

RETAIL

Luxury spending: It is the psychology, not what you have in your bank account

April 19, 2021



Financial means alone will never explain the sales growth that luxury is experiencing in this post-pandemic era; psychology is really where it is at. Image courtesy of Fendi

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As I explain in *Future Luxe*, the consumption of luxury is not as much correlated to financial means as it is to a desire to prove to society that you belong.

In other words, your propensity to purchase a luxury product is more correlated to psychological elements than to your paycheck.

When you understand that, it is less surprising to hear that wealth creation has not been the main driver for luxury consumption over the past 20 years.

When you understand that, it also helps you get to grips with how on earth LVMH, the sector's behemoth, just posted 52 percent constant currency growth in Q1 this year versus 2020 for its main Louis Vuitton and Dior anchored fashion and leather division, but more meaningfully **37 percent growth relative to 2019**, which was for all intent and purposes a "normal" year if there is such a thing.

In the words of LVMH's chief financial officer himself, the recent U.S. stimulus was not the reason American consumers spent so much (i.e. you will not be spending that check now) but its meaning (i.e., ["we will be there for you"], [we will "avoid having the whole country being sort of frozen"], you should go and enjoy life) was likely a very positive psychological trigger.

It is true that the development of global capitalism has created tremendous wealth: the **gap between the haves and have-nots** is widening in many nations, as measured by the Gini coefficient a measure of wealth inequality and on paper, at least, wealth disparities or the so-called **"K-shaped recovery"** support luxury demand.

It is important to remember, however, that luxury sales thrived in Japan in an era of economic stagnation so severe it is now called the "Lost Decade" but ironically could have been called the Luxe Decade, like the title of this column.

Of course, as one of my bosses at Cartier, the brash, larger-than-life Bernard Fornas, liked to say: "Better nouveau riche than never rich." But wealth is not everything. What counts more is the psychological aspect, the feel-good

factor.

Chinese keen, Americans awakening just

If luxury demand were just a function of GDP per capita, emerging clienteles generally and Chinese consumers specifically would not be dominating the sector's sales and American consumers would be a lot higher in terms of contribution to sales.

There are many supportive factors in mainland China that have drawn consumers to luxury products even if their balance sheets would theoretically not make that spending a no brainer.

Fitting in purposes being part of the club, getting ahead in life (remember Deng's "to get rich is glorious"?), being seen worthy of a promotion, and worthy of doing business with makes luxury iconic products a vehicle of choice, even if it means cutting back on certain other expenses.

Conversely, at least until recently, despite wealth, the American market for luxury has seemed incredibly under-penetrated. Here again, it was not about financial means but about cultural, psychological hurdles.

The post 9/11 guilt factor, the "quiet money" syndrome of "splashing out on labels is inappropriate or even vulgar," the value-for-money mind frame.

All of that is sticky, but clearly the younger generation in the United States is keen and less burdened with preconceived notions that binging on bling is a no-no.

After all, especially after having been through the past year and some of privations, one might want to think, I am spending "because I'm worth it" as our friends at L'Oral would say.

Fragility might be giving luxury more space to thrive

A random threat like a pandemic is likely a reminder of how fragile life is and maybe also an **incentive to make the most of it**.

Luxury purchases as more rational than one would initially think and some contacts have been telling me about a "survival trade" along the lines of "I have made it through this, it's been tough, I deserve to treat myself."

Once again, I am not trying to make the case that financial means should be discarded as a factor and, sure, equity markets have been supportive, while **staycationing** has freed up some spending, but if you are based in mainland China, the pandemic has not been an issue for some time.

If you are like me, in New York or in London and about to get that second shot, the light at the end of the tunnel looks pretty bright.

If you are in Continental Europe, however, hang in there and remember, "It's darkest before the dawn." And when that light comes, you will feel great treating yourself as well.

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