The Luxury sector: outward signs of fatigue?

Three weeks ago, LVMH shares lost up to 8.5% of its market value in a single day following the publication of lower-than-expected third-quarter sales. Fashion, leather goods, wines and spirits suffered a sharp slowdown in demand in most regions. LVMH shares are now down nearly 30% from their April high. And the Group headed by Bernard Arnault is not an isolated case...

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The exceptional momentum enjoyed by the luxury goods sector after the pandemic could not be sustained. A normalization of growth is, after all, logical. However, there are other factors behind the sector's current sluggishness. The strong upturn in growth expected in China failed to materialize. In the USA and Europe, inflation is gradually eating away at budgets previously allocated to non-essential spending. This, at any rate, is the view of the Chairman of Richemont, who declared in early September that inflation was beginning to weigh on demand for luxury goods in Europe.

This bad news has dampened investor spirits, with the assumption that the luxury sector will not be spared from an economic slowdown. Poor sales figures from LVMH have accelerated the sector's slide, resulting in a collective loss of $245 billion in market value for Europe's seven largest luxury companies since April.

Another asset testifying to the sector's loss of momentum is second-hand luxury watches, whose prices have fallen by 31% since March 2022 (source: WatchCharts). This spectacular decline reverses the trend that saw watches such as Rolex, Patek Philippe and Audemars Piguet reach record price levels during the pandemic.

Do these recent developments signal the end of the craze for this sector? Nothing is less certain.

According to a report by Bain & Co, the outlook for the luxury goods market to 2030 is very positive. The sector's market value is expected to reach €540-580 billion by the end of the current decade, compared with an estimated €353 billion in 2022, an increase of around 60%.

From their point of view, generational trends are a powerful growth driver. Generation Y and Generation Z will account for all market growth in 2022. In the years to come, spending by Gen Z and Gen Alpha is expected to grow three times faster than that of other generations until 2030, to account for a third of the market. Generation Z consumers start buying luxury goods three to five years earlier than millennials (at 15, compared to 18-20), and Generation Alpha is expected to adopt a similar behavior. This generational factor is one of the critical trends affecting the development of the luxury market. Luxury brands will have to face up to new priorities: ESG, the creativity chain, technology and the exploitation of "big data".

Another promising trend for the sector is the rise of new markets such as Africa, the emerging countries of Southeast Asia and, above all, India, which could see its luxury goods market multiply by 3.5 by 2030, thanks to the growing interest and changing attitudes and behaviors of (young) customers towards luxury products.

Technological progress (e-commerce combined with AI) should also contribute to the sector's growth. A broader but more upscale customer base could enable the industry to better withstand phases of economic slowdown or even recession. While there were 400 million luxury consumers in 2022, this figure is set to rise to 500 million by 2030. These customers are increasingly well-informed and demanding, and brands will be competing fiercely to win their customers' loyalty.

At the same time, the high-end segment of the luxury market is expanding. It will account for around 40% of market value in 2022, up from 35% the previous year, as consumers seek out unique products and experiences, and brands pursue a deliberate (and effective) "upgrade" strategy that has led to a gradual increase in prices across the sector (accounting for around 60% of 2019-2022 growth) without affecting volume growth.

A final trend that could contribute to the sector's resilience is the convergence of luxury and art. For brands, the ultimate aim of this rapprochement is to transcend its original form, rooted in craftsmanship and functional excellence, to move towards broader meanings, drawing on imagination and symbolic power, in order to offer ever more original (and better marked...) creations.

In a world where inflation is likely to remain at high levels, and competition continues to intensify, companies and sectors with the ability to impose their prices stand out. We continue to believe that many luxury goods companies fall into this category, and should be considered as core holdings. The sector's current weakness can therefore be seen as an investment opportunity.

For further information

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