LUXURYDAILY

The News and Intelligence You Need on Luxury

RESEARCH

Luxury market growth to slow in China in 2024: Bain

January 26, 2024

Two major emerging trends will impact current and future market growth within China: international shopping and the local practice of Daigou. Image credit: Bain & Company

By ZACH JAMES

Relative to previous growth spurts, sales of luxury goods among Chinese consumers are currently cooled.

According to new predictions from global consulting firm Bain & Company, the country's consumption is estimated to have accounted for nearly a quarter of the international premium market last year. Experts share that in 2024, the industry should expect growth percentages in the mid-single digits, a decrease from the year prior's 12 percent incline.

"Bain's predictions reflect the market conditions emerging in the post-COVID China, where the recovery, by all measures, has been less robust than expected, putting pressure on luxury brands both in China and globally," said Renee Hartmann, cofounder of CLA, Sintra, Portugal.

"This is more of a return to a pre-COVID status quo and is certainly in the muscle memory of luxury brands, who will begin to dust off their international tourist strategy which they put on the shelf for the last four years."

Written by Bain & Company staff and featuring the observations of Bruno Lannes, a senior partner at the agency, and Weiwei Xing, a partner at the firm, the paper is based on insights from the consultancy's presence in the country, where it has operated for upwards of 25 years. It currently holds offices in Shanghai, Beijing and Hong Kong.

On the move

The firm points to two major emerging trends that it predicts will impact market growth within China.

First, the return of international shopping will change the domestic luxury landscape. Next, shifts in the nation's approach to Daigou the local practice involves citizens who travel abroad purchasing goods at lower prices and reselling them in the Chinese mainland are due.

Overseas retail purchases are dominating the Chinese luxury goods market. Image courtesy of DFS Group

"The solid double-digit rebound is commendable, but China's luxury market has not fully recovered to its 2021 levels," said Mr. Lannes, in a statement.

"The recovery was tempered by the challenging economic climate and increased overseas shopping," Mr. Lannes said. "As the market transitions to a post-COVID growth phase, uncertainties remain regarding the speed at which consumer confidence will resume and how overseas luxury shopping will evolve."

Following the lifting of countrywide lockdowns, consumers have been getting back on the road, transferring their spending to other locales across Asia and further out, in Europe.

Once last year's statistics are finalized, Bain & Company expects domestic luxury sales to account for only 70 percent of China's luxury purchases. For comparison, more than 90 percent of premium sales were made within the homeland during the pandemic.

This loss of ground is expected to widen in the coming years. In 2019, 40 percent and 65 percent of Chinese spending went to Europe and Asia, respectively, reflecting a more normalized economic outlook.

Many maisons are reporting lower 2023 returns due to underperformance in China and APAC overall. Image credit: Burberry

Significant price gaps between European and Asian markets support shopping abroad, as many feel it is more cost-effective to travel and pick up high-end goods. Additionally, Bain & Company states these price differences have remained unchanged from their heights in 2022.

Daigou is the other major factor impacting the Chinese luxury space.

"Daigou has a massive effect on the China luxury market," said Ms. Hartmann.

"As an opaque market it is difficult to measure, but even small changes in the Daigou practices can have a massive impact on luxury brands."

In recent years, it is said that the practice has become a lucrative business for many resellers in the country.

This is especially true for beauty, a category causing some to trek to, for instance, the duty-free corners of South Korea. With new commission fees and travel restrictions hampering the solo exporting agents, overall revenues garnered from Daigou activities are estimated to have fallen last year.

Price stabilization could curb rising international shopping rates. Image credit: Yoox Net-A-Porter

Fashion is giving the method of acquisition a much-needed boost. A network of authentication and aggregation will make Daigou imports of high-end clothing more accessible, affordable and trustworthy.

Daigou will never truly fall off in prevalence and popularity, but Bain & Company claims that maisons could retain more control over the sale of their products by gaining power over the wholesale market in Asia.

"The extent of this recovery in 2024 will primarily depend on the speed of economic recovery and changes in travel and lodging costs," said Ms. Xing, in a statement.

"Another year of recovery for Chinese overseas luxury consumption, particularly in Asian destinations, is expected," she said. "It remains crucial for brands to implement harmonized global pricing strategies to maintain consumption in the mainland market."

Consumer factors

Other factors outside of international shopping are proving to be impactful.

According to a recent report from marketing intelligence platform Look Look, women in the country are increasingly becoming less interested in luxury goods. In fact, by the end of 2023, fewer than 20 percent of the demographic was interested in buying a new high-end handbag, compared to "nearly half" earlier in the year (see story).

This slipping attention from such a key luxury demographic is largely the result of shifting priorities. Among them is a heightening value of all things experiential, making travel a sector that is doing particularly well even in the face of slow-downs.

Despite upheaval, the art market remains strong in China. Image courtesy of Art Basel

However, like purses and other goods, the landscape for diamond sales is rocky.

On the decline since 2019, demand for the jewels is plateauing. Diamond company De Beers attributes the low figures to the effects of the pandemic, the total number of marriage registrations in China being cut in half and other macroeconomic headwinds (see story).

Despite the mixed bag, there are definitive bright spots.

For instance, the global art market was upheld by strong spending in China last year. Experts at Art Basel and wealth management firm UBS Global claim this could lead to massive year-over-year increases (see story).

The Asian nation is not just boosting art sales. Bain & Company predicts that China will represent between 35 and 40 percent of all global luxury consumption by 2030, up from "approximately 22 to 24 percent" in 2023.

With massive spending power such as this, the country has the potential to house one of every three luxury sales by the end of the decade.