P R E S S R E L E A S E

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In a global economic slowdown, luxury continues to outperform but faces new challenges

Counterfeiting, e-commerce, Chinese consumers importance, even if it is generally relatively spared by recessions, the luxury market must adapt to a profoundly changing economy if it does not want to lose its exceptional status.

Despite their supposed rarity, they are everywhere! Luxury products, from champagne to watches, cars, jewelry, haute couture and cosmetics, are ostentatiously displayed in our magazines, screens and public spaces. And this omnipresence reflects an economic health that is sometimes considered insolent in the face of slowdowns in other industries. For a long time, the luxury market appeared as an exception impermeable to recession. However, the situation is not that simple.

A market with strong but levelling specificities

Luxury is traditionally characterized by high quality products with a high price for the "happy few" who want to show their social status. Cultivating rarity and exceptionality, it is aimed at populations that are supposed to be able to withstand slowdowns in global economic activity. But this landscape is changing with a new population that wants to show its success.

In 2018, the luxury market grew by 5% (to Eur 1.2 trillion), driven by rising consumption in China with a growing middle class: Chinese consumers now account for 33% of global purchases of luxury products, and they are expected to account for 46% of the global luxury market, representing both an opportunity and a threat to the luxury industry, which will be increasingly subject to the economic uncertainties of this middle class, more sensitive to possible losses in purchasing power.

Counterfeiting and e-commerce, between risks and opportunities

Luxury also faces other threats such as counterfeiting. Market estimated to reach USD 1.8 trillion in 2020, counterfeiting often damages the image in addition to the financial damage to targeted brands. Driven by the same desire for social recognition, the purchase of counterfeit luxury goods impacts both the desirability of the brand and the confidence of buyers. For example, a study in the United Kingdom showed that 66% of consumers who had purchased a counterfeit product without their knowledge no longer had confidence in the brand in question and 44% went so far as to stop buying brand goods for fear of counterfeiting. On the other hand, some counterfeit goods boost the reputation of the original brand, creating a desire to own an original item of that brand.

E-commerce also has a very particular impact in the luxury industry. While it represented only 10% of sales in 2018, it is expected to increase to 25% in 2025. However, many brands resist e-commerce for fear of counterfeiting competition on the one hand (if it is public knowledge that you do not sell online, the buyer will have less chance of being fooled) but above all to preserve the unique bond forged with the customer during his purchase experience in their stores, a key element of loyalty and differentiation.

The health of the luxury market is therefore well linked to various global factors and is not totally disconnected from the rest of the economy. While prospects are good despite of the global economic slowdown expected (COFACE expects global economic activity at 2, 9% in 2019 from 3,2% in 2018). Chinese economic activity, e-commerce and counterfeit products constitute risks that can penalize

luxury market but also create opportunities. It is up to luxury brands to remain vigilant to maintain their specificity while taking into account the evolution of their environment.

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