fact CommSec's index of 10 super luxury marques hit a 26-month high in March. Sales of Porsche, Lamborghini, and Aston Martin were all up on a year ago.

What do the figures show?

<u>Deutsche Börse World Luxury Index:</u>

- The German bourse maintains a sharemarket index of 20 luxury good companies. The World Luxury Index is an index of BNP Paribas, calculated and distributed by Deutsche Börse AG.
- According to Deutsche Börse: "the World Luxury Index comprises the 20 largest and most liquid issues of the luxury goods industry worldwide. A company is considered as belonging to the industry of luxury goods if more than 50 per cent of the overall turnover is generated from luxury articles. The index constituents must have an average daily stock exchange turnover of at least US$5 million in order to be eligible for the World Luxury Index and to ensure its liquidity and quality." Each company is capped to an index weighting of 10 per cent.

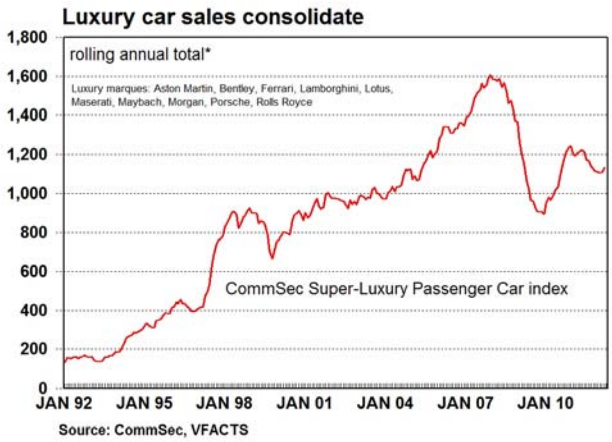
WORLD INCOME PER CAPITA

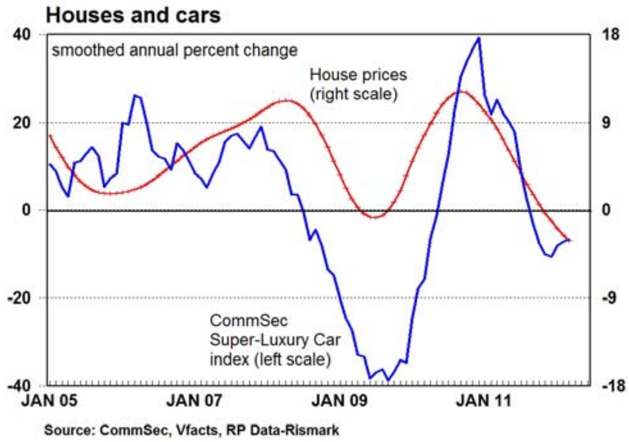
Top nations, US dollars, 2011

Luxembourg	$122,206
Qatar	$97,967
Norway	$96,594
Switzerland	$84,979
Australia	$66,984
United Arab Emirates	$66,620
Denmark	$63,007
Sweden	$61,097
Netherlands	$51,410
Canada	$51,148

Source: IMF, CommSec

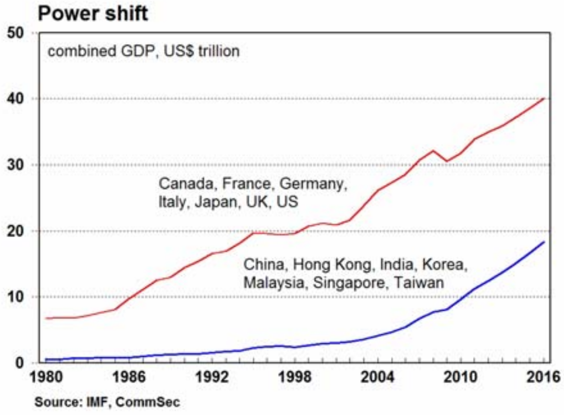
- Current constituents are: Burberry Group; Carnival Plc; Christian Dior; Coach; Estee Lauder; Harman Intl.; Intercontinental Hotels; Julian Baer; LVMH; Pernod-Ricard; Porsche Automotive; PVH Corp; Ralph Lauren; Remy Cointreau; Royal Caribbean Cruises; Shangri-La Asia; Shiseido; Sotheby's; Toll Brothers; and Wynn Resorts.
- The World Luxury Index hit lows on March 9 2009, in line with other key world sharemarket indexes. However from a low of 39.53 euros, the index soared over the following three years to hit a peak of 129.49 euros on March

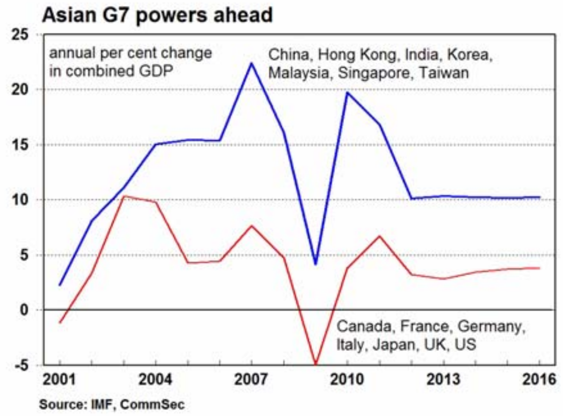




14 2012, a gain of 227.6 per cent.

- Over the same period the Aussie All Ordinaries index lifted by 40.6 per cent with the US Dow Jones up 102.4 per cent, US Nasdaq up by 143.7 per cent and German Dax up by 94.9 per cent.





CommSec Super-Luxury Car Sales Index:

- The CommSec Super-Luxury Car Sales Index comprises new passenger car sales of 10 marques: Aston Martin, Bentley, Ferrari, Lamborghini, Lotus, Maserati, Maybach, Morgan, Porsche and Rolls Royce.
- The monthly data on new car sales is freely made available to car dealers from the Federal Chamber of Automotive Industries (VFacts data).
- In March 2012 the CommSec Super-Luxury Car Sales Index recorded new passenger car sales of 126 vehicles, the highest total in 26 months and up from 104 vehicles in March 2011.
- In the year to March, 1,129 super-luxury passenger cars were sold, up from the 18-month low of 1,102 vehicles in the year to January 2012. The record high was set in the year to December 2007 when 1,606 super-luxury passenger cars were sold.
- There is a close relationship between super-luxury car sales and home prices. The theory is that confidence levels repair first at the top end of the market and then flow through to other asset markets. The apparent bottoming of the super-luxury car sales index suggests that the housing market may also be poised to recover after a year of modest price declines.

Chinese New Car Market:

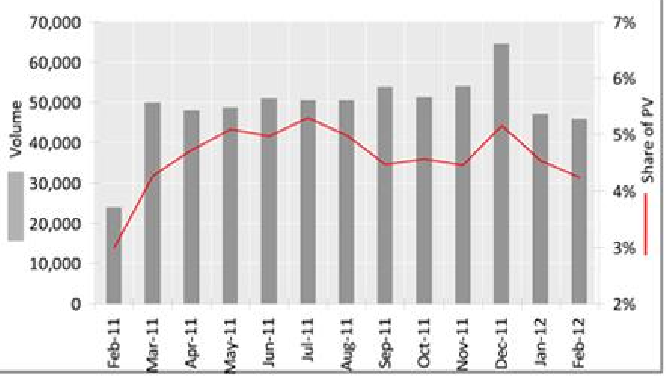
- The March car sales data in China is not yet available and January/February figures are complicated by the early timing of Chinese New Year. But General Motors has released its March data and the figures showed that deliveries from January through March totalled 745,152 units, up 8.7 per cent from the previous year. GM also said that it recorded its best March sales ever with 257,944 units sold, up 10.7 per cent from the same period last year. Luxury brand Cadillac boosted sales by 35 per cent to 2,745 units in March.
- While the broader Chinese car market has softened due to the economic slowdown, the luxury market has remained firm. In the first two months of the year the luxury car segment was up 23 per cent on a year ago at a time when total auto sales were down by 6.5 per cent.
- World-wide, BMW said it sold more than 400,000 BMW, Mini and Rolls-Royce cars in the first quarter – a record – due to strong demand in the US and China.
- BMW reported that it sold more than 75,000 vehicles in China alone in the first quarter, up around 30 per cent on a year ago. Audi reported that it sold 90,063 vehicles in the first quarter, up 40 per cent on a year earlier.

Luxury Car Segment

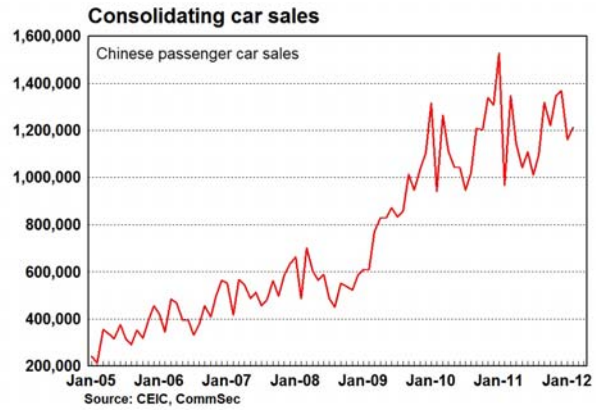
FEB 92% YTD 23%

Top 5 Models YTD

#	Model	Feb-12	Feb 12/11	YTD 2012	YTD 12/11
1	Audi A6L	8,793	201%	17,201	54%
2	Audi A4L	8,797	379%	16,955	110%
3	BMW 5 Series	5,991	42%	12,596	15%
4	BMW 7 Series	2,870	157%	6,980	70%
5	BMW 3 Series	3,065	229%	5,879	79%
	Segment Total	*45,793*	*92%*	*92,873*	*23%*



- And Bentley has reported that China is now its biggest selling market. In the first three months of the year, Bentley sold 578 of its 1,759 cars in China compared with 468 to North America.



<u>In-bound Australian tourism:</u>

- In February 2012, tourists from the Asian G7 (China, Hong Kong, India, Korea, Malaysia, Singapore and Taiwan) to Australia numbered 146,100, up 7.2 per cent on a year ago. Total tourist arrivals to Australia were up 2.7 per cent on a year ago.
- Tourists from the Asian G7 now account for almost 30 per cent of all tourist arrivals in Australia, up from 23 per cent a decade ago.
- Over the past three years, arrivals from Asian G7 have been growing at an 8.2 per cent annual pace, compared with 2.0 per cent growth from total tourists to Australia.
- Tourists to Australia from China & Hong Kong have been growing at a near 20 per cent annual pace over the past two years, despite a strong Australian dollar over most of that period.

What are the implications for investors?

- The Asian G7 is the new powerhouse grouping of nations, taking over the old established economies in Europe and North America. Not only are incomes growing quickly in Asia, but each of the key economies also has a large population to provide key momentum.
- Australia is in the right place at the right time in history as economic power shifts from the West to the East. While some industries such as tourism and manufacturing bemoan the high Aussie dollar, they are losing sight of the huge opportunities provided by rising Asian incomes. Mining and mining services companies are well placed to benefit from resource needs in Asia. Agricultural enterprises can tap opportunities from rising Asian incomes, especially value-added areas like wine, dairy products. And service industries in Australia such as education, health and tourism also will benefit as incomes rise across Asia.
- Stabilisation of the global economy after the European debt crisis should cause Australian consumers to again embrace assets like cars and houses, supported by world-leading incomes.
- Companies like Qantas, Flight Centre, Webjet, Wotif.com, Tassal Group and Treasury Wine Estates are some of Australia's listed companies that have opportunities to benefit from economic developments over the medium-term.

Craig James, Chief Economist, CommSec
Work: (02) 9118 1806; Home: (02) 9525 2739; Mobile: 0419 695 082 Twitter: @craigjamesOZ