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RESEARCH

Outlook 2024: What can leaders expect from luxury markets this year?

January 23, 2024

From the growth of "experience-based goods" to upticks in M&A activity, several quiet forces could help propel market growth in the coming months. Image credit: Rupert Ramsay/BFA

By AMIRAH KEATON

The last few quarters have brought a steady stream of corrections to the luxury segment.

Lukewarm earnings releases from this past holiday season confirm suspicions of a sales slowdown that has yet to cease. Looking ahead, industry experts have identified several quiet forces, from the rising popularity of "experience-based goods" to upticks in M&A activity, which could help propel luxury market growth in the months to come.

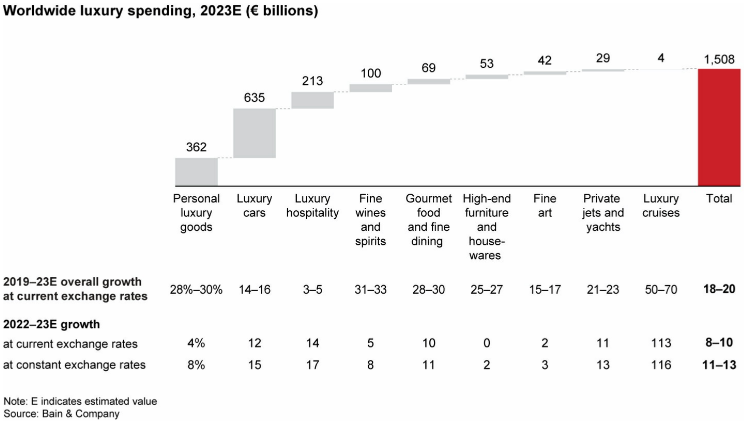
Market performance predictions for 2024

Excited to "return to normal," consumers worldwide emerged from COVID-19 lockdowns ready to spend, shopping accordingly. As a result, a V-shaped recovery ensued.

Plots that capture the period reference luxury sales heights reached in 2019 before bottom lines took a nose-dive in 2020, due to the pandemic. Subsequent revenue surges rolled back around in 2021, restoring progress and putting these brands back on an upward trajectory.

Subdued growth has been the name of the game ever since and, in 2022 and beyond, lower year-on-year figures continue to plague many prestige names.

Brand leaders remain laser-focused on returning to pre-pandemic industry benchmarks as expert forecasts for luxury's fate this year aim to inform its next steps. The latest of all major reports hails from global consulting firm Bain.



Global luxury spending growth stabilized in 2023. Image credit: Bain & Co.

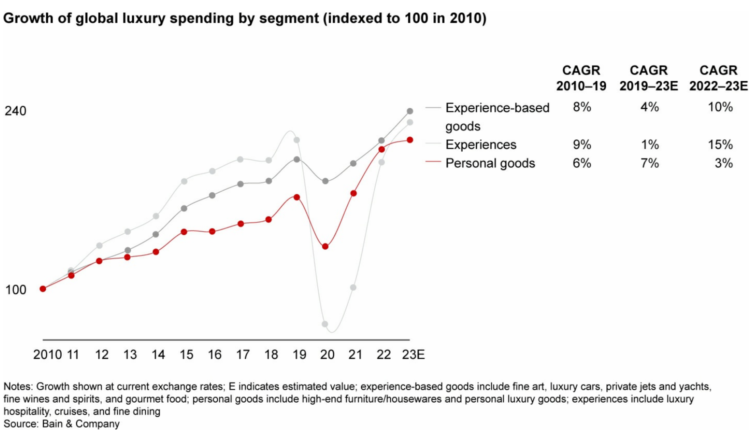
Out Jan. 18, the Bain-Altagamma Luxury Goods Worldwide Market Study estimates that the overall luxury market hit a value of 1.5 trillion euros globally in 2023, representing a growth rate of 8 to 10 percent over 2022 at current exchange.

The 22nd-edition annual study, executed in partnership with Fondazione Altagamma, analyzes nine total segments. The top three luxury cars, luxury hospitality and personal luxury goods account for more than 80 percent of the market.

Though Bain's findings place total spending growth for 2023 in line with rates from the year prior, specifics show that spending on experiences versus personal luxury goods, the luxury market's usual accelerator rebounded significantly as travel roared back to life.

In 2023, sales of private yachts and jets also grew by 11 percent at current exchange rates as compared to 2022. Authors share that the trend was fueled by "a strong order book accrued in previous years" for seafaring models and "increasing enthusiasm for custom-made interior designs and rising interest in shared-ownership models and sustainable aviation fuels" for those taking to the sky.

The market for luxury cruises more than doubled from 2022 last year. Additionally, luxury hospitality restored its growth, surpassing sales garnered in 2019 for the first time since the pandemic.



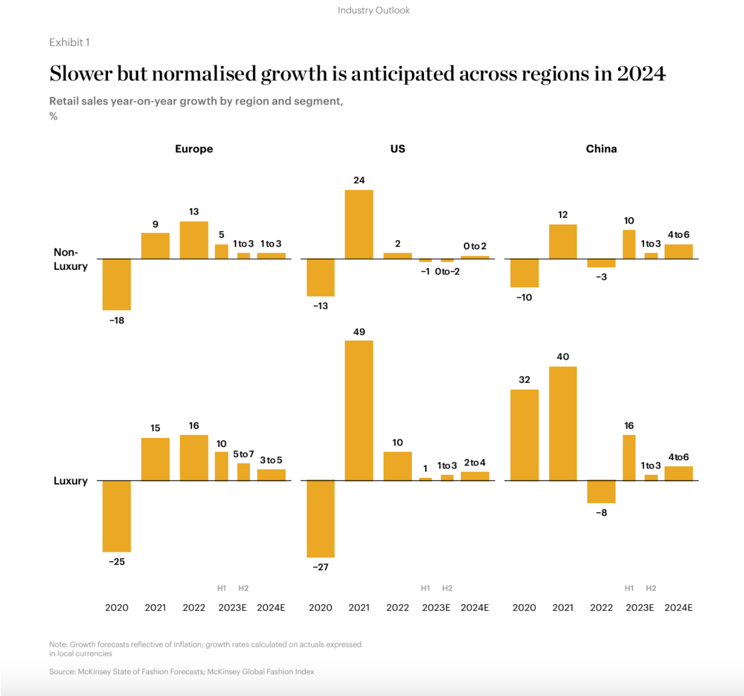
Bain shares that luxury-related experiences returned in 2023, fueled by a resurgence in social interactions and travel. Image credit: Bain & Co.

Upon further segmentation, a rising category is revealed: jumping 15 percent, spending on luxury experiences marked the steepest interest incline in 2023. Consumers are also demonstrating an affinity for what Bain calls "experience-based goods."

These novelties, such as fine art and cars, furniture and design or fine food and wine**,** are driven by social interactions and convivial affairs, displayed a double-digit growth rate of 10 percent, beating out personal luxury goods sales of apparel, watches and jewelry, leather goods and other items included in the latter product-centric category are only up by 4 percent.

While Bain's tracking casts an optimistic light on upcoming luxury sales, others paint a more cautious picture.

Global consulting McKinsey & Company teamed up with *The Business of Fashion* for The State of Fashion 2024: Finding Pockets of Growth as Uncertainty Reigns. The pair mention that this year, businesses will need to "identify pockets of value and unlock new drivers of performance." Its authors offer conservative estimates for the top-tier sector's potential.



Experts state that the luxury market should grow by 3 to 5 percent in 2024, compared with 5 to 7 percent in 2023. Image credit: The Business of Fashion/McKinsey & Co.

Stating that the luxury segment should grow by 3 to 5 percent, compared with 5 to 7 percent in 2023, consensus between McKinsey and *The Business of Fashion* renders the luxury boom "not likely to be rekindled," but aligns with adjacent research exercises in emphasizing experiences.

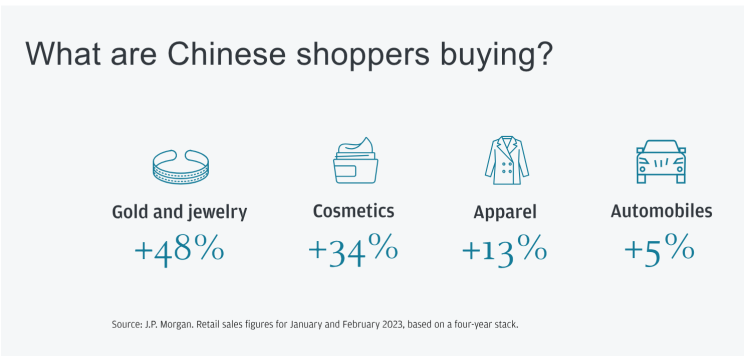
From Prada's pop-up cafe at Harrods in London (see story) to beach clubs built by luxury fashion brands (see story), a range of activations launched last year are listed as proof of concept.

Year in review

Not all luxury segments have returned to pre-pandemic levels and, according to Bain, only about two-thirds of luxury brands were able to post growth in 2023, compared with roughly 95 percent from 2021 to 2022.

In fact, heritage brands that displayed growth last year became anomalies (see story). Most reported limited year-on-year gains and a number dealt with outright decreases, a challenge that appears to be ongoing (see story).

Moving forward, strategies that bet solely on Western markets and underextend in hotspots such as Japan, which Bain says was the fastest-growing region for luxury sales in 2023, may require the most urgent revision.



Experts at J.P. Morgan offer insights as to what personal luxury goods China's shoppers are seeking. Image credit: J.P. Morgan

Mid-last year, financial services multinational J.P. Morgan threw a hat in the ring, highlighting the prominence of APAC in a report entitled "What's next for the luxury market?"

Regional waves aside, the banking giant's forecasts call attention to the fact that across the board, implementing effective cost-saving measures will be crucial in 2024. Authors note that luxury has struggled with balancing its budgets in recent history. Its report addressed previous P&L issues, borrowing hints from the year before to offer audiences a final warning.

"We saw an increase in operating expenses in the second half of 2022, mostly due to higher marketing spend to maintain and further drive brand momentum," said Chiara Battistini, head of European luxury and sporting goods at J.P. Morgan, in a statement.

"This raises a question mark about the investments needed to excite and engage consumers, who are becoming ever more demanding."

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