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EMEA Retail

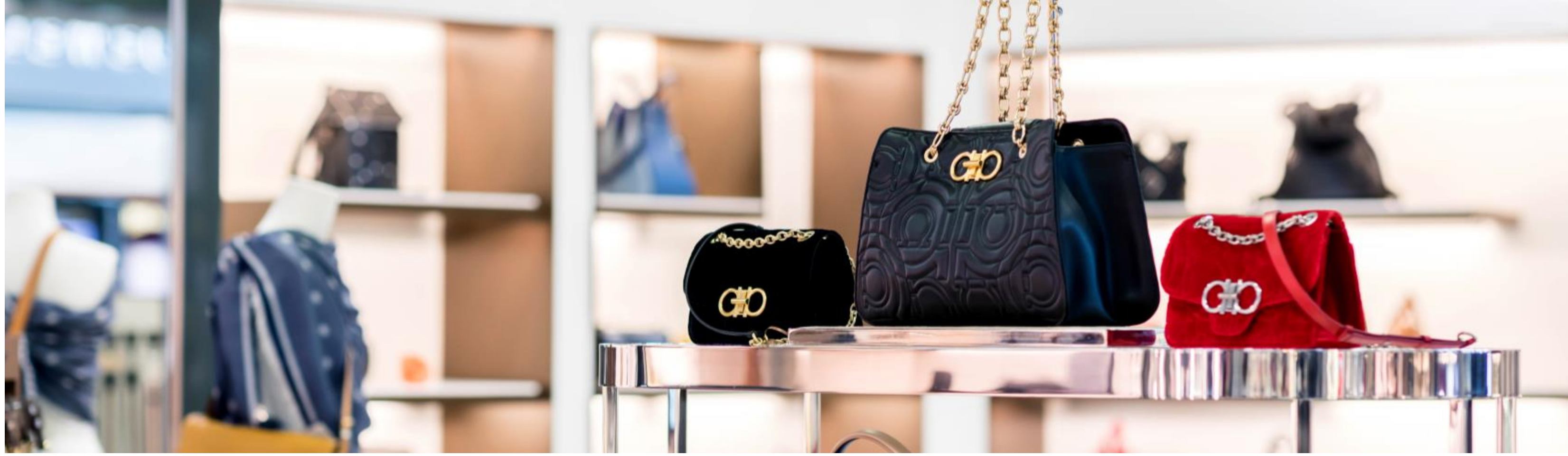
Retailer performance & response to changing market conditions

EMEA RESEARCH

Context

This short report looks at the performance of luxury and midmarket retailer operators in Europe. We examine their post-pandemic performance based on annual results posted to mid 2025. Retailers have had to contend with consumer uncertainty and wavering confidence, resulting in mixed results. Moreover, the luxury market appears to have peaked, with a slowdown evident as of 2024, potentially compounded by lower luxury tourism spend in 2025. We assess how retailers are responding to changing market dynamics, including responses to U.S. tariff and trade policies.

Executive Summary



- Luxury retail revenue growth has slowed significantly since the pandemic boom, with brands like Kering and Chanel seeing revenue declines over the last year. While a handful like Hermès and Prada have remained resilient due to brand loyalty and pricing discipline, a slowdown in luxury tourism spending is leading to reduced sales in 2025.
- Price increases were a key driver of luxury market growth from 2019–2023, but this strategy has reached its limits as aspirational consumers face affordability constraints. A general unwillingness to 'splash out' on discretionary spending is developing, given the uncertain economic situation.
- Operating margins are under pressure, prompting cost-cutting measures: such as workforce reductions implemented by Burberry, and Kering's real estate divestments. Tariffs could further squeeze margins, with mixed responses from luxury brands: some are raising U.S. prices, with others holding steady to avoid further affecting consumer demand and maintain global pricing.
- Consumer confidence in the EU remains relatively weak, with spending forecasts slightly downgraded. Consumer surveys reflect ongoing uncertainty, which will impact both luxury and midmarket segments, although wealthy consumers should have more built-in resilience. A sustained period of lower inflation and interest rates should provide a potential boost to spending, and a disincentive to save.
- Consumer surveys point to a drop in apparel spending in the next six months in Europe. It is too early to tell what store-specific strategies retailers will implement in Europe in response to the current situation.
- Confidence and spending in regions outside of Europe are also clearly affected. Economic forecasts for the Americas and APAC have weakened further than those of Europe, post 'Liberation Day'. While spending in the U.S. and China have driven growth in luxury spending in previous cycles, it may be more constrained this time around – as evidenced by the drop in luxury tourism spend in 2025.
- Midmarket/budget fashion is under pressure too, with H&M, Inditex and Primark all seeing relatively slower sales and revenue growth on a global basis. That said, Primark and Inditex don't seem to be put off by the U.S. market just yet. The recent outline agreement of a 15% tariff rate for the EU will at least allow for the ability to better plan ahead.
- On a broader operational basis, current conditions may act as a catalyst for change for some retailers. Inditex, for example, has a more diversified and regionalised supply chain than H&M and Primark – both of which are more dependent on products from China.
- H&M aims to adapt its supply chains to incorporate a near-shoring approach, but it remains to be seen whether now is the right time for H&M to accelerate this change.
- Apple has recently declared an US$800 million cost to the business in their Q2 2025 reporting emanating from new tariffs. While quarterly revenue beat expectations (US$94 billion), the prospect of higher product prices to compensate for a rising cost base is increasingly probable. It is accelerating it's move to a diversified manufacturing and logistics network, including accelerating it's AI investment internally.
- Trade policy is likely to remain unsettled and uncertain for months ahead, with the potential to further impact retailers in terms of both the demand and supply of goods. This could spur further M&A activity in due course.

2025 European consumer spending & retailer sentiment

In July 2025, EU consumer confidence hit -14.5, marking a 2 ppt drop compared to the same period in 2024. It is a sign that market sentiment is being accentuated by U.S. tariffs, despite an outline agreement being reached with both the UK and EU. Higher tariffs on European exports are expected to suppress demand for European goods, with potential for subsequent negative impacts on the workforce or subdued income growth. This will put pressure on consumer spending and equally could stimulate higher levels of saving.

While redirected exports from China could drive prices down for European consumers, higher tariffs with the U.S. in particular, could negatively impact European retailers. Passing these costs on to consumers at a time when they are already prioritising value for money, will be a challenge – revenue growth for many retailers is moderate at best. That said, lower interest rates could provide a potential boost to spending, although UK rates are operating at a lag to the European continent. It will take time for consumers and policy makers to have the confidence in lower inflation, and thus interest rate stability.

Oxford Economics forecast figures for real consumer spending in Europe have been cut back slightly to +1.6% on average this year, down from previous forecasts of +1.8%. This represents a slight uplift on 2024 spending (+1.5%) in real terms.

EU retailer sentiment reached -5.6 in July, an improvement since April (-7.1), but still below where it was at the end of 2024 (-3.0).

How have luxury retailers been performing?

Generally, luxury retailers traded exceptionally well in the pandemic years, as consumers spent their savings on luxury items. Various retailers demonstrated impressive revenue growth between 2019-2023 including Hermès (+95%), Moncler Group (+83%), LVMH (+61%), Richemont (+45%) and Kering (+23%).

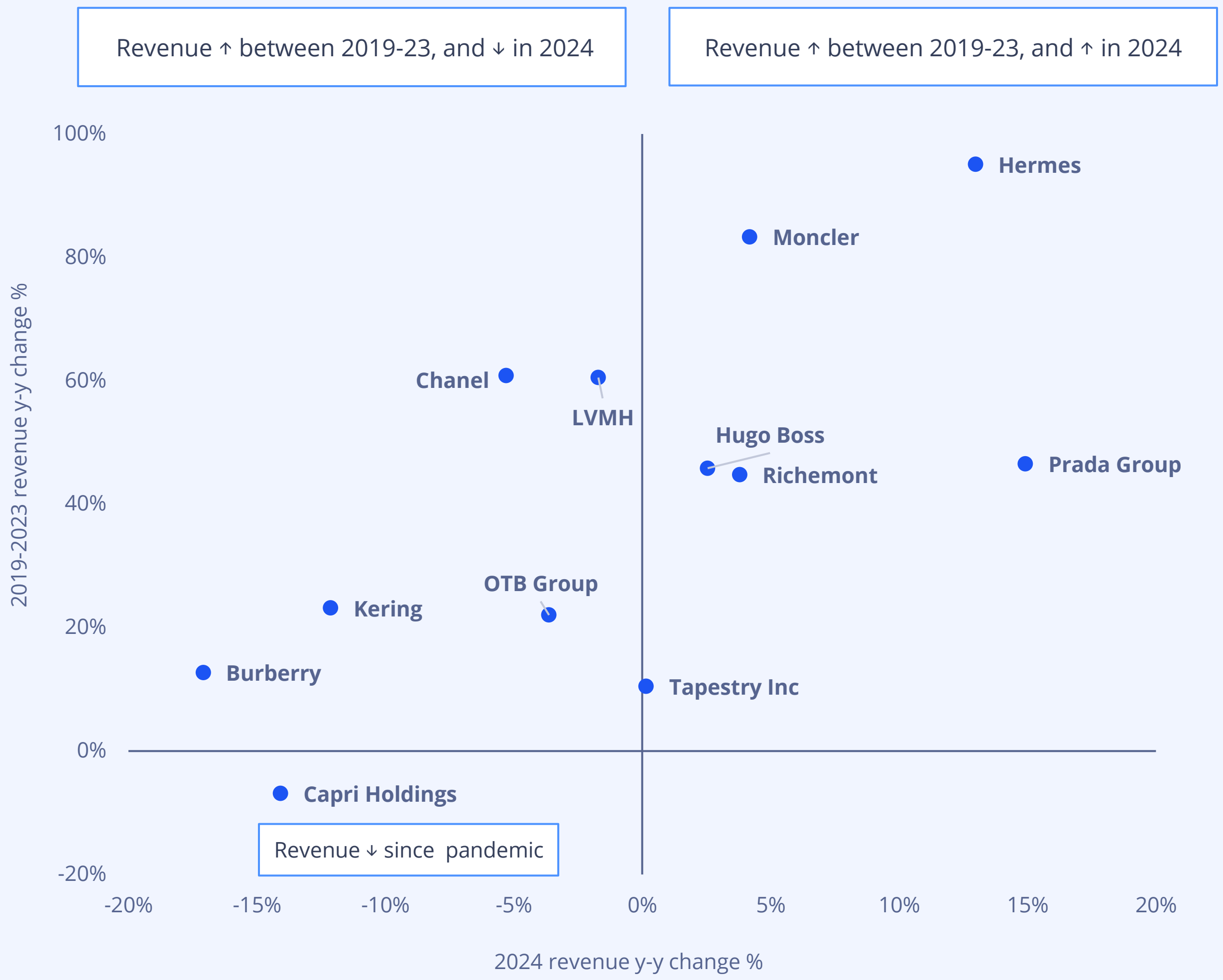
However, this revenue growth has been fueled by higher prices as much as expanding sales volumes.

- According to a 2025 McKinsey/Business of Fashion report, 80% of growth in the global personal luxury goods market was led by price increases. This was noted across categories, with even greater increases in leather goods.
- A 2024 HSBC report found that selected products at major luxury brands cost 54% more in 2024 (on average) than they did in 2019.

As of today, luxury retail is running out of momentum, with many retailers reporting a slowdown in revenue growth and squeezed margins, even prior to the U.S. tariff announcements in April.

This falling momentum is showing through in some Q2 2025 results, as tourism spending on luxury retail is diminishing too. Moncler Group blamed a -2% organic sales decline on weaker spend by Americans in Europe, and Chinese tourists in Japan.

Figure 1: Revenue change by luxury retailers: 2019-2023 % vs 2024 %



Source: Colliers, Statista, Retailer reports

How have luxury retailers been performing?

Strong performers

Hermès and **Prada** standout as winners in the past year, both maintaining double digit revenue growth, despite this representing a slowing rate of activity since the height of the pandemic.

Hermès (+13%) growth is supported by its restricted production model and more disciplined approach to price increases over the past few years — a strategy in contrast to pricing tactics adopted by many other luxury brands. With shoppers having absorbed sharp price increases over the last few years, many now have limited capacity to continue spending at current (or higher) prices.

Prada Group's growth (+15%) in 2024 was driven by its Miu Miu brand. However, weaker tourism spend has seen sales within the Prada brand drop by -2% in H1 '25 – tourists contribute to around 30% of Prada Group sales, globally.

Challenged brands

- **Chanel** is a primary example of a luxury brand where consumer demand is stalling as a result of rising prices, with total revenues dropping -5% in 2024.
- **Burberry** has seen the poorest performance with revenues down -17% in the last FY.
- **Tapestry**, owner of "affordable" luxury brands Coach & Kate Spade, maintained sales in the last year, while **Capri Holdings** (owner of Michael Kors & Jimmy Choo, and formerly Versace) has been performing poorly for some time and never managed to sustain the uplift in sales like other brands did post 2021. This helps to understand the sale of its Versace brand in April 2025 *(see next section).*
- Key luxury conglomerates **LVMH**, **Kering** and **Richemont** have seen a marked slowdown in annual sales growth since the heights of 2021.
- Kering in particular, has seen consecutive years of declining sales and squeezed margins. Reports in June 2025 suggest the group is now planning to sell a majority stake in a prime Fifth Avenue property it purchased in January 2024, for just under $1 bn. This follows a similar agreement earlier in 2025, to sell a majority stake in three properties in Paris, including 2 prime retail buildings on Avenue Montaigne.
- LVMH cited changes in tourist spending patterns as the key reason for a reported -9% drop in sales in its fashion and leather goods division in Q2 2025.

Margins under pressure

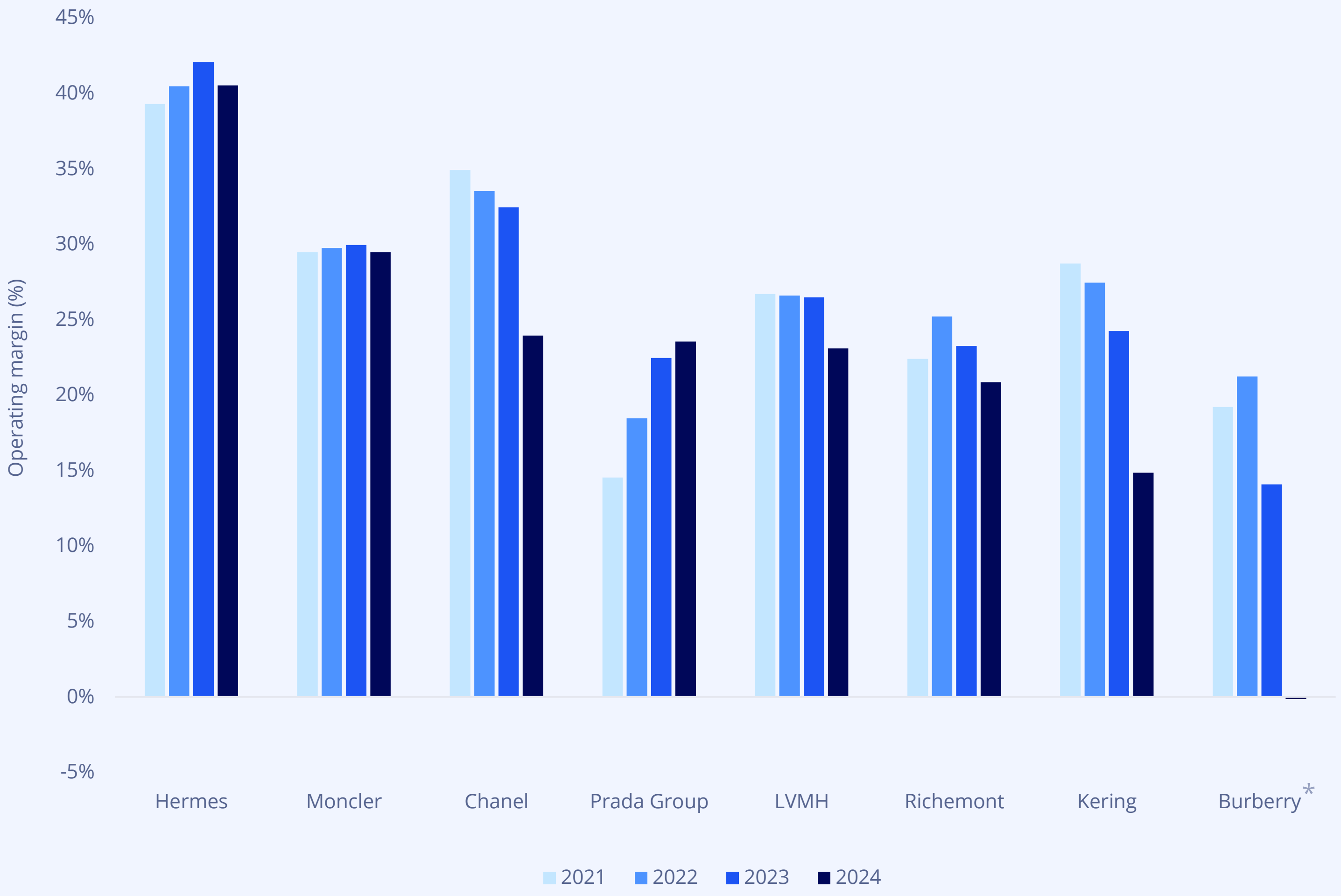
It's clear from operating margins, Hermès' model continues to work successfully for the time being.

Retailers like Burberry, Chanel and Kering are feeling the pressure, and cost savings need to be found. As Kering moves forward with its part sale of prime properties in New York and Paris to free up capital, Burberry is set to cut its global workforce by a fifth, cutting back on 1,700 jobs.

In April 2025, Capri Holdings agreed the sale of Versace to Prada Group for c. $1.38bn. The deal was agreed the week after Liberation Day, reportedly leading the purchase price to be cut by $200mn, given the expected pressures additional U.S. tariffs would create for the brand.

Further pressure across retailer brands could result in more M&A activity, as they react to changing market dynamics.

Figure 2: Operating margins/EBIT % 2021-2024 for luxury retailers



Source: Colliers, Statista, Retailer reports
*Burberry 2024 margin reported at -0.1%

How will proposed U.S. tariffs impact luxury retail, and how will retailers respond?

There has been a mixed response from retailers to the multitude of outline U.S. tariff deals on global goods imports. Given the significant retail price increases already implemented in recent years, retailers may find limited scope for further hikes beyond inflation. Particularly if aspirational consumers have reduced capacity to shop at higher prices.

The following outlines the position of multiple retailers prior to the EU-U.S. deal being struck at the end of July – with a 15% tariff on European exports to the U.S to contend with. The latest tariff rate for Switzerland is far more punitive, at 39%.

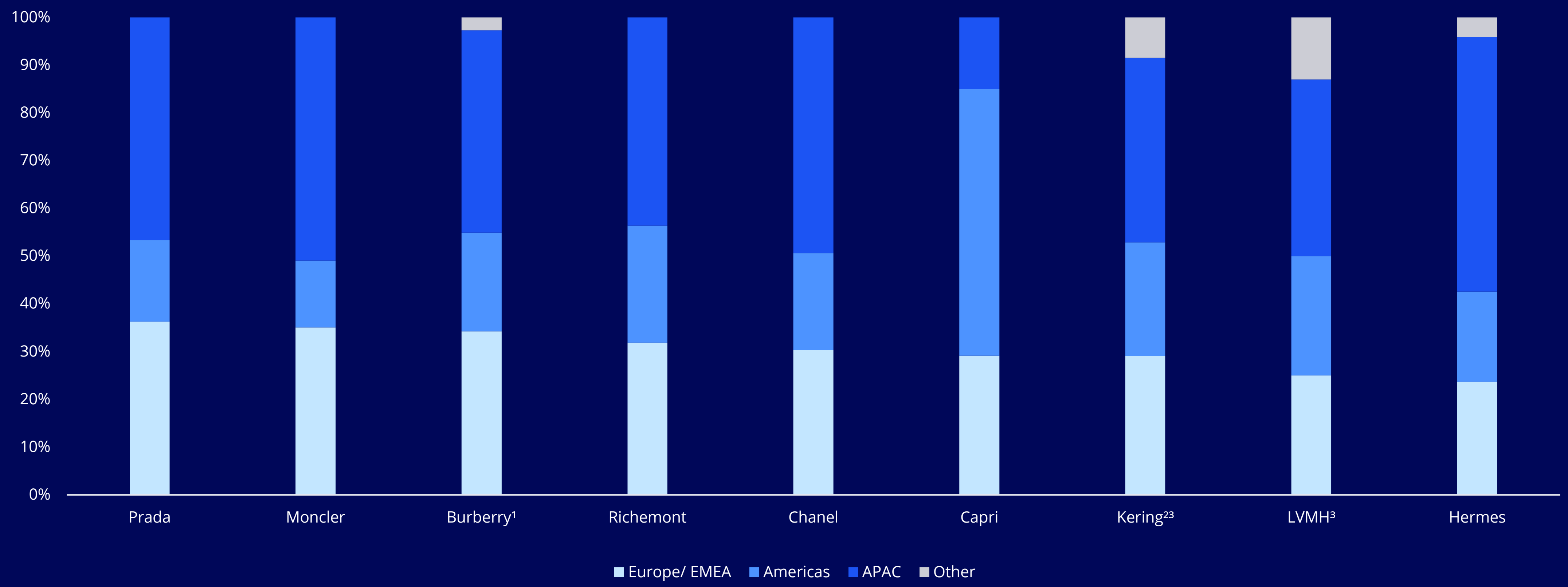
- Watches of Switzerland reported that several of its U.S. brand partners had introduced single-digit price increases earlier in July. We may see more significant price adjustments going forwards.
- Conversely Richemont, said in May 2025 it will avoid **"sudden, sharp"** price increases, noting that avoiding this in the past few years has worked well. That said, there may be further developments on this to come. The brand also aims to maintain consistent global pricing, to reduce the chance of consumers shopping for the same product at a better price when travelling to other countries/regions.
- Chanel, which typically reviews and raises prices each March and September, **skipped** its spring 2025 increase, with executives now planning to align pricing with inflation. This marks a shift from the steep hikes seen during the pandemic.
- Hermès, buoyed by its strong annual performance, was one of few retailers confident in communicating an increase in U.S. prices in direct response to tariffs, which it implemented in June.
- In May 2025, LVMH suggested it had the **ability** to raise prices +2-3% on certain good types such as jewellery, but less capacity to do so on beauty products, and so will likely rely on brand level pricing decisions. A whopping 25% of LVMH revenues are derived from U.S. consumers, so they could be an early mover in adopting new prices.
- Hugo Boss and OTB Group (owner of the Jil Sander & Maison Margiela brands) have each said they were **considering** price increases prior to the announcement of the EU-U.S. trade deal.

Overall, it remains unclear whether retailers will communicate any changes transparently or opt for more discreet, incremental adjustments. Retailers could implement price increases globally rather than focusing solely on the U.S., thereby distributing the impact.

With global consumer confidence under pressure, the impact of U.S. tariffs on luxury brands will vary due to the geographical diversification of their customer base and revenue streams. Statista Market Insights suggest luxury fashion revenues will drop -1.6% worldwide in 2025, and -0.4% in just the EU-27 region.

While most retailers examined do not disclose U.S.-specific figures, regional revenue breakdowns indicate that exposure to European consumers is relatively consistent. Reliance on APAC and the Americas varies more widely *(see figure 3 overleaf)*.

Figure 3: Revenue/Sales breakdown by region for luxury retailers



[1]Burberry EMEA also includes India, [2]Kering Europe is Western Europe, [3]Americas is just U.S. for LVMH and North America for Kering

Source: Colliers, Statista, Retailer latest annual reports

European luxury spending patterns and outlook

An April 2025 survey by Boston Consulting Group (BCG), found that only 30% of European consumers surveyed cited potential tariffs as a concern at that time. However, it is possible that sentiment around tariffs has evolved since then. Some 54% were pessimistic about the economy, an increase of +7% from the previous year.

BCG responses noted that net spending on luxury goods had fallen in the past year. In particular, spend in the last six months was flat or down for households earning below €100,000 p/a. Yet results did indicate an intention to increase spending on luxury items in the next year from consumers who had purchased luxury items in the previous year.

Even so, the January 2025 McKinsey/BoF survey results suggest that luxury travel and experiences will increasingly compete for spending on luxury goods globally by High Net Worth Individuals (HNWIs) going forward.

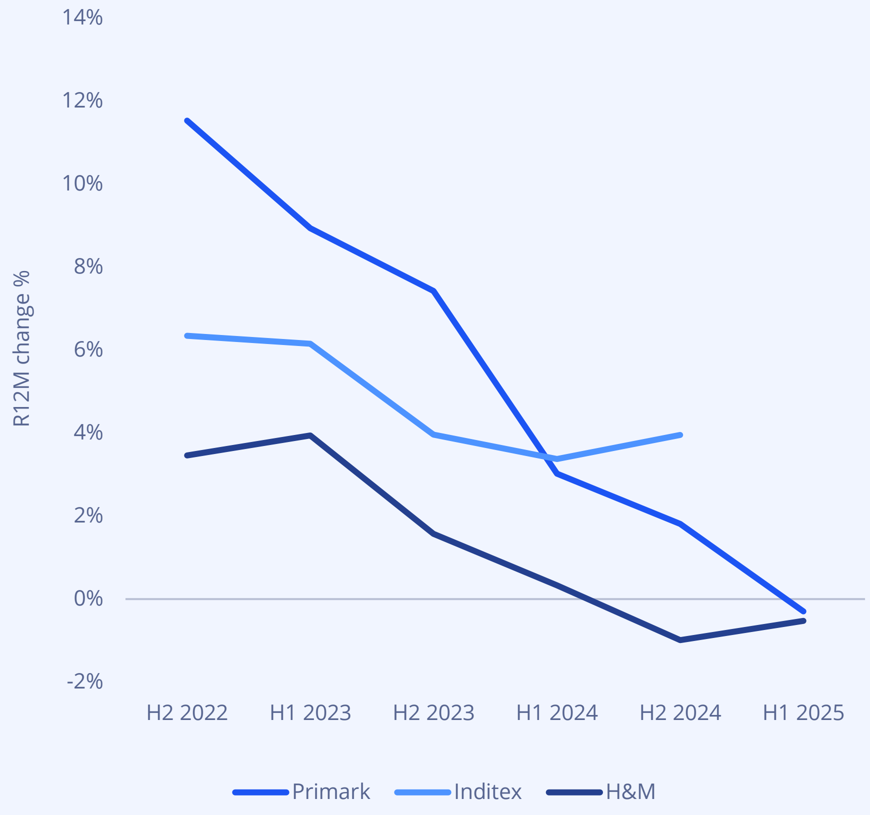
How is midmarket and budget fashion performing, and how are operators reacting to potential U.S. tariffs?

BCG analysis found a 20 point decline in expected spending on apparel in the next six months in Europe, highlighting the luxury retail market is not the only segment under pressure. Oxford Economics forecasts that spending on clothing and footwear will grow by approx. +1.4% in 2025. Growth varies markedly across markets - such as the key European economies UK (+1.4%), France (flat) and Germany (-0.4%).

H&M saw a slight uplift in sales to H1 '25, but on a rolling 12 month basis revenues have been in decline since H2 '24. The powerhouse of **Inditex** is also seeing a slight growth slow down; it's latest quarterly results to April '25 registered sales growth of only +1.5%.

Even budget friendly **Primark's** sales grew just +1% in the first half to March '25 (y-y), dropping -0.3% on a R12M basis. Notably, sales in the UK and Ireland (46% of total retail revenues) declined -4% (y-y), with sales growth in other European markets largely driven by new store openings.

Figure 4 R12M Revenue change % for midmarket/budget fashion retailers



Source: Colliers, Statista, Retailer reports

How is midmarket and budget fashion performing, and how are operators reacting to potential U.S. tariffs?

The U.S. currently accounts for 5% of Primark's sales, and the retailer currently remains committed to its expansion plans, aiming to double its store footprint there by 2026. The CEO expressed optimism that changes to the U.S. de minimis rule, affecting low-cost packages, will encourage consumers to return to physical stores in search of value. In Europe, Primark has pledged to maintain price stability for now, aside from previously announced increases. It aims to protect its position as a leading low-cost retailer for consumers, at a time when value for money is a priority.

The U.S. is Inditex's second largest market by revenue after Spain. The Inditex CEO is also upbeat about its U.S. operational resilience, sharing plans to keep prices stable back in March 2025. However, retail price tracking firm EDITED found average price increases of 28% on key Zara items in June 2025, compared to the previous year in the U.S., suggesting adjustments are being made in at least one of its brands. H&M has not ruled out price increases for consumers.

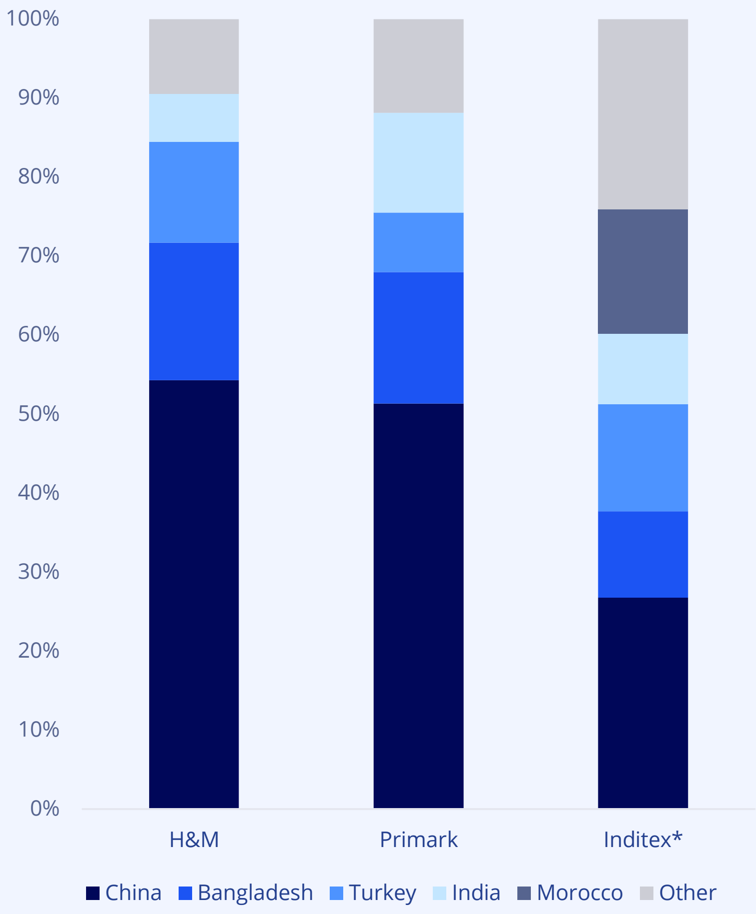
Mid-market supply chains

Despite China accounting for c. 27% of Inditex's core manufacturing operation, it has a diversified, near-shoring supply-chain, much more so than its competitors. Morocco and Turkey are key suppliers, and 18% of its core supply chain is located on the Iberian peninsula.

By comparison, H&M and Primark are both heavily dependent on suppliers in China, each at over 50%, with Bangladesh also key to all three operators. Prior to U.S. tariff announcements, H&M had spoken of its intention to move towards regionalised supply chains for Europe and the U.S. (which accounted for 13% of revenues in 2024).

Although key retailers such as H&M intend to make improvements for future resilience, this adjustment is not applicable to all retailers. Many have adjusted their supply chains & store footprints in direct response to the changing retail environment post-Covid. Resilience has been built into most retail operations, creating more stable platforms for the short-mid term, but further pivoting can't be ruled out longer-term.

Figure 5: Manufacturing/supplier factory locations by retailer 2024



Source: Colliers, Statista. *Inditex based on key supplier clusters with purchases in 2023.

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