



Maria Smirnova
Senior Portfolio Manager,
Sprott Asset Management LP

Demand for Precious Metals Jewelry Runs Deep

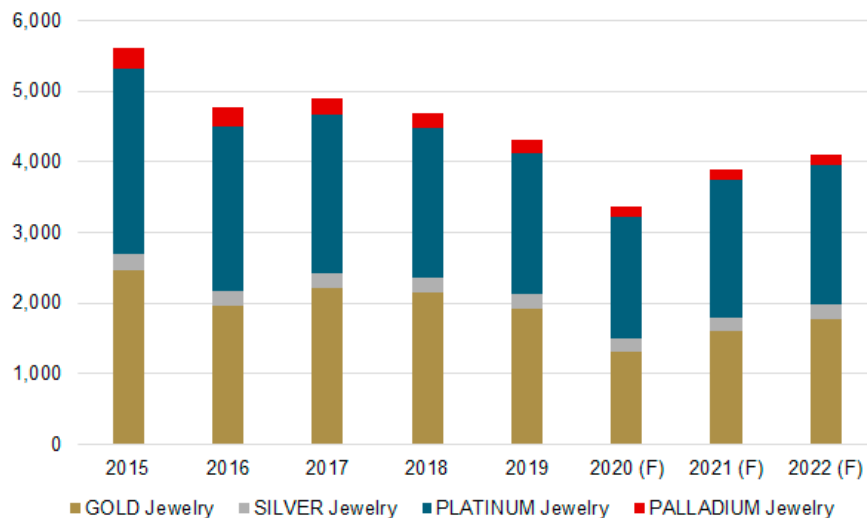
Authored by Maria Smirnova, Senior Portfolio Manager at Sprott Asset Management LP

The economic fallout from COVID-19 has created a predictable headwind for jewelry purchases around the globe. However, given that jewelry is deeply rooted in cultural norms and traditions, we anticipate a healthy rebound in jewelry purchases over time, driven by the role that it plays in societies and a strong desire to resume “normal life” among some buyers.

In the wake of COVID-19, precious metals jewelry sales are expected to tumble more than 20% in 2020, according to projections by research firm GFMS Refinitiv, as consumers around the globe reel from dampened incomes and more uncertainty to come. Meanwhile, precious metals prices have risen sharply, with gold gaining 28.20% and silver up 48.14% YTD through August 15 (palladium has gained 9.02%, while platinum continues to lag losing 2.29% YTD).

“Gold and silver jewelry carry profound cultural significance in much of the world.”

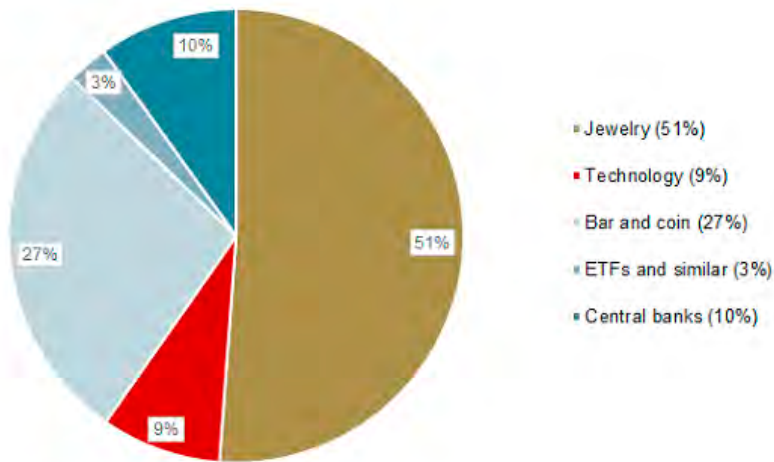
Figure 1. Global Demand for Precious Metals Jewelry (Moz; 2015-2022F)



Source: GFMS Refinitiv.

Each of the precious metals (gold, silver, platinum and palladium) has a different mix in terms of end-use according to its composition and physical qualities. Jewelry makes up the most significant demand component for gold, accounting for nearly 51% of physical gold demand in 2019. For silver, jewelry accounts for about 20% of yearly demand; for platinum, it’s about 26% of demand; and for palladium, it’s less than 2% of demand. All told, jewelry purchases accounted for about 19% of precious metals demand in 2019.

Figure 2. Jewelry Purchases Account for 51% of Gold Demand



Source: World Gold Council. Gold: The Most Effective Commodity Index, published September 2019.

Consumers in the Top Three Jewelry Buying Countries: China, India and the U.S.

To understand consumer trends and the prospects for rebounding jewelry sales, we turn to consumer attitudes in the three countries which do the most jewelry buying: China, India and the U.S.

#1 CHINA

China is the world's biggest buyer of gold jewelry. However, Chinese consumers have been deeply rattled by the impact of COVID-19. While consumer sentiment for the country at large is beginning to improve slightly, consumers are still behaving cautiously. Only 41% of Chinese consumers have resumed out-of-home activities, according to survey data from mid-June. This sentiment survey indicated that consumer intent to spend was starting to return in China, but jewelry purchases remained in a net-negative intent zone (the "net intent" score reflects how many people intend to purchase a particular thing (like jewelry) in the next two weeks *minus* how many people do not plan to make a purchase in that category).

It is critical, however, to put this sentiment data in the context of cultural trends. With lofty global aspirations in terms of power and wealth, China's consumers have a heavy cultural driver in terms of their interest in precious metals jewelry — a clear symbol of status, prestige and economic power. Chinese consumers ranked their jewelry-buying intentions on par with eating out at restaurants, and much more positively than out-of-home entertainment or travel-related intentions.

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Figure 3. Chinese “Intent to Spend” on Jewelry is Perking Up

Consumer intent to spend is returning for some discretionary categories such as apparel, skin care, and consumer electronics



Source: McKinsey & Company. Data as of 6/21/2020. [More details on this survey.](#)

#2 INDIA

India is the biggest global buyer of silver jewelry and a significant consumer of gold. The country was already facing some headwinds before COVID-19, with a downtick in real gross domestic product (GDP) growth for 2019 (4.2%) compared with 2017 and 2018 (7% and 6.1%).

Amid COVID, consumer sentiment is even more restrained. In consumer survey data, 67% of Indians said in mid-June that they were cutting back spending, with 75% saying they have to be very careful with finances at present. However, jewelry “intent to spend” is decidedly less negative among Indians than other categories of discretionary spending. For instance, the net intent for restaurants was -56 in mid-June and accessories scored -38. Jewelry stood at only -9.

Figure 4. India: Jewelry Ranks Higher Than Other Discretionary Spending

Consumers expect to increase spending for household essentials, at-home entertainment, fitness, and international travel



Source: McKinsey & Company. Data as of 6/21/2020. [More details on this survey.](#)

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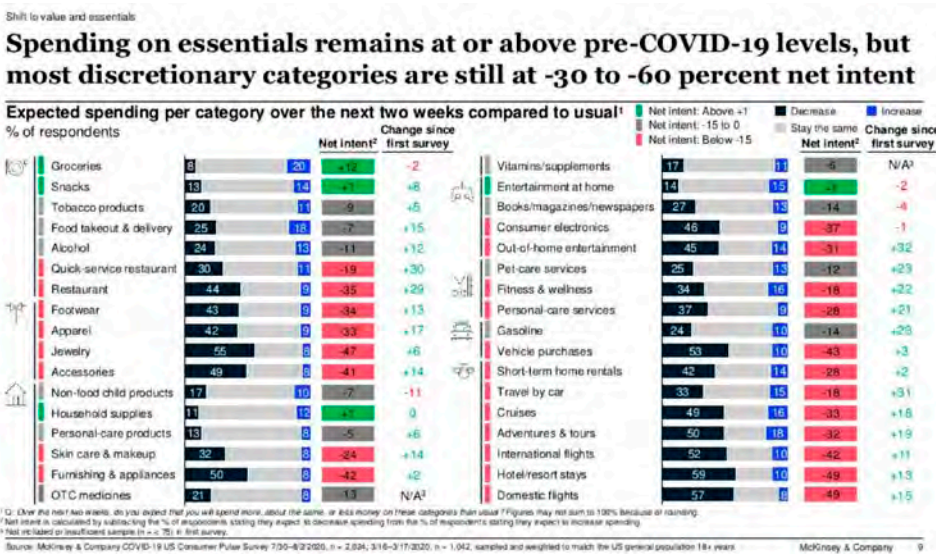
What's especially compelling about India's jewelry demand is its cultural role among rural and tribal communities, where larger and heavier silver and gold jewelry are especially popular. Heavy silver and gold jewelry pieces are regarded as both an ornamental luxury *and* as a store of wealth and financial security. Among the country's more urbanized (and globalized) consumers, precious metals jewelry purchases are more status- and luxury-driven.

#3 U.S.

The U.S. is the second-biggest consumer of jewelry overall worldwide behind China. Compared with other developed nations, it has had one of the deepest and most widespread COVID-19 outbreaks, and perhaps the most severe associated GDP contraction. Survey data from late July/early August reflected the gloomy state of U.S. consumers at a point when daily COVID case counts in the South were rising sharply.

However, even this low point did not match the mid-March state of consumer outlooks; the American consumer appears to be settling into a new-normal "homebody economy" frame of mind. Indeed, the American consumers' intent to spend as of early August was markedly higher than in the first such survey (dated in mid-March).

Figure 5. Signs of Improvement in the U.S.



Source: McKinsey & Company. Data as of 6/21/2020. [More details on this survey.](#)

The regional experience of the COVID pandemic has varied widely, but global players are connected to each other's experience; Chinese incomes are worse off as long as American consumers are struggling, for instance. As of mid-summer, consumer trends in the three biggest jewelry-buying countries (China, India and the U.S.) remained depressed.

We see strong cultural drivers, however, that bode well for a rebound in jewelry. In China, status and prestige are strong currents of demand, while Indian consumers rank jewelry as "less discretionary" than other spending. In the U.S., online shopping and a new-normal attitude could boost jewelry purchases as economic uncertainty begins to lift.

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Investment Demand Continues to Drive Pricing

As we noted earlier, jewelry is the biggest channel of demand for gold and accounts for nearly a fifth of all precious metals demand. However, in our view, investment demand is what drives pricing trends, especially for gold and silver. Investment demand is determined by the macroeconomic picture — i.e., low to negative interest rates around the globe, which are good for gold and silver prices.

That's why we can look at a 20% decline in jewelry demand for 2020 but see that precious metals pricing has recovered and rallied from the economic shock already — a supportive macroeconomic backdrop is the overriding element. The year-to-date surge in gold and silver prices have been driven by macro conditions.

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