

Read My Lipstick

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Imagine the following scenario - people refusing to purchase luxurious items, workspaces getting emptier each day, individuals not being able to afford much and the basic quality of life diminishing. Gloomy is the word used most often to describe an economic recession, and how could it not be considering that most individuals dread the inevitable state of slump befalling upon their families. Now think of the worst state of economic downturn the world has had to face. During the epoch of the Great Depression, industrial production in the United States of America reduced to half of what it was in the years preceding 1929. However, between 1929 and 1933, cosmetic sales decided not to join the bandwagon. In fact, these sales hiked by more than 20 percent in spite of the convulsing economy.

During an economic slump, times get tough and consumers cut down on their usual spending. As a result, sales of sofas, sports cars, vacations abroad and housing fall with the market. However, many economists believe that this spending habit instilled in the consumer does not completely disappear during a recession. It is just that while reducing consumption of extravagant luxuries, people substitute it with spending on smaller indulgences such as fancy coffee, perfumes, skin creams and most common of all- lipsticks.

Think of it this way- when wishing for something luxurious under a tightened budget- it is easier to spend on cosmetics

and a nice dinner than it is to fly off to another part of the world. For instance, during a long stagnation in Japan in 1997, Japanese spending on accessories had increased by 10 percent.

In 2001, when the world faced an eight-month economic downturn, lipstick sales in the United States went up by 11%. As this downturn further aggravated due to the tragic September 11 terrorist attacks in Manhattan, executives at Estée Lauder- a renowned cosmetics business- noticed further increases in their lipstick sales. US lipstick sales during the aftermath of the 9/11 attacks actually doubled. This link was then termed '**The Lipstick Effect**' by Leonard Lauder, Chairman of Estée Lauder, at the beginning of the 2001 recession when he first observed that lipstick sales tend to have an inverse or negative correlation to economic prosperity. This prompted him to coin the '**Lipstick Index**'-an indicator which uses lipstick sales to depict an economic recession.

This link was again seen by Estée Lauder in the global recession faced in 2008. During this era, while the rest of the world faced a terrible economic slowdown, some of the world's cosmetic giants (namely, L'Oréal, Beiersdorf and Shiseido) decided to pave a different way through the financial crisis. L'Oréal even boasted a 5.3 percent boost in sales in the beginning of the year.

Another very significant by-product of any recession is the inevitable increase in unemployment. During the Great Depression, the unemployment toll in Germany had reached to 6 million, which was 25% of the country's population. Notwithstanding this statistic, Beiersdorf, a German cosmetic company, was able to boast about how it did not have to lay-off a single worker. It's true: those working at the cosmetic firm did not suffer. Moreover, during the recessions of 1990 and 2001, while jobs in other sectors were falling apart, employment in the US cosmetics sector sharply rose.



Source – Wall Street Journal

Lipsticks dominated stock market performance as well- as per Dhaval Joshi, an analyst with RAB capital. According to the analyst, the 'lipstick effect' was further highlighted with the personal products sector outdoing as per the overall market by an average of 100% in past recessions (namely, the recessions of the early 1980s, early 1990s and early 2000s). This brilliant performance was then reflected in the global cosmetics sector solely because its European sub-sector was dominated by giants such as L'Oréal and Beiersdorf, whose outstanding performance and growth was able to affect cosmetic sectors everywhere else.

It is not only lipsticks that saw this odd trend but a few other beauty-related items as well. Beauty- or in broader terms, appearance- seems to be an excellent means by which individuals could treat themselves to luxuries without 'breaking the bank.' This is because since consumer confidence in the economy reaches a low level, individuals are not very keen on using up a lot of their funds. As per Toby Clark, at Mintel (a market research firm), people try to save on regular luxuries and opt for cheaper shampoos, discounted food and old machinery. Thus, they choose to spend their money on smaller luxuries such as lipsticks, perfumes and baked goods, etc. In fact, amidst the aforementioned 2008 economic setback, headlines were bustling with the suddenly trending nail-art phase. The years 2008 and 2009 made way for new and innovative manicures comprising of metallic colours and nail art. This nail-obsession was further deepened by the invention of the social media platform Instagram where the trending nail-art 'hashtag' revived this love for creative manicures.

An extremely recent example of this phenomenon was displayed in the United Kingdom in 2016- The year of the infamous 'Brexit' movement. The repercussions following Brexit saw an upsurge in the number of Brits going to spas- citing this as 'momentary respite from the chaos.' Ruby- a London-based concierge app even stated a 30 percent increase in bookings for scrubs, facials and what not. Using the same logic behind the lipstick effect, this novel interest in spas helps citizens of the UK to not only distract themselves from the stress of the controversial bill but also helps provide a

confidence boost in one aspect of their lives.

In spite of these trends, however, many individuals remain unimpressed and unconvinced by this theory. They claim the available data supporting the effect as 'isolated and anecdotal' which does not point to the larger phenomenon. For instance, despite a variety of data suggesting the hike in lipstick sales during a recession, Kline & Company, a market-research group, has pointed out that this hike in lipstick sales has also been prevalent during periods of prosperity or economic 'boom'. The Economist then attempted to test the theory using statistical analysis and came to the conclusion that the lipstick effect may have been overstated. Due to this lack of a proper correlation, some experts have started to question the viability of the lipstick index as an economic indicator.

People also started to notice how the lipstick effect was seen in non-lipstick items, which further reduced the credibility of lipstick sales as valid indicators of economic growth. Also, lipsticks were sometimes underperforming as compared to other standard beauty items. Due to this, Karen Grant- a market analyst at the NPD group- argued in favour of a broader version of the lipstick index which could perhaps consider 'beauty' as a whole as something that survives a recession rather than doing the same for sub-categories such as lipstick. The newfound 'beauty index' was favoured by a lot of other people who strongly believed that one economy's lipstick could very well be another's nail polish, or hair colorant? In fact, nail polish sales actually

outperformed lipstick sales in many parts of the world in 2009.

Nonetheless, Karen Grant's argument was also countered when many examples from non-beauty categories began to fit the logic behind her generalised 'beauty index'- instances of this are- ice cream in France- which saw an 11% boost in sales in 2009- and confectionary in the UK, which served as comfort food for many during the economic setback in 2009.

Ergo, the lipstick effect is essentially all about what the consumer can afford during a recession and not something solely limited to lipsticks. While this does not place Estée's 'Lipstick Index' in a favourable light, it does certainly have a few perks of its own. For one, the index could help firms choose what to produce during periods of depression in order to maintain profits. Also, the index could help governments determine which industry would be safest during a recession and therefore aid in decisions made for government spending. In short, it wouldn't really hurt to remember Audrey Hepburn's famous words- 'on a bad day, there is always lipstick.'