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What happens to luxury if China stalls?

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A confidence crisis in the Chinese leadership or a new policy such as China's anti-corruption policy from 2012 could stem the tide of luxury spending. Image credit: Shutterstock

By Liza Foreman

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China has emerged as the economic winner of the COVID-19 pandemic, and analysts predict that gains made in 2020 when it was the only major economy to record growth have set it on a path to become the world's largest luxury market by 2025.

At that point, Chinese consumers are predicted to make up nearly 50 percent of all luxury purchases globally, according to a November report from Bain & Co. But could anything slow the runaway train that is China's economy? Is there anything that would not make this a reality?

"I don't see many reasons that would prevent Chinese consumers from representing a larger portion of the luxury goods market in five years," said Luca Solca, senior research analyst of global luxury goods at Bernstein.

"One would have to imagine low probability events hitting China, specifically," he said. "[Something] like a confidence crisis in the Chinese leadership or a new policy like [China's] anti-corruption policy from 2012."

And while those events do not seem likely, Bain & Co's prediction is not the only one out there.

In fact, one of Bain's rivals, McKinsey & Company, has settled on a lower figure.

"Chinese consumers have been contributing a growing share of global luxury spending," said Daniel Zipser, senior partner and leader of the McKinsey Consumer & Retail Practice for Greater China. "We anticipate this share to reach 40 percent by 2025."

But there are challenges.

"Chinese consumers traditionally have been purchasing large parts of their luxury goods during their outbound travels," Mr. Zipser said. "In the absence of travel, luxury brands will need to create new occasions to grow domestic luxury spending."

According to London-based China expert Yishu Wang, director of Half a World, a digital marketing agency that focuses on bringing international brands to China, not traveling is quickly becoming comfortable. Therefore, creating new occasions may soon be key.

"There are a couple of really big changes," Ms. Wang said. "One is that people are now fine with not traveling internationally. Traditionally, they would shop in Paris and Milan. Now they are happy to buy these goods at home. They are happy to buy them domestically within China."

But trade policies and politics could also interfere with Bain's predictions, she said.

"My initial thoughts were, Of course it will happen.' Politics are a reason it might not happen both internally and externally," Ms. Wang said.

"An anti-corruption policy came out a few years ago and really affected luxury," she said. "Trade wars are a possibility. It is difficult to predict. Apart from that, I think China is on track to hit that target."

Ron Wardle, a 15-year China veteran and digital marketing professional whose most recent project Yooma is launching luxury CBD products into China, lists a few possibilities that might make this 2025 Chinese payday come to fruition.

"China's economy and housing market taking a downturn is one reason," Mr. Wardle said, "but that is a slim possibility over the next four years. China not doing enough to counter IP and counterfeit products is another.

Also, if COVID continues to disrupt the supply chain and production or Chinese consumers get luxury fatigue and switch to independent and local brands," he said.

Paris-based industry expert Serge Carreira, head of the Emerging Brands Initiative at the FHCM fashion and couture federation in Paris, points out that Europe and the United States could upset the apple cart.

"China is definitively the main driver for luxury growth," Mr. Carreira said.

"The elements that could relativize this dynamic include a fast and significant industry boom in Europe and the U.S. that rebalances China's market share, international tensions that restrict global trade a significant increase in import taxes, for example [as well as] a countercyclical economic slowdown in China due to the global economic situation, or a national movement in China that rejects Western values, embodied by luxury brands," he said.

"These hypotheses are not unrealistic, yet are unlikely."

Mr. Solca says there are 10 accepted luxury market risks, and five are currently being triggered by the pandemic, which could impact these predictions if it continues to rage on. And China is not immune to these.

"The luxury market has become dependent on China," Mr. Solca said. "If the Chinese sneeze, the luxury sector gets pneumonia."

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