

Research @ Citi Podcast, Episode 55: In the Lap of Luxury

Recorded: Nov. 7, 2025

Published: Nov. 13, 2025

Host: Elise Badoy, Head of EMEA Equity Research, Citi

Guest: Thomas Chauvet, Global Consumer Discretionary and Luxury Goods, Citi

Transcript:

Elise Badoy (0:00)

Welcome to the Research @ Citi podcast. I'm your host, Elise Badoy, and I head up Equity Research at Citi for UK, Europe, the Middle East and Africa. Today, I'm joined by Thomas Chauvet, Head of Global Consumer Discretionary and Luxury Goods Research here at Citi.

So we're going to talk all things luxury. It's that time of the year: We're going into the festive season, so what a better time to discuss this incredible industry? In this podcast, we're going to go through key drivers; recent macro pressures; and specific geographies — for example, China and the U.S. But also we'll look at various categories and how they've been doing.

We'll also talk toward the end of the podcast, so stay tuned, about new technology and how AI could be transforming the industry. Finally, we'll look at potential catalysts and what investors should keep top of mind as we head into the next few years for the industry.

Thomas, it's a real pleasure to have you on and I'd like to start on this podcast looking at the last few years. Luxury has been one of the fastest-growing industries in Europe over the past decade, but it has slowed significantly over the past couple of years. So what's happened?

Thomas Chauvet (1:11)

Thanks for having me, Elise — and yes this is a good starting point to our discussion that luxury-goods industries' drivers are well-known. Brands with long-standing heritage and family ownership with a long-term vision; high product quality and degree of craftsmanship; clear provenance with the Made in France or Italy label for fashion, Made in Switzerland for watches; exclusivity; control distribution; pricing power. All of which create strong barriers to entry.

Remember, most of these brands originate in Europe and have a global address of the market, including China and the U.S. as the two biggest sources of revenue. But there's little competition in Asia and the U.S. for these brands. All of these factors have effectively helped drive nearly two decades of high single-digit revenue growth, double-

digit earnings growth, and strong cash-flow generation. But remember, it's an industry that's highly exposed to the economic cycle, so there'll be some demand volatility along the way. This can be due to weakening labor markets, negative wealth effects, geopolitical tensions, or black-swan events like natural disasters or the COVID-19 pandemic. Remember, the purchase of luxury goods is entirely optional; we don't need these products.

And so, after a decade of uninterrupted growth, sales slowed down quite abruptly at the beginning of 2024 for six, seven consecutive quarters, turning negative in Q2 24 and down low single digits overall in 2024. This was the first year of revenue contraction for the sector since COVID and only the second time since the Global Financial Crisis. The slowdown reflected the combination of economic pressure in developed markets with elevated inflation; interest rates; a complex recovery path in China; and global geopolitical tensions, particularly in Eastern Europe and the Middle East. All of which negatively impacted consumer confidence and the feel-good factor.

Now, investor sentiment has shifted as demand has generally improved slightly on the back of easier comparatives in Q3 2025. So Q3 2024 was the weakest quarter last year. Luxury consumers feeling a little bit better, perhaps about a sense of stabilization in the macro environment and wealth effects from equity property. To a lesser extent cryptocurrency probably having a positive effect on luxury spending too. It's probably too early to call it the bottom of the demand cycle, especially we have the important fourth quarter and the festive season around the corner.

Now, at a very high level, I'd like to highlight three major structural factors that I think have supported luxury demand in the last 20 to 30 years and that are in significant reverse, which means luxury companies may not have the same setup than in the past, perhaps a lower growth profile.

One, the end of the peace dividend that followed the end of the Cold War and the fall of the Berlin Wall that has led to a very stable geopolitical environment, low defense spending, great economic prosperity. Which has supported luxury spending, especially as China also entered the World Trade Organization.

Two, a very low interest-rate environment, especially after the Global Financial Crisis.

And three, the benefit from lower trade barriers, duties and taxes around the world, particularly in the two largest luxury end markets, China and the U.S.

And so these three factors are in significant reverse now. We have geopolitical instability, a higher interest-rate environment than in the past, and the emergence of the MAGA policies around the world where trade barriers are increasing. We have some form of protectionism with potentially higher duties and retail prices for luxury products

imported from Europe. It's already happening in the U.S. with 15% tariffs on European luxury goods, or in China with high import duties on cognac.

I also see a more subtle risk of patriotic forms of consumption, with consumers in the U.S. or China encouraged to choose local brands over European brands. We're seeing, for instance, very strong commercial success for a few Chinese luxury brands at the moment, competing directly with the European heritage jewelry brands.

Elise Badoy (5:04)

Thomas, that's a very good overview. But beyond the macro pressures you discussed earlier, are there any sector-specific idiosyncratic issues that have negatively impacted demand?

Talking to investors or industry participants, there's been a lot of controversy around feeling suddenly that there could have been excessive price inflation. People talk about, for example, value for money — an interesting concept in luxury goods. But clearly there is this question around price inflation as one of many examples of sector-specific issues. Do you want to take us through that?

Thomas Chauvet (5:39)

Yes, pricing is a major debate among analysts. There's a few other sector-specific issues that have negatively impacted demand in the last couple of years. But starting with pricing, I think there's been a common appreciation that pricing has been alluded to be too high, whether by analysts, investors or the media. Luxury brands, on the contrary, are a little bit more on the defensive side, pushing back at the idea that price increases have been excessive in the last five years, particularly since the onset of the pandemic.

We've seen several major fashion brands implementing cumulative price increases of 30%, 40% during that that five-year period without major product newness or innovation or obvious product-quality improvements. And the more you increase prices, the lower your addressable markets. That's valid for every consumer category: Effectively, you run the risk in luxury by increasing prices of alienating the younger, more price-sensitive buyers, what we call the “aspirational buyer” that typically will buy entry-price product categories: small leather goods, canvas bags, backpacks, sneakers, eyewear, fragrances, and also the iconic products of these brands. Typically, you would buy the icon as your first luxury purchase.

And so, we think these price increases have definitely had an impact on volume growth and could pose a further volume-growth risk in the long term. And the aspirational consumer has perhaps been really a little bit too squeezed in the last couple of years. On the contrary, we've seen the top luxury consumer, the higher-income earners, generally holding up better.

In luxury, you need both demographics to grow. You can't grow with one group or the other. You need the aspirational buyer — that's the volume business. You also need those VICs — the top-end customers.

I think the issue around pricing is being addressed by the companies in two ways. One, the magnitude of price increase, which we monitor through our proprietary luxury pricing tracker, which we publish every month. That magnitude of price increases is lower. It's about 1% to 2% this year for the soft luxury segment, fashion and leather-goods brands. And it's a bit higher for the hard luxury companies — watches and jewelry — because of precious-metal inflation. We expect very low single-digit price increases next year in 2026. This was already confirmed by a few luxury brands.

The second point is that luxury brands seem to re-engage a little bit on entry-level categories: sneakers, small leather goods. Some of them are launching makeup or skincare lines on top of their existing fragrance business. They're pushing eyewear. Beauty and eyewear, by the way, have become actually fantastic recruitment categories for the luxury industry due to their lower average selling price, their low-ticket items category. There's an aggressive marketing usually of these categories, and it's become very strategic for these brands to use beauty and eyewear to recruit.

And so, to the point that they are doing either these activities in house, like Kering with eyewear, which is internalized eyewear, or LVMH is largely doing beauty in-house. Or they're using very, very strong licensed partners like Kering and Prada with L'Oréal on beauty, or LVMH in most luxury pairs with Luxottica on eyewear.

The second issue I see in the industry that has been very, very detrimental to demand is perhaps the lack of newness or creativity. And that's very true for fashion in particular. This is something a bit more difficult to adjust for us financial analysts. We're not fashion experts, but the general feedback from the fashion press, from the key social-media influencers, is that since the pandemic brands have not innovated much. They have focused much more on carryover, on evergreen products, not differentiating themselves very much from competitors.

This was very obvious, I think, in handbags, and maybe one of the reasons why the handbags categories hasn't performed in the past couple of years. The lack of newness combined with mechanical high price rises has had a negative impact, we think, on demand. And it's being addressed because of a big phase of creative change in the industry. We've had at least 10 major fashion houses changing creative directors in the last six to 12 months. Several of these appointments are with a very well-known designer who presented their first collection spring-summer 2026 in September. And these brands include Gucci, Bottega Veneta and Balenciaga. All these brands are part of Kering, Dior, Celine, Loewe and Fendi, part of LVMH. Chanel or Hermès on the menswear side, but also Versace, Jil Sander.

Third point, I think, is the tourism boost that has a little bit disappeared. Tourism's always been a big booster to luxury demand, and it's no longer what it used to be, mainly because the Chinese tourists haven't returned to Europe.

Remember, Europe remains the most attractive place to buy luxury products, given a lower retail price than in the export market. And after COVID, Chinese tourists have been slow to return to Europe, particularly the tour groups. Historically, those tour groups were subsidized by the tour operators, bringing large volumes of tourists into the typical European luxury destinations: France, Italy and the UK.

Chinese tourists have nevertheless found spending destinations in Asia, mainly Japan, between 2022 and 2024, that helped them take advantage of a much weaker yen. But this has reversed with the Japanese luxury market suffering from a double-digit revenue decline in 2025 against tough comparisons and a slight appreciation of the Japanese yen, which mechanically reduces the price gap between China and Japan. And so it's less advantageous for Chinese to shop abroad.

Elise Badoy (11:00)

So, Thomas, as we talk about tourism, obviously there are various geographies feeding into the luxury market. And China had been historically a huge market growing in importance. Now, if we talk about the Chinese luxury market, it seems to be in a much weaker position coming out of COVID than other regions. What's happened to the Chinese luxury consumer? And if Chinese demand were not to come back materially, which consumer cohorts could potentially compensate for this demand shortfall?

Thomas Chauvet (11:32)

We think that the Chinese luxury-market weakness since the end of the pandemic and the lack of tangible recovery compared to other markets like the U.S. and Europe has to do with a mix of cyclical and structural factors.

On the cyclical side, weak consumer confidence from poor job markets, trade tensions with the U.S., wealth destruction from property and equity markets over the past five years, and perhaps the Chinese government not ready to implement significant stimulus as long as they can hit their 5% GDP growth targets.

On the structural side — and that's the most complex part to discuss, perhaps — I think the comparison with Japan in the late 80s, early 90s, what people have called the lost decade, is interesting. That period marked the beginning of the end of the Japanese luxury consumer. Japanese nationals, remember, accounted for 35% to 40% of luxury sales in the mid-80s. And this has come down very steadily to under 10% today. And it all started at the end of the late 80s to gradually decline.

We've identified a few similarities between China today and Japan in the late 80s that may be of interest and perhaps help us predict what will happen to China in the future.

I think a similarity, number one, is wealth destruction that has been hitting consumer balance sheets, particularly properties and equities.

Two, aging demographics with a median age of the population about late 30s, rising share of people above 60 years old. It's about 20% of the total in China at the moment, similar to Japan back then. Working-age population declining, fertility collapsing, and the overall population declining.

Three, deflationary pressures.

Four, a trend towards so-called whispering wealth, less-ostentatious consumption.

Five, less outbound tourism, and therefore less offshore luxury spend. As I discussed earlier, China is not traveling as much as before, particularly in Europe. So that two-thirds of the Chinese luxury spend today is done onshore, only one-third offshore. It was more or less the opposite in 2019 before COVID. And we saw the same phenomenon in Japan in the late 80s, early 90s, with the beginning of a repatriation of luxury demand onshore away from tourist markets.

Now, there are nevertheless some differences to note that make us still optimistic about the Chinese luxury cohort. One, balance-sheet composition is quite different. The Japanese household balance sheet was much more exposed to real-estate assets back then, over 60%, which had a faster boom and bust cycle. The Chinese household wealth is more balanced between property and equity.

Two, the monetary fiscal-policy responses are also different in scale and timing. The Bank of Japan was quite slow to react to the decline in equity prices in the late 80s. China's policy-response capabilities are exceeding a lot more the toolkit of Japan from the late 80s. China has deployed large-scale support measures so far, multiple rate cuts, specific consumption-boost action plans focused on increasing household income, protecting spending power.

And three, savings rates are different, much higher in China. In Japan, the household saving rate declined substantially during that last decade, peaking from 20% in the 70s to down 5% at the end of the 1990s. On the other hand, Chinese household savings amounted for 23 trillion renminbi in 2025 — that's over \$3 trillion USD. That represents a savings rate of over 20%.

The big question, however, will be how Chinese consumers evaluate their spending priorities in the future, both in terms of categories and brand origin. And in Japan in the 90s, consumers emphasized quality, exclusivity, brand prestige through high-end fashion accessories brand from dominant Europe. In China, we're seeing some emerging trends that may not go too well for European luxury brands.

One is a subtle shift in preference toward domestic brands and personalized products that represent strong local Chinese identities.

Two, a more health-oriented luxury emerging as a very powerful trend, with health becoming the ultimate status symbol. And so, beauty generally outperforms traditional luxury categories.

And three, younger Chinese consumers are very influenced by social media. They seem to increasingly prioritize individual interest, self-expression over the traditional collective benefits coming from the Confucianism principles of China.

The difficulty here is that if the Chinese luxury consumer shrinks because of some of the structural factors I've just discussed, in the same way as the Japanese did from the late 80s onwards, we're not going to see an obvious cohort at this stage to emerge to compensate for the loss of Chinese luxury revenue. Indian consumers perhaps represent that unique opportunity, but India has never really materialized when it comes to luxury.

First complex, you have high duties, you have a high cost of doing business, very average-quality retail infrastructure, and a pool of strong domestic brands. Middle Eastern luxury consumers have also grown steadily over the last five to 10 years: You've got young demographics, with strong dependence on oil prices and the social contracts and relatively unstable geopolitical environments in the region.

Elise Badoy (16:28)

So moving on to the U.S., can you talk about the U.S. luxury-market resilience? It has been at times surprising. And what U.S. tariffs really mean for luxury brands in the fast-growing U.S. luxury market?

Thomas Chauvet (16:37)

Yes, if we move to the U.S., I'll just highlight an interesting report, Macro to Micro, which we published last month, involving 12 Citi consumer-sector analysts around the globe and looking at which segments and companies were the most resilient and best places to capture the U.S. consumer wallet during the festive season and next year. *[This report is available to existing Citi Research clients [here](#).]* And when it comes to luxury, the U.S. consumer has been a key growth engine for European luxury companies, both at home and abroad, having contributed over 30% to global luxury industry growth over the past decade, while accounting for only 20% of industry sales.

But as we all know, the U.S. consumer tends to be quite volatile. Remember the three years of outsized luxury spending recovery post-COVID were fuelled by excess savings, government stimulus, and spending shifts from services to goods. But that was followed by an abrupt slowdown in the subsequent 18 months, both onshore and offshore. And we're seeing as of Q325 some improvements, particularly in the U.S. domestic market. So, there's been generally some volatility.

We still think the U.S. consumer is in a better shape than most and will prove more resilient than other cohorts in the developed world with slightly higher economy growth, lower unemployment (although this has deteriorated a little bit since last summer), steady wage growth, a healthy savings rate, and of course, a significant wealth effect from property prices and equity indices and crypto markets at or near all-time highs at the end of 2025.

Now, regarding tariffs, for most luxury brands producing in the EU tariffs of 15% apply, but that 15% is on landed cost — it's not on your retail price. So, the actual impact to the consumer in terms of retail-price inflation would be around half of that — 7% to 8% if brands were to pass on the entire tariff impact to the consumer. For now, we've seen most luxury brands implementing around 5% price increases in the U.S., not more, as they want to maintain a balanced price gap between regions to avoid a risk of parallel markets. So, the bulk of tariffs will be covered by pricing, I think, and +5% is manageable for the consumer.

Earlier, we discussed which cohorts could compensate for potentially shrinking Chinese luxury market in the long term. And perhaps it's really the American consumer that will surprise us further after a decade of strong luxury demand. We said back then the U.S. might be the last emerging market of luxury. And in some ways, that market, I think, is still emerging with huge potential in tier two, tier three cities, in the inner states, in the Sun Belt, where you have pockets of wealth, you have greater appreciation of luxury goods made in Europe, changing ways of self-expression and displaying wealth beyond the usual property or cars. And I think that's beneficial for the American luxury markets.

Elise Badoy (19:17)

Thomas, you talked earlier about leather goods being one of the market-share losers in the most recent slower demand cycle. But which segments have been the most resilient and why?

Thomas Chauvet (19:28)

It's a difficult question. It's never just about category exposure. It's a balance between the attraction of categories and the power of individual brands. For example, watches remain a weak category, market-share loser, but Patek Philippe remains a strong, high-growth brand within that less attractive segment. And the same goes for leather goods, where names like Hermès have had performed in a difficult handbags market.

In the volatile demand environment, we've seen in the past few years the growth gap between top and underperforming brands has widened, but category growth divergence has also emerged, and three categories have proved quite resilient.

I'll go through that quickly.

One is fine jewelry: It's held up much better overall, continues to deliver robust growth supported by attractive relative price positioning. You know, they've done less price increases than in fashion since the pandemic. There's an improved perception of jewelry as a store of value, particularly with the rise of precious-metal prices. There's more self-purchase behaviour, so women buying for themselves. That's fueled by greater participation of women in the labor workforce, notably in emerging markets. And perhaps jewelry is a category that conveys stronger emotion, stronger symbolic values, some meaning compared perhaps to the futility of fashion.

Finally, significant demand for high jewelry, which is defined by retail price points above \$100,000, has been fueled by rapid growth in the number of high net-worth and ultra-high net-worth individuals. You have the equivalent in fashion with a couture segment, but couture, remember, is a very small fraction of these fashion brands' turnover. It's often loss-making, which isn't the case for high jewelry. It's nicely profitable, contributes sometimes 10% to 15% of sales of some of the well-known jewelry maison.

Second point, by contrast, soft luxury categories, handbags and ready-to-wear have generally underperformed, reflecting their greater exposure to aspirational buyers, price inflation fatigue, possible sign of brand and logo saturation. But a notable exception is the very high-end, craftsmanship-led ready-to-wear segment, commonly coined as “quiet luxury,” which is effectively a very super-high-quality segment of the ready-to-wear market that has delivered above-industry average growth in most geographies with brands such as Brunello Cucinelli, Zegna or Loro Piana.

And thirdly, affordable luxury brands have generally held up well, those particularly broadening their price offering, whether Coach, Ralph Lauren, or Burberry.

Elise Badoy (21:41)

Thomas, what about technology? AI obviously is changing multiple sectors as we look into our Research department here at Citi. How does it come into play in the luxury sector?

Thomas Chauvet (21:51)

Yes, let's talk about products first. Technology and luxury are two words you can hardly associate. Tech products are all about innovation and rapid obsolescence; luxury is all about durability and relatively limited innovation. So the durability of luxury goods vs. the obsolescence of tech product — this is why several luxury tech brands have never been very successful commercially or very profitable companies.

When Apple launched the first iteration of the Apple Watch just over 10 years ago, they launched several models, including an 18-carat solid gold version that was priced at \$10,000. They had to discontinue it within 12 months because of poor sales. So, I'm

generally skeptical about any tech hype in the luxury industry. It's often ended in some kind of failure. We saw that with the luxury Metaverse a few years ago.

Now moving on to AI, because it's an interesting topic. If I simplify, I would say that luxury is made by humans, for humans. And it's very much about how to create desirability by defining style, defining fashion trends, as typically a talented creative designer would do, rather than follow trends led by powerful software. Luxury companies are still slow at embracing AI, I think, or even discussing it, because it's I think not so much about AI but a broader discussion about how technology can support luxury brands, from creation, product design, to marketing, distribution. And that discussion has already started years ago, well before AI.

But like everything in luxury, it's slow. I would quote a former Vuitton CEO, Michael Burke, who I had the pleasure to meet several times. He used to say, "the luxury sector is never about the big bang, it's always about a very slow evolution." And that's why I think AI will be a slow-moving tool in this industry. That said, the obvious benefits that we foresee are potential enablers of commercial success of higher sales. And so, it's important.

One, trend forecasting.

Two, digital design like prototyping. You could reinterpret archive designs to today's world to help designers in their creative process.

Three, the customization of products where customers could take a more immersive part in the product-creation process with AI tools, or for personalized clientele with data insight, try-on virtual tools in-store or online, styling services, etc.

All of this could help reduce production lead times, improve commercial success and sell-through and therefore also reduce environmental impact: textile waste in fashion, metal waste in watches and jewelry. But like everything in luxury, things will be slow.

Elise Badoy (24:24)

So, in rapid succession, what are the next catalysts to look for as we wrap up 2025?

Thomas Chauvet (24:29)

The fourth quarter is obviously the most important one for the industry, given it's all about gifting around Thanksgiving and Christmas. Q4 contributes to over 30% of annual sales in luxury, usually a higher share of profit. Then we have the first quarter of the year where Chinese New Year takes place, which will be the Year of the Horse in February. And it'll be a real test of the potential recovery of the Chinese luxury consumer.

So these two quarters will be critical for the luxury-goods industry to assess the reality of the turning point in the demand cycle after the slight revenue improvement we've seen in Q325. But a better way to assess the recovery of the sector would be, I think, on

a medium-term basis. So, let's wait until at least '26, '27 are out of the way, whether the industry by then has returned to its historical growth profile of high single-digit revenue growth.

Elise Badoy (25:18)

This episode of Research @ Citi was recorded on Friday, Nov. 7, 2025. I'm your host, Elise Badoy. Join us next time as we discuss being thankful for health care with our Head of Health Care, Geoff Meacham.

Disclaimer (0:00)

This podcast contains thematic content and is not intended to be investment research. Nor does it constitute financial, economic, legal, tax or accounting advice. This podcast is provided for information purposes only and does not constitute an offer or solicitation to purchase or sell any financial instruments. The contents of this podcast are not based on your individual circumstances and should not be relied upon as an assessment of suitability for you of a particular product, security, or transaction. The information in this podcast is based on generally available information and, although obtained from sources believed by Citi to be reliable, its accuracy and completeness are not guaranteed. Past performance is not a guarantee or indication of future results. This podcast may not be copied or distributed, in whole or in part, without the express written consent of Citi. © 2025 Citigroup Global Markets Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.