Insights

Adapting Luxury Investing to Generational & Social Change

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The transition of wealth and spending power from one generation to the next creates hazards and opportunities for investors in consumer goods, especially in luxuries. Different generations mature under different economic and social conditions. These conditions determine which luxury categories are likely to display the fastest growth and account for the greatest wallet share in future.

At Dominion, we focus on the categories commanding growing share of wallet and thus we capture a faster growing segment of luxury demand. The average Chinese luxury consumer, for example, is a ‘digital native’, is approximately 28 years old and according to Boston Consulting is ten years younger than his/her counterparts elsewhere. The average age of Chinese ultra-high-net-worth individuals is 50, according to Forbes, some 10 to 15 years younger than their Western counterparts. This much younger category of luxury goods consumers in China versus the rest of the world means investors in this sector must adapt to the differing social norms, desires, and cultural context this creates.

Social change around the world is also creating similar changes in consumption habits. Increasing economic equality for women is undoubtedly driving strong rises in demand for luxury products and services aimed at women, as also is increasing interest in healthy living. Premium-brands and female luxury accessories are strong focal points for growth in the wider luxury goods market, with this segment of the market expected to grow at more than +8% per year out to at least 2026.

Before the pandemic, there was a sustained shift globally in luxury spending toward favouring experiential services. This category grew +9% per year between 2010 and 2018, versus the +6% growth per year over the period for personal luxury goods. As the world emerges from the pandemic we are likely to see a return to this long-term change within luxury spending, with continued strong growth in consumers seeking out experiential services.

Growing concerns over sustainability and the environment among younger consumers is resulting in a ‘greening’ of luxury demand too, especially in more mature economies. This has given rise to a second-hand luxuries market and online marketplaces dedicated to servicing this category of luxury demand.

Amongst the affluent, child-care, private schooling and tutoring has outpaced other forms of discretionary consumption spending by significant margins now for more than a decade. This category of luxury spending is now a very important segment for the broader luxury space. Chinese parents now spend an average 120,000 yuan ($17,400) a year on extracurricular tutoring for their children - and some as much as 300,000 yuan (US$43,500).

During the pandemic, the prices of popular dog species has soared to more than 3x pre-pandemic levels. The Chinese pet care market is expected to grow by over +14% per year between 2019 and 2025, helped by the rapid rise in pet ownership. In many countries, millennials are increasingly seeing pets as a genuine alternative to children.

These examples illustrate the importance of adapting exposures to generational and social change. These trends in consumption habits offer great opportunities for investors in the luxury space over the long-term.