

Luxury in Times of Anxiety: Compensatory Consumption under Economic Uncertainty

Ziqi Zhou

School of Business, University of New South Wales, Sydney 2052, Australia

Abstract: Despite the continuous state of economic instability and increased consumer anxiety in the post-pandemic period, the global luxury consumption trend has actually remained strong. This paper attributes this paradoxical phenomenon to compensatory consumption and proposes that luxury consumption could actually be an important psychological resource for those confronting threatened self-evaluation, control, and social comparisons. Based on previous studies illuminating consumer anxieties, emotion regulation, and symbolic consumption, our paper provides a threefold conceptual framework to isolate psychological compensation to regain self-esteem and control, emotional compensation to reduce distress, and social-symbolic compensation to communicate symbolic markers. We further outline boundary conditions under which compensatory luxury consumption is more likely to emerge and discuss when such consumption may become maladaptive. By reframing luxury demand as partly motivated by self-regulatory goals under uncertainty, this article extends compensatory consumption theory to the luxury context and offers directions for future research on mechanism-specific outcomes and ethical implications.

Keywords: Consumer anxiety; Luxury consumption; Compensatory consumption; Economic uncertainty; Self-evaluation; Perceived control; Social-symbolic consumption.

1. Introduction

In recent years, macroeconomic uncertainty and broader social unrest have continued to intensify, gradually affecting the consumption decision-making environment of consumers. The long and unbalanced economic recovery after the COVID-19 pandemic has further exacerbated people's concerns about personal economic security. At the same time, social media has amplified the phenomenon of upward comparison, making economic vulnerability and personal inadequacy increasingly prominent in daily life. In this light, consumer anxiety is no longer merely a marginal emotional reaction but a large psychological one. As such, existing studies have shown that in uncertain conditions, people are more anxious, powerless, and worried about future stability [1]. These mental states have had increasing impacts on consumption decision-making.

From a macro-economic perspective, recent indicators—especially projections by the International Monetary Fund—would suggest that the bounce back from the global economic slowdown is still fragile, with easing in overall economic improvement. Activity with weakening growth momentum. According to the World Economic Outlook published by the International Monetary Fund in October 2025, global economic growth is expected to further decelerate from about 3.3% in 2024 to 3.2% in 2025 and further to 3.1% in 2026 [2]. This tendency implies increasing pressure on household budgets, as income growth struggles to keep pace with broader economic uncertainty. However, such expectations do not fully tally with the real course of development of the luxury goods industry. The pressure from the overall economic environment did not prevent the luxury goods industry from continuing its growth in the same period. According to Bain's 2024 Luxury Goods Report, the global luxury goods market is expected to reach approximately 1.48 trillion euros in 2024, far higher than the pre-epidemic level [3]. Financial data from leading groups in the luxury goods industry further consolidates this model. For instance,

according to LVMH's 2024 annual report, despite continued economic uncertainty, the group maintained strong profitability, which indicates that high-end consumer demand has significant resilience [4].

These completely different trends lead to an important theoretical question: why is luxury consumption not suppressed as predicted by traditional economic logic under increasing economic pressure and anxiety? This study not only attributes this phenomenon to the income effect or ostentatious consumption motives, but also focuses on the subjective psychological experience of consumers at the individual and social levels. Based on the theory of compensatory consumption, this study examines how luxury consumption is related to the process of self-evaluation, emotional regulation and social identity construction in an uncertain environment. The structure of this article is as follows: First, it reviews the literature on consumer anxiety and behavioral responses under economic uncertainty. Secondly, introduce the theory of compensatory consumption, and distinguish between the psychological compensation mechanism, emotional compensation mechanism and social symbol compensation mechanism in luxury consumption. The next chapter will discuss each mechanism in turn, and finally discuss its theoretical significance, potential risks and future research direction.

2. Consumer Anxiety and Behavior Responses under Economic Uncertainty

Existing research shows that anxiety can be aggravated in economic uncertainty [1]. From a psychological perspective, it is widely believed that this anxiety will weaken an individual's sense of control over future outcomes, thus affecting their subsequent consumption behavior. On the contrary, it actively participates in the formation of consumer behavior by influencing consumers' perception of risk, evaluation of options and decision-making direction.

A study emphasizes that consumers tend to adopt a more restrained consumption pattern under stress or anxiety. Based on seven experimental studies, Durante and Laran (2016) pointed out that consumers under pressure are more inclined to increase their savings or allocate limited expenses to their subjective definition of "necessities" [5]. But it is important to recognize that this revelation is also connected to another important conceptual issue, where the question arises of who gets to determine what is 'necessities' in the first place. It has already been demonstrated that the definition of 'necessities' is not predetermined or objective, but is primarily dependent on consumers' subjective beliefs, notions, and interpretations to some extent. There may be occasions where certain items, which are otherwise classified under the 'other' category, might be momentarily considered 'necessities' if they provide some alleviation for the individual suffering from psychological turmoil or instability for the purpose of providing psychological dividends.

Contrary to the above inhibitory process, another study reveals that anxiety is not inevitably associated with a contraction of consumer spending. In the study by Sharma and Alter (2012), they discovered that through the simultaneous effect of social comparison and scarcity cue, consumers with perceptions of financial constraint tend to demonstrate more favor for products with value based on scarcity or symbolic value [6]. The above result clearly indicates that the consumer's response to anxiety is not homogeneous. Rather than avoiding spending across the board, some consumers tend to change their preferences to symbolic products. In this regard, anxiety not only alters the size or scope of consumer spending, as previously discussed, but also probably changes the types of products consumable by the consumer. Through this understanding, some studies apply the conceptualization of emotional regulation and psychological responses to consumer spending activities and processes as a whole. The study by Rick, Pereira, and Burson (2014) clearly identifies that, on some occasions, some consumers actually seek shopping as a way to overcome undesirable emotions like sadness and re-access control and mastery on their lives [7]. The above explanation clearly indicates the psychological or emotional regulation process and its functions on the aspect of consumer spending activities and processes as a whole. As Koles, Wells, and Tadjewski (2018) also pointed out on the systematic review on the issue of compensatory consumerism, it should also be noted that the process and activities involved should not always result automatically and incorrectly on impulsive behaviors [8]. Rather, this process and activity usually emanate from a situational constraint-dependent compromise or approach based on fixing the self-difference or the situation's constraint or limitations, and not on achieving maximum utility outcomes. It is necessary to point out that anxiety is not only triggering adaptive/consumer compensatory behaviors. As is evident from existing research, when anxiety is prolonged or particularly intense, consumers are more likely to exhibit impulsive or compulsive buying tendencies, which may lead to deviations from fully rational decision-making in consumption contexts [9]. It is quite evident that the influence of anxiety on consumer behaviors is complex and depends on the existing conditions.

In conclusion, research has already found that anxiety acts neither as a simple non-consumption or inhibition of consumption. On the contrary, it affects and influences consumerism through a number of mental processes: through

inhibition and defensive reactions, or through the activation of compensatory and symbolic consumption processes; or even through maladaptation. Thus, the rational and irrational dichotomy of consumption driven by anxiety cannot capture the full complexity of the phenomenon. Thus, within the above theoretical background, the theory of compensatory consumption will provide a more refined analytical framework to explain how consumers apply consumption to deal with uncertainty, and provides a theoretical premise to explore luxury consumption mechanisms.

3. Compensatory Consumption Theory and Luxury Consumption

Taking into consideration this context, the compensatory consumption hypothesis is one of the theories that can be abundantly utilized for the analysis of consumption behavior in anxious and uncertain markets because research literature reveals that anxiety is not always inhibiting for consumption behavior because, in certain situations, consumers experience activation of the compensation process because of which certain consumption behaviors are boosted because consumers often consider luxury products as "temporary necessities." The market behavior illustrates that consumption, especially luxury consumption, is not always linked with acquiring practical value. Arising from this question of what drives the above-stated consumer behavior, Mandel et al. suggested the compensatory consumer behavior model (CCBM), which defines consumption as the result of self-difference and emotional stress [10]. The mismatch between the perceived self and the ideal self might result in certain psychological discomforts like anxiety, frustration, and powerlessness. Therefore, to compensate for the discomforts experienced by these individuals, they tend to behave in certain ways to counteract these discomforts, as opposed to changing their environmental surroundings [11]. Notably, there are various forms that the compensation response can take. There is direct compensation if a person's economic status or ability comes into question; this person shall acquire and display luxury goods in order to display their status or ability/success in a social setting. In contrast, symbolic compensation refers to individuals buying luxury goods mainly out of symbolic significance and using them to build or strengthen the "ideal self" at the subjective self-cognition level, even if there is no public social display.

This study is based on the compensatory consumption model (CCBM) proposed by Mandel et al. (2017), which is not intended to redefine compensatory consumption [10]. On the contrary, this study extends this theoretical perspective to the field of luxury consumption. In luxury consumption, luxury is not only a symbol of wealth or status, but also a psychological resource that helps individuals cope with anxiety, rebuild self-worth and reaffirm social identity. From this perspective, the compensation function of luxury consumption can be analyzed and distinguished from three dimensions: psychological compensation, emotional compensation and social symbol compensation.

Although these three mechanisms often appear at the same time in practice, they play a role at different analytical levels. Psychological compensation mainly involves the internal process at the interpersonal level. Consumers restore threatened self-evaluation and perception control through luxury goods consumption. Emotional compensation focuses on the emotional consequences of consumption, emphasizing

its role in alleviating negative emotions and providing immediate emotional comfort. In contrast, social symbol compensation plays a role at the interpersonal level, that is, using luxury goods as symbolic clues to convey identity, status and social belonging to others. These mechanisms will be discussed in the next chapter.

4. Psychological Compensation

Psychological compensation is the most basic form of compensatory consumption. Its theoretical roots can be traced back to the theory of self-difference proposed by Higgins (1987). The theory believes that the difference between the perceived real self and the ideal self will produce negative psychological states, including anxiety, depression and powerlessness [11]. In order to alleviate this discomfort, individuals may adopt symbolic behavior to temporarily adjust their self-evaluation, so as to restore psychological balance.

In the compensatory consumer behavior model (CCBM), this process is conceptualized as a symbolic regulation mechanism that operates at the individual level. Consumers do not try to change the objective conditions, but rely on the symbolic meaning contained in consumption behavior to compensate for the psychological discomfort caused by self-discrepancy [10]. In this sense, psychological compensation functions as an intrapersonal mechanism through which individuals restore threatened self-evaluations and regain a sense of perceived control.

Within the highly uncertain and threatening context, the sensation of powerlessness is very salient. According to the definition given by Kim & Oh (2025), powerlessness is the psychological state in which people experience a lack of control over their environment and life outcomes [12]. The findings of the research illustrate that powerlessness does not only disturb mental health, but it is also linked to a specific coping strategy, which is compensatory consumer behavior of luxury goods.

More specifically, Kim and Oh (2025) find that powerlessness directly increases consumers' tendency toward luxury compensatory consumption, while simultaneously exerting a negative effect on self-esteem. However, self-esteem cannot significantly predict the compensatory consumption of luxury goods, so its intermediary role in the relationship between powerlessness and compensatory consumption of luxury goods has not been confirmed [12]. Against this background, luxury goods play a highly symbolic role as psychological resources, and consumers can use these resources to deal with threatened self-evaluation. Through the connection of success, reputation and social value contained in luxury brands, this kind of consumption can symbolically affirm personal value under the condition that external constraints remain unchanged.

Compensatory luxury consumption helps to restore the perceived sense of control. Compared with daily consumption, luxury purchases usually involve a higher degree of autonomy, thoughtfulness and symbolism, enabling consumers to regain a sense of control in at least one area of life. Kim and Oh (2025) further found that compensatory luxury consumption is positively related to subjective happiness, indicating that in the case of powerlessness, this consumption can be an effective (although inherently temporary) psychological response [12]. Among consumers with strong materialistic values, the sense of powerlessness will lead to a more significant decline in self-esteem, and the relationship

between self-esteem, luxury compensatory consumption and subjective happiness is also more prominent. In contrast, these relationships are not significant among consumers with a lower degree of materialism. These findings show that psychological compensation through luxury consumption is not a homogeneous coping mechanism, but will vary according to the individual's value orientation.

In other words, psychological compensation in luxury consumption is mainly aimed at the threat of self-evaluation and perception control, rather than objective material shortage. From this point of view, luxury goods are not so much an objective identity symbol as a psychological tool that helps individuals regain a sense of identity in the symbolic sense.

5. Emotional Compensation

The essence of emotional compensation is that consumption can alleviate negative emotional states. Unlike the psychological compensation, which mainly revolves around self-evaluation and perception control mentioned above, emotional compensation emphasizes the immediate comfort and satisfaction brought by consumption. Against this background, the purpose of consumption is not to reshape the self-concept, but a short-term emotional regulation strategy aimed at reducing emotional distress and restoring emotional balance.

According to Couler, when people face negative emotional states, they will adopt certain behaviors and physiological reactions to regulate their emotional trajectory [13]. Based on this, consumption can be interpreted as a convenient and effective way to regulate emotions. Previous studies have also supported the view that shopping behavior can reduce negative emotional experiences such as sadness and help restore a sense of subjective control [7]. In the field of consumer research, Koles, Wells and Tadjewski (2018). Further put this kind of emotional regulation-oriented consumption within the broader framework of compensatory consumption, It is conceptualized as a situational response to temporary emotional discomfort, not a unified or inevitable result [8].

In the consumption situation of luxury goods, emotional compensation is particularly prominent. Compared with ordinary consumption, luxurious goods provide richer sensory experiences, higher service quality, and more exquisite consumption rituals. Wiedmann et al. (2007) conceptualized luxury consumption as a multi-dimensional value experience, in which the value of emotional pleasure constitutes a core individual component [14]. Empirical research shows that consumers usually regard luxury consumption as a way of self-reward, emotional comfort and life enrichment, and is closely related to the feeling of pleasure, relaxation and enjoyment.

Along this research route, Sekhon Dhillon (2023) found that during the COVID-19 pandemic, consumers often turned to luxury goods to temporarily escape from daily pressure, so as to obtain emotional and psychological comfort [15]. These findings show that luxury consumption is not only an indulgence, but also a short-term emotional repair mechanism in the face of increased anxiety and uncertainty.

In a word, emotional compensation highlights the role of luxury consumption as an emotional regulation tool in the period of anxiety. Luxury goods help relieve emotional distress at the emotional level by providing instant comfort and pleasant experience. However, when luxury consumption is also used to convey identity, status and sense of belonging

in the social context, its function goes beyond the scope of emotional regulation, resulting in social symbol compensation.

6. Social-Symbolic Compensation

In consumer research, commodities are widely regarded as carriers of social significance and can convey information about consumer identity, status and value orientation. Through consumption behavior, individuals not only express themselves, but also show social images, which will be interpreted by others in interactive situations. Belk's pioneering work (1988) emphasizes the symbolic meaning of objects in the construction of self-concepts [16]. Although this perspective lays the foundation for understanding symbolic consumption, it does not fully explain how consumption plays a role in the process of external social evaluation.

Luxury goods have a particularly strong signal transmission potential due to their high price, relative scarcity and accumulated cultural significance. Han, Nunes, & Drèze (2010) believes that luxury brands play a systematic role as information clues in social interaction, enabling observers to infer the social status, success and group of consumers based on brand popularity and symbolic positioning belonging [17]. Therefore, the social signaling function of luxury goods does not primarily depend on brand awareness per se, but rather on the visibility, recognizability, and social interpretation of brand signals among relevant audiences, which enables symbolic differentiation in social interaction.

In addition, the research of Rucker and Galinsky (2008) shows that individuals in a state of powerlessness or social disadvantage often prefer consumption signals with higher social symbolic value in order to cope with an unfavorable evaluation environment [18]. In view of the high visibility and relatively stable status symbolism of luxury goods, it can be inferred that luxury consumption may be used as a reference signal to evaluate the social status of consumers by others. Importantly, the social symbol compensation proposed in this study is not mainly aimed at repairing the inner psychological state. On the contrary, it refers to a situational process in which consumers respond to external social evaluation by strategically using brand symbols and consumption signals that can be interpreted by others.

In this sense, the impact of social symbols to compensate for luxury consumption is reflected in the level of social cognition and symbol interpretation, rather than the change of structural status. It represents a form of symbol adjustment in social interaction, allowing consumers to influence others' perception of themselves without fundamentally changing the objective social level.

In a word, luxury goods, with their visibility and well-known symbolic meaning, intervene in the social evaluation process and are used to regulate the outside world's perception of social status in specific situations. This social evaluation function provides an analytical basis for the subsequent exploration of luxury brand communication and management strategies.

7. Implications for Future Research and Theoretical Limitations

This study shows that in an era of increasing anxiety and uncertainty, the continuous growth of luxury consumption cannot be fully explained by economic ability or ostentatious

consumption motivation alone. On the contrary, luxury consumption seems to be increasingly integrated into consumers' efforts to regulate their psychological state, manage emotional experiences, and cope with the process of social evaluation. By integrating psychological, emotional and social symbol compensation mechanisms, this study provides a more detailed explanation of why luxury goods can remain attractive even under economic pressure. At the same time, these findings also remind us that compensatory luxury consumption should not be overly interpreted positively. Although luxury goods may provide short-term psychological comfort - such as restoring damaged self-evaluation, providing emotional comfort or stabilizing social self-image - these effects are essentially situational and temporary. Therefore, compensatory consumption should not be regarded as a way to continuously improve happiness. On the contrary, it is a way of coping that depends on a specific situation, which can alleviate the immediate discomfort, but cannot solve the root cause of anxiety or uncertainty.

In addition, there are some limitations worth paying attention to. The existing empirical research on psychological compensation in luxury consumption is still limited to specific situations and samples. For example, the study of Kim and Oh (2025) and others focused on gender-defined samples, indicating that the compensation mechanism may vary according to gender, cultural background and value orientation. Future research can expand this research direction to examine whether similar processes will occur under the threat of male consumers, different social and cultural backgrounds or different forms of perception, so as to clarify the boundary conditions for compensatory luxury consumption. From a theoretical point of view, repeated dependence on consumption as a compensatory resource may also bring potential risks. When luxury goods are continuously used to regulate emotions, reshape self-worth or respond to social evaluation, consumers may develop a stronger psychological attachment to material symbols. Previous studies have shown that in some cases, this dependence may increase the risk of impulsive or compulsive consumption patterns, rather than promoting long-term happiness. This contradiction highlights the duality of compensatory consumption: although this behavior may be effective in the short term, it may also increase consumers' dependence on symbolic consumption clues over time.

In a word, the above points emphasize the following aspects: the importance of compensatory luxury consumption. Consumption is a psychologically meaningful but limited coping mechanism. In the post-epidemic era, anxiety and uncertainty may still exist. Future research should focus on how consumers can strike a balance between emotional and symbolic needs and long-term happiness, and how luxury brands can deal with the ethical problems brought about by meeting consumers' compensation needs through products.

References

- [1] Sari, E., Şencan Karakuş, B., & Demir, E. (2024). Economic uncertainty and mental health: Global evidence, 1991 to 2019. *SSM - Population Health*, 27, Article 101691. <https://doi.org/10.1016/j.ssmph.2024.101691>
- [2] International Monetary Fund. (2025, October 14). *World Economic Outlook, October 2025: Global economy in flux, prospects remain dim*. <https://www.imf.org/en/publications/weo/issues/2025/10/14/world-economic-outlook-october-2025>.

- [3] Bain & Company. (2024). Luxury goods worldwide market study, fall–winter 2024. Bain & Company. <https://www.bain.com/insights/luxury-in-transition-securing-future-growth/>.
- [4] LVMH. (2025). LVMH achieves a solid performance despite an unfavorable global economic environment (Full-year 2024 results). <https://www.lvmh.com/en/publications/lvmh-achieves-a-solid-performance-despite-an-unfavorable-global-economic-environment>
- [5] DURANTE, K. M., & LARAN, J. (2016). The Effect of Stress on Consumer Saving and Spending. *Journal of Marketing Research*, 53(5), 814–828. <https://doi.org/10.1509/jmr.15.0319>
- [6] Sharma, E., & Alter, A. L. (2012). Financial Deprivation Prompts Consumers to Seek Scarce Goods. *The Journal of Consumer Research*, 39(3), 545–560. <https://doi.org/10.1086/664038>
- [7] Sharma, E., & Alter, A. L. (2012). Financial Deprivation Prompts Consumers to Seek Scarce Goods. *The Journal of Consumer Research*, 39(3), 545–560. <https://doi.org/10.1086/664038>
- [8] Rick, S. I., Pereira, B., & Burson, K. A. (2014). The benefits of retail therapy: Making purchase decisions reduces residual sadness. *Journal of Consumer Psychology*, 24(3), 373–380. <https://doi.org/10.1016/j.jcps.2013.12.004>
- [9] Koles, B., Wells, V., & Tadajewski, M. (2018). Compensatory consumption and consumer compromises: a state-of-the-art review. *Journal of Marketing Management*, 34(1–2), 96–133. <https://doi.org/10.1080/0267257X.2017.1373693>
- [10] Cachón-Rodríguez, G., Blanco-González, A., Prado-Román, C., & Fernández-Portillo, A. (2025). How compulsive and impulsive buying affect consumer emotional regulation. Is anxiety a differential element? *European Journal of Management and Business Economics*, 34(3), 340–358. <https://doi.org/10.1108/EJMBE-06-2023-0172>
- [11] Mandel, N., Rucker, D. D., Levav, J., & Galinsky, A. D. (2017). The Compensatory Consumer Behavior Model: How self-discrepancies drive consumer behavior. *Journal of Consumer Psychology*, 27(1), 133–146. <https://doi.org/10.1016/j.jcps.2016.05.003>
- [12] Higgins, E. T. (1987). Self-Discrepancy: A Theory Relating Self and Affect. *Psychological Review*, 94(3), 319–340. <https://doi.org/10.1037/0033-295X.94.3.319>
- [13] Kim, Y., & Oh, K. W. (2025). Can Powerless Consumers Achieve Happiness Through Luxury Compensatory Consumption? Exploring the Roles of Self-Esteem and Materialism. *Clothing and Textiles Research Journal*, Article 0887302X251347559. <https://doi.org/10.1177/0887302X251347559>
- [14] Koole, S. L. (2009). The psychology of emotion regulation: An integrative review. *Cognition and Emotion*, 23(1), 4–41. <https://doi.org/10.1080/02699930802619031>
- [15] Wiedmann, K.-P., Hennigs, N., & Siebels, A. (2007). Measuring consumers' luxury value perception: a cross-cultural framework. *Academy of Marketing Science Review*, 2007, 1.
- [16] Sekhon Dhillon, Y. K. (2023). Consuming to Cope: The Luxury of Consuming in the COVID-19 Pandemic. *Luxury (London)*, 10(1–2), 41–61. <https://doi.org/10.1080/20511817.2023.2292791>
- [17] Belk, R. W. (1988). Possessions and the Extended Self. *The Journal of Consumer Research*, 15(2), 139–168. <https://doi.org/10.1086/209154>
- [18] Han, Y. J., Nunes, J. C., & Drèze, X. (2010). Signaling Status with Luxury Goods: The Role of Brand Prominence. *Journal of Marketing*, 74(4), 15–30. <https://doi.org/10.1509/jmkg.74.4.015>
- [19] Rucker, D. D., & Galinsky, A. D. (2008). Desire to Acquire: Powerlessness and Compensatory Consumption. *The Journal of Consumer Research*, 35(2), 257–267. <https://doi.org/10.1086/588569>