

MARKETING

## Gen Z, lower-tier cities driving luxury growth in China

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Liu Yifei stars in Louis Vuitton Capucines spring 2021 campaign. Image credit: Louis Vuitton

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As China becomes the most critical market for the luxury industry, its affluent and high-net-worth consumers remain optimistic and continue to increase spending on high-end goods.

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According to new research from [Agility Research & Strategy](#), China's luxury consumers plan to spend more across all major sectors, with cosmetics, fashion and art seeing the strongest growth. Even as the global luxury market shrank by 23 percent in 2020 because of the COVID-19 pandemic, China's share of the market grew from 11 percent in 2019 to 20 percent in 2020 with spending up 48 percent.

"China has been open for a long time, yet COVID has had its impact," said Amrita Banta, managing director of Agility Research & Strategy, during a webinar on May 12. "However, domestic spending in China still has not reached the levels of what the global Chinese spent when they traveled.

The report is based on more than 1,000 affluents and HNWI in mainland China in February and March 2021, as well as qualitative research with more than 200 affluent and HNW consumers during the last six months. All participants have a minimum annual household income of 400,000 yuan, or about \$62,000.

### Luxury momentum

Everyday life in China has largely returned to normal since May 2020, after the most stringent COVID-19 restrictions were successfully lifted. As of April 25, China had more than 300 active COVID-19 cases reported, while the United States and India had millions of active cases.

International travel remains restricted, however, which has contributed in part to Chinese consumers' "revenge spending" on physical goods instead of luxury experiences.

As the global community continues to struggle amid the pandemic, however, two-thirds of respondents remain concerned that the economic situation will worsen. This up from 53 percent in the latter half of 2020.

Nonetheless, most respondents also expect to increase spending in the next six months compared to the previous six months. Net spending on skincare, makeup, fashion and art is expected to grow by at least 20 percent.

About six in 10 affluent or millionaire consumers expect their disposable income to increase in the next year, while only 10 percent expect it to decrease. Similarly, 55 percent will increase their spend on luxury products and experiences in the same time frame, compared to 14 percent who expect to decrease their spend.

After consumers "treated themselves" in 2020 as a reward for dealing with lockdowns, luxury gifting has recovered and surpassed pre-pandemic levels.

Three-quarters of respondents have given a luxury good as a gift in the last 12 months, with the most popular gifts being jewelry, alcohol, beauty items and handbags. The top-gifted luxury labels are Dior, Lancome, Hermes and Cartier.

Interest in secondhand and sustainable luxury is also on the rise, with 29 percent of consumers interested in buying secondhand luxury goods in the next six months compared to 23 percent in 2020. Shoppers likely to purchase from a brand that is more expensive but sustainable is also up from 77 percent in 2020 to 88 percent in 2021.

Luxury brands perceived to be the most sustainable include Chanel, Louis Vuitton and Gucci, as well as automakers Audi and Tesla.

Chinese millennials and Gen Zers are planning to spend more on fashion, art and experiences, but millennials are also investing more spas and beauty. Gen Zers differ from millennials and are more likely to purchase luxury brands favored by their parents, while their older counterparts first purchase prestige brands before moving onto luxury labels.

Gen Zers also tend to encounter luxury brands digitally at the start of the discovery process. They are not limited to powerhouses Weibo and WeChat, but instead also explore platforms including RED and Douyin.

#### Growth opportunities

Tier 1 cities Shanghai and Beijing certainly will not lose any influence, but Tier 3 and Tier 4 cities have become more visible and viable markets for luxury.

In the past, these markets have been hampered by a dearth of luxury boutiques and affluents and HNWIs had to travel to buy high-end goods, either domestically or internationally. Accelerated ecommerce adoption has made luxury more accessible, but brands need to learn how these consumers are different than Tier 1 and Tier 2 consumers.

Agility estimates that about 3.2 million affluent and HNWIs live in China's 220 Tier 4 and 5 cities, including 2.9 million affluent consumers and 360,000 HNWIs.

Altogether, they account for a fifth of China's affluent individuals and about one-seventh of the HNWIs in China. These affluent and wealthy populations in lower-tier cities are also growing faster in terms of both their numbers and the amount that they spending ([see story](#)).

While Shanghai and Beijing are still the top domestic destinations for luxury shopping, the city of Sanya on the tropical island of Hainan has strong growth in the sector.

With COVID-19 cases resurfacing in many parts of Asia and restrictions still very high, Hainan has a substantial role to play in terms of luxury sales. Hainan could be an alternative to Hong Kong way beyond becoming a new shopping hub ([see story](#)).