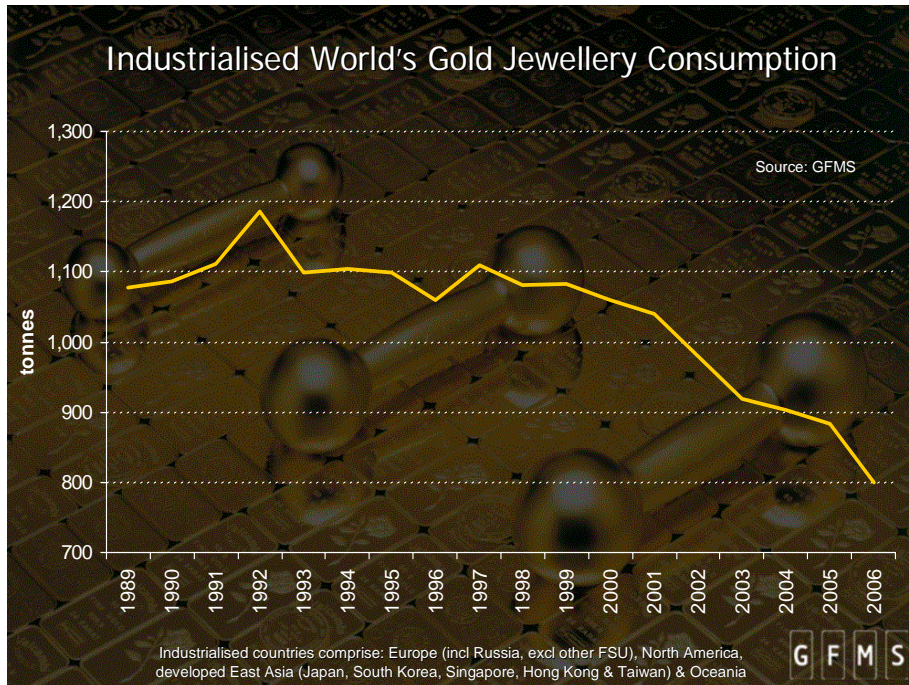


# High Prices or Other Drivers – What Explains the Weakness of Western Jewellery Consumption?

## Slide 1 – History of Industrialised World’s Gold Jewellery Consumption

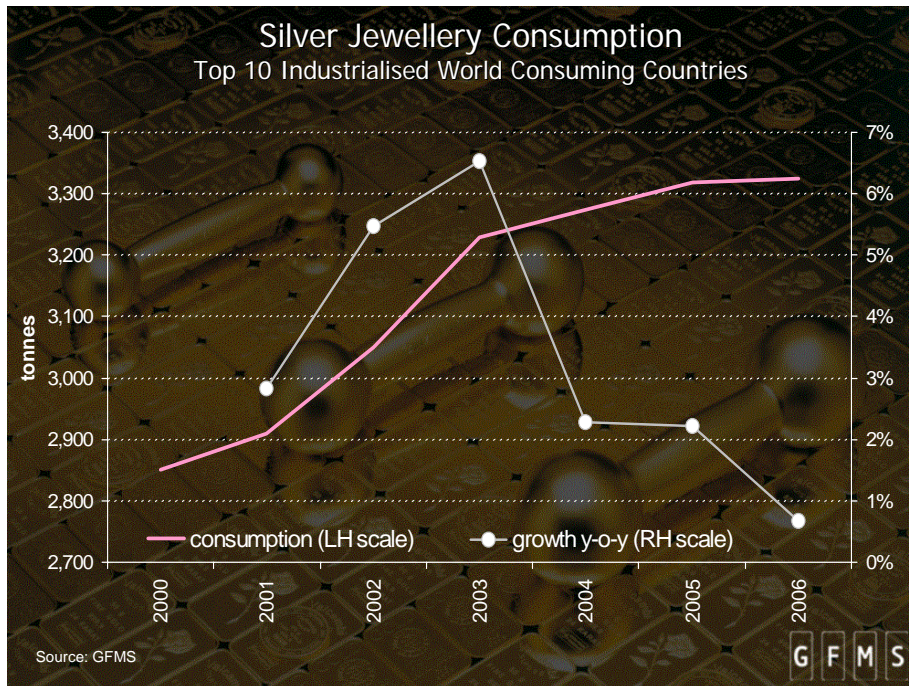


N.B. Graph includes rich Asia but rest of talk more focused on Europe & N America, though changes in all high income countries, variations on a theme

## Slide 2 – History of Industrialised World’s Silver Jewellery Consumption

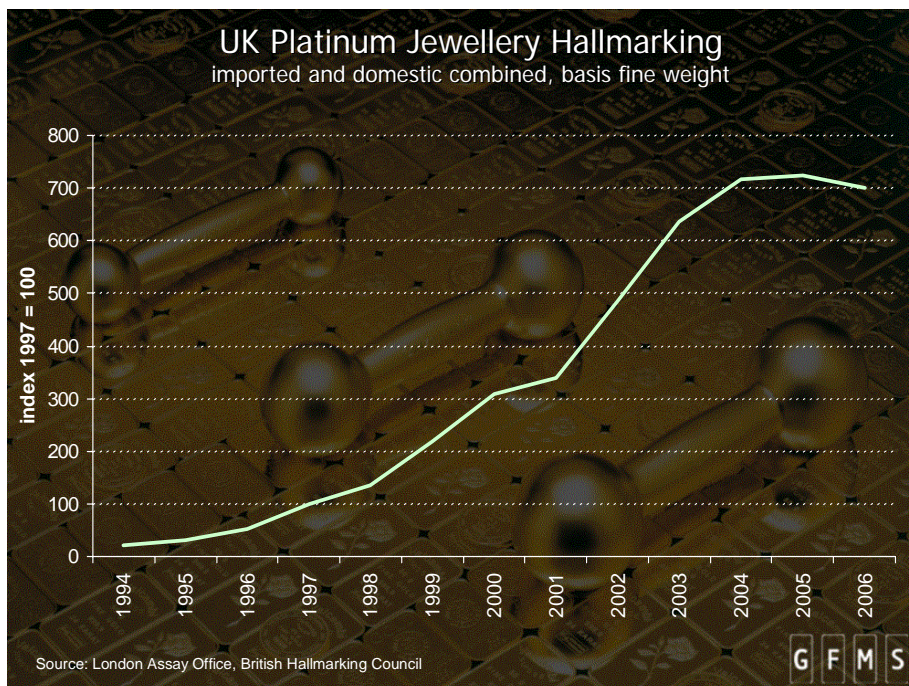


### Slide 3 – Rate of Change in Industrialised World’s Silver Jewellery Consumption



Graph same as previous but with annual change added to highlight marked slowdown in growth.

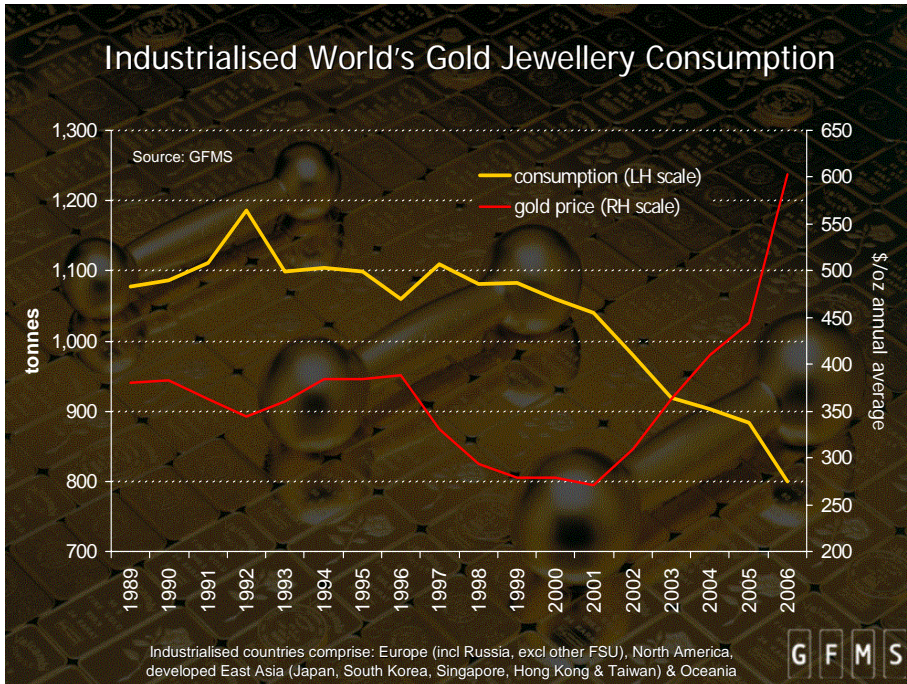
### Slide 4 - History of UK Platinum Jewellery Consumption



Data on **consumption** (not fabrication) hard to come by for platinum jewellery but UK hallmarking a good example. Industry comments suggests slowdown in growth occurred earlier in United States and has since been steeper.

So, all three metals seeing slower growth or further losses. Due to price?

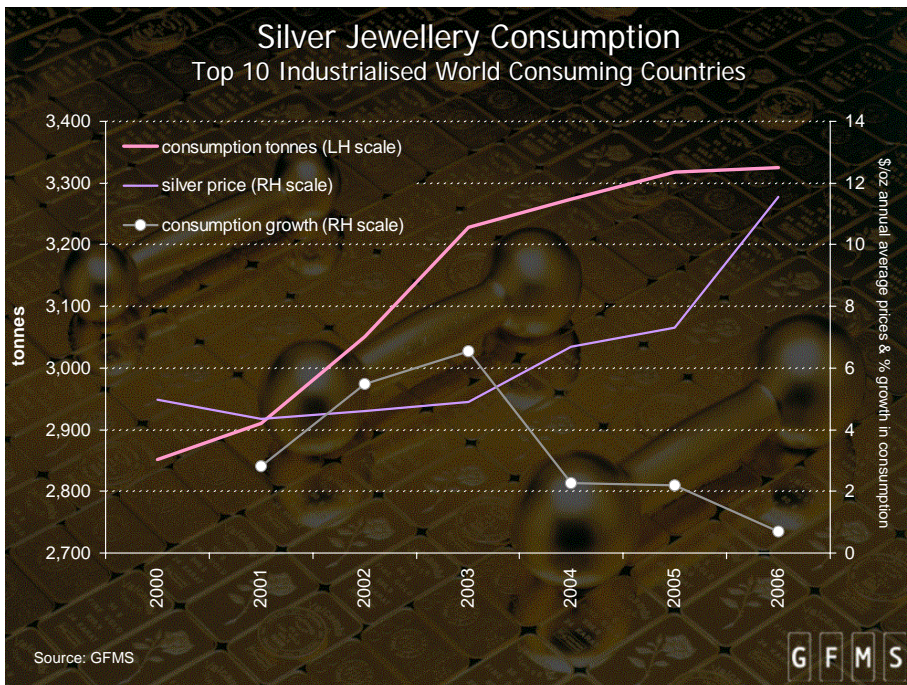
## Slide 5 – Gold Jewellery Consumption & the Price



Two key points:

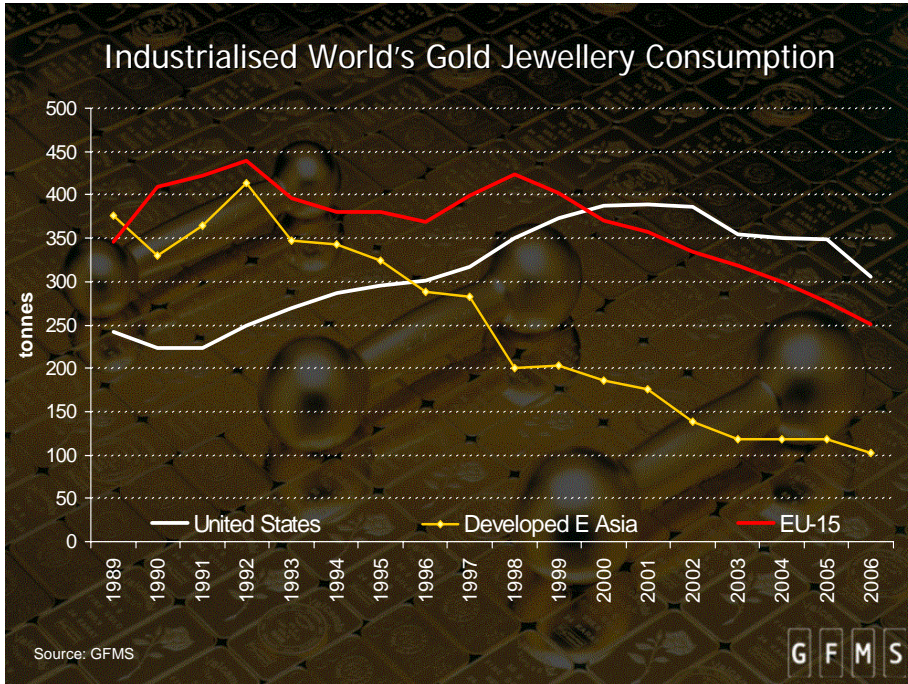
- late 1990s: drop in price at same time as fall in consumption – other factors have to be at work
- last year: acceleration in decline coincides with price hike – brave to argue no link

## Slide 6 – Silver Jewellery Consumption & the Price



Pattern not dissimilar to gold: early part of decade sees acceleration in consumption growth, yet price rising, if gently - last year or two sees more aggressive price rise & sharp slowdown in growth. For platinum, price can be important – bridal sector doing OK, some weight trimming. But decimation of fashion segment.

### Slide 7 – Gold Jewellery Consumption by Region



N.B. all three show fairly consistent pattern: steady rise to a peak & then steady slide. Most marked & early for rich Asia, Europe next from late 1990s & signs that US now on downward path.

### Slide 8 – Gold Jewellery Consumption in Europe



EU numbers benefit from separation as a composite of very varied markets. “Big Four” in isolation & pattern clearer – Germany & Italy rise to peak and then steady slide from early 1990s, France turns in late 1990s & then UK from start of this decade.

## Slide 9 – Silver Jewellery Consumption by Country



Two main points:

- Germany & US – steady growth over period
  - Italy – early ‘turner’ for gold so reversal in silver an indicator for others, e.g. Spain?
- So, pattern less clear but potential to materialise.

Platinum – structural arc of rise & fall harder to identify but could contribute to recent reversal

## Slide 10 – Jewellery’s Competitors



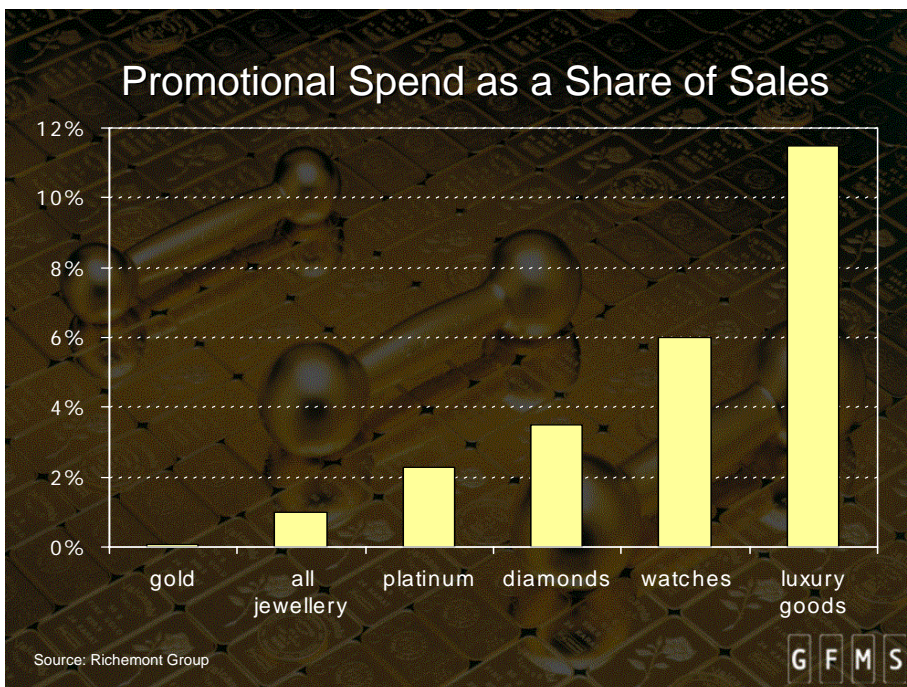
Key cause of pressure on jewellery is success of rivals, e.g. technology goods (always new so always a reason to buy) or luxury goods & watches (both heavily branded & promoted).

### Slide 11 – Example of Rival’s Success in Comparison to Gold



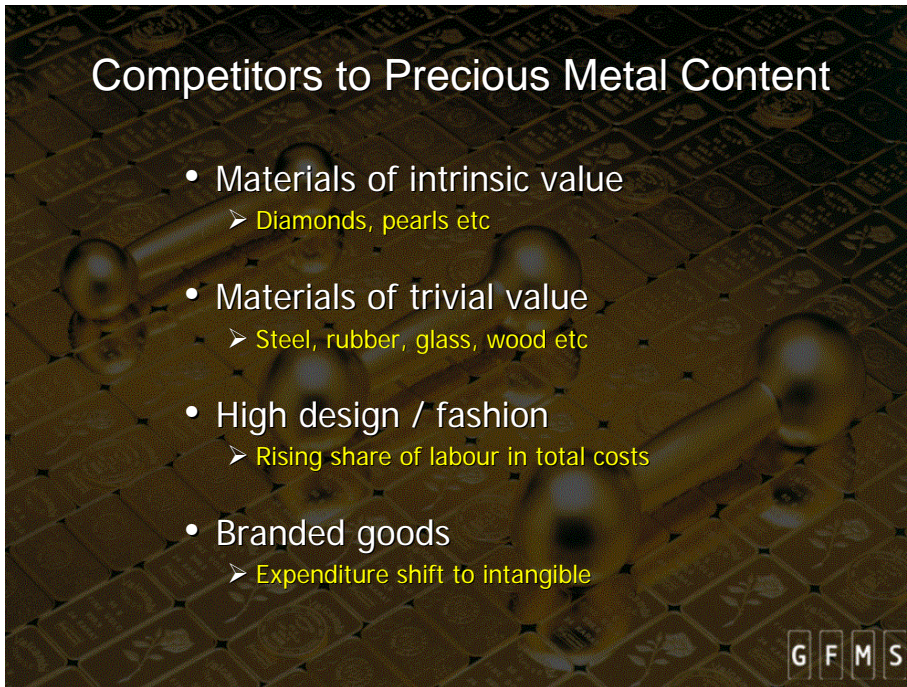
Also, GFMS field research talking to producers of gold plating salt shows their sales up to accessories manufacturers (for buckles, clasps etc) but down to jewellery fabricators.

### Slide 12 – Promotional Spend as a Share of Sales



Key reason for others’ success is greater advertising budgets.

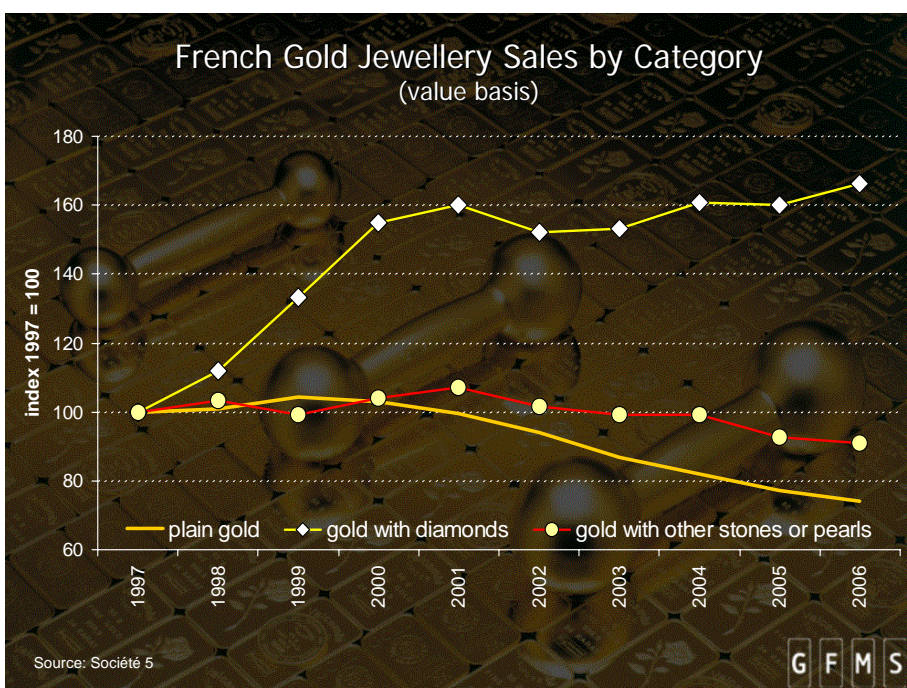
### Slide 13 – Competitors to Precious Metal Content within Jewellery



Even if jewellery bought, precious metal under threat from four key areas:

- high value non-metal - diamonds most obvious but semi-precious stones done well recently
- trivial value – incorporated e.g. accented steel or silver pendant on leather cord rather than a chain. Or on own – plain steel now common. N.B. not necessarily cheap – steel piece can easily go over €100 & that’s gold territory
- design – jewellery moving to fancier styles so % spent on metal down & % on labour up.
- branded – preference for perceived value rather than intrinsic value. Some feel easier to sell branded steel than unbranded silver.

### Slide 14 – Example of Shift Away from Plain



## Slide 15 – Causes of Precious Metal Losses within Jewellery



Causes:

### a) fast fashion

Broad change of people buying items to last just a season or two, not only jewellery but also clothing & accessories. For jewellery means shift from plain quasi-investment & possibly expensive pieces bought occasionally to one or two season probably cheap accessory items bought frequently. Likely to undermine precious & boost costume e.g. steel

N.B. if new design needed every season, easier with mixed materials. If just plain, how to build in difference one year to next?

### b) informalisation

Broad trend e.g. dress down at work. Casual jewellery OK now – pieces more every day & during the day, less only for occasional wear in the evening – all militates against precious.

### c) self-purchase

Shift to purchase by ultimate wearer rather than jewellery received as a present – more likely to buy along accessory lines to match outfit – again could be bad for precious

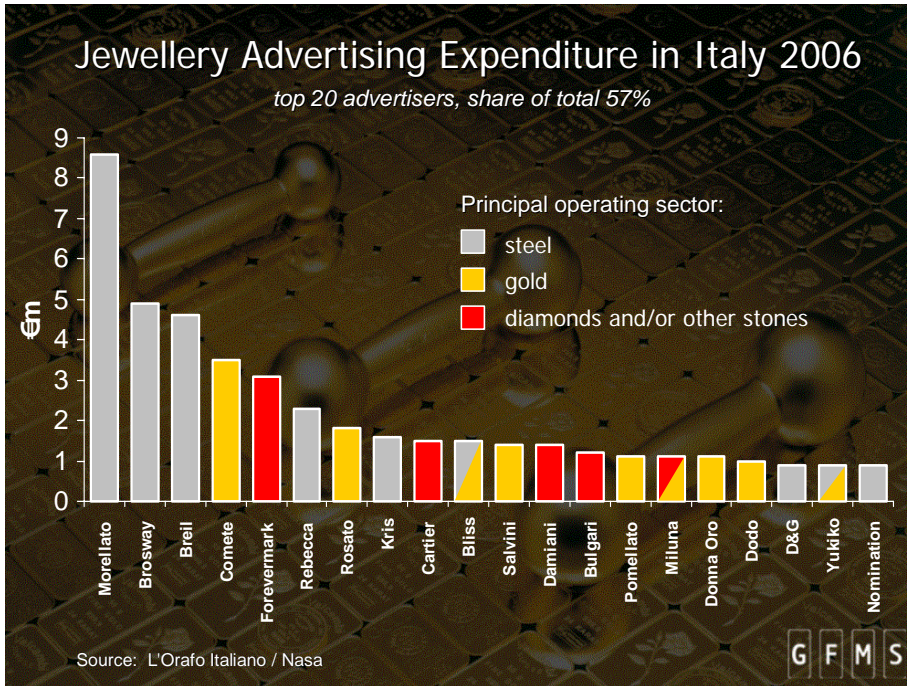
### d) margin pressure

Jewellery business driven by margins. Often much higher & far easier to hide with mixed – pieces can't be put on scales to see markup over fine.

### e) promotional budgets

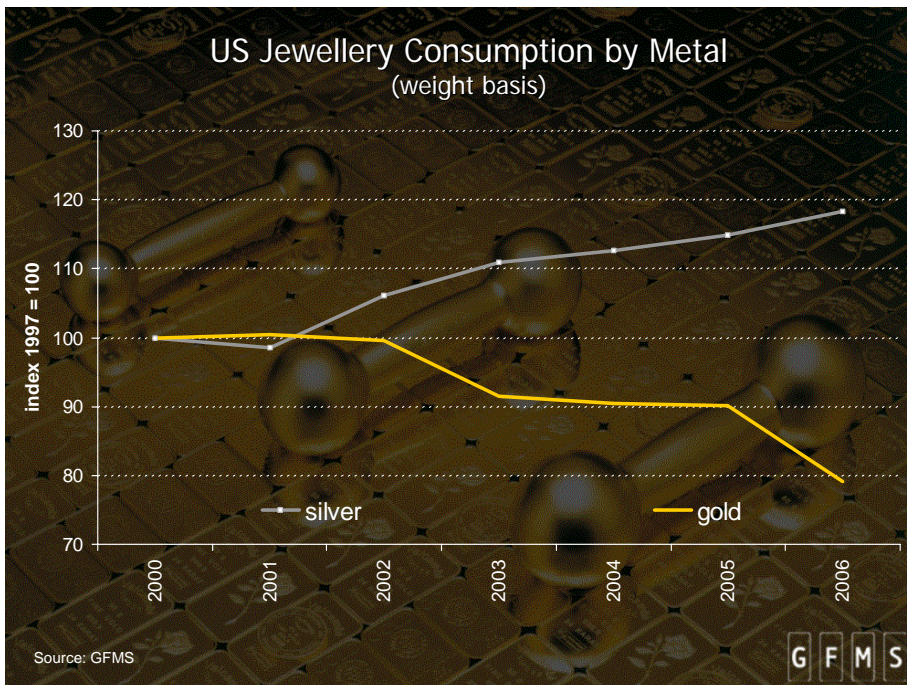
Fat margins on costume / mixed materials means bigger advertising campaigns possible.

**Slide 16 – Example of Differential Advertising Budgets**



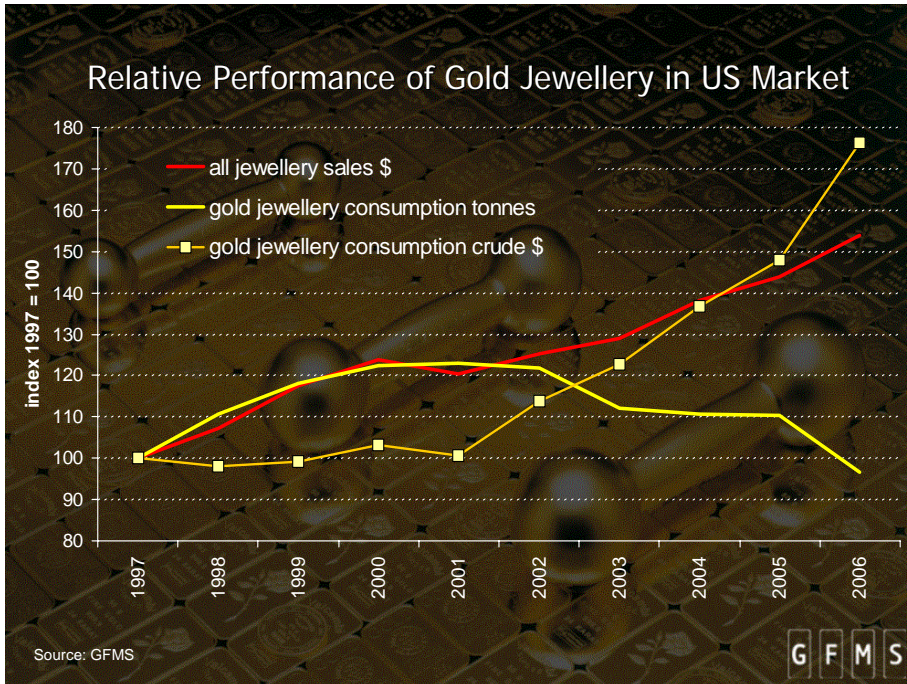
N.B. division of brands subjective – some can do a fair bit in other categories & a few too difficult to split. But, clear there is dominance of big steel brands – starts to explain why gold under pressure. Also, there’s no silver brand - again explains weakness of silver jewellery in Italy.

**Slide 17 – Rivalry Between Precious Metals**



In US market, silver done better than gold, reflecting some substitution from gold to silver because of price. Silver still affected by structural changes. Similar story in Germany – 8 carat segment losing out to silver. Gold not always a loser here - high platinum price not unhelpful for white gold. High platinum price also opens up niche for carat palladium jewellery.

## Slide 18 & 19 – Jewellery Consumption in Value Terms



Review of value can generate different conclusion. Above example of US market:

a) in weight terms, gold in tandem with whole market until 2002 then performs worse

b) in value terms, gold underperformed in the late 1990s & then grew faster than overall market.

Same story in EU – over last 10 years, gold weight down around a third but crude value up c. 15%.

(Crude value = fine weight of gold times annual average gold price. i.e. no account taken of any margins for manufacturer, retailer etc on top.)

## Slide 20 – Summary & Outlook



### 1) Price importance

a) opportunity for recovery in precious metals weight should high price environment end e.g. some steel producers move into silver.

b) reversal of earlier substitution between precious metals e.g. silver loses out to gold

### 2) Economic growth

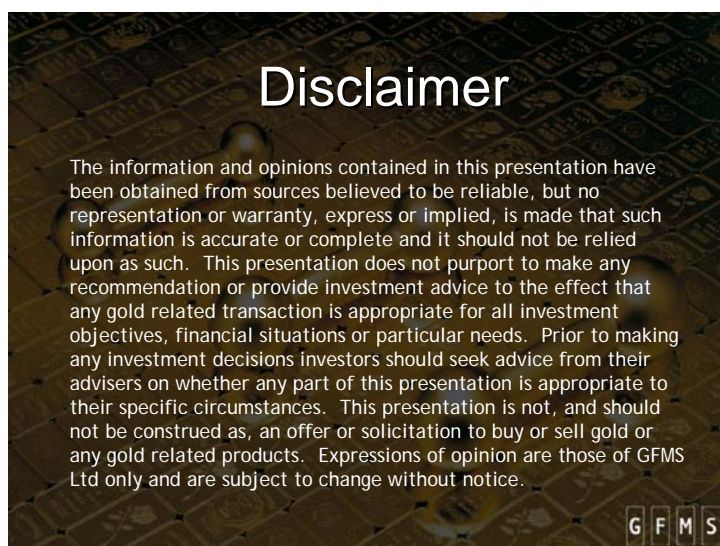
Mention in passing to allow focus on structural changes & can have mixed impact; industrialisation can make jewellery more affordable but could accelerate structural changes.

### 3) Structural changes

a) Bottoming out - some countries bottoming out now bulk of change behind? Some feel started in Taiwan and maybe even Germany. Few others obvious so conclusion is threat of further losses in gold and potential spread to silver.

b) Reversal - difficult to see happening as tied in to major societal changes.

c) Spread to developing world – what happens when, for example, China and India shift from plain, low margin high carat pieces to more accessory style pieces? Obvious threat but outlook not necessarily gloomy - per capita gold jewellery consumption in Italy, UK and US all in ballpark of 1 gramme/year but India now only roughly 0.5g & China 0.25g/yr.



### © Copyright GFMS Limited - September, 2007

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the prior written permission of the copyright owner. Brief extracts (excluding graphs) may be reproduced only for the purpose of criticism or review and provided that they are accompanied by a clear acknowledgement as to their source and the name of the copyright owner.

**No graphs may be reproduced without the written permission of the copyright owner.**