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Luxury Sector Will Continue to Slip, Bain Forecasts

The market is on pace to contract 2 percent to 5 percent in 2025 as consumption remains soft across key categories — particularly leather goods, makeup and watches — according to the latest forecast from Bain & Company.

By Simone Stern Carbone

Luxury consumption will remain soft for the remainder of 2025 across key categories — particularly leather goods, makeup and watches — as price fatigue and macroeconomic turbulence weigh on consumers, according to the latest forecast from Bain & Company. If current trends continue, the sector will contract 2 percent to 5 percent for the year.

While hospitality and experiential luxury continue to grow, physical goods are losing steam in the key markets of the US and China. Demand in Japan is weakening as tourism slows down and the yen regains value.

Emerging markets in Latin America (particularly Mexico and Brazil) and the Middle East are growing, though their smaller scale is no match for a sluggish China, where high youth unemployment is dampening consumer sentiment.

“Right now many Chinese feel ‘luxury shame’ — consumers don’t want to be seen wearing visible logos in a moment where GDP growth is softer and causing social tensions,” said Claudia d’Arpizio, head of global fashion and luxury goods at Bain. New government incentives to boost spending in the country could restart consumption, but only closer to the holiday season, d’Arpizio added.

There are some bright spots in the industry, notably categories like eyewear, jewellery and beauty — particularly high-end fragrances — that are being fueled by product innovation and new brand entries. D’Arpizio noted that the same brands that outperformed last year are still doing so now.

There is also cause for optimism looking further ahead. The second half of 2025 could bring creative revival to the industry as it welcomes a wave of new creative directors at several top brands. “Many brands are in a risk adverse situation now — there’s not a lot of new products. The fall will be a new ignition, when new designers speak. That wave of creativity should show first results at the beginning of 2026,” said d’Arpizio.

But in the current macroeconomic climate, the timing of a recovery is hard to predict, d’Arpizio warned. Under one scenario, Bain believes consumption could start to rebound in the second half of 2025, in which case the luxury market could shrink just 2 percent or even grow as much as 2 percent for the full year. But another scenario has demand sliding even further, causing the sector to decline anywhere from 5 percent to 9 percent.

“Every turbulent headline causes a dip in confidence,” d’Arpizio said.

Recapturing Gen-Z

Another challenge for the industry is that consumers aren't just feeling priced out, they're emotionally disconnected. Gen-Z continues to trade down to more affordable luxury and experiences, turned off by a lack of creativity, connection and inclusive experiences from many luxury brands. The group also doesn't display wealth the way its predecessors did, preferring to show off "quality of life and personal choice," said d'Arpizio.

"There are 50 million fewer customers in luxury compared to before, especially among younger demographics," she said.

While premiumisation works for some categories, like high-end watches, most luxury labels would benefit from a 'high-low' strategy, with both premium products and entry-level offerings that attract new clients.

"A focus on top clients is important but to grow, an inclusion of aspirational, younger customers is key," said d'Arpizio. "Growth and resilience come from a balanced strategy. Especially large brands, they need aspirational customers to thrive."

Many brands seem to have forgotten that lesson in recent years, as product prices have surged without an improvement of quality or design, diminishing their value proposition.