REPORT:

The Five Biggest Trends Shaping Luxury in 2023 and Beyond

As the global luxury market continues to grow, analysts and executives are optimistic about the future, despite economic uncertainty. As younger generations take up a greater share of spending, new types of growth will shape the market for the next decade and beyond. Most prominent amongst them are the increase in digital sales and the growth of millennial luxury spending. Meanwhile, many of the trends in the travel industry that grew out of the pandemic are here to stay.

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The Luxury Boom

Despite an uncertain macroeconomic outlook, luxury markets are expected to continue their v-shaped recovery, booming to new heights in 2023 and beyond. The global luxury goods market continued to expand in 2022 and is expected to keep growing between 3 and 8 percent in 2023, according to a November study by Bain and Company with Altagamma.

Overall, the market is projected to reach around $1.4 trillion in sales by the end of 2022, up 21 percent from 2021 at current exchange rates.

Meanwhile, the personal luxury goods market saw growth accelerate this year after its v-shaped recovery in 2021 and is on track to reach over $350 billion in 2022, up 22 percent year-over-year at current exchange rates. Looking toward 2023, the report predicts two scenarios for growth in personal luxury goods.

Depending on the resilience of Western economies and the recovery of the Chinese market after a prolonged period of coronavirus lockdowns, growth in sales could reach 3 to 5 percent or 6 to 8 percent at constant exchange rates.

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Since 2002, the personal luxury goods market has grown by around 289 percent. Looking ahead, personal luxury goods are expected to reach between $540 to $590 billion at current exchange rates by the end of the decade. With roughly 400 million consumers in 2022, the total luxury goods market is expected to reach around 500 million by then.

Similarly, the highest end of the luxury market is expanding and accounted for around 40 percent of the total market's value in 2022 compared to 35 percent the previous year.

Meanwhile, strong luxury real estate sales in 1H 2021 suggest real estate and hard assets are becoming a valuable hedge against inflation; a trend that could be driving growth in art, watches, jewelry, and wine.

Across the board, every luxury category has recovered to or surpassed their 2019 levels

"Our results in the first half of the year have been remarkably strong," Guillaume Cerutti, CEO of Christie's, one of the world's leading art and luxury sellers, said at the end of August.

Wine sales, for example, in the first half of 2022 for the firm reached a record-breaking $57.8 million, up 234 percent from last year. Compared to the first half of 2021, the firm's total sales were up 18 percent in H1 of 2022 at $4.1 billion.

While the overall luxury market isn't "recession-proof", it's definitely more "recession-resistant" and better positioned than in 2008 to weather economic disruption, due to the growing proportion of ultra-wealthy consumers, whose spending is less affected by economic downturns.

The top 2 percent of consumers account for around 40 percent of all luxury sales, compared to 35 percent in 2009, Claudi D'Arpizio, partner at Bain and Company told the Financial Times in November

Across the board, every luxury category has recovered to or surpassed their 2019 levels, with hard luxury goods like leather and apparel leading the charge. Handbags, for example, saw a 60 percent increase between 2019 and 2022, after increasing prices without damaging volumes. While we can't expect "another China" to drive new growth, growing levels of wealth in countries like India, South Korea, and Mexico will add around 10 million new luxury consumers each year throughout the decade with India's market expanding about 3.5 times in the next 10 years.

The Digital Storefront

Outpacing other sectors, digital growth in luxury retail continues to expand, creating new types of luxury experiences that are pushing the boundaries of multichannel marketing.

Growth in online luxury sales reached double digits during Q2 of 2022, compared to only 6.8 percent for e-commerce, according to the US Census Bureau is set to keep expanding through 2025.

Tripling their share of the personal global luxury goods market by 2025, online sales are expected to reach $91 billion, at which point nearly one-fifth of all sales will occur online, according to reporting from Luxe.

After the massive shift to online shopping during the pandemic and the investments made by luxury sellers into their digital infrastructure, digital experiences have become a key aspect in the buyer's journey, shaping around 40% of all luxury purchases, according to research by McKinsey.

According to original data from Statista, it's predicted that 25% of global luxury goods sales occur online by 2025.

The majority of the growth in online sales is being driven by the generational shift towards Millennials and Gen Z consumers in particular, which now make up over 40 percent of all luxury spending.

From exploration, relationship building, and sales, younger generations have grown up in an omnichannel world and expect dynamic digital experiences. As this cohort makes up a larger part of the luxury market, traditional sellers will have to continually invest in their digital infrastructure to stay engaged and relevant.

Women & Millennials Fueling Growth

The long-awaited demographic shift in luxury towards younger generations is in

full-swing, while a new cohort of ultra wealthy women are beginning to define their own market.

Gen Z is entering the luxury market at a younger age, driving new trends in sustainability and digital shopping, while the number of ultra-wealthy woman consumers continues to grow.

Generational trends were a powerful driver of growth, with Gen Y and Gen Z continuing to lead growth this year.

Spending on luxury personal goods from Gen Z and Gen Alpha, the cohort next in line after Gen Z is expected to grow around three times faster than other generations until 2030, at which point they'll make up around a third of all purchases.

"After years of slow growth, Gen Z now makes up around 50% of luxury sales and is poised to grow past 70% by 2025," said a report by SIA Partners at the end of August.

Gen Z individuals are value-based shoppers. For them, their personal values play a large role in their identity and expect brands to earn their loyalty by demonstrating a certain degree of like-mindedness across a variety of social and environmental issues.

Compared to millennials, Gen Z shoppers are entering the market at a younger age, buying their first luxury goods at around age 15, in contrast to 18 for millennials which some analysts attribute to brands' stronger digital strategies and the expansion of product categories like trainers and casual wear.

Compared to previous generations that were more likely to reject the brands of their parents, Gen Z shoppers show greater affnity for legacy brands.

In the coming years, this progressive shift in demographic-driven spending will be aided by the intergenerational transfer of wealth from baby boomers to millennials, which has already begun and then to Gen Z.

Similarly, ultra-high net worth (UHNW) women have grown as a total share of the broader luxury market and this shift is expected to continue.

While they currently only account for 11 percent of the UHNW population around the world, there's been a gradual upward trend over the past five years, according to a November Altrata report.

This has been supported by changes in changing cultural norms in business, a rising number of female entrepreneurs, and a growing number of intergenerational wealth transfers.

In contrast to men, UHNW women generally hold around three times more luxury goods such as art and jewelry, and show greater affnity towards ESG causes and brands.

In a global luxury market where UHNW individuals make a rising proportion of total sales, this growing cohort will begin to play a larger role in shifting the wealth of the world's richest individuals further towards alternative asset classes and more social and environmentally conscious brands.

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Revenge Travel

The meaning of luxury travel continues to change after the pandemic with new experiences redefining the meaning of travel in far off places.

Changes in demand for luxury travel created by the pandemic have held through as the market continues to expand with end-of-summer travel presales running around 47 percent higher than in 2019.

Globally, the luxury travel market was valued at around $2.1 billion in 2021 and is expected to reach $3.95 billion in 2027.

An August report by the luxury travel agent network Virtuoso saw future sales of luxury travel were already posting 47 percent higher than in 2019.

After a short contraction during the pandemic, luxury travel bounced back, showing greater interest in remote destinations, a trend that has since remained in place with growing interest in off-the-beaten-path places like the Arctic Circle and the Galapagos Islands.

At the same time, there's been a greater shift towards more culturally authentic and locally-driven experiences that give travelers the feel of something new and authentic, opting for more immersive and nature-driven experiences, beyond the confines of a traditional hotel.

Instead of prioritizing luxury goods like fine champagne and high thread count sheets, travelers are increasingly interested in meaningful experiences; a trend bolstered during the pandemic and by the role of Gen Z and Millennial spenders.

Similarly, sellers that incorporate wellness into their offerings and give travelers eco-conscious options have done increasingly well, as tastes and priorities amongst new generations continue to create new forms of luxury demand.

A Sustainable Future

Across the board, a concern for sustainability remains paramount, with changing demands and opportunities being driven by new forms of engagement, affnity, and loyalty.

"Low-carbon products are becoming a key part of a premium, high-quality offering" that shoppers seek out, says Michele Della Vigna, head of natural resources research in EMEA at Goldman Sachs.

Talking to Bloomberg, Vigna went on to say that companies have to change the way they present themselves, pointing to the food industry and its shift towards more eco-conscious products as an example of both the coming expectations and opportunities for luxury brands.

Similarly, Felix Kreuger, an associate director at Boston Consulting Group, says "consumers across generations will stop buying you if you are not promoting social and/or environmental sustainability."

"HNWIs are increasingly aligning their financial and investment decisions more closely with their values. In all regions sustainability [was] predominantly a very, if not extremely, important consideration for the majority of respondents."

That's according to a November survey of high-net-worth individuals by Julius Baer, which went on to say that "those with greater wealth have both the intent and the means to drive change in a sustainable direction."

The pressure to go and appear green has also been driven in large part by investors looking for more environmentally conscious places to invest, creating new incentives for large and small luxury companies alike.

Overall, however, the largest shift towards sustainability is being driven by younger generations of consumers who see themselves as brands, in a social media-driven world, and who want to purchase from companies who share their values for a healthier planet.