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The next generation of spenders

The changing tastes of a billion new consumers

Over the next couple of decades, the world will have more than a billion new middle class consumers

Their higher incomes and changing tastes are likely to propel consumer spending much higher, notably in the emerging world

Spending on leisure, transport and health is likely to rise the most in the years to come

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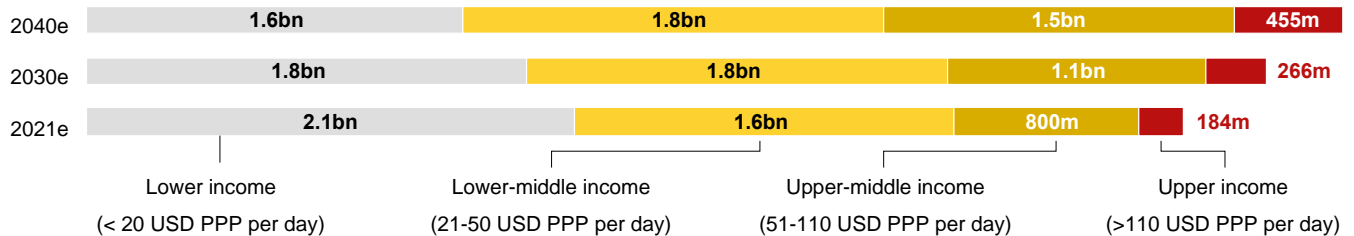
The full version of the note is available for clients of HSBC and contains further discussion on the changing demographics of worldwide middle class consumers. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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Demographics: the world's next consumers

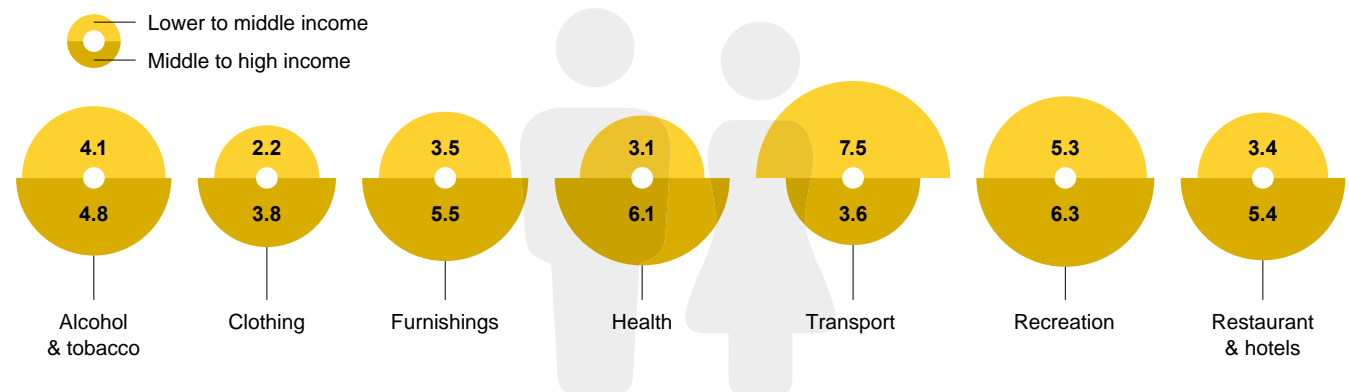
Over the next couple of decades, the world will have more than a billion new middle income consumers ...

World population (age 18-64) by income group (purchasing power parity, per day)



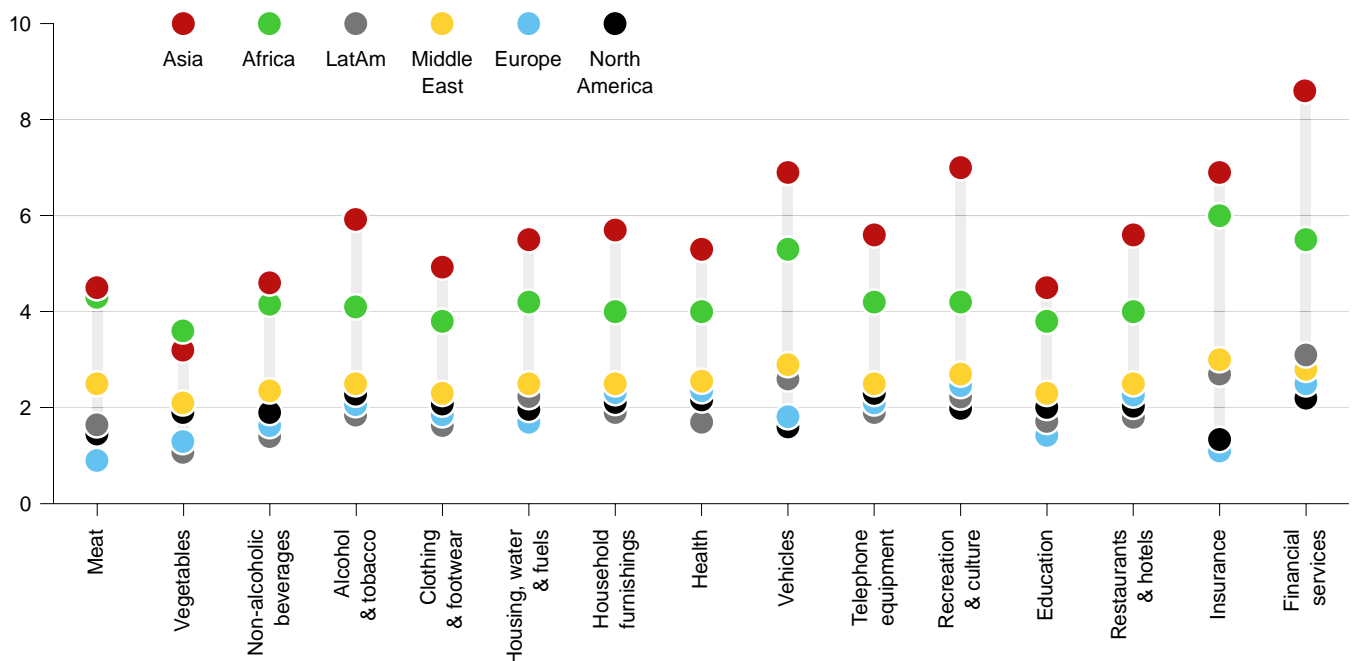
... as households get richer, spending could rise quickly ...

Multiple of spending (USD spend by category based on different income groups)



... the demand impact from demographics and spending preferences could be huge, particularly in EM

Estimated growth in real spending by category and region (% , 2030-40e)



Source: HSBC estimates. Note: The top chart shows the number of estimated consumers within each income bracket in each year. The middle chart shows the multiple in spending we expect to see as someone moves from a low income bracket to a middle one, and from a middle one to a high one. Some of this is the higher income and spending level in USD terms, but the difference between categories comes from a rotation in spending between categories.

Demographics: the world's next consumers

- ◆ Over the next couple of decades, the world will have more than a billion new middle-income consumers
- ◆ Their higher incomes and changing tastes are likely to propel consumer spending much higher, notably in the emerging world
- ◆ Spending on leisure, transport and health is likely to rise the most in the years to come

The COVID-19 pandemic has caused a big change in the way we think about consumer spending. Demand for goods has soared, particularly for durable items such as vehicles, electronics and furniture, whilst services spending, heavily affected by border closures and domestic health restrictions, has lagged despite a revival in 2022 so far.

Consumer patterns will shift as the pandemic eases

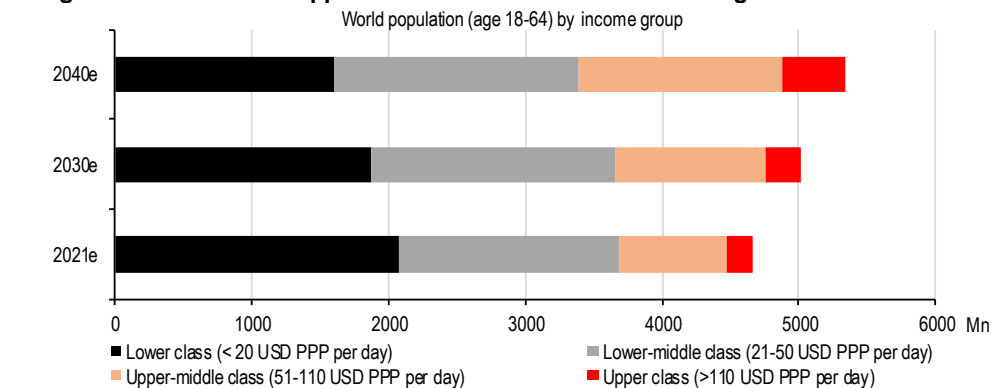
Going forward, history would suggest a return to pre-pandemic trends. But with consumers across most of the world feeling a real income squeeze through 2022 and 2023, spending may prove to be weak (or even fall) in aggregate, even if these rotations persist.

But beyond the immediate future, it's important to think about how consumer spending – both in terms of amounts and patterns – will evolve in the coming decades. By taking a longer-term view, focusing on three elements – demographics, spending tastes and income growth – we can get a sense of the rough pace of consumer spending growth by category over the medium term.

The world will have many more middle-income consumers

The numbers are striking. We estimate there are set to be more than 500m more middle and higher-income consumers globally by the time we get to 2030. By 2040, it's likely to be another 500m. Within the next 20 years, that's more than a billion more people with considerable spending power than there are today – a 44% increase – almost entirely in markets that today are classed as lower income. For all of the well-placed caution about the near-term EM outlook, even with the conservative assumptions we've used in this analysis, the medium-term consumer demand story looks promising.

The growth in middle and upper-income individuals is set to be huge



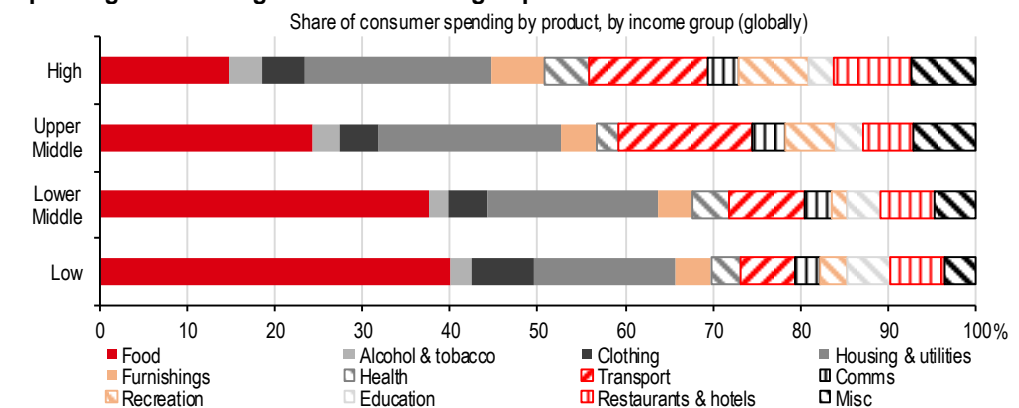
Due to Europe's weaker demographics, the number of total consumers is set to fall, whilst in North America the increase is likely to be meagre. However, in Africa, the number of middle-income consumers could double, although from a lower base. In Asia, the absolute figures are huge – the region may have as many as 800m more middle and high-income consumers by the time we reach 2040. In Latin America, there may be more high spenders than in developed Europe by 2040.

These projections are just that, projections, given the degree of uncertainty attached to them, but using a combination of estimated income growth, inequality and demographics data we can plot estimates for the rough size of consumer groups by age, income and geography.

Tastes change as people get richer

We can then overlay that with tastes. As people get richer, what they choose to buy changes too. Higher income households spend a greater share of their income on recreation and less on food. Some will choose to spend more on financial investments, furniture or high-end products, but in general we can see where the spending growth is likely to be quickest.

Spending habits change between income groups



Combined, this could mean certain areas see a faster pace of spending growth

And these two trends can combine for some big spending pattern changes. Solely based on the shifting composition of the population and their likely tastes, we estimate that real spending on recreation in Asia over the next decade is likely to be more than 6% higher each year. Globally, spending on holidays may rise by more than 4% per year, in real terms (pandemic permitting), restaurant spending may rise by more than 3%, and by more than 5% in Asia. All in all, we could see real global consumer spending rise by a shade under 3% per year for the next decade – albeit this factors in the post-pandemic starting point and means that growth may be slightly softer in the coming years. The shift in the composition of consumer global spending (towards emerging markets) and the changes in populations' spending habits are key to the expectation that global consumer spending could grow at a similar pace in the coming decade as in the period prior to the pandemic.

There are many possible headwinds to these consumer spending shifts

Getting to this solid consumer spending growth may not be so straightforward, however. The pandemic has showcased the risks with this sort of analysis – not just as a sudden stop, but in terms of a rapid change in existing habits. Will services spend recover as quickly as we initially thought? Will economic growth be able to hold up in the emerging world or will consumer caution mean persistently higher savings rates? Equally, changing tastes of consumers towards being more digital and focused on environmental issues could both weigh on total spending and affect spending patterns – this will be a key development to track.

But overall, the combination of shifting wealth and demographics gives reasons for optimism. These shifts are almost inevitable – it's the pace and magnitude that are uncertain – and they could act as a huge lift to global demand for certain goods and services that benefit from a billion new global middle or upper-income consumers.

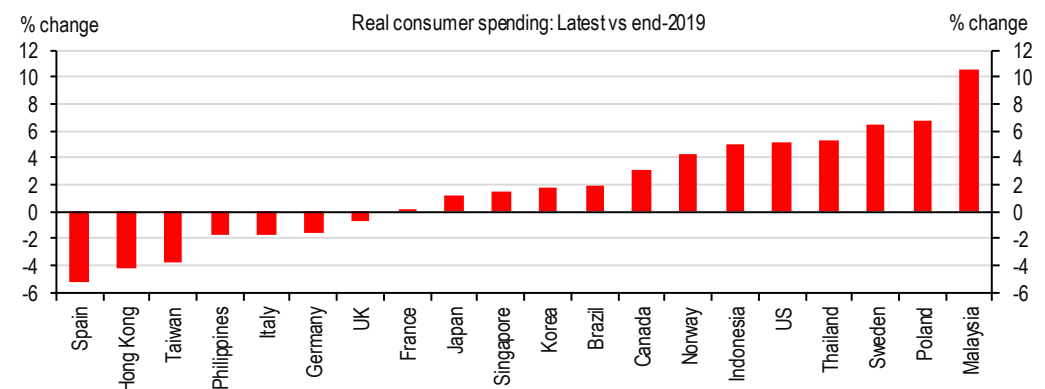
A tricky time for consumption

- ◆ Consumer spending has fluctuated during the pandemic...
- ◆ ...with near-term spending likely to be weighed down by a cost-of-living squeeze
- ◆ Longer term, changes in spending patterns will be key to the pace of consumption growth, both by category and in total

A testing few years

Once the pandemic fully subsides, the global economic outlook is likely to remain highly uncertain. While in many parts of the world consumer spending has recovered to be above its pre-pandemic levels, the coming year or so may pose the additional challenge of a cost of living squeeze for many households across the globe. Consumer spending growth may be anaemic or fall in the quarters ahead.

1. The consumer spending story through the pandemic has varied greatly by economy



Source: Refinitiv Datastream. Note: Latest data from Q2 2022 where data available at time of publication.

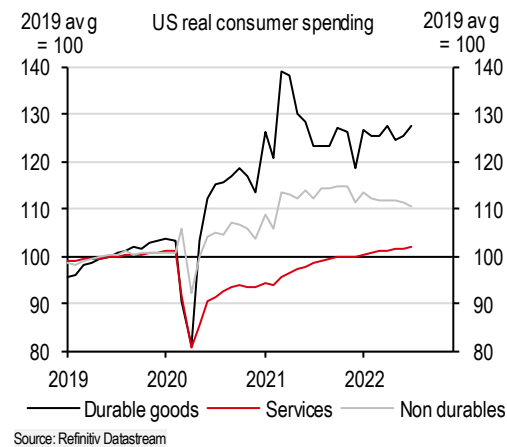
The pandemic has brought about a number of consumer spending changes

Spending patterns, too, have changed significantly. We've seen spending on goods far outpace spending on services, to well-above pre-pandemic levels in much of the world. Globally, consumption of services, particularly to do with travel, remains depressed despite a rebound in 2022 so far in some places. One of the questions for the outlook for 2023 and beyond is to what extent this divide persists – with the assumption of most economists being that this pattern will continue to normalise.

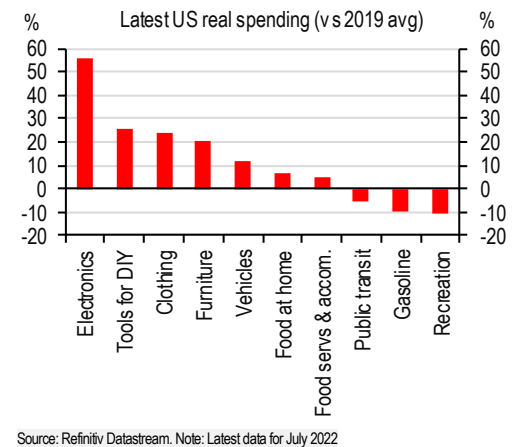
But while the near-term labour market and real income outlook appears set to drive spending patterns in the near term, it's helpful to look at some of the underlying trends that could drive global consumer demand over the coming decade. For example, the IMF estimates, as of April 2022, that across the emerging world, per capita incomes (in constant PPP terms) will be 21% higher in 2026 than in 2019 and 35% higher in Asia¹. This, coupled with rapid demographic change, will completely alter where the world's biggest consumers are based.

¹ See IMF World Economic Outlook, October 2021

2. Goods spending has soared during the pandemic...



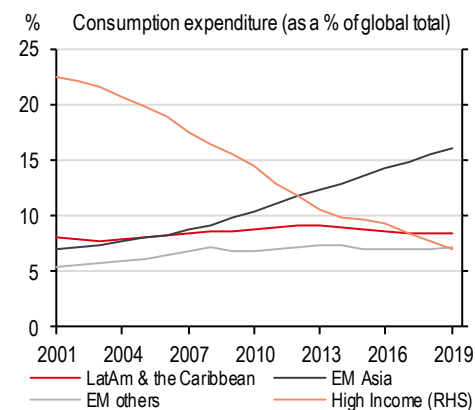
3. ...at the expense of recreation



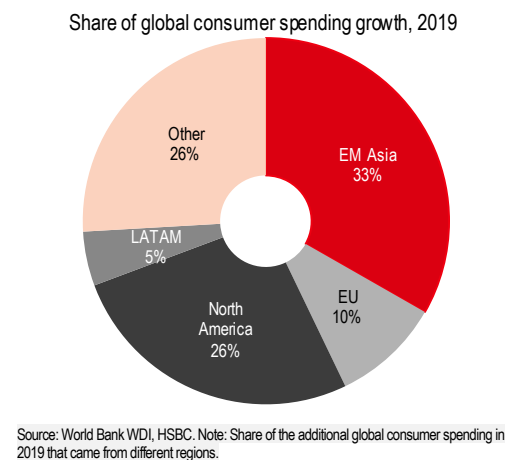
New demand is coming from Asia

In 2019, only a third of the *increase* in global consumer spending came from the eurozone and the US combined. That figure is only set to shrink in the coming years as more consumers across Asia, Africa and Latin America both come of age and see their incomes rise. Income levels will also be rising to levels that alter their mix of consumer spending too.

4. The role of Asia is rising in determining global consumer spending



5. EM already matters more when it comes to new demand



Emerging market economies are becoming even more important to consumer spending

These shifts are likely to be huge – and we expect more and more of global consumer spending to come from the emerging world. Importantly, the share of growth that comes from emerging markets is only going to get ever larger as this higher weighting in global spending is accompanied by a still-elevated pace of spending growth. The next wave of global consumer demand will come from Asia, and although two-thirds of global spending is made by developed market consumers, emerging markets already matter much more when thinking about the growth in global consumer spending.

To get there, we need to consider a number of factors that will drive the future consumer market size. Some are easier to think about, such as the number of would-be consumers in various parts of the world. But beyond that, we also need to consider the increases in incomes and what this can do to consumer tastes for a wide range of services.

In the full note, we consider these issues, using a model to assess the likely changes over the coming decades. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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