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Luxury brands look to China to offset slower US sales

Article

The news: **LVMH Moet Hennessy Louis Vuitton** (LVMH) posted Q1 earnings well above expectations as recovery in China helped offset softening demand from American consumers.

- Organic revenues grew 17% year-over-year (YoY) to 21.04 billion euros ($22.12 billion); analysts polled by FactSet expected 20.02 billion euros ($21.05 billion).

- **Sales growth was slowest in the US (8% YoY), while Japan (34%) and Europe (24%) grew fastest.**
- Asia revenues excluding Japan rose 14% YoY.

Business in China picks up: LVMH is the latest luxury company to note a resurgence in spending among Chinese consumers.

- Sales of fashion and leather goods in China grew by double digits in Q1, CFO **Jean-Jacques Guiony** said on the company's earnings call, making LVMH "extremely optimistic" about its growth prospects in the region this year.
- Likewise, **Prada Group** CEO **Andrea Guerra** noted that China is again "an engine of growth," a sentiment echoed by **Brunello Cucinelli** and **Canada Goose**.
- Luxury brands are also getting a boost from Chinese tourists; Guiony said "offshore" sales from Chinese consumers in places like Hong Kong and Macau are growing faster than those from the mainland.
- **Personal luxury retail sales in China will jump 12.9% this year**, per our forecast.

US demand softens: While the US continues to be LVMH's second largest region by revenues, business is beginning to slow as shoppers opt for more affordable products, like fragrances and makeup, over jewelry and designer bags.

- Most of LVMH's Q1 growth in the US came from **Sephora**, which is benefiting from resilient beauty demand as well as a vastly enlarged brick-and-mortar presence via a partnership with **Kohl's**.
- While favorable exchange rates have driven more Americans to purchase luxury goods overseas, Guiony said sales to the American "cluster" remained largely flat in Q1.
- **Kering** saw a similar trend, CFO **Jean-Marc Duplaix** said, noting that "aspirational clients in particular are sort of taking a break" as savings built up during the pandemic run low.
- Nevertheless, Kering plans to expand its US presence with stores in medium-sized cities like Nashville and Charlotte where it sees long-term opportunities.
- We expect **US personal luxury sales to grow by 6.7% this year**, although growth will slow significantly until at least 2026.

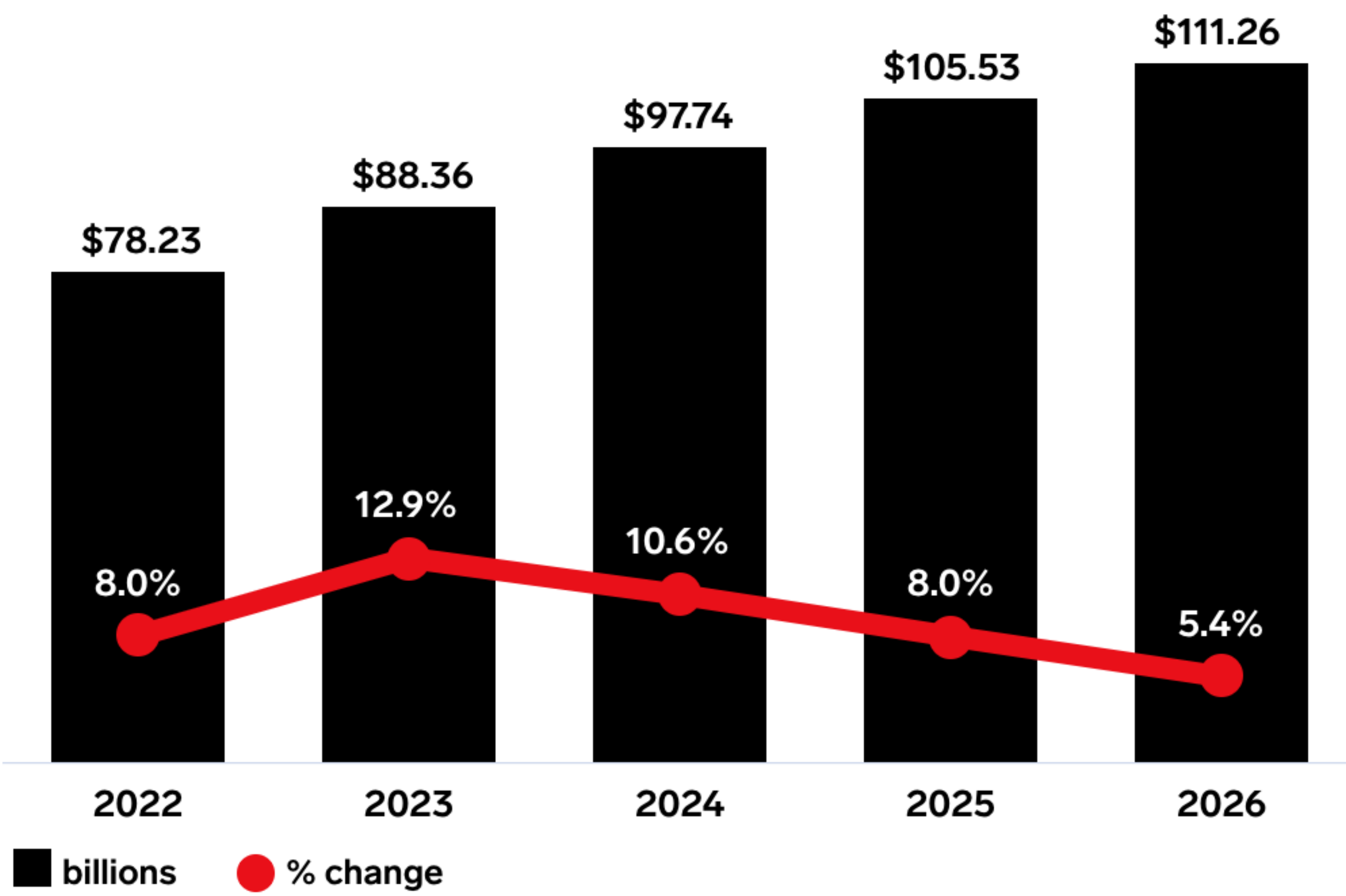
The bigger picture: While the luxury market is not wholly immune to economic uncertainty, pent-up demand from Chinese consumers, as well as continued strength from Japanese, Korean, and Middle Eastern shoppers, will make up for any slowness in the US.

- Deeper penetration into areas where spending remains strong, such as beauty and fragrance, will also give luxury brands another growth avenue—an opportunity Kering has seized with its new beauty division.

Go further: *Read our report on how luxury brands can weather uncertainty in the US and China.*

Personal Luxury Retail Sales

China, 2022-2026



Note: includes items purchased over the internet, regardless of the method of payment or fulfillment, such as ready-to-wear designer clothing and footwear, bags and accessories (including eyewear), jewelry and watches, and cosmetics and fragrances that meet the definition of "luxury"; excludes luxury automobiles, travel and leisure services, boats and yachts; fine art and collectibles, and fine wines and spirits; includes goods sold by wholesalers and retailers except those that mainly resell of other companies' luxury brands

Source: eMarketer, June 2022

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