



Kung Fu Data Insights: Fashion & Luxury Forecast 2023

NAVIGATING CHALLENGES
AND OPPORTUNITIES IN H2 2023

China's Luxury Market at a Glance

An introduction to this data brief

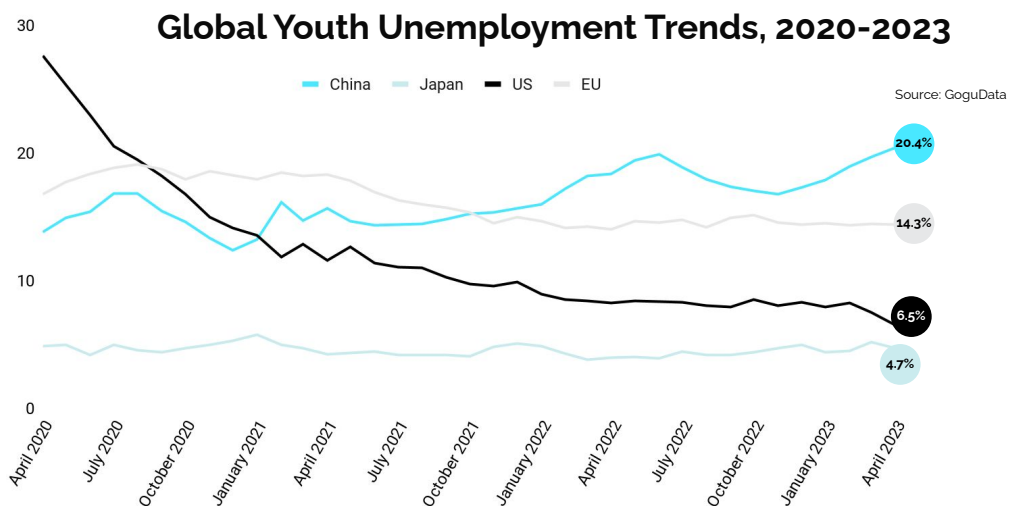
As we step into the second half of 2023, the fashion and luxury market in China faces a myriad of challenges that demand **attention and strategic planning**. While the industry has demonstrated resilience and adaptability during the past six months, it is essential to acknowledge the **lingering impacts of the pandemic** and other external factors.

The aftermath of the COVID-19 pandemic has left **lasting ecological difficulties and economic uncertainties**, further compounded by the global inflation crisis. Top brands have showcased remarkable performance in navigating these turbulent times. However, it is essential to note that these brands were relatively less affected by the pandemic compared to the broader market. Many smaller and mid-range fashion companies are **still grappling with the challenges** posed by negative growth.

Moreover, the Chinese consumer market remains shrouded in uncertainties. To make informed decisions, it is crucial to analyse objective data such as the Consumer Price Index (CPI) and the

Producer Price Index (PPI). In May 2023, the National Bureau of Statistics reported a **year-on-year decrease of 0.2% in the CPI**, marking the fourth consecutive month of negative growth. Similarly, the PPI experienced a **year-on-year decrease of 4.6% and a month-on-month decrease of 0.9%**, indicating two consecutive months of negative growth. Such figures reflect a delicate economic landscape that necessitates a **cautious mindset and crisis awareness**.

A particularly concerning aspect of the current consumer market pertains to employment, especially among the youth population, who constitute the core market for fashion and luxury consumption. While there has been an overall improvement in the employment situation at a macro level, **young individuals continue to face significant employment pressures**. In June 2023, China's youth unemployment rate **surged to 21.3%**, raising questions about their purchasing power and preferences. The economic uncertainties they face might impact their willingness to splurge on fashion and luxury purchases.



Luxury Market Recovery

The resilience of luxury brands in the face of adversity is commendable. As the industry endeavours to emerge from the recovery phase, **understanding the trajectory of growth is paramount**. To gain deeper insights, let's examine the growth rates of prominent luxury groups over the past five years, including the first quarter of 2023.

Take **LVMH**, one of the leading luxury conglomerates, as an example. The brand's growth rates from Q1 2018 to Q1 2023 were 11%, 16%, -15%, 32%, 23% and 17%.

Likewise, **Kering**, another major player in the luxury market, witnessed growth rates of 27.1%, 21.9%, -15.4%, 21.4%, 27.4% and 2% over the same period.

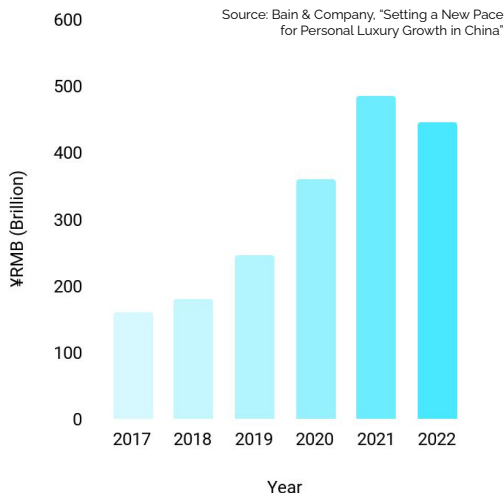
Similarly, **Hermes** experienced growth rates of 11%, 16%, -6.5%, 44%, 27% and 23%. The numbers reveal fluctuations in performance due to differences in companies' development cycles and the impact of external factors such as economic conditions and consumer preferences.

While analysing the growth rates for Q1 2018 to Q1 2023, we observe a certain level of stability, with some fluctuations and a slowdown in growth. However, it is essential to highlight the **exceptional growth rates during the year of the pandemic, 2021**. This very year witnessed **the highest Q1 growth in several years**, reflecting the luxury industry's resilience during times of crisis.

When comparing the annual performance of luxury groups, 2021 also stood out with the **highest growth rate**, albeit with a slight increase in other years as well.



Luxury Sales in China, 2017-2022



Investment Strategies for H2 2023

The challenges and uncertainties in H2 2023 call for a recalibration of investment strategies by fashion and luxury brands. A crucial aspect to consider is **re-evaluating the current luxury consumer base**. Brands must examine their specific situations and allocate their limited resources to areas that offer the most promising growth opportunities.

While there is no denying the significance of the younger Gen Z as a target market, it is essential to assess **whether this aligns with each brand's unique situation and available resources**. In a market with potentially modest growth in the next two quarters, brands need to prioritise their investments where they can achieve optimal results.

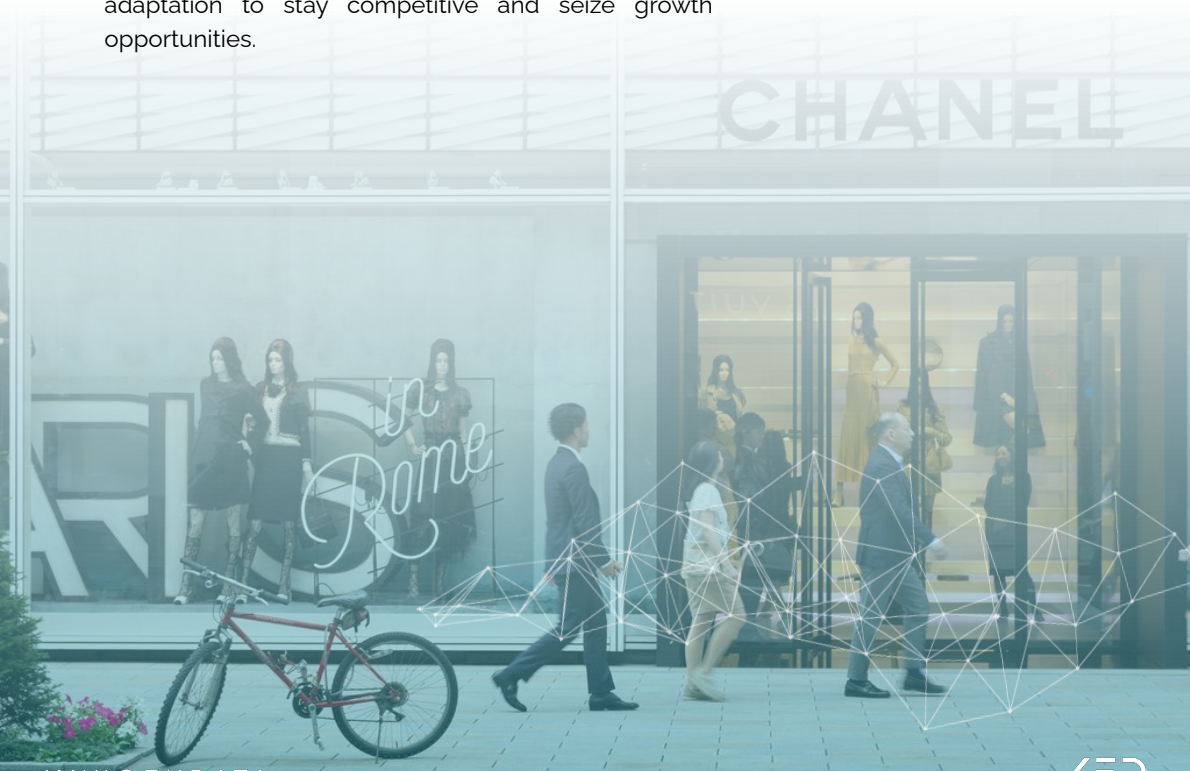
One promising avenue for growth lies with the burgeoning middle-class demographic in China. As the proportion of middle-class and affluent consumers continues to expand, **catering to their desires has become crucial for sustained growth**. The middle class's consumption trends have evolved, favouring a **"less but better" approach**, where consumers seek high-quality, value-for-money products and experiences.



Investment Strategies for H2 2023

Brands that can offer products and services that resonate with this growing demographic are likely to find success. The trend of **polarisation between the high-end and mass markets** further reinforces the need for a differentiated strategy. High-net-worth individuals and the post-90s generations are leading the charge in driving luxury market growth. Their preferences for **high-end customisation and value-preserving products** underscore the significance of personalised and exclusive offerings. On the other hand, the mass market demands brands that strike a balance between **scale, efficiency and technological advancement**, and provide value-for-money products.

As fashion and luxury brands plan for the future, it is essential to acknowledge the cyclical nature of the market. External factors, such as economic conditions, will continue to influence growth patterns. **Brands must remain agile**, embracing innovation and adaptation to stay competitive and seize growth opportunities.



The Changing Face of Consumers

The success of the fashion and luxury industry hinges on **understanding and adapting to the ever-changing landscape of consumer preferences**. Today, consumer awareness evolves rapidly, driven by **evolving demographics and technological advancements**. As brands strive to succeed in H2 2023, grasping the pulse of the consumers is undoubtedly the premise of all growth.

After three years of hardship and transformation, the fashion retail market has ushered in a new wave of change driven by industry transformation. **Many brands have centred their focus around Generation Z**. However, when resources are limited, **is it the correct decision for all brands to focus on Generation Z?** To answer this question, brands should analyse their specific situation and focus their limited resources where they can achieve the best results.

If the market itself does not experience rapid growth over the next two quarters, it is essential for brands to **identify optimal strategies and consumers** that can help sustain growth. From the perspective of purchasing power and population size, the middle class may offer more opportunities.

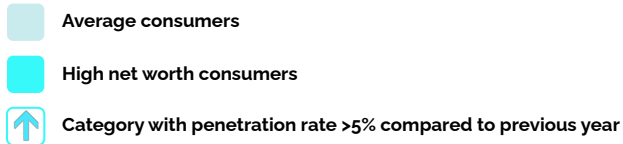
The trend of polarisation between high-end and mass markets continues to shape

consumer preferences in the luxury industry. As the proportion of middle-class and affluent consumers continues to expand, the **high-end, light luxury and mid-to-high-end segments** will lead market growth. Under the dual impact of the desire for self-satisfaction and budget pressures, middle-class consumers tend to consume **"less but better"**.

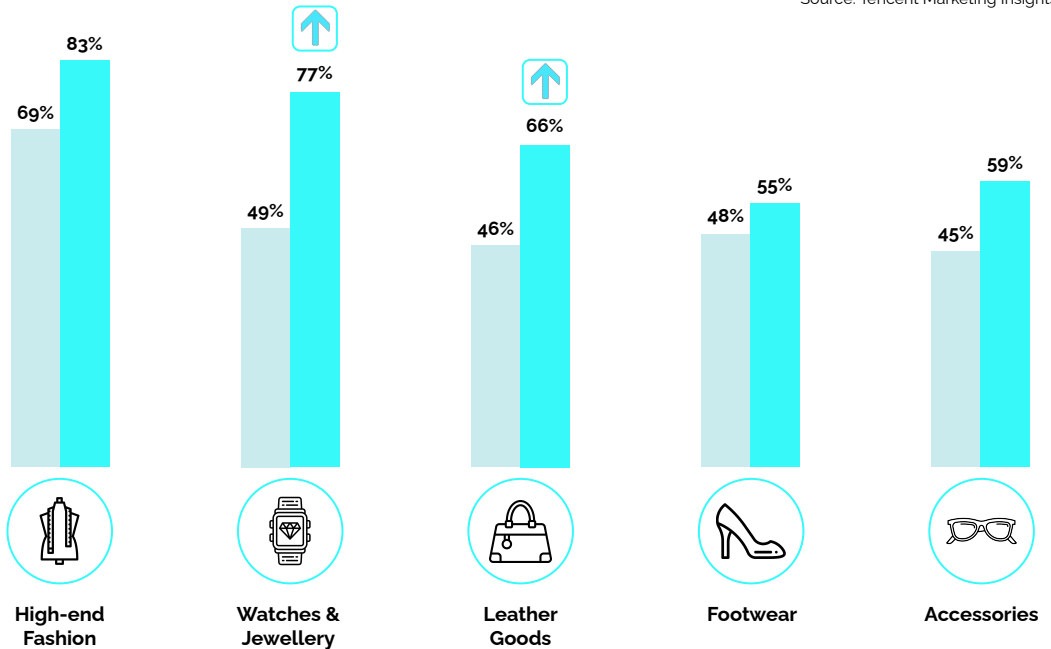
Data shows that China's high-net-worth population accounts for only about 0.3% of the total population, but **contributes to about 42% of luxury goods sales**. The consumption concept of the new generation of consumers tends to be more diversified, and **Chinese consumers are becoming more mature and rational**. In addition, high-net-worth individuals and the post-90s generation are leading the development of China's luxury goods market.

These groups prefer high-end customisation and value-preserving products, such as custom-made clothing, watches and jewellery. They enjoy exclusive, scarce and customised premium services, as well as 360-degree, high-frequency all-touchpoint information acquisition, and **pursue brands and spiritual values that match their preferred style**.

Luxury Consumer Product Penetration in 2021



Source: Tencent Marketing Insights



In the mass market, consumers' ongoing demand for **value-for-money** will drive the market towards brands that are **large in scale, efficient and technologically advanced**.

Looking at longer market cycles and brand growth cycles, it is a fact that the impact of external factors such as the economy will inevitably lead to **cyclical fluctuations**.

Whether it is today's global inflation or the numerous challenges of the past three years, these events function as engines that simultaneously trigger **fluctuations and a new round of revitalisation and consumption upgrades**. Under the influence of these factors in the past few years, the future of China's luxury market will face **even more intense competition and consolidation**.

What to Expect in H2 2023

The fashion and luxury market in China will confront significant challenges and uncertainties in the second half of 2023. The aftermath of the COVID-19 pandemic, ecological difficulties, economic uncertainties and the global inflation crisis requires brands to adopt a cautious mindset and constant crisis awareness.

Luxury brands have showcased resilience in navigating these turbulent times, with some even experiencing accelerated growth during 2021, the notorious year of the pandemic. However, it is essential to recognise that recovery will be uneven, with smaller and mid-range fashion companies still grappling with negative growth.

To thrive in the dynamic market landscape of H2 2023, brands must recalibrate their investment strategies. Re-evaluating the current luxury consumer base is crucial, as it enables brands to prioritise their resources where they can achieve the best results. While Gen Z presents an attractive target consumer segment, brands should assess their individual circumstances and explore growth opportunities with the burgeoning middle-class demographic.

The trend of polarisation between high-end and mass markets further underscores the need for a differentiated strategy. High-net-worth individuals and the post-90s generation lead the growth in the

luxury market, preferring high-end customisation and value-preserving products. In contrast, the mass market seeks value-for-money offerings from brands that emphasise scale, efficiency and technological advancements.

To succeed in H2 2023, fashion and luxury brands must recognise the cyclical nature of the market and stay agile. External factors, such as economic conditions, will continue to influence growth patterns. Brands that embrace innovation and adapt to the evolving consumer landscape are likely to seize growth opportunities and remain competitive.

As we navigate the second half of 2023, brands must prioritise understanding and aligning their strategies with changing consumer preferences. By doing so, they can pave the way for sustainable growth and success in China's dynamic fashion and luxury market.



In Sum and Substance

Key takeaways to navigate China's
luxury market in H2 2023

IN SUM AND SUBSTANCE

Key takeaways to navigate China's luxury market in H2 2023

Economic Uncertainty: The fashion and luxury market in China faces challenges due to ecological difficulties and global inflation crisis. Brands must adopt a cautious mindset and maintain crisis awareness.

Consumer Market: Analysing objective data like CPI and PPI reveals uncertain consumer sentiments. The high youth unemployment rate may impact the purchasing power of core fashion and luxury consumer groups.

Luxury Market Recovery: Despite challenges, luxury brands have shown resilience. Understanding growth rates over the years is essential to assess short-term recovery and long-term business fluctuations.

Strategic Focus: Brands should re-evaluate their consumer base and allocate resources wisely. While the Gen Z is crucial, the burgeoning middle-class demographic offers significant opportunities for growth.

High-End & Mass Markets: High-net-worth consumers and the post-90s generation lead luxury market growth, seeking high-end customisation. Mass market consumers demand value-for-money from efficient brands.

External Factors: China's luxury market is influenced by cyclical fluctuations, including economic conditions. Brands must remain agile, innovative and adaptive to stay competitive.

Resilience and Opportunities: Despite challenges, fashion and luxury brands have a clear potential for growth. Tailoring strategies to evolving consumer preferences is key to success.

Embrace Innovation: Brands must recognise changing consumer awareness and technological advancements. Personalised experiences and value-for-money offerings resonate with consumers.

Sustainability: Brands that understand the cyclical nature of the market and prioritise long-term growth are more likely to thrive in China's dynamic fashion and luxury landscape.

Seize Growth Opportunities: By staying attuned to consumer trends and aligning strategies accordingly, brands can navigate uncertainties and capitalise on emerging opportunities in H2 2023.



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