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APPAREL AND ACCESSORIES

Luxury goods sales surpass 2019 record, led by China, US: Bain

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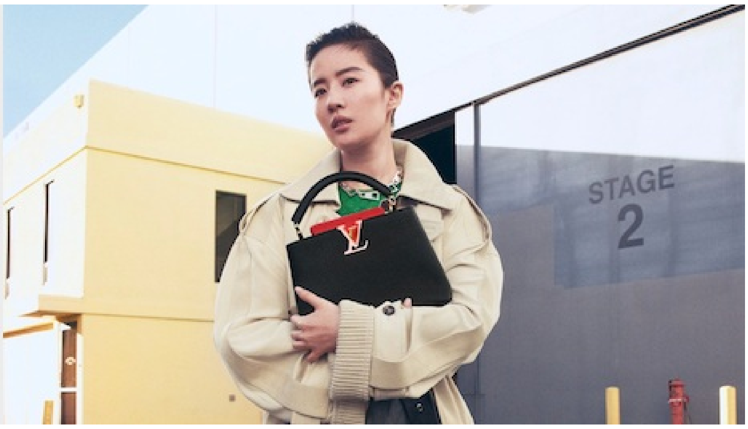


The luxury goods market in China has doubled since 2019. Image credit: Louis Vuitton

By SARAH RAMIREZ

While the overall luxury market remains below pre-pandemic levels, the personal luxury goods industry is primed to return to a strong growth trajectory after a faster-than-expected recovery in 2021.

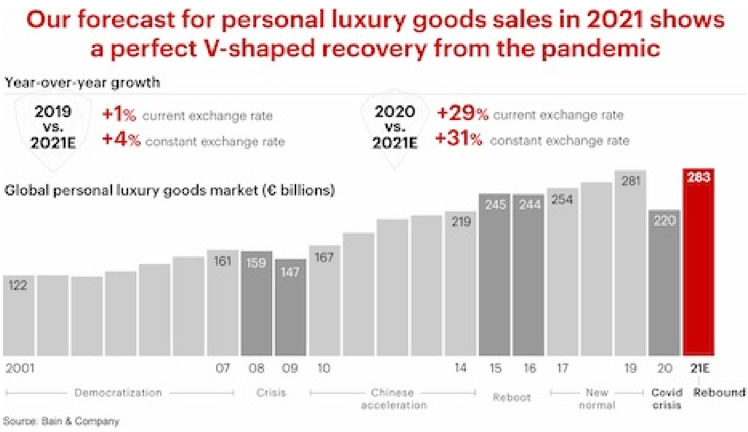
According to the 20th edition of Bain & Company's Luxury Study, released in collaboration with Italian luxury association Fondazione Altagamma, the personal luxury goods market in 2021 is up 1 percent from its previous high in 2019. Furthermore, the market is forecast to see annual growth of 6 to 8 percent to reach between 360 to 380 billion euros, or about $412 to $435 billion at current exchange, by 2025.

"The changes in the luxury industry over the past 20 years have been remarkable, and the emergence from the COVID crisis comes as a renaissance for luxury brands," said Claudia D'Arpizio, lead author of the study and partner at Bain & Company, in a statement.

China, Americas lead recovery

Unlike the K-shaped recovery experienced by various economies, including the United States, since the start of the COVID-19 pandemic, the personal luxury goods industry has seen a best-case scenario, V-shaped rebound this year.

After experiencing a sharp contraction in 2020 (see story), the sector has grown by 29 percent year-over-year with the rebound beginning in the second and third quarters (see story). Bain predicts Q4 will push the industry 1 percent growth from 2019 for a value of 283 billion euros, or $323.9 billion at current exchange.



Luxury sales and profitability have recovered in 2021. Image credit: Bain & Company

In last year's Luxury Study, Bain had initially predicted the luxury industry would recover by 2023 (see story). While the wider luxury goods and experiential market is still lagging from 2019 levels, personal luxury goods spending has surged because of momentum in China, domestic spending in the U.S. and the shift towards ecommerce.

China's luxury market has doubled since 2019 to reach 60 billion euros, or $68.7 billion, and accounts for 21 percent of the global luxury market.

At 31 percent, the Americas has the largest share of the global luxury market, valued at 89 billion euros, or $101.9 billion.

With inbound tourism stymied, local spending has grown in the U.S. The market has also shifted, with secondary cities and suburban regions seeing more luxury spending.

Elsewhere, Dubai and Saudi Arabia are pushing growth in the Middle East, another silver lining for luxury spending. Europe, Japan and the rest of Asia are lagging behind pre-COVID levels in no small part due to travel restrictions with Japan expected to recover by 2023 and Europe by 2024.

After online sales increased 50 percent from 2019 to 2020, the channel grew another 27 percent y-o-y in 2021 to reach 62 billion euros, or $70.9 billion. Brand ecommerce sites continue to grow their share of online sales, from 30 percent in 2019 to 40 percent in 2021.

Similar to ecommerce, secondhand luxury has seen accelerated adoption during COVID and is now valued at 33 billion euros, or about $37.8 billion. From 2017 to 2021, the secondhand market has seen 65 percent growth to firsthand luxury's 12 percent growth.

Pent-up demand for experiential luxury remains but is dependent on the travel sector's recovery. Sales of experience-based goods, such as furniture and food and wine, are also not as strong as sales of shoes, leather goods and jewelry.

What's next?

This decade has also ushered in a flurry of M&A activity, as the luxury goods industry sees consolidation and increased market concentration.

Top brands account for nearly a third of the market, compared to 17 percent in 2020. However, smaller brands have an advantage by being more agile and faster to respond to consumer trends leading them to grow twice as fast as the overall market.

Investors are seeing a trend in major companies expanding their portfolios outside of their core categories, investing in capabilities over brands, as evidenced by LVMH's step into hospitality and Kering's interest in resale and circular consumption. During a session at the *Vogue Business* and Google virtual summit "The Way Forward" on Nov. 10, luxury investment experts suggested the state of luxury expansion is founded on securing talent within companies and seeking consumer-centric capabilities for future generations (see story).

These future luxury shoppers are also more conscious of sustainability and social justice issues. Affluent consumers want to give money to brands they feel align with their values, specifically shared feelings regarding ethics and the environment.

According to a recent Analytic Partners report, 52 percent of consumers said they only buy from companies and brands they trust, and 54 percent said they feel they make a difference to the world through their purchase choices (see story).

"Where once it was all about status, logos and exclusivity, luxury brands are now actors in social conversations, driven by a renewed sense of purpose and responsibility," said Bain's Ms. D'Arpizio.