

Business

Last Updated: September 17, 2011 1:00AM

Luxury spending picks up even as economy sputters

Tiffany jewelry, boats and custom choppers are selling just fine

Jaclyn Trop/ The Detroit News

Spending on luxury items is picking up among certain Michigan companies, underscoring the gap between the rich and poor as uncertainty lingers about the economy here and nationwide.

The purchases, especially on lavish motorcycles, boats and airplanes, reflect a national trend of increased luxury spending by well-to-do consumers this year, even as economists have lowered their estimates about how the overall economy will grow for the rest of the year.

Wealthy consumers in the Great Lakes State and around the country are seeking Michigan-based custom builders for six-figure motorcycles, \$750,000 boats and \$1 million airplane interiors for one-of-a-kind rides. The builders say they are seeing fewer customers than before the recession, but that those shoppers are willing to shell out much more money



Voodoo Choppers owner Eric Gorges of Clarkston test fits the rear fender on a custom-built chopper with a kick starter. (Todd McInturf / The Detroit News)

The uptick in spending "re-emphasizes the tale of two consumers," said Mark Davidoff, managing partner of Deloitte LLP's Michigan financial advisory practice. "Over the past decade, the gap between upper- and lower-income consumers has widened significantly. That middle segment is getting squeezed to the edge."

Luxury retail nationwide has outpaced overall consumer spending this year, posting 11 consecutive months of sales increases compared with a year ago, according to MasterCard Advisors SpendingPulse, a data service that estimates U.S. retail spending in all payment forms.

Spending on luxury items rose the past two years following two years of declines, with the January through August year-to-date increase of 7.4 percent for 2011 the strongest since the same period in 2007. Designer brands from Tiffany & Co. to Porsche this year are reporting double-digit profits.

Clinton Township-based Voodoo Choppers is building four to six custom-built motorcycles this year, compared with one or two a year during the recession, at \$20,000 to \$100,000 apiece.

"This is a luxury item," said owner Eric Gorges. "No one needs a custom motorcycle sitting in their garage."

When the recession began, some customers abandoned their orders; others requested less expensive modifications such as different fuel tanks, fenders and handlebars to their stock bikes, Gorges said.

About 60 percent of Gorges' business comes from out of state though the balance is shifting, he said, with Michigan customers more willing to spend.

Sunsation Boats in Algonac expects this year to build 18-20 boats that are higher-end and bigger than the ones customers ordered before the recession. Sunsation's boats cost between \$150,000 and \$750,000, but this year's crop is clustered at the upper range, said Chief Financial Officer Joe Schaldenbrand.

Sunsation Boats had 70 orders for high-end custom boats in 2006, but "things really slowed down after that to almost no sales a year" as the economy limped along, Schaldenbrand said.

The company received seven orders in 2010 as the economy showed signs of gradual recovery, but 2011 has been a bull year for wealthy clients who don't blink at a \$15,000 price tag on a nautical stereo system and don't need bank financing.

"Basically, they just write me checks," said Schaldenbrand, adding that about 90 percent of his customers are from out of state.

A similar uptick is evident at Dunkin Aviation, an airplane maintenance, repair and overhaul company with facilities in Battle Creek and Lincoln, Neb. Corporations and private customers alike are spending more to upgrade their plane's interior, said spokeswoman Lori Johnson.

Business dwindled in 2009 to the point where Dunkin's hourly airplane technician staff was paid to clean the facility just to stay busy, Johnson said. Customers who continued to fly during the recession opted for basic upgrades such as new carpeting, with orders hovering near the \$20,000 range.

Now the factories are operating at 30 percent over capacity, Johnson said, and orders for \$1 million cabin redesigns, with new seating configurations and WiFi access, are coming in again. Revenue for January through August this year rose 17.6 percent compared with the same period in 2009, she said.

"The price tag has certainly increased," Johnson said. While business hasn't returned to pre-recession levels, she added, the number of larger projects is rising.

Analysts aren't surprised at the spending resurgence among the ultra-wealthy but contend it isn't a reliable barometer of the retail economy.

"Traditionally, the affluent 'luxury goods' sector of consumer spending is the first to show a spike in consumer demand coming out of a recession," said Farmington Hills-based retail analyst Ken Dalto.

Meanwhile, middle-income consumers who clung to the upscale lifestyle with consumer debt or equity loans before the recession hit in 2007 are struggling, Deloitte's Davidoff said.

"I don't see that gap closing," he said.

The outlook for affluent consumers is stronger compared with the general population because federal taxes are expected to remain stable, their savings rate is higher and their jobs are more stable, Dalto added.

"All the data point to the fact that the rich really are getting richer, which would be those in the top 0.5 percent of the population," said Pam Danziger, founder of Unity Marketing, a Stevens, Pa.-based firm specializing in luxury goods. "However, most of the rest of the 99.5 percent of U.S. households feel decidedly less affluent."

It's not clear what income bracket the top 0.5 percent of households falls into, she said, "but the top 2 percent starts at about \$250,000 and I know that \$250,000 isn't really rich in terms of buying yachts."

Custom motorcycles, boats and jets may be attractive purchases for wealthy consumers as an alternative to the weak housing market, said Kurt Rankin, a Pittsburgh-based economist with PNC Bank.

"Instead of buying a home, maybe they're buying other big-ticket items," Rankin said.

Gorges four years ago launched a second business, Detroit Pedal Bike Co. The custom-made children's tricycles start at \$1,900.

"If you look at it at a primal level, yeah, it's a tricycle, but you won't see another tricycle out there with go-kart slicks on the rear," Gorges said. "It's something that would stay in the family. You won't see it at a yard sale for \$5."

jtrop@detnews.com

From The Detroit News: <http://detnews.com/article/20110917/BIZ/109170349/Luxury-spending-picks-up-even-as-economy-sputters#ixzz1YPCGQ4N2>