

COMMERCE

Personal luxury goods performance to soften in 2024: Bain

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The personal luxury goods market is still growing in 2023, albeit at a much slower rate than the record figures that followed the pandemic. Image credit: Neiman Marcus

By ZACH JAMES

Global consulting firm Bain & Company is updating its forecasts for where the luxury landscape will land in the months to come.

Back in June, the company expected the personal luxury goods segment to reach up to 380 billion euros this year, sharing in its Luxury Goods Worldwide Market Study - Spring 2023 that a realistic scenario would see a growth rate touch down between 5 and 8 percent versus 2022. New projections for the sector fall short of earlier estimates, now suggesting a 4 percent year-over-year increase for the industry by year's end, the update citing major macroeconomic shifts as the root cause.

"This is a defining moment for brands, and the winners will separate themselves through resilience, relevance, and renewal the basics of the new value-centered luxury equation," said Claudia D'Arpizio, partner at Bain & Company and lead author of the study, in a statement.

"The luxury market is generating positive growth for 65-70 percent of brands in 2023, compared to 95 percent in 2022," Ms. D'Arpizio said. "To stay in the game, it will be crucial for brands to take bold decisions on behalf of their customers."

The latest Bain & Company report was prepared in partnership with Italian luxury goods manufacturers trade association Fondazione Altgamma. The study takes into account internal data sources, current luxury stock market performances, annual financial reports and consensus gathered from more than 100 interviews with industry experts.

Shifting tides

The overall global luxury market is projected to reach new highs, hitting 1.5 trillion euros in 2023, though the personal luxury goods market faces a more subdued fate.

Indeed, a relative steadying of its growth curve comes after record percentage booms in 2021 and 2022, backing widespread observations of an ongoing slowdown in the industry.

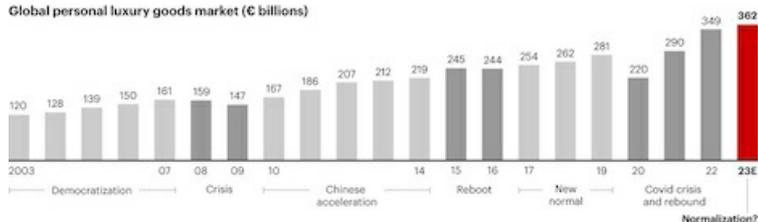
Looking to 2024, Bain suggests financial performance across the board for luxury will soften, the deceleration defined by a return to normalcy after two years of massive returns.

Our 2023 forecast shows personal luxury goods sales hitting a new high despite global uncertainties

Year-over-year growth



Global personal luxury goods market (€ billions)



Source: Bain & Company

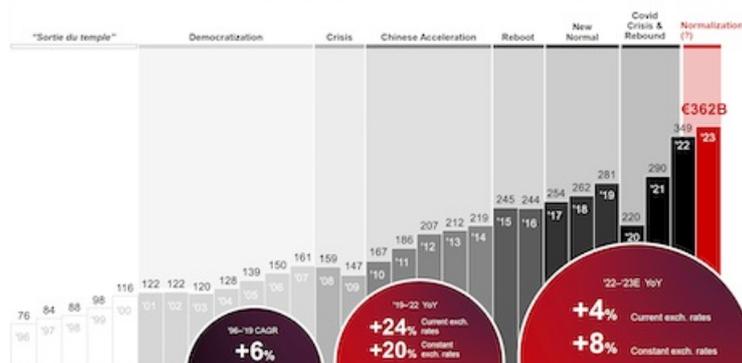
Global headwinds are slowing luxury's overall financial growth. Image courtesy of Bain & Company

This change in fortune is due to several factors, including geopolitical conflicts and inflation, among other macroeconomic forces. Largely, APAC nations are underperforming compared to their strong first-quarter returns which occurred after lockdowns lifted.

This is especially true in China, where a solid Q1 performance post-reopening (see story) slowed progressively in the months to follow. Report authors point to the promise of Hainan, citing that the island province is "poised to grow as a bright luxury hub, set to become an entire duty-free island by 2025."

South Korea is facing similar issues, with visitors from outside the country and local consumers choosing to spend their luxury allocations elsewhere. Japan, on the other hand, is faring well due to strong local spending and favorable tourist inflows.

THE PERSONAL LUXURY GOODS MARKET Amid uncertainty, personal luxury posting another year of growth in 2023



The firm refers to the current period as one of normalization. Image courtesy of Bain & Company

The Americas are also down 8 percent compared to 2022, the decline attributed to overall economic uncertainty affecting spend from aspirational consumers. This cohort has, traditionally, comprised the largest swath of luxury sales worldwide.

Meanwhile, Saudi Arabia, Australia and Europe's markets are each on the up and up, attracting investments as luxury players head into the holidays.

Looking forward

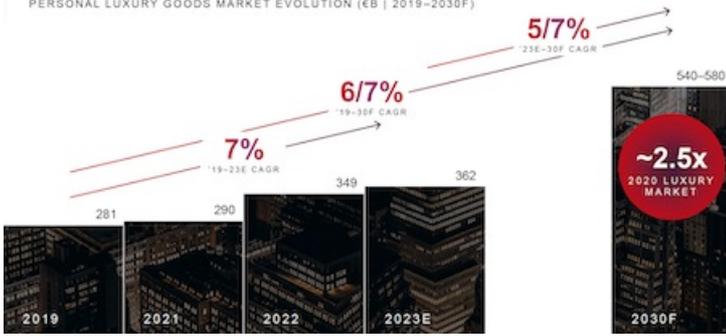
Recent earnings rounds substantiate Bain's claims, with slowed growth and revenues impacting large luxury conglomerates such as Richemont (see story), Estée Lauder Companies (see story), Kering (see story) and LVMH (see story), among others.

Despite this, analysts remain hopeful, eyeing the sector's resilience and outlining long-term growth opportunities.

THE PERSONAL LUXURY GOODS MARKET

Despite possible bumps along the route, solid fundamentals poised to drive market growth in the upcoming years

PERSONAL LUXURY GOODS MARKET EVOLUTION (€B | 2019–2030F)



By 2030, the firm's data suggests growth will reach between 540 and 580 billion euros. Image courtesy of Bain & Company

By 2030, the firm's data suggests growth will reach between 540 and 580 billion euros, around 2.5 times the figures achieved in 2020. The end of the decade will bring about an era in which sales in China account for up to 40 percent of the personal luxury goods market, with the Americas and Europe collectively responsible for another 40 percent.

"The market is set for long-term growth, rooted on strong fundamentals," said Federica Levato, partner at Bain & Company and co-author of the study, in a statement.

"Capturing and amplifying the market potential will be key, as the clear convergence among luxury markets allows for further expansion," Ms. Levato said. "Players have the opportunity, but also the responsibility, to reinforce their meaning, while leveraging strategic M&A to redefine the boundaries of the industry.

"These will be foundational drivers for growth in the future."