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Emerging Consumer Survey 2018

Editorial

The eighth edition of the Credit Suisse Research Institute's Emerging Consumer Survey continues our exploration of growth opportunities across Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey. This year's report shows ongoing improvement in consumer sentiment across the surveyed economies. Interestingly, we see the group of geographies that increasingly drive consumption broaden, moving away from a predominantly Asia-driven trend. While India and China continue to top our country scorecard, there are significant improvements in Brazil, Mexico, Russia and Turkey, where consumers are growing increasingly optimistic about their income prospects. The analysis in our survey sets out how some of the key macro trends are being exhibited in specific consumer behavior and preferences. The unifying theme is the role of the young and increasingly wealthy consumer, particularly in China, whose consumption patterns steadily gravitate toward a healthier, mobile and active lifestyle.

This year's Emerging Consumer Survey further lays out how the structural drivers behind consumer development in emerging countries differ from those across the developed world. Notably, the consumption share of GDP in mature economies has been in steady decline, while among our surveyed emerging countries, we witness a doubling in its share since 2000. We believe that reduced income prospects and deteriorating demographic trends in developed economies continue to be the force behind this sentiment and contrast starkly with the conditions across the emerging world, where urbanization continues to positively impact incomes.

This year, we also examine the savings behavior of consumers across our eight emerging countries and their relative sophistication. The 2017 edition of the Credit Suisse Research Institute's Global Wealth Report has singled out emerging markets as the fastest source of wealth accumulation, with their share of global wealth set to reach 22% in the next five years relative to 11% in 2000. A shift in the manner in which this growing wealth is held carries powerful implications for financial institutions and financial markets. We note that such changes are taking place in India, which is currently one of the greatest sources of wealth accumulation. Direct investment in equity markets and mutual funds is rising sharply and we see both an emerging consumer and an emerging saver.

Ultimately, we explore the impact of the connected economy, which continues to deepen and widen in the emerging world. In China, one fifth of retailing takes place online, with mobile payments reaching USD 3 trillion in 2016. In India, online payments are set to rise five-fold in the next five years. Rather than disrupting established retail channels, these developments are key facilitators of growth in emerging economies.

We hope that this report and the accompanying country and industry reports contribute to your understanding of the nature of the dynamically evolving emerging economies and wish you an insightful read.

Urs Rohner
Chairman of the Board of Directors
Credit Suisse Group AG

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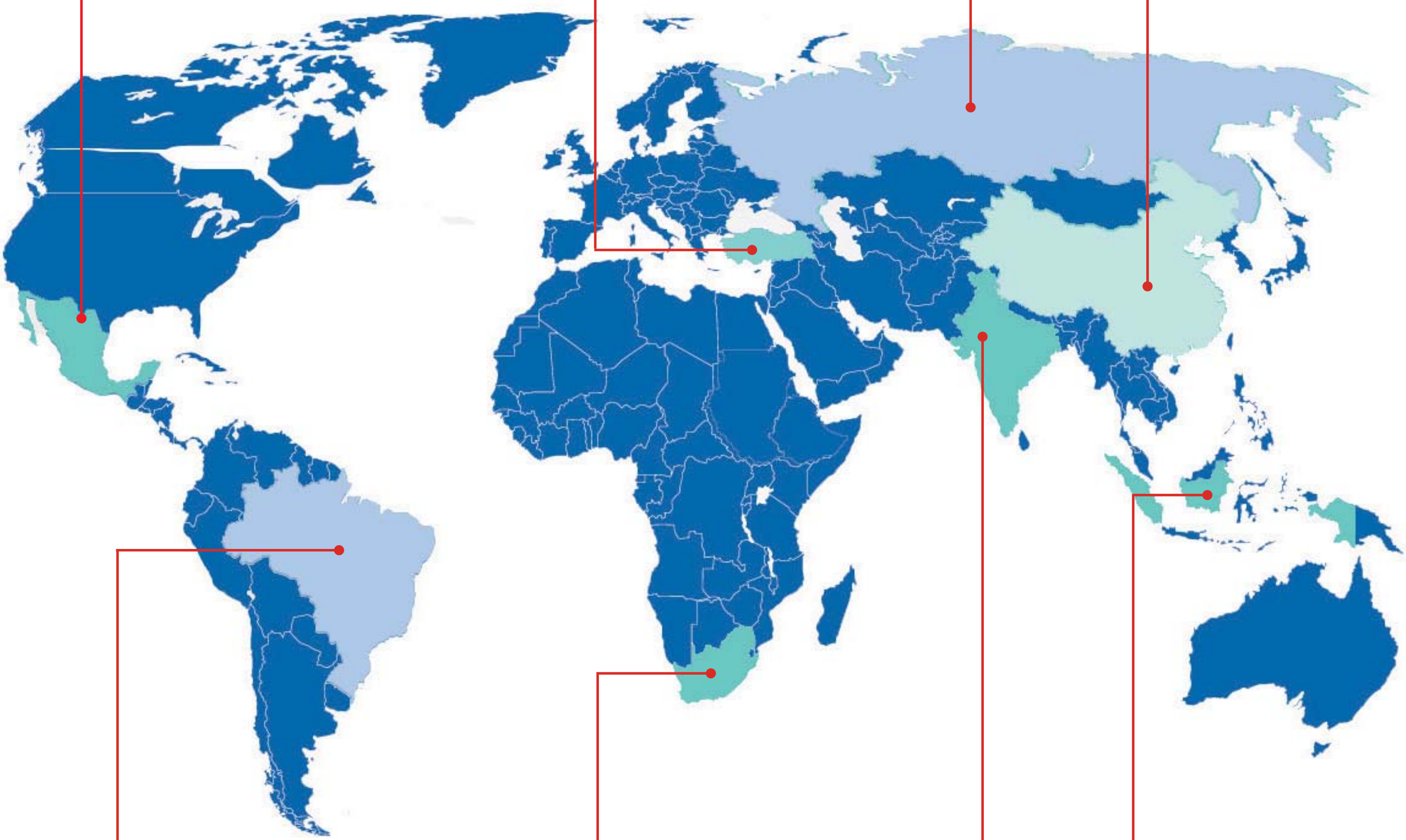
Credit Suisse Emerging Consumer Survey 2018

Number of respondents : 14,077, across 8 countries, 71% in urban areas; 29% in rural areas

Mexico (11%*)	**Turkey (11%*)**	**Russia (11%*)**	**China (18%*)**
No. of respondents: **1,533**	No. of respondents: **1,521**	No. of respondents: **1,505**	No. of respondents: **2,584**
Locations: **5**	Locations: **14**	Locations: **8**	Locations: **10**
Urban areas: **70%**	Urban areas: **70%**	Urban areas: **67%**	Urban areas: **76%**
Rural areas: **30%**	Rural areas: **30%**	Rural areas: **33%**	Rural areas: **24%**



Brazil (11%*)	**South Africa (8%*)**	**India (20%*)**	**Indonesia (11%*)**
No. of respondents: **1,528**	No. of respondents: **1,056**	No. of respondents: **2,814**	No. of respondents: **1,536**
Locations: **5**	Locations: **6**	Locations: **10**	Locations: **10**
Urban areas: **70%**	Urban areas: **70%**	Urban areas: **73%**	Urban areas: **66%**
Rural areas: **30%**	Rural areas: **30%**	Rural areas: **27%**	Rural areas: **34%**

Note: % of survey sampled from this country

The Emerging Consumer in 2018

The relevance to an investor of the "supertrend" of the emerging consumer has always been a case of balancing the structural with the cyclical. The influence of the latter has often swamped the former. However, in our eighth Emerging Consumer Survey, we find a broad-based improvement across the range of our confidence indicators as we look into 2018. The structural underpinning of the consumption in Asia remains the more robust with the countries of India, China and Indonesia topping our relative scorecard rankings. However, the cyclical economic negatives and, in certain respects, politics that have weighed on countries such as Russia, Brazil, Mexico and Turkey, have abated. They have all seen improvements, adding breadth and a timeliness to the emerging consumer theme.

Richard Kersley, Maria Bhatti

A unique perspective

The Credit Suisse Emerging Consumer Survey provides a granular analysis of the profile, mood and behavior of consumers across eight major emerging economies, with an aggregate population approaching four billion people, representing total consumption of USD 9.4 trillion and structurally growing. The 14,000 detailed face-to-face interviews conducted on our behalf by leading consumer research firm Nielsen, provides unique bottom-up insights into specific end-markets, products and brand preference alongside overall barometers of confidence.

As well as benchmarking consumer behavior across countries, we ask a range of micro questions tailored to each country and not typical of macro-based surveys. Our proprietary database also allows all the questions to be assessed by demographic considerations of age, gender, region and income level. There is no other survey conducted that benchmarks consumers across emerging economies with such granularity. The full questionnaire and additional data not provided in this report are available on request.

While we are very cognizant of the macro drivers in emerging economies and reflect on them regularly in the study, this ground level and behavioral analysis has proved to be as valuable for investors as a macro appraisal of the consumer landscape. Throughout the life of the report, we have tracked a range of key investment themes, including the rapid shift in on-line spending that has made China the biggest e-commerce market globally, the demographic influence of a young consumer and how this has uniquely shaped the pattern of consumption; and the shift to a healthier lifestyle among consumers. Such themes have proved not only highly rewarding for investors but have also underlined that the development of the consumer in the emerging world does not always follow a notional script written by his/her developed market counterpart.

In this year's study, demographic drivers are a common theme: how trends in the emerging world contrast with those in the developed world and how they influence the size of the growth potential and importantly its mix. A dedicated focus on the young, urban and wealthy demographic that typifies emerging markets is laid out in Chapter.2. We also reflect

Table 1

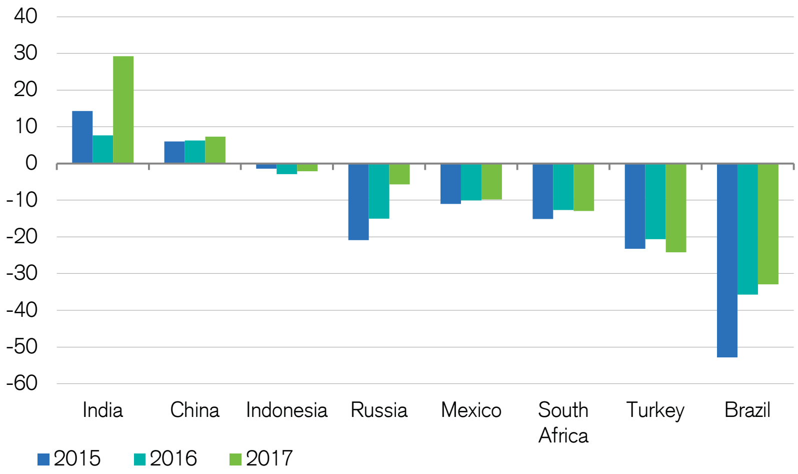
Survey sentiment indicators (average readings)

	Personal finances	Inflation expectations	Good time to make a major purchase	Income expectations	Income change in last 12 months
	Net balance, better vs. worse	Net balance higher vs. lower	Net balance, excellent time vs. bad time	Net balance increase vs. decrease	Net balance increase vs. decrease
2017	21.8	41.3	-6.4	24.5	2.0
2016	19.6	39.3	-10.4	19.1	-4.2
2015	15.3	46.4	-13.0	24.5	2.7
2014	25.5	46.1	-7.4	31.3	10.3

Source: Credit Suisse Emerging Consumer Survey 2018

Figure 1

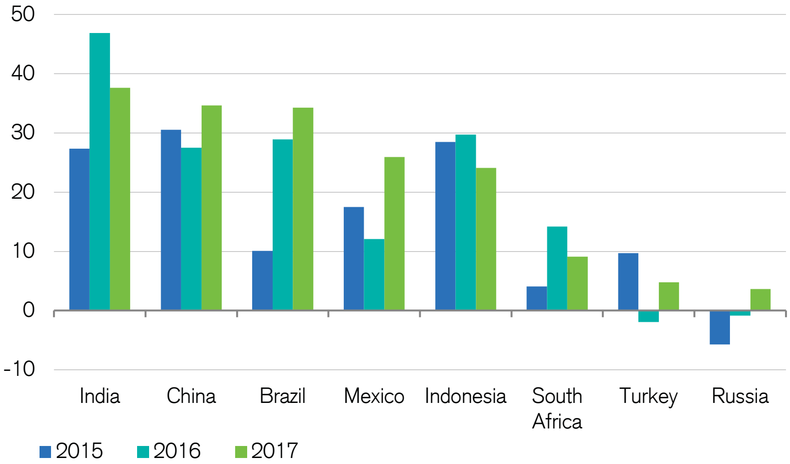
Net percentage of respondents replying "Yes" to "Is now a good time to make a major purchase?"



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 2

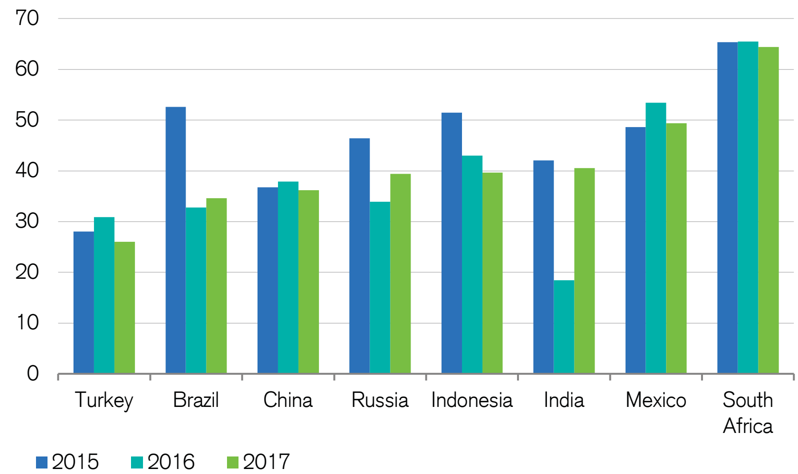
Net percentage of respondents expecting an improvement in their personal finances in the next six months



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 3

Net percentage of respondents expecting inflation to increase in the next 12 months



Source: Credit Suisse Emerging Consumer Survey 2018

on the topic of saving as well as spending. The Credit Suisse Research Institute Global Wealth Report has highlighted the rapid wealth accumulation in the emerging world and its likely continuation. China is now the second biggest source of household wealth globally. How the consumer saves as well as spends this new found wealth will be key for financial markets, institutions and investment more generally.

The mood of the moment

In this first chapter, we again examine the mood of the moment from our confidence indicators, by ranking the countries against each other. To summarize the overall mood of consumers, we highlight the survey readings in response to five key questions that represent the basis for our Emerging Consumer Scorecard:

1. "Is now a good time to make a major purchase?"
2. "Do you think the state of your own personal finances over the next six months will be better, worse, or about the same?"
3. "What do you expect will happen to inflation (the price of goods and services) in the next 12 months?"
4. "In what way do you expect your household income to change over the next 12 months?"
5. "In what way did your household income change over the last 12 months?"

In focusing on these questions, we are seeking to capture the immediate perception of the consumer environment (Question 1); a more medium-term and broader assessment of consumers' financial positions (Question 2); fears of inflation, given its ability to erode income through food prices in particular (Question 3); and income momentum, which is the key to ultimate spending (Questions 4 and 5). In Appendix 3, we show a breakdown of the country scores for questions 1, 2 and 5 by age, income and region.

Looking at the aggregate readings from the survey for these questions in Table 1, the message is one of solid improvement. Other than a slight deterioration in inflation expectations, each of our indicators has materially improved since last year. Two in particular catch our eye. First, the balance of people believing that now is a good time to make a major purchase is at its highest since 2014, signifying implicit support for spending on bigger-ticket items. Second, we have seen an increase in the proportion of people recording positive income momentum last year, exceeding the number recording declines and thus reversing the picture from last year's survey. Better income trends clearly provide a more solid foundation for the immediate spending outlook. We reflect in Chapter 2 on how important income progression is to the long-term theme of growing consumption and driving its mix shift.

Country contrasts

The overall picture is clearly not reflective of every country and we again break down these questions in Figures 1 to 5, which compare the strength of the responses by country, with the strongest on the left of the chart and descending thereafter.

If we consider first the two specific questions that stood out at the aggregate level regarding the sharp increase in the appetite for bigger-ticket purchases and improving income momentum , India is a country that has improved sharply on both counts and also records the highest readings for both questions. In fact, in terms of the question as to whether now is a good to make a major purchase, the reading is the highest India has seen in the history of the survey. Our colleagues in India reflect on this in more detail later in the report with a particular eye to the trends they are seeing in the car market.

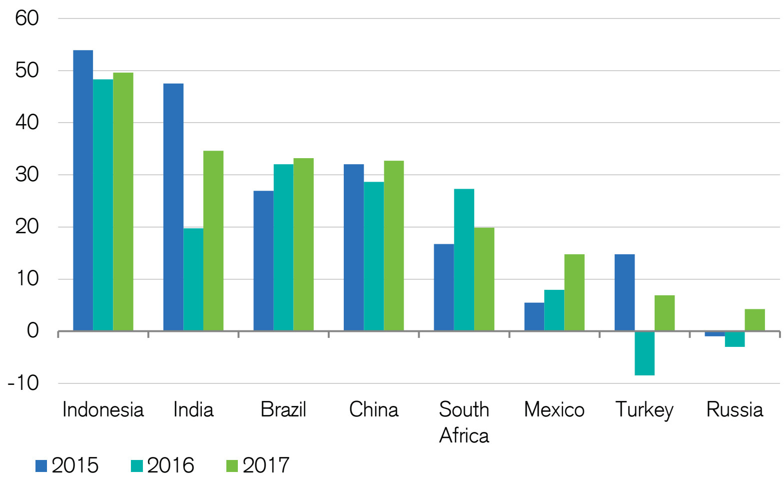
Based on the majority of the measures, and consistent with prior surveys, higher readings in Asia (India, China and Indonesia) tend to overshadow the other survey countries and suggest that these three countries have the most robust end-consumer markets. We would note, however, that there has been some loss of momentum in Indonesia. For example, the net proportion of Indonesians surveyed that have seen their incomes rise over the last 12 months has fallen from 27% to 21%. Optimism about future income has also moderated, although from high levels. A change in the process of determining minimum wages in Indonesia adversely impacting the year-on-year momentum relative to previous years has played a role here in the opinion of our country team.

In regard to China's robust readings, we would particularly note the increase in the number of survey participants expecting an improvement in their personal finances (the highest since 2013). Here the underlying data reflects an improvement or stabilization in the inland regions and cities in the survey with a commodity-sensitive or heavy-industry bias (Baoji, Handan and Shenyang), which has been a source of downward pressure on consumer sentiment indicators in previous years. Our China consumer team discuss the theme of changing spending patterns in lower-tier cities later in the report.

Focusing on the right side of a number of the charts, particularly Figures 4 and 5, the relatively weaker readings for some countries look familiar to previous surveys (e.g. Brazil, Mexico, Russia and Turkey). However, while the relative rankings may be lower for these countries, their absolute readings are improving based on most of the metrics we use, notably in Figure 5 where incomes have been concerned.

Figure 4

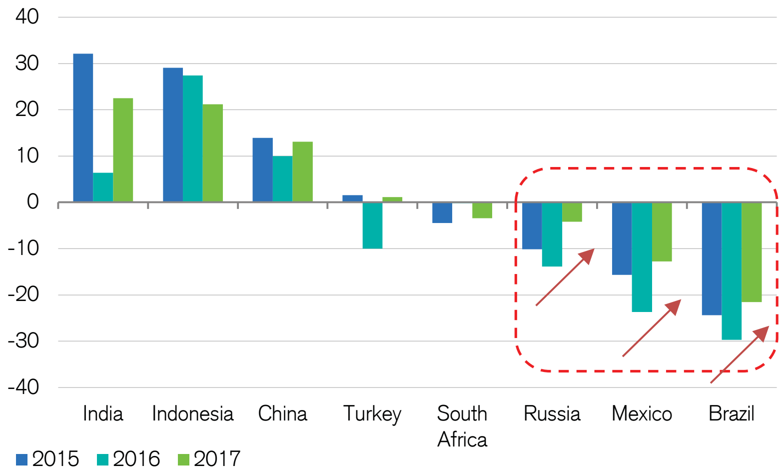
Net percentage of respondents who expect household income to increase over the next 12 months



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 5

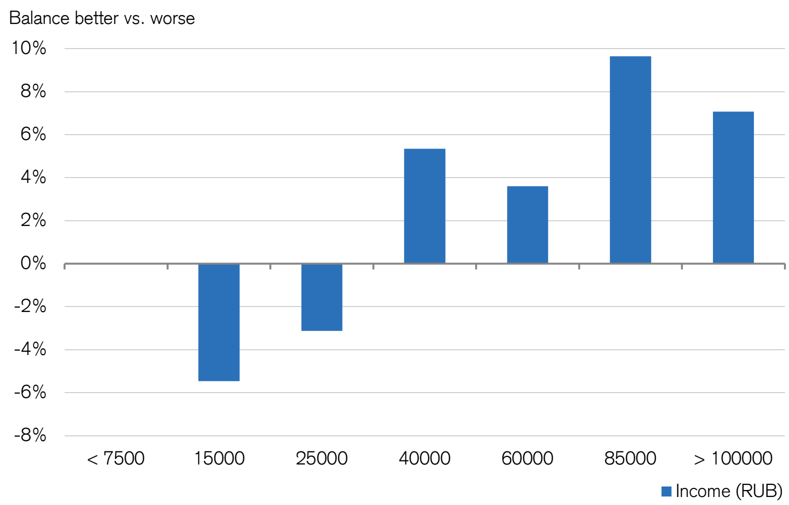
Net percentage of respondents who have seen household income increase over the last 12 months



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 6

State of personal finances in Russia



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 7

Consumer scorecard indicators (%) – Russia

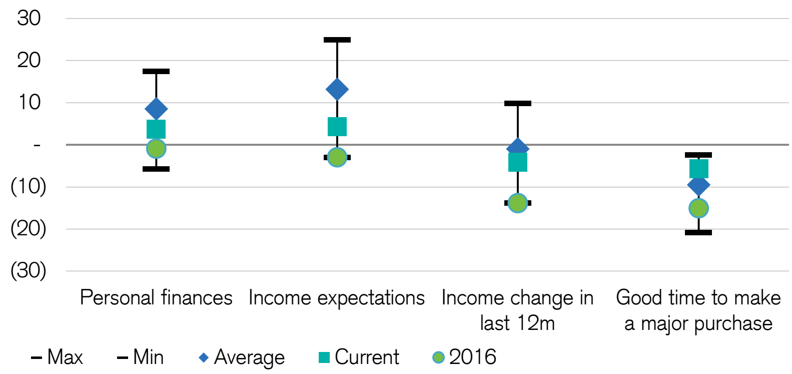


Figure 8

Consumer scorecard indicators (%) – Mexico

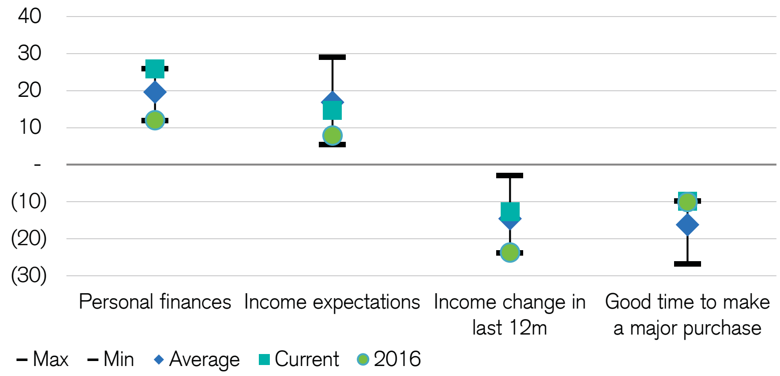


Figure 9

Consumer scorecard indicators (%) – Brazil

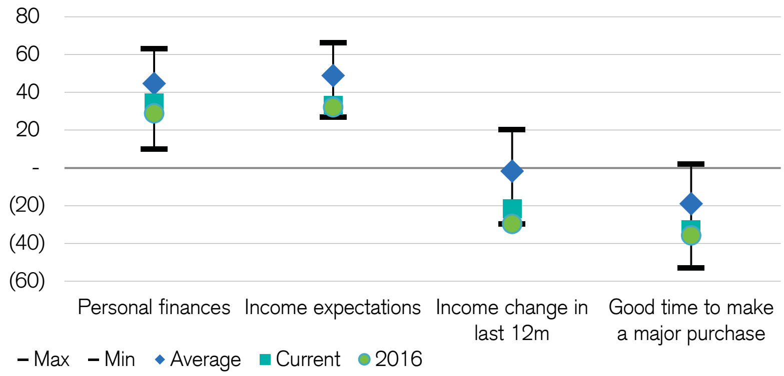
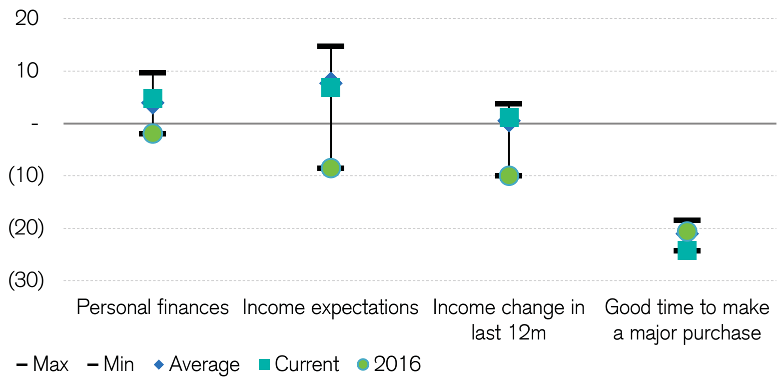


Figure 10

Consumer scorecard indicators (%) – Turkey



Source Figures 7–10: Credit Suisse Emerging Consumer Survey 2018

Judging countries by their own history

The significance of this is more apparent in Figures 7 to 10. Here we compare the survey readings (excluding inflation expectations) in terms of their historic highs/lows over the life of our survey and also last year.

From these charts, we note that Russia has improved on every metric, with the trend in major purchase intentions now well above average. Mexico has also seen an improvement, with the respondents' perception of their personal finances at its highest level. Brazil presents a less-compelling picture as it is still below its historic averages, if off the lows reached during the worst recession the country has endured.

Turkey has seen a marked recovery in three out of four of the metrics, with the notable feature being a degree of "mean reversion" from what had been a series of all-time lows in our survey in the midst of high political tension a year ago.

The country summaries from our regional specialists help to contextualize the improvements in the sentiment indicators and judge their sustainability (see pages 56 to 71). At a top-down level, three factors have to varying degrees tended to be important for consumer confidence over time – commodity exposure, currency volatility (not least given the impact on imported inflation) and political risk. The latter two are often intertwined.

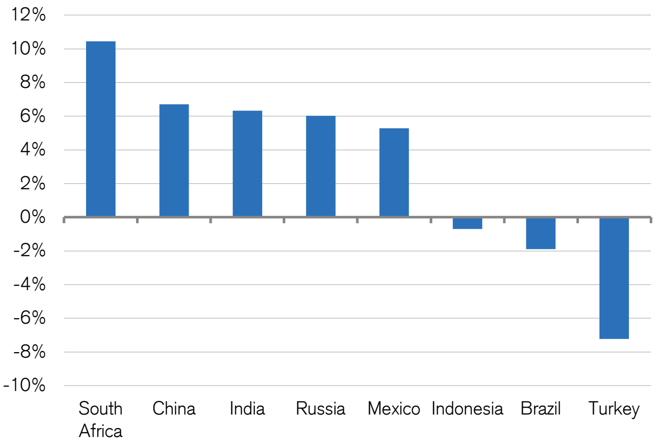
The commodity exporters of Brazil and Russia have benefited from the firmer trend in prices as seen in metal prices and oil (Figure 12). Where currencies are concerned, and as Figure 11 shows, only Turkey saw a sizable net depreciation in its currency in 2017 amid inflation/current account concerns and political tension with its foreign policy counterparts (e.g. the USA and Germany), although these pressures abated late in the year.

Notwithstanding the improvements highlighted for the countries above, we are more than aware that sizable risks remain, politically and economically as our teams set out. However, one feature that stands out in the survey in general, but particularly in the countries above, is the severe disparity in the experience of consumers. We find the improving perceptions of financial circumstance are heavily skewed to high-income earners.

Figure 6 highlights how stark this is for Russia, with a large proportion of consumers suggesting their circumstances are materially deteriorating. This contrasts with a far more broadly and evenly spread expression of optimism in a country such as China. Such a narrower reflection of improvement betrays an inherent vulnerability in our view. Of course, these low-income consumers tend to be most exposed to volatility in the economic environment.

Figure 11

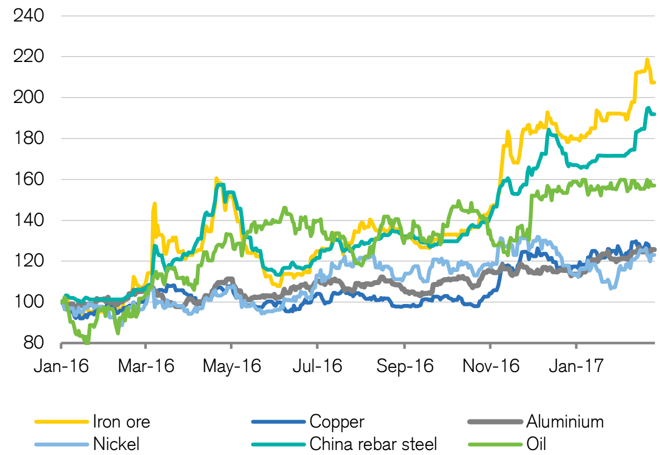
Currency change vs. USD in 2017 (%)



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 12

Commodity price trends (2016=100)



Source: Credit Suisse Research

Emerging Consumer Scorecard

Our Scorecard draws the responses to the five questions together in a very simple manner to provide an overall assessment of the mood of the consumer. We compare countries against each other not versus their own history. For each question, we rank each country relative to the other survey countries. Each factor is given an equal weight, although the two income questions are treated as one factor, with the future/past income questions given a 50:50 weight to form an overall ranking. We then take an average of the rankings across the questions to provide a composite score.

The Asian economies occupy the top three places in the Scorecard as implied above, with India in the lead as last year. While it boasts strong readings on most metrics, we do note the weaker readings on inflation in India, where food price inflation has spiked and, as a commodity importer, the country has found itself on the wrong side of rising commodity prices. This is a risk to bear in mind looking forward. That notwithstanding, its top rankings for the perception of personal finances, income momentum and immediate purchasing intentions make it stand out from the crowd. The softer readings referred to above for Indonesia have seen it swap places with China.

Brazil ranks fourth, although we would still underline its very weak relative reading concerning whether "now is a good time to make a major purchase" when considering how a potentially improved medium-term outlook could feed into the immediate spending trends. The recovery in Turkey's readings have been sufficient for it to climb to fifth place in the table. While the various metrics may have improved in Mexico and Russia, their relative scores versus the other countries in the survey still leave them at the lower end of the Scorecard. South Africa is last on the list, although we note that the survey was taken prior to the recent political leadership changes.

We would by no means present this Scorecard as an overly scientific exercise. However, we believe it provides a good summary of the factors of most relevance for the consumer and genuine bottom-up perceptions of them. The countries at the top have typically reflected the most robust end-consumer markets looking forward. Using the other granular sector and product data in the survey to take this country perspective into specific segments of spending in the countries concerned has provided further added value. However, as we have set out above, we would stress the changes as well as the level of the readings can be equally significant from an investment point of view. ■

Table 2

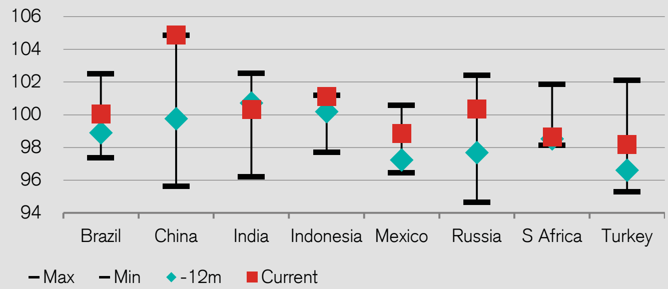
Emerging Consumer Scorecard 2018

Rankings (6-12 month horizon)	Personal finances	Inflation expectations	Time for a major purchase	Income expectations	Income history	2018 Rank		2017 Rank
India	1	6	1	2	1	1	→	1
China	2	3	2	4	3	2	↑	3
Indonesia	5	5	3	1	2	3	↓	2
Brazil	3	2	8	3	8	4	→	4
Turkey	7	1	7	7	4	5	↑	6
Mexico	4	7	5	6	7	6	→	6
Russia	8	4	4	8	6	7	↓	6
South Africa	6	8	6	5	5	8	↓	5

Source: Credit Suisse Emerging Consumer Survey 2018

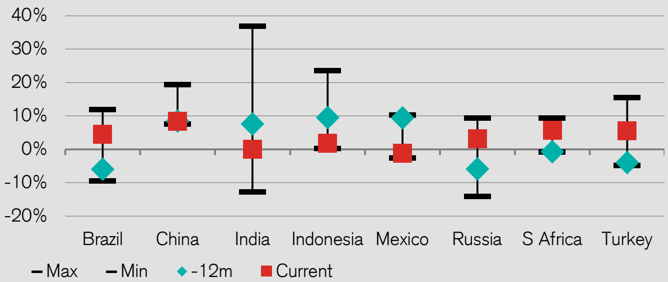
Spotlight on Macro

EM8 consumer confidence (vs. post 2010 range)



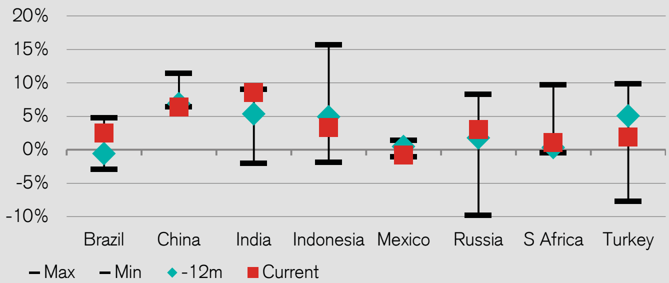
Source: OECD Main Economic Indicators, Credit Suisse

EM8 real retail sales growth (vs. post 2010 range)



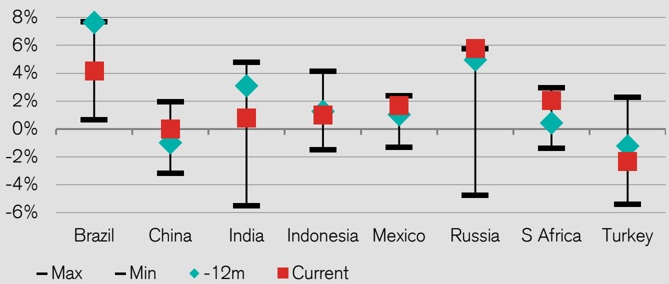
Source: Thomson Reuters, Credit Suisse

EM8 real wage growth (vs. post 2010 range)



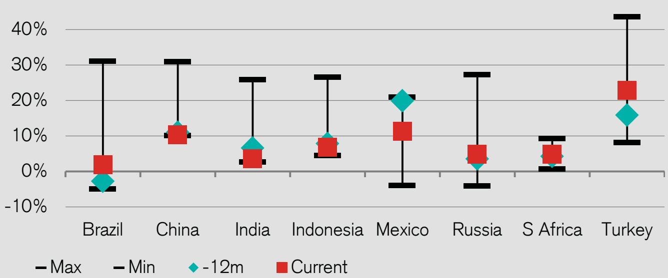
Source: Oxford Economics, Credit Suisse

EM8 real interest rates (vs. post 2010 range)



Source: Central bank data, Credit Suisse

EM8 private sector credit growth (vs. post 2010 range)



Source: IMF– International Financial Statistics, Credit Suisse

The EM consumer through a macro lens

Alexander Redman, Arun Sai

For the second consecutive year, we provide a macro overview of consumer-related metrics independent from our survey in the field, thus offering an additional distinct year-on-year analysis of the present state of the EM consumer indicators across each of the eight countries (EM8) under discussion. It helps add cyclical context to the themes of the report.

Following a similar format to 2017, we examine each country's current strength per metric relative to its level last year and against its post-2010 historical range – a period selected to avoid the distortions caused by the global financial crisis.

In conclusion, we present a macro scorecard where we consolidate these six metrics as a heat map. To construct this, we calculate the current percentile position from lowest to highest across the entire eight-country/eight-year historical range for each metric. For real interest rates (where a high number is indicative of consumer strain), we invert the percentile ranking. To achieve an overall country score in the heat map, we calculate a simple average of the percentile ranks for the six metrics for each country. These are shown for both the current situation and the score achieved in March 2017.

By comparing the percentile scores against a year ago or their historical range, we gain a sense of the momentum of these macro drivers within the country concerned. The overall rankings shown here would not be expected to mirror the consumer survey scorecard on page 9. The heat map here compares the country macro readings against their own history, while the survey scorecard rates countries against each other. Moreover, the nature of the data points differs. In some respects, we reflect on certain variables (e.g. real wage growth, real house prices and credit growth) that provide context as to why our sentiment indicators appear as they do.

Country score trends observed over the past year

Based on this analysis, the country scores are higher this year relative to 2017 for six of the EM8 countries, falling only for Indonesia and Mexico, although the improvement in South Africa was marginal at just 1 percentage point (pp). The average score across the EM8 for 2018 is 40% up from 37% in 2017, which is indicative of a brighter outlook for the emerging consumer in general. Brazil and Russia – two countries that transitioned out of recession in 2017 – delivered particularly impressive gains in their scores, up by 20 pp and 17 pp year-on-year, respectively. In the case of Brazil, this was sufficient to propel the country's rank in the scorecard up by three places to fifth from last in 2017. Russia remains in seventh place. China, Turkey and India posted measured (single-digit percentage point) yet respectable gains – although from a much higher 2017 base – assuming the top three places among the EM8.

The key losers in 2018 were Mexico and Indonesia, dropping by 22 pp and 8 pp, respectively. This resulted in Mexico falling to last place in the 2018 scorecard ranking from fourth last year, while Indonesia slipped from second to fourth place. The relative momentum we are seeing in these countries does have parallels in the consumer survey data. There have been improvements in the sentiment readings in the majority of the countries when judged against their own history. Improvements in Russia and Brazil were apparent as was a softer tone, if from a high level, in Indonesia. The country where the readings contrast most is Mexico.

1. China

For the second year running, China tops our EM consumer macro scorecard with a pick-up in average score across the six metrics of 5 pp to 69%. This was driven principally by an upsurge in confidence to the highest level post-2010, which was offset to a small degree by a measured tightening in real interest rates. The dynamics for real retail sales growth, real wage growth, private sector credit growth and real house price growth remained more or less unchanged over the year.

2. Turkey

Gains in consumer confidence, real retail sales growth and private sector credit growth in conjunction with lower real interest rates were sufficient to increase Turkey's average 2018 score by 8 pp on the year, thus shifting the country into second place on our scorecard, up by one position from 2017. Indeed, Turkey would have fared even better had it not been for a 2017 spike in inflation eroding real wage growth over the past year and a slowdown in the pace of real house price growth.

3. India

India rises two places to third position on our 2018 scorecard assisted by stronger real wage growth (9% year-on-year is at the top of the post-2010 range) and looser real interest rates being further boosted by the wealth effect from rising real house price growth. However, flattening real retail sales growth accompanied by a further slide in credit extension (at just 4% growth, this is close to the post-2010 low and the slowest of the EM8 except for Brazil) precluded India from achieving more than a 5 pp gain in its average score.

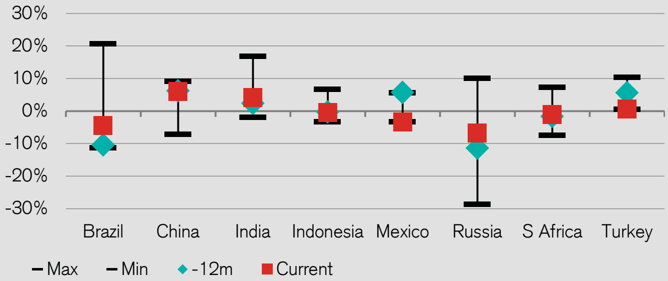
4. Indonesia

An improvement in consumer confidence (to the top of the post-2010 range) and fractionally easier monetary policy in real terms was insufficient to offset Indonesia's significant moderation in real retail sales growth (to 2% from 9%) and slippage in real wage growth. This drove the country's average score down by 8 pp, resulting in a drop of two places in the rankings to fourth position.

5. Brazil

Of the EM8 countries, Brazil has posted the most spectacular recovery in consumer-related metrics over the year, sufficient to boost the country's average score across the six parameters by some 20 pp, placing Brazil in fifth place, up from last place in 2017. Brazil improved in all six metrics (the only country among the EM8 to do so), most notably recording a recovery in year-on-year real retail sales growth, real wage growth and private sector credit growth back into positive territory in 2018 from negative last year.

EM8 real house price growth (vs. post 2010 range)



Source: BIS, Credit Suisse research

6. South Africa

Of all the EM8 countries, South Africa recorded the smallest year-on-year difference in average score for the six metrics, rising by just 1 pp and keeping the country in sixth place on our scorecard. The currency and equity market have already begun to discount the improved economic sentiment post the Zuma-Ramaphosa power transition, but it is too early to be detected in real sector indicators. Since March 2017, the acceleration in real retail sales has been countered by tighter real interest rates, while the four other metrics remained stable.

7. Russia

Russia posted a year-on-year improvement across five out of six consumer metrics under consideration (real interest rates rose as disinflation was swifter than monetary policy easing), but the changes were of a smaller magnitude than Brazil. Hence Russia was leapfrogged by Brazil (which moved to fourth from eighth place on the scorecard), leaving the country in seventh place among the EM8. Nevertheless, the pick-up in Russia's consumer confidence and year-on-year real retail sales growth (to +3% from –6%) was of a magnitude sufficient to boost the country's score by 17 pp to 28%, only marginally lower than South Africa.

8. Mexico

Mexico is by a margin the biggest loser based on the changes across our six consumer metrics since March 2017, falling to last place (from fourth in 2017) and incurring a 22 pp drop in its average score. With the exception of confidence, the other indicators declined – most notably real retail sales growth (to –1% from +9%), credit growth (to +11% from +20%) and real house price growth (to –3% from +6%), the latter falling from the post-2010 high to post-2010 low over the last 12 months. However, this result is not surprising given the protracted renegotiation of NAFTA (North American Free Trade Agreement). Moreover, considerable political uncertainty remains in the run-up to the 1 July Mexican presidential election.

Macro Momentum Scorecard

Country	Consumer confidence	Real retail sales growth	Real wage growth	Real interest rates	Priv. sector credit growth	Real house price growth	Average 2018	Average 2017	Direction
China	100%	70%	71%	61%	32%	78%	**69%**	64%	↑
Turkey	18%	55%	34%	89%	86%	44%	**54%**	46%	↑
India	65%	15%	87%	44%	8%	67%	**47%**	42%	↑
Indonesia	82%	25%	47%	40%	18%	35%	**41%**	49%	↓
Brazil	58%	46%	39%	11%	5%	15%	**29%**	9%	↑↑
South Africa	27%	56%	24%	23%	11%	30%	**28%**	27%	↔
Russia	65%	34%	44%	2%	11%	11%	**28%**	11%	↑↑
Mexico	31%	11%	8%	27%	37%	19%	**22%**	44%	↓↓

Source: OECD Main Economic Indicators, Thomson Reuters, Oxford Economics, Central bank data, IMF, BIS, Credit Suisse

Photo: iStock, pixelfusion3d

The "Supertrend": Still on track

While the heart of our study is bottom-up by nature, here we follow the emerging consumer theme from macro to micro. What are the key top-down drivers behind the emerging consumer theme, how are they trending and how do they compare with the factors at work in the developed world? The reality is that poor income prospects and stagnant demographics in developed economies contrast starkly with the backdrop in the emerging world and seem unlikely to reverse. Hence, the resulting shift we are witnessing in the balance of global consumption growth between developed markets and emerging markets is likely to continue. Taking this to ground level, we find our survey clearly echoes the messages of this story.

Anais Boussie, Richard Kersley

Global consumption: The rebalancing act

The central thesis of the structural development of the emerging consumer and his/her role within an increasingly more "multi-polar" world has been well-aired – a projected rebalancing of global consumption from developed to developing economies amid a rebalancing of growth within these developing economies from investment to consumption. The mix of this consumption also shifts to reflect a discretionary bias. If this is the theory, then we find it is being borne out in practice and specifically in the countries we have surveyed.

Figure 1 shows the consumption share of global GDP for the eight countries in our survey and for the Group of Six (G6) countries (France, Germany, Italy, Japan, the UK and the USA). The percentage has more than doubled in our survey countries from 11% to 23%, while it has eased in developed countries (G6) from 66% to 50% since the turn of the millennium. In our view, these trends will continue to dominate the next decade and beyond, with emerging markets contributing the most to consumption spending growth. A combination of stagnant demographics and low income growth will weaken the contribution to global consumer growth from developed markets, with a near mirror image in the emerging world compensating. We see three key factors at work.

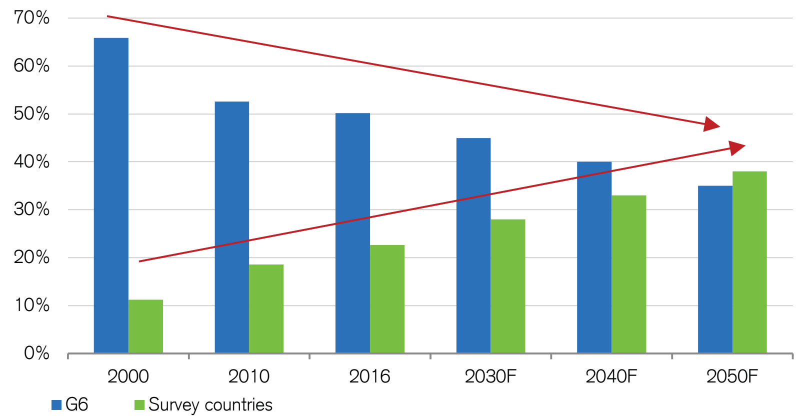
Superior demographics in emerging markets

Population growth

In aggregate, emerging market countries are blessed with more favorable demographic trends than the developed world. Figure 2 shows the United Nation forecasts negative population growth for more-developed regions in 2050–55, and positive population growth for less-developed regions.

Figure 1

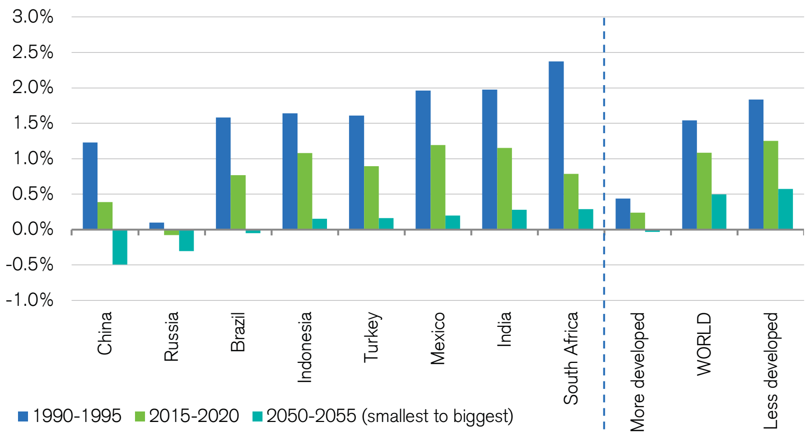
Consumption share of GDP (%): G6 versus selected EM countries



*Selected countries: Brazil, China, India, Indonesia, Russia, Mexico, Turkey and South Africa
Source: World Bank (World Development Indicators), Credit Suisse forecasts

Figure 2

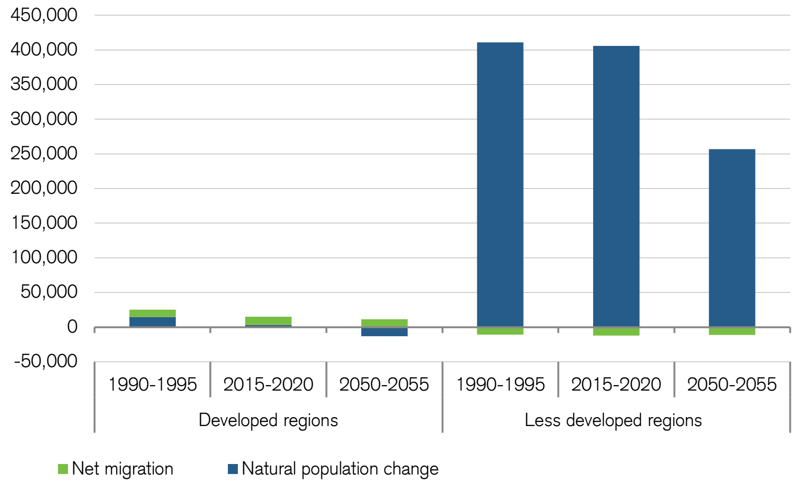
Population growth (%)



*Selected countries: Brazil, China, India, Indonesia, Russia, Mexico, Turkey and South Africa
Source: United Nations

Figure 3

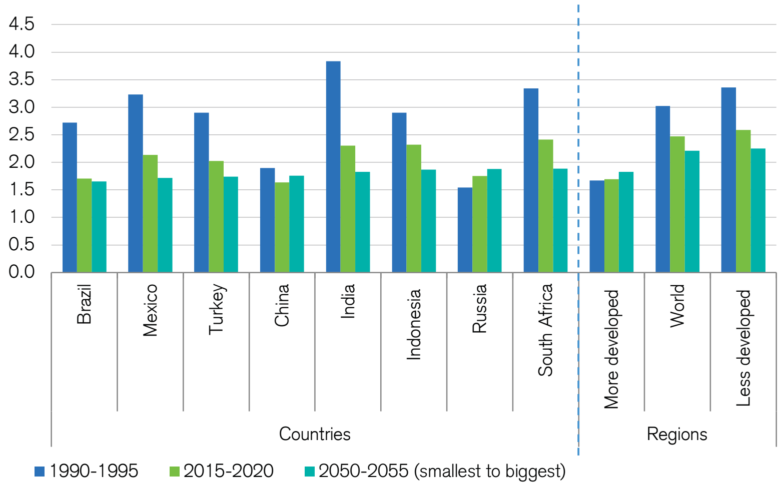
Population growth decomposition (thousands)



Source: 2017 Revision of World Population Prospects

Figure 4

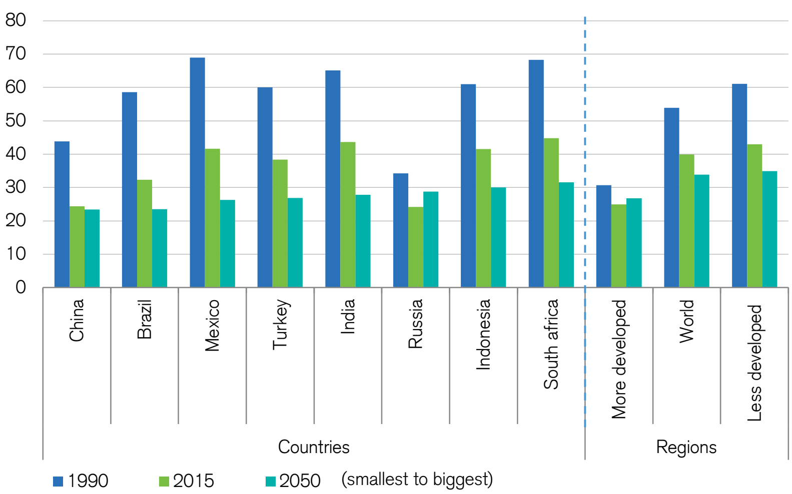
Fertility rates*: Survey countries and global benchmarks



*Fertility rates defined as the number of children per woman.
Source: 2017 Revision of World Population Prospects

Figure 5

Youth dependency ratio* (%): Survey countries and global benchmarks



*Youth dependency ratio is the number of persons 0 to 14 years per one hundred persons 15–64 years.
Source: 2017 Revision of World Population Prospects

What drives these differences? Population growth is a combination of natural population change (births minus deaths) and migration. High fertility rates and important immigration flows contribute to positive population growth and thus an expanding amount of working-age population and new consumers. If we break down population growth, we see that natural population change in less-developed countries is the only contributor, while, in developed countries, most of the growth is coming from net migration.

Natural population change contributes positively to less-developed regions because fertility rates are still high. Figure 4 shows that, in less-developed countries, the fertility rate for 2015–20 is 2.59, which is above the replacement rate (2.1), whereas the fertility rate in developed countries is 1.7 (below replacement rate). From our selected country list, the UN projects that South Africa, Russia and Indonesia will have the highest fertility rates in 2050–55, although below but close to the replacement rate.

Going forward, migration is expected to be the only contributor to developed countries' population growth. Indeed the UN forecasts natural population change to become negative, which means developed countries' consumer spending will depend on migration levels. The fact that the political mood in many developed economies has been far from supportive of immigration casts considerable doubt as to how supportive this can be. Meanwhile, given the positive and strong natural population change, we believe emerging markets will offer a more solid underlying consumer base.

Low old-age dependency ratio in emerging market countries

Old-age dependency ratios in less-developed countries are likely to weigh less on public expenditure than in developed ones and in turn lead to lower public debt. The population is growing older in both developed and developing countries, albeit from differing starting points, and this aging has fiscal costs, which in turn could lead to higher debt – which is negative for consumption.

On a per-capita expenditure basis, governments of major developed countries usually spend much more on retirees than on people below working age (<15 years). Thus the old-age dependency ratio (the ratio of those aged 65+ to those between 15 and 64) tends to matter much more than the youth dependency ratio (the ratio of those aged 0–14 to those 15–64) from a fiscal perspective. UN data shows that old-age dependency is a much smaller problem for the less-developed countries than for the more-developed ones. In our selected country group, countries like Turkey, Brazil and China will likely face more debt pressure as their old-age dependency ratios are nearly as high as in developed countries.

Going forward, both groups of countries are likely to be negatively impacted to some extent from aging of the population, but this problem is generally much less severe for the emerging market countries than for developed countries. And, as high old-age dependency ratios usually entail more fiscal spending and debt, this will have greater negative consequences on consumption in developed countries than in emerging market countries (China is the potential exception to the EM rule).

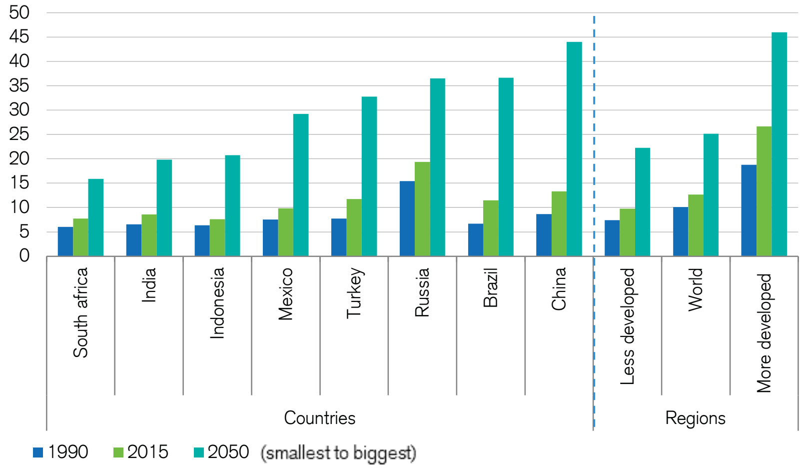
Population and working-age population. The ratio of the working-age population to the overall population is projected to fall sharply in most of the developed world in the coming years (69% to 58% from 2015 to 2050). The main reason is that baby-boomers are gradually growing older and leaving the working-age population cohort without being replaced by young workers (as fertility rates are so low in developed countries). Conversely, this ratio is projected to decrease in emerging market countries, but much more gradually. Indeed, fertility rates are much higher and the population much younger. Going forward, this gives the emerging market countries a comparative advantage – the higher the ratio, the easier it is for their per capita income to grow.

Urbanization trends in emerging markets

Urbanization has been and will remain one of the most important drivers of consumption growth. More-developed and less-developed countries still have a gap in their urbanization rates, but this gap is declining fast as less-developed countries are catching up. More and more people in emerging market countries have been moving from rural to urban areas to seek better jobs, social services and a better quality of life overall. As such, the pace of urbanization is rapidly growing in emerging markets and, given that they are starting from a lower base (around 40% today), they have a much greater urbanization potential, which will be positive for both GDP per capita and consumption (see Figure 8). Indeed, more people living in urban areas creates positive externalities as these centers are where innovation incubates. Infrastructure quality correlates well with GDP per capita as Figure 9 shows. In turn, this is likely to attract companies and be positive for labor markets.

Figure 6

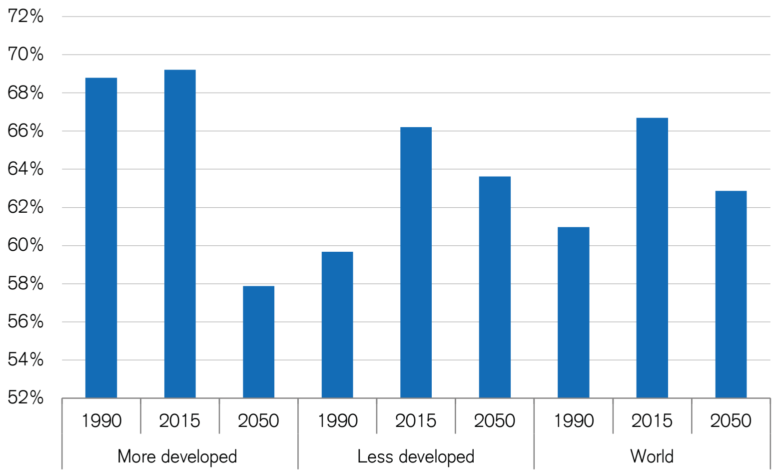
Old-age dependency ratio (%): Survey countries and global benchmarks



Old-age dependency ratio is the number of persons 65 years and over per one hundred persons 15–64 years.
Source: 2017 Revision of World Population Prospects

Figure 7

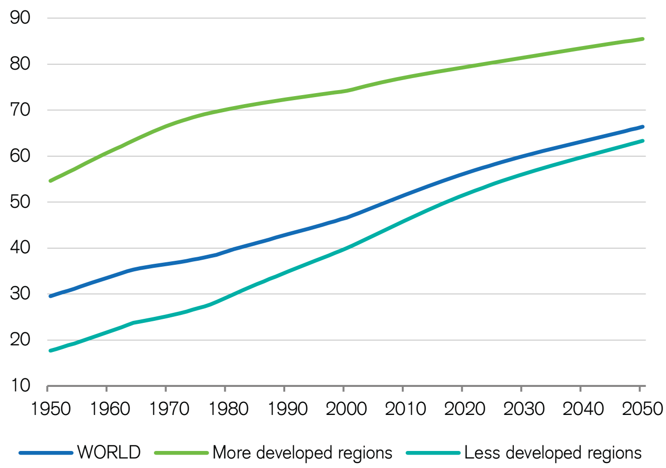
Working-age population as a share of total population (%)



Source: 2017 Revision of World Population Prospects

Figure 8

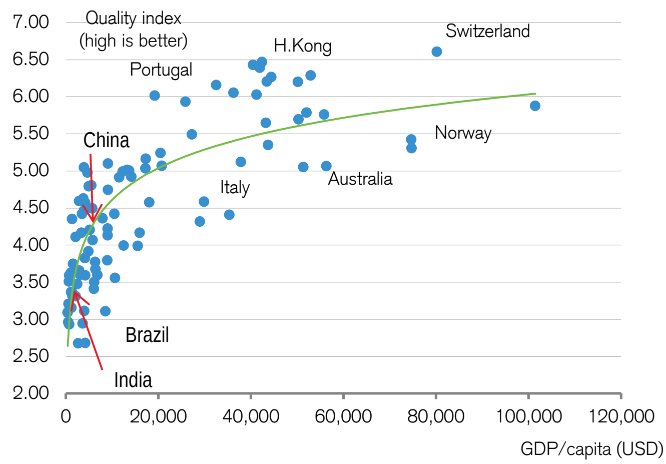
Urbanization rates



Source: World urbanization prospect

Figure 9

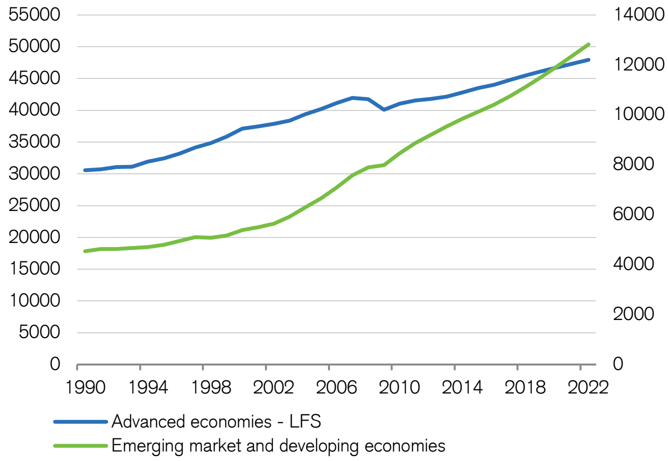
Infrastructure quality correlates positively with economic development: GEM needs to improve and expand



Source: WEF, World Bank, Credit Suisse research

Figure 10

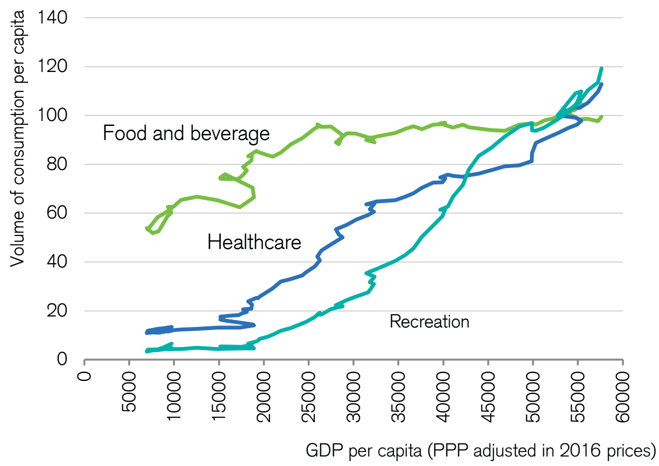
GDP per capita, PPP



Source: IMF, World Economic Outlook Database, October 2017Alt

Figure 11

Food, healthcare and recreation spending in the USA versus GDP per capita, 1912–2016



Source: Bureau of Economic Analysis

Rising incomes in emerging markets

From ultra-low to middle-income earners

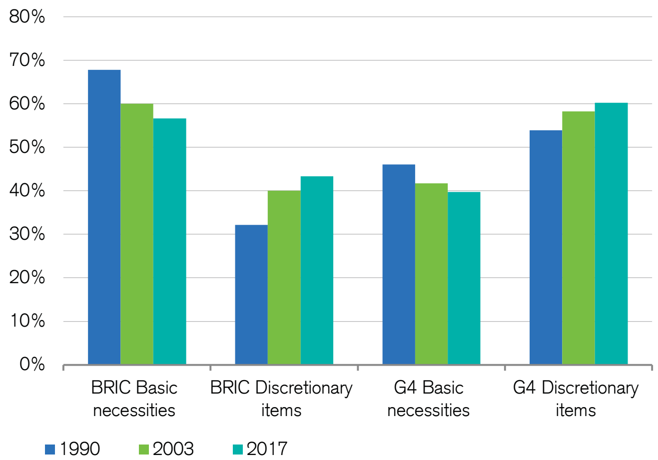
As highlighted in previous reports, this upward trajectory of GDP per capita in emerging markets should progressively trigger a shift in the mix of spending as much as an increase in its level. Figure 11 illustrates the historic pattern we saw in the USA as GDP per capita increased. Spending on purely essential items such as food progressively slowed, giving way to discretionary spending, with recreation being the ultimate discretionary spending decision. This should be the theoretical road map for emerging economies.

Turning to emerging economies today, the practice is fitting the theory in the macro data. Urbanized consumers are beginning to consume differently. A large proportion of emerging market incomes are still spent on necessities. However, this is changing. This point is made in Figure 12, which shows that consumption of basic necessities in the BRIC countries (Brazil, Russia, India and China) decreased by more than 10% between 1990 and 2017, while consumption of discretionary items correspondingly increased.

Going forward and as emerging countries become wealthier as Figure 10 implies, their consumption pattern should continue to catch up with the G4 countries (USA, UK, Germany and Japan). There is still plenty of scope to do so. The G4 countries have less than 40% of their total consumption dedicated to basic necessities, while more than 60% of their consumption goes toward discretionary items. We expect consumption in emerging countries to ultimately converge toward the same split.

Figure 12

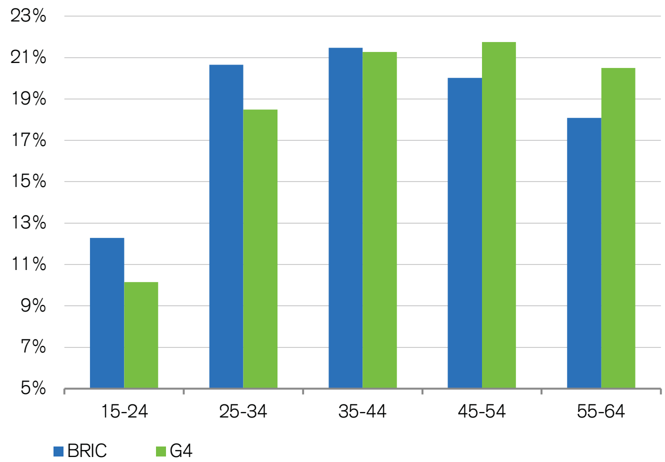
Consumer expenditure breakdown



Source: Euromonitor , Credit Suisse

Figure 13

Distribution of average income by age group, 2017



*Income distribution by age group represents the proportion of income each age cohort has as a share of total income (average income earned by age bracket/sum of average income across all age groups).
Source: Euromonitor , Credit Suisse

These trends of course carry important implications for companies producing goods and services, especially if they can assess consumer characteristics correctly. There are a wide range of demographic factors that come into play in this context. The age and income profile of consumers in emerging markets versus their developed market counterparts is one key consideration. Figure 13 shows that the income/age distribution varies among BRIC and G4 countries, and that the bulk of income in developed countries is held by older people. As such, older people have the highest purchasing power in developed countries, while, in emerging countries, purchasing power is held by young adults who consume very differently to older people.

In conclusion, solid demographics, rising urbanization rates and rising incomes clearly have the potential to unleash a further significant uplift in emerging market consumption. We would nuance this by saying that the magnitude of this increase will be influenced by their capacity to improve their food supply, sanitation, technology, basic healthcare and education. On this front, progress will differ from one country to another as the quality of the infrastructure that accompanies urbanization itself differs. This will likely create a heterogeneous landscape for at least the coming decade. The contrasting starting points for income and the demographic profile of the individual countries further underlines the danger of generalizing.

What does the survey say?

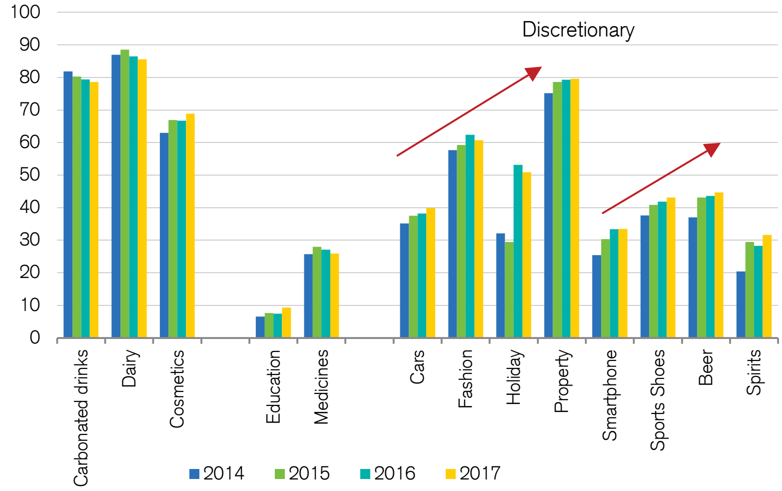
In many respects, this is where our emerging consumer survey comes in. Its granular analysis of consumer behavior and preferences helps to fill in the gaps between the macro and the micro, bringing the structural trends closer to the here and now. Illustrations of the broad themes set out above are indeed highly visible in the survey. The declining share of spending on necessities versus discretionary goods highlighted in Figure 14 is mirrored in the trends we are seeing in terms of momentum in specific spending categories. Figure 15 highlights the steady increases we are seeing in the discretionary items such as cars, sports shoes, spirits and holidays, particularly so this year. Necessities such as food and housing still remain the primary purchasing decision, but they are not the categories with momentum.

The macro message above is that this emphasis on discretionary spending is only part of a shift that still has a long way to go. The survey supports this view, with respondents across our survey telling us that food and housing is still consuming an average 49% of expenditure. China provides an illustration of how this can change as income/GDP per capita rises. Its mix of spending is now far less concentrated in the area of basic necessities. Entertainment and travel notably represents 14% of expenditure, with food at 20%. This bias is consistent with the development in an ever-wealthier country and perhaps signposts how the mix will shift in other countries as their incomes grow.

We illustrate in detail how the demographic influences of the age/income distribution and the benefits to consumer incomes from urbanization impact the spending in Appendix 1 and 2. Suffice to say, a drill-down to the spending patterns of the young urban consumer amplifies the message. Chapter 3 of the report looks specifically at how the young consumer is driving spending patterns in health, sports, gaming, travel and transport. However, we would note that as positive as this age/income bias may be for these areas of discretionary spending, there remains an implication for healthcare spending. The skew of income to the young versus the elderly while the demand for healthcare/medicines is of course tilted to the latter rather than the former creates a degree of tension in the system when it comes to access to care. The elderly need healthcare provision but may lack the means to pay out of pocket. Our Global Markets Healthcare team have produced a separate report focusing on the themes emerging for the survey for the healthcare industry.

Figure 14

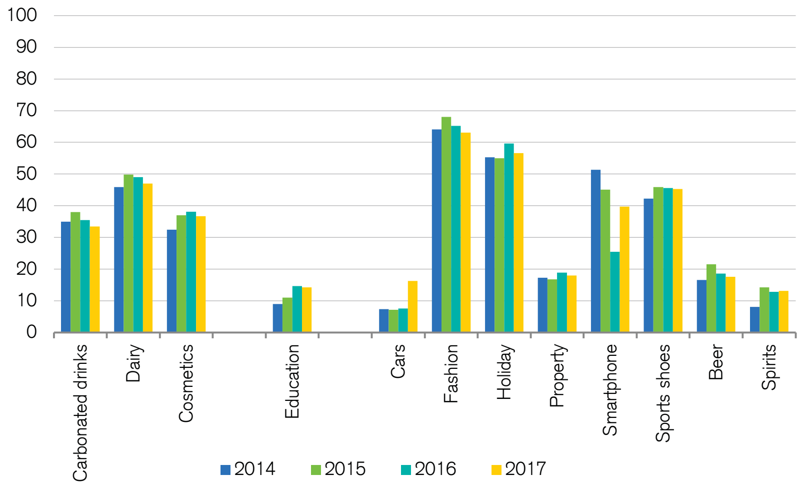
Consumer purchases in the last 3-12 months



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 15

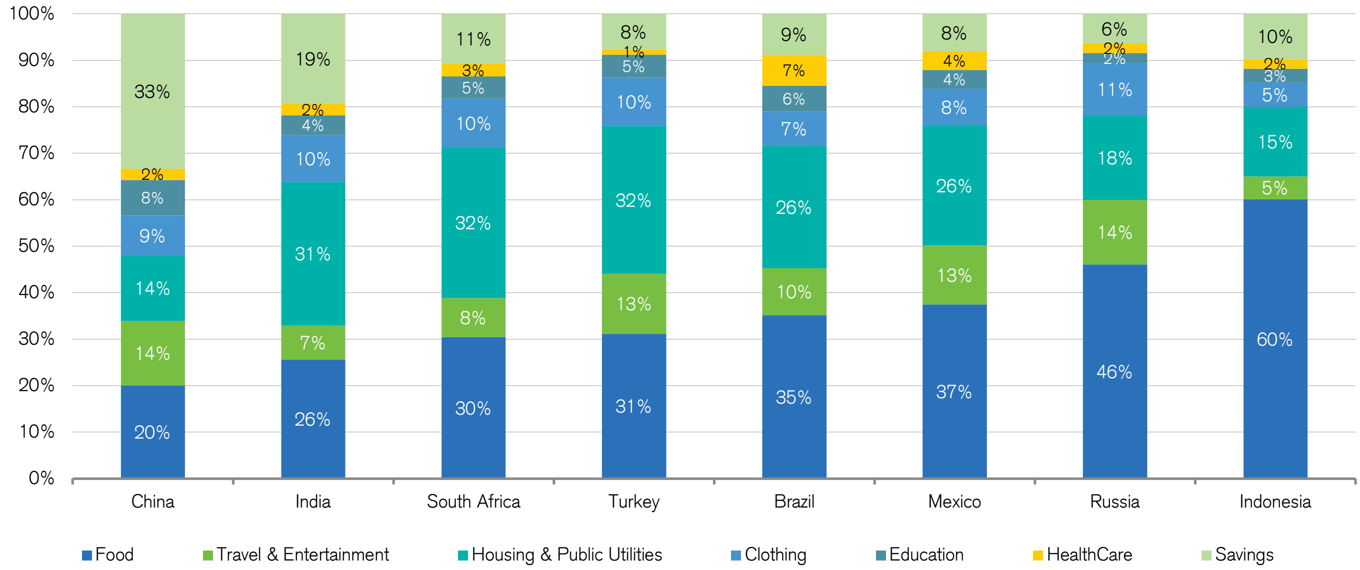
Consumer purchase intentions for the next 3–12 months



Source: Credit Suisse Emerging Consumer Survey 2018 *Intentions for medicine spend not asked

Figure 16

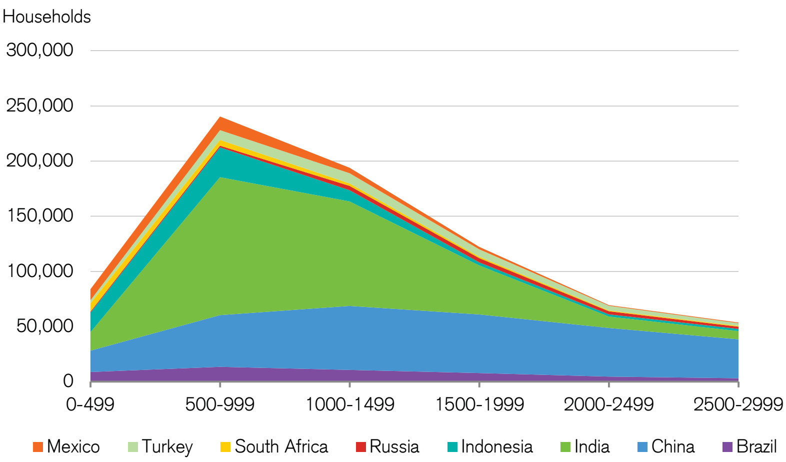
Share of expenditure across survey countries



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 17

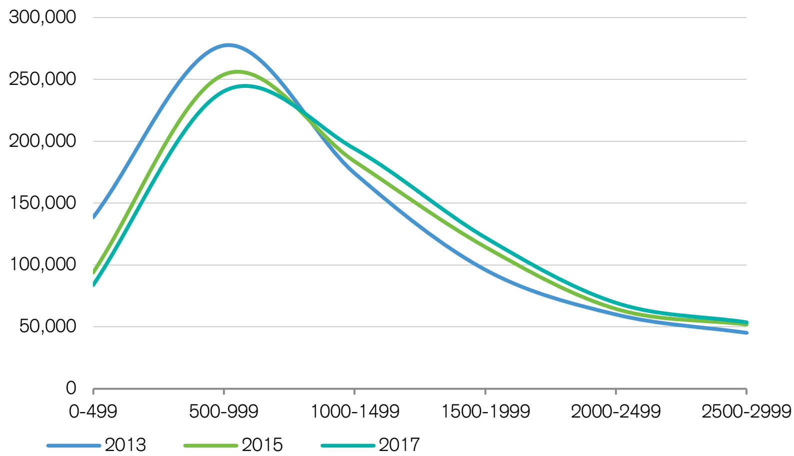
Household income distribution (USD/month)



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 18

Aggregated household income distribution



Source: Credit Suisse Emerging Consumer Survey 2018

The emerging "middle class"

The unifying dynamic behind these trends – current and projected – is the rise in middle-income earners. The survey makes this theme tangible. With the benefit of knowing the prevailing household income of our respondents, the size of the family unit from which they come and factoring in the income structure by decile in these economies sourced from the World Bank, we are able to make an up-to-date estimate of the distribution of household income across each country. Having standardized incomes on a 2017 USD purchasing power parity (PPP) basis, Figure 17 builds up an aggregate income distribution curve from our survey, overlaying each country. We measure the number of households by income band as per the income data provided by our respondents. We have cut off the chart at a monthly income level of USD 3,499, but we note, however, that there is a considerable tail of households that stretch well beyond this income cut-off point. For simplicity of presentation, we have not included this tail in the chart.

In Figure 18, we compare the distribution now and over the past four years. The chart is continuing its move to the right. If we look at households in the USD 1,000–2,000 per month bracket, they have increased by approximately 45 million in our survey countries in the last four years, which represents an increase of over 16%. Around 1.26 billion people in our survey countries now reside in this territory. Of course our survey does not replicate the emerging world as a whole, with sizable countries in Latin America and Africa notably absent. This would scale the story further. If we take the superior demographics and income projections set out earlier, there is every reason to believe the steady move rightwards in this distribution continues from here, bringing the ongoing changing consumption patterns we have been witnessing with it. ■

Photo: iStock, CatLane

Spotlight on Wealth

The “emerging saver”

Richard Kersley, Maria Bhatti

In this short focus piece, we review the pattern of savings behavior across our eight emerging countries. The Credit Suisse Research Institute Global Wealth Report 2017 has singled out emerging markets as the fastest source of wealth accumulation, thus providing a “balance sheet” to support the consumer story. However, a shift in the manner in which wealth is held also has powerful implications for savings markets as we show below.

Wealth and income

While rising GDP per capita and personal incomes are at the heart of the emerging consumer story, considerable wealth accumulation accompanies the development of these economies as the Credit Suisse Research Institute Global Wealth Report has tracked.

Between 2000 and 2017, emerging markets have nearly doubled their share of global wealth from 11% to 19%. China is of course a key driver. Its level of wealth accumulation is only second to the USA at USD 1.7 trillion and now represents 10% of global wealth. Balance sheets and income are growing.

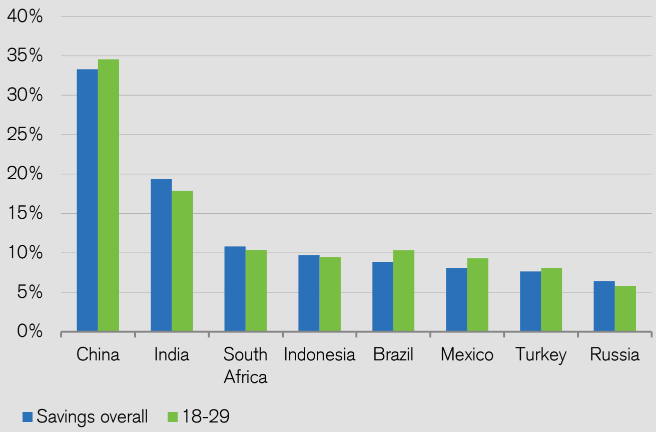
Table 1 highlights the state of play in household wealth for our eight survey countries. Most countries saw increases in the last year, with the majority above the world average increase in wealth per adult of 4.9%. The most notable exceptions to the rule were Brazil and Turkey, reflecting the macro and political factors and the associated currency volatility highlighted elsewhere in the report. Across the eight countries, China accounts for the largest share of wealth per adult at USD 26,872 in 2017. In contrast, India displays the lowest wealth per adult at USD 5,976.

The Wealth Report forecasts that the outperformance of wealth accumulation in emerging markets versus developing markets will continue. Looking out to 2022, the annual rate of increase is projected to be 6.5% for emerging markets versus 3.3% for developed markets. This would take the share of global wealth in emerging markets to a new high of 22%, with China, India and Brazil as the drivers. China is expected to add a total of USD 10 trillion to the stock of global wealth in the next five years, with an increase of 34% over the period, followed by India (USD 2.1 trillion, 42%) and Brazil (USD 1.6 trillion, 63%) as its wealth generation recovers after the severe recession it has endured.

Of the three, China and India are of particular note as these countries also retain the highest savings ratios across our universe. Figure 1 shows the share that savings takes as a percentage of expenditure as per our survey. China tops the list

Figure 1

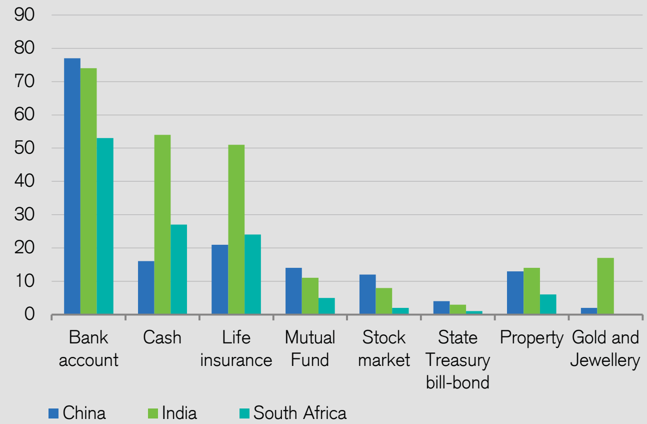
Savings as a percentage of total expenditure



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 2

Savings distribution mix across China, India and South Africa (% of respondents saving by each method)



Source: Credit Suisse Emerging Consumer Survey 2018

Table 1

Change in household wealth 2016-2017

	Total wealth	Change in total wealth		Wealth per adult	Change in wealth per adult	Change in financial assets		Change in non-financial assets		Change in debt	
	2017	2016-17	2016-17	2017	2016-17	2016-17	2016-17	2016-17	2016-17	2016-17	2016-17
	USD bn	USD bn	%	USD	%	USD bn	%	USD bn	%	USD bn	%
Brazil	2,545	-62	-2.4%	17,485	-3.9%	47	3.8%	-38	-2.0%	70	12.7%
China	29,000	1,718	6.3%	26,872	5.6%	302	2.2%	1,601	10.2%	186	7.8%
India	4,987	451	9.9%	5,976	7.9%	64	9.1%	470	11.0%	83	19.5%
Indonesia	1,843	77	4.4%	11,001	2.8%	6	2.7%	88	5.3%	17	14.9%
Mexico	1,835	182	11.0%	22,346	8.7%	38	8.5%	143	9.4%	0	0.0%
Russia	1,888	200	11.8%	16,773	12.4%	46	12.3%	222	13.7%	70	22.6%
Sth. Africa	761	100	15.1%	21,849	13.1%	79	15.5%	51	18.3%	30	23.4%
Turkey	1,068	-68	-6.0%	20,061	-7.9%	-47	-8.3%	-57	-6.5%	-36	-11.6%
World	280,289	16,744	6.4%	56,541	4.9%	9,676	5.8%	9,068	6.5%	2,002	4.9%

Source: The Credit Suisse Global Wealth Report 2017 and India ranks second. Brazil ranks fifth out of the eight countries. High macro volatility and particularly high inflation have typically led to lower country savings ratios.

In each of the country summaries of the report, we detail what savings channels our respondents typically use (e.g. bank accounts, life insurance products, stock market, mutual funds, gold/jewelry, property, etc.). The level of sophistication in savings differs across countries, with China, India and South Africa more readily making use of savings channels beyond just bank deposits, such as life insurance and mutual fund products, (see Figure 2).

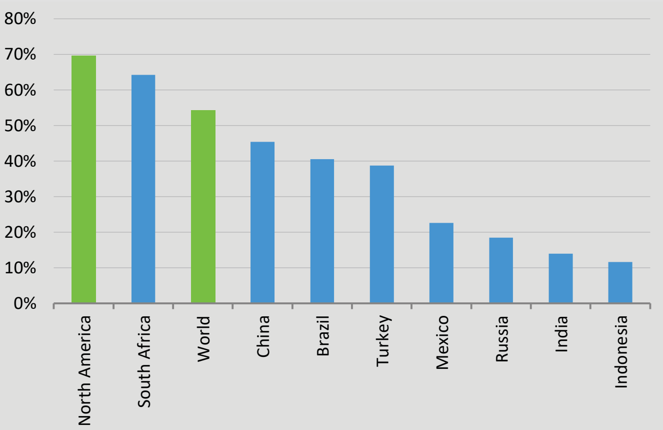
Given the wealth accumulation we are projecting for emerging markets, there will potentially be major implications for financial markets and institutions with regard to savings. We would highlight two specific considerations here. First, if one compares the holdings of financial assets as a proportion of total wealth in emerging markets, the result is still well behind global levels. Figure 3 shows this for China, India and Brazil versus the global average. Note that India's 14% is not only well below the developed markets comparatively, but exceptionally low by emerging market standards. Only Indonesia, at 12%, comes close among our survey countries. Should we see a re-allocation of wealth to financial assets alongside the substantial increase to wealth projected in the likes of China and India, the flow of new money to financial assets would be considerable.

Second, this is of particular relevance to India. Not only is the proportion of wealth in financial assets exceptionally low, the results of our survey may well be a sign of an inflexion point in Indian behavior that could suggest a sizable re-allocation of assets. Our survey shows the percentage of households saving via gold and property falling to 31%, the lowest level since the survey began in 2010. At the same time, the percentage of households suggesting they are investing in equities and mutual funds is on the rise. The combined total has risen from 13% in 2010 to 19% in the 2017 survey. Our India team reflect on this topic in more detail in Chapter 5. We believe the Indian consumer not only has the potential to exert a major influence on the outlook for consumer products and consumer services, but also to be a structural driver of financial services if we experience a re-allocation of the projected USD 7 trillion as the survey suggests – an emerging consumer and saver.

Note: Net worth, or "wealth", is defined as the value of financial assets plus real assets (principally housing) owned by households, minus their debts. This corresponds to the balance sheet that a household might draw up, listing the items which are owned, and their net value if sold. Private pension fund assets are included, but not entitlements to state pensions. Human capital is excluded altogether, along with assets and debts owned by the state (which cannot easily be assigned to individuals). Data for 2017 refers to mid-year (end-June estimates).

Figure 3

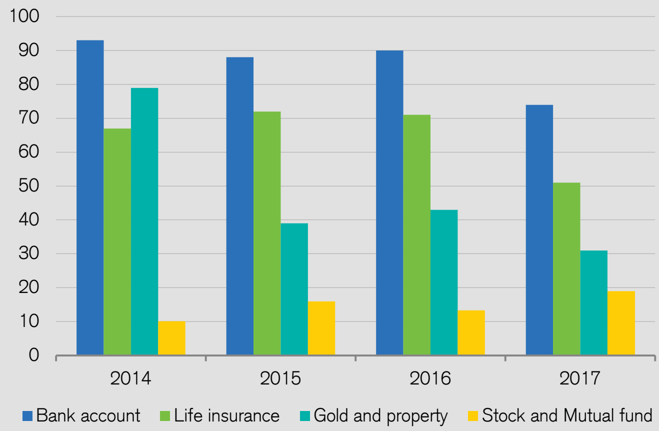
Financial assets as a % of gross wealth



Source: The Credit Suisse Global Wealth Report 2017

Figure 4

Methods of saving in India (% of respondents saving by each method)



Source: Credit Suisse Emerging Consumer Survey 2018

Table 2

Change in millionaires and total wealth

	Total wealth (USD trn)						No. of millionaires	
	2015	**2016**	**2017**	**2022E**	**Change (USD trn.) 2017-2022E**	**Change (%) 2017-2022E**	**2017**	**2022E**
Brazil	2.0	2.6	2.6	4.2	1.6	63%	163,697	296,254
China	26.8	27.4	29.1	38.8	9.8	34%	1,952,996	2,748,322
India	4.4	4.6	5.0	7.1	2.1	42%	244,985	371,889
Indonesia	1.6	1.8	1.9	2.8	0.9	50%	110,609	179,939
Mexico	1.7	1.5	1.9	2.0	0.1	6%	83,886	87,819
Russia	1.5	1.8	1.9	2.7	0.8	43%	131,694	195,873
South Africa	0.6	0.7	0.8	1.0	0.2	30%	58,422	81,617
Turkey	1.0	1.0	1.1	1.2	0.1	7%	77,604	82,566
WORLD	**253.8**	**263.5**	**280.3**	**341.4**	**61.1**	**22%**	**36,050,681**	**43,947,613**

Source: The Credit Suisse Global Wealth Report 2017

Photo: Shutterstock, Asia Images Group

An active lifestyle or virtual reality

As outlined in the previous chapter of this report, emerging market growth is supported by the demographic dividend of a consumer that is young and has above-average wealth. With this in mind, we use our survey to identify where demand from these consumers is likely to have the biggest impact. End-markets that are most likely to benefit in our view are lifestyle-related. An increasing share of young consumers play sports, eat healthier food, reduce smoking and add protein bars and shakes to their diet. Global sport brands appear the key beneficiaries of this trend. The virtual world is not to be forgotten, with video gaming and eSports rapidly gaining popularity. Non-endemic brands should take note considering that a range of them score well with these mostly young gamers. The desire by young consumers to explore through international travel is once again strong, with online travel agents, low-cost airlines and duty free as benefiting end-markets.

Eugene Klerk, Simon Irwin

The young focus on healthier food

One of the trends that we wanted to test in this year's survey is whether the emerging consumer is showing interest in sport, fitness and a healthier lifestyle more broadly. This is not a trivial question considering that healthcare costs associated with obesity, diabetes and other illnesses associated with an unhealthy lifestyle might increase to levels that are unaffordable for most emerging economies. In judging whether emerging market consumers were interested in sports and health, we asked questions relating to smoking habits, appetite for playing sports, consumption of protein products and attitude toward "sugary" products. Furthermore, we draw on the results of our apparel brands question to assess whether consumers are becoming more enthusiastic about buying sports brands.

Smoking: The young lead in cutting down

It is a well-known fact that smoking is unhealthy and if our emerging market consumers want to live healthier lifestyles, we should see this in their answers. Our survey shows that the appetite of younger consumers to smoke has indeed fallen over the past two years in all countries except South Africa and Mexico (Figure 1). In addition, and again with the exception of South Africa, smoking is down from peak levels everywhere for younger consumers. Consequently, younger consumers in our survey who smoke have now become a minority in all countries except Turkey. To further underline this point, we note that the percentage of consumers aged 55–65 who smoke is far higher in almost all the countries.

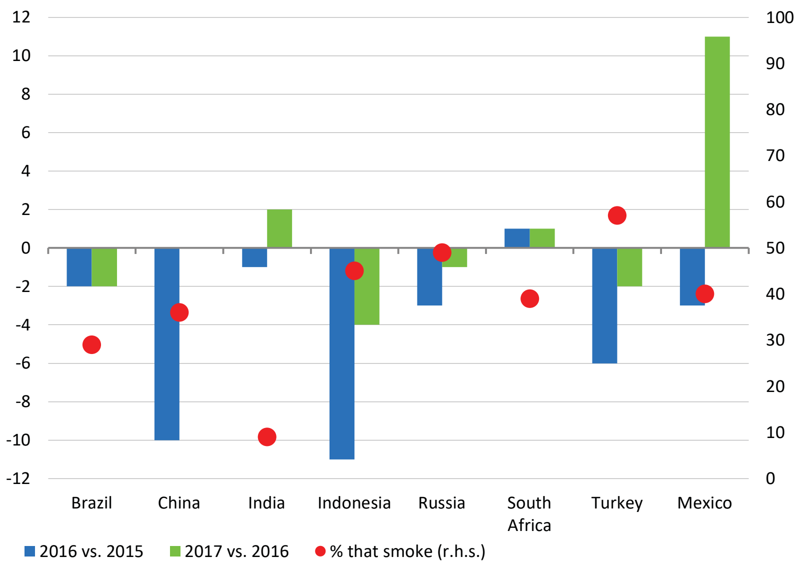
Evidence on less sugary food supportive

For the second consecutive year, we asked participants whether they have consciously reduced the intake of "sugary" or "unhealthy" foods. In our view, the results show significant interest across multiple countries for healthier food. For example, in China, Indonesia, Mexico and India, 50% or more of consumers "strongly agree" with having reduced the intake of products containing a high sugar content (Figure 2).

What is also interesting, in our view and in contrast to the conclusions relating to cigarette use, we find that the attitude toward healthier food is not too different between younger and older consumers. In fact, in the case of Brazil, China, Mexico and Indonesia, we find that a somewhat larger share of middle-aged consumers reduced the intake of unhealthy foods last year than those aged between 18 and 29, suggesting that the trend toward healthier food might be more broad-based than just for younger consumers.

Figure 1

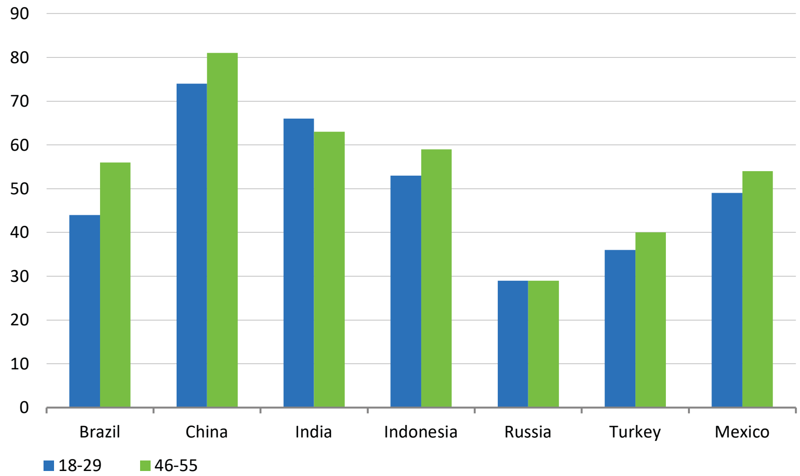
Appetite for smoking among 18–29 year-olds has now fallen below 50% for most of the survey countries



Source: Credit Suisse Emerging Consumer Survey, 2018

Figure 2

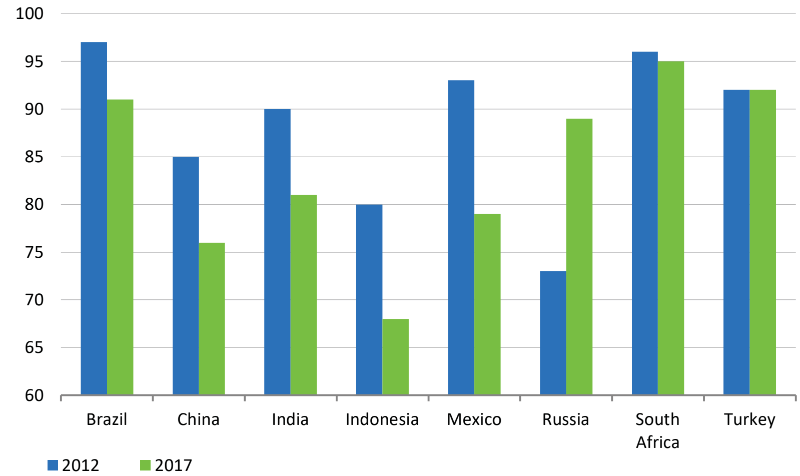
Percentage of consumers who "agree" or "strongly agree" to have reduced their intake of unhealthy products



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 3

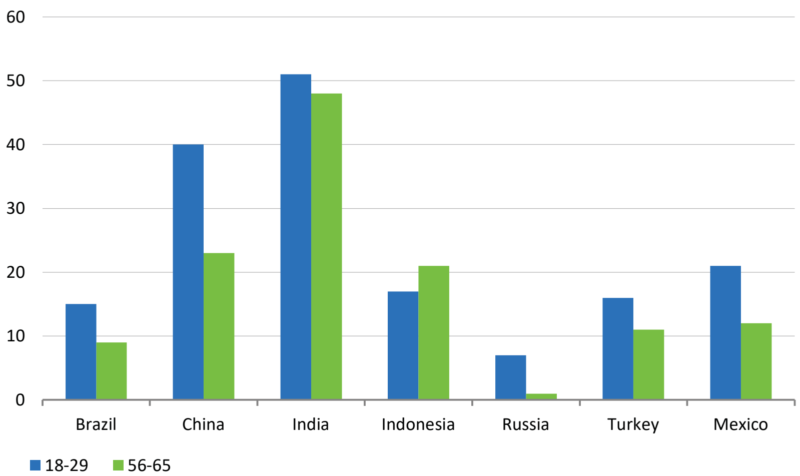
Percentage of 18–29 year-olds that bought carbonated drinks during the past 3 months



*Mexico survey data is for 2013
Source: Credit Suisse Emerging Consumer Survey 2018

Figure 4

"Have you increased consumption of protein products (e.g. protein bars and shakes)?"



Source: Credit Suisse Emerging Consumer Survey 2018

Nevertheless, as far as healthy food is concerned, the overall story is positive in our view for China, India, Indonesia and Brazil. In these countries, around 40%–70% of consumers have started focusing on healthier food. Evidence for Turkey and Russia, in particular, is not as impressive.

Further evidence of improving consumer behavior toward "unhealthy" products among younger consumers can be found when reviewing the results related to consumption of carbonated drinks. Our survey shows that the share of consumers who consume these drinks (typically containing high sugar levels) has fallen significantly during the past five years in Brazil, China, India, Indonesia and Mexico. In Russia, on the other hand, we find the opposite as can be seen in Figure 3.

Data from market research company Euromonitor supports our findings in that emerging markets are seeing stronger growth in the consumption of healthier food products such as organic and naturally healthy products than peers in developed markets. Euromonitor's research also suggests that consumers in developed markets have reduced consumption of products with reduced fat, sugar, salt and caffeine. According to Euromonitor, this is not so much a function of reduced interest in healthier food, but more a function of the view across developed markets that these products are considered heavily processed and therefore less healthy than alternatives.

Appetite for protein products is relatively strong among young people

Young people in particular seem to be combining increased sport activity with taking protein supplements. With regard to "healthy living," we have seen that protein consumption per capita has been rising across the developed world. In this year's survey, we decided to review whether these trends are also developing across the emerging world. We asked consumers whether they had increased consumption of protein products such as protein bars and shakes, gluten free products, dairy-free products and organic food. The results indicate that younger people in particular have taken to protein products more than the other categories. This is especially true for Brazil, China and India, but less so for younger consumers in Russia and Turkey.

In addition, the results also support the view that increased protein intake in conjunction with a more active lifestyle is a theme that resonates more with younger than with older consumers. With the exception of Indonesia, we find the percentage of younger people that have taken up protein products is higher than that of consumers aged 56–65 in all other countries.

Playing real sports has strong support across the board

Given the size of the sports market in China (estimated at around USD 290 billion in 2016), we asked our Chinese consumers about their attitude toward sports. The responses suggest that many younger people aged 18–29 intend to increase the amount of time that they play sport. More than 50% of them intend to do so compared to just 3% wanting to reduce the amount of time playing sport (Figure 5).

In addition, however, we also note that the momentum toward playing more sport is improving for all of the other age categories, which clearly suggests a positive momentum toward a healthier lifestyle in China more broadly. Figure 6 shows the level of interest of Chinese consumers in the four most popular sports. Two developments are worth highlighting. First, it appears that cycling is gaining popularity among the two younger age categories, which should benefit bicycle manufacturers supply chains. On the other hand, enthusiasm for athletics has fallen.

Which brands and companies stand to benefit?

The survey asks two questions that help assess the demand picture for sportswear:

- Have you purchased goods from fashion, leather goods or sports categories in the past 3 months? – Sport shoes and wear
- Are you planning to purchase any goods from these categories in next 12 months? – Sport shoes and wear

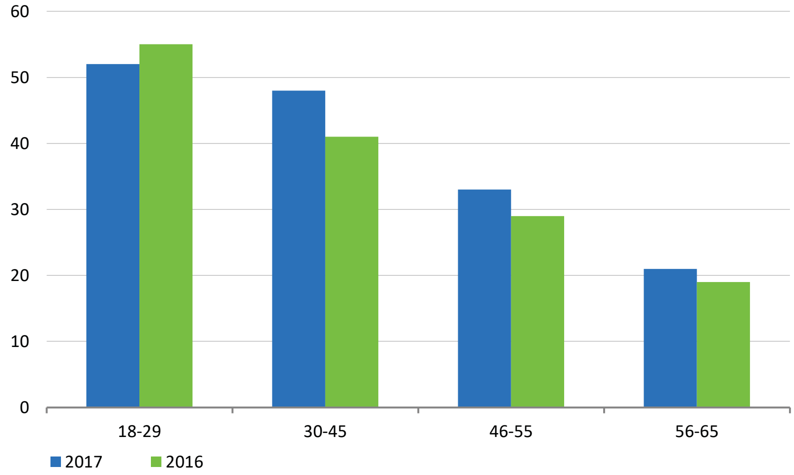
The responses to the first question showed that in aggregate a higher proportion of those surveyed indicated that they have bought sportswear compared to five years ago.

In our view, this is a reflection of the trend toward more active lifestyles as well as the strength of athleisure apparel (comfortable clothing designed to be suitable both for exercise and everyday wear), which so far has not seen any signs of waning. The Chinese data stands out here, with the demand for athletic products showing the strongest improvement in recent years (surpassing Brazil in the emerging market survey), largely as a result of the government's focus on expanding the sporting industry (Figure 7).

Not surprisingly, when asked about sportswear purchase intentions for the next 12 months, the survey results paint a similarly strong demand picture for 2018, with purchase intentions either steady or improving in all markets. In China, the purchasing intentions rose eight percentage points compared to last year (59% versus 51% of respondents plan to purchase sportswear over next 12 months), thus pointing to continued strength for sportswear in what is a large and very profitable market.

Figure 5

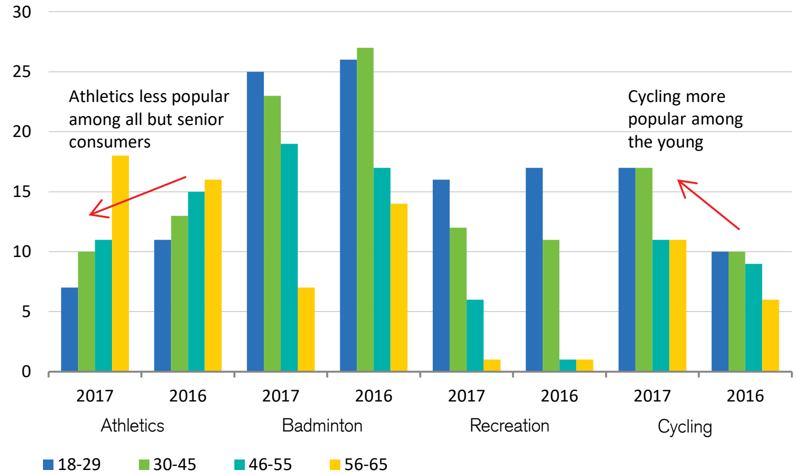
Percentage of Chinese consumers that indicate to increase time playing sports



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 6

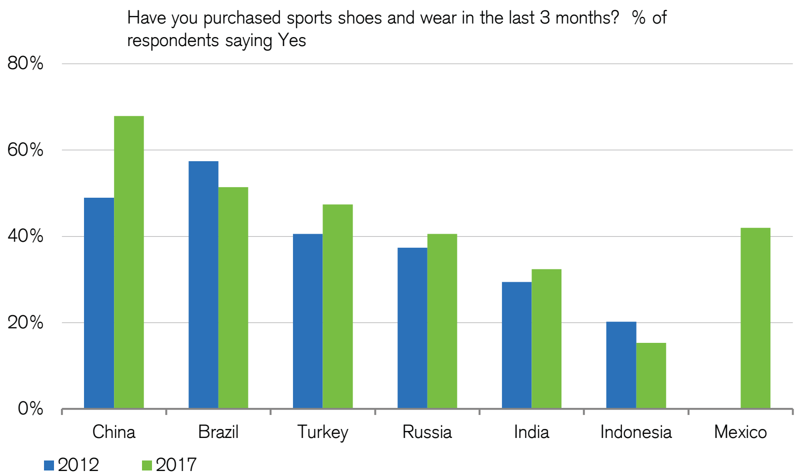
Interest in the most popular sports in China by % of consumers



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 7

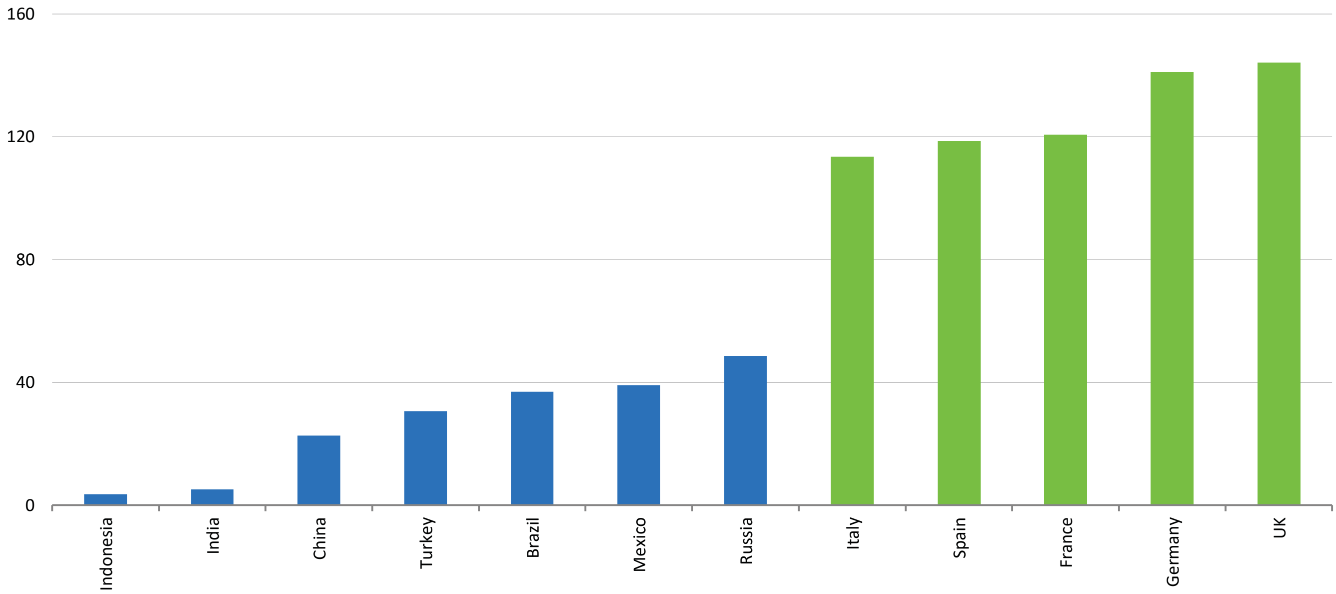
Most emerging markets surveyed showed a higher proportion of respondents buying sportswear in 2017 compared to 5 years ago



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 8

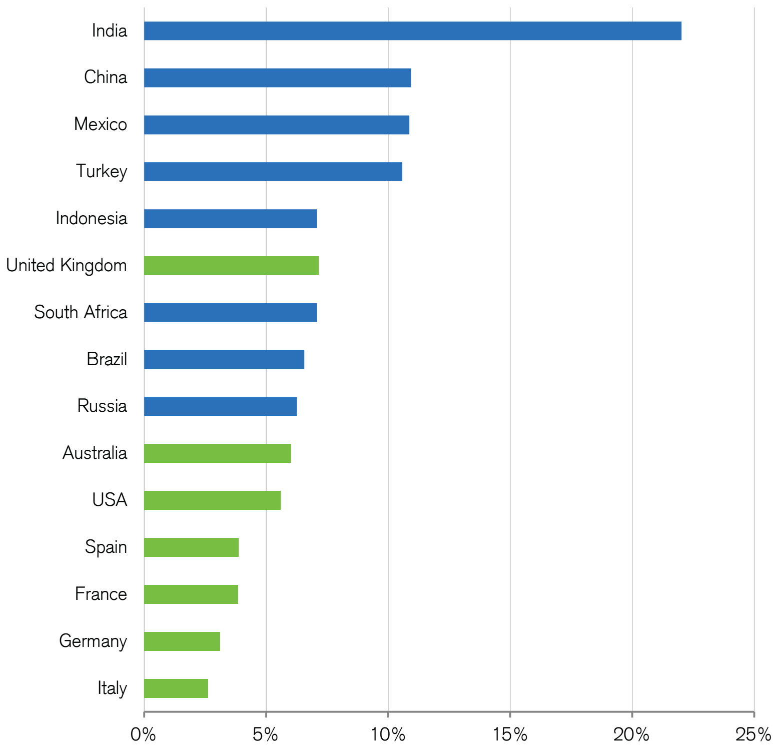
Significant gap in sportswear sales per capita between emerging markets and developed markets (USD)



Source: Euromonitor

Figure 9

Euromonitor forecasts point to continued high levels of growth in sportswear in emerging markets (2017–22)



Source: Euromonitor

Beyond 2018, there is substantial potential for sportswear growth in emerging markets

Despite the strong growth in sportswear in most emerging markets over recent years, the penetration of the category is still significantly lower compared to developed markets. Data from Euromonitor shows that retail sales per capita for sportswear in China, for example, are still roughly less than a fifth of most Western European markets (Figure 8). In markets such as Russia, Turkey, Brazil and Mexico, retail sales per capita are anywhere between a quarter to a third of those in Western Europe. Penetration in markets such as India and Indonesia is even substantially lower than in China and other emerging markets.

While this gap will in all likelihood never completely close, we expect it to continue to narrow and believe that the overall sportswear segment in emerging markets will continue to grow significantly ahead of developed market growth rates in the future given demographics, rising disposable incomes, growing interest in fitness and healthy lifestyles, and continued expansion of international brands in those markets. Euromonitor forecasts double-digit sales growth rates p.a. in India, Turkey, Mexico and China over the next five years (see Figure 9) similar to the growth rates seen in the last five years.

Table 1

Adidas is the favored brand in most emerging markets – 2017 data

	Brazil	China	India	Indonesia	Russia	Turkey	Mexico	Global
Adidas	24%	23%	17%	27%	23%	22%	24%	22%
Nike	24%	18%	11%	19%	15%	22%	21%	19%
Puma	5%	5%	12%	3%	5%	13%	11%	8%
Reebok	5%	1%	12%	10%	13%	4%	10%	7%
Converse	1%	4%	2%	4%	0%	3%	7%	3%

Source: Credit Suisse Emerging Consumer Survey 2018

There is a clear trend in the preference for global brands in all markets

With up to eight years of survey data available for most markets, it is also instructive to look at the trend in the purchasing intentions of global brands versus local brands in each country. The survey offers respondents the choice of at least 20 brands (mainly footwear) in each market, and 60 overall. The results are not surprising in that, over the years, the proportion of responses indicating a preference for global brands continues to increase and is now around 75% in all the emerging markets (Figure 10). With Adidas, Nike and others continuing to expand in these markets, we expect the ratio to continue to edge higher. We should point out that, although the questions mention sports shoes and sportswear, the responses appear heavily weighted toward footwear. The definition of sportswear in apparel is very arbitrary and we believe that it is easier for smaller brands to grow in apparel.

Survey results point to Adidas as the preferred brand

We note that the intention to purchase Adidas remains strong in all the markets and that Adidas' lead over Nike is growing. The main conclusion, based on the average survey response data for seven markets (China, India, Brazil, Russia, Turkey, Mexico and Indonesia), is that Adidas is a leader among global brands with a 22% share of purchasing intentions. This is slightly ahead of Nike at 19%, with Adidas ahead in five markets and level with Nike in the other two (see Table 1).

We also note the surprisingly strong results from Reebok (owned by Adidas) and 9% of group sales. While its sales in North America remain sluggish, growth in most other markets has been comfortably in the double digits for the past two years and our survey suggests that brand momentum in emerging markets remains strong.

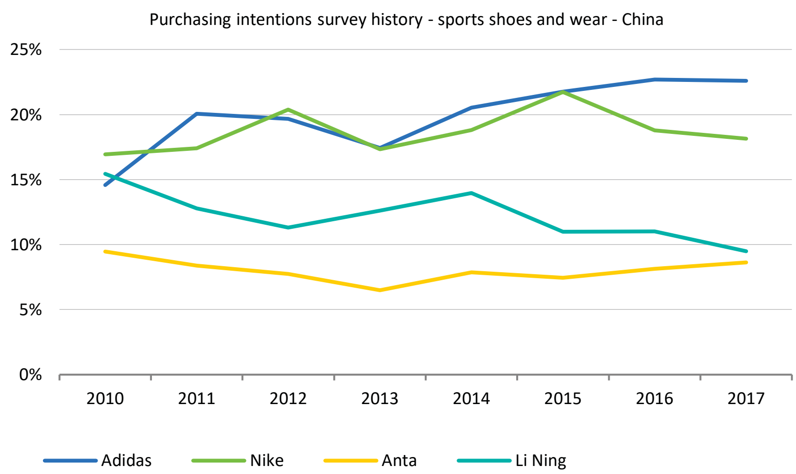
Figure 10

Global brands continue to capture more consumer awareness in Brazil, China, India and Indonesia

Source: Credit Suisse Emerging Consumer Survey 2018

Figure 11

Adidas has also gained a lead over Nike in the last two years



Source: Credit Suisse Emerging Consumer Survey 2018

Table 2

China brand preference by age

	Total	18-29	30-45	46-55	56-65
Adidas	23%	23%	24%	22%	13%
Nike	18%	16%	18%	22%	22%
Reebok	1%	2%	1%	2%	1%
Puma	5%	4%	5%	4%	2%
Asics	1%	1%	1%	1%	1%
Anta	9%	9%	8%	8%	10%
Li Ning	9%	9%	8%	11%	17%

Source: Credit Suisse Emerging Consumer Survey 2018

Spotlight on China

Demand in China looks robust and, over the past two years, Adidas appears to have gained a clear lead over Nike in its most profitable market. Overall demand for sportswear saw the strongest improvement in the survey data over the last six years (surpassing Brazil). It is also notable that, since 2010, Nike and Adidas have pulled away from Li Ning, while Anta's share has been broadly stable (Figure 11). Outside the four largest brands, Puma is worth mentioning as the interest in the brand has more than doubled in the last five years, although from a low base (Table 2).

Most major sporting good brands claim to be focusing more on the women's market globally, with more products and marketing specific to what they see as an opportunity. Looking at China, purchasing intentions are similar across genders with respect to brand preferences, although, overall, a higher proportion of male survey respondents indicated plans to buy sportswear over the next 12 months (65% versus 54% in 2017), and the growth rates between the two since 2010 have been fairly similar. In terms of brand preference by age of survey respondents, there is a noticeable preference for local brands among the older cohorts, which may well be down to both lower average selling prices (ASPs) and a familiarity with those brands, as well as potentially more priority given to value and function rather than fashion.

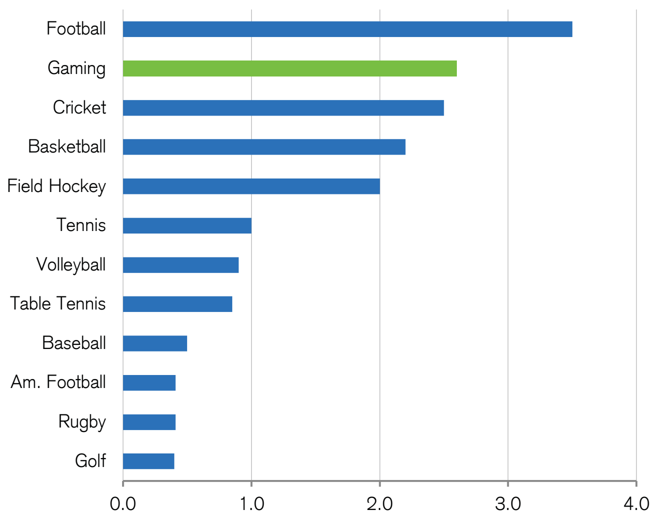
The survey categorizes respondents into ten income brackets. When examined across income levels, local brands naturally score higher on purchasing intentions with the lowest three categories thanks to lower ASPs and better distribution in lower-tier cities. However, Adidas in particular has fairly steady representation from RMB 4,000 upward, suggesting that the push into lower-tier cities by Nike and Adidas can be sustained.

Young consumers focus more on video gaming and eSports

One of the other themes benefiting from greater connectivity among consumers is that of video gaming and eSports (watching gamers compete against other gamers). During the past few years, the popularity of video gaming and eSports has grown significantly. The 2.6 billion video

Figure 12

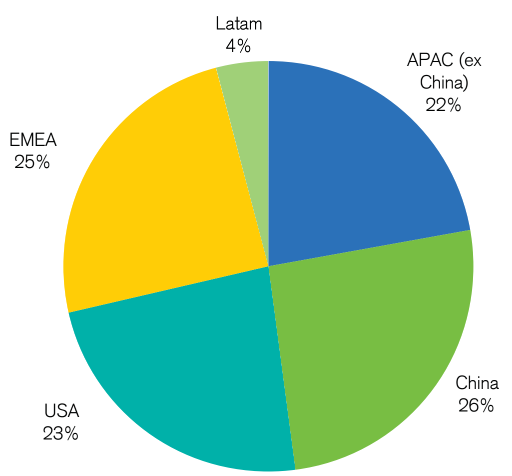
People playing a sport (2016, bn)



Source: Sporteology, Unity, Credit Suisse Research

Figure 13

Estimated gaming revenues by region (2017)



Source: NewZoo, April 2017

gamers globally makes gaming the second most popular "sport" after football. In addition, we note that consumer spending on video gaming globally has already reached around USD 100 billion, 26% of which is driven by Chinese consumers alone (Figure 13).

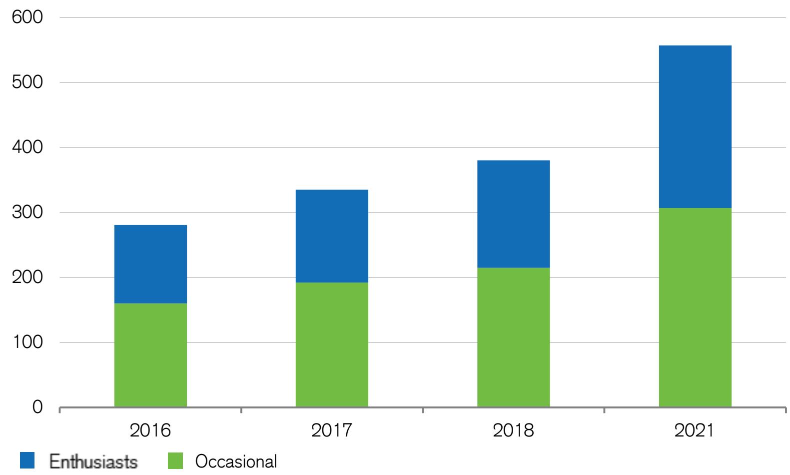
As for the popularity of eSports, we highlight estimates from game market researcher NewZoo, which indicate that the number of eSport fans increased 19% last year to 335 million and that this number will reach 557 million by 2021 (Figure 14). They expect eSport revenues to increase 2.5 times to USD 1.7 billion by 2021, up from USD 655 million last year. While video gaming might have been around for a while now, we note that this is hardly true for eSports. Marketing research firm Nielsen, our partner for this study, produced several studies on the market for eSports, with a focus on Europe, the USA and Asia. They found that the majority of eSport fans had only started following gaming competitions in the past three years (Figure 15).

In addition to the relatively immature nature of eSports, we also note that the demographic of gamers and eSport fans is important. The overall majority of players and fans are young and in that respect income rich. Data for China, for example, shows that less than 30% of those active are aged 35 or older (Figure 16). While the age mix is likely to shift over time as current gamers grow older, we do note that the current mix has implications for the type of consumer goods and services companies that might benefit from the growth in gaming and eSports.

As part of our survey, we also asked consumers whether they played video games and were active eSport followers. The data not only suggests that both may be true, but also that there is a clear bias toward younger consumers. With the exception of India, we find, for example, that the share of video

Figure 14

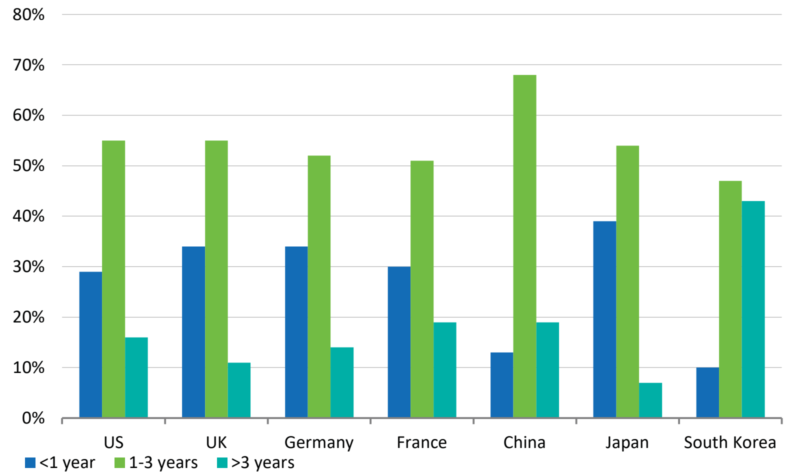
Number of eSport fans globally (m)



Source: NewZoo

Figure 15

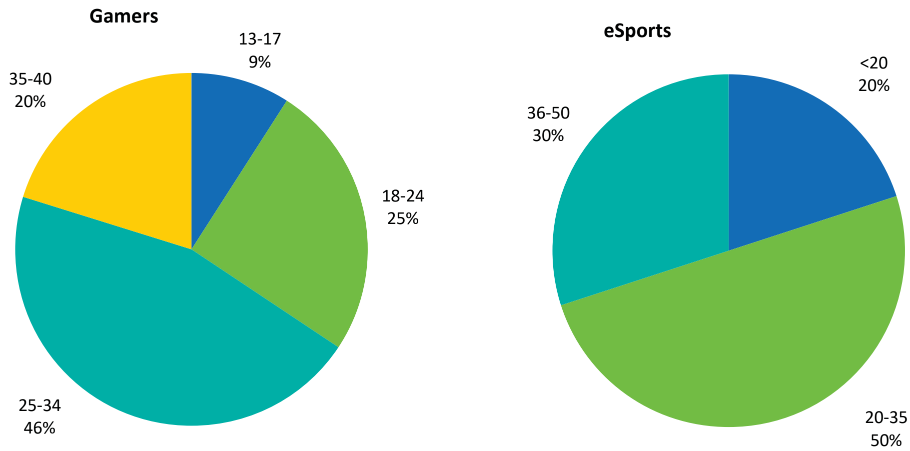
When did you start following eSports?



Source: Nielsen, Credit Suisse Research

Figure 16

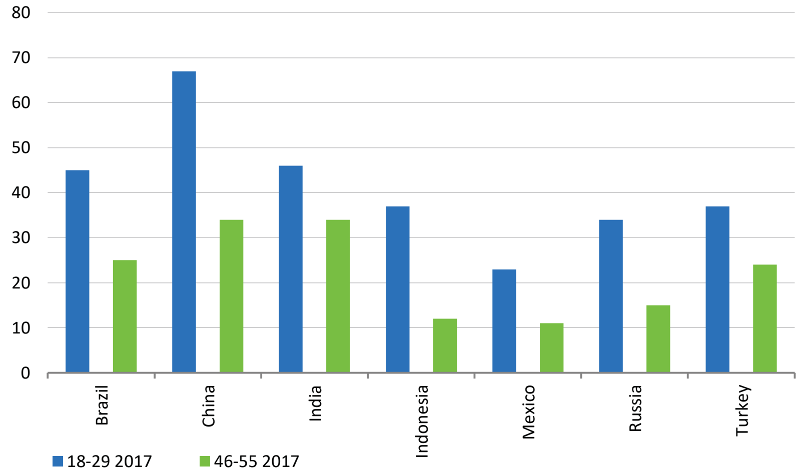
Profile of gamers and eSport fans in China – youth rules



Source: Nielsen, NewZoo, Credit Suisse Research

Figure 17

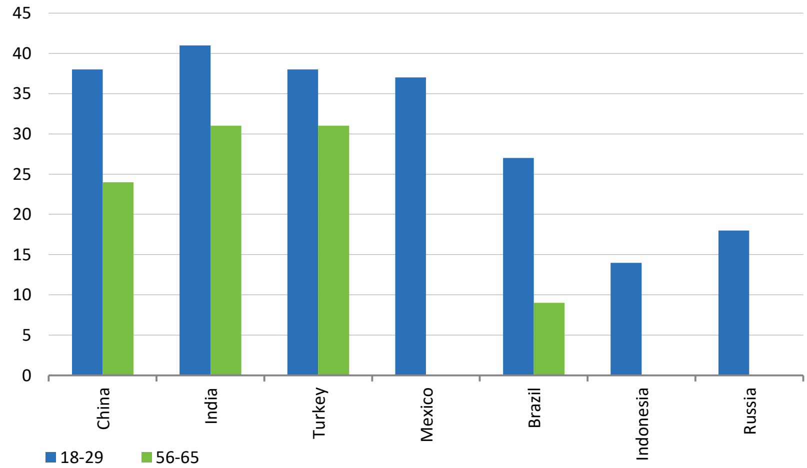
Percentage of consumers that have played online video games during the past 6 months



Source: Credit Suisse Emerging Consumer Survey, 2018

Figure 18

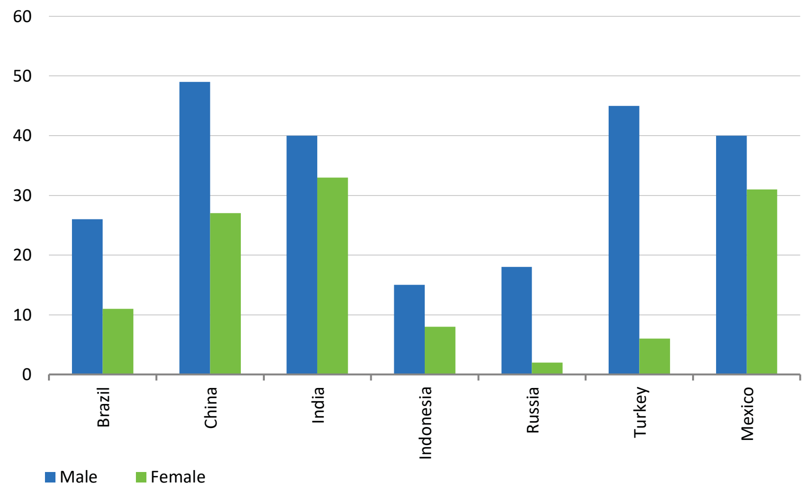
Percentage of consumers who regularly watch eSport events either online or via regular TV



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 19

Percentage of gaming consumers by gender



Source: Credit Suisse Emerging Consumer Survey 2018

gaming consumers among the 18–29 year-olds is around twice that of those aged between 46 and 55. As for the profiling of eSport fans, we find that in the case of China, India and Turkey, a youth bias exists. However, it is not as pronounced as that for video gaming.

As far as gender mix is concerned, our survey data shows a clear male-bias toward gaming and eSports. In Turkey, for example, over 40% of men indicated that they regularly watch eSports compared to only around 5% for women. In China, the largest gaming market, almost 50% of men watch gaming competitions compared to less than 30% of women (Figure 19). This is in line with a survey that Nielsen conducted on the topic, which found that 61% of eSport fans are male and 39% female. In line with our findings for online shopping behavior, our survey suggests that the smartphone is the preferred device for gamers. Gaming consoles such as Sony's Playstation-4 or Microsoft's X-Box really only feature meaningfully in Latin American countries. This clearly has implications for investors looking to gain exposure to potential growth in consumer spending on gaming across emerging markets.

Brands preferred by gamers and eSport fans

Nielsen has also done work on understanding the type of brands that are a good fit with the world of video gaming and eSports. This is particularly relevant for understanding which companies might find it attractive to increase advertising and marketing spending on these consumer areas.
Brands that form part of the direct supply chain of gaming (e.g. hardware manufacturers and game producers) score highly with gaming fans, which is probably to be expected. More interesting is to estimate the interest in so-called "non-endemic brands." For example, gamers in China tend to have positive views on tech brands, internet service providers, energy drinks, carbonated beverages and sportswear manufacturers (Table 3).

The growing gaming and eSport markets clearly provide consumer staple companies with marketing potential, which is likely to result in greater advertising income for gaming and eSports. Another area of potential support for eSports is likely to come from brands related to traditional sports. Data from Nielsen also shows that a significant share of gamers and eSport fans follow more traditional sports such as football and basketball (Table 4).

Considering the significant interest in these traditional sports, we are not surprised to find that a number of higher-profile teams in these sports have started to associate themselves with eSports. For example, a number of Premier League football clubs have set up their own eSport teams. In the USA, a number of NBA teams have their own eSport teams of gamers too. This allows them to expand and strengthen their fan base globally, which not only enhances the value of their brands, but should also allow for greater focus, advertising spending and marketing in eSports.

Which games are most popular?

Finally, we wanted to understand what games young consumers, including those in emerging markets, gravitate toward. Table 5 provides an overview of which video games eSport fans tend to focus on. Using Nielsen data, we grouped the results by PC-only games and those that are available across multiple platforms. "League of Legends" and "Counter-Strike" clearly dominate in terms of popularity for the PC-exclusive games, whereas "Overwatch," "FIFA" and "Call of Duty" dominate the cross-platform market. The companies that own these games are mostly located in China, Korea, Japan and the USA. Some of the largest operators include Tencent (owner of League of Legends), Activision Blizzard (Call of Duty) and Electronic Arts (FIFA) (Table 6).

Table 3

Brand ranking with gamers/eSport fans (non-endemic top 7 out of 19 categories)

	China	Japan	S. Korea
Most preferred endemic brands			
Gaming accessories	1	5	4
Console manufacturers	2	1	2
Gaming media	3	2	1
PC gaming hardware brands	3	3	4
Game developers	3	3	2
Most preferred non-endemic brands			
Tech brands	1	2	4
Internet service providers	2	2	1
Energy drinks	3	1	2
Mobile carriers	4	6	3
Carbonated beverages	5	4	6
Sportswear manufacturers	6	5	5
Traditional media	7	7	7

Brands & companies ranked lower included: Beers, cars, apparel, snack food, financial services, retailers, fast food restaurants, spirits, food delivery.
Source: Nielsen

Table 4

Percentage of eSport fans that follow other sports

	USA	UK	France	Germany	China	Japan	S. Korea
Football	39%	59%	57%	66%	30%**	17%	26%
Basketball	57%		43%	33%	58%*	38%***	17%
American football	66%			35%			
Baseball	47%					20%	49%****
Boxing	39%	42%		36%			
Tennis		36%	46%				
Rugby		32%	38%				
Motorsport		36%		36%			
Handball			36%				
Olympics					43%	29%	22%

* NBA scores 58%, CBA scores 37%; **Premier league scores 30%, Bundesliga scores 25%; *** NPB scores 38%, MLB scores 20%; ****KBO scores 49%, MLB scores 29%
Source: Nielsen, Credit Suisse Research

Table 5

Most-followed video games by eSport fans by country

	USA	UK	France	Germany	China	S. Korea
Cross platform	Call of Duty	Call of Duty	Call of Duty	FIFA	Honor of Kings	Overwatch
	Halo	FIFA	FIFA	Call of Duty	Clash of Clans	Kartrider
	Overwatch	Halo	Overwatch	Overwatch	Hearthstone: Heroes of the WarCraft	FIFA
	FIFA	Overwatch	Hearthstone: Heroes of the WarCraft	Hearthstone: Heroes of the WarCraft	Overwatch	Class Royale
	Street Fighter	Street Fighter	Rocket League	Rocket League	Call of Duty	MapleStory
PC-exclusive	Counter-Strike	Counter-Strike	League of Legends	Counter-Strike	League of Legends	League of Legends
	League of Legends	League of Legends	Counter-Strike	League of Legends	World of WarCraft	Star Craft
	Dota 2	Dota 2	H1Z1	Star Craft	Counter-Strike	Sudden Attack
	Star Craft	H1Z1	Star Craft	Dota 2	Dungeon Fighter Online	Lineage
	Heroes of the Storm	Star Craft	Heroes of the Storm	H1Z1	Dota 2	World of WarCraft

Source: Nielsen, Credit Suisse Research

Table 6

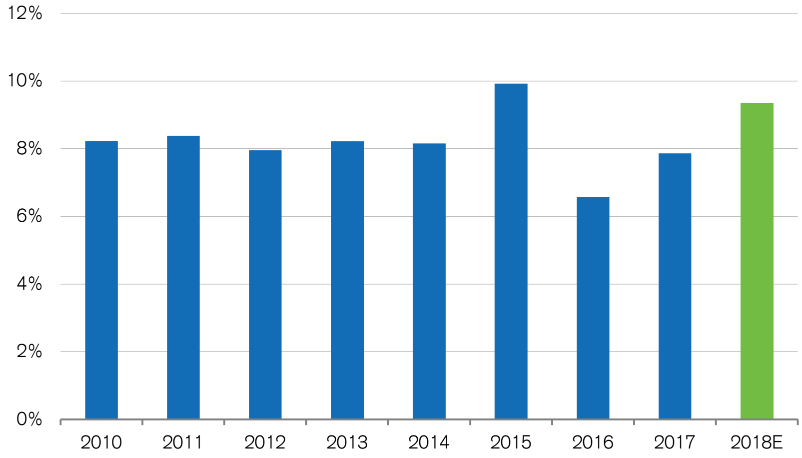
Most-popular games grouped by producing companies

Company	Games produced					
Actvision Blizzard	Call of Duty	Hearthstone: Heroes of the WarCraft	Heroes of the Storm	Overwatch	Star Craft II	World of WarCraft
Capcom	Street Fighter					
Columbus Nova	H1Z1 (Just Survive)					
Electronic Arts	FIFA					
Hidden Path & Valve Corporation	Counter-Strike Global Offensive					
NCSOFT Corporation	Lineage 2 : Revolution					
Nexon	Dungeon Fighter Online	Kartrider				
Psyonix	Rocket League					
Sega	Halo Wars 2					
Tencent	Clash of Clans	Clash Royale	Honor of Kings	League of Legends		
Valve Corporation	Dota 2					

Source: Company data, Credit Suisse Research

Figure 20

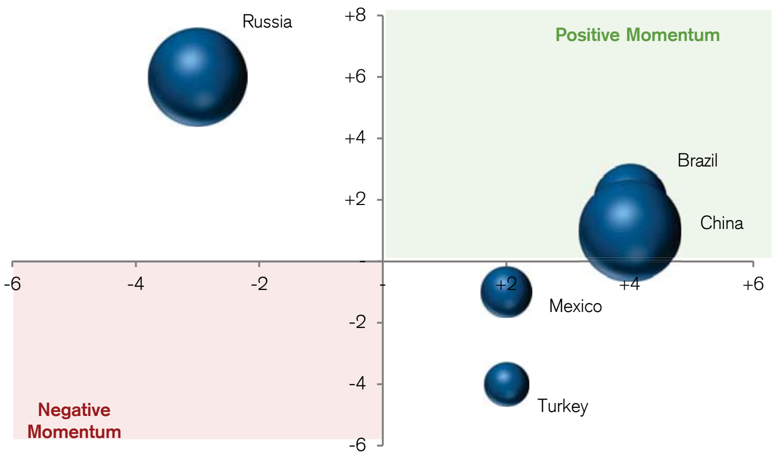
Percentage of consumers traveling internationally up in 2017 and expected to rise in 2018



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 21

International momentum appears strongest in Brazil and China



X-axis: planning to travel internationally 2018 less those who have traveled internationally in 2017 (forward momentum). Y-axis: increase in international travelers 2017 vs. 2016 (historic momentum). Bubble size: % planning to travel internationally in 2018.
Source: Credit Suisse Emerging Consumer Survey 2018

The young emerging market consumer is on the move

Finally, we review the megatrend of mobility in relation to the emerging consumer. Specifically, we analyze two areas of mobility. The first is travel as we believe the combination of rising spending power and young consumers means that spending on travel is likely to continue to rise. The second mobility factor relates to cars. We want to assess whether demand for car ownership across emerging markets is a growth driver for car original equipment managers (OEMs) or whether consumers in emerging markets (and especially the millennials) may decide against this and opt for different ways to use cars for mobility, such as car sharing.

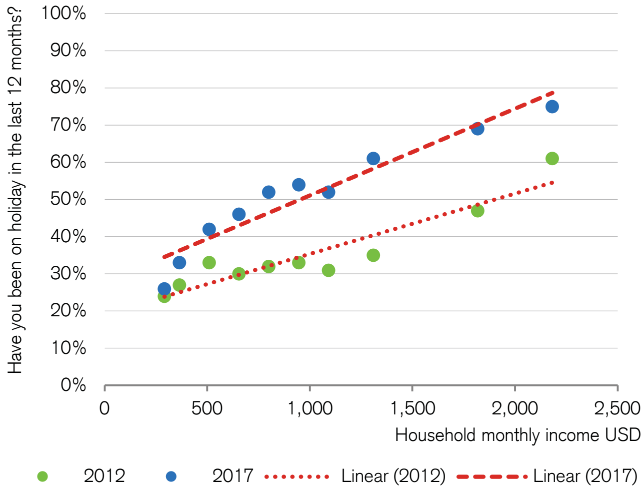
Travel: Young consumers increasingly take to the sky

Our survey this year shows that international travel recovered in 2017 following a decline in 2016. In addition, travel intentions show that a further improvement is expected in 2018 (Figure 20). When broken down by country, we find that intentions to go on international holidays improved in all countries except Russia. Chinese and Brazilian consumers particularly show strong momentum and are the only countries that have seen positive momentum for two years in a row (Figure 21). Compared to past surveys, we find that spending per income bracket on travel is increasing. This provides some of the strongest evidence that travel in emerging markets is as much a structural as well as a cyclical theme.

One reason for our stance is that the number of airline seats per person across our survey economies remains very low compared to more developed markets. In fact, in the USA, airline capacity is eight times that of our survey economies, showing that travel intensity across emerging markets, despite the growth seen to date, remains well below saturation levels.

Figure 22

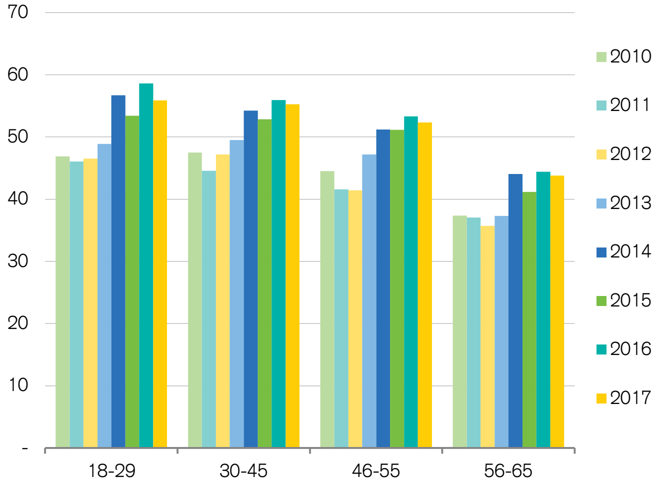
Chinese consumers show that a lifestyle choice in favor of travel is taking place



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 23

Percentage of consumers that have been on holiday – Chinese millennials lead the way



Source: Credit Suisse Emerging Consumer Survey 2018

While the growth in travel and improvement in travel intensity can be seen across all age groups, it is the millennial traveler that stands out in our view. The percentage of 18–29 year-olds intending to go on holiday in China has increased year on year and is now higher than for any of the other age groups. Once again, as with the previous themes discussed in this section, we find it is the millennial consumers who are driving growth (Figure 23).

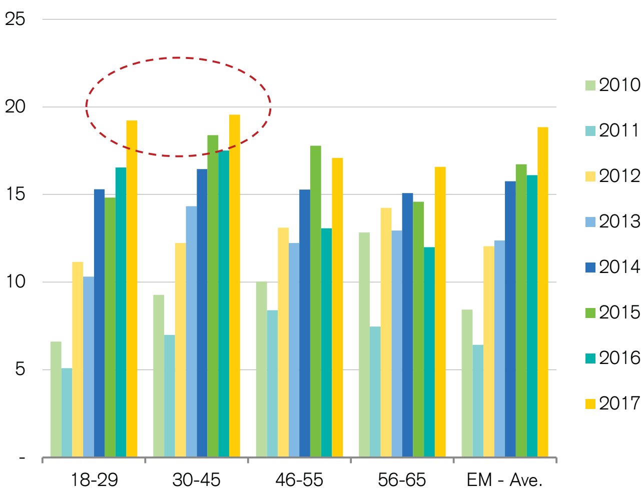
Travel: Who stands to benefit?

A range of end-markets are likely to benefit from the continued growth in travel. However, for the purpose of this report, we highlight two main areas:

- Online travel websites: First, and in relation to the "connected consumer" theme, are online travel sites (OTAs). Our survey clearly shows that consumers across most countries are rapidly increasing the use of OTAs to book and plan their holidays. Again, this is most prolific for younger consumers, both millennials but also those aged 30–45 (Figure 24).
- Hotels: Hotel chains are the second area that we think will benefit from travel. Over 70% of Chinese consumers now prefer to stay in hotels when going on vacation. This figure is less for countries such as Brazil, Russia and Mexico, suggesting that demand for rooms will continue to increase as these consumers increase travel intensity too.
- Aviation: With air travel becoming increasingly popular (and affordable), we see airports, airlines (and airline leasing), as well as duty free companies as the beneficiaries.

Figure 24

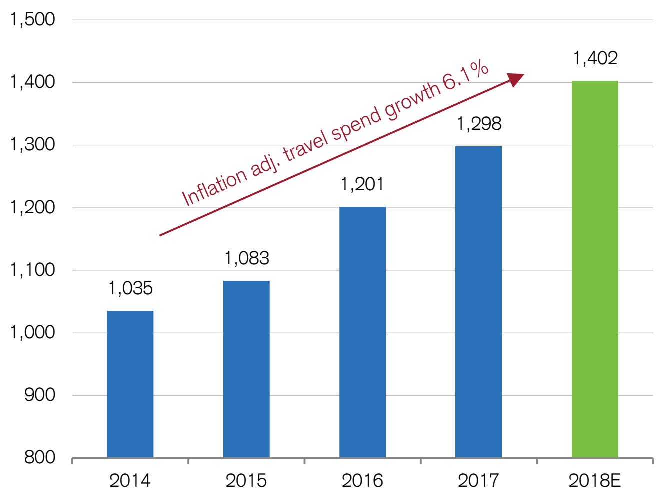
Online travel sites used most often by younger travelers



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 25

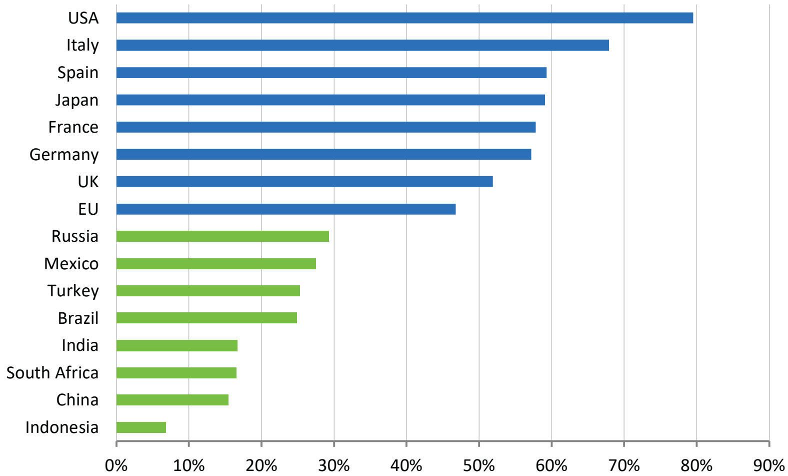
Spending on travel by Chinese consumers as an indicator of the growth in travel (USD per year)



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 26

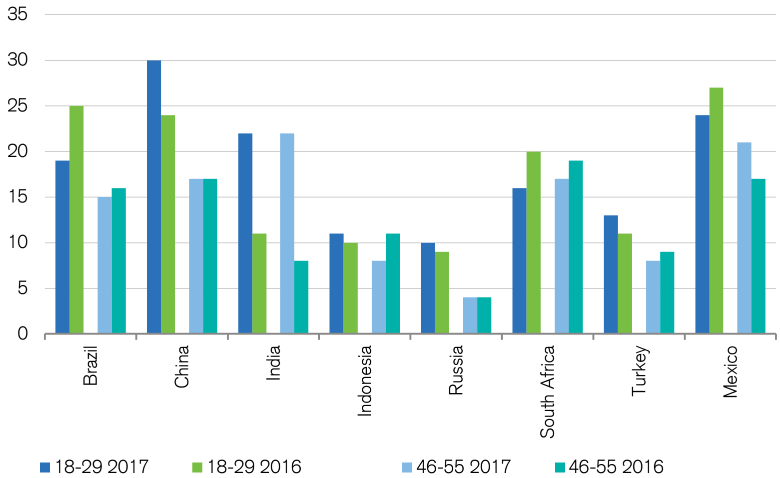
Car penetration by country (registered vehicles per 1000 people)



Source: Wikipedia, local agencies, Credit Suisse Research

Figure 27

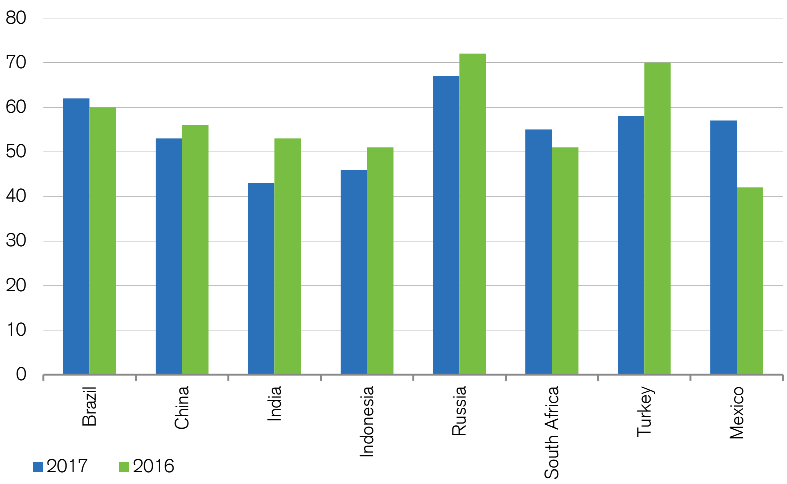
Percentage of consumers who will "probably" or "definitely" buy a car in the next 12 months



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 28

Percentage of consumers indicating that they will "definitely" or "probably" not buy a car this year by country



Source: Credit Suisse Emerging Consumer Survey 2018

Car ownership is another example of the mobility theme

Earlier in this report, we highlighted that the consumers surveyed this year had a more positive view on the likely purchase of "big-ticket" items. With this in mind, we also reviewed consumer perception toward cars as they are without doubt one of the biggest discretionary items consumers can buy and an increase in intentions to purchase cars would support the theme of mobility.

Below-average discretionary spending power explains why car penetration rates across the countries surveyed remain well below levels seen in developed markets (Figure 26). However, this year's survey results imply that this penetration discount is not necessarily a permanent feature. We note, for example, that the median share of consumers across all countries indicating that they will "definitely" or "probably" buy a new car this year increased to 18% from 15% in 2016. In addition, the share of consumers saying they will "definitely not" or "probably not" buy a car declined to 56% in 2017 from 62% in 2013. These positive results are not necessarily true for every country, as purchasing intentions in Brazil and South Africa weakened somewhat.

Where are car sales likely to increase?

Our automotive analysts note that the "intention to buy" factor is actually not the best indicator for potential car sales across the countries surveyed. Their analysis tends to suggest that the "intention not to buy" a car has a much better correlation. In the case of car sales in China, Brazil and India, our analysts note that a fall in the "intention not to buy" has a 63% correlation to rising car sales. In our view, the explanation for this is probably the fact that the relatively high cost of a car means that a consumer who "intends to buy" a car is more likely to change his mind than the consumer who "definitely does not intend to buy" one.

Our survey suggests that the strongest decline in the "intention not to buy" a car is in India, where the figure fell to 43% in 2017 from 53% in 2016. Other countries where this share also fell (therefore possibly indicating a rise in car sales) include China, Indonesia and Russia. These countries might therefore see the positive change in car sales that the other countries have begun seeing.

When we break down the results by age, we find that the decline in the share of consumers not intending to buy a car has been stronger among younger consumers. Using our auto analysts' approach, this would suggest that incremental car sales in countries such as China, India, Indonesia and Russia are likely to be driven by the young consumer aged 18–29 years.

Access to financing aids car ownership

Considering that a car is an expensive discretionary item, we are not surprised to find a relationship between average GDP/capita and car ownership. However, our survey results show that the link between income and ownership is much weaker than expected for China and India in comparison to Brazil and Russia. For the latter two counties, we find that the intention to buy cars among higher-income consumers is about 2–3.5 times higher than that of low-income consumers. On the other hand, the same ratio for China and India is "only" around 1.3 times.

Our analysts believe that car financing plays a significant role here. It improves affordability and allows more people to buy cars. Although the total cost of ownership through car leasing may be higher than through an outright purchase, the much lower up-front cost involved is typically what draws consumers to this alternative. Access to car financing in Russia and Brazil has deteriorated over the past few years due to economic uncertainty and rising interest rates. Our analysts in India, for example, highlight that a number of financial and non-financial firms have indeed expanded into this area, which supports the views held by our auto analysts.

Car sharing as an additional driver for car sales

Leasing helps to make cars affordable to lower-income consumers. However, an even cheaper option and as such a stronger driver for car usage across the income spectrum might be car sharing as it arguably allows consumers access to vehicles with the lowest possible financial commitment. In the past three surveys, we asked consumers about their plans to use car sharing services in the coming twelve months. The popularity of car sharing has risen to where 73%–87% of consumers surveyed in Brazil, China and India now use these services. In 2015, only 6%–27% of consumers used services like Uber, Lyft or Didi Kuaidai. The share of respondents intending to use car sharing more in the future is also still rising, not least among younger consumers. In China, around 32% of 18–29 year-olds have indicated a desire to use car sharing more this year. In India, this figure stands at 24%, which is double the 12% share recorded in 2015.

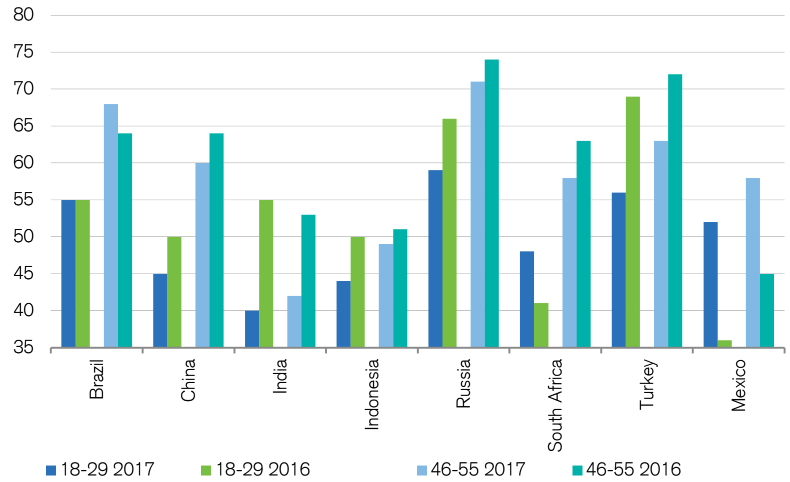
Which car brands look best at this point?

Our survey results support a positive outlook for car sales in emerging markets through direct ownership, car leasing or greater usage of car sharing services. The increasingly (young) mobile consumer is a positive driver for car OEMs and the supply chain in our view. To help assess which car brands might benefit from this trend, we analyzed consumer preferences in the two key markets.

- India: The data suggests that, in India, foreign OEMs such as Honda and Hyundai are among the most popular brands and are attracting greater consumer interest. In Hyundai's case, we find that this is particularly true for higher-income consumers. This trend appears to be at the expense of (perceived) local manufacturers such as Tata and Maruti Suzuki, although the latter has a slightly better reading among younger consumers.
- China: Consumer preferences in China differ from India in that Chinese consumers display a greater appetite for foreign car brands (e.g.

Figure 29

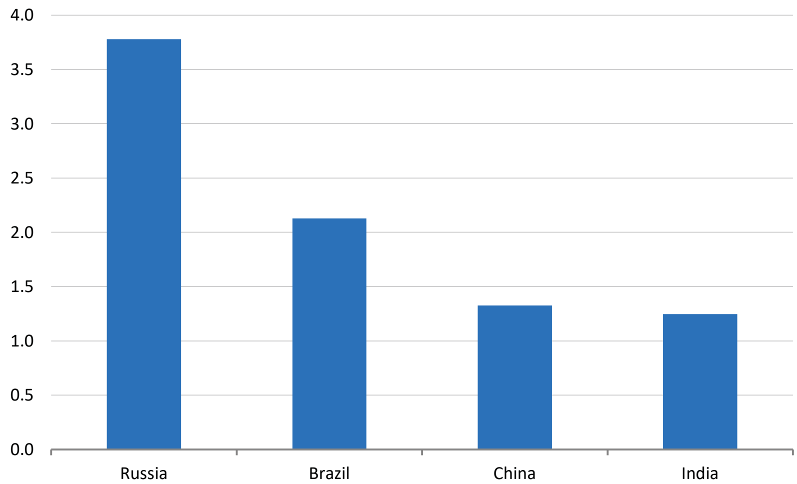
Percentage of consumers indicating that they will "definitely" or "probably" not buy a car this year by age group



Source: Credit Suisse Emerging Consumer Survey, 2018

Figure 30

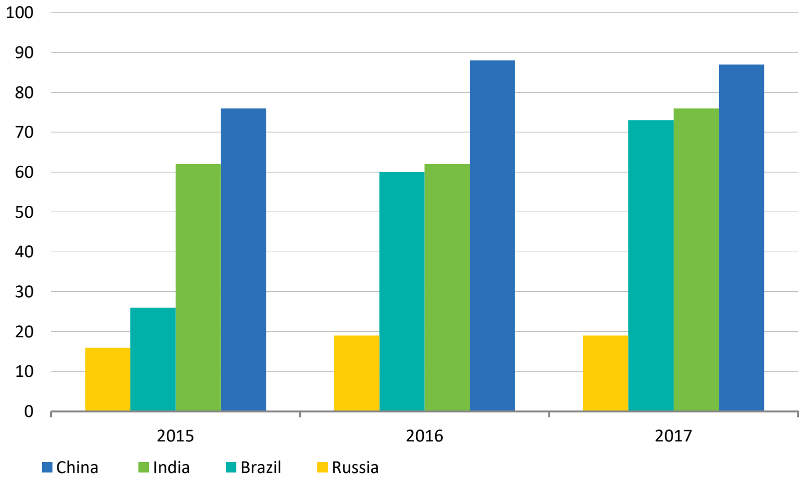
Ratio of higher- to lower-income consumers that intend to buy cars



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 31

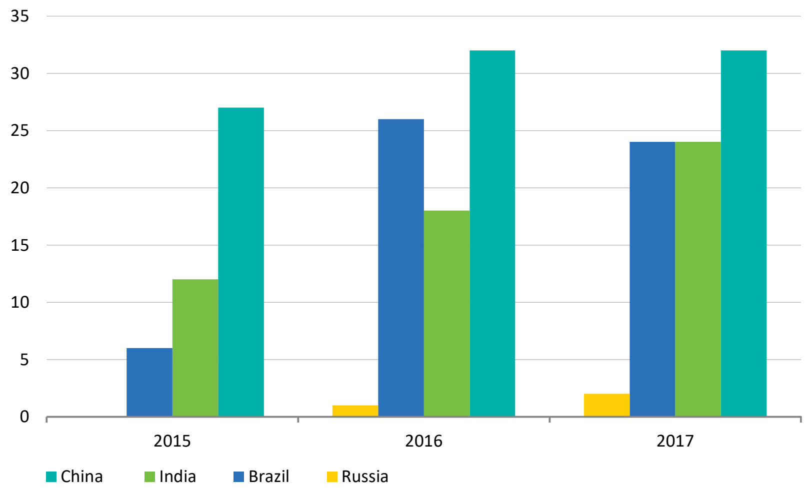
Percentage of consumers that use car sharing is reaching high levels in most countries



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 32

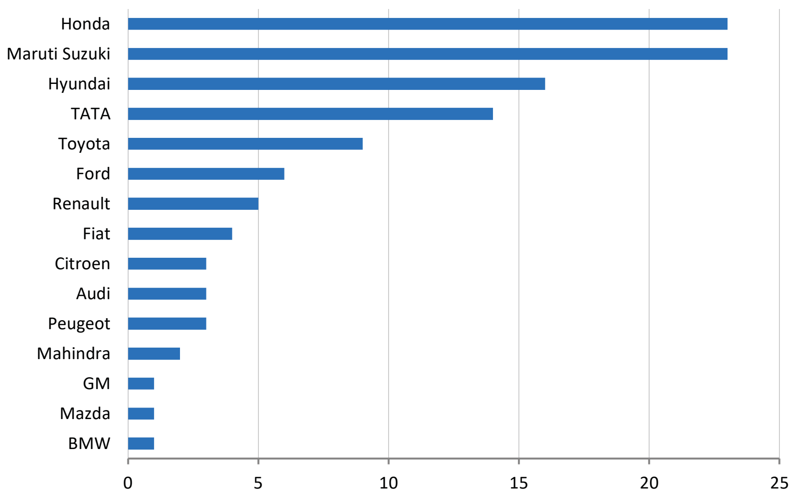
Percentage of 18–29 year-olds that intend to use car sharing services more next year



Source: Credit Suisse Emerging Consumer Survey, 2018

Figure 33

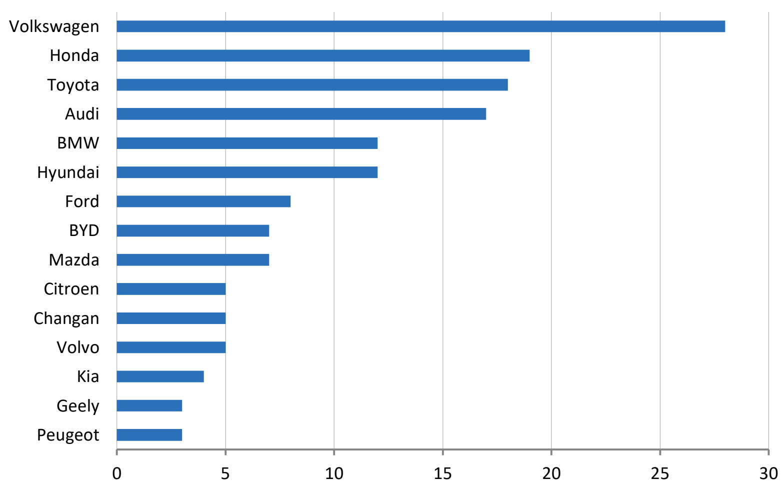
Car brand purchase intentions in India (%)



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 34

Car brand purchase intentions in China (%)



Source: Credit Suisse Emerging Consumer Survey 2018

BYD ranks only eighth). In addition, premium foreign car brands score better in China than in India. Audi and BMW both rank in the top five most popular brands with the Chinese consumers surveyed. The car brands that score best in both countries are Honda, Hyundai and Toyota.

Although foreign car brands score better in China than local ones, investors might point to the fact that consumer perception in China toward BYD, Changan and Geely is growing. If we recognize that this is true, however, local care brands score weakest with the 18–29 year-olds who gravitate more toward foreign brands. Since they are tomorrow's car owners, it appears to us that the lead held by foreign car brands is rather structural. ■

Photo: Shutterstock: sek_suwat

E-commerce: A facilitator, not a disruptor

The speed of technological progress and the subsequent sharp decline in the cost of technology has allowed emerging consumers to leapfrog various stages of development compared to consumers in developed markets. It is more of a facilitator of growth rather than the disruptor we are seeing in developed markets. Our survey shows that today's emerging consumer is as connected in terms of technology as his or her peer in Europe or the USA, and as likely if not more so to engage in online retail services. We highlight seven reasons why e-commerce across emerging markets looks set to continue its strong growth momentum including urbanization, a more optimized offering of online and offline services, greater use of data analytics and adoption of mobile payment systems. Although being a first-mover might create a moat, our analysis does indicate that competitive dynamics appear to be intensifying in a number of end-markets including smartphones and online services.

Eugene Klerk

Internet access and smartphone penetration

This year's survey results show that internet access across our surveyed economies continued its multi-year increase last year. In fact, internet access among our demographic survey of 18–65 year olds has now reached around 80% or more in all countries except Indonesia and South Africa (Figure 1). Access levels are close to 90% or in line with developed market levels for Brazil, China, Russia and Turkey. Quite clearly, lower average spending power has not deterred consumers across our emerging economies to gain access to the internet and, as we will show, start benefiting from its range of services.

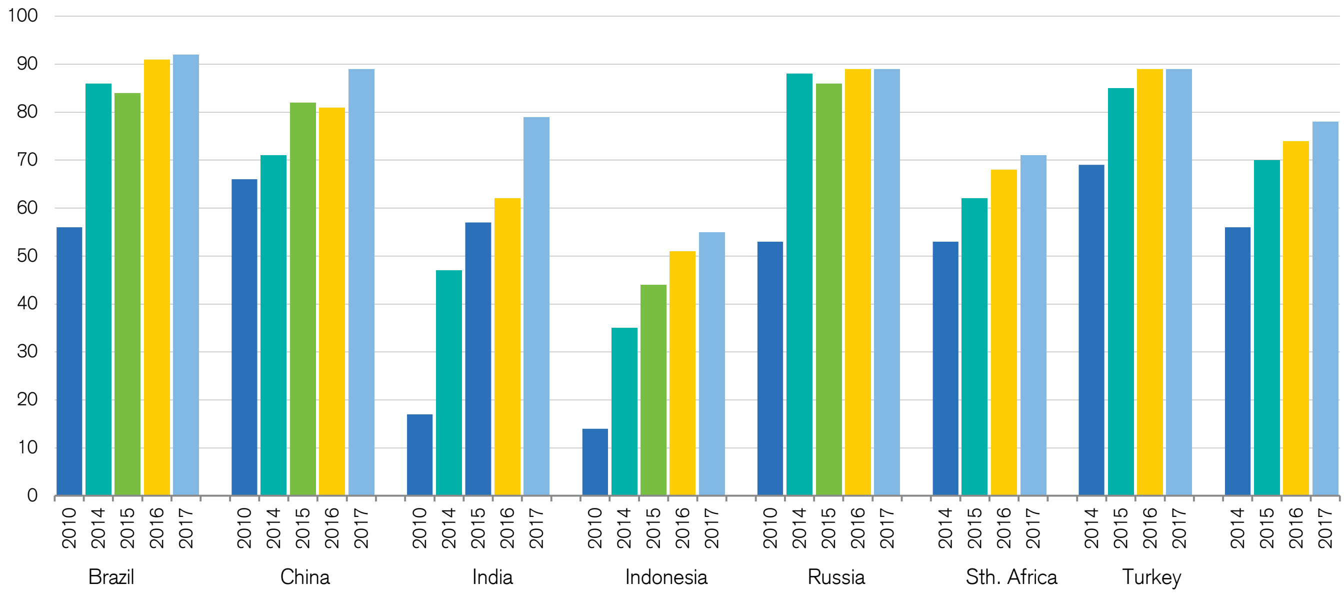
The smartphone has been the key driver for emerging market (EM) online access

In contrast to developed markets, where initial growth in internet activity was driven by fixed line (i.e. desktop) access, we find that internet access across emerging markets has been led by smartphones.

Our survey shows that smartphone penetration has now reached more than 90% of mobile users in the case of China and 80% or more in Brazil, Russia and Turkey (Figure 3). These four countries are exactly those with the highest internet access penetration rates too. We note, however, that

Figure 1

Percentage of consumers who have internet access



Source: Emerging Consumer Survey 2018

smartphone penetration in other countries is catching up fast as more than 70% of mobile consumers now own a smartphone in India and Indonesia. This should allow for further growth in internet access and usage in these countries going forward.

To date, the growth in smartphone ownership and by implication internet access has been driven by young consumers. Our survey underlines this trend by showing that around 90% of mobile consumers aged 18-29 now own a smartphone (up from around 20% in 2011). This compares to around 50% of mobile consumers aged 56–65 (Figure 4). However, we note that, among the "older" group, penetration continues to rise each year, suggesting that smartphone usage of this group is likely to converge with that of younger consumers over time.

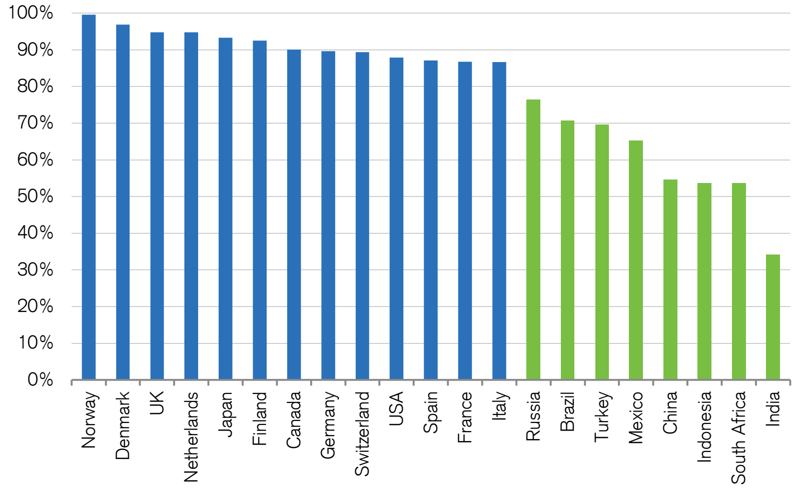
Smartphone brand differentiation as replacement becomes dominant

During the period 2010–15, smartphone growth was driven by rising penetration rates. This period of "rapidly rising tides" allowed all smartphone manufacturers to benefit from demand growth. However, considering that smartphone penetration levels (especially among younger consumers) are now rapidly reaching saturation levels, we feel that smartphone volumes will increasingly be driven by replacement demand rather than by demand from new customers. This in turn suggests that brand loyalty or value becomes more relevant and is likely to lead to greater smartphone brand differentiation in our view. Our survey allows us to review whether these trends are starting to emerge and which companies appear likely winners and losers. The answer to this depends on two aspects.

- First, there is the question of smartphone operating system popularity (i.e. IOS versus Android). When asked which operating system people use, we find that Android-based smartphones make up 70% or more across all the countries surveyed. However, when broken down by age group, we find that younger consumers across Brazil, China, Russia and Turkey gravitate much more toward Apple smartphones than consumers aged 56 and older. In our view, this might allow Apple to grow its market share as these consumers age and go through replacement cycles (provided that they stay loyal to the IOS operating system).
- Second, there is the issue of individual smartphone brands. On this point, our survey shows that, within the family of Android-based smartphones, demand patterns differ substantially by brand. Huawei and Xiaomi, for example, are local Chinese brands that are strongly gaining momentum. Samsung meanwhile appears to be losing momentum across all key countries except Indonesia with younger consumers (Figure 6). We believe this could be a worry for the Korean firm if it continues.

Figure 2

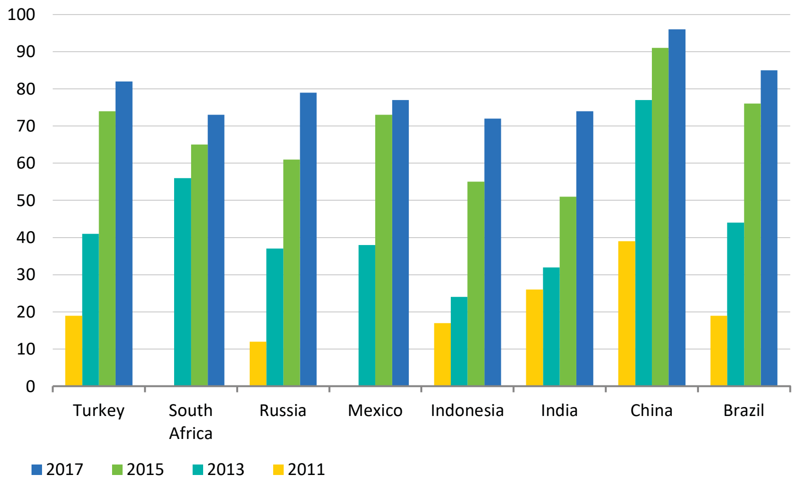
EM internet penetration is rising, but still behind developed market levels



Source: Internetworldstats.com

Figure 3

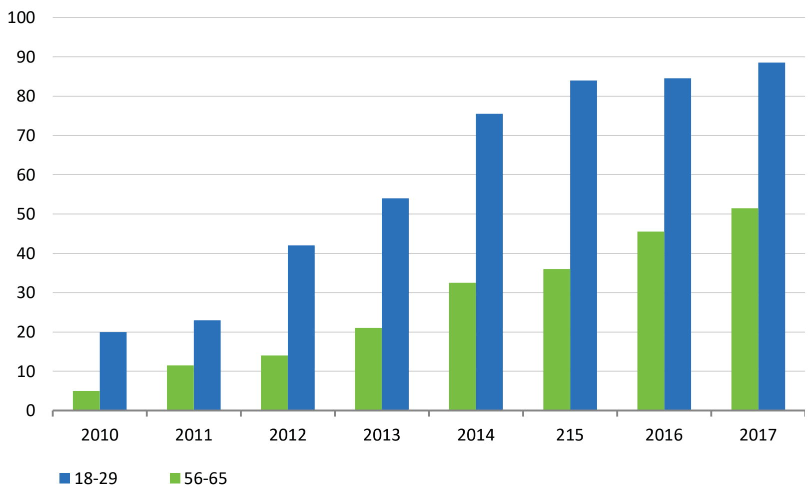
Smartphone ownership by country



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 4

Smartphone ownership is led by young consumers



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 5

Top 3 smartphone brands owned by consumers aged 18–29

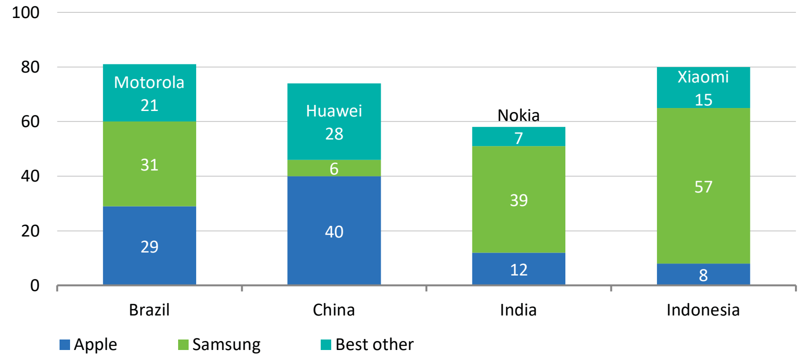


Figure 6

Percentage of 18–29 year-olds that own a Samsung smartphone in key countries

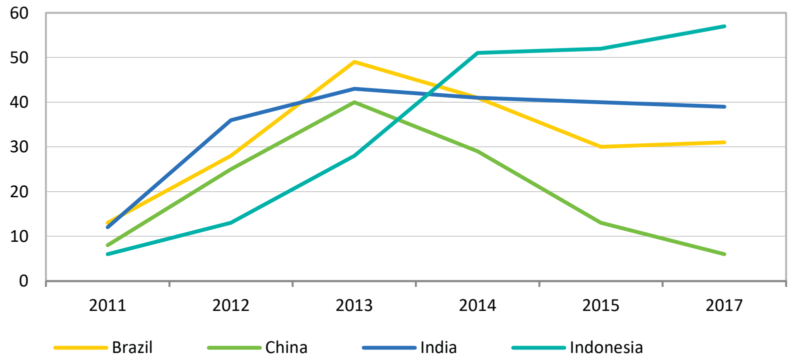


Figure 7

Online shopping is becoming more common in many countries

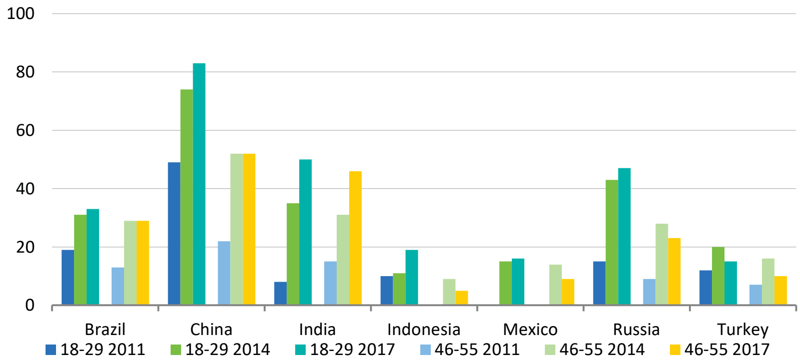
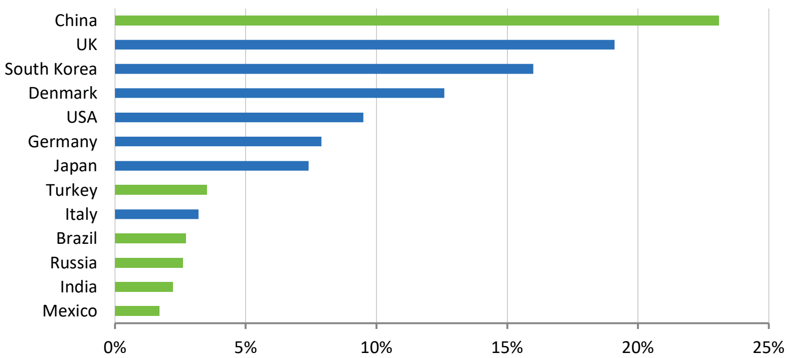


Figure 8

Except for China, online retail spending appears to have strong upside everywhere (% of retail done online)



Source: Figures 5–8: Emerging Consumer Survey 2018

E-commerce: Widening and deepening across emerging markets

The rapid adoption of smartphones and subsequent access to the internet has allowed EM consumers to be a major global force across a range of online activities including online retail, gaming and eSports as highlighted earlier. As far as the propensity to shop online is concerned, we note that this is again showing the broadest appeal among younger consumers. Momentum appears particularly strong in China and India. However, these two countries also have the highest share of middle-aged consumers (aged 56–65) that shop online. In conjunction with total population sizes, it clearly makes them stand out among the economies surveyed as the biggest online retail markets.

Despite the strong growth seen in online shopping behavior over the past few years, we note that consumers continue to spend most of their money offline. The share of online retail is highest in China at over 20%, but for all other EM countries (and most developed markets for that matter) it remains well below 10%.

To provide an indication of the growth potential for online retail, we note that current online spending of around USD 1.29 trillion across the economies surveyed would increase to around USD 2.7 trillion if the share of online retail spending were to increase to to just 25% in China and 15% elsewhere, and assuming that total retail spending increases at 5% per year. We see a number of reasons supporting our view that the theme of online retail spending across emerging markets is far from played out.

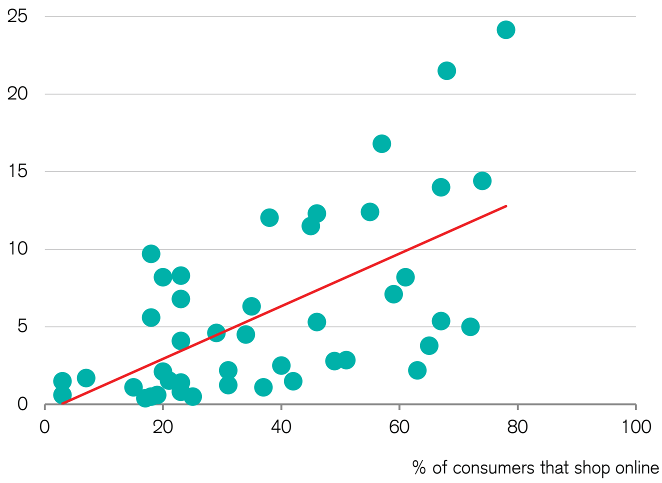
1. Urbanization coincides with greater propensity to shop online

As we outline elsewhere in this report, we see urbanization as one of the megatrends impacting emerging markets. One of the side effects of this trend is that it is likely to lead to further growth in online commerce in our view. One reason for this is that greater urbanization and population density ease the logistical challenges that online companies face when developing their services.

Our survey data allows us to analyze online shopping behavior by cities for each of the economies surveyed. Figures 9 and 10 indeed show that larger cities tend to have a greater share of people that shop online. As urbanization is set to continue to rise across emerging markets, we believe that it will coincide with a growing share of online consumer spending as well.

Figure 9

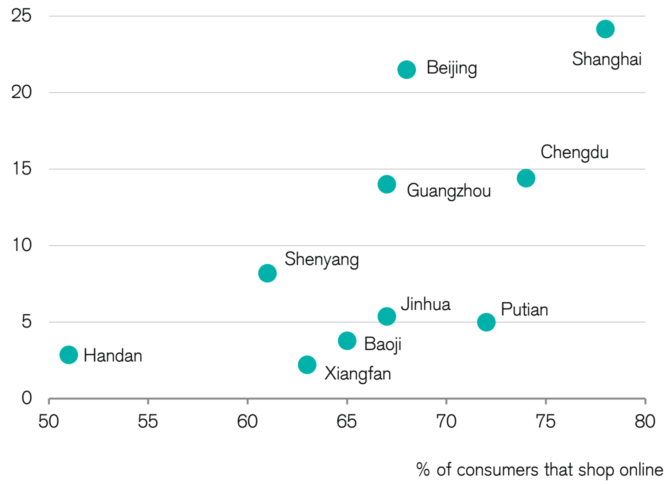
Larger cities tend to have a greater share of citizens that shop online



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 10

China as an example for urbanization and online shopping potential



Source: Credit Suisse Emerging Consumer Survey 2018

2. FMCG and food delivery to support growth

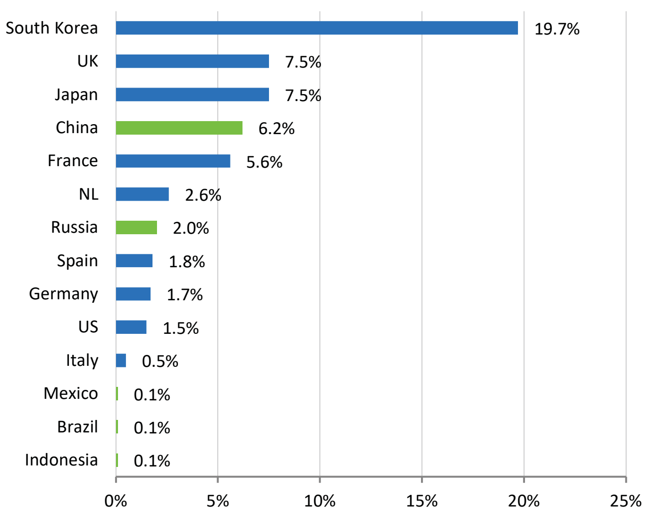
At present, online shopping is dominated by more price-elastic consumer items such as books, electronics and apparel. Going forward, however, we expect stronger online retail growth to be generated by so-called fast-moving consumer goods (FMCG) and greater penetration of online food delivery services. To indicate the upside potential of FMCG, we note that, in Europe, only 2.4% of grocery sales are made online compared to over 12% of other retail sales.

Data from market researcher Kantar Worldpanel supports the growth outlook for online FMCG sales across emerging markets. Not only is the share of FMCG purchased online very low (with the exception of China), but continued urbanization should also help as logistical challenges to the supply of perishable products decline. Again Kantar data shows that the share of online FMCG is greater in urban areas than elsewhere (Figure 12).

We also have a positive outlook for online-driven food delivery that is also in line with our positive outlook for growth in online purchases of FMCG. Work from our internet team in Europe clearly shows that (1) online food delivery has strong growth potential globally and that (2) this potential is greatest in emerging markets. Data from market research company Euromonitor supports this outlook as it claims that the share of online food consumption bought online is well below 5% for most countries.

Figure 11

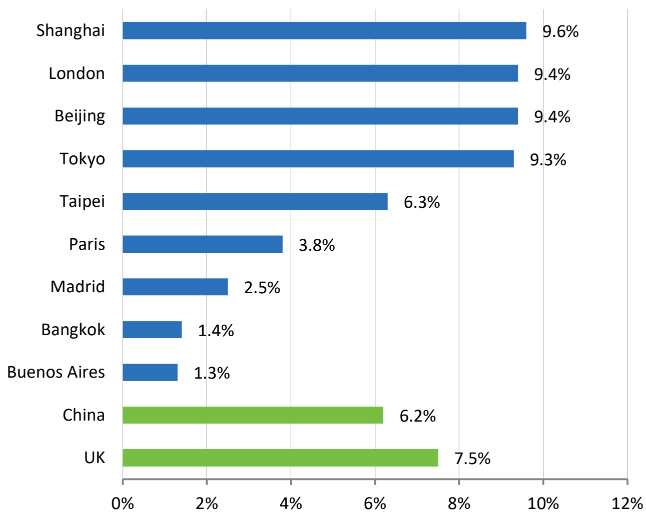
Share of FMCG goods executed online



Source: Kantar Worldpanel, Credit Suisse Research

Figure 12

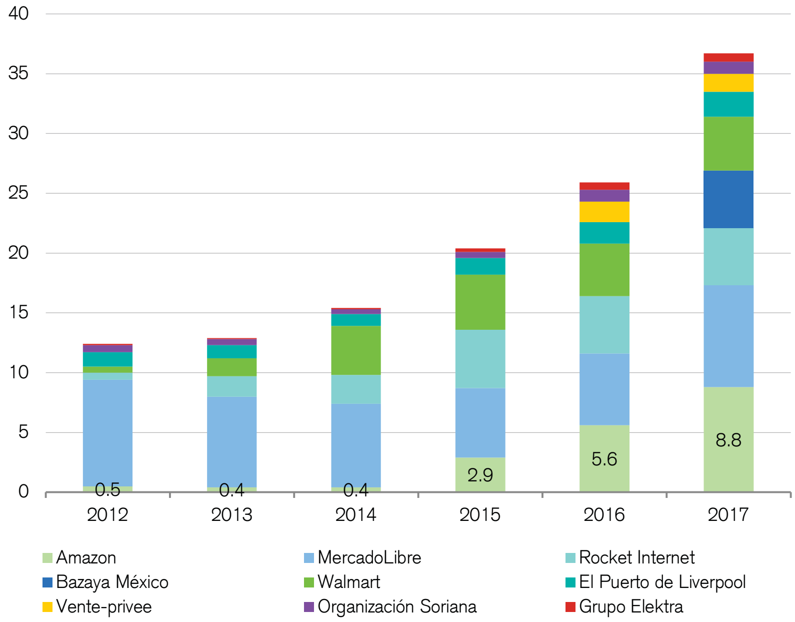
Urbanization appears to be a driver for online sales of FMCG



Source: Kantar Worldpanel, Credit Suisse Research

Figure 13

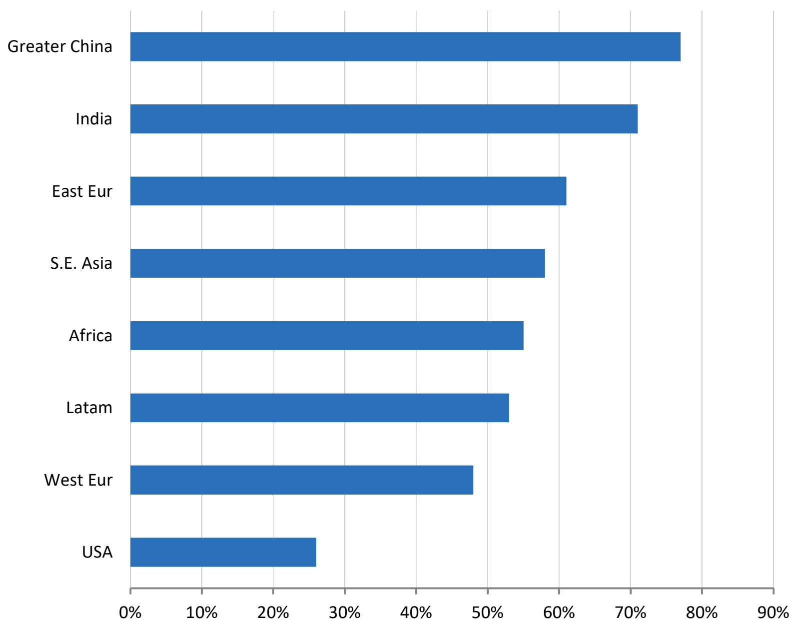
Better and cheaper access to online services allowed Amazon to increase market share in Mexico rapidly



Source: Euromonitor

Figure 14

Percentage of consumers noting that "saving time" is the key reason for buying online



Source: Nielsen, Credit Suisse Research

In the case of the Chinese market for online food delivery, we note that it is dominated by just two companies. Tencent-owned Meituan-Dianping has a market share of around 45%, while Ele.me, owned partly by Alibaba and Baidu, has a market share of around 36%. Ele.me operates in 260 cities across China, has relationships with more than 300,000 restaurants and posts nearly USD 9.5 million in orders daily from about 40 million customers.

3. Traditional retailers developing online capabilities

Given their dominance in terms of market share, it seems that only a few companies have been quick to realize the demand potential for e-commerce services. Amazon and Alibaba are the obvious examples. As a result, these companies have been able to grab market share, leaving traditional retailers in particular under significant pressure due to their lack of online presence.

More recently, however, we note that omni-channel strategies (e.g. offline retailers developing online capabilities) have become increasingly popular. For example, Google and Walmart are co-operating in the USA, while Lidl has set up a collaboration with DHL in Germany. These developments are likely to intensify competition among the various companies active in the segment, but should still allow for continued growth in online consumer spending as consumers have a wider range of supply and delivery options to choose from.

4. Pure-play online companies expanding offline offerings.

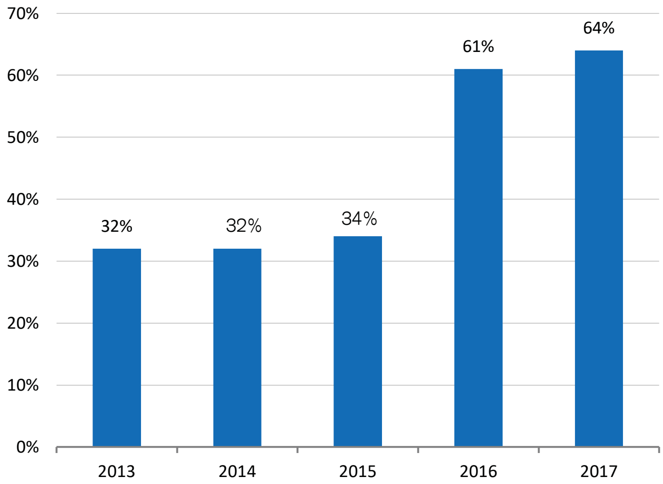
Work from market research company Nielsen on factors that explain online retail suggest that connectivity and mobile access are the most relevant factors for more traditional purchases. However, other factors such as improved delivery logistics, ease of buying and retailer presence are also relevant, not least in the area of online FMCG.

Some of the key online players have realized that they need to expand their service offering to cater for these consumer demands. For example, last year, Amazon bought Wholefoods and launched Amazon Prime in Mexico. Mercado Libre, one of the key Latin American online operators started offering free delivery services in Mexico. Both companies appear to have benefited from these actions in terms of market share, e.g. Figure 13 in the case of Amazon.

In China, Alibaba launched its "New Retail Strategy" in 2015 with the aim of integrating offline and online shopping. The company has partnered with leading Chinese department stores such as Bailian Group and Intime Retail, as well as with supermarket chains such as Sanjiang Shopping Club and Suning.

Figure 15

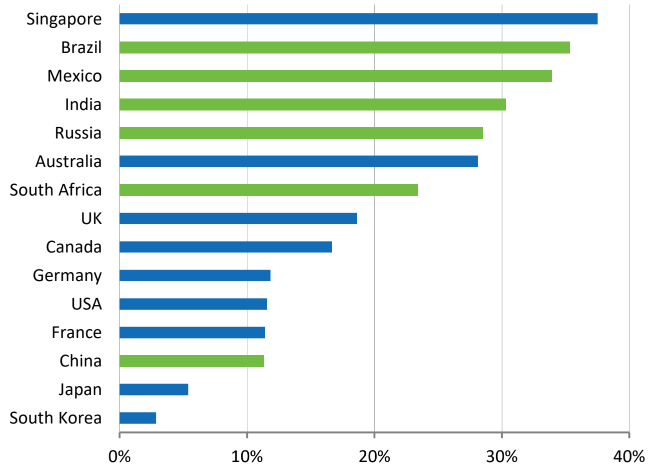
64% of Chinese consumers have bought online from overseas websites



Source: Nielson

Figure 16

Cross-border online sales as a % of total online retail sales for key countries



Source: Credit Suisse research

All these developments improve consumer access and convenience, which should help grow e-commerce revenues further as "saving time" is one of the key reasons why consumers buy online, according to Nielsen. At the same time, however, it appears to us that the distinction between online and offline operators is becoming more blurred, which is ultimately likely to affect relative profitability performance as well. In other words, it remains to be seen whether the current premium margins and returns generated by online versus offline companies can be sustained if the former develop offline capabilities while the latter develop online services.

5. Cross border e-commerce as additional driver

Greater connectivity allows consumers to become familiar with products and services that are not necessarily produced locally. Nielsen's 2017 Online Shopper Trend Report provides a clear example of this as it notes that the share of Chinese consumers who buy products from overseas websites has doubled to 64% since 2014.

Although the share of Chinese consumers that buy from overseas websites is rising, we note that the lion's share of their buying remains domestically focused. For example, data from payment group Payvision on the amount of cross-border online sales by country suggest that the latter are low in China relative to other countries. In our view, this might be explained by the dominance of local players in China such as Alibaba (through Tmall) and JD.com relative to operators in countries such as Brazil, Mexico or India.

6. Data analytics can drive online revenues further

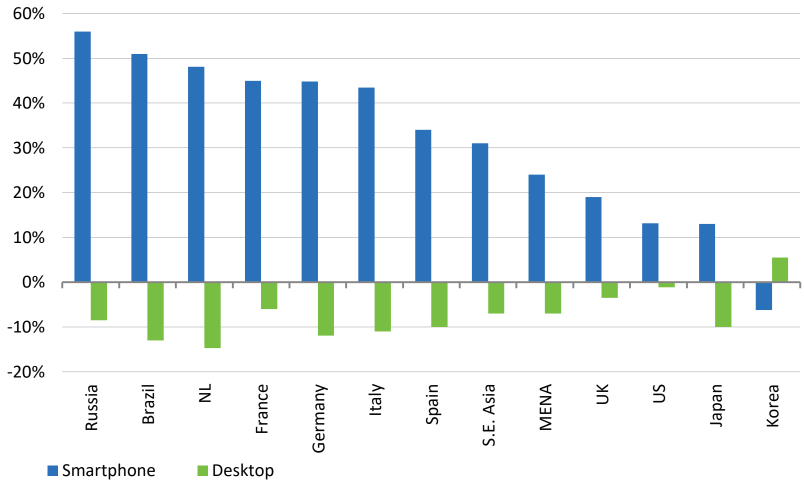
The proliferation of the number of online sales channels (e.g. desktop, mobile and tablets) implies a growing need for advertisers and retailers to understand consumer behavior across these channels in order to maximize the benefit from online sales. Technology and specifically data-analytics can help in this regard as these allow for the optimization of consumer marketing, which in turn should help drive online commerce growth further.

To underline the opportunity provided by data analytics to retailers, we refer to data from commerce marketing technology company Criteo's Q4 2017 Global Commerce Review. Based on browsing and purchasing data for 5,000 retailers globally, Criteo finds that smartphone-driven online transactions across 13 different geographies increased at a median rate of 34% between Q4 2016 and Q4 2017. This compares to an annual decline of 9% for desktop-driven online transactions.

In addition to the growth in mobile-related online sales, we also note that retailers have more recently begun to develop their own online e-commerce applications. These "in-apps" have become very popular in a short space of time. For example, in-app transactions increased by 48% from Q4 2016 to Q4 last year compared to the 34% of overall mobile-driven online transactions. In-app-based online transactions now account for 50% of online transactions in South East Asia, 42% in the Middle East and Africa and 19% in Latin America.

Figure 17

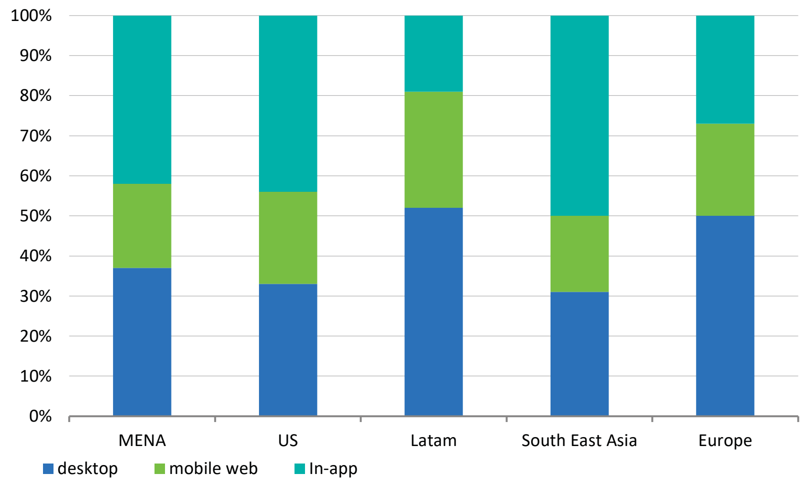
Year-on-year growth in online sales by device (Q4 2017 vs. Q4 2016)



Source: Criteo, Credit Suisse Research

Figure 18

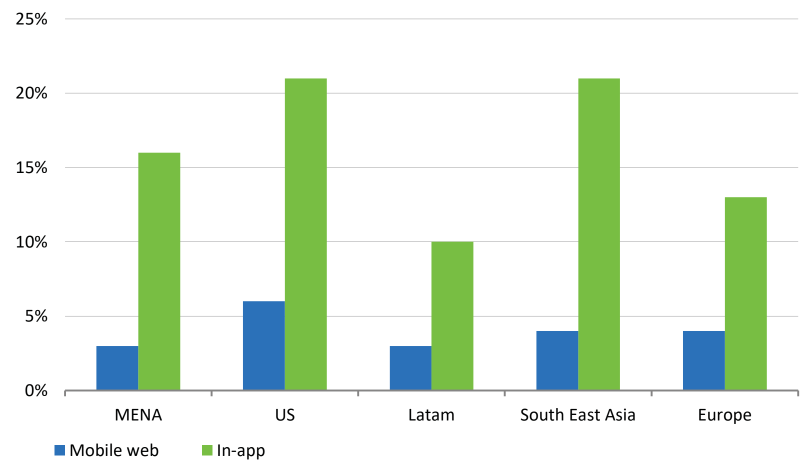
Share of online transactions for retailers with their own mobile applications



Source: Criteo, Credit Suisse Research

Figure 19

Conversion rates (buyers/page viewing) are higher for in-app than for web-based buyers



Source: Criteo, Credit Suisse Research

The value impact of these additional sales channels appears obvious for three reasons:

- First, Criteo's data shows that conversion rates are much higher for customers using in-apps than for those that use regular websites. In the case of South East Asia, for example, the in-app conversion rate of 21% is almost seven times the web-based rate. For Latin America, the in-app conversion rate is around twice as high.
- Second, the data also suggests that retailers using targeted marketing/advertising and that are capable of capturing consumers across multiple devices, are seeing an increase in average order value. Data for South East Asia, for example, shows that average order sizes for so-called "matched consumers" tend to be 23% higher than for those that shop on one device only.
- Third, retailers should not lose sight of the value that offline retail still provides. Specifically, consumers that shop both offline and online (omni-channel consumers) generate significant value. They make up just 7% of Criteo's global dataset, but contribute 27% to total sales. These results provide support for the strategies adopted by online companies such as Amazon and Alibaba, which have started to add offline capacity to their previously online-only platforms.

7. Greater adoption of mobile payment systems in emerging markets drives growth

Digital non-cash payment systems are being enabled by the development of internet access and smartphone ownership. At the same time, however, they act as enablers for further growth in e-commerce. Our Indian research team recently produced a report on the outlook for mobile payment systems in India ("The WhatsApp moment in payments," 5 February 2018) in which they outline their views on the growth outlook for India's non-cash payment sector. In their view, India is likely to follow China, where the share of cash in retail transactions has fallen from 61% in 2010 to 38% in 2016. At the same time, the share of mobile-based payment transactions has increased to more than 11% in China from zero five years ago.

Mobile payments in China reached USD 3 trn in 2016

Growth in China's mobile payment has been more than impressive with a total value reaching more than USD 3 trillion in 2016, up by roughly 16 times the levels seen in 2013. The non-cash payment growth witnessed in China has been led by Alipay. Started in 2004 as an internet-based payment service for Alibaba's e-commerce platform, the company currently has a 54% market share in China's mobile payments and a 31% share of internet payments. In 2016, Alipay processed 175 million transactions, of which 60% were mobile. Associated payments rose from USD 70 billion in 2012 to around USD 1.7 trillion in 2016.

Tencent is China's second-largest provider of mobile-payment services. In 2005, it launched its digital payment app Tenpay, which was integrated into its messaging platform WeChat in 2013. This has allowed Tencent to increase its market share of mobile payments to around 40%. The app's popularity is supported by more than 900 million WeChat users, of which 60% use it at least ten times per day, while 36% use WeChat at least 30 times per day. An average WeChat Pay user spends more than USD 1,500 per year on the app.

Digital payments in India can reach USD 1 trn

Our Indian colleagues believe that digital payments in India may mirror the growth seen in China. They estimate that digital payments can reach USD 1 trillion by 2023 from USD 200 billion today. Key drivers behind this expected growth include demonetization, the launch of a unified payment interface (UPI) as well as the entry of global tech giants such as Google, Samsung and Amazon into the country. A further catalyst to digital payment growth could be an entry of Facebook's WhatsApp. With around 230 million daily average users, it is the company's largest market, accounting for about 18% of users globally. This would represent a "WeChat moment" for the growth in India's digital payments.

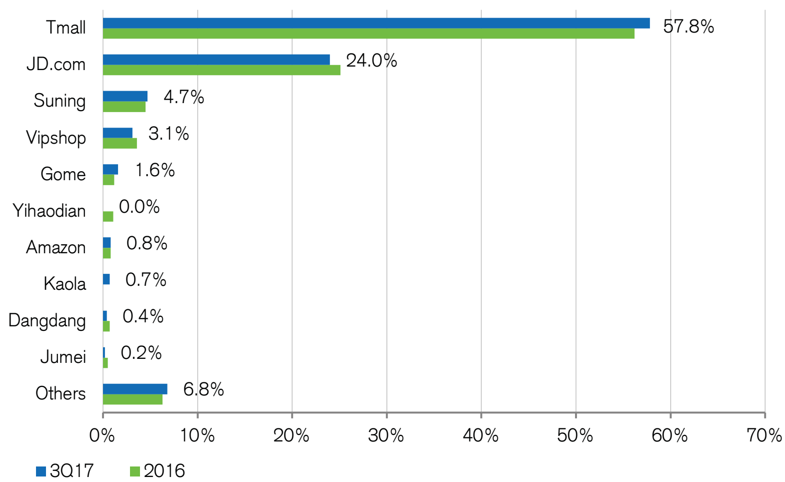
Figure 20

Omni-channel customer data suggests that online-only strategies are suboptimal

Source: Criteo, Credit Suisse Research

Figure 21

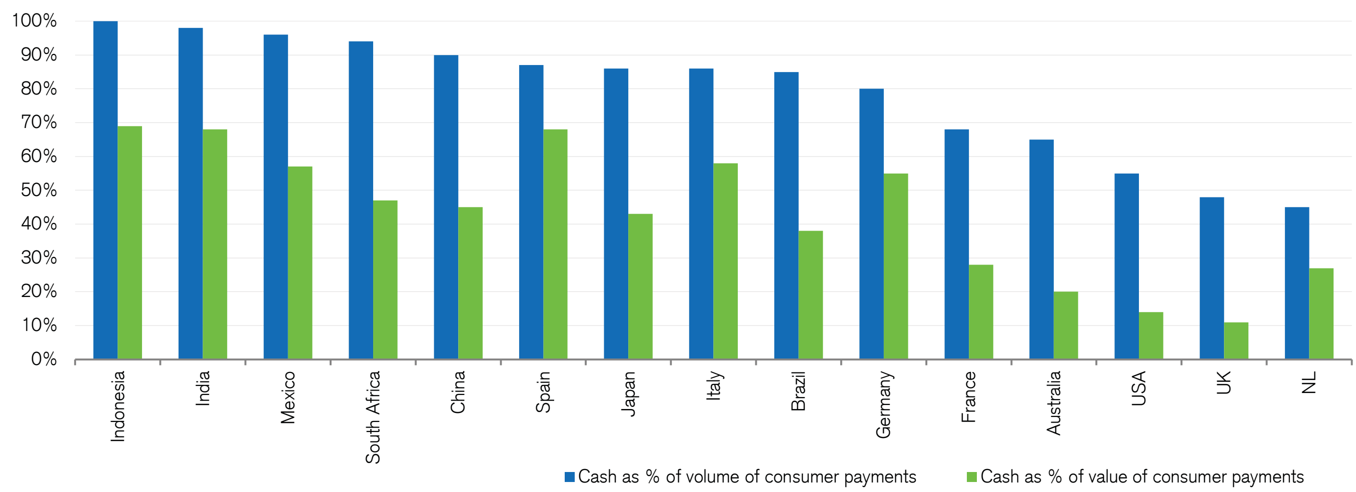
Chinese online retail market share (2017)



Source: iResearch

Figure 22

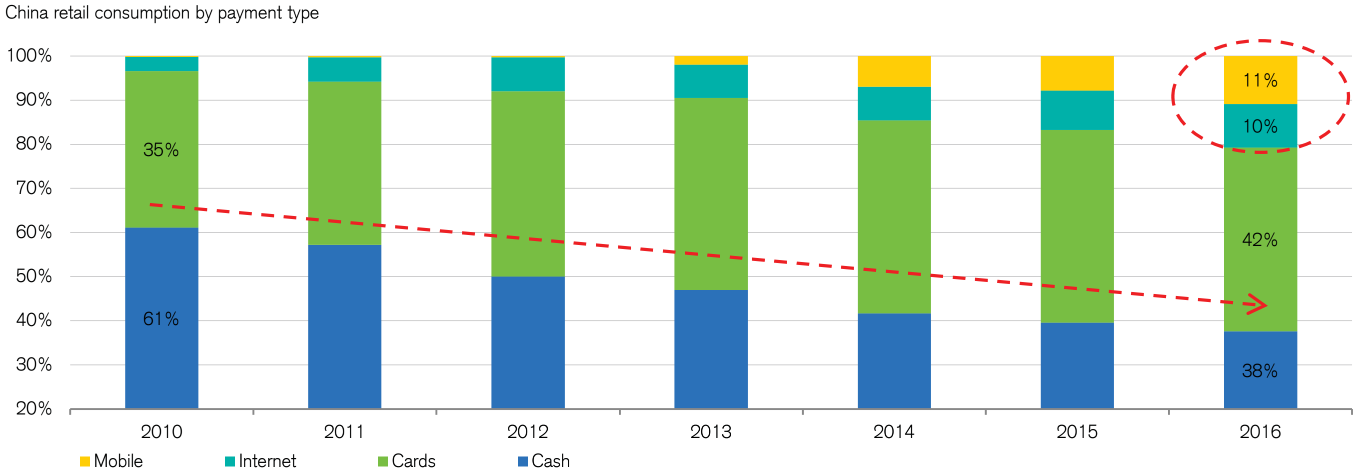
Share of cash transactions is set to reduce in emerging markets



Source: PwC, ECB, Credit Suisse Research

Figure 23

In China, non-cash transactions now account for more than 60% of total retail transactions



Source: Company data, Credit Suisse estimates

E-commerce intensity correlates with non-cash payments

Finally, beyond India and China, we find that more generally the intensity of a country's e-commerce activities correlate with the willingness to make non-cash payments. The availability of non-cash payment systems reduces payment versus delivery challenges for online sellers, while simultaneously increasing the convenience factor for buyers. We do not believe that the growth and availability of non-cash payment systems are unique to China and India, and expect other emerging markets to benefit as well. All else being equal, we believe this development will act as a further catalyst to online consumer spending.

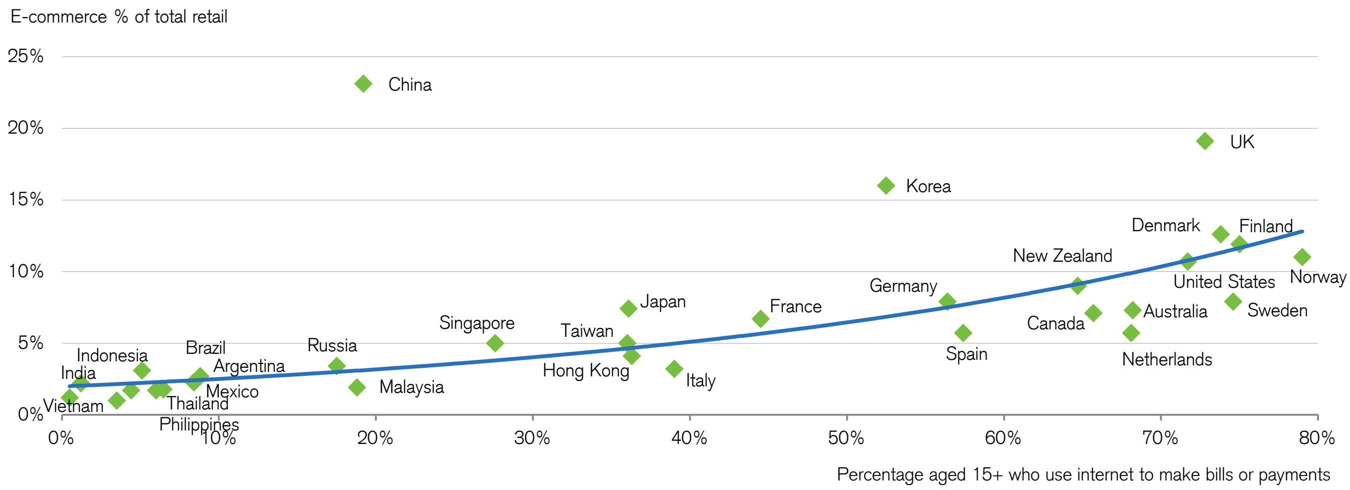
Who are the key online operators across emerging markets?

Since we also asked consumers which e-commerce websites they used during the preceding six months, our survey allows us to review the popularity of websites and which websites might benefit most from continued growth in online shopping intensity.

What is interesting, in our view, is the popularity that local websites across our survey countries currently enjoy (Table 2). While some investors might think that this implies little risk for these local companies from the likes of Amazon, we would add a word of caution. Amazon launched its services in Mexico in 2015. Last year, Amazon ranked third in our survey for popularity among Mexican

Figure 24

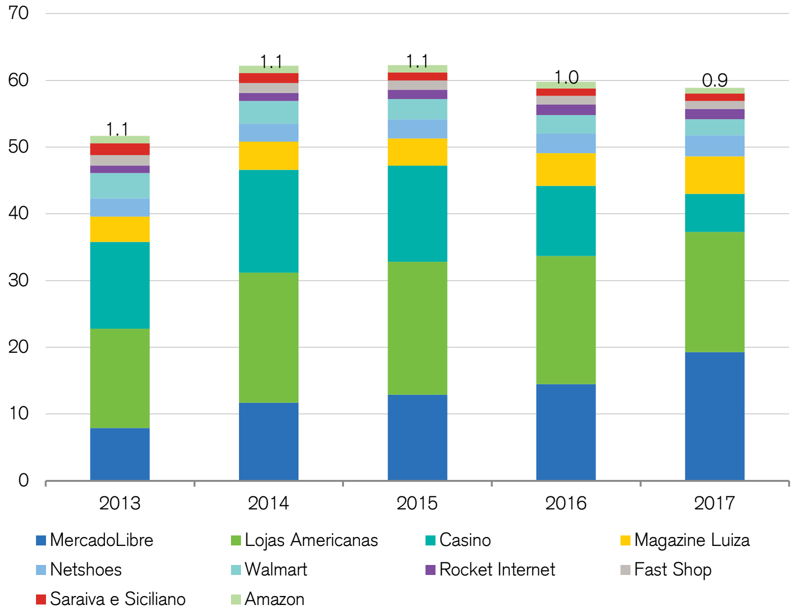
E-commerce growth correlates with non-cash payments



Source: eMarketer, WorldBank, Credit Suisse research consumers, with a 21% share. This year, it ranks first, with a 67% increase in popularity to 35%. As previously shown in Figure 13, data from Euromonitor also suggests that Amazon now has the highest online share of the Mexican market at almost 9%. Amazon only recently launched broader services in Brazil, so we are not surprised that it does not rank highly with Brazilian consumers interviewed as part of our survey. In fact it does not feature in the top 7 most popular websites (Table 2). Figure 25 suggests that these responses corroborate data from Euromonitor that suggest Amazon's share of the online market in Brazil is currently only around 1%. Nevertheless, considering Amazon's success in penetrating other markets (not least Mexico more recently), we would not be surprised if Amazon's market share were to increase going forward. Against the background of an increasing range of companies active in the online segment across the economies surveyed, we thought it useful to list the largest companies and/or those most often referred to (Table 1). ■

Figure 25

Brazil's online market is dominated by local players – Amazon's share at just 1%



Source: iResearch

Table 1

Largest or most-often-used companies mentioned by our survey respondents

Company	Key emerging market areas active	Market capitalization (USD bn)
Amazon	Latin America & Asia	744.4
Alibaba	China	479.9
Naspers	China	119.9
JD.com	China	61.4
Mercado Libre	Latin America	18.1
Yandex	Russia	14.3
Rakuten	Russia	11.7
Vipshop	China	10.0
Liverpool	Mexico	9.3
Lojas Americanas	Brazil	7.0
Magazine Luiza	Brazil	5.3
Rocket Internet	Indonesia	5.0
Mvideo	Russia	1.3

Source: Credit Suisse Emerging Consumer Survey, 2018

Table 2

Share of consumers using certain e-commerce websites

		Most popular websites used by consumers during past 6 months		
Brazil	**India**	**Indonesia**	**Russia**	**Mexico**
Americanas: 59%	Flipkart: 77%	Lazada: 71%	Aliexpress: 56%	Amazon: 35%
Mercado Libre: 49%	Amazon: 63%	Tokopedia: 27%	Avito.ru: 36%	Liverpool: 24%
Magazine Luiza: 28%	Snapdeal: 55%	Shopee: 24%	Ozon: 28%	Walmart: 22%
Submarino: 26%	Myntra: 22%	Bukalapak: 20%	Yula: 18%	Linio: 12%
Casas Bahia: 25%	Big Basket: 12%	OLX: 19%	Yandex.Market: 16%	Others: 14%
Extra: 20%	Paytm mall: 7%	Traveloka: 14%	Ulmart: 15%	
Netshoes: 20%		Zalora: 7%	Mvideo: 14%	

Source: Credit Suisse Emerging Consumer Survey, 2018

Photo: Shutterstock: xujun

Consumer Titans

In this section, we take a closer look at key developments for consumers in the two "Titan" economies of our survey, China and India. The readings from this year's survey for these consumers suggest a clear move toward branded and premium goods. In the case of India, this trend continues to be supported by the demonetization exercise held in 2016 and the introduction of the goods and services tax. In China, we observe greater interest, especially from younger consumers, in experience-related consumption. A trend that is emerging both in China and India is one of a consumer whose investment portfolio is steadily diversifying through a rising share of investments in equities and insurance products.

Arnab Mitra, Charlie Chen, Eugene Klerk

India: Premiumization is a secular trend

There has been an overarching theme of premiumization in India over the past 5–10 years, which has also been reflected in the Emerging Consumer Survey since it started in 2010. The premiumization trend has played out in two ways: first, moving from unbranded to branded products within many segments, and second, increasing market share of premium brands within the branded industry.

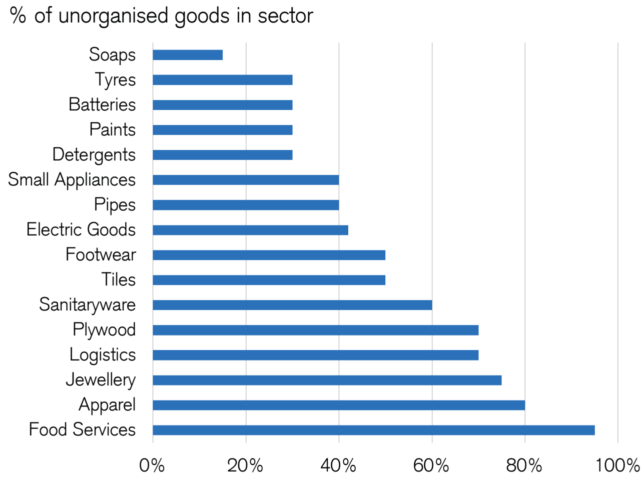
Demonetization and goods and services tax aid shift to branded goods

The roll-out of the goods and services tax (GST) and the demonetization exercise held in 2016 has had an adverse impact on the growth of the unorganized sector in India. The GST is a fundamental change that we believe will gradually lower the scope for tax evasion by unorganized players in every consumer category and as a result remove their competitive advantage. The fact that the GST rate for many branded products has simultaneously been lowered and that the government is in the process of optimizing tax checks through the implementation of the "e-way" bill further reduces the financial advantage of tax evasive-products in our view.

There has indeed been a gradual shift from unbranded to branded goods across many categories. Areas that have the highest share of "unorganized goods" and that in our view should therefore see the strongest shift to branded products include apparel, jewelry, footwear and home improvement products (e.g. tiles, white goods, plywood and sanitary ware).

Figure 1

Most sectors in India high have a higher share of unbranded products



Source: Credit Suisse

Figure 2

Consumers moving toward branded goods

Source: Credit Suisse Emerging Consumer Surveys, Credit Suisse

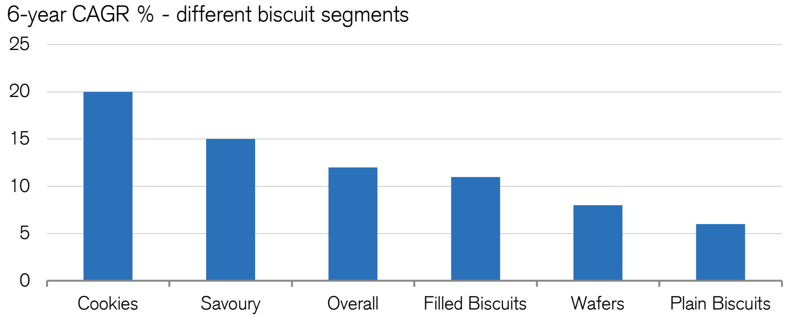
Figure 3

Tanishq growth very healthy; almost entirely market-share driven

Source: Company data, Credit Suisse

Figure 4

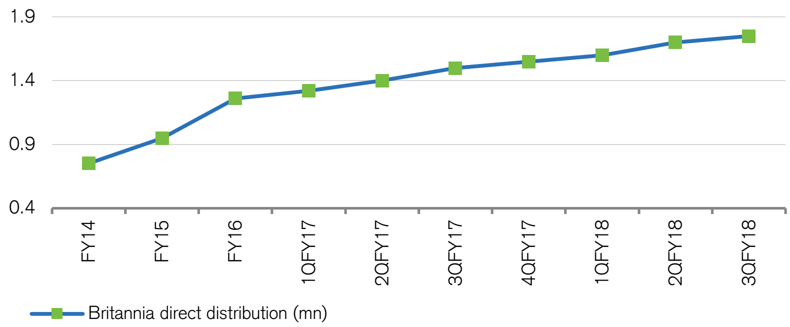
Premium cookies growing much faster than other economy segments



Source: Euromonitor International

Figure 5

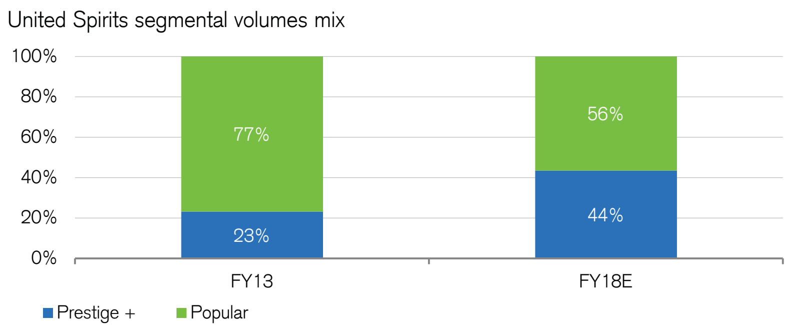
Increase in direct distribution reach for Britannia



Source: Company data, Credit Suisse

Figure 6

United Spirits premiumizing its portfolio



Source: Company data, Credit Suisse

Strong move towards premium-branded products

In addition to the move from unbranded to branded goods, we also note that Indian consumers are increasingly shifting to premium products. While this has been a secular development for some years, we expect this trend to accelerate with improving consumer sentiment and rising incomes. Consumer categories where we have seen a strong move toward premium-branded products include packaged foods, passenger cars, spirits and jewelry.

In biscuits, for example, a sector with annual turnover of INR 290 billion (USD 4.5 billion) "cookies" or premium biscuits have grown around three times faster over the past six years than plain biscuits.

In jewelry, we note that Tanishq, India's largest organized jeweler with a premium feel and finish to its products (run by Titan Company Ltd), has been registering very strong growth post the demonetization event in late 2016. Tanishq, which is a pan-India jeweler, has not only been gaining share from unorganized players (i.e. small individual stores), but also from some of the larger regional players that have historically attracted the value-segment customer.

In the spirits market (whiskey), premiumization is also growing, with 64% of respondents in our consumer survey stating that they have upgraded to more expensive brands.

Branded companies focusing on distribution expansion, marketing and affordability

Branded goods companies have put considerable effort into expanding their distribution capabilities and affordability of their products. We expect these investments to help these companies gain market share, especially post demonetization.

Examples of companies that have actively tried to expand their consumer reach in India include:

Hindustan Unilever: India's largest manufacturer of consumer staples. It has doubled its direct distribution by around 2.5 times since 2011. The company was also a pioneer in using sachets in many categories to drive premiumization. Britannia, India's largest biscuit company, has increased its distribution reach by around 2.5 times in four years.

Companies like Jubilant Foodworks, which owns the Dominos India franchise, has worked on improving affordability of pizzas to make it more competitive with street food options.

Godrej Consumer has worked on attractive single-use price points for premium hair colors and air fresheners to drive growth.

United Spirits has focused on building demand for its premium brands, reflecting in a change of product mix. Volume share of "Prestige+" has grown from 23% in FY 2013 to 44% in FY 2018 and we expect it reach 50% by FY 2020.

Consumers change how they save too

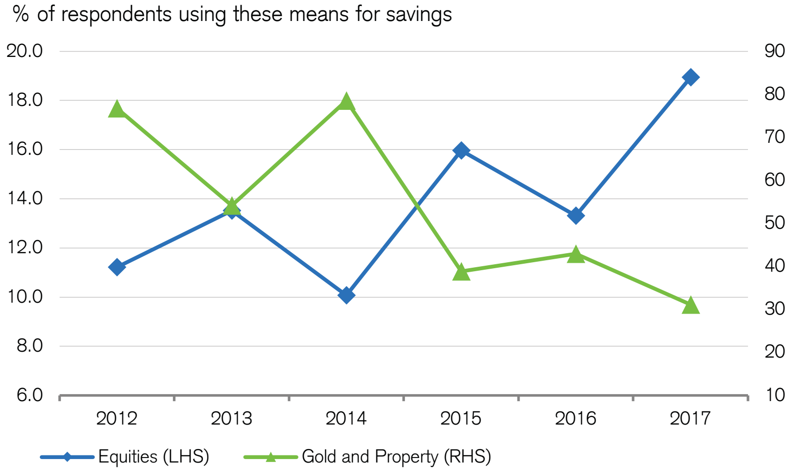
Another key trend observed in this year's survey results for the Indian consumer is the clear shift in household savings from hard assets like gold and property toward financial assets like equities. The share of Indian households that save gold and property dropped to 31% in 2017, the lowest since the start of the survey in 2010. On the other hand, the share of households that invest in equities has gone up to 19%, the highest since the survey started in 2010 and nearly double the share of around 10% seen in 2014. India's gross household financial savings have not only increased relative to total savings, but also as a share a GDP. We believe that this will continue and that financial savings will reach 12.5% of GDP this year, up from just over 10% in 2015. Despite this increase, we still see further upside potential, which is something that we expand upon in our "emerging saver" section in this report.

The changing mix in savings by Indian consumers appears to be a broad trend as it is also visible for Chinese consumers as we discuss further on. We believe that this trend reflects greater consumer awareness of the need to diversify savings into different asset categories, not least owing to the relative lack of a publicly funded pension and healthcare system across emerging markets.

Indian domestic equity mutual funds have benefited from the growth in financial assets and have witnessed consistently positive inflows over the last four years. Increasingly, Indians are appreciating the benefits of financial assets over physical assets and directing savings toward the former. Monthly systematic investment plans (SIPs) have become quite popular as investment and savings vehicles. While strong equity market returns have clearly provided a cyclical backdrop to these inflows, we think that this move toward financial assets is more structural and should therefore remain above historical trends. Companies that might benefit from this development include asset managers, insurance companies and banks with larger asset management divisions.

Figure 7

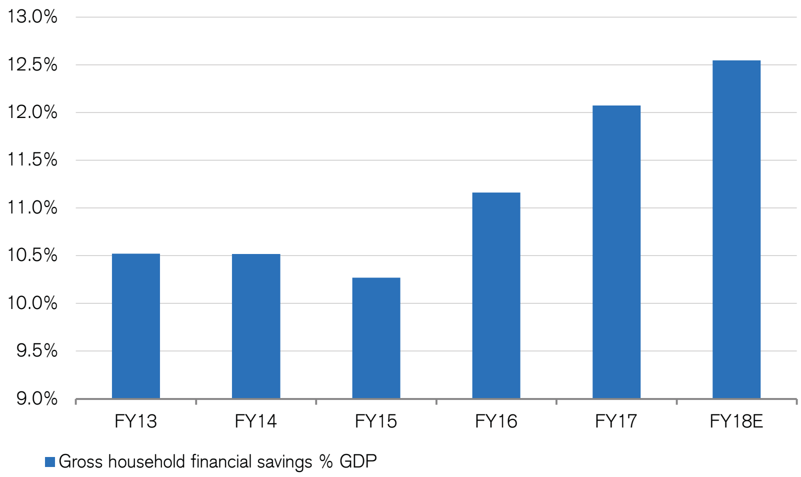
Consumer survey results – equities as an asset class gaining prominence over physical assets



Source: Credit Suisse Emerging Consumer Surveys, Credit Suisse estimates

Figure 8

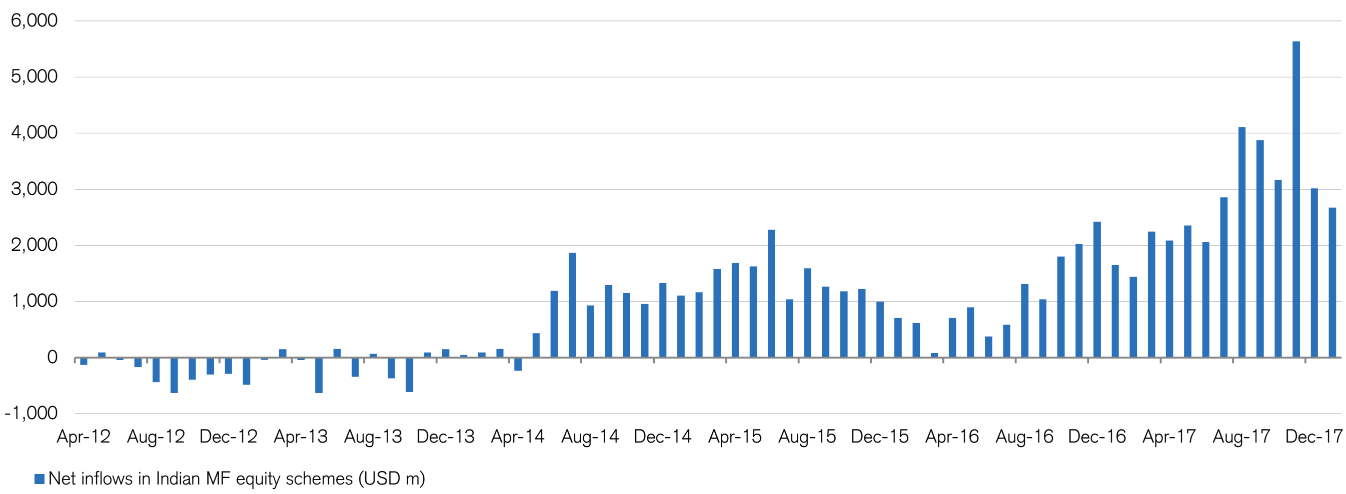
Share of household financial savings has been rising



Source: Company data, Credit Suisse

Figure 9

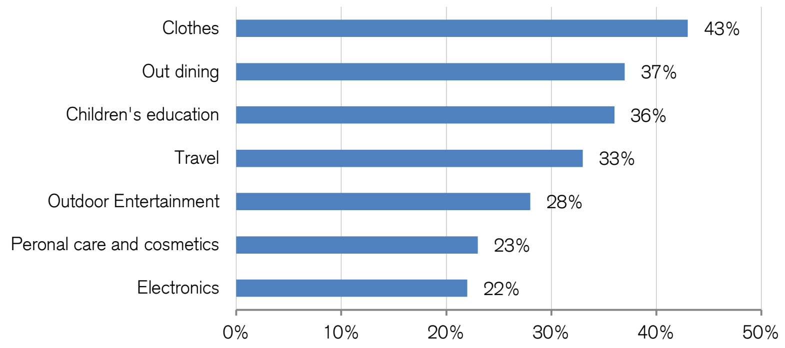
The net inflow into domestic Indian equity mutual funds has been robust



Source: Credit Suisse Emerging Consumer Surveys, Credit Suisse estimates

Figure 10

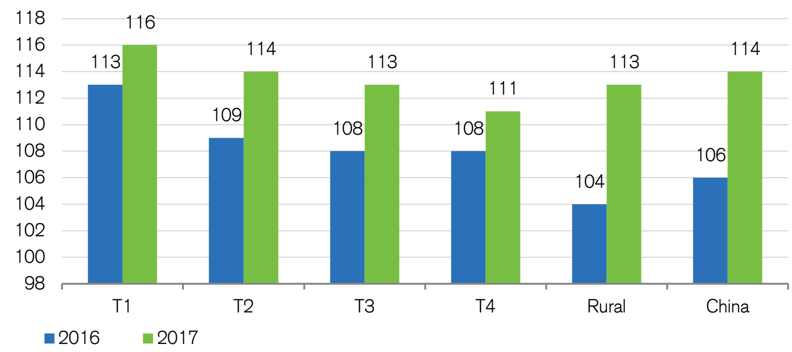
"Except for necessary expenses, what do you want to spend money on?"



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 11

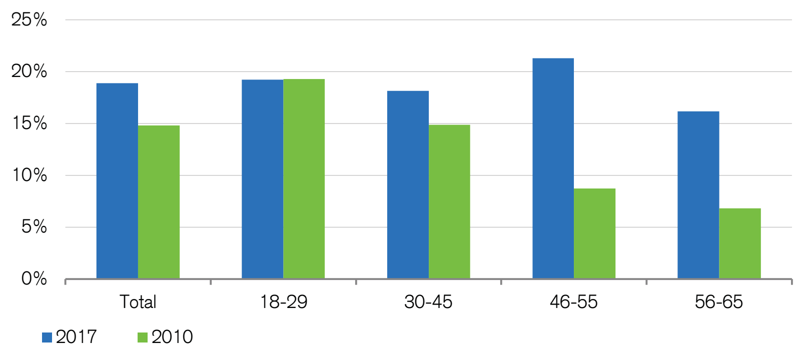
China consumer confidence by tier



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 12

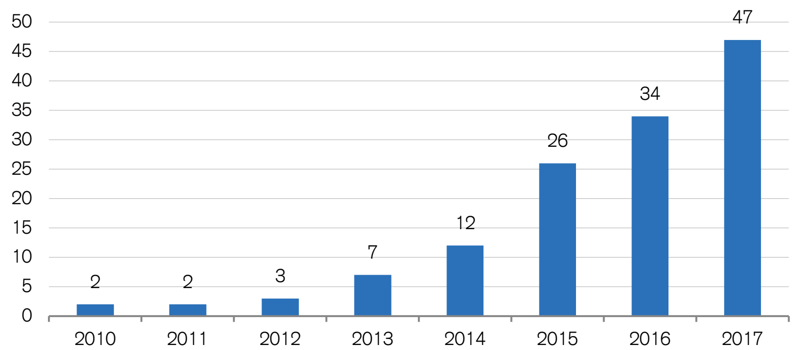
% of Chinese consumers willing to spend more on local sportswear brands



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 13

Percentage of respondents who use a Chinese mobile-phone brand



Source: Company data, Credit Suisse

China: Consumption patterns on the move

This year's survey provides evidence to support our view that Chinese consumers are steadily changing their consumption pattern. Our Chinese analysts note that young Chinese consumers, in particular, are showing signs of a rising willingness to spend on domestic brands. In addition, their willingness to spend on food, entertainment and leisure is also growing. When asked where consumers spend their non-discretionary income we find that dining, travel and outdoor activities rank among the most popular categories (Figure 10). It is the experience that moves the needle on consumer spending.

Chinese consumer demand continues to broaden beyond urban areas

Interestingly, we find that the growing popularity of entertainment or experience-related spending is not just indicative of rising urban consumer optimism. In fact, rural Chinese consumer confidence rose more quickly this past year than for China as a whole or for citizens in tier 1 through tier 4 cities (Figure 11). If anything, this suggests that the Chinese consumer theme is continuing to broaden, which is a positive development for companies exposed to it.

The Chinese consumer is going more local

One of the interesting findings in this year's survey as it relates to China is the rising market share of domestic brands. During the early years of the Chinese consumer theme, premiumization was basically synonymous with "buying foreign brands." We believe that this trend may start to change.

Chinese brands are gaining market share at the expense of foreign brands in certain end-markets such as food and beverages, personal care, electronics and home appliances. In sportswear, this appears less the case as we note elsewhere in this report that brands such as Adidas and Nike are market leaders. The willingness of Chinese consumers to pay more for local sportswear brands is rising, mostly among older citizens. Younger consumers' appetite for local brands is noticeable, especially in relation to home appliances. Ninety-one percent of Chinese consumers aged 18–29 prefer local appliances to foreign-made ones. We believe that the market share gains of some Chinese brands is a reflection of China's growing importance globally and the fact that this has made "buying Chinese" more fashionable among local consumers.

Corporate actions by a number of Chinese consumer goods manufacturers has helped raise credibility of their products with Chinese consumers too. For instance, Qingdao Haier's acquisitions of international competitors in Japan, New Zealand and the USA (GE Appliances) have helped convince consumers that its product quality is strong. In addition, Haier's launch of its innovative "air-wash washing machine" is another example of a local product that has attracted significant interest from both local media and Chinese consumers.

Chinese consumers spending more on “experiences”

Another interesting finding of our survey is that Chinese consumers are shifting an increasing share of their disposable income to “experiences” or services rather than “goods.” For example, consumers spend more on fast food and home delivery. While some of these trends might allow consumers to optimize their time (“saving time through services”), we find that Chinese consumers are also more willing to pay for premium services. Fine dining and international travel are examples of more expensive “experience” services that are gaining popularity.

However, not all services might benefit in the short term

While we have a positive view on the growth outlook for the service industries in China, we do not believe that all of them will benefit from greater consumer spending. We are particularly concerned about the outlook for the (online) education sector. The reason is related to the Chinese government’s attempts to tighten control of after-hour and weekend educational training. The government aims to rebalance daily activities for children with the view that more time should be spent playing sports or being active in leisure activities. Recently, the Chinese government also ordered the suspension of various knowledge competitions, which is an additional headwind for the development of the education market in China in our view.

Long-term questions remain as the effects of the “two-child policy” are mixed

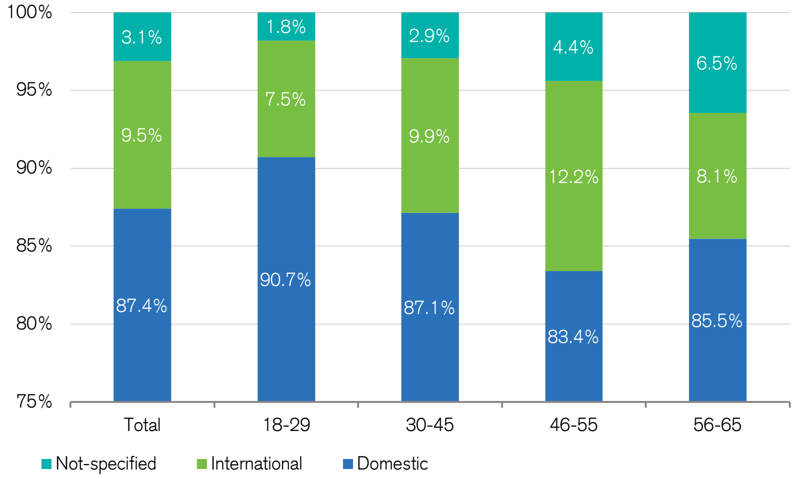
The Chinese government started to lift the so-called “one child” birth control policy in 2013, and moved to a “two child” policy on 1 January 2016. The aim is to address long-term demographic challenges as China’s population ages and needs more younger citizens to sustain long-term growth.

Immediately after the change in policy, China’s birth rate improved from 12.1 births per 1000 in 2015 to 13 births per 1000 in 2016, the highest level experienced since 2001. Last year, this declined to 12.4 births per 1000. It is unclear at this point whether this decline is a cyclical phenomenon given the strong growth experienced the year before or whether structural reasons will limit the potential for the success of the “two child” policy. These might include an awareness of the high cost of raising children and the irregular gender mix of young adults as a result of the “one child” policy adopted over the past few decades. The experience in Japan and Singapore also shows that, even with certain government incentives (such as extended maternity leaves and cash subsidies for newborn babies), a declining birth rate is very difficult to reverse. We note that there are currently no government incentives in China to support additional newborns.

While the Chinese consumer story is strong at present, we would want to see a normalization of the birthrate relatively soon in order to feel more comfortable with long-term growth potential.

Figure 14

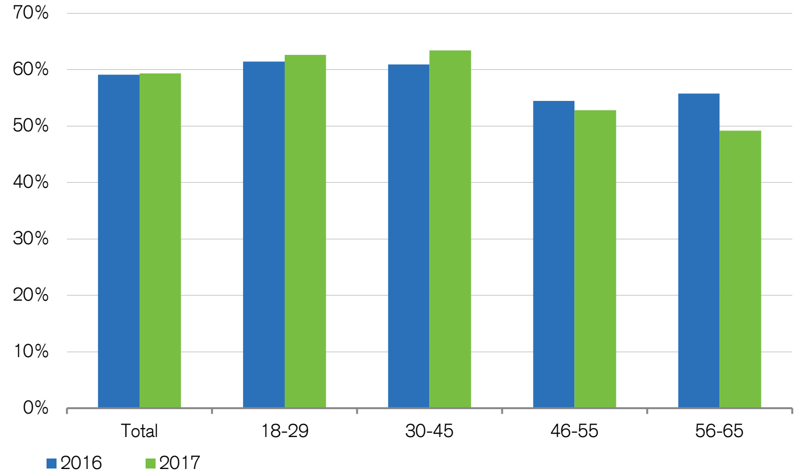
“Which home appliance domestic brand do you prefer?” – young consumers prefer domestic brands



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 15

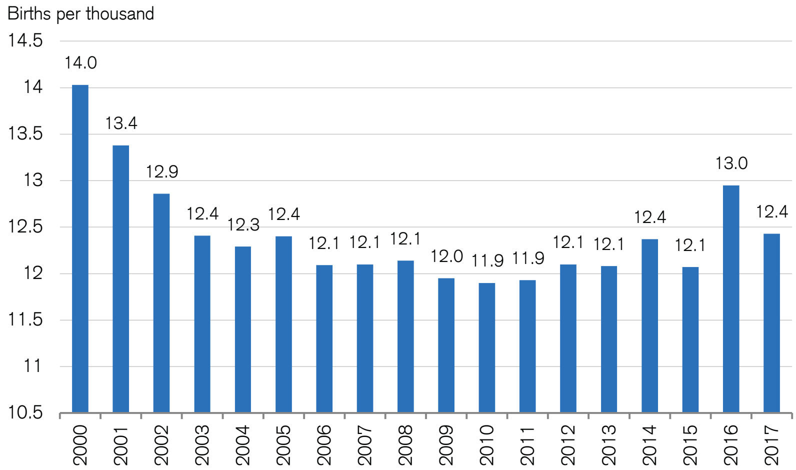
Younger generation increasing their spending on travel: Percentage of respondents who have traveled in the past 12 months



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 16

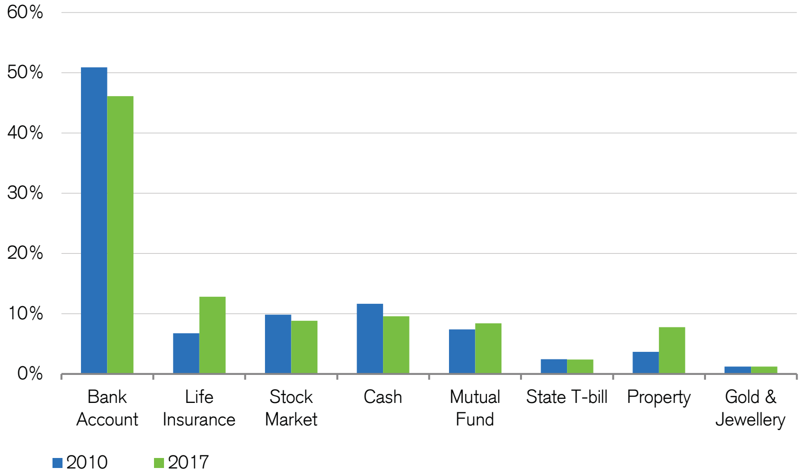
Birth rate dropped in 2017 after a rebound in 2016



Source: National Bureau of Statistics

Figure 17

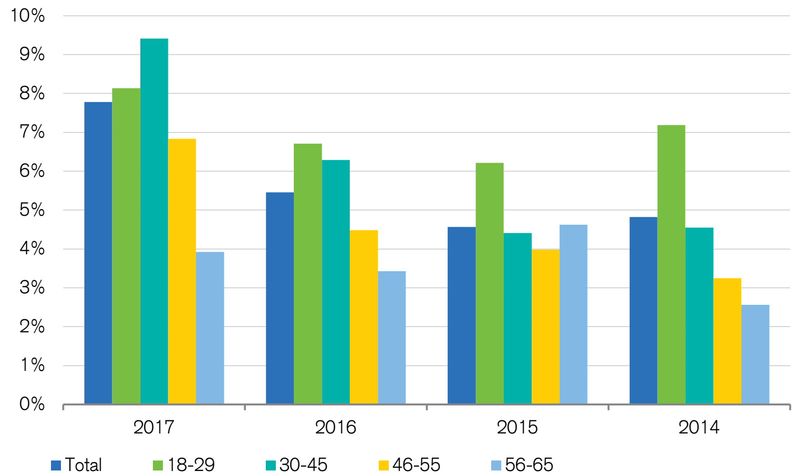
Change of investment channels: Life insurance and property gain most



Source: Credit Suisse Emerging Consumer Survey 2018

Figure 18

Young people no longer the most aggressive home buyers in 2017: Percentage of respondents choosing property as an investment



Source: Credit Suisse Emerging Consumer Survey 2018

Preparing for later: Life insurance and property investments are becoming more popular

Although nearly half the Chinese consumers still save their wealth in bank accounts, this percentage is decreasing together with cash in hand. Instead, life insurance and property investments are becoming more popular among the consumers we surveyed. This could be a sign that Chinese consumers are becoming more conscious about their long-term financial needs and realizing that solely relying on bank accounts is not sufficient to meet these needs.

The interest in property investments used to be dominated by younger consumers. However, this year's survey suggests for the first time that other age groups are becoming more interested in the theme. In fact, the 30–45 age group is now most likely to be involved in property investments. Interest increased across all age groups, however, suggesting that a focus on longer-term investment strategies is fairly broad-based. ■

Photo: iStock: zoroasto

Brazil

A gradual recovery

Tobias Stingelin, Leandro Bastos, Pedro Pinto

The overall macro environment continues to evolve gradually following the country's worst recession between 2015 and 2016. Our survey captures some improvement in sentiment at an underlying level, although Brazil's overall ranking in the country scorecard remains stable at fourth place.

In comparison to peers, inflation expectations are notably low and have improved. However, they have slightly deteriorated year on year, reflecting that inflation is on the rise (4.5% in 2018E versus 2.9% in 2017A), albeit still below 2016 levels. Despite some inflationary pressures, consumers remain relatively upbeat. Household income expectations are still broadly in line with last year, with a net 32% expecting an increase. In addition, expectations for an improvement in the state of personal finances are still trending upward for all income brackets, with a net 34% of respondents expecting an improvement versus 29% in 2017.

We note that a net –33% of respondents believe that now is a good time to make a major purchase, This is a slight improvement compared to last year, although well below the country's peers (Brazil remains in the last position in the scorecard). We believe the outlook for contained inflation and higher income is expected to translate into better personal finances (i.e. debt reduction, which appears to be a priority over consuming).

A closer analysis of the outlook for household income shows that, on average, respondents expect nominal household income to increase between 4.0% (realistic) and 7.0% (aggressive) over the next 12 months. The divergence in expectations between lower- and higher-income brackets is relatively low, except for consumers in the BRL 1,400 monthly income bracket. The good news is that incomes are on the rise again, which bodes well for future consumption. Overall, Credit Suisse's economists forecast household income to grow by 3.1% in 2018 versus 1.0% in 2017.

The still modest economic recovery and the fall in inflation has translated into some interesting changes in monthly spending. Expenditure on food and housing continues to make up the largest share of spending across all age groups. As a share of income, expenses for housing & public utilities have declined and Brazilians continue to spend less than their peers in other countries, while food and healthcare expenses have increased. In fact, healthcare expenses as a share of income stand out again, as they are not only growing, but are well above the survey average at 11.4% versus 5.5%. However, here we would highlight that the increase in healthcare expenditure is likely being driven by the fact that the Brazilian government has been forced to make cuts in public medicine spending, meaning that people have to pay more out of their own pocket for medicines. Another reason for the growth in healthcare expenses is medical inflation, which remains at double-digit levels.

The Brazilian economy is starting to grow again. Credit Suisse's economists forecast 2.5% GDP growth in 2018 versus 1.0% in 2017. Unemployment rates are already declining, formal job creation increasing and inflation remains well contained. Combined with record low interest rates, this paves the way for a sustainable recovery. The outlook looks positive, but Brazil will have presidential elections in October 2018, which could increase volatility. Regardless of the outcome, structural reforms will clearly be required to assure delivery of sustainable growth.

Photo: Shutterstock, dmitry_islentev

Key macro indicators

GDP (2017E)	USD 2,054 bn
GDP per Capita (2017E)	USD 9,855
Population (2017E)	USD 208.4 m
CPI Inflation (2017E)	2.8%
CPI Inflation (2018F)	4.5%
Real GDP Growth (2017E)	1.0%
Real GDP Growth (2018F)	2.5%
Real private consumption growth (2017E)	1.0%
Real private consumption growth (2018F)	3.1%

Source: IBGE, Central Bank of Brazil, Credit Suisse

Figure 1

State of personal finances over the next six months

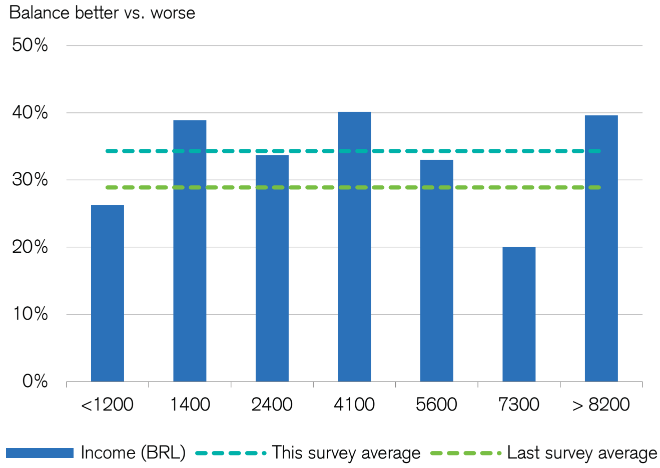


Figure 2

Consumer confidence indicators

Figure 3

Nominal growth in household income

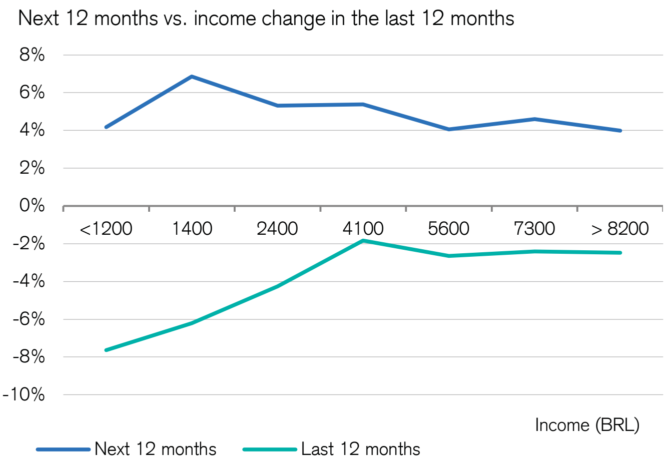


Figure 4

Spending momentum and market penetration

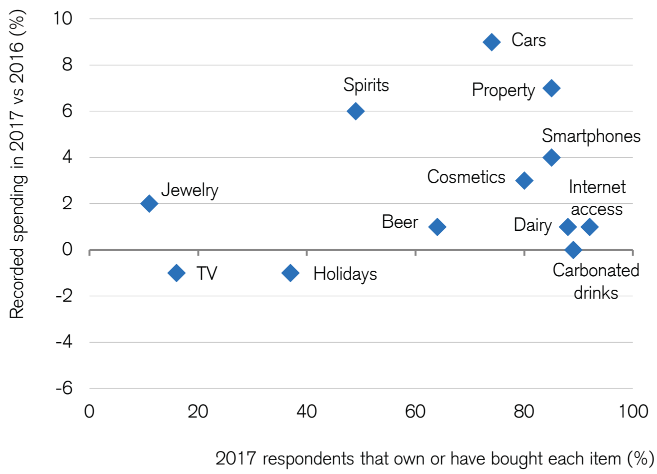
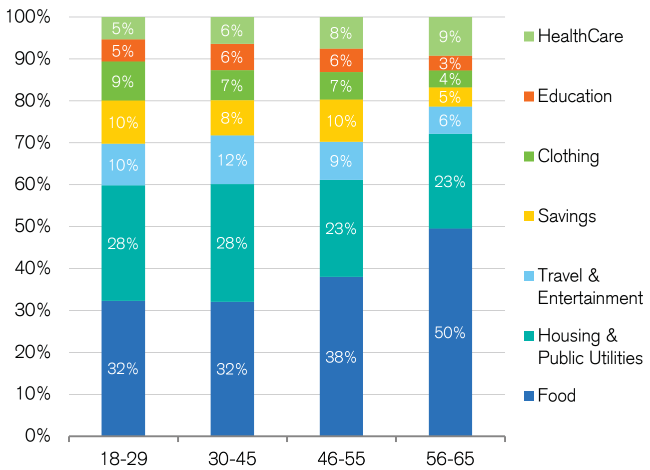


Figure 5

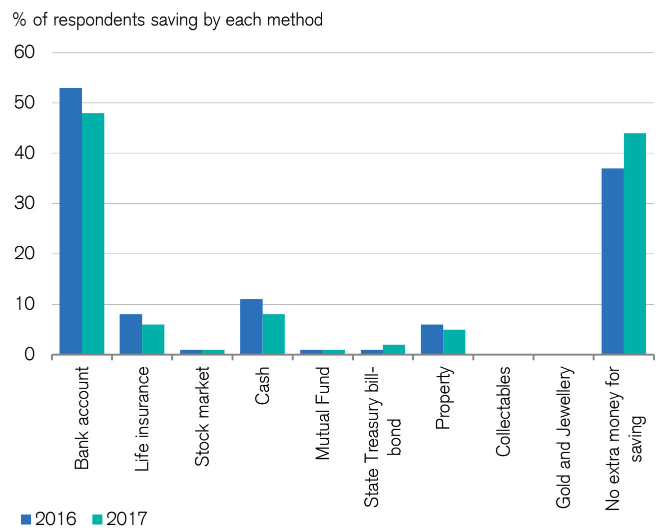
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 6

Savings by distribution channel (%)



China
Product upgrades

Charlie Chen, Daisy Dai

An improvement in personal finance expectations and a milder inflation outlook has led China to overtake Indonesia to regain second place in our EM consumer scorecard, closely behind India. Overall, Chinese consumers' willingness to spend continues to increase due to strong job security and robust income growth. A net 7% of consumers believe that now is a good time to make a major purchase, well above the EM average of -6%, but still below 9% in 2014. The balance expecting an improvement in their personal finances has risen to its highest since 2014.

Chinese consumer spending patterns continue to shift from traditional staple products to lifestyle-related discretionary products and services, such as cars, travel, cosmetics, and luxury alcoholic beverages. However a new trend to emerge is the very strong product upgrade in lower-tier markets in 2017. One example is that of rural consumers who are driving the growth of premium products, such as premium milk. The Chinese government's "supply-side reform," which started in 2015, has removed a sizable amount of capacity with low efficiency and high levels of pollution in commodity-driven sectors. We are now seeing a strong rebound in commodity prices and industrial returns in China, thus driving profitability in the lower-tier markets.

In 2017, the product upgrade trend has been very pronounced in some staple categories such as dairy, beer, and instant noodles. In higher-tier markets (tier 1 and tier 2 cities), the more affluent consumers of the 1980 and 1990 generations continue to drive China's consumption growth. Looking at spending patterns, Chinese consumers are more into lifestyle and service-related areas, while still retaining approximately one third of their income as savings.

China's savings rate continues to stand out in comparison to its peer countries (32% versus the EM average of 14% as a share of income). Chinese consumers continue to diversify their investment from traditional bank savings to other channels, notably the property market and mutual funds. The level of savings is high even among younger generations, with consumers aged between 18 and 29 years allocating 35% of their total expenditure to savings. We believe this precautionary savings reflects concerns of a limited social safety net.

Online shopping penetration rose in 2017, with overall internet access penetration jumping five percentage points to above 90% of our respondents. In 2017, major internet companies took solid steps to acquire off-line retailers with the aim of further integrating the online and off-line retail market. Online retailing already accounts for 15% of the total retail market in China and this percentage is likely to continue rising in 2018, with growth in the online retail market estimated to be above 20% according to Credit Suisse estimates.

While the "young consumer" remains a key driver of the immediate outlook, the aging population and lower birth rate remain an issue. The relaxation of the one-child policy did boost growth in the number of newborn babies by 8% to 18 million in 2016. However, this number dropped to 17.2 million in 2017, representing a 3.5% decline. While we would expect some level of decline after the initial implementation of the policy, China's birth rate has continued to fall over the years from 6% in the 1960s, 3.0% between 1976 and 1980, 1.5% in 1995, to between 1.04% and 1.26% since 2010. An aging society may weigh on the consumer market in the long term.

In summary, we are still positive about the outlook for the Chinese consumer in the year ahead and believe that the market will continue its steady growth with a greater consumer focus on quality over quantity. Low-quality price competition is weakening as price is no longer the only or most important factor in Chinese consumers' purchase decisions. An increase in premium product offerings from consumer companies will continue to aid the product upgrade trend. In addition, many provincial governments have already announced personal income growth targets of between 7% and 9% in 2018, which will remain a powerful driver for consumption growth.

Photo: Shutterstock, Sean Pavone

Key macro indicators

GDP (2017E)	USD 12,166 bn
GDP per Capita (2017E)	USD 8,798
Population (2017E)	USD 1,383 m
CPI Inflation (2017E)	1.9%
CPI Inflation (2018F)	2.3%
Real GDP Growth (2017E)	6.8%
Real GDP Growth (2018F)	6.5%
Real private consumption growth (2017E)	8.1%
Real private consumption growth (2018F)	7.5%

Source: National Bureau of Statistics, People's Bank of China, CEIC, Credit Suisse

Figure 7

State of personal finances over the next six months

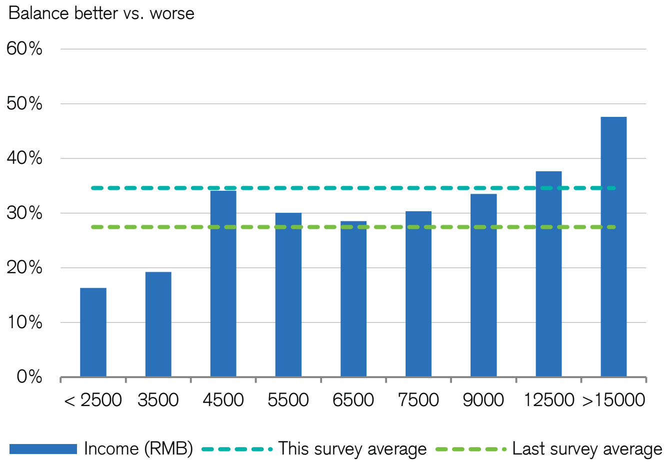


Figure 8

Consumer confidence indicators

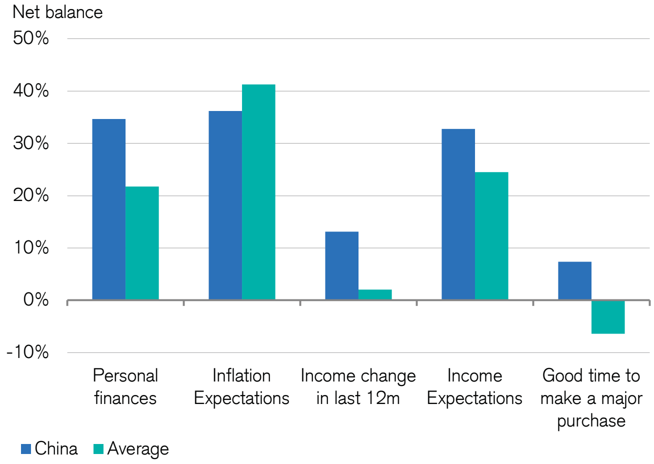


Figure 9

Nominal growth in household income

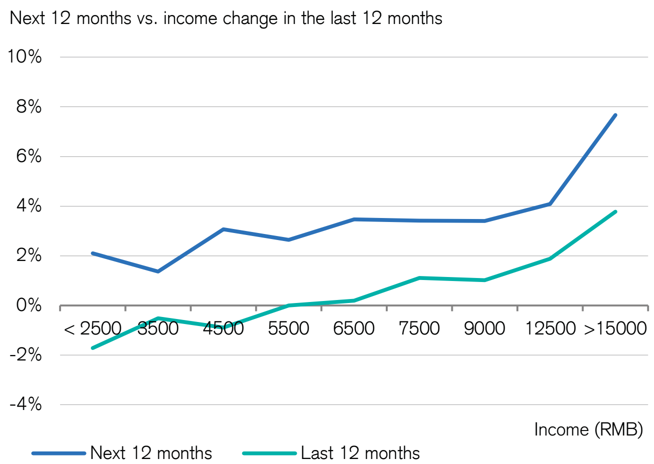


Figure 10

Spending momentum and market penetration

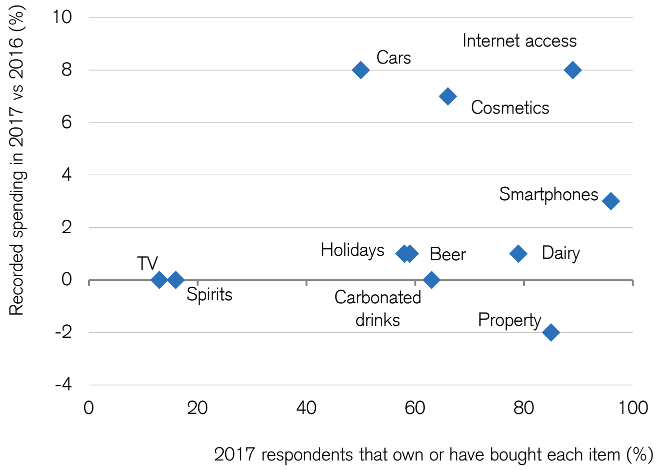
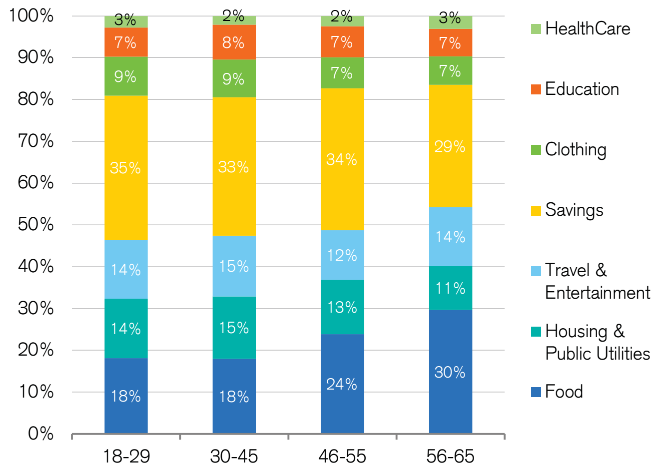


Figure 11

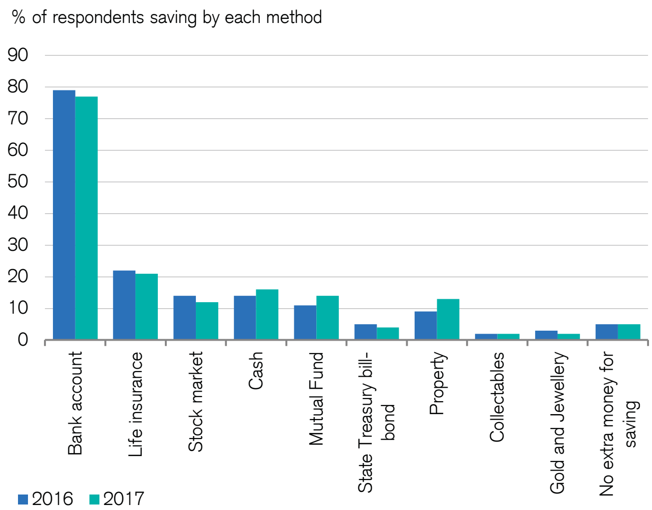
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 12

Savings by distribution channel (%)



India

Top of the rankings

Arnab Mitra, Rohit Kadam

India continues to maintain its number one position on our consumer scorecard, marking the fourth consecutive year where India has held this position. The results of the survey reflect an improvement in most parameters compared with India's metrics in 2016. Two striking features are the rise in income expectations and the willingness to make a major purchase.

There has been a sharp spike in respondents who think now is a good time to make a major purchase – 32% of respondents felt this is an excellent time to make a major purchase, which is more than double compared to 12%–15% for the past seven years of the survey (2010–16). This is clearly reflected in the decision to buy a car, where 8% of respondents said they will "definitely buy" as compared to 3%–5%, while 12% stated that they will "probably buy" compared to 4%–9% in the last 7 years. The growth in car volumes in India was very strong in 2017, with the full year seeing 9% volume growth (the highest in six years).

Where India ranks poorly in comparison to the other EM countries is on inflation expectations. The net percentage of respondents expecting inflation to be higher stands at 41% versus 18% in our last survey. This is partly driven by a spike in food inflation and also partly due to the resurgence of crude oil and commodity prices. This is in stark contrast to the previous two years, where inflation was on a downward trajectory.

There is a clear distinction between upper- and lower-income respondents, with the former feeling much more positive about income expectations. For those with incomes over INR 50,000 a month, 24% respondents expect their income to increase by more than 10%, while for those with income below INR 5,000 a month, none of the respondents expect their income to rise by more than 10%. We believe this is primarily because agricultural price inflation has been very low and many cash crops have seen price deflation. Over 50% of Indians rely on agriculture as their primary source of income and these would also form the bulk of the respondents in the lower-income bracket.

Another key trend is the clear shift in household savings from hard assets such as gold and property to financial assets such as equities. The percentage of households that save gold and property has dropped to 31%, the lowest since 2010 when the survey started. On the other hand, the percentage of households investing in equities has risen to 19%, also the highest since the survey started.

Two secular themes that continue to emerge in this survey are rising penetration and premiumization. Across all consumer categories including cosmetics, fashion apparel and watches, the number of respondents who have purchased or are planning to purchase in both urban and rural areas has been trending upward since 2010. In the spirits market (e.g. whiskey), premiumization is growing, with 64% of respondents stating that they have switched to more expensive brands. In fashion apparel, we continue to see consumers shifting from unbranded to branded products, with the share of unbranded goods declining from 32% in 2010 to 10% in 2017.

In 2018, we expect rural consumer sentiment to remain subdued due to the low prices of agricultural commodities. However, we believe urban consumption should see further acceleration due to low inflation and government pay hikes. We also think the move from unbranded to branded products should accelerate with the implementation of the goods and services tax.

Photo: Shutterstock, Smarta

Key macro indicators

GDP (2017E)	USD 2,610 bn
GDP per Capita (2017E)	USD 1,991
Population (2017E)	USD 1,325 m
CPI Inflation (2017E)	4.5%
CPI Inflation (2018F)	4.7%
Real GDP Growth (2017E)	6.6%
Real GDP Growth (2018F)	7.0%
Real private consumption growth (2017E)	7.5%
Real private consumption growth (2018F)	8.0%

Source: Ministry of Finance, Reserve Bank of India, CSO, CEIC, Credit Suisse

Figure 13

State of personal finances over the next six months

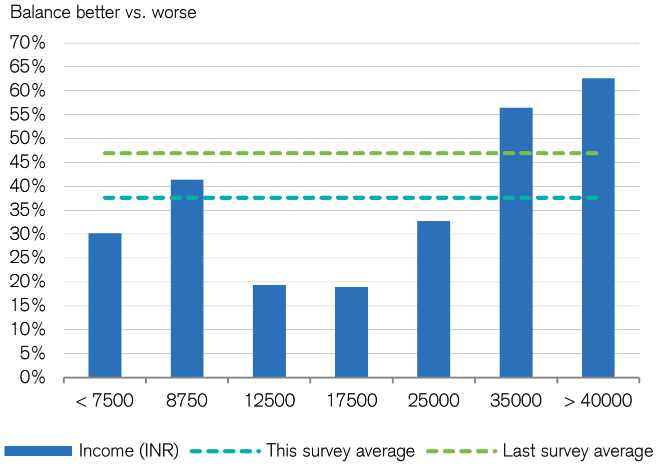


Figure 14

Consumer confidence indicators

Figure 15

Nominal growth in household income

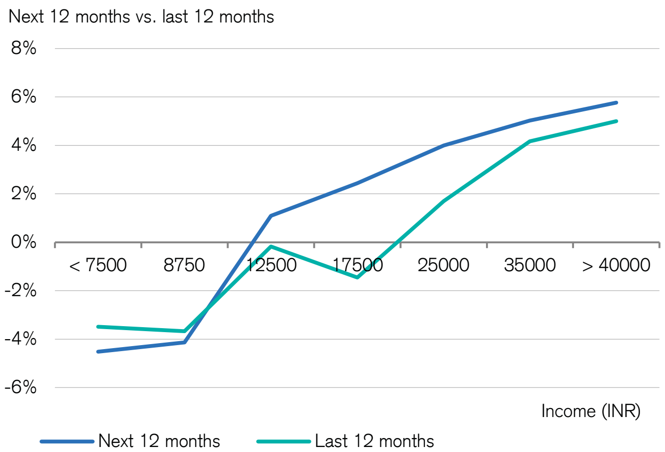


Figure 16

Spending momentum and market penetration

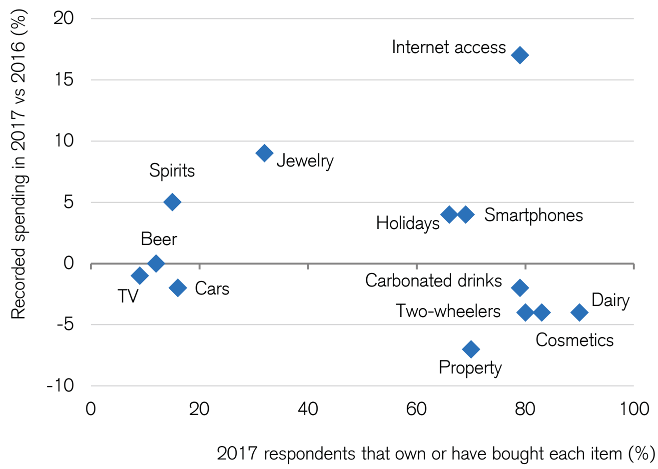
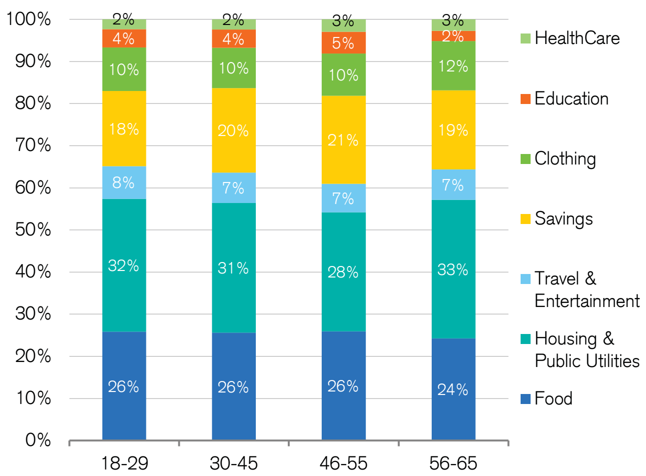


Figure 17

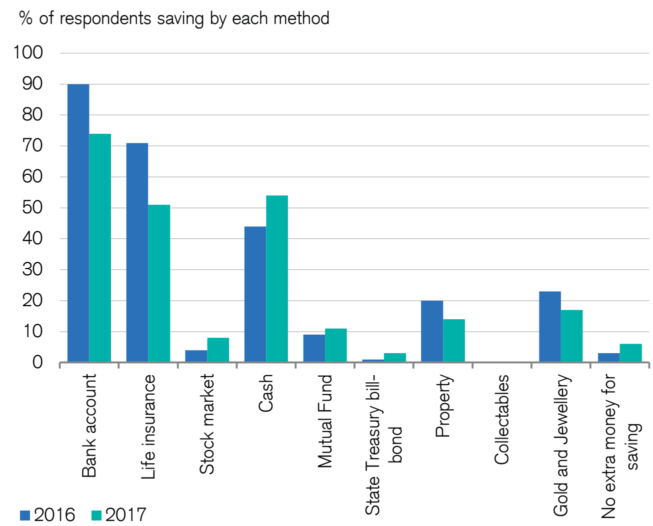
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 18

Savings by distribution channel (%)



Indonesia

A softer tone to confidence

Ella Nusantoro

Confidence levels in Indonesia remain robust in our survey, although there has been a softening relative to recent surveys, which has seen Indonesia slip from second place in our overall consumer confidence scorecard to third, switching ranks with China.

Expectations for an improvement in personal finances have decreased by six percentage points to a net 24% expecting an improvement over the next six months versus the strong 30% in our last survey. Despite improvements in other countries, the proportion of respondents indicating that now is not a good time to make a major purchase is unchanged since a year ago. Inflationary expectations have shown a modest improvement, with a net 40% expecting the price of goods and services to be higher over the next 12 months compared to 43% previously.

Recorded income momentum has been a consistent source of strength for the consumer in Indonesia over the years, but has moderated somewhat in this survey, with a net 21% of respondents seeing their incomes rise over last 12 months compared to 27% in our last survey. This is likely due to the fact that the government has applied a formula to the minimum wage increase since 2016 based on the rate of nominal GDP growth, plus the inflation rate, which are both currently at low levels in Indonesia. Historically, to obtain higher minimum wages, consumers have tended to engage in protests. Since the government has implemented this formula, however, the increase in minimum wage levels has been relatively small.

Despite this somewhat weaker momentum in income in 2017, Indonesia still compares well with the other EM countries, ranking second on our scorecard. Moreover, the outlook for future income remains robust, with a net 50% expecting incomes to rise over the next 12 months, although with a skew toward the high-income consumer. We still note that the readings here are lower than a year ago, possibly due to the cash flow disruption following the tax amnesty.

In terms of spending, Indonesians continue to allocate most of their income to food (30% share of income). This applies to all age groups, with food accounting for the largest share of total expenditure. This is of little surprise given Indonesia's low GDP per capita, and leaves the consumer vulnerable to swings in agricultural prices. Adding in other basic requirements such as housing, little income is left for the genuinely discretionary areas of spending.

Against these constraints, spending on smartphones continues to be the strongest area of focus, supported by the growing penetration in internet access. In the other discretionary categories, cars have shown some momentum, albeit from a low penetration rate. In contrast, almost nine out of ten people either own or have bought "two-wheelers." The momentum in expenditure on holidays is also particularly weak and in keeping with the comments above.

The macro backdrop in Indonesia nevertheless remains positive. Following a slow start to the year, Indonesia's economy grew at 5.07% year-on-year in 2017, the highest rate since 2014, with the last quarter of the year recording 5.19% growth year-on-year – the highest throughout the year. This was driven by growth in household consumption followed by investment and exports. With average coal and crude palm oil (CPO) prices rising during the year, we are starting to observe the positive impact on consumption.

Moreover, the IDR/USD exchange rate was relatively stable in 2017, closing the year at IDR 13,565 with the average at IDR 13,381. In summary, with regional elections in 2018 and the general election in 2019, and coming out of a slow 2017, we remain positive about the outlook for the Indonesian consumer as we expect the market to stabilize with the government's policy to encourage spending underway. This has involved cash subsidies to low-income earners and no further increases in electricity and fuel prices.

Photo: Shutterstock, Andreas H

Key macro indicators

GDP (2017E)	USD 1,002.9 bn
GDP per Capita (2017E)	USD 3,876
Population (2017E)	USD 258.8 m
CPI Inflation (2017E)	3.7%
CPI Inflation (2018F)	4.2%
Real GDP Growth (2017E)	5.1%
Real GDP Growth (2018F)	5.3%
Real private consumption growth (2017E)	5.0%
Real private consumption growth (2018F)	5.2%

Source: Bank Indonesia, Ministry of Finance, Central Bureau Statistics, CEIC, World Bank, Credit Suisse

Figure 19

State of personal finances over the next six months

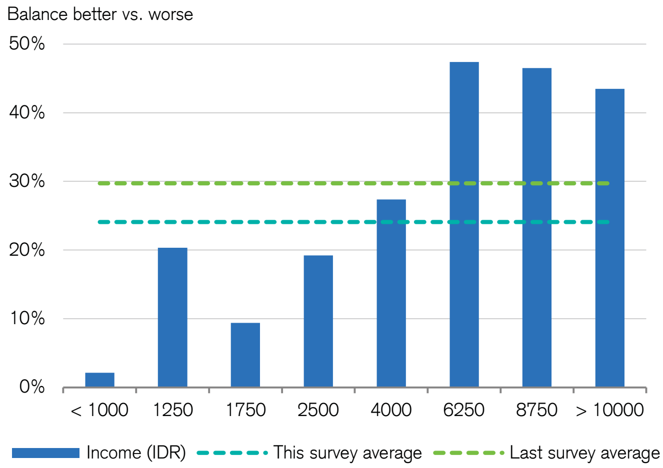


Figure 20

Consumer confidence indicators

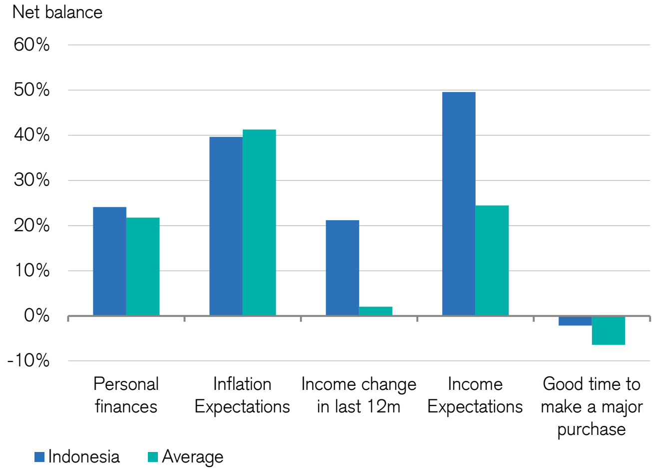


Figure 21

Nominal growth in household income

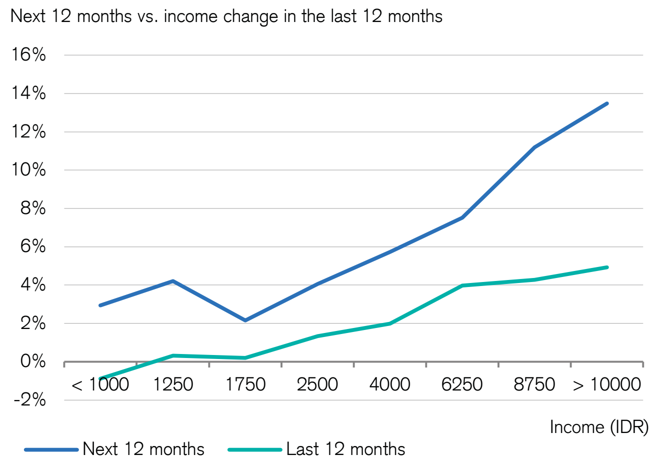


Figure 22

Spending momentum and market penetration

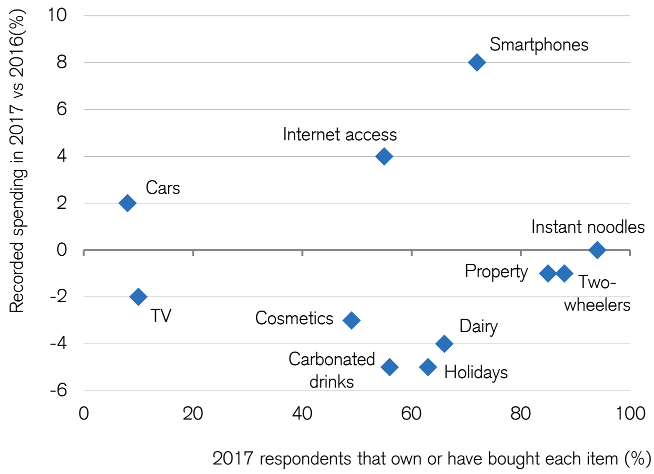
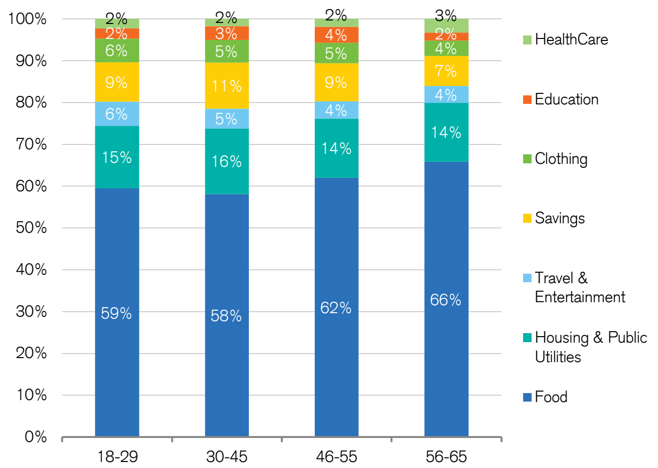


Figure 23

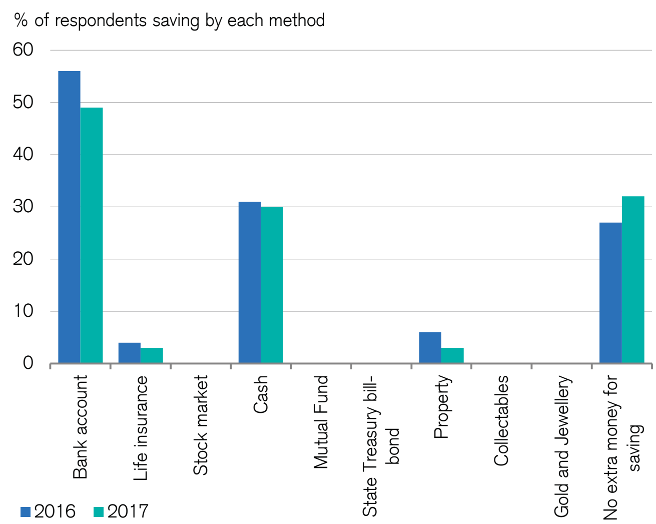
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 24

Savings by distribution channel (%)



Mexico

Recovering but risks remain

Antonio Gonzalez Anaya

Mexico is sixth on our consumer scorecard, unchanged from last year. The net number of respondents expecting an improvement in the state of their personal finances in the next six months has improved to 26% – the highest throughout the history of the survey and a recovery from an all-time low of 13% last year. The net percentage of respondents who think now is a good time to make a major purchase is –10%, which is in line with last year, but still remains weaker than the survey average of –6%.

Future income expectations in Mexico have improved to a net 15% expecting an increase in household income in the next 12 months compared to 8% previously. However, when compared to our EM countries, Mexico only ranks in sixth place on this metric, ahead of Turkey and Russia. Across income brackets, higher-income brackets are more confident about the state of their personal finances for the next six months (the net percentage of respondents expecting an improvement stands at 54% versus the country average of 26%), while lower-income brackets are less confident than the average (only 16% of net respondents expect an improvement over the next six months).

The net percentage of respondents expecting inflation to rise over the next 12 months is now 49%, slightly lower from 53% last year. We would note that, last year, inflation in Mexico reached a 17-year high of 6.77%. Despite the readings being slightly softer now, inflation expectations are the second-highest when compared to our surveyed countries.

Our survey exhibits strong spending momentum in smartphones and cosmetics, and to a lesser extent in beer, internet access, fashion apparel, and dairy products. Some categories such as TVs and holidays are on the weak side. Meanwhile, across retail distribution channels, we have seen the preference for neighborhood stores increasing to 29% of respondents, up from 25% in 2016 and 19% in 2015. Similarly, convenience stores have seen two consecutive years of increasing preference, from 3% in 2015, to 7% now. At the same time, supermarkets and hypermarkets have seen their combined preference decline from 69% in 2015 to 63% in 2016, and then declining further to 57% in our recent survey. We think this shift in preferences toward local stores is likely to continue.

In our view, Mexico remains one of the most promising emerging markets for e-commerce growth. Seventy percent of respondents report having mobile/smartphone internet access compared to only 21% in our survey in 2013. Low fixed broadband penetration had historically been a barrier for e-commerce development in Mexico. We see this barrier (and others) declining. Last year the top five players in the market delivered an average 68% growth, with the top two, Amazon and Mercado Libre, growing at an even faster pace (at or close to triple-digits. The percentage of respondents without internet access continues to decline overall at now only at 22%, down from 26% last year, and 30%, 44%, and 60% in the three preceding years, respectively.

Respondents that report having used Amazon in the last year increased to 35%. This number is interesting for a number of reasons. It has accelerated significantly versus the 21% reported a year earlier and, in addition, Amazon usage is now surpassing both Walmart (22%), as well as Liverpool (24%), both of which are lower versus the prior year. The popularity of Amazon compared to Walmart and Liverpool is evident across all age brackets, both with those aged 18–29 (with usage 10–20 pp ahead of Walmart and Liverpool), but also ahead in the older 46–55 age bracket (with a 7–13 pp differential).

Looking ahead, there are risks for the consumer to consider. There is uncertainty regarding NAFTA negotiations between Mexico, the USA, and Canada (the USA is responsible for 34% of total foreign direct investment into Mexico, post-NAFTA median, and around 82% of total Mexican exports go to the USA, accounting for around 27% of GDP). In addition, there are uncertainties regarding the presidential election (which is a one-round process only, taking place on 1 July 2018).

Photo: Shutterstock, Kamira

Key macro indicators

GDP (2017E)	USD 1,148 bn
GDP per Capita (2017E)	USD 9,293
Population (2017E)	USD 123.6 m
CPI Inflation (2017E)	6.5%
CPI Inflation (2018F)	4.2%
Real GDP Growth (2017E)	1.9%
Real GDP Growth (2018F)	2.3%
Real private consumption growth (2017E)	2.8%
Real private consumption growth (2018F)	2.4%

Source: INEGI (Government's statistics agency), Banco de Mexico, Ministry of Finance, Credit Suisse

Figure 25

State of personal finances over the next six months

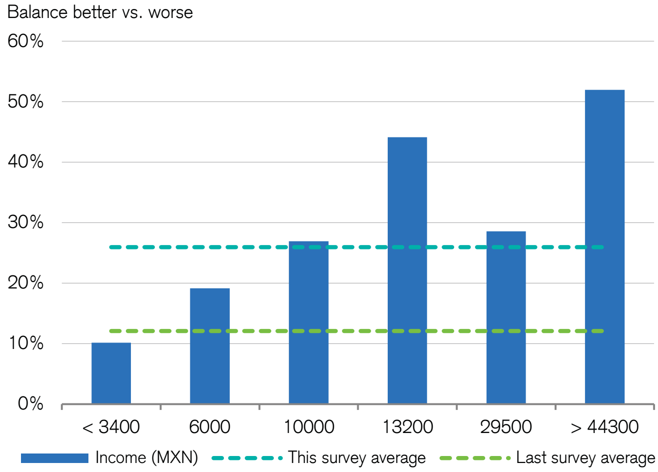


Figure 26

Consumer confidence indicators

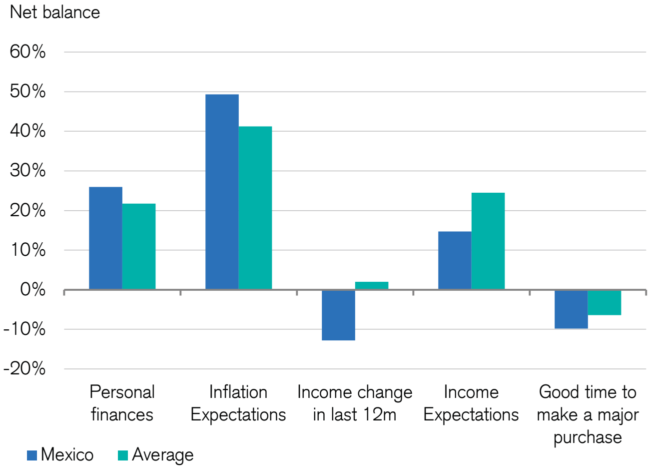


Figure 27

Nominal growth in household income

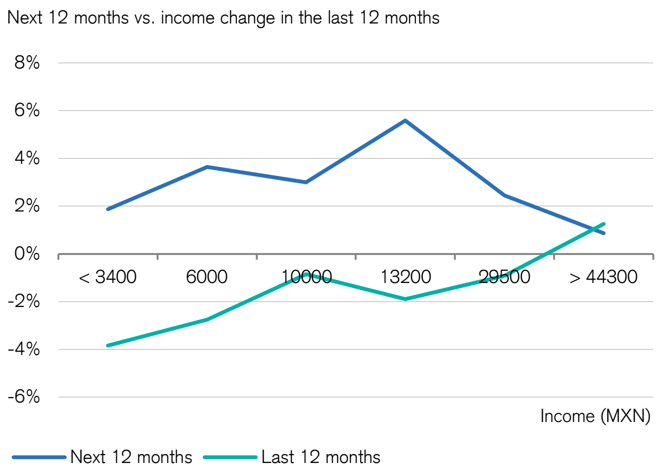


Figure 28

Spending momentum and market penetration

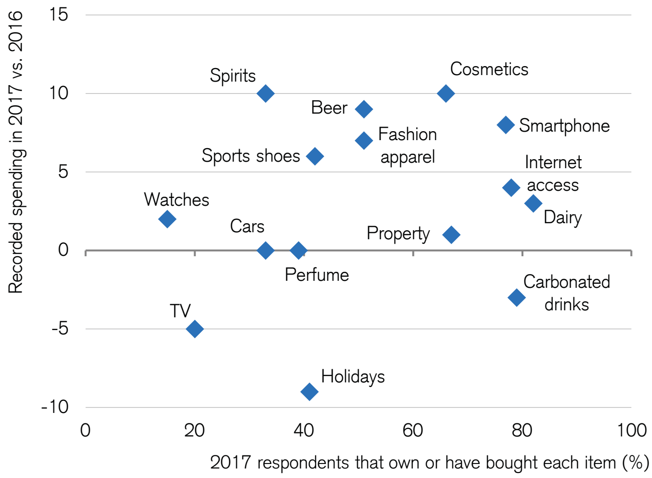
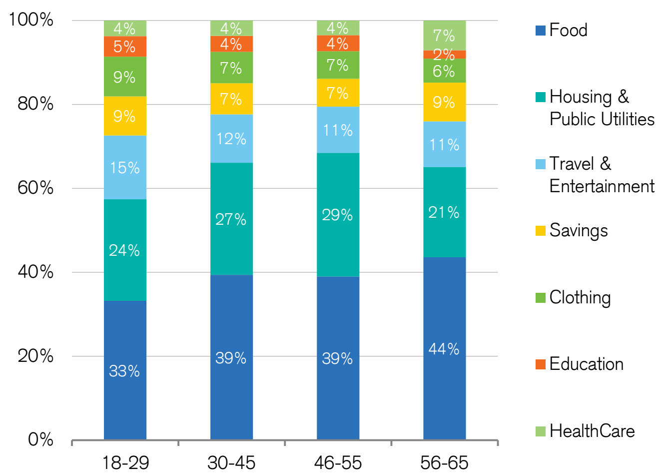


Figure 29

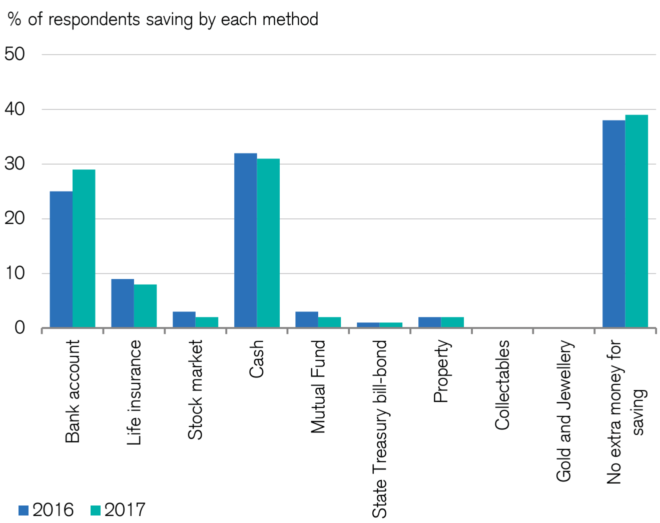
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 30

Savings by distribution channel (%)



Russia
Signs of active spending

Victoria Petrova, Olga Bystrova

The subtle signs of recovery first observed in 2016 strengthened somewhat into 2017. However, optimism relative to other EM consumers in the survey is still limited, resulting in Russia ranking seventh place on our consumer confidence scorecard. Currently, Russia is ranked the weakest in terms of personal finances and household income optimism among the countries in our survey as low-income earners expect further income deterioration while most of the positive dynamics stem from the upper middle class, which is too small to have an impact.

The net percentage of respondents expecting an improvement in their personal finances was positive at 4% compared to almost flat in 2016. Consumers' attitudes toward making large purchases improved with a net –6% of respondents considering now to be a good time to purchase versus –15% in 2016. Consumer relief expectations were supported by a continued strengthening of the ruble, increasing oil prices, real GDP growth, a dramatic slowdown in inflation and a decline in interest rates.

The outlook for household income growth finally returned to positive territory at 4% versus –3% in our last survey, but only shows a slight improvement. The net percentage of respondents expecting an increase in the price of goods and services in the next 12 months increased by 5% on the back of historically low 2017 inflation, which was below the Central Bank of Russia's target of 4%.

Our survey shows positive momentum for staple categories (carbonated drinks, dairy, and spirits), while demand for more discretionary items (TVs, smartphones, and holidays) is growing steadily. High-income earners in urban areas have boosted spending in the latter categories. Travel & entertainment expenditure remains more popular among the young, with 18–29 year olds allocating 16% of their total expenditure here compared to 7% of 56–65 year olds. These broadly positive spending dynamics may be driven by the substantial 9% decrease in savings as a share of income in monthly spending. Overall, we view this as a first indication that consumers are beginning to change their consumption patterns from savings to consumption. This shift toward active spending provides a favorable backdrop for consumer demand in the event of further macro improvements.

Spending momentum on smartphones saw the largest increase among discretionary items, increasing by 10% compared to 2016. Smartphones supporting near field communication technology managed to quickly gain popularity among Russian consumers. Strong sales in Russia could be attributed to the launch of Samsung and Apple Pay in Q4 2016 followed by the introduction of Android Pay in Q2 2017.

From a top-down perspective, we believe 2018 could see a recovery in real incomes on the back of ongoing real GDP growth and low inflation. Although signs of macroeconomic stabilization are in place, consumer spending catch-up is likely to lag behind relative to its longer-term profile. This might be explained by the negative income expectations of low-income earners who account for a large part of consumer demand. In addition, improvements to the macroeconomic environment tend to first affect larger cities and only later rural areas (where most of the country's population lives). We do not expect a rebound in food expenditure before H2 2018, potentially supported by increases in public and minimum wages and pensions, while sales of durable goods are more dependent on currency and oil prices.

Photo: Shutterstock, Christophe Faugere

Key macro indicators

GDP (2017E)	USD 1,537 bn
GDP per Capita (2017E)	USD 10,493
Population (2017E)	USD 146.5 m
CPI Inflation (2017E)	2.6%
CPI Inflation (2018F)	4.0%
Real GDP Growth (2017E)	1.8%
Real GDP Growth (2018F)	2.1%
Real private consumption growth (2017E)	3.4%
Real private consumption growth (2018F)	3.7%

Source: Rosstat, Central Bank of Russia, Finance Ministry of the Russian Federation, Credit Suisse

Figure 31

State of personal finances over the next six months

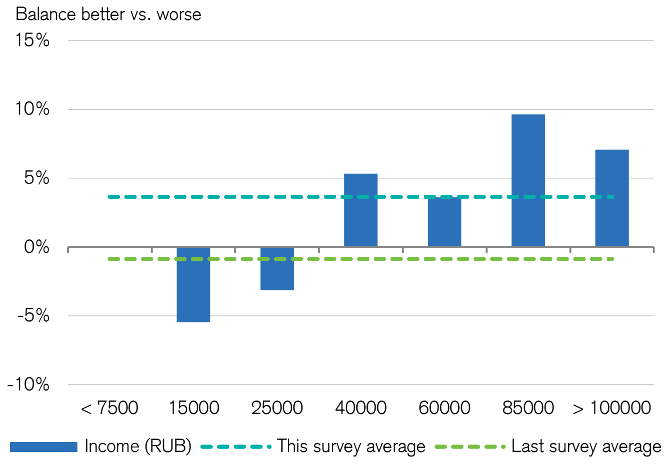


Figure 32

Consumer confidence indicators

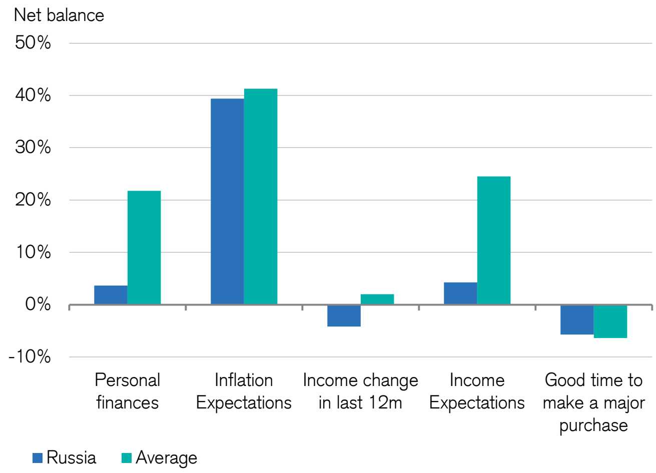


Figure 33

Nominal growth in household income

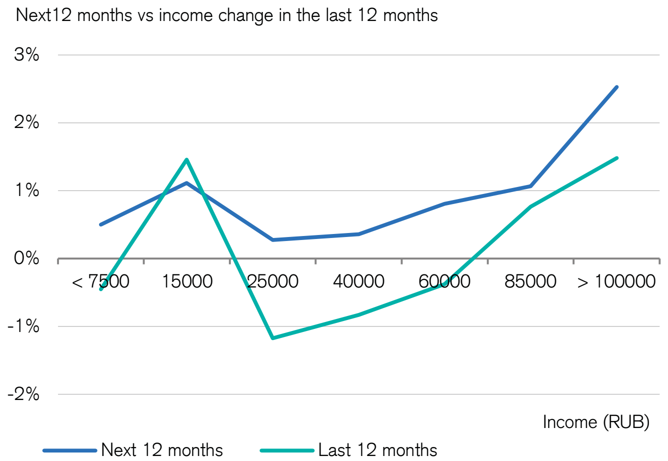


Figure 34

Spending momentum and market penetration

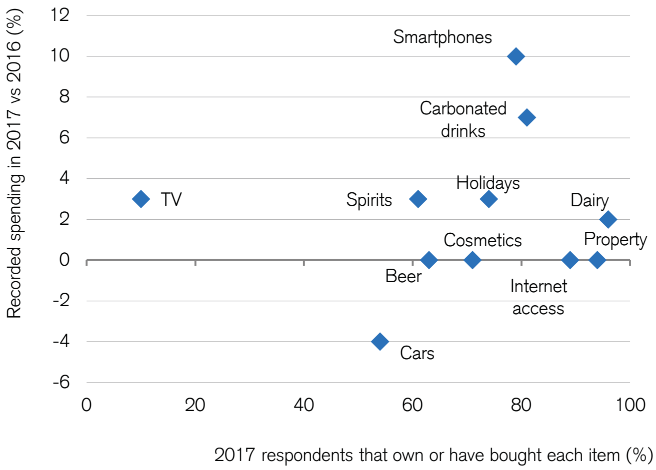
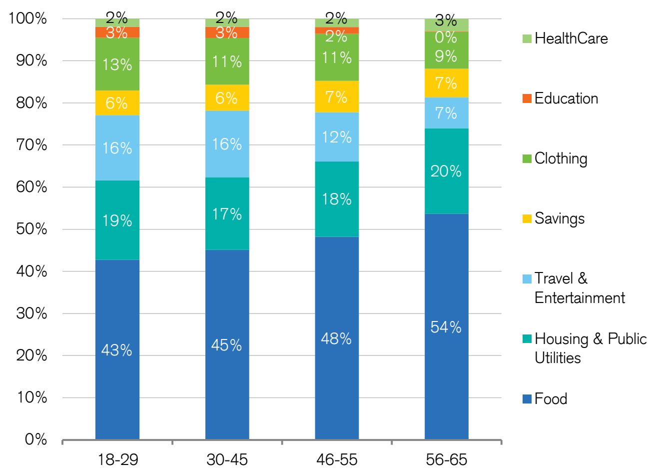


Figure 35

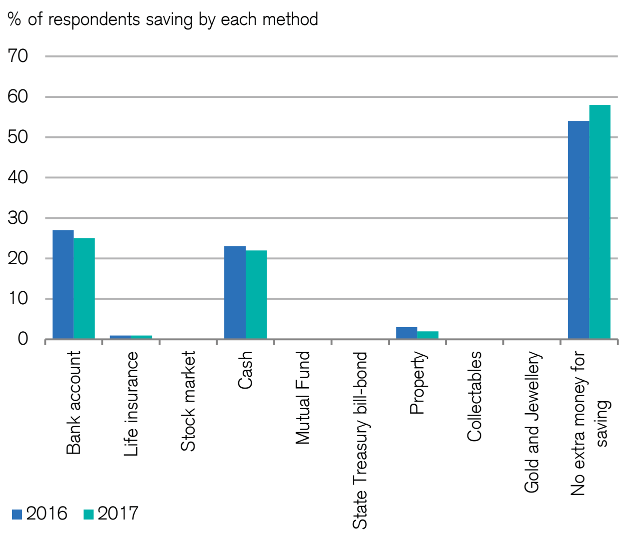
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 36

Savings by distribution channel (%)



South Africa
Bottom of the scorecard

Credit Suisse

South Africa ranks last on our consumer confidence scorecard, compared to fifth in our prior survey. The survey was conducted during a period of heightened domestic political risk and uncertainty, which are no doubt factors at work influencing the weaker readings. Overall, compared to the results of the 2016 survey, the 2017 survey reveals that consumers are less confident about personal finances, income growth and major purchases.

Inflation expectations still remain poor for South Africa, which ranks last on this metric, although showing a slight improvement relative to last year's survey. Personal finances have also seen a deterioration, falling from a net 14% in 2016 expecting an increase to a net 9% in 2017. A net –13% of respondents believe that now is a good time to make a major purchase, in line with last year's number. Finally, income expectations have declined, with a net 20% expecting income to rise over the next 12 months compared to 27% in our last survey.

Spending on spirits has shown the greatest momentum, with penetration rising from 20% in 2016 to 28% in 2017. Discretionary areas of spending, including smartphones and internet access, remain robust. Food and housing & public utilities account for the largest areas of expenditure across all age groups, accounting for 30% and 32% of total expenditure, respectively.

In our view, the prospects for household spending in 2018 are better than is reflected in the survey. In 2017, consumer and business confidence remained low as political and policy uncertainty remained high. GDP growth was weak and jobs were cut. The rand was volatile, trading as strong as 12.43 in March to the dollar and as weak as 14.50 in November. Consequently, inflation was unstable. In addition, personal tax rates increased in FY 2017/18.

We think that the orderly transfer of power within the ruling African National Congress (ANC) party in December 2017 will produce new policy initiatives that will boost domestic consumer and business confidence, and attract renewed international investment, both equity portfolio inflows and foreign direct investment. The new ANC leadership is likely to undertake key positive interventions in the areas of the executive and governance, the rule and administration of law, state-owned enterprises, fiscal administration and policy, the mining charter, energy policy, and labor -market reforms.

We believe the sovereign will avoid another credit downgrade, the rand will hold onto its gains, inflation will be lower than in 2017, and the Reserve Bank will cut interest rates by 50 basis points in H1 2018. For the first time in many years, we think that the risks to GDP and employment growth are on the upside. We forecast real GDP to grow by 1.8% in 2018 and 1.9% in 2019, household consumption expenditure to grow by 2.1% and 2.0%, respectively, and the unemployment rate to decline to 26% by the end of 2019 from a recent peak of 27.7%.

Photo: Shutterstock, Quality Master

Key macro indicators

GDP (2017E)	USD 342.6 bn
GDP per Capita (2017E)	USD 6,061
Population (2017E)	USD 56.5 m
CPI Inflation (2017E)	5.0%
CPI Inflation (2018F)	5.3%
Real GDP Growth (2017E)	0.7%
Real GDP Growth (2018F)	1.4%
Real private consumption growth (2017E)	1.0%
Real private consumption growth (2018F)	1.9%

Source: South African Reserve Bank, Statistics South Africa, National Treasury, Credit Suisse

Figure 37

State of personal finances over the next six months

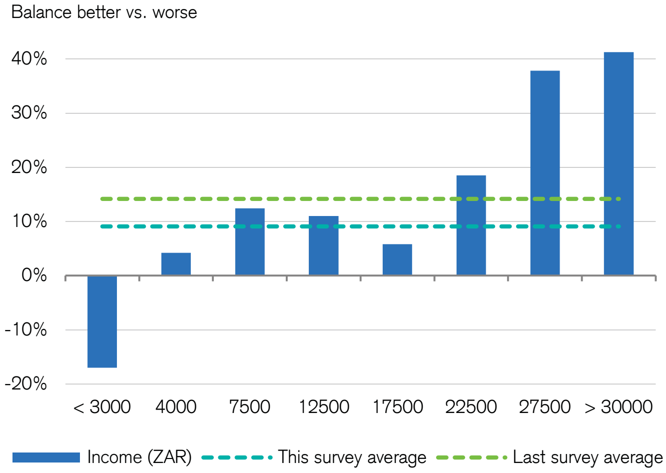


Figure 38

Consumer confidence indicators

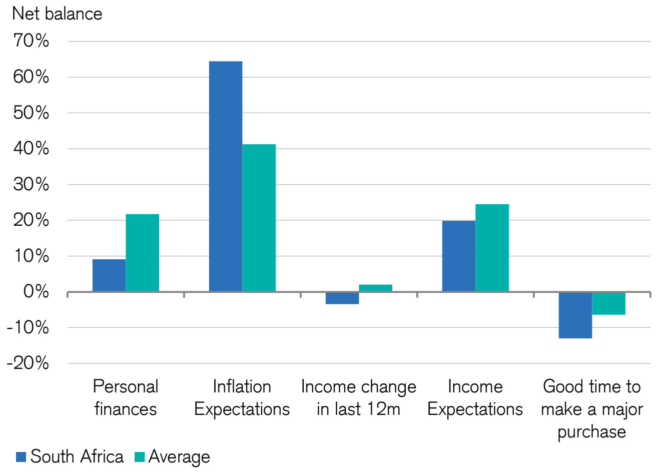


Figure 39

Nominal growth in household income

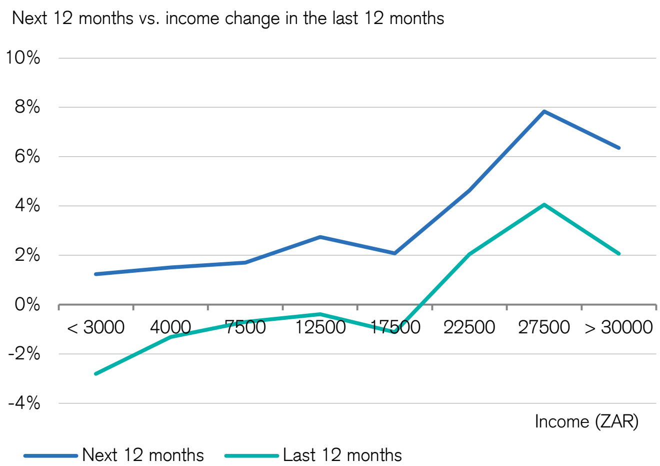


Figure 40

Spending momentum and market penetration

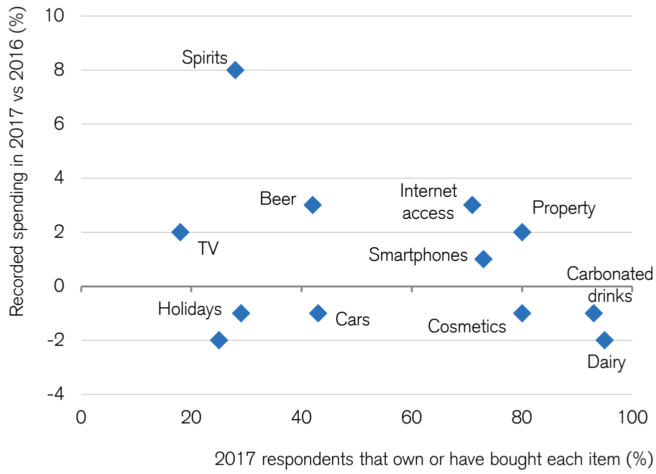
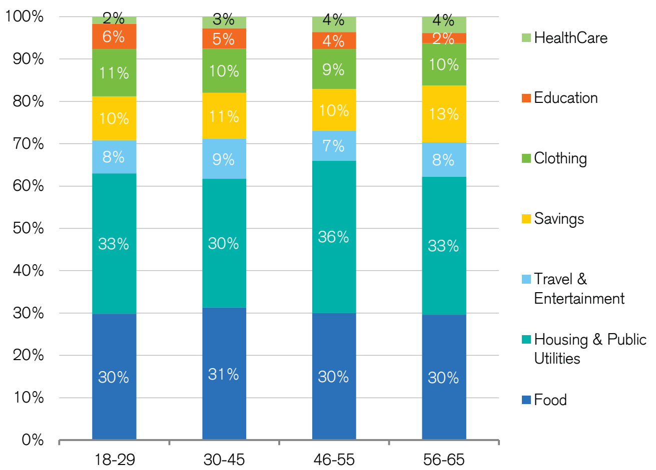


Figure 41

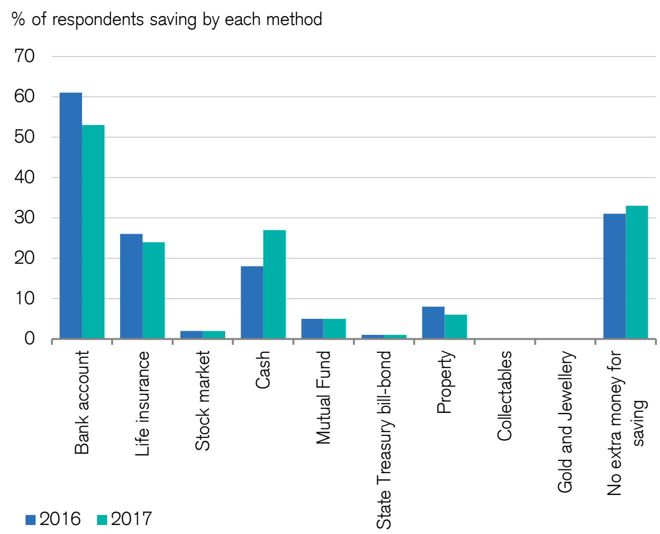
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 42

Savings by distribution channel (%)



Turkey

Steady progress

Onur Muminoglu, Ates Buldur

Turkey moved one-step higher into fifth place on our overall country scorecard of consumer confidence this year. Turkish survey respondents typically adopt a cautious stance in expectations for future income and purchasing behavior. This year's results demonstrated a similar conservative approach as Turkey ranked seventh out of eight countries in three out of five of our scorecard metrics. These were expectations for personal finances, household income and confidence to make major purchasing decisions. Nevertheless, we note a year-on-year improvement in almost all key indicators compared to the previous year (except for major purchases remaining almost flat year-on-year).

2017 turned out to be a volatile year for the Turkish consumer. Following a good start, the confidence indicators turned negative around September along with the steep depreciation of the Turkish lira (TRY) against hard currencies (EUR, USD). The weaker TRY was, in our view, due to (1) higher inflation and an increase in the current account deficit following strong economic growth in H1 2017 and (2) rising political tension with major foreign policy counterparts (the USA and Germany in particular). With some moderate improvement in these negatives toward year-end 2017, the consumer confidence index recorded a notable recovery in the early days of 2018. This moderate recovery is also echoed in our survey responses, with a net 5% expecting an improvement in their personal finances compared to a net –3% previously.

The lower-income group remains more pessimistic about their income expectations. However, expectations for future income growth are higher than those perceived in the previous 12 months. This lowest-income segment is the exception, having seen a significant increase in wages since January 2016 when the statutory minimum wage was increased by 30% (this also formed a benchmark for the lowest-income labor force).

Across both staple and discretionary areas of spending, we see weaker spending momentum in 2017 with the exception of cars and property. We think this partly reflects the higher prices for import-driven discretionary items (especially cars) given the weak TRY, thus increasing the total amount spent on such items. The cultural demographics keep the penetration of alcoholic drinks at low levels.

A significant slowdown in holiday spending year-on-year is not surprising as summer 2016 featured two major religious holidays (Eid) occurring on weekdays resulting in people taking full weeks off as opposed to the same holidays occurring on weekends in 2017. Aside from this, the organic momentum in the tourism industry was much better than 2016 and the pre-bookings of foreign tourists for summer 2018 indicate further progress this summer. Housing & public utilities and food expenditure account for the largest categories of spending across all age groups.

The savings rate is relatively low in Turkey (around 15%, calculated with the old GDP series for consistency), being a natural outcome of the country's demographics with half of the population below the age of 30. In addition, over 50% of our respondents indicate that they have no extra money for savings, which may be a result of low income levels that are barely growing. Although deposits are by far the primary source of savings in the country, low savings lead to a funding shortage for the banks and thus lower their lending appetite, particularly in the retail loan segment following a surge in loan-to-deposit ratios (from 80% to 122%) since 2008.

Photo: Shutterstock, Kanuman

Key macro indicators

GDP (2017E)	USD 845.9 bn
GDP per Capita (2017E)	USD 11,326
Population (2017E)	USD 74.7 m
CPI Inflation (2017E)	11.5%
CPI Inflation (2018F)	9.0%
Real GDP Growth (2017E)	7.0%
Real GDP Growth (2018F)	4.4%
Real private consumption growth (2017E)	6.0%
Real private consumption growth (2018F)	4.5%

Source: Statistics Office, Central Bank, Treasury, IMF, Credit Suisse

Figure 43

State of personal finances over the next six months

Figure 44

Consumer confidence indicators

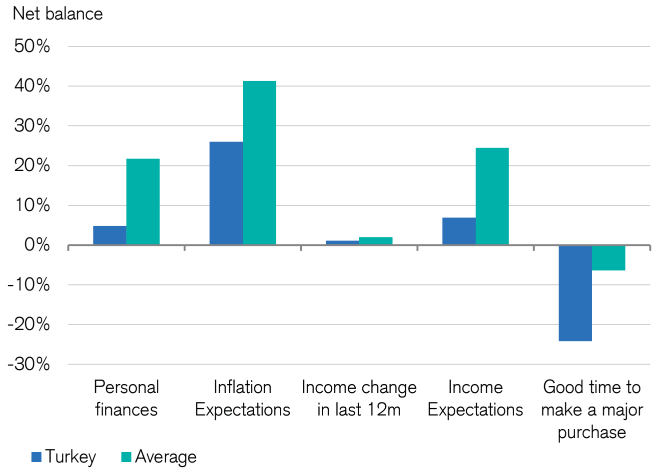


Figure 45

Nominal growth in household income

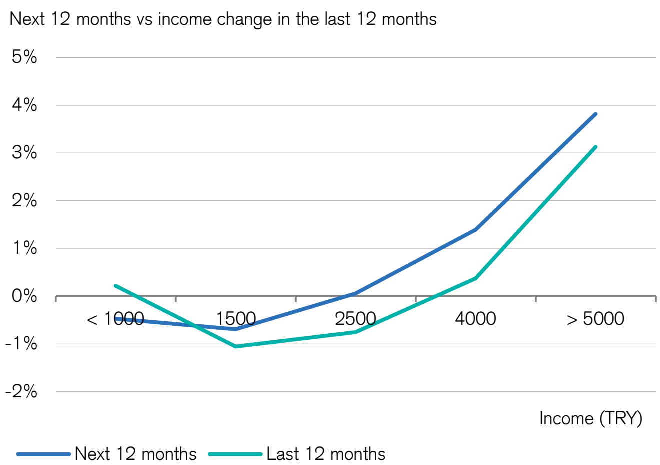


Figure 46

Spending momentum and market penetration

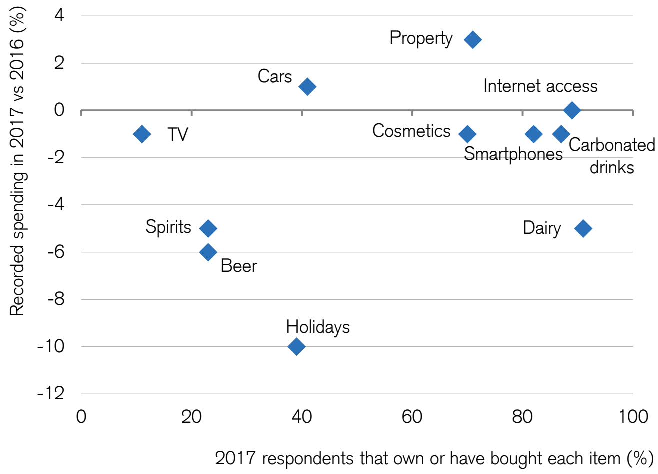
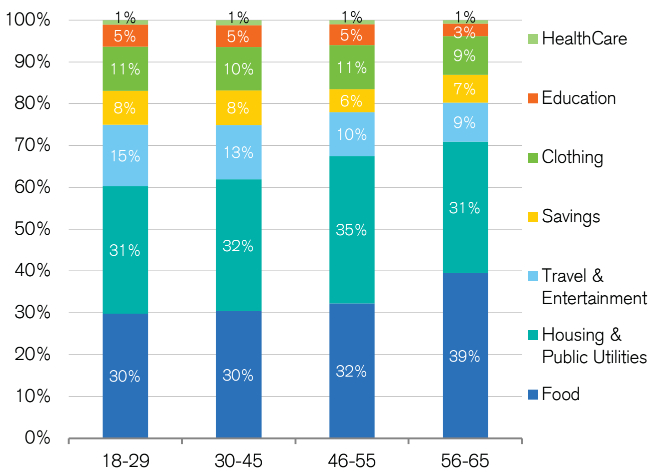


Figure 47

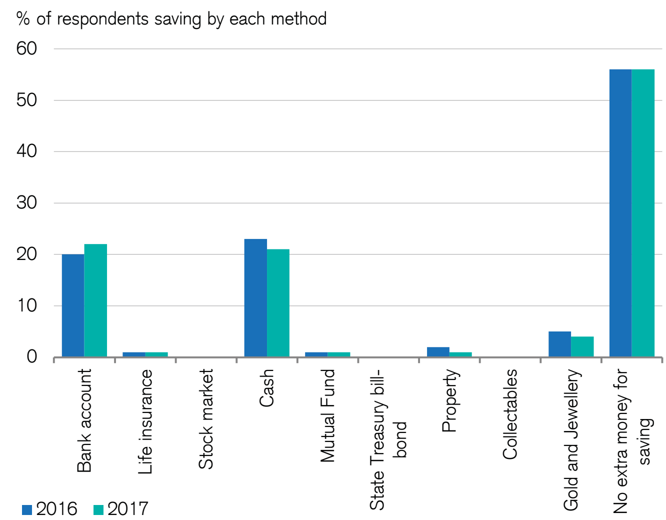
Monthly spending by category



Source for Figures 1–6: EM Consumer Survey 2018, Credit Suisse research

Figure 48

Savings by distribution channel (%)



Appendices

In the appendices that follow, we summarize spending intentions for consumers across age and area among discretionary categories of spending. We color code the tables to illustrate the areas of relative strength. In addition to the absolute spending intentions, we also review the momentum in these readings from a year ago. It is the young, urban and wealthy demographic that is driving consumer growth and preferences in emerging markets. The full categories and additional data are not included in this appendix, but are available upon request.

Appendix 1

Purchase intentions for young versus old

Table 1 summarizes spending intentions for young and old consumers. The absolute readings indicate that spending intentions are generally strongest in the younger age brackets. In our view, this is heavily influenced by the fact that income strength is skewed to young consumers. Fashion, sports shoes and holidays are the categories that show the strongest spending intentions across both age brackets and across most of our survey countries.

On the other hand, spirits and education stand on the weaker side of the readings, particularly in India among both young and older consumers. In China, beer and spirits recorded weaker readings among the 18-29 year olds when compared to the other spending categories.

Table 1

Percentage of consumers that expect to buy or increase spending on certain categories in 2018 by age

The categories identified in "blue" are those that are the top 3 highest categories of future spending within that age bracket and country. The categories identified in "yellow" are those that sit in the bottom 3 categories of future spending within that age (change to area for area table) bracket and country.

		Fashion	Sports Shoes	Watches	Jewelry	Holiday	Cosmetics	Cars	Beer	Spirits	Property	Education	Smartphones
All	Brazil	61	57	17	13	53	30	18	21	13	26	29	34
18-29	Brazil	67	65	26	18	55	34	19	22	19	29	39	37
56-65	Brazil	40	38	4	6	43	24	12	22	9	16	7	37
All	China	62	59	19	16	65	42	25	26	9	25	17	51
18-29	China	68	68	29	17	74	53	30	23	8	27	28	50
56-65	China	36	39	5	8	51	26	13	21	10	17	6	41
All	India	67	27	17	28	63	61	20	12	16	20	16	28
18-29	India	69	33	20	26	64	61	22	13	18	19	18	36
56-65	India	61	19	13	25	60	52	21	5	10	16	10	15
All	Indonesia	39	20	14	16	64	33	10	na	na	19	3	60
18-29	Indonesia	45	26	20	17	68	38	11	na	na	20	4	83
56-65	Indonesia	27	8	7	9	57	21	7	na	na	9	1	31
All	Russia	77	43	4	11	76	7	7	3	4	8	6	25
18-29	Russia	80	54	6	14	77	8	10	2	4	10	7	50
56-65	Russia	67	16	1	4	49	3	3	1	4	5	0	9
All	South Africa	70	65	28	30	43	50	17	28	20	17	25	64
18-29	South Africa	76	69	31	31	45	53	16	26	19	17	30	64
56-65	South Africa	57	55	16	22	32	47	14	28	20	12	11	70
All	Turkey	87	52	18	10	38	40	12	17	17	6	3	34
18-29	Turkey	89	65	22	12	46	40	13	19	19	7	3	30
56-65	Turkey	77	27	4	3	24	27	3	10	12	2	2	45
All	Mexico	42	39	13	11	50	31	21	16	13	23	15	22
18-29	Mexico	53	50	20	16	57	34	24	18	15	28	19	21
56-65	Mexico	23	23	7	7	37	24	23	13	9	17	11	16

Source: Credit Suisse Emerging Consumer Survey 2018

Table 2 shows how these spending intentions have changed over the past year with holidays and smartphones the standout categories. Spending intentions for smartphones have become stronger in all countries for those consumers aged 56-65 years old. In addition, the momentum to spend on sports shoes is particularly strong in China among the younger age bracket. This is further supported by the fact that it is these consumers who are also indicating that they intend to increase time playing sport and also agree to reducing their intake of unhealthy products. We have discussed this in further detail in Chapter 3.

The momentum for holidays in general has been notably weaker across both age groups particularly in Turkey, Mexico, Indonesia and Brazil. However, as we show later, intentions to take international holidays has improved in all countries with the exception of Russia. In addition, it is millennials in China that are showing the greatest intention to travel when compared to the other age groups.

Table 2

Year-on-year change in spending intentions by age

The categories identified in "blue" are those that are the top 3 highest categories of future spending within that age bracket and country. The categories identified in "yellow" are those that sit in the bottom 3 categories of future spending within that age (change to area for area table) bracket and country.

		Fashion	Sports Shoes	Watches	Jewelry	Holiday	Cosmetics	Cars	Beer	Spirits	Property	Education	Smartphones
All	Brazil	1	-5	-1	0	-7	-2	-3	-4	-3	-5	-5	1
18-29	Brazil	-2	-7	-4	-6	-8	-6	-6	-5	-3	-8	-5	-12
56-65	Brazil	0	-6	-1	1	-3	3	-6	-1	-2	-5	-3	19
All	China	5	8	6	4	3	3	3	1	2	2	3	24
18-29	China	3	9	7	2	4	7	6	3	1	2	4	14
56-65	China	-5	0	0	-1	-3	-2	-1	-1	5	-1	2	25
All	India	-10	-7	-5	-6	-1	-10	9	3	7	0	-2	4
18-29	India	-11	-3	-4	-7	-3	-12	11	3	9	-3	0	9
56-65	India	-9	-10	0	-4	11	-6	10	-1	4	-4	-6	3
All	Indonesia	-9	1	3	0	-6	-2	-1	na	na	-3	1	30
18-29	Indonesia	-12	0	3	0	-8	-2	1	na	na	-5	0	41
56-65	Indonesia	-2	4	1	0	-12	0	-1	na	na	-3	1	17
All	Russia	3	4	0	1	2	-3	1	-2	-4	0	1	14
18-29	Russia	4	3	0	1	1	-4	1	-4	-3	2	2	29
56-65	Russia	1	2	0	2	0	0	2	-3	-3	0	-1	5
All	South Africa	-3	1	1	1	-1	-3	-2	1	4	-1	-2	16
18-29	South Africa	-5	-1	-6	-7	0	-4	-4	1	5	-2	-3	-10
56-65	South Africa	11	17	4	7	-3	7	4	-1	2	5	2	59
All	Turkey	-2	-5	5	3	-9	4	2	0	-1	-2	-2	24
18-29	Turkey	-2	0	7	6	-3	3	2	-1	-1	0	-3	6
56-65	Turkey	-9	-3	-5	-3	-13	2	-3	3	3	-1	0	36
All	Mexico	-2	0	2	1	-7	2	-1	-6	-3	2	3	1
18-29	Mexico	-4	-1	4	1	-6	0	-3	-8	-3	1	2	-6
56-65	Mexico	1	4	3	0	-8	2	9	-3	-3	7	4	5

Source: Credit Suisse Emerging Consumer Survey 2018

Appendix 2

Rural versus urban spending intentions

Table 1 below summarizes spending intentions by area and country. As we would expect, the strongest readings for spending intentions are observed in urban areas. Similar to our age analysis, the categories that have shown the strongest spending intentions are fashion, sports shoes and holidays.

The weaker readings for rural and urban consumers are exhibited across spirits and education. In China, India, Indonesia and Turkey, the intentions to spend more on education across both rural and urban consumers is weaker relative to the other categories.

Table 1

Percentage of consumers that expect to buy or increase spending on certain categories in 2018 by area

The categories identified in "blue" are those that are the top 3 highest categories of future spending within that age bracket and country. The categories identified in "yellow" are those that sit in the bottom 3 categories of future spending within that age (change to area for area table) bracket and country.

		Fashion	Sports Shoes	Watches	Jewellery	Holiday	Cosmetics	Cars	Beer	Spirits	Property	Education	Smartphone
All	Brazil	61	57	17	13	53	30	18	21	13	26	29	34
Rural	Brazil	62	54	13	11	51	29	19	16	8	27	31	28
Urban	Brazil	61	58	19	14	54	30	18	23	15	26	28	37
All	China	62	59	19	16	65	42	25	26	9	25	17	51
Rural	China	55	42	16	17	55	39	21	25	13	29	15	55
Urban	China	63	62	19	15	68	43	25	26	8	24	17	50
All	India	67	27	17	28	63	61	20	12	16	20	16	28
Rural	India	70	23	17	26	57	58	20	7	15	16	13	19
Urban	India	66	28	17	29	65	62	20	13	16	21	17	31
All	Indonesia	39	20	14	16	64	33	10	na	na	19	3	60
Rural	Indonesia	26	10	9	11	51	28	8	na	na	10	3	59
Urban	Indonesia	47	26	17	19	71	35	10	na	na	24	3	61
All	Russia	77	43	4	11	76	7	7	3	4	8	6	25
Rural	Russia	67	28	3	8	67	5	6	1	2	7	4	26
Urban	Russia	82	50	5	12	81	8	8	4	5	9	7	25
All	South Africa	70	65	28	30	43	50	17	28	20	17	25	64
Rural	South Africa	59	62	22	25	36	43	15	32	23	13	19	69
Urban	South Africa	75	66	31	32	46	54	18	26	19	19	28	62
All	Turkey	87	52	18	10	38	40	12	17	17	6	3	34
Rural	Turkey	79	43	15	7	38	26	12	17	16	4	2	28
Urban	Turkey	90	56	19	10	38	45	12	17	18	7	4	40
All	Mexico	42	39	13	11	50	31	21	16	13	23	15	22
Rural	Mexico	36	34	13	10	45	25	22	17	13	25	13	21
Urban	Mexico	44	41	13	11	52	34	21	16	14	22	16	23

Source: Credit Suisse Emerging Consumer Survey 2018

The popularity for smartphones particularly in rural areas has become stronger. This is perhaps a reflection of improving network infrastructure within our EM countries which has enabled companies to tap into rural areas of consumption. The momentum for spending on cosmetics has been notably weaker across all our survey countries with the exception of Mexico.

Table 2

Year-on-year change in spending intentions by area

The categories identified in "blue" are those that are the top 3 highest categories of future spending within that age bracket and country. The categories identified in "yellow" are those that sit in the bottom 3 categories of future spending within that age (change to area for area table) bracket and country.

	Momentum	Fashion	Sports Shoes	Watches	Jewellery	Holiday	Cosmetics	Cars	Beer	Spirits	Property	Education	Smartphone
All	Brazil	1	-5	-1	0	-7	-2	-3	-4	-3	-5	-5	1
Rural	Brazil	6	-8	-2	0	-7	-3	-2	-1	-4	-3	-9	-1
Urban	Brazil	-1	-4	0	0	-7	-2	-3	-5	-3	-5	-3	2
All	China	5	8	6	4	3	3	3	1	2	2	3	24
Rural	China	1	0	5	6	-1	0	0	3	3	1	0	28
Urban	China	5	8	5	2	3	5	3	0	2	3	4	22
All	India	-10	-7	-5	-6	-1	-10	9	3	7	0	-2	4
Rural	India	-9	-15	0	-10	-3	-15	8	-7	5	-7	-11	-10
Urban	India	-10	-4	-7	-3	-1	-8	10	5	7	2	1	10
All	Indonesia	-9	1	3	0	-6	-2	-1	na	na	-3	1	30
Rural	Indonesia	-22	-5	-1	-6	-12	-6	-2	na	na	-6	1	29
Urban	Indonesia	-1	4	5	3	-3	-1	-2	na	na	0	1	31
All	Russia	3	4	0	1	2	-3	1	-2	-4	0	1	14
Rural	Russia	3	-6	0	-4	-3	-5	3	-5	-4	-2	0	19
Urban	Russia	3	8	0	2	6	-2	0	-1	-3	1	2	10
All	South Africa	-3	1	1	1	-1	-3	-2	1	4	-1	-2	16
Rural	South Africa	-15	3	-3	-4	-9	-6	-2	5	9	-3	-4	23
Urban	South Africa	2	0	4	3	3	-1	-2	-1	2	1	-1	13
All	Turkey	-2	-5	5	3	-9	4	2	0	-1	-2	-2	24
Rural	Turkey	-19	-20	5	3	-5	-16	5	-4	-8	-4	0	15
Urban	Turkey	4	2	5	2	-11	12	0	2	2	-1	-2	31
All	Mexico	-2	0	2	1	-7	2	-1	-6	-3	2	3	1
Rural	Mexico	0	-1	6	5	-9	0	2	-1	0	4	4	-3
Urban	Mexico	-3	1	0	-1	-7	4	-2	-8	-3	1	2	3

Source: Credit Suisse Emerging Consumer Survey 2018

Appendix 3

The consumer by area, age and income
Our survey allows us to contrast influences on spending by various demographic considerations. Below we show for each of our countries the net balances for the barometers of (1) income expectations, (2) whether now is a good time to make a major purchase and (3) the consumers' view of their personal finances looking forward. We have contrasted the responses to those questions by area (rural/urban), age and level of income.

The readings highlighted in color are the strongest for the given question. Themes that emerge include a strong bias to optimism among urban consumers. India remains the exception where we continue to see a major improvement in rural optimism. High-income earners remain the most optimistic. The young consumer is the key source of optimism in China, but less clear in the rest of Asia.

Table 1

Income, purchase and finance expectations in the next 12 months

		China			India			Indonesia			South Africa		
		Income	Purchase	Finances	Income	Purchase	Finances	Income	Purchase	Finances	Income	Purchase	Finances
	Total	33	7	35	34	30	38	50	-2	24	20	-13	10
Area	Urban	32	9	34	31	27	38	53	-1	26	24	-13	13
	Rural	33	4	38	45	35	36	43	-5	19	8	-13	-1
Age	18-29	36	3	38	35	30	39	55	-2	25	26	-8	21
	30-45	36	9	41	37	29	37	53	-2	29	19	-14	8
	46-55	21	8	26	33	30	38	44	-4	17	14	-15	-1
	56-65	29	10	21	28	29	34	33	-2	15	11	-19	-9
Income	Low	18	7	18	33	29	37	48	-2	11	9	-22	-17
	Medium	29	9	31	12	15	25	46	-3	27	21	-10	9
	High	43	7	40	52	39	59	67	0	45	46	-2	32

		Brazil			Mexico			Turkey			Russia		
		Income	Purchase	Finances	Income	Purchase	Finances	Income	Purchase	Finances	Income	Purchase	Finances
	Total	33	-33	34	15	-10	26	8	-24	5	5	-6	3
Area	Urban	35	-32	34	12	-11	27	2	-25	3	8	-3	3
	Rural	29	-35	35	21	-5	23	18	-24	9	-4	-10	5
Age	18-29	43	-27	50	19	-6	36	9	-22	12	7	0	10
	30-45	37	-32	34	16	-8	28	7	-25	2	6	-6	6
	46-55	22	-40	20	9	-17	14	4	-25	3	1	-4	0
	56-65	12	-45	9	4	-17	2	1	-27	-7	4	-17	-9
Income	Low	34	-33	33	21	-20	18	21	-25	3	6	-22	-5
	Medium	33	-34	36	7	-18	44	-5	-14	9	6	-2	3
	High	33	-30	31	15	-10	33	12	-27	20	2	-5	9

Source: Credit Suisse Emerging Consumer Survey 2018

About the survey

This report has been produced using market research gathered by The Nielsen Company. This has given the Credit Suisse Research Institute the ability to conduct a consistent multi-region survey while also incorporating questions specific to the countries surveyed in the report.

Nielsen are a leader in data measurement and information across a wide range of industries and regions. Their expertise has complemented the analysis the Research Institute has conducted in this report. Nielsen's input has helped develop a more complete view of the competitive consumer landscape across emerging markets.

The original AC Nielsen was founded in 1923 by Arthur C. Nielsen, Sr., who invented an approach to measuring competitive sales results that established the concept of "market share" as a practical management tool. For nearly 90 years, they have advanced the practice of market research and audience measurement for the benefits of their clients in a constantly evolving marketplace.

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