

Is the Lipstick Index still valid?



Image source: iStock/severija

Leonard Lauder, chairman of Estée Lauder Companies and creator of the “Lipstick Index,” passed away on June 14, 2025. As the beauty industry reflects on his legacy, is his famous theory still relevant today?

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Before a recession appears in economic reports, it manifests in daily consumer decisions. Cancelled hair appointments become more frequent. Home-packed lunches replace restaurant orders. Designer handbag wishes are substituted with a \$30 lipstick.

The Lipstick Index theory, coined by Estée Lauder's Chairman Leonard Lauder during the 2008 financial crisis, suggests that in tough times, consumers turn to affordable luxuries such as cosmetics for emotional comfort without a huge financial commitment. Historical evidence on cosmetics sales appeared to validate this pattern, from the Great Depression to more recent downturns. But, the latest quarterly earnings suggest this once-reliable indicator may no longer hold.

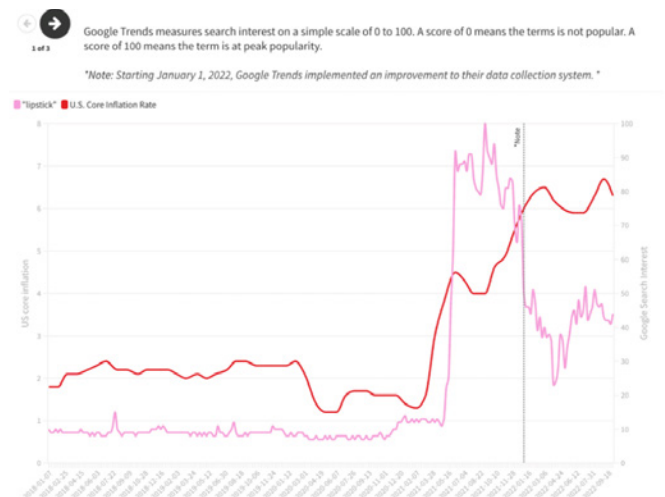
Why lipstick?

During economic downturns, economists examine consumer spending patterns for early recession indicators. Among these signals, the beauty industry offers an intriguing metric that might predict the economy's direction over the coming year. This phenomenon stems from Leonard Lauder's observations during the 2008 financial crisis. As chairman of Estée Lauder, Lauder noticed that while consumers reduced major expenditures, lipstick sales remained resilient. His "Lipstick Index" theory proposed that economic uncertainty drives people toward the most affordable luxuries. Instead of making expensive purchases, consumers simply shift to small indulgences that provide emotional comfort.

This shift in consumer behaviour has also been observed beyond cosmetics. Following the 2008 financial crisis, "recession hair" became a recognised indicator, as clients postponed regular cuts and styling appointments to save money. A comparable pattern is emerging today, with hair-stylists across the US noting a rise in demand for low-maintenance styles, such as "recession blonde" highlights, that reduce the frequency and cost of salon visits.

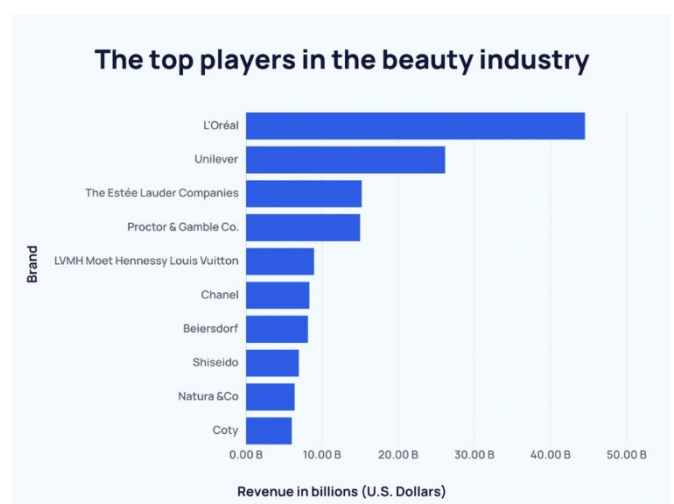
Although economists still debate the theory's validity, JP Morgan Wealth Management argues that Lauder's idea holds some truth: with inflation making big expenses like homes and cars harder to afford, many consumers turn to small luxury items like a \$30 Dior lip plumper to itch their consumer scratch. JP Morgan also notes that during inflation, price increases on low-cost luxury items feel more acceptable than those on bigger-ticket goods.

The idea behind the Lipstick Index emerged just as the American economy was heading into a recession. Google Trends showed that "lipstick" searches peaked in September 2008. Similar trends have appeared across various economic crises. In the early 1920s and during the Great Depression, beauty retailers experienced unexpected sales increases. The post-pandemic period introduced a different dynamic, but the underlying concept remained. Forbes reported that lip product sales declined by 15% in 2020, a deviation from what the Lipstick Index would predict. Analysts attributed this decline to a substitution effect, as consumers prioritised skincare products over traditional cosmetics. The broader beauty sector experienced remarkable expansion during this period. Skincare witnessed unprecedented growth, and investment capital flowed heavily into beauty companies. In 2021, investments in beauty companies reached \$1.5 billion, up \$600 million from 2019.



Source: Google Trends, Debt.com

Companies rarely disclose detailed quarterly lipstick sales data. However, recent data suggests that beauty products may no longer be the economic indicator they once were. This last quarter delivered a series of bruising results across the beauty industry. Coty experienced a 6% sales decline, Estée Lauder, home of Clinique and MAC, reported a 10% drop in net sales, and L'Oréal managed only modest 3.5% growth, a retreat from its typical double-digit gains. LVMH's perfumes and cosmetics division remained flat, and its subsidiary Sephora failed to grow. Across the board, companies announced layoffs and reduced forecasts. Company executives blamed the downturn on retailer destocking, economic uncertainty, and potential tariff impacts during earnings calls.



Source: Statista

The evolution of the beauty market

The beauty market can be divided into four primary segments: skincare, haircare, colour cosmetics, and fragrances. The global beauty and personal care market is projected to generate \$677 billion in revenue in 2025. Skincare dominates with 42% of market share, surpassing the combined share of hair care (22%) and makeup (17%). For years, an endless demand for new products drove strong growth in the beauty industry. From 2022 to 2024, the sector grew by 7% annually, according to McKinsey. But that momentum is starting to slow. McKinsey now expects annual growth to average 5% through 2030, while Statista projects an even lower rate of 3.37% between 2025 and 2030.

It appears the beauty market today operates under quite different conditions than when the “lipstick effect” theory emerged. Years of high inflation and sluggish economic growth have squeezed disposable income, and when people do choose to splurge, beauty no longer automatically tops their priority list. The industry’s core demographic, middle-class, aspirational shoppers, has begun pulling back substantially. US retail sales declined 0.1% in April compared to the previous month.

In parallel, brands increasingly push premium products rather than affordable impulse purchases. The overwhelming variety of offerings has left many consumers feeling ambivalent about beauty spending altogether. Ironically, the very factors that once powered the industry, constant product launches and category expansion, are now leading to consumer fatigue and market fragmentation.

Social media trends like TikTok’s “underconsumption core” reflect this shift. Emerging last summer, the movement encouraged simpler beauty routines and showed that even Gen Z is feeling overwhelmed by the constant flood of new products. Adding to this complexity is a broader shift in how consumers define “beauty.” According to McKinsey, the concept now extends well beyond traditional makeup and skincare to include wellness, self-care, and even aesthetic treatments.

Meanwhile, the industry’s two business areas, marketing and retail, are also facing challenges. Overreliance on paid digital ads saturated online spaces, and influencer fatigue is setting in as consumers become increasingly sceptical. In terms of shopping behaviour, physical stores remain the preferred channel to discover and test new products. But for refills and regular purchases, consumers often turn to online marketplaces, drawn by aggressive discounts and fast shipping. These strategies may drive sales, but they can hurt brand image and reduce margins for both brands and retailers. Rather than merely competing on delivery speed or promotional pricing, beauty executives should prioritise crafting shopping experiences that genuinely address their customers’ needs and preferences. Advanced technology solutions, including AI-driven personal shopping assistants, offer opportunities to enhance digital experiences.

Beauty is a deeply emotional category, especially for brands that address specific concerns like acne or hair loss, or those with a clear visual identity and distinct formulations. Analysts expect the slowdown to last well through the summer but highlight that success going forward will depend more on innovation and individuality than on scale.

The exceptions

Amid this widespread industry malaise, some segments and companies are defying the broader trend. Korean beauty represents one of the industry’s most dynamic growth segments, with the global K-beauty market expected to grow at a CAGR (compound annual growth rate) of 11.3% from 2025 to 2033, reaching \$38.29 billion by 2033 from \$16.26 billion

in 2025. This success is mostly demonstrated in the United States, where South Korea emerged as the leading cosmetics exporter in 2024, overtaking France.

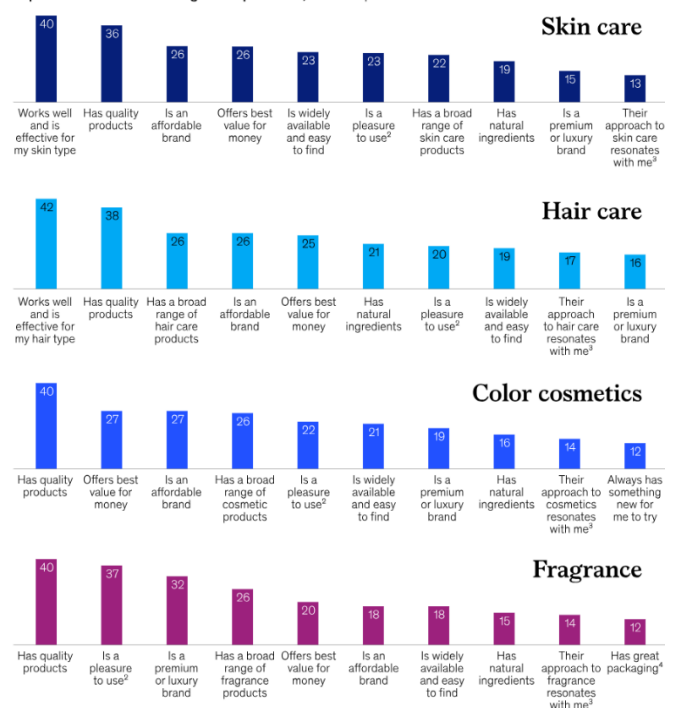
This triumph stems from Korean brands’ emphasis on natural ingredients, multi-step routines, and innovative formulations that have captured global consumer imagination, particularly among younger demographics seeking effective, affordable alternatives to traditional Western beauty products. Korean consumers themselves are highly knowledgeable and discerning, demanding high product quality at low prices. A distinct feature of the segment is its playful, eye-catching packaging, often featuring vibrant colours, animal characters, and a less scientific tone. This element of “skin-tertainment,” as termed by market researchers at Mintel, brings a sense of fun and novelty that appeals to Gen Z and millennial audiences.

Leading players are seeing strong results from this global momentum. Amorepacific, which owns brands like Laneige, Aestura, and Sulwhasoo, expanded aggressively across North America and Europe. In the first quarter of 2025, the group reported a 15.7% increase in revenue and a 55.2% jump in operating profit year-on-year, driven largely by a 40% surge in overseas sales. The company’s stock returned 31% year-to-date.

Another standout in the beauty space is e.l.f. Beauty, which made waves in May with a landmark \$1 billion acquisition of Hailey Bieber’s Rhode skincare brand. Rhode, launched in 2022, had already reached \$212 million in net sales last year and was the top skincare brand in earned media value in 2024 with 367% year-over-year growth. e.l.f. itself faced headwinds earlier in the year, with stock prices sliding and trading volumes falling amid weaker earnings and lowered guidance. The tide turned fast: after the Rhode deal and a strong Q4 report, shares skyrocketed 24% in a day—and soared nearly 70% over the month. The Rhode deal exemplifies how betting that the right brands with authentic stories, genuine innovation, and clear value propositions can still capture significant market share even in challenging conditions.

Consumers prioritize product quality across category purchases.

Top 10 attributes influencing brand purchase,¹ % of respondents



¹Question: Think about the brand per category you buy the most. Which of the following attributes best describes why you buy it the most?

²E.g. it has a nice texture or smell.

³E.g. how they make their products.

⁴E.g. functional, appealing, or unique.

Source: McKinsey Global Beauty Consumer Survey, Feb 2025 (n = 3,600–3,700 per category)

Source: McKinsey & Company

Conclusion

Today's beauty market reveals a simple truth: authenticity plus innovation plus targeted appeal equals growth, regardless of broader economic conditions. K-beauty's meteoric rise and Rhode's rapid ascent demonstrate that in an over-saturated market, the winners will be brands that offer clear value propositions rather than simply affordable alternatives.

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