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Emerging Consumer
Survey 2017

Editorial

We are delighted to present the seventh edition of the Credit Suisse Research Institute's Emerging Consumer Survey. This publication traditionally explores the growth opportunities presented by the new consumer cultures developing across the emerging world, which continue to show vastly different, often more dynamic demographic profiles compared those of developed economies. The report reflects an ongoing collaboration between the Credit Suisse Research Institute and our research partner, the leading market research firm Nielsen, which has delivered data from 14,000 face-to-face interviews with consumers across the emerging economies of Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey as a basis for our research.

In this year's edition, our findings suggest that a consumer culture within emerging markets may be developing more rapidly than anticipated: a further 10% of surveyed households have succeeded in entering middle-income territory in the last three years, creating a consumer base of 1.25 billion people across the eight countries covered by our survey alone.

We find the immediate measures of consumer confidence improving from a year ago, with consumers in the major Asian economies of India, China and Indonesia reflecting the most optimistic outlook and topping our emerging consumer scorecard as we look into 2017. More than 40% of Asian consumers expect to see their financial circumstances improve in the six months ahead. We provide a special focus on several key themes within these countries, the consequences of the reform to the one-child policy in China or demonetization and tax reform in India. Generally, there is a noticeable lifestyle "upgrade" underway in Asia.

We further observe that pressure has eased for consumers in commodity-sensitive countries such as Russia, South Africa and Brazil. Although considerable economic fragility and inequality among consumers remains here, a firmer growth outlook supporting commodities and reduced currency risk offer better consumer prospects for the year ahead.

In contrast, consumer confidence in Turkey and Mexico has declined markedly. Whereas geopolitical concerns are weighing on the consumer in the former, the protectionist and anti-immigration rhetoric of the new US administration is at work in the latter.

Interestingly, we observe the ongoing changing pattern in the spending of the emerging middle class. Spending on travel and entertainment in China is booming and reached over 10% of household income. A new theme we find at work is that of a more "conscious" consumer, focused on a more active, healthy lifestyle and one engaged with the sharing economy. Local rather than global companies and brands are emerging to capitalize on this trend. Also importantly, digital technology is and will continue to be the facilitator of changing consumer behavior with more than a billion consumers yet to come online in our surveyed countries. We estimate that online retail spending can rise from a current USD 1 trillion to USD 2.5 trillion by 2025.

Finally, these themes are elements of the broader rebalancing in growth we are witnessing in the emerging world from its undue reliance on fixed investment and external trade to more domestic consumption. This provides a powerful internal dynamic to growth in the countries concerned – a feature of considerable significance should the global economic landscape become more multipolar and less globalized in nature, as is currently the debate.

We hope that our analysis helps our readers better understand the nature of these dynamic economies and that you enjoy reading the 2017 Emerging Consumer Survey.

Urs Rohner
Chairman
Credit Suisse Research Institute

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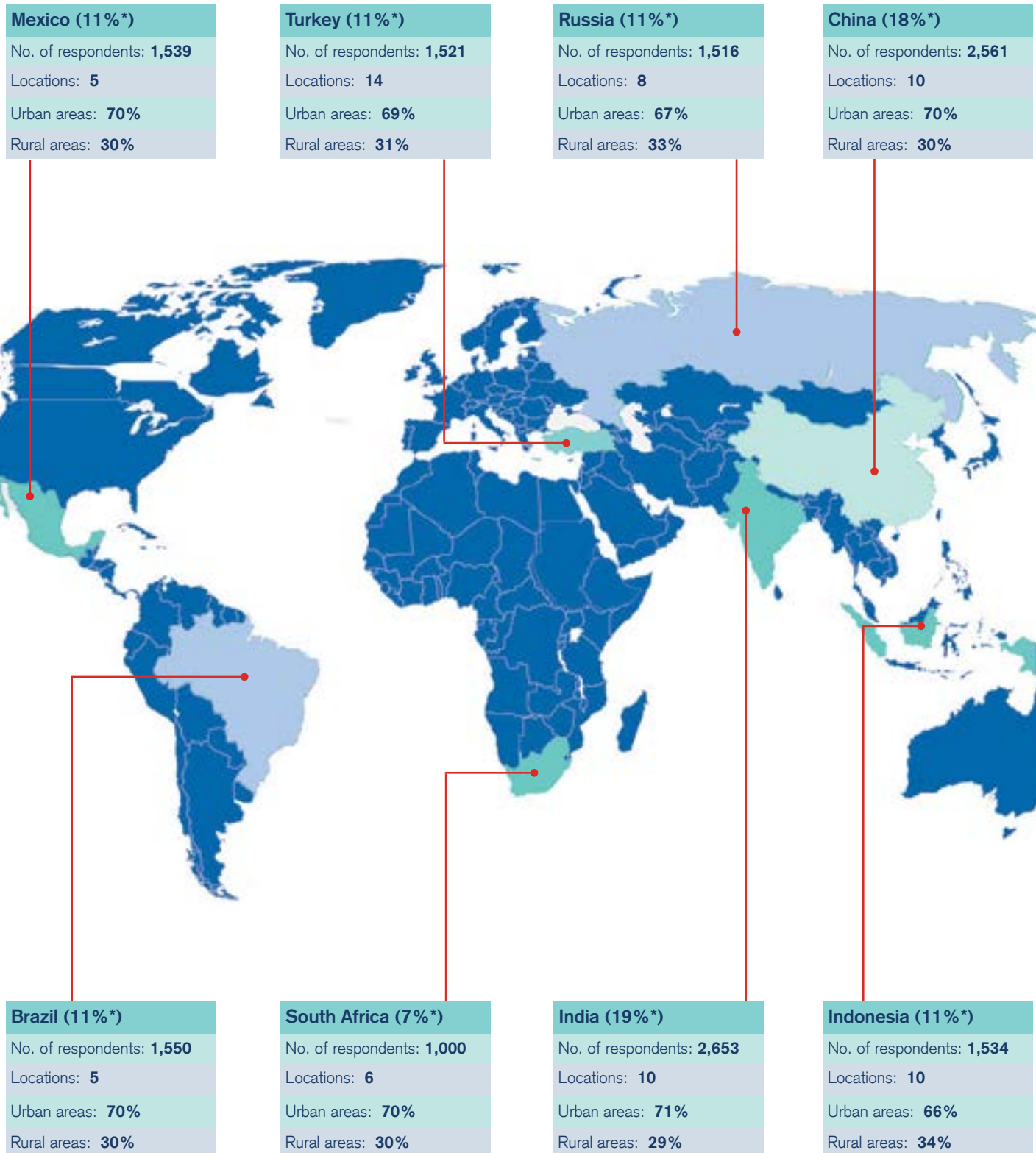
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Credit Suisse Emerging Consumer Survey 2017

Number of respondents : 13,874, across 8 countries, 69% in urban areas; 31% in rural areas



Note: % of survey sampled from this country

The emerging consumer in 2017

In our seventh Emerging Consumer Survey, we find confidence having improved from a year ago, with consumers in the major Asian economies continuing to reflect the most optimistic outlook and top our scorecard as 2017 begins. Pressure has alleviated on commodity-sensitive countries such as Russia, South Africa and Brazil. Political risks in various guises have contributed to Turkish and Mexican confidence sinking. We reflect on themes driving the nature of consumer spending throughout the study. It remains clear that the development of an emerging middle class is ongoing and driving a mixed shift in spending along a discretionary path.

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 face-to-face interviews conducted on our behalf by leading consumer research firm Nielsen, provide unique bottom-up insights into specific products and end-markets to set alongside and at times challenge the more typical macro judgements.

A pure macro focus risks overlooking structural consumer themes that are at work in these economies independent of the cycle (e.g. the development of the online economy, which is illustrated by an average of 76% of our survey respondents now gaining access to the internet versus only 55% in 2013. Additional structural themes include new access to healthcare or the emergence of new consumer brands). In doing so, key investment opportunities and themes are missed. In this chapter, we again examine the mood of the moment from our confidence indicators, but also whether the structural story that we first laid out in our initial 2010 study is working. Is the emerging consumer emerging and, if so, how?

The mood of the moment

To summarize the overall mood of consumers, we highlight below the readings for the key parameters we use for our Emerging Consumer Scorecard, which focus on five survey questions:

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 key to ultimate spending (Questions 4 and 5).

Table 1

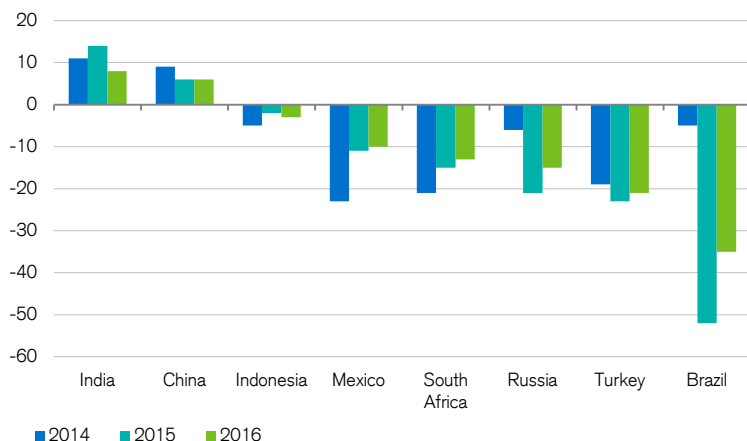
Survey sentiment indicators average readings

| 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

Figure 1

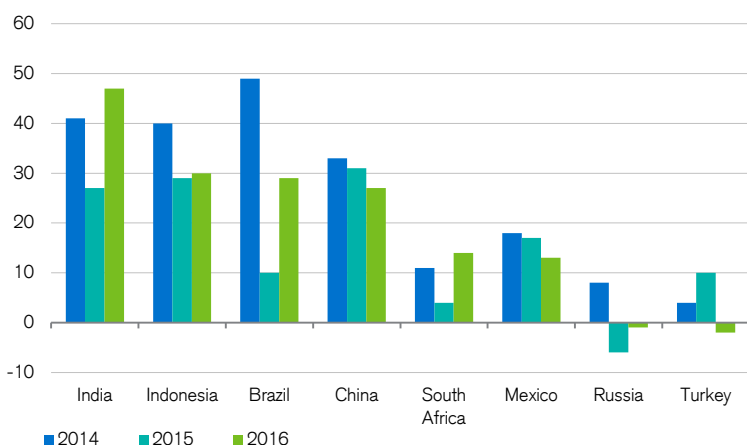
Net percentage of respondents replying "Yes" to "Is now a good time to a make a major purchase?"



Source: Emerging Consumer Survey 2017

Figure 2

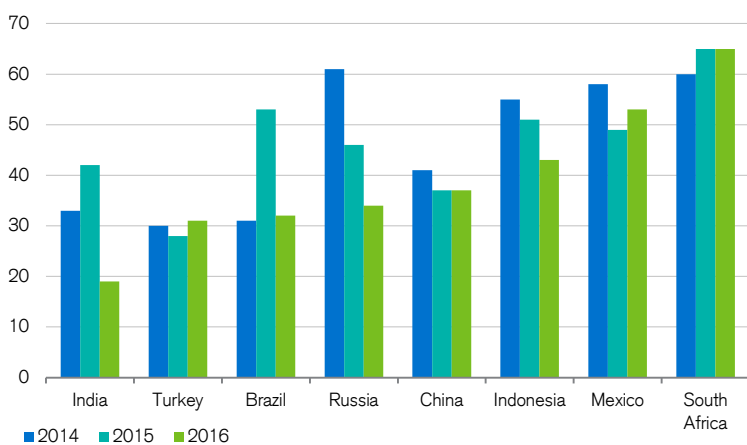
Net percentage of respondents expecting an improvement in their personal finances in the next six months



Source: Emerging Consumer Survey 2017

Figure 3

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



Source: Emerging Consumer Survey 2017

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.

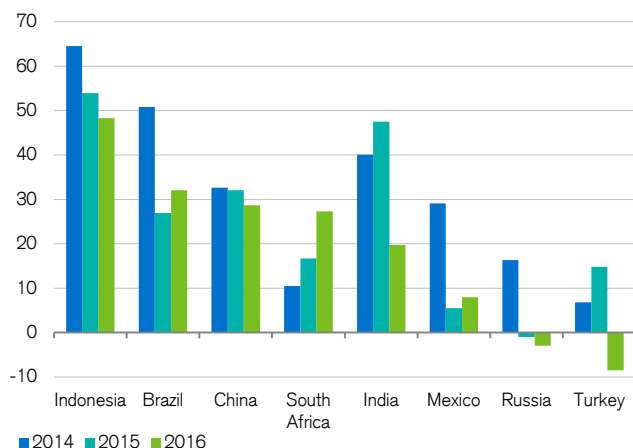
We have seen many of these pressures abate since then and negative sentiment ease accordingly. In Table 1, we show the aggregate readings for these questions across the survey. The questions on personal finances and the judgement as to whether now is a good time to make a major purchase have all improved 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.

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, particularly India on the latter. We would note some recovery in Brazil and also South Africa and Russia to a degree. The net commodity-exporting characteristics of these countries is a common link. Second, the improvements we have seen in inflation expectations have been particularly pronounced in India, Russia, Brazil and Indonesia. The reversal of the currency weakness in the latter three is doubtless influential here. Better monsoon conditions will be important for Indian food prices. South Africa and Mexico reflect the more negative perceptions on inflation both versus the other countries and versus their own history.

Third, 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 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 though our Indian analysts also reflect later in the report downward pressures on agricultural incomes among low-income consumers. Expectations for income prospects among Brazilian consumers have risen sharply (if surprisingly so). Turkish consumers see little let-up in the pressure on them amid the geopolitical concerns that prevail.

Figure 4

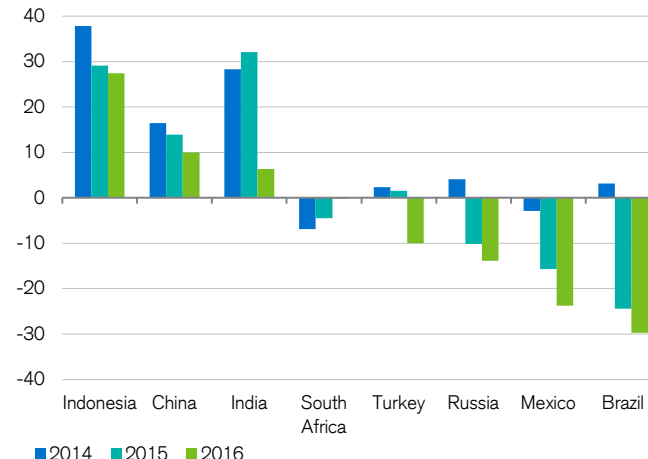
Net percentage of respondents who expect household income to increase over the next 12 months



Source: Emerging Consumer Survey 2017

Figure 5

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



Source: Emerging Consumer Survey 2017

Emerging Consumer Scorecard

Our 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.

Similar to last year, the Asian economies occupy the top three places in the scorecard, with India in the lead. The weaker expectations with regard to future income in India is negative in our scorecard, but the sharp decline in inflation expectations is a major positive in the overall assessment. Indonesia

continues to boast the best income momentum among the countries we surveyed. While some of China's readings have marginally softened, we would flag the very sharp rise in house price expectations, which we do not include as a factor here, but which is highly relevant to China and a positive development (we highlight this in our China focus later in the report).

Brazil and South Africa have moved out of the bottom three to be replaced by Turkey and Mexico. Of these two countries, Turkey has seen the most notable reverse in circumstances since last year, falling from a ranking of fifth last time. The poor income momentum referred to above is also mirrored in the readings on the perception of the consumers' personal finances and whether now is a good time to make a major purchase (indeed, the net commodity-exporting countries were all trending up in our

Table 2

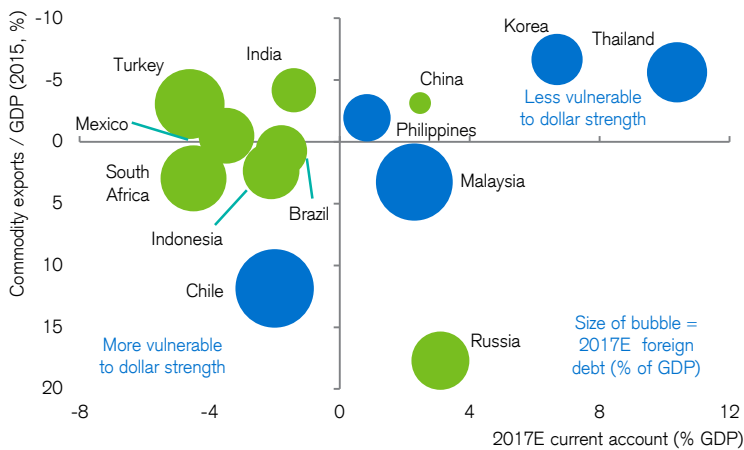
Emerging Consumer Survey Scorecard 2017

| 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

Figure 6

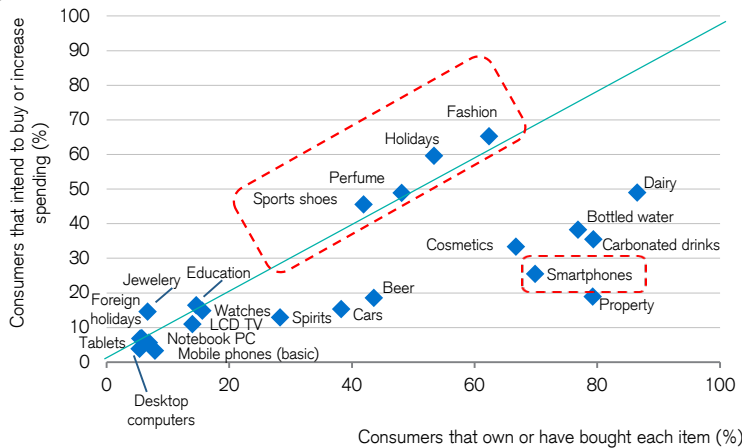
Commodity exports and current account balance (both as a % of GDP)



Source: Credit Suisse research

Figure 7

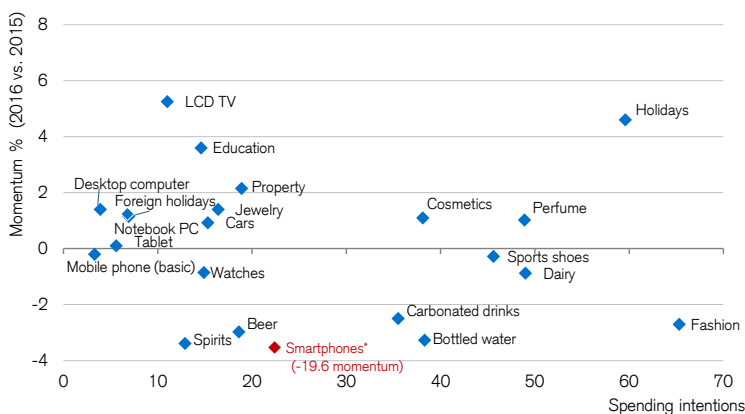
Purchase intentions this year versus consumption in the last year



Source: Emerging Consumer Survey 2017

Figure 8

Spending intentions versus momentum (2016 vs. 2015)



Source: Emerging Consumer Survey 2017

scorecard). Clearly, the prevailing political backdrop can only weigh on consumer confidence in Turkey. The fallout from the US elections is a political factor of a different nature, but a damper on confidence in Mexico nonetheless, particularly given the unhelpful protectionist and anti-immigration rhetoric that has emerged. The principal transmission mechanism of political risk to the consumer is typically the currency. Hence it is no accident that Turkey and Mexico experienced the worst currency experience as well as the sharpest fall in sentiment.

We would not present this scorecard as an overly scientific exercise and, by only being an annual snapshot, much can change throughout the year in the macro and political environment. However, we believe it provides a reflection of the factors of most relevance for the consumer and genuine bottom-up perceptions of them. Where there has been robust and, importantly, stable readings in these factors, consumer stocks have generally performed well in the equity market. China and India have been good cases in point.

We provide an assessment of where a range of key consumer macro indicators currently sit for our countries from our emerging market (EM) strategists on pages 12 and 13 to add some top-down flavor. However, as we have implied and politics aside, what can stir the relative rankings of our consumer countries most top-down are currency and commodities. Figure 6 gives a sense of the countries most exposed to these influences and potential volatility should they emerge by analyzing their commodity exposure and current account vulnerabilities.

What's hot and what's not?

Whereas the scorecard focuses on country comparisons, we illustrate in Figures 7 and 8 the pattern of spending by category across our countries. Figure 7 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 8 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 in our analysis of the "conscious

consumer" in the next chapter. 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 8.

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 9 suggests a country such as China is potentially running out of headroom as an end-market for shipment growth. Moreover, as we explore later, 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 report 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. Our individual country summaries beginning on page 56 also provide added color.)

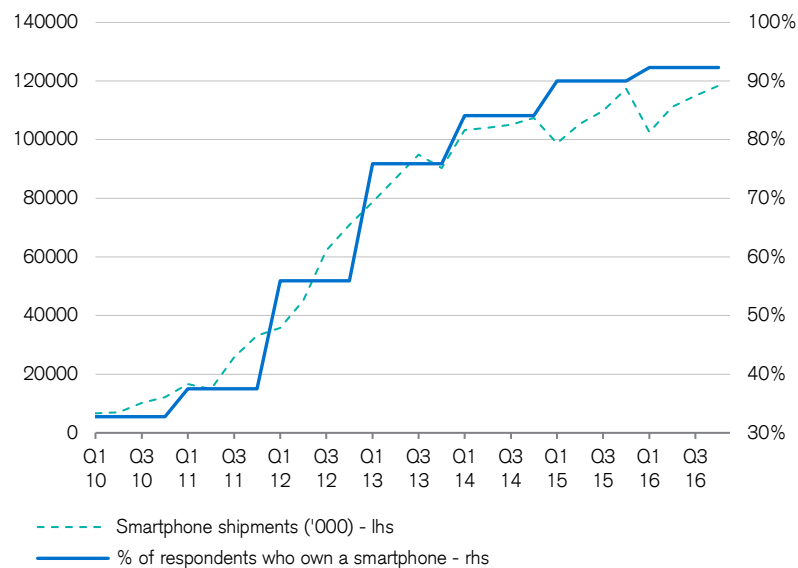
The structural themes...are they working?

As we analyze the immediate readings from the survey, a key question is how do the survey developments fit with the structural direction of travel? In our 2011 report, we set out the template for how the emerging consumer theme should evolve by displaying the consumption patterns of developed economies as they moved from their emerging consumer status. The thesis was that as Gross Domestic Product (GDP) per capita and the income profile of consumers change, so should their spending patterns. The starting point for income levels is key. Income rising from a low GDP per capita basis should typically first benefit more staple categories such as food before giving way to more discretionary categories.

Figure 10 displays how this pattern played out in the USA as we chart the US consumer's spending development from the early 20th century to the 21st.

Figure 9

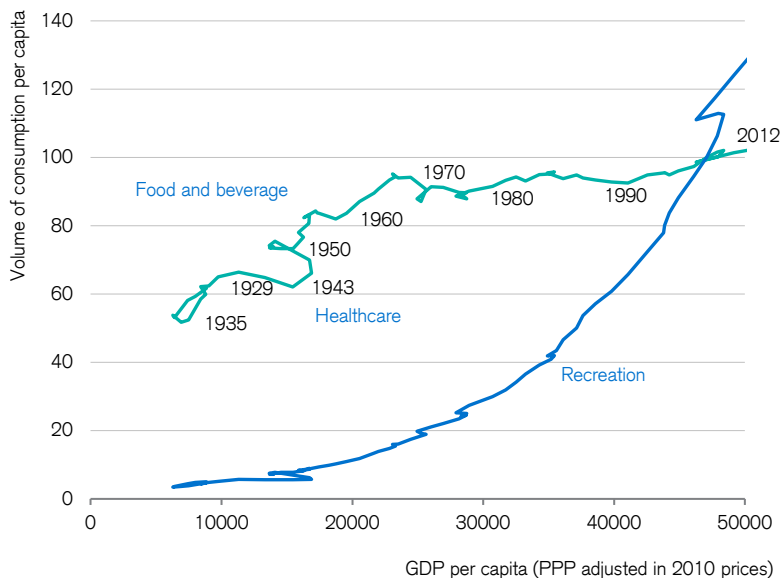
Percentage of respondents owning a smartphone tracked against smartphone shipments (China)



Source: Emerging Consumer Survey 2017

Figure 10

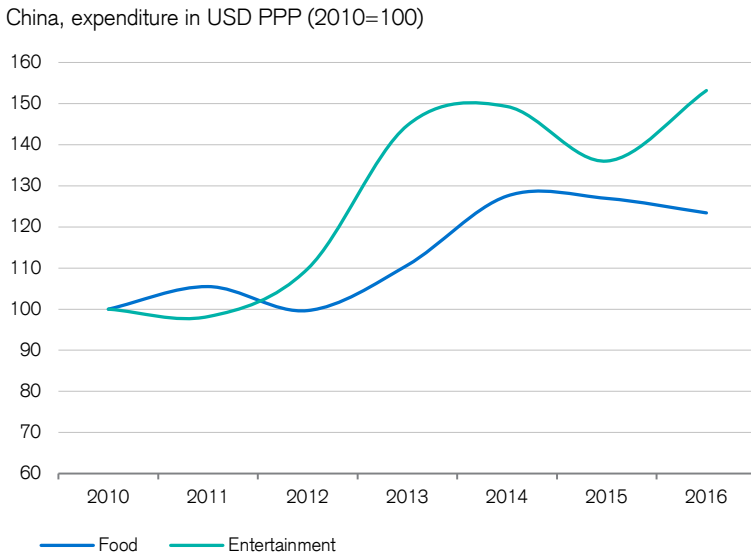
Food and recreation spending versus GDP per capita 1929–2012



Source: Company data, Credit Suisse estimates

Figure 11

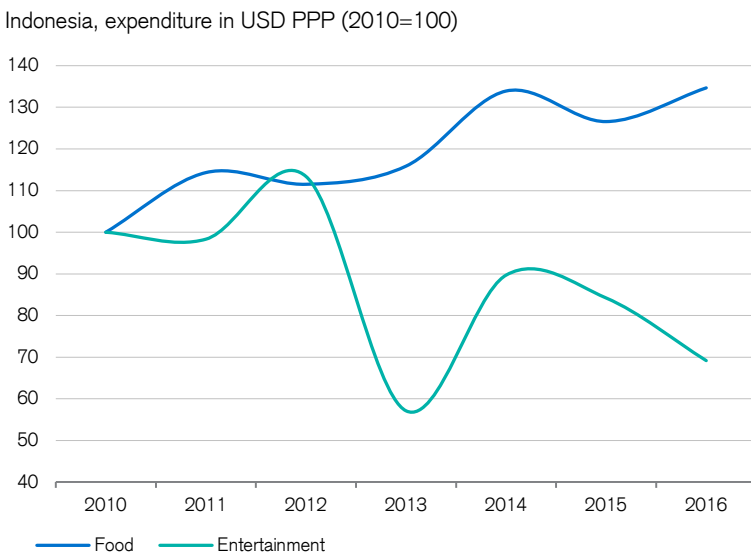
Food versus entertainment expenditure in China indexed to 2010



Source: Emerging Consumer Survey 2017

Figure 12

Food versus entertainment expenditure in Indonesia indexed to 2010



Source: Emerging Consumer Survey 2017

We laid this out in our 2011 study (we provide a more detailed breakdown segment by segment in the next chapter). The vagaries of survey data and the intervention of macro/political events of the like mentioned previously makes it unrealistic to expect that we could accurately mirror every aspect of this macro story in our bottom-up dataset. However, we do find enough effective "real world" data points from our survey that seem to suggest we are following a large degree of the route map set out above.

At a very simple level, the fact that the scatter charts in Figures 7 and 8 show the strength in more discretionary categories outweighing the more staple areas suggests the bias one might expect to be seeing in a consumer whose incomes are rising. However, delving deeper into the regional mix as we do in the heat maps in Appendix 1, where we look at countries with differing GDP per capita levels, we find this discretionary bias more pronounced in the higher income countries such as China, Russia and Brazil. In contrast, three of the top four categories in terms of spending intentions in Indonesia are staples categories (e.g. dairy, carbonated drinks, bottled water). While Brazil is top for educational spending intentions, Indonesia is bottom.

Taking this argument beyond this one-year snapshot, we contrast the spending patterns of China and Indonesia through the life of our survey, tracking the level of spending on a classic staple and discretionary item – food and entertainment. While both countries have seen improving incomes this decade and been consistently among our more optimistic countries, the pattern of consumption along these lines is very different (Figures 11 and 12).

China has seen a rapid acceleration in entertainment spending among our respondents relative to a more modest upward progression in expenditure on food. As we show in our China summary below, food expenditure now consumes 17% of the monthly income of our Chinese respondents versus 19% in 2011. Travel and entertainment now represents 11% of monthly incomes.

In Indonesia, with its low GDP per capita, expenditure on food has been the focus, representing 35% of total spending. Spending on food has increased by 1.4 times the rate in China between 2010 and 2016. It is not that non-staples spending of any nature in Indonesia is not at work. For example, ownership of "two-wheelers" has risen from 75% to 89% since 2011. However, it is still only in the early stages of the discretionary theme playing out elsewhere, whereas China is beginning to follow the US trajectory seen in Figure 10. That notwithstanding, low GDP per capita countries such as India and Indonesia offer plenty of investment opportunities if in other categories of spending and at differing price points.

The emerging middle class is still on the move

As well as tracking the changing nature of spending, we have been following the changing demographic and income profile of the consumer influencing this spending. Age has been a key theme and specifically the role of the young consumer as we have shown in previous studies. However, overlaying that has been the change in income distribution in the emerging world – the theme of "the emerging middle class."

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 can make an up-to-date estimate of the distribution of household income across each country (note that we do make some adjustments to take into account the limitations in our sampling in the representation of very low-income areas). The conclusion from this analysis in recent surveys has been that the emerging consumer has been on the move. But is this still the case?

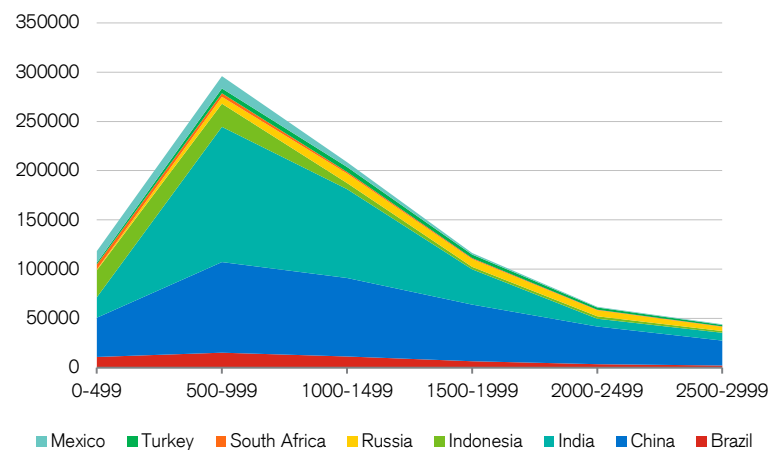
Having standardized incomes on a 2016 USD purchasing power parity (PPP) basis, [Figure 14](#) builds up an aggregate income distribution curve from our survey, overlaying each country. We measure the number of households by income band as per the income data provided by our respondents. We have cut off the chart at a monthly income level of USD 3,000, but we note, however, that there is a considerable tail of households that stretch well beyond this income cut-off. For simplicity of presentation, we have not included this tail in the chart

While potentially stating the obvious, given the wide divergence of GDP per capita across our countries, the chart underlines how different the potential emerging consumer end-markets are, and the relevance of the analysis on spending patterns above. For example, over 400 million households in our survey have monthly incomes in PPP terms below USD 1,000.

In [Figure 15](#), we compare distribution now with last year and the year two years before. 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 82 million in our surveyed countries in the last three years. Around 1.25 billion people in our survey countries now sit 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 this story further. However, on the basis of what represents consumption in end markets of four billion people, we remain confident that the building of a middle class with its changing consumption patterns continues.

Figure 13

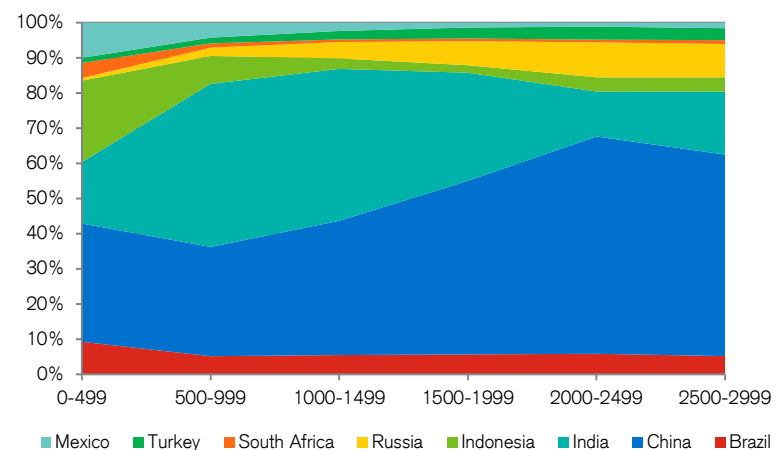
Household income distribution (USD/month)



Source: World Bank, Emerging Consumer Survey 2017, Credit Suisse estimates

Figure 14

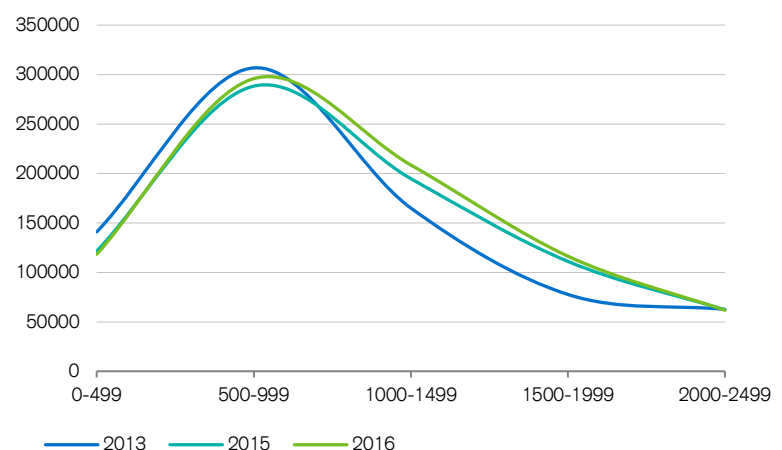
Household income distribution



Source: World Bank, Emerging Consumer Survey 2017, Credit Suisse estimates

Figure 15

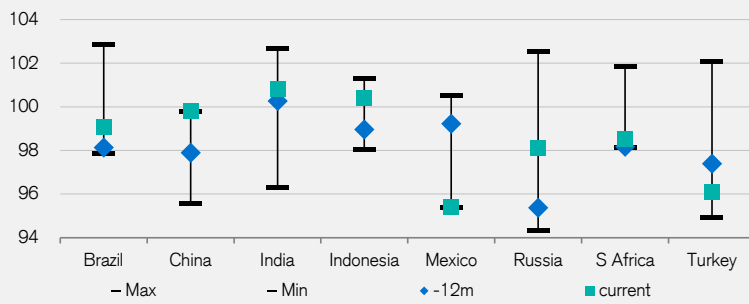
Aggregated household income distribution



Source: World Bank, Emerging Consumer Survey 2017, Credit Suisse estimates

Figure 1

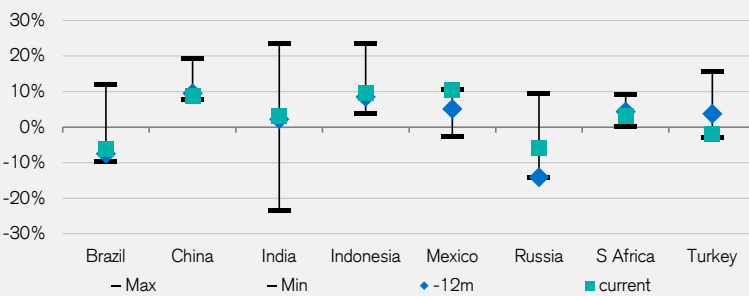
EM8 consumer confidence (versus post 2010 range)



Source: OECD Main Economic Indicators, Credit Suisse research

Figure 2

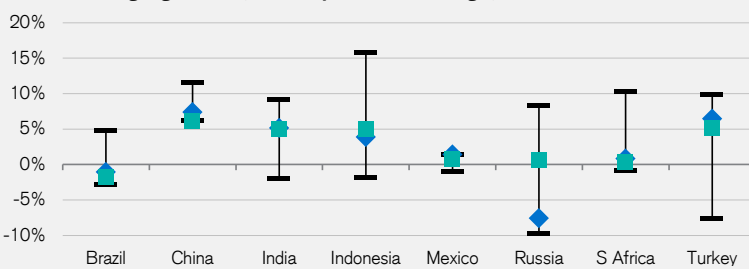
EM8 real retail sales growth (versus post 2010 range)



Source: Thomson Reuters, Credit Suisse research

Figure 3

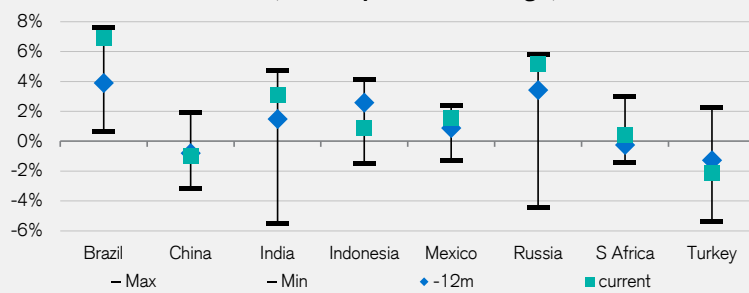
EM8 real wage growth (versus post 2010 range)



Source: Oxford Economics, Credit Suisse research

Figure 3

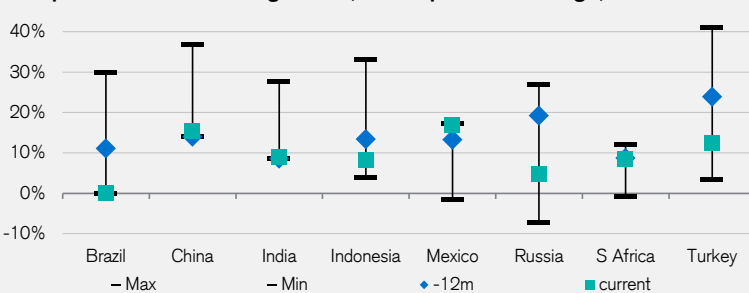
EM8 real interest rates (versus post 2010 range)



Source: Central bank data, Credit Suisse research

Figure 3

EM8 private sector credit growth (versus post 2010 range)



Source: BIS, Credit Suisse research

EM consumer through a macro lens

Alexander Redman, Arun Sai

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

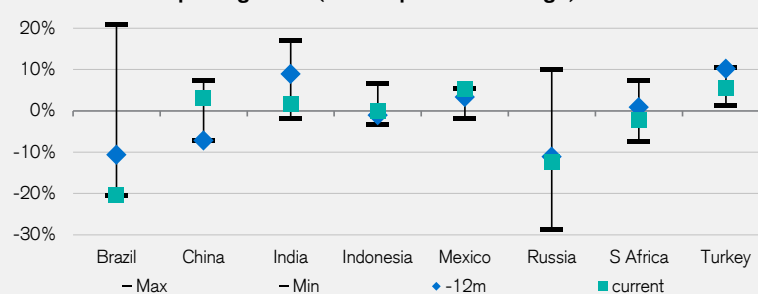
Only in Mexico among the EM8 has private sector credit growth noticeably accelerated over the past 12 months to 17% year-on-year at the top of the country's 7-year historical range and the highest among the EM8 group of countries. Mexico's credit to GDP of 42% is low for emerging markets and responding 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 | Direction |
|--------------|---------------------|--------------------------|------------------|---------------------|--------------------------|-------------------------|---------|---------------|-----------|
| 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.



Conscious living

The results of this year's Emerging Consumer Survey confirm that the emerging middle class continues to expand and the pattern of consumer spending in the emerging world is changing with it. Running through this change in consumption is a lifestyle change. Consumers across our surveyed emerging economies are starting to adopt a more conscious spending profile. This is apparent through a greater focus on skin care, good food, sportswear and using car-sharing services rather than owning vehicles. The brand implications cannot be underestimated and we highlight some of the types of companies that are most geared to these trends.

Eugene Klerk

Spending patterns change as income grows

As we highlighted in the previous chapter, the mix of products and services consumed changes substantially as income increases. Spending patterns for consumers in emerging market (EM) countries with below-average income per capita tend, for example, to be focused more on basic goods and services. As income levels rise, discretionary spending then kicks in. In Table 1 below, we dig deeper into specific categories of spending framed in the context of this story. We show the relative

strength in growth in these categories that would be expected at different levels of GDP per capita on the basis of our previous analysis.

In countries such as India and Indonesia, demand growth is likely to be strongest for basic apparel, food and beverages, and education services. On the other hand, in the case of countries with higher disposable income such as China, Mexico, Turkey, Brazil and Russia, we expect demand for relatively more expensive items such as tourism, credit services or beauty products to be stronger.

Table 1

Growth potential in spending categories based on GDP per capita

| GDP per capita 2016E | | Growth potential | | | |
|----------------------|--------------|------------------|-------------------|-----------------|-----------------|
| | Country | High | Medium | Low | |
| Below USD 2,000 | India | Cereals | Apparel | Beverages | Education |
| | | Two wheelers | Meat | Healthcare | Consumer credit |
| | | | | Cars | Beauty products |
| | | | | PCs/laptops | Tourism |
| USD 2,000 – 5,000 | Indonesia | Apparel | Beverages | Healthcare | |
| | | Meat | Cars/two-wheelers | Consumer credit | |
| | | | Cereals | Tourism | |
| | | | PCs | | |
| USD 5,000 – 10,000 | South Africa | Beverages | Meat | Cereals | |
| | Mexico | Cars | Apparel | Two wheelers | |
| | Brazil | PCs | Healthcare | | |
| | China | Beauty products | Consumer credit | | |
| | Russia | | Tourism | | |
| USD 10,000 – 25,000 | Turkey | Education | Cars | Cereals | |
| | | Healthcare | PCs | Two wheelers | |
| | | Tourism | Beverages | Meat | |
| | | Consumer credit | | Apparel | |
| | | Beauty products | | | |

Source: Credit Suisse estimates, IMF

Health deteriorates as income grows

Rising levels of disposable income may result in changes to spending behavior as described above. However these have also contributed to undesirable secondary effects. More specifically, we observe that general health conditions appear to be worsening as income levels increase. In our view, this topic is particularly relevant for key emerging economies, considering the potential strong increase in associated healthcare costs.

Consumers become bigger as income increases

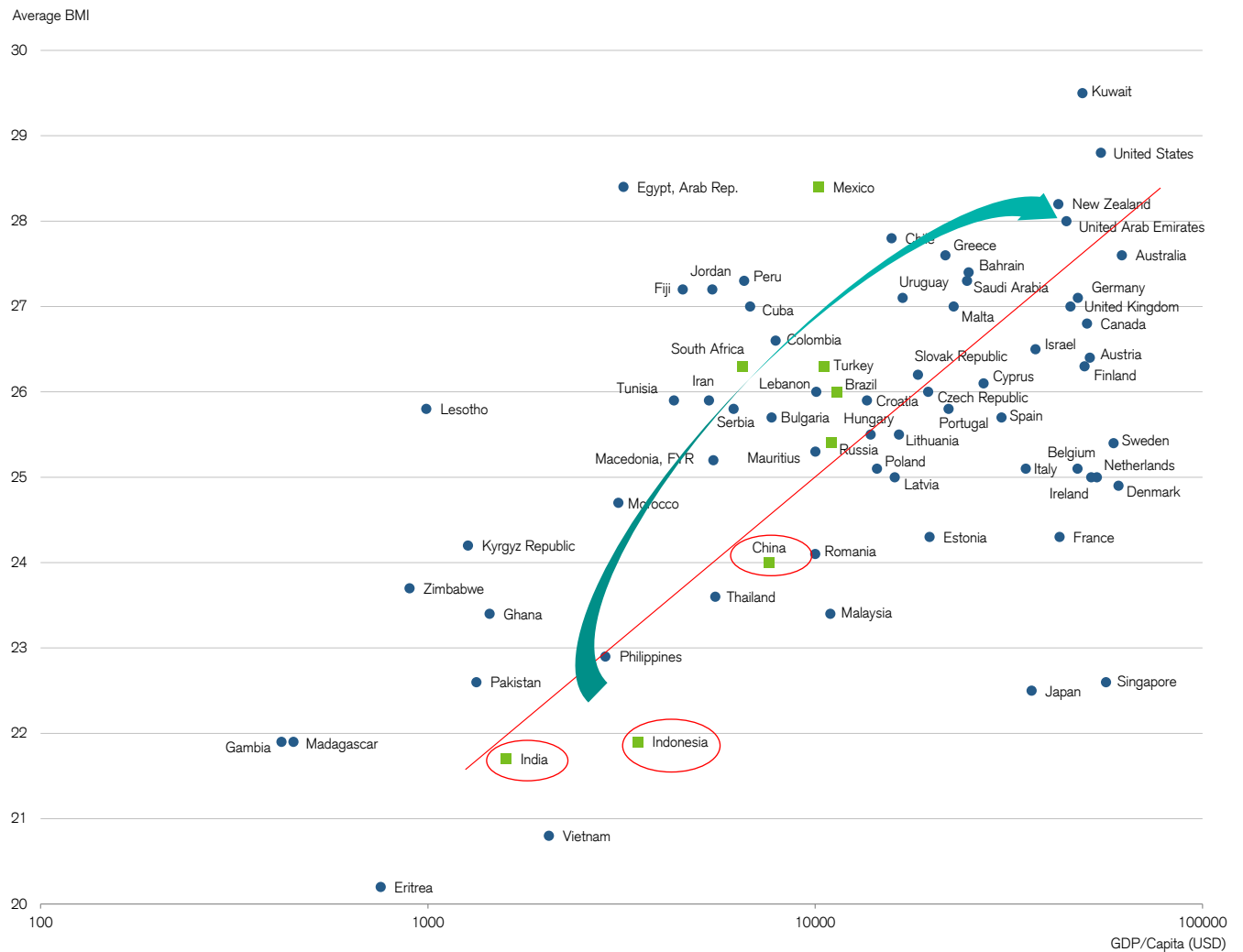
For example, data from the World Bank and the World Health Organisation show that average Body Mass Index (BMI) readings tend to increase as GDP per capita rises (Figure 1). A BMI reading above 25 suggests that a person is overweight, while a reading above 30 indicates obesity. The combination of increased calorie intake through

a change in diet, together with a frequently observed less-active lifestyle (brought about to some degree as economies shift from manufacturing to become more service focused) explains a large part of this phenomenon, in our view.

With the exception of Mexico, where average BMI is already relatively high, we find that average BMI readings are likely to rise in all the countries we surveyed if spending power increases further and there are no significant lifestyle changes in terms of health and physical fitness. The need to ensure that such changes are enacted becomes obvious when considering potential healthcare-related costs (both public and private). For example, the International Diabetes Federation estimates that the number of people suffering from Type-2 diabetes (often related to being overweight or obese) might increase by around 50% from levels seen in 2015 to reach 600 million by 2040. The main part of this increase is expected to occur in Asia, the Middle East and Northern Africa (Figure 2).

Figure 1

Average body mass index (BMI) increases as GBP per capita rises



Source: WHO, World Bank, Credit Suisse Research

Aging is set to add pressure on healthcare spending

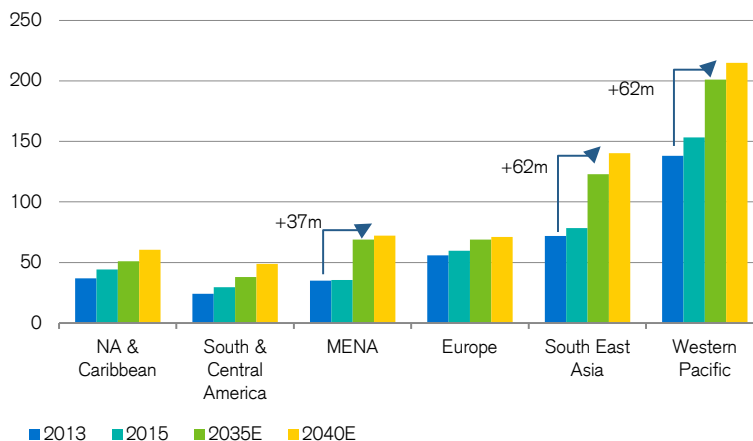
Another factor that is likely to increase the pressure on healthcare costs and thereby raise the potential for a (forced) change in consumer behavior is aging. Emerging markets are projected to age at approximately twice as fast as citizens in developed markets. As a result, by 2035, the share of the population aged 65 or older in countries such as China and Russia should be similar to that in countries such as the UK and the USA (Figure 3), which increases demand for healthcare services (although a much lower total spending power increases pressure on governments to fund this).

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 4). 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.

Our healthcare team notes that these potential challenges to healthcare provisions might already be occurring. While they believe that a significant opportunity remains within the emerging markets, they do highlight a projected slowing of the level of pharma sales growth in emerging markets too. This year, our survey reports year-on-year declines in reported access to state healthcare in the key markets of China, Brazil and Mexico. This highlights the continuing economic pressures in the Latin American countries and could underline increased healthcare cost sensitivity from the Chinese government over the last year. Findings from the survey align with slowing growth in EM sales reported by international EU Pharma for 2016. They are also further supported by IMS forecasts which project a slowing in growth of medicines sales in the EMs particularly in China and Brazil.

Figure 2

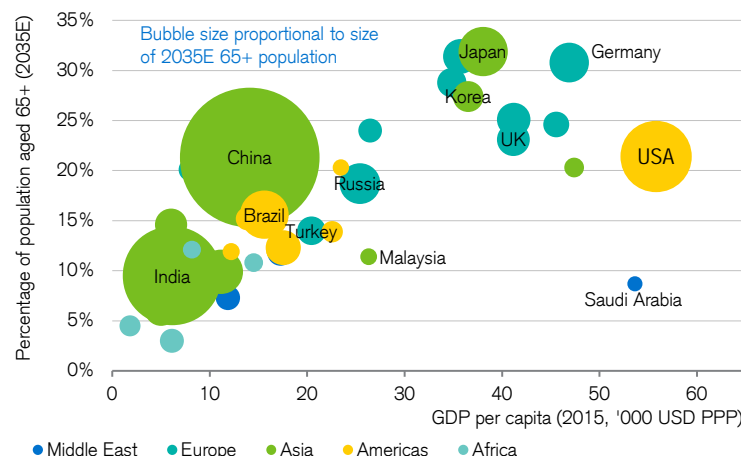
The number of people suffering from Type 2 diabetes might reach 600 million by 2040



Source: International Diabetes Federation, Credit Suisse Research

Figure 3

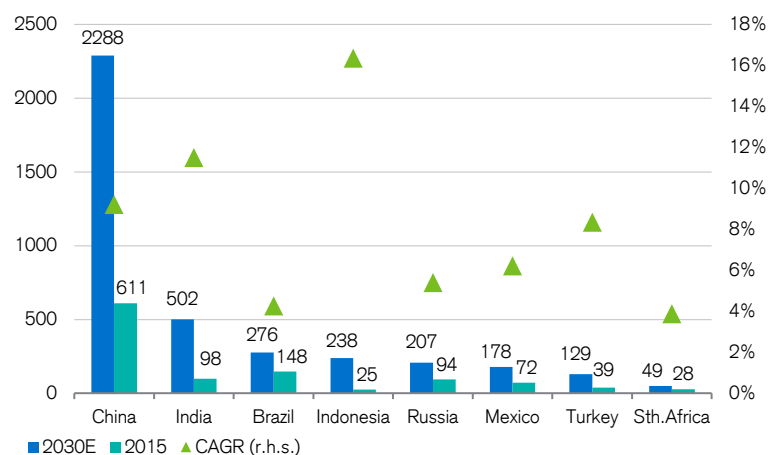
Longevity in EMs is increasing, causing healthcare costs to rise



Source: Credit Suisse

Figure 4

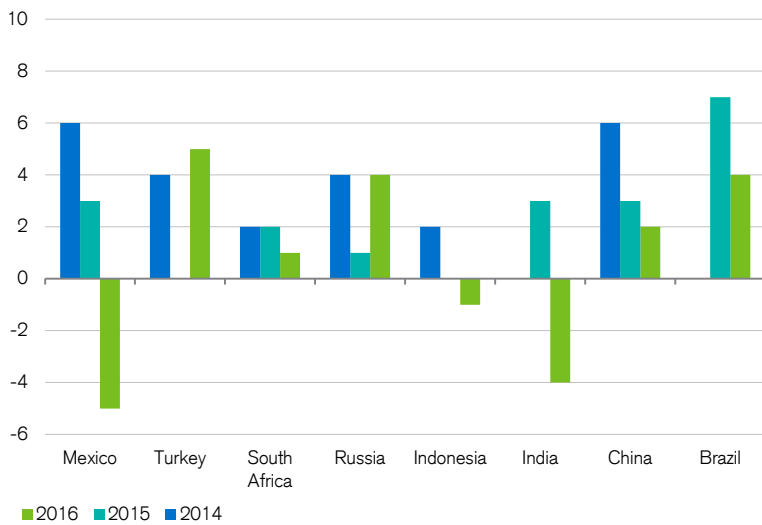
Total healthcare spending (USD bn) to grow quickly in a no-change scenario



Source: World Bank, IMF, Credit Suisse Research

Figure 5

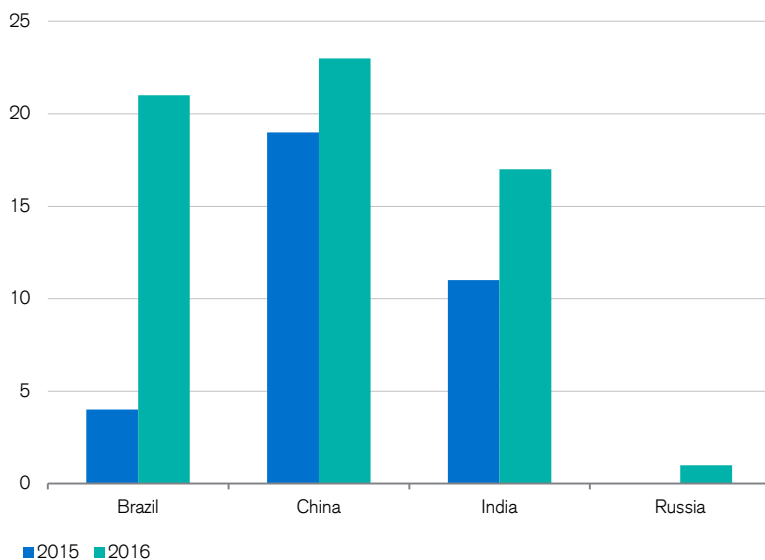
Year-on-year change in car ownership (p.p.)



Source: Emerging Consumer Survey 2017

Figure 6

Share of consumers that expect to use car sharing schemes significantly or slightly more



Source: Emerging Consumer Survey 2017

Are EM consumers becoming more conscious?

Owing to the potential healthcare costs described earlier, we believe that EM 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.

Consumers may start buying only what they need

Owning a car is typically seen as a bad investment decision considering the ticket size, strong depreciation and the on-average low usage (we estimate less than 5% of the time). Therefore, signs that the trend in car ownership might be changing could be seen as an indicator that consumers are starting to change their appetites. This argument would become stronger in cases where, at the same time, consumers become more open to using car-sharing services such as Uber, Lyft, Didi Chuxing (formerly known as Didi Kuaidi) and Zipcar.

While not fully conclusive, our survey data does show that growth in car penetration rates is starting to slow across a number of our surveyed countries. This is true for countries such as China, India and Mexico. At the same time, we also observe an increase in the share of consumers intending to use car-sharing services more. In Brazil, for example, the share of consumers intending to use services like Uber rose from 4% in last year's survey to 21% this year. In China, a country with a competitive sharing market (e.g. Uber and Uber and Didi Chuxing), almost a quarter of the consumers surveyed intend to use these services.

Consumers are switching from “bad” to “good” food

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.

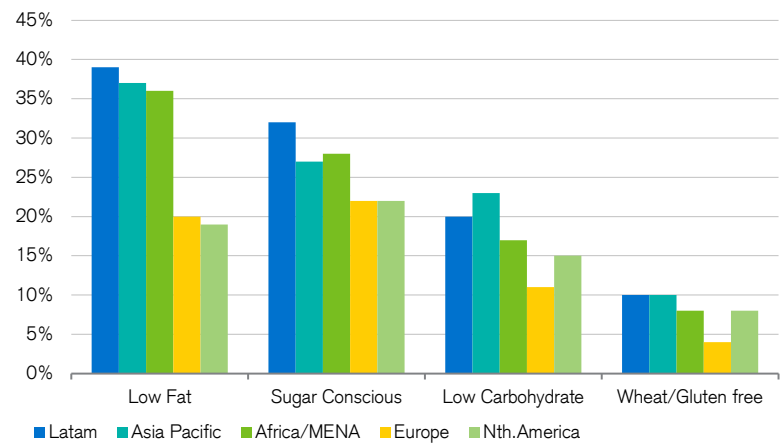
We reviewed our survey results to see if they also suggest that a more healthy approach is adopted by our consumers, which is indeed the case. For example, consumption of beer, spirits and the use of cigarettes is down year-on-year across most of the countries surveyed (Figure 8). At the same time, we 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).

Increased focus on personal care

Another consumer product that may indicate whether emerging consumers are becoming more conscious about their lifestyles relates to demand for personal and skin-care products. We note from the survey that a majority of consumers in all countries already buy these products. On a positive note, we find that this share of purchasing consumers rose in five out of eight countries last year. In addition, the share of consumers that intend to spend more on personal and skin-care products this year rose in six out of eight countries.

Figure 7

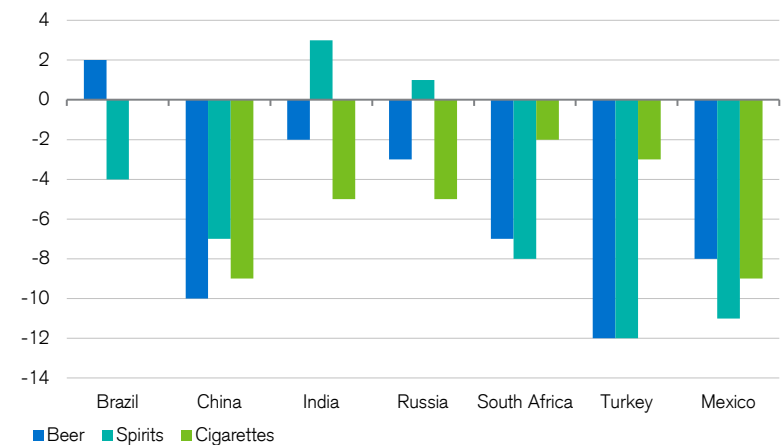
Percentage of respondents who say they follow a special diet that limits or restricts specified foods or ingredients



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

Figure 8

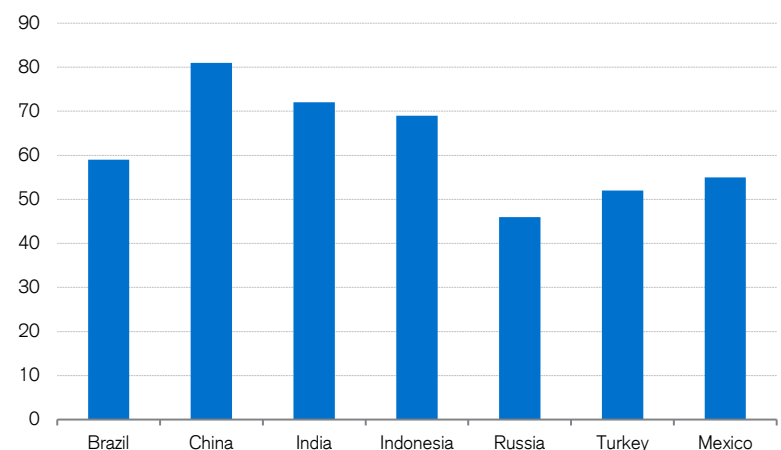
Year-on-year change in share of consumers who had bought these products in the past 3 months (%)



Source: Emerging Consumer Survey 2017

Figure 9

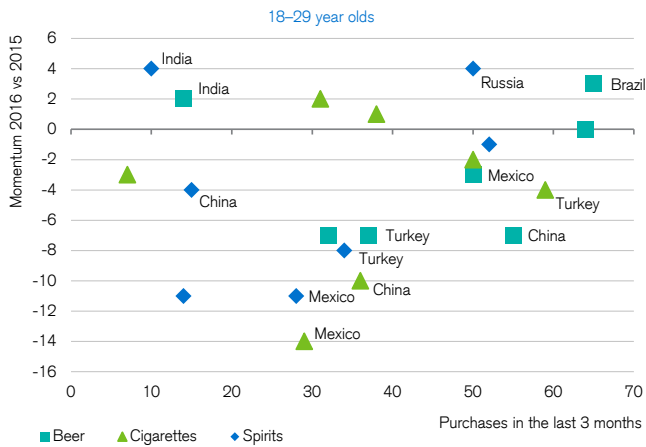
Percentage of consumers eating less sugary or “non-healthy” products and eating “healthier” options



Source: Emerging Consumer Survey 2017

Figure 10

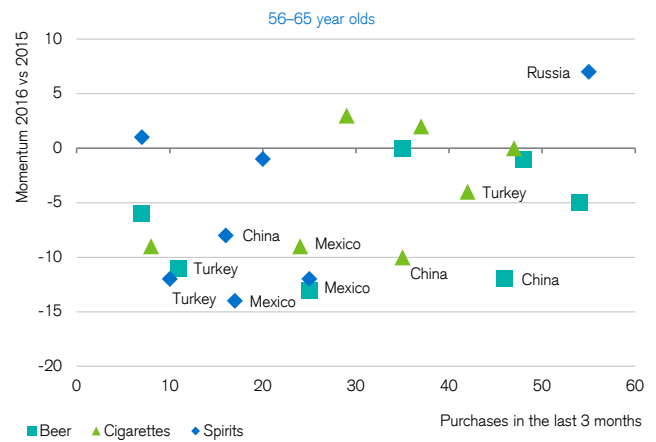
Young consumers in China, Turkey and Mexico have reduced consumption of unhealthy products most over the past 12 months...



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



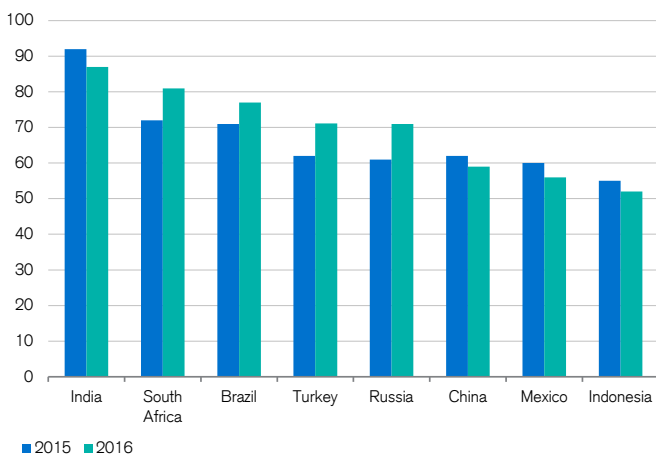
Source: Emerging Consumer Survey 2017

When reviewing consumption patterns 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).

Our survey shows that the intention to spend more on personal and skin-care products is broad-based, which enhances our call on the conscious consumer. For example, the share of low-income consumers who have indicated a desire to spend more has risen strongly over the past few years and is now similar to the share of high-income consumers.

Figure 12

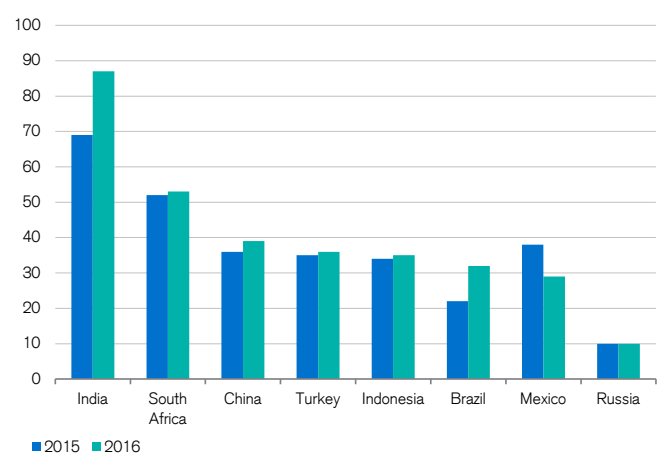
Percentage of respondents who bought personal and skin-care products in the past 3 months



Source: Emerging Consumer Survey 2017

Figure 13

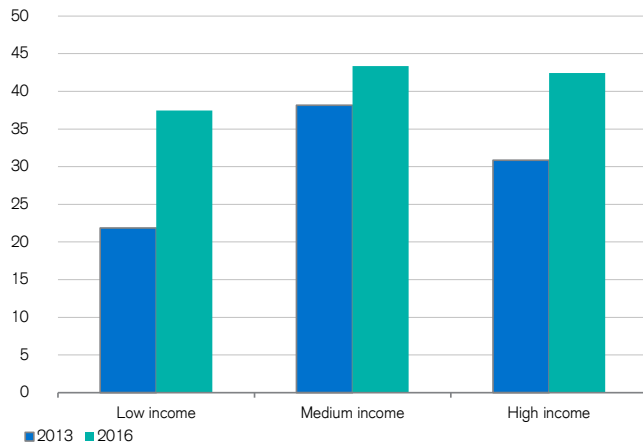
Percentage of respondents that intend to spend more on personal and skin-care products



Source: Emerging Consumer Survey 2017

Figure 14

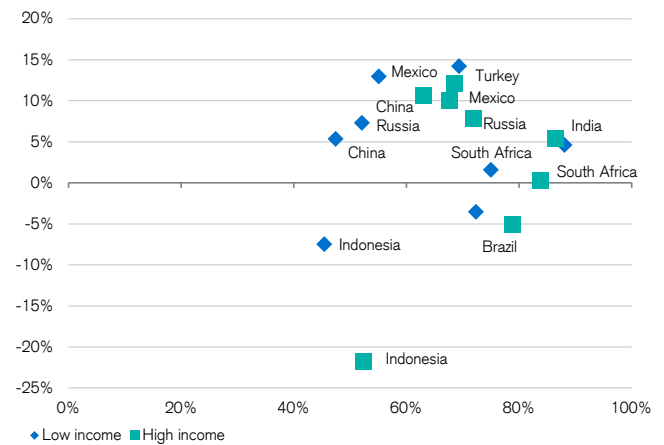
Percentage of respondents that intend to spend more on personal and skin-care products



Source: Emerging Consumer Survey 2017

Figure 15

Skin-care penetration and momentum in the last 3 months: low income vs. high income consumers



Source: Emerging Consumer Survey 2017

Healthier through a more active lifestyle

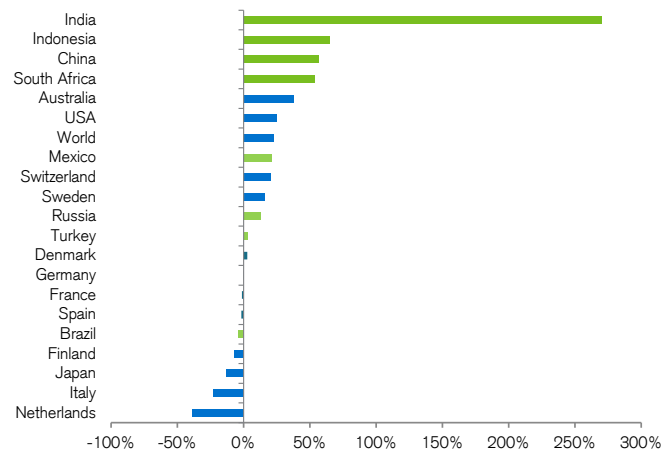
Finally, we also review whether consumers are likely to start leading more active lifestyles. External indicators from sources such as market research company Euromonitor suggest that this is the case. For example, consumption of sports drinks during the past five years has been growing strongest across most of the economies we surveyed (Figure 16). Sport-nutrition consumption (e.g. protein products) has also grown very strongly for most of our surveyed markets (Figure 17). The exceptions here include Russia and South Africa, where total consumption has declined between 2011 and 2016. Indications that consumers may be starting to lead more active and therefore healthier or conscious

lifestyles might also be found through purchase behavior in terms of sportswear and indications of whether consumers have started to exercise more.

The market for sportswear has indeed expanded aggressively over the past five years. While we would not necessarily attribute all of this growth to consumers using sportswear to start exercising, we do see this as additional “evidence” of a broader trend toward a more conscious lifestyle. In this regard, data from Euromonitor (see charts below) not only shows that the market for sportswear is growing most strongly across key emerging markets, but that the increase in sportswear spending remains far stronger across global emerging markets than developed markets (Figure 18).

Figure 16

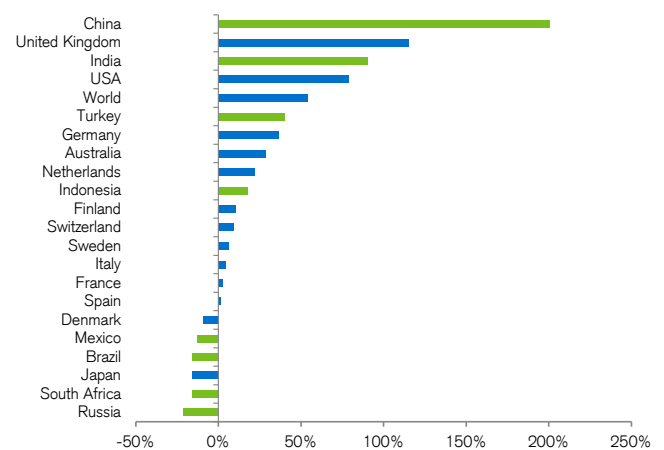
Change in consumption of sports drinks, 2016 vs. 2011: India, Indonesia and China leading



Source: Euromonitor, Credit Suisse research

Figure 17

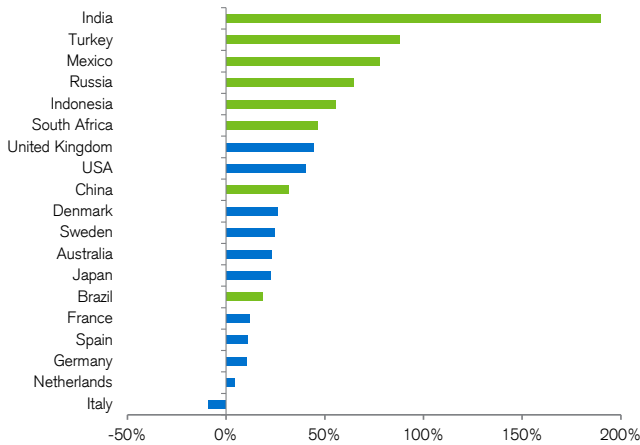
Change in total sales of sport nutrition, 2016 vs. 2011: China and India lead, Russia weakest



Source: Euromonitor, Credit Suisse research

Figure 18

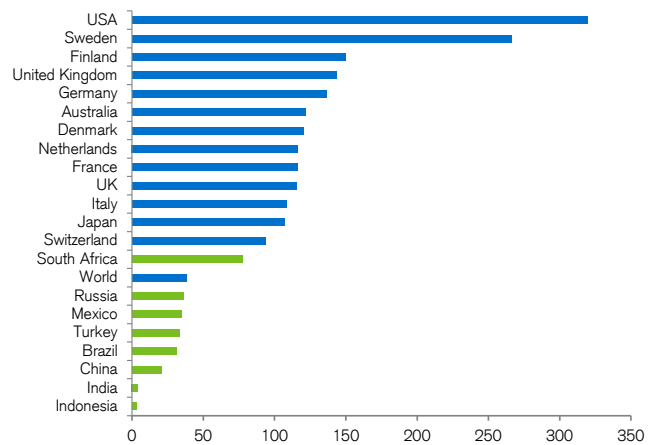
Sportswear market sales by country: 2016 vs. 2011 in local-currency terms



Source: Euromonitor, Credit Suisse research

Figure 19

Per capita spending on sportswear (USD/year): Most upside potential remains in global EMs



Source: Euromonitor, Credit Suisse research

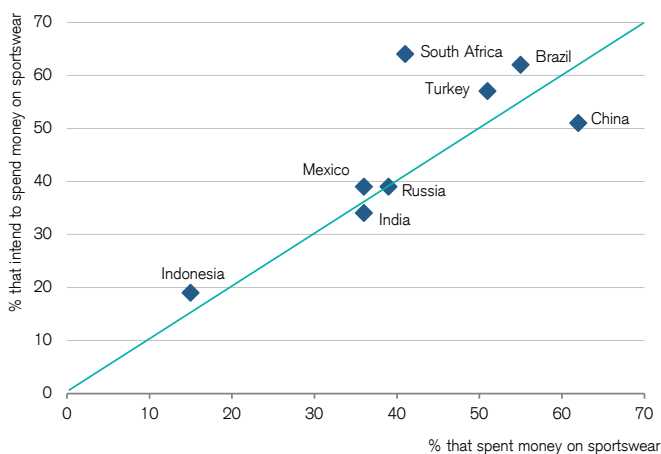
China is a key focus for sportswear

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 20). 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. 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.

Figure 20

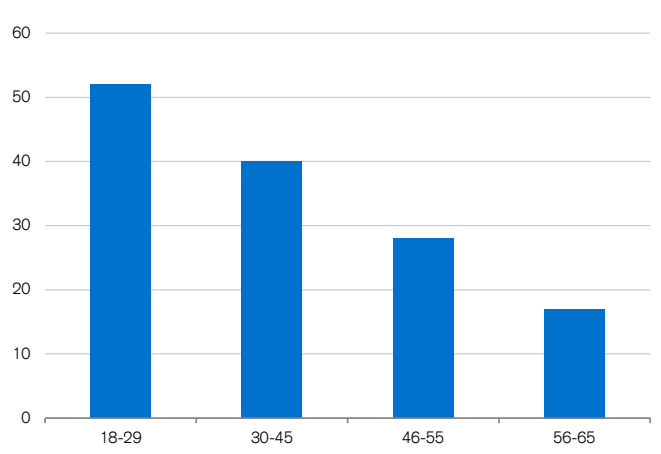
Share of consumers that buy sportswear



Source: Emerging Consumer Survey 2017

Figure 21

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



Source: Emerging Consumer Survey 2017

Which brands stand out from our survey?

Having established that consumer spending patterns across key emerging economies are beginning to reflect a more conscious lifestyle with healthier products and services, we use our survey to establish which brands might benefit most (and least) from this trend.

In sportswear, we note the continued dominance of Adidas and Nike across all our surveyed emerging countries, with purchasing intentions for each of these names ranking in the top three when consumers were asked which brands they intend to purchase over the next 12 months (see Table 2).

This is largely underpinned by the value consumers assign to these two brands, with 44% stating that Adidas is worth paying more for and 45% for Nike.

Examining the momentum of sportswear brands has shown the supremacy of international names and further reflects the low penetration and small market share that domestic sportswear brands have in emerging economies. Exceptions to this are Olympikus in Brazil and Li-Ning in China.

Skincare/cosmetics: With greater consumer focus on skincare and cosmetic products among our respondents, we note that L'oreal among developed market companies is well placed. Companies in emerging markets with exposure include Hindustan, Unilever, LG household & healthcare and Amorepacific.

Beer: While consumer spending toward beer and alcohol is negative, we do warn against taking a uniformly negative view on EM-exposed beer brewers, as country-based differences remain. We highlight Table 4 as an example.

Table 2

No.1 brand purchasing intentions over the next 12 months

| EM countries | Brazil | China | India | Indonesia | Mexico | Russia | Turkey |
|--------------|-----------|---------|--------|-----------|--------|--------|--------|
| Adidas | Adidas | Adidas | Adidas | Adidas | Nike | Adidas | Adidas |
| Nike | Nike | Nike | Reebok | Nike | Adidas | Nike | Nike |
| Reebok | Olympikus | Li-Ning | Nike | Converse | Puma | Reebok | Puma |

Source: Emerging Consumer Survey 2017

Table 3

Sports shoes and wear brand momentum

| | Brazil | China | India | Indonesia | Mexico | Russia | Turkey |
|-------------------|-----------|--------------|----------------|-----------|-----------|-----------|------------|
| Top 3 momentum | Olympikus | 361 361 | Adidas | Adidas | Nike | Sketchers | Lescon |
| | Adidas | Sketchers | Converse | Converse | Sketchers | Speedo | Adidas |
| | Mizuno | Under Armour | Fila | Nike | Reebok | Reebok | Sketchers |
| Bottom 3 momentum | Nike | Puma | Le Coq Sportif | Hommy Ped | Puma | Nike | Puma |
| | Diadora | Converse | Diadora | Reebok | Diadora | Champion | Timberland |
| | Puma | Nike | Reebok | Bata | Pirma | Adidas | Converse |

International Domestic

Source: Emerging Consumer Survey 2017

Table 4

Beer momentum

| | Beer purchases over the last 3 months | Momentum 2016 vs. 2015 | Beer purchase intentions over the next 12 months | Momentum 2016 vs. 2015 | Stocks with greatest exposure | Revenue exposure (%) |
|--------|---------------------------------------|------------------------|--|------------------------|-------------------------------|----------------------|
| Brazil | 63% | 1% | 25% | 5% | Anheuser-Busch (+ve) | 16% |
| Mexico | 42% | -7% | 22% | -4% | Heineken (-ve) | 17% |

Source: Emerging Consumer Survey 2017



E-commerce: New challenges

This year's Emerging Consumer Survey shows that the momentum of the overall e-commerce theme remains strong across emerging markets, especially in India and Turkey. We estimate that online retail spending in the economies we surveyed may exceed USD 2.5 trillion by 2025 from less than USD 1 trillion today. However, a word of caution is in order. Our analysts in China and Latin America note that competitive conditions have started to change as traditional retail companies are developing multi-channel strategies. While it is too early to judge the exact impact, this development may put pressure on cash-flow returns of pure online companies (we include analysis from our e-commerce specialists across the regions).

Eugene Klerk

Continued growth in connectivity

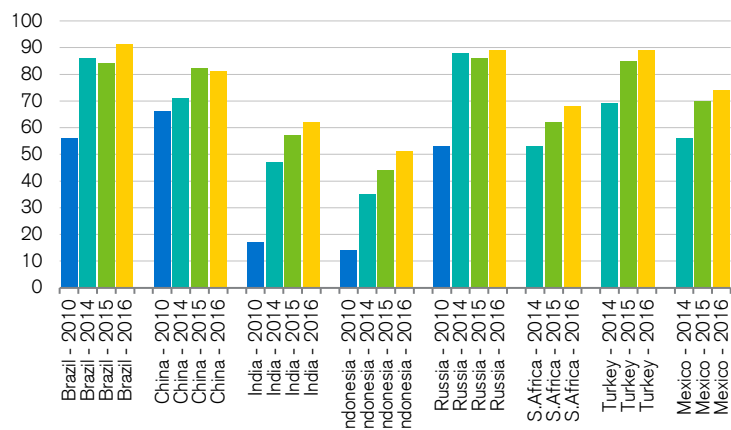
This year's survey provides solid support for our view that the internet acts as a strong enabler in regard to the theme of consumer spending across emerging countries. Readings from all our surveyed countries suggest that an ever-greater share of consumers now have internet access. In Brazil, for example, 91% of the consumers we surveyed have internet access, up from 56% in 2010 and 84% last year (Figure 1). While internet penetration in Indonesia is the lowest across our range of countries, it has increased over threefold since 2010 to 51% last year. We note here that broader internet penetration rates as reported by sources such as Internetworldstatistics.com are typically much lower than the readings from our survey. One of the key reasons for this is that our survey only captures adults rather than the entire population.

Not just a high-income millennial story

We note that the theme of connectivity in relation to emerging economies is not just a high-income millennial-based phenomenon. Our survey data shows, for example, that 42% of consumers aged 56 and older had internet access last year, up almost 50% from 2012 levels (Figure 2). In addition, we also find that 57% of low-income consumers across our surveyed countries had internet access last year compared to 36% in 2012 and 48% in 2014. While this is still much lower than the 88% access rate for high-income consumers, we do find that access growth is indeed broad-based (Figure 3).

Figure 1

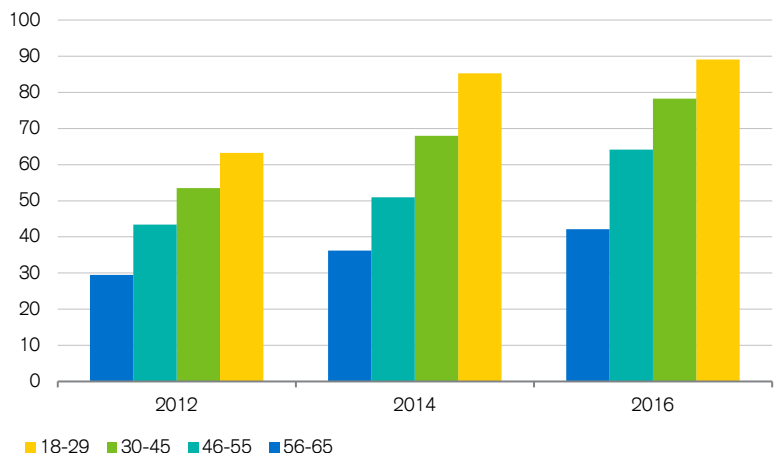
Percentage of consumers with internet access



Source: Emerging Consumer Survey 2017

Figure 2

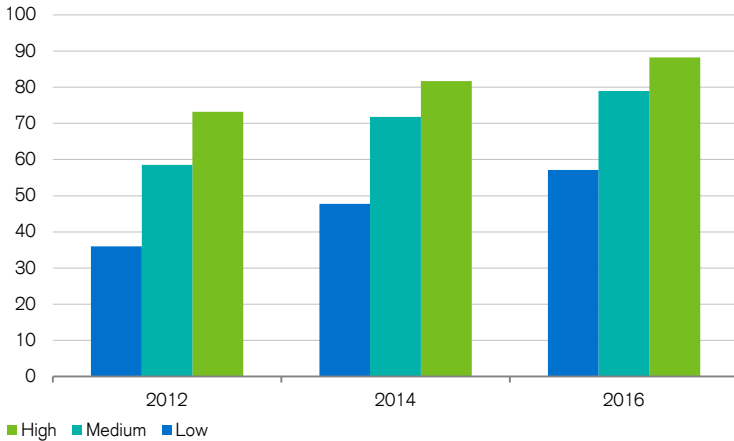
Percentage of consumers with internet access by age – growth across all cohorts



Source: Emerging Consumer Survey, 2017

Figure 3

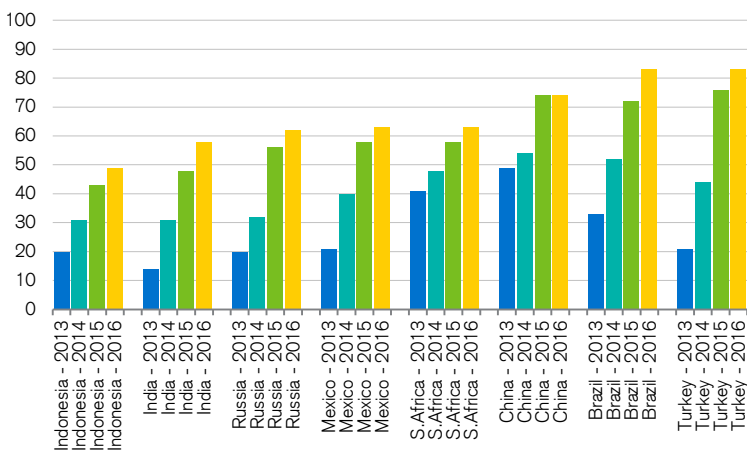
Percentage of consumers with internet access has grown across both low and high-income groups



Source: Emerging Consumer Survey 2017

Figure 4

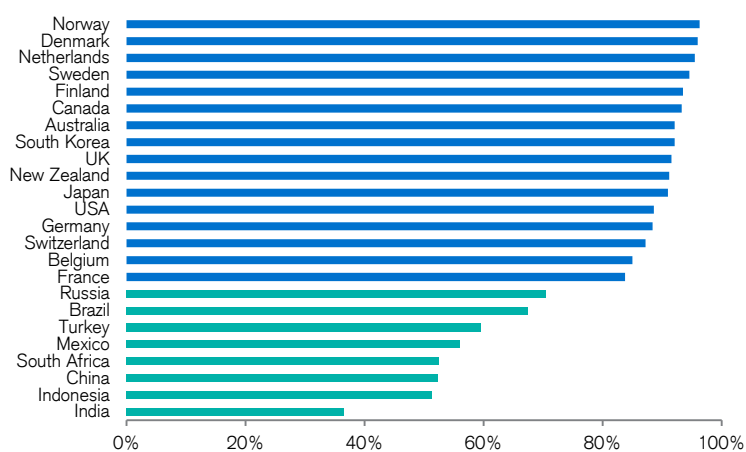
Percentage of consumers that use their smartphone to access the internet



Source: Emerging Consumer Survey 2017

Figure 5

Internet penetration: Developed markets versus emerging markets



Source: Worldinternetstats.com

The smartphone enables internet access

In our view, the impact of smartphone technology cannot be underestimated as an enabler for the connectivity theme as it relates to emerging economies. Our survey data clearly shows that well over 50% of consumers use their smartphones to access the internet. The share of smartphone users that access the internet is especially high at over 70%–80% in China, Brazil and Turkey (Figure 4).

Smartphones as internet enablers are especially relevant for rural parts of the emerging world considering that fixed-line telephone networks tend to be underdeveloped there. Our survey shows that 57% of rural smartphone consumers use their devices to access the internet, up from just 27% in 2013 and only 6% below 63% for urban-based consumers.

Plenty of growth potential left despite rising access

Although internet access has grown substantially over the past few years, we note that the theme is far from played out. For example, access rates across developed markets are on average well above 80% (Figure 5). Applying an 80% average access rate to our surveyed countries would suggest that some 1.1 billion people have yet to access the internet. While this may seem like a "blue sky" scenario, we would point out that our survey also shows that the share of low-income, smartphone users accessing the internet is rising rapidly, suggesting indeed that internet access is becoming an ever-broader-based phenomenon.

Against the background of these "blue sky" calculations, we would highlight one note of caution. Data from our survey suggests (and this is dealt with elsewhere in this report) that momentum related to spending intentions for smartphones appears to be slowing down in some countries. This might be related to a switch from expensive smartphones to cheaper versions, but could also indicate that overall smartphone growth is starting to slow down. The latter scenario would imply that internet access saturation levels are likely to be achieved more slowly than some investors might expect.

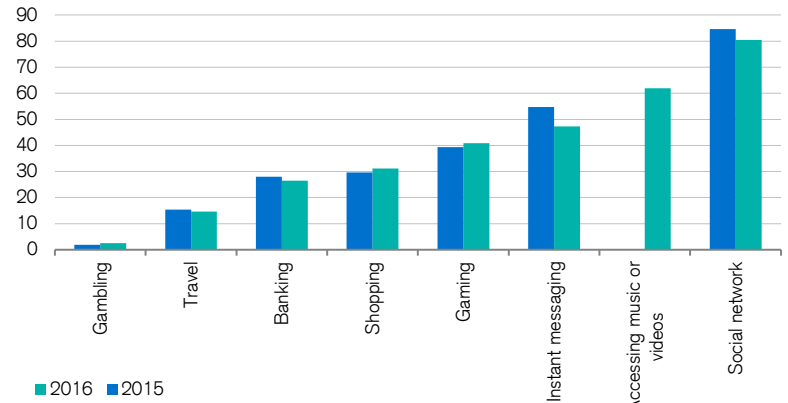
E-commerce still a vibrant theme across EMs

Online shopping continues to gain momentum. The continued rise of smartphone-enabled internet access across our surveyed emerging economies provides ample support for a positive outlook with regard to the growth prospects for related consumer services. Based on our survey, these tend to be geared to using social networks, online music and video services, and gaming. Interestingly, we also note that almost a third of consumers shop online.

Since 2011, we note that the share of consumers shopping online has more than doubled. To underline the relevance of smartphones to the EM e-commerce story, we refer to data from Google, which indicates that a much higher share of EM consumers use smartphones for online purchases than is the case for consumers in developed markets. In addition, we also find (especially in the case of India) that EM consumers rely more on their smartphones to find the right product online.

Figure 6

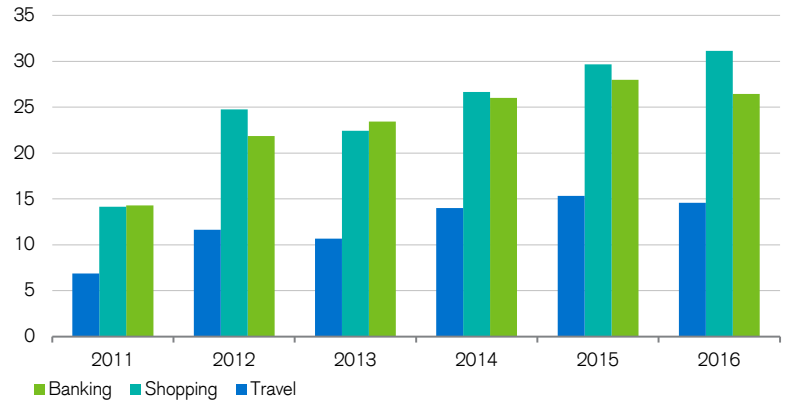
Percentage of consumers using certain services when online
(note: no 2015 data for music/video)



Source: Emerging Consumer Survey 2017

Figure 7

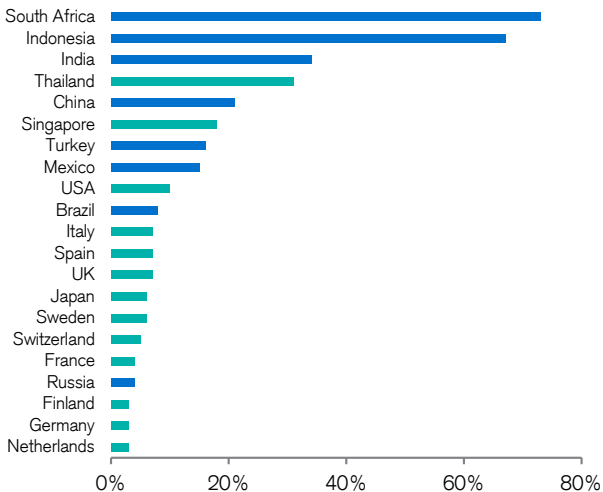
Percentage of consumers using online services by year – shopping continues to gain momentum



Source: Emerging Consumer Survey 2017

Figure 8

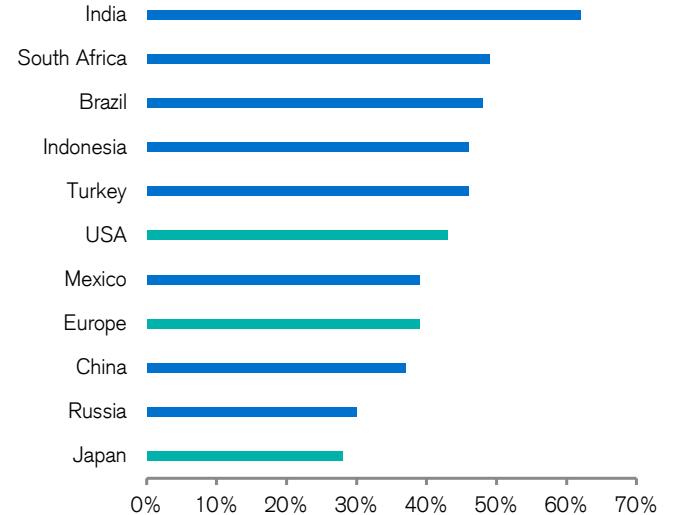
Percentage of consumers using smartphones for online purchases



Source: Google: Consumerbarometer

Figure 9

Percentage of consumers who used a smartphone for initial research online prior to purchasing goods



Source: Google: Consumerbarometer

Figure 10

Percentage of consumers that shop online – strongest increase in India and Turkey

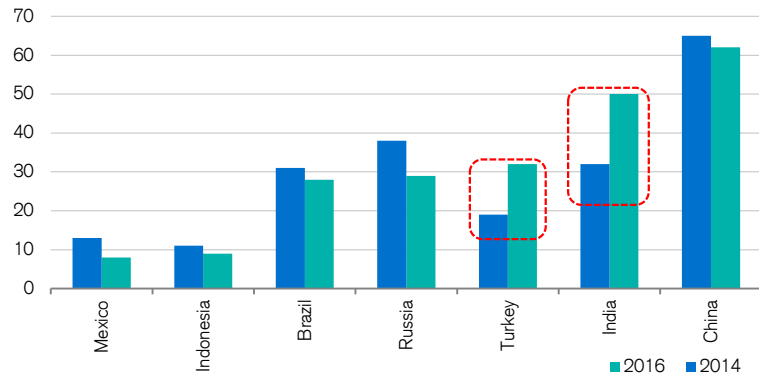


Figure 11

Percentage of consumers that expect to increase online spending

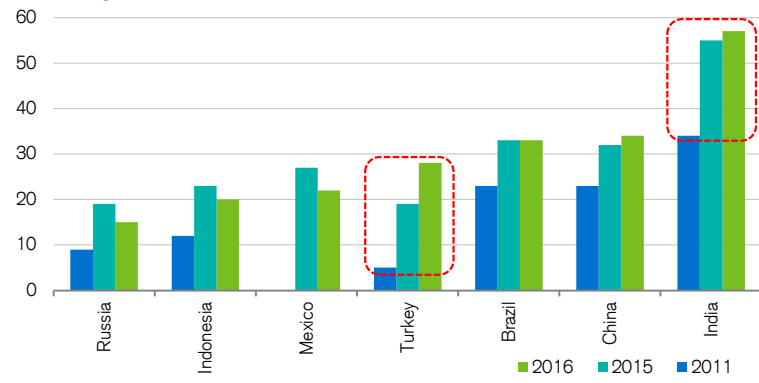


Figure 12

Percentage of spending with credit cards down – momentum strong in India

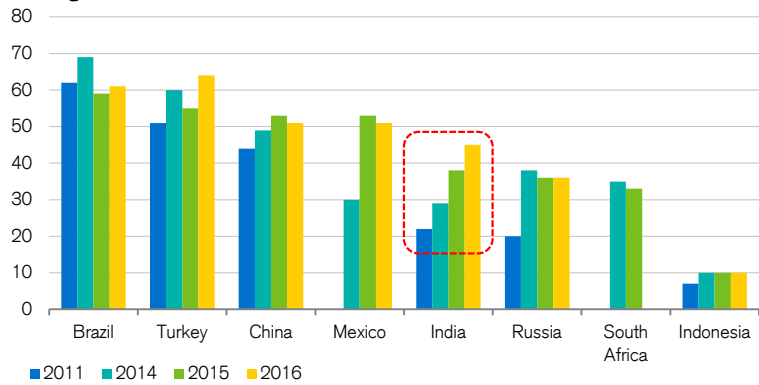
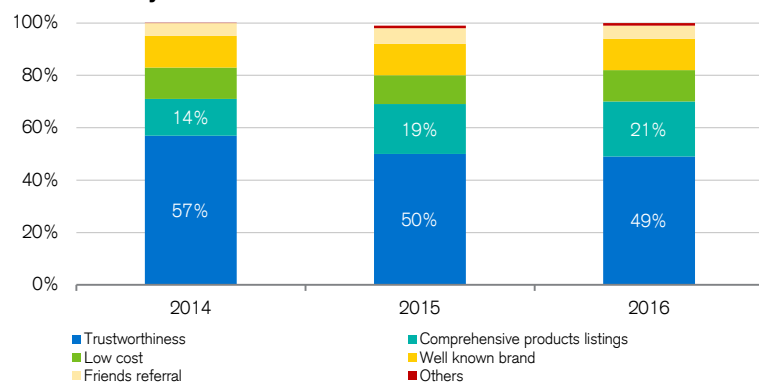


Figure 13

Reasons why Chinese consumers visit certain websites



Source Figures 10-13: Emerging Consumer Survey 2017

Shopping momentum strongest in India and Turkey

When reviewing online behavior by country, we note that while online shopping is most advanced in China, momentum toward online shopping is strongest in India and Turkey (Figure 10). In case of India, for example, we found that 50% of consumers now shop online compared to just 32% in 2014. These readings correspond well with the positive view held by our Indian research team on the prospects for e-commerce in India (see also the section on India in this report). In Turkey, the share of consumers shopping online has increased from 19% in 2014 to 32% today.

To gauge future momentum, we also asked consumers whether they are likely to increase their online spending this year. Again we found that the readings for India and Turkey are stronger than for the other countries in our survey (Figure 11). Countries where momentum toward online shopping appears to be moderating include Mexico, Indonesia and Russia.

Online shopping – how big can it become?

Given the momentum in online spending by emerging consumers and our overall positive view on potential expansion of the middle class across the economies we surveyed, we also reviewed the potential size of e-commerce spending in the longer term. In trying to assess future potential, we recognize that this depends on the consumers' perception in relation to their willingness to spend online. Issues that appear relevant in this regard include usage of non-cash payment systems (naturally highly relevant for online spending) and trustworthiness of e-commerce websites.

Acceptance of credit card payment systems is high or rising

We note that usage of non-cash payment systems (e.g. credit cards) is either high or rising across all but Indonesia. Our survey data suggests that momentum in terms of the use of non-cash payment methods is particularly strong in India.

These survey readings correspond well with research from our Indian research team (see also the section on India) which clearly outlines that non-cash payments are rising sharply, albeit from a low base. They argue that the demonetization exercise of the Indian government has triggered a sharp rise in all non-cash forms of payment and that this is likely to continue, not least driven by regulatory changes.

Overall, we feel that greater acceptance and usage of non-cash payment methods in the countries we surveyed support our positive view on online shopping as one of the key enablers for the theme.

Consumer trust in websites is stable to improving everywhere

Another possible headwind for further growth in e-commerce relates to consumer trust in websites. Our survey clearly shows that trustworthiness is becoming less of a deciding factor for using certain websites in nearly all the countries surveyed except Russia and perhaps India (Figure 14). In other words, consumers are more concerned about issues such as cost, how comprehensive the range of products is, or whether the website is well known.

Estimating the potential market size

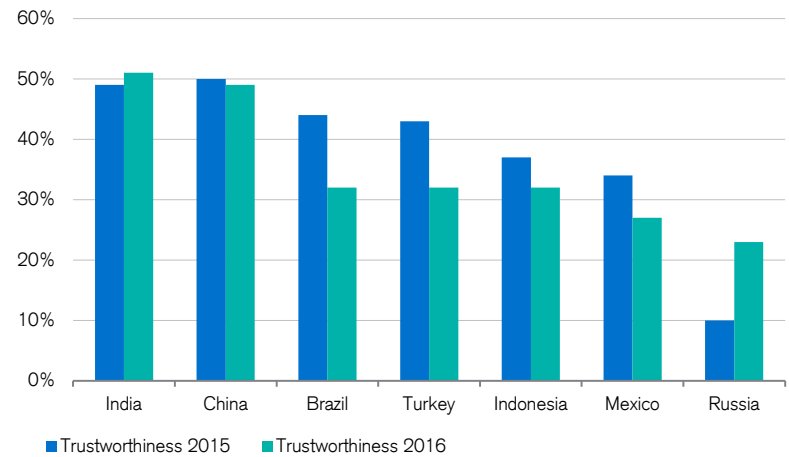
The readings from this year's survey clearly suggest that the growth outlook for online retail across the emerging world is strong. As an indication of the growth potential, we note that, with the exception of China, online spending per capita across the emerging world remains well below levels seen in developed countries. Based on a number of different sources, we estimate that total online spending for the eight countries surveyed reached approximately USD 1 trillion last year. We note that this is completely dominated by China, with an almost 90% share of total online spending (Figure 15). For example, research company eMarketer estimates that over 18% of China's retail spending is carried out online compared to the 2%–3% range for the other countries in our survey.

In order to provide a sense of the potential magnitude of the future online market in the countries we surveyed, we have run a simple yet illustrative scenario. We assume that total nominal retail spending for the countries surveyed will increase by around 5% per annum until 2025. At the same time, we expect the Chinese online market to account for 25% of total retail spending by 2025, up from 18% last year. For India, we assume that this ratio will increase from 2.5% to 15%, while, for the other countries, we expect 10% of retail spending to take place online by 2025.

Based on these assumptions, we believe that total online spending is set to increase from around USD 1 trillion last year to around USD 2.5 trillion in 2025. These assumptions imply strong growth for most countries (compound annual growth rates (CAGRs) in excess of 20%). However, China's market would still represent around 75% of the total, even in 2025. These estimates are driven by a 5% nominal growth rate in retail spending, which might prove too pessimistic (e.g. growth rates in China and India have been closer to 10% recently). Our calculations suggest that for every 100 basis-point increase in annual retail sales growth, online retail spending in 2025 would likely expand by around USD 250 billion. For example, an annual average growth rate of 9% in total retail spending would imply a total annual online retail market of around USD 3.5 trillion across our surveyed economies by 2025.

Figure 14

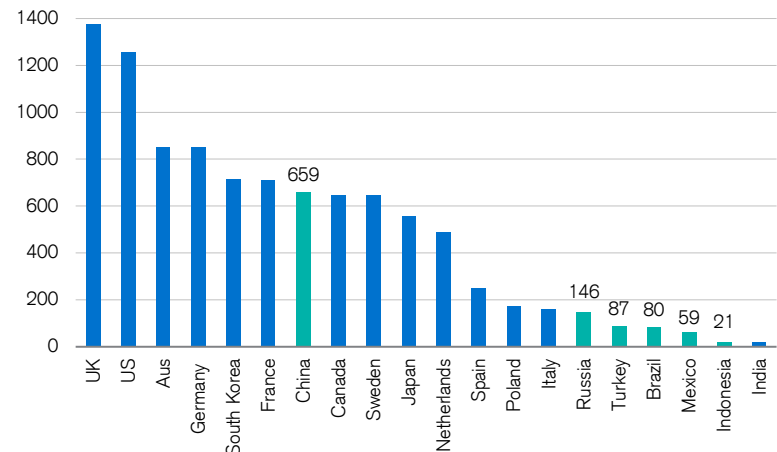
Relevance of trustworthiness of sites by country



Source: Emerging Consumer Survey 2017

Figure 15

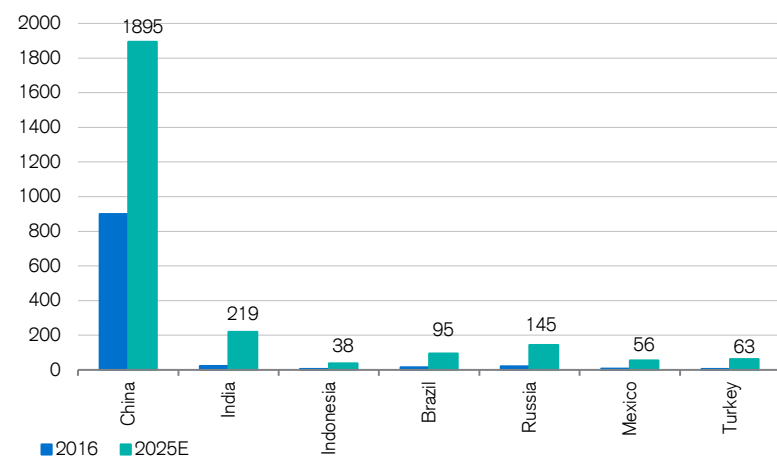
Most recent online spending per capita (USD/year)



Source: Retailresearch, eMarketer, World Bank, Statista, Credit Suisse

Figure 16

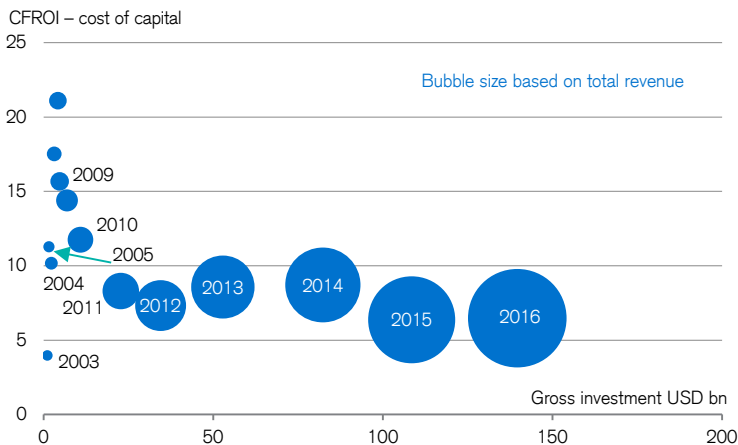
Potential size of online retail market (USD bn)



Source: Credit Suisse estimates

Figure 17

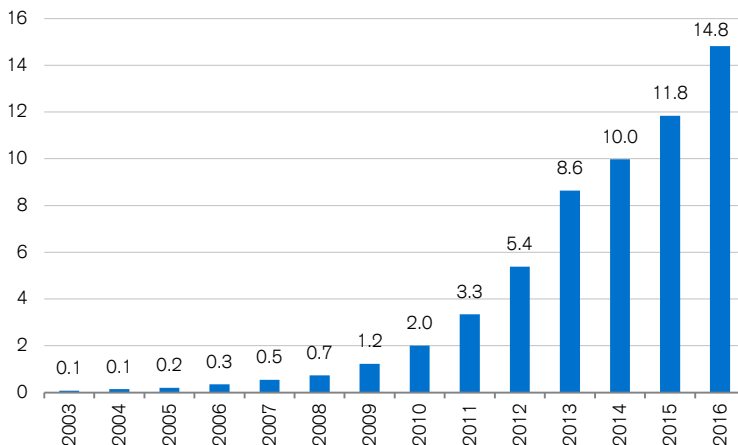
Asian online companies – strong asset growth with CFROIs well above the discount rate



Source: Source: HOLT®, Credit Suisse Research

Figure 18

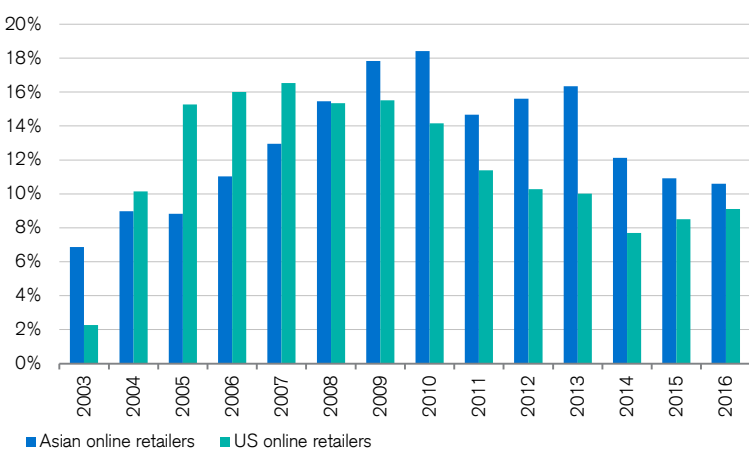
Strong growth in economic profit generation from Asian online companies (USD bn)



Source: HOLT®, Credit Suisse Equity Research

Figure 19

Economic profit as a % of gross investments – Asia outperforms the USA



Source: HOLT®, Credit Suisse Equity Research

Emerging online profitability is changing

The increasing challenge of a growing end-market for online services versus the attempts of traditional retailers to "fight back" could come at the expense of profitability of the pure online players. To find out whether this is already happening, we have rerun our "economic profit" analysis first performed in last year's Emerging Consumer Survey. The concept of economic profit was introduced by Credit Suisse HOLT® and measures the degree of cash-flow generation after accounting for a charge to cover the maintenance of the existing asset base.

Returns versus asset growth

The asset base of the universe of pure online companies across Asia ex Japan has seen substantial growth over the last 10–15 years. In fact, gross investments increased roughly sevenfold since 2011 to reach around USD 140 billion last year. Despite this growth, we note that the average cash flow return on investment (CFROI®) remained well above the cost of capital for the Asian operators during that period. The combination of relatively stable returns with a very strong increase in the asset base suggests that Asian online companies have been successful in generating increasing levels of economic profit. Our calculations indicate that economic profit reached almost USD 15 billion last year, up from just USD 2 billion in 2010 (Figure 18). Our economic profit calculations for the Asian online segment suggest that we have yet to see an impact from the expanding role played by traditional retailers.

Asian versus US online companies

We have also compared the performance of Asian online operators to that of their peers in the USA, the other large relatively developed market for online services. Using economic profit as a share of gross investment, we find that the Asian operators have been more profitable than their US peers since 2010 (Figure 19). The performance of US online companies appears to be improving in both absolute terms and relative to their Asian peers during the past few years. In our view, this is largely due to the improving profitability of Amazon in the USA.

Economic profit and share price performance

Historically, we find that Asian online companies have seen share price returns match their improving levels of economic profit. However, and in contrast to the improving degree of economic profit more recently, this relationship appears to be more challenging of late. It could be that the market is becoming increasingly concerned that the easy growth years for listed Asian operators are behind us and is starting to discount recent shareholder value generation more aggressively.

The Chinese e-commerce market

Raymond Ching, Evan Zhou

Online players may face greater competition.

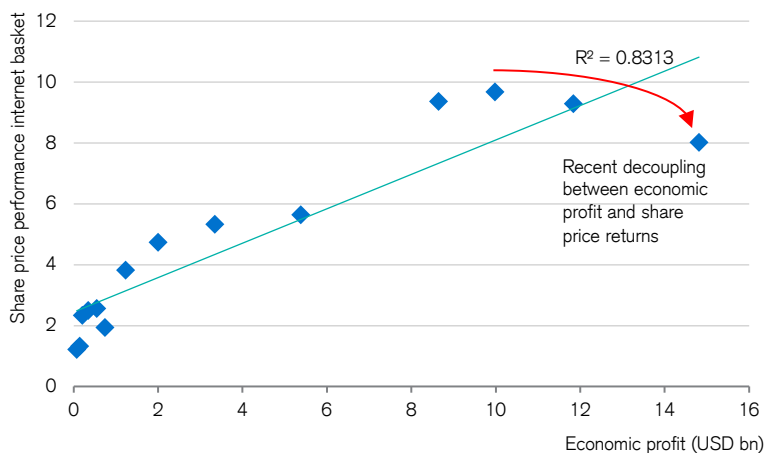
The rapid growth in e-commerce seen to date across the emerging economies we surveyed has tended to be mainly beneficial for the pure online players. In our view, one of the reasons for this is that brick and mortar retailers in global emerging markets are far less developed and therefore have so far provided little competitive threat to online players (Figure 21). 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. 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 22). 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.

Looking ahead, we believe e-commerce will continue to expand market share driven by convenience and the lack of time constraints. In the near future, selling online or offline should not make much difference either way as consumer brands develop their omni-channel strategies. Top sellers in each major category are therefore likely to be dominated by the offline leading brands that develop efficient O2O strategies. While this trend is already visible across China, we note that our analysts in Brazil and Mexico also believe that it is set to become a deciding factor for their online retail markets (see the Latin American section for more details).

Figure 20

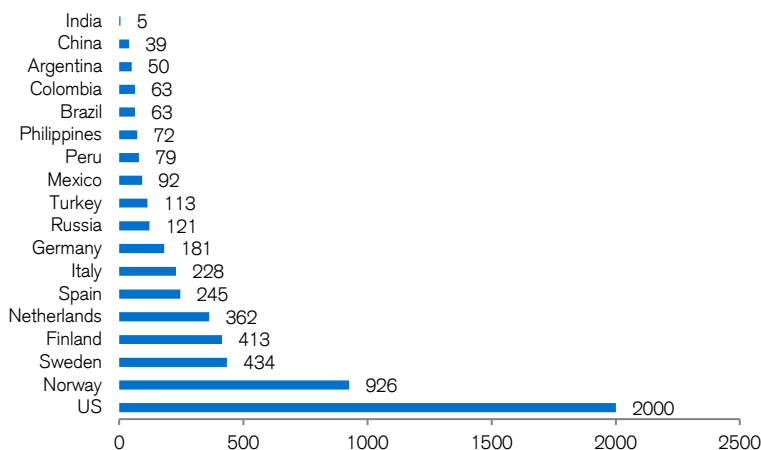
Share price returns vs. economic profit – online players in Asia



Source: HOLT®, Thomson Reuters Datastream, Credit Suisse Equity Research

Figure 21

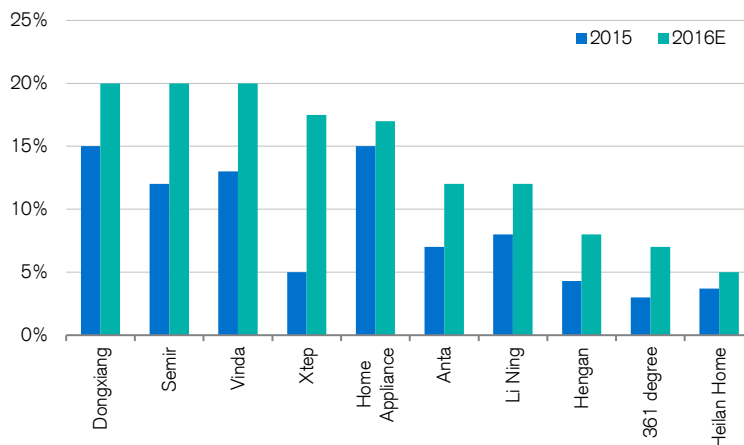
Retail space (m2/1000 people) is far less prevalent across global emerging markets than developed markets, suggesting that pure online retailers might face lower competition



Source: Credit Suisse

Figure 22

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



Source: Company data, Credit Suisse estimates

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 would be the wide variety of products they could 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.

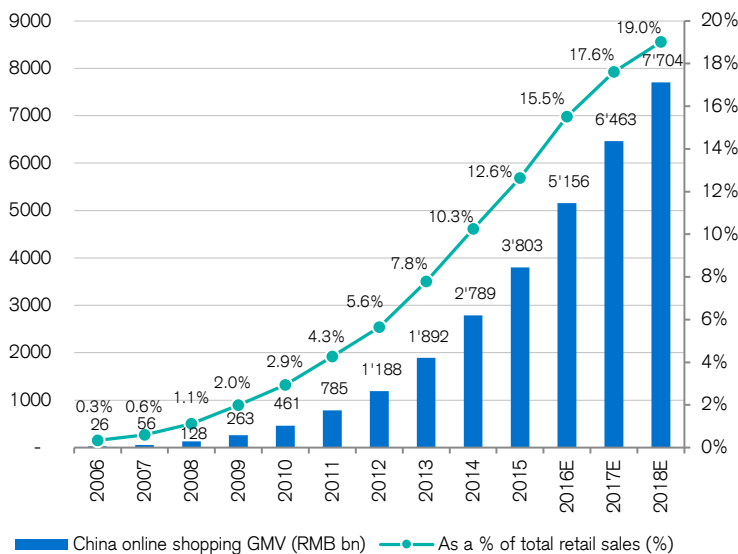
Better marketing knowhow: In terms of user acquisition or improving repeat rates, we tend to believe online players have more competitive advantages. Major e-commerce retailers leverage big-data technology to improve search relevance and generate more personalized recommendations, thus providing more 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.

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 Intime department store and its alliance with China's retail conglomerate Bailian Group are good examples of the omni-channel model that is re-shaping 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.

Figure 23

E-commerce continues to see strong growth with higher penetration



Source: iResearch, NSB, Credit Suisse estimates

The outlook for e-commerce in Latin America

Tobias Stingelin, Antonio Gonzalez, Bruno Zanotta and Leandro Bastos

Relative to some markets in Asia, most notably China, we find that online retail in key Latin American countries remains at an early stage of development. However, our analysts in Brazil and Mexico believe that this may change as they hold a very positive view on the growth outlook for e-commerce in their markets.

Brazil: Growth despite broader economic challenges

Online retail activity in Brazil has been robust, even during 2016, when the worst recession in years impacted the overall economy. Total online retail spending grew by 8% YoY in 2016, which looks strong against a decline in Gross Domestic Product (GDP) of 3.6% in 2016 and 3.8% in 2015 and compares very favorably with a 6.2% decline in overall retail activity last year. Over the past five years, e-commerce growth reached a CAGR of 16%.

Our analysts see a number of reasons for believing that the current penetration of e-commerce (around 3% of total retail) will rise in Brazil:

- First data from our Emerging Consumer Survey indicates that roughly two out of three consumers expect their internet purchases to increase or at least stay at current levels. Moreover, the number of people that previously did not even consider an online purchase before buying a product fell by 17% (YoY) in 2016.
- The product mix offered through online channels continues to expand, which enhances the attractiveness for consumers.
- Consumer trust in the security of online shopping channels is improving.
- The emergence and development of various online tools such as price-comparison websites have streamlined the process of online shopping and enhanced its transparency.
- Advances in the area of logistics have reduced product delivery times. According to our analysts, this is especially relevant in a country with geographical challenges such as Brazil.
- Our analysts also note that usage of social media has become mainstream during the past few years, which aids corporates in highlighting their online offerings and reducing the

resistance that some consumers may hold toward online buying.

- Finally one of the key catalysts for the fast growth in e-commerce has been the increase in the use of smart phones and tablets. Accessing the internet through these devices increased by 267% and 152%, respectively, in the past two years and now represents 60% of overall internet access, i.e. roughly two times the level witnessed in 2013. This has allowed the share of online sales through mobile devices to increase to 10% in 2016 from 3% in 2012.

The corresponding CAGR of 55% in the case of online sales through mobile devices has partly enabled product areas such as toys & games and apparel & footwear to achieve sales CAGRs of 20.2% and 19.6% respectively, during the same period. Moreover we note that all of the key consumer product groups experienced online sales growth that was at least in line with offline sales growth in the same product category. Online growth in apparel and footwear has been the strongest performer, growing twice as fast as offline sales (Table 1).

Table 1

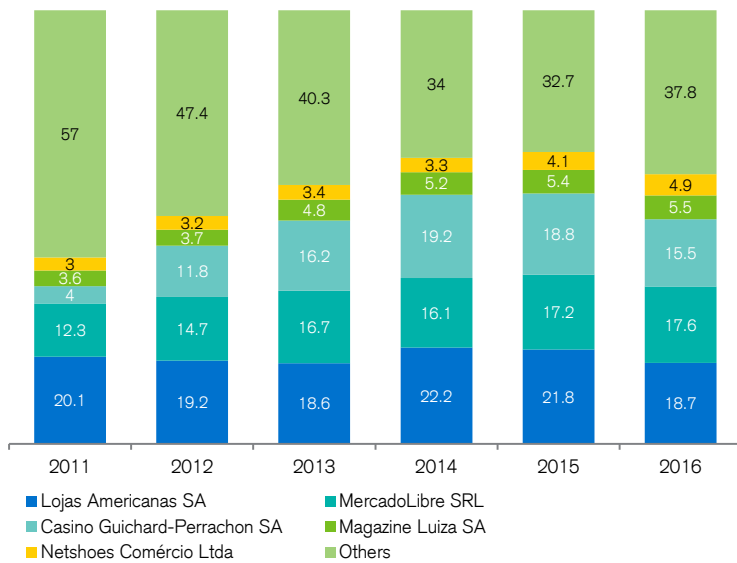
E-commerce growth in 2012–16 by category

| Categories | E-commerce stake growth 2012–16 |
|--------------------------------|---------------------------------|
| Apparel and Footwear | 2.0x |
| Personal Accessories | 1.7x |
| Beauty and Personal Care | 1.5x |
| Traditional Toys and Games | 1.5x |
| Consumer Appliances | 1.5x |
| Home Care | 1.3x |
| Consumer Electronics | 1.3x |
| Pet Care | 1.3x |
| Homewares and Home Furnishings | 1.1x |
| Video Games Hardware | 1.0x |
| Consumer Health | 1.0x |
| Home Improvement and Gardening | 1.0x |

Source: e-bit, Credit Suisse Research

Figure 24

Competitive landscape (market share as a % of retail service providers)



Source: Euromonitor, Credit Suisse

The competitive landscape is changing

The e-commerce sector in Brazil has been rapidly consolidating since 2011 (Figure 24). Data from Euromonitor suggests that the market share of "other players" declined to 33% in 2015 from 57% in 2011 as the top five players increased their share to 73%. However, last year saw a reversal in this trend as the share of "others" rose to 38%. We attribute this to several large companies losing some share possibly due to their sales mix being too geared to recession-prone electronics. Going forward, our analysts believe that the number of online vendors is likely to rise despite the dominance of the five-largest operators.

Mexico – very rapid growth from a low base:

As our survey shows, internet access has increased rapidly throughout the last few years. Now 74% of respondents report having internet access, up from 56% a couple of years ago. Interestingly, the main driver for this growth appears to be access via mobiles/smartphones. Industry data signals that Mexico is a growing market in terms of smartphone penetration (% of total mobile devices) from around 40% in 2015 to an estimated 66% by 2018. Our survey confirms this trend, as the percentage of respondents who report having internet access through smartphones has increased from 21% at the beginning of our survey (2013) to 63% currently.

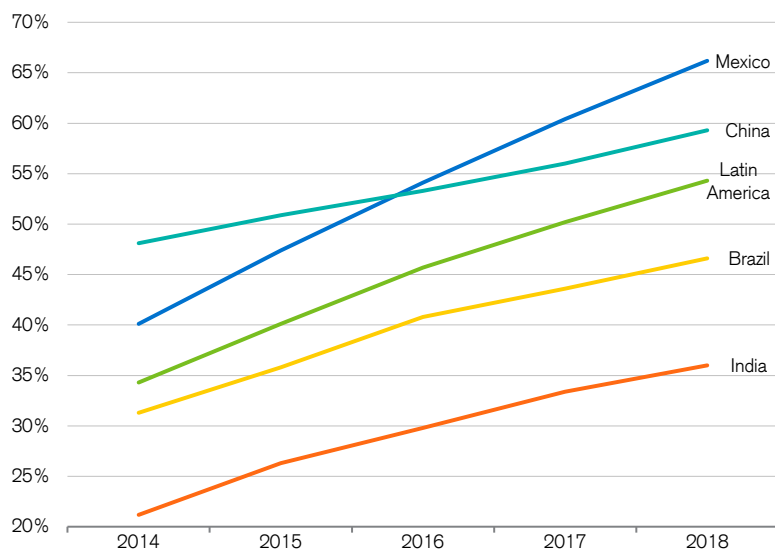
This trend also appears to be happening across all income classes, as the lower-income brackets report rising internet access via smartphones from around 15% in 2013 to around 55% currently. A telecommunications reform in Mexico has significantly reduced telephony prices (via higher competition) and this seems to be providing the desired benefits on this front.

Despite the increase in internet access, we point out that the share of consumers who shop online remains at the bottom of the survey at only 8% of the total. In our view, this has been historically explained by two other structural barriers to e-commerce in Mexico: very low credit penetration (consumer credit to GDP at only 4%) and security issues when sharing data online. We nevertheless highlight that, according to our estimates, 22% of online transactions are already being paid offline. This means consumers who are unable to pay online because they do not have a credit/debit card; or who are simply unwilling to share their data online, are now offered a larger array of online payment options, such as cash-on-delivery, or payments at convenience stores, with the data later being uploaded to the vendor's site.

Indeed, we estimate that as these two structural barriers come down (low internet access and less use of credit cards as a method of payment), Mexico will be strongly positioned to be one of the

Figure 25

Mexico set to outpace other EMs in smartphone penetration in the coming years



Source: Company data, eMarketer, Credit Suisse

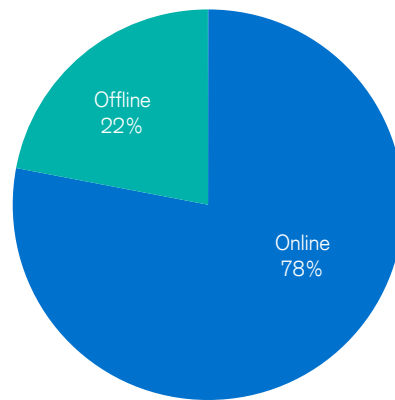
markets with the highest CAGR for online retailing over the next five years (we estimate a CAGR 2015–20E of 23%). Other factors that we think will help the development of e-commerce in Mexico going forward include a sufficiently large number of metro areas (11) with over one million inhabitants; and a relatively low density of retail square meters per capita (over 50% of physical retail sales are generated in the “informal market”), which means there is relatively lower “resistance” from incumbent brick-and-mortar businesses to “block” the entrance of newcomers to the online space.

Mercado Libre leading the race in Mexico...brick-and-mortar companies come second, while Amazon tries to catch up.

Mercado Libre was one of the pioneering online sales companies in Mexico (launching operations in 1999), and we estimate that it is the largest company in the market at the moment (although precise GMV data is not disclosed). However, we think that number two and three players actually come from the brick-and-mortar world i.e. Walmart and leading department store operator, Liverpool, with around USD 240 million and USD 140 million in revenues, respectively. Amazon launched local operations in the market in June 2015. While we think it is still trying to catch up with the leading three players in the market, we definitely think Amazon is a serious contender for leadership in Mexico in the coming years.

Figure 26

22% of total e-commerce transactions are settled with offline payment methods



Source: Company data, AMIPCI, Credit Suisse





National champions: Local brand winners

During recent years, much of the discussion around brands in emerging countries has been centered on multinational and/or luxury brands. However, we are now finding an increasing number of local emerging market consumer companies that have been able to achieve leading market shares in lucrative consumer segments and increasingly in the discretionary categories, which have been typically dominated by western multinationals. With a move toward a more multi-polar rather than a purely globalized landscape seemingly underway, where a dynamic of domestic growth is key, identifying the emergence of "national consumer champions" in the emerging world will be a key investment theme.

Anna Väänänen, Maria Bhatti, Richard Kersley

Going local?

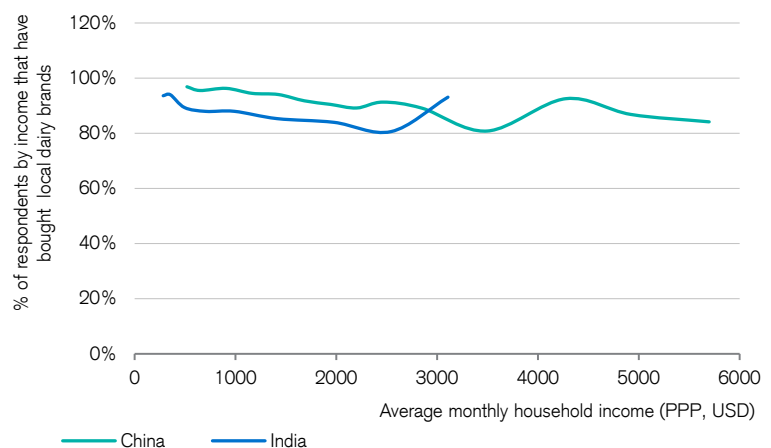
The emerging consumer theme or "megatrend" that we have laid out of rising discretionary consumption has typically been viewed as benefiting the global brand companies rather than local players. Indeed, this theme was set out in the brand preferences expressed in our first Emerging Consumer Survey in 2011 and shown in Figures 1 and 2 for India and China.

The charts show purchasing intentions at differing income levels for local brands in two classic staple and discretionary categories. In dairy (i.e. staple) brands, there is very little elasticity with increases in income. The intentions to buy a local dairy brand do not change greatly whether at high or low income levels. However, when looking at a discretionary category, such as cars in Figure 2, the interest in domestic brands falls away dramatically in the chart as income rises and the aspirational appeal of international brands and their perceived quality kicks in.

As we highlighted earlier, the trend in rising GDP per capita driving the change in balance of consumer spending has been playing out. If this has been the case, a question is how have local brands fared in a world where discretionary consumer markets have seen the highest growth rates? Based on Figures 1 and 2, the assumption might perhaps be that local players would be struggling as consumers become wealthier and aspirations rise. The survey data would question this.

Figure 1

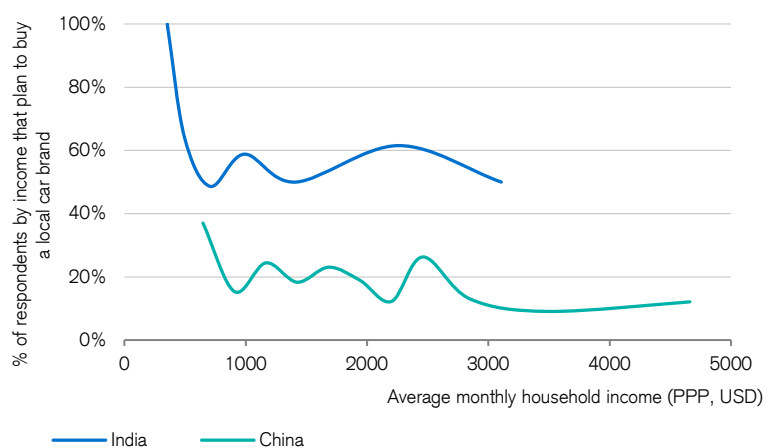
Purchases of local/unbranded dairy brands as a percentage of total purchases, 2011



Source: Emerging Consumer Survey, 2011

Figure 2

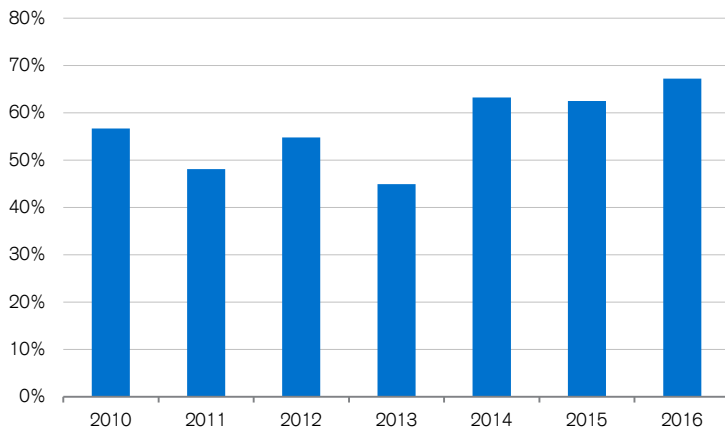
Planned purchases of local car brands as a percentage of total purchases, 2011



Source: Emerging Consumer Survey, 2011

Figure 3

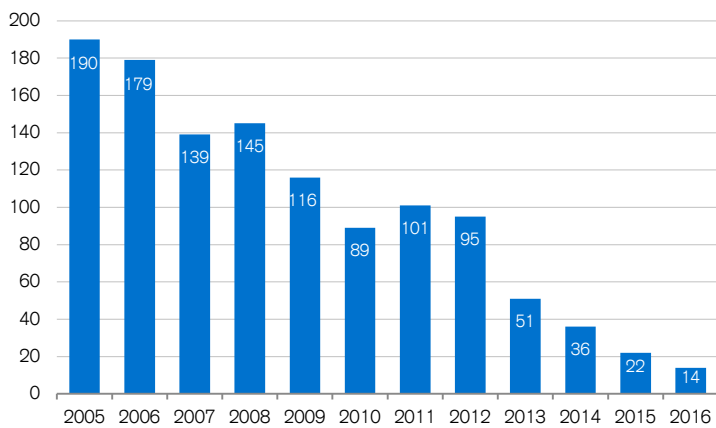
Percentage of respondents intending to purchase a local car brand in India



Source: Emerging Consumer Survey 2017

Figure 4

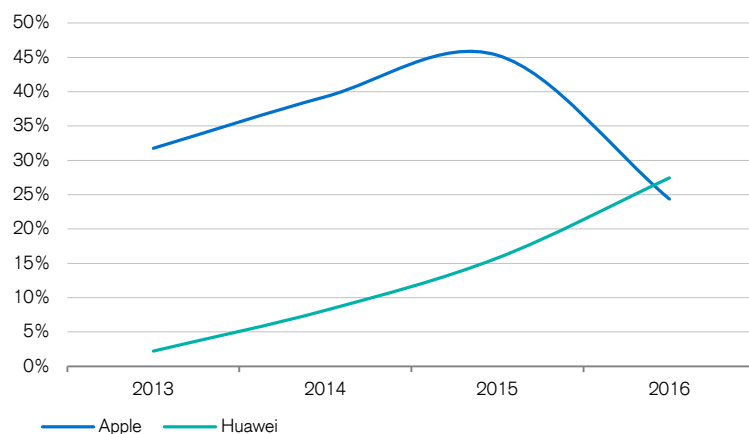
Problems per 100 vehicles in first 2–6 months; difference between local and foreign brands



Source: JD Power survey

Figure 5

Smartphone brand purchasing intentions – high-income earners



Source: Emerging Consumer Survey 2017

Figure 3 shows the purchasing intentions for local auto brands in India. They have more than held their own during a period of significant income improvement in India. While we would not want to put undue emphasis on one year's data point, we have in fact seen the position of the likes of Maruti hardening higher up the income bracket rather than seeing market shares undermined (we discuss this more in detail below).

Whether the intangible aspect of aspiration among emerging consumers is changing is hard to tell, but quality improvements are undeniably moving the needle, particularly in China. The 2016 JD Power Vehicle Dependability Study (VDS) for China highlighted the ongoing closing of the gap in reliability between local and international brands from 22 problems per 100 vehicles, or PP100, in 2015 to 14 PP100 in 2016. While again not wanting to overstate the significance of one statistic, the share local brands commanded among the range of brand preferences in the Chinese automotive market has risen from 17% to 20% in this survey versus a year ago.

Cars are not the only end market where resilience is apparent in local brands. Strong brand positioning in fashion brands is notable. Bosideng in China recorded the highest responses when consumers were asked "which brand is worth paying more for" and notably rising from 5% in 2014 to 14% in 2016. In Brazil, when asked which brands respondents intended to purchase over the next 12 months, local brands demonstrated high penetration (33% Riachuelo, 28% Marisa and 27% Renner), further showcasing the value and loyalty consumers assign to domestic brands.

As a theme of consumer "trading up" takes on more of a local brand rather than purely international brand dynamic, a wider range of potential winners emerge. However, it also raises questions over the positioning and the margin sustainability of the hitherto international brand winners. Figure 5 makes such a point by highlighting the rapid ascent in purchasing intentions recorded in the survey among high-income consumers for Huawei smartphones in China. For the first time, the brand preference expressed for Huawei has now overtaken Apple in this higher income bracket. The other major domestic brand Xiaomi is also rising rapidly. As we highlighted in our first chapter, the Chinese market is getting closer to saturation. As penetration rates rise, a competitive threat to pricing becomes more tangible should such an upward trend in local brand preferences accelerate.

Local brand case studies

While not attempting to tackle every potential end-market, we provide three case studies where a local brand or brands display considerable success in a segment of structural growth: cars in India, the healthcare market in Brazil and sportswear in China (in keeping with our conscious consumer theme). The segments we have identified here are among the fastest-growing areas with still low penetration rates. In many cases, the local company or companies have first had regulatory or direct government support providing a beneficial position to build up a tailored product offering and achieve economies of scale and, in a sense, build "national champion" status. Once the company or brand has established a leading market position, challenging this has become much more expensive for new entrants.

Case study 1: Maruti – leading passenger cars in India

The Indian car market is one of the strongest stories for long-term structural growth in the emerging world. Indian car penetration rates remain at a very low level, with currently only 20 people in 1,000 owning a passenger car, while in China this number is 200¹. This is further highlighted in our survey with only 18% of respondents owning a passenger car in India, while in China this number is more than doubled at 42% (Figure 6).

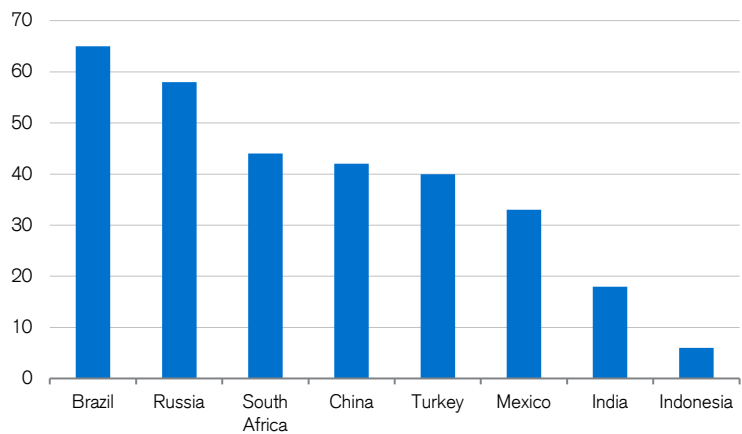
The Credit Suisse Indian autos equity research team estimates that volume in the Indian passenger vehicle market will grow at a compound average growth rate (CAGR) of 15% during the next three years. Despite demonetization having a short-term negative impact on discretionary demand at the end of 2016, multiple factors are supportive of growth in the car market in 2017. These include government pay increases and growth in taxi services. Of the respondents in our survey, 17% indicate more use of car-sharing schemes such as Uber versus only 11% in 2015.

Against this structural growth opportunity, the Maruti domestic brand dominates the market place. Maruti was the first company to set up small-car production in India in the 1980s and is by far the leading brand in the Indian passenger car market today. What is striking from our survey is that Maruti is a domestic brand that is sustaining traction in the high-income bracket, rather than just a local brand of recognition for low-income earners. Figure 7 shows that Maruti is not only the dominant choice of high-income earners in the survey, but also that purchasing intentions are rising.

The quality theme referred to above for the China automotive market is relevant here. Maruti's 47% market share is underpinned by numerous factors such as supportive regulation, the company being able to leverage its parent Suzuki's research and development (R&D) and technology, and its models fulfilling market-specific requirements that western car manufacturers have not been able to meet.

Figure 6

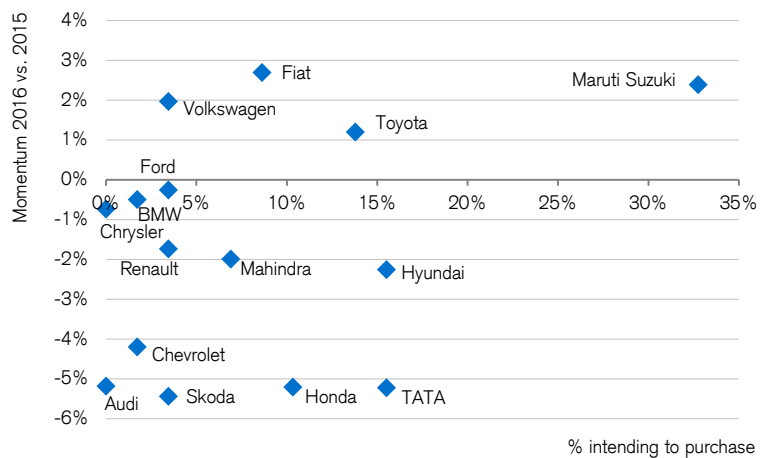
Household car ownership (%)



Source: Emerging Consumer Survey, 2017

Figure 7

Which car brand are you most likely to purchase (high-income earners)?



Source: Emerging Consumer Survey, 2017

¹ US Census Bureau, Japan Automobile Manufacturers Association, China Association of Automobile Manufacturers

After establishing production at a time when foreign direct investment (FDI) of foreign car companies was limited, the Indian government formed a joint venture with Suzuki to supply cars to the market with the size of only 100,000 cars a year. Along with its fresh design, this capped quota provided Maruti with an instant competitive edge. In addition, the Maruti 800 model was fuel-efficient, which became another attractive selling point and still is due to the volatility of the Indian rupee and the need to import oil. While being able to leverage Suzuki's R&D and technology, the car manufacturer has been able to launch a wide product offering for the Indian market in a cost-efficient manner, enabling it to localize 95% of production, which is another significant advantage over its competitors in both time and cost.

At its peak, Maruti enjoyed a 65% market share, which declined subsequently to about 45% as Hyundai introduced a premium model that was also suitable for the Indian car market. Since then, India has further increased the tax differential between small and large cars, which has led to the country remaining a small-car market, while most of the international car brands still have a limited small-car offering. Owing to economies of scale, Maruti has the widest network of distributors and repair shops in rural India, which has allowed the company to maintain a low cost of ownership – another attractive selling point for the Indian consumer. Currently, Maruti sells a third of its volumes in rural India, which is not achievable for its competitors as they do not have dealerships or repair shops.

Maruti has been quick to identify trends in the Indian market and to launch new models. The current strategy is to capture a higher value share of the market through the introduction of premium models launched in 2016 that have been well received, particularly by high-income earners. The company has also built a premium distribution chain, Nexa, which offers a superior and personalized customer experience. With a waiting list of currently more than six months for Maruti's premium model Baleno, challenging the company at the moment would require significant upfront investments for a number of years. In the premium segment, Hyundai is the only competitor with suitable products, while Renault has ambitions in the small-car segment. However, owing to the sheer magnitude of economies of scale that Maruti enjoys, the company is able to offer a significantly better value proposition than its competitors, most of whom are only 10%–15% of its size.

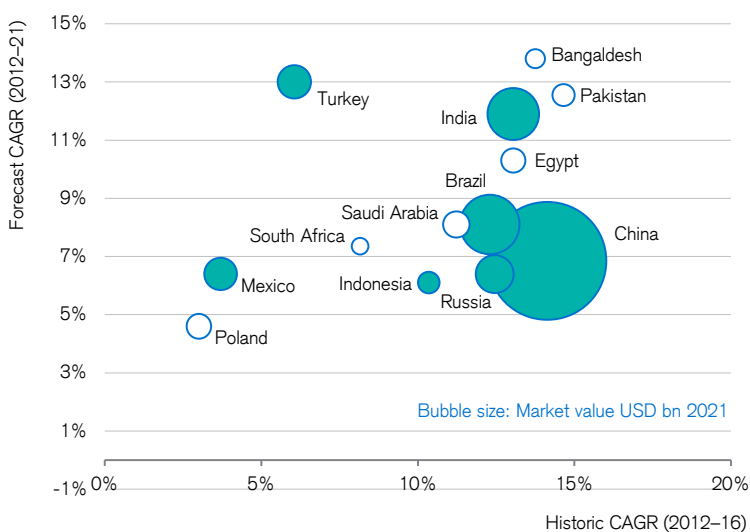
Case study 2: Brazilian pharmaceuticals market

While pharmaceuticals and healthcare do not necessarily belong in the discretionary category in the pure sense, they are end-markets that are typically driven by rising GDP per capita. Penetration rates in the emerging world are typically low as we have highlighted before, while demographic trends provide an added overlay to the growth profile. However, the surprising theme for many has been how global pharma companies have struggled to unlock this structural growth potential as readily as many had assumed (a topic we have highlighted in previous surveys). While different country-specific factors have often been at work, the ability to command price premiums in emerging economies given the distribution of income and the support for local companies has been a common thread. Brazil fits the theme well.

The Brazilian pharmaceuticals market is expected to continue growing at a double-digit rate until 2020 and to become the fourth-largest pharmaceuticals market globally in 2018 after the USA, China and Japan (Credit Suisse and IMS Health). Growth is underpinned by still-low penetration rates and a rapidly aging population. The market is largely an "out of pocket" market as health insurance coverage remains low at 25% and most insurance schemes do not cover medicines. Very little of the pharmaceuticals expenditure comes from the government budget, which is important as budget expenditure is likely to come under significant pressure in the coming years. Interestingly, the pharmaceutical sector has proven to be remarkably robust despite the challenging economic backdrop, posting over 10% annual growth rates over the last three years, while GDP declined by approximately 10% during the same period.

Figure 8

The Brazilian pharmaceutical market is expected to become one of the largest pharmaceutical markets by 2021



Source: IMS

However, what makes the Brazilian pharmaceuticals market stand out among its emerging-market peers is that domestic companies currently retain approximately 60% of market share, with four out of the top ten companies being Brazilian. EMS and Hypermarcas, the first and second largest players (both Brazilian), enjoy 9% and 8% market share, respectively. Furthermore, the region also has a significant number of family owned and highly profitable pharmaceutical companies trusted by consumers, although we note that, specifically in the generics' market, some international companies such as Sanofi and Pfizer have acquired local generics' producers and "brands" that they use in their marketing, so that their products are therefore considered to be local by many consumers.

We believe that the strong growth of Brazilian pharmaceutical companies has been the result of their 100% focus in the domestic market, which for years – mainly before the growth in the disposable income since the 2000s – has been relatively neglected by international players. Local producers were heavily investing in building their distribution structures, including hiring hundreds of sales specialists and developing relationships with the modern trade and distributors, while international companies adopted a less focused approach. Moreover, locals were also investing in strengthening their brands.

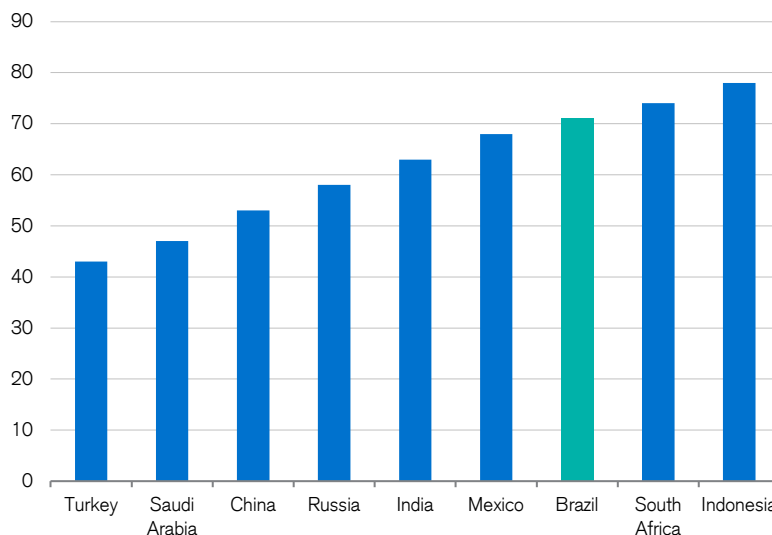
We also believe that the earlier absence of drug-patent regulation (implemented in 1997) has been an important factor as to why local companies thrived. Finally, domestic players were the first to embrace the fast-growing generics market (1999), which enabled them to increase overall market share at an accelerated rate. Leveraging on their skills and strong cash-flow generation, local companies have built efficient manufacturing, distribution and marketing tools, as well as in some circumstances negotiated tax incentives with states as a way to build a cost and scale advantage. For example, Hypermarcas claims to have 36% lower costs per unit than Sanofi, the biggest international pharma company in the Brazilian market.

The notable and added feature of Brazil in our survey is that it has one of the highest proportions of respondents who are happy with the safety and efficacy of products (see Figure 9). However, and not surprisingly, we find from our survey that the more comfortable consumers in the emerging world are with local brands, the less willing they are to pay a premium for international brands as shown in Figure 10. We would flag that medicine prices have been increasing considerably in Brazil over recent years. In 2016, the annual price rise for medicines was 12.5%, with price expected to continue rising in the future, albeit at a slower pace (approximately 4% in 2017e).. Clearly, such price rises have not been in line with income growth over the same period, potentially making affordability an issue. This fact, in combination with high consumer satisfaction

with local brands, is likely to be prohibitive with regard to international companies' ability to command a price premium for their products, unless naturally in the case of patent protection.

Figure 9

Percentage of respondents trusting local brands on efficacy and safety

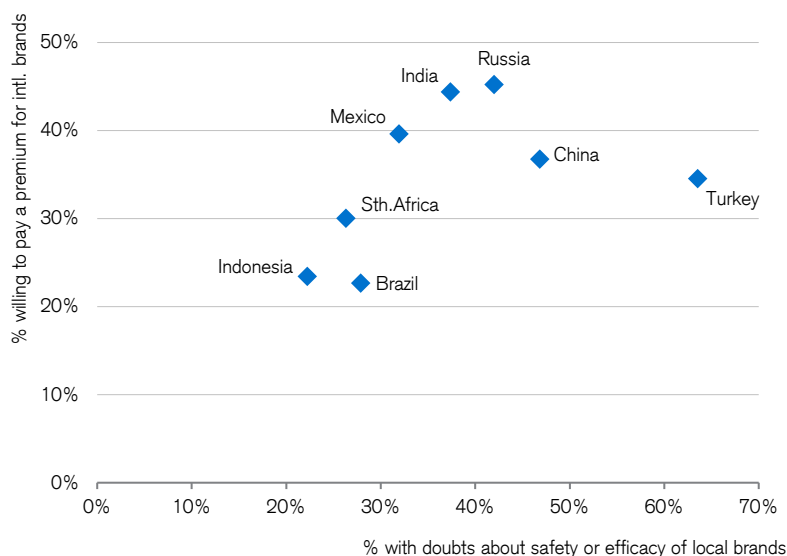


*Saudi Arabia figure is for 2015

Source: Emerging Consumer Survey 2017

Figure 10

Percentage doubting safety or efficacy of local brands versus willingness to pay a premium for international brands



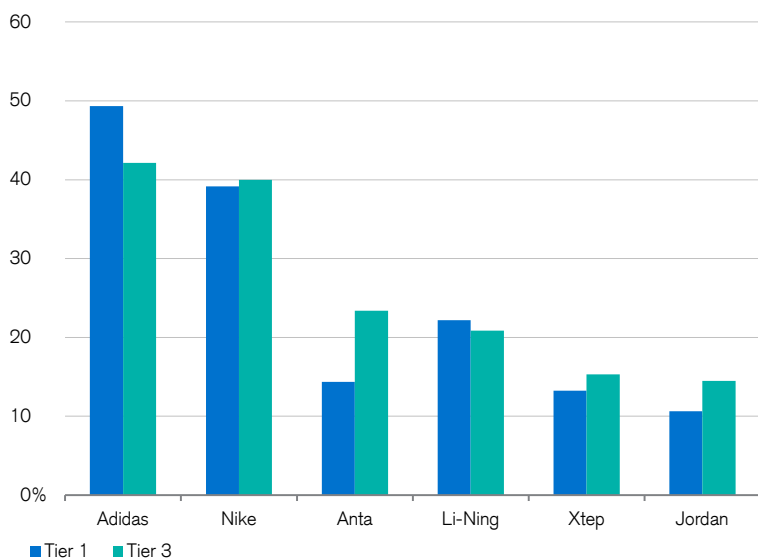
Source: Emerging Consumer Survey 2017

Lastly, Brazilian regulation is another reason preventing new entrants from entering the market as launching a new drug takes up to three years. The market is protected from imports as the regulator requires a full product registration and, in some cases, phase 3 trials done in the country with the production facility needing to be certified by the local regulator.

It is very difficult to develop a generics portfolio from scratch as the regulator gives priority to three first-generic products in the market, after which point the waiting period increases to 5–6 years. As only 5% of the Brazilian market value comes from patent-protected drugs, many international companies have settled on entering joint ventures with local companies that commercialize the patented drugs. Of course one way to overcome this would be to acquire a local company. However, the highly profitable and cash-generative nature of the Brazilian market suggests that large acquisition premiums would need to be paid.

Figure 11

Percentage of respondents intending to buy the following brands over the next 12 months – Tier 1 vs. Tier 3



Source: Emerging Consumer Survey, 2017

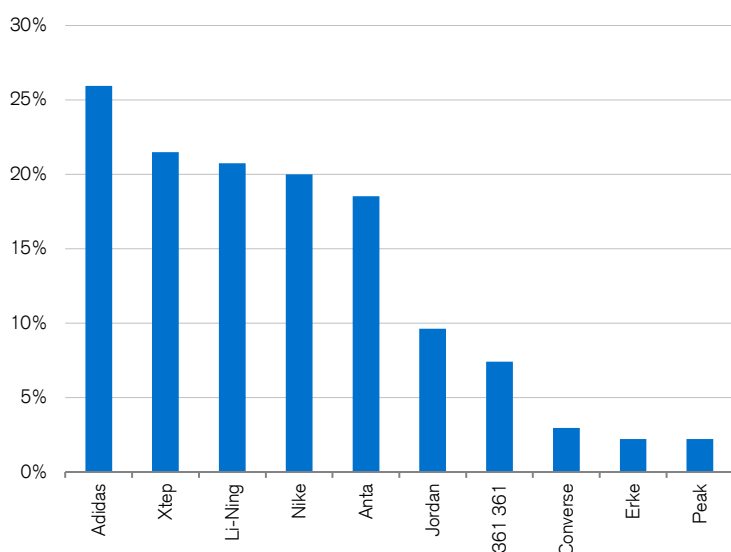
Case study 3: Sportswear in China

As we have highlighted elsewhere in the report, a trend toward healthier lifestyles is a growing theme in the emerging world. The sports industry in China is a key element of this story. The Chinese government continues to support the sports industry – not only to curb healthcare costs, but also because team sports are viewed as important in building team-working skills for the “only child” generation. The government calls the ten years between 2015 and 2025 the “Golden Decade” for the sports industry. The target is to increase the value of the sports market to RMB 7 trillion compared to an estimated RMB 1.5 trillion currently. An example of this is China's ambitious plan to become a “first-rate major football power.” The goal is to have 50 million players, 70,000 football pitches, 30 million primary or secondary students playing football and 10,000 coaches by the end of the decade. With football becoming compulsory in primary and middle schools, parents will gradually start to purchase the dedicated equipment.

Brand-wise, it is not surprising that Nike and Adidas remain the leading brands, particularly in top-tier cities and among the most affluent consumers. However, as sportive lifestyles spread to second- and third-tier, domestic brands pose a more material challenge. Anta, Li-Ning and Xtep are amongst the best positioned to gain market share, dominating the lower income market as Figure 12 highlights, and showing healthy momentum in the survey more generally. The price point for local brands is typically 30%–50% of the price point for the leading international brands which underpins their position with lower income consumers. We note that Nike, for example, tried to gain a share of the mass market by introducing a less technical, cheaper shoe model in China. However, this was not a success as the type of consumer buying premium brands is willing to pay a premium price for a hi-end product, and not interested in only a casual shoe.

Figure 12

Sportswear purchasing intentions – low-income earners



Source: Emerging Consumer Survey, 2017

As we showed earlier, among the different sports, popularity for running, badminton and basketball has seen the greatest increase. The number of marathons, for example, has grown fivefold to over 200 in the last five years. In top-tier cities New Balance has gained market share as the shoes are known to encompass high-quality functionality for running. Adidas, Nike and New Balance have a robust position in technical high-end products, with wealthy consumers willing to pay premium prices. With sportswear apparel, however, it seems that even high-end consumers are not convinced that they need to pay a 50%–70% premium and local brands have been gaining market share as a result. This might offer potential to further chip away at the general dominance of Adidas and Nike visible among the high-income earners in 2016 (Figure 15).

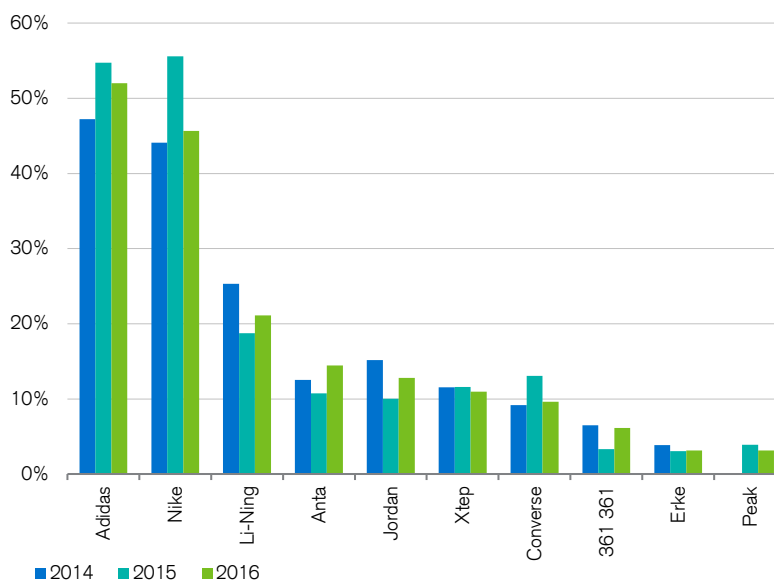
Importantly, top Chinese companies are now investing in building a brand image. Having started out by copying leading western brands, the focus is now on having an identity of their own. Anta started as an original equipment manufacturer for sport shoe companies before launching its own brand. The Anta brand is well positioned in the mass-market segment and sponsoring the Chinese Olympic team has been a cornerstone in building Anta's image as the "national sports brand." All Olympic athletes wear Anta in the international arena, thus creating a patriotic image and making Anta a "national consumer champion."

China will be hosting the 2022 Winter Olympics. Skiing and winter sports currently have a very low penetration in China. In 2016, Anta acquired a majority stake in the Japanese winter-sports and mountain-climbing brand Descente. We believe the logic behind the acquisition was to learn about the winter sports market in order to be able to launch a mass market offering. This is a good example of a local company working together with the government to achieve growth targets.

While we would not expect the leading sportswear brands, Nike and Adidas, to lose significant market share in China, we believe local brands will consolidate as the leading ones gain market share and economies of scale. This would enable them to invest in R&D and marketing on a different scale. Furthermore, as demand for sportswear moves to second- and third-tier cities, the price point of international brands is too high. Local brands can join in with government programs to roll out sports, such as football, across the country through school curriculums. This in turn may arguably entrench the "national champion" perception.

Figure 13

Sportswear purchasing intentions – high-income earners



Source: Emerging Consumer Survey, 2017

Concluding remarks

It would be wrong to suggest that the appetite for international discretionary brands among emerging consumers is completely retreating, particularly among higher-end luxury brands. However, the assumption that fast-growing end-markets geared to improving incomes are the preserve of global companies is equally too simplistic. As can be seen in our survey, the desire to overtly support local brands and make life difficult for global companies, particularly in economies such as China, adds a top-down dimension to the fundamental picture. When consumers perceive that a premium for quality is no longer fully justified, there will be negative consequences for pricing of international companies. The shift to a more multi-polar world highlighted in the recent Credit Suisse Research Institute Report, Getting over globalization, published in January 2017, also resonates here and speaks for the potential attraction of "national champions." While the typical strategy of global companies in the past has been to acquire businesses when faced with local challengers, it remains to be seen whether the regulatory landscape will allow this going forward.



Asia in focus

Our scorecard suggests that consumers in Asia are the most optimistic across our surveyed countries. Against that background, our local analysts provide a more detailed overview of the key changes that look set to impact consumer spending in China, India and Indonesia. Our analysts in China suggest that consumers are making a "lifestyle upgrade" while, in India, we are seeing the impact of demonetization and likely tax reforms, but still resilient income growth among high-income earners. In Indonesia, consumers may benefit from the tailwind of recovering commodity prices, although the path from more basic to discretionary consumption is still in its early stages.

Contrasting themes in Asia

Asian consumers have consistently remained among the more robust in terms of optimism indicators in our surveys and do occupy the top three positions in this year's scorecard. However, the nature of the consumer stories at work differ considerably as does the stage of consumer development. The nature of the rebalancing of growth we refer to elsewhere is played out in countries where the consumption shares of GDP differ as we see in [Figure 1](#). China's lowly consumption share stands out if well understood. Here, our regional analysts put some of the survey readings in the context of prevailing reforms and broader economic factors at work in India, China and Indonesia."

India: Shift to branded goods set to accelerate

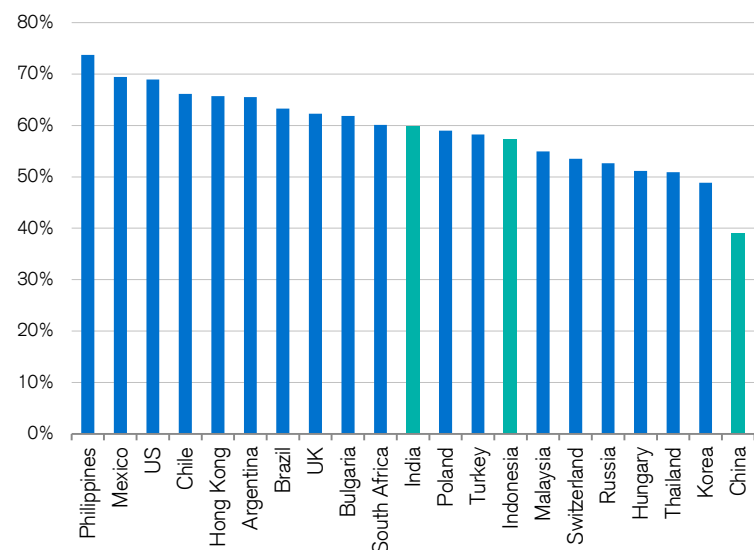
Neelkanth Mishra, Arnab Mitra

India is in the midst of some major changes that are likely to have a multi-year impact on the consumption environment. Specifically, we believe momentum toward branded goods is likely to be superior to that of unbranded products as consumers trade up. We see two reasons why this is likely to happen. First, we believe that the government's demonetization program, introduced in November last year, and the likely introduction of the Goods and Services Tax (GST) in July 2017 will help increase demand for branded good. Businesses manufacturing unbranded goods have been hit by the cash shortage and will find it harder under GST, thus reducing their low price advantage. Increased usage of non-cash payment systems will also act as an enabler of this process in our view, and create investment opportunities in their own right.

Second, we expect income growth to be more robust among higher-income consumers than lower-income groups. Consumers in rural areas benefitted in 2005–14 from higher agricultural prices and increased farming profits (around 50% of rural India is employed in farming) as well as supportive government initiatives. In the absence of these tailwinds, we believe that rural and low-income consumers could come under pressure. A consumption switch toward higher-income groups is likely to support branded goods more than unbranded products in our view.

Figure 1

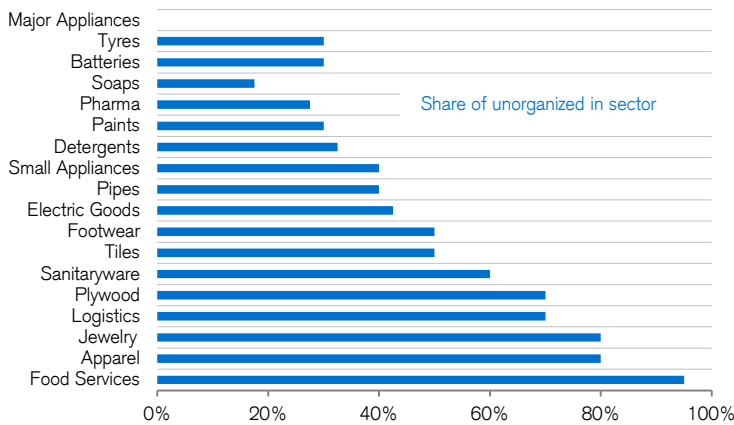
Current consumption as a share of GDP



Source: Emerging Consumer Survey 2017

Figure 2

Some sectors more likely to gain market share



Source: Credit Suisse estimates

Shift from unbranded to branded goods

In the past few years, consumption in India has gradually been shifting from unbranded to branded goods across many categories. We have seen this most prominently in jewelry and electrical hardware, coincidentally areas where a significant share of trading takes place in so-called "unorganized" structures (see Figure 2). Companies like Titan, (branded jewelry) and Havells/Crompton (electrical hardware) are already starting to enjoy faster market share gains than their unbranded competitors. Other areas where our Indian analysts have also observed a shift toward branded goods include detergents and biscuits, which are also areas with above-average trading in "unorganized" structures. Over the years, our Emerging Consumer Survey has also picked up on this trend as can be seen in Figure 3.

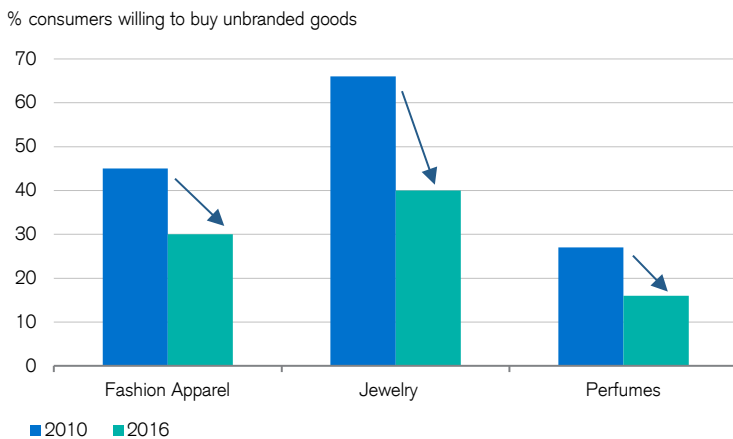
There are many reasons for this shift in our view:

- First, we know that consumer aspirations change as income grows. As explained earlier in this report, this tends to not only lead to consumers purchasing more discretionary products, but also more branded products.
- Second, awareness is rising among Indian consumers of product quality issues with unbranded goods. Increasing disposable income therefore allows these consumers to shift consumption to higher-quality alternatives, which on average tend to be branded products.
- Third, we note that unbranded products have historically benefitted from a price discount relative to branded goods. According to our Indian research team, this has partly been enabled by tax evasion. However, this discount is shrinking as tax evasion becomes more difficult, which in turn improves the outlook for branded goods.
- Finally, we also observe that branded goods companies have put considerable effort into expanding their distribution capabilities and brand recognition through increased advertising.

The penetration of satellite television has risen sharply from 56% to 64% over the past five years, which has also helped to increase penetration of advertising for branded products in more rural areas. At the same time, companies have significantly expanded their distribution channels. For example, India's largest manufacturer of consumer staples, Hindustan Unilever, has doubled its direct distribution from around 1.5 million outlets to around 3.2 million outlets from 2011 to 2016.

Figure 3

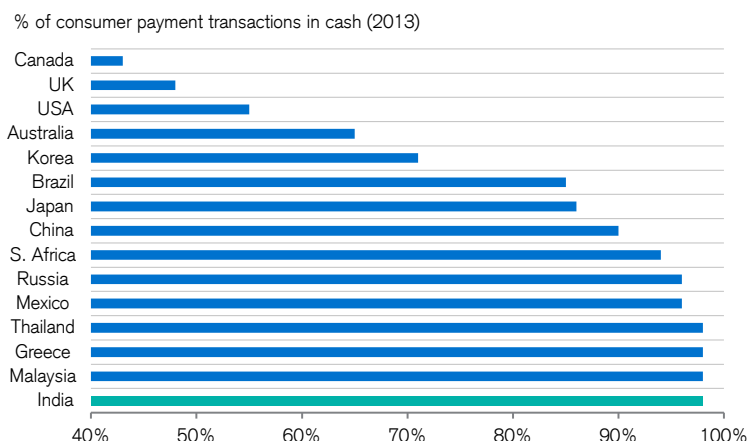
Emerging Consumer Surveys: Preference for brands rising



Source: CS EM Consumer Surveys, Credit Suisse estimates

Figure 4

India has very high cash usage



Source: MasterCard, Credit Suisse estimates

Demonetization and GST likely to accelerate the switch to branded goods

In our view, two recent initiatives from the Indian government are likely to further drive the switch in consumption toward branded goods in India.

- Demonetization:** The Indian government is currently enacting procedures aimed at formalizing the economy. One major step in this direction was the demonetization exercise in November 2016. High-value currency notes of INR 500/1000, which accounted for around 86% of the currency in circulation, were discontinued. This change not only had a major impact on businesses that relied on cash transactions, but also on consumers because over 90% of their spending is typically done in cash.
- Tax reform:** The demonetization process is scheduled to be followed up by the implementation of the Goods and Services tax (GST) in July 2017, which will be the largest indirect tax reform in India. We believe the combined effect of these initiatives will be to accelerate the switch from unbranded to branded goods as consumption of the latter mainly takes place in the formal economy.

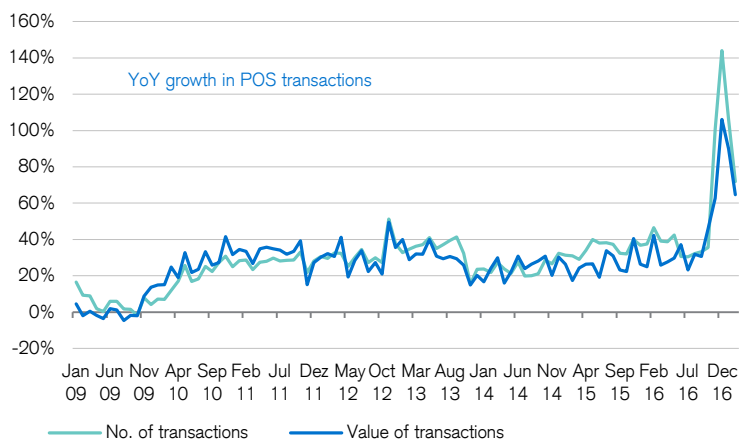
We believe that these government actions will help to drive the adoption of non-cash payment modes by consumers. India's high cash usage in consumer-related transactions (Figure 4) forces every sector to have a cash interface in the supply chain. During the period immediately after the demonetization announcement late last year, there was a currency shortage that resulted in a significant pick-up in the volume of point of sale (POS) transactions, i.e. the usage of debit/credit cards.

The volume of transactions jumped 144% year-on-year in December (Figure 5; 106% growth) and, despite slowing in January and February, usage of non-cash payment forms remains well above trend. Nearly as many POS machines were added in November/December as in the previous twelve months combined. All non-cash forms of payment, e.g. bank-to-bank payment protocols like Immediate Payment Service (IMPS) or online transfer methods such as e-Wallets or Unified Payments Interface (UPI) have picked up sharply post the demonetization exercise (Figure 7). There are also regulatory changes that act as enablers for the non-cash payment theme. Examples include allowing so-called "Aadhaar-based" points of sale and standardizing quick response (QR) codes across MasterCard, Visa and Rupay.

The growth in cash alternatives might create positive reinforcing effects. For example, credit card usage has been held back in the past as bank charges for POS machines have been high because of low transaction volumes, which has in turn limited POS machine penetration.

Figure 5

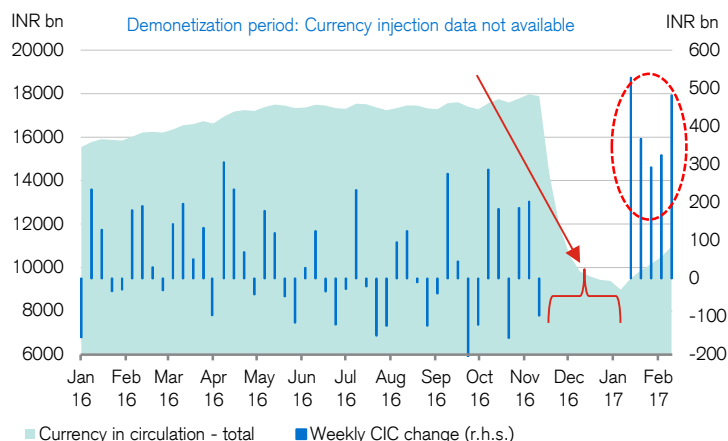
Sharp pick-up in POS transactions



Source: RBI, Credit Suisse estimates

Figure 6

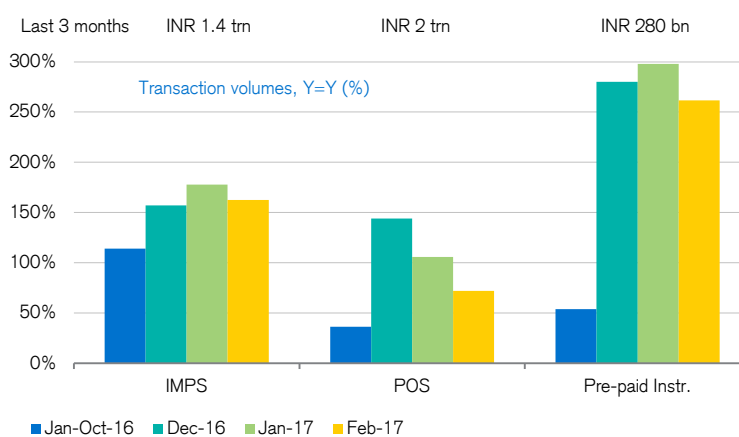
Currency availability now normalizing



Source: Credit Suisse

Figure 7

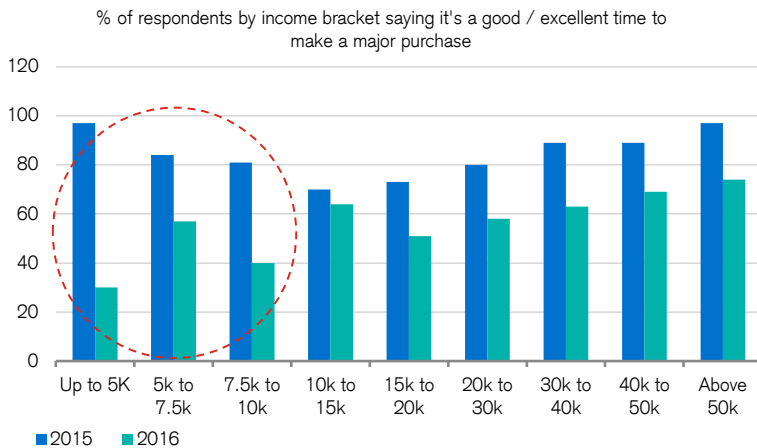
All non-cash modes of payment doing well



Source: Credit Suisse

Figure 8

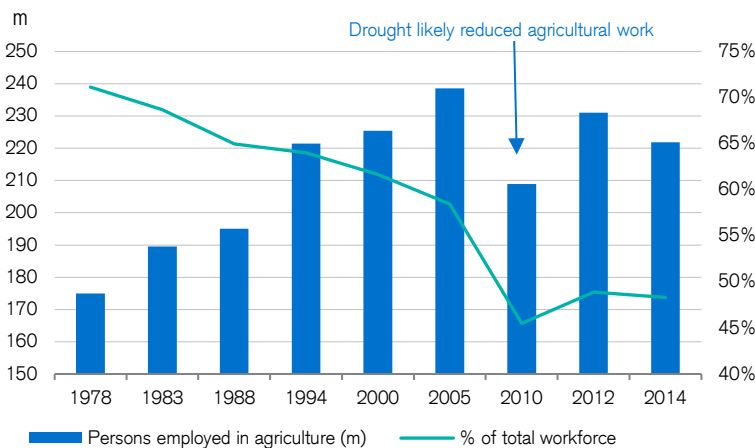
2016 survey results point to sharp drop in consumer confidence in the lower-income segment



Source: Emerging Consumer Survey 2016. Unit of income is INR per month

Figure 9

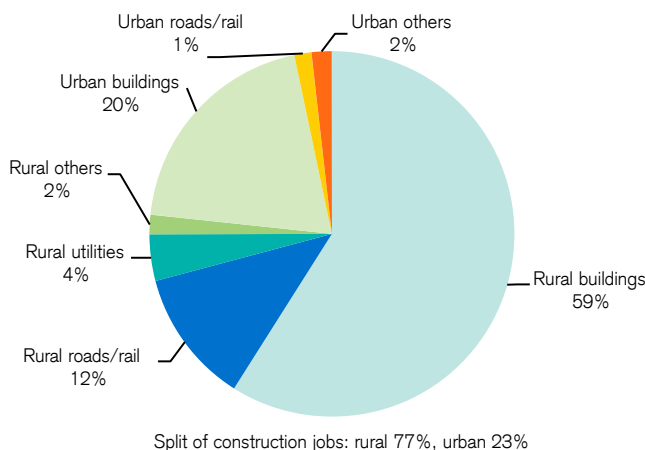
Number of people in agriculture still high



Source: Employment Surveys, Credit Suisse estimates

Figure 10

75% of construction jobs are rural



Source: NSS EUS 68th Round, Credit Suisse estimates

This process might now reverse. As card usage increases, bank charges might fall for POS machines, thus resulting in increased investment in new machines, which in turn should result in a further increase of card usage.

Consumption driven by high income segments

In this year's survey, we see a sharp drop in consumer confidence across lower-income segments. Notably, in the lowest income bracket captured by the survey (below INR 5,000), only 30% respondents thought it was a good time to make a major purchase versus 97% who thought so in 2015. While a drop in the percentage of respondents was broad-based, it was least prominent among higher-income segments.

We believe that agricultural pricing conditions are key for lower-income consumer confidence. Steadily rising domestic agricultural surpluses have weakened prices, thereby offsetting the impact of volume growth on profitability last year. Therefore, the growth in value of agricultural output was unlikely to have reached the historical average achieved between 2005 and 2014 of 14%. In fact, agricultural output has increased by less than 5% over the last two years.

The implications of the current slowdown in agricultural output cannot be underestimated in India's case for two reasons. First, we note that, despite a gradual shift away from agricultural production, nearly half of the Indian workforce is still employed in agriculture (Figure 9). Therefore lower agricultural output means lower profits available to be distributed among lower-income workers. Second, agricultural workers tend to move into construction work when forced to look for additional income as agricultural conditions weaken. However, construction output is also weak as 75% of all construction jobs are rural with a focus on building work (Figure 10).

Not surprisingly, rural wage growth (both nominal and real) has been weak since 2014. This trend is an important driver for the divergence in growth rates between consumer staples and consumer discretionary demand. For example, within staples, we note that demand for products/categories with greater exposure to lower-income consumers has been weakening. At the same time, with trade dynamics shifting in favor of non-agricultural workers, we are not surprised to find that discretionary products have been doing better. For example, car sales (that have greater exposure to higher-income consumers) have held up better than two-wheeler sales, which are more geared to lower-income consumers. The high-income consumer remains key in 2017

China: A lifestyle change

Raymond Ching, Michael Shen

The message for the Chinese consumer from our survey is one of robust spending as we have highlighted elsewhere in the report. Thematically, the consumption story 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 in our chapter on e-commerce developments. However, the survey underlines the nature of the ongoing "lifestyle" change and upgrade in spending at work, which we focus on here.

We find a direct link to the "conscious consumption" theme highlighted earlier in the report (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.

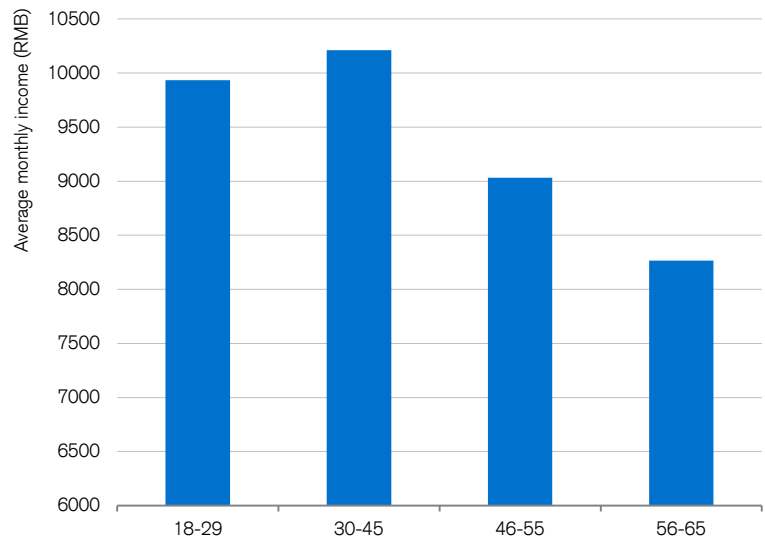
A robust consumer and a young consumer

As our Emerging Consumer Scorecard highlights, the Chinese consumer is a confident consumer. For example, 64% of Chinese respondents to our survey indicate that it is currently a "good" or "excellent" time to make a major purchase. Although somewhat down from last year's survey, this reading remains the highest among all of our surveyed countries. In addition, we also note that the net balance of an "excellent" time to make a major purchase and a "bad" time is +6 for China compared to a -10 reading for the other countries in our survey.

A strong personal income outlook underpins this outlook as Figure 12 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.

Figure 11

Age and corresponding income levels in China



Source: Emerging Consumer Survey 2017

Figure 12

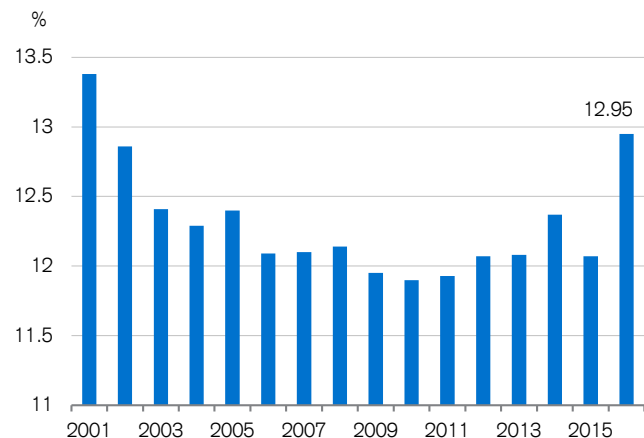
Income growth for Chinese consumers remains robust across the spectrum



Source: Company data, Credit Suisse estimates

Figure 13

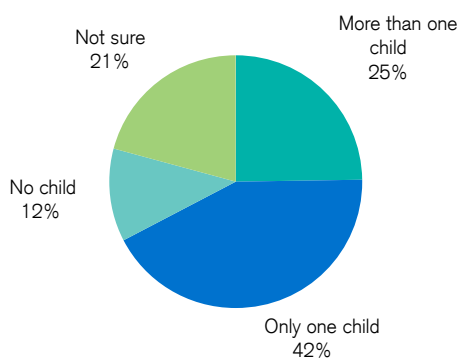
China's birth rate reached levels last year not seen since 2001



Source: Company data, Credit Suisse estimates

Figure 14

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



Source: Emerging Consumer Survey 2017

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.

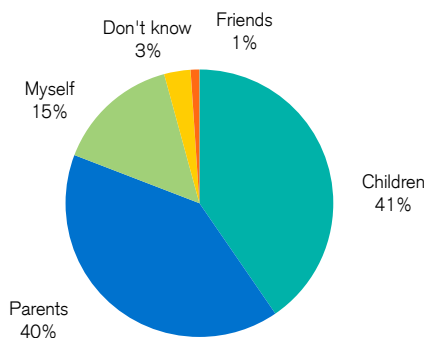
As Chinese families start to expand, we would

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.

Figure 15

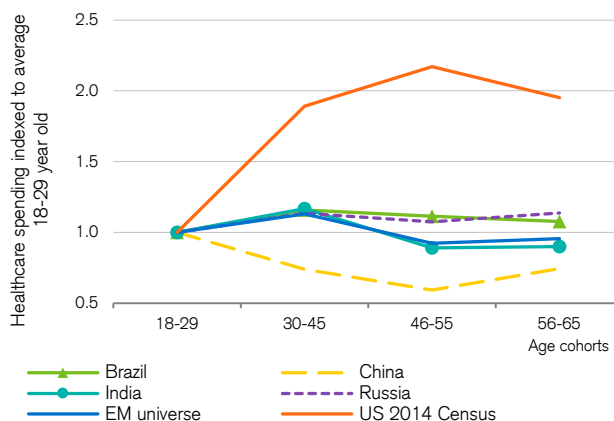
Who would you spend incremental disposable income on? Chinese respondents



Source: Company data, Credit Suisse estimates

Figure 16

Healthcare spending and age – China and EMs



Source: Company data, Credit Suisse estimates

The lifestyle "upgrade"

As we highlighted earlier, Chinese consumers are shifting their pattern of spending to discretionary categories. As a proportion of their income, Chinese consumers spend more on travel, entertainment and cars than their emerging consumer counterparts and correspondingly less on food. In fact, the proportion spent on travel and entertainment is now 11%, approaching the 17% spent on food (Figure 17). We believe that, as Chinese consumers become wealthier, they will continue to upgrade their lifestyles in this fashion, specifically spending more on large-ticket items. 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.

Property

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 18). 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.

Travel

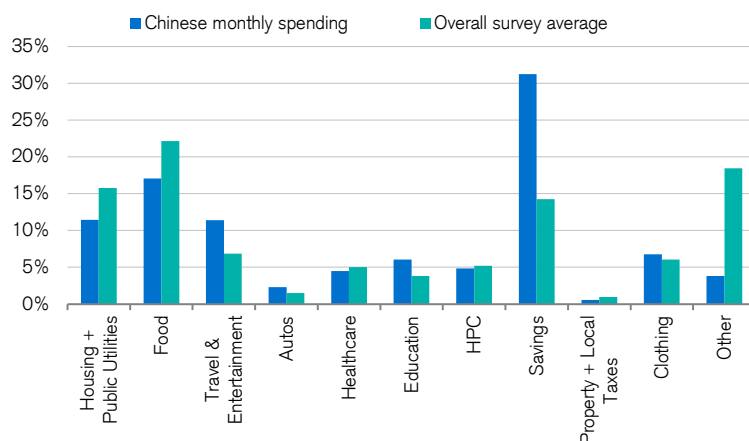
Urbanization is a key factor reshaping consumer preferences and demand for travel, with urban respondents in China seven times more willing to go on an international holiday in 2016 than their fellow rural citizens. As the country approaches average emerging-market urbanization levels, it is experiencing 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.

Sportswear & healthy/fresh food producers

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. We show more detail on this topic in our chapters on "Conscious living" and "National champions: Local brand winners."

Figure 17

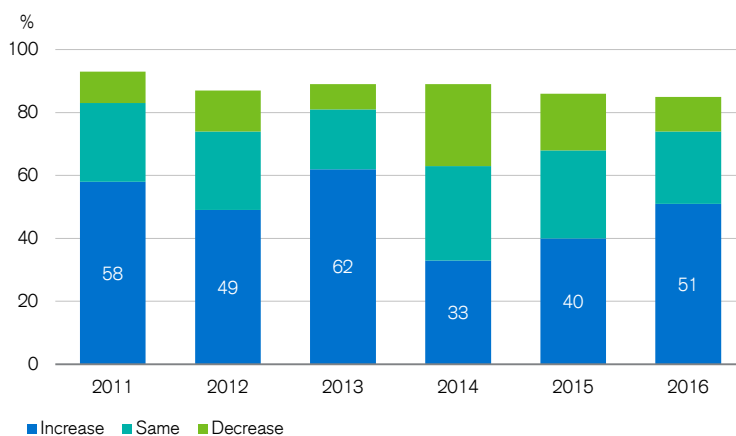
Monthly spending across Chinese consumers



Source: Emerging Consumer Survey 2017

Figure 18

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



Source: Emerging Consumer Survey 2017

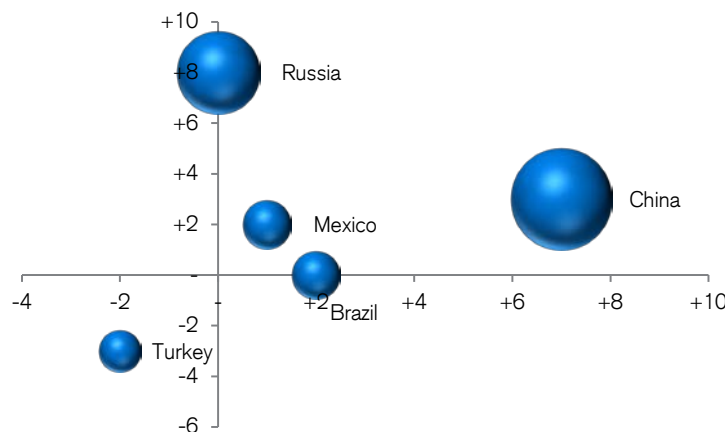
Figure 19

Chinese holidaymakers are looking to travel internationally

x-axis planning to travel internationally in 2017 – travelled internationally in 2016

y-axis increase in international travelers 2016 vs. 2015

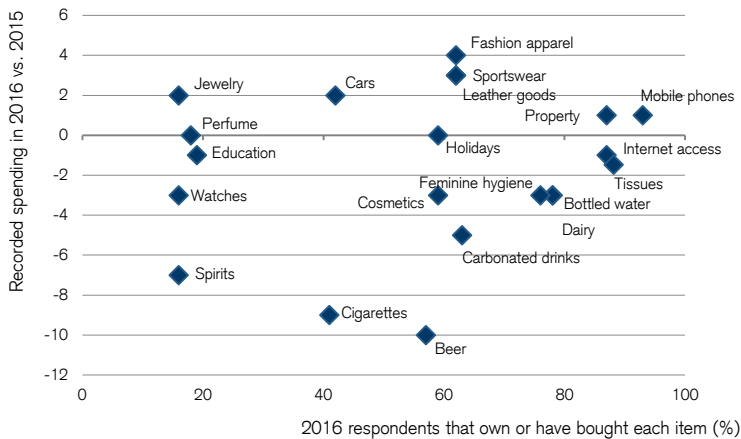
Size is reflective of the % of respondents planning to take an international holiday in the next 12 months



Source: Emerging Consumer Survey 2017

Figure 20

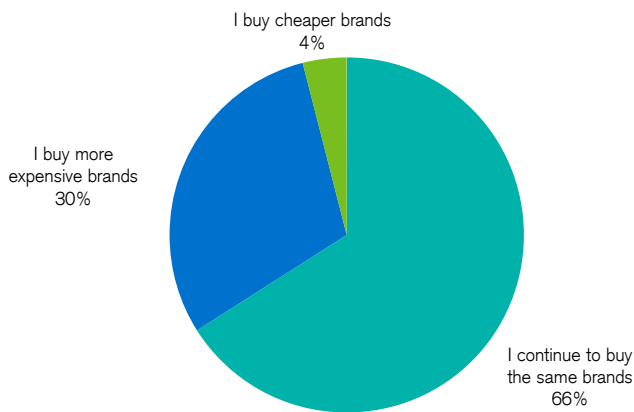
Consumers prefer large-ticket items



Source: Emerging Consumer Survey 2017

Figure 21

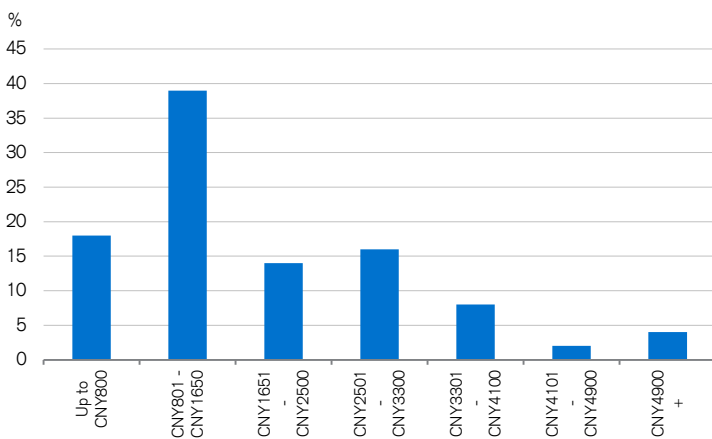
30% of respondents bought more expensive cognac brands in the last 12 months



Source: Emerging Consumer Survey 2017

Figure 22

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



Source: Emerging Consumer Survey 2017

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 later in the report. Domestic smartphone brands are on the rise.

A conscious, but cautious consumer?

Finally, it is worth reflecting on how such spending decisions will be financed. What continues to set the Chinese consumer apart 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 highlighted earlier demands pre-cautionary 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. A conscious, cautious consumer.

Indonesia: What is driving behavior?

Ella Nusantoro, Calvin Tjahjono

A staple consumer

While Indonesia stands out as one of the top three countries in the survey, the anatomy of the story is different in terms of spending patterns. Consumption assumes a far greater proportion of GDP than we see in China and India. However, this consumption and more immediate growth prospects tend to be skewed to more staple products and essentially lower-ticket spending. As we highlighted in the first chapter of the report, Indonesia is essentially at an earlier stage of the roadmap of developing discretionary consumption than a number of the other emerging economies in the survey. The significant "lifestyle" upgrade for China we describe above is much further down the road in Indonesia.

Figures 23 and 24 underline this distinction.

The categories with among the strongest spending intentions are staple products such as bottled water, dairy and carbonated drinks. The positive momentum in these categories apparent in Figure 23, illustrates that these strong categories are also seeing growth rates increase further. They are strong and getting stronger (see our spending heat maps in Appendix 1 for cross-country comparisons.)

Brand aware or brand unaware?

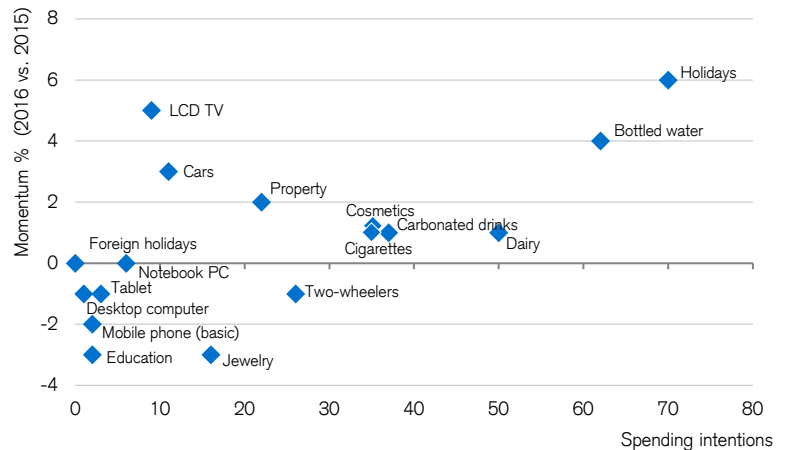
A focus on such staple items will tend to be indicative of local and unbranded product preferences as we illustrated in our chapter analyzing brand winners. That said, in the discretionary categories in Indonesia, we are seeing signs of brand appetite increasing consistent with what has been a trend in improving incomes in Indonesia over the life of the survey. As Figure 25 illustrates the preference for unbranded products across a range of product areas have been consistently declining.

This theme is of course most pronounced among higher income earners. Focusing specifically on fashion, Figure 26 highlights the brand purchasing intentions among high-income earners over the next 12 months. The brands that display the highest penetration have shown positive momentum versus 2014, with the exception of "unbranded," which has lost momentum with these consumers. However, low-income earners remain geared toward the consumption of unbranded fashionwear, with 42% intending to purchase unbranded apparel versus 30% in 2015.

As we highlighted earlier in the report, and despite the undoubted structural merits Indonesia displays as a consumer theme, its status as a commodity exporter presents more cyclical risk and volatility than perhaps exists in the other Asian economies. Its current account deficit provides an added source of sensitivity through potential currency vulnerability in a "risk-off" market environment.

Figure 23

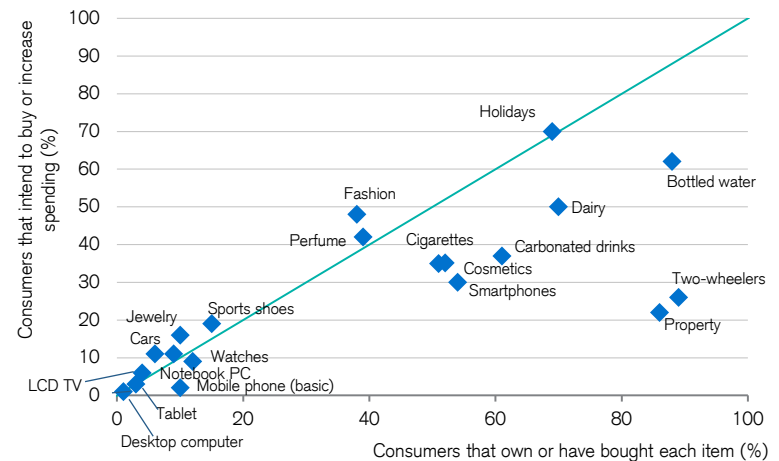
Indonesia: Spending momentum vs. intentions



Source: Emerging Consumer Survey 2017

Figure 24

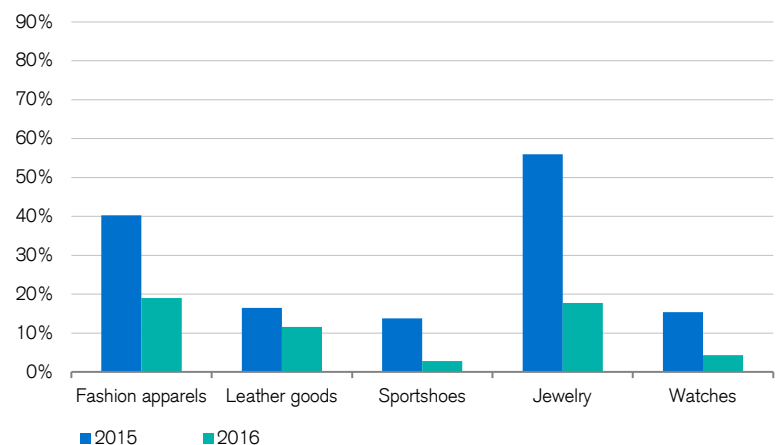
Indonesia: Spending intentions vs. penetration



Source: Emerging Consumer Survey 2017

Figure 25

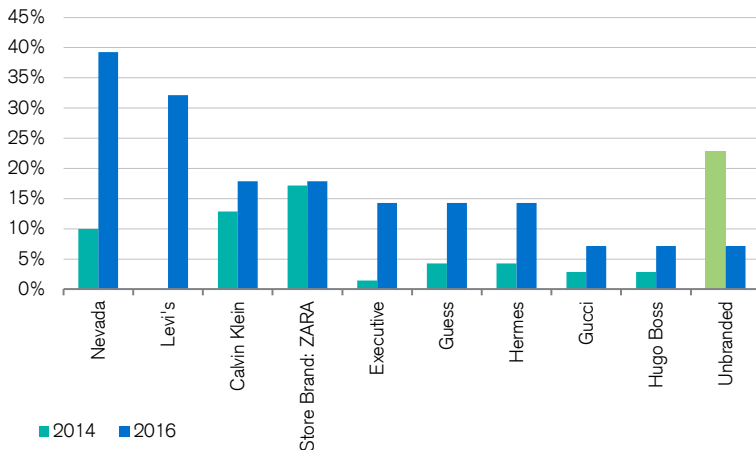
Consumers preference for unbranded products is declining



Source: Emerging Consumer Survey 2017

Figure 26

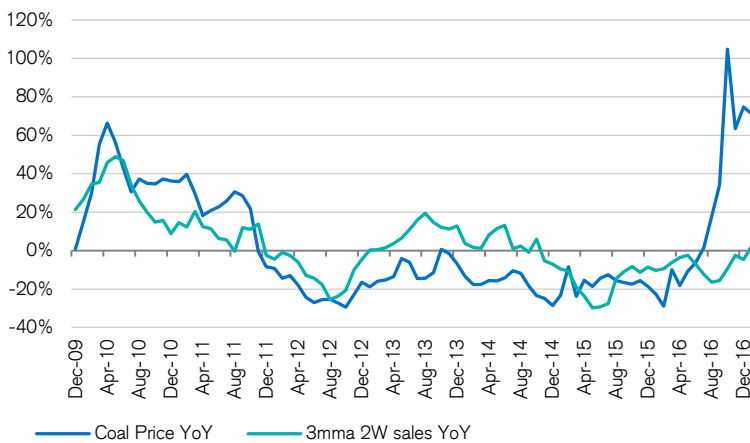
Brand preferences in Indonesia among high-income earners



Source: Emerging Consumer Survey 2017

Figure 27

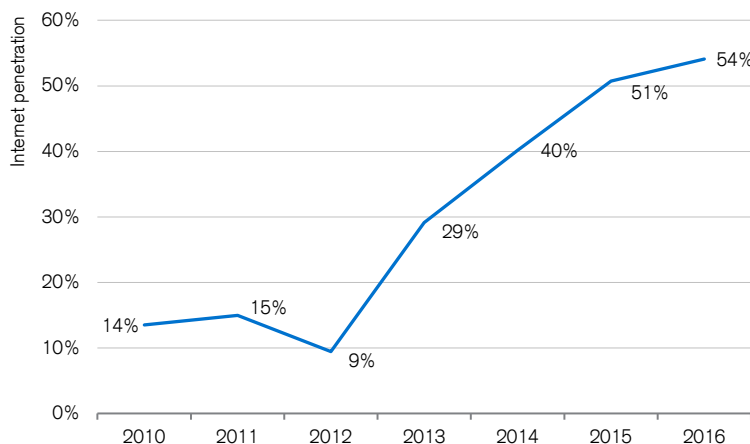
Coal price versus sales of two-wheelers



Source: Emerging Consumer Survey 2017

Figure 28

Indonesia's internet penetration is lowest among EM countries, but has outgrown them in the last six years



Source: Emerging Consumer Survey 2017

However, the recovery in commodity prices we have seen now potentially turns a headwind into a tailwind for consumption. As this is generally positive for economic growth, we would typically expect robust spending intentions for two wheelers in such an environment. This is indeed consistent with the spending intentions we are seeing in the survey. With these prices only having started rising in Q4 2016, we think there is a potential lagged positive impact yet to show itself.

Growing e-commerce

We believe that the long term growth outlook for e-commerce services in Indonesia is promising. One of the reasons for our view is that the country's young, urbanizing, population has allowed internet access rates, as per our survey, to increase rapidly from 9% in 2012 to over 50% last year.

To date consumer usage of internet services in Indonesia remains largely focused on social media (90% of consumers use the internet for this), instant messaging (58%) and accessing music or videos (33%). Only 9% of our surveyed consumers in Indonesia used the internet for online shopping which is a relatively low score when compared to other countries in our survey. Usage of banking and online travel services are also low at 5% and 3%, respectively.

The share of total retail spending that is executed online (around 2%) is also toward the lower end for our surveyed economies and pales in comparison to China, which is at over 15%. We do not believe that the current relatively low share of online shopping in Indonesia is structural, but that it is partly a function of overall economic development. Other factors that are relevant in this regard include the relatively low usage of non-cash payment systems in Indonesia. Our Indonesian research team also highlights the cultural role played by shopping malls for Indonesians as a means to meet friends especially on the weekend.



Brazil

Outlook to gradually improve

Tobias Stingelin, Bruno Zanotta, Leandro Bastos

Brazil's macro environment is still challenging, but expectations about a gradual improvement going forward are evident in the survey. Brazil is now fourth in our scorecard from eighth last year. We note that the overall ranking is heavily influenced by future indicators, whereas the indicators of the here and now remain less positive. For example, the expectations for income growth in 2017 are very strong and the number of respondents expecting their financial conditions to improve in the next six months is a net 29% or an almost threefold increase on last year. However, at the same time, Brazilians rank last when asked whether now is a good time to make a major purchase. Despite the improvement in our scorecard, a fragile picture remains.

A closer analysis of expectations about household income shows that, on average, respondents expect their nominal household income to increase between 7.6% (aggressive) and 4.0% (realistic) over the next 12 months. The divergence in expectations between lower- and higher-income brackets was relatively low, while higher when compared to middle income earners. Expectations for income growth have typically been too optimistic in the past and the

more aggressive expectations almost certainly are. Credit Suisse estimates the inflation rate at 4.3% in 2017 and forecasts that real household income will remain roughly flat (0% yoy) versus 2.3% decline in 2016, indicating, indicating some moderating in the squeeze on real incomes.

With regard to spending patterns, extra education and smartphones are still growing, which we believe is explained by a clear perception of the long-term value of education (34% penetration) and the multitude of uses for smartphones (81% penetration). Spending with internet access also increased strongly, which might be explained by consumers cutting down on other forms of entertainment. Surprisingly, however, the survey showed an increase in spending on discretionary items such as holidays.

Public utility expenses increased less in 2016 versus 2015 (5.5% inflation in administered prices in 2016) and Brazilians continue to spend more than the peer average. Healthcare expenses also remain well above other countries due to the high medical inflation in the country, which continues to outpace overall inflation by a factor of more than two.

Coupled with higher unemployment rates, this has led to a reduction in the

number of privately insured consumers. The weighting for food, which is the single most important item in the consumption basket, declined to 17% of monthly spending versus 20% in 2015, which might be partially explained by a shift into channels (from supermarkets to cash & carry) and consumers further tightening their belts.

The Brazilian economy should gradually emerge from its worst recession of the century during H2 2017. Credit Suisse economists anticipate 0.2% GDP growth for the year, which is an improvement from a 3.8% GDP contraction in 2015 and an expected 3.6% contraction in 2016. Central Bank measures brought inflation down to 6.3% by year-end 2016 from a peak of 10.7% in 2015, paving the way for picking up the pace in reducing interest rates, which are anticipated to decline by 475 bp in 2017 from 13.75% to 9.0%. While, at 11.5%, the unemployment rate is still in an upward trend, negatively impacting household consumption, the outlook is expected to start improving from H2 2017 onward.

In summary, following two very tough years for consumers, we believe that the outlook will gradually improve in 2017 and that the market remains attractive in several segments.



Table 1

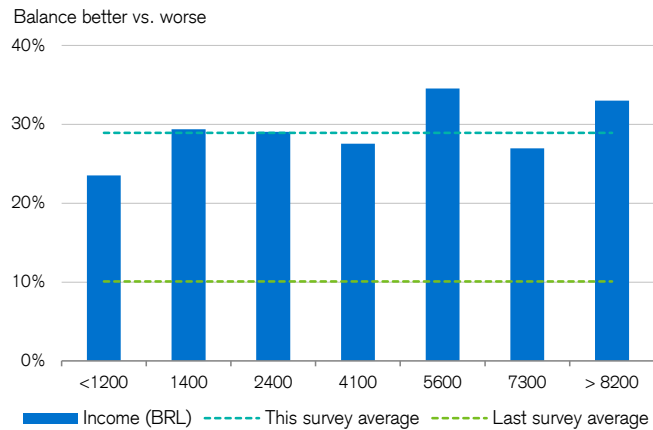
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 1,795 billion |
| GDP per Capita (2016E) | USD 8,710 |
| Population (2016E) | 206.1 million |
| CPI Inflation (2016E) | 6.3% |
| CPI Inflation (2017E) | 4.3% |
| Real GDP Growth (2016E) | -3.6% |
| Real GDP Growth (2017E) | 0.2% |
| Real private consumption growth (2016E) | -4.2% |
| Real private consumption growth (2017E) | -0.1% |

Source: IBGE, Central Bank of Brazil, Credit Suisse estimates

Figure 1

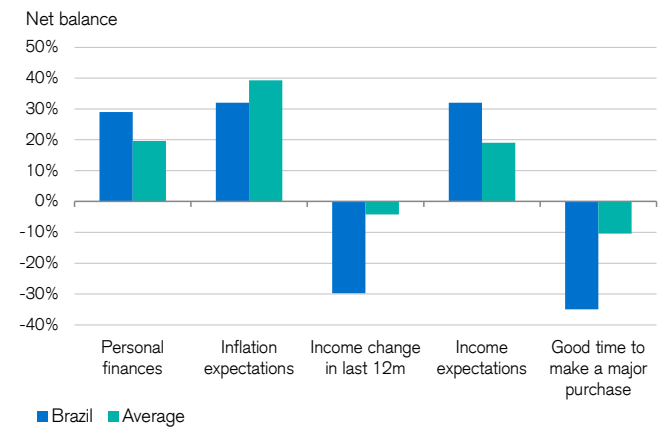
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

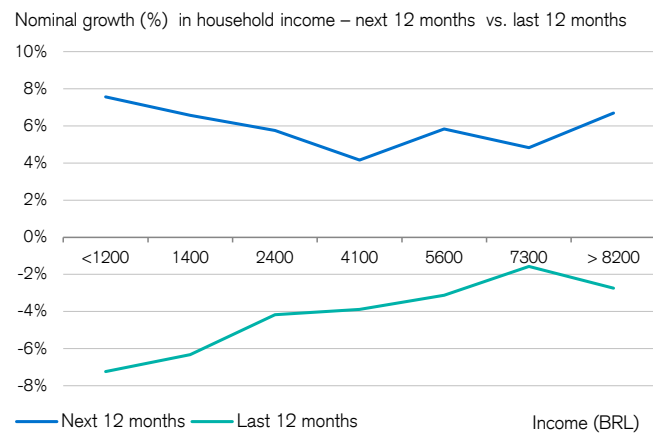
Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

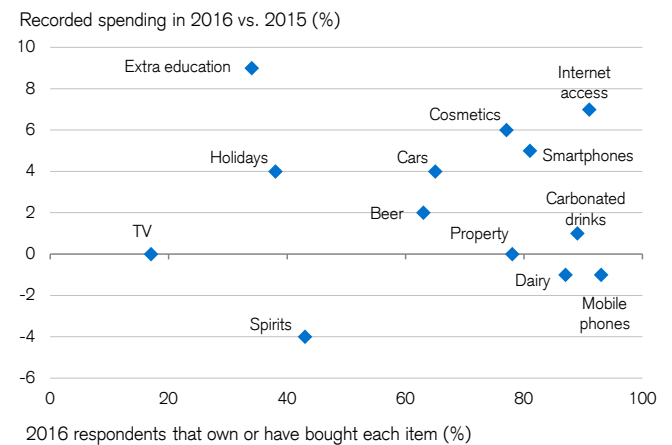
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

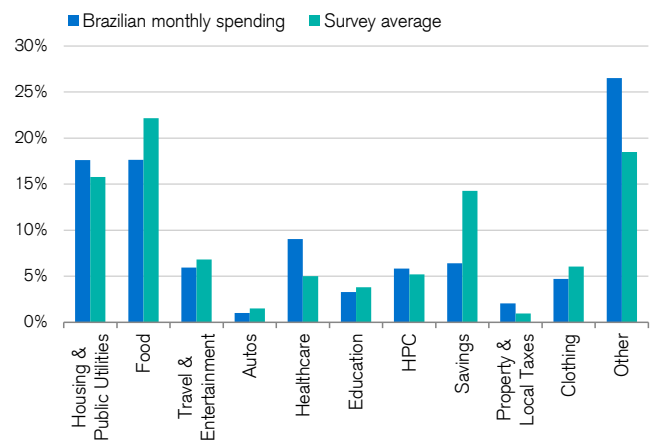
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

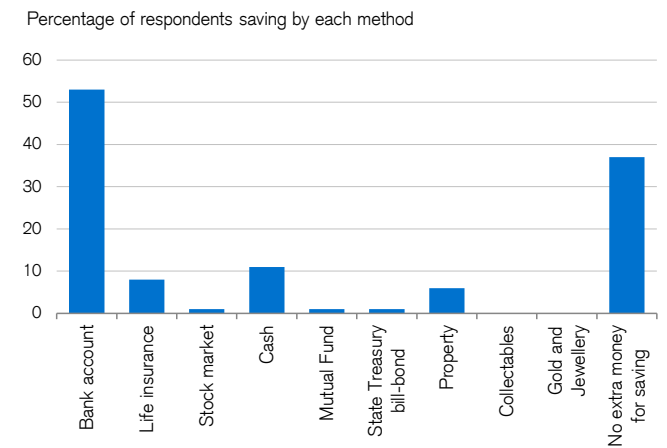
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

China

Lifestyle upgrades

Raymond Ching, Michael Shen

Owing to higher inflation expectations coupled with low income expectations, China slipped to third place in our EM consumer 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.

Consumption penetration was mixed in 2016 versus general growth trends in most categories in 2015. Overall, 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.

Observing monthly spending by category versus other EM countries, we find that the Chinese are spending less on housing and food, but more on travel and entertainment. In general, the Chinese keep up to around 30% of their income as savings (versus 14% for EM Asia). 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.

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. 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).

Relaxation of the one-child policy already led to a higher birth rate in 2016. According to government statistics, the number of newborn babies increased by 8% YoY in 2016 after being largely stable in previous years. According to our survey, 25% of the respondents plan to have more than one child, 43% only want one child, and 21% are undecided.

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 in exports to the USA. Moreover, we do not see any obvious drivers overall for the consumer sector and expect diverse performance in each sub-sector as consumers continue to increase their spending on lifestyle upgrades and health.



istockphoto.com/Toa55

Table 1

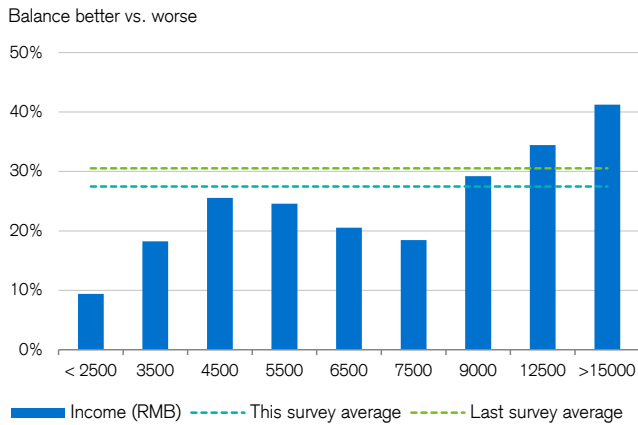
Key macro indicators

| | |
|---|--------------------|
| GDP (2016E) | USD 10,884 billion |
| GDP per Capita (2016E) | USD 7,871.7 |
| Population (2016E) | 1,382.7 million |
| CPI Inflation (2016E) | 2.2% |
| CPI Inflation (2017E) | 2.3% |
| Real GDP Growth (2016E) | 6.6% |
| Real GDP Growth (2017E) | 6.8% |
| Real private consumption growth (2016E) | 7.7% |
| Real private consumption growth (2017E) | 7.6% |

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

Figure 1

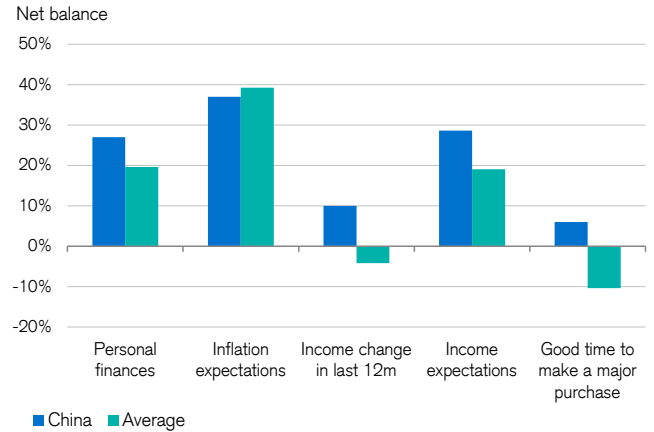
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

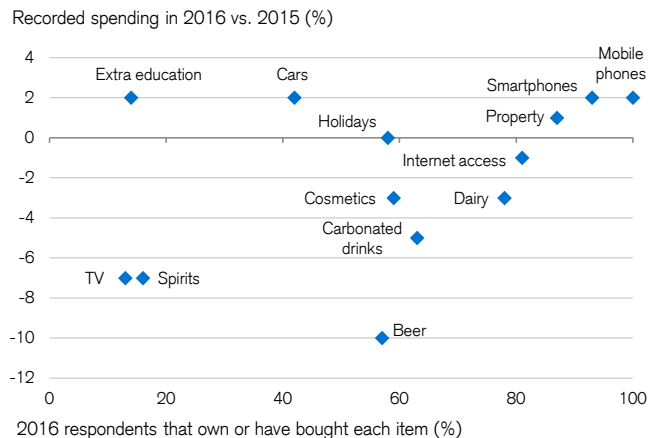
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

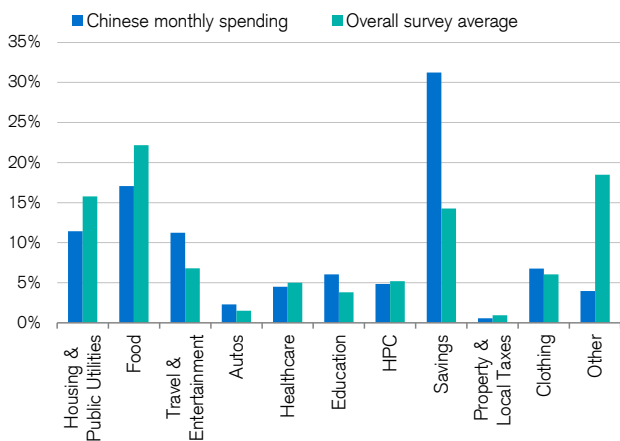
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

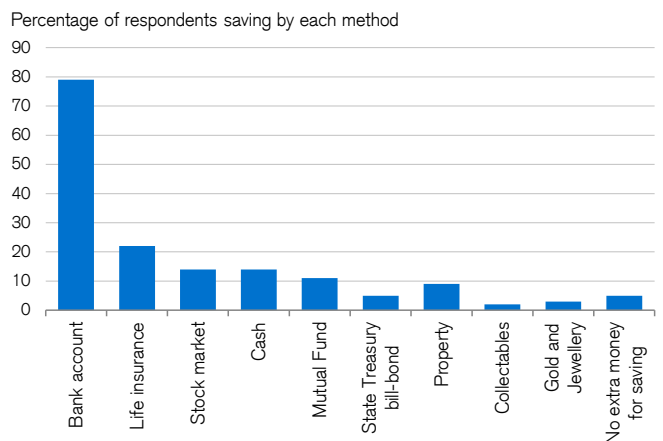
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

India

Reigning supreme

Arnab Mitra, Rohit Kadam

India ranks first on our scorecard. This is despite the fact that the survey was carried out in the immediate aftermath of the government's move to demonetize 86% of the currency in circulation. Near-term sentiment was adversely impacted given that India has approximately 90% of cash-based transactions, which is one of the highest figures in the world. Arguably, the survey would have captured a short-term low in terms of consumer sentiment, but Indian consumers continue to stand out among their emerging market peers, with greater confidence in their current and future finances and relatively lower inflation expectations.

The normal monsoon period in 2016 marked a reversal of sentiment for the rural economy, following two consecutive monsoon deficit years. Urban consumption also showed signs of improvement mainly due to lower inflation and interest rates. A net 47% of respondents expect the state of their personal finances to improve over the next six months with rural scores much higher than urban scores, likely due to normal monsoons and possible expectations of government stimulus for rural areas. Fifty-seven percent of respondents thought it was a good time to make a major purchase, which was a sharp drop compared to

80% last year. The abrupt demonetization and shortage of liquid cash would have been most influential here; however, despite this decline, India still took the pole position in this metric versus its emerging market peers.

Consumer price inflation has been trending downward over the last few years with interest rates also declining. With regard to inflation expectations, 40% of respondents think inflation will be the same as the last 12 months and 15% think it will be lower. This is the first time since 2011, when this question was first asked, that the number of respondents expecting inflation to be lower has gone beyond 10%.

Indians have finally turned cautious on the property market, with only 9% thinking property prices can rise substantially, compared to 15% in 2015 and 30% in 2011. In addition, 14% of respondents think that property prices may "decrease a little" versus 4% who thought so last year. One risk we highlight here is that a sharp fall in property prices could cause a negative "wealth effect" and affect consumer confidence.

Two secular themes continue to emerge in this survey – 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 (whiskey), premiumization is growing, with 52% of respondents stating that they have upgraded to more expensive brands. In fashion apparel, we have seen an increase between 2010 and 2016 of around 5–10 times in the percentage of respondents wanting to buy premium brands, while the share of consumers buying unbranded products has dropped from 45% in 2010 to 30% in 2016.

In 2017, we expect rural consumer sentiment to remain subdued due to the low prices of agricultural commodities. However, we believe urban consumption should see an acceleration due to low inflation, a reduction in interest rates and government pay hikes. Moreover, the move from unbranded to branded products should accelerate with the implementation of the goods and services tax.



istockphoto.com/JanelleLugge

Table 1

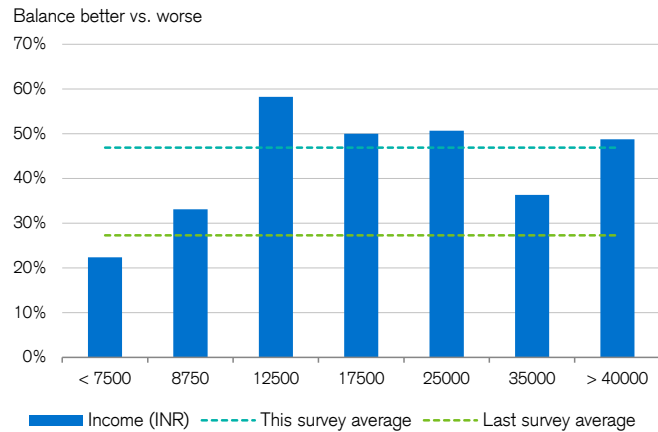
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 2,233 billion |
| GDP per Capita (2016E) | USD 1,722 |
| Population (2016E) | 1,297 million |
| CPI Inflation (2016E) | 5.0% |
| CPI Inflation (2017E) | 5.2% |
| Real GDP Growth (2016E) | 6.9% |
| Real GDP Growth (2017E) | 7.4% |
| Real private consumption growth (2016E) | 6.5% |
| Real private consumption growth (2017E) | 7.5% |

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

Figure 1

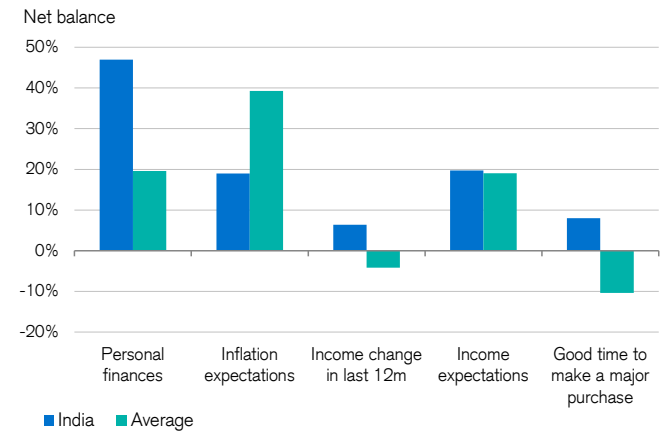
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

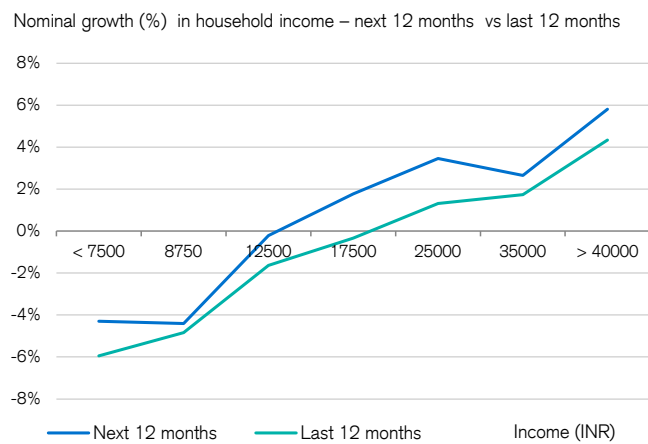
Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

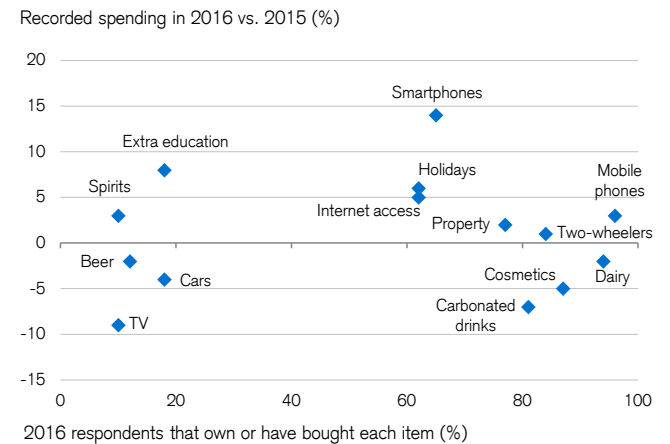
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

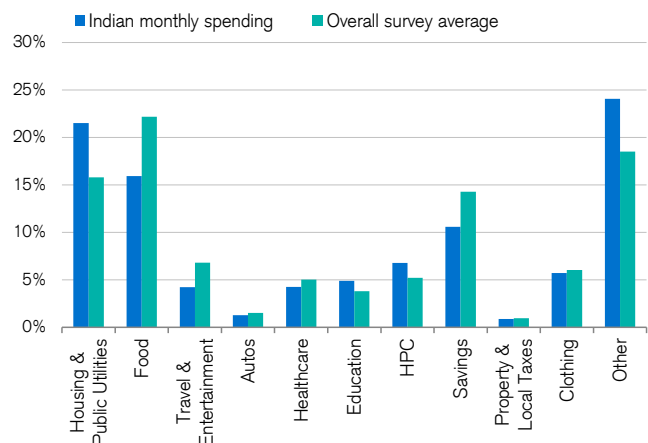
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

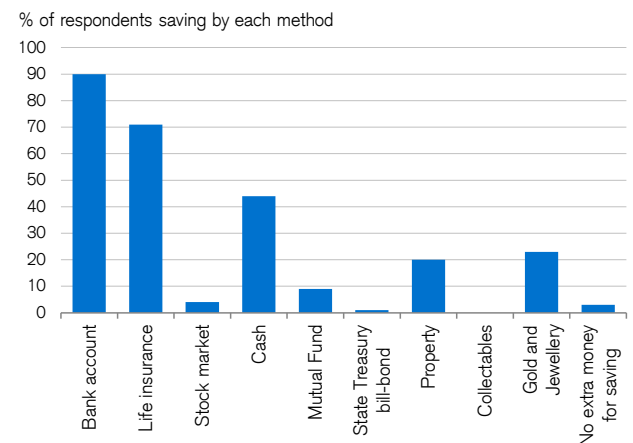
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

Indonesia

Greater expectations for the future

Ella Nusantoro

Indonesia is now second in our consumer confidence scorecard this year, up from third place last year. A net 30% of respondents expect personal finances to improve over the next six months, which is above the survey average of 20%. Indonesia ranked best among the eight countries when asked "to what extent has your household income changed in the last 12 months," most likely driven by fiscal measures involving the government increasing the threshold for non-taxable income in each year, allowing tax payers to enjoy an additional IDR 1.5 m (USD 112 m) in income between the years 2014 and 2016. Income expectations for the next 12 months remain resilient, with 44% of respondents expecting no change and 29% expecting an increase in household income of up to 10%. Indonesians continue to be optimistic about making major purchases, with the country ranked third out of eight.

Although income growth is still supportive, there are differences across the income scale, with higher income groups displaying greater optimism about their income prospects and lower income consumers showing relatively weaker readings on overall sentiment. While there are potential benefits for these consumers

from the government pledging to increase minimum wages, they are more sensitive to the 2016 rise in fuel prices.

Although respondents are still cautious about inflation expectations, sentiment has improved, with 46% expecting inflation to rise versus 55% last year, potentially driven by government measures to curb inflation at a record-low 3.7% in FY 2016 versus 6.4% in 2015. While 2015 was challenging for Indonesia, 2016 saw expectations improve. GDP growth rose from 4.9% in 2015 to an estimated 5.0% in 2016. Private consumption, which accounts for approximately 54.8% of total GDP, has been stable with around 5% growth due to the broad demographic base and young population. While still showing signs of weakness, the commodity-based Kalimantan region is improving as commodity prices recover and oil and gas production increases. At the same time, the government continues to introduce economic policy packages aimed at improving Indonesia's competitiveness and encouraging investment in the country.

Indonesians' monthly spending patterns remain relatively unchanged year on year. Consumers continue to allocate a large portion of their household income to

food (35%), far above the survey average (22%), followed by housing and public utilities (8.3%). However, we note that a shift to more discretionary areas of spending is underway. Spending on smartphones is gaining the most momentum supported by growing internet access. Spending on property and holidays is also very robust. We still see a preference for two-wheelers over four-wheelers, in part reflecting the lower income nature of the Indonesian consumer, but also doubtless influenced by fuel prices. Interestingly, just as growth in discretionary items is rising strongly, consumers are effectively shifting household income expenditure away from staples such as dairy products and carbonated drinks, with momentum declining for both in 2016.

In summary, we think the immediate outlook for the Indonesian consumer appears to be robust, supported by the long-term demographic drivers that remain in place. Both combine to support growing momentum in more discretionary areas of consumer spending. As optimism grows, Indonesians' willingness to purchase unbranded goods has declined, notably jewelry.



Table 1

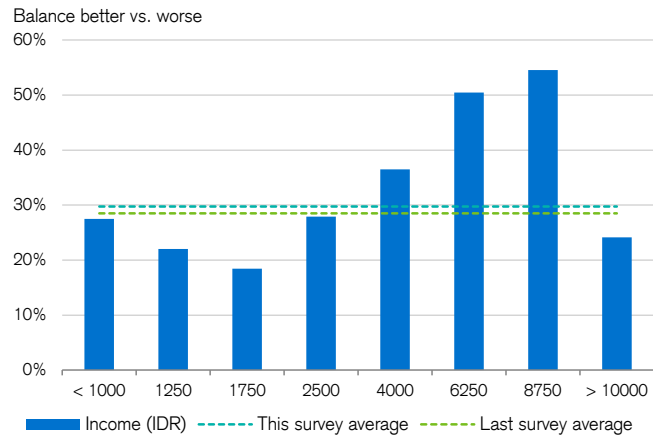
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 918.2 billion |
| GDP per Capita (2016E) | USD 3,594 |
| Population (2016E) | 255.5 million |
| CPI Inflation (2016E) | 3.0% |
| CPI Inflation (2017E) | 4.5% |
| Real GDP Growth (2016E) | 5.1% |
| Real GDP Growth (2017E) | 5.3% |
| Real private consumption growth (2016E) | 5.1% |
| Real private consumption growth (2017E) | 5.3% |

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

Figure 1

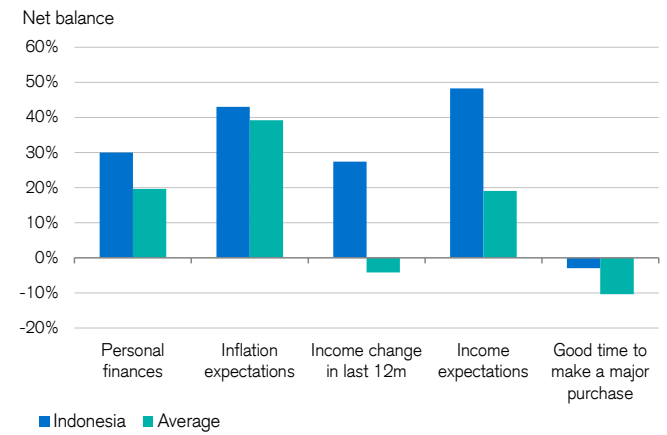
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

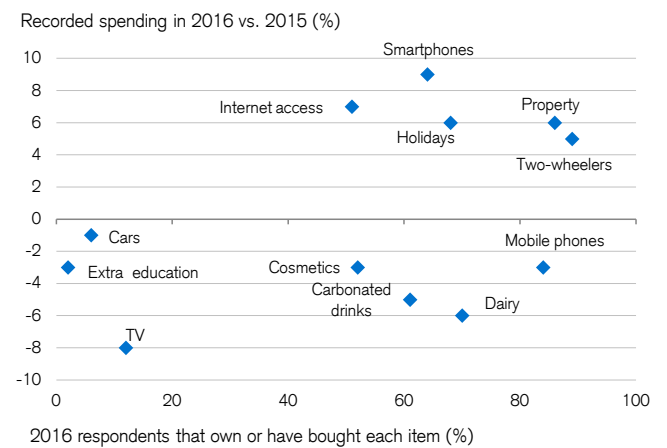
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

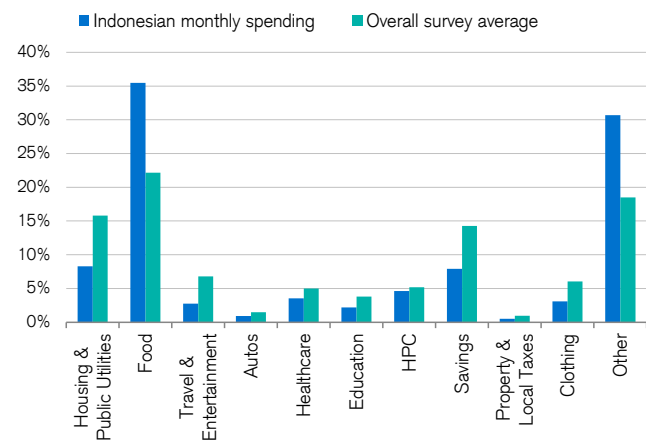
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

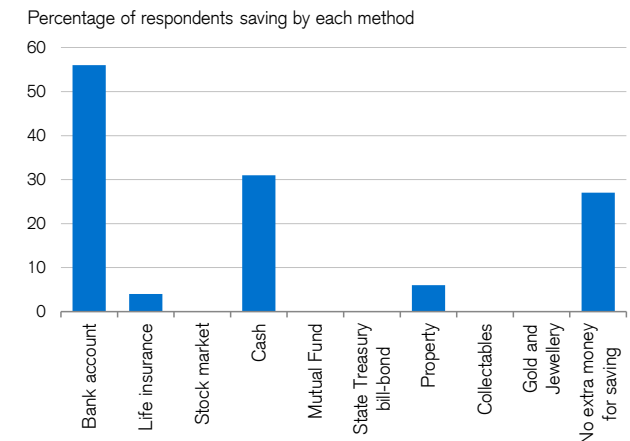
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

Mexico

Real incomes under pressure

Antonio Gonzalez Anaya

Mexico is now sixth on our consumer scorecard (down from fifth last year). The net number of respondents expecting an improvement in their personal finances in the next six months has declined to the lowest point (13%) since our survey started (2013), above only Turkey and Russia, and similar to South Africa. The net percentage of respondents expecting inflation to rise over the next 12 months is now 53%, up from 49% last year. This percentage is only below South Africa in the survey. Also, the net percentage of respondents who think that now is a good time to make a major purchase is more or less unchanged since our last survey.

This is set against a deteriorating outlook for real incomes. After two years of strong real wage gains (1.3%–1.4%, the strongest growth rate since 2001), we think rising inflation will result in 2017 being the first year to see negative real wages since 2009, driven by a sharp depreciation of the Mexican peso (around 30% over the last two years), rising gasoline prices (around 17% in early 2017), and the end of a strong tailwind from deflation in telecom and energy prices following important structural reforms implemented in early 2014. Income growth expectations rank at the lower end of the

range, reflecting downbeat sentiment. Across income brackets, lower income households are considerably more pessimistic than higher income groups.

We find carbonated drinks (in spite of taxes implemented and health concerns), internet access, and mobile phones to be among the categories that show both high penetration and improving spending momentum. Across retail channels, we have seen the preference for neighborhood stores increasing to 25% of respondents, up from 19% last year. Supermarkets and hypermarkets have seen their combined preference decline from 69% of the total to 63%. Albeit gradual, we think this shift in preferences toward smaller retailers is likely to continue.

Concerning e-commerce, 63% of respondents report having mobile/smartphone internet access, up from 58% last year and 40% in 2014. As we highlighted in last year's survey, limited fixed broadband penetration had historically been a barrier for e-commerce development in Mexico. We see this barrier coming down as consumers migrate to smartphones, making Mexico one of the most promising emerging markets for e-commerce growth (we expect a CAGR of +20% in e-commerce over five years).

The number of respondents without Internet access continues to decline, at now only 26% of the total, down from 30% last year and 44% two years ago. Interestingly, incumbent brick-and-mortar retailers, such as Liverpool and Walmart, have higher client usage compared to pure e-commerce players (28% and 26% of respondents, respectively, have used their websites in the past 12 months). However, less than two years after the launch of local operations in Mexico, 21% of respondents have already reported using Amazon, which is third largest in terms of usage in our survey. The two main criteria for consumers when choosing their favorite e-commerce website are still trustworthiness and low costs.

The cautious outlook for consumers in Mexico could become even more challenging depending on the outcome of negotiations between the new US administration and Mexico. 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 (around 27% of GDP). Any trade barriers could derail employment dynamics in Mexico, with negative implications for spending patterns in the medium term.



Table 1

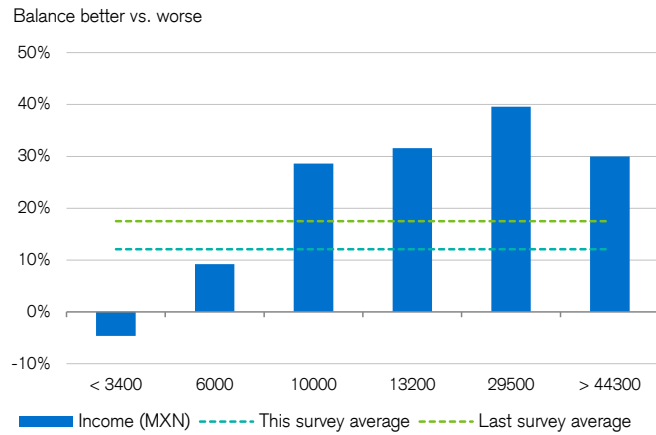
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 1,029 billion |
| GDP per Capita (2016E) | USD 8,419 |
| Population (2016E) | 122.3 million |
| CPI Inflation (2016E) | 3.4% |
| CPI Inflation (2017E) | 4.0% |
| Real GDP Growth (2016E) | 2.1% |
| Real GDP Growth (2017E) | 1.7% |
| Real private consumption growth (2016E) | 2.7% |
| Real private consumption growth (2017E) | 2.4% |

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

Figure 1

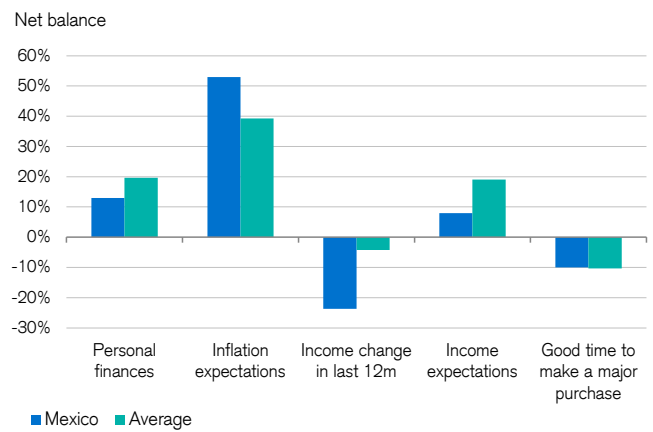
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

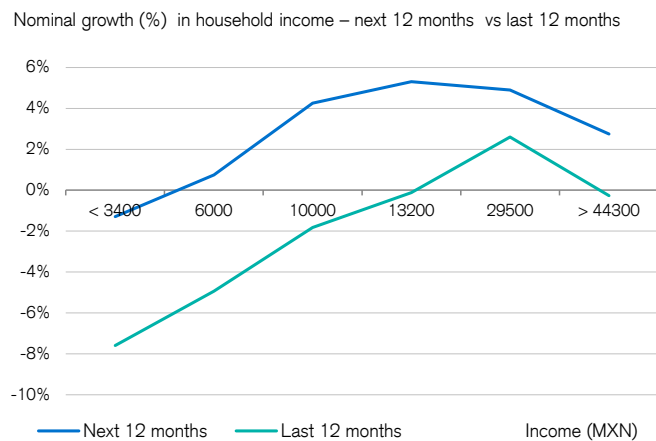
Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

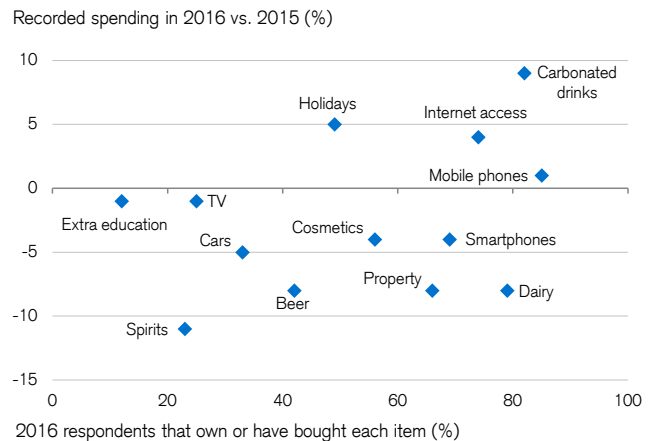
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

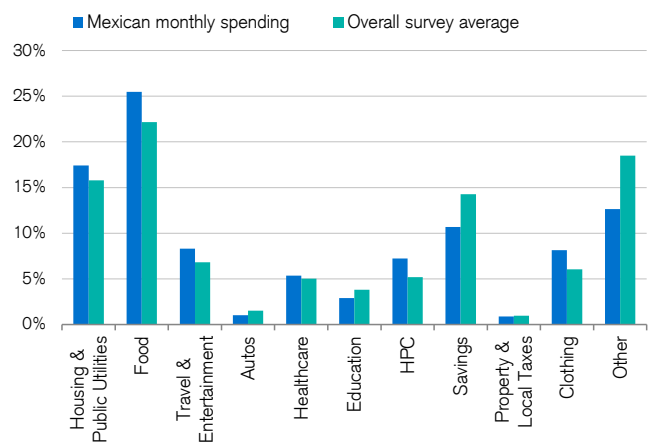
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

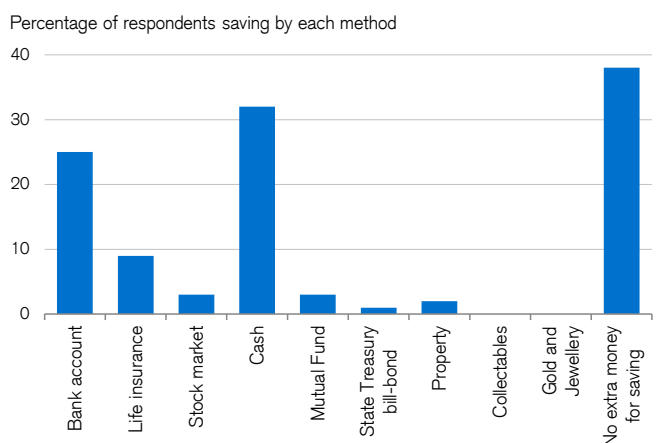
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

Russia

The future looks brighter

Victoria Petrova, Olga Bystrova

Having been weighed down in 2015 by a squeeze on real incomes, accentuated by the weakness of the ruble, the survey has shown modest signs of improving confidence among Russian consumers. Russia remains in sixth place on our consumer confidence scorecard. The net percentage of respondents expecting an improvement in their personal finances is now flat compared to -6% in 2015. Attitudes toward making a major purchase have also improved with a net -15% of respondents stating now as a "good time to purchase" versus -21% in 2015. These signs of improvement have come against a stabilizing of the macro backdrop, supported by higher oil prices, the possibility of macroeconomic sanctions being cancelled and a recovery of the ruble, which has been accompanied by decreasing interest rates and inflation.

The outlook for household income growth, while firmer than last year, is still muted. However, improving expectations regarding inflation are now providing a better backdrop for real incomes. Inflationary expectations improved by 12% YoY amid a firm monetary stance from the Central Bank of Russia, which has driven inflation down to 5.4%. The recov-

ery of the ruble is now reducing the negative influence of rising import costs, which have been exacerbated by import bans. Russia now ranks in the middle of this metric versus its emerging market peers. However, income inequality in the country is still severe as reflected in the pattern of consumer confidence. Lower-income earners still show severely depressed levels of optimism when judging the direction of their personal finances in the six months ahead.

In terms of spending patterns, our survey has shown that confidence is growing, with a trading uptick across a wide range of consumer-spending categories. However, we would still note that the consumer strength is mainly in large cities (>1 million population), while consumer spending remains sluggish in smaller cities. Interestingly, we see greater momentum in more discretionary categories (e.g. cosmetics, holidays, internet and smartphones) than the more staple products, perhaps because optimism is at its highest in higher-income brackets where spending may be more obviously skewed. Having said that, food still takes up the largest part of the household budget at 29% of income, reflecting the sensitivity

to currency movements, particularly for the low income brackets.

As in many emerging countries, smartphones are a key discretionary consumer category and smartphone penetration has continued to increase despite more difficult consumer conditions over the past two years. Indeed, the second half of 2016 saw a marked turning point in sentiment, with consumers starting to increase spending on electronics, including smartphones, mainly been driven by quality and price upgrades. However, the survey shows that smartphone purchases and upgrades could decelerate in 2017.

We continue to be optimistic for the year ahead and expect consumer consumption to improve. The potential turnaround point will still depend on the direction of oil prices, the Central Bank of Russia's stance on monetary policy and the government's potential decision to increase pensions and public sector employee salaries as the elections approach. A further strengthening of the ruble would pave the way for increased purchasing of consumer electronics and other durable items, although we expect a lag between macroeconomic stabilization and a sustainable recovery of consumption until wage inflation improves more robustly.



Table 1

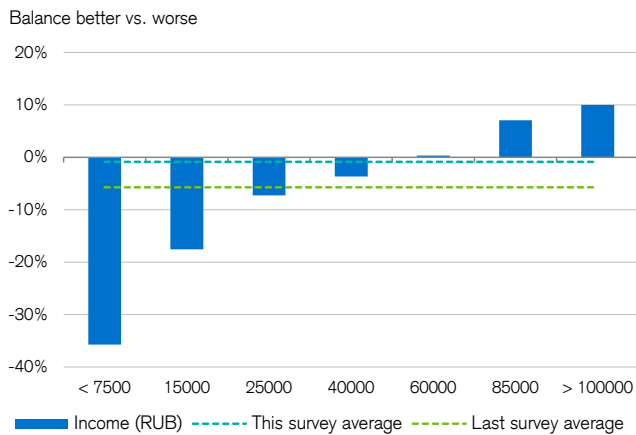
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 1,240 billion |
| GDP per Capita (2016E) | USD 8,465 |
| Population (2016E) | 146.5 million |
| CPI Inflation (2016E) | 5.5% |
| CPI Inflation (2017E) | 4.2% |
| Real GDP Growth (2016E) | -0.4% |
| Real GDP Growth (2017E) | 1.5% |
| Real private consumption growth (2016E) | 0.0% |
| Real private consumption growth (2017E) | 1.3% |

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

Figure 1

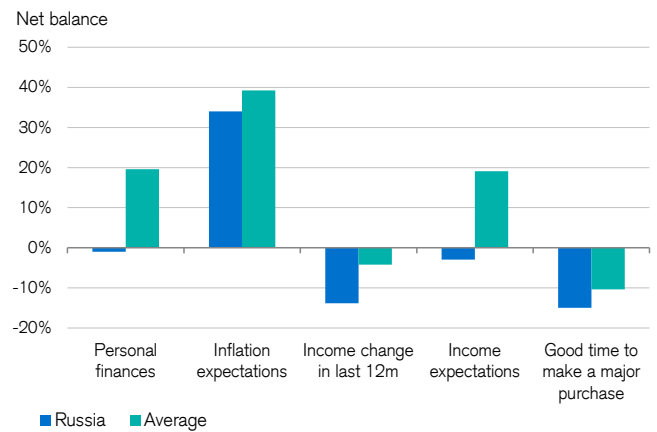
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

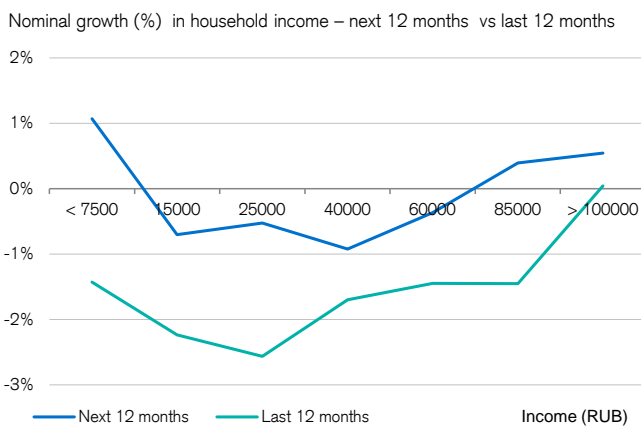
Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

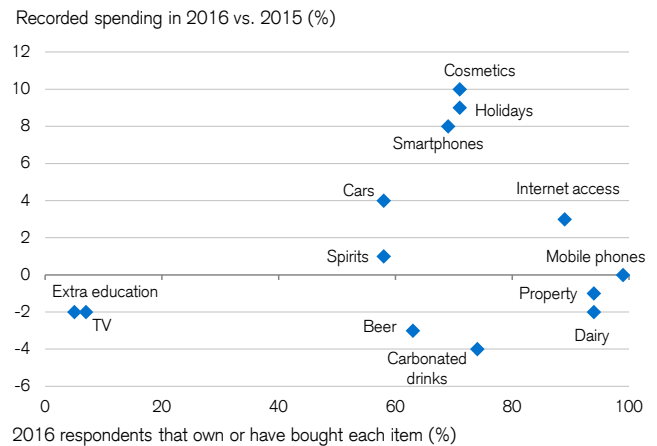
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

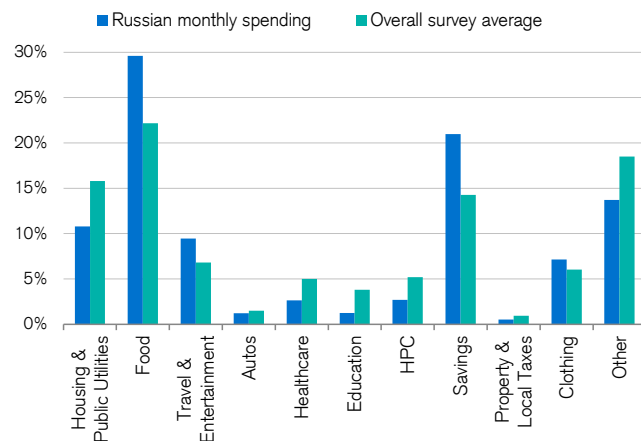
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

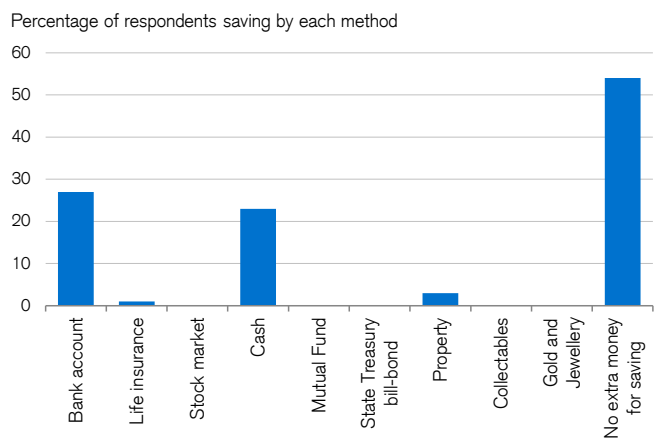
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

South Africa

Challenges remain

Carlos Teixeira

There are tentative signs of an improvement in conditions for the South African consumer revealed in the survey, which would be consistent with a likely cyclical improvement in the economy in 2017 if domestic political events do not impact confidence too severely. South Africa's ranking, in its peer group of eight countries, has improved to fifth, with Turkey, Russia and Mexico ranking below it.

A number of South Africa's consumer indicators in the survey show improvement, although in terms of overall levels they remain relatively weak and vulnerable. First, personal finances and household income are expected to improve this year, with expectations of personal finances increasing to 14% versus 4% last year, and household income expectations increasing to 27% compared to 17% in 2015. Numerous sectors will be negotiating new wage deals in 2017. The likelihood of inflation- and productivity-beating nominal wage settlements is strong. Second, inflation is expected to be broadly stable on average in 2017, but the monthly profile is expected to see a sharp decline. Drought conditions in 2016 pushed food price inflation up to nearly 12% YoY by December 2016.

We expect this rate to more than halve in 2017.

Third, the aversion to making major purchases has eased somewhat, following weak spending in high-priced durable goods in 2016, according to the survey. If more consumers believe that the South African Reserve Bank has ended its tightening cycle, then major purchases could receive a boost this year. Fourth, South African respondents plan to dedicate more to savings, via most channels. In 2016, household debt to disposable income declined to a 10-year low and the rate of dissaving moderated further, also to a 10-year low. This suggests that household balance sheets could recover in 2017, which bodes well for expenditure.

Reconciling the macro backdrop to the survey, we believe a cyclical improvement should lift household expenditure if an easing of drought conditions leads to a significant decline in food prices and general inflation, an improvement in the country's terms of trade results in higher externally generated income, and a stabilization of business confidence promotes some fixed investment. Monetary policy should be supportive. We expect the repo interest rate to be stable this year at

7.00%, having increased by 200 bp in the past three years. This should somewhat help mitigate the headwinds for the consumer from an increased tax burden.

Notwithstanding the signs of improvement in the survey, consumer confidence in South Africa still remains vulnerable. It is most at risk to domestic negative political developments, which could lead to capital outflows, a weaker rand, and a renewed tightening of monetary policy. If South Africa successfully navigates its way through the political, judicial, legislative and credit rating events of 2017, then we believe a new investment narrative could begin to emerge for 2018.

We think 2018 could be a year in which GDP growth accelerates as fixed capital, labor and productivity grow more strongly, the rand appreciates back toward fair value, inflation declines toward 5.0% YoY, the credit rating agencies change their outlooks back to "neutral," and the Reserve Bank cuts interest rates. This environment could support household consumption expenditure growth of over 2% (in constant price terms), compared to an expected 1.2% in 2017 and an estimated 0.8% in 2016.



Table 1

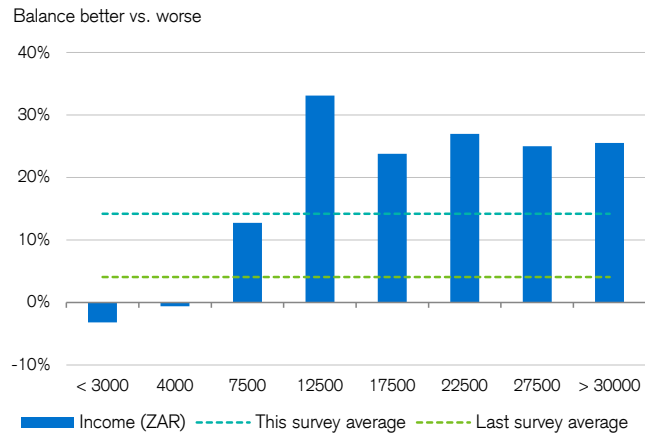
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 291.5 billion |
| GDP per Capita (2016E) | USD 5,215 |
| Population (2016E) | 55.9 million |
| CPI Inflation (2016E) | 6.5% |
| CPI Inflation (2017E) | 6.0% |
| Real GDP Growth (2016E) | 0.4% |
| Real GDP Growth (2017E) | 1.1% |
| Real private consumption growth (2016E) | 0.8% |
| Real private consumption growth (2017E) | 1.2% |

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

Figure 1

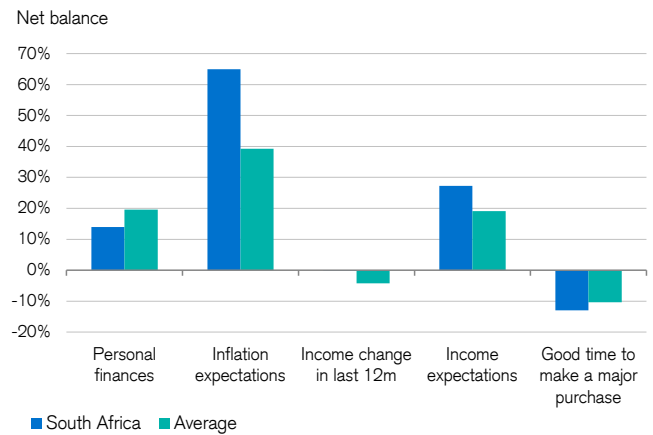
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

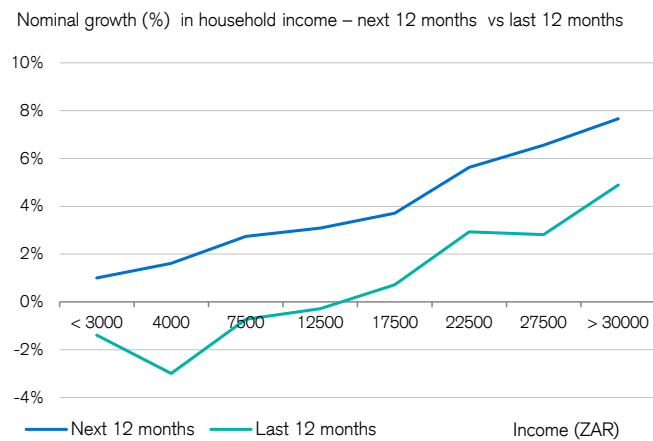
Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

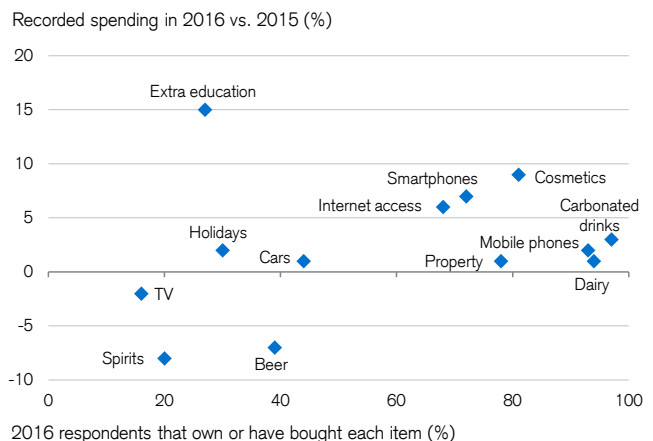
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

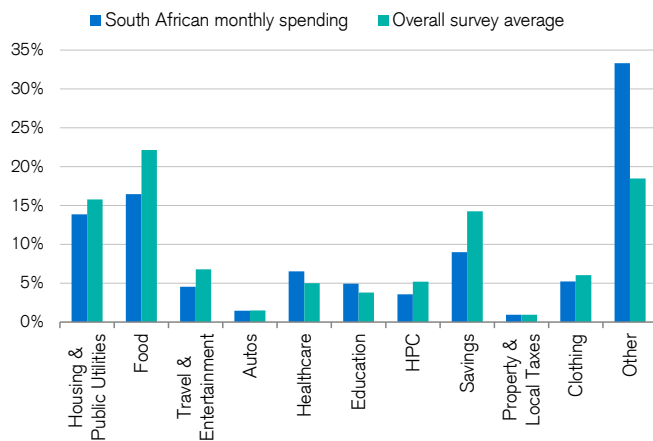
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

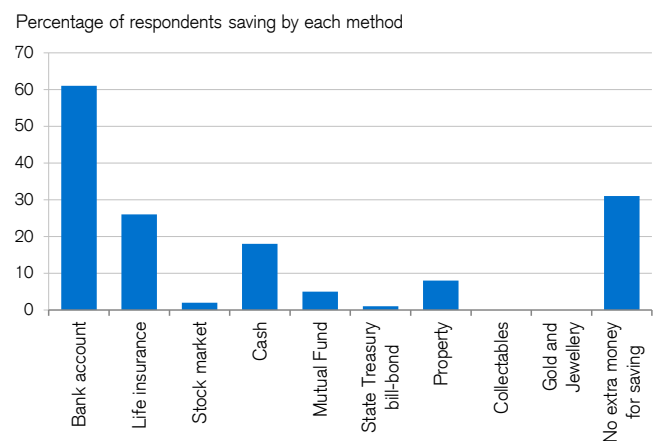
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research

Turkey

Consumer confidence weakens

Onur Muminoglu

Turkey has dropped two places in our country scorecard of consumer confidence and shares the lowest (sixth) place with Russia and Mexico. It is not surprising that Turkish consumers have indicated a lower level of confidence this year, with the net percentage of respondents expecting their personal finances to increase over the next six months moving into negative territory at -2% versus 10% in 2015, well below the survey average of 20%. This is against a backdrop of weak local currency (versus USD and EUR), continued geopolitical risks – particularly on its south-eastern border – and the more recent political uncertainty around the constitutional referendum scheduled for 16th April 2017.

Lower income groups remain more pessimistic based on income expectations. This has been a common characteristic of our survey (in some other emerging markets as well) and we think the year-on-year deterioration in Turkey this time was deepened by the high base of the previous year when the Government introduced a one-off 30% increase in the statutory minimum wage (versus 8% for 2017). The slightly higher unemployment rate in Turkey since April 2016 does not support income expectations either.

The recorded consumption of less-penetrated discretionary items remained positive in this year's survey, evident from the increase in spending on cosmetics, smartphones, travel and cars. We believe 2017 could be relatively less favorable for the discretionary world. Not only has consumer confidence been notably weaker lately, but also many discretionary items (particularly cars, smartphones, and cosmetics) have high import ratios, and are thus exposed to potential price inflation in 2017. We have noted that some of these items have already seen pre-purchasing toward the end of 2016 in expectation of currency-driven price hikes, which might have already increased the base comparatives going into 2017.

We believe the stance of economic policymakers will be crucial for discretionary spending. In our opinion, the government may not tolerate a deep slowdown in consumer activity ahead of the potential constitutional referendum. We think the priority will be to support employment through new investments and foreign direct investment. Although policymakers have also used stimulus packages in the past (temporary tax cuts in housing, cars and consumer durables in 2009), the higher commodity prices are structurally

increasing Turkey's current account deficit and allow less flexibility for such policies in regard to the import-driven sectors (Credit Suisse estimates the deficit was only 2% of GDP in 2009 versus an expected 5% in 2017 and a historical high of 10% in 2011).

Tourism may perform better in 2017 over the very weak base comps of 2015–2016, which could be potentially positive for alcoholic beverages along with the aviation industry. The impact of Russia lifting its temporary sanctions on charter flights to Turkey at the end of August 2016 is yet to be fully assessed. While our survey indicates that income expectations in the key foreign-tourism district of Turkey (Antalya) remain cautious, domestic travelers are maintaining their holiday plans, with 47% of respondents planning at least one holiday compared to 46% last year.



Table 1

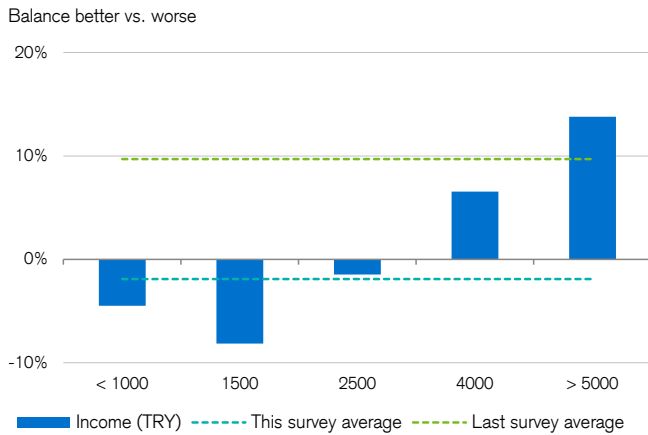
Key macro indicators

| | |
|---|-------------------|
| GDP (2016E) | USD 852.3 billion |
| GDP per Capita (2016E) | USD 11,477 |
| Population (2016E) | 74.3 million |
| CPI Inflation (2016E) | 7.6% |
| CPI Inflation (2017E) | 8.4% |
| Real GDP Growth (2016E) | 2.3% |
| Real GDP Growth (2017E) | 3.1% |
| Real private consumption growth (2016E) | 1.5% |
| Real private consumption growth (2017E) | 2.5% |

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

Figure 1

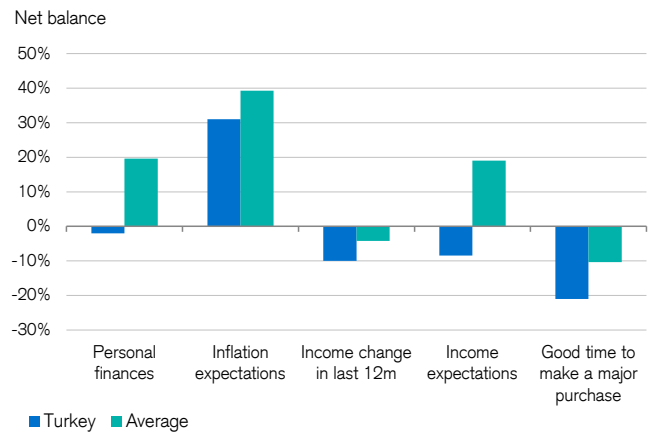
State of personal finances over the next six months



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 2

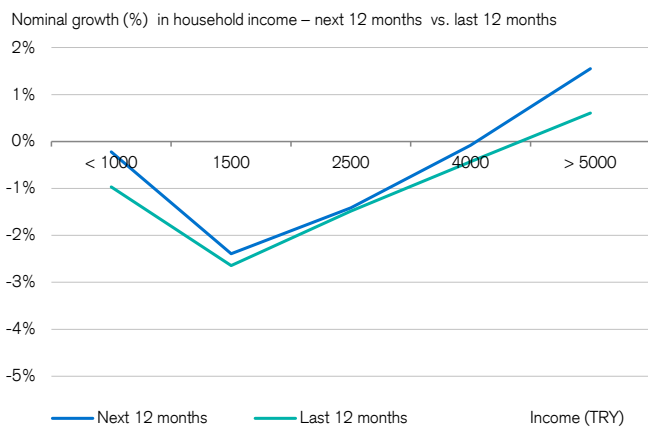
Consumer confidence indicators



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 3

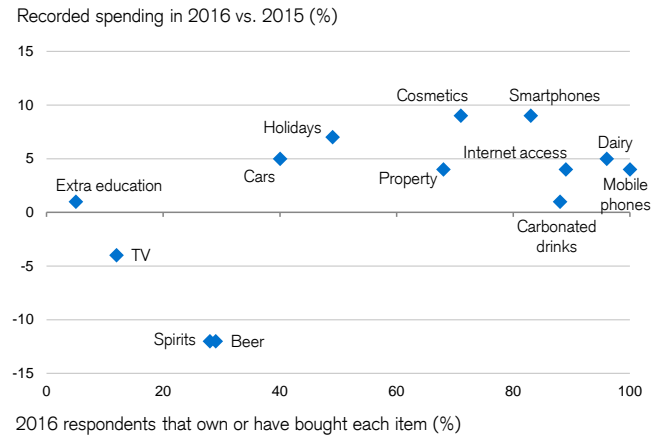
Nominal growth in household income



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 4

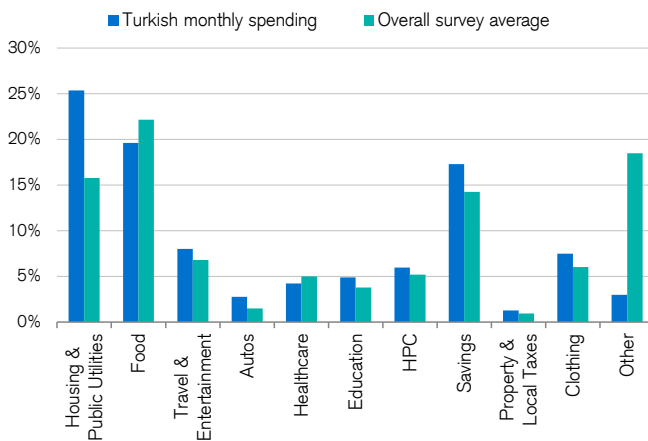
Spending momentum and market penetration



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 5

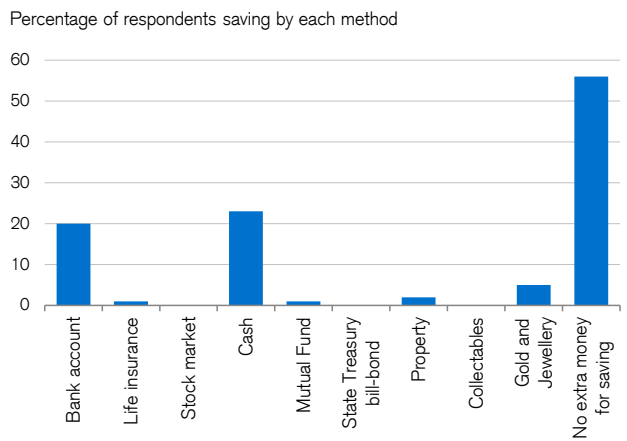
Monthly spending by category



Source: EM Consumer Survey 2017, Credit Suisse research

Figure 6

Savings by distribution channel (%)



Source: EM Consumer Survey 2017, Credit Suisse research



Appendix 1: Spending heat maps

Spending intentions

The heat maps below summarize spending intentions and the change in spending intentions across all categories and countries between this year's survey and last year. We also provide a demographic split by age across the countries. Categories that have the strongest degree of consumer spending support this year include internet access, fashion and going on holiday, with 60% to 76% of consumers expecting to spend money on this. On the other hand, we find that a very low share of consumers expect to spend (more) money on basic mobile phones, tablets and computers. Given the generally deflationary nature of prices for technology products, we are not surprised to find that few consumers expect to spend more money on buying these goods.

We would also note that the absolute share of consumers intending to spend money on foreign holidays is low at 7% on average. Clearly, average discretionary spending power prevents most consumers from taking foreign holidays yet. Holidays are more of a domestic than international focus. China is the exception, with 18% of consumers indicating a desire to spend on foreign holidays or more than twice the share seen in most other countries.

Spending intentions are generally strongest in the younger age brackets. A lower savings ratio would be typical among younger consumers of course. However, we would also flag the income /age distribution we have highlighted in the past, where income strength is skewed to younger consumers. This provides an added element to this age dynamic.

Table 1

Percentage of consumers that expect to buy or increase spending on certain categories in 2017

| | All Ages - EM avg. | | | | | | | | 18-29 | 30-45 | 46-55 | 56-65 | All |
|----------------------|--------------------|-------|-------|-----------|--------|--------------|--------|--------|---------|---------|---------|---------|---------|
| | Brazil | China | India | Indonesia | Russia | South Africa | Turkey | Mexico | EM avg. | EM avg. | EM avg. | EM avg. | EM avg. |
| Internet Access | 91 | 81 | 62 | 51 | 89 | 68 | 89 | 74 | 89 | 78 | 64 | 42 | 76 |
| Fashion | 60 | 57 | 77 | 48 | 74 | 73 | 89 | 44 | 72 | 67 | 58 | 50 | 65 |
| Holiday | 60 | 63 | 64 | 70 | 73 | 43 | 47 | 57 | 64 | 61 | 57 | 48 | 60 |
| Dairy | 44 | 50 | 78 | 50 | 14 | 69 | 43 | 44 | 50 | 50 | 48 | 45 | 49 |
| Perfume | 64 | 17 | 61 | 42 | 49 | 74 | 46 | 38 | 56 | 50 | 42 | 32 | 49 |
| Sports shoes | 62 | 51 | 34 | 19 | 39 | 64 | 57 | 39 | 54 | 47 | 37 | 27 | 46 |
| Bottled water | 36 | 41 | na | 62 | 7 | 41 | 33 | 48 | 40 | 39 | 36 | 35 | 38 |
| Carbonated drinks | 29 | 24 | 55 | 37 | 6 | 63 | 34 | 36 | 38 | 37 | 32 | 29 | 36 |
| Cosmetics | 32 | 39 | 71 | 35 | 10 | 53 | 36 | 29 | 38 | 34 | 29 | 23 | 33 |
| Smartphone | 33 | 27 | 24 | 30 | 11 | 48 | 10 | 21 | 38 | 31 | 20 | 12 | 26 |
| Property | 31 | 23 | 20 | 22 | 8 | 18 | 8 | 21 | 21 | 20 | 17 | 12 | 19 |
| Beer | 25 | 25 | 9 | na | 5 | 27 | 17 | 22 | 19 | 20 | 17 | 15 | 19 |
| Jewellery | 13 | 12 | 34 | 16 | 10 | 29 | 7 | 10 | 20 | 17 | 14 | 10 | 16 |
| Cars | 21 | 22 | 11 | 11 | 6 | 19 | 10 | 22 | 17 | 16 | 13 | 10 | 15 |
| Watches | 18 | 13 | 22 | 11 | 4 | 27 | 13 | 11 | 21 | 14 | 10 | 7 | 15 |
| Education | 34 | 14 | 18 | 2 | 5 | 27 | 5 | 12 | 19 | 15 | 11 | 6 | 15 |
| Spirits | 16 | 7 | 9 | na | 8 | 16 | 18 | 16 | 14 | 14 | 12 | 10 | 13 |
| LCD TV | 19 | 9 | 7 | 9 | 6 | 15 | 5 | 18 | 10 | 12 | 12 | 11 | 11 |
| Notebook PC | 11 | 11 | 1 | 6 | 3 | 4 | 11 | 8 | 9 | 8 | 4 | 3 | 7 |
| Foreign Holiday | 4 | 18 | na | 0 | 12 | na | 3 | 4 | 7 | 7 | 7 | 8 | 7 |
| Tablet | 5 | 10 | 3 | 3 | 2 | 11 | 4 | 7 | 7 | 6 | 4 | 3 | 6 |
| Desktop computer | 4 | 7 | 4 | 1 | 1 | 5 | 5 | 4 | 4 | 4 | 4 | 2 | 4 |
| Mobile phone (basic) | 3 | 1 | 4 | 2 | 2 | 3 | 7 | 4 | 3 | 3 | 4 | 4 | 3 |

Source: Emerging Consumer Survey 2017

Spending momentum

In addition to absolute spending intentions, we also review the momentum in these readings. Identifying categories that are "blue" in spending intentions and also momentum is clearly an illustration of categories that are strong and getting stronger. And, of course, vice versa, where "red" is the common color.

When comparing this year's readings with last year's survey, we find that popularity is increasing most for TVs, holidays, internet access and education. Product categories where the average intention to spend more money is falling most include smartphones – which is a repeat of last year's survey and possibly a reflection of the trend from expensive foreign smartphones (e.g. Apple) to cheaper local phones (Huawei) as highlighted in our brands chapter and rising penetration rates.

We would stress that this is a reflection of slowing spending momentum rather than actual declines in spending in a category that is still a strong end-market.

Other categories that appear to experience falling spending momentum include drinks (carbonated, bottled water, spirits and beer). This appears most pronounced in China, South Africa, Turkey and Mexico. However, we would highlight that, in categories such as beer and spirits, we have seen trading up even if market volumes themselves have been more pedestrian. The age dynamic referred to above of younger cohorts spending more than older age brackets is relevant in momentum as well as the level of spending intentions.

Table 2

Year-on-year change in spending intentions

| | All Ages - EM avg. | | | | | | | | 18-29 | 30-45 | 46-55 | 56-65 | All |
|----------------------|--------------------|-------|-------|-----------|--------|--------------|--------|--------|---------|---------|---------|---------|---------|
| | Brazil | China | India | Indonesia | Russia | South Africa | Turkey | Mexico | EM avg. | EM avg. | EM avg. | EM avg. | EM avg. |
| Internet Access | 7 | -1 | 5 | 7 | 3 | 6 | 4 | 4 | 2 | 5 | 7 | 6 | 4 |
| Fashion | 9 | -6 | -1 | -8 | -6 | 0 | 4 | -14 | -2 | -3 | -4 | -4 | -3 |
| Holiday | 8 | 0 | 7 | 6 | 4 | 7 | 1 | 4 | 5 | 5 | 5 | 4 | 5 |
| Dairy | 10 | -5 | 9 | 1 | -7 | -1 | -8 | -6 | -1 | 0 | -2 | -2 | -1 |
| Perfume | 10 | 1 | 1 | -8 | 1 | 13 | -3 | -7 | 0 | 2 | -1 | 3 | 1 |
| Sports shoes | 7 | -5 | 5 | -10 | -5 | 12 | -2 | -4 | -1 | 0 | -2 | 1 | 0 |
| Bottled water | 10 | -5 | na | 4 | -4 | -10 | -14 | -4 | -4 | -2 | -5 | -2 | -3 |
| Carbonated drinks | 8 | -5 | -3 | 1 | -2 | -9 | -10 | 0 | -2 | -2 | -4 | -3 | -3 |
| Cosmetics | 10 | 3 | 2 | 1 | 0 | 1 | 1 | -9 | 1 | 2 | 0 | 0 | 1 |
| Smartphone | -25 | -23 | -12 | -31 | -18 | -7 | -26 | -15 | -17 | -16 | -18 | -20 | -20 |
| Property | 5 | 4 | 3 | 2 | 0 | 5 | -2 | 0 | 2 | 2 | 2 | 3 | 2 |
| Beer | 5 | -5 | 1 | na | -2 | -6 | -10 | -4 | -3 | -2 | -5 | -1 | -3 |
| Jewellery | 5 | -1 | 9 | -3 | -1 | 8 | -5 | -1 | 3 | 1 | 0 | 1 | 1 |
| Cars | 4 | 0 | -2 | 3 | -1 | 4 | -3 | 2 | 1 | 1 | 0 | 1 | 1 |
| Watches | 5 | -2 | 5 | -10 | -2 | 6 | -8 | -1 | -1 | -1 | -3 | -1 | -1 |
| Education | 9 | 2 | 8 | -3 | -2 | 15 | 1 | -1 | 4 | 4 | 4 | 2 | 4 |
| Spirits | 2 | -6 | 3 | na | -1 | -8 | -9 | -5 | -3 | -3 | -4 | -2 | -3 |
| LCD TV | 12 | 7 | 4 | 5 | 2 | 5 | 4 | 3 | 4 | 6 | 6 | 6 | 5 |
| Notebook PC | 5 | 0 | 0 | 0 | -1 | 1 | 2 | 2 | 2 | 2 | 0 | 1 | 1 |
| Foreign Holiday | 0 | 7 | na | 0 | -1 | na | -1 | 0 | 0 | 2 | 1 | 3 | 1 |
| Tablet | 2 | 2 | 0 | -1 | -4 | 1 | 0 | 1 | 0 | -1 | -1 | 1 | 0 |
| Desktop computer | 2 | 3 | 1 | -1 | 0 | 2 | 3 | 1 | 1 | 2 | 2 | -1 | 1 |
| Mobile phone (basic) | 1 | 0 | 0 | -2 | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |

Source: Emerging Consumer Survey 2017

Appendix 2: 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 re-sponses 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 is the exception where there has been a major improvement in rural optimism. High-income earners tend to be the most optimistic. The young consumer is the key source of optimism in China, but less clear in the rest of Asia.

Table 1

In what ways do you expect your household income to change in the next 12 months?

| | China | | | India | | | Indonesia | | | South Africa | | | |
|---------------|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------------|------------|-----------|----|
| | Income | Purchases | Finances | Income | Purchases | Finances | Income | Purchases | Finances | Income | Purchases | Finances | |
| Total | 30 | 6 | 27 | 20 | 8 | 47 | 49 | -3 | 30 | 28 | -13 | 14 | |
| Area | Urban | 29 | 8 | 30 | 28 | 5 | 41 | 49 | -3 | 31 | 23 | -11 | 17 |
| | Rural | 26 | 1 | 22 | -1 | 14 | 62 | 50 | -4 | 27 | 37 | -16 | 8 |
| Age | 18-29 | 37 | 3 | 33 | 21 | 7 | 47 | 50 | -4 | 31 | 28 | -7 | 19 |
| | 30-35 | 30 | 7 | 33 | 20 | 9 | 47 | 50 | -3 | 32 | 29 | -13 | 16 |
| | 46-55 | 21 | 10 | 18 | 13 | 5 | 49 | 45 | -1 | 28 | 28 | -17 | 11 |
| | 56-65 | 19 | 8 | 16 | 16 | 6 | 46 | 45 | -4 | 20 | 12 | -20 | -6 |
| Income | Low | 22 | 3 | 13 | 17 | 7 | 28 | 47 | -3 | 20 | 13 | -19 | -3 |
| | Medium | 26 | 5 | 23 | 10 | 9 | 53 | 49 | -3 | 34 | 31 | -9 | 15 |
| | High | 36 | 10 | 35 | 32 | 9 | 41 | 56 | 1 | 40 | 59 | -7 | 26 |

| | Brazil | | | Mexico | | | Turkey | | | Russia | | | |
|---------------|---------------|------------|-----------|----------|------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----|
| | Income | Purchases | Finances | Income | Purchases | Finances | Income | Purchases | Finances | Income | Purchases | Finances | |
| Total | 33 | -35 | 29 | 8 | -10 | 13 | -9 | -21 | -2 | -3 | -15 | -1 | |
| Area | Urban | 36 | -35 | 31 | 11 | -9 | 15 | -6 | -19 | -2 | 3 | -12 | 3 |
| | Rural | 26 | -38 | 25 | 1 | -12 | 6 | -15 | -24 | -2 | -15 | -21 | -9 |
| Age | 18-29 | 42 | -26 | 46 | 8 | -5 | 21 | -8 | -16 | 4 | 1 | -9 | 7 |
| | 30-35 | 31 | -36 | 31 | 10 | -12 | 19 | -7 | -21 | -2 | -3 | -13 | 0 |
| | 46-55 | 29 | -49 | 8 | 8 | -13 | -5 | -6 | -22 | -8 | -4 | -16 | -5 |
| | 56-65 | 11 | -39 | 4 | -2 | -20 | -13 | -22 | -26 | -9 | -10 | -30 | -12 |
| Income | Low | 37 | -42 | 27 | 17 | -11 | 9 | -8 | -20 | -4 | -6 | -30 | -21 |
| | Medium | 30 | -34 | 30 | 17 | -10 | 32 | -18 | -16 | 7 | -3 | -15 | -3 |
| | High | 31 | -31 | 30 | 4 | -12 | 37 | -9 | -20 | 14 | -2 | -7 | 8 |

Source: Company data, Credit Suisse estimates

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.

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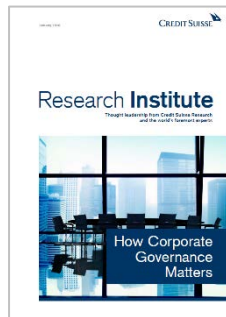
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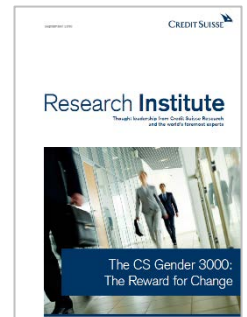
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