Julius Bär

JULIUS BAER WEALTH REPORT: ASIA

OCTOBER 2017

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Front cover:
Marina Bay Sands and the Helix Bridge are iconic landmarks in Singapore
Photograph by Andreas Bobak

EDITORIAL

If you believe the popular narrative, the world has become a gloomier place. Events like the United Kingdom's referendum vote to leave the European Union, or the rise of populism in other countries, have raised questions among academics, investors and policymakers alike about the state of the post-war economic order.

However, data tells a different story. Looking at various measures of wealth, the world has never been in better shape. Take savings as an example. Accumulated savings across countries covered by the Julius Baer Lifestyle Index are at an all-time high. Millennials are entering the prime of their working lives against a backdrop of great prosperity. Meanwhile, digitalisation is creating plenty of opportunities for businesses, whether in revolutionising financial payments or facilitating peer-to-peer lending. In short, we are living in an exceptional time, where the confluence of wealth and technological change should paint a positive picture of the future.

In this environment, the Julius Baer Lifestyle Index has risen over the year, suggesting continued strength in the purchasing power of high net worth individuals in Asia. In keeping with the evolving consumer landscape, this year's index incorporates a new item – fine dining – and replaces tooth implants with Lasik procedures.

We invite you to learn more about our insights in the 2017 Julius Baer Wealth Report: Asia and thank you for your longstanding interest.

Jimmy Lee

Head Asia Pacific
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MACRO LANDSCAPE

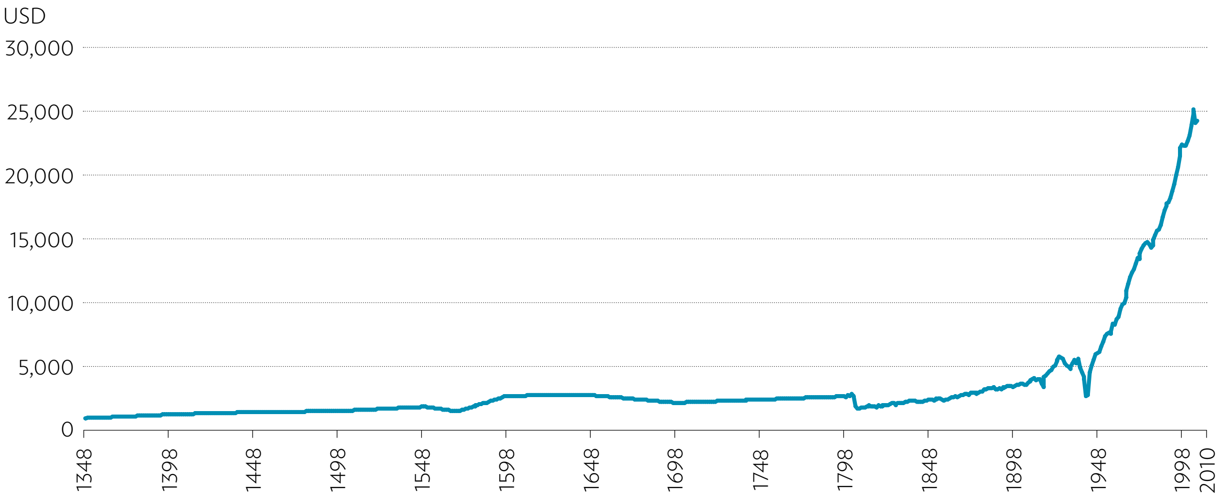
The 2017 Julius Baer Wealth Report: Asia focuses on one particular topic, namely what matters most for millennials in a High Net Worth Individual (HNWI) context. The overarching conclusion is that, relative to established ideas about luxury consumption where perennial handbags and watches may reign supreme, millenials are increasingly after exclusive experiences, and less so things. We delve into greater detail on this later, but first set the macroeconomic backdrop for this year's report.

In short, millennials live in an age of plenty, where the confluence of technological change and high income attainment are coming together in ways that should reinforce a positive view of the future. As we discuss later, there are revolutionary changes unfolding in the services sector which are re-wiring how consumers and businesses invest and borrow, and ultimately, how wealth is being created.

This reality is in stark contrast to the political rhetoric seen in some larger, advanced economies in recent years, arguably best captured by the 2016 United States (US) presidential election and the referendum vote of the United Kingdom (UK) to leave the European Union. The end result of both events sparked soul searching among academics, investors and policymakers alike, raising fundamental questions whether the dominant post-war economic order has yielded the promised benefits. Put differently, are too many people being left behind, economically-speaking?

The data tells a different story, however. Succinctly, the world has never been in better shape, especially when economic output is measured on a per head basis. In fact, work done by researchers at the University of Groningen makes this point in dramatic fashion by constructing very long-term times series. They argue that for centuries prior to 1800, humanity had seen little growth. However, from 1945 onwards, that growth rate began to surge. Although Chart 1 covers the territory of Northern Italy (as the data series is relatively complete and long), the shape of the chart can essentially by applied to all major regions of the world. Indeed, on a very long-term horizon, the per capita income chart is almost linear growth after 1945, with rare recessions causing small dips that are quickly compensated for. This data is silent regarding the distribution of wealth, which in indeed is what the recent political rhetoric centres on. Nevertheless, national accounting tells us one simple truth: the world has never seen such prosperity as the age we live in now.

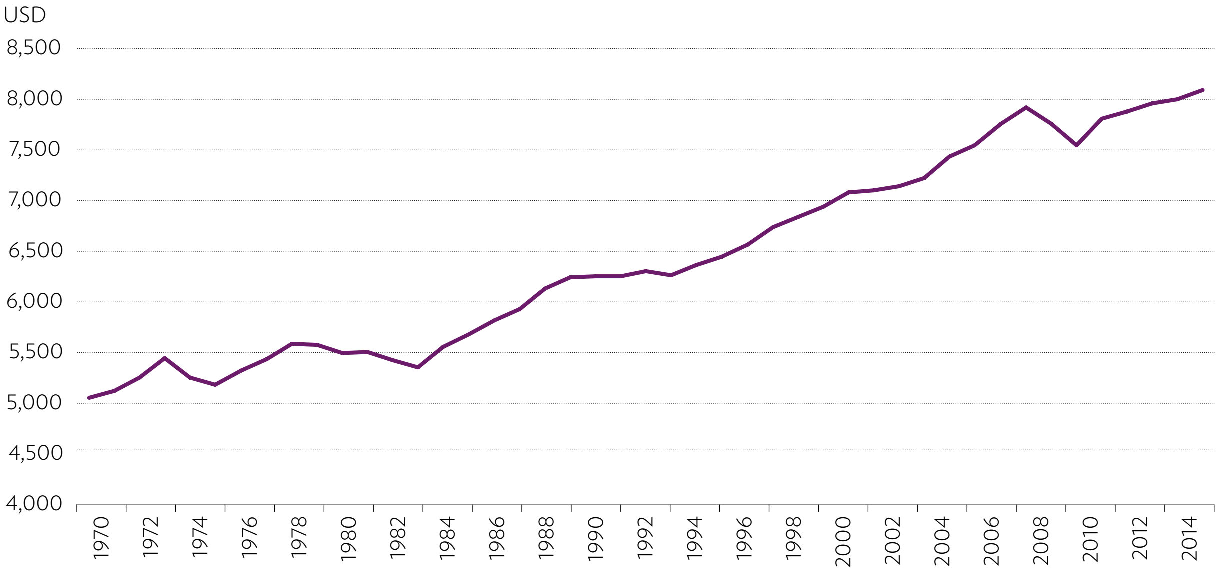
Chart 1: Northern Italy per capita income, in constant 1990 US dollars



Source: University of Gronnigen Angus Maddison Project, Julius Baer

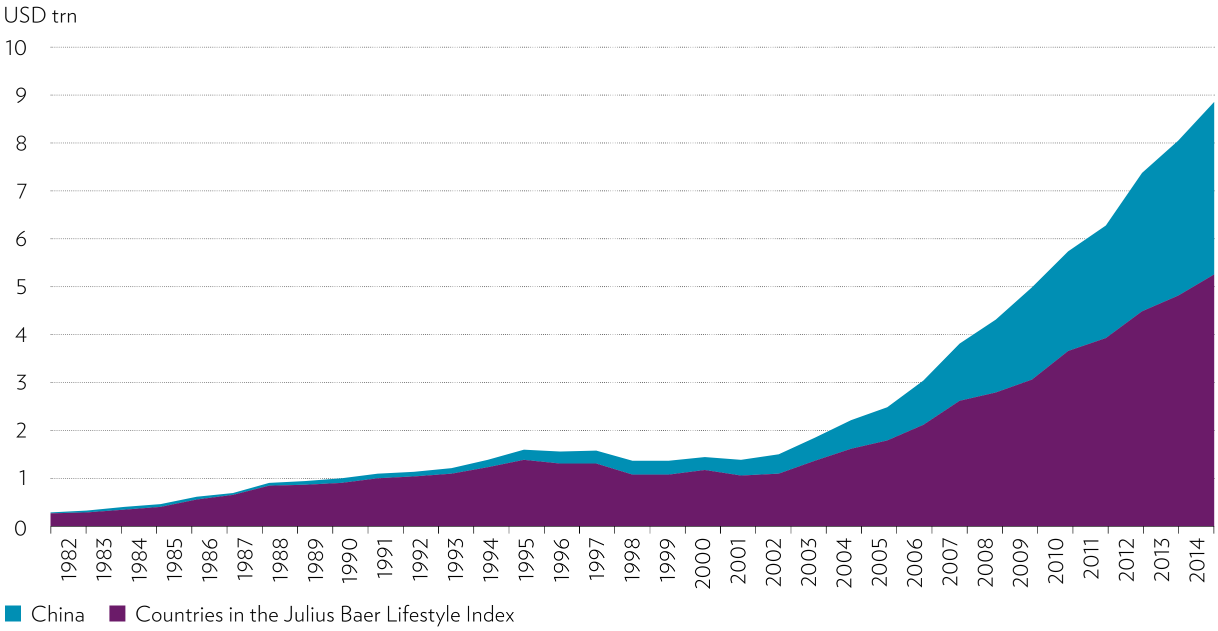
National income accounting is, however, a science that is fraught with challenges and so it is best to look at several sources. For example, the World Bank measures national income per head while adjusting for the cost to the environment. While this may surprise some, this time series is also now at an all-time high, measuring USD 8,000 per capita (in constant 2010 US dollars), for every person on Earth. The same database from the World Bank measures net financial savings, which can be taken as another proxy of wealth. By grouping together the countries under coverage in the Julius Baer Lifestyle Index, we find accumulated savings at an all-time high of more than USD 5 trn. Rather than hinge on the numerical result from these examples which are all heavily contingent on assumptions and specific methodology, the salient point is that they are all at unprecedented levels, having fully adjusted from the losses incurred during the global financial crisis (GFC). Taking the assumption that millennials are entering their peak earnings capacity now, they will be in their prime working years at a time where the world has never seen such wealth.

Chart 2: Adjusted net global income per head, in constant 2010 US dollars



Source: World Development Indicators

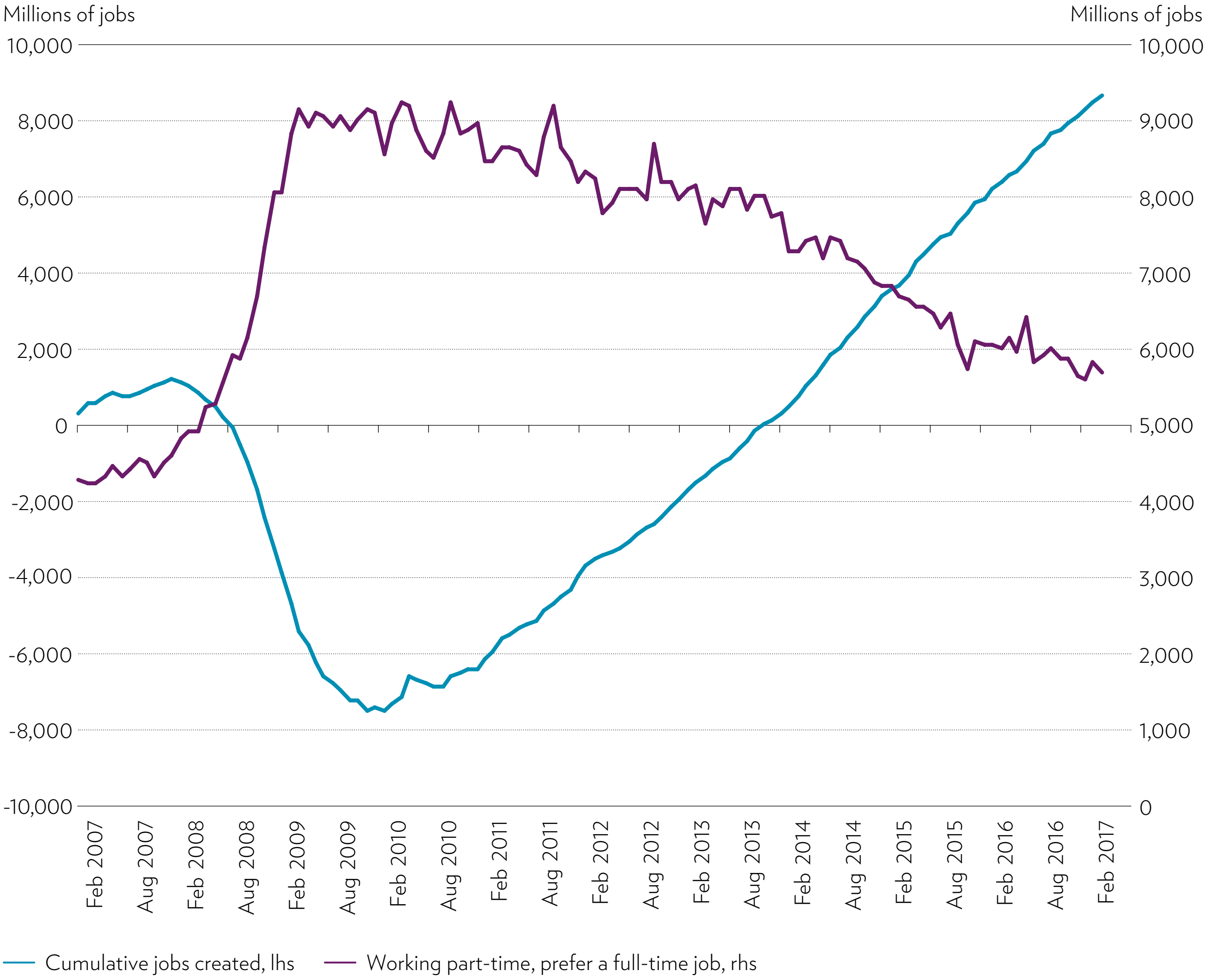
Chart 3: Financial savings



Source: World Bank, Julius Baer

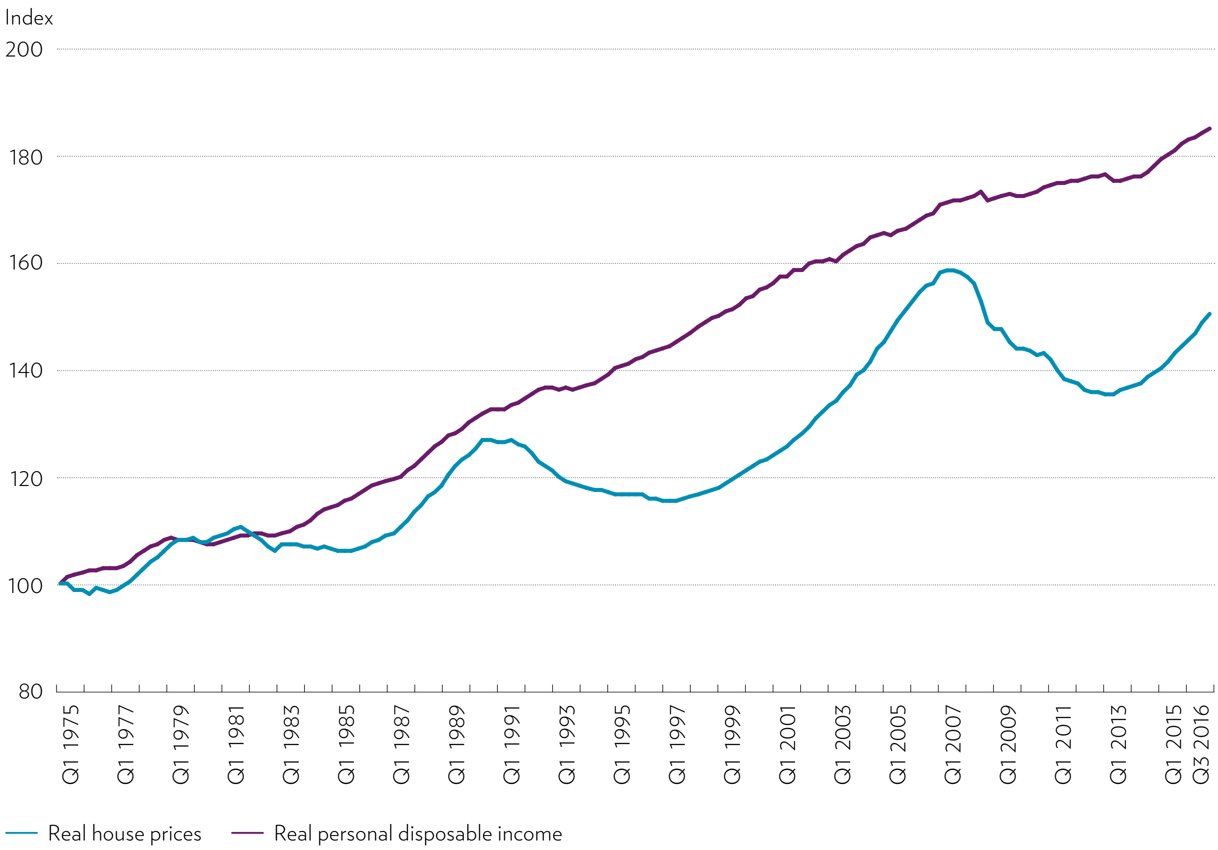
If the world has been so wealthy, where does the ‘doom and gloom’ in some political circles come from? There are several plausible explanations. Looking at the US, the data again suggests an age of never-seen-before plenty: according to the Dallas Federal Reserve, real disposable income has accelerated since 2013 and is at a record high. At the same time, the main store of wealth for most Americans – the home they live in – is well on its way to recovering from the housing crash from ten years ago. Likewise the labour market since its low in 2010 has generated close to 8.5 million net jobs. However, the jobs market speaks of a ‘bifurcation’; that is, a split between people who work full-time jobs and those that work one or more part-time jobs, the latter being the cheaper option for employers. This duality in the labour market is visible not only in the US, but is also notable in Japan and Korea, among others. In short, the US jobs recovery has been tinged by the persistence of part-time or irregular jobs, as opposed to full-time work.

Chart 4: US labour market



Source: US Bureau of Labor Services, Julius Baer

Chart 5: Real house prices and real personal disposable income



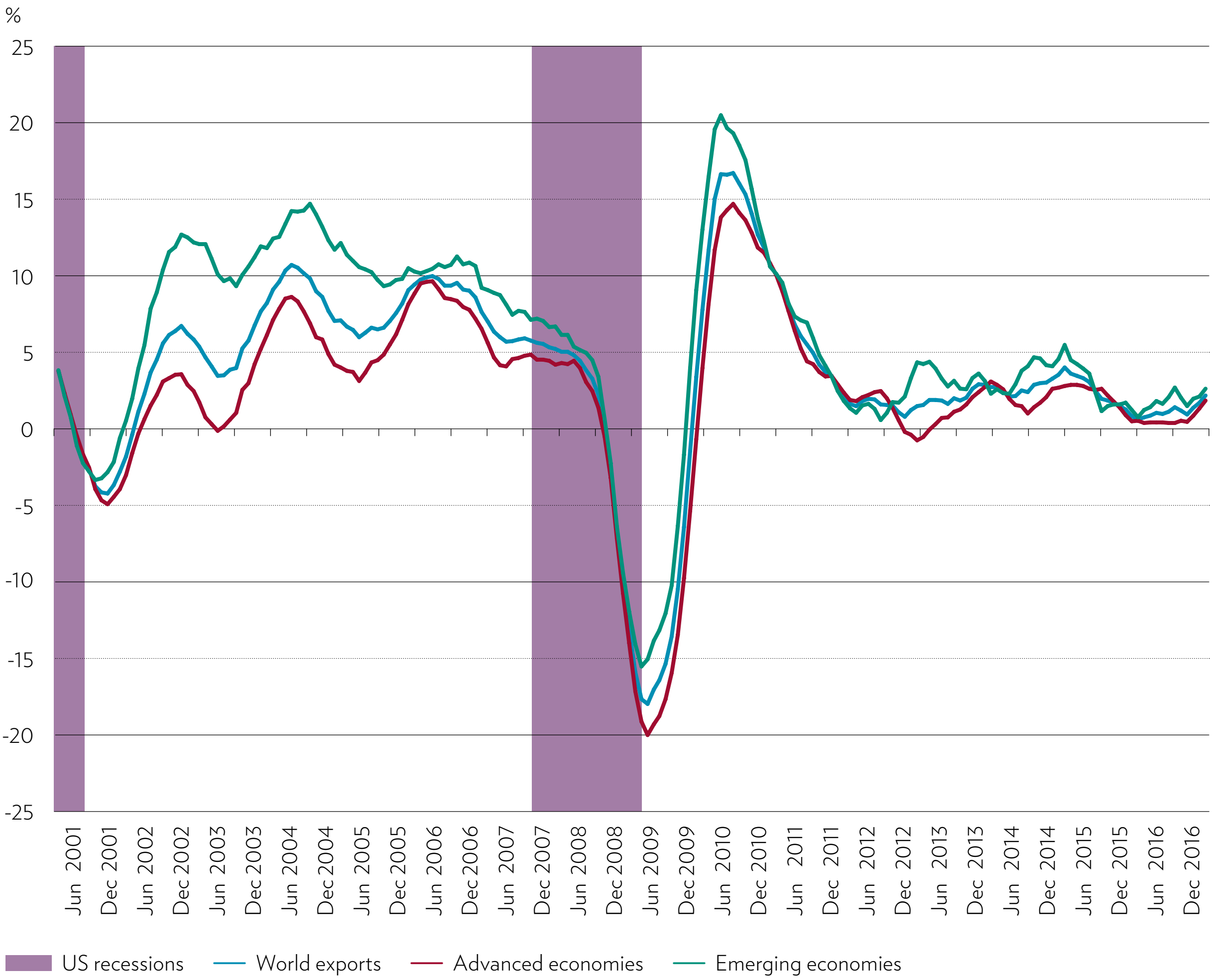
Source: Dallas Federal Reserve

In the US alone, there are over five million people who are working part-time jobs but want full-time positions. Some observers now worry that the global labour market has endured a structural break whereby sought after full-time jobs with higher job security and other benefits are scarcer in favour of part-time work. While this may be good for some, it is certainly not for all. In general, dual labour markets are an impediment to growth. This is because part-time workers are unable or unwilling to make investments (such as buying a home) as financial commitments often require the knowledge of a relatively more secure and stable income. This is another way of saying that they have a lower marginal propensity to spend, as the uncertainty of irregular work incentivises higher precautionary savings.

From the employers' perspective, it is argued that they tend to invest less in the skills development of part-time staff relative to those who are full-time. This means that over the longer term, if an economy sees a large in increase in irregular staffing, the overall quality of human capital and productivity will likely decline. In view of developments such as these, some have called for the implementation of a basic 'universal income'. While already being experimented in some cities, the idea is that the government should do away with unemployment benefits and instead, pay everyone a staple amount, thereby ensuring subsistence and easing the social burden of jobs being displaced by technology. However, it is entirely unclear whether such solutions are viable or affordable for most governments.

In Asia, the broader area of concern is trade and less so job creation. Prior to the GFC, exports of emerging markets grew an average of 6-10% annually. Since the recovery, these averages have halved and it is fair to say that few believe that merchandise trade volumes will rebound to their previous levels.

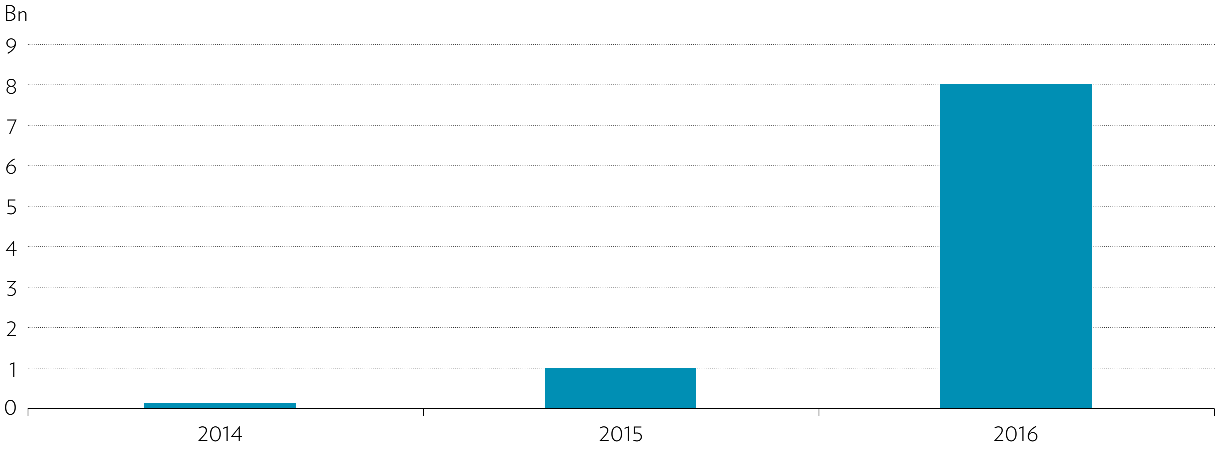
Chart 6: Growth of global exports



Source: CPB World Trade Monitor, Julius Baer

However, what we have argued in previous Julius Baer Wealth Reports is that trade and exports in goods as the engine for wealth creation will give way to service sector income growth. While harder to measure and arguably polemic, China's rapid transformation in the aspect of financial services is one such example. It is worthwhile to note that the most basic financial service – payments from one party to another – has already been revolutionised in China. Since its launch in 2014, the 'red packet' service of WeChat has ballooned to the point that over the Chinese New Year period in 2016, eight billion red packets were sent and received. The same period in 2015 saw 'only' one billion. It seems safe to say that the way we are accustomed to making financial payments will change dramatically across the world in the years ahead.

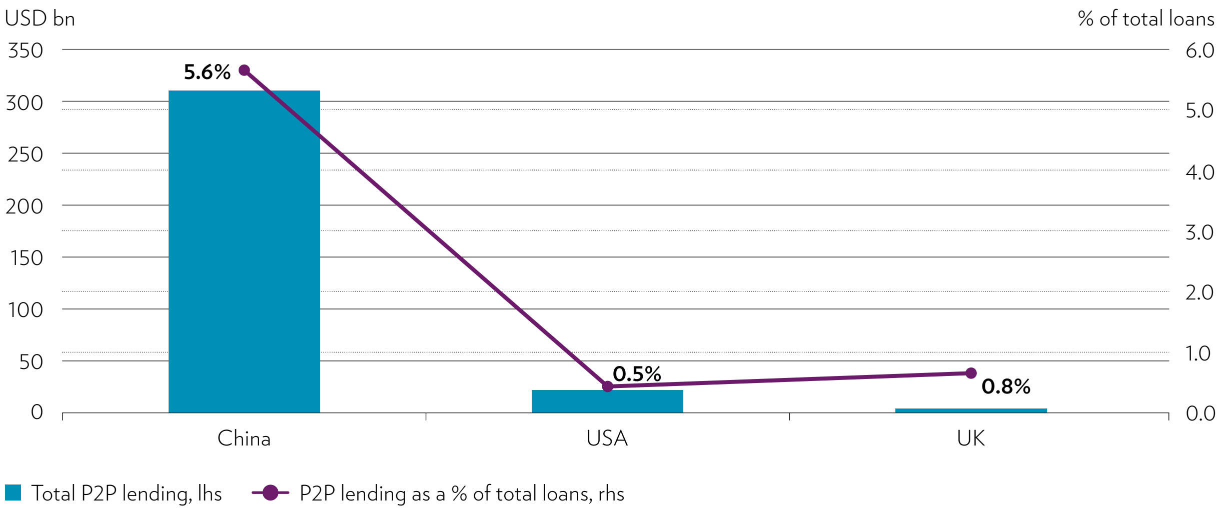
Chart 7: Number of WeChat 'red packets' received and sent over Lunar New Year period



Source: Citi Research, Julius Baer

Taking this example a step further, there are exciting developments in the traditional space of lending. This is another bread and butter type activity that most observers would probably associate squarely with banks. In China, however, peer-to-peer lending ('P2P', online platforms where individuals provide capital to lend) has reached close to 6% of the total outstanding lending. This is now worth over USD 300 bn, comprising mostly small and unsecured loans. Although the US and UK, the next two largest P2P markets, currently trail far behind, they are expected to grow massively in the coming years.

Chart 8: Top 3 P2P markets in 2016

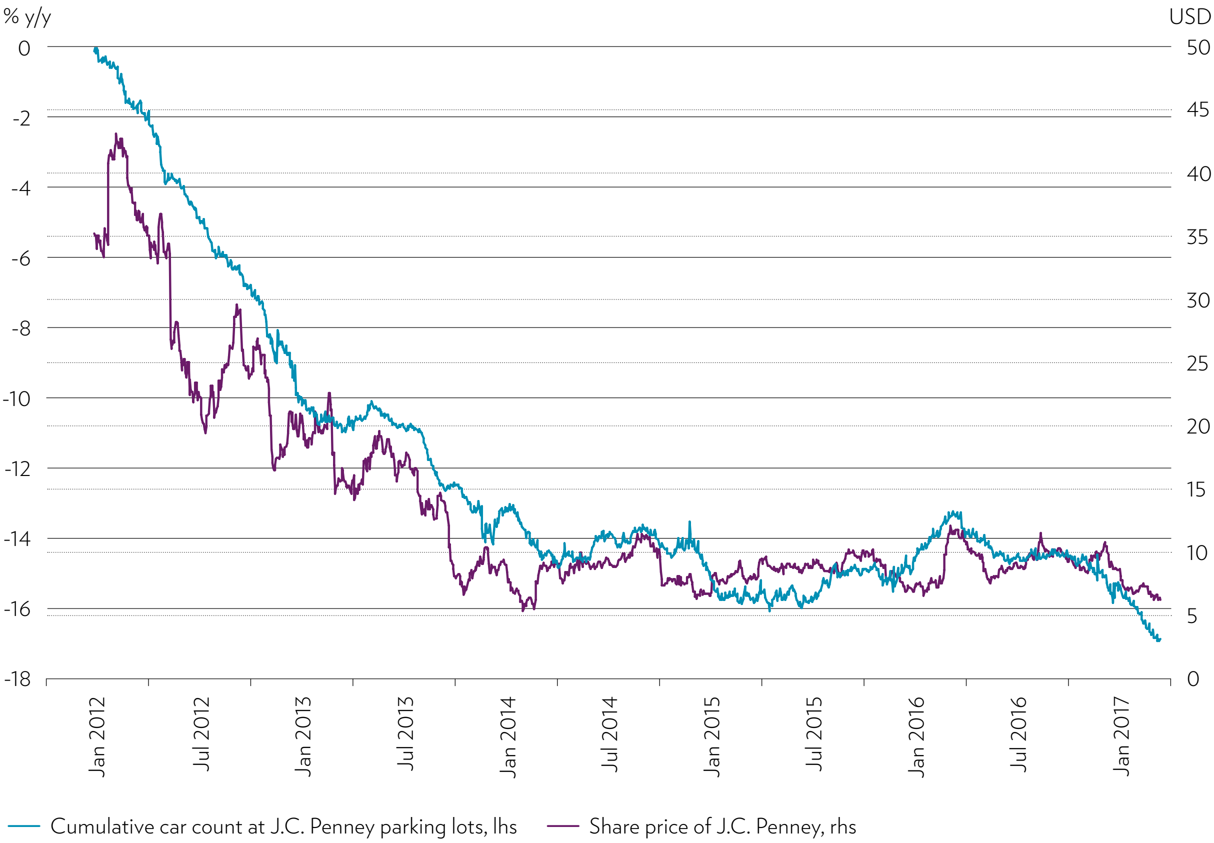


Source: Citi Research, Julius Baer

For now, regulated banks remain the standard way for borrowers to get credit – but advancements in credit scoring should open the field even more. In the end, we expect to see traditional banks using the same or similar technologies as new P2P lenders. This implies that conventional banking is set to become more efficient at obtaining credit for those who want it at competitive prices. For millennial entrepreneurs, this is an operating and credit environment that barely existed a decade ago. Being able to take advantage of these new opportunities signal the service-related wealth creation that we expect to unfold over the years ahead.

Lastly, the democratisation of data, where everyone with internet access can use resources such as Google Earth, has lowered the barriers of entry for information-based services. Another good example of this can again be found in financial services. A company called Orbital Insights uses high frequency satellite imagery to track economic activities which can then be converted into financial recommendations. For example, gauging how full (or empty) parking spaces are at US shopping malls could give a good indication of how the sales are faring at these stores. Orbital Insights cites the example of the US retailer J.C. Penney whose share price showed a strong correlation with changes in the parking lot usage. It is fair to say that the approach of linking financial market recommendations with measured real activity is not a new concept; a well-known example is measuring the number of active oil rigs to ascertain crude oil supply. However, with millions more people accessing massive amounts of data in new and innovative ways, the scope for future growth is equally exponential.

Chart 9: Change in number of cars in J.C. Penney parking lots versus its stock price

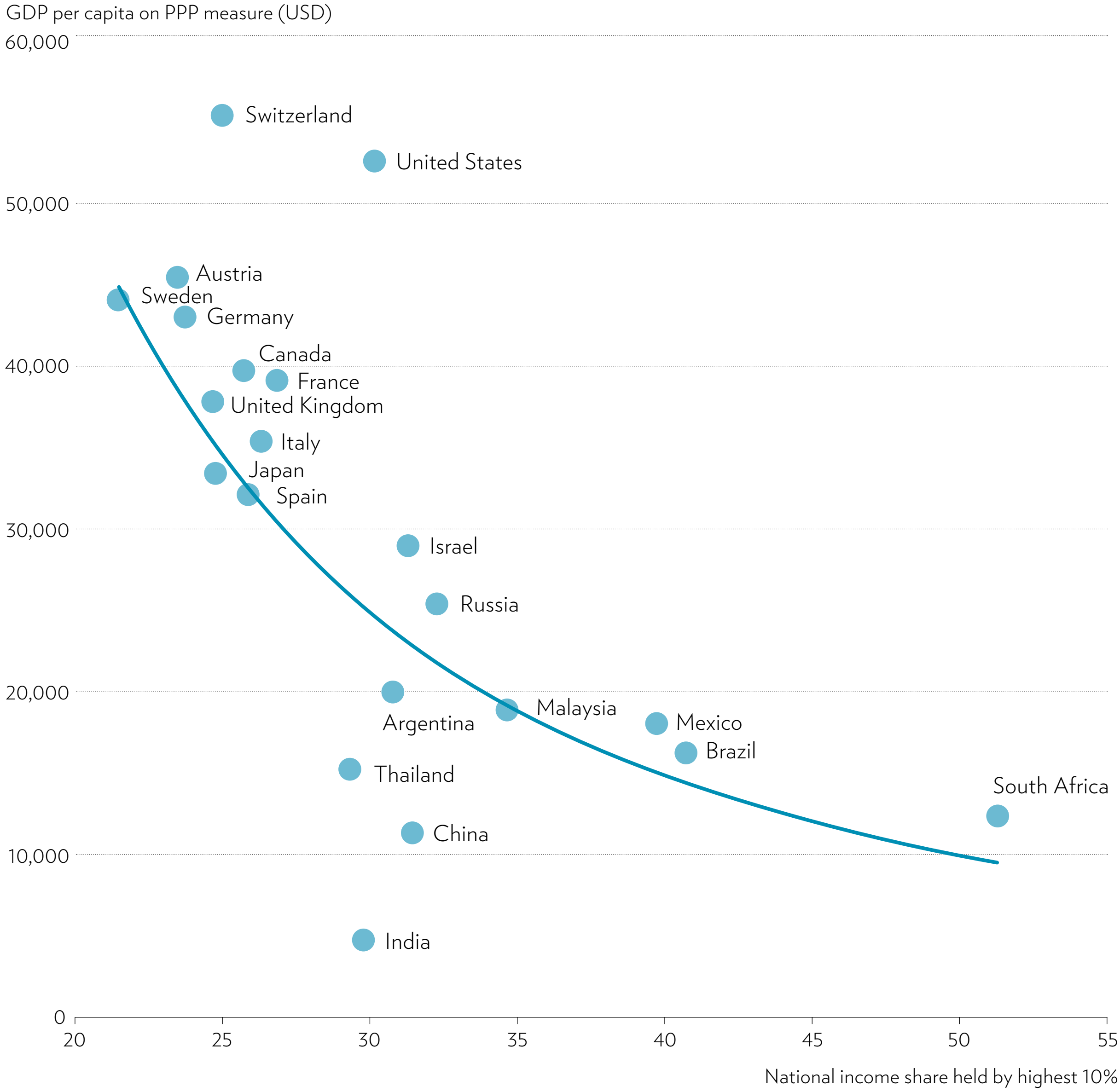


Source: Orbital Insights, Julius Baer

Few would question the enormous potential for new businesses, even whole industries, based on the democratisation of data. The complicated question of how the dividends of this new wealth creation are spread remains to be fully answered. Indeed, it is often noted that new technology-driven businesses are far less labour intensive than their Industrial Age peers, exacerbating the fears related to labour market duality as discussed earlier.

That said, the data suggests that as economies move up the income scale, the percentage of national income held by the top 10% actually declines. Although the US, the world's largest economy, is a notable outlier, European economies tend to be aligned with this trend. In general, emerging markets tend to have a high percentage of wealth clustered in the top 10%. What we can surmise, admittedly with many caveats, is that millennials are entering the prime of their working lives against a backdrop of great wealth and that recent political discourse neglects certain facts about where and how wealth has been created.

Chart 10: GDP per capita on Purchasing Power Parity (PPP) measure based on latest available data



Source: World Bank, International Monetary Fund, Julius Baer

JULIUS BAER LIFESTYLE INDEX

Presenting the 2016/2017 lifestyle index

For the seventh year in a row, we present our Julius Baer Lifestyle Index. This index measures the cost for a basket of goods and services typically consumed by HNWIs in Asia. We continue to present our data in local currency and US dollar terms.

The luxury market is constantly in flux and the number of brands that fight for the wallet share of HNWIs continues to grow. Hence, we carefully review the items in the index every year for their continued relevance and appeal to the HNWI consumer. Where appropriate we remove and replace items to obtain a basket of goods and services that most closely reflects the lives of HNWIs in Asia.

In order to reflect the preferences of the millennial generation (who find greater value in experiences rather than in physical products), we have added fine dining (degustation menu at a top-rated restaurant) as a new item to our index which brings the number of goods and services this year to 22.

Overview

In aggregate, our 2016/2017 Index rose by 2.07% in local currency and 1.42% in US dollar terms. This kept pace with regional inflation trends suggesting luxury retailers managed to retain pricing power for so-called Veblen goods - luxury goods that do not follow the usual laws of supply and demand.

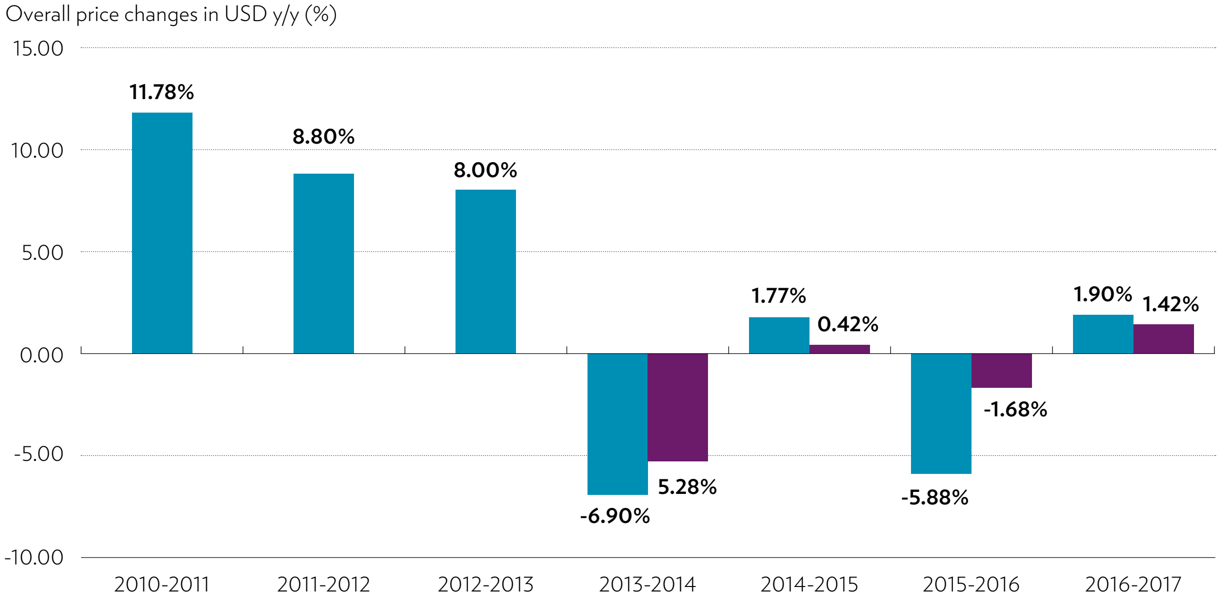
Our index remains on an upward trajectory since its launch seven years ago, demonstrating that there remains enormous demand for luxury goods and services in Asia, notwithstanding short-term asset price fluctuations.

Chart 1: Inflation vs Index

	Hong Kong	Singapore	China	India	Taiwan	Indonesia	Philippines	Korea	Malaysia	Thailand	Japan	Average
2016 Consumer price inflation	2.42%	0.03%	2.10%	5.30%	1.40%	3.53%	1.78%	0.73%	2.09%	1.13%	-0.13%	**1.85%**
Julius Baer Lifestyle Index y/y local currency	1.2%	4.6%	1.9%	2.9%	-1.3%	1.3%	7.5%	1.1%	1.2%	1.7%	0.8%	**2.07%**
Julius Baer Lifestyle Index y/y USD	1.0%	2.4%	-1.7%	5.9%	4.9%	1.3%	1.3%	4.0%	-4.5%	4.0%	-3.0%	**1.42%**

Source: World Bank, Julius Baer

Chart 2: Julius Baer Lifestyle Index, changes in prices of goods and services y/y, 2010 to 2017, US dollar terms

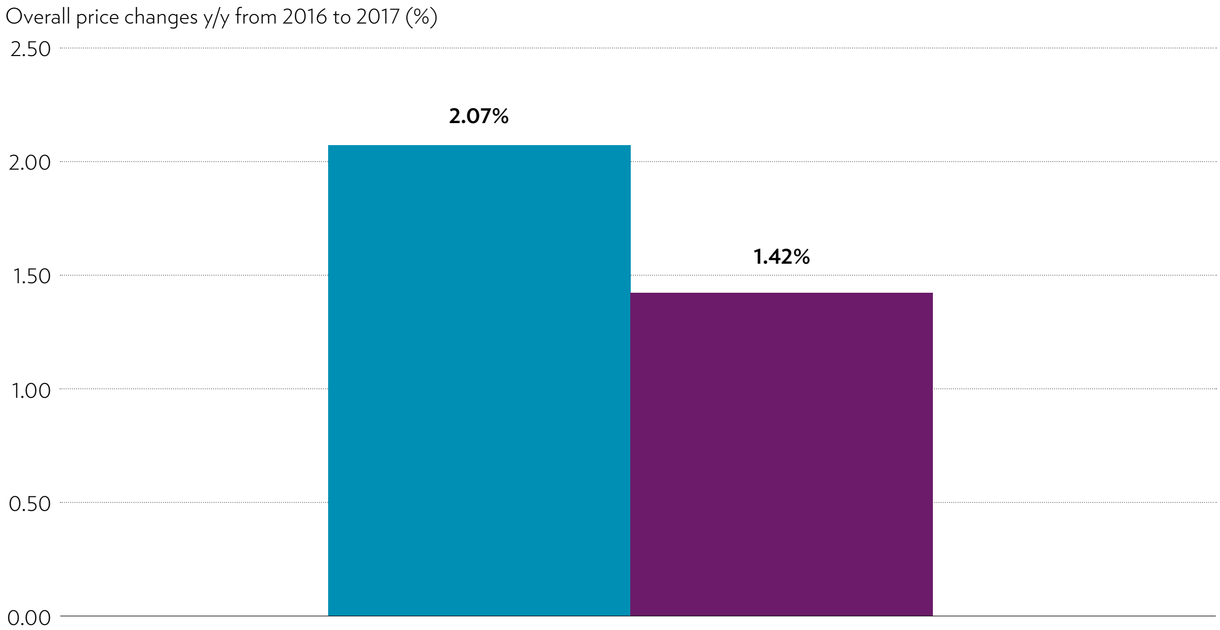


■ Julius Baer Lifestyle Index original, US dollar terms, in Hong Kong, Singapore, Shanghai and Mumbai

■ Julius Baer Lifestyle Index expanded, US dollar terms, in Hong Kong, Singapore, Shanghai, Mumbai, Jakarta, Kuala Lumpar, Taipei, Bangkok, Manila, Seoul and Tokyo

Source: Julius Baer

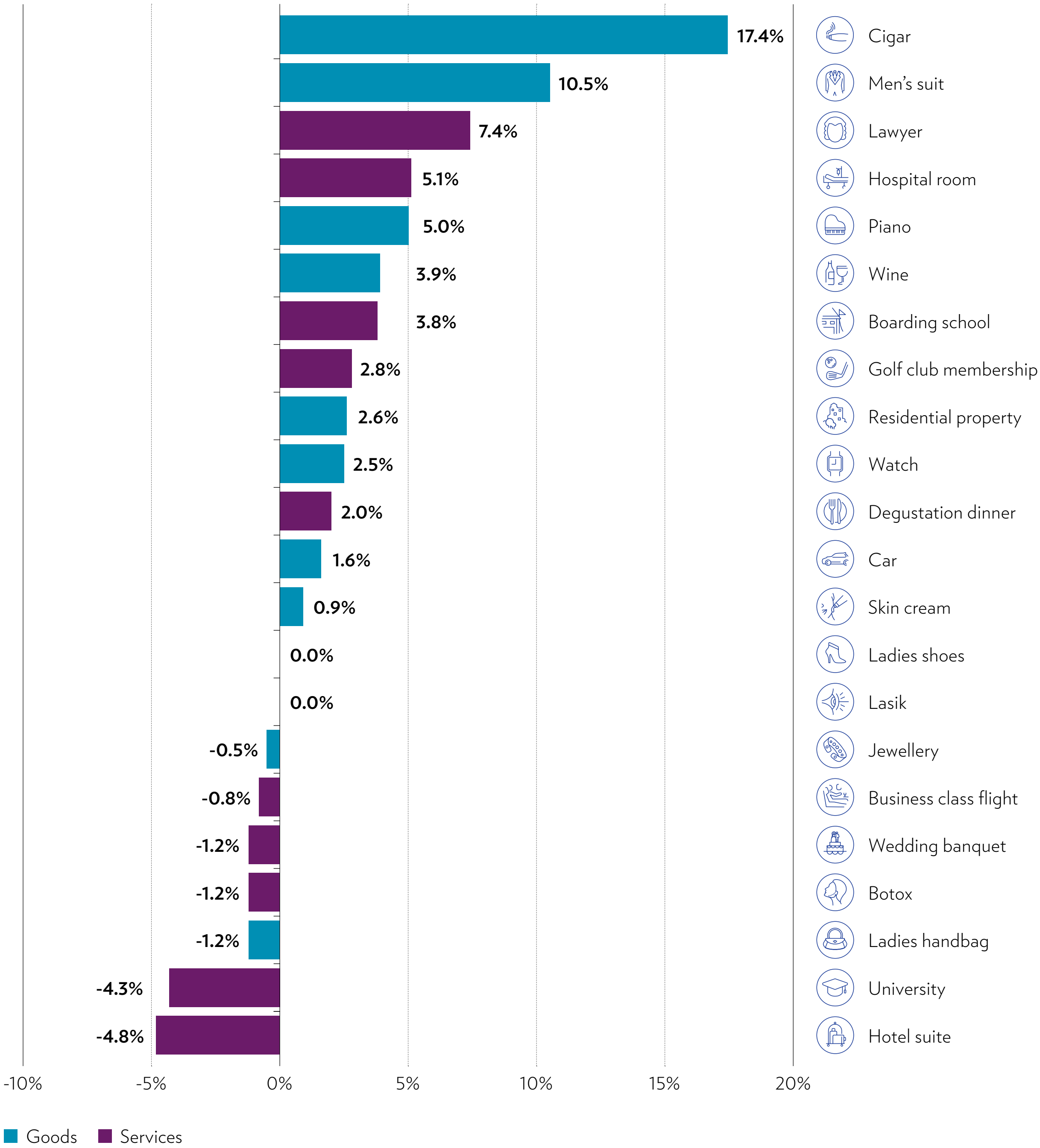
Chart 3: Julius Baer Lifestyle Index, changes in prices of goods and services y/y, 2016 to 2017, local currency and US dollar terms



■ Local Currency ■ USD

Source: Julius Baer

Chart 4: Price changes of Julius Baer Lifestyle Index items, y/y local currency terms



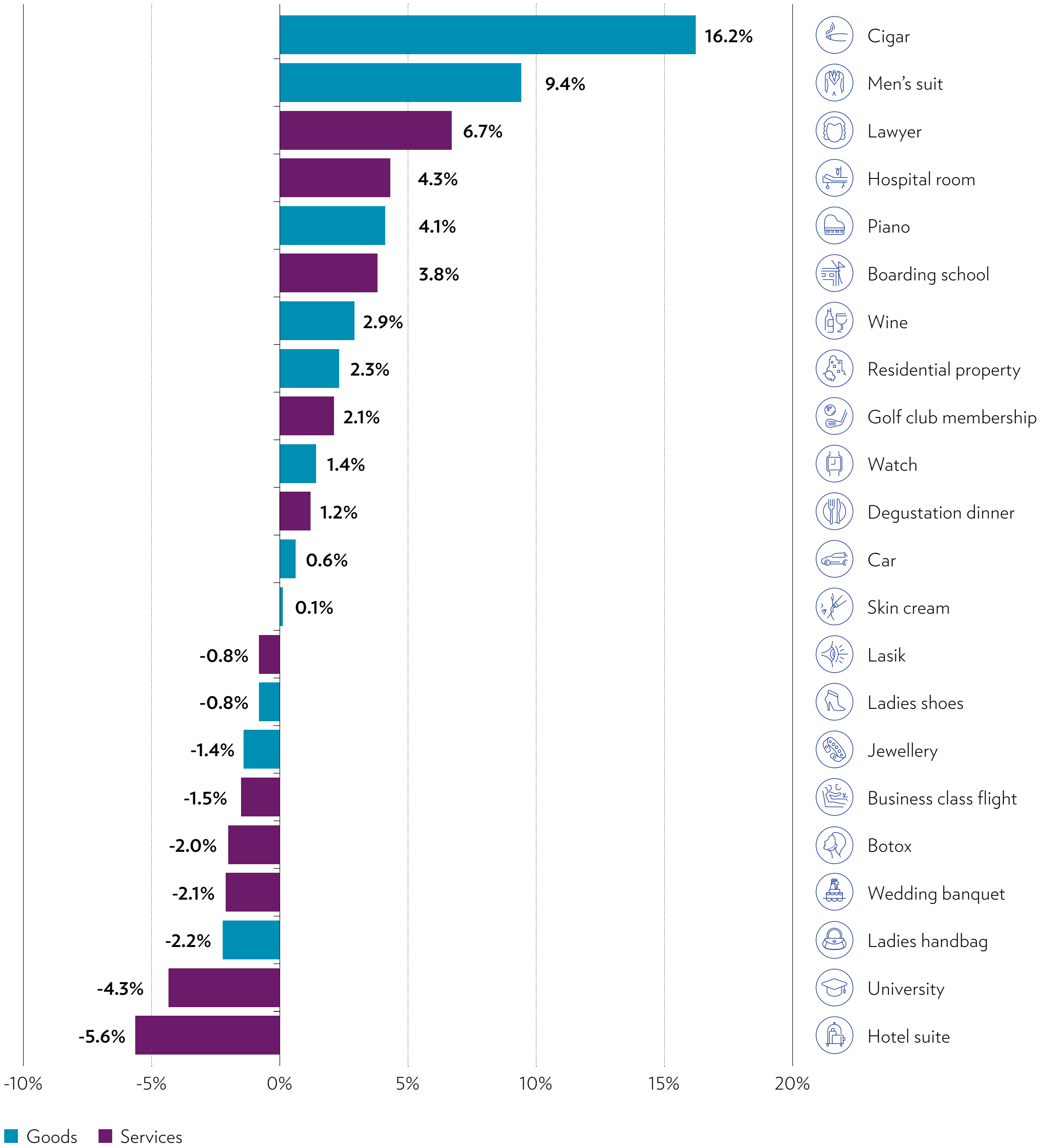
Source: Julius Baer

In local currency terms this year, 15 of the 22 items in our index showed positive price momentum. The biggest price increases were found in cigars, men's suits and legal fees while the largest declines came from hotel suites, ladies' handbags and botox.

In US dollar terms, the index rose by 1.42% reversing last year's downtrend as strong local price trends outweighed a modest depreciation in Asian currencies. More specifically, 13 out of the 22 items measured saw price increases.

University fees fell by 4.3% as the US dollar-equivalent cost for one of our executive programmes in the UK fell considerably due to the large depreciation in the value of the British pound. In local currency terms however, the UK programme had marked its costs higher by 4.9%.

Chart 5: Price changes of Julius Baer Lifestyle Index items, y/y US dollar terms



Source: Julius Baer

A number of trends underpin the price movements of our basket of high-end goods and services. The first is the return of consumer confidence in China, the largest consumer of luxury goods in the world. The second is the phenomenon of customers 'reshoring' the luxury purchases they once made on overseas trips back home. The third less influential factor this year is Asian currency movements. Lastly, we also address the growing influence of the millennial generation on the overall luxury landscape.

Chart 6: Currency effects

	Hong Kong HKD	Singapore SGD	Shanghai CNY	Mumbai INR	Taipei TWD	Jakarta IDR	Manila PHP	Seoul KRW	Kuala Lumpur MYR	Bangkok THB	Tokyo JPY	Average
2016 FX Rates*	7.76	1.35	6.64	67.21	32.24	13,242.70	46.74	1156.74	4.03	35.20	104.29	
2017 FX Rates*	7.79	1.39	6.85	64.44	30.21	13,312.24	49.88	1128.85	4.30	34.23	111.57	
Change	-0.4%	-2.8%	-3.1%	4.3%	6.7%	-0.5%	-6.3%	2.5%	-6.1%	2.8%	-6.5%	**-0.9%**

* Average FX rate against USD from 1 June - 21 July 2016 and 1 May - 30June 2017 respectively

Source: Bloomberg Finance L.P.

Currency effects

We saw a mixed performance for the Asian currencies this year. On average the currencies for the 11 cities we surveyed weakened by 0.9% versus the US dollar continuing the trend of the previous year. The best performing currencies this year were the Taiwan dollar (+6.7%), the Indian rupee (+4.3%) and the Thai baht (+2.8%). On the flip side, the worst performing currencies were the Japanese yen (-6.5%), the Philippine peso (-6.3%) followed by the Malaysian ringgit (-6.1%).

A weakness in local currencies has a negative effect on our lifestyle index which is reported in US dollars. The translation effect amplifies negative price trends in the local market or reduces positive price trends. Currency movements also bring to light the pricing power and strategies that various luxury brands employ.

In early 2015 when the euro depreciated by more than 20% against the US dollar, prices for European luxury goods became so affordable for Chinese consumers and local resellers that they could book a round-trip flight to Europe, stock up on accessories, and still get a better deal than buying the same item locally. This prompted luxury retailer Chanel to make the strategic decision to harmonise prices (increasing them by more than 20%) for its handbags in its core markets in Europe, US and China to address this arbitrage. The challenge for luxury brands when making such pricing decisions (for potentially temporary macroeconomic effects) is to be able to predict and anticipate the longer-term effects these decisions can have on customer behaviour and perception of the brand.

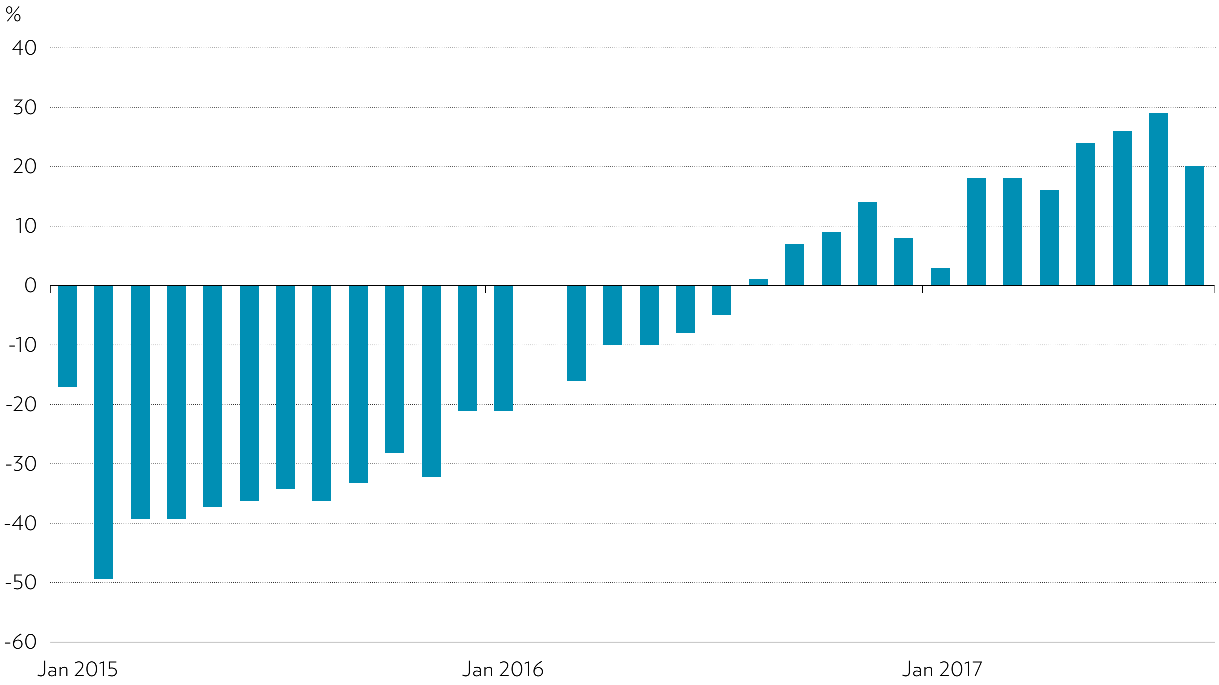
Return of consumer confidence in China

After two years of sluggish performance amid the economic slowdown, stock market rout and corruption crackdown in China, the luxury goods sector is experiencing a broad recovery as consumer confidence in China has returned. Consumers are enjoying the wealth effect of higher house prices, buoyant equity markets and an apparent slowdown in the campaign against graft.

Macau's gaming sector revenues (a closely watched barometer for the wider luxury sector in China) have started to grow again since the middle of last year after more than two years of decline. Luxury houses such as LVMH, Kering and Hermes have also been indicating this uptrend in their results this year.

This is corroborated by the performance of our lifestyle index in China and Hong Kong where overall prices rose by 1.9% and 1.2% respectively in local currency terms, reversing last year's downtrend.

Chart 7: Macau's casinos back to growth again



Source: Macau Gaming Inspection and Coordination Bureau

Reshoring

After years of travelling overseas for their high-end spending needs, Chinese consumers have begun to buy more of their luxury goods at home. This 'reshoring' trend has been spurred by a weaker Chinese yuan, 'harmonisation' of global prices by luxury brands to reduce the premiums previously charged domestically and import taxes imposed by the authorities on overseas purchases. According to the Boston Consulting Group (BCG), Chinese consumers made more than two-thirds of their personal luxury goods purchases domestically in 2016, compared with roughly a third in 2013.

The government has also had a hand in influencing the behaviour of the Chinese consumer. Over the past year, China has cut duties on some luxury goods imported through official channels and opened duty-free zones for domestic tourists. The government has also cracked down on the grey 'personal shopper' market through stiff penalties on unofficial imports of luxuries.

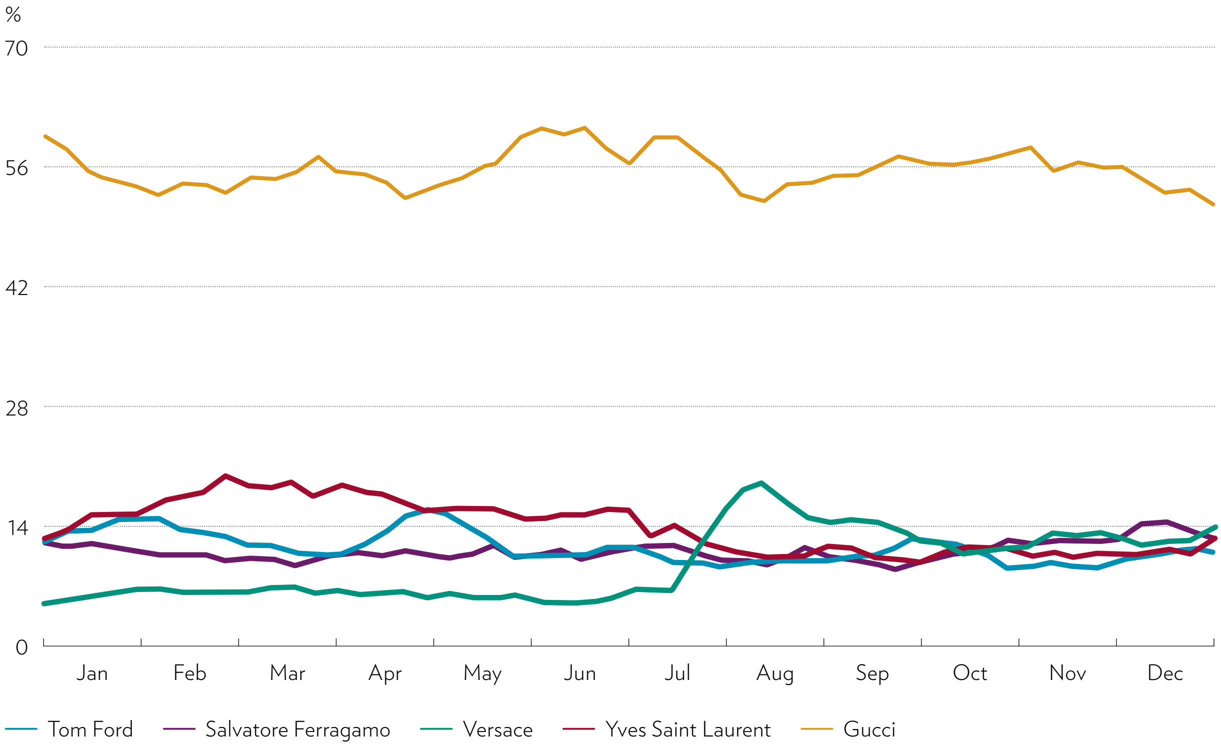
Against this confluence of factors, price trends in Shanghai and Hong Kong for items like ladies handbags, jewellery, watches and ladies shoes stabilised after y/y declines in previous years.

The millennial effect

A key focus of our report this year is looking at what matters for millennials in the HNWI context. Bain & Company projects that today's millennials and the generation after (Generation Z) already account for 30% of luxury shoppers and this figure will grow to 45% by 2025. Apart from the material aspect, millennials are also having a profound impact on the evolution of the whole luxury culture.

As highlighted in our thematic section, millennials are willing to spend money on things they care about, but they find greater value in experiences and lifestyle enhancement rather than in physical products. The graph below illustrates how specific events, social media and sponsorships can affect the ability of luxury brands to capture market share for this demographic.

Chart 8: 2016 Visit share - Top millennial brands



Source: Hitwise, Inc

The first observation we can make is that Gucci commands a significant share of the luxury millennial market, despite being almost an century old. The brand has been able to reinvent through edgy fashion and digital marketing. The second observation is the large market share jump in millennial interest around June 2016 for Versace. According to Hitwise, Inc, this was when the company enlisted superstars Gigi Hadid and Karlie Kloss to model for their fall campaign.

How does this relate to our luxury index? Firstly, luxury brands that consistently do well with millennials may over time displace brands which are traditionally popular with baby boomers or Generation X'ers given their expanding wallet share and cross-generational influence. Secondly, we could find that composition of our index may evolve with a greater tilt towards luxury experiences over things. Currently, our basket is evenly split between things (11 goods) and experiences (11 services). These present both opportunities and challenges for businesses wanting to stay engaged with the dynamic HNWI population.

Introducing fine dining to our Lifestyle Index

The Asia Pacific luxury foods market is the fastest growing market globally as rapid economic growth in the region has produced large numbers of HNWIs and where symbolism in food consumption is important. The largest market in Asia for luxury foods remain Japan and China.

Affluent consumers in Asia are passionate about good food and have the income and inclination to dine out regularly. A number of noticeable trends have emerged in the fine dining scene in Asia in recent years. The first is an increase in younger millennials choosing to dine out at higher-end establishments. Recent surveys show that millennials are now the most frequent fine-diners in Asia compared to other age groups. The second is an increase in the number of consumers willing to travel across Asia to dine at a particular restaurant helmed by a well-known 'celebrity' chef. The third is a continued westernisation of tastes in luxury food, with foods from Europe in particular gaining significant share of consumption in Asia.

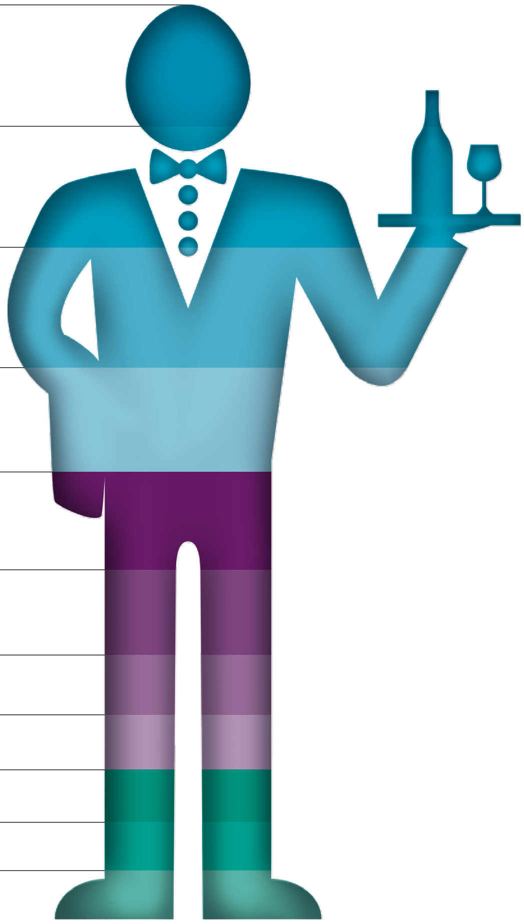
Lastly, given concerns about counterfeit luxury foods, consumers have a preference to purchase luxury food items from international sellers or to consume them in fine dining establishments. We introduce fine dining to our index this year as a new item to reflect the growing propensity of HNWIs to spend on luxury foods and to pay for the experience of fine dining. Our benchmark for fine dining is based on the prices for a degustation menu at top rated[1] restaurants in each city.

Hong Kong is the most expensive city in Asia to have a fine dining experience at a cost of USD 287, followed by Singapore (USD 283) and Shanghai (USD 280). On the other hand, the best priced degustation dinner can be found in Mumbai (USD 113). On aggregate, the price of fine dining in Asia as measured by our Index has risen by 1.2% y/y in US dollar terms with the most significant movements in Bangkok (+17.3%) and Manila (-7.0%).

[1] Where possible, restaurants with 2 Michelin stars are used for comparison. Where the Michelin Guide is not present, Asia's 50 Best Restaurants by San Pellegrino and Aqua Panna is used. Alternatively, a affiliate of a Michelin Star-rated restaurant is used.

Chart 9: Fine dining

Hong Kong	287 (2.1%)	2,237(2.5%)
Singapore	283 (-2.8%)	394 (0.0%)
Shanghai	280 (-0.2%)	1,918 (3.0%)
Taipei	244 (6.7%)	7,359 (0.0%)
Seoul	230 (3.5%)	260,000 (1.0%)
Tokyo	200 (-1.3%)	22,330 (5.6%)
Average	195 (1.2%)	(2.0%)
Bangkok	139 (17.3%)	4,767 (14.1%)
Jakarta	129 (-0.5%)	1,714,000 (0.0%)
Kuala Lumpur	123 (-5.9%)	528 (0.2%)
Manila	114 (-7.0%)	5,684 (-0.7%)
Mumbai	113 (1.1%)	7,310 (-3.1%)



■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Lasik

Cosmetic surgery is one of the few types of medical care where the consumer has to pay out of pocket. Data from the American Society of Plastic Surgeons reveal that the price for cosmetic services in the US rose by only 30% between 1992 and 2012 compared to more than 90% for the price of physician services. There are a number of reasons for this.

Firstly, consumers tend to be more price-sensitive when they have to pay with their own money. Secondly, supply for popular cosmetic procedures has increased the number of surgeons and trained aestheticians willing to offer them which has led to increased price competition. Lastly, innovation has lowered costs for cosmetic procedures as innovation can introduce less invasive procedures as substitutes or improve the quality of a procedure at a similar cost.

Data from the US shows that the nominal price of advanced Lasik surgery (not adjusted for inflation) is about what conventional Lasik cost more than a decade ago, but the quality is far better. In inflation adjusted terms, these costs reveal a large price decline. We expect this trend to also be consistent with what we will find in Asia over time.

We introduce Lasik as a cosmetic procedure to replace tooth implants in our lifestyle index. We find this procedure to be the most competitively priced in Seoul at USD 1,506 while it is the highest priced in Bangkok at USD 3,469. The average price for Lasik in the region is USD 2,645. The overall price trend for this item is flat y/y (-0.8%) across our 11 cities with largest swings in Singapore (-13.7%), Jakarta (-11.5%) and Mumbai (+25.3%).

While the absolute cost of Lasik surgery is not high, there is a large cost differential between opting for the procedure in Seoul (which has a strong reputation for quality) and Bangkok (twice the price).

South Korea is known as a country of early adopters who embrace technologies and their doctors offer the most advanced options in eyecare. In fact, the country boasts one of the highest proportions of laser platforms per person in the world. As a result, the refractive market is highly competitive with procedure fees going down at exponential rates. This is reflected in our findings that even at already low costs, prices for Lasik still fell by 7.5% y/y in Seoul.

Chart 10: Lasik

Bangkok	3,469 (5.3%)	118,750(2.4%)
Shanghai	3,396 (-2.7%)	23,250 (0.4%)
Singapore	3,254 (-13.7%)	4,520 (-11.3%)
Kuala Lumpur	3,233 (3.6%)	13,888 (10.3%)
Hong Kong	3,179 (1.9%)	24,775 (2.4%)
Tokyo	2,741 (-6.0%)	305,833 (0.5%)
Average	2,645 (-0.8%)	(0.0%)
Manila	2,325 (-9.9%)	115,988 (-3.9%)
Jakarta	2,229 (-11.5%)	29,666,667 (-11.0%)
Mumbai	1,913 (25.3%)	123,250 (20.1%)
Taipei	1,854 (6.7%)	56,000 (0.0%)
Seoul	1,506 (-7.5%)	1,700,000 (-9.8%)

■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Business class flights

We continue to track the prices of business class flights originating from 11 Asian cities to New York and London as we recognise the importance and relevance of these cosmopolitan metropolises for the HWNI traveller. This year, we saw a mixed picture with varied price movements although the average change was relatively flat at -1.5% in US dollar terms. The largest y/y declines are registered for flights departing from Manila (-25.2%) and Singapore (-13.1%) while the largest spikes were seen in Seoul (+25.2%) and Taipei (+15.8%). The cheapest city to start a roundtrip to Europe/US this year is Bangkok (USD 3,761) while the most expensive city is Hong Kong (USD 6,264). The average cost regionally is USD 4,749.

Global air travel demand remains strong, thanks to the stimulus of lower airfares in some markets and improving economic conditions. According to IATA, global air traffic grew at 7% y/y in Q1 2017. Demand for outbound travel to Europe from Asia has increased significantly y/y which is corroborated by higher prices for most of our London-bound flights. On the other hand, there has been a decline in demand for US-bound flights following the new Trump administration's more conservative approach towards immigration. This is also in-line with lower pricing trends for our New York bound flights. All of which contribute to the mixed results in our index findings.

With the exception of Jakarta, Taipei and Seoul most cities registered negative pricing trends. While there were some location specific reasons including terrorism-related fears in Manila, the negative pricing pressures may be explained by a number of factors. Firstly, oil prices are relatively low, which encourages airlines to increase their capacity which has a lowering effect on the prices. Secondly, additional capacity from Chinese carriers and Cathay Airlines adding several new routes globally has also affected prices. Lastly, leading Asian carriers are now focussed on regaining market share and customer loyalty, taking steps to slash prices and retrofit existing aircraft with improved cabin products.

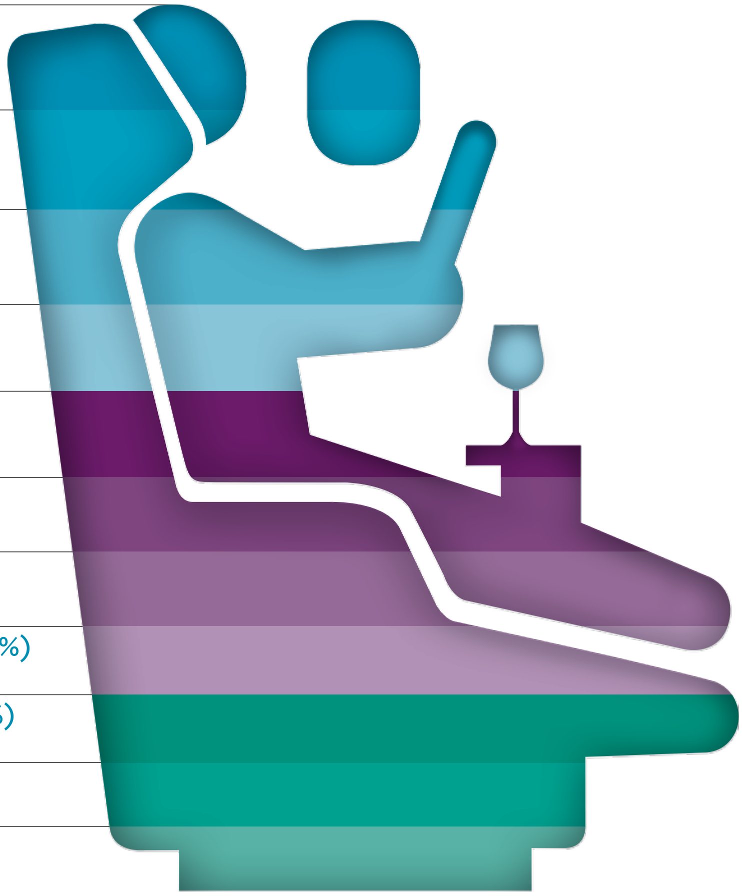
Still, there are areas where pricing trends have been resilient and bucked the trend. For example, prices of long-haul business class flights from Jakarta rose by about 14% y/y due to strong HNWI demand and limited supply. Flight ticket prices from Seoul were buoyed by robust inbound tourism demand from US and Europe (visitor arrivals have risen by double digits this year).

Additionally, airlines are taking measures to raise business class fares by upscaling business class cabins with first-class 'like' features such as direct aisle access and a fully flat bed. This comes at the expense of first class cabins for new aircraft deliveries. This makes commercial sense, as certain studies already show that earnings per square foot for an aircraft cabin are highest in business class.

All in all, business class flights will always remain a staple for the HNWI traveller. Amadeus, one of the largest global IT travel solutions provider, cites that between 2011 and 2015, Asia led the growth in business class travel demand, owing to rapidly expanding business networks and a new affluent class of travellers who are more willing to book leisure trips in business class. It is believed that this growth trend will continue to outpace that of Europe's till roughly 2025.

Chart 11: Business class flights

Hong Kong	6,264 (0.1%)	48,815 (0.5%)
Tokyo	5,863 (-10.0%)	654,101 (-3.8%)
Shanghai	5,590 (-2.1%)	38,267 (1.0%)
Singapore	5,139 (-13.1%)	7,140 (-10.6%)
Taipei	5,077 (15.8%)	153,383 (8.5%)
Average	4,749 (-1.5%)	(-0.8%)
Mumbai	4,376 (-4.5%)	281,997 (-8.5%)
Manila	4,365 (-25.2%)	217,712 (-20.2%)
Jakarta	4,024 (13.5%)	53,562,500 (14.1%)
Seoul	4,013 (25.2%)	4,529,775 (22.2%)
Kuala Lumpur	3,767 (-11.9%)	16,182 (-6.2%)
Bangkok	3,761 (-3.9%)	128,719 (-6.5%)



■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Property

We collaborate with Knight Frank this year to define a prime-market property dataset which is easily comparable across cities. Property continues to command a higher weighting in our index due to its wallet share and importance in asset allocation.

High end residential property prices in the region are starting to rebound after trending downwards for the past few years. Overall the property item in our index rose by 2.6% this year (+2.3% in US dollar terms). In local currency terms, the majority of our surveyed cities showed flat to rising prices with the largest improvements in Manila (+14.9%), Singapore (+7.9%) and Shanghai (+6.3%). Some weakness was seen in Taipei (-3.7%), Seoul (-2.2%) and Kuala Lumpur (-1.0%) where additional government curbs were recently introduced.

A number of factors may explain this turnaround. Firstly, demand remains strong from end-users and investors with interest rates still low and liquidity flush. This pent-up demand can be seen in cities like Singapore, Hong Kong and Shanghai where buyers are returning to pick up property at more attractive levels after recent price declines. While governments remain wary of asset bubbles and speculative activity, we note that authorities in certain countries like in Singapore have begun to reduce stamp duties signalling that prices may have fallen far enough.

Overall, we find that property prices remain the highest in Hong Kong, Tokyo and Singapore while they are least expensive in Jakarta, Bangkok and Manila. On a per square metre basis, the average cost for prime real estate in Asia this year stands at USD 19,151, with the mantle for most expensive going to Hong Kong (USD 51,595 psm) and the most competitive going to Kuala Lumpur (USD 3,363 psm).

Most expensive city: Hong Kong

Despite government efforts in boosting residential supply and suppressing housing demand, by building more homes and implementing cooling measures, Hong Kong's house prices have still remained on the rise, due to strong demand from both end-users and investors. The primary market is particularly popular, with an abundance of new flats launched and developers offering various sweeteners to boost sales. Although the secondary market remained relatively quiet, a number of record-breaking deals have been recorded, resulting in further growth in home prices.

The government's announcement in April 2017 of a 15% stamp duty levy on first-time homebuyers purchasing multiple flats in one go is not expected to drag down home prices, as these transactions make up less than 5% of total sales. Some developers could offer further sweeteners to counter the impact of the levy. While abundant upcoming supply and interest-rate rises will help suppress price growth, high land prices and strong housing demand will lend support to home prices.[1]

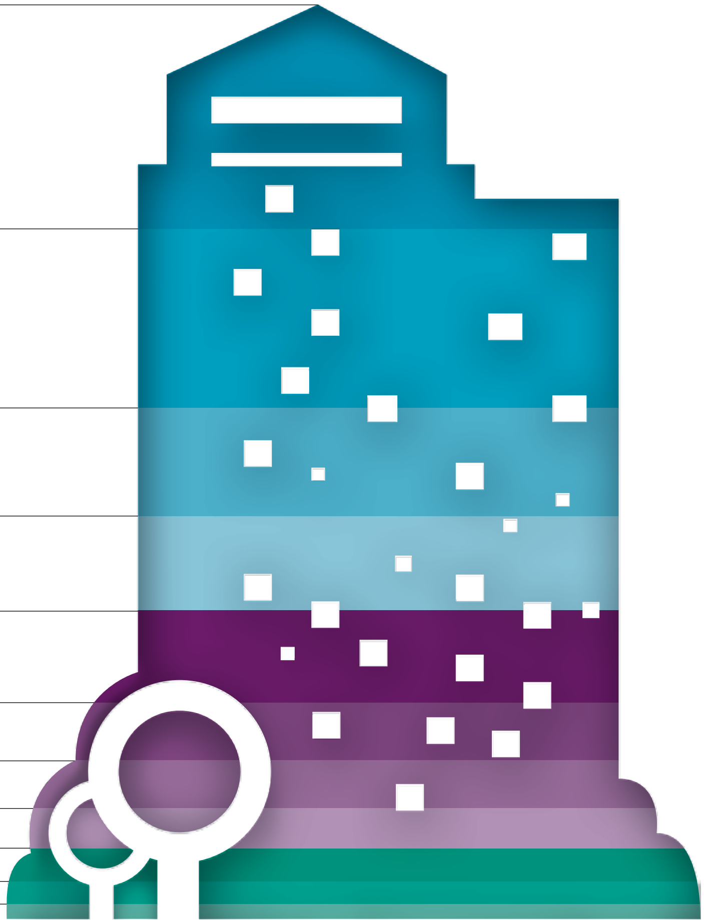
Most competitive city: Kuala Lumpur

The high-end condominium segment in the city is expected to correct as potential buyers and investors continue to adopt the 'wait and see' attitude due to concerns of a slowing economy, weaker job prospects, sharp fall in the ringgit, amongst other factors. With the affordability issue high on the local agenda amid stringent lending guidelines, demand for high-end condominiums remains lacklustre. To counter this weak sentiment, some developers have been introducing innovative marketing strategies to push sales while there are others who are marketing their products overseas.[2]

[1] Knight Frank Greater China
[2] Knight Frank Malaysia

Chart 12: Property

Hong Kong	51,595 (4.9%)	400,413 (4.7%)
Tokyo	41,367 (1.6%)	4,699,895 (0.2%)
Singapore	24,820 (6.9%)	35,143 (7.9%)
Taipei	21,681 (2.6%)	673,989 (-3.7%)
Shanghai	21,374 (0.9%)	147,231 (6.3%)
Average	19,151 (2.3%)	(2.6%)
Seoul	13,340 (1.9%)	15,382,701 (-2.2%)
Mumbai	10,961 (2.7%)	734,342 (1.9%)
Bangkok	9,230 (1.3%)	324,062 (-0.3%)
Jakarta	7,649 (1.0%)	102,091,469 (-0.3%)
Manila	5,281 (8.5%)	264,061 (14.9%)
Kuala Lumpur	3,363 (-6.6%)	14,951 (-1.0%)



■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Hotel

Our hotel item fell by an average of 5.6% y/y this year, with the largest falls registered in Singapore (-21.2%), Taipei (-16.8%) and Shanghai (-15.4%). Tokyo continues to hold its title from 2016 as the city with the most expensive room rate (USD 1,246). Kuala Lumpur fell down the ranks, from the second cheapest city to displace Mumbai as the cheapest city for an overnight hotel stay this year (USD 400).

The price fall in Singapore can be attributed to the harsher operating environment this year where there has been a steady expansion of hotel room supply amid tepid demand. A majority of hoteliers in Singapore have reported weaker sequential net property income due to continued pressure on average daily rates. That said, the outlook for the sector seems to be on the mend. Most hotel Real Estate Investment Trusts (REITs) are sensing that the booking pace at their hotels are also improving in H2 2017 with most expecting to be able to price up average daily rates (ADRs) come 2018 on the back of a stronger line-up in meetings and conventions throughout the year. This will also coincide with a drop off in supply growth in 2018.

Taipei's hotel market has been affected by a decline in visitor arrivals especially from Mainland China and Hong Kong/Macau. Total visitor arrivals fell by 10% y/y in Q1 2017 led by Mainland China (-41.9%). The reasons are two-fold. The first is the relative strength of the Taiwan dollar which has made Taipei become a relatively more expensive and thus less popular tourist destination. The second reason comes from a straining of political ties between Taiwan and Beijing from the election of Tsai Ing-Wen as president in 2016.

Room rates in Shanghai have fallen on the back of a snowballing supply of new hotel rooms, with the opening of W Shanghai the Bund and the debut of the upcoming Bvlgari Shanghai and St. Regis Shanghai Jingan hotels. It is expected that overall supply for the market will grow by 21% from 2017 onwards as the market welcomes an addition of about 14,000 rooms.

Chart 13: Hotel

Tokyo	1,246 (-9.6%)	138,972 (-3.3%)
Hong Kong	987 (-2.4%)	7,689 (-1.9%)
Jakarta	620 (-11.9%)	8,252,200 (-11.4%)
Average	602 (-5.6%)	(-4.8%)
Taipei	567 (-16.8%)	17,123 (-22.1%)
Seoul	546 (13.8%)	616,236 (11.1%)
Bangkok	491 (-9.7%)	16,804 (-12.2%)
Singapore	484 (-21.2%)	672 (-18.9%)
Mumbai	463 (23.2%)	29,839 (18.1%)
Shanghai	408 (-15.4%)	2,793 (-12.7%)
Manila	408 (0.1%)	20,346 (6.8%)
Kuala Lumpur	400 (-12.1%)	1,719 (-6.4%)

■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Wine

On average, the price for our 750ml bottle of Chateau Lafite Rothschild 2000 increased by 2.9% this year. Shanghai saw the most substantial uptick of 27.0%, with Bangkok seeing the second largest increase at +9.3%. Jakarta, on the other hand, saw the biggest downward price movement of -7.9%. Shanghai clinches the title of most expensive city to purchase the bottle of wine (USD 3,359), with prices more than double than that of Kuala Lumpur, where the same bottle is the cheapest (USD 1,397).

Luxury wines especially the French red Bordeaux Chateau Lafite-Rothschild continue to be highly sought after in China because of the quality and the perceived status of wealth and refinement consuming imported wine embodies. Wine is typically consumed during banquets, entertaining important clients at business affairs. However, due to concerns over counterfeit products, consumers in China are willing to pay a premium to purchase wine directly from the producer as it guarantees the authenticity and quality of the product.

Prices for Lafite wines have had a volatile run. In the years of 2009-2011 there was an Asia-led boom where prices for Lafite gained more than 140%. Since 2011, prices for Lafite began to decline once again led by the Chinese market. According to Liv-ex, since 2016, the price of Lafite has showing signs of a recovery as consumer malaise in China wears off, and this is corroborated by our index findings.

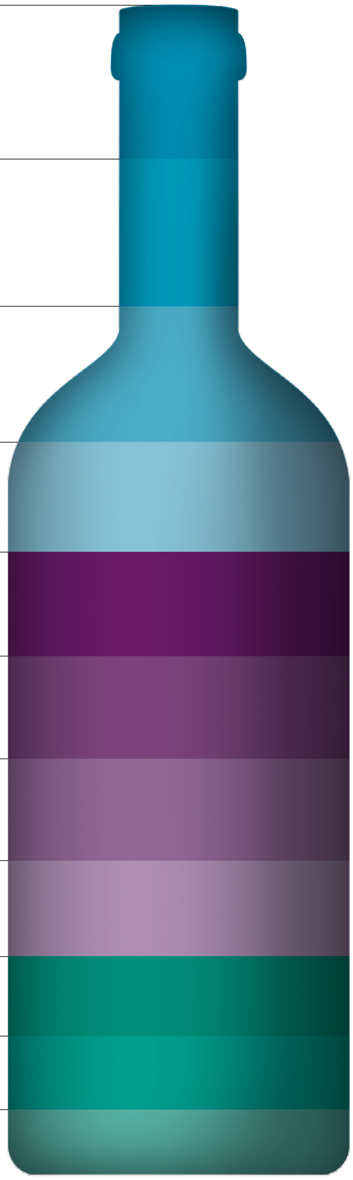
The steep price growth in Shanghai can be attributed to a booming demand as a result of the evolving preferences for wine among the burgeoning middle class in China, which saw an increase in volume and value y/y from the first six months of this year. On top of this, Chinese owners have placed mark ups on wines produced from the Bordeaux vineyards they have bought to leverage on Bordeaux's established reputation in China as a luxury brand.

The supply of fine wine is tightly controlled in France and there is a narrow universe of wines which are investable – dominated by the top 25 chateaux in Bordeaux and a handful of properties in other regions. Wine production in the great estates has also been flat or lower over the past 2 decades. Therefore demand factors have been the main driver of prices. Demand is growing especially from new and fast growing markets of China and Hong Kong. Other drivers of wine prices are vintage quality, critical opinion and economic conditions.

Fine wine trade (and pricing) is among the most opaque of the items in our index. This is because the asset class has an inherent lack of trading liquidity and is highly fragmented. Private collectors face paying away a large cut to their merchant or as much as 20% at auction because volumes remain relatively low and the costs of doing business are high. Yet even in this area, we see disruptive technological forces at work such as the proliferation of tasting note databases, online forums and price comparison sites which all serve to increase transparency and open up opportunities while potentially lowering costs for wine investors.

Chart 14: Wine

Shanghai	3,359 (27.0%)	22,994 (31.0%)
Manila	3,208 (3.7%)	160,000 (10.7%)
Bangkok	2,951 (9.3%)	101,000 (6.3%)
Singapore	2,375 (0.3%)	3,300 (3.1%)
Average	2,308 (2.9%)	(3.9%)
Taipei	2,258 (6.7%)	68,200 (0.0%)
Tokyo	2,223 (-3.2%)	248,000(10.4%)
Jakarta	2,204 (-7.9%)	29,334,000 (-7.4%)
Mumbai	2,079 (-6.8%)	134,000 (-10.7%)
Seoul	1,727 (8.0%)	1,950,000 (5.4%)
Hong Kong	1,603 (-6.1%)	12,494 (-5.7%)
Kuala Lumpur	1,397 (-6.1%)	6,000 (0.0%)



■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Jewellery

Our jewellery item this year is the Cartier Love Bracelet (18K white gold, black ceramic set with 204 diamonds totalling 2.18 carats) which replaces our Tiffany solitaire diamond ring.

Created in 1969, the bracelet can only be worn and removed using a special tiny screwdriver that can be worn around the neck as a symbol of having the key to their lovers' heart. The Cartier Love Bracelet has grown in popularity in recent years particularly among wealthy millennials because of the symbolism it bears (permanency of true love). It was found to be the most 'googled' jewellery item on the internet last year in 2016. Celebrities who have been seen with the bracelet include Sienna Miller, Cameron Diaz and social media star Kylie Jenner.

In US dollar terms, the average cost in Asia for the bracelet fell by1.4% y/y with the largest declines seen in Tokyo (-6.5%) and Hong Kong (-5.6%). In local currency terms, prices were largely flat (-0.5%). It was most expensive to purchase the bracelet in Shanghai (USD 48,348) and cheapest in Hong Kong (USD 39,909).

A recurring theme in our luxury index is the importance of creativity and innovation. Similarly, there is growing awareness among jewellers about the importance of bringing creativity to their product offerings. Millennials in particular are attracted to trendy designs and regard the styles of their jewellery as an avenue to showcase their individuality. The effect of these trends are being reflected in sales falling several quarters in a row for high-end jewellers such as Tiffany's forcing a reexamination of its strategy and positioning.

In Asia, jewellers such as Chow Tai Fook are taking the lead to roll out edgy designs to meet the evolving tastes and preferences of their Mainland Chinese consumers. Shifting their target to the younger generation in China, Luk Fook Holdings, for example, has collaborated with Tencent's well-known online game 'Honour of Kings' to produce a ring that is in line with the game's theme.

Chart 15: Jewellery

Shanghai	48,348 (0.6%)	331,000 (3.8%)
Seoul	46,951 (2.5%)	53,000,000 (0.0%)
Mumbai	46,553 (4.3%)	3,000,000 (0.0%)
Bangkok	46,454 (-0.9%)	1,590,000 (-3.6%)
Manila	46,309 (-5.5%)	2,310,000 (0.9%)
Jakarta	45,071 (-1.7%)	600,000,000 (-1.2%)
Average	45,027 (-1.4%)	(-0.5%)
Taipei	44,687 (1.4%)	1,350,000 (-4.9%)
Kuala Lumpur	44,000 (-1.4%)	189,000 (5.0%)
Singapore	43,547 (-2.8%)	60,500 (0.0%)
Tokyo	43,463 (-6.5%)	4,849,200 (0.0%)
Hong Kong	39,909 (-5.6%)	311,000 (-5.2%)

■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Car

Innovation has become a key differentiator in the luxury car segment where companies often introduce new technologies before they trickle down to other segments of the car market. While Tesla Motors is widely regarded as a leading innovator in the automotive industry, other players in the market are also showing commitment to modern technology.

Research from BCG has shown that most car buyers in the US want to purchase a car from a company seen as innovative. Innovation ranked highly were features related to connectivity, safety, and fuel economy. On the last point, it is increasingly common for carmakers to add hybrid technology to their product offering given pressure from regulators around the world on fuel emissions.

This year, we continue to feature the flagship BMW 7 Series as our luxury sedan in the index. The all-new BMW 7 Series comes with a number of leading-edge innovations such as Remote Control Parking, electronic speedometer, Park Distance Control to the revolutionary iDrive operating system. The 7-series plug-in hybrid (740Le) has also been released in Asia powered by both a gasoline engine and an electric motor.

On average, the price of our luxury sedan fell by 2.2% in US dollar terms with the biggest declines in Jakarta (-12.5%) and Bangkok (-6.0%). The lower prices for Jakarta are due to a reduction in import duties which were passed on to the customers as the vehicle is now assembled locally rather than imported from Germany. For both Jakarta and Bangkok, BMW is offering the PHEV (Plug-in Hybrid Electric Vehicles) variant for the 7 Series (740Le). As tax incentives are offered for PHEV vehicles, this led to a lowering of prices for non-hybrid models which are used for our index purposes.

Singapore continues to be the most expensive city to purchase a brand new BMW 7-Series sedan (USD 418,052) due to import duties and regulatory taxes. Tokyo is the cheapest overall to procure our car item (USD 151,563).

Chart 16: Car

Singapore	418,052 (-2.8%)	580,800 (0.0%)
Shanghai	290,382 (-3.1%)	1,988,000 (0.0%)
Hong Kong	255,110 (0.6%)	1,988,000 (1.0%)
Mumbai	244,013 (6.2%)	15,725,000 (1.8%)
Manila	240,366 (-6.3%)	11,990,000 (0%)
Average	229,076 (-2.2%)	(-1.3%)
Taipei	212,182 (6.7%)	6,410,000 (0.0%)
Bangkok	186,955 (-6.0%)	6,399,000 (-8.6%)
Kuala Lumpur	183,636 (-6.1%)	788,800 (0.0%)
Seoul	172,388 (4.0%)	194,600,000 (1.5%)
Jakarta	165,186 (-12.5%)	2,199,000,000 (-12.0%)
Tokyo	151,563 (-4.7%)	16,910,000 (1.9%)

■ 2017 cost (USD) / 2017 vs 2016 cost change (%) ■ 2017 cost (Local) / 2017 vs 2016 cost change (%)

Source: Julius Baer

Chart 17: 2017 Julius Baer Lifestyle Index city ranking by items, in US dollar terms

USD	Hong Kong	Singapore	Shanghai	Mumbai	Taipei	Jakarta	Manila	Seoul	Kuala Lumpur	Bangkok	Tokyo
Business class flight	1	4	3	6	5	8	7	9	10	11	2
Residential property	1	3	5	7	4	9	10	6	11	8	2
Wedding banquet	3	5	2	6	7	8	9	4	10	11	1
Hotel suite	2	7	9	8	4	3	10	5	11	6	1
Lasik	5	3	2	9	10	8	7	11	4	1	6
Hospital room	3	4	1	6	10	11	9	5	8	2	7
Golf club membership	2	4	7	8	5	11	1	6	9	10	3
Lawyer	6	1	10	8	11	9	7	4	3	2	5
Watch	9	8	2	6	3	5	7	1	11	4	10
Ladies handbag	9	6	4	11	7	1	8	2	10	3	5
Wine	10	4	1	8	5	7	2	9	11	3	6
Jewellery	11	9	1	3	7	6	5	2	8	4	10
Men’s suit	3	7	2	10	6	8	11	1	9	5	4
Botox	2	6	1	10	4	8	11	7	5	3	9
Piano	5	9	4	1	2	7	6	8	11	3	10
Car	3	1	2	4	6	10	5	9	8	7	11
Cigar	5	2	1	10	6	9	3	7	8	4	11
Ladies shoes	10	7	8	6	4	5	11	1	9	2	3
Skin cream	10	5	1	2	4	8	11	7	6	3	9
Degustation dinner	1	2	3	11	4	8	10	5	9	7	6

Source: Julius Baer

Chart 18: Change in ranking 2016/2017

( ) Change from 2016 ranking

Source: Julius Baer

Most expensive city: Hong Kong

On an equal-weighted basis, Shanghai remains the most expensive city in Asia to buy our luxury index items with 6 items (lasik, wine, jewellery, botox, cigars, skin cream) with a top ranking. To add another dimension to our index this year, we now reflect our city ranking on a price-weighted basis. From this perspective, Hong Kong takes top spot given the higher cost of buying property which is the largest ticket item in our index. Hong Kong is also the most expensive city for fine dining and business class flights.

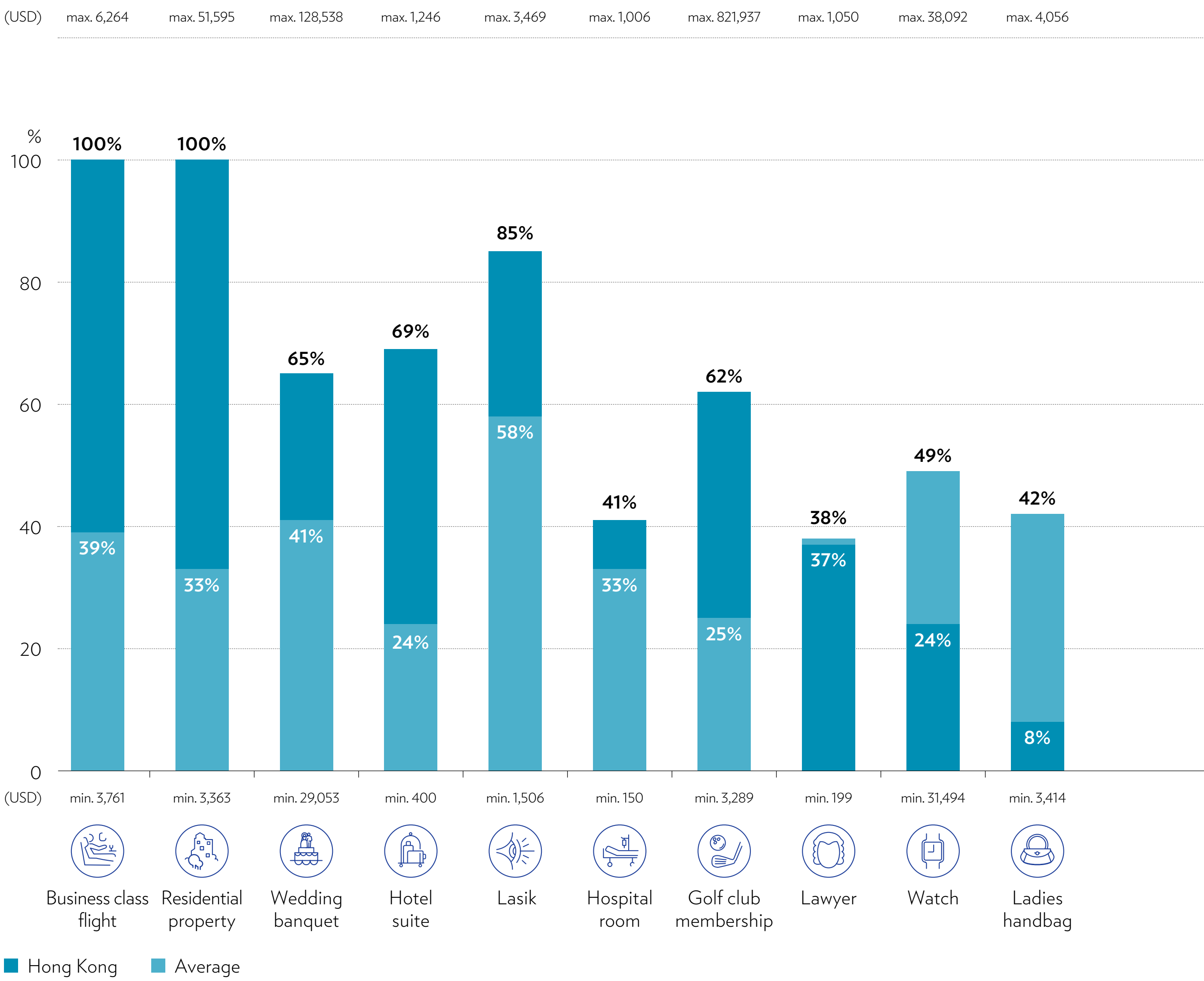
Least expensive city: Kuala Lumpur

For the first time in three years, Kuala Lumpur has displaced Mumbai as the least expensive city in Asia in price-weighted terms. It is the most competitive city to buy 5 of the 22 items in our index (property, hotel suite, watch, wine, piano). This rank change is largely due to the continued depreciation of the ringgit (-6%) against a strengthening rupee (+4%).

Upgrades and downgrades

Singapore falls by one notch to third place on a price-weighted basis closely tracking Shanghai (2nd place). Mumbai rises by 3 ranks from eleventh to eighth this year largely due to currency effects. Kuala Lumpur continues its descent down from tenth to eleventh spot.

Chart 19: Julius Baer Lifestyle Index - Hong Kong



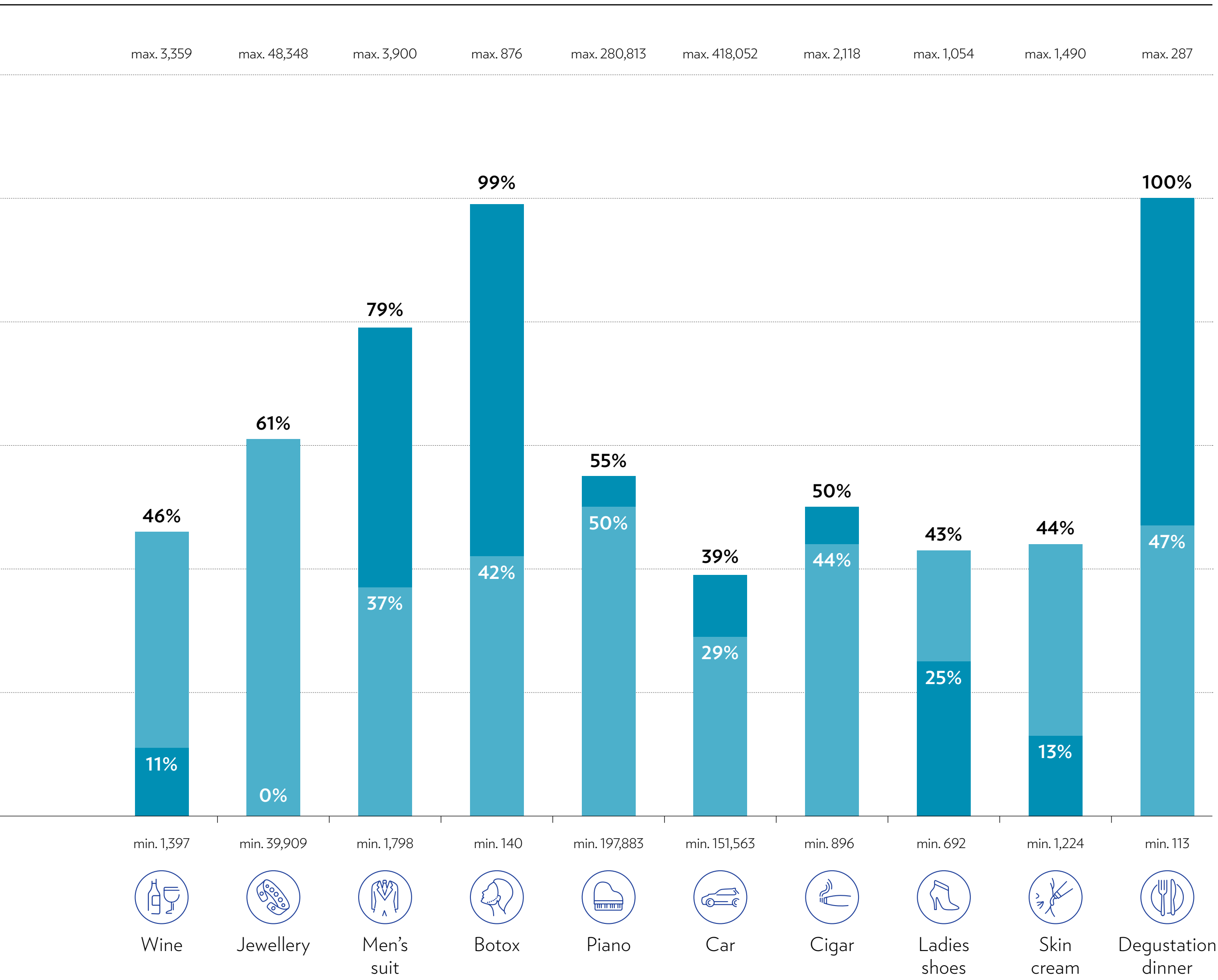
Source: Julius Baer

City comparisions - Hong Kong

Our basket of goods and services rose by 1.0% in Hong Kong with prices for most items stable y/y with the exception of wedding banquets (-20%) and cigars (10%) which experienced double digit movements. This was slightly lower than the average price gain of +1.42% across the cities.

Hong Kong is the most expensive city in Asia to buy a property, take a business class flight and to have a fine dining experience. Yet certain items are competitively priced in the city such as jewellery (11th), wine (10th), ladies shoes (10th) and skin cream (10th). On a price-weighted basis, Hong Kong is the most expensive city for consuming our selected items onshore.

Despite government efforts in boosting residential supply and suppressing housing demand, by building more homes and implementing cooling measures, Hong Kong's house prices have still remained on the rise, due to strong demand from both end-users and investors. The primary market is particularly popular, with an abundance of new flats launched and developers offering various sweeteners to boost sales. Although the secondary market remained relatively quiet, a number of record-breaking deals have been recorded, resulting in further growth in home prices.



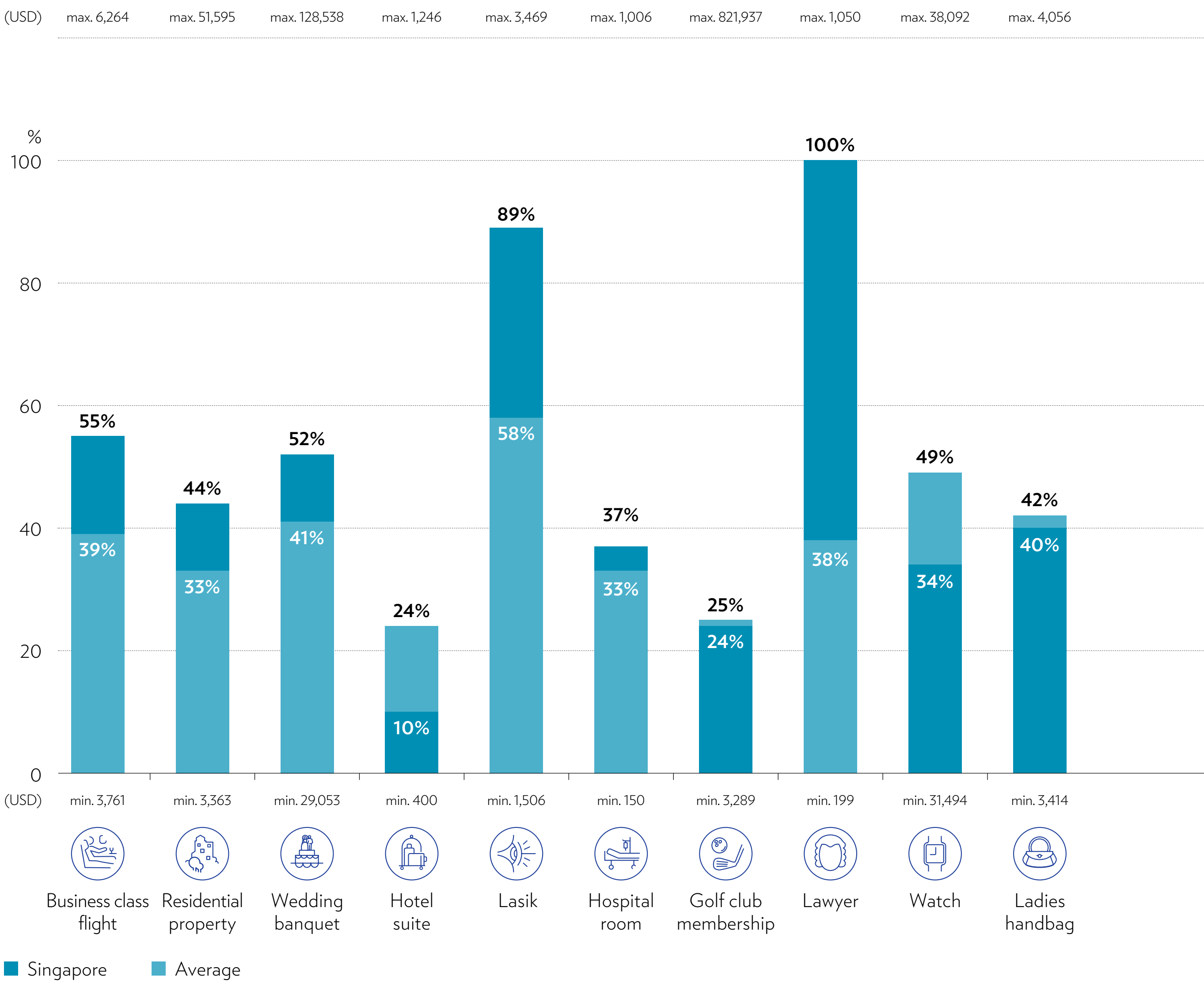
The government's announcement in April 2017 of a 15% stamp duty levy on first-time homebuyers purchasing multiple flats in one go is not expected to drag down home prices, as these transactions make up less than 5% of total sales. Some developers could offer further sweeteners to counter the impact of the levy. While abundant upcoming supply and interest-rate rises will help suppress price growth, high land prices and strong housing demand will lend support to home prices.[3]

We are positive on the outlook for the Hong Kong economy and project GDP growth of 2.5% for this year and 2018 on broad-based improvement in economic activity. Wage growth and recovering consumer sentiment should drive continued household consumption growth while exports should accelerate on improving external demand.

Our view on the Hong Kong dollar (which is pegged to the US dollar) is bullish. We expect a moderation of US growth expectations and looser monetary conditions prepare the ground for economic data surprises to become positive again, supporting the US dollar in the months to come.

[3] Knight Frank Greater China

Chart 20: Julius Baer Lifestyle Index - Singapore



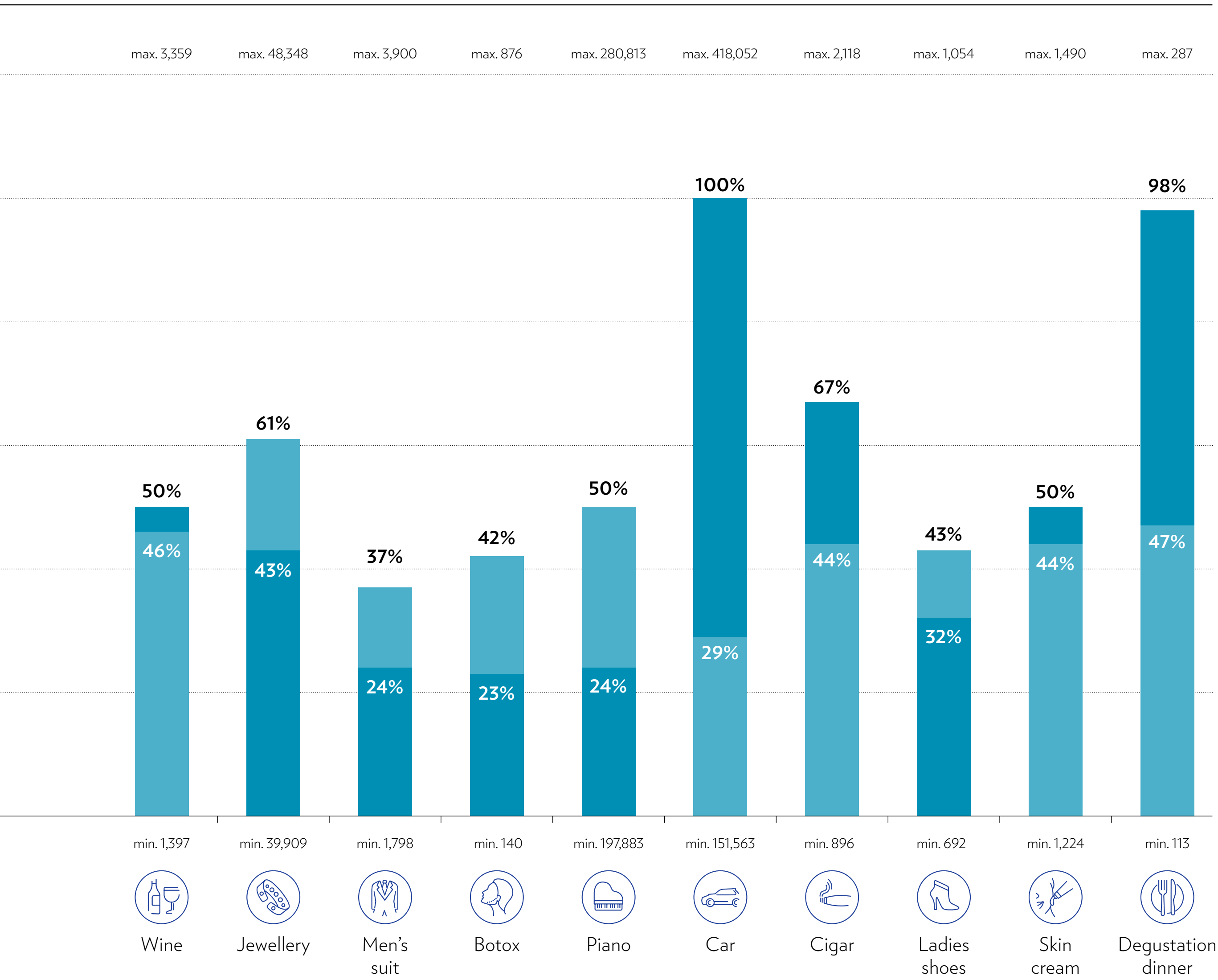
Source: Julius Baer

City comparisions - Singapore

Our basket of goods and services rose by 2.4% y/y in Singapore led by a rebound in property prices (+7%) and large gains in prices for cigars (+32%), golf club memberships (+22%) and legal fees (+18%). This was a better result than the index's +1.42%.

A moderation in property prices from cooling measures have enhanced the value proposition of Singapore real estate, and demand for property is gradually returning with improved transaction volume over the past year in 2016. Singapore continues to remain attractive to investors in the midst of market uncertainty, supported by active urban development plans and the government's proactive initiatives to ensure Singapore continues to remain relevant at the global stage.[4]

On a price-weighted basis, Singapore is the third most expensive city in Asia down from second place last year. The lion city is the most expensive regionally to engage a lawyer, and second most expensive for fine dining and cigars. There are no apparent bargains for the Singaporean shopper apart from jewellery (third cheapest regionally).

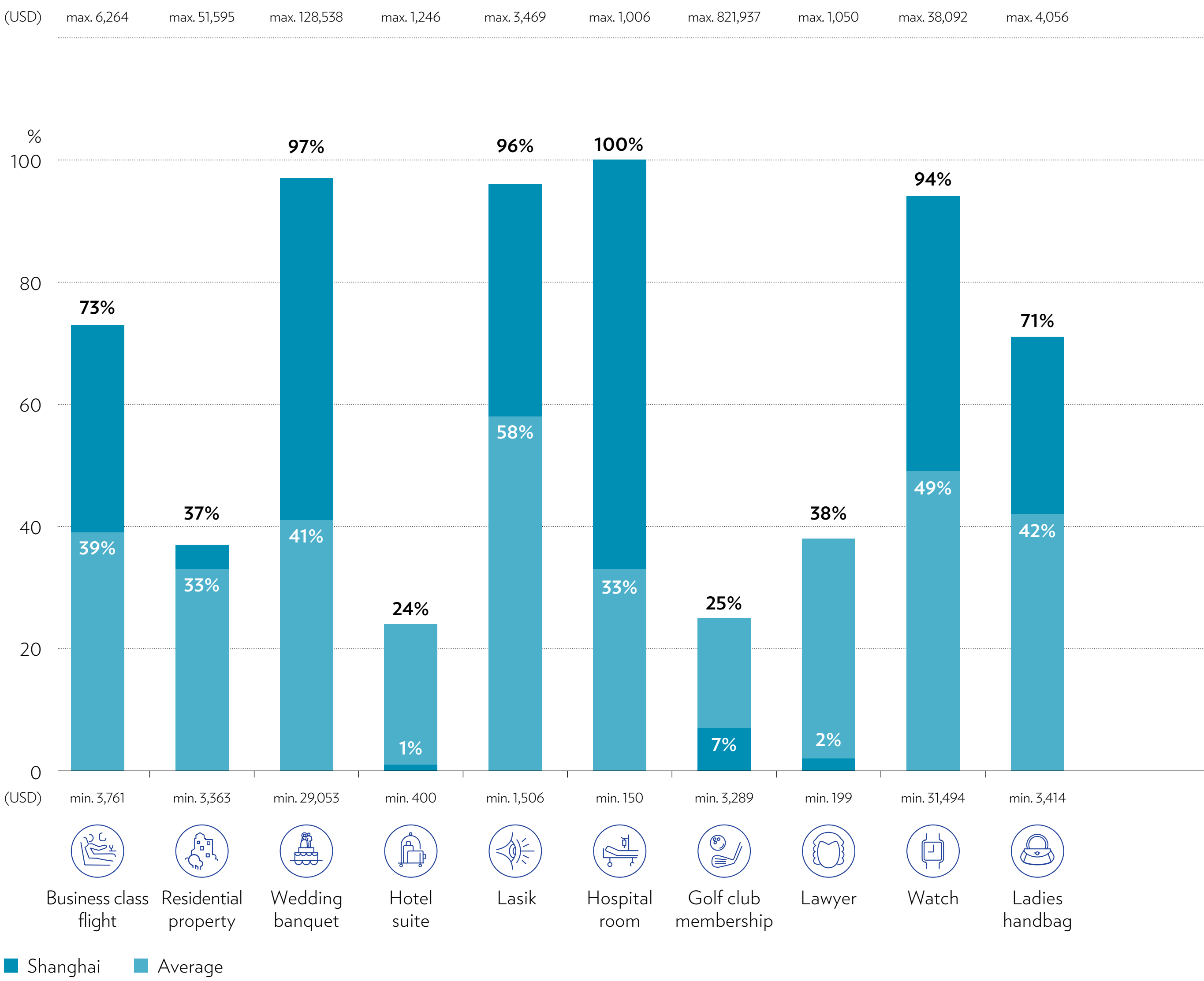


Singapore continues to appeal in regionally as a gateway city for global talent, investment and business.[4] In the light of an improving outlook for external demand, we expect the Singapore economy to expand by 2.5% in 2017 and 3.0% in 2018 driven by a pick-up in exports and investments. We expect Singapore to resume positive consumer price inflation after a prolonged deflationary bout in 2015 and 2016. This will be driven by higher water prices and higher fiscal spending. We forecast the pace of consumer price inflation will accelerate mildly in 2018, to 2.0% from 1.0% in 2017.

We have a neutral view on the Singapore dollar which reflects the neutral monetary policy stance of the Monetary Authority of Singapore (MAS). Despite the recovery in the industrial sector, low global external demand - in particular a slowing China - could start to weigh on the highly export-dependent economy by 2017. Over the long term however, we believe strong fundamentals make the Singapore dollar a relatively safe investment.

[4] Knight Frank Singapore

Chart 21: Julius Baer Lifestyle Index - Shanghai



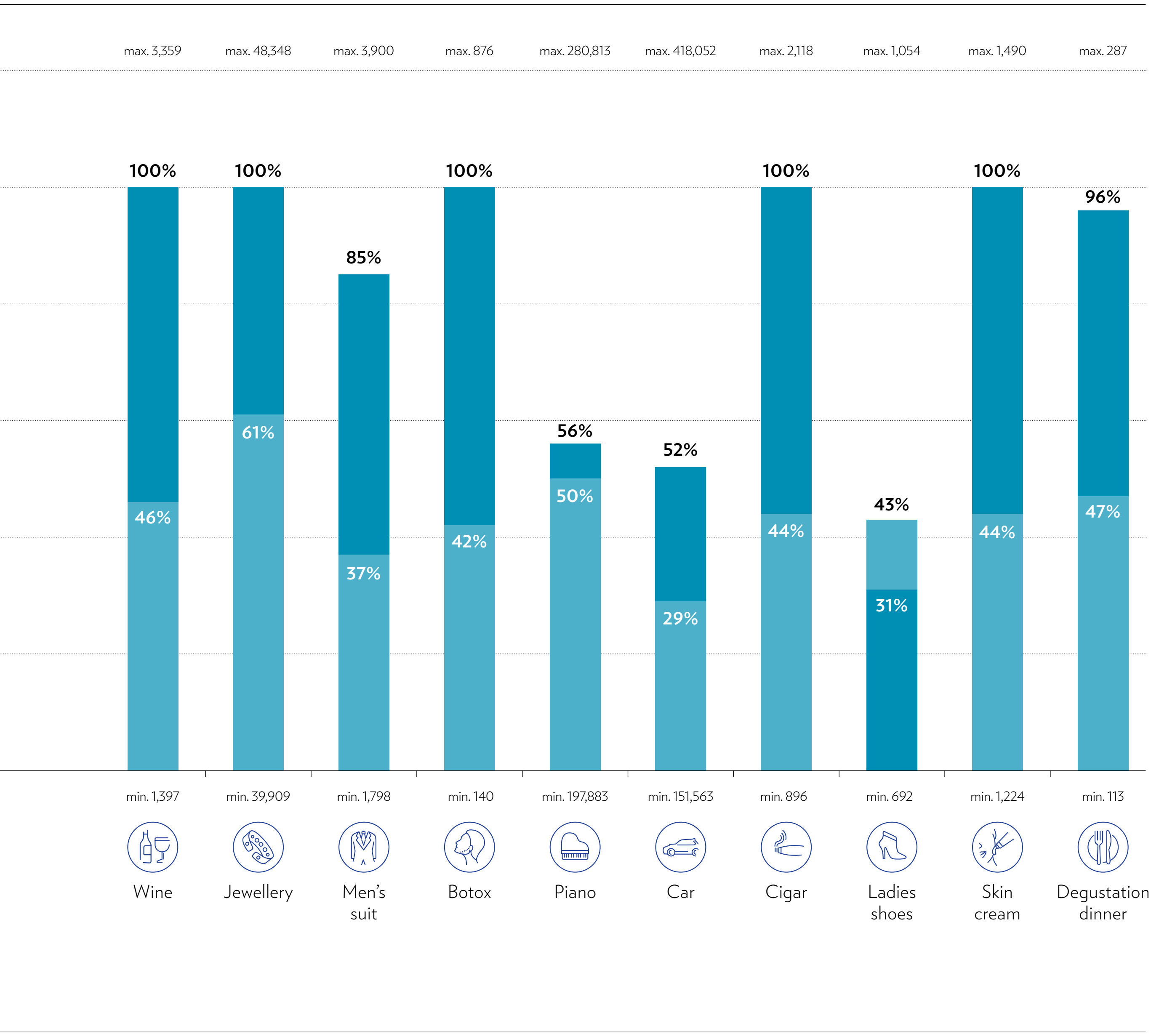
Source: Julius Baer

City comparisions - Shanghai

Our basket of goods and services in Shanghai fell by 1.7% in US dollar terms as the Chinese yuan further weakened against the US dollar. This was below 1.4% gain registered for the overall index. In local currency terms, it rose by 1.9%. On an itemised basis, there were large declines in the price for golf club memberships (-64%) and hotel suites (-15%) while prices rose significantly for cigars (+33%) and wine (+27%).

In price-weighted terms, Shanghai ranks as the second most expensive city in Asia for luxurious living. Shanghai is the most expensive for 5 items, the most of any city: hospital stay, wine, jewellery, botox, cigars and skin cream. Only a handful of items are cheaper in Shanghai than in the region, such as legal fees (second cheapest) and hotel suites (third cheapest).

The overall prime residential market in Shanghai witnessed increases in sales prices and sales volume in 2016, with increases of 5.9% and 58% y/y respectively. This is consistent with our high end property prices rising by 6% y/y. Low benchmark mortgage rates have boosted the confidence of luxury home buyers with rigid and upgrading demand in Shanghai's luxury residential market. China's new foreign exchange controls have resulted in the return of capital to tier-one mainland cities such as Shanghai. Furnished downtown luxury apartments with premier features such as large floor plate, high quality appliances and exceptional amenities remain appealing to investors. We believe



the recent tightening policies from the government will play their part in slowing the growth in home prices, however, supported by strong domestic immigration, Shanghai's prime residential market still offers strong growth potential over the long run.[5]

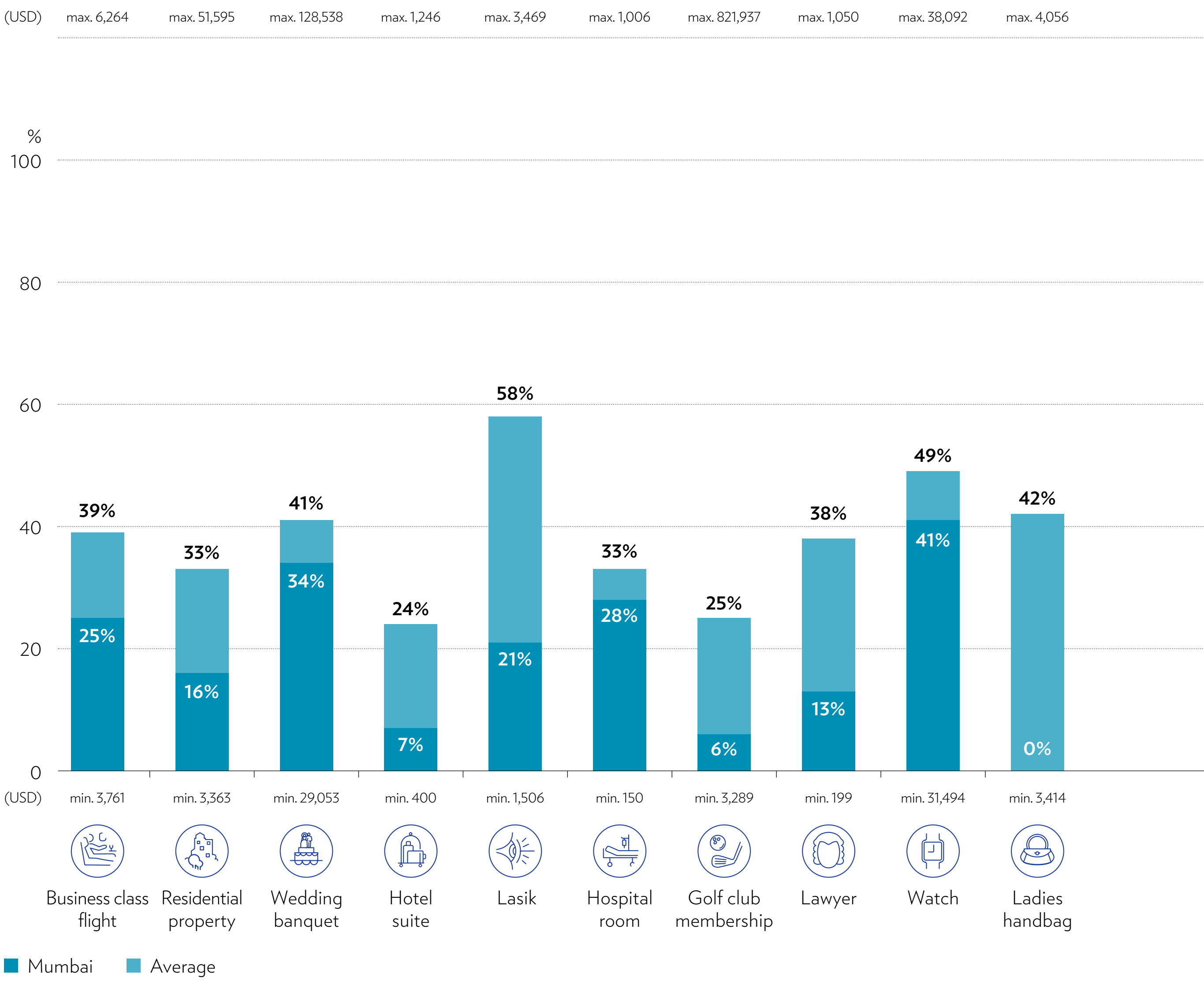
China's economy, though cooler, is holding up well. GDP growth has been hovering at just under 7% and we expect a limited moderation over the next two years. Government stimulus measures, including infrastructure spending, have played a pivotal role in bolstering the economy. Growth proxies like the Li Keqiang Index, which tracks electricity consumption, rail freight traffic and bank lending in China, have recovered sharply since 2016. Stimulus measures are likely to continue working their way through the economy.

Inflation remains subdued and we forecast for it to average close to 1.7% in 2017 and 1.6% in 2018 on downward trending pork prices, tighter monetary policy and slower economic growth affects consumer demand.

We have a neutral stance on the Chinese yuan. Cyclical and structural pressures in the economy, its balance of payments and a widening US-China yield differential in 2018 lead us to expect a mild depreciation against the US dollar over the coming year.

[5] Knight Frank Shanghai

Chart 22: Julius Baer Lifestyle Index - Mumbai

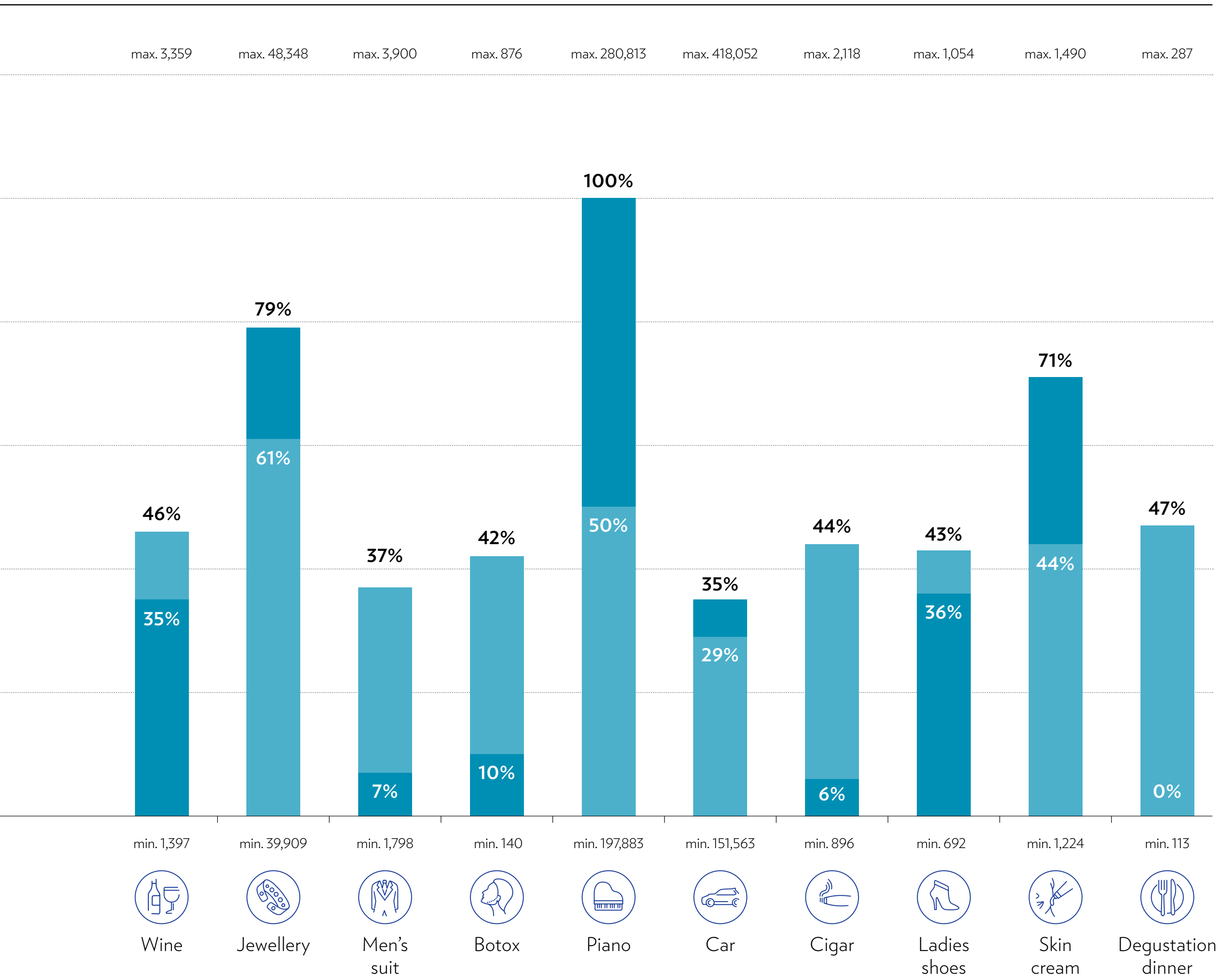


Source: Julius Baer

City comparisions - Mumbai

Our Mumbai lifestyle index rose by 5.9% y/y (+2.9% in constant currency) benefitting from a jump in the Indian rupee (+4.3) outperforming the overall index which gained 1.4%. We saw large jumps in prices for men's suit (+52%), hotel suites (+23%) and Lasik (+25%). Only one item - wedding banquet (-17%) - experienced a significant decline.

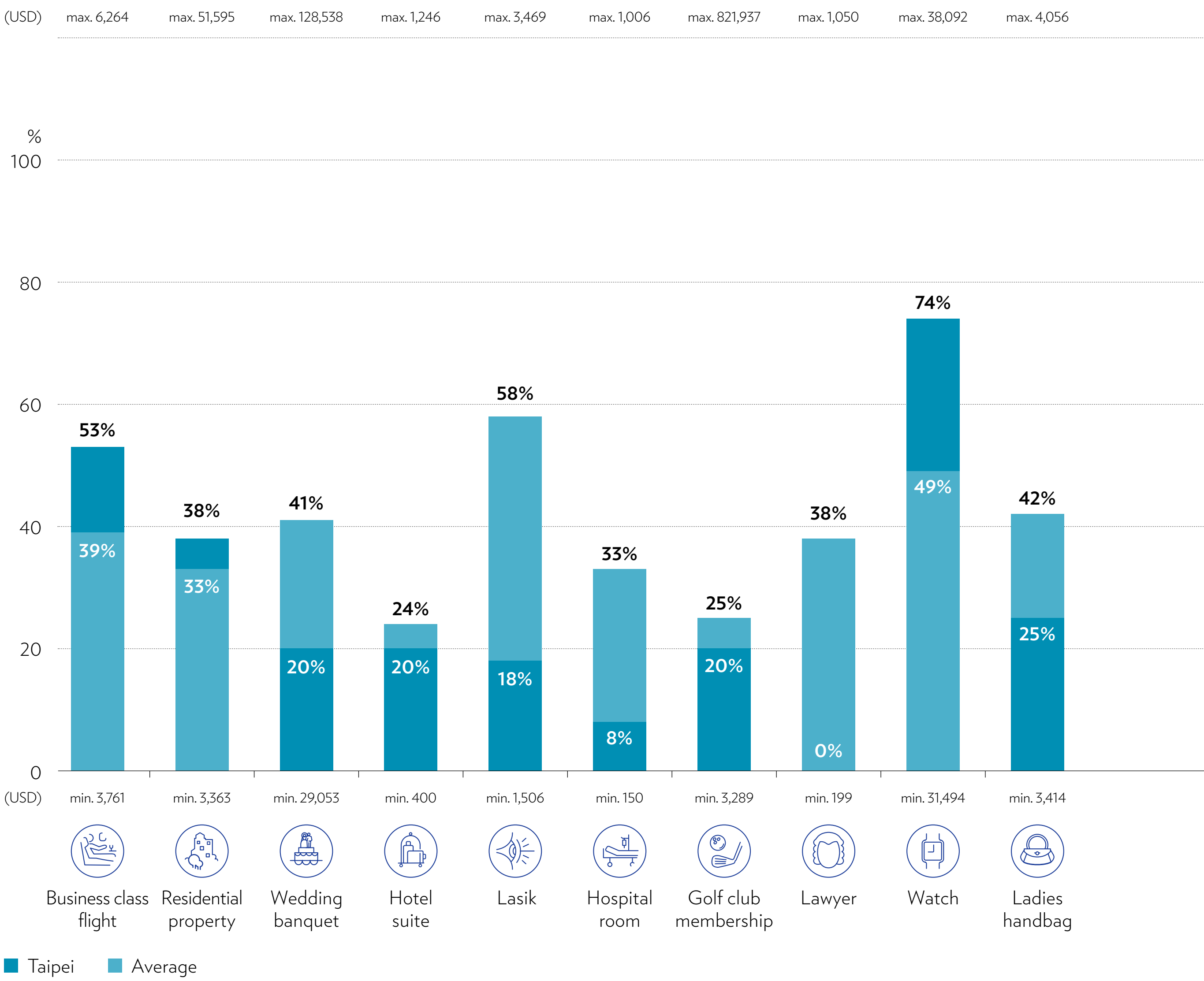
On a price-weighted basis, Mumbai has risen by four notches from least expensive to eighth most expensive due to currency strength and positive price momentum. Mumbai still offers good value for the luxury shopper. It is the most competitive city to have a top-end meal and to buy a ladies' handbag, and offers the second cheapest prices for men's suit, botox and cigars.



Our economic outlook for India is positive. Since the Narendra Modi government came to office in 2014, many reforms have been passed, benefiting a wide variety of businesses. We forecast that India's economy will grow by 7% and 7.5% for 2017 and 2018 respectively on the back of infrastructure spending and a growing formal economy.

We remain bullish on the Indian rupee, expecting a resilient performance due to good currency management and improved fundamentals. Steady flow of reforms should keep realistic expectations for fundamental change alive. Improved fundamentals and a credible monetary policy build a more stable base.

Chart 23: Julius Baer Lifestyle Index - Taipei

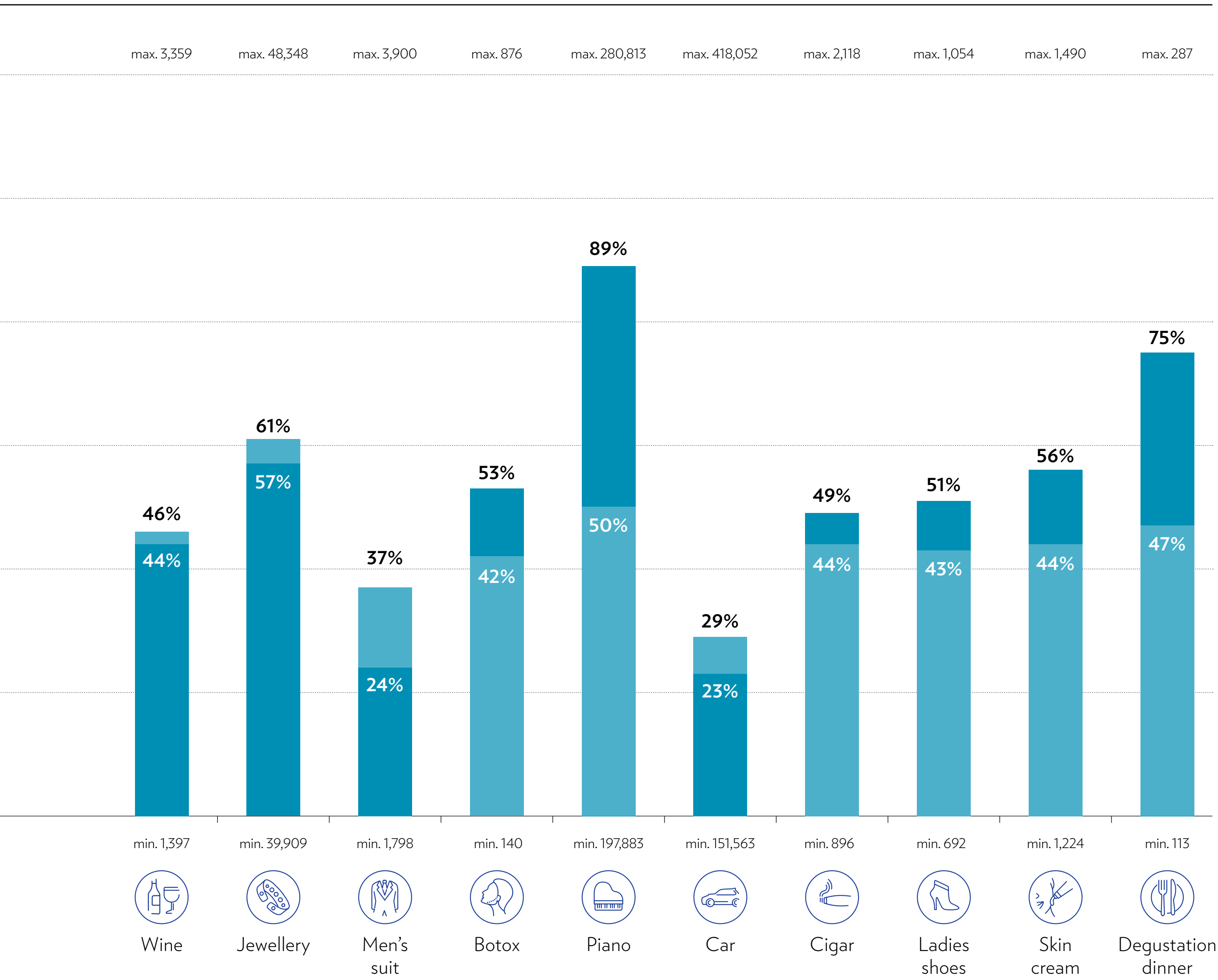


Source: Julius Baer

City comparisions - Taipei

Our basket of goods and services rose by 4.9% y/y in Taipei on broad based gains for individual index items and a surge in the Taiwan dollar (+6.7%). Items which showed large price gains include golf club memberships (+31%), business class flights (+16%) and botox (+14%) while hotel suites (-17%) underperformed. Overall, price momentum surpassed the average price increase of 1.42% across the cities.

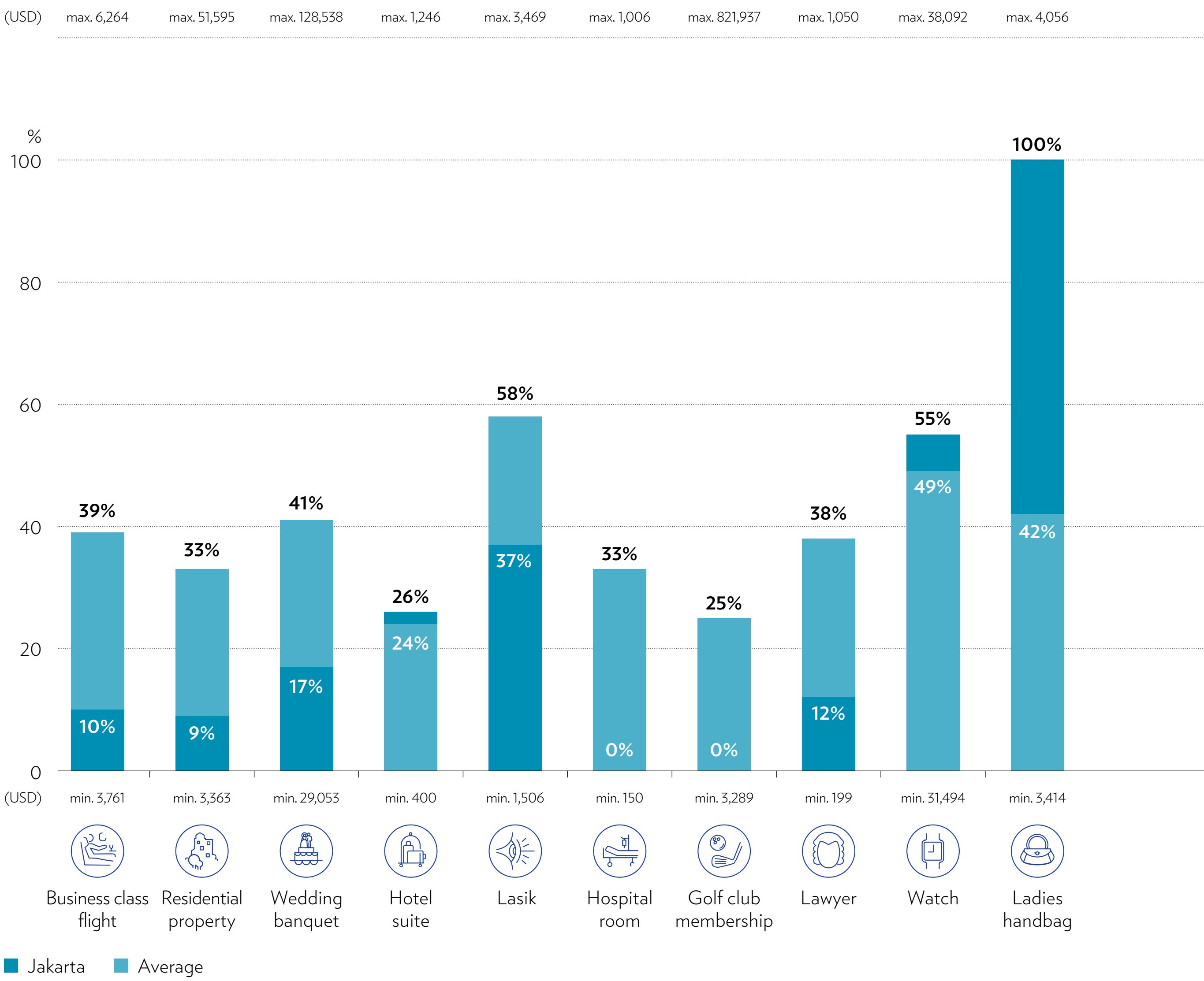
Taipei has risen in the ranks from sixth position to fourth overall most expensive this year on our price-weighted index due to currency appreciation. It is still a good place for 'bargain' hunters to consult a lawyer (least expensive), stay at a hospital (second most competitive) and go for Lasik treatment (second most competitive).



Prices of high end residential property in Taipei have corrected reflecting the government's efforts in curbing home prices in the country. The introduction of a capital gains tax of up to 45% last year, in addition to other government measures to cool sentiment, had a noticeable impact. Over the medium term, the demand for property in Taipei is unlikely to rebound given a declining birth rate in Taiwan, limited demand domestically due to elevated levels and low foreign demand given the relatively small number of immigrants moving there.

Prospects for Taiwan's economy appear positive and we expect growth to accelerate this year. Q2 2017 real GDP advanced, extending a recovery that began around H2 2016. Exports of goods and services gained in the second quarter this year, bolstered by solid overseas demand for electronic parts. Fiscal stimulus is another tailwind. In July, Taiwan's parliament approved a TWD 420 bn package to boost transportation, water, green energy and digital infrastructure over the next four years.

Chart 24: Julius Baer Lifestyle Index - Jakarta



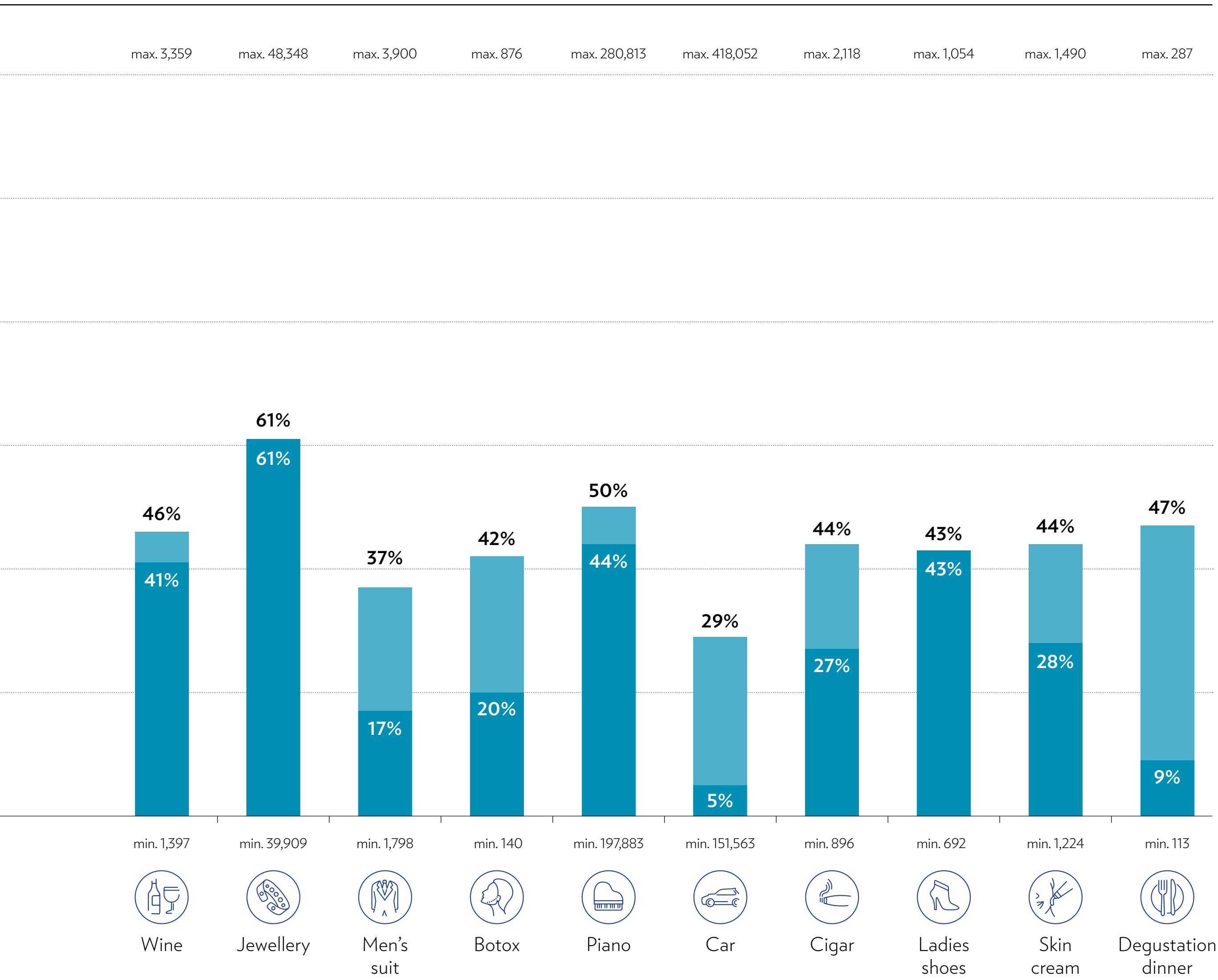
Source: Julius Baer

City comparisions - Jakarta

Our Jakarta lifestyle index rose by 1.3% in US dollar terms masking fairly volatile movements in certain items such as cigars (+27%), hospital rooms (+24%) and wedding banquets (+19%). This was in line with the index's overall 1.42% performance. In local currency terms, the performance was similar as the rupiah was stable y/y.

According to our price-weighted methodology, Jakarta falls to second from third cheapest position in the region for luxurious living. It remains the most affordable for hospital stays, golf club memberships and second cheapest to purchase a luxury sedan. The only item where it continues to claim top spot is for ladies handbags.

The Indonesian property market has entered into a slowdown phase as part of the typical boom and bust cycle. Due to uncertainties over tax amnesty, local election and luxury tax issues which prompted many rich buyers to adopt a wait-and-see attitude, Jakarta's prime residential market has experienced slower price and demand growth since 2015. Gradual recovery is expected in late 2017 as long-term confidence in fundamentals such



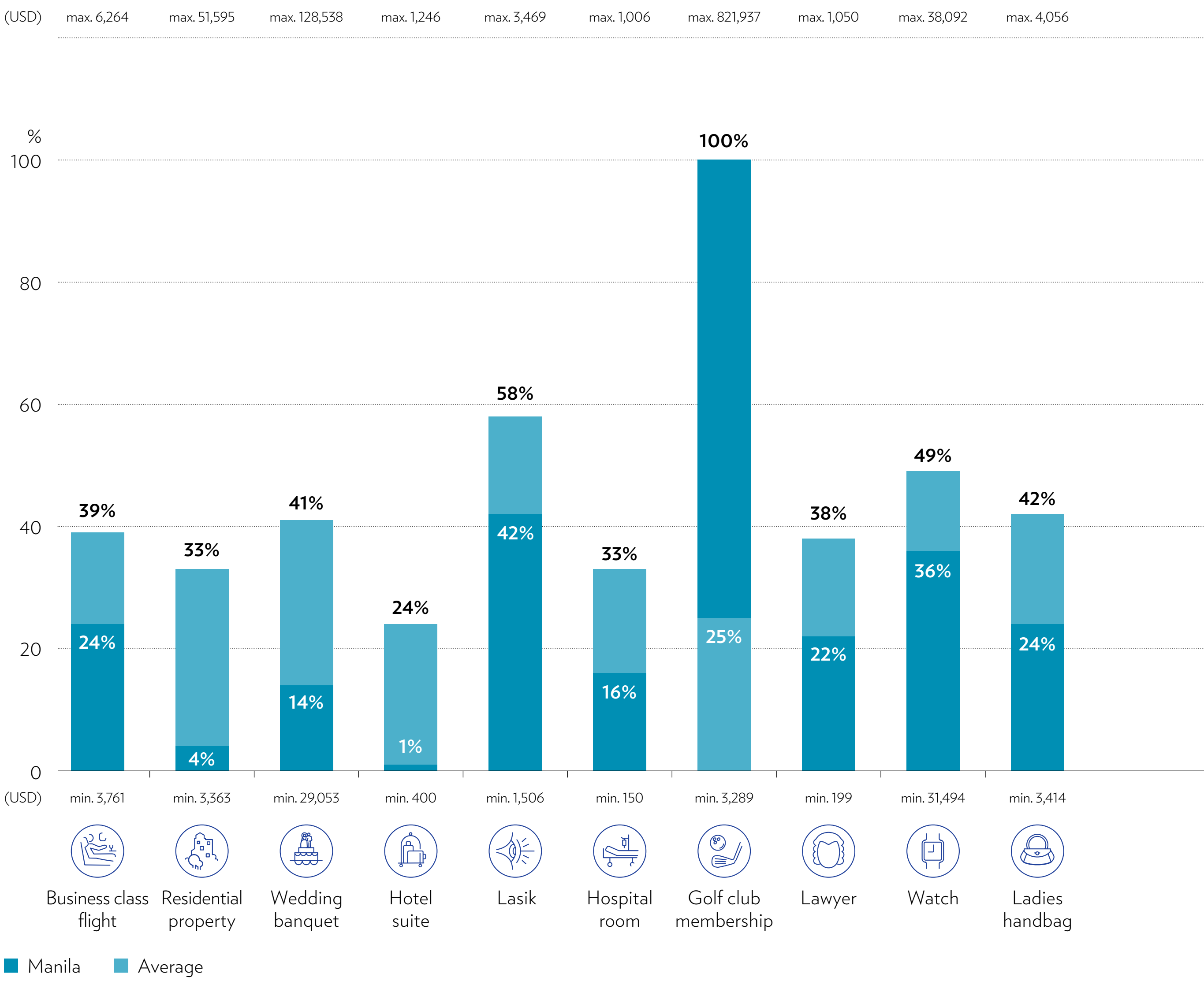
as accelerations on major infrastructure projects, successful local elections and tax amnesty program are expected to boost optimism moving forward for the luxury property market given limited stock availability and improved transaction volumes.[6]

We expect real GDP growth for Indonesia to average 5.0% in 2017 and 5.5% in 2018 supported by relatively buoyant private spending. However, slow improvement in infrastructure investment holds growth back below potential. It remains to be seen if the government will be successful in encouraging more private sector investment into areas of infrastructure or manufacturing.

We expect inflation pressures to remain under control as global commodity prices remain relatively low and the currency has stayed stable. On the currency, we have a positive stance as the pass-through of important reforms and the commitment to a responsible fiscal stance provide fundamental support to the Indonesian rupiah.

[6] Knight Frank Indonesia

Chart 25: Julius Baer Lifestyle Index - Manila



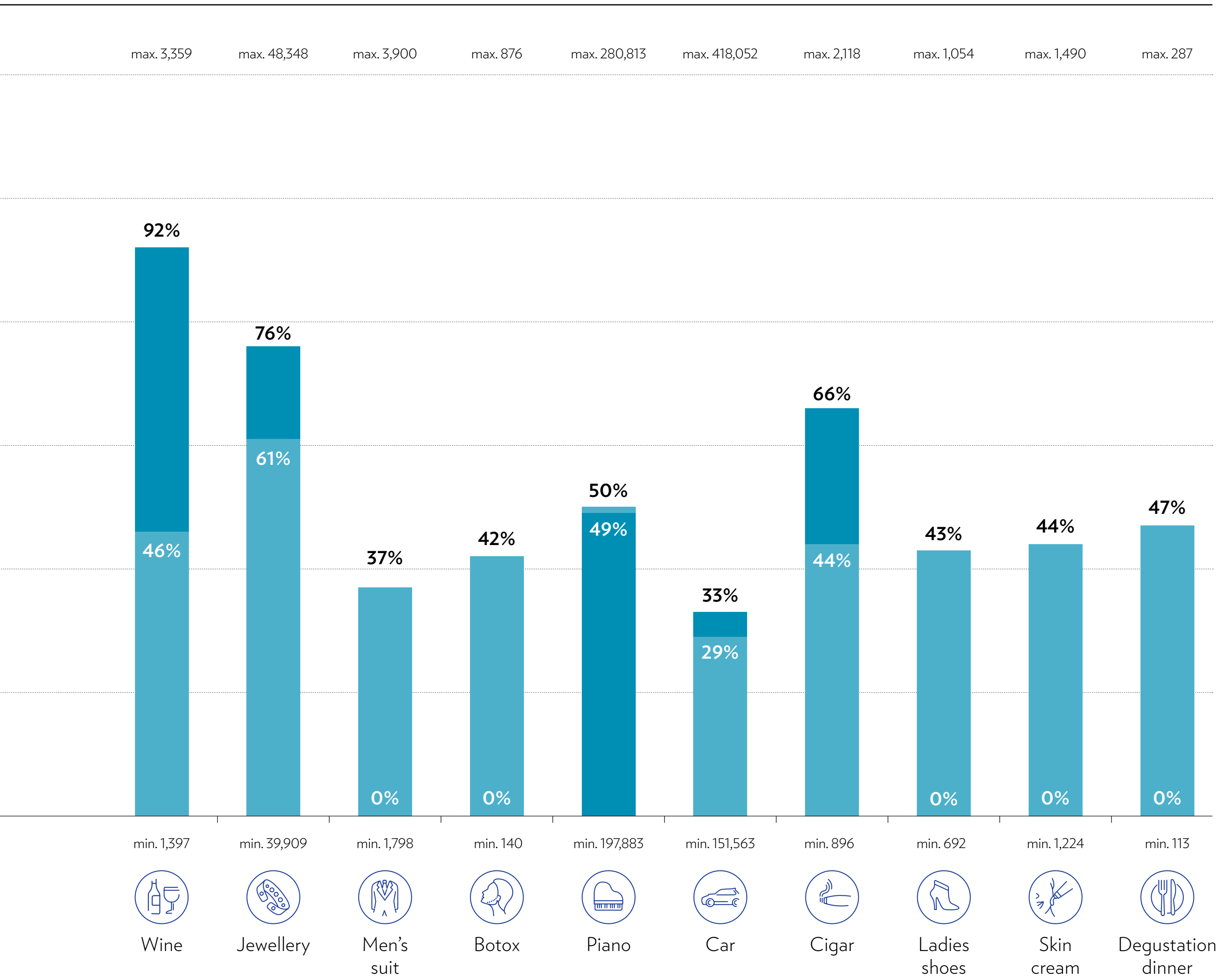
Source: Julius Baer

City comparisions - Manila

Our Manila luxury index rose by 1.3% in US dollar terms in line with the overall index performance of +1.4%. Our price index rose strongly in local currency terms (+7.5%) but this was negated by a significant depreciation of the Philippine peso (-6.3%). The best performing items this year were men's suit (+31%), cigars (+31%) and property (+9%) while business class flights saw the biggest decline (-20%).

This year, Manila ranks as the third most competitive city based on our cost estimates, falling one notch from last year. This is primarily due to a weakening peso since most items performed well in local currency terms. Manila remains an attractive (cheapest) location to purchase men's suit, ladies shoes, skin cream and go for a botox procedure. It is second cheapest to buy prime property, partake of a fine meal and stay at a 5 star hotel. Only golf club memberships appear pricey in Manila (1st rank).

The Manila prime residential market is doing well as buyers and investors are exhibiting renewed confidence on the back of a recovering economy. It was the best performing residential market in our index this year (+9% y/y). Over the past 18 years, the market demand for luxury residential properties was relatively sparse resulting in a slowdown of



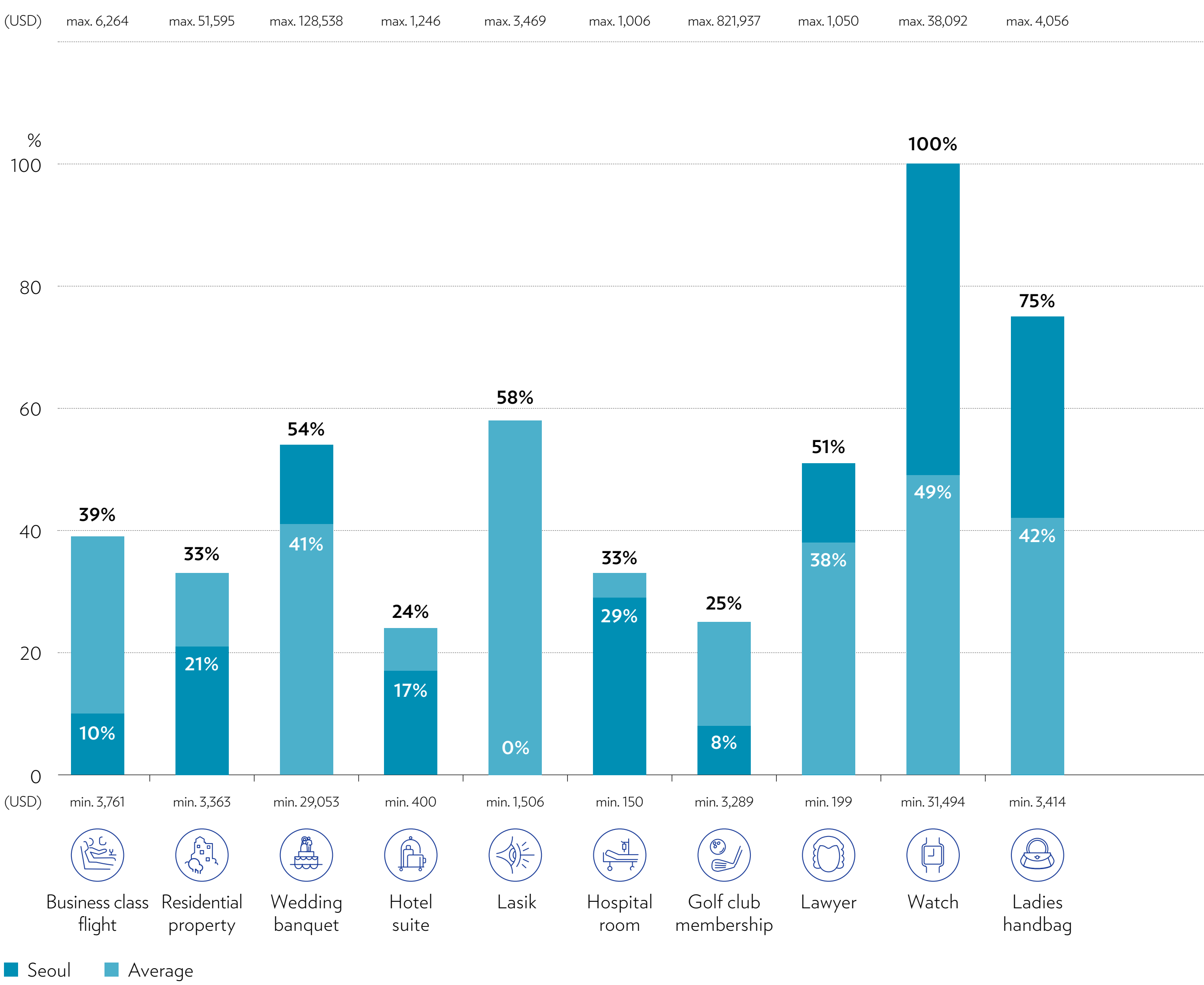
luxury residential property launches. Presently, there are nine luxury residential projects in the pre-selling stage with target completions in the next two to four years. The prime residential market is set to remain stable with opportunities of growing still available especially as interest from foreign investors and developers continue to increase. Investors from Japan, China and South Korea have also expressed interest in undertaking residential condominium projects either on the developing/financing side or the acquisition side.[7]

Economic activity is moderating slightly owing to relatively stronger inflationary pressures, slowing private consumption and investment trends. Inflation could pick up from a low base on the back of a partial recovery in commodity prices and the currency's depreciation against the US dollar.

The peso has been one of the few currencies in the region that has weakened since the start of 2017. This is due to some investor concerns despite a stable economy, over the style of governance of the new administration and recent reversal of the current account surplus into deficit. Given continued strong demand for imported goods, it is difficult to see this trend reversing. Without interest rate hikes, the currency seems likely to fall further.

[7] Knight Frank Philippines

Chart 26: Julius Baer Lifestyle Index - Seoul



Source: Julius Baer

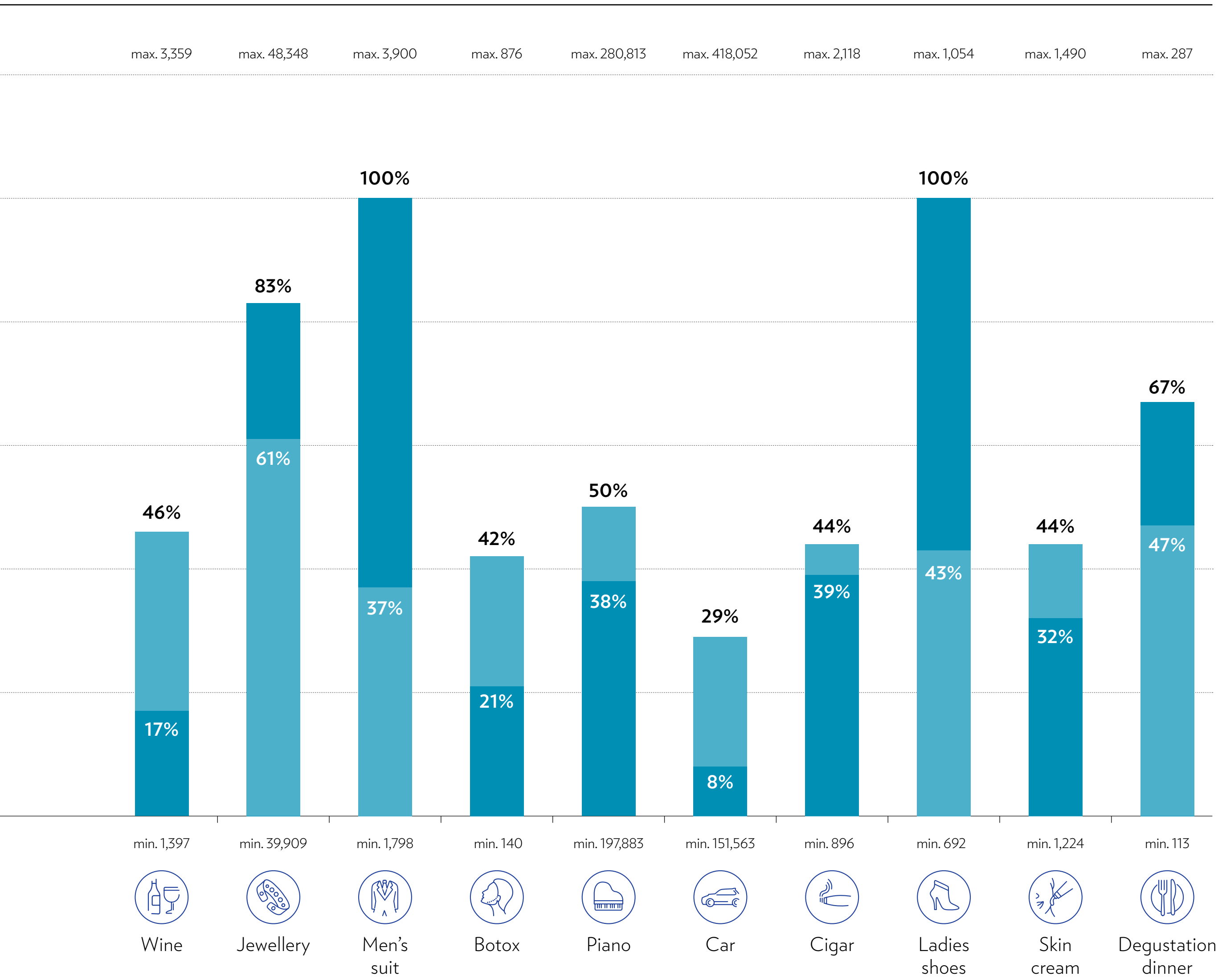
City comparisions - Seoul

Our basket of goods and services rose by 4.0% y/y in Seoul benefitting from twin factors of good price momentum and a stronger Korean won. This was a better performance than the index (+1.42%). Items which registered large gains include golf club membership (+28%), business class flights (+25%), and cigars (+18%) while botox registered another year of conspicuous decline (-32%).

Within the region, Seoul remains at sixth most expensive in Asia. It is the most expensive location to buy our watch, men's suit and ladies shoes. Conversely, it is the most competitive city to go for a Lasik procedure which is consistent with our observation of heightened competition for cosmetic procedures in Asia.

Over the past two years, Seoul's residential market has consistently been on an upward trajectory due to the low interest rate environment and high jeonse prices. Additionally, the reconstruction and proposed redevelopment of aged apartments in some parts of the capital city contributed to the price growth. However, Seoul's housing market is showing signs of slowdown with more government curbs and suppressed sentiment. The prime residential segment in Seoul is expected to stay relatively stable due to limited supply. Price growth may slow for luxury apartments but remain attractive to HNWIs.[8]

On the economic front, our outlook is cautious. We expect South Korea's export-driven economy to register a slightly slower pace of growth this year amid weaker demand from China, its major



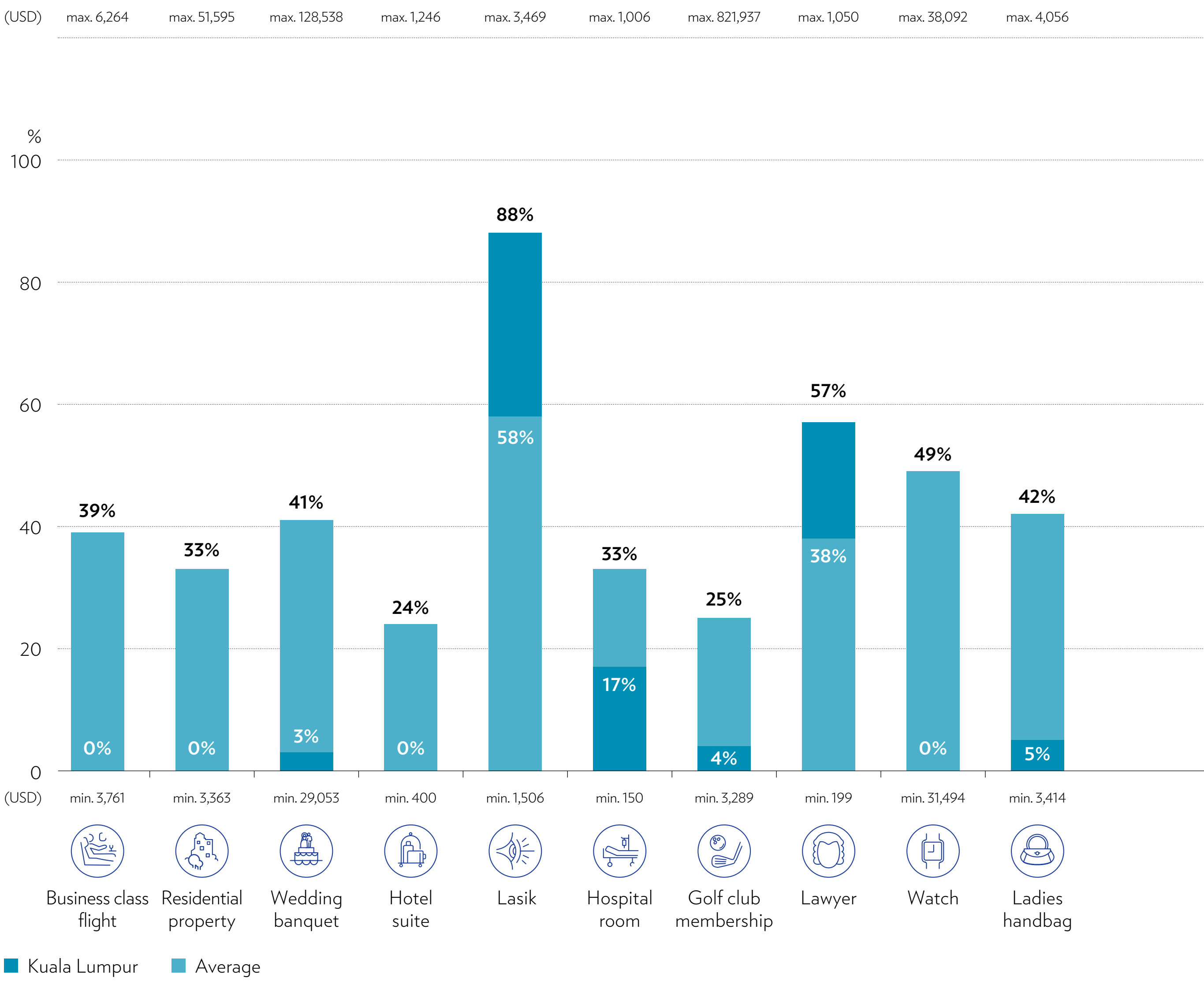
trading partner. Geopolitical tensions between the two countries have also led to a sharp decline in the number of Chinese tourist arrivals, which could weigh on tourism receipts. Meanwhile, North Korea's military programme remains a key source of risk in the region.

Nevertheless, there are positives. The election of President Moon Jae-in in May lifted political uncertainties that had hung over South Korea as corruption allegations forced his predecessor, Park Geun-hye, out of office. The new administration has set its sights on revitalising the economy. In July, it rolled out an economic blueprint aimed at promoting domestic consumption as a new growth driver. Among its priorities were measures to raise households' disposable incomes, create more jobs, foster fair business practices, and drive innovation. South Korea's parliament also passed a KRW 11 trn supplementary budget that is expected to generate jobs in the public sector and increase welfare spending.

We have a neutral view on the South Korean won in the near term. The currency is backed by a large current account surplus and a solid fiscal balance. But it could also be hampered by political risks from North Korea and a cooling China. At the same time, we see the Bank of Korea holding its policy rate stable this year as it attempts to manage price pressures in a softening economy. With the US Federal Reserve looking to lift interest rates further, the interest rate differential between South Korea and the US could narrow. Taken together, volatility for the won cannot be ruled out.

[8] Knight Frank Asia-Pacific

Chart 27: Julius Baer Lifestyle Index - Kuala Lumpur



Source: Julius Baer

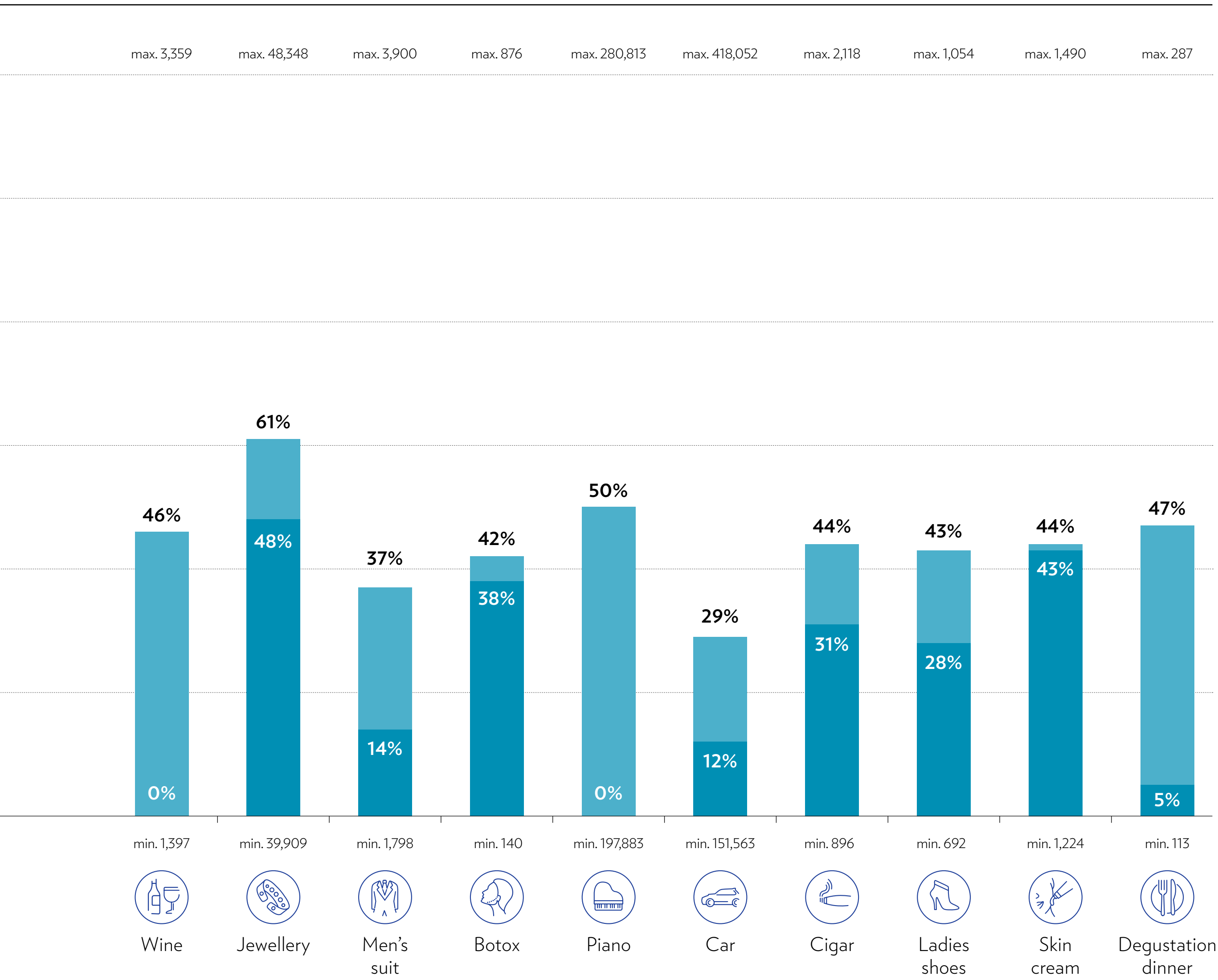
City comparisions - Kuala Lumpur

Our basket of goods and services in Kuala Lumpur fell by 4.5% in US dollar terms, which was a poorer performance than the index (+1.42%) dragged by another steep fall in the Malaysian ringgit (-6.5%). In local currency terms, the Kuala Lumpur luxury index was largely flat (+1.2%). Items which saw the biggest decline in US dollar terms were legal fees (-22%), business class flights (-12%) and hotel suites (-12%).

Kuala Lumpur slips to last place on our lifestyle index as the slump in the ringgit now renders the city an affordable location for consumers with US dollar purchasing power. It is the most inexpensive location to buy prime property, stay at a hotel suite and to buy our luxury watch, wine and piano.

The high-end condominium segment in the city is expected to correct as potential buyers and investors continue to adopt the ‘wait-and-see’ attitude due to concerns of a slowing economy, weaker job prospects, sharp fall in the ringgit, amongst other factors. With the affordability issue high on the local agenda amid stringent lending guidelines, demand for high-end condominiums remains lacklustre. To counter this weak sentiment, some developers have been introducing innovative marketing strategies to push sales while there are others who are marketing their products overseas.[9]

Malaysia’s economy shows signs of an uptick after losing steam in 2016. Second-quarter real GDP grew 5.8% from the same period in 2016 – its fastest pace in more than two years. Domestic demand



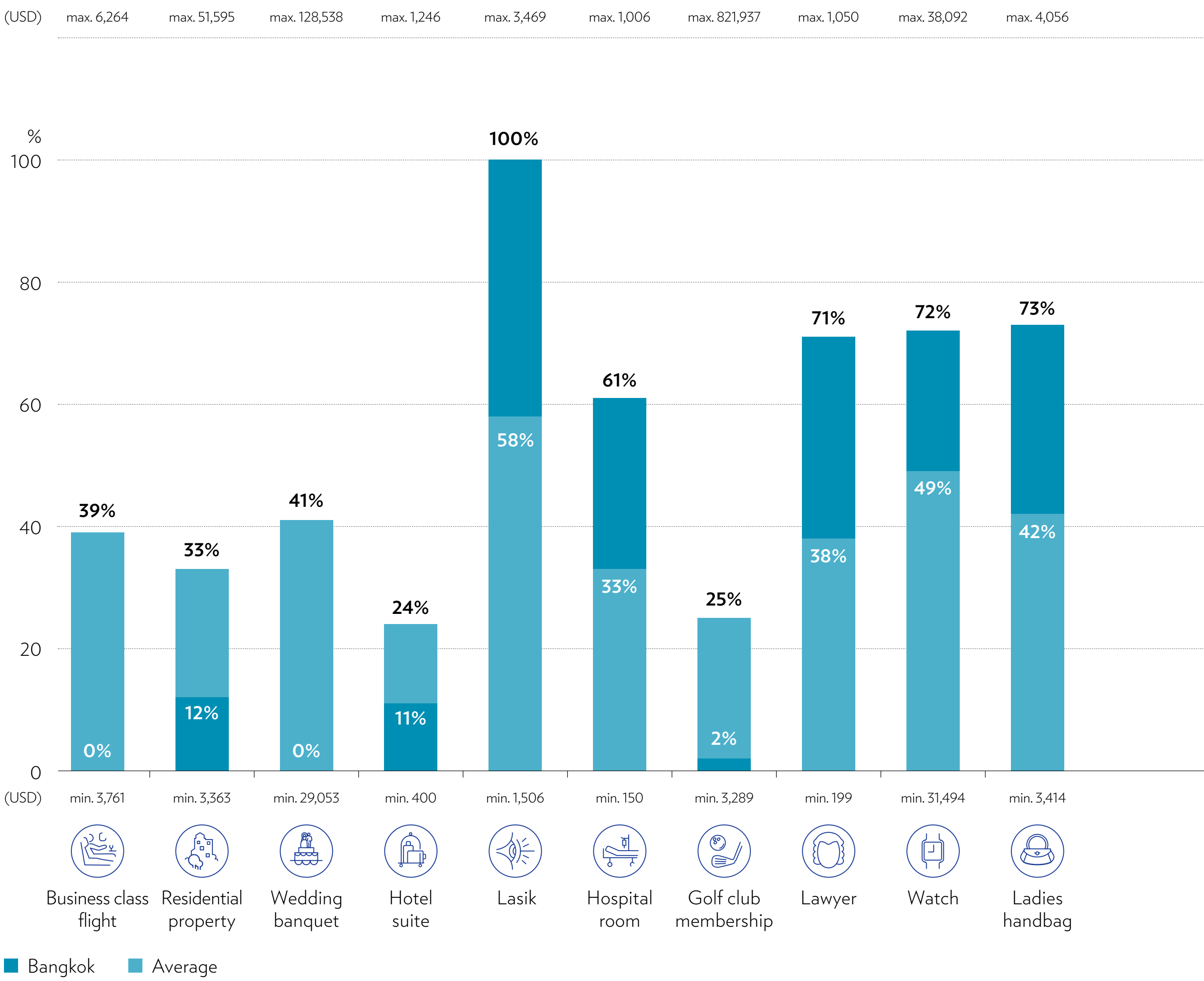
has been robust. Thanks to higher employment and wages, private consumption is a bright spot. Investments have also rebounded on the back of large-scale infrastructure projects. As for inflation, a pick-up is likely, due in part to the pass-through effect of higher global crude oil prices and the removal of cooking oil subsidies in Malaysia last year.

Of note will be Malaysia's next general election. Though it is not due until 2018, market watchers expect it to be called later this year. Historically, generous government spending has preceded elections and the additional fiscal boost would bode well for the economy. In July 2017, for example, the government offered cash handouts and debt waivers to palm oil farmers.

Meanwhile, we expect the Malaysian ringgit to regain a measure of strength after a prolonged period of weakness. The improving economy provides a positive backdrop for the currency. The real effective exchange rate is far below its long-term average and the currency appears undervalued, especially compared with other emerging market currencies. If oil prices, domestic politics and the external environment remain stable, there could be upside for the ringgit.

[9] Knight Frank Malaysia

Chart 28 Julius Baer Lifestyle Index - Bangkok



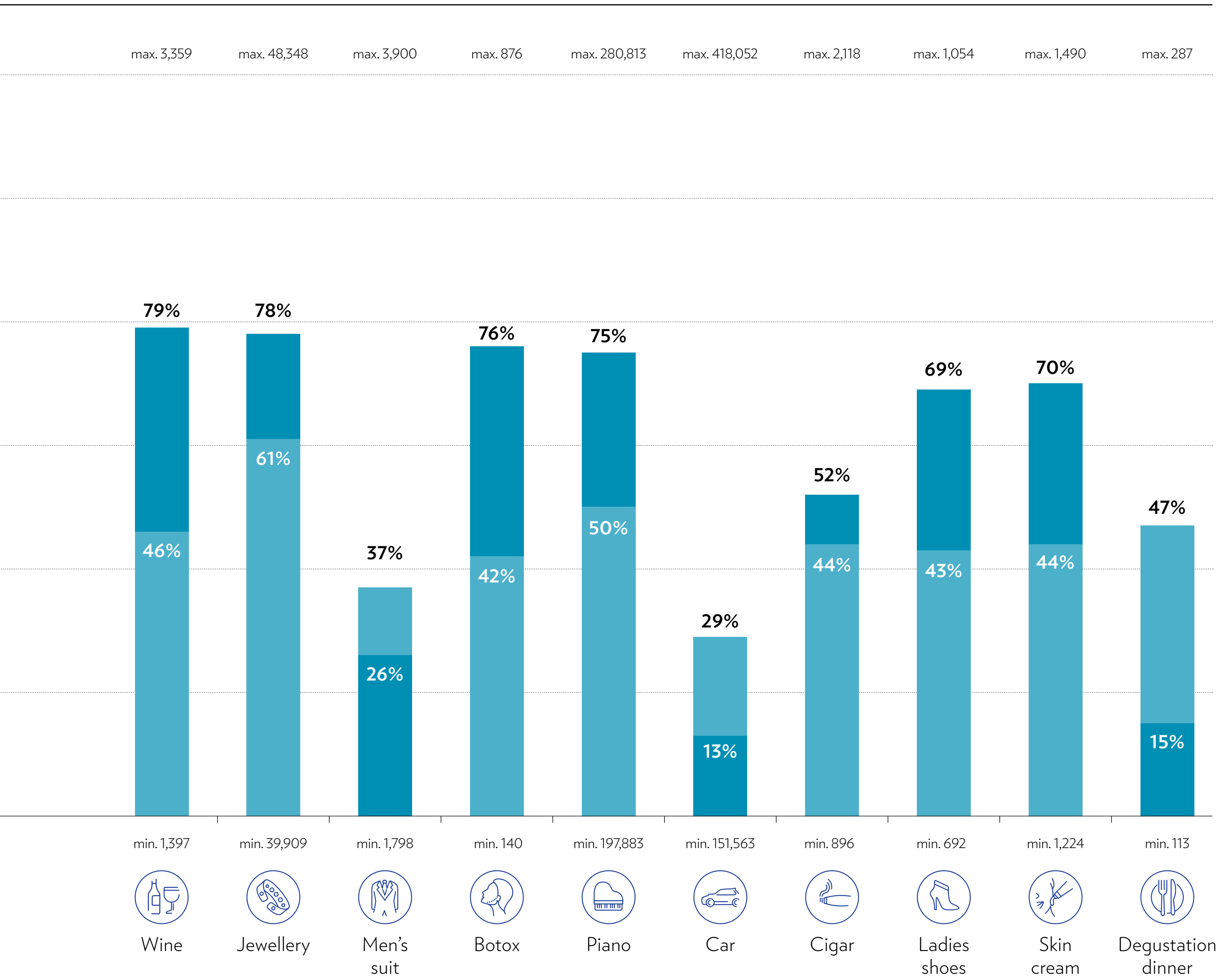
Source: Julius Baer

City comparisions - Bangkok

Our basket of goods and services rose by 4.0% in Bangkok on generally positive price performance (local index rose 1.7%) and a stronger Thai baht (+2.8%). The biggest price gains were seen in legal fees and botox procedures, while hotel suites faced the largest decline.

Bangkok holds on to its rank as the seventh most expensive city in Asia according to our calculations. Bangkok is excellent value for business class flights (cheapest), wedding banquets (cheapest) and golf club memberships (second cheapest). It is however a price leader for Lasik (most expensive), hospital stay (second most expensive) and ladies shoes (second most expensive).

Bangkok's overall property market continues to grow at a slower pace due to the general economic slowdown. New supply has been coming predominantly from peripheral Bangkok as developers have launched projects along a new mass transit route in suburban areas. Condominium prices in the peripheral area of Bangkok are expected to remain stable, whereas condominium prices in the CBD and city fringe are projected to increase due to higher land prices. Still, the super luxury market which is becoming more differentiated (by brand affiliation) is expected to significantly outperform the rest of Bangkok condominium market in price growth despite slowing sales.[10]

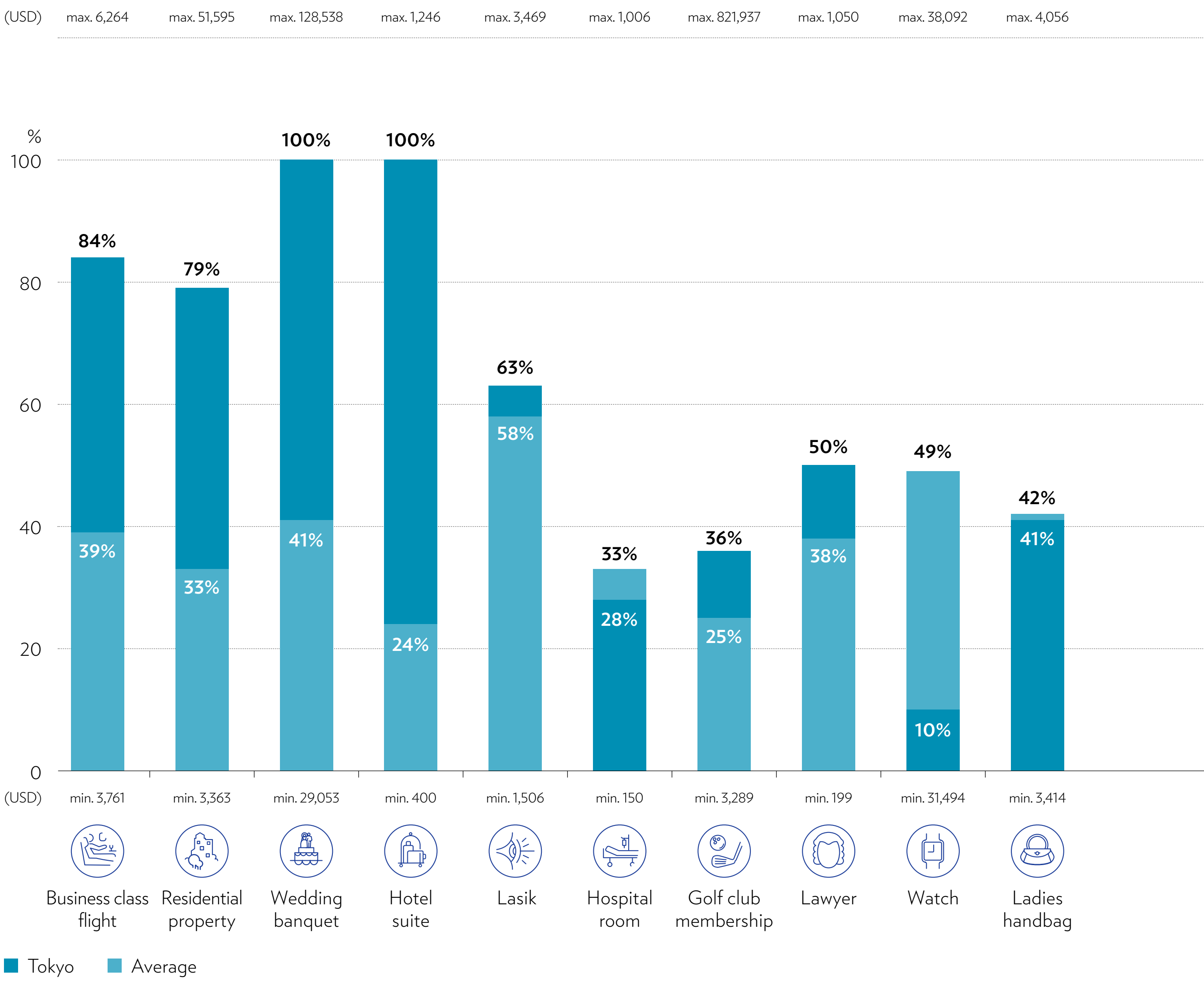


Thailand's economy continues to heal and is poised to gain pace this year. GDP growth has accelerated on the back of higher exports. Tourism is another area of strength as visitor numbers from China and ASEAN rise. Furthermore, the military-controlled government has made the economy its priority and has approved plans to boost infrastructure spending. Amid improving investor confidence, the Thai baht has appreciated substantially against the US dollar since the start of 2017.

Consumer prices are on track to climb this year, partly due to advancing labour costs that might result from tighter regulations on immigrant workers. That said, inflation remains below the Bank of Thailand's target. To keep the domestic economy on a growth path, the central bank held its policy rate steady at its August 2017 monetary policy committee meeting.

[10] Knight Frank Thailand

Chart 29: Julius Baer Lifestyle Index - Tokyo



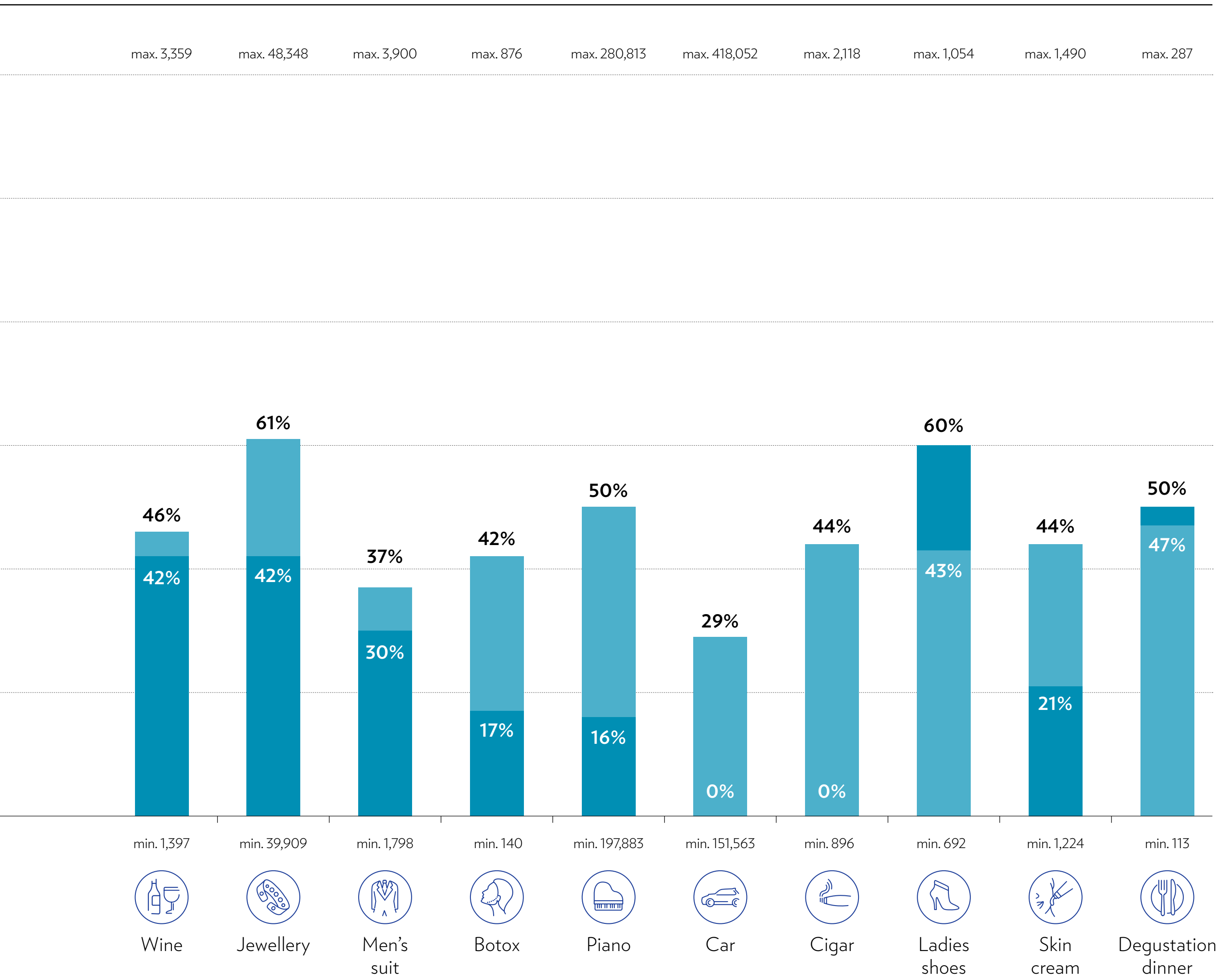
Source: Julius Baer

City comparisions - Tokyo

Our basket of goods and services corrected by 3% in US dollar terms amid a fall in the value of the Japanese yen (-6.5%). This was worse than the 1.4% recorded for the overall index. Most items registered stable or falling prices except for our men's suit (+17%).

From a ranking perspective, Tokyo falls from fourth most expensive to fifth most expensive in Asia. It remains the most expensive to host a wedding banquet and stay at a top-end hotel, and second most expensive for property and long haul business class flights. On the other hand, it is amongst the least expensive for cigars (11th), cars (11th), pianos, jewellery and watches (all 10th).

Compared to other global cities, many consider Tokyo prime residential property to be relatively good value. Overall, Tokyo's residential market continues to witness a stable price increase due to low supply amidst strong demand. Limited stock availability is particularly pronounced in the super prime segment. Other factors driving price growth included low borrowing costs and bullish market sentiment surrounding Abenomics and



the 2020 Tokyo Olympics. Additionally, demand has also come from buyers who seek shelter from inheritance taxes as well as overseas retail investors from other parts of Asia. In the near future, we therefore expect softer price appreciation as transaction volumes slow.[11]

We expect Japan's economy to pick up this year. Exports have been rising, helped by stronger demand for IT-related products and capital goods in Asia. Private investment and consumption have also been on an uptrend. Meanwhile, the government remains committed to 'Abenomics', a set of reflationary policies aimed at revitalising the economy.

The Bank of Japan (BoJ) has maintained its ultra-loose monetary policy even as the economic backdrop improves. Inflation remains well below the central bank's target of around 2%, and we do not foresee a significant increase in the near future. The BoJ's stance presents a headwind for the Japanese yen and we have a bearish view on the currency.

[11] Knight Frank Asia-Pacific

EMBRACING THE EXPERIENCE ECONOMY

- Spending patterns are undergoing a remarkable shift.
- Around the world, consumers are increasingly pivoting away from goods and towards experiences. Asia is no exception.
- Two forces are at work. One is rising affluence. As incomes climb, material needs are giving way to aspirational wants.
- Then, there are the millennials. This generation tends to value accomplishments over possessions.
- The experience economy will create new winners and losers. To stay ahead, retailers will need to innovate.

From Shanghai to Singapore, the launch was a hit. Queues formed outside stores. Eager fans swamped Instagram feeds with more than 30,000 posts.

The draw? Chanel's latest offering. But it wasn't a bag. Nor was it a fresh-off-the-runway fashion collection. The crowd pleaser was Coco Café, a pop-up store set up by the luxury house earlier this year offering cakes and coffee alongside make-up and manicure services. While money can always buy a Chanel 2.55, it was no guarantee of a spot in a whimsically designed space that would be here today and gone tomorrow.

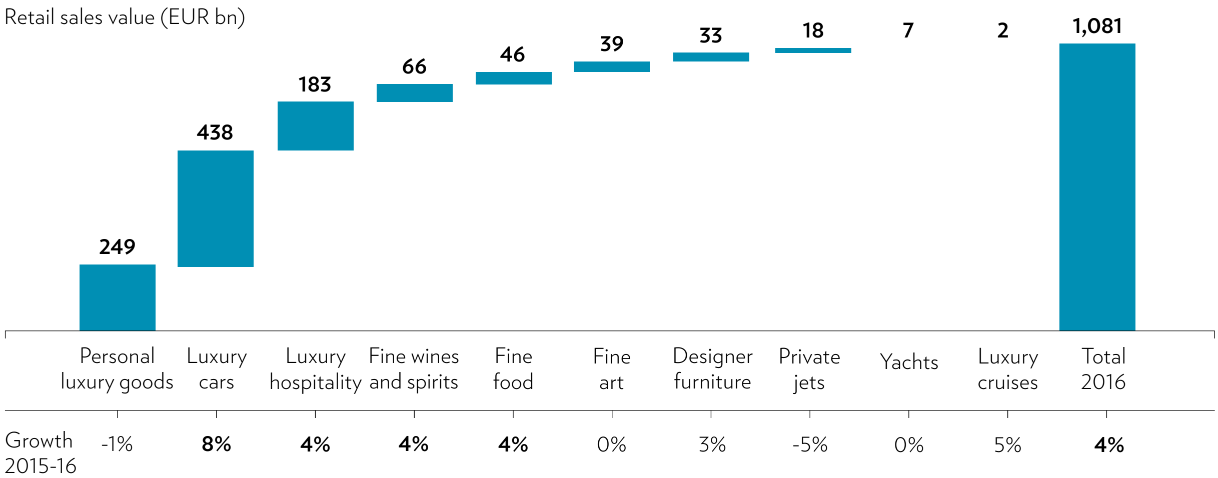
Welcome to the experience economy, where consumers increasingly prefer to live large rather than to own more. No doubt, fast cars, statement watches and designer bags remain objects of desire for many. But new generations of the well-heeled are beginning to find gratification from unique experiences like dinner in a cosy members-only restaurant, or a 10-day cruise to Antarctica.

The new luxury shoppers

The global luxury market has felt this trend keenly. Sales advanced 4% to EUR 1.08 trn last year, boosted in large part by greater spending on services, according to consultancy Bain & Company's estimates. The luxury hospitality segment grew 4% to EUR 183 bn. Sales of fine wines and fine food also climbed 4% each to EUR 66 bn and EUR 46 bn respectively.

By contrast, spending on personal luxury goods – the traditional pillar of the market – was nearly flat. The segment was down 1% to EUR 249 bn. Demand for watches was particularly lacklustre.

Chart 1: Higher sales of cars, hospitality, wines and food buoyed the global luxury market in 2016



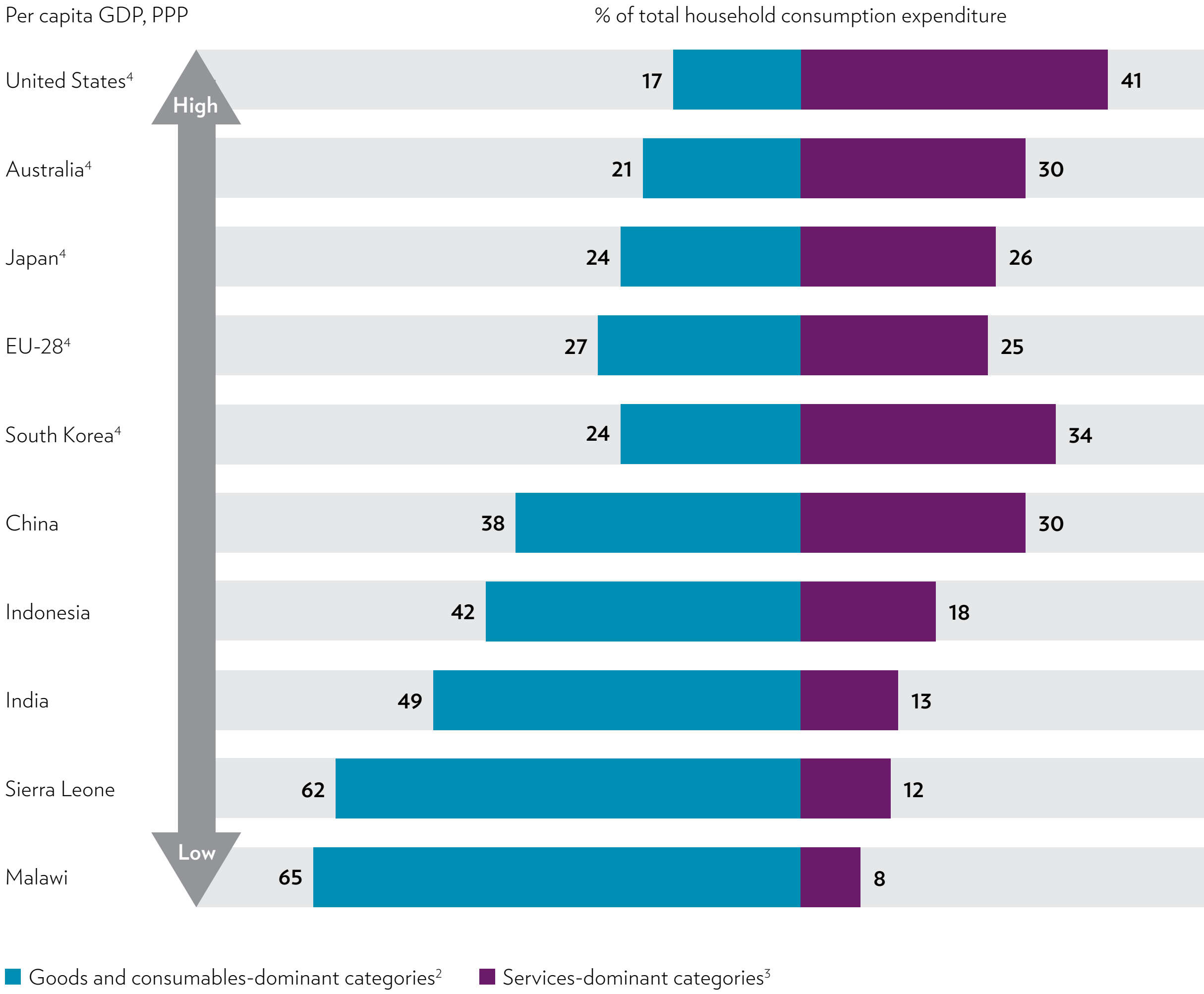
Source: Bain & Company

Rich pickings

Behind the quest for experiences, several forces are at work. One is rising affluence. Consider what households commonly splurge on when they first enter the ranks of the middle class: more clothes, a car, and perhaps a bigger home. But as material needs like these are satisfied, aspirational wants tend to follow. Think art and music lessons, beauty treatments, or a family holiday.

Data backs these observations. Around the world, as countries move up the income ladder, households spend proportionately less on goods and more on services. The average household in the US devotes 41% of its consumption to services-dominant activities, while the share in India is just 13%, said consulting firm McKinsey & Company.

Chart 2 : Household consumption expenditure by country as of April 2016[1]



[1] Figures do not include public spending on health care and education.

[2] Goods and consumables-dominant includes furnishings and household equipment; clothing and footwear; alcoholic beverages and tobacco; and food and nonalcoholic beverages.

[3] Services-dominant includes restaurants and hotels; education; health; recreation and culture; and communications.

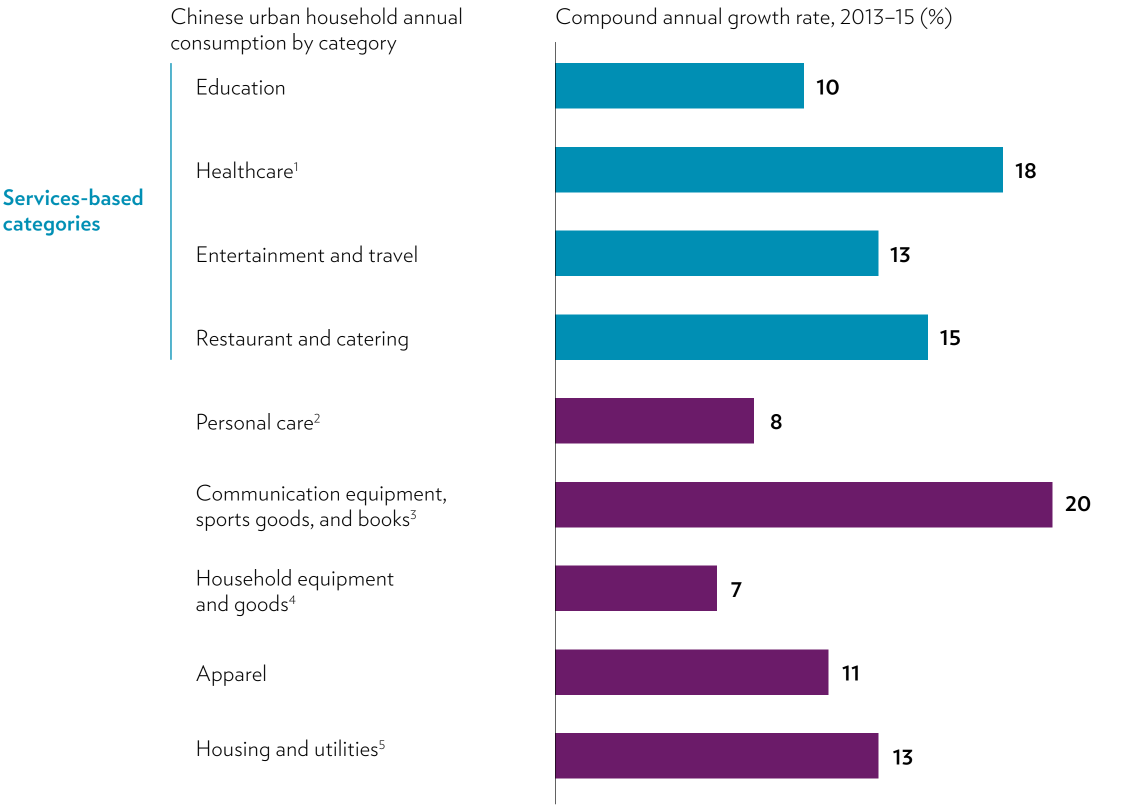
[4] Household consumption figures from Eurostat; all other figures from the World Bank Global Consumption Database

Note: Other categories (not shown) include housing, water, electricity, gas, and other fuels; miscellaneous goods and services; and transport. Numbers may not sum due to rounding.

Source: McKinsey Global Institute

China sits somewhere in the middle – services-dominant activities take up around 30% of the average household budget. Among urban Chinese consumers, healthcare is a priority. So are restaurant visits, entertainment, travel and education. Spending in these segments experienced double-digit compound annual growth from 2013 to 2015.

Chart 3 : As of April 2016, China's urban household spending on services has increased



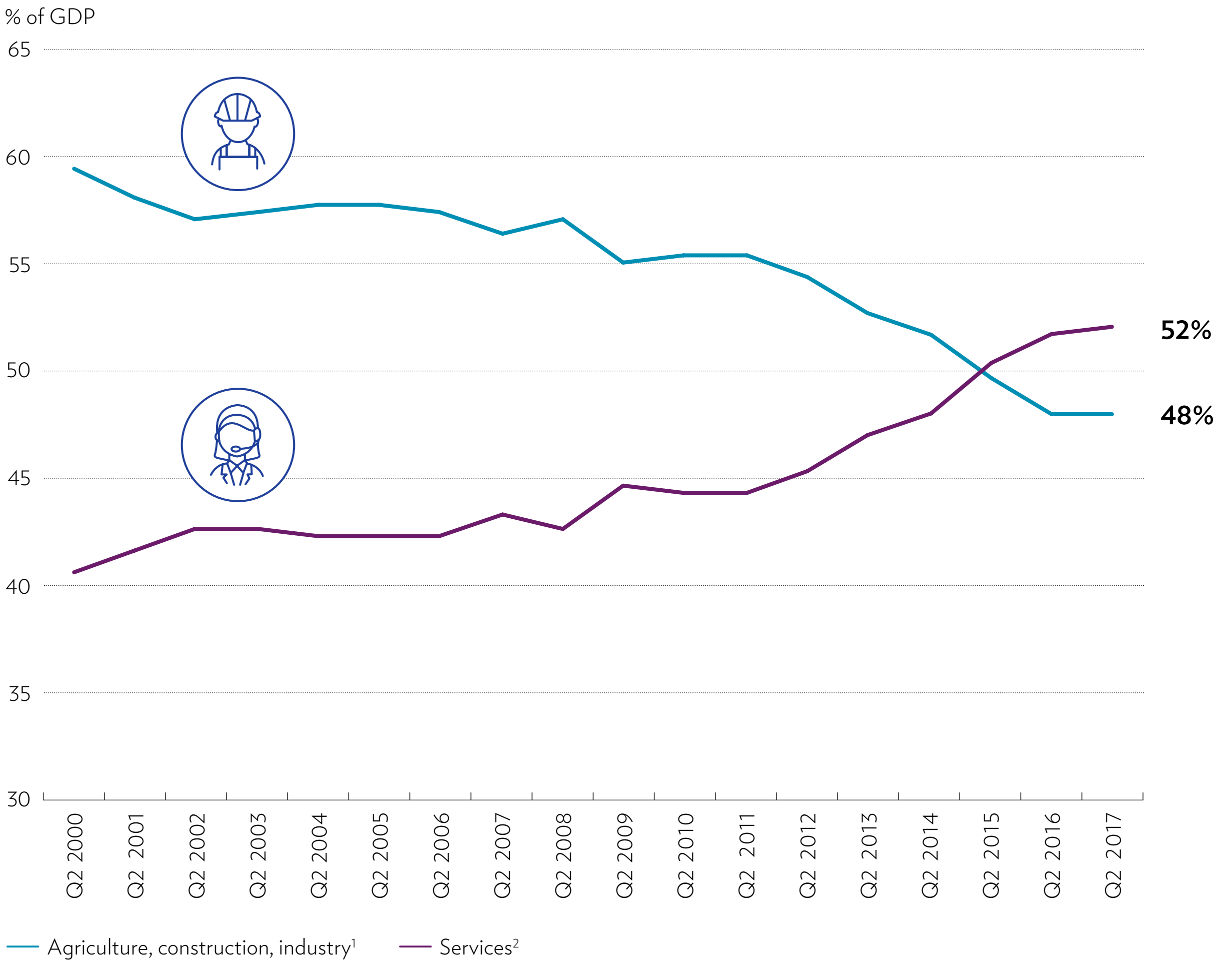
1 Healthcare includes medical device, medicine, and treatment.
2 Personal care includes jewelry, watches, cosmetics, and haircut services.
3 Communication equipment excludes cell phones, but includes magazines, newspapers.
4 Household equipment and goods include furniture, fridges, beddings, etc.
5 Housing and utilities includes household management services.

Note: The household consumption data in this chart only include direct household expenditure and not public expenditure on healthcare and education.

Source: McKinsey Global Institute

Shifting consumer preferences are changing the face of the world's second largest economy. In recent years, services have decisively overtaken agriculture, construction, and other industrial activities to account for more than half of China's GDP growth. And this figure looks set to grow as officials work on weaning the economy off its heavy reliance on exports and investments.

Chart 4 : Services represent a growing part of China's economy



[1] Based on primary industry and secondary industry data
[2] Based on tertiary industry data

Source: Bloomberg Finance L.P., National Bureau of Statistics of China

Finding your selfie

Another force reshaping spending patterns: millennials. Broadly categorised as those born between 1980 and the late 1990s, millennials stand out from older generations for the different values they hold – and the different ways they spend.

Just how distinct are millennials? Having grown up in an age of relative peace and prosperity, many have come to define themselves less by what they own, and more by what they have accomplished. In their search for a greater purpose in life, experiences often trump goods. A round-the-world trip to explore diverse cultures? Check. A gruelling marathon through the Sahara desert? Check.

There are compelling reasons for this. Several studies suggest that experiences bring more joy than possessions. According to research from Cornell University, experiences are likely to form a bigger part of an individual's identity. They also tend to be more positive for social relations compared with material purchases, and are evaluated more on their own terms.

#livingthedream

Equally striking is how plugged in millennials are to the digital world. The internet has a profound impact on what they buy. In McKinsey's research on millennials' shopping habits, almost seven in 10 said they were swayed by friends' social media posts. In turn, many are eager to share their experiences online. This means that the value of an experience, whether of a six-course degustation dinner or an exotic holiday, often extends beyond the moment to include memories captured in carefully curated Instagram photos or Snapchat videos.

Understanding millennials matters because they are a consumer force to be reckoned with. This is especially so in young and growing emerging markets. Of the 2.3 billion millennials in the world, some 83% live in the developing world, according to Julius Baer's Next Generation research on structural trends changing the future. India alone is home to around 400 million millennials – more than five times the number in the US. In fact, India has more millennials than the entire US population combined.

Chart 5 : Millennial populations in India and China outweigh entire populations in the US and UK

Source: World Bank, Julius Baer

China too, has close to 400 million millennials. And their spending power continues to balloon. The average millennial earns about USD 5,900 a year and this could more than double to USD 13,000 in 10 years. Meanwhile, their share of total national consumption, at 15% today, is poised to hit 30% in the next five years.

Food is the new fashion

The hunger for experiences spells boon and bane for businesses. First, the good news. The fine dining scene has been a prime beneficiary. Witness the explosion of upscale culinary trends that have captured imaginations – and stomachs – in recent times. From molecular gastronomy to fusion flavours, the lure of lavish and highly 'Instagrammable' meals is clear.

For further proof, there is the growth of the Michelin Guide, a selection of the world's top restaurants. Europe had more than 480 Michelin-starred restaurants in 2016, double the number just 10 years earlier. And in Asia, the guide has widened its foray. It debuted to great fanfare in Singapore last year, following launches in cities like Tokyo and Hong Kong.

Chart 6 : Michelin extends its footprint in Asia

* Estimated

Source: Reuters, Hong Kong Tourism Board, Michelin

Seeing is living

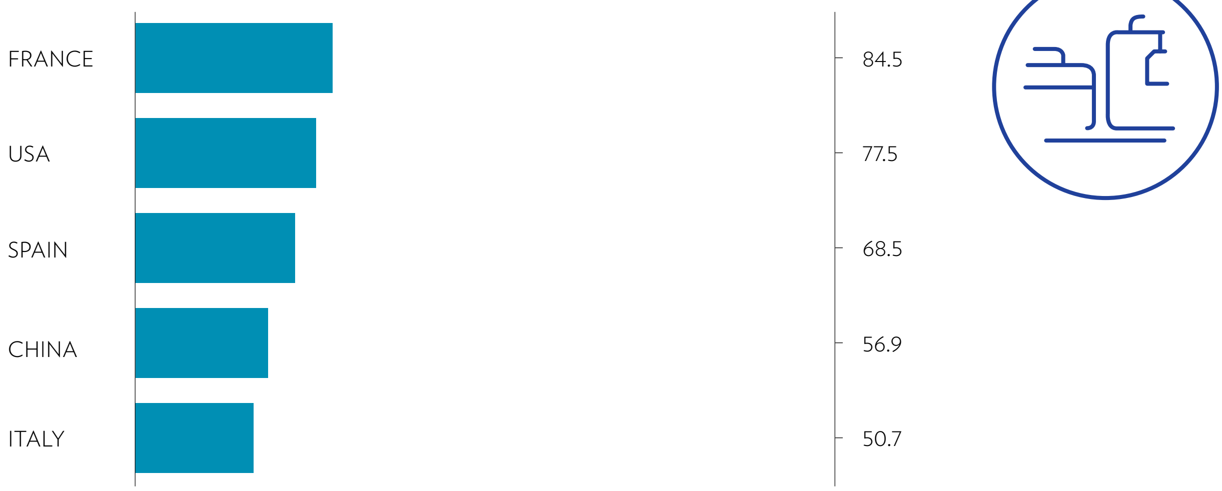
The travel industry is another obvious winner. International tourist arrivals rose for the seventh straight year to more than 1.2 billion in 2016, said United Nations' World Tourism Organization. In terms of spending, Chinese tourists led the way. They shelled out more than USD 261 bn abroad – 12% more than the previous year.

Chart 7 : The tourism industry continues to gather steam

2016

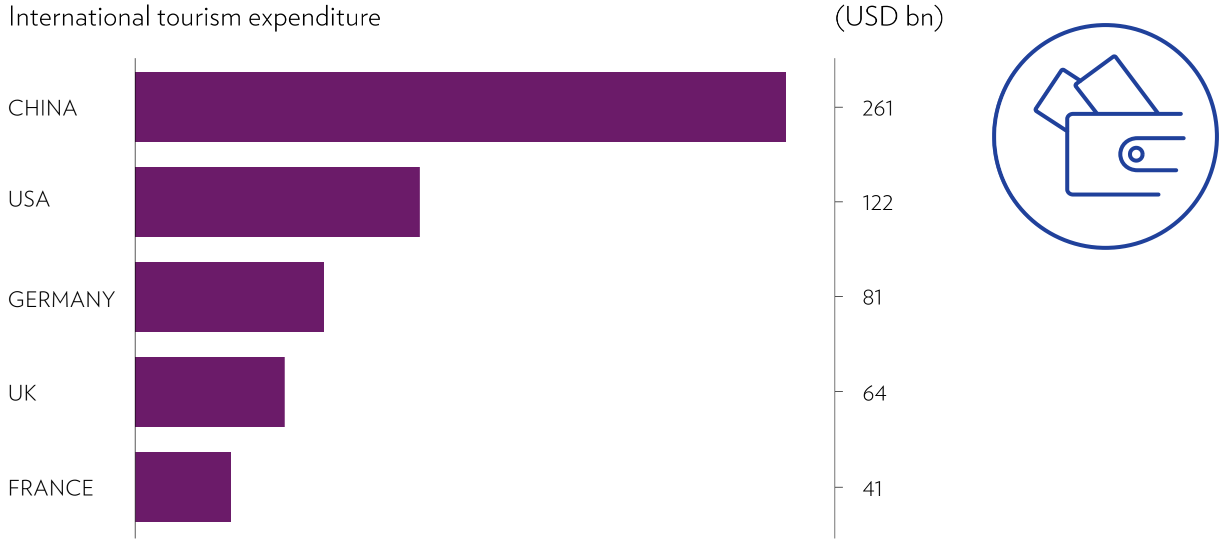
World's top tourist destinations

International tourist arrivals (m)



World's top tourism spenders

International tourism expenditure (USD bn)



Source: World Tourism Organization

Technology-enabled companies have caught the tourism wave better than others. Online travel service providers are a case in point. By providing flight, accommodation and tour bookings over the internet, firms like The Priceline Group in the US and China's Ctrip.com International have reaped success.

Ctrip, especially, has grown at a blistering pace as it taps the wanderlust of a swelling middle class. Its net revenue in 2016 crossed CNY 19.2 bn, more than five times that in 2011. And the company has global aspirations. Last year, it forked out about GBP 1.4 bn to acquire Skyscanner, a Scottish company offering price comparisons for flights.

Chart 8: Shares of online travel service providers Priceline and Ctrip have soared

Source: Bloomberg Finance L.P.

The health and wellness industry has also gained massive momentum. Spurred by the belief that to live well is to be well, more consumers have embraced peak fitness as a badge of achievement. Pursuits that once seemed like a novelty, from yoga to laser eye surgery (Lasik) for myopia, have moved into the mainstream.

Gyms are doing brisk business. Around the world, health clubs raked in sales of USD 83.1 bn in 2016, up 2.6% from the previous year, said the International Health, Racquet & Sportsclub Association. Membership hit 162.1 million, surging 7.0% over the same period.

Innovate, or else

Now, for the flip side. Traditional shopping malls dominated by department stores are losing their allure as consumers increasingly seek experiences over goods. The surge of e-commerce, backed by the rapid growth of Amazon and other online retail giants, has not helped. In Singapore, the warning signs are blinking. Retail rents dropped 2.9% in the first quarter of the year, extending an 8.3% decline for the whole of 2016. And the island-wide vacancy rate was 7.7% at the close of the first quarter, edging up from 7.5% at end-2016.

Malls fighting to stay relevant will need to reinvent themselves. Setting aside more space for entertainment, from state-of-the-art movie theatres to interactive gaming centres, is an option. New dining concepts could also gain traction. Starbucks' chief executive officer Kevin Johnson emphasised the importance of innovation at the company's earnings call this year: "The critical transformative components required for any brick-and-mortar retailer to survive, let alone succeed in the future, are an engaging, digital and mobile relationship with customers that is threaded into a branded, immersive, experiential retail destination."

The It brag

Luxury houses will not be immune from the pressure that conventional retailers face. Well-crafted merchandise and celebrity spokespersons still appeal, but they may not capture a similar share of wallets as before. The new reality calls for a rethink of business strategies.

Some retailers are weaving experiences into the shopping experience. When Ralph Lauren expanded in London earlier this year, it did not have more racks of clothes in its sights. Instead, it launched Ralph's Coffee & Bar, offering a curated menu in an equestrian-themed space next to its flagship store on Regent Street. In 2015, Shanghai welcomed the world's first Gucci restaurant. And then, there is Chanel. Apart from Coco Café, it has experimented with other pop-up concepts, including a virtual rain shower installation created to promote a new fragrance.

The multi-billion dollar question

Is the experience economy here to stay? Many think so. Consulting firm BCG expects the market for experiential luxury to record a compound annual growth rate of 5-6% between 2016 and 2023, beating the 2-3% growth rate for the personal luxury market. Shifting consumer tastes will create ripples of change across industries. While this environment defies easy predictions, one thing is certain – there will be new winners and losers.

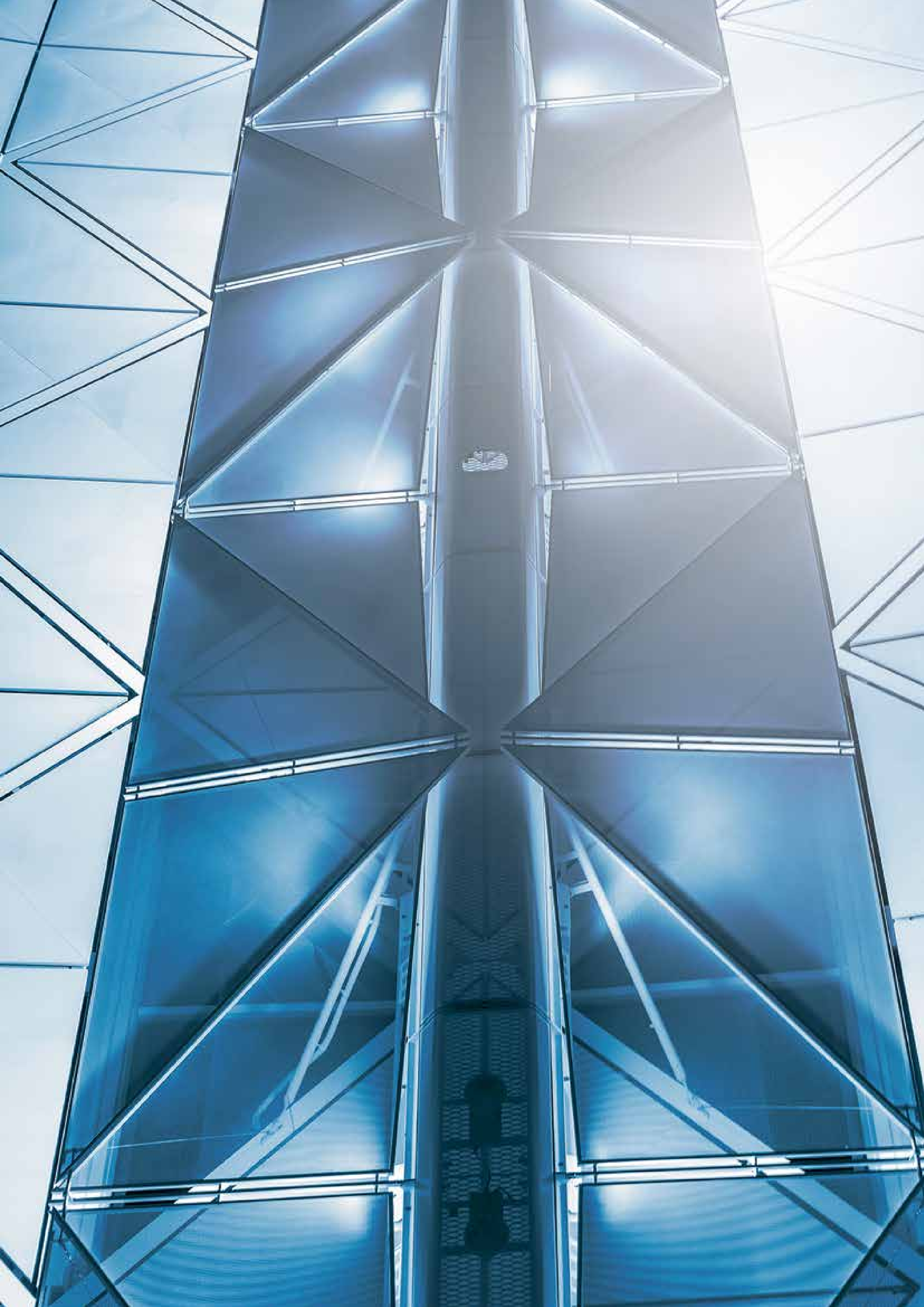
Reflecting the evolving landscape, this year's Julius Baer wealth index incorporates a new item – fine dining – and replaces tooth implants with Lasik procedures.

CONCLUSIONS

Despite much hang-wringing by economists and analysts alike, the worst-case scenario for markets has not materialised. At the time of writing, equity indexes have rallied to a series of records while volatility has fallen to multi-decade lows as investors shrug off potential headwinds. This optimism is reflected in the findings for our Julius Baer Lifestyle Index this year which registered higher valuations on improved consumer sentiment and economic conditions in Asia. Our index remains on an upward trajectory since its launch seven years ago, demonstrating that there remains enormous demand for luxury goods and services in Asia, notwithstanding short-term asset price fluctuations.

We dedicate our thematic piece this year to the experience economy which explores the phenomenon of consumers pivoting away from goods towards experiences. One major force reshaping spending patterns are millennials who stand out for the different values they hold, the different ways they spend and the spending power that they possess. These structural changes in the consumer space such as digitalisation are also happening in wealth management. The experience economy will create new winners and losers. To stay ahead, it is clear that businesses wanting to stay engaged with this important demographic will need to constantly innovate.

It is a pleasure to provide you with our findings, and we hope you find continued value in the Julius Baer Wealth Report Asia.



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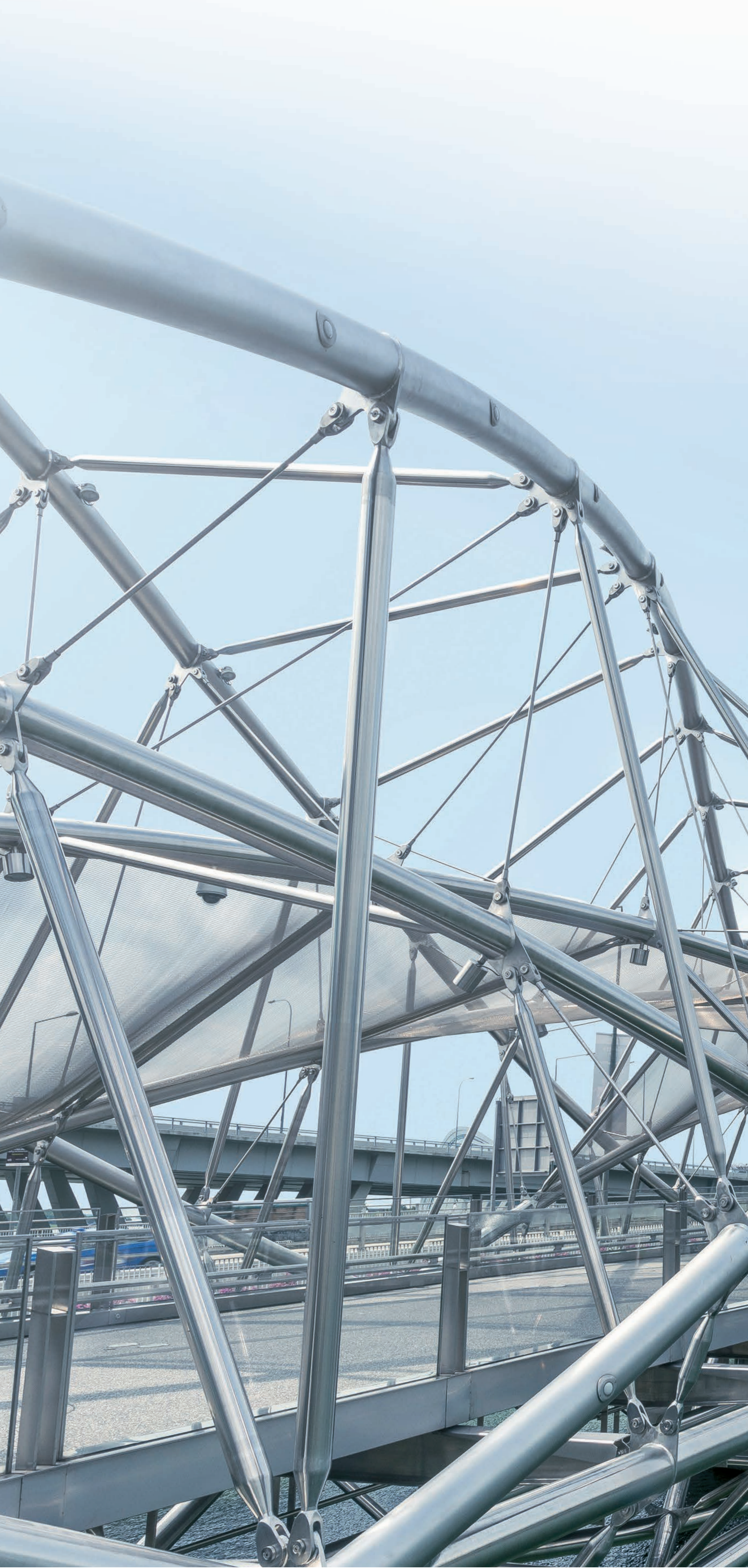

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