

# A New Year Message from Martin Rapaport

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Dear friends,

Greetings and best wishes for the New Year.

I am pleased to write that the overall outlook for diamond demand is positive and improving. The US holiday season performed very well, and expectations are high for the Chinese New Year. Given the new US tax law and potential US fiscal policy stimulus in the form of huge infrastructure spending, we expect the positive trend to continue through 2018.

China is also waking up, with consistent mainland demand for engagement rings. While the era of the super surge is over and the Hong Kong market is choppy, the mainland consumer market is strong, steady and growing. China's one-child policy, established in 1979 and canceled in 2016, resulted in a severe shortage of women. Men seeking wives in a tight, competitive market are diamond-bound. Furthermore, a growing Chinese economy and middle class is driving consistent, sustainable demand.

While demand is increasing, profits remain under pressure. Manufacturers and dealers are squeezed by relatively high rough prices and the need to maintain large inventories to support retailers. Retailers are facing severe competition from internet sellers, who have lower costs and prices. Consumers are flocking to the internet and away from malls as online convenience trumps large jewelry chains. Independent jewelers are a bright spot, as they offer a more personalized jewelry shopping experience than the internet. But everyone is looking over their shoulders as Amazon gobbles up customers with 18% growth in internet sales this holiday season.

It's not just the distribution system that is changing. It's the people. New generations of Western consumers are questioning the value and values of diamonds. Authenticity is the new currency in a world where everybody sees everything everywhere. "Me" generations have become "We" generations in an electronic society of endless social interconnectivity. Who you are, what you are and why you are are important questions in a universe of social responsibility. Herding millennials are growing out of their groupthink and beginning to seek their own authentic positive identity. They will be among our best customers.

2018 will be a great year for those that integrate change with prosperity. External economic forces will provide a background of economic development, while a rapidly changing consumer social environment will open and close doors of opportunity. While supply-side profits will remain tight, those that understand and anticipate the needs and desires of their customers will prosper. The secret to success will be to transcend the product to the customer. It's time to stop selling products and start selling customers.

Wishing you and yours a healthy, wealthy and happy New Year.

Martin Rapaport

Chairman

**RAPAPORT**