

Research Institute

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CSRI Special Report:
The Chinese Consumer in 2017

Editorial

We are delighted to present a special report on current consumer trends in China – the first of its kind. This report draws from Credit Suisse Research Institute's annual "Emerging Consumer Survey" and aims to provide a unique insight into the profile of spending patterns and preferences of Chinese consumers, based on interviews conducted by market research firm Nielsen on our behalf.

With a population of 1.3 billion and total annual consumption of USD 4.4 trillion, China has been at the heart of growth in the emerging world. China's competitive position looks set to rise further as economic growth in China is forecast to remain well above that of the USA and Europe, and with total spending on research and development reaching around USD 400 billion annually. All of this should allow real retail sales in China to grow at over 10% per year with consumer spending contributing more than 50% of GDP growth. Against this background, our report highlights those areas of Chinese consumer spending that are most likely to show the greatest momentum going forward.

The survey results show that the Chinese consumer remains in the top three of our emerging consumer scorecard, closely behind India and Indonesia. The Asian economies boast the most optimistic outlook for the future with more than 40% expecting an improvement in their personal finances in the next 12 months. While some of China's consumer confidence readings have softened in the past twelve months, we would highlight the very sharp rise in house price expectations, which is highly relevant to the Chinese economy. For instance, 51% of respondents expect local property prices to increase over the next 12 months.

A striking feature from the findings of our survey suggests that a "conscious" consumer is developing in China and other emerging economies, focused on a more active, healthy lifestyle and one engaged with the sharing economy. The need for a healthy lifestyle is evident as healthcare spending looks set to increase rapidly otherwise and we estimate that China could be facing healthcare costs of USD 2.3 trillion by 2030, up from USD 611 billion in 2015 based on our estimates. The relaxation of the one-child policy might also underpin the shift toward a more conscious lifestyle, with 25% of respondents planning to have more than one child. In addition, with an estimated one billion consumers yet to go online across our surveyed countries, the role of E-commerce within China continues to display solid growth, with the online market expected to account for 25% of total retail spending by 2025.

In China, the "emerging" consumer is part of a "rebalancing" act. This is firstly a rebalancing of the mix of growth from investment to consumption, and secondly a rebalancing of the mix of spending from staple to discretionary spending as GDP per capita rises. Discretionary categories such as sports shoes, holidays and fashion display the strongest purchase intentions across the emerging countries with foreign holiday intentions in China displaying positive momentum. Spending on travel and entertainment in China is booming and reached over 10% of household income in this year's survey.

We hope you enjoy reading our first in-depth study into the emerging consumer in China.

Helman Sitohang
CEO Asia Pacific, Credit Suisse



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The Chinese consumer in 2017

In this special edition of Credit Suisse Research Institute's Emerging Consumer Survey 2017¹, we focus on the consumer in China and the results of the circa 2,500 respondents that we surveyed. The message is one of robust spending. China remains at the forefront of growth in the emerging world and remains ranked in the top three of our survey, with consumers displaying a shift toward discretionary categories of spending.

Thematically, the consumption story in China is proving to be the clearest representation of the broader megatrend of a changing mix from staple to discretionary spending and "trading up," with the role of technology and e-commerce a powerful overlay. We set out details of the e-commerce dynamic later in this report, but we also focus in on the nature of the ongoing "lifestyle" change and upgrade in spending that is at work.

We find a direct link to the "conscious consumption" theme highlighted in the full publication (i.e. healthier food consumption, increased exercise /sports activity, declining momentum in alcohol /cigarettes). An added dimension to the changing lifestyle of the Chinese consumer is the relaxation of the one-child policy. We see positive implications for key consumer end-markets such as sportswear, children's wear, home improvement, appliance manufacturers and education/healthcare. In contrast, local beer and instant noodle brands are most vulnerable as the consumer trades up.

The mood of the moment

As we look at the average readings across the survey, the picture is one of broadly improving sentiment when compared to our 2016 report, which had been struck against a backdrop of weak currencies, weak stock markets and a tougher economic environment globally, not least a growing slowdown in China. Tumbling commodity prices stemming from the latter were compounding issues for the commodity exporting countries in our survey – Brazil, South Africa and Russia.

We have seen many of these pressures abate since then and negative sentiment ease accordingly. In [Table 1](#), we show the aggregate readings for questions across the survey that assess the "mood of the consumer." The questions on personal finances and the judgement as to whether now is a good time to make a major purchase have all improved, and concerns about future inflation have moderated. Income momentum is a weak point. 2016 was a poor year with the majority of survey respondents reporting falling incomes. Hopes of a recovery do exist for 2017, although in modest terms.

Table 1

Survey sentiment indicators average readings

Indicator	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
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: Emerging Consumer Survey 2017

See "About the Survey" on page 22

Figures 1 to 5 break the variables down by country and show how they feed into our summary scorecard below. We would highlight the following: First, the Asian economies stand out best with regard to the benchmarks of personal finances and the judgement of whether now is a good time to make a major purchase; China scores second best in this regard.

Second, income momentum has been an Asian phenomenon, with Latin America a marked contrast. Looking ahead, while income expectations in the other Asian countries remain robust (this is certainly true for China) relative to other survey countries, we do see a marked drop in sentiment about future incomes in India after the rapid rise in 2016's survey. The demonetization event may be an influence here, although our Indian analysts also reflect later in the report downward pressures on agricultural incomes among low-income consumers.

Our Emerging Consumer Survey Scorecard draws these factors together in a very simple manner to provide an overall assessment of the mood of consumers in each country. For each question, we rank each country relative to the survey countries as a whole. 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.

Owing to higher inflation expectations coupled with low income expectations, China slipped to third place in our Scorecard after India and Indonesia. Overall, Chinese consumers are still willing to spend given high job security, a low unemployment rate and stable income growth. A net 6% of Chinese respondents stated that "now is a good time to make a major purchase", versus -10% for the survey average. However, China's 6% in 2016 was consistent with 2015, but was lower than its 9% and 15% in 2014 and 2013, respectively.

Figure 1: Net percentage of respondents replying "Yes" to "Is now a good time to make a major purchase?"

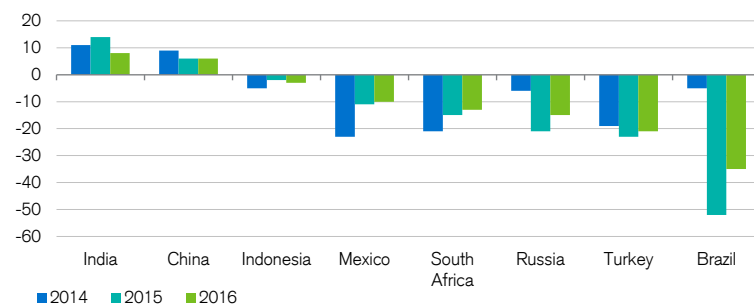


Figure 2: Net percentage of respondents expecting an improvement in their personal finances in the next six months

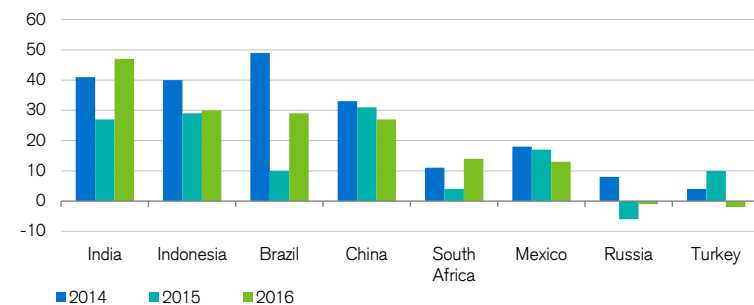


Figure 3: Net percentage of respondents expecting inflation to increase in the next 12 months

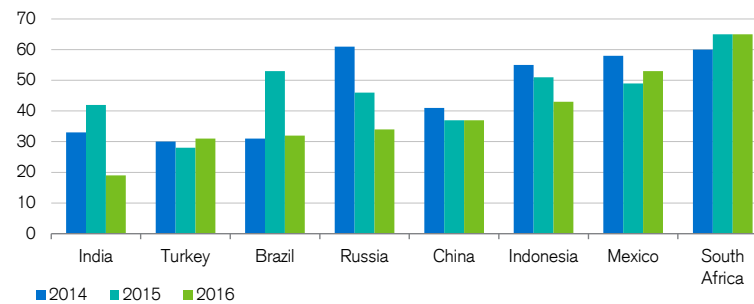


Figure 4: Net percentage of respondents who expect household income to increase over the next 12 months

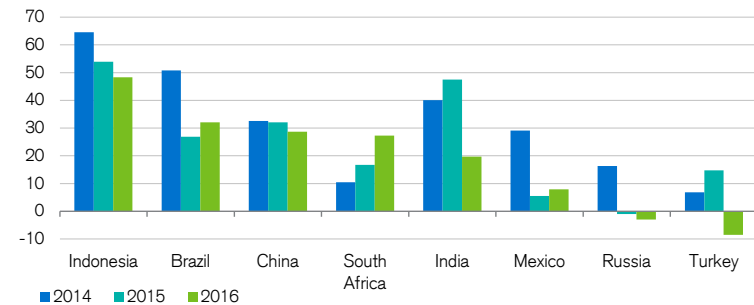
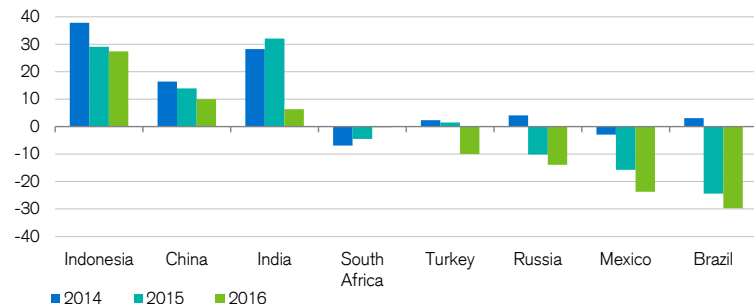


Figure 5: Net percentage of respondents who have seen household income increase over the last 12 months



Source Figures 1-5: Emerging Consumer Survey 2017

Table 2

Emerging Consumer Survey Scorecard 2017

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

Source: Emerging Consumer Survey 2017

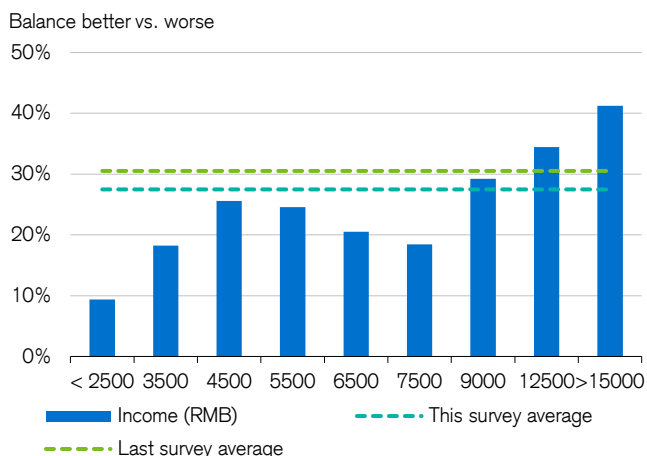
A strong personal income outlook underpins this outlook as Figure 8 reflects, with high-income consumers expecting the strongest expansion of disposable income. What is key to the pattern of spending, however, is the profile of this consumer. As we have highlighted in previous surveys, it is the younger age cohorts that occupy this higher-income group. It is this young demographic where the purchasing power lies and drives the pattern of spending. These are the consumers reflecting the greatest confidence in their personal finances.

The outlook for the property sector (including home improvement and appliances) remains robust in our view. For example, 51% of respondents expect property prices to increase in the next 12 months compared to 40% in 2015 and just 33% in 2013 (Figure 10).

Based on this metric, optimism toward the housing market is returning to the highs of 2013, which is also apparent in the fact that 23% of respondents plan to purchase a property in the next two years, i.e. 4% more than the number in 2015.

Figure 6

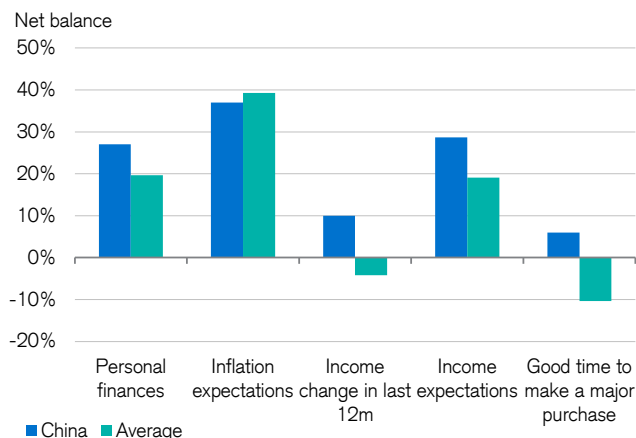
State of personal finances over the next six months



Source: Emerging Consumer Survey 2017

Figure 7

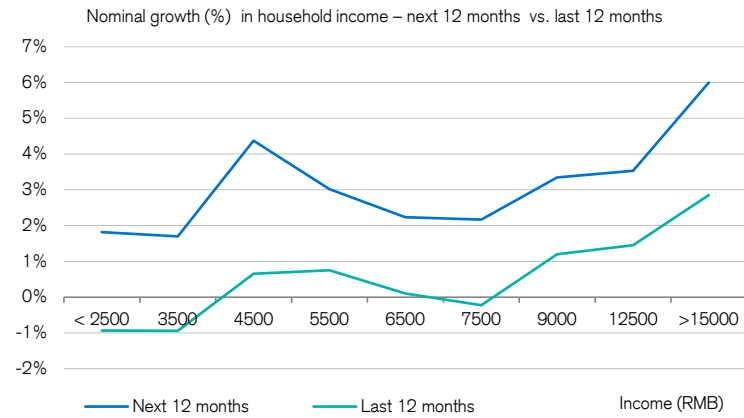
Consumer confidence indicators



Source: Emerging Consumer Survey 2017

Figure 8

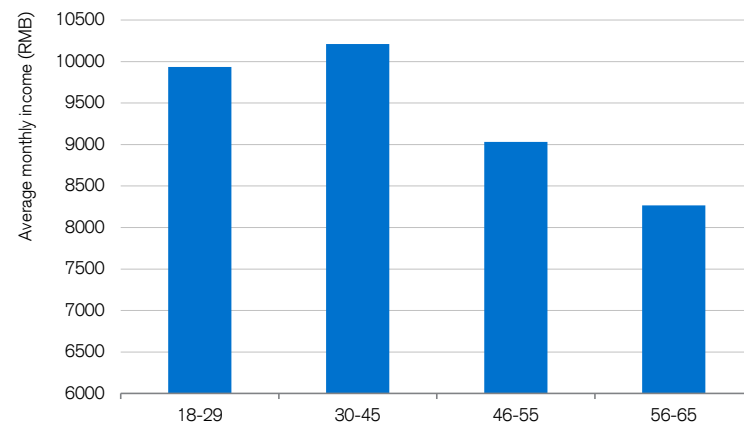
Nominal growth in household income



Source: Emerging Consumer Survey 2017

Figure 9

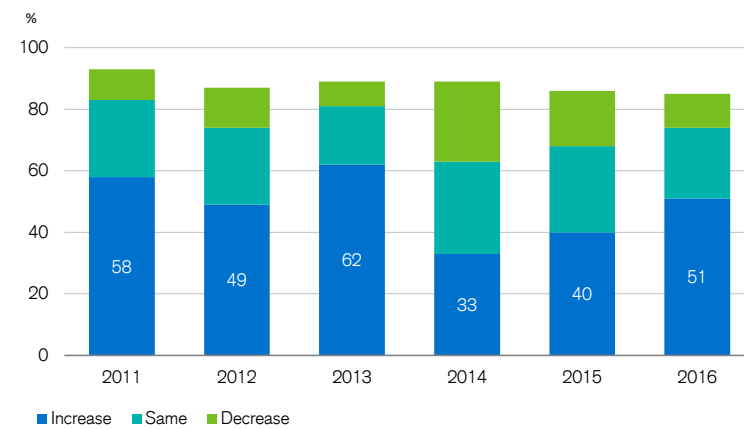
Age and corresponding income levels in China



Source: Emerging Consumer Survey 2017

Figure 10

51% respondents expect local property prices to increase in the next 12 months

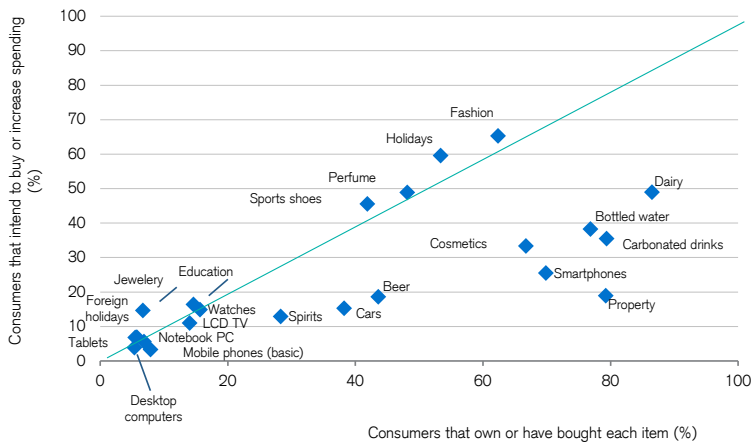


Source: Emerging Consumer Survey 2017



Figure 11

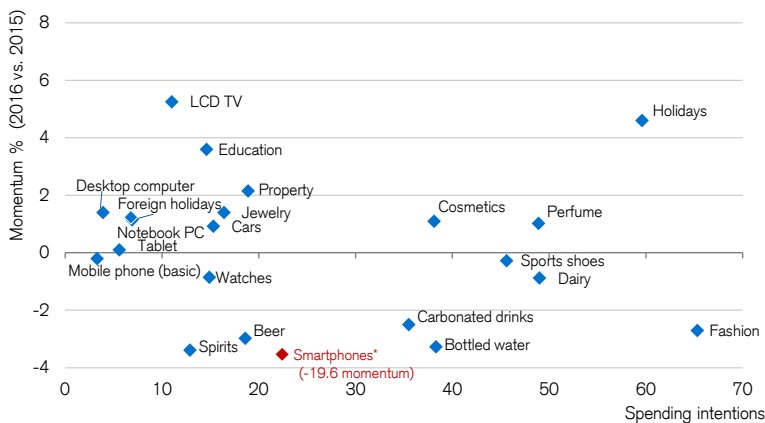
Purchase intentions this year versus consumption in the last year



Source: Emerging Consumer Survey 2017

Figure 12

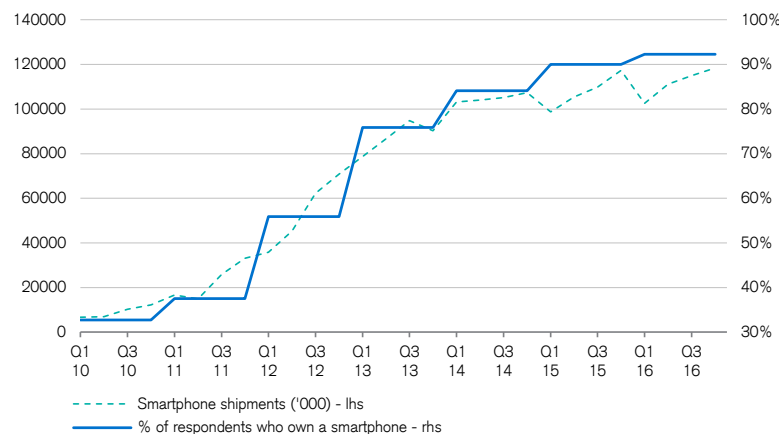
Spending intentions versus momentum (2016 vs. 2015)



Source: Emerging Consumer Survey 2017

Figure 13

Percentage of respondents owning a smartphone tracked against smartphone shipments (China)



Source: Emerging Consumer Survey 2017

What's hot and what's not?

Whereas the Scorecard focuses on country comparisons, we illustrate in Figures 11 and 12 the pattern of spending by category across our countries. Figure 11 charts the intention to spend more on an item (y-axis) relative to those who own or have bought the item in the last year (x-axis). Figure 12 again charts the spending intentions, but compares the same reading with a year ago to reflect the effective momentum of increases (not necessarily reductions in absolute terms).

Discretionary categories such as sports shoes, holidays and fashion show among the strongest intentions. Of these, holidays particularly stand out with positive readings having increased versus a year ago. However, we note that holidaying remains a domestic phenomenon. Foreign holiday intentions remain weak. China is the exception, showing genuine momentum in foreign holidays. In fact, the Chinese tourist is now becoming a more important international traveler than the Russian tourist. We believe the strength in the sports shoes category (and weaker markets in the category of alcohol) fall under the theme of healthy living, on which we focus on in more detail in the full publication of the report. The fact that dairy is the strongest staple category tells the same story in our view.

On the weak side, a category that stands out is smartphones. The market still continues to grow, but ownership rates among consumers have risen dramatically (70% of respondents either own or have bought one in the last year) and the momentum is weakening accordingly. Smartphones display the weakest momentum of all our categories as shown in Figure 12.

We would stress that the question we are measuring is "do you intend to spend more on smartphones?" so that lower momentum can reflect trading down to lower price points rather than necessarily lower volumes in every instance. However, our survey has equally proved to be something of a barometer for market size and shipments. In that respect, Figure 13 suggests a country such as China is potentially running out of headroom as an end-market for shipment growth. Moreover, as we explore in the full publication of the report, this maturity in the market is coinciding with more robust challenges from local smartphone makers in China, with their brand recognition improving. There is a legitimate reason to expect significant pricing risks to emerge against such a backdrop for the international players. (We provide a disaggregation of the spending patterns by category and country in Appendix 1 of the full publication together with a breakdown by age. The role of the younger consumer in consumption patterns has been a theme that we have tracked over time).



The lifestyle upgrade in China

Chinese consumers are shifting their pattern of spending to discretionary categories. Observing monthly spending by category, we find that the Chinese are spending less on housing and food, but more on travel and entertainment than their emerging consumer counterparts.

China has seen a rapid acceleration in entertainment spending among our respondents relative to a more stable trend in expenditure on food (Figure 2). Food expenditure now consumes 17% of the monthly income of our Chinese respondents versus 19% in 2011. Travel and entertainment now represent 11% of monthly incomes. The combination of a more conscious lifestyle coupled with relatively strong readings for spending intentions toward major-ticket items sheds light on the following readings from this year's survey.

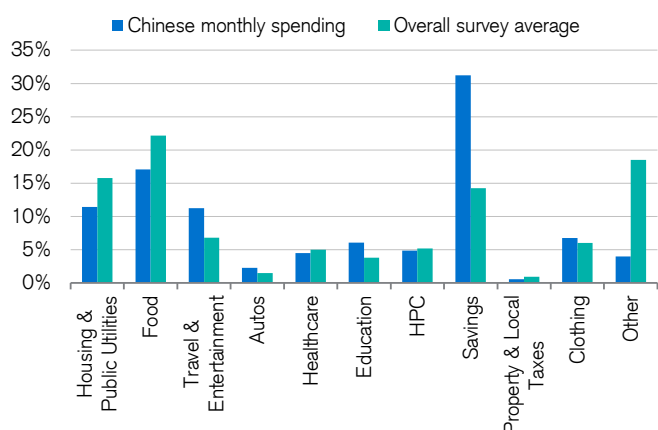
Consumption penetration was mixed in 2016 versus general growth trends in most categories in 2015. Consumers are spending more on big ticket items and services such as education, cars, property and mobile phones, while the spending momentum is softening for many staples categories such as dairy, cosmetics, carbonated drinks, spirits and beer.

It is clear that, as consumers become wealthier, they want to upgrade their lifestyles and spending on more large ticket items that have longer life spans versus the traditional fast-moving consumer goods with a low ticket size. The above behavior change is supported by higher income as well as the expectation of higher household income in the next 12 months. Meanwhile, the generation born between 1985 and 1995 has now grown up to become 20–30-year-olds, and we see this relatively affluent young group replenishing China's future middle class, expecting it to contribute 35% to China's total consumption in the next five years.

Online shopping penetration remained relatively stable in 2016, with overall internet access penetration down 1 p.p. to above 80% of our respondents. However, momentum in online consumption via mobile/smartphone continues to grow. Penetration of both smartphone and mobile phones was up 2 p.p. in 2016 to above 90% of the respondents.

Figure 1

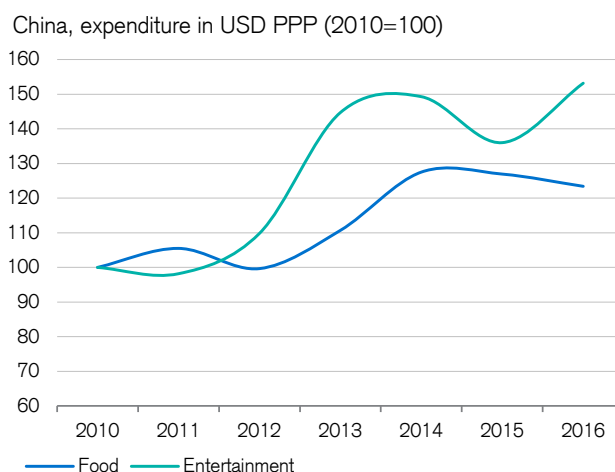
Monthly spending in China



Source: Emerging Consumer Survey 2017

Figure 2

Food versus entertainment expenditure in China indexed to 2010



Source: Emerging Consumer Survey 2017

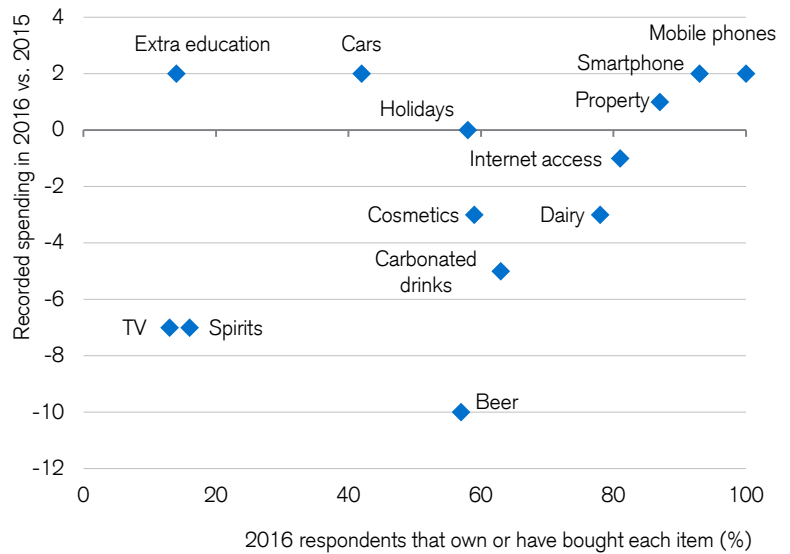
We estimate that online sales will grow by over 20% YoY in 2017–2018, accounting for 15%–20% of China's total retail sales in 2017 (up from 10% in 2014). We explore the role of e-commerce in further depth later in this report.

The majority of Chinese allocate their savings to bank accounts and life insurance. In 2016, we see that less Chinese people allocated their savings to the stock market compared to 2015 after the A share market bubble. What continues to set the Chinese consumer apart from its emerging market peers is the savings ratio, which dropped slightly this year, but, at 30%, remains the highest of any of the emerging consumers in our survey. Much of the spending we are describing is thus driven by income. Moreover, savings themselves are cautiously allocated – bank accounts (47.9%), life insurance (13.3%) and state treasury bill-bonds (3%) – while stock-market investments dropped 1.7% to 8.5%. After a very volatile stock market in 2016, Chinese consumers understandably seem to prefer safer investments for capital preservation. The absence of a social safety net and the need for healthcare provision demands precautionary saving and explains why the level of saving has remained so high throughout the life of our survey, and why it seems unlikely to change in a hurry.

Urbanization is a key factor reshaping consumer preferences and demand for travel, with urban respondents in China seven times more willing to go on an international holiday in 2016 than their fellow rural citizens. As the country approaches average emerging-market urbanization levels, it is experiencing increasing demand for international holidays. The results of our survey highlight that China has the largest proportion of respondents travelling internationally and the greatest momentum in willingness to travel internationally. In addition, China has overtaken Russia as the emerging country where most respondents are planning to go abroad next year.

Figure 3

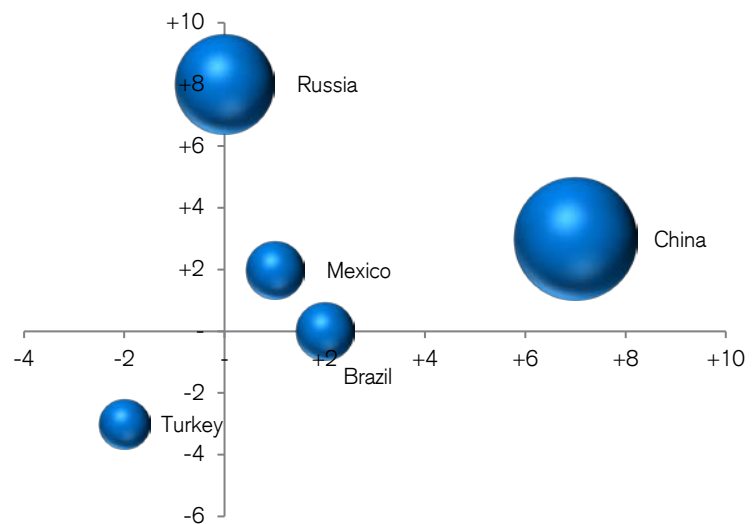
Spending momentum and market penetration



Source: Emerging Consumer Survey 2017

Figure 4

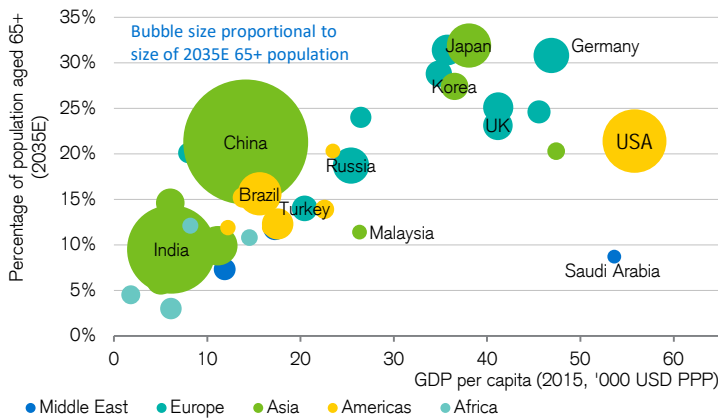
Chinese holidaymakers are looking to travel internationally



Source: Emerging Consumer Survey 2017

Figure 5

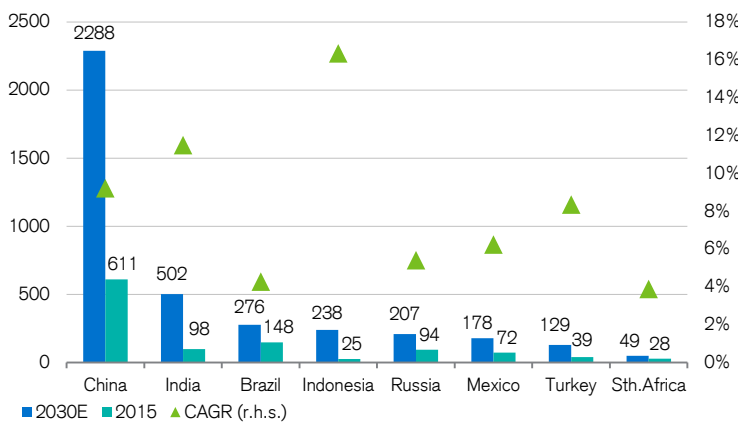
Longevity in EMs is increasing, causing healthcare costs to rise



Source: Emerging Consumer Survey 2017

Figure 6

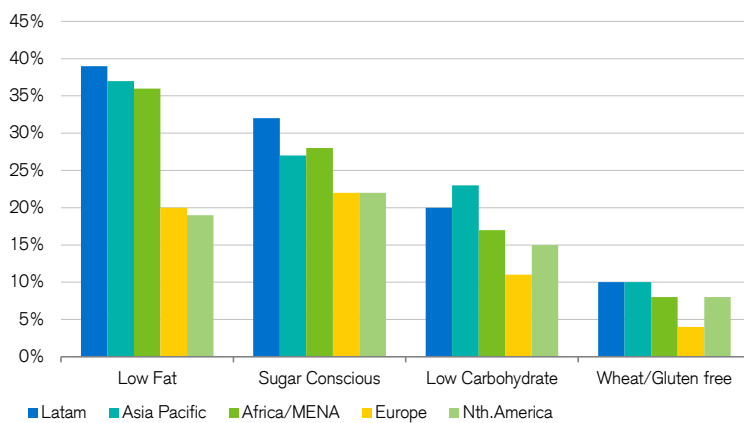
Total healthcare spending (USD bn) to grow quickly in a no-change scenario



Source: Emerging Consumer Survey 2017

Figure 7

Percentage of respondents who say they follow a special diet that limits or restricts specified foods or ingredients



Source: Nielsen, Global Health and Ingredient Sentiment Survey, Q1 2016

A growing healthy lifestyle

In addition to buying a house (clearly a long-term conscious commitment), we also find support from our survey that Chinese consumers have started to, or intend to lead healthier lifestyles. Close to 40% of consumers intend to increase the time spent on playing sports, while almost 80% agree that they have started to eat more healthily. The need for a healthy lifestyle is evident as healthcare spending looks set to increase rapidly otherwise, with an ageing population a key factor that is likely to increase the pressure on healthcare costs.

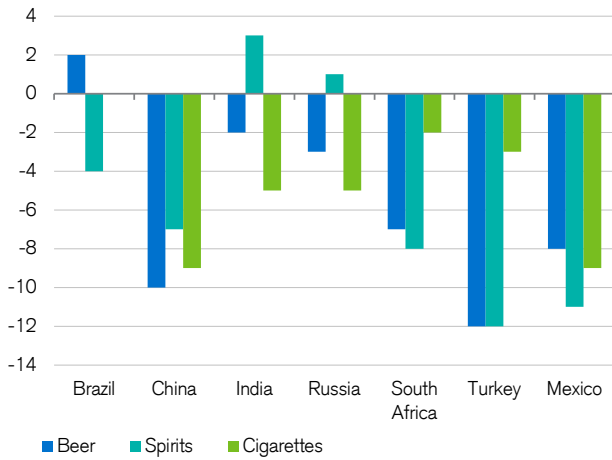
In order to provide an estimate of the potential healthcare costs that countries in our survey might face, we have run a simple scenario. Assuming that total healthcare costs increase to developed market levels (approximately 10% of GDP) and assuming average GDP growth rates of approximately 4%–5% for the next 15 years, we forecast that China, for example, could be facing healthcare costs of USD 2.3 trillion by 2030, up from USD 611 billion in 2015 (Figure 6). It is our belief that these costs are unlikely to be covered either privately or publicly, which in our view increases the likelihood that consumers will have to start leading healthier lifestyles. We show more detail on this topic in our chapter on “conscious living” in the full publication of the report.

Owing to the potential healthcare costs described earlier, we believe that emerging market consumers might want to/have to adopt a more conscious lifestyle. We use our survey to review how consumers feel about products and services related to environmental awareness (e.g. car usage), nutrition, personal care and more active lifestyles in order to judge whether a conscious lifestyle is being adopted.

A more conscious consumer should also imply that the consumption of “bad” food products declines. External sources such as Nielsen's Global Health and Ingredient Sentiment Survey (August 2016) suggest that consumers across emerging countries are much more focused on what they eat than consumers in developed markets. For example, almost 40% of consumers in the Asia-Pacific (APAC) region follow a low-fat diet (nearly twice the level seen in Europe or North America). While not as extreme, we also observe a higher uptake for low sugar and low-carbohydrate diets across Latin America, Africa and APAC than in Europe or North America.

Figure 8

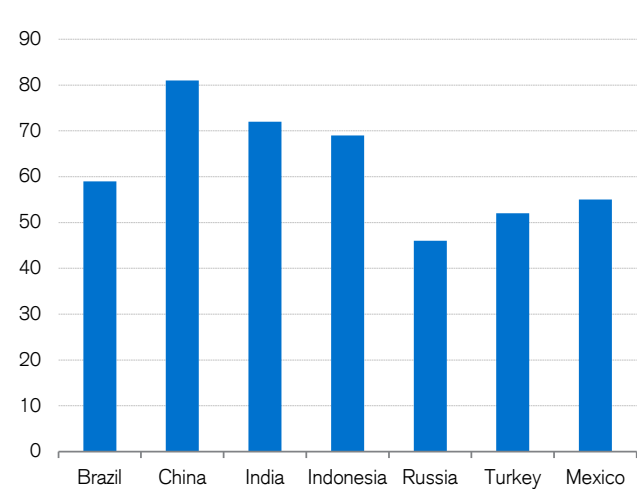
Year-on-year change in share of consumers who had bought these products in the past 3 months (%)



Source: Emerging Consumer Survey 2017

Figure 9

Percentage of consumers eating less sugary or “non-healthy” products and eating “healthier” options



Source: Emerging Consumer Survey 2017

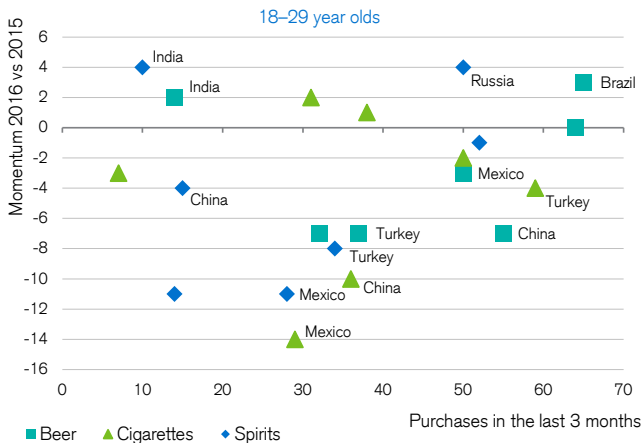
We reviewed our survey results to see if they also suggest that a more healthy approach is adopted by our consumers, which is indeed the case. For example, consumption of beer, spirits and the use of cigarettes is down year-on-year across most of the countries surveyed (Figure 8). At the same time, we also notice that a majority of consumers in all the countries with the exception of Russia have started to switch from “less-healthy” or sugary products to “healthier” options (Figure 9). When reviewing consumption patterns of unhealthy products by age group, we find that the trend away from unhealthy products appears to be most broad-based in China, Mexico and Turkey.

In addition, we also note that this trend does not appear to be “youth-led” as momentum among middle-aged consumers appears to be as negative as that of the “millennials” (Figures 10 and 11).

When asking consumers whether they had been buying sportswear in the past three months, our survey found that the answers ranged from just approximately 15% in Indonesia to more than 60% in China (Figure 12). At the same time, however (and with the exception of Chinese consumers), we found that a greater percentage of consumers intend to spend money on sportswear in the future, which clearly supports a more active lifestyle in 2017 compared to 2016.

Figure 10

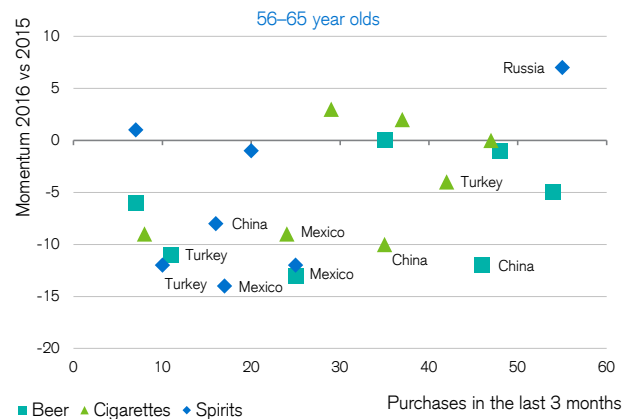
Young consumers in China, Turkey and Mexico have reduced consumption of unhealthy products most over the past 12 months (%) ...



Source: Emerging Consumer Survey 2017

Figure 11

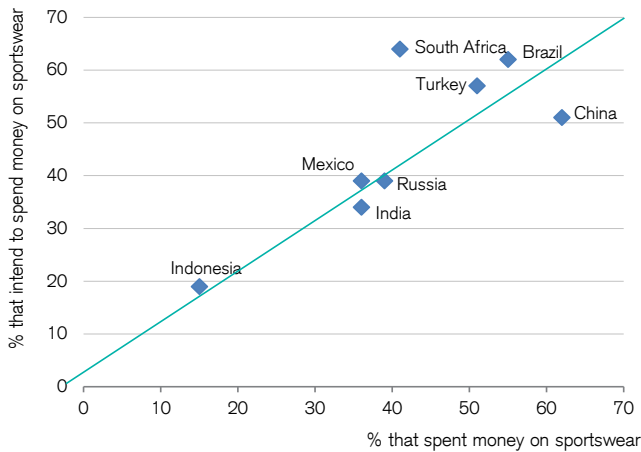
...we observe the same change for the middle-aged consumers in these countries. Russian consumers appear to have a different lifestyle (%)



Source: Emerging Consumer Survey 2017

Figure 12

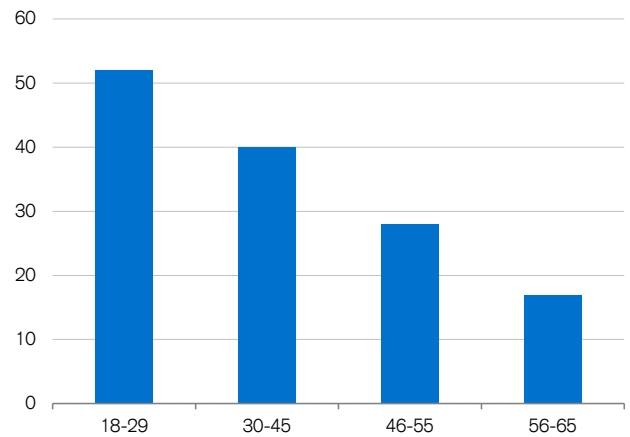
Share of consumers that buy sportswear



Source: Emerging Consumer Survey 2017

Figure 13

Net percentage expecting to spend more time playing sports in the next 3 months: China



Source: Emerging Consumer Survey 2017

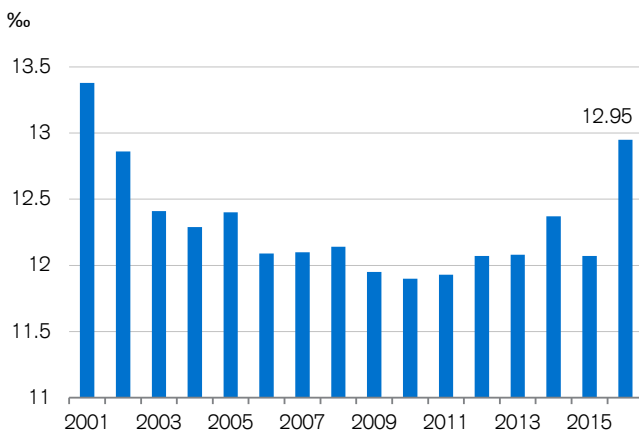
The fact that Chinese consumers score slightly lower on this comparison may be due to the already relatively high penetration of sportswear in China. Given the government's focus in China on expanding the country's sports industry, we asked Chinese consumers whether they intend to spend more time playing sports. Not surprising perhaps is the fact that the younger generation has the strongest appetite to do so. Of the 18–29 age group, 55% indicated a desire to spend more time on sports, with just 3% indicating the opposite. Even among the more senior citizens (aged 56+), we found that almost 20% want to become more active, with just 2% stating the opposite. Badminton (23%) and athletics, mostly running (13%), are the most popular sports in China.

Relaxation of the one-child policy is important

This age profile for income growth is particularly relevant given the relaxation of the one-child policy by the Chinese government in 2013, which is already starting to show significant results. For example, we note that the birth rate in China reached almost 13‰ last year, a level not achieved since 2001. The number of newborn babies increased 8% year-on-year in 2016, compared to –1.9% in 2015. We do not believe that these 2016 birth statistics will be an anomaly given that our survey suggests that 25% of consumers plan to have more than one child. Clearly, a rising birth rate has its implications for the pattern of consumer spending. The fact that the consumer purchasing power lies with "young parents" provides added confidence in the end-market outlook for areas of child-related spending.

Figure 14

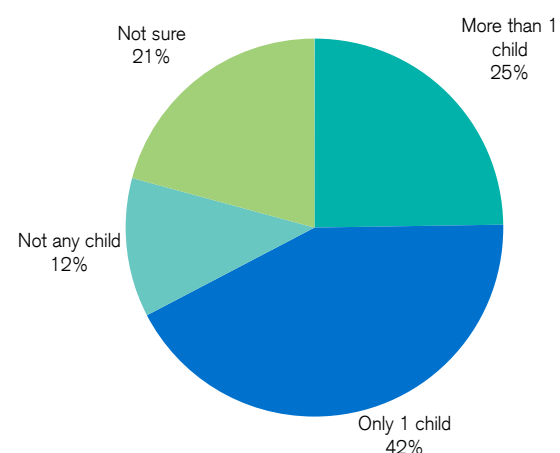
China's birth rate reached levels last year not seen since 2001



Source: Emerging Consumer Survey 2017

Figure 15

25% of consumers already indicate that they wish to have more than one child



Source: Emerging Consumer Survey 2017

As Chinese families start to expand, we would expect the parents to slowly adopt a more conscious lifestyle based on broader consumption considerations. By this, we mean that consumption patterns are likely to shift to those areas that allow these parents to not only support their existing related families (e.g. parents and grandparents), but also their growing numbers of children. In this regard, we note that when asked how consumers intend to spend incremental disposable income, only 15% said they will spend it on themselves, whereas 41% expect to spend it on their children and 40% on their parents. The inclination to direct spending to their children amid rising birthrates underpins the childcare-related end-markets. An added context to the large proportion of spending going to the elderly is meeting healthcare bills that are difficult to afford given the age and income distribution highlighted above. In this case, the children and/or the government need to step in to help fill the gap.

A conscious decision to buy premium over mass

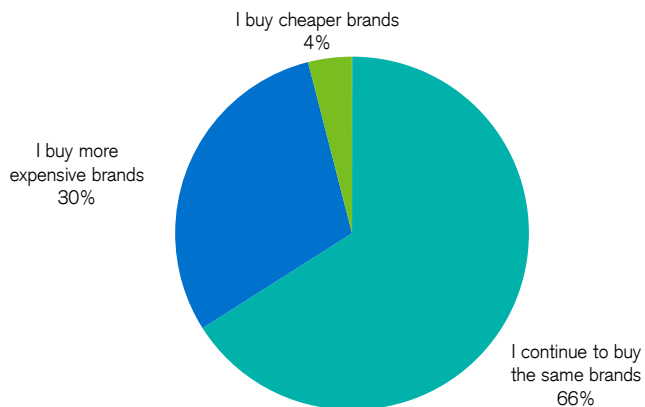
Our survey also suggests that Chinese consumers are more likely to buy premium and or more expensive versions of products rather than mass-produced products. These show that positive purchasing momentum in China was only seen for expensive products (property, cars or jewelry) or "lifestyle" products (sportswear, fashion). While the spirits category is losing momentum, given that 30% of consumers bought more expensive cognac brands, we feel that this negative momentum is driven by cheaper, lower-quality products.

Smartphones are the exception – from Apple to low-cost local phones

One product area where consumer spending intentions are less obviously moving to premium is smartphones. Among our respondents, 92% already own smartphones, which is 2% and 8% higher than in 2015 and 2014, respectively. However, 71% of respondents prefer phones that cost less than RMB 2,500, explaining why 52% of respondents think they will choose Android versus 24% expecting to choose iPhones in the next 12 months. We highlight the rising popularity of Chinese domestic brands such as Huawei and Xiaomi, driven by their value-for-money position in our section on emerging local brands in the full report. Domestic smartphone brands are on the rise. For the first time, the brand preference expressed in China for Huawei has now overtaken Apple (Figure 18).

Figure 16

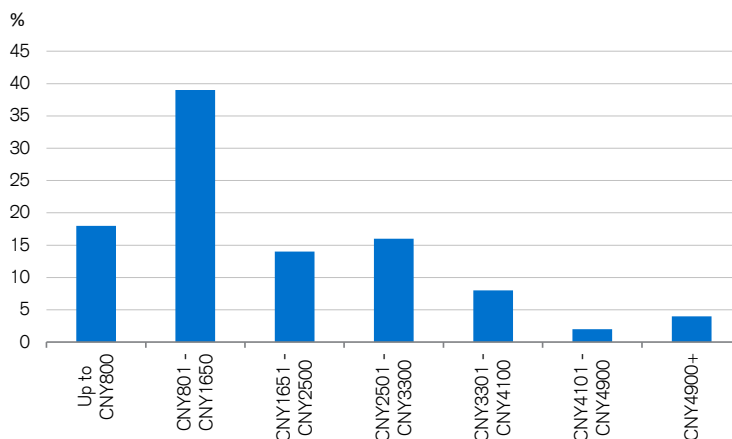
30% of respondents bought more expensive cognac brands in the last 12 months



Source: Emerging Consumer Survey 2017

Figure 17

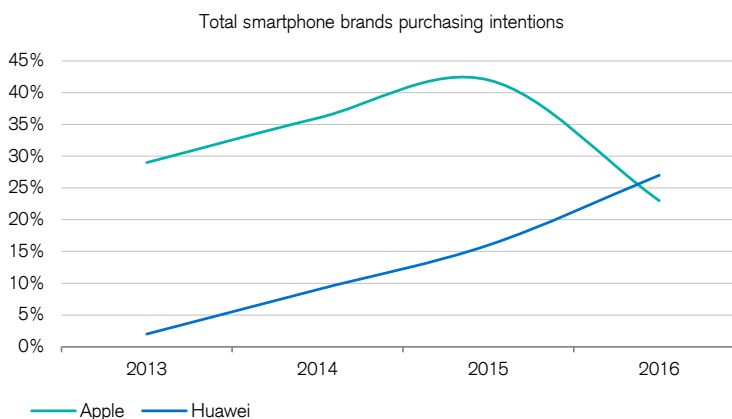
71% of respondents would like to buy smartphones under RMB 2,500 in the future



Source: Emerging Consumer Survey 2017

Figure 18

Smartphone brand purchasing intentions in China



Source: Emerging Consumer Survey 2017



The Chinese e-commerce market

The rapid growth in e-commerce seen to date across the emerging economies we surveyed has tended to be mainly beneficial for the pure online players. In our view, one of the reasons for this is that brick and mortar retailers in global emerging markets are far less developed and therefore have so far provided little competitive threat to online players. In the case of the Chinese online market, this may be about to change and, if true, might also present a roadmap for the other countries in our survey.

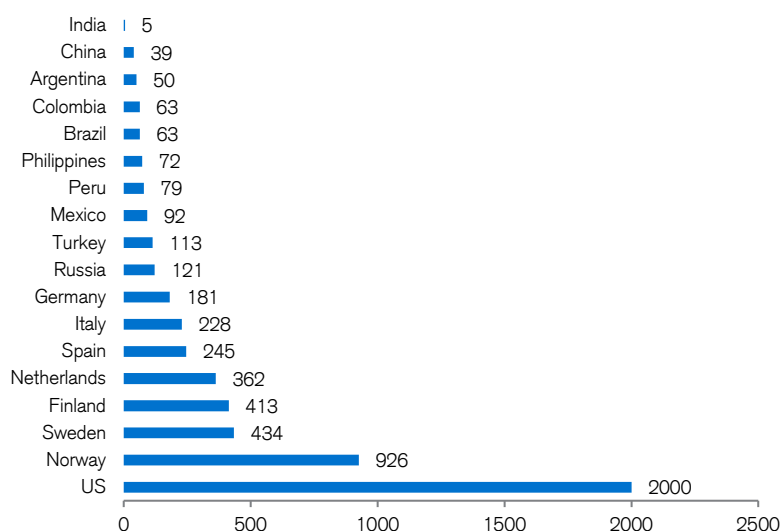
Online players may face greater competition

Our Chinese retail analysts believe that typical offline consumer companies are starting to fight back to regain online market share. Their focus is on improving offline-to-online (O2O) strategies and benefitting from consumers' increasing brand awareness after several years of unsatisfactory experience with e-commerce-only brands, which mainly compete on low prices and trendy designs, but typically are of poor quality. Instead of seeing e-commerce as a threat, consumer brands are now making e-commerce an alternative channel to distribute their products, which may even compensate for offline business.

The above trend is more obvious for consumer discretionary brands. We see a better O2O strategy for most of the listed companies as suggested by the strong growth in their e-commerce business in 2016 (Figure 2). The consumer discretionary brands now offer differentiated products ranging between online and offline, have increased e-commerce marketing budgets and are cooperating with leading platforms like JD.com and Alibaba. In general, most of the top ten best-selling products on Tmall/Taobao are sold by leading offline brands. Consumer staples brands are also embracing online platforms with more resources allocated online, although competition from online-only brands is quite limited here. Reasons include a more consolidated end-market and the fact that consumers remain cautious toward online-only brands due to food safety concerns. Brands that develop stronger e-commerce strategies should stand out among peers and be able to expand market share as consumers buy more online.

Figure 1

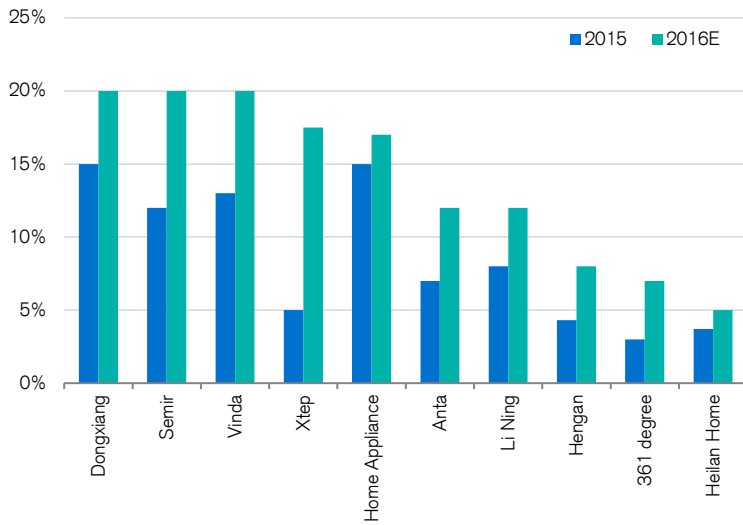
Retail space (m²/1000 people)



Source: Emerging Consumer Survey 2017

Figure 2

The online market share for Chinese leading consumer brands is up year-on-year



Source: Emerging Consumer Survey 2017

Online platforms react by focusing on technology and exploring collaborations with offline retailers

China's online retail platforms have significantly benefitted from the e-commerce boom over the past decade, driven by a continued increase in online shopping penetration and the improved e-retailing infrastructure. In our view, leading e-commerce platforms like Alibaba, JD.com, and Vipshop have been increasingly enhancing the users' shopping experience from all aspects through intensive investment in big-data-driven technology, as well as payment and logistics services. There are a number of factors that should allow the leading platforms to maintain their market presence despite developments from offline retailers.

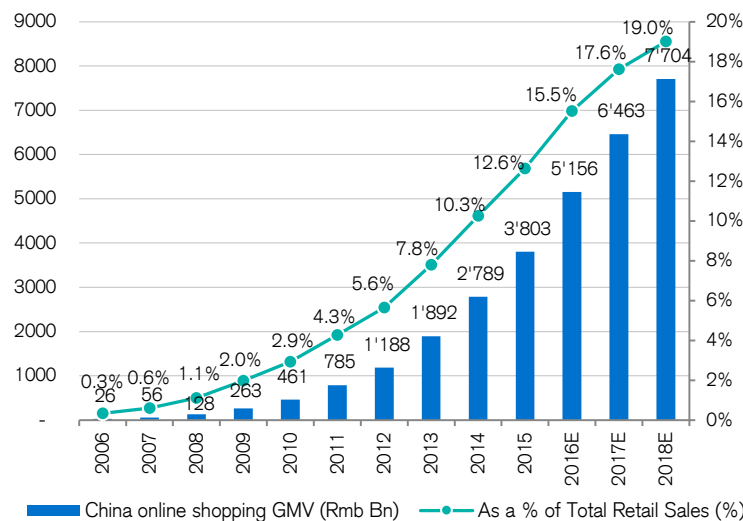
Greater product variety: One of the key strengths of online retailers is the wide variety of products they can offer – from branded consumer products to long-tail, uniquely designed selections that suit different customer needs. More meaningfully, we see online players increasingly broadening their product selection toward high-quality, premium goods such as imported food, wine, and cosmetics, which are less accessible through offline stores.

Improved shipping/payment services: To provide a more satisfactory online shopping experience, JD.com and Vipshop have significantly strengthened their in-house delivery capability through the build-out of a large warehouse and logistic network, shortening delivery time and offering flexible shipping options at affordable prices. On the other hand, Alibaba is teaming up with major third-party logistic couriers in China to optimize fulfillment efficiency, leveraging its big-data-driven algorithm to provide real-time tracking information and better route planning. The rapid development of online and mobile payment services also contributes to higher willingness to shop in the digital world.

Better marketing knowhow: In terms of user acquisition or improving repeat rates, we tend to believe online players have more competitive advantages. Major e-commerce retailers leverage big-data technology to improve search relevance and generate more personalized recommendations, thus providing more effective online marketing services for merchants. We are seeing more and more consumer brands shift their advertising budgets to online channels as this helps to acquire and retain customers.

Figure 3

E-commerce continues to see strong growth with higher penetration



Source: Emerging Consumer Survey 2017

Cooperate rather than compete: Looking ahead, we believe online players are also becoming increasingly open to cooperation/strategic alliances with offline retailers and brands rather than direct competition to leverage each other's resources and actively explore new forms of retailing to better drive consumer spending. Alibaba's investment in the Intime department store chain and its alliance with China's retail conglomerate Bailian Group are good examples of the omni-channel model that is reshaping China's retail segment. Another example of this would be Wal-Mart's announcement last year that it would be selling its Chinese online business (Yihaodian) to JD.com and taking a 5% stake in JD.com to cement the strategic partnership.

While we do not underestimate the disruptive potential that some of the offline initiatives may have, we do believe that the online leaders in China have ample opportunities to safeguard their presence. Therefore, it is more likely that new entrants or smaller players will have their returns pressured most by a diversifying offline offering.

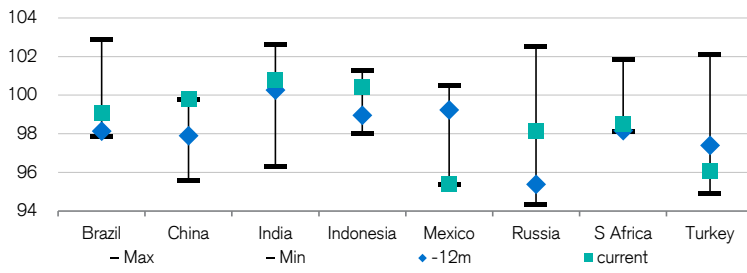
The outlook for the Chinese consumer

The outlook for the Chinese economy in 2017 remains positive as we expect markets to stabilize and for the government to encourage infrastructure investment to meet target economic growth of 6.5%. We maintain an optimistic view for the forthcoming year despite potential tariff increases on exports to the USA. Moreover, we do not see any obvious drivers overall for the consumer sector and expect diverse performance in each subsector as consumers continue to increase their spending on lifestyle upgrades and health.



Figure 1

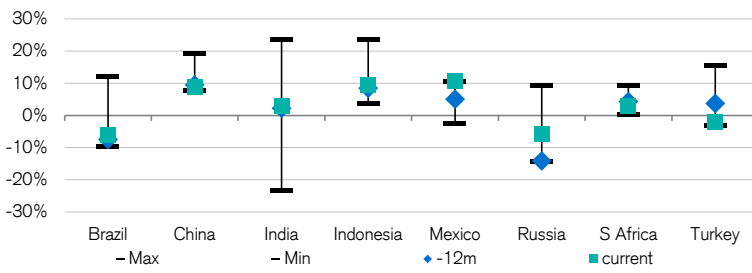
EM8 consumer confidence (versus post 2010 range)



Source: OECD Main Economic Indicators, Credit Suisse research

Figure 2

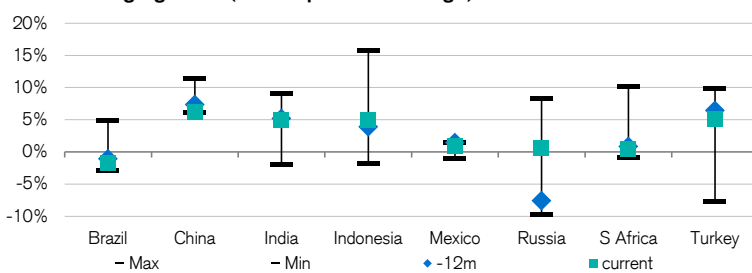
EM8 real retail sales growth (versus post 2010 range)



Source: Thomson Reuters, Credit Suisse research

Figure 3

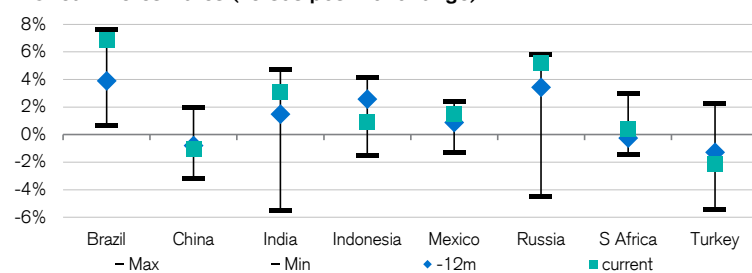
EM8 real wage growth (versus post 2010 range)



Source: Oxford Economics, Credit Suisse research

Figure 4

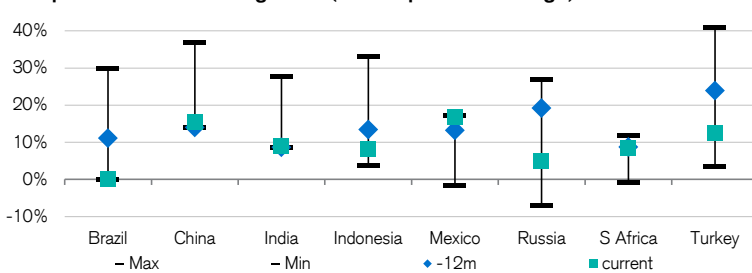
EM8 real interest rates (versus post 2010 range)



Source: Central bank data, Credit Suisse research

Figure 5

EM8 private sector credit growth (versus post 2010 range)



Source: BIS, Credit Suisse research

The Chinese consumer through a macro lens

To set alongside our feedback from the field, we provide a snapshot of where the prevailing macro indicators for the emerging consumer sit for each of the eight countries (EM8) in the survey. While our survey indicators compare countries against each other, here we look at how each country stands versus its own post-2010 historical range on six consumer focused metrics. We establish a scorecard of relative strength. We also compare these country scores with those of a year ago. Note that we would not expect the rankings to mirror our survey scorecard earlier given the differing methodology, although they do provide a sense of domestic momentum.

On this macro scorecard, China and Indonesia offer the most robust consumer environment against their own history ranked in first and second place, respectively, up from second and fifth place last year. Turkey and Mexico follow in third and fourth place, respectively, with the former—this year's largest score decliner—down from being ranked top last year, while Mexico retains not only its ranking year-on-year, but almost exactly the same score. In fifth place comes India, down from third in 2016, while South Africa, Russia and Brazil retain their sixth, seventh and eighth positions in the rankings, respectively.

1. Consumer confidence: While the latest local consumer confidence surveys reveal that only China, India and Indonesia are at levels in the more positive half of their post-2010 historical ranges, there is nevertheless a significant year-on-year improvement in confidence across the EM8 countries with the notable exception of Mexico and Turkey (which underwent significant reversals). Measured against their respective 7-year histories, China, Indonesia and India appear as the more optimistic surveys closest to their post-2010 highs, while consumer confidence in South Africa languishes at the weaker end of its 7-year range.

2. Retail sales growth: Year-on-year real retail sales growth remained broadly stable across five of the EM8 countries, while recording a noteworthy increase of 8 p.p. in Russia (as the country recovers from a consumer recession deeper than that during the global financial crisis) and of 6 p.p. in Mexico (the weakening of the currency has led to an appreciation of US dollar remittances in peso terms). The single noticeable drop in the growth of real retail sales (by 6 p.p.) across the EM8 countries was in Turkey – mirroring the correction in confidence post the July 2016 attempted coup. Brazil, Russia and Turkey are the only three countries in the EM8 where year-on-year real retail sales growth is in negative territory – although Brazil posted only a modest 2 p.p. improvement from 2016.

3. Wage growth: Wage growth (in year-on-year inflation-adjusted terms) is positive across the EM8 countries – with the exception of Brazil (at -1.7%) – although for South Africa this is marginal (just 0.4%). For China, India,

Indonesia and Turkey, real wage growth remains at robust levels in the range of 5.0% to 6.1%, with China leading the pack, albeit at the lower end of its own 7-year range. Growth has maintained broadly stable levels (within 1.3 p.p.) for the EM8 group save Russia, which recorded a hefty 8.2 p.p. acceleration to 0.6% from -7.6% in Q1 2016.

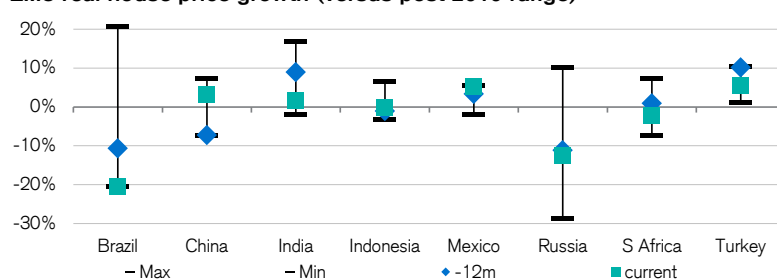
4. Interest rates: There has been a considerable fluctuation in real interest rates across the EM8 group of countries over the past year. Brazil (at 6.9%) and Russia (at 5.2%) have recorded real rate tightening of around 300 bp and 180 bp, respectively, since last March – both on account of swift disinflation outpacing central bank easing. Despite real rates for these two countries being now at the very top of their respective 7-year historical ranges – typically anathema for consumption – there is ample scope for moderation in 2017. India and Mexico have also undergone a tightening in real interest rates (both by around 100 bp) since last March – the latter case due to central bank measures to defend the peso. The only EM8 country to have undergone a significant decline in real rates is Indonesia (to 0.9%), although absolute levels for South Africa (0.4%), China (-1.0%) and Turkey (-2.1%) are more stimulative.

5. Private sector credit growth: Only in Mexico among the EM8 has private sector credit growth noticeably accelerated over the past 12 months to 17% year-on-year at the top of the country's 7-year historical range and the highest among the EM8 group of countries. Mexico's credit to GDP of 42% is low for emerging markets and responding to a November 2013 package of financial reforms targeted specifically at stimulating credit growth across multiple sectors of the economy. In contrast, the pace of credit growth in Brazil, Russia and Turkey slowed markedly since last March – all with a deceleration of more than 10 p.p. which, in the case of Brazil, has resulted in no credit expansion over the year and the lowest rate in the EM8. China, India and Indonesia have delivered respectable growth of 15%, 9%, and 8%, respectively, but all toward the lower end of their post-2010 ranges.

6. House price growth: At 6%, Turkey has registered the strongest year-on-year real house price appreciation among the EM8 countries – although this places price growth only mid-range for Turkey versus the past seven years, having slipped from 10% year-on-year 12 months ago. In stark contrast, house prices in Brazil have depreciated by an alarming 20% over the past 12 months in real terms, the largest fall measured across the EM8 countries and at the extreme lower end of Brazil's 7-year range. Russia (-12%) and South Africa (-2%) have also recorded real house price depreciation, but of a magnitude that is mid-range historically. Mexico (+5%) and China (+3%) have also posted robust real gains in house prices, the former right at the top of its post-2010 range, while house prices in India and Indonesia were broadly unchanged.

Figure 6

EM8 real house price growth (versus post 2010 range)



Source: BIS, Credit Suisse research

Figure 7

Emerging market consumer heat map

Country	Consumer confidence	Real retail sales growth	Real wage growth	Real interest rates	Priv. sec. credit growth	Real house price growth	Average	Average -12m	
China	55%	70%	69%	79%	51%	58%	64%	49%	↑
Indonesia	67%	76%	58%	40%	13%	37%	49%	39%	↓
Turkey	4%	14%	59%	89%	36%	75%	46%	63%	↓
Mexico	2%	80%	24%	27%	59%	73%	44%	43%	↔
India	75%	35%	56%	14%	20%	49%	42%	48%	↓
South Africa	25%	35%	18%	50%	15%	19%	27%	36%	↓
Russia	18%	9%	22%	3%	8%	6%	11%	15%	↓
Brazil	34%	8%	6%	1%	2%	2%	9%	13%	↓

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

Emerging consumer macro scorecard

We consolidate these six consumer metrics into a scorecard for the EM8 countries displayed as a heat map in Figure 7. For each metric, we calculate the current percentile position from lowest to highest across the entire eight country 7-year historical range. 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 for the current situation and that from 12 months ago.

At an average of 64%, China appears to have the most buoyant consumer environment among the EM8 countries. Moreover, it has improved year-on-year from an average-metric score of 49% last March. China scores particularly well for growth in real retail sales and wages, together with real interest rates. In second place, Indonesia, averaging 49%, has also recorded a year-on-year improvement from 39%, propelled by consumer confidence and real retail sales growth. In third place, Turkey, averaging 46%, has dropped from last year's strongest average score of 63%, by far the largest annual decline among the EM8 group, while Mexico at 44% is flat on the year. India, South Africa, Russia and Brazil have all recorded year-on-year declines in their average scores across the six metrics, with Brazil and Russia retaining their positions as weakest and second weakest on the emerging market consumer heat map, respectively. The Brazilian consumer appears particularly constrained by a mixture of high real interest rates, unappealing real growth in wages and credit, and declining real house prices.

About the survey

The Credit Suisse Research Institute Emerging Consumer Survey provides a granular analysis of the profile, mood and behavior of consumers across the emerging world, delivering unique insights for investors on the key influences that are shaping the nature of consumer spending. This report has been produced using market research gathered by The Nielsen Company, 14,000 face-to-face interviews across eight emerging economies of Brazil, China, India, Indonesia, Mexico, Russia, Turkey and South Africa, representing an aggregate population that is approaching four billion people and total consumption of USD 9.4 trillion. 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.

Nielsen have a presence in approximately 100 countries, and hold positions within established and emerging markets. Their operating model is grounded in a simple, open and integrated approach that delivers a broad portfolio of services and solutions for their clients. The Credit Suisse Research Institute would like to thank The Nielsen Company for their invaluable assistance in this project.

Imprint

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EDITORIAL DEADLINE

3 April 2017

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