Hermès' renovated and expanded store in Beijing's The Peninsula hotel.

BUSINESS

Global Luxury Goods Market Set for Continued Growth

In their latest study, Bain & Co. and Altagamma expect the sector to reach sales of between 360 billion and 380 billion euros in 2023, up 5 to 12 percent on a record 2022.

BY LUISA ZARGANI

MILAN — The global appetite for luxury goods is still healthy.

Bain & Company's Luxury Goods Worldwide Market Study – Spring 2023, presented on Friday with Altagamma in Milan, shows the personal luxury goods market is projected to grow between 5 and 12 percent in 2023, or between 360 billion and 380 billion euros, following a record year in 2022, despite geopolitical tensions and macroeconomic uncertainty.

Last year, the sector reached a market value of 345 million euros, and by 2030 it is likely to reach between 530 billion and 570 billion euros. This is around 2.5 times its size in 2020. The first quarter of 2023 continued to show good momentum, resulting in growth of between 9 and 11 percent compared with 2022.

The Bain-Altagamma analysis sets out two scenarios: A positive one driven by China's recovery and sustained growth from Europe and the Americas, with growth projected to be between 9 and 12 percent on 2022. A realistic scenario shows overall growth more severely impacted by a slowdown in mature markets, and a slower recovery in China, leading to growth of between 5 and 8 percent on 2022.

In November, presenting the previous luxury goods study, the growth was pegged at between 3 and 5 percent for 2023, given the uncertainties connected to the reopening of China.

"The luxury industry is experiencing a new phase after its post-pandemic growth, with renewed drivers of resilience establishing winners and losers," said Claudia D'Arpizio, partner at Bain & Company, leader of Bain's Global Luxury Goods and Fashion practice, and lead author of the study. "Brands who want to succeed need to focus holistically on consumers; balance their exposure across geographies; offer a high value proposition with elevated entry clienteling and experientiality at scale, and push on icons, timeless and statement pieces."

The ongoing growth in the first three months of the year was attributed to the gradual decrease of hyperinflation, recovering confidence of local consumers in Europe, the lifting of China's COVID-19 restrictions before Chinese New Year and the positive momentum in Japan and Southeast Asia, bolstered by intraregional tourism.

Federca Levato, partner at Bain & Company and leader of the firm's EMEA Luxury Goods and Fashion practice, coauthor of the report, said in an interview that luxury consumers are now valuing uniqueness over status, beyond aspirational items, in "an elevation of the market toward uber luxury, less purchases but better." Stores are becoming "entertainment platforms, less transactional, offering good times," and brands are increasingly moving into hospitality, opening VIP lounges and clubs.

However, the picture is nuanced across countries, said Levato, as Europe is on the rise thanks to strong tourist flows, while the U.S. is slowing down due to consumer caution in light of a potential recession and the end of COVID-19 relief funding.

Top U.S. luxury consumers are holding up, focusing their purchases on statement pieces across categories as well as new formal and occasion wear, yet partially shifting their spending abroad as price differentials widen and aspirational customers are spending less. The study also sees a rebalancing of the luxury map, with New York and California coming back while holiday destinations, such as Hawaii and Las Vegas, are recovering yet still behind their 2019 peaks.

Levato said a question mark remains about the evolution of the U.S. market during the rest of the year, as "a huge improvement is not expected ahead," while department stores are "changing skin, struggling as the customer base is changing and they are targeting the new generations."

Europe may have to face a slowdown in the arrival of U.S. and Middle Eastern tourists in the second half. In the last months, the first Chinese tourists traveled to Europe, and a solid return is expected later in the year.

Mainland China saw growth in the first quarter and is expected to rise again this year, with some brands back to 2021 levels, continued Levato. In the meantime, the Asian market is experiencing a reshuffling: Hong Kong and Macau posted a sharp acceleration as primary destinations for Chinese tourism since the country reopened, with additional tailwinds from government policies, and the study pointed to a market value there in 2022 of about 5 billion euros.

Southeast Asia continued to grow strongly, supported by Russian tourists' spending, the first arrivals of Chinese consumers, and a strong appetite for jewelry and watches, the region totaling a market value of around 12 billion euros.

South Korea, on the other hand, is slowing down with a rebalancing of locals spending on purchases abroad and travel retail accelerating, due to inflows from Southeast Asia and despite the limited Chinese arrivals so far. The area had a market value of around 21 billion euros in 2022.

Japan, with a market value of around 24 billion euros last year, is the rising star as local customers are keeping up their spending and growth is coming from inbound tourists, including the first Chinese arrivals, that are hungry for bestselling accessories.

Top-performing categories include watches and jewelry, with uber-luxe pieces driving growth, and bags increasingly perceived as valuable assets. Shoes are booming in Asia, while slowing down in the Western world, transcending beyond sneakers. In beauty, the study shows growth in fragrances, fueled by niche offerings and the recovery of duty-free, while makeup and skin care maintain positive trajectories.

Travel retail is finally recovering thanks to dynamism in Southeast Asia and Japan. The monobrand category continued its solid growth from 2022.

Key challenges for the industry in the midterm are linked to ESG regulatory pressures as well as the impact of generative AI and new technologies on all steps of the value chain.

According to Altagamma's Consensus, earnings before interest, taxes, depreciation and amortization of luxury goods companies are expected to increase 10 percent in 2023.

Stefania Lazzaroni, general director of Altagamma, said the "solid growth of the segment is due partly to a consumer that has the right tools to tackle the difficulties of the moment," and also thanks the international tourists flows to Europe, especially to Milan and Paris – a region that is expected to grow 10 percent compared with the previous estimate of 5 percent – and the reopening of China. The latter and Asia "continue to shine," seen growing 14 percent, and Japan is forecast to report a 10 percent sales growth.

The Consensus also highlighted the strength of Japan and the United Arab Emirates and the slowdown in the U.S., seen growing 3 percent, dented by inflation.

Retail and careful pricing strategies as well as experiential relations with customers will contribute to the growth of luxury brands, Lazzaroni concluded.

The growth performance of brick-and-mortar stores is pegged at 11 percent, digital retail is seen up 10 percent, while the wholesale channel is forecast to grow 4 percent (physical) and 5 percent (digital).

By category, leather goods are seen growing 11 percent, shoes are forecast to be up 9 percent and apparel and cosmetics are expected to gain 8 percent each. Watches are seen growing 8 percent and jewelry is expected to grow 10 percent.