

# The State of Luxury

January 2025



McKinsey & Company

### This report is based on extensive customer research and proprietary market forecasts

We engaged with luxury clients in key markets to better understand their values, needs and expectations for the future.



250+	Interviews conducted with ultra-high spenders, high-net spenders and aspirational shoppers across six markets (France, China, Japan, South Korea, the US and UAE)  Global social media posts and online content created by luxury customers analyzed across selected platforms (Instagram, TikTok, Reddit, Weibo), in partnership with Quilt.AI.  Aspirational luxury clients surveyed for McKinsey's 2024 report "Beyond Boundaries: Redefining Aspirational Luxury Consumers."		
10,000+			
6,000+			
~50,000	Global luxury clients surveyed across categories.		

Market sizing is based on Euromonitor absolute values at constant exchange rates.

Market forecasts are based on interviews with luxury executives, analyst reports and proprietary McKinsey research.



### Where are we landing in 2024?

After years of exceptional postpandemic growth and industry concentration, the luxury industry has experienced a slowdown in 2024, with evolving perception and expectations from luxury clients

### What lies ahead for 2025?

The slowdown is expected to continue through 2025 but with pockets of growth across regions and categories

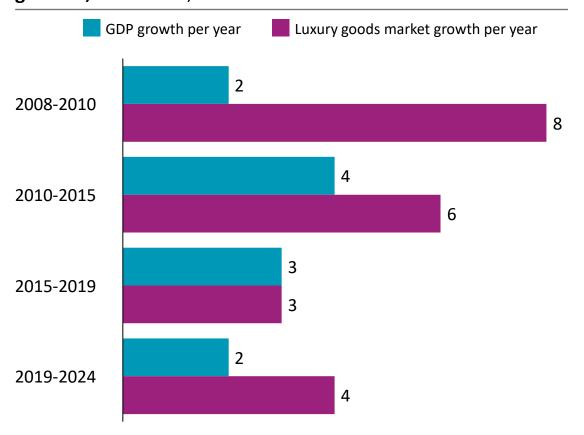
## What we see as priorities for the luxury industry

Macroeconomic headwinds and declining consumer spending in key regions highlight several strategic imperatives for luxury executives in 2025



### The luxury sector grew faster than the economy, driven by top spenders

#### Global personal luxury goods market growth<sup>1</sup> vs global GDP growth<sup>2</sup>, 2008-2024, CAGR %



#### Luxury goods spending growth mix by customer segment, 2019-2023

**25-30%** 

Ultra-high spenders (>€70,000 per year)

**15-20%** 

High-net spenders (€10,000-€70,000 per year)

10-15%

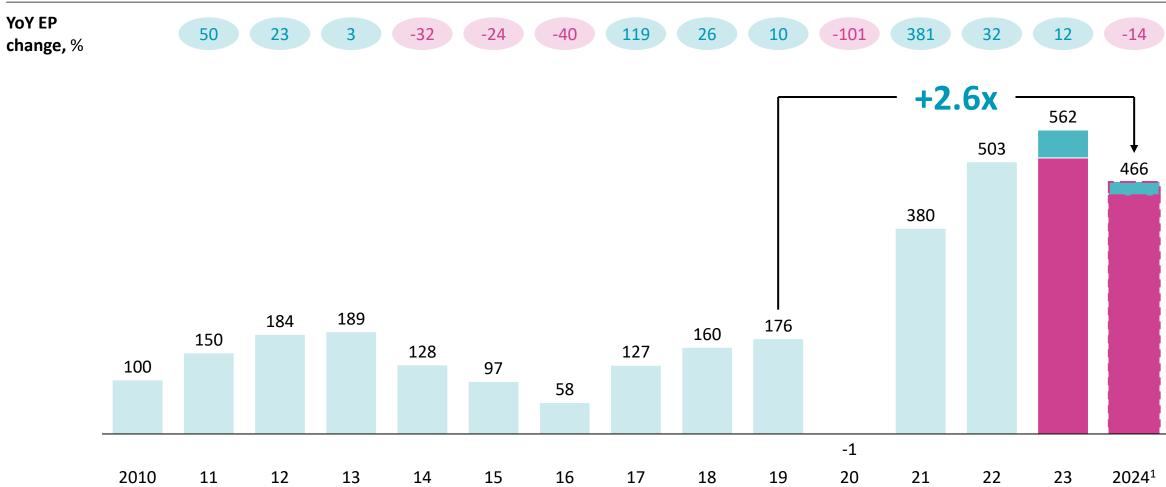
Aspirational shoppers (€3,000-€10,000 per year)

<sup>1.</sup> Includes ready-to-wear and footwear, leather goods, watches and jewellery. Excludes luxury beauty, experiential luxury, fine wines/champagne and spirits, premium and luxury cars

<sup>2.</sup> World Bank data, nominal GDP

### The luxury industry generated exceptional value since the pandemic (x3+ vs. 2019), with a slowdown in 2024



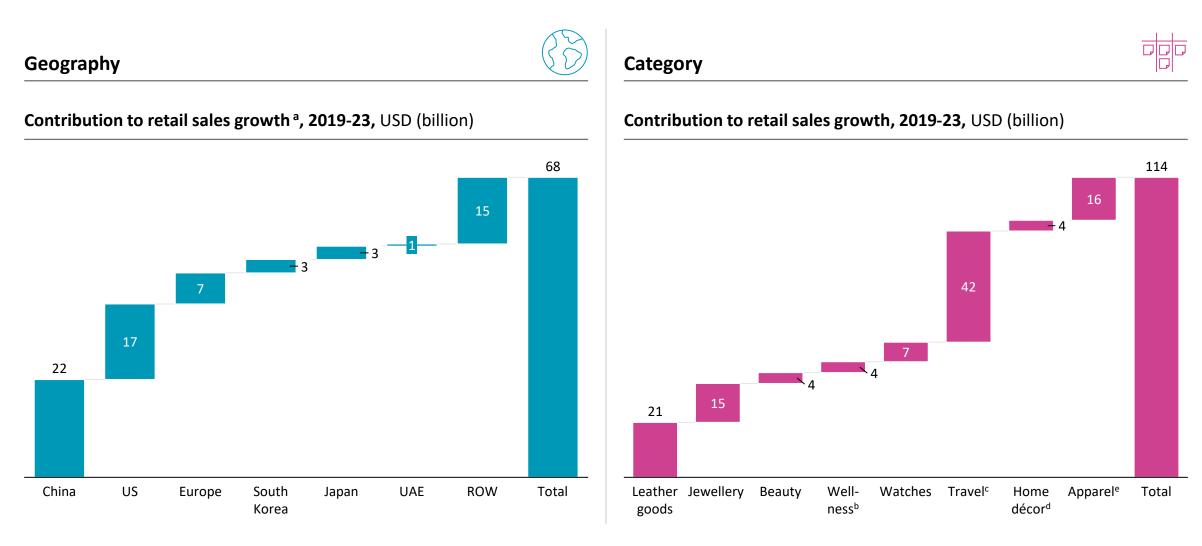


<sup>1.</sup> Based on H1 actuals and H2 analyst consensus

Note: excluding Chanel, Rolex

<sup>2.</sup> For luxury: LVMH, Hermès, Kering, Richemont, Tapestry, Moncler Source: McKinsey Global Fashion Index (MGFI)

### Growth was driven by China and the US, focused mainly on leather goods and jewellery



a. Includes apparel, footwear, leather goods, and watches and jewellery

d. Global luxury furniture market, incl. residential and commercial

b. Includes only luxury spas

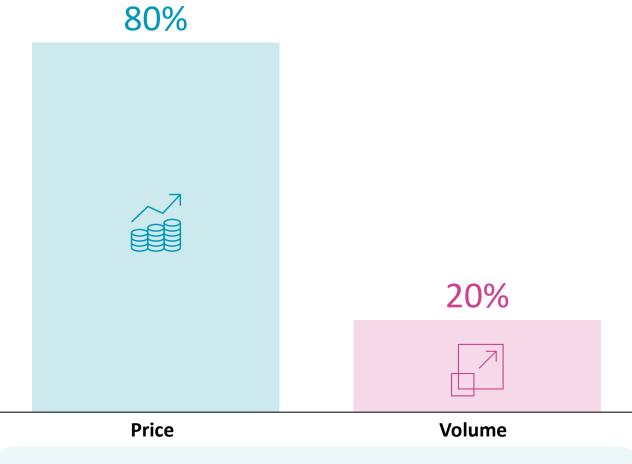
e. Includes ready-to-wear (+3% 2019-23 CAGR) and footwear (+2%)

c. Luxury accommodation (>\$500 per night)

## Growth was driven by significant price increases in specific categories

Drivers of 2019-2023 global personal luxury goods<sup>1</sup> market growth, % of total growth





Prices went up across categories, with more significant increases in leather goods. Iconic products were disproportionally impacted, with some luxury brands increasing prices of selected pieces as much as 50 to 100 percent over a four-year period.

<sup>1.</sup> Survey question: 'How will conditions evolve for the fashion industry in the next year, in your view?'

#### 10 themes have shaped the luxury industry in recent years (1/2)

#### **INDUSTRY SHIFTS**

#### **Megabrand acceleration**

The industry saw increased polarization, with "megabrands" that generate over €5 billion (\$5.3 billion) annually growing sales at +11% per year, outpacing the broader market at +5% from 2019 to 2023.

#### Scaled-up operations

Several luxury brands have doubled in size since 2019, demanding substantial upgrades to their supply chains and operating models (e.g., increased process sophistication and focus on sustainability).

#### **Distribution expansion**

Omnichannel expansion and increased digitization have led brands to blend digital and physical experiences, while expanding store footprints, particularly in the Americas (+6%), East Asia (+5%), and Greater China (+3) in 2019-23

#### Luxury products in question

Concerns are growing in the luxury industry as rising prices and a focus on heritage/safe designs are leading to a lack of creativity and excitement. Price increases along with reports of quality issues, have prompted consumer

#### Talent reshuffling

While some brands shifted away from brand heritage towards individual creative directors' vision, the luxury C-suite saw talent reshuffle. Among the top 15 global personal luxury brands, 10 new CEOs have been appointed in the last three years.



2x

Megabrands grew at twice the rate of the market between 2019 and 2023



2x

Several luxury brands have doubled in size since 2019



+6%

Growth in luxury retail footprints in the Americas from 2019 to 2023



dissatisfaction.

36%

of luxury customers believe that luxury in-store experience has worsened



10/15

Number of CEOs at the top luxury brands who were newly appointed

#### 10 themes have shaped the luxury industry in recent years (2/2)

#### **INDUSTRY SHIFTS**

#### Always-on marketing

With a focus on always-on, digital-first marketing strategies, including activations that span throughout the year and across channels, luxury brands have invested significantly to amplify reach and break free from seasonal marketing cycles.



1.5x

Growth in some luxury marketing budgets to enable always-on marketing

#### **CLIENTS SHIFTS**

#### Increased exposure to luxury

Luxury's higher supply, marketing investments and growing customer base has increased the exposure to luxury products, and brands need other ways to generate the desirability that underpins the luxury brand proposition.

#### **Experiences accelerated**

HNWI's preferences
expanding beyond personal
luxury goods to include other
categories such as travel and
home. This shift presents
opportunities for luxury brands
to explore adjacent markets
and better engage and acquire
new customers

#### Newness at the speed of social media

Faster trend cycles and instant access to brand content on social media gave rise to a persistent demand for newness, leading to new sales and marketing strategies, such as product "drops" and community-focused marketing.

#### Increased resale penetration

Value-minded luxury customers are increasingly turning to resale platforms for their unique pieces, attractive deals, sustainable options, and easy checkout processes. However, concerns about product authenticity persist.



+35%

Increase in Instagram followers for the 10 most-followed luxury brands



~80%

of HNWIs expect to shift part of their spend to experiential luxury and wellness



2-4 months

The average length of a trend's peak10



33%

Of US luxury customers have bought or sold on a resale platform



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## Luxury executives had a more pessimistic outlook for 2025

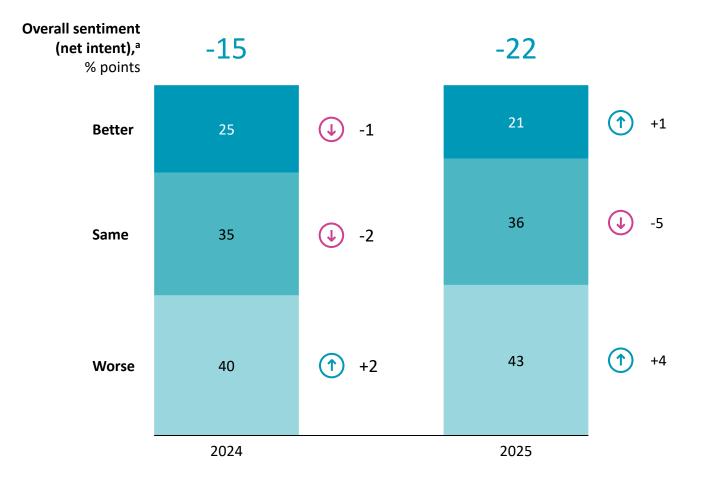
% of respondents that rated industry conditions next year as worse, the same or better<sup>1</sup>



Diff. vs fashion executives (excl. luxury), % points

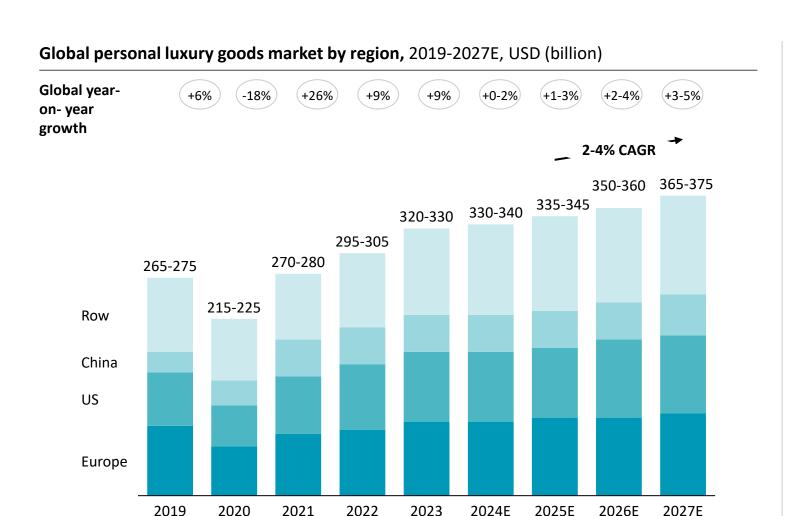






<sup>1.</sup> Survey question: 'How will conditions evolve for the fashion industry in the next year, in your view?'

### Global luxury sector growth slowed considerably in 2024 and is expected to be modest in the years ahead

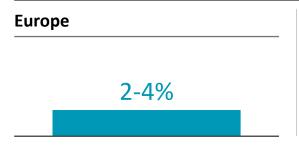


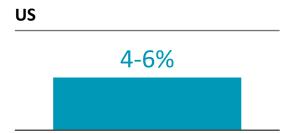
Year-on-year growth by region, 2019-2027E				
2019- 2023	2023- 2024E	2024E- 2025E	2025E- 2027E	
4%	4-6%	2-4%	2-4%	
18%	-7-5%	-3-0%	3-5%	
6%	1-3%	3-5%	4-6%	
2%	0-2%	1-3%	2-4%	

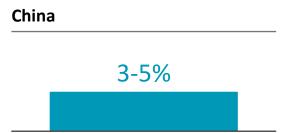
Note: Includes luxury apparel, footwear, leather goods, watches and jewellery

### The US is forecast to become luxury's main growth engine, thanks to favorable economic factors

#### Luxury market growth, 2025E-2027E









#### Key growth drivers and barriers by geography

- Positive outlook, with decreasing inflation rates.
- Rebound of international luxury tourism, foreign arrivals are expected to grow by 8 percent per year between 2024 and 2026.
- Recovering but low consumer confidence.

- Decreasing inflation rates and increasing disposable incomes
- Increasing UHNWI population
- Reduced uncertainty after the US presidential election in November 2024, leading to accelerated growth after 2025.
- Employment uncertainty following headcount cuts in tech and banking.

- Growth expected to pick up in late 2025 due to government initiatives and macro factors.
- International personal luxury goods spend expected to increase by 12 to 17 p.p. over 2023-25
- Record-low consumer and investor confidence.

- Luxury markets in Japan, the
  Middle East and India are expected
  to provide growth hotspots
- Emerging markets in APAC, including **Indonesia and Thailand**, will benefit from rapid economic development, urbanization and growth in middle- and high-income consumer groups.



16

#### Three key themes will influence the outlook of luxury in the US



### Potential tariffs between Europe and the US

How will the potential tariffs between Europe and the US disrupt the existing business per key category of products?



### Shift in the behavior of aspirational customers in the coming years

Is the aspirational customer going to resume regular luxury spending once its financial situation improves or are the spending patterns of these past 2 years going to stick?



### **Euro/dollar parity and its influence on luxury purchases**

How will the Euro/Dollar parity evolve and what will be the impact on overseas luxury purchases?

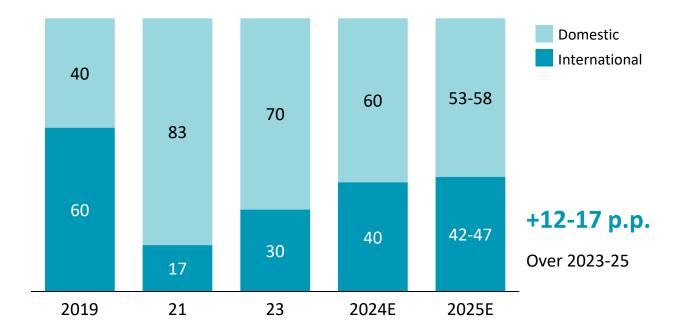
Source: State of Fashion 2025 Report



## China's GDP deceleration, paired with changing clients' preferences, is challenging growth<sup>1</sup>

Domestic (mainland China) vs. international personal luxury goods spend by Chinese consumers, 2019 – 2025E, % of total spend





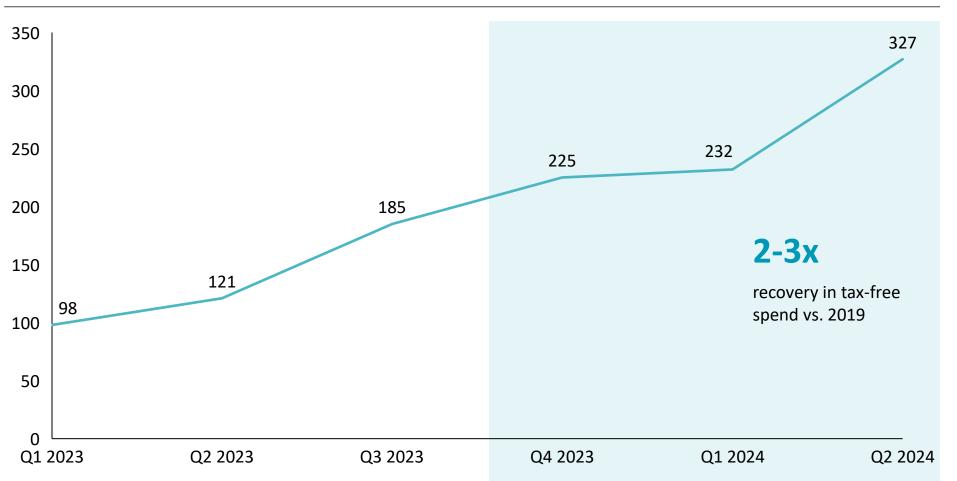
As of May 2024, recovery of Chinese shoppers was still well below 2019 levels in key luxury markets (e.g., Japan, Europe) International spend of Chinese shoppers abroad is expected to increase 12-17 ppts over 2023-25

<sup>.</sup> Company growth estimates for Asia market excluding Japan

### Yen weakness has propelled growth and boosted Japan's attractiveness as a global shopping destination



#### Recovery rate for tax-free shopping spend in Japan compared to 2019<sup>1</sup>, %



#### **Key drivers**

### Yen depreciation

Leading to lower prices compared to neighboring countries (e.g. China)

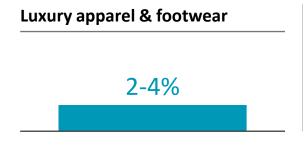
### Increased tourism

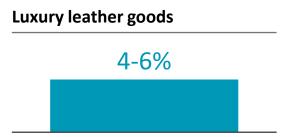
Visitors increased +66% vs 2023, +7% vs 2019

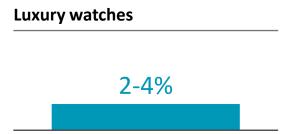
L. Recovery rate defined as current period sales in store divided by 2019 sales in store, like-for-like

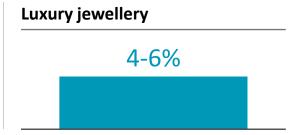
### Growth dynamics differ by category, as typical levers decrease in effectiveness

#### Luxury market growth, 2025E-2027E









#### Key growth drivers and barriers by geography

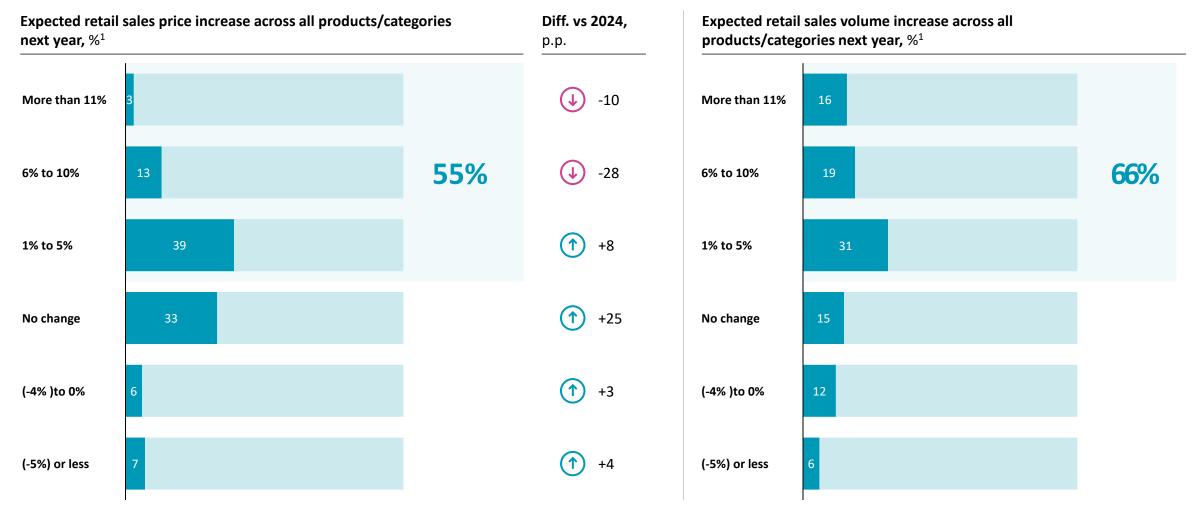
- Sustained appetite to spend on fashion for special occasions
- Increased desirability of new apparel-focused brands with minimalist styles
- Decreased spend from aspirational customers given reduced disposable income
- Competition from the secondhand market

- Short-term resilience of iconic products
- Sustained luxury gifting demand
- Mixing of luxury accessories with non- luxury items
- Opportunity to create exclusivity and raise prices through limited editions and personalization
- Limited ability to raise prices following years of price increases
- Competition from the secondhand market

- Increased production capacity of industry leaders expected 2024 to 2029.
- Increased availability following changes to product distribution
- Continuous decline of traditional watch-wearing due to competition from smart and sports watches
- Reduced speculation for iconic watches
- Increased competition from preowned market

- Rising demand from ultra-high spenders and continuous investment into tech and expertise
- Shift of customer preferences from non-branded to branded jewelry.
- Younger, diverse clientele purchasing jeweler
- Uncertainty over evolution of bridal-related demand following years of post-pandemic rebound

### Executives expect more moderate price increases compared to last year, and anticipate higher focus on volumes

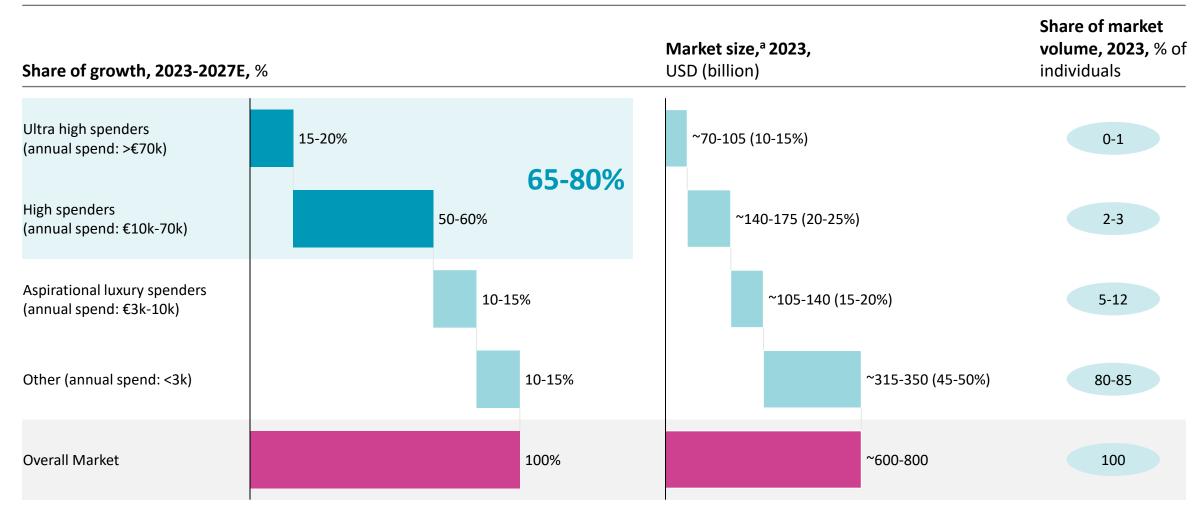


<sup>1.</sup> Question: How much do you expect to increase/ decrease your retail sales price on average across all products/categories next year, if at all? %

<sup>2.</sup> Question: How much do you expect to increase/ decrease your retail sales volume on average across all products/categories next year, if at all? %

### Top-spending clients are expected to create 65 to 80 percent of global market growth through 2027

#### Global luxury personal goods and experiences market by customer segment



As clients shift spend away from luxury goods, unique on-brand experiences can drive growth

~80%

of HNWIs expect to shift part of their spend to experiential luxury and wellness

""

In three to five years, I will spend more money on traveling and taking care of myself. I'll probably spend less on clothes and jewellery because I want memories that last.

- Aspirational luxury shopper, US



66 33

If I have to spend €10k, I'll do it on wellness, no longer fashion - without hesitation

- HNWI, UK



Brands can lean into money-can't-buy experiences to generate exclusivity for their top-spending clients



#### **Mytheresa**

invited 30 of its top customers to designer Brunello Cucinelli's private 70th birthday celebrations for family and friends of the brand

#### Cartier

extended invitations to its masquerade ball at the Belvedere palace in Vienna to some clients

#### **Max Mara**

hosted a dinner in the courtyard of Doge's Palace in Venice inviting its top clients



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Luxury's value equation — and the relationship between price and quality — is in question



### Customers are questioning whether luxury products are worth their high price tags



Price increases are hitting ceilings across all customer segments



Customer brand loyalty is at risk in the absence of innovation and consistent quality standards



Customers increasingly value **experiences** over luxury goods



**In-store shopping** does not deliver a consistent luxury experience



Customers express concerns around **ethical craftsmanship** in luxury

#### Five strategic imperatives for luxury executives have emerged

1

Conduct a strategic reset



Clarify core values and align on priority clients to sharpen the brand's longterm strategy and differentiated value proposition 2

Restore product excellence



Continue to invest resources in craftmanship heritage and iconic products that will resonate with target clients and uphold luxury's promise of quality and value

3

Rethink customer engagement strategy



Continue to develop unique "money-can't-buy" experiences and client acquisition strategies

Invest in tech, AI and data capabilities to help better personalize customer journeys

4

Bridge the talent capability gap



Attract, develop and retain the best talent across every critical function, not just in creative roles

**Professionalize operations** across major business units by emulating best practices from other sectors

5

Futureproof the portfolio



**Review exposure** to different luxury categories and regions (within large groups)

Seek complementary acquisitions to build resiliency and secure a competitive edge

#### Our team





**Gemma D'Auria**Senior Partner,
Milan



Anita Balchandani Senior Partner, London



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### Backup