

Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

A special report from the Economist Intelligence Unit and Mintel





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Mintel/EIU collaboration

Over the past few years, the Economist Intelligence Unit and Mintel have forged a close working relationship. This was built on a clear understanding from the outset of how the two companies could provide a unique perspective by bringing together the EIU's economic and political analysis with Mintel's in-depth market and consumer intelligence.

Many Mintel users will be familiar with the EIU for their market size data, while Mintel's consumer-focused articles support the EIU's industry products. More recently we have worked together to provide innovative custom solutions to clients, such as helping them understand spending power and the retail market in China.

We are pleased to announce our latest collaboration in this white paper, illustrating the strength of the relationship. The paper looks at middle-class consumers in emerging markets, a group whose numbers are expected to swell to 3bn over the next two decades. As these new consumers come into the market, how will this influence spending patterns? And as incomes rise, how should companies adjust their product mix to benefit from this growth?

Combining innovative forecasting techniques with market-focused data on categories of expenditure, this paper explores trends across a select range of key markets. This is, however, just a topline overview of the results as there is far too much to cover in one paper. If you would like to see more detailed analysis tailored to your business, please give us a call or register your interest on the site (for details, see back of report).

Meanwhile, we trust you will find this paper and the accompanying microsite (www.mintel.com/eiu) informative and useful.

Elizabeth Bramson-Boudreau
Industry Publishing Director

John Weeks
Chairman, Mintel Group Ltd



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Consumer spending priorities in fast-growing emerging markets

Overview: Convergence with divergence

When the economy flags, do Americans buy less soap? As incomes rise, do South Africans drink more tea? Finding the link between economic trends and consumer purchases has always been difficult, but it is becoming increasingly vital as companies plan their sales strategies across multiple markets growing at very different rates.

To help, the Economist Intelligence Unit (EIU), with its expertise in economic forecasting, has teamed up with Mintel, renowned for its knowledge of consumer markets. By working together to develop a new forecasting method (see p10-11), we have drilled down from the macro to the micro, turning the EIU's five-year household spending forecasts into five-year forecasts for some of Mintel's fast-moving consumer goods (FMCG) categories.

This report showcases some initial results from our collaboration, looking at household spending trends in the five major emerging markets of China, India, Mexico, South Africa and Turkey, and contrasting those with the developed US and UK markets. Our analysis shows that, though some consumer tastes are converging as goods become more affordable, the differences between these markets remain stark. Regulation, cultural factors such as religion and attitudes towards health and beauty, and the marketing efforts of companies themselves all affect how households spend money.

The US remains overwhelmingly the biggest market in terms of **total spending**, although the UK spends more per head in many consumer categories. But as mature markets, both are relatively slow-growing. While the five emerging markets we profile are expected to see total spending rise by between 7.7% and 15.2% a year, on average, in 2013-16 (Mexico will be the slowest and China the fastest), US spending growth will average 4.5% a year and the UK just 3.6%.

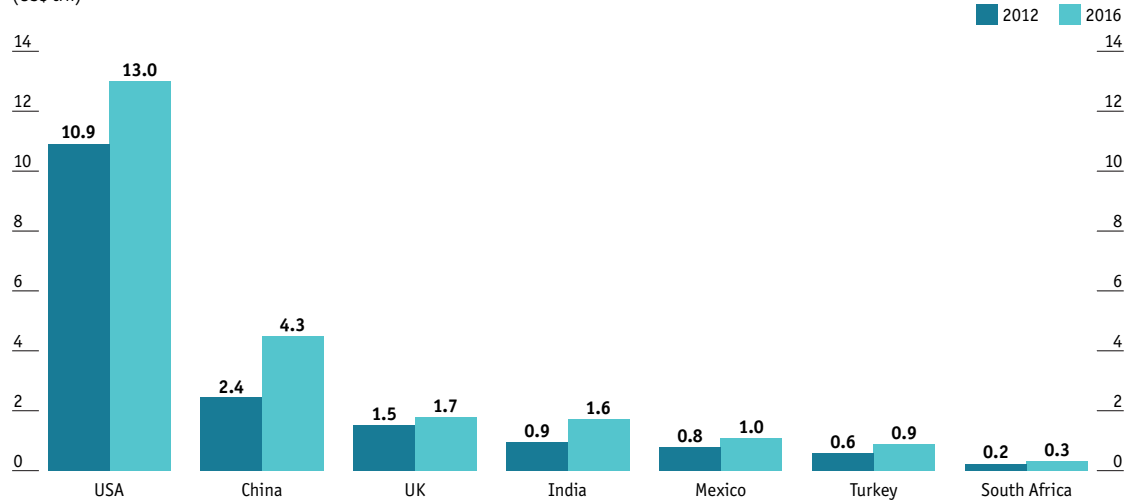
As is typical in wealthy markets, Americans and Brits devote less of their spending to food in the home than do consumers in most emerging markets. But the **food service** market is enormous in the US, and increasingly sizeable in China, where business spending on catering is high. Globally, our report confirms that food spending is the priority for consumers, staying strong in most countries throughout the recession and set to keep growing steadily even as the global economy recovers. Higher commodity prices have fed into that growth, particularly when it comes to **commodity food**, where suppliers have few options to shift to cheaper ingredients.



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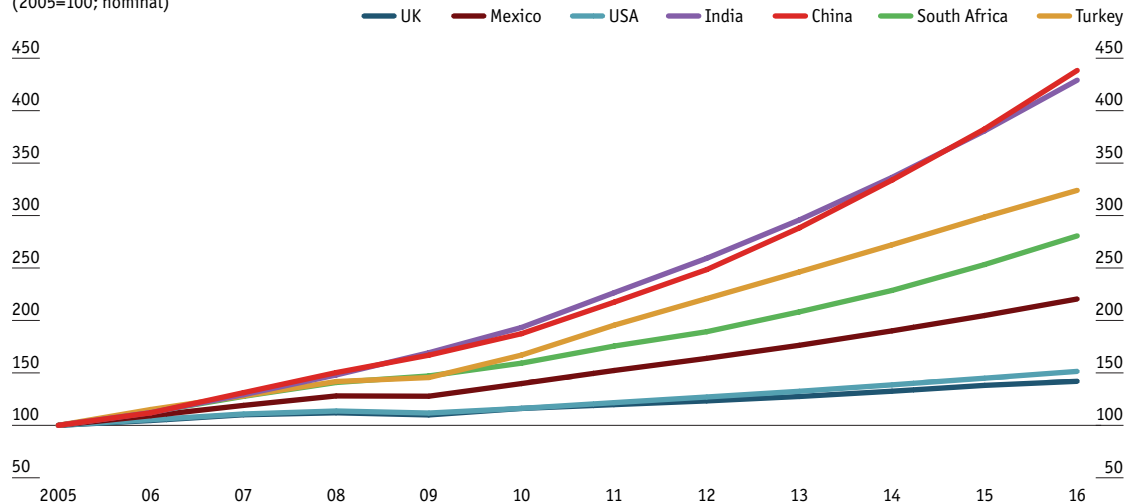
Total spending
(US\$ trn)



Note. Total consumer expenditure at market exchange rates.

Sources: OECD; China National Bureau of Statistics; India Central Statistics Office; Economist Intelligence Unit.

Total spending: indexed
(2005=100; nominal)



Sources: Economist Intelligence Unit; Mintel.

Nevertheless, underlying this trend are some sizeable shifts in spending habits. The most obvious is the increasing consumption of more expensive **prepared foods**, whether it is snack foods in Mexico, breakfast cereals in India, or cooking sauces in China. Even in mature markets such as the UK, the rise in snacking is discernible, and is being encouraged by the launch of new products. This shift to more expensive prepared food explains why we expect spending on food to accelerate in most countries, even as commodity prices fall.

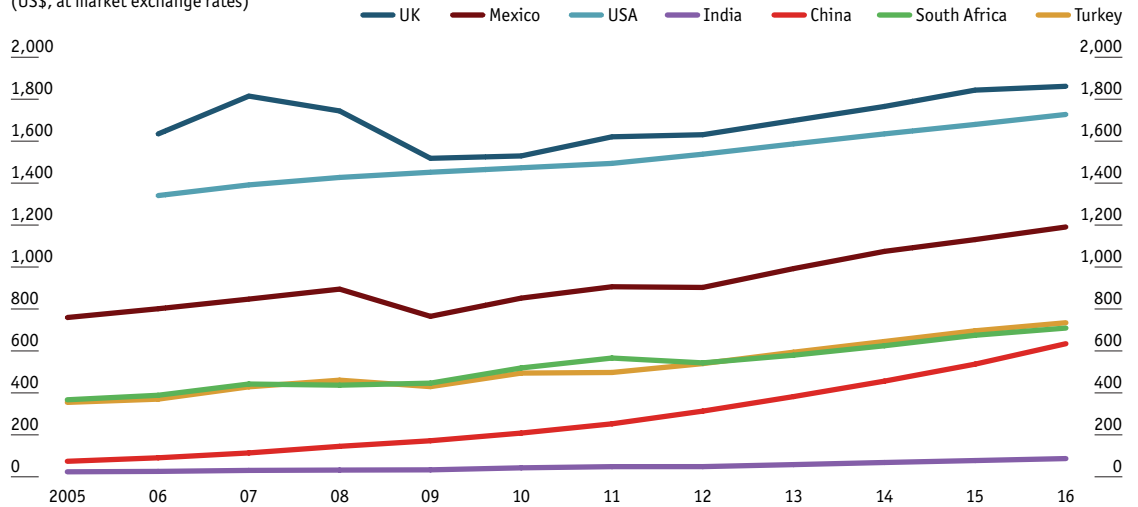


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Food and drinks: Spending per capita

(US\$, at market exchange rates)

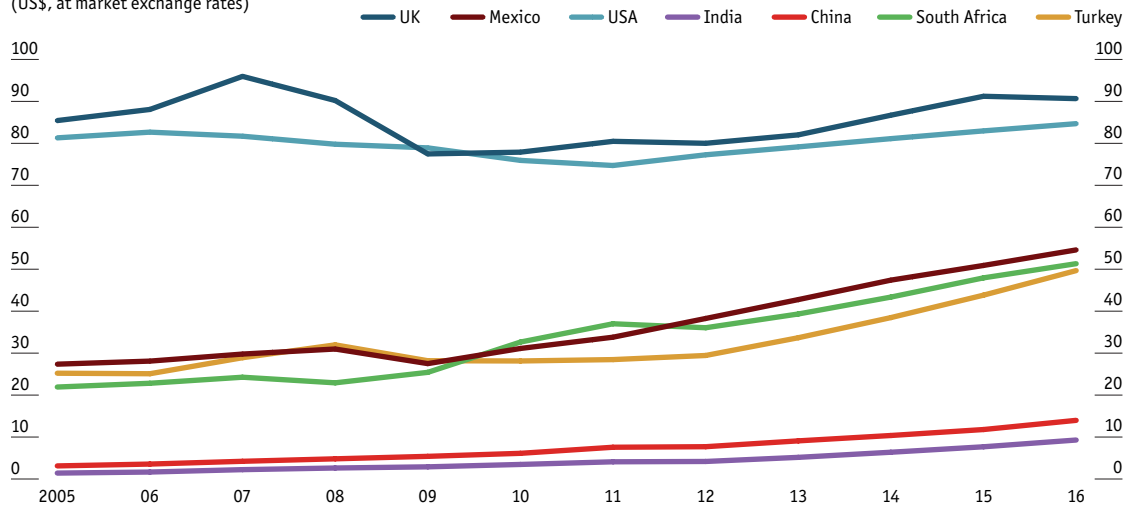


Sources: Economist Intelligence Unit; Mintel.

Nevertheless, as spending on food starts to fall behind total spending growth, it will leave room for consumer priorities to shift to other products. We expect **household products** such as washing powder and cleaning products to be one of the strongest segments over the forecast period. This growth will be led by India (growing at 21% per year between 2013 and 2016), where the spread of washing machines and other appliances, as well as rapid population growth, is leading to soaring demand. Turkey and China (both up 15% a year) will be strong markets too.

Household products: spending per capita

(US\$, at market exchange rates)



Sources: Economist Intelligence Unit; Mintel.

The **clothing** market will generally be the most subdued of the markets covered in this report, thanks largely to continuing pressure on prices and a predicted fall in commodity costs such as cotton. As wages rise in textile-producing countries, however, clothing prices are starting to level off, and we



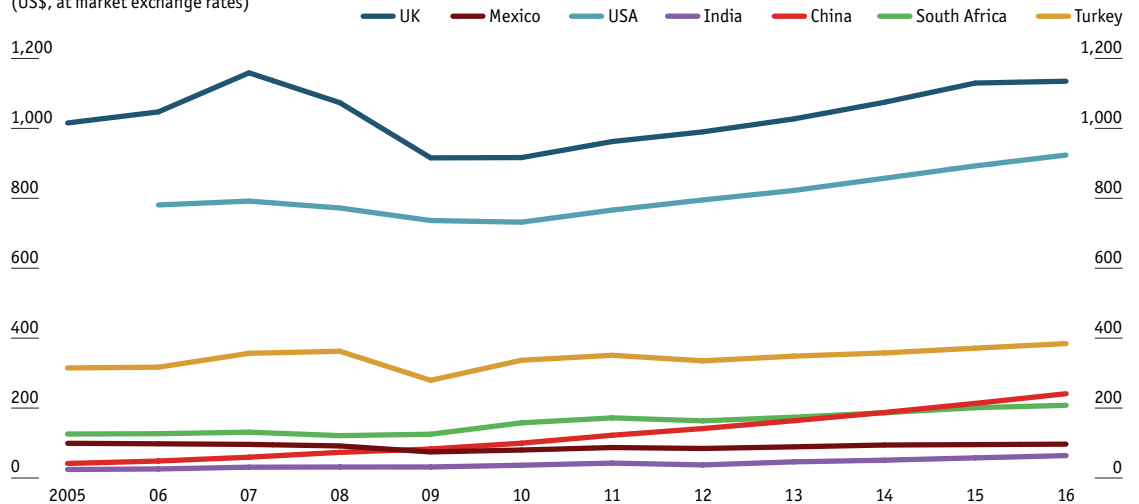
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expect sales values to accelerate. China will lead this growth, but it will also be noticeable in India and South Africa, where shopping via the internet is reaching previously inaccessible groups. In Mexico, by contrast, smuggling will continue to undermine sales.

Clothing: spending per capita

(US\$, at market exchange rates)

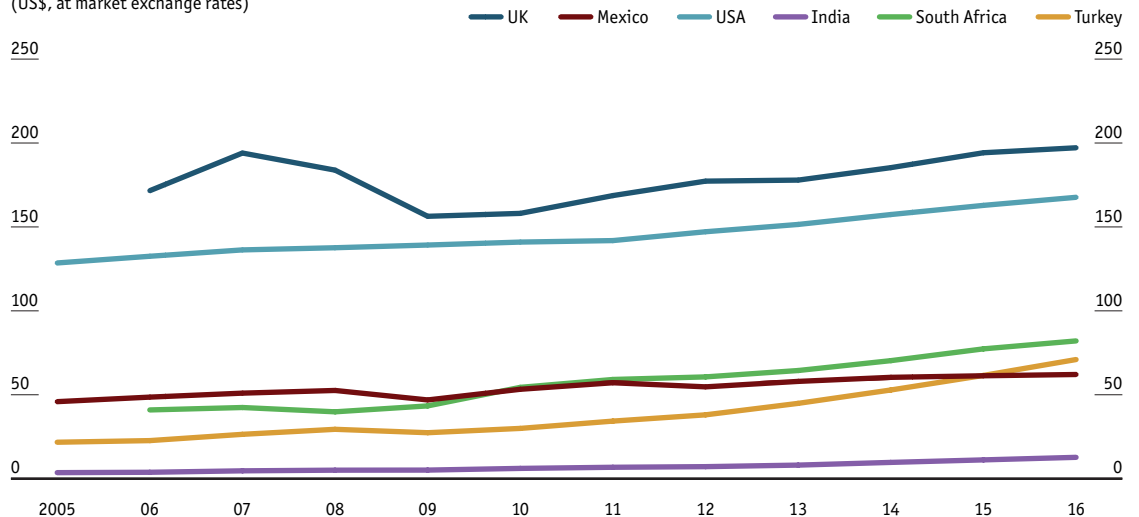


Sources: Economist Intelligence Unit; Mintel.

The greatest growth in **beauty** and **personal care** will come from Turkey and India (we lacked data on China). Beauty products will also be one of the brightest spots in the mature markets of the US and UK, where make-up is often a cheap and cheerful way for hard-pressed consumers to keep looking good. Brand loyalty is also strong, despite the pressures of fashion. The same applies in many emerging markets, where make-up and deodorants are affordable luxuries.

Beauty and personal care: spending per capita

(US\$, at market exchange rates)



Sources: Economist Intelligence Unit; Mintel.

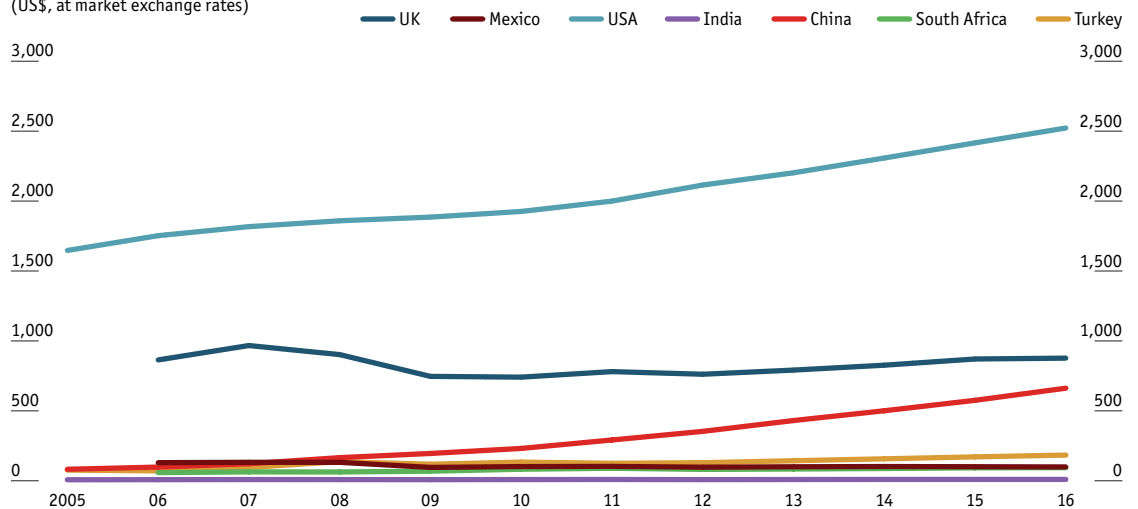


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The **food service** market is also benefiting from a fall in prices in the US, where eating out is often cheaper than eating at home. At the same time, high-end restaurants in both the US and UK have managed to maintain strong growth even through recession, and we expect that to continue. Growth will be still faster in most of the emerging markets, particularly China, where the expansion of restaurant and coffee shop chains, as well as business spending, is also encouraging demand. The sole exception to this trend is Mexico, where the tendency to eat mostly at home means the outlook for food service is poor.

Food service: spending per capita
(US\$, at market exchange rates)



Definitions vary between countries.
Sources: Economist Intelligence Unit; Mintel.

Among our other findings:

● Prices are crucial, but not the only consideration

Though consumers keep a keen eye on prices, they will not simply buy the cheapest every time, as trends in the clothing market show. With clothing production now overwhelmingly located in low-cost countries, prices have been on a long-term downward trend. So although volume demand remains strong in most markets, sales values are tracking behind household expenditure growth everywhere but South Africa, where internet shopping is helping to fuel sales. There are signs that the price of clothing is rising, however, not only as a result of wage growth in producing markets, but also because consumers want to invest in longer-lasting garments.

● Underlying priorities have long-lasting effects

In many markets, focusing on health benefits is a powerful way to drive sales. This is particularly true in emerging markets where malnutrition remains a live issue. In India, parents are keen to feed their children vitamins, which is why enriched juice drinks are mostly targeted at children. In the US, by contrast, parents concerned about obesity are shifting from juice and carbonates to flavoured water. This is just one example of long-term public priorities that not only influence consumer choices, but can also lead to greater regulation.



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● Innovations drive markets

Even in relatively slow-growing markets there are always bright spots, and these are often thanks to a new product category. For example, product innovation and a lack of free time are supporting growth in the prepared food market as people adopt new ways of grabbing a snack. As a result, companies play a key role in changing consumer tastes, and the influx of foreign investors such as Coca-Cola, Nestle and Unilever into emerging markets has helped to create demand. And it is not just multinationals: China's **food service** business is also being driven by local chains, while Turkey's strong textile industry has led to high clothing sales.

● China wins, nearly every time

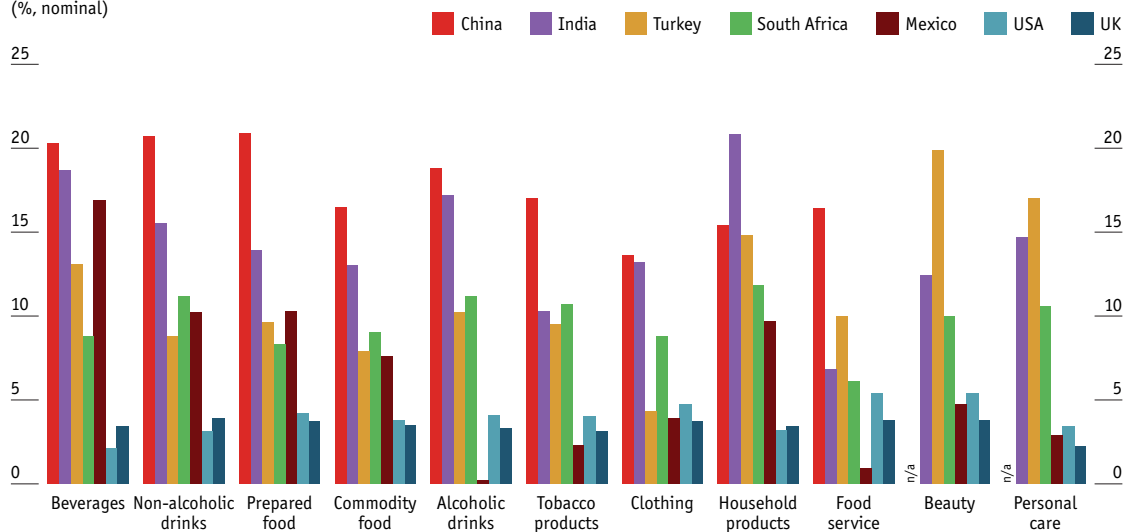
For all but one of the Mintel categories covered in this report, we expect China to report the highest growth between 2013 and 2016. The sole exception is the **household products** segment, which will be led by India, albeit from a lower base. A lack of OECD data prevented us forecasting the **beauty products** and **personal care** segments in China, but one would expect similar growth there.

● Convergence allows ample room for differences

The biggest message of this report, though, is that despite the efforts of multinational corporations, income convergence and increasingly westernised tastes, consumer priorities still differ, sometimes dramatically. This is clear from looking at the segments we expect to grow fastest in each country in the years to 2016:

Spending forecasts, annual average growth rates, 2013-16

(%, nominal)



Sources: Economist Intelligence Unit; Mintel.



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- **Prepared food** in China
- **Beverages** in Mexico
- **Household products** in India and South Africa
- **Beauty products** in Turkey
- **Beauty products** and **food service** in the US
- **Non-alcoholic drinks** in the UK

These overall trends give a clear picture of the consumer priorities within each market, and how we expect pricing and income growth to affect them. Yet for companies on the ground, it is the nuances within that demand growth—such as the increasing desire for sun cream in Turkey, or the lack of interest in dishwasher detergents in India—that help to guide their product development and marketing.

The rest of this report explores our findings for individual markets, in order to explain some of these differences.



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Forecasting methodology

The Economist Intelligence Unit uses a variety of models and approaches to produce its forecasts. The core macroeconomic forecast is built from short-, medium- and long-term frameworks providing a detailed view of a country out to 2030.

To understand changing expenditure patterns, the EIU built a separate model linking to the core economic forecast which also identified trends in individual categories. The new forecasting method was based on the Almost Ideal Demand System (AIDS), which uses pricing and expenditure data to predict future demand patterns.

The benefit of using this method is that it allowed us to see how price and income changes cause household spending to shift between different product groups—due to the elasticity of demand—and therefore to understand consumer priorities. It also allowed us to analyse different scenarios, such as the effect of rising prices (see p26-27). The results are all set in the wider context of the core economic forecast.

In building the model, our first step was to obtain historic data on household spending from official sources, split into the usual OECD-defined categories. We then connected these data points to the corresponding categories within each country's consumer inflation basket. This allowed us to measure the weight of, say, food in consumer expenditure against the weight of food in the inflation basket, and map that against total expenditure and inflation. The use of official data allowed us to go further back in time and create a statistically valid model.

Our second step was to estimate the model. For each country, we simultaneously estimated the equations across all categories of expenditure. This approach captured the movements within and between categories and quantified how reactive each category is to changes in income levels and prices. Next we used the assumptions from our core economic forecast to project the model forward and create a baseline forecast. We also tested the model "backwards" by creating projections within the historic period to see how the model performed.

Our final step was to map the OECD categories against Mintel's data for particular fast-moving consumer goods (FMCG). We did this by looking at historical data and working out the relationship between Mintel's categories and the OECD's. For example, Mintel's beverages (tea and coffee), non-alcoholic drinks, prepared food and commodity food categories all fell within the OECD's broader food



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category. Commodity food is by far the biggest of the Mintel categories, so has the highest ratio. The baseline forecasts were then reviewed and cross-checked by Mintel and EIU analysts incorporating market- and sector- specific trends and judgement. After the model was finalised, different sets of assumptions, such as higher prices or lower income growth, could also be tested to see the impact on household spending priorities.

Explanation of the data

The following table shows how the series used in our report and the accompanying charts correspond to each other. Apart from **total spending**, which is the aggregate of consumer expenditure, all the forecasts discussed in this report are for the EIU/Mintel series, which were derived using the methodology outlined above. For convenience, we have grouped some of the EIU/Mintel series together to compile our charts.

Group category	EIU/Mintel series	Mintel data included
Food and drinks	Beverages	Packaged tea, packaged coffee sold through retail outlets.
	Non-alcoholic drinks	Carbonated soft drinks, bottled water, juice which are packaged and sold through retail outlets.
	Prepared food	Bakery products, biscuits, breakfast cereals, butter, chocolate and sugar confectionary, cooking sauces, margarine and spreads, pet food, snack food, table sauces which are packaged and sold through retail outlets.
	Commodity food	Cheese, fish and seafood, meat and poultry, milk, rice, sugar and sweeteners, yoghurt sold through retail outlets.
	Alcoholic drinks	Beer, spirits, wine sold through retail outlets.
Tobacco	Tobacco	Tobacco products sold through retail outlets.
Clothing	Clothing	Clothing products sold through retail outlets.
Food service	Food service	Restaurants, coffee shops (definitions may vary by market).
Household products	Household products	Air fresheners, dishwashing products, household cleaners, laundry detergents sold through retail outlets.
Beauty and personal care	Beauty products	Colour cosmetics, fragrances, skin care, sun care sold through retail outlets.
	Personal care	Soap, bath and shower products, deodorants, feminine hygiene, hair care, oral hygiene sold through retail outlets.



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China

- Population: 1.33bn
- Consumer expenditure per head: US\$1,834
- GDP per head: US\$6,190

China: All the tea (and detergent) in China

While many of the emerging markets profiled in this report are set for strong spending growth, we expect China to beat them all. In 2013-16 **total expenditure** in China will rise by over 15% a year, while some product items will see annual growth of over 20%. Much of this growth will stem from a rapid rise in income in the country's third- and fourth-tier cities, according to the EIU's China analyst, Duncan Innes-Ker, as well as from government efforts to support consumption.

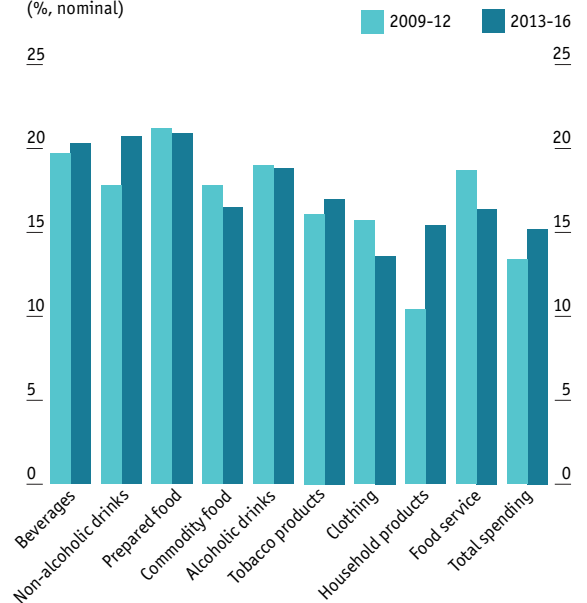
One stand-out item will be laundry detergents, says Mintel's Global Consumer Analyst, Peter Ayton. There is a simple reason for that: more washing machines. Back in 2000, only 1% of rural households in China had a washing machine; by 2010 this rose up to 16%, thanks partly to a government scheme that subsidised purchases.

In urban households, penetration has risen from 91% in 2000 to 97% in 2010. Not surprisingly, spending on washing powders, soap, and liquids to put in these machines soared to around US\$7.6bn in 2011.

China's own Nice Group and Liby Group are the market leaders, but Procter & Gamble and Unilever are also benefiting. With demand for other **household products** such as cleaners, air fresheners, and dishwashing detergents almost as strong, sales in this category will rise by more than 15% a year over the next four years.

The outlook for spending on food and drink is even more bullish. As in other emerging economies, Chinese consumers are shifting from **commodity food** to **prepared food** as their incomes rise and their lifestyles become more convenience-driven. The Chinese are keen on cooking sauces and biscuits, but

China: annual average spending growth (% nominal)



Sources: Economist Intelligence Unit; Mintel.



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are not particularly prone to snacking. In fact, we expect snack foods to account for a lower share of the packaged food market over the forecast period.

The large **food service** market is set to grow slightly more slowly, a fact Mr Ayton attributes to the growing share of cheaper fast-food restaurants. McDonald's and Yum! Brands are the market leaders in terms of number of locations, but are dwarfed by the vast independent sector. China also has its own chains, including Kungfu and Mr Lee, while in the coffee-shop segment, Starbucks is outnumbered in terms of outlets by the Taiwanese chain UBC.

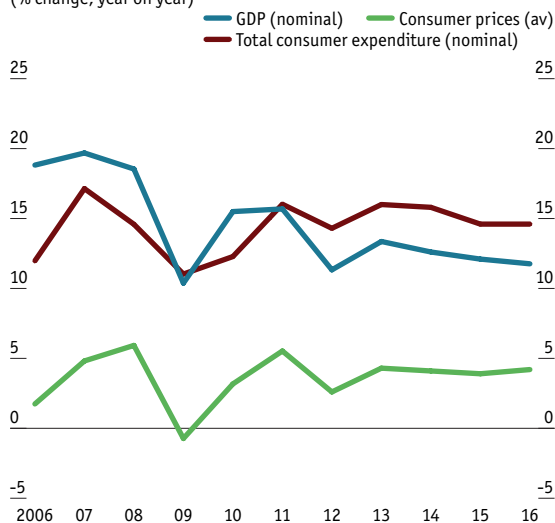
When it comes to drinking **beverages** at home, however, the Chinese mostly stick to their traditional tea. The shift here, says Mr Ayton, is the strengthening demand for packaged tea, rather than loose tea that grocers sell by the scoop. Local companies still dominate this market, and none has a market share above 4%. But Nestle, which moved into China back in 1988, is driving sales of instant coffee, while Coca-Cola and PepsiCo hold the bulk of the non-alcoholic drinks market.

Growth in the **alcoholic drinks** market will be driven by wine and spirits rather than beer, though Carlsberg recently announced plans to build the world's biggest brewery in the city of Dali. Growth in **tobacco products** will depend on government policies, not just in terms of public health initiatives but also over tentative plans to break up the state-run monopoly. Slowest of all – by Chinese standards – will be the **clothing** market, where the pressure on prices continues to dampen values. Still, a projected 13.6% growth per year for clothing sales should be enough to satisfy the international companies such as Inditex, H&M, and Uniqlo that are investing heavily in China.

*Note: No forecasts were available for **beauty** and **personal care** in China by the method used in this report, although Mintel does have existing forecasts for various segments of this market.*

China: inflation and expenditure growth

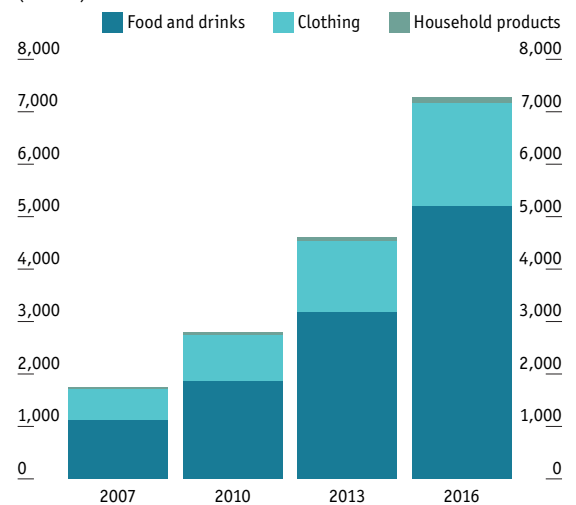
(% change, year on year)



Source: Economist Intelligence Unit.

China: spending by broad category

(Rmb bn)



Sources: Economist Intelligence Unit; Mintel.



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India

- Population: 1.22bn
- Consumer expenditure per head: US\$767
- GDP per head: US\$1,540

India: Cornflakes, but no dishwashers

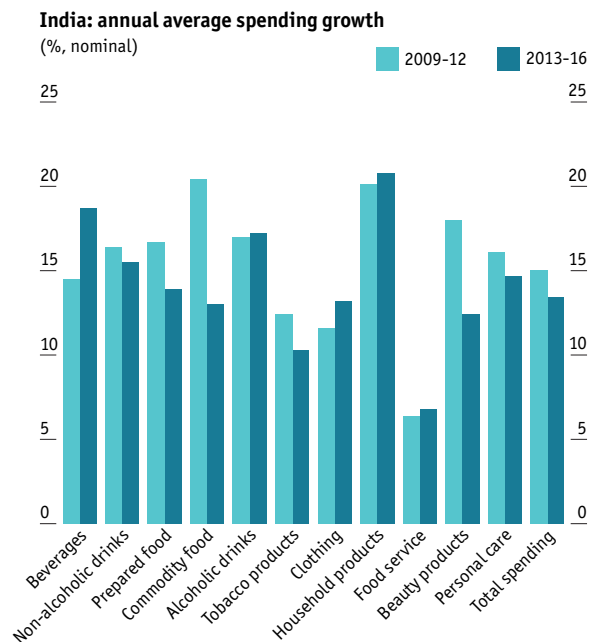
The traditional Indian breakfast used to be cooked, and ranged from chapattis to dosas, depending on the region. Now, lured by marketing from US cereal company Kellogg's and its rivals as well as the need for speedier eating, wealthier Indians are shifting to breakfast cereal.

That is just one of the ways India's food market has changed over the past few years, as consumers shift away from home-cooked **commodity food** towards **prepared food**. The shift will proceed gradually, however, given the country's huge wealth disparities. Although spending on ice-cream, noodles, tinned food, snacks and breakfast cereals is growing fast, Indian spending on prepared food remains low, even by South-East Asian standards.

Moreover, with **total expenditure** growth decelerating after its strong recovery in 2011, spending on both **prepared food** and **commodity food** is likely to slow. Food prices are like to moderate too, after soaring in 2011. As a result, even the poor will be spending a lower proportion of their incomes on food.

Everything is relative, though, and food spending will continue to show growth rates of over 13% a year in 2013-16, around the level of total expenditure growth. The sector's expansion may be aided by the build-out of foreign supermarket chains like Wal-Mart, after India's decision in September 2012 to liberalise its laws on foreign retailing.

The **beverages** and **alcoholic drinks** market will be even more buoyant. India is not only the world's biggest tea market by volume, but also the world's biggest whisky market. Growing demand for **non-alcoholic** drinks, meanwhile, is partly driven by health considerations, with Indian mothers



Sources: Economist Intelligence Unit; Mintel.



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particularly keen on vitamin-enriched fruit juices.

By contrast, the **food service** market is subdued. After growth of around 6.4% a year over the past four years, it will accelerate only slightly to 6.8% a year over the forecast period. Nevertheless, multinational chains like McDonald's are expanding: having adapted its burger menu to fit Indian tastes, the US chain now plans to open its first vegetarian-only outlet in India.

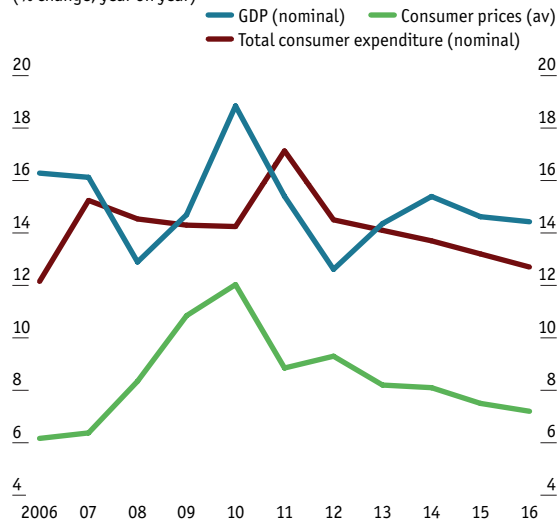
The **clothing** market, meanwhile, will stay volatile: this year will bring a sharp rebound after last year's slowdown, before the market stabilises. This is partly a reflection of business confidence. India is currently one of the few markets in the world in which men spend more than women on clothes, though that too should change as household incomes rise and purchasing habits expand to include more non-business attire.

The markets for **beauty products** and **personal care** will be stronger, though they will remain small, with fierce loyalty to just a handful of brands that have invested in the widescale distribution systems needed to reach India's smaller towns. But the strongest growth of all will be in **household products**, which we expect to keep growing by more than 20% a year over the forecast period.

Growth will come from all parts of this market, from laundry detergents, to cleaning products and air fresheners. But Mr Ayton of Mintel expects particularly strong growth in washing-up liquids. India, with its population of over 1bn, bought only 8,500 dishwashers in 2011, because servants remain far cheaper to employ. So products like dishwashing tablets have yet to catch on. Instead, sales are still focused on the bars, powders and, increasingly, liquids needed to wash up in the kitchen sink.

India: inflation and expenditure growth

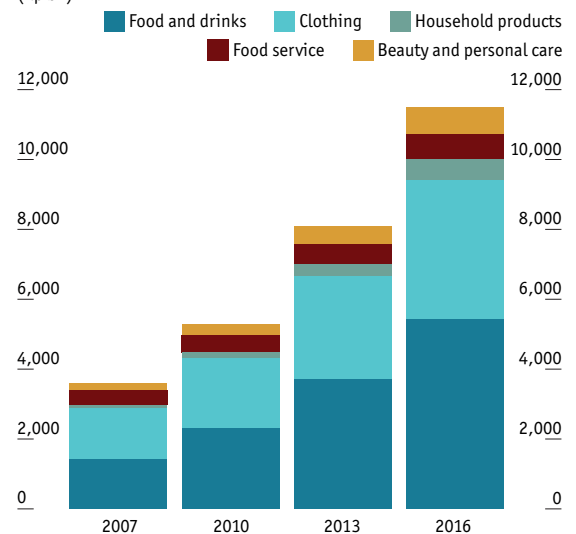
(% change, year on year)



Source: Economist Intelligence Unit.

India: spending by broad category

(Rp bn)



Sources: Economist Intelligence Unit; Mintel.



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Mexico

- Population: 115m
- Consumer expenditure per head: US\$6,725
- GDP per head: US\$10,460

Mexico: Pet food and snack food

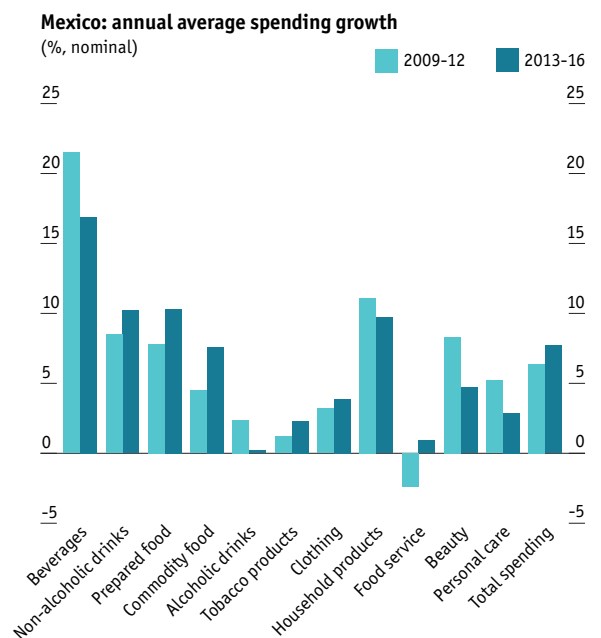
One sign of Mexico's growing affluence is in the rapid growth of the country's pet food market, as dog and pet owners shift from feeding their animals scraps to buying them packaged food. Companies such as Nestle and Mars are encouraging this shift, and have come to dominate Mexico's pet food market.

This is just one way that the Mexican food industry, of which pet food is a very small part, is starting to resemble that of the US. Even more noticeable is the growing demand for snack food such as crisps and nuts (which may explain why Mexico is also beginning to resemble the US in obesity levels).

Overall, though, the two countries' food markets are still very different. Food and drink (excluding food service) accounts for around a quarter of Mexico's household expenditure, compared with less than 7% in the US. And whereas US food spending is slowing, Mexican food spending—particularly in **prepared food**—will accelerate. Mexico's **food service** market, however, will barely grow at all because, unlike Americans, Mexicans are more likely to eat at home.

Overall, the Mexican market is a relatively mature one, and this is reflected in our forecasts. Though the economy has been growing strongly since 2010, spending is driven by innovations and consumer choices as well as rising income. While some market segments will grow only slowly over the next four years, there are a few that will grow rapidly. The fastest growth of all is likely to be in **beverages**, which will expand by nearly 17% a year over the forecast period.

Non-alcoholic drinks should also outpace total expenditure growth. Despite a decade of rapid growth, this segment is still being driven by strong demand for non-carbonated drinks and bottled



Sources: Economist Intelligence Unit; Mintel.



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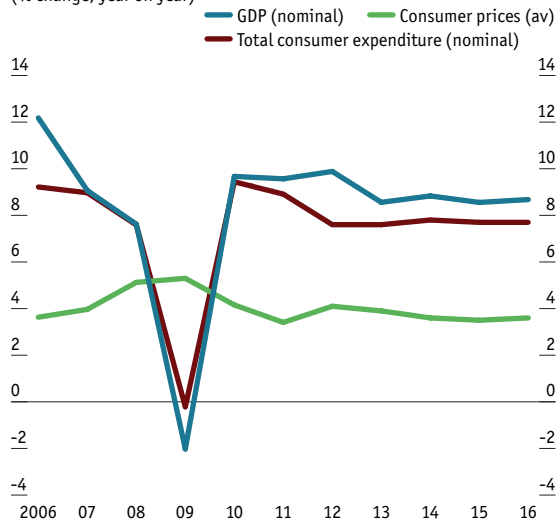
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water, helped by the dubious quality of Mexican tap water. Growing affluence means Mexicans can swallow the cost, and they are not yet deterred by environmental considerations.

The **alcoholic drinks** and **tobacco** markets, however, are far more subdued. Mexicans are also scaling back their spending on **beauty products** and **personal care**, which is expected to rise only modestly over the next five years. The **clothing** market is also being held back not just by price competition but also by smuggling. What growth the official clothing market does see, then, will be mainly a rebound after the downturn.

Mexico: inflation and expenditure growth

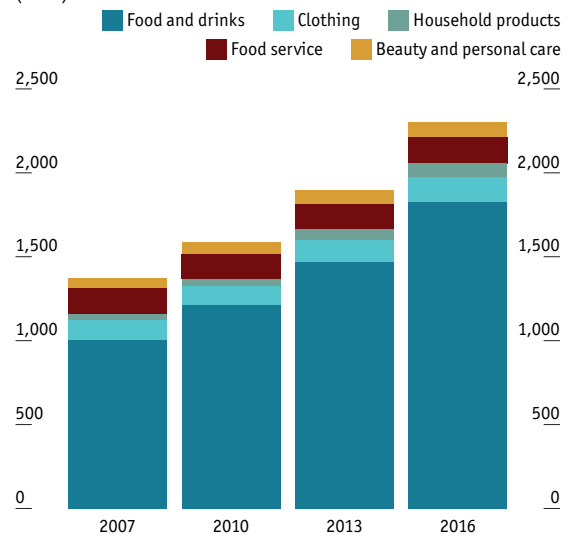
(% change, year on year)



Source: Economist Intelligence Unit.

Mexico: spending by broad category

(Ps bn)



Sources: Economist Intelligence Unit; Mintel.



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South Africa

- Population: 49m
- Consumer expenditure per head: US\$4,697
- GDP per head: US\$7,750

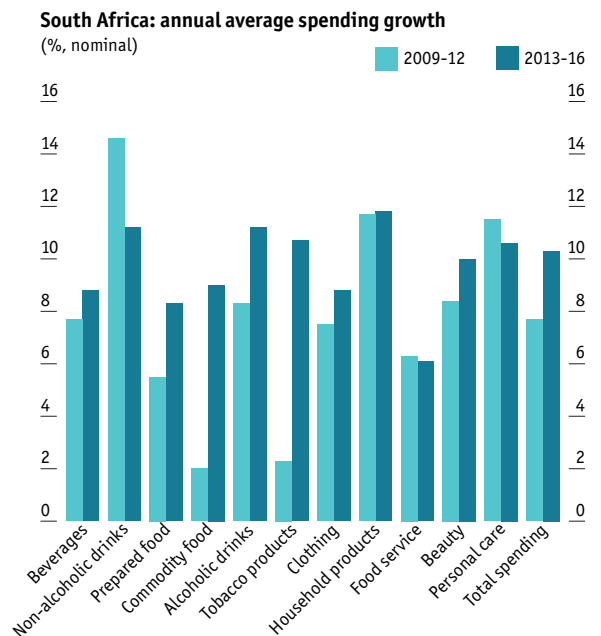
South Africa: Coffee and clothing, via computer

Spending patterns for South African consumers have shifted in recent years, owing to the emergence of a black middle class, high rates of urbanisation and the spread of store cards offering credit. But with household debt and unemployment still high, many South Africans have struggled.

As a result, food and drink accounts for a substantial share of South Africa's **total expenditure**, leaving little for other purchases. The same will be true over the next five years, even though expenditure growth will accelerate to over 10% a year. We expect drinks, rather than food, to account for much of this growth.

South Africans are acquiring more expensive tastes in drinks. South Africa used to be a tea-drinking market (it is, after all, the home of caffeine-free roibos tea). But in recent years, coffee has started to gain ground in middle-class households. Instant coffee is particularly popular, but a shift to more expensive fresh coffee is now driving up sales values to near the level of tea. Although this is still a young market, we expect it to drive average annual growth of 8.8% a year in the **beverages** market over 2013-16.

The **non-alcoholic drinks** and **alcoholic drinks** market will rack up even more impressive growth of 11.2% a year over the forecast period. By contrast, both the **prepared food** and **commodity food** markets will grow slightly more slowly than South Africa's total spending over the next five years. The relatively small **food service** market will remain particularly subdued, growing at little more than half the rate of total spending.



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

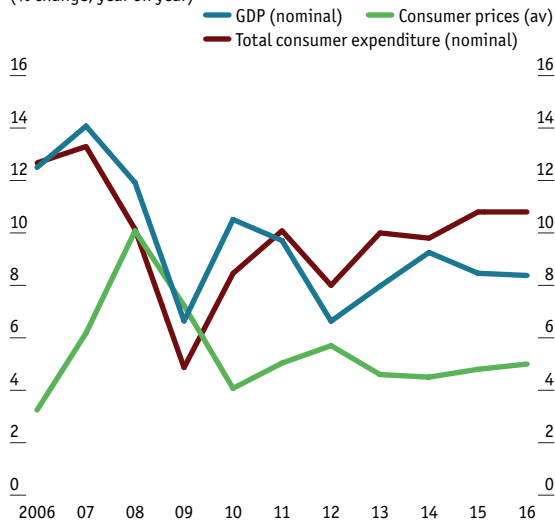
Consumer spending priorities in fast-growing emerging markets

Other market segments will bounce back far more strongly from 2012's slowdown. **Beauty** and **personal care** will grow broadly in line with total expenditure, while the **household products** market will see the strongest rebound of all. The **clothing** market will lag behind total expenditure growth, although it will be far stronger than in Turkey or Mexico.

Mintel's Mr Ayton notes that men's spending on clothes, which is lower than women's spending in South Africa, is growing particularly rapidly. He attributes this to "men shopping badly": in other words, men who get bored and embarrassed going to the shops are now using the internet. South Africa, with 6.8m internet users, may only have a small e-tail market so far. But as it takes off, we expect men to be among the keenest online clothes shoppers.

South Africa: inflation and expenditure growth

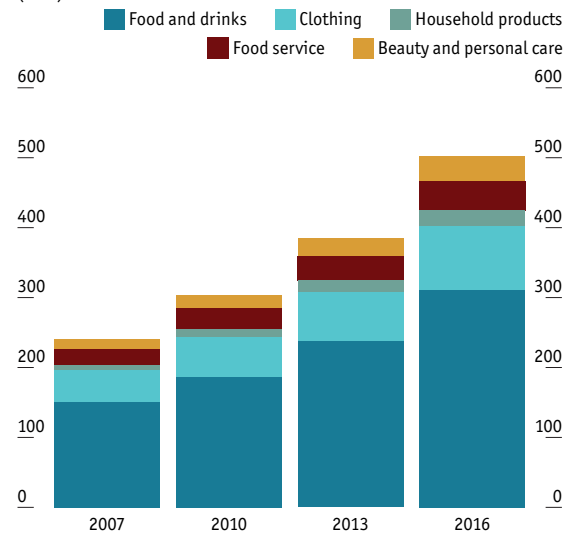
(% change, year on year)



Source: Economist Intelligence Unit.

South Africa: spending by broad category

(R bn)



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

Turkey

- Population: 75m
- Consumer expenditure per head: US\$8,073
- GDP per head: US\$10,620

Turkey: Sun cream and metrosexuals

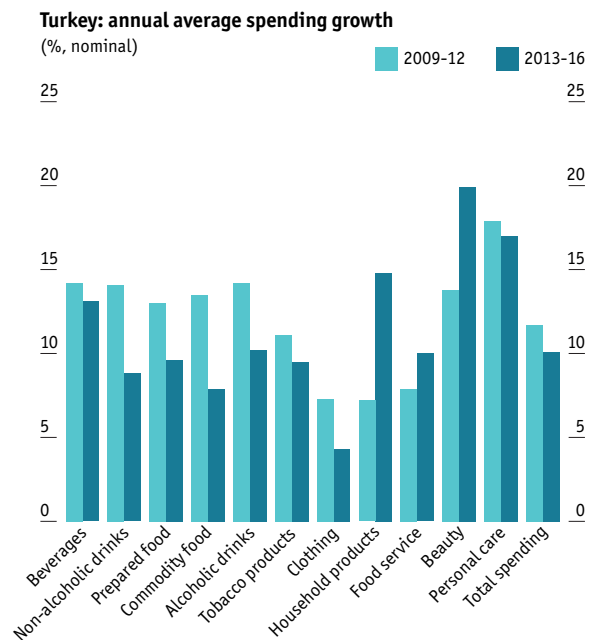
The stand-out performers in Turkey, are the **beauty products** and **personal care** segments. The nascent sun-care business is particularly fast-growing. Unlike in Asia, most Turkish people want to be tanned, but are increasingly taking into consideration health concerns too. New product launches tend to focus on factor-20 sun creams—strong enough to be protective, but not as strong as those used by most Europeans.

This is just one of the trends that have driven a sharp rebound in **total expenditure** in Turkey, after the slowdown during the 2008–09 recession. In the past couple of years, exceptionally low interest rates have fuelled a credit-led spending boom. But with debts piling up, the economy has proved vulnerable to the crisis in the euro zone, Turkey's main export market.

Indeed, in the past few months, heavy credit-card debts have already started to dampen the market. A weaker lira is also pushing up the price of imported products. In the years to 2016, we expect total spending growth to slow, although it will still be strong by most standards, at around 10% a year.

The slowdown will be noticeable in the food market, which stayed buoyant during the recession partly thanks to high food prices. We now expect growth to fall back, although the small **prepared food** market will remain a bright spot. The **non-alcoholic drinks** market, especially bottled water, will moderate, too, despite the dubious (though improving) quality of local tap water. Growth will be more rapid in the **beverages** segment, however.

Turkey's **food service** market has been less buoyant than the overall food market over the past



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

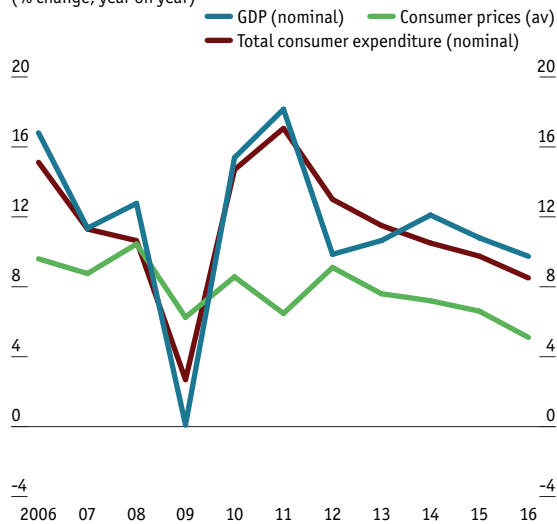
Consumer spending priorities in fast-growing emerging markets

few years. It even resisted 2011's surge in household spending, and we don't expect a particularly strong rebound. In general, even those people whose incomes are rising tend to eat mostly at home. **Alcoholic drinks**, too, are generally drunk at home, and sales are anyway low given high taxes, limited supply and religion.

Turkey's **clothing** market is a large one, although low prices have dampened sales growth for much of the past decade. A revival in the past two years has now run out of steam, and we expect the market to remain sluggish. But here, as in the **personal care** market, Mr Ayton of Mintel points to another trend that seems at odds with Turkey's somewhat macho image. Clothing adverts, especially in the wealthier western parts of the country, often feature what could be dubbed "metrosexual" men. Sales of men's deodorants are also booming.

Turkey: inflation and expenditure growth

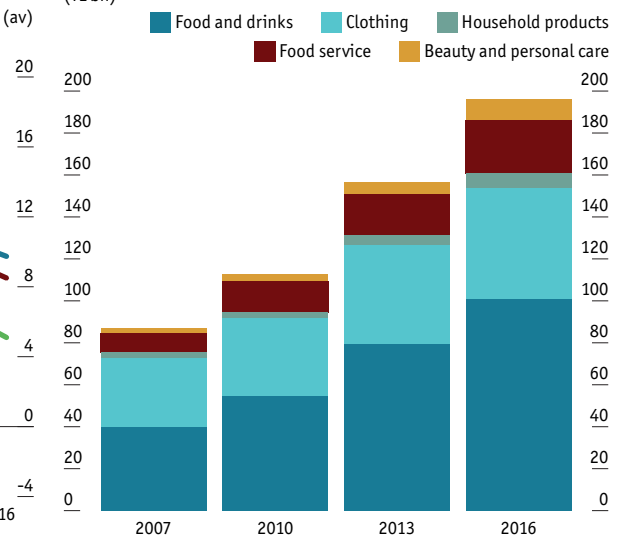
(% change, year on year)



Source: Economist Intelligence Unit.

Turkey: spending by broad category

(TL bn)



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

UK

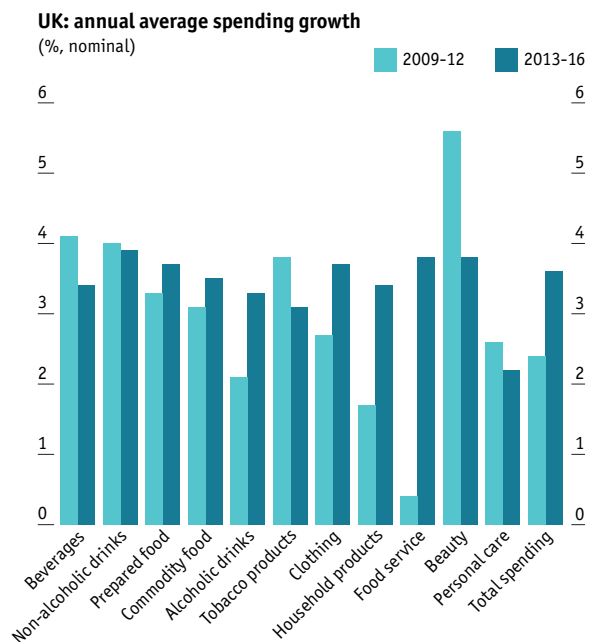
- Population: 63m
- Consumer expenditure per head: US\$23,869
- GDP per head: US\$38,930

UK: Chocolates and other cheap treats

The UK is the gloomiest of the markets covered in this report. Almost as mature as the US, it will continue lagging in terms of its economic recovery thanks to high private and public debt and weak demand in the rest of Europe, says the EIU's UK analyst Neil Prothero. We expect **total spending** to accelerate slightly from this year, but the upturn will subside by 2015. The main spurs to consumer spending, therefore, will be product innovation and the desire for the occasional low-cost treat, particularly in the **prepared food** market.

For Mr Ayton at Mintel, this explains why chocolate sales have been relatively resilient during what could be a triple-dip recession. Particularly popular are individually wrapped branded sweets like Quality Street, which feel indulgent but are inexpensive, especially when shared. The **beauty products** market is also quite strong, especially cosmetics, because make-up is a relatively cheap way to look and feel good. Consumers tend to be loyal to what they believe are the best brands, but can choose products like nail polish to react quickly to new trends.

These two product groups, then, have managed to defy the general trend that has seen consumers trade down from more expensive brands and cut back on non-essentials. Spending on **household products** and **food service**—outside central London—have been particularly hard-hit, and though we expect a slight recovery they will continue to take a shrinking share of total expenditure. **Clothing** has been doing better, and we expect the value of sales to accelerate as more consumers choose quality items that will last.



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

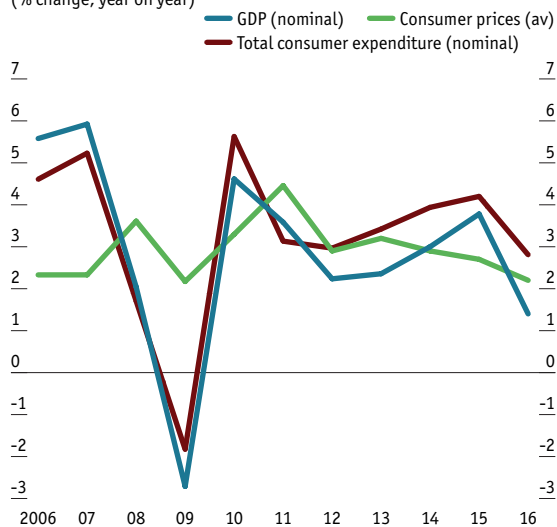
Nevertheless, food—both **prepared food** and **commodity food**—is still taking a rising share of spending, due to higher commodity prices. Consumers started off the recession by trading down, often to supermarkets' own-label brands, but there are now some signs of recession fatigue. An increasing fondness for snacking is also feeding into this growth, which will continue to outpace total spending.

The **beverages** and **non-alcoholic drinks** markets are also fairly buoyant, driven by product innovations such as diet carbonates, especially those targeted at men, and coffee pods. Almost as strong is the **tobacco** market, with die-hard smokers continuing the habit despite rising taxes on their packets of cigarettes pushing up sales values.

Despite its image as a hard-drinking country, UK spending on **alcoholic drinks** has been flat, with the proportion of drinkers falling from 87% to 82% of the adult population over the past five years. We do not expect that to change much, although there will be a slight recovery thanks to a shift to premium products. The government tax escalator is particularly hitting on-trade alcohol consumption, which means that the drift to in-home drinking will continue, regardless of whether the move to minimum pricing succeeds.

UK: inflation and expenditure growth

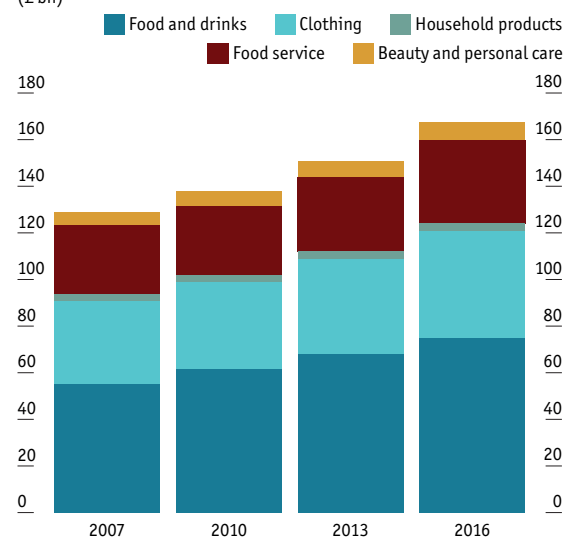
(% change, year on year)



Source: Economist Intelligence Unit.

UK: spending by broad category

(£ bn)



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

US

- Population: 314m
- Consumer expenditure per head: US\$34,723
- GDP per head: US\$49,940

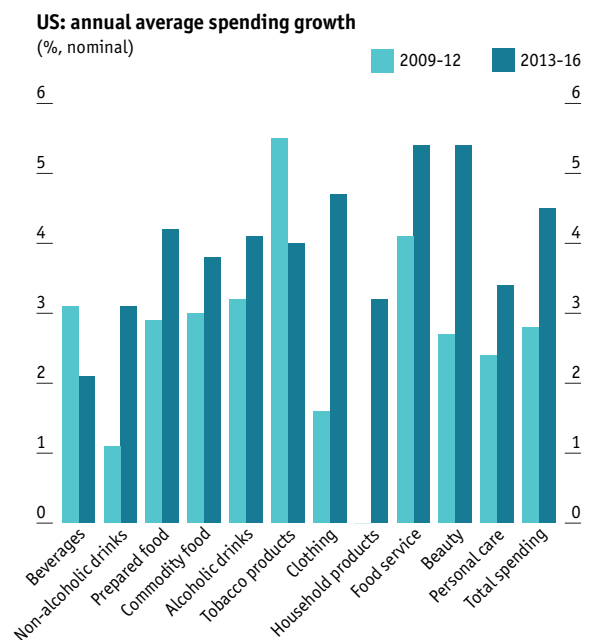
US: Fizzy water, fizzy wine

The US economy may not be fizzing at the moment, but its drinks markets are. According to Mintel's Mr Ayton, Californian barmen have discovered that by pumping bubbles into ordinary wine, they can also pump up sales. This has bubbled over into the off-trade sector and is one reason why the US **alcoholic drinks** market has continued to grow strongly, rising by 3.2% a year on average in 2009-12, when **total expenditure** is rising by just 2.8%.

The strong performance of the US on-trade alcohol market fits with a similar pattern in the country's food market. While the US food market has grown only slightly faster than overall household spending during the recession, **food service** has boomed.

Pricing has played a part in this, because it can often be cheaper to eat at a fast-food chain than at home. Meanwhile, at the top end of the market, expensive restaurants continued to attract clients throughout the economic downturn. As a result, US spending on food service is actually twice its total spending on **prepared food** and **commodity food** combined. In neighbouring Mexico, by comparison, food service spending is just a fifth of food spending.

Restaurants will continue to thrive as total spending recovers in 2013-16. Indeed, food spending generally will accelerate, with **prepared food** outpacing **commodity food** as commodity prices level off. Alcohol sales will drop back somewhat as the fizz goes flat. But lessons have been learnt in the **non-alcoholic drinks** market, which is set for a rebound. Carbonated drinks in particular have been



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

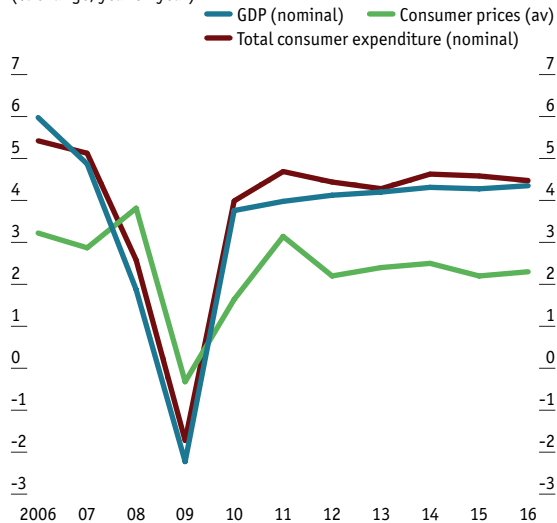
given a boost by the launch of numerous sports drinks, energy drinks, flavoured water and juice drinks. The **beverages** market, by contrast, is likely to be far less fizzy.

The biggest gainers from the US economic revival, however, are likely to be outside the food and drink markets. During the recession, Americans reined back spending on **clothing, beauty products, personal care** and—in particular—**household products**. Now all of these segments will bounce back, although the household products market will remain relatively subdued.

By contrast, demand for beauty products will grow strongly, in line with the mighty US food service market. 2014 is set to be a particularly good year for both, according to our forecasts. Bear in mind, though, that total expenditure in the US will be growing at only a third the rate of Chinese expenditure throughout the forecast period, with many consumers still weighed down by high debt levels. So all US spending booms will be relative.

US: inflation and expenditure growth

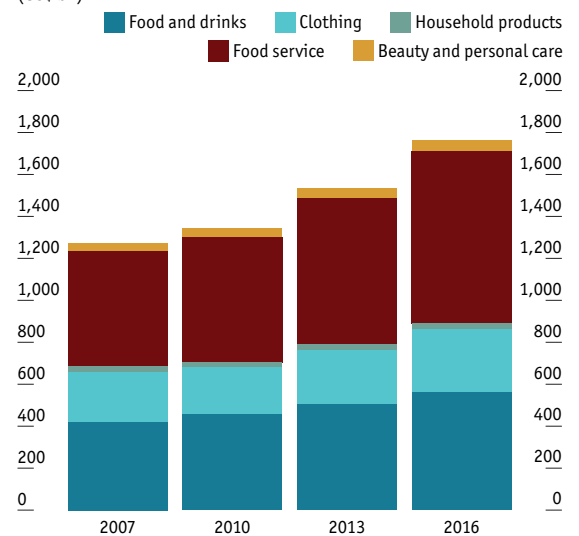
(% change, year on year)



Source: Economist Intelligence Unit.

US: spending by broad category

(US\$ bn)



Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

Scenario analysis

Through the EIU-Mintel collaboration, we wanted to show how we could work together to answer a number of 'what if' questions. What if the euro crisis spurs a worldwide recession? Would it affect the beverages market in Mexico? If the Indian and Chinese economies start to accelerate again, what would it mean for clothing demand? If commodity prices begin to soar again, how much will households need to spend on food and drink?

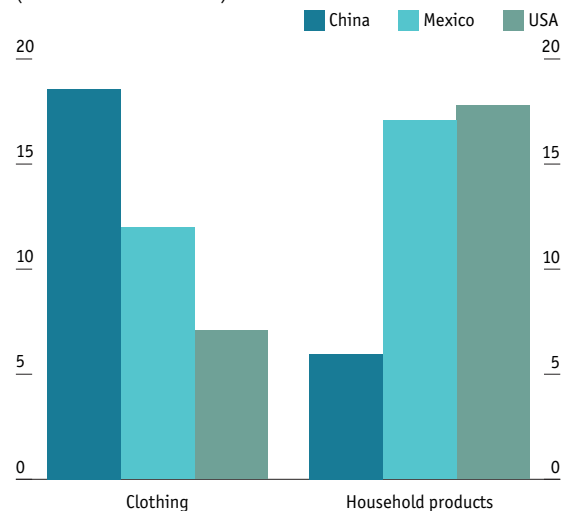
The methodology we chose for this report enabled us to test different scenarios related to the elasticity of demand:

1. What would happen if **total expenditure** grew one or two percentage points faster in Mexico, China and the US?
2. What would happen to consumer spending in India, South Africa, and Turkey if food prices rose 25% faster than the EIU's current expectations?

Higher spending scenario

Under the first scenario, the 'higher spending' scenario, we found that nearly all of the extra spending would be allocated to non-food items. In Mexico, the main boost would be to **household products**, which would grow by an extra 1.4 percentage points a year in 2013-16 if total spending rose by 1%, and by an extra 2.8 percentage points under the 2% scenario. That would lead to a cumulative difference in spending of 17% by 2016. **Clothing** would benefit too, though less dramatically, as would spending on food and drinks. But **food service**, which has been declining in Mexico, would continue to fall, even with the rise in total spending.

Scenario 1: cumulative difference in spending by 2016
(% difference from baseline)



Note. If total consumer expenditure rises by an extra 2% a year.
Sources: Economist Intelligence Unit; Mintel.



Convergence with divergence

Consumer spending priorities in fast-growing emerging markets

In China, the scenario would play out very differently, with **clothing** by far the biggest gainer. For every percentage point that **total expenditure** grew, clothing sales would grow by at least two points. Every other category would also see a rise in spending, albeit a much smaller one. In the US, meanwhile, the extra money would go to **beauty products** and **personal care**, along with **household products**, while food products would hardly benefit at all.

Higher food prices scenario

By contrast, our second scenario, the 'higher food prices' scenario, resulted in higher spending on our food and drinks series in all three countries.

In South Africa, the increase would be 6%, while in India food and drink spending would be 8% higher. Only in Turkey would the resultant increase in food spending be relatively modest, at just 4%. The price increase would particularly drive up sales of **commodity food**, because **prepared food** manufacturers have more leeway to adjust recipes to avoid increased costs.

In order to afford this increase in food spending, consumers would have to cut back on other things. Our calculations suggest that spending on **beauty products** and **personal care** would fall moderately in all three countries.

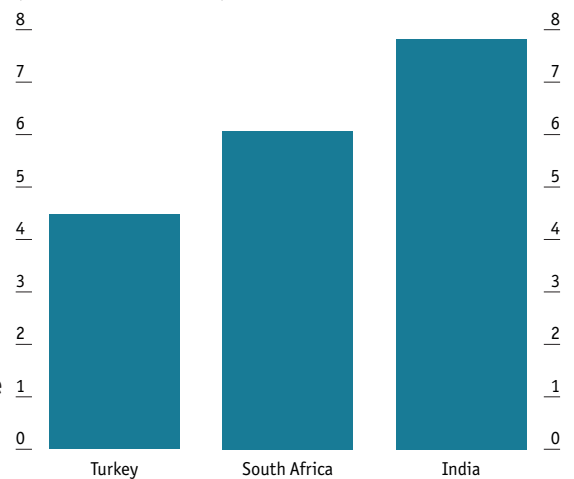
food service would be severely constrained in South Africa, though it would do well in India.

Household products would stay stable in both

those countries, although consumers in Turkey would cut back sharply on this segment. Spending on **clothing** and **tobacco**, however, would prove remarkably resilient in all three countries even if food prices rise.

Scenario 2: cumulative difference in food and drink spending by 2016

(% difference from baseline)



Note: If food prices rose by 25% more than our baseline forecasts.

Sources: Economist Intelligence Unit; Mintel



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We can provide a detailed evaluation of competitors operating in a market you are considering for expansion, evaluate local human capital, the overseas talent market, labour market conditions and how local regulations will affect your organisation—positively or negatively—to help you to prioritise markets for expansion and pinpoint hidden opportunities for growth and profitability.

[Find out more by reading this case study.](#)

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