

Research on Luxury Consumption in the Background of Financial Crisis

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ABSTRACT

Under the financial crisis, the demand decreases significantly in the whole economic market, while the amount of consumption in the whole luxury economy market is not clear yet. This article is mainly based on two perspectives of direct and indirect impact to explore the positive promoting effect and negative inhibiting effect of the financial crisis on luxury consumption on luxury consumption. The research results indicate that, under the financial crisis, luxury goods consumption is expected to reduce to a certain extent due to the damaged entity economy and consumer purchasing power, at the same time, however, luxury consumption and growth to a great extent, because the financial crisis makes public tend to invest more on luxury products, purchase motivation of many consumers changes, and the competition among various luxury goods companies becomes far more fierce. In addition, customers with low income, fixed income or passive reaction to the crisis will probably spend less on luxury, while those who has high income, stable income or optimistic view may well increase luxury consumption.

Keywords: *Financial crisis, Luxury consumption, Real economy, Investment, Motivation in purchasing.*

1.INTRODUCTION

The widely accepted definition of financial crisis in academia that comes from Goldsmith refers to the sharp, short and over cyclical deterioration of all or most of the financial indicators, such as short-term interest rates, prices in assets(eg. securities, real estate, land) , number of commercial bankruptcies and amount of failed financial institutions. Under the financial crisis, due to changes in consumer purchasing power and consumer psychology, sales in various industries have generally declined. On the contrary, in the luxury industry, Cartier, Hermes, Chanel and many other luxury brands can be cited as examples, whose sales increase surprisingly during that period. Luxury is internationally defined as a kind of unique and rare consumer goods which beyond the scope of people's needs for survival and development, also called non-daily necessity. Therefore, this paper will analyze effects of the financial crisis on luxury consumption not just from direct and indirect point of view, but based on positive and negative perspective.

2.LITERATURE REVIEW

In terms of the definition of the financial crisis, two Chinese scholars pointed out that the whole human history is just a process of continuous generation and

change of humanity, and the financial crisis is an extreme manifestation of human nature [1]. On how to cope with the financial crisis and the economic crisis, Zhou Zuwen [2], in consideration of a financial crisis caused by the American subprime mortgage crisis in 2007, analyzed the historical experience of the financial crisis and expected it will eventually useful in how China can effectively respond to the crisis. Zheng Yu [3] pointed out that the solidified social welfare system in developed countries is difficult to provide adequate protection to the post-crisis society, so they choose more protectionist means; the social welfare systems of developing countries are more flexible in responding to the economic crisis, which reduces the impact of the crisis on domestic society and makes them better able to promote trade liberalization. Zhou Jian and zhang Guiwen [4] are firmly convinced that to avoid the intensely and constantly break-out of economic crisis, the contemporary development of Chinese socialistic economy should not deviate from the essence of socialism, but, instead, should return to the purpose of production itself, as which is to realize the well-rounded development of the people, enhance the structural renovation of supply-side, and establish the community of shared future for mankind to promote international cooperation from the Belt and Road. Peng Siwei [5] put forward relevant political suggestions through studying the implementation and its effect of

China's monetary policy under the financial crisis in 2008 and analyzing the defects of the transmission mechanism of this policy. Wen Jiandong and Li Sixuan [6] pointed out that three major economic crises in history—the Great Depression, stagflation and the Great Recession which can serve as a mirror of the impact of the COVID-19 on China's economy in the context of deglobalization.

Besides, more documents focus on the study of economic effects arising from the financial crisis. Chen Chen [7] analyzed the impact mechanism of the international financial crisis on China's export trade and explored strategies how China tackle it. Wang Xianyong [8] analyzed the current situation of the automobile industry and the crisis and challenges it is facing with under the global financial crisis caused by the spread of the COVID-19 epidemic. Bai Peiwen and Yang Zhicai [9] argued that after the financial crisis, the speed of economic development, the proportion of the tertiary industry and labor bargaining ability have become the main driving force for increasing the proportion of labor income. Chen Lan [10] analyzed the relevant concepts of the financial crisis, realized the impact of the financial crisis on the economic progress of enterprises and then put forward some management measures to provide reference for the subsequent development of the enterprise. Zhang Minghao [11] concluded the impact of the financial crisis on China's security investment market and China's response for that in recent years. Xie Guibiao and Xu Jiaoli [12] took A-share manufacturing listed companies from 2000-2015 as the subjects investigated to prob into the impact of capital supply on the capital structure of companies after the financial crisis, and on that of enterprises with different ownership according to the different ownership of the financial crisis. Li Xiaoke [13] studied the factors arising the gold price during the 2008 financial crisis, so as to benefit in maintaining the reasonable development of gold resources, avoiding market risks and prompting consumers to buy gold products rationally. From the perspective of global financial crisis and based on the data of Chinese A-share listed companies from 2005 to 2011, Jin Fang [14] empirically studied the buffering effect of corporate asset liquidity and regional financial development level on the decline of corporate commercial credit supply during the financial crisis. Wang Liangliang [15] examined the impact of financial crisis on corporate tax avoidance, and further examined the moderating effect of financing constraints and external financial market environment on the relationship between the two. Chen Yanbin et al. [16] constructed a dynamic general equilibrium model that includes the real estate sector and local government debt to study the formation mechanism of the failure of the quantity theory of money in China after the 2008 financial crisis, and the effect of the restoration of the quantity theory of money on the macro economy.

In a nutshell, based on the above-presented literature,

four main contributions may exist in this article. First of all, in terms of topic selection, while there are tons of studies on how financial crisis affects the economy and consumer market, only the impact in luxury market owe to financial crisis still cannot be determined with few relevant literature in this respect. It can be seen that the impact of the financial crisis on luxury consumption, which is also the research content of this paper, is the deficiency of the existing research literature. Secondly, as far as methods of research, to study how financial crisis affects luxury consumption, this paper is divided into two perspectives: direct and indirect influence, and also considers the positive promoting effect and negative inhibiting effect of financial crisis on luxury consumption. Thirdly, in the data used, this paper uses many real and authoritative data in the demonstration process, which helps to draw more accurate economic conclusions. Fourthly, this paper brings the financial crisis into the research category of luxury consumption, extends and expands the research scope of luxury-related fields, more based on the characteristics of luxury consumption, and puts forward targeted and personalized policy suggestions for the healthy development of the luxury industry.

3. STUDY ON THE INFLUENCE OF THE FINANCIAL CRISIS ON LUXURY CONSUMPTION

3.1. Study On The Indirect Impact Of The Financial Crisis On Luxury Consumption

3.1.1. The Effect Of The Financial Crisis On The Macro-Economy

In the macroeconomic environment, there are both a real economy market and a virtual economy market. First of all, the social panic in the real economy caused by the financial crisis will lead to the general economic decline in the future, resulting in a substantial reduction in confidence for investment and consumption. Owing to the decline of a large number of consumers' investment willingness and their weakened purchasing power, the effective demand in the overall market is insufficient, enterprises also lose confidence, which will undoubtedly reduce investment, production, and even declare bankruptcy. Lower corporate performance and even bankruptcy will cause the more serious unemployment and less disposable income for employees, which is estimated to check luxury consumption. Apart from that, in virtual economy market, the lower stock price index is predicted to induce the actual wealth of most rich groups. Especially for the luxury industry, the reduction of the consumption capacity of the main customer group will definitely affect the sales of luxury products. In the macroeconomic context of financial crisis, the sales in each market are reduced, which is also predicted to have

an indirect inhibitory effect on luxury consumption.

3.1.2. The Impact Of The Financial Crisis On The Investment Field

The financial crisis has potential investors tend to take prudent investment strategy and more cautious to choose investment tools Many luxury goods hold their value well with a case in point that, in the pyramid of the luxury goods group, one of the most advanced customization luxury, due to its special requirements, handmade exquisite materials, emphasis on fine details, and the traditional craft to promote luxury goods to become products that can maintain and add value. It is rare luxury goods such as limited edition and special commemorative edition rather than other common luxury products that even keep a higher secondary circulation value than those which are first-hand, hence, luxury goods have also converted into a value collection. Additionally, watches, jewelry and limited luxury goods both are easy to collect, carry and cash. Thereby, tons of potential investors are projected to buy luxury products as their investment, when faced with poor investment markets caused by financial crisis, followed by the increase volume of luxury consumption.

3.1.3. The Effect Of Financial Crisis On The Technology Environment

The financial crisis has played a significant role in boosting the advance of the online shopping. Consumers are more sensitive to prices in this period, so the price advantage has become an important signal to attract users. The crisis will absolutely bring out a sharp decline in the purchasing capability of public, and they tend to shop around before buying, rather than ordering directly at the counter. Economy of information highway and channel of e-commerce offer a network platform for consumption, displaying plenty of similar products with a large-scale price range. Consumers use e-commerce technology to look for discounted or relatively more affordable goods. After that, the enlarging demand for online shopping promotes the transaction volume in luxury industry and even the second-hand market, as a consequence, luxury online consumption has developed greatly in the context of the financial crisis.

3.1.4. The Impact Of The Financial Crisis On The Competitive Environment

When it comes to financial crisis, in order to avoid their own serious sales decline or even bankruptcy, various enterprises may well reduce commodity prices directly, which will definitely aggravate the competition in the market. Being aimed to encourage consumers to increase their consumption, a great number of luxury merchants will promote their products by strengthening price reductions and discounts. Higher price elasticity of

luxury goods than that of necessities is actually attributed to individuals' unlimited wants and thirsty for luxuries. Once prices of luxury goods tend to decline, consumption will rise dramatically.

3.1.5. The Impact Of Financial Crisis On Consuming Psychology

For the psychology of consumers, we should conduct analysis based on different characteristics of people. For those have lower income, fluid wage or are pessimistic about the future economic situation, the financial crisis has had a negative impact on their consumption psychology, and then indirectly reduces their willingness to purchase luxuries. Conversely, in the background of the financial crisis, those with decent earning or stable revenue and some people having an optimistic view of the future economic development trend in speculating field received slighter negative economic impact or even be stimulated to consume more.

3.2. Research On The Direct Impact Of Financial Crisis On Luxury Consumption

3.2.1. The Impact Of The Financial Crisis On The Purchasing Power Of Luxuries

The financial crisis has slowed down economic growth and caused more serious unemployment significantly, thus, individuals' disposable income per capita, monthly consumption per capita and purchasing capacity all sink, followed by a falling proportion of luxury consumption in total consumption. According to economic data related to luxury goods after the American subprime mortgage crisis, the financial crisis in 2009 depressed the global luxury market, with luxury sales in Europe, Japan and the United States falling down 8%, 10% and 6%, respectively. As of January 16, 2009, shares of LVMH (Louis Vuitton Moët Hennessy) and Richemont fell 55% and 33% respectively with a intuitive reflection of the downward trend. The consumption data from MasterCard even displayed that global luxury spending dropped 20.1% and 24.4% from October to November in 2008.

3.2.2. The Impact Of The Financial Crisis On Luxury Buying Motives

Under the strike of the financial crisis, buyers tend to realize and accept the effect of preservation and value appreciation of luxury goods optimistically, and then some of them decide to have some value-preserved luxury goods as their investment. Cartier jewelry has 10% appreciation per year, and its price never dropped. A watch from the Cartier SANTOS series can rise from 243,000 to 255,000 over a span of one month only. Such world-renowned French luxuries with above-presented example increase in value almost every year, and some

world watches' price can even double in a three-year period. The reason why those watches has the function of preservation, for one thing, brand has time-honored history and rich culture, which also can be illustrated by Breguet advocated by Napoleon and Winston Churchill. For another, they all have more than a hundred-year experience of watches making, independent core factory, and skill of making complex watches. Moreover, products created by exclusive research and development of the brand is worthy and profitable due to their small-scaled, or even suspended production. In this continuous bullish situation, some consumers choose to keep some luxury goods to hedge against the financial crisis, and thus promote luxury goods to have a better consumer market and investment market.

4.CONCLUSION AND POLICY RECOMMENDATIONS

The financial crisis on luxury goods not only plays a positive role, but also has an inhibiting effect in luxury consumption in the whole trading market, that is mostly owing to two factors. One is consumers consisting of various individuals with different consumer psychology and purchasing ability, and another situation involves that each of these luxury companies implement their won measures to respond to financial crisis.

Specifically, the financial crisis will reduce luxury consumption by impacting the macro real economy and consumer purchasing power, but it will increase consumption by boosting luxury investment, intensifying luxury competition, and adjusting luxury purchase motivation. In addition, in the face of the financial crisis, consumers with low income, unfixed income and passive response to the crisis will reduce consumption of luxury goods, while consumers with high income, stable income and a positive view of the crisis may increase consumption of luxury goods.

The enlightenment of the above conclusions is that luxury goods companies should be aware that after the outbreak of the financial crisis, most consumers' purchase of luxury goods has turned to hedging investment. Jewelry luxury products must be very good in value preservation. Watches have relatively poor value preservation. For luxury products such as fashion and luggage, they are very vulnerable to damage and have a high risk of devaluation. Therefore, luxury brands selling fashion clothes and bags can provide more perfect maintenance services, and each brand can launch more classic products showing brand characteristics in the market, so as to prevent consumers from worrying about the depreciation of products caused by the impact of fashion and thus reducing the purchase volume.

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