



Trickle Down Dries Up

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The five-star Mandarin Oriental Hotel in Miami offers an exclusive two-night package for some of its wealthier visitors. Guests get the keys to one of the hotel's most luxurious suites, which are more than 2,000 square feet and have ocean views from private balconies. Also tossed in are a butler, private chauffeur and celebrity make-up artist.

The downside: It costs \$25,000. The upside: You probably won't have any trouble booking this season.

As the economy continues to sputter and Wall Street teeters, the affluent and super-affluent are taking stock of their spending and cutting back. The Spectrem Group index of the economic confidence of households with \$500,000 or more in investable assets stood at its third-lowest level ever in August--well before the current mess. A similar index tracking millionaires registered only slightly higher.

"A lot of wealthy people are still wealthy," says Russ Alan Prince, president of the private wealth-research firm Prince & Associates. "But everybody's unsure what's going on. With all the uncertainty, they're going to be more careful with their spending."

While this dilemma may seem trifling at a time when many Americans are facing home foreclosures, it's hardly unimportant. According to Mendelsohn, the wealthiest 20% of Americans account for more than half of U.S. household income. When the affluent cut back, the whole economy notices.

Some sectors are hurt more than others. According to the Mendelsohn Affluent Survey published in September, Americans with a household income of more than \$250,000 took an average of 12 airline round trips during the past year. They spent an average of 29 nights in a hotel room.

There are already signs that they are cutting back on those expenses. The Mandarin Oriental said in its most recent financial release that its Miami hotel was facing lower demand. "Mandarin Oriental's performance for the remainder of the year will depend on economic conditions, which are likely to become more challenging," added Simon Keswick, the company chairman.

The playgrounds catering to the wealthy are also feeling headwinds. Passengers taking the ferry to Nantucket are slumping. The *Aspen Times* reported that the dollar volume of real estate sales in the area were down 22% this August from a year ago. Construction of a \$600 million luxury hotel in Palm Springs, Calif., recently stalled because of financing problems.

Jewelers and luxury retailers can expect a tough Christmas. According to Mendelsohn, 54% of Americans with an annual household income over \$250,000 purchased a piece of jewelry in the

last year. **Tiffany & Co.** (nyse: TIF - news - people) saw same-store sales fall 4% in U.S. stores during its most recent quarter. Shares of the company are down 21% this year.

"With all the uncertainty, this is an easy area to cut back," says Prince. "Instead of two watches for \$100,000, they'll end up with one."

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