Deep Dive: Chinese Tourists in the UK—Time is Running Out on Cheaper Luxury Shopping

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1) The number of Mainland Chinese residents visiting the UK fell by 13.5% in the first half of 2016—but this was before the UK's Brexit referendum vote led the British pound to depreciate and so made the UK a more appealing destination for shoppers from overseas. We await data on visitor numbers from China since this depreciation.

2) Tax-free spending by tourists in the UK jumped following the pound's depreciation. During China's Golden Week holiday period in October, Chinese tax-free spending in the UK climbed by 58% year over year.

3) The bounce in spending followed a period of weakening: the average Chinese visitor cut their spend in the UK by 14% year over year in 2015. In the first half of 2016, the average spend fell further, by 21% year over year, to £1,649.

4) High-end brands, such as Louis Vuitton and Chanel, have raised their UK prices to reduce differences to prices elsewhere in the world. These moves will temper any growth in tourist spending that is being driven by the attraction of more affordable luxury goods. Any uplift in visitor numbers resulting from visitors flocking to buy luxury goods may well have peaked.

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Executive Summary

While Chinese tourists are spending more in the wake of the depreciation of the pound, it is less apparent whether visitor numbers have increased to a similar extent.

Some 325,000 visitors came to the UK from Mainland China in 2015, a significant increase of 39.5% over the number of visitors in 2014. Official figures show that this number has declined 13.5% in the first half of 2016—but this was before the UK's Brexit referendum vote led to the depreciation of the pound and so made the UK a more appealing destination for shoppers from overseas.

One of our key findings is that, while Chinese tourists are spending more in the wake of the depreciation of the pound, it is less apparent whether visitor numbers have increased to a similar extent:

- Chinese visitors increased their tax-free spend in the UK by 25% in September, according to tax-refund provider Global Blue. During China's Golden Week holiday period in October, Chinese tax-free spending in the UK jumped by 58% year over year, while the number of transactions rose by 30%, suggesting the overall spending boost was in large part due to higher average basket values.
- Official monthly data for visitor numbers by broad region showed a recovery in June, but the referendum result was announced only on June 24, which suggests that cannot be the principal reason for the uplift. Total overseas visitor growth strengthened further in July, but has generally been inconsistent since the referendum.
- Prior to the Brexit vote, average spend by Chinese visitors had been weakening: the average Chinese visitor cut their spend in the UK by 14% in 2015, to £2,075, we estimate from Office for National Statistics (ONS) data. In the first half of 2016, the period which the latest official data cover, the average spend fell further, by 21% year over year, to £1,649.

High-end brands, such as Burberry, Chanel, Louis Vuitton and Rolex have increased their UK prices to reduce the differences between regions. Chanel said that it needed "to reach consistent price levels" between different parts of the world. These moves will temper any increases in visits and spend that are being driven by the attraction of more affordable luxury goods.

We expect solid year-over-year growth in Chinese traveler numbers to continue into 2017. However, the second half of 2017 will likely see demanding comparatives for these metrics as they annualize the post-referendum boost, and this will make sustaining robust growth even more difficult.

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Introduction

The UK's vote to leave the European Union (EU) prompted a fall in the value of sterling, making the country an even more attractive destination for tourists from other countries, and especially those tourists who are enthusiastic shoppers—such as the Chinese.

In this report, we round up the latest data on visitor numbers and spending in the UK, with a particular focus on the impact of the depreciation of the British pound in the wake of the UK's vote to leave the EU. We begin with some top-line findings on visitor numbers.

How Popular is the UK for Chinese Travelers?

Some 325,000 residents of Mainland China made a trip to the UK in 2015, a significant increase of 39.5% over the number of visitors in 2014. Yet, Mainland China comprised just 3% of overseas visits to the UK in 2015.

Visitor numbers turned negative in 2016, however. In the first half of 2016, the number of visitors from Mainland China to the UK fell by 13.5%, according to our analysis of ONS data—but this was before the UK's referendum vote prompted a depreciation of the pound and so made the UK a more appealing destination for shoppers from overseas.

The UK was the 13th most popular destination for Chinese travelers, according to our survey of Chinese consumers in April 2016.

The UK was the 13th most popular destination for Chinese travelers, according to our survey of Chinese consumers in April 2016. The UK ranked behind European neighbors such as France and Germany. Our survey found that 0.8% of all Chinese consumers we surveyed had taken a trip to the UK in the past year. The full report, *Global Chinese Shoppers Carry Spending Momentum Into 2016*, can be found at bit.ly/FungChineseTourists2016.

Source: Shutterstock

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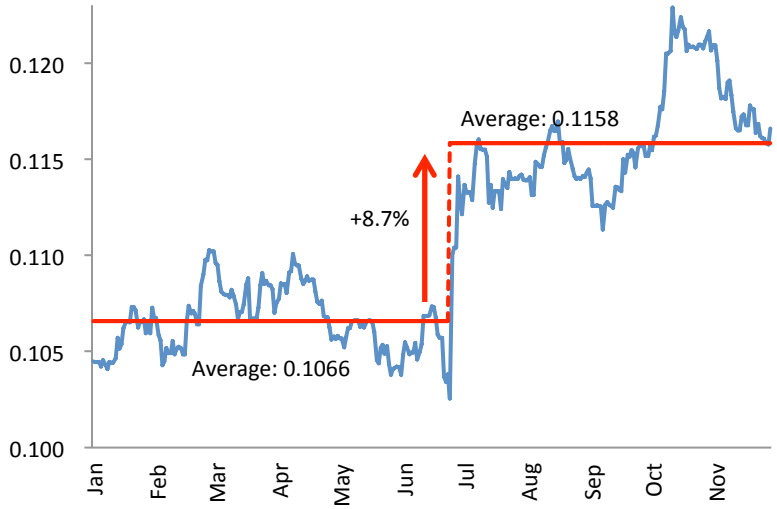
Sterling Depreciation Makes UK More Attractive

The depreciation of the British pound after the country voted to leave the EU made visiting and shopping in the UK better value for almost all overseas travelers. The boost for Chinese travelers has been an 8.7% appreciation in their purchasing power in the period after the referendum, compared to the first six months of 2016.

In the following chart, we track the shift in the exchange rate of the Chinese yuan (RMB) to British pound (GBP) so far in 2016.

Figure 1. RMB to GBP Exchange Rate, 2016



Through November 28
Source: USForex

Spending Up—Driven by Larger Average Basket Sizes

Golden Week, a Chinese holiday period in October, saw a jump in visitor numbers and their spending in 2016.

In this section, we round up the latest indicators on Chinese traveler numbers and their spending. One trend noted by multiple sources was that Golden Week, a Chinese holiday period in October, saw a jump in visitor numbers and their spending in 2016.

A key takeaway from the data below, in our view, is that the growth in spending by Chinese tourists in the UK has in large part been driven by visitors buying more during each shopping trip. It is less clear that there has been a similarly large uptick in visitor numbers.

Figures from tax-refund service Global Blue suggest higher average spend values have driven up the amount purchased by tourists in the UK:

- During China's Golden Week holiday period in October this year, Chinese tax-free spending in the UK jumped by 58% year over year; the number of transactions rose by 30%, suggesting the overall spending boost was in large part due to higher average basket values.

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- Chinese visitors upped their tax-free spend in the UK by 25% in September. In the same month, tourists overall grew their spend in the UK by 28% year over year.
- Spending by tourists overall in the UK in the first ten months of 2016 was up 9%, but the average transaction value was up 10%, suggesting that spending is being driven by higher basket value more than by a greater number of shopping visits.
- In October, the UK doubled its share of global Chinese tax-free spending, to 15%.

According to China's largest online travel agency, Ctrip:

- For Golden Week 2016, the UK saw the biggest year-over-year increase in travel bookings of all countries. The number of Chinese visitors to the UK booking via Ctrip jumped by 60% year over year.
- Chinese tourists' interest in the UK remained after the end of Golden Week, with demand for visits around the Christmas-shopping period and the January sales period.
- Among Chinese travelers, the UK is approaching long-term favorite destinations such as the US, Italy and France, but is still well behind local destinations such as Japan, South Korea and Thailand.
- However, Ctrip is a fast-growing, online-only agent—for instance, its total net revenues grew by 75% year over year in the third quarter of 2016. This means its numbers are not representative of the overall travel-booking market.

Visitor numbers to the UK from Mainland China grew by 2.6% in the first quarter of 2016 and then fell 26.3% in the second

Source: Shutterstock

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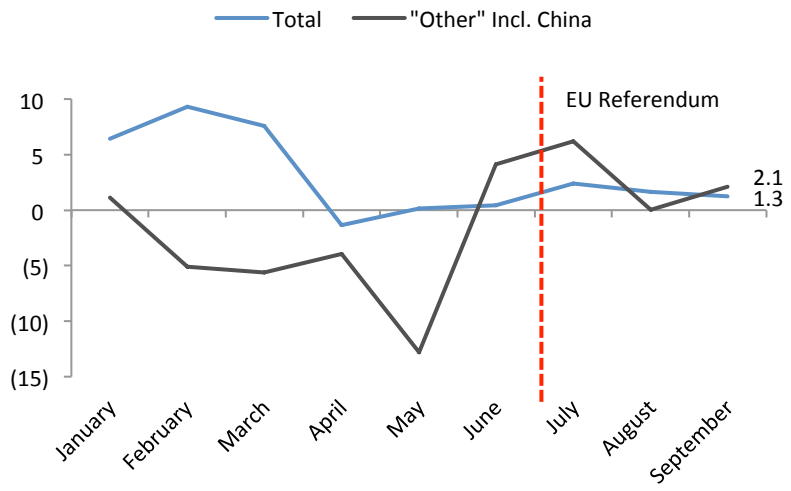
The latest official UK visitor figures from the ONS show some recovery in total visitor numbers from June—but this began before the referendum and the depreciation of the pound. Moreover, specific data for visitors from China for the period after the referendum are not yet published.

- Visitor numbers to the UK from Mainland China grew by 2.6% in the first quarter of 2016, and then fell 26.3% in the second quarter. This averages a first-half decline of 13.5%. The ONS publishes its figures for the third quarter, which covers the period after the Brexit referendum held, on January 27.
- 2016 figures are against demanding comparatives from 2015, when visitor numbers to the UK from Mainland China surged 39.5%.
- Monthly ONS data for visitor numbers by broad region showed a recovery in June, but the EU referendum result was announced only on June 24, which suggests that cannot be the principal reason for the uplift. Growth after June has been inconsistent for visitors from the "Other" region, which includes China. The solid increase in visitor numbers in July may have been a short-lived boost as a result of the pound's depreciation. We chart these data below.

The low growth in international visitor numbers bolster our perception that increased tourist spending is being driven more by an increase in per-person spending than by growth in visitor numbers.

Visitor numbers to the UK from Mainland China surged 39.5% in 2015.

Figure 2. Monthly Visitor Numbers to the UK, YoY % Change



"Other" includes all regions apart from North America and Europe.
Source: ONS/Fung Global Retail & Technology

There is significant scope for a bounce in average spending in the second half of 2016: the amount typically spent in the UK by a Chinese traveler fell 14% in 2015, to £2,075, we estimate from ONS data. In the first half of 2016, the average spend fell 21% to £1,649—although this may be skewed by calendar effects which weight higher-spending visits to the second half

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of the year. Against the first half of 2015, spending fell by 19% in the first half of 2016.

If the second half of 2016 saw a depreciation-induced recovery to 2014 spending levels, this would equate to a 45% jump, or an additional £754 per visitor.

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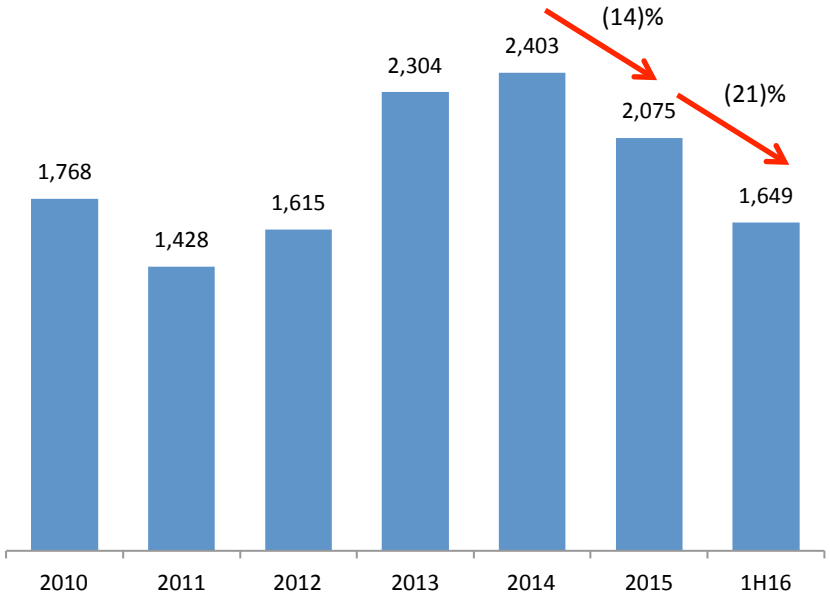
Figure 3. UK: Average Spending per Visit, by Mainland China Residents (GBP)



All China except Hong Kong
Source: ONS/Fung Global Retail & Technology

Luxury Brands Hike Prices in the UK

Chinese Travelers Like to Shop

Shopping—and shopping for luxury brands—is an important part of many Chinese tourists' trips. This was confirmed by our April 2016 survey of Chinese consumers. Note that the following metrics are not specific to the UK:

Some 61% of Chinese overseas shoppers expect to spend more on shopping while traveling overseas in the next year, compared to the previous year.

- Some 61% of Chinese overseas shoppers expected to spend more on shopping while traveling overseas in the coming year, compared to the previous year; only 17% expected to spend less on shopping while traveling.
- The average Chinese traveler will spend an estimated $1,783 on retail purchases per trip in 2016, up from $1,678 in 2015.

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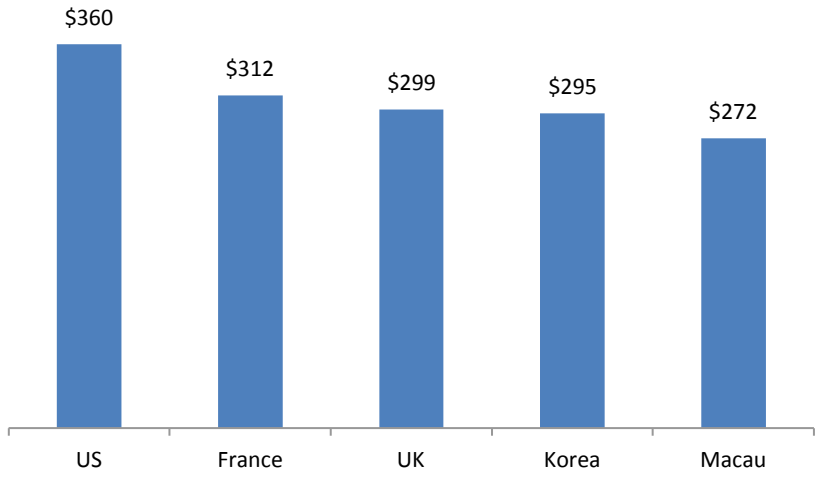
- Duty-free stores (shopped by 32% of Chinese overseas shoppers), large department stores (23%), specialty stores (13%) and outlet stores (11%) were the most popular types of stores for overseas shopping.
- Fragrances/beauty products (bought by 67% of Chinese overseas shoppers), apparel, (63%), health supplements/vitamins (25%) and watches (25%) were the most popular categories to be bought on overseas trips.

The full report, *Global Chinese Shoppers Carry Spending Momentum Into 2016*, can be found at bit.ly/FungChineseTourists2016.

Chinese travelers' spending is substantial because they are typically shopping not just for themselves. On average, only 51% of their retail spend is for themselves, while 32% is for gifts for others and 19% is for resale back in China, according to Oliver Wyman, a management consultancy. In the UK, the average spend on goods for resale by each Chinese traveler is $299 in 2016.

Figure 4. Per-Person Resell Spend, by Chinese Travelers, 2016



Source: Oliver Wyman

Tourists—Chinese or otherwise—are very significant consumers of luxury brands in the UK: foreigners accounted for 50%–55% of all luxury goods sales in the country in 2015, according to Exane BNP Paribas.

Depreciation Prompts UK Price Rises

Many luxury brands have raised prices in order to reduce the price differential with other markets.

Following the depreciation of the pound, travelers have enjoyed cheaper purchases in the UK, and this has boosted the popularity in particular of buying luxury goods in Britain. However, this benefit looks to be short-lived. Many luxury brands have raised prices in order to reduce the price differential with other markets.

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Chanel instituted a policy of aligning its prices in different markets in 2015. Initially, this took the form of lowering prices in Asia, but the depreciation of the pound has meant increases in the UK. The company told *The Times* newspaper in November: "We needed to adjust our prices accordingly in order to reach consistent price levels in the eurozone and the rest of the world."

According to our analysis of data collected by Spottedfashion.com, Chanel hiked prices across 11 lines in its Flap Bag and Boy Bag ranges by an average 10.6% in November 2016. This was Chanel's third price rise of 2016 for classic bags, according to Spottedfashion.com, following hikes in March and July. We list selected example items below.

Figure 5. UK: Selected Chanel Classic Bags Prices

	Nov 2016	Pre-Nov 2016	% Increase
Chanel Mini Classic Flap Bag	£2,100	£1,910	10.0%
Chanel Small Classic Flap Bag	£3,840	£3,480	10.3%
Chanel Medium Classic Flap Bag	£3,990	£3,620	10.2%
Chanel Jumbo Classic Flap Bag	£4,450	£3,980	11.8%

Source: Spottedfashion

Across nine Luis Vuitton bag lines, prices increased by an average of 16.1% between 2015 and October 2016.

Louis Vuitton has also pushed up UK prices three times so far in 2016: in April, August and October. Across nine Luis Vuitton bag lines recorded by Spottedfashion.com, prices increased by an average of 16.1% between 2015 and October 2016. We list a few example items below.

Figure 6. UK: Selected Louis Vuitton Classic Bags Prices

	Oct 2016	2015	% Change
Louis Vuitton Epi Neverfull MM Bag	£1,390	£1,160	19.8%
Louis Vuitton Neverfull MM Bag	£880	£710	23.9%
Louis Vuitton Capucines MM Bag	£3,700	£3,150	17.4%
Louis Vuitton Monogram Empreinte Speedy Bandouliere 30 Bag	£1,850	£1,710	8.2%

Source: Spottedfashion

Richemont and LVMH increased UK watch prices in September.

Burberry and Cartier also pushed up UK prices between March and November 2016, according to *The Times*. Rolex increased UK prices by 10% in early November, according to trade website WatchPro; the site said this was the first UK price rise instituted by Rolex since 2012. Richemont and LVMH increased UK watch prices in September, according to WatchPro. Patek Philippe put its UK prices up by 10% at the beginning of August, its UK Managing Director, Mark Hearn, told the *New York Times*.

Moreover, some industry experts have speculated that further price rises will be seen from around spring 2017, when hedging contracts start to expire and the cost of imported goods increases as a result. These general price rises could be seen across various categories.

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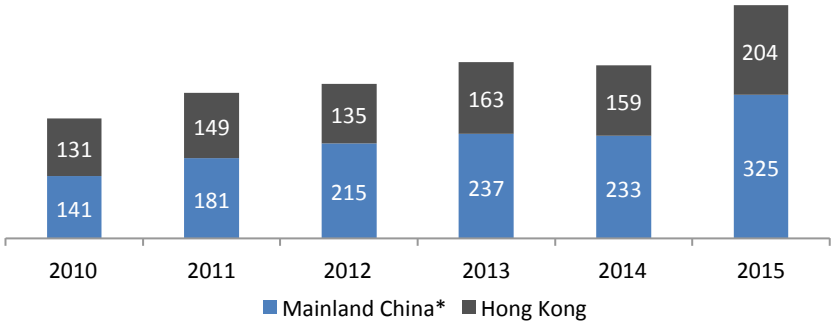
Medium-Term View: UK Lags in Attracting Chinese Tourists

Visitor numbers to the UK from the Mainland jumped by 39.5% in 2015, when Chinese traveler numbers to Europe as a whole rose by 40%.

Below, we offer a five-year view of Chinese visitor numbers and spending. Over the five years through 2015, annual visitor numbers from Mainland China have risen by 130%. Visitor numbers from the Mainland jumped by 39.5% in 2015, when Chinese traveler numbers to Europe as a whole rose by 40%, according to the European Travel Commission. Slovakia, Iceland, Montenegro and Spain saw the biggest increases in 2015, comfortably outpacing even the UK's strong performance.

Figure 7. UK: Number of Overseas Visits, by China/Hong Kong Residents (Thou.)

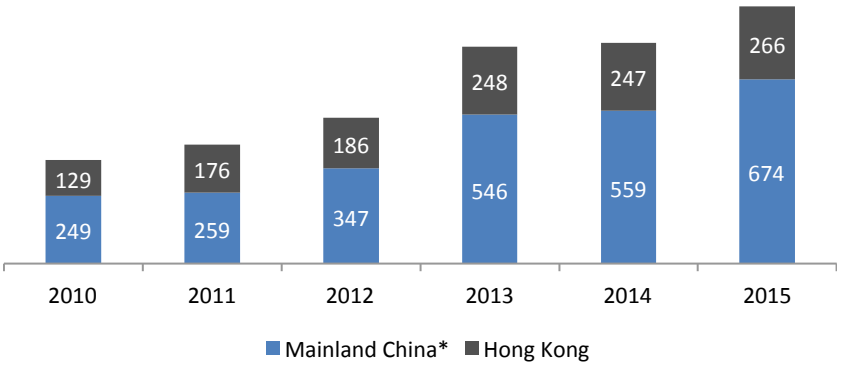


**All China except Hong Kong*
Source: ONS

Spending by visitors from Mainland China in the UK rose by 20.5% in 2015, well below the rise in visitor numbers. As noted earlier, per-person spend fell and this provides undemanding comparatives for growth in spending-per-visitor in 2016.

However, According to the ONS, Mainland Chinese visitors cut their total spending in the UK by 13.6% in the first quarter of 2016 and by 40.1% in the second quarter (latest).

Figure 8. UK: Spending While on Trips, by China/Hong Kong Residents



**All China except Hong Kong*
Source: ONS

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The UK captured just a 4.1% share of the total 7.98 million trips from China to Western and Northern Europe in 2015.

The UK captured just a 4.1% share of the total 7.98 million trips from China to Western and Northern Europe recorded by the European Travel Commission in 2015. This suggests major opportunities for the UK to win a larger share of Chinese trips.

The 325,000 visitors in 2015 is a shadow of the 2.2 million that France attracted in the same year. Italy, Switzerland and Germany were also more popular than the UK for Chinese tourists in the first half of 2015 (latest), according to Travel China Guide.

Figure 9. Number of Visitors from Mainland China, Selected Countries/Territories

Country or Territory	2014 (Mil.)	2015 (Mil.)	% Change
Hong Kong	47.25	45.84	-3.0
Macau	21.25	20.40	-4.0
Thailand	4.64	7.93	71.1
South Korea	6.13	5.98	-2.3
Japan	2.41	4.99	107.3
Taiwan	3.99	4.18	4.9
USA	2.19	2.27	3.7
France	N/A	2.2	N/A
Australia*	0.74	0.90	21.7
UK	0.23	0.33	39.5

**Years end September.*
Source: National statistics offices/Fung Global Retail & Technology

The UK ranked as the 16th-most-popular destination for Chinese tourists in 2015.

According to separate data on the number of trips organized by travel agencies, the UK ranked as the 16th-most-popular destination for Chinese tourists in 2015. Note that this severely underrepresents trips to local territories such as Hong Kong, where relatively few visitors will rely on travel agencies.

Figure 10. Number of Visits from Mainland China Organized Through Travel Agencies, 2015 (Mil.)

	Country or Territory	2015 (Mil.)
1	Thailand	7.37
2	Hong Kong	6.67
3	Korea	4.85
4	Japan	4.59
5	Taiwan Region	3.98
6	Macao Region	3.47
7	Singapore	1.65

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	Country or Territory	2015 (Mil.)
8	Malaysia	1.16
9	Vietnam	1.13
10	France	1.01
11	Indonesia	0.99
12	Italy	0.83
13	Germany	0.74
14	Switzerland	0.72
15	Russia	0.62
16	United Kingdom	0.42
17	Philippines	0.31
18	Netherlands	0.20
19	India	0.17
20	Spain	0.14

Source: China National Tourism Administration

Outlook To 2017: Price Harmonization Could Stymie Sustained Traveler Boost

We expect solid year-over-year growth in Chinese traveler numbers to continue into 2017.

The post-referendum boost in spending by tourists, including Chinese tourists, appears to have been driven substantially by increased spend per tourist. It is less clear that there has been a comparably strong surge in total traveler numbers, although we await official figures relating to Chinese traveler numbers since the pound's depreciation.

The moves by luxury brands to raise UK prices could well put a halt to any growth in Chinese traveler numbers and their spending in the UK, which has been driven by the appeal of low-cost, high-end shopping. Indeed, any uplift in visitor numbers resulting from visitors flocking to buy luxury goods may well have peaked.

These luxury price rises do not imply there is no financial benefit to Chinese travelers to visit the UK: the depreciation of the pound means their in-country transportation and hotel costs, leisure spending and nonluxury retail purchases will still be lower than they would have been.

We expect solid year-over-year growth in Chinese traveler numbers to continue into 2017. However, the second half of 2017 will likely see demanding comparatives for these metrics as they annualize the post-referendum boost. This will make sustaining robust growth even more difficult.

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