

# China's Luxury Recovery: Fragile Signals and Structural Risks

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- **Recovery, Repatriation, and Margin Pressure:** China's personal luxury market is showing early signs of recovery in 2025, moderating from steep 17-19% decline in 2024 to 3-5%, however the rebound remains confidence driven and margin compressed suggesting a fragile rather than structural recovery.
- **Consumer Identity and the Domestic Shift:** Beneath the main recovery there is a structural shift in the Chinese consumer identity driven by the *Guochao* movement and its evolution into *Zixin*, or cultural self-confidence. The accelerating rise of domestic luxury brands such as Laopu Gold poses a potential earnings risk to Western luxury houses.

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## Abstract 1: Recovery, Repatriation, and Margin Pressure

China's personal luxury goods market continued its recalibration in 2025 with a **decline of 3 - 5%** in comparison to the **steep 17 - 19%** decline observed in 2024 (*Bain & Company, 2026*) The slowdown persisted across the first half of the year, however a recovery was observed in Q3 supported by a strong domestic stock market and an increase in consumer confidence. Whilst LVMH does not report on China figures separately, Asia (excluding Japan) returned to growth in the second half of 2025 with Q4 global organic revenues at €22.7 billion beating the LSEG estimates of €22.2 billion as reported by CNBC. Nonetheless the CEO of LVMH Bernard Arnault states that "2026 won't be simple" in the current economic context. Together these signals suggest that China's luxury market is transitioning from a contraction to a slow recovery that is driven by recovering consumer confidence rather than a genuine improvement in economic conditions.

China's role in luxury earnings can't be understated. Currently Asian luxury market (excluding Japan) is largely driven by mainland China accounting for approximately 26% of LVMH's total revenue in 2025 which is equivalent to roughly € 21 billion based on reported full year revenues of €80.8 billion (CNBC, 2026). This showcases that any Chinese consumer spending directly effects the group-level earnings across the sector. However, at the moment the current recovery is driven by the consumer confidence rather than stable economic conditions, thus it is particularly vulnerable to geopolitical pressures and external shocks. This fragile nature is directly compounded by significant margin pressure across the luxury sector with LVMH's operating margin being compressed to 22% in 2025 from a significant peak of 26.7% in 2021, as well as with operating profit falling 9% year-on-year. (Reuters, 2026)

In the current economic environment, it is crucial to recognize individual brands and categories within the sector rather than focusing on the broader picture.

Following Bain & Company's category data; beauty shows a growth of 4 - 7% whilst watches declined 14-17% and leather goods fell 8-11% in 2025 illustrating a significant difference in priorities (Bain & Company). As Bain & Company's partner Priscilla Dell'Orto noted "in a more selective market, category dynamics and brand fundamentals are becoming increasingly decisive." Further compounding this, Bain speculated 65% of Chinese luxury consumption already occurred within mainland China in 2025, driven by a weaker renminbi narrowing price gaps with overseas markets and reducing the incentive for overseas shopping. (Bain & Company, 2026).



Source: Bain & Company

In an environment of escalating global geopolitical uncertainty this trend is likely to deepen even further. The critical question for Western luxury houses is whether that domestically- retained spending will continue to flow towards their brands or increasingly towards local luxury Chinese brands who are gaining more and more traction with cultural resonating aesthetics and digital first strategies. Thus, this shift of consumer identity and the rise of domestic luxury alternatives will be examined in the following abstract.

## Abstract 2: Consumer Identity and the Domestic Shift

Beneath China's luxury recovery, there is a more consequential structural shift that is emerging. The *Guochao* movement or the "national trend" has evolved beyond just a cultural nostalgia and into "Zixin" (自信) as stated by Jing Daily. It is a movement that is described by deep cultural self-confidence that is fundamentally reshaping consumption patterns towards domestic brands rooted in Chinese heritage. For example, Laopu Gold, a Beijing-based heritage jewelry brand founded in 2009 has generated revenue of 8 billion yuan in 2024, a 167% year-on-year increase as well as a revenue of 12.35 billion yuan in the first half of 2025 whilst Western brands reporting steep declines in China over the same period. (Inside Retail, 2025)

In fact, over 77% of Laopu's customer base directly overlaps with shoppers at Hermes, Cartier, and Bulgari suggesting that the brand is directly competing with the same consumers. (Daxue Consulting, 2025). And this is not a niche observation, in fact LVMH's managing director acknowledged that domestic jewellery brands in China are seeing "explosive growth". (WWD, 2025). For Western luxury houses, Laopu's rise represents a structural warning rather than an isolated case. As seen by the recent reports by Bain & Company the secondhand luxury market was growing at 15-20% in 2025 and still below 10% market penetration further reinforcing that consumers are increasingly seeking alternatives to full-price Western goods.

This acceleration is already visible in real-time consumer behaviour. During the 2026 Chinese New Year Spring Festival, Laopu Gold's counters at SKP reportedly drew queues of up to seven hours. With gross merchandise value for lightweight gold jewellery surging 214% year-on-year and consumers aged 25–35 accounting for over 75% of purchases, suggesting the domestic luxury shift is not a gradual trend but an accelerating one (WWD, 2026).

Based on the current insights and the economic state of the world it is likely that escalating political tensions will reduce overseas travel, consumption repartition will likely deepen. However, a critical question of whether the domestically retained spending will flow to Western brands or will accelerate towards domestic alternatives. Given the trajectory of Zixin and domestic brand growth, the evidence suggests the latter poses an increasingly material risk to Western luxury earnings in China.

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