THE US JEWELRY STATE OF THE MARKET REPORT

EDAHN GOLAN DIAMOND RESEARCH & DATA

EDAHN GOLAN
Diamond Research & Data

Table of Contents

Key US Jewelry Market Figures 3
US Retail Market Overview – Record Spending on Jewelry 4
  Holiday Sales Decline 4
  Average Spend on Jewelry 4
Why Buy Jewelry? 5
Who Buys Jewelry? 5
  Income 6
  Age 7
  Locale 9
What Jewelry Are Consumers Buying? 10
  Jewelry 10
  Polished Diamonds 11
When Do We Buy Jewelry? 12
  November–December Holiday Season 12
  Other Occasions 13
Where Do We Buy Jewelry? 13
  A Fragmented Market 13
  Specialty Jewelers Market Share 14
How Are We Buying Jewelry? 15
Year Wrap Up 15
  A Promising Scenario 15
  A Painful Outcome 16
  “Less for More” Turns into “More for Less” 17
Summary 18
Credits & Sources 19
About 19

Key US Jewelry Market Figures

- Overall US fine jewelry and watch sales in 2014: **$78.08 billion**
- Overall US jewelry sales in 2014: **$68.8 billion**
- Year-over-year change in sales: **+1.5%**
- Specialty jewelers sales: **$33.6 billion**
- Overall US jewelry and watch Holiday Season sales: **$21.7 billion**
- Fine jewelry Holiday Season sales: **$19.2 billion**
- Year-over-year change in Holiday Season jewelry sales: **-1.2%**
- Average US household expenditure on fine jewelry & watches: **$612**
- Average US household expenditure on fine jewelry alone: **$434**

A jewelry showroom, ca. 1950s

The US Jewelry State of the Market Report

US Retail Market Overview – Record Spending on Jewelry

In 2014, jewelry and watch sales totaled $78.08 billion, up 1.5% from 2013, according to preliminary figures. Specialty jewelry retailers posted a 1.1% increase in sales, to a record $33.61 billion in 2014.

In 2014, overall fine jewelry sales in the US totaled $68.8 billion, rising 1.4% year-over-year. Watch sales increased 7.7%, to $9.13 billion in 2014.

These figures are a modest improvement over 2013, a year of above average growth in fine jewelry and watch sales at both specialty jewelry stores and general merchandisers.

In 2013, jewelry and watch sales increased 6.3% from 2012, and specialty jewelry retailers posted a 7.8% increase in sales to a record $33.25 billion in 2013. The performance of jewelry and watches has outdone inflation, most other retail sectors and even the US economy in 2013. So while jewelry sales have continued to grow in 2014, hitting yet another record level, the rise in jewelry demand has weakened, and the rate of growth has slowed from 2013.

Holiday Sales Decline

Overall jewelry sales in the US market totaled $21.75 billion during the November–December Holiday Season, a decrease of 1.4% compared to the January–November period of 2013, and sales by specialty jewelers decreased 4.7% in the period.

A reason for the decline seems to be a shift in purchasing habits. More jewelry was purchased throughout the year, somewhat de-emphasizing the importance of the holiday season for jewelry sales. This has large implications for jewelry retailers.

Average Spend on Jewelry

On average, each US household spent a record $612 on fine jewelry and fine watches in 2013, with expenditures on fine jewelry alone averaging a record $434 per household.

While total expenditure is growing, expenditure per item is not keeping pace resulting in a trend of buying more for less.

Why Buy Jewelry?

The hero of our story is not the jewelry item, although you would think the reason there is even a story to tell at all would be centered on that very object of desire. However, the real hero of our story is the person who buys jewelry. Without this person's desire, a drive it appears most of us are born with, there would be no jewelry industry – or diamond industry for that matter.

A majority of people in all cultures and societies throughout history have had a drive to adorn themselves with jewelry of some kind – mainly for beauty, but also to signify status, importance or changes in life. Be it a necklace of leaves or a cocktail ring, a flower in the hair or a wedding band, a pendant with the logo of an artisan society or a king's crown, all are forms of jewelry that have been woven throughout life and history.

Weddings mark an important occasion in our lives and have remained a central event in most human societies over the ages. They are also an important driver of diamond jewelry purchases. While there is some debate among historians as to whether the tradition of wearing a wedding band actually started with the Egyptians or the Romans, there is agreement that this tradition is several millennia old.

The earliest documentation of the gifting of a diamond engagement ring dates back to 1477 when Archduke Maximilian of Austria proposed to Mary of Burgundy and gave her a diamond ring. While at first exclusively for royalty and the rich, diamond rings have been a popular engagement tradition since the 1930s.

Who Buys Jewelry?

Nearly everyone buys jewelry. People from all walks of life and from all income levels, from every region and of almost any age group buy jewelry. Some, however, spend more than others do.

Based on an analysis of the latest data from a survey of US consumer expenditures by the Bureau of Labor Statistics (BLS), the profile of the biggest spender on fine jewelry in 2013 is:

> A married person between the ages of 55 and 64 years old who lives in an urban area in the Midwest with a population of 1–2.5 million. This person has a bachelor's degree, works as a manager or professional, has a spouse who also works, and their joint annual income is $150,000 or higher. They own a house and have a mortgage. According to the survey, this person is white and has no children. With any variation from these characteristics, the annual expenditure on jewelry tends to decline.

Profile of the Jewelry Consumer with the Highest Jewelry & Watch Expenditure*

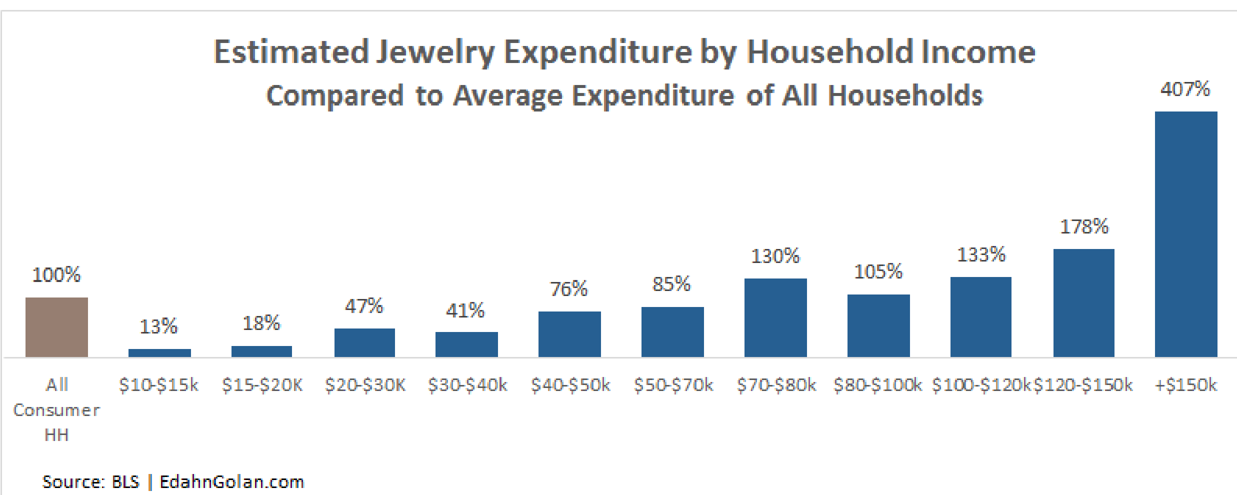
Characteristic	Avg. Expenditure
55-64 years old	$548
Two earner household	$567
Married, no children	$625
White	$448
Bachelor's degree	$713
Manager or professional	$762
Has an annual HH income of $150K or more	$989
Lives in the Midwest	$455
Lives in an urban area with a pop. of 1-2.5M	$500
Homeowner with mortgage	$463

* Based on estimated average household expenditure
Source: BLS nalysis: Edahn Golan | EdahnGolan.com

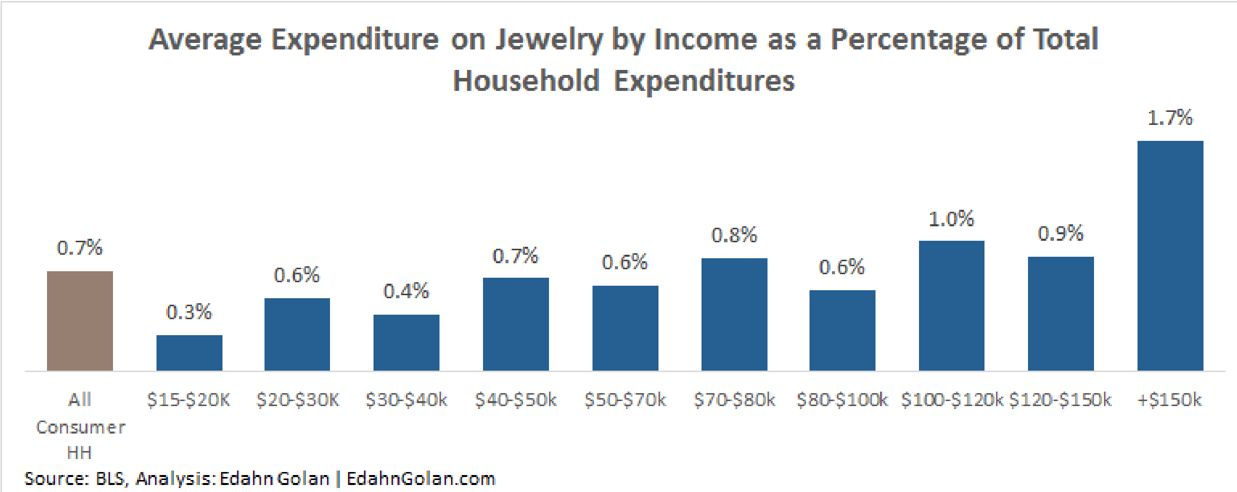
Income

By income, expenditure on jewelry and watches tends to rise as a household's income rises. Households earning $10,000–$15,000 annually each spent on average less than $100 a year on fine jewelry and watches, while households with an income of $150,000 or more spent on average nearly $2,000 per household.

Households with an annual income under $70,000 spent less than the average on jewelry per household. Households earning more than $70,000 annually spent more than the average on jewelry, with top bracket income households spending on average four times as much on fine jewelry than the national average.



The average expenditure on jewelry was 0.7% of total annual expenditure per household. Here, too, we see variations between income brackets. Lower income households spent a smaller portion of their income on jewelry, while higher income households spent more, with a total variation of 0.3% to 1.7%, as the following graph shows.

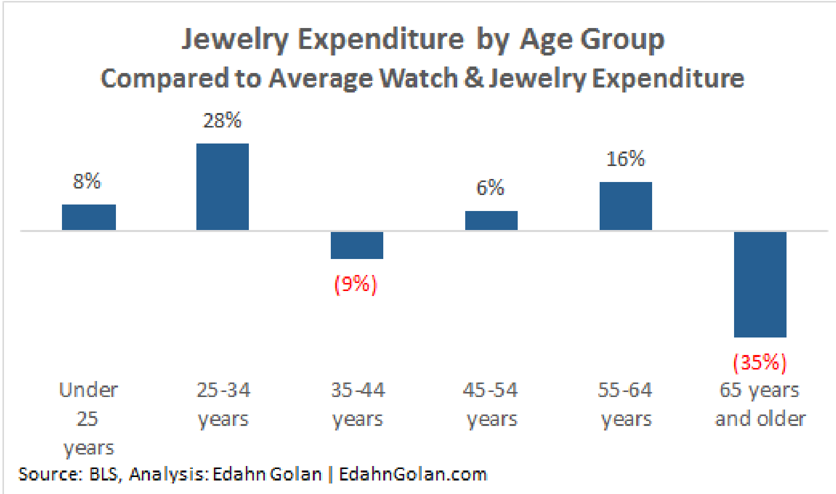


Age

Spending on jewelry and watches seems to take place mostly during two periods of our life: during our mid-20s to mid-30s, and again, between the ages of 55 and 64. This is when the majority of Americans marry and reach the peak of their earning power, respectively.

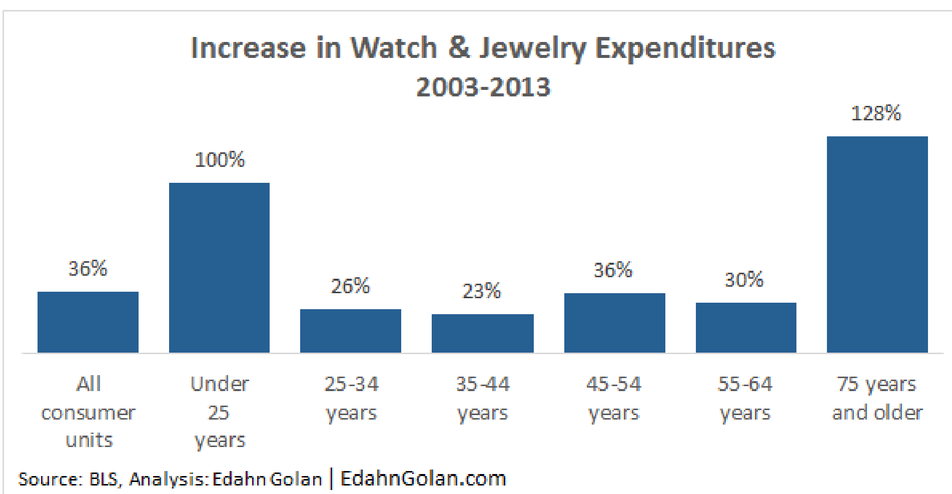
For the diamond jewelry sector, bridal is the most important part of their business. In that regard, when considering expenditures on fine jewelry without watches or other related expenses, 25–34 year olds – *Millennials* – spend the most because of marriage. They spent on average an estimated $786 per household, or more than 28% above the average expenditure.

In addition, it is not uncommon to see many second- and even third-time marriages among the 55–64 age group – *Baby Boomers*. Further pushing up expenditures, diamond engagement rings for second-timers tend to be bigger and pricier.



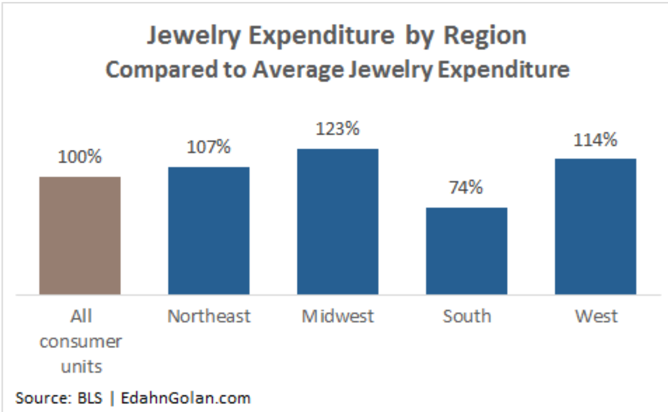
The age group that has spent the most on jewelry changes over the years: A decade ago, in 2003, the 55–64 age group spent the most on jewelry, and the 25–34 age group was a close second. Four years later, in 2007, the top spenders were the 35–44 year olds, way ahead of all other age groups. However, in 2013, 35–44 year olds spent below the average.

Expenditures on watches and jewelry increased nominally during the ten years that passed between 2003 and 2013, which was expected. The interesting trend is that the age groups that increased their spending the most were the youngest and the oldest, those under 25 years and those 75 years and older. Both age groups doubled the nominal value of their average spending on watches and jewelry. After inflation, the change was not so large, yet the trend is the same – the youngest and oldest Americans increased their watch and jewelry expenditures more than any other age group in the past decade.



Locale

Geographically, residents of the Midwest spent the most on fine jewelry, and folks in the South spent the least. Expenditure on watches was highest in the West and lowest in the Midwest. Residents of the Western United States also spent the most overall on fine jewelry and watches – 16.5% above average – and in the South, overall expenditure was the lowest – some 17% below the national average.



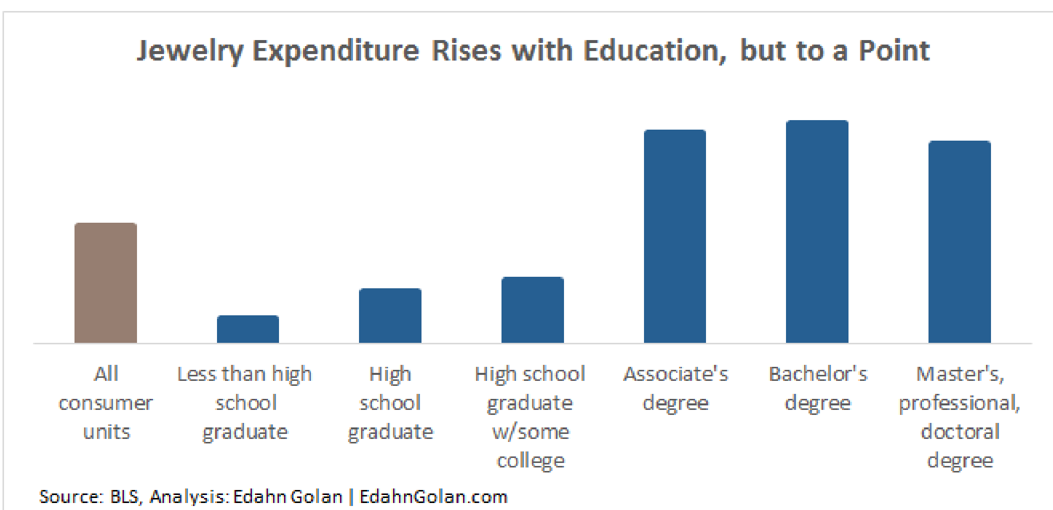
Residents of the Northeast, usually close to the average expenditure in most categories, were the top spenders on watches as gifts, together with residents of the West.

Education

Because education is an important factor in creating the ability to generate higher earnings, it is not surprising that people that have not graduated from high school spent the least on fine jewelry and watches when comparing expenditure by education.

Those that have not graduated from college spent about 70% to 21% below the average on jewelry and watches. Conversely, college graduates spent on average about 64% above the average.

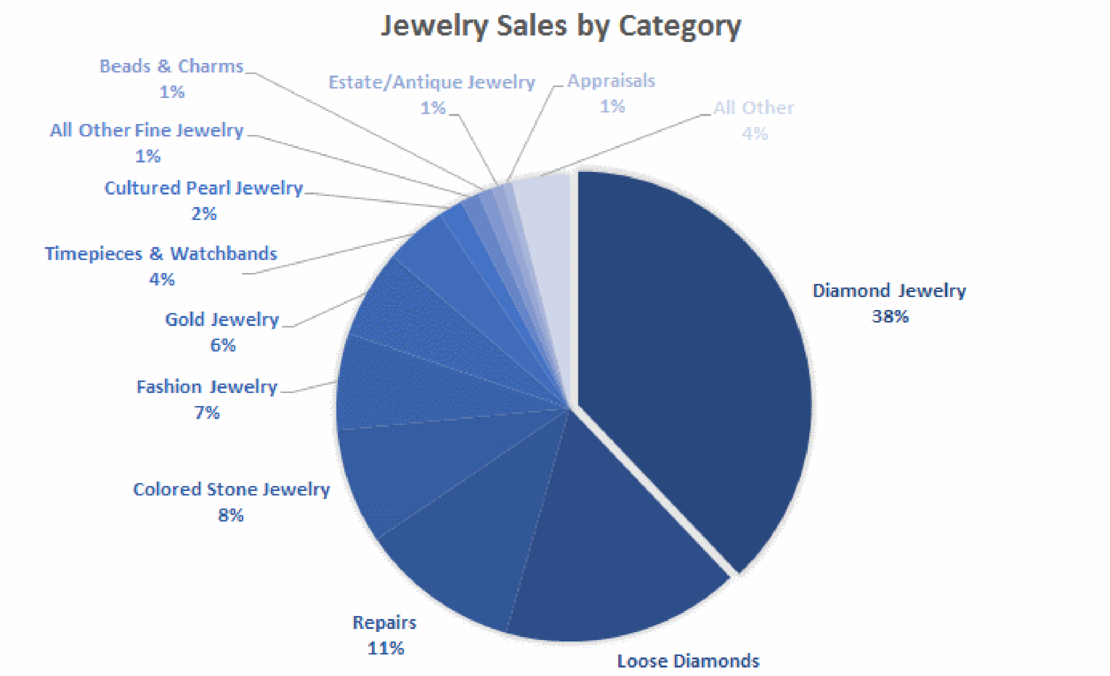
What is perhaps surprising is that while expenditure rose with education, it tapered off at a bachelor's degree. Americans with a master's, professional or doctoral degree spent about 11% less on watches and jewelry than those with a bachelor's degree.



What Jewelry Are Consumers Buying?

Jewelry

Diamond jewelry, due to its higher price and continued popularity, is the largest jewelry category, as measured by revenue. According to the annual Cost of Doing Business survey by [Jewelers of America](), 37.9% of sold merchandise is diamond jewelry, with loose diamonds the second largest category with 16.5% of sales. Together, diamond jewelry and loose diamonds constitute more than half of retailers' sales.



Source: JA 2013 Cost of Doing Business survey

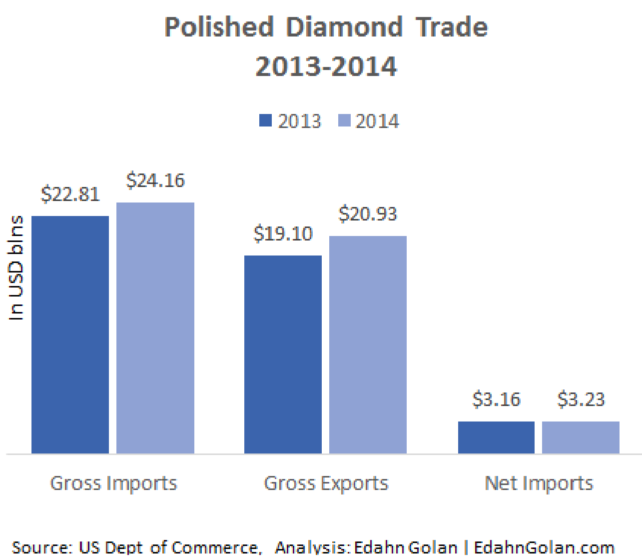
High-profit stores place a great emphasis on diamond jewelry and loose diamond sales. At these stores, the two generate 57% of their revenue. At stores with small turnover, diamonds and diamond jewelry are still the most important revenue drivers; however, other sources, such as repairs, are more dominant revenue streams.

Diamond jewelry and loose diamond sales represent less than 42% of revenue at stores with annual sales of up to $1.8 million. This indicates that to improve profitability and turnover, it is important to increase diamond sales.

At high-turnover stores, those with more than $5 million in business annually, watch sales are an especially important component of their product offerings, representing 27% of their revenue stream.

Polished Diamonds

Diamonds are an important component of the jewelry business, and retailers not only keep diamond jewelry on hand, but loose diamonds as well, mainly, but not entirely, for their bridal offering. Loose diamonds are also used to replace diamonds that are lost from jewelry items and for upgrades. It's not uncommon for customers to be interested in replacing a diamond set in a loved jewelry item, such as a ring, with a nicer or bigger stone.



A high volume of loose polished diamonds move through the US, with only some of them remaining in the country.

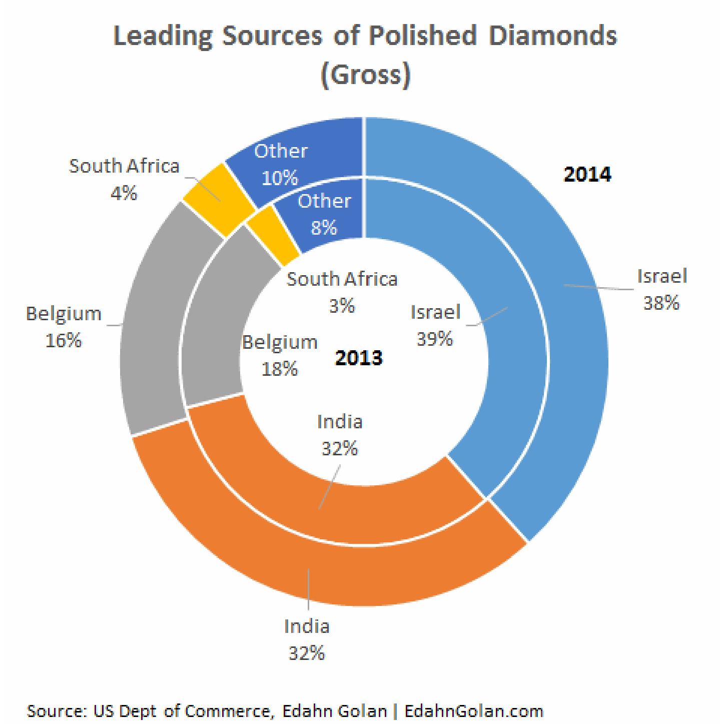
In 2014, the US imported $24.16 billion worth of loose polished diamonds at an average value of $2,023 per carat (p/c). However, $20.93 billion worth of polished diamonds were exported, leaving a net of $3.23 billion worth of polished stones in the country.

The 2014 figures are an increase over 2013 when $22.81 billion worth of polished diamonds, carrying an average value of $1,852.61 p/c, were imported. Net polished diamond imports were $3.71.

By gross import value, Israel is the largest source of polished diamonds imported into the US, with $9.25 billion in 2014. India is the second leading source with $7.68 billion, followed by Belgium, with $4.0 billion.

Together, these three countries were the source of nearly 87% of gross polished diamond imports. The remaining 13% of imported polished diamonds came from 70 additional countries, most of them shipping goods with a total value of less than $100,000.

Despite US sanctions on Zimbabwe, the US imported 231 carats of polished diamonds from there worth $3,204.



When Do We Buy Jewelry?

November–December Holiday Season

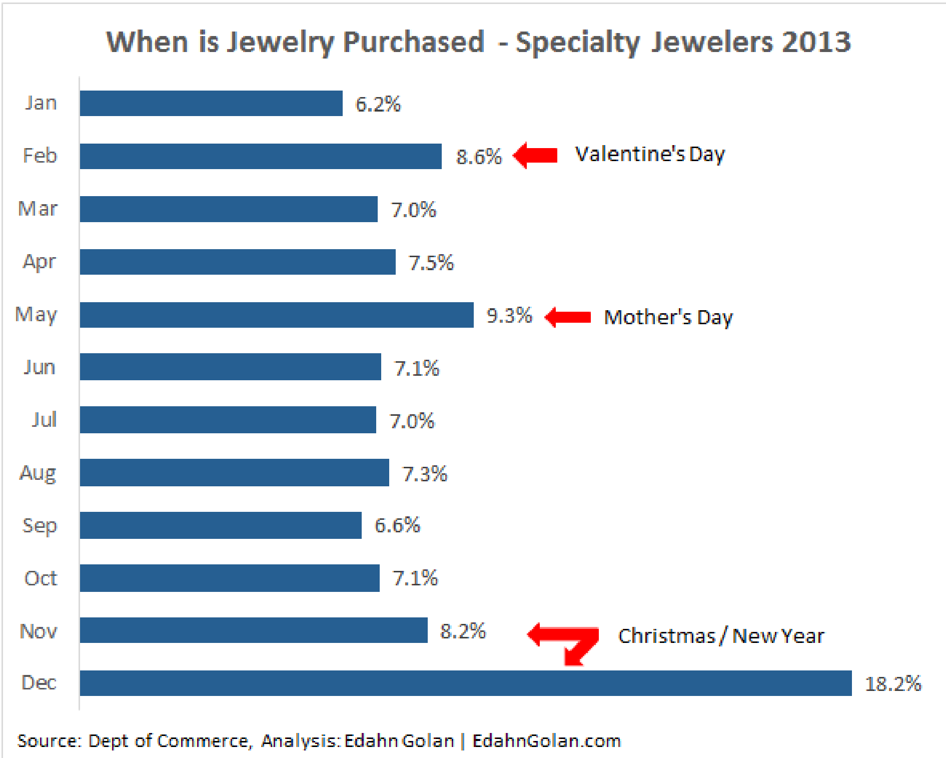
It used to be that at least 30% of jewelry and watch sales took place during the November–December Holiday period. That was the case all the way up to 2007, the year before the great financial crash. It rarely declined below 30%, based on BLS figures. However, since 2008, purchases have been more spread out through the year. This was especially true for the 2014 holiday season when many retailers reported better than usual business prior to Thanksgiving.

In the past three years, this trend has been strengthening. In 2012, there was a large jump in holiday jewelry and watch sales, nearly an 11% increase over 2011, yet holiday sales represented 2.9% of annual sales in 2012. In 2013, 28.7% of jewelry and watch sales took place during the November–December period. In 2014, that figure further declined to 27.9%, meaning that sales were even more spread out throughout 2014.

For specialty jewelers, the two-month period represented about a third of the year's revenues, averaging 32.4% of sales between 1992 and 2007. There has been a change since then, as noted by annual sales in 2009–2013 during the November–December period, which averaged only 27.8%. Here too, the importance of the holiday season has declined steadily in the last three years. In 2014, only 26.4% of annual sales or only about a quarter of annual revenue was generated during the last two months of the year.

Even so, the November–December Holiday period is still the most popular period for jewelry and watch purchases. There are two leading drivers for this trend: It is a gift-giving period, and jewelry makes for a very nice gift. The second driver is marriage proposals. In the happy holiday spirit, many choose to "pop the question" at this time.

Other Occasions
The two other occasions that drive diamond jewelry purchases are Valentine's Day and Mother's Day in February and May, respectively.



The importance of these holidays as sales drivers is tremendous. Put together, specialty jewelers make nearly half of the year's total (44%) during a period representing a third of the year: in February, May, November and December.

Where Do We Buy Jewelry?
American consumers buy jewelry from a variety of places: from specialty jewelers, from large multi-item stores such as Wall Mart, from department stores such as JC Penney, online and even from TV retailers like QVC. However, specialty jewelry retailers, retailers that specialize in retailing jewelry, sell the majority of fine jewelry in the US.

A Fragmented Market
There were 21,463 specialty jewelry retailers in the US in the fourth quarter of 2014, according to the Jewelers Board of Trade (JBT), a net decline of 2.1% compared to 2013. The majority of retailers are Independents, operating more than 23,000 stores across the country according to the US Census Bureau, which discloses an important fact about this retail sector – it is highly fragmented.

The number of jewelry stores in the US is declining. Since 2007, the number of jewelry stores has fallen by an estimated 21%, based on Census Bureau figures. The region that has suffered the most is the American heartland, in states such as Indiana, Wisconsin, South Dakota, Ohio and Nebraska.

The American Northeast and Northwest were more resilient; however, the number of stores in these regions has declined by more than 12%. The one state that has seen an increase in the number of jewelry stores in the past few years is Alaska.

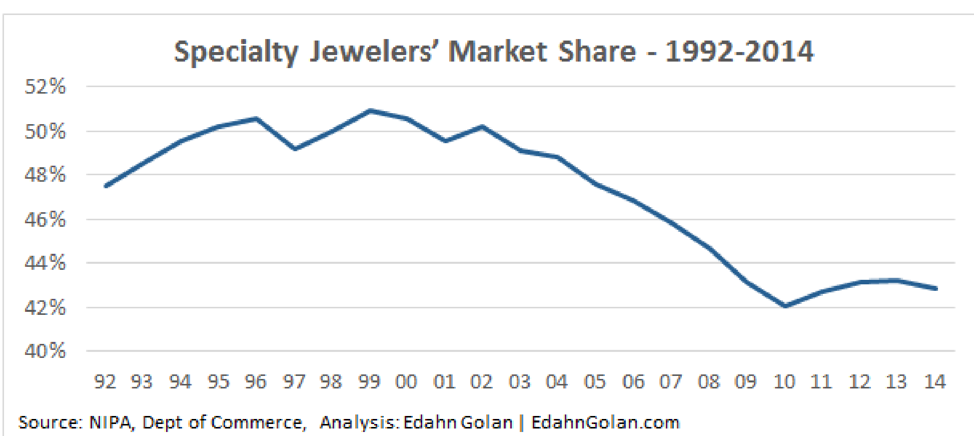
Many of the store closures are Independents, which are finding it difficult to compete on price, among other issues. Chains, on the other hand, are doing a little better, especially the leading American jewelry specialty retailer, Sterling.

Sterling, one of the two largest global jewelry retailers and the largest US specialty jewelry retailer, operates more than 3,000 locations under a number of brand names, including Jared, Kay, Zale and Piercing Pagoda, as well as more than ten regional brands. With $3.5 billion in annual sales in the US, in fiscal 2014, the company had a market share of about 4.3% of overall jewelry sales in the US and a 9.8% market share among specialty jewelry retailers. In comparison, the second biggest specialty retailer, Fred Meyer, has several hundred stores and a much smaller turnover.

Sterling is part of Signet, which also operates stores in the UK. Competing against it as the world's largest specialty jewelry retailer is Chow Tai Fook from Hong Kong. While it does not operate any stores in the US, it now owns American diamond firm *Hearts on Fire*.

Specialty Jewelers Market Share

In 2014 and 2013, specialty jewelers held a 43% share of the US jewelry and watch retail market. This is a shift in the jewelry retail landscape. During the 1990s, this market share rose from 47.5% to 50%. However, in the first ten years of the millennium, it slipped sharply until it hit a low 42% in 2010. In the past few years, there was a small rebound to the current 43%; however, the sector is not currently showing signs of regaining the lost market share.



The rise of online retailers, a sales channel that hardly existed 15 years ago, is mostly biting into the market share of a specific part of the specialty jewelers sector – the Independents. Blue Nile, with sales of $473.5 million in 2014, has a market share of about 1.4% among specialty jewelers and 0.6% of the total market. This may not seem like much, but their large volumes at a relatively lower markup margin are clearly hurting the business model of the independent retailers.

The US Census Bureau estimates online retailing at 6%–7% of total retail sales in the country, with relatively more online sales made in the fourth quarter. In the fine jewelry and watch sector, online sales are estimated at mid- to high-single digits. Blue Nile dominates this field of operation. The rest of this arena includes James Allen, Tiffany and the online operations of Sterling's Jared, Kay and Zale. Sterling's fiscal 2014 online sales were $129 million, of which nearly half, $61.9 million, were during the fourth quarter.

Other important retailers, which are not specialty retailers, include Amazon and the websites of large department stores such as Macy's.

How Are We Buying Jewelry?

Americans love their credit cards, and the ability it gives to buy now and pay later, much later and in installments. Credit cards are the most common payment method for jewelry; however, not all purchases are made with them. An estimated 35%–50% of all jewelry sales are made with in-house easy credit plans, according to jewelry industry analyst Ken Gassman.

Year Wrap Up

In the past two years, fine jewelry and watch sales reached record levels in the largest global market, The United States. Overall fine jewelry and watch sales totaled $78.08 billion in 2014. Jewelry sales alone totaled $68.8 billion, also a record. Both come on top of fantastic growth in 2013 – 7.6% and 6.1%, respectively – and, therefore, the small year-over-year increase in 2014 disappointed retailers and traders up the value chain alike.

A Promising Scenario

The surging stock market, declining gas prices and rise in employment created a positive feeling among retailers that the American consumer had more cash in hand to spend during the 2014 holiday season.

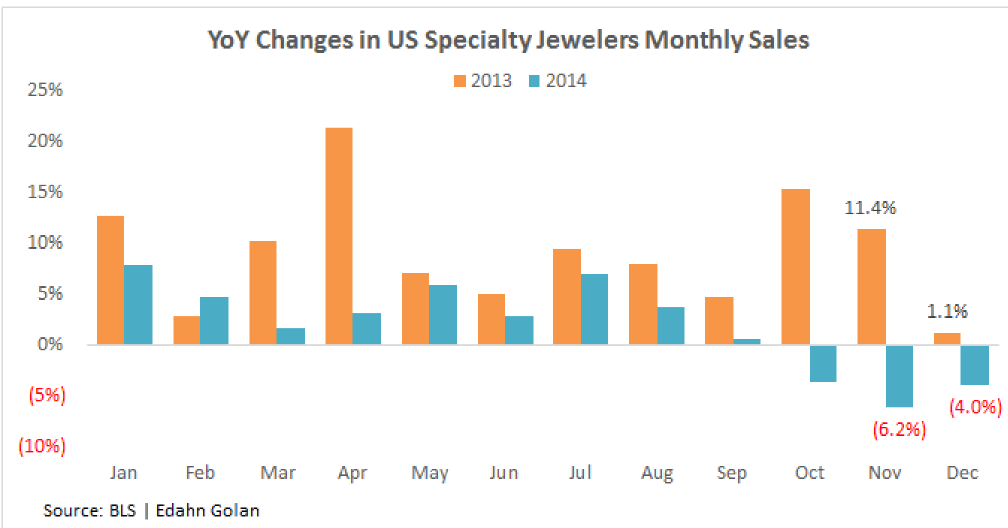
Adding to this scenario, the US economy posted robust growth of 5% in the seasonally adjusted annual rate in the third quarter of 2014 – the most in 11 years – and clearly consumers were armed with all the incentives to spend more than they had in the past few years. They did – but not in the way diamond jewelry retailers had hoped for – by purchasing higher priced items. Instead, consumers bought more items, but of *lower* price points.

Historically, expenditure on fine jewelry during the holiday season rises not only in absolute numbers, but also as a ratio of total expenditures. Retail sales by specialty jewelers represented, on average, 0.91% of total retail sales excluding motor vehicles sales in 2014. In December, this jumped to 1.7%.

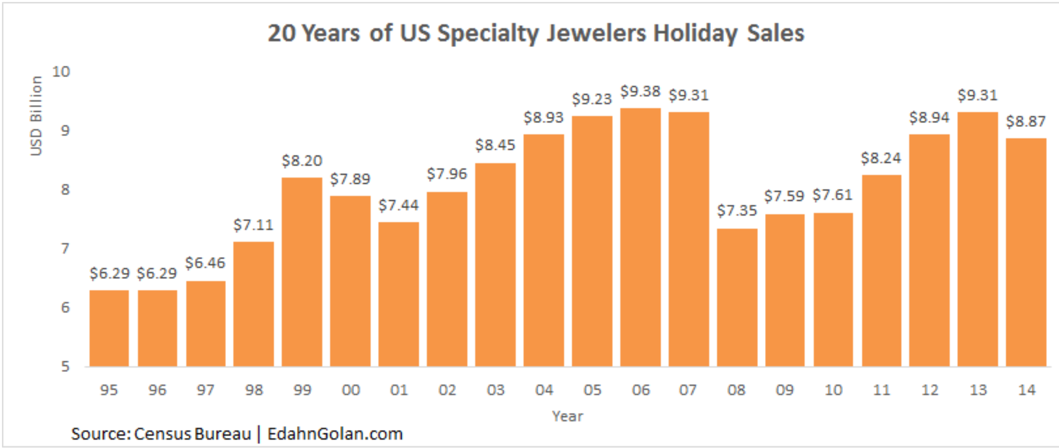
The trend that the jewelry industry should pay attention to is the shrinking share of wallet over the years. In 2004, only ten years ago, specialty jewels retail sales represented 2.3% of total sales in December (excluding autos and food). In the course of a decade, they lost 27.7% of consumer's holiday spending.

A Painful Outcome

Compared to 2013, sales by specialty jewelers fell 6.2% in November and 4.0% in December, clearly a reason for concern. The declines in the last quarter of the year marked a change in direction after jewelers posted year-over-year increases in the first nine months of 2014. Retailers' expectations for a low single-digit rise in activity were in place.



It may serve as little comfort, but retailers and their suppliers should remember that consumers tend to act in a cyclical manner. This cyclical behavior is not only within the year, but also extends beyond it. In the past 20 years, sales by specialty jewelry retailers advanced ahead three times, each time followed by a retreat. As someone once said, "You must stay on the wheel." At times, you are at the bottom, but if you step off, you will never ride back to the top. The declines are an inseparable part of a long-term business environment.



"Less for More" Turns into "More for Less"

After the 2008 financial crash, a De Beers research study found that consumers continued to spend during the holiday season, but more cautiously. They bought fewer items, yet were willing to spend more per item – if it had long lasting value. They called this trend "less for more," and consumers were indeed willing to buy nice diamond jewelry items.

The last Holiday Season turned out to be a "more for less" one, to paraphrase De Beers, with consumers buying more lower price-point jewelry items, instead of fewer items at higher price points. This, in a nutshell, is the story of the 2014 Holiday Season.

Choosing the proverbial bird in the hand, overall fine jewelry sales are rising, breaking record sales for a second year in a row. At an average expenditure of $612 per household, another record, jewelry remains a top interest for consumers. The challenge the jewelry industry at large faces is to drive interest in finer diamond jewelry items, while improving its margins in the value chain pipeline.

Summary

The past year was a record one for the American jewelry market, where the fine jewelry landscape is based on a long-lasting desire for jewelry. The average expenditure per household has increased over the years and reached an average of $434. Together with expenditure on fine watches, the annual average expenditure rose to $612.

The rise in demand hit a record $78.08 billion in 2014. Of that, $33.6 billion was spent at specialty jewelry retailers. More than 54% of their sales were diamond jewelry and loose diamonds.

Despite the record level of expenditure and sales, the 2014 Holiday Season hit a snag, and overall jewelry and watch sales declined 1.2% year-over-year to $21.7 billion. The reason for the decline was a shift to lower price-point items and a continued shift in making jewelry purchases prior to the Holiday Season.

In spite of this decline, the November–December period remains the main jewelry-selling time, followed by May and February when Mother's Day and Valentine's Day are celebrated.

The top buyers of fine jewelry and watches are married people without children between the ages of 55 and 64. However, when examining jewelry purchases without watches, it is the 25–34 age group, *Millennials*, that top the list.

While expenditure rises with education, the top buyers have a bachelor's degree, not a post-graduate degree. They are managers or professionals, and their household has a double income of more than $150,000.

The jewelry retail market is highly fragmented, and specialty jewelers in total sold only 43% of all fine jewelry and watches in 2014. Department stores, large discount chains and online retailers sold most of the rest.

The change in sales timing during the year, the rise of *Millennials* as the leading fine jewelry buyers and the shift to lower cost jewelry items require a growing flexibility in jewelry offering by retailers. This is especially true for Specialty Jewelers that are seeing their market share slipping. The most obvious conclusion is that promotional activity needs to be stepped up, jewelry design may need to be more distinct and to allow for variations. Even the way of presenting jewelry could use an overhaul, for example, showing fewer items to make a selection easier and less confusing.

Finally, with continued improvement in the US economy, consumers are willing to spend more on luxury items. Jewelry is a natural choice, and the record results show that the desire for adornments is alive and well.

Credits & Sources

US Bureau of Labor Statistics (www.bls.gov)

Consumer Expenditure Survey (CES) and Mark Vendemia

Jewelers of America (www.jewelers.org) and Amanda Gizzi, Director of PR and Special Events

Jewelers' Board of Trade (www.jewelersboard.com) and Dione Kenyon, President

Special thanks to Ken Gassman (www.kennethgassman.com), a friend and a mentor, for his guidance.

About

Edahn Golan Diamond Research & Data was formed to provide research analysis and consultancy services for the global diamond industry. Our sphere of activities ranges from in-depth data analysis based on our own detailed data, research of the diamond mining, wholesale and retail markets, rough and polished price analysis and more.

Edahn Golan advises financial institutions, global diamond firms, diamond industry organizations and governmental agencies. His clients include major diamond firms, miners, investment houses, a leading trading platform and the world's second largest retail metrics firm. He has been quoted in *The New York Times*, *Wall Street Journal*, *Barron's*, *Business Insider* and other leading publications about the diamond sector and diamonds.

For more information, please contact Edahn Golan at EG@EdahnGolan.com.

EdahnGolan.com

Twitter

LinkedIn

Facebook