MAY 20
Rachel Wolff

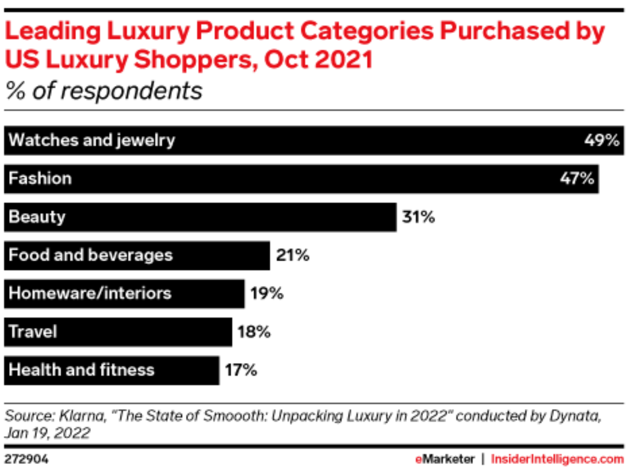
The luxury retail market shows no signs of fading

Article

The trend: US consumer spending on luxury retail shows no sign of slowing, even as inflation and price increases cause many shoppers to trade down and cut back on discretionary purchases.

Shoppers open their wallets: While many consumers are tightening their belts as they struggle to absorb higher food and gas prices, affluent Americans are ramping up their spending after largely holding back over the past two years.

- **Affluent consumers are currently in a position to drive $257 billion in spending**, per **Visa**'s chief economist, **Wayne Best**.
- Moreover, a significant portion of the US population is better off now than before the pandemic: **13%** of consumers have better jobs and more savings, while **48%** are employed with stable finances, per a survey by agency EP+Co.
- Luxury brands like **Burberry** have credited strong growth in US sales as one major reason for their positive results: Burberry noted in its report for the full fiscal year that the Americas was "the stand out region" as full-price sales in the US almost doubled, thanks to an influx of new customers.



Luxury retailers are bullish: Even as lockdowns in China have dented brands' growth opportunities, companies from **LVMH Moët Hennessy Louis Vuitton** to **Canada Goose** to **Ermenegildo Zegna Group** are reporting higher revenues and an optimistic outlook for the future.

- LVMH's revenues grew 29% in Q1, with double-digit growth in every sector except wine and spirits.
- The Ermenegildo Zegna Group saw revenues increase by **27%** year-over-year in the first quarter, and is projecting overall growth this year to be in the low teens, per its earnings statement.
- Nor are brands worried about a potential economic downturn: "I don't believe in a recession in America," said **Gildo Zegna**, CEO of Ermenegildo Zegna Group, "or if there is, I don't believe that our customers will be hit by the recession."

On the other hand: Of course, luxury brands' confidence in the market could easily be misplaced, as **Netflix**'s quick reversal of fortune demonstrates.

- While the top 20% of consumers typically account for about 70% of luxury retailers' sales, **Karla Martin**, managing director at **Deloitte**, told Business of Fashion, it's the behavior of the other 80% that influences whether a brand stagnates or continues to grow.
- With this latter cohort increasingly squeezed by price increases elsewhere, their ability—or desire—to purchase luxury items could be significantly diminished, particularly if they decide to increase spending in other areas like travel.
- Rising coronavirus infections could also put a damper on spending: Confidence among affluent consumers sinks when COVID-19 cases go up, Best said, citing Visa data.

The big takeaway: The strong demand for luxury items shows that many consumers are continuing to spend, and they're not looking for bargains. That bodes well for luxury brands hoping growth in the US will offset continued losses from lockdowns in China.

- At the same time, luxury retailers aren't immune to certain headwinds, such as increased supply chain costs, the spread of new COVID-19 variants, and consumer prioritization of experiences over goods, all of which could impact growth for the rest of the year.