

COLUMNS

2024: A year of cautious optimism in the luxury market

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As we look toward the opportunities and challenges in the luxury retail industry for 2024, it's helpful first to reflect on the pivotal factors contributing to the sector's performance in 2023.

Last year was marked by global fragility, the slowing of key markets and the fading of Covid tailwinds in the face of ongoing inflation. Retailers, still reeling from supply chain disruptions in 2021 and 2022, often overcorrected, which led to excess inventory. This called for a strategic shift toward more effective inventory management.

The year 2023 saw many retailers, particularly those in the mid-level luxury segment, grappling to "right size" their inventory, often resorting to discounting. Simultaneously, a discernible shift in consumer behavior emerged: some shopper segments became more selective, focusing on value and quality.

This trend led to a more challenging second half of the year, resulting in an estimated \$390 billion in sales, slightly missing the mark on the year's more optimistic forecasts. Venturing into 2024, the luxury market faces a unique blend of challenges and opportunities.

Despite lower single-digit growth predictions, certain sectors and geographies present moderate potential especially for brands adept at crafting an attractive and focused value proposition. Conversely, brands lacking clarity in their offerings are likely to encounter difficulties.

U.S. Market Dynamics: Navigating a Complex Landscape

The United States, the leading luxury market with 26 percent of the total global market share, is expected to witness a slowdown. This trend is largely attributed to the end of Covid relief measures, heightened political uncertainty, and some weariness on the part of the aspirational shopper. Key factors influencing this market include:

- **Aspirational Shopper Fatigue:** The result of rising interest rates and concerns about recession which, coupled with higher prices, dampened consumer enthusiasm for luxury.
- **Political Uncertainty:** With the U.S. entering an election year, potential shifts in leadership are causing investment jitters.

- **Covid Relief:** Spending has been impacted by consumers' depleting savings accumulated during the Covid era. This, combined with the resumption of student loan repayments, has impacted spending.
- **Millionaire Migration:** Cities like Los Angeles, New York, and Chicago are witnessing the relocation of affluent shoppers to cities like Austin, West Palm Beach, and Scottsdale, which in turn experienced significant millionaire population growth over the past decade. Accordingly, brands need to refocus their investments out of traditional markets to create local experiences for these newly repositioned luxury consumers.

Global Luxury Growth Markets: Investment Hotspots

- **Middle East:** Despite nearby geopolitical conflict, the region has become a hub for affluent individuals, boosting luxury commerce. The UAE alone is projected to have welcomed 4,500 new millionaires in 2023. Notable developments include the opening of Place Vendôme in Qatar and new high-end jewelry boutiques by Gucci in the UAE and Kuwait.
- **India:** Factors such as rising incomes, increased digital connectivity, and lifestyle changes in the youthful Indian middle class are propelling growth. Indian consumer confidence hit a four-year high in September 2023. The entry of Galleries Lafayette and Louis Vuitton's India-specific footwear collection exemplify this upward trend.
- **Southeast Asia:** A revival in Chinese tourism, a surge in luxury purchases by younger Asian consumers, and the influence of K-pop all contribute to the region's luxury market growth. The luxury beauty segment in Southeast Asia and India is expected to triple over the next decade.
- **China's Ongoing Influence:** Despite challenges of rising debt levels, high youth unemployment, and a real estate downturn eroding middle-class confidence, China remains a key player in the luxury market, with continued investments in local retail experiences by luxury brands. However, growth will not favor all brands equally as evidenced in 2023, with more established top tier luxury brands showing continued market dominance while smaller players face stronger headwinds, particularly with aspirational consumers.