IN THE KNOW

Industry Snapshot

A look at the latest industry statistics // by Harold Dupuy, FGA, Stuller Inc.

With steady consumer spending and signs of diamond market stabilization, the jewelry industry enters 2025 with cautious optimism.

Despite 2024 being an election year, the jewelry industry performed reasonably well. While final results are still pending, preliminary data show positive trends.

Total retail sales, excluding autos, increased by 3.8 percent compared to the previous year. Online revenue continues to outpace retail sales, rising by 10 percent and surpassing the $1 trillion level. Jewelry industry revenue grew by more than 5 percent compared to 2023. Remarkably, our industry has seen a four-year growth of 48 percent, while jewelry stores achieved a 3.6 percent increase in 2024.

The industry's primary challenge continues to be the diamond sector—both natural and lab-grown. While quick solutions to the prolonged downturn in diamond sales remain elusive, signs of stabilization are beginning to emerge.

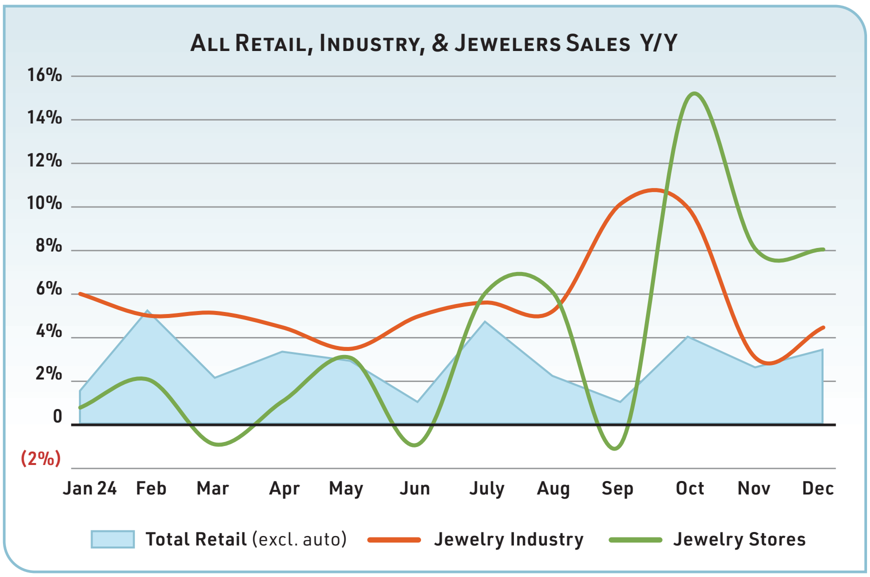
The overall industry remains fundamentally strong, driven by elevated consumer spending. However, the U.S. economy is showing signs of slowing due to persistent inflation. On a positive note, the stock market has continued its upward trajectory for the second consecutive year, with returns exceeding 20 percent. The business sector is optimistic under the new White House administration.

Retail Market Sales

Total retail sales (excluding autos) started 2024 with a 5 percent increase in January compared to the previous year, marking the highest growth rate of the year. Overall, annual sales grew 4 percent over the prior year. The best-performing sectors last year were primarily "experiential" services, with notable growth in restaurants (+6 percent) and foreign travel (+11 percent). The travel segment continued to thrive, with an increase of 42 million U.S. airline passengers last year. Americans traveling abroad are among the primary jewelry consumers, and this group is currently spending $22 billion a month on international travel. By the end of November, Americans had spent $23 billion more on foreign travel than the previous year.

Jewelry Industry Overview

The jewelry industry faced significant challenges in 2023, resulting in a 3 percent decline in sales. However, it rebounded in 2024, with a 5 percent in-



crease in sales, putting the industry on track to achieve record sales exceeding $100 billion.

According to the Jewelers Board of Trade, the industry business census declined slightly, with 69 retailers, 7 manufacturers, and 16 wholesalers exiting the market. This reduced the total number of businesses from 23,316 to 22,563.

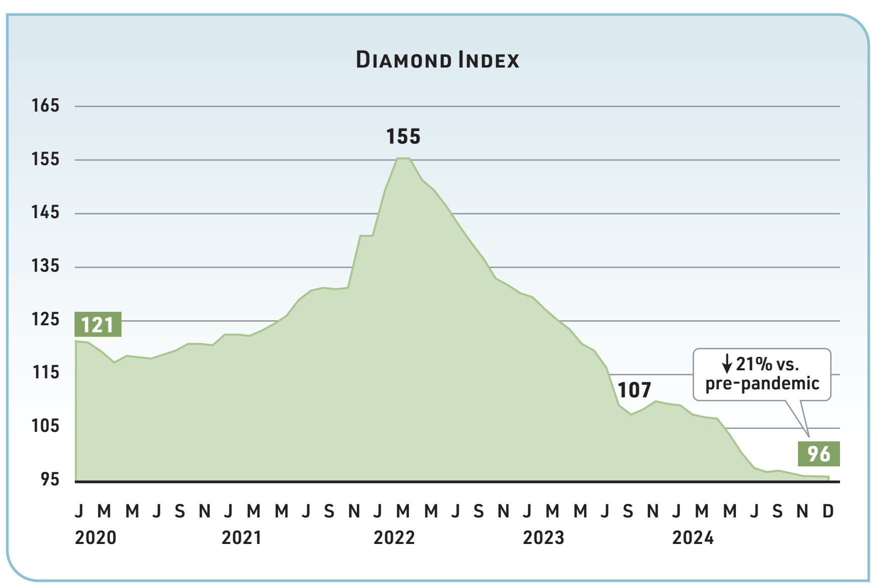
Domestic jewelry manufacturers benefited last year from a $2.3 billion reduction in jewelry imports. Diamonds drove much of the decline, decreasing by $3.7 billion (22 percent), while colored gemstones experienced a 9 percent decline, amounting to a $400 million reduction. In contrast, finished jewelry imports increased by $1.8 billion (10 percent).

Surprisingly, the public jewelry companies underperformed the broader market, with a few exceptions. Signet, the largest U.S. jewelry retailer focused on the mass mid-market sector, struggled, reporting a 13 percent decline in same-store sales in Q3, which brought its YTD results to a negative 7 percent. Signet's holiday sales declined by 2 percent compared to the previous year, which management attributed to lower foot traffic, which was down 5 percent, and customers seeking lower priced fashion jewelry.

LVMH, the leading luxury goods retailer with jewelry brands such as Tiffany and Bulgari, also underperformed, experiencing a 2 percent decline during the same period. Within LVMH, its jewelry and watch brands performed even worse, with a 5 percent drop.

Conversely, Richemont, which includes premium luxury brands Cartier and Van Cleef & Arpels, reported a 12 percent increase in Q3 jewelry revenues at constant rates, compared to the company-wide growth of 4 percent.

The overall trend in the industry shows a drop in unit sales, although the average selling price per unit has risen, contributing to revenue growth. It remains unclear whether the decline in unit sales is due to lower foot traffic or reduced store conversion. A positive trend, however, is that specialty jewelry stores have regained market share from larger "big box" retailers and mass merchants over the past decade and are projected to finish 2024 with nearly 48 percent of the market share.



The Diamond Market

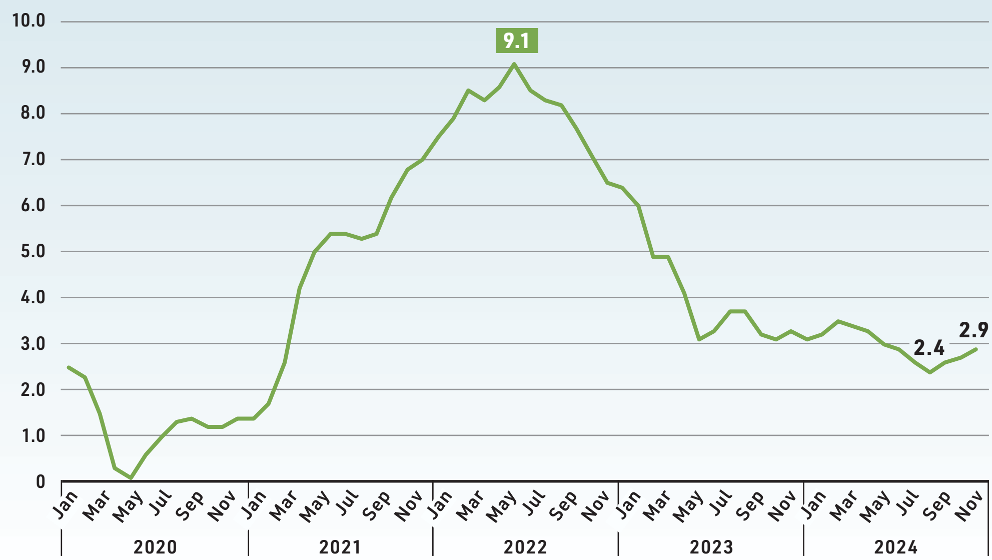
The diamond industry continues to face multi-year challenges. Since peaking in April 2021, natural diamond prices have steadily declined due to suppliers overbuilding their inventories, driven by the industry's record demand in 2021. Market leader De Beers reported a 28 percent drop in carat production in 2024 as well as a 21 percent drop in top-line revenue and EBIT (Earnings Before Interest and Taxes) for the first half of 2024. In addition, Indian rough diamond exports fell by $3.5 billion (20 percent) in 2024, dropping from $17.3 billion in 2023 to $13.8 billion. According to the IDEX Online Index, natural diamond prices have decreased by 38 percent from their April 2022 peak to December 2024 and are now 20 percent below pre-pandemic levels. Last year alone, there was a 12 percent year-over-year decline. With these fluctuating prices, businesses must prioritize inventory turnover and efficiency. Despite the continued price corrections due to oversupply, signs of stabilization are beginning to appear.

Lab-grown diamonds are also facing challenges, including technological improvements, increased consolidation, and rapidly falling prices. Just eight years ago, lab-grown diamonds were priced at 80 percent of their natural counterparts, but that figure has now dropped to around 20 percent, depending on size and quality. Despite this significant price drop, retailers have seen improvements in their gross margin rates. However, these rising margins don't always translate into guaranteed cash flow. What matters is the revenue collected at the register. Consequently, while margins have increased, the discrepancy between unit growth and revenue presents an opportunity for natural diamonds.

Despite frequent claims that lab-grown diamond prices have bottomed out, prices continue to fall. Retailers must focus on maximizing turnover of owned lab-grown diamond inventory to avoid carrying distressed inventory, which leads to markdowns on their balance sheets. Realistically, much of the lab-grown diamond inventory in retailers' cases is on consignment from suppliers, and these memo programs are increasingly shifting from loose diamonds to fashion-finished goods such as ear studs, tennis bracelets, and line necklaces.

In 2024, Indian lab-grown diamond exports declined by $120 million (8 percent), from $1.36 billion to $1.25 billion, largely due to falling prices. Meanwhile, India's natural diamond production also dropped by $3.6 billion (20 percent), from $17.3 billion to $13.7 billion. Both trends reflect weakening global demand for diamonds. Consumers, particularly self-purchasing women, continue to inquire about lab-grown diamonds when visiting stores. Many sales personnel hit the "easy button," pitching a bigger and better-quality lab-grown diamond as a cost-saving alternative. According to a study by the Boston Consulting Group, more than 70 percent of consumer conversions from natural to lab-grown diamonds occur in-store. However, this behavior is not sustainable in the long term.

Consumer Price Index For All Urban Consumers (CPI-U)



Inflation dropped sharply from the 9.1 percent peak to 3.1 percent within 12 months (June 2023). Then, it took a stubborn posture and dropped only slightly to 2.4 percent in the following 15 months (Sept. 2024). With an uptick to 2.9 percent by December, concerns about 2025 interest rate cuts surfaced.

Inflation Percentage by Country

Argentina	193	Brazil	4.9	South Africa	2.9	Germany	2.6	France	1.3
Turkey	44	Mexico	4.2	U.S.	2.9	U.K.	2.5	Italy	1.3
Russia	9.5	Netherlands	4.1	Australia	2.8	Euro Area	2.4	Switzerland	0.6
India	5.2	Japan	2.9	Spain	2.8	Canada	2.0	China	0.1

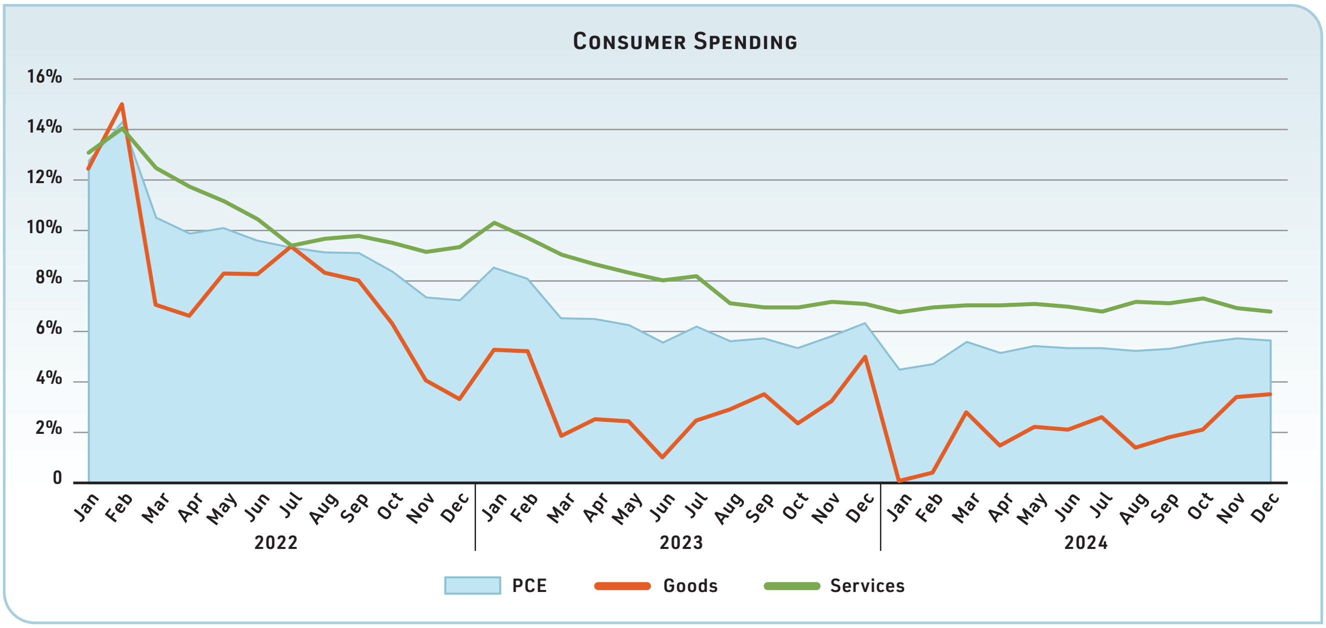
The Economy

The U.S. remains the most resilient and robust economy globally. Despite economic concerns abroad, the nation's economic indicators appear stable. The third quarter of 2024 showed a GDP growth of 3.1 percent, which compares favorably to the historical norm of 2 to 2.5 percent. Unemployment stands at 4.1 percent, below the long-term average of 5.8 percent. Inflation decreased from 9.1 percent in June 2022 to 2.9 percent in December 2023, contributing to a stable job market, a strong U.S. dollar against foreign currencies, and rising consumer sentiment.

Consumer spending, which accounts for roughly 70 percent of the country's GDP, continues to drive the U.S. economy, growing at an above-average rate of 5.3 percent. The services sector remains the driver, growing at 7 percent, while growth in the goods sector has slowed below 2 percent.

However, elevated interest rates remain a challenge, contributing to the highest mortgage rates in more than 20 years. To combat record inflation, the Federal Reserve raised interest rates aggressively in 2022 and 2023. After the Fed began to lower interest rates, inflation dropped sharply from a peak of 9.1 percent to 3.1 percent within 12 months (June 2023). Then, things changed; inflation took a stubborn posture and dropped only slightly to 2.4 percent in the following 15 months. But inflation recently increased slightly to 2.9 percent in December, raising concerns about potential rate cuts in 2025.

Additional headwinds include a sluggish housing market, record consumer debt, a declining personal savings rate, rising federal debt, and ongoing geopolitical issues. Despite these economic challenges, the nation's vital signs appear stable, and optimism persists in the business sector under the new administration.



In Closing

After a better-than-expected year, the outlook for 2025 remains mixed, with some uncertainties, but overall, the outlook is optimistic. The election year has passed, and voters have spoken. Whether your candidate won or not, there is a collective sense of relief that the election season is behind us. With numerous policy changes expected, including adjustments to tariffs, immigration policies, and responses to global conflicts, the business community remains watchful.

With stable economic indicators, recovering bridal demand, and policy shifts on the horizon, the jewelry industry enters 2025 positioned for growth and new opportunities.

Tailwinds for the jewelry industry include a stable and robust U.S. economy, low unemployment, elevated consumer spending, a strong dollar, and lower inflation. These factors should provide a favorable environment for continued growth in the industry. The "engagement gap" caused by pandemic-related lockdowns has been recovering since late 2022, with normalization in 2023. This is especially positive for independent jewelers, as bridal jewelry typically accounts for a significant portion of their business.

The market bifurcation of natural and lab-grown diamonds is ongoing. However, despite the industry's portrayal as "either/or," I believe both products can coexist successfully. Lab-grown diamonds will continue to migrate toward the fashion sector, and "hybrid jewelry," featuring both natural and lab-grown diamonds in the same piece, will become more common. While the natural diamond industry shows signs of stabilizing, defending the historical status quo is no longer a viable business model. A paradigm shift toward a luxury goods mindset, along with improved marketing and increased spending, is essential for the industry's long-term success.

Finally, with the stock market's second consecutive year of 20 percent gains, many consumers are subconsciously experiencing the "wealth effect," a behavioral economic theory explaining how people's spending habits change when their perceived wealth changes. Jewelry, as a symbolic product filled with emotion, often overcomes economic headwinds, and when consumers feel financially secure, our industry benefits. ◆