Editorial

Annual Health Check Up

The Swiss watch industry receives its yearly assessment by Morgan Stanley and LuxeConsult.

Information
2 November 2020

The annual report on the Swiss watch industry created by Morgan Stanley is out, and expands on the observations that most of us have already made about the watch business in 2020. Exports are down, both in volume and in value, although the report's findings indicate that the numbers may not be as depressed as initially feared.

Created by the Morgan Stanley research department with the input of LuxeConsult, the consulting firm of industry veteran Olivier R. Müller (no relation to WorldTempus contributor Olivier Müller), the report presents an overall picture that — while not exactly rosy — gives us cause for some cautious optimism. The projected contraction is 32 percent for export volume and 19.5 percent for export value, which seems exceptionally lenient in view of the number of country-wide lockdowns and near-frozen economies that have crippled 2020. Related findings, such as the heightened percentage of Swiss watch exports to China, are consistent with what we learned throughout the year. It is the logical result of four factors: China's tight control of domestic virus transmission after the initial shock, the sharp curtailing of international travel originating from China, the significant expansion of the duty-free purchasing quota in Hainan, and the continued political and economic throttling of Hong Kong.

Some of the most interesting points that were made in the report include the increased polarisation and premiumisation of the industry. In plain speech, that means that the gap between strong and weak brands has widened, and that higher-priced watches are selling better than entry-priced ones. This follows the reasonable expectation that in financially tumultuous times, those with means prefer to invest in brands with higher perceived stability and longevity — a textbook illustration of risk avoidance. The fact that more expensive watches are selling better may tell us that the ultra-wealthy are relatively insulated from the economic fallout of the global pandemic, but it's also compounded by the ongoing encroachment of smartwatches into the market share of entry-level timepieces. In an anecdotal sense, this finding is supported by the empirical experience of our contributor Carlos Matamoros when he reported on Salón Internacional Alta Relojería (SIAR) 2020, observing that many of the star watches presented at the exhibition were sold even before the event opened its doors. In a completely separate piece of corroborating information, our conversation with Breitling CEO Georges Kern at this summer's Geneva Watch Days revealed that it's the brand's higher-priced watches that are selling better.

This leads to the next interesting discovery, that despite the dire news reports coming out of the US daily — a perfect storm of political and social unrest, an out-of-control coronavirus situation and catastrophic environmental events — markets there remain surprisingly resilient. I've had informal conversations with US-based retailers and brand representatives throughout the year that support this finding, but the Morgan Stanley report brings an additional factor to the table. According to the report, this unexpected resilience is partly bolstered by the advent of reputable second-hand watch platforms, allowing watch buyers to purchase with confidence, trusting that they have the option to quickly turn their watches into liquid assets if necessary.

Coming from Singapore, a fully mature watch market that has long had a thriving secondary market, I've consistently observed that the secondary market provides a more accurate gauge of the industry temperature — so to speak. Product trends and performance are magnified, since price-setting is overwhelmingly set by sheer market demand and not directly set by brands. In fact, I believe that the truest sign of an autonomously healthy watch market is the presence of a strong secondary watch trade.

You can read the full Morgan Stanley and LuxeConsult report online, but here's the TLDR: things are down, but not as down as you might think; the strong are getting stronger, signalling a need for redistribution at all levels in order to decrease volatility and over-reliance on a few brands or markets to keep our industry going; the secondary market will increase in importance, not just in terms of activity, but as an industry bellwether (and it's a good thing).