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RESEARCH

Amidst subdued' growth, true luxury buoyed by UHNWI in 2023: report

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As challenging macroeconomic factors take on the market, wealthy consumers are providing shelter from the storm. Image credit: Luxury Institute

By EMILY IRIS DEGN

Consulting firm Luxury Institute is out with its latest White Paper report indicating that while the market faces a year of challenges ahead, ultrawealthy consumers are to remain resilient.

Luxury Institute 2023 Forecast: Experts Predict What's Next for the Global Luxury Industry establishes that financial crises are expected to keep down typical growth this year, before reporting that ultra-high-net-worth individuals (UHNWI) are poised to keep spending regardless. According to experts, luxury brands that hone in on this group are predicted to grow during the global financial downturn and international conflicts due to outsized spending power.

"The report provides a good recap of the conventional wisdom being expressed by market analysts and the executives of the key players in the luxury market," said Ron Kurtz, president of the American Affluence Research Center, Atlanta.

"As in past situations of economic and political turmoil, the UHNW segment is affected less, both tangibly and emotionally," Mr. Kurtz said. "These people continue to spend and provide a foundation for the luxury market.

"In the American market, high-end travel, luxury real estate, and upscale retail have shown some resilience and growth thus far in 2023."

Report findings are based on the Institute's most recent survey of Global Luxury Expert Network members comprised of C-level executives and consultants of luxury companies across industries whose contributions helped inform economic predictions for the upcoming year concerning both the global financial state and the health of specific luxury segments.

Wealth of knowledge

Despite the fact that UHNWI only account for 20 percent of the entire luxury customer base, the demographic is responsible for 70 percent of all sales, according to the report. It is for this reason that the "true luxury" category is especially well-positioned for resiliency this year.

Luxury Institute's 2023 Forecast goes on to outline future fiscal trends among eight segments of the luxury market, including fashion and leather goods; perfumes and cosmetics; travel and hospitality; automotive; wines and spirits; watches and jewelry, offline and online luxury retailers and luxury real estate.

"Low to modest growth is forecast for each product category, except auto," Mr. Kurtz said.

Leaders should remain aware of risks associated with a state of upcoming financial fragility worldwide. Image credit: Shutterstock

"This is a positive outlook given the number of negative factors at play," he said. "I am surprised by the dire forecast of a possible cybersecurity event."

The instance in question is listed among five key macroeconomic potential challenges featured in the report's first few lines, in which the Luxury Institute team states that major economies face the risk of a sizable cybersecurity event, one which could bring global markets to a halt and create serious conflict with sponsoring foreign powers.

The event's scope appears to override any resilience UHNWI can offer luxury it is clear that the group is not above damage (see story).

Leaders should also remain aware of risks associated with a state of upcoming financial fragility worldwide, in addition to widespread subsequent corporate layoffs, recovering Chinese markets facing real estate bankruptcies and consumption slowdowns and, finally, instability caused by the ongoing conflict in Ukraine.

"The forces that are currently shaping the global macroeconomic environment are concentrated around two main issues, namely the aftermath of COVID including its health, social, and financial implications and the war in Ukraine," said Thoma Serdari, author of *Rethinking Luxury Fashion* and director of fashion and luxury MBA at NYU Stern, New York.

"Most consumer behavior and luxury goods consumption can be pegged to these two events across ages and geographies."

With these global issues in mind, the high-end automotive industry is not expected to grow.

In fact, the report states that due to high prices and interest rates, a lack of luxury innovations and a slowed pre-owned luxury market compared to 2022, industry sales will likely decline in 2023.

Luxury wine is slated for success despite economic turmoil, as young consumers drive demand. Image credit: Tannico

"I would like to add that against the general sense of fragility that we sense in economies around the world, the American experience is slightly different," Dr. Serdari said.

"For sure, tech, finance and corporate layoffs are the norm in the last six months, [but] rather than seeing those as an elimination of the workforce, one may consider them as a greater shift that is currently underway," she said. "While big tech has been shrinking, consulting firms are growing; and while a few financial institutions and the industries they used to support have felt the reverberations of aggressive financing that ignores the fundamentals, food and beverage franchises are thriving.

"This is all to say that the American job market remains strong as long as people are willing to apply their talents in new industries or areas... the willingness to reinvent oneself is a trait uniquely American and one that supports the luxury market."

Real estate and retailers are predicted to grow in low single-digit sales year-over-year. Wine and spirits sales are also set to slow, however, brands that cater to a "quality over quantity" mentality present with young consumers and UHNWI could fare well, according to findings.

As the value of statement pieces rises and innovation prevails (see story), luxury watches and jewelry brands are expected to grow by high-single-digits.

Moderate growth is also expected for the upscale travel and hospitality segment, but at lower levels than those witnessed during the post-pandemic travel boom of 2022. However, while high-end overseas experiences remain strong for aspirational customers a driving force behind the market rising room rates and airfare are proving to be a barricade for the group.

"Luxury brands that bring to market products of high quality and that adjust their norms to the new value system that is emerging are the ones who will continue to lead the luxury market by orchestrating and delivering exceptional dreams," Dr. Serdari said.

"Leathering" the storm

The two most well-positioned industries for success in 2023 seem to be the cosmetic industry and fashion and leather goods.

The cross-generational appeal and consistent popularity of cosmetics across all generations, especially Gen Z, is largely behind this. Perfumes and cosmetics have a history of resilience even during economic downturns the concept is commonly known as the "lipstick index."

Perfume and cosmetics are traditionally the most resilient indulgence in times of downturn. Image credit: Guerlain

For fashion and leather goods, mid-single-digit growth is expected.

The report warns that despite this forecast rise, apparel categories could flatline if a "lack of newness" continues. Other reasons for a possible stall in growth include less consumption, the rise of pre-owned luxury and a limited ability to raise prices after a string of escalating rates (see story).

Leather goods could save the segment, however.

"This space is supported by the aspirational affluent, who are probably cutting back on true luxury spending, and by those seeing investment opportunities," Mr. Kurtz said.