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Why The 2024 Luxury Downturn Is More Structural Than Cyclical

While luxury brands executives hope that the 2024 downturn was cyclical, four factors bode for deeper structural change... And they can't blame it all on China. Hermès, Miu Miu are bucking the trend.

Led by Miuccia Prada, Miu Miu's forward looking style is lifting Prada Group's fortunes.

Gamma-Rapho via Getty Images

Looking at the luxury downturn: Of averages and data points

What a difference twelve months make. A year ago, there were only faint signals of a potential luxury slowdown. However, since spring, the downturn has sharply intensified across luxury goods sectors, including fashion, accessories, watches, cars and even beauty. What was once a subtle shift now appears to be a full-fledged slump.

Consider the share price of LVMH, the industry leader. By mid-November, it had fallen by 20%, according to Financial Times data. L'Oréal saw a decline of 23%, while Estée Lauder dropped by more than 40%. Richemont's share price remained relatively stable, in large part thanks to jewelry. Even Rolex is rumored to be experiencing a significant slowdown in sales. Meanwhile, Kering and Burberry are facing steeper challenges, grappling with not only the downturn but also their ongoing struggles around their brands' positioning.

In cars, traditional companies like Porsche recorded dismal share price performance. The 24 Moda , a leading Italian business newspaper for the fashion industry captured the gravity of the situation: in the last two years, luxury brands have lost 50 million customers.

So, what is going on? Is this just a cyclical downturn, or is something more substantive and structural currently happening for big luxury?

To answer, let's look beyond averages. Hermès and Prada, whose share prices had increased by 5% and 22% by mid-November respectively, give us an interesting clue. The boom of luxury hotels currently under way gives us another one. For example, there have never been so many hotels in the world charging at least $1,000 per night or more , according to Jan Freitag, US Director for hospitality analytics at Co Star

This downturn may well be structural for big luxury

Officially, brands executives continue to display confidence that big luxury will shrug off this downturn as a cyclical one. They see it as the product of the combined collapse of real estate prices in China and a return to normalcy after the exceptional catch-up effect post COVID-19. But in private, a few insiders interviewed for this article assess that this slowdown is structural, and this takes courage to say, since it both involves accepting some mistakes made and contemplating transformation head on.

There are at least four main and mutually reinforcing reasons that bode for a structural shift.

The growth engine in China has stalled, possibly for the long-term

China has been a major growth engine for big luxury brands, but the engine is stalling.

VCG via Getty Images

The real estate crisis is merely a symptom of the significant shift in the Chinese economy. Since Alibaba's Jack Ma's fall from grace, Chinese entrepreneurs are hesitant to grow and take the limelight for fear of getting in the crosshairs with Xi Jinping's administration. As a matter of fact, it's the whole private sector that is unravelling, as the collapse from a peak of more than 50,000 startup foundations in 2018 to just a handful in 2024 suggests. The private sector was the engine of wealth creation that propped up luxury consumption in the last fifteen years. The 300 million plus of aspirational and high-end luxury consumers might continue to buy, but strong growth is a thing of the past, unless Chinese policy completely changes, especially as close to 20% of young people are still unemployed

Luxury brands need to watch another serious shift in China: the rise of local champions fueling nationalistic consumption. Apple is already suffering from it, but so are Porsche, Mercedes, Audi and BMW. In the watch sector, dozens of mechanical horology brands have popped up, some no doubt will reach the status of collectible luxury . Similar trends apply to fashion and cosmetics, as your columnist already reported in 2019

Geopolitics will also play a role in what happens to China. If the Trump administration imposes new tariffs on Chinese goods, commentators are already anticipating that Europe will bear the brunt of Chinese mercantile policies, especially as China now dominates green technologies, including the whole electrical automobile supply chain. Under intense political pressure, the European Union might have to impose its tariffs, potentially further slowing China's growth and perhaps leading China to retaliate with tariffs on luxury goods.

Mainstream luxury brands are suffering from a stylistic recession

Hermès' approach to promoting lifestyle rather than iconic pieces only makes the brand stronger.

AFP via Getty Images

This point is overlooked. Why did Hermès and Prada outperform? Why is Lamborghini sold out well into 2026? While Hermès is not well known for cutting-edge styles, it thrives thanks to a “lifestyle-relevant” strategy based on elegance, that helps it gain a much greater share of wallet and loyalty among its customers. While for most brands, the customer has been trained to buy one icon (be it a handbag, a watch, etc), Hermès customers like to buy the scarf and the Kelly handbag but also its clothes, ties, home collections, horse-riding accessories, jewels, shoes etc. This is where Hermès is superior. Most fashion brands are not interested in selling you a skirt or a suit: they lure you with their fashion to sell you higher-margin accessories. Thus, they end up being overly dependent on one product category.

Prada and Lamborghini, on the other hand, are powerhouses of stylistic innovation. Rather than merely focusing on a few past-oriented icons, they innovate for the future. Lamborghini outright retires one model every ten years or so. Porsche by contrast repetitively revamps its best sellers of the past decades. Thanks to forward-looking creativity meeting the imagination and lifestyle of the Gen Z, Miu Miu's sales are doubling every quarter, hence Prada's share price boost. Like Chanel was in her days, Miuccia Prada, at over 70 years old, is inventing a new style and it is remarkable.

The moral of the story: luxury brands today are so focused on selling past icons, amplified by over-sized logos, that they risk losing sight of what made them successful in the first place—visionary creators who pioneered wearable, future-forward designs and defined styles. This risk-averse approach leaves them ill-prepared for the challenges ahead.

Brand saturation and environmental sustainability

Accumulating luxury goods for the sake of it is becoming unsustainable.

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Luxury mega brands have scaled their retail presence in ways that might make them appear banal and almost vulgar. In London's streets and airports, on billboards, on Paris churches and Milan palaces under restoration, they are seemingly everywhere. LVMH, which does not split the number of stores by brand or division, increased the total store numbers by 7% in 2023, surpassing 6,000 for the first time – a 54% increase from 3,948 stores in 2016. Most major luxury brands have followed similar trajectories. Yet, rarity is what makes luxury authentic and desirable.

The hypothesis of saturation in traditional markets comes to coalesce with the unfolding environmental and natural crisis. Although consumers are by and large, not factoring in or interested in sustainability in luxury, this is changing with the younger generations. Not only are they favoring second-hand over first-hand, but they also watch their consumption. They question the need for accumulating shoes, time pieces or cars.

In truth, we are already living outside six of the nine planetary boundaries, and many resources, including gold, cashmere and some precious stones are getting scarcer; they continue to create negative environmental impacts too.

As the era of abundance nears the end, over-consumption will gradually become socially unacceptable, pushing luxury brands towards genuine rarity. Saturation, environmental considerations will in turn push consumers to favor other types of luxury consumption, contributing to the boom of experiential services such as travel and tourism.

Big luxury is suffering from a reputation recession

Multiple brands' decisions have led customers to question luxury's ethics. Lately, the level of trust in big luxury has been falling. According to Reptrak quoted in Forbes , the loss of trust in Rolex was the most modest at -5 points, with L'Oréal at -21 points and LVMH at -43 points in 2023.

Since COVID, most big brands have boosted volume production while increasing prices dramatically without corresponding rises in quality. This has started to precipitate an alarming loss of perceived values among customers, and probably not just the more aspirational ones.

According to the Business of Fashion , between 2019 and 2024, Dior increased like-for-like product prices by 70% (the most), followed by CHANEL at close to 60%, with Hermès and Cartier being the “closest” to inflation levels in the economy, with price hikes of 20% and 11% respectively.

The environmental and social practices of big luxury are increasingly exposed. The European Sustainability Reporting Directive's very purpose is to reveal practices and negative impacts on planet and society more transparently. Episodes where brands like Dior and Armani are accused of labor exploitation in Italian workshops will become more frequent, until practices change. Earlier this year, the Business of Fashion reported that the five largest listed luxury actors (LVMH, Kering, Richemont, Hermès and Prada) had impaired 5.79 billion of euros for excess inventory in 2022. These represented hundreds of thousands of products and natural resources wasted.

In the third quarter of 2024, there were very few places in the EMEA region where luxury goods continued to grow— Dubai, Italy, Poland and Greece—, according to Maximilien Lambertson who presented Mastercard's trends in luxury consumption at the recent e-Luxury Summit organized by Dagorà Lifestyle Innovation Hub at IMD Lausanne last month.

Since the 2022 invasion of Ukraine, Dubai has become a hub for traveling Russians . One cannot help and wonder: is there a connection here? If there was one, luxury brands operating there would be complicit of economic sanctions violations, if not in the letter, at least in the spirit if most purchases were indeed brought to Russia. According to

EU Council Regulation, luxury goods cannot enter Russia , directly or indirectly.

The BMW episode a few days ago contributes to the possible questioning of luxury brands' values.

2024 could prove to be a pivotal year for luxury brands. Different forces inter-play to create the conditions of structural market change. This is not necessarily all negative for brands, provided they adapt and build the conditions for strategic resilience, the topic of the follow-up article.