

March 2016

CREDIT SUISSE 

Research Institute

Thought leadership from Credit Suisse Research
and the world's foremost experts



Emerging Consumer
Survey 2016

Editorial

We are delighted to publish the sixth edition of the Credit Suisse Research Institute's Emerging Consumer Survey, a project reflecting the results of nearly 16,000 detailed face-to-face interviews with consumers across the nine major emerging economies of Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey. In conjunction with this publication, our investment bank research analysts publish the EM Consumer Playbook, which focuses on related investment recommendations.

With investor sentiment now showing signs of improvement in emerging markets, our study provides investors timely insights with regard to the powerful theme of a fast-developing consumer culture shaped by technological innovation. Should there be doubt as to the significance of the story, our analysis suggests that nearly 100 million new households in our survey countries have found their way into middle-class territory in the last two years.

These signs of improvement do of course come after a torrid 2015 for investors in the region, and our barometers of consumer confidence reflect this. The percentage of our respondents who now consider it a good time to make a major purchase has fallen by 10% against a year ago. Similar indicators for Brazil and Russia have dropped sharply. The countries that top our Emerging Consumer Scorecard are India, China and Saudi Arabia. Supportive momentum to personal incomes is the common factor.

The weakest countries (Brazil, Russia and South Africa) shared a difficult economic cocktail of weak currencies, commodity exposure and political risk in 2015. We show how a weak currency is negative for consumer confidence. Hence, a revival in fortunes of the countries above and ongoing support for emerging consumers rest more widely on the stability of their currencies in 2016. The good news is that the improving

relative growth projections for emerging markets coupled with currencies that seem intrinsically undervalued suggests this can be the case.

We also find that the rise of the emerging consumer is defined as much by age as nationality. In nearly every survey country, the income prospects of the youngest age brackets are the most optimistic. When we drill down into how this youthful dollar is spent, a "lifestyle" theme emerges and specifically one of a growing healthy lifestyle. "Premiumization" is the other watchword to come through in our interviews. The ongoing sharp growth in e-commerce activity and the developing "sharing economy" provide a broader backdrop. In e-commerce specifically, we illustrate how online retail markets across the key countries surveyed can more than triple annual revenues to reach USD 2.5 trillion by 2025.

Finally, a legitimate question to pose is whether the structural themes we seek to draw out here actually matter for an investor amid economic stress. Clearly, the tailwind of a cycle on the upswing and a healthy degree of risk appetite are optimal. However, if investors had simply exited emerging markets as relative growth momentum began to flag in 2010, a five-fold increase in the online penetration of retail sales in China would have passed them by, as would the opportunities from the rural transformation in India and successive years of growth in health-care provision.

Even when the cycle is a challenge, structural themes can and do still deliver. We believe this year's Survey and Playbook should continue to provide an instructive guide for investors.

Giles Keating, Vice Chairman of Investment Solutions & Products, Credit Suisse

Stefano Natella, Head of Global Markets Research, Credit Suisse

For more information, please contact

Richard Kersley, Head Global Thematic and ESG Research Global Markets, Credit Suisse,
richard.kersley@credit-suisse.com

Michael O'Sullivan, Chief Investment Officer, International Wealth Management, Credit Suisse,
michael.o'sullivan@credit-suisse.com



02 Editorial

04 The emerging consumer in 2016

13 Who's got the purchasing power?

22 A life on-line

33 **Country focus:**
China's young adults

38 The EM travel guide

44 "Pharmerging" markets

52 Brands and the emerging consumer in 2016

56 **India** – a "premiumization" story

60 Country profiles

62 **Brazil** – Another tough year ahead

64 **China** – The young emerging middle class

66 **India** – Top of the scorecard

68 **Indonesia** – Losing its shine

70 **Mexico** – A growing consumer culture

72 **Russia** – Macro pressures intensify

74 **Saudi Arabia** – Consumer sentiment resilient to lower oil prices

76 **South Africa** – Multiple challenges

78 **Turkey** – Moving up the rankings

81 About the survey

82 Imprint

83 Disclaimer

The emerging consumer in 2016

Weak markets and currencies, and downgraded growth expectations have provided the backdrop to this year's Emerging Consumer Survey. Negative cyclical influences underscore replies from our consumers, which are generally weaker than a year ago, if differing by country. The Indian and Chinese consumers are still the most robust, with steps to rebalance consumption versus investment apparent in the latter, while the picture in weak-currency countries like Brazil and Russia is poor. However, a more stable outlook for emerging currencies in 2016 could paint a different picture for the latter as the year develops and for emerging markets more generally.

Richard Kersley, Marcelo Preto, Ebba Bjorklid

Taking the temperature

The Credit Suisse Emerging Consumer Survey, with its 16,000 face-to-face interviews, provides a unique and granular analysis of the profile, mood and behavior of different emerging consumers and the potential of specific products and end-markets to set alongside the more typical macro judgments. This is the sixth edition of the survey, and we now possess a unique and rich source of data to conduct our analysis.

To assess the overall mood of consumers on a country level, we introduced our "Emerging Consumer Scorecard" in 2014. Among the near

Figure 1
Survey sentiment indicators average readings

	Personal finances	Inflation expectations	Income change in last 12m	Income expectations	Good time to make a major purchase
Indicator	Net balance, better vs. worse	Net balance, higher vs. lower	Weighted percentage change	Weighted percentage change	Net balance, excellent time vs. bad time
2015	16.2%	45%	-1.7%	2.7%	-9.1%
2014	26.0%	45.9%	0.9%	3.8%	-4.4%
2013	26.0%	50.1%	0.5%	3.7%	-5.3%

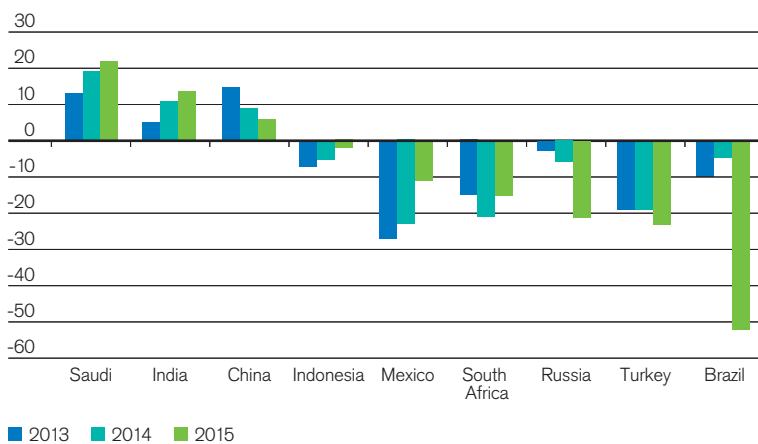
Source: Credit Suisse Emerging Consumer Survey 2016





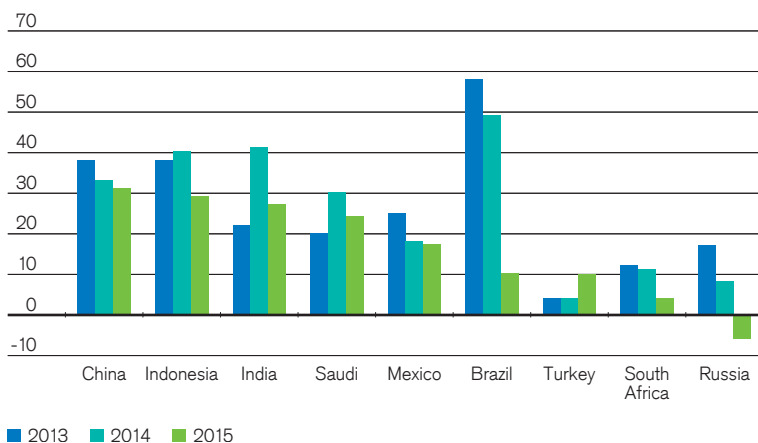


Figure 2
Net percentage of respondents replying “Yes” to “Is now a good time to make a major purchase?”



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 3
Net percentage of respondents expecting an improvement in their personal finances in the next six months



Source: Credit Suisse Emerging Consumer Survey 2016

one hundred questions in the survey, we focused on five in order to rank countries relative to each other. These are the following:

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 change in the last 12 months?”

We recognize that this involves a combination of art and science, but our intention is to capture (via question 1) the immediate perception of the consumer environment; (question 2) a more medium-term and broader assessment of financial circumstances; (question 3) inflation fears given its ability to sap consumer confidence when manifested in food prices, and (questions 4 and 5) income momentum looking back and looking forward. We attach a 50:50 weight to the two income questions.

Figure 1 displays how each of these components compares across the survey as a whole. The simple message is that they have all deteriorated from the previous year, particularly the reply for personal finances. This overall picture of course does not display the winners and losers. The charts in Figures 2–5 break down these factors country by country. The country summary pages from our regional teams on pages 60 to 79 provide further analysis and related commentary.

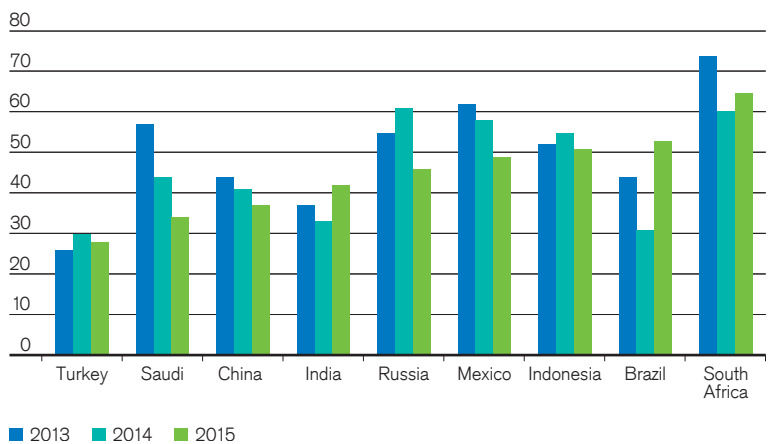
In looking at the charts, a few features become very obvious.

- First, the country that stands out due to a series of dismal readings on almost every yardstick is Bra-



Figure 4

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



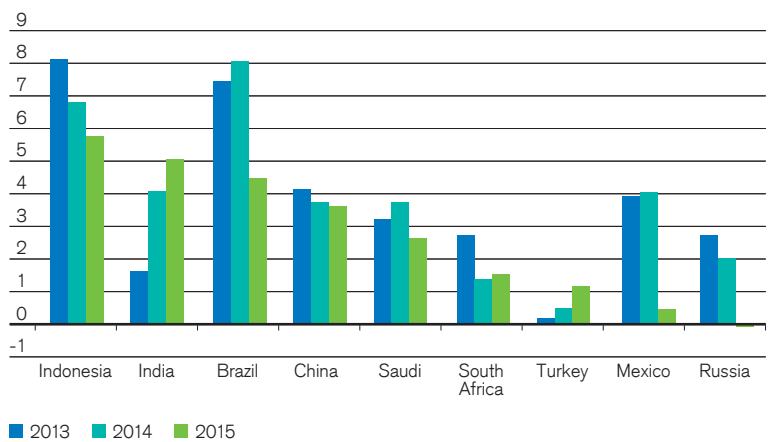
Source: Credit Suisse Emerging Consumer Survey 2016

zil. What is most dramatic is the collapse in the number of Brazilians viewing now as a good time to make a major purchase (Figure 2). The response has fallen 47 percentage points to a balance of -52% versus the survey average of -9.1%.

- Second, in a Latin American context, Brazil contrasts markedly with Mexico, which while not standing out as the most optimistic of countries in terms of consumers, reflects nothing like the same negativity. Our Latin American teams feel that this contrast is a key theme to take forward.
- Third, we see income momentum as always important and almost certainly influencing other factors in our scorecard. The reality is that this momentum has been lacking, and thus where it exists, it is worth highlighting. India is a standout here, with a robust level of income expectations that is also increasing. China has remained solid.
- Fourth, consumer expectations as to the direction of inflation have generally moderated, albeit from different levels in our surveyed countries. Adding to its list of negatives, we would again flag Brazil, which has expectations that are above the average and rising.
- Fifth, while we examine how these countries look relative to each other, we have found over past surveys a degree of inbuilt optimism and pessimism in certain countries on some of the sentiment indicators. Hence, comparing these countries against their own history has a value. Figure 6 rebases to 2011 the question regarding future personal finances. Brazil finds itself in completely uncharted territory, while the change in the views in Turkey is equally striking when seen in the context of the country's history. We would add a caveat where Turkey is concerned as the survey was taken close to the Turkish elections, which proved supportive for consumer confidence at the time and may thus boost our findings. We have seen intensified political and terrorist concerns this year, the impact of which will not be captured in the survey either.

Figure 5

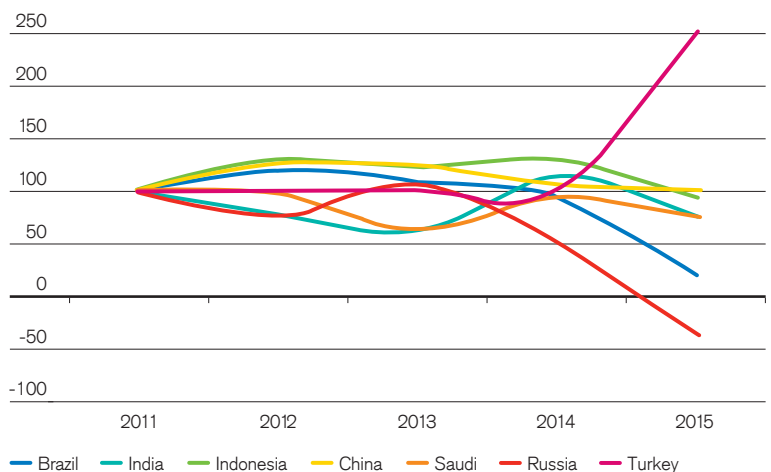
Weighted average of expectations of change in household income in the next 12 months



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 6

State of personal finances (2011 datapoint indexed to 100)



Source: Credit Suisse Emerging Consumer Survey 2016



Running the Scorecard

Figure 7 runs our Scorecard for 2016. As was the case in our last survey, India comes out on top. While there may have been a degree of disappointment in terms of the follow-through in terms of policy after the election of the new government in some of the official indicators, the relative strengths of the Indian consumer still stand out in the emerging world, particularly where income is concerned. Completing the top three are China and Saudi Arabia.

There is a caveat where Saudi Arabia is concerned in that sentiment may not fully reflect the impact of the new budget announced at the turn of the year as we discuss later. However, more generally the consumer has been sheltered from much of the pressure on public finances due to the collapse in oil prices. China's resilience might surprise some observers, particularly the robust perception of personal finances. However, while leverage is an oft-

discussed topic in the corporate and public sectors, the savings ratio remains very high among our consumers, and the swings in the stock market are largely irrelevant for most people in terms of the effect on wealth. Moreover, we have seen stabilizing in expectations on house prices. There is a powerful age demographic driving consumption in China that we explore in detail later in the report.

The countries losing ground will be of little surprise, given the commentary above. Brazil, Russia and South Africa occupy the bottom three places, and, of these three, Brazil has seen the greatest collapse in the rankings. However, in Russia and South Africa's case, we would still flag a very large contrast between the perceptions among the richest and poorest. This arguably ties in with the analysis which we will show later of the appetite for luxury brands in Russia remaining undimmed.

Figure 7

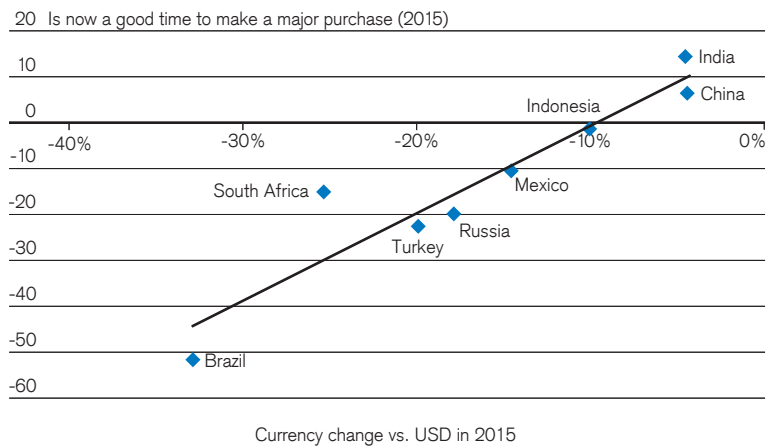
Emerging Consumer Survey Scorecard 2016

Rankings (6-12m horizon)	Personal finances	Inflation expectations	Household income expectation	Time for a major purchase	Income history	Rank based on 5 factors
India	3	4	2	2	1	1 →
China	1	3	4	3	4	2 ↑
Saudi Arabia	4	2	5	1	3	2 ↑
Indonesia	2	7	1	4	2	4 ↓
Turkey	6	1	7	8	5	5 ↑
Mexico	5	6	8	5	8	6 ↑
Brazil	6	8	3	9	9	7 ↓
South Africa	8	9	6	6	6	7 ↑
Russia	9	5	9	7	7	9 ↓

Source: Credit Suisse Emerging Consumer Survey 2016



Figure 8
Household confidence to make a major purchase vs. currency change in 2015



Source: Credit Suisse Emerging Consumer Survey 2016

It's all about the currency

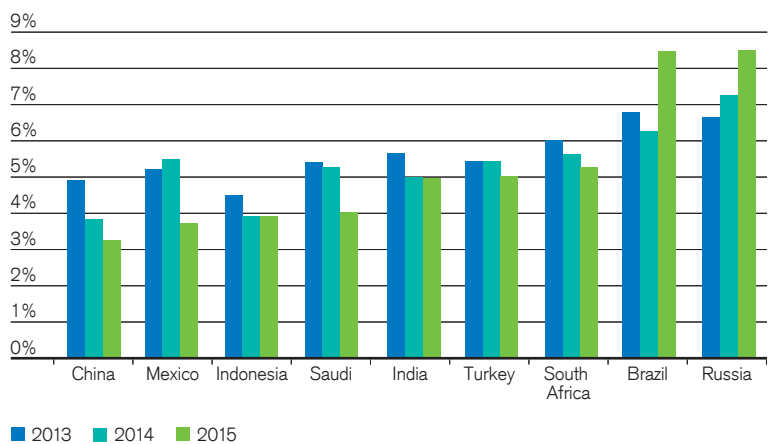
When we take a step back to rationalize the relative movements and standings in the Scorecard and its respective factors, we can reach for a wide range of macro (e.g. relative commodity exposures) or political drivers (e.g. elections, sanctions) specific to each country to potentially explain them. However, the one observable variable through which these relative risks are played out is through the currency of the country concerned.

In fact, Figure 8 suggests that observers who knew nothing a year ago other than the likely direction of currencies in 2015 would have had a good idea of the relative fortunes of EM consumers for the year ahead. While there is a debate of cause and effect, the currency effectively serves as a transmission of hardship to the consumer via imported inflation on the one consumption item that typically consumes more of the household budget than any other – food. We would point out that the countries at the bottom of our list contain the consumers experiencing the highest food and beverage inflation (Figure 9).

Signalling the importance of the currency to the consumer is a familiar theme from us. Indeed, we flagged it as the primary risk, alongside the outlook for commodities in 2015, in last year's report, underlining the high current account deficits and commodity intensity as a recipe for investors (and consumers) to avoid. The stresses in these markets have eased of late. What can we expect from these influences from here? As difficult as this is to call, there is good reason to think that the heavy weight of currency vulnerability borne by the consumer could lessen in 2016.

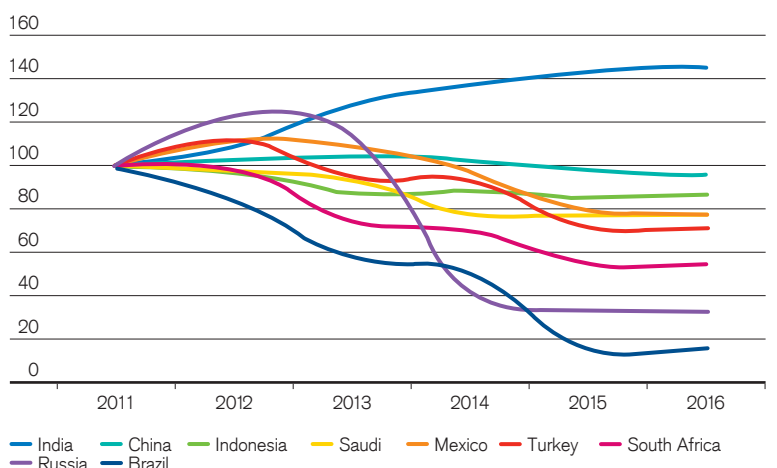
As Figure 10 highlights, EM currencies have rarely been so far from estimates of purchasing power parity (PPP). Credit Suisse's investment

Figure 9
Food inflation expectation across countries (net change in prices of basic food and drink in the past 12 months)



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 10
PPP-adjusted deviation against the USD (rebased 2011=100)



Source: Datastream, Credit Suisse Research

Figure 11

Developed vs. emerging market real GDP growth differential versus MSCI EM/World performance



Source: MSCI, OECD, IMF, Credit Suisse research

bank strategists believe that this disconnect is most pronounced in Brazil, Russia and South Africa, which are of course the countries at the bottom of our rankings.

Clearly these currencies do not operate in a vacuum. As much as the local factors such as politics, commodities and risk appetite at work, they reflect the broad deterioration in economic momentum in the emerging versus the developed world that we have seen in recent years as Figure 11 reflects.

An arrest in this weak trend is needed to feel confident that currencies see genuine respite no matter how far from PPP they sit. The IMF forecasts dangle this carrot in the chart and with it suggest a better environment for equity markets as well as potentially oversold currencies. While the IMF have been wrong before, our strategists and economists have greater confidence this time that such hopes can be fulfilled.



The EM consumer through a global lens

Our survey typically looks at emerging economies relative to each other. However, with the focus having been squarely on the woes of the emerging world versus the developed world in stock market terms, it is worth providing some global context. How does the level of confidence of the EM consumer look in global terms?

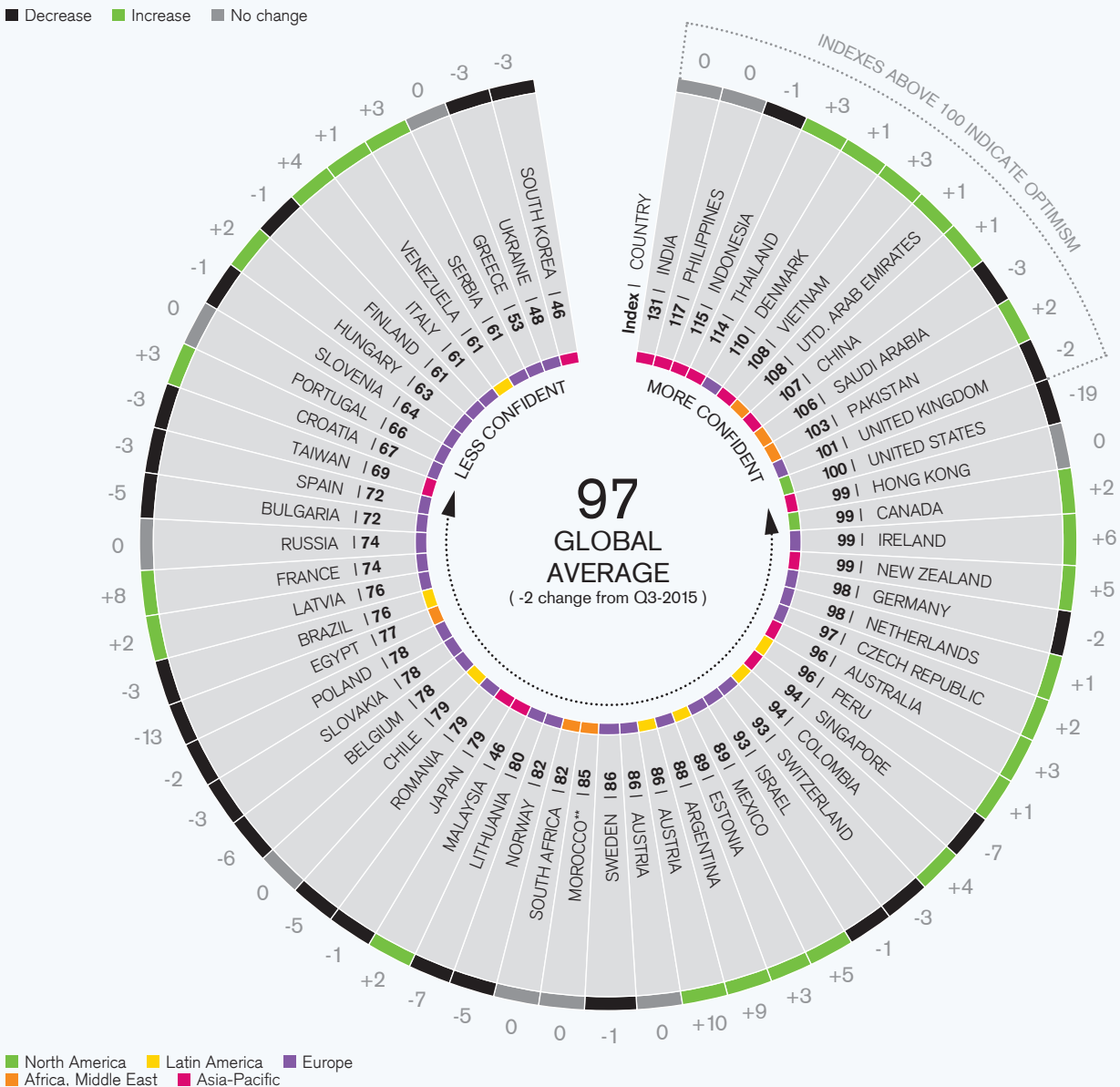
Nielsen provide a global benchmarking of consumer confidence in a separate survey of their own. The sampling is different to ours, as it is based on Inter-

net questionnaires rather than the results of the face-to-face interviews we present in this study. The sample sizes also differ, but the results shown in Figure 12 are noteworthy.

First, the relative rankings of our surveyed countries are not dissimilar to our own Scorecard. Second, it underlines that the confidence of many of the EM countries, particularly our top countries of India, Saudi Arabia, China and Indonesia, rank head and shoulders above many of the DM consumers in the current environ-

ment. They all sit above the 100 benchmark of optimism. Of course, investors are more interested in relative momentum as much as static positions, and it could be that DM has the advantage directionally. Is DM moving anti-clockwise and EM clockwise in Figure 12? In most readings this is generally not the case, judging by Nielsen's Q4 estimates as the color-coding implies. The structural merits for the EM consumer that have long been discussed arguably have a cycle that is now moving back in their favor.

Figure 12
Global Consumer Confidence Survey Q4-2015 Nielsen Consumer Confidence Index*



Source: Nielsen Q4 2015 Consumer Confidence Report

*Survey based on 61 Countries, three-month trend and respondents with internet access. China Survey results reflect a mixed methodology. Index level above and below 100 indicate degree of optimism / pessimism. **Morocco was a new market in Q3 2015





Who's got the purchasing power?

The fabled “megatrend” that many commentators have forecast for emerging markets centers on a growing middle class. But how quickly is it happening? The Credit Suisse Global Wealth Report 2015 focused on this topic from a wealth perspective, and specifically on developments within China, where the Chinese middle class are now estimated to outnumber those in the USA in wealth terms. Here we analyze middle class income developments to complement this wealth analysis. An emerging “younger” middle-income class is fast appearing.

Richard Kersley, Marcelo Preto, Brandon Vair

A cross-sectional look at the consumer

As in previous years, we have sought to analyze the make-up and differing fortunes of emerging consumers within countries as much as between them. This provides a clearer idea as to the potential growing end markets. In this chapter, we look at three features from the survey data.

- Is the structural “emerging middle class” theme actually emerging? The answer to that question in our view is yes.
- How do a number of the key barometers of consumer sentiment look through the demographic lenses of location (rural/urban), age and income levels? Our view is that the younger, urban demographic appears most optimistic, driven not least by higher income growth.
- What is hot and what is not within consumer spending? Despite the less supportive cycle, our survey supports a positive view on discretionary spending, but with a bias towards lower-ticket and “life-style” spending. However, longer term, there remain sizeable under-penetrated consumer markets across a wide range of categories. We drill down into the tastes of the young consumer.



Is the emerging consumer actually emerging?

With the benefit of the knowledge of 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 build an up-to-date estimate of the distribution of household income across each country and, more importantly, how it is changing. We have had to make some adjustments to take into account the limitations in our sampling in the representation of very low income areas, but in a manner consistent with our own previously published analysis.

Having standardized incomes on a 2015 USD PPP basis, considering different regional costs of living, Figure 1 builds up a comparable 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 would note that there is a considerable tail of

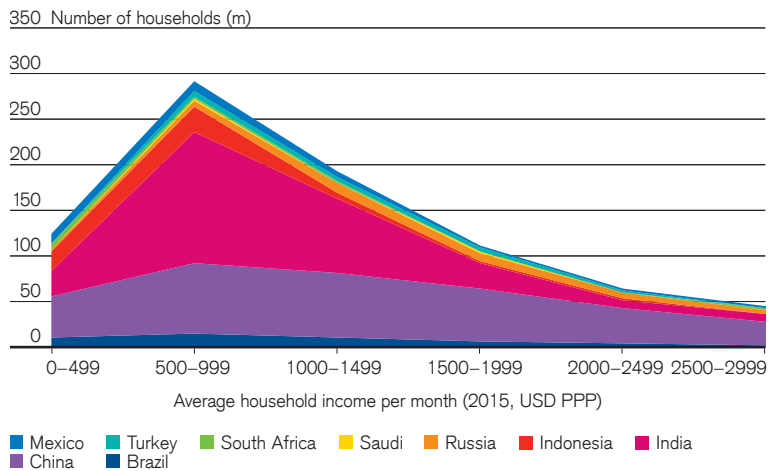
households that stretch well beyond this income cut-off. For simplicity of presentation, we have not included this tail in the chart.

While potentially stating the obvious, given the wide divergence of GDP per capita across our countries, the chart provides a reminder of how different the emerging consumer end markets are in terms of purchasing power. 414 million households in our survey have monthly incomes in PPP terms below USD 1000 per month, for example. Figure 2 plots the percentage of total income each country constitutes as an effective “map”. China and India of course dominate the map, given the size of their populations. However, the end markets they present in terms of the income level of consumers differ considerably.

While the long-term theme in the emerging world may be rising discretionary spending, for a large proportion of consumers the starting point is clearly from a low income. This fact dictates the nature of the end markets in different countries. The theme of

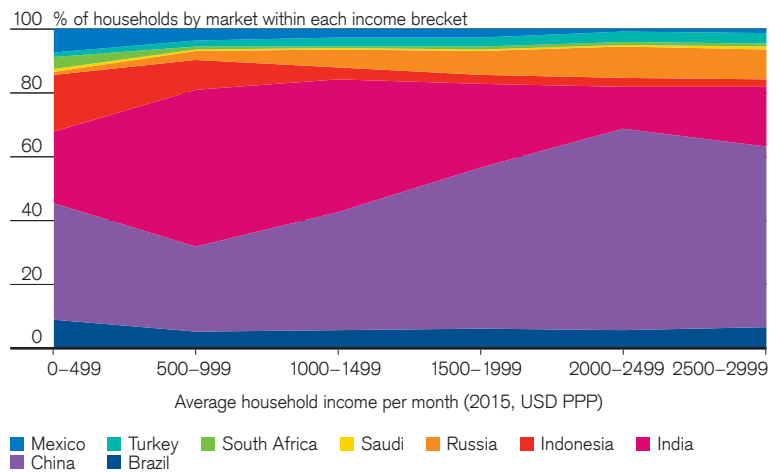


Figure 1
Household income distribution (USD/month)



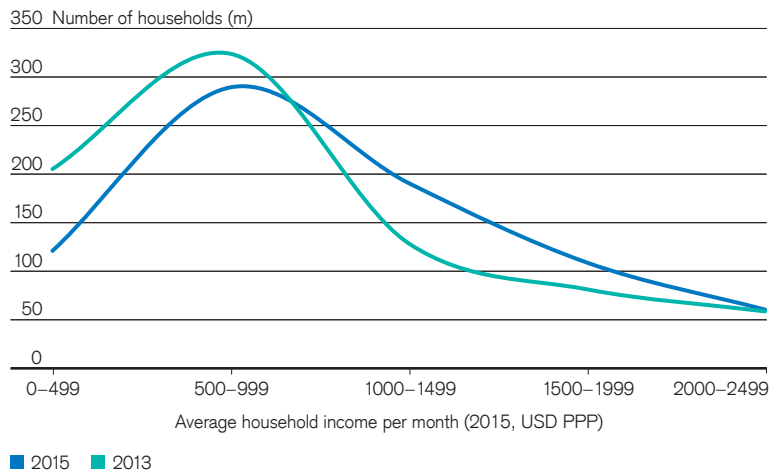
Source: World Bank, Credit Suisse Emerging Consumer Survey 2016

Figure 2
Household income distribution



Source: World Bank, Credit Suisse Emerging Consumer Survey 2016

Figure 3
Aggregated household income distribution (2015 vs. 2013)



Source: World Bank, Credit Suisse Emerging Consumer Survey 2016

premiumization at work in India, which we focus on in our chapter on brands later in the report, essentially reflects the brand beneficiaries of the changing preferences of consumers clustered to the left in areas of staple products. Premiumization higher up the income scale means something very different, of course, in terms of the products and activities concerned (e.g. luxury goods and holidays).

If this is the snapshot, what is clear from this analysis is that the emerging consumer is on the move. In Figure 3, we compare the distribution now with two years ago. The chart is continuing the move to the right which we signaled in 2014, and in turn creating an ever-greater middle class. If we look at households in the USD 1000 – USD 2000 per month bracket, they have increased by 90 million in our surveyed countries in the last two years. Of course our survey does not replicate the emerging world as a whole, with additional countries in Latin America and Africa notably absent. This would scale this story further.

What does an optimistic consumer look like?

If the market size is increasing structurally, what is the profile of the consumer that looks best placed in relative terms? The word “relative” is important, as we remain conscious of the fact that consumer confidence as a whole has fallen this year, as detailed in our first chapter.

The chart below analyzes three of the forward-looking factors in our scorecard: income expectations, the judgment on the six-month outlook for personal finances, and whether now is a good time to make a major purchase. We stratify the data, however, along the lines of location (rural/urban), age and income level, and have shown the aggregate levels for the country for this year and last.

The shading denotes which category within the sub-segments of location, age and income level displays the greater level of optimism in the country concerned. The broad themes that emerge have a resonance with previous surveys in that the urban, young and higher-income earners offer the greatest degree of optimism. Against this backdrop, we would highlight the following three points:

- First, where age is concerned, the dominating optimism of youth, particularly in the 18–29-year-old bracket, is near uniform across the emerging world. Though less pronounced in some countries than others (e.g. India and Saudi Arabia), their responses are above the country averages in virtually every instance. We devote a special focus on this unique theme in China, with insights from our

China specialists where the now-tangible implications of the historic one-child policy and the role of technology provide a unique influence on spending patterns.

- Second, high and middle-income earners remain the most optimistic, as in previous years, and perhaps provide an added perspective to the emerging middle class discussed above. However, this is not to suggest they have been unaffected by the drop we have seen in consumer confidence in the survey. In fact, one thing that is notable among two of the major losers in the survey this year – Brazil and Russia – is that high-income earners have in fact seen the sharpest reversal in fortunes.

- Third, there is no mystery about the role of the younger generations. Indeed, there is a degree of circularity driven by the level of and growth in income. Figure 5 shows that momentum of income for younger people is almost stronger than for the rest of the population in nearly every country. If this seems intuitive, it should be stressed that this level/growth dynamic is different in developed markets. The rural to urban migration in the emerging world amplifies this effect in our view.

Figure 4

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

		India			Indonesia			China			South Africa		
		Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances
	Total	49	14	27	54	-2	29	32	6	31	17	-15	4
Area	Urban	44	18	32	53	0	32	32	7	32	18	-14	4
	Rural	54	4	16	49	-3	22	34	3	28	12	-18	2
Age	18–29	49	15	30	54	-2	33	38	5	36	22	-6	17
	30–45	47	14	25	55	-1	29	32	7	33	15	-17	4
	46–55	43	16	32	52	0	25	32	6	25	13	-22	-9
	56–65	54	13	25	41	-4	16	21	6	21	13	-26	-18
Income	Low	37	19	18	38	-5	19	18	2	16	7	-24	-15
	Medium	45	10	26	60	0	32	28	7	28	16	-11	6
	High	52	23	35	74	3	45	38	8	35	27	-18	18

Net balance % of respondents expressing a positive sentiment ■ When urban value is greater than rural

Source: Credit Suisse Emerging Consumer Survey 2016

Who's buying what?

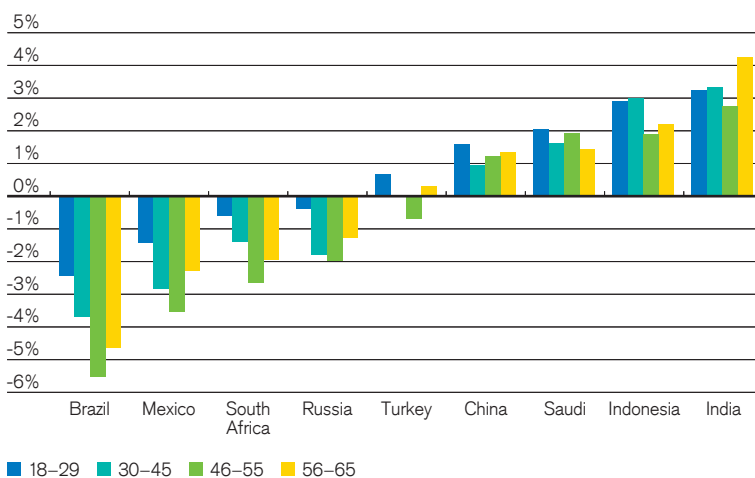
In this final section, we focus on spending intentions in terms of consumer categories. Again this is a relative game in part given we are looking at what is relatively stronger and weaker in a world that has been clearly less supportive cyclically for the consumer. We also take on the theme of the young consumer here in new analysis of the pattern of their spending versus the other age brackets. Figures 6 and 7 illustrate the spending picture across our survey countries as a whole though there is further disaggregation and commentary in the country sections of the report.

Figure 6 charts the net percentage of respondents who intend to spend more on certain products and services in the year ahead ("spending intentions") alongside its momentum (i.e. a comparison with this question a year ago). The simple message is that the top right corner shows areas of spending that are strong and getting stronger. Growing discretionary spending as the middle class grows is the long term theme in emerging economies. Does this structural story work in a hostile cyclical environment? Yes and no.

We find the low ticket categories are the ones showing the strongest momentum in every country compared to our previous survey. The categories with highest spending intentions and strongest momentum include fashion items, sports shoes, perfumes and cosmetics. Categories with low spending intentions and weak momentum include

Figure 5

Household total after-tax income change by age (2015 vs. 2014)



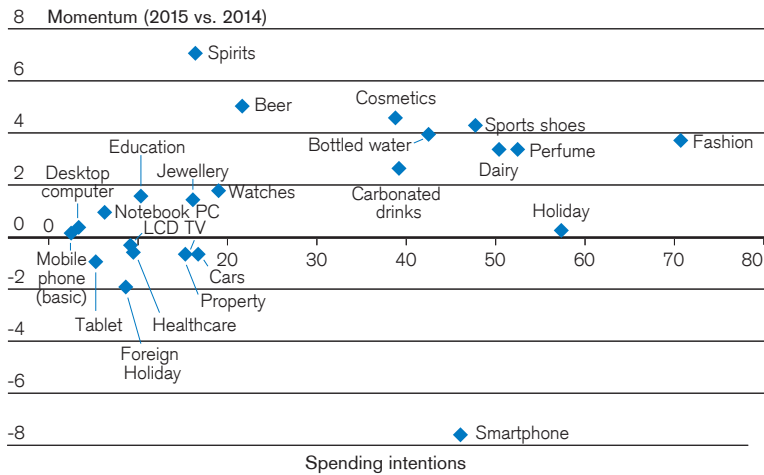
Source: Credit Suisse Emerging Consumer Survey 2016

Mexico			Turkey			Brazil			Russia			Saudi Arabia		
Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances	Income expectations	Major Purchases	Personal Finances
5	-11	17	15	-23	10	27	-52	10	-2	-21	-6	32	22	24
7	-10	20	17	-23	10	27	-49	11	-2	-21	-7	30	24	25
0	-14	12	10	-24	10	28	-60	7	-1	-21	-3	46	1	15
9	-12	30	21	-21	18	33	-42	27	12	-15	9	32	23	26
6	-8	18	15	-22	8	30	-57	11	-3	-18	-4	33	21	23
2	-8	5	6	-26	8	15	-59	-12	-8	-21	-12	28	21	23
3	-23	-6	11	-32	-5	16	-61	-13	-6	-40	-28	37	14	14
2	-13	12	15	-23	11	23	-49	8	-4	-43	-13	29	14	20
16	-7	35	32	-18	20	29	-56	12	-3	-19	-8	34	24	24
25	2	27	32	-23	13	23	-45	7	-3	-16	3	38	46	45

■ For the age group with the highest net optimism level ■ For the most optimistic income group

Figure 6

Spending intentions and momentum (%)



Source: Credit Suisse Emerging Consumer Survey 2016

foreign holidays, cars and electronics – such as tablets, computers and televisions. Smartphones show the weakest momentum of all.

Figure 7 focuses on a proxy for penetration rates as well as spending intentions and compares consumers who own or have bought an item in the last twelve months against an intention to buy it in the next twelve months. This chart makes it easier to understand the slowdown in momentum in smartphones as highlighted in Figure 6. Smartphone penetration rates have risen rapidly which naturally reduces subsequent spending intentions.

Fashion items and especially sports shoes appear to be underpenetrated in our view and in that respect still offer longer term potential as discretionary spending increases. They also exhibit strong near-term momentum. We believe beers and spirits can see a further increase in consumption given the recent pickup in momentum notably in China, Turkey,



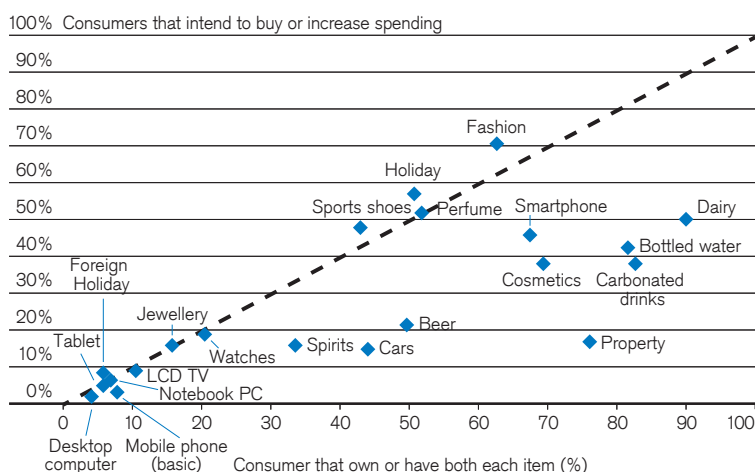
South Africa and Mexico is still from a relatively low base, particularly for premium spirits. As economies stabilize, we also expect the momentum in car purchases to rise given their still low penetration rates.

If the young are the key driver of growth in spending, what are they focused on versus their older counterparts? Figure 8 shows their spending intentions for 2016 while Figure 9 highlights the change in current spending intentions with the same reading from last year's survey. Strong and weak readings are blue and red respectively.

As mentioned above, younger consumers have seen the best improvement (or the smallest deterioration) in income or personal finances in most countries compared to older consumers. On the back of that, younger consumers have posted the highest spending intentions in virtually all categories including more expensive discretionary items such as property. Few exceptions in which the older range

Figure 7

Spending intentions and penetration (%)



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 8

Spending intentions in 2015 (%)

	Age 18–29										30–45	46–55	56–65	All
	Brazil	China	India	Indonesia	Russia	Saudi	South Africa	Turkey	Mexico	EM avg.	EM avg.	EM avg.	EM avg.	EM avg.
Fashion	58	72	81	60	83	91	80	90	71	76	72	65	57	71
Holiday	57	64	57	70	72	75	39	50	60	60	58	55	46	57
Perfume	62	20	68	63	55	88	66	59	55	60	53	47	35	52
Dairy	39	56	68	51	21	55	72	55	51	52	50	50	47	50
Sports shoes	58	64	35	33	53	70	66	72	53	56	49	41	29	48
Smartphone	81	33	42	70	54	60	61	53	41	55	48	41	28	46
Bottled water	28	49	na	58	12	51	54	53	56	45	42	41	38	42
Carbonated drinks	24	29	58	41	8	48	75	50	37	41	39	36	33	39
Cosmetics	25	44	71	38	12	55	58	39	42	43	39	35	29	39
Beer	23	25	7	na	7	na	31	30	31	22	22	22	16	22
Watches	20	25	19	28	10	50	29	29	17	25	18	16	11	19
Property	31	24	17	24	11	14	14	12	21	19	18	14	10	17
Spirits	17	10	7	na	9	na	24	29	25	17	16	16	12	16
Jewellery	11	16	21	19	16	23	27	11	16	18	17	14	11	16
Cars	19	26	13	9	10	25	17	15	22	17	16	14	10	15
Education	32	20	12	6	8	5	21	5	17	14	11	6	4	10
Healthcare	7	7	12	1	11	7	15	9	6	8	9	11	12	9
TV	11	4	12	14	4	7	7	7	8	8	10	9	8	9
Foreign Holiday	7	8	na	0	17	24	3	4	5	9	9	10	8	9
Notebook PC	7	15	2	8	5	8	5	10	10	8	6	5	3	6
Tablet	3	12	4	7	8	4	13	5	8	7	6	4	2	5
Mobile phone (basic)	2	1	4	2	2	0	2	8	4	3	3	3	3	3
Desktop computer	3	5	3	3	0	1	3	3	4	3	2	2	2	2

Source: Credit Suisse Emerging Consumer Survey 2016

of respondents shows higher spending intentions are in categories such as healthcare and televisions. The world of internet and social media arguably makes the latter less attractive to the young while they need less of the former.

Focusing on momentum in Figure 9, we would flag the strong numbers among the young in China for fashion, dairy products and sports shoes. The spirits and beverages story is strong among the young in Turkey and Mexico. However, the weakness in smartphone momentum is very pronounced among the young more or less across the board.

Although younger age brackets, on average, post the strongest spending intentions we do note some marked differences on a country level. While we find that the story is most pronounced in countries such as China, Mexico and Turkey, it is far less the case in India and Saudi Arabia. Furthermore, one cannot but notice the impact that the economic

downturn in Russia and Brazil has on sentiment even among the young. Momentum in spending intentions across a wide range of products in Brazil have turned substantially more negative.

In the sections that follow we review the growth outlook for individual products and services. The e-commerce section provides a strong positive growth profile which is largely driven by younger consumers. How people spend as much as what they spend on is a key growth theme. The chapter on travel examines how its longer term structural merits are holding up in a difficult cyclical environment. The healthcare section echoes the impact of income distribution and income growth between age groups as highlighted above. In our brands chapter, we will outline how a secular shift in tastes means that consumers prioritise international brand purchases where they can afford to, alongside a general trend of premiumization across all income groups.

Figure 9
Spending momentum – spending intentions in 2015 vs. 2014 (%)

	Age 18–29										30–45	46–55	56–65	All
	Brazil	China	India	Indonesia	Russia	Saudi	South Africa	Turkey	Mexico	EM avg.	EM avg.	EM avg.	EM avg.	EM avg.
Fashion	-23	12	-9	4	5	0	14	16	16	4	4	4	1	4
Holiday	-6	-2	-11	0	-8	4	2	4	9	-1	0	2	-2	0
Perfume	-15	5	11	13	0	-3	9	13	8	5	3	4	-0	3
Dairy	-5	13	3	-5	-5	1	6	25	2	4	3	3	5	3
Sports shoes	-13	13	-7	1	-4	10	14	17	2	4	4	7	3	4
Smartphone	-13	-27	-12	0	2	-29	-5	-5	-26	-13	-8	-5	2	-8
Bottled water	-12	8	na	-9	-2	-1	20	24	8	5	3	5	5	4
Carbonated drinks	-21	7	-2	-3	-2	-1	8	24	11	2	3	1	4	3
Cosmetics	-15	10	9	-8	-3	5	8	15	18	4	5	5	2	5
Beer	-6	5	0	na	-4	na	3	18	13	4	5	7	5	5
Watches	2	4	-11	1	2	-3	12	12	7	3	1	4	2	2
Property	10	0	3	-6	0	-2	1	1	-8	0	-1	0	-1	-1
Spirits	1	4	3	na	2	na	8	20	14	7	7	8	4	7
Jewellery	-1	2	-3	-3	3	0	7	-1	8	1	2	2	1	1
Cars	-5	1	-1	-4	-4	-1	0	4	5	-1	-1	0	0	-1
Education	14	-4	0	3	-1	-2	-2	3	2	1	2	1	0	2
Healthcare	2	-4	-4	-1	-2	-2	2	3	-3	-1	-1	0	-1	-1
TV	-4	-4	3	2	1	0	0	-3	-5	-1	0	-1	1	0
Foreign Holiday	2	1	na	-2	-17	-5	2	2	0	-2	-2	0	-4	-2
Notebook PC	2	0	0	0	0	-3	1	3	7	1	0	1	0	1
Tablet	-7	-2	-1	-2	3	-5	4	2	-4	-1	-1	0	-1	-1
Mobile phone (basic)	2	0	1	-2	-1	-1	-1	4	-2	0	0	0	0	0
Desktop computer	1	3	0	0	-1	0	0	2	-1	0	0	0	1	0

Source: Credit Suisse Emerging Consumer Survey 2016



Punta Roa!
Cambio radical

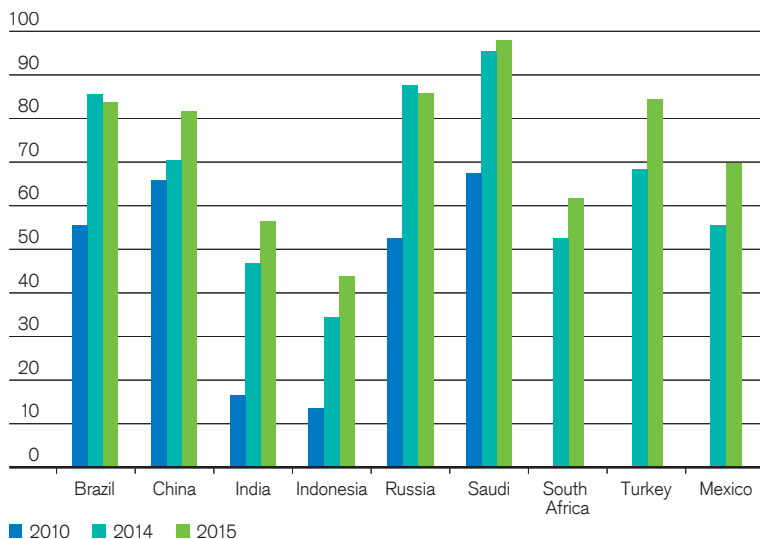
A life on-line

Our survey shows that the e-commerce growth story remains strong and insulated from broader cyclical concerns. In fact, we believe that the online retail markets across the key surveyed countries can more than triple annual revenues to reach USD 2.5 trn by 2025. This should continue to support share prices for listed online retailers, given that to date, they have correlated highly to their companies' strong track record of converting growth to cash flows.

Eugene Klerk



Figure 1
% of survey respondents with Internet access: Momentum strong across emerging markets



Source: Credit Suisse Emerging Consumer Survey 2016

Strong growth in online access

Data from this year's EMC survey clearly support an ongoing positive view on the outlook for e-commerce, despite softer macro conditions in emerging economies such as China and Brazil, and some broader weaker survey sentiment readings as highlighted in the executive summary of this report.

One of the reasons why the outlook for e-commerce remains strong in our view is that softening economic conditions might actually improve the relative competitive position of online operators, versus the more traditional "bricks and mortar" companies, as the latter arguably struggle more with legacy fixed assets and associated costs.

The further expansion of the middle class, along with rising smartphone ownership and related Internet access, support a positive view of future e-commerce growth across GEM. For the main economies in our survey, we estimate that online

PHOTO: ISTOCKPHOTO.COM/BARTOSZ HADYNYIAK

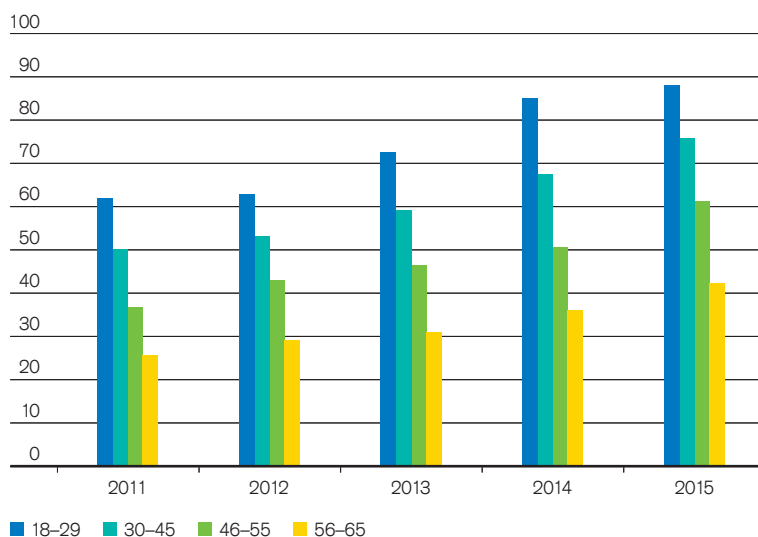


retail alone could increase from a current annual turnover of USD 730 bn to USD 2.5 trn by 2025. As far as investment implications are concerned, we note that the average share price performance of Asian e-commerce companies has had a very strong correlation to their track record of converting asset growth into value-adding cash flows. This suggests that investors might want to remain exposed to this sector given our overall positive view on the growth outlook for e-commerce across the emerging world.

Overall Internet access continues to increase

Our survey this year points to a further rise in Internet access, arguably a necessary prerequisite to e-commerce. More than 80% of the respondents to our survey in Brazil, China, Russia and Saudi Arabia already have Internet access, which is positive. Although average access rates are lower, we note that momentum is strongest in India, Indonesia and Mexico.

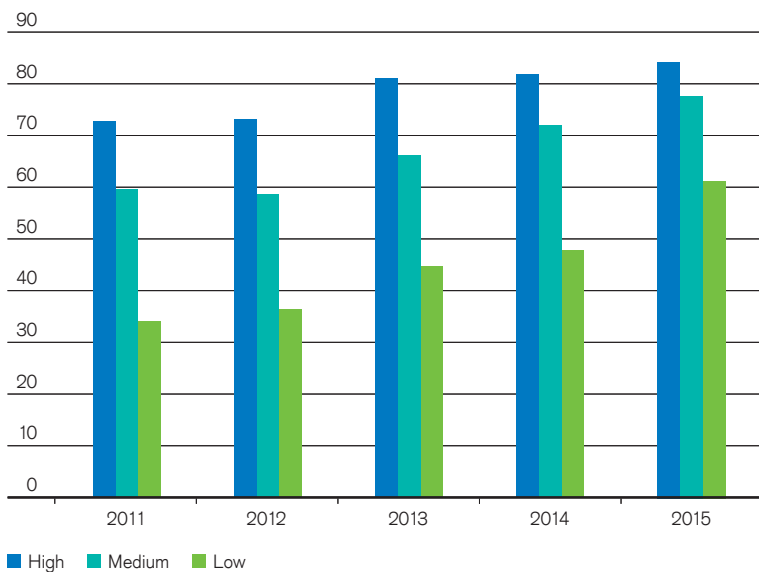
Figure 2
% of respondents with Internet access continues to rise across all major age groups



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 3

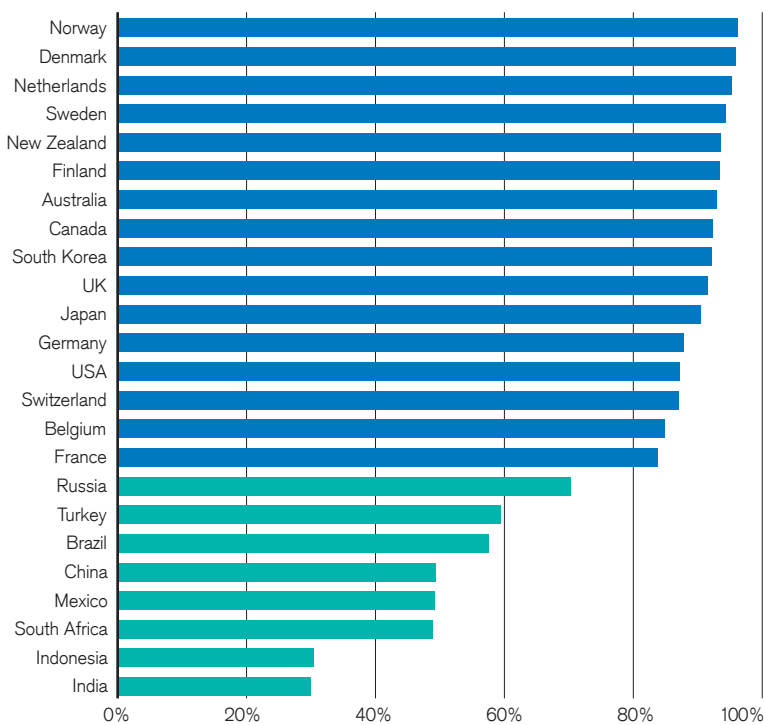
Internet access has started to accelerate among low income groups



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 4

Internet penetration (Nov 15) across our key GEM countries significantly lags behind DM



Source: www.internetworldstatistics.com



What is particularly supportive for our view on the outlook for e-commerce across GEM is the fact that rural Internet penetration continues to rise. Our theme of e-commerce therefore is not merely an urban-based one, although urbanization remains a growth driver for much of the emerging world. Our survey indicates that average rural Internet penetration reached 69% in 2015, up from 59% in 2014.

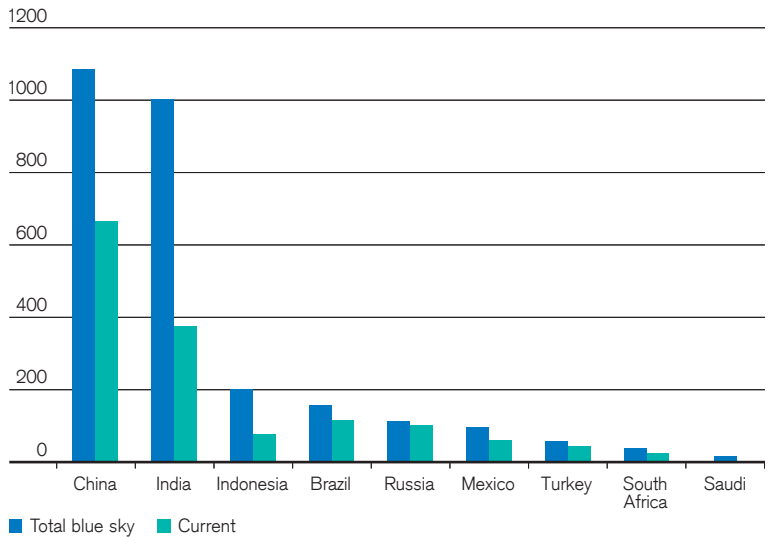
Furthermore, we also note that Internet usage across lower income groups showed a particularly strong pick-up in 2015, to 61% from 48% in 2014. Finally, our survey shows that Internet usage is also becoming more widespread among the middle-aged and elderly. For example in 2015, some 43% of the respondents aged 56–65 used the Internet, which was up from 36% the year before. The share of 46–55-year-olds that use the Internet has now reached 62%, which suggest that they trail the “Millennials” by 2–3 years.

Overall, we view the statistics on Internet usage and access as supportive of our expectation that e-commerce is a structural broad-based phenomenon across the emerging world.

PHOTO: ISTOCKPHOTO.COM/ANDREYPOPOV

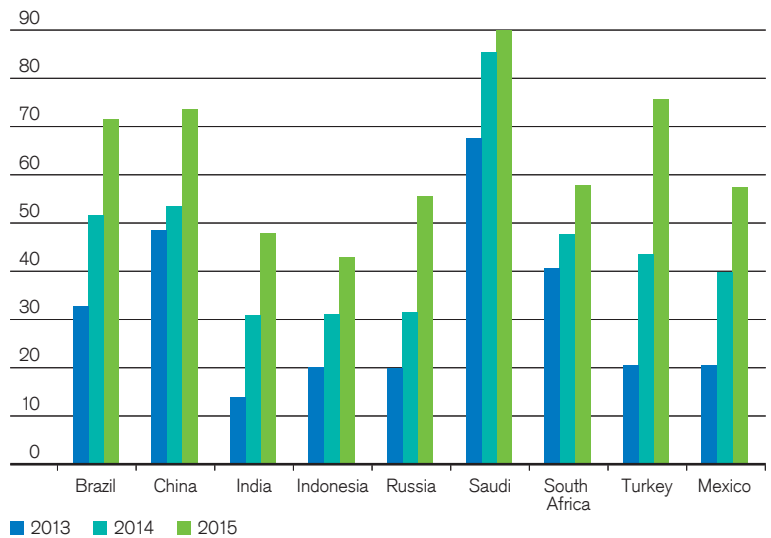


Figure 5
Internet users for key countries (m): current and based on an 80% penetration target



Source: www.internetworldstatistics.com

Figure 6
Share of smartphone owners using the device for Internet access rapidly increasing across all surveyed countries



Source: Credit Suisse Emerging Consumer Survey 2016

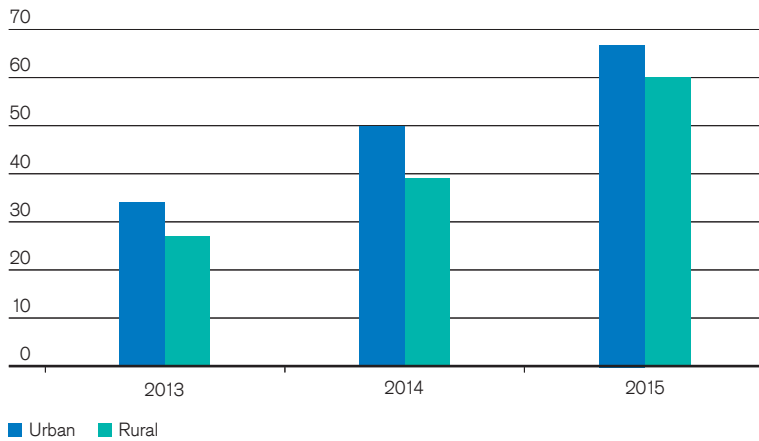
Internet access: GEM vs. DM

Using a broader global dataset on Internet penetration such as that of “internetworldstatistics.com” underscores the growth opportunity left for GEM, as it relates to Internet usage and activity. This database records average Internet penetration across most of Western Europe and the USA at over 80%. Assuming that penetration reaches 80% for our GEM countries suggests that c1.3bn have yet to access the Internet.

Smartphone penetration continues to increase, allowing e-commerce to grow

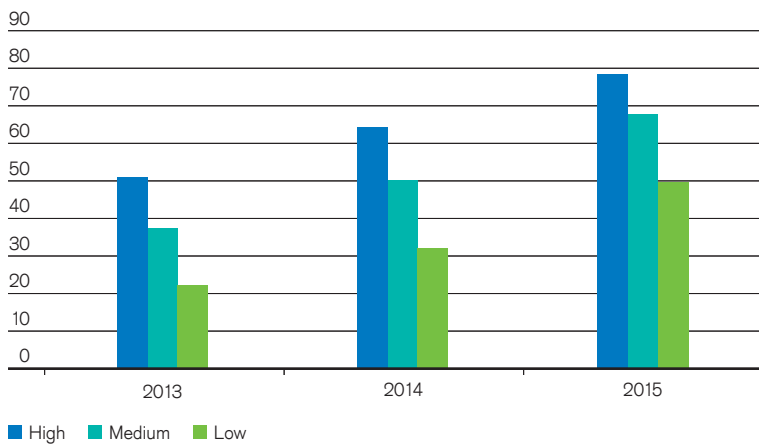
The relative absence of a traditional fixed line network, in particular across the more rural parts of the emerging world, suggests that the e-commerce opportunity relies on rising smartphone penetration. Data from our survey suggest that this is clearly happening. Not only have we observed a rise in smartphone ownership across the countries, but the share of people who use their smartphone to access the Internet also rose last year.

Figure 7
% of rural smartphone owners accessing the Internet almost identical to urban consumers



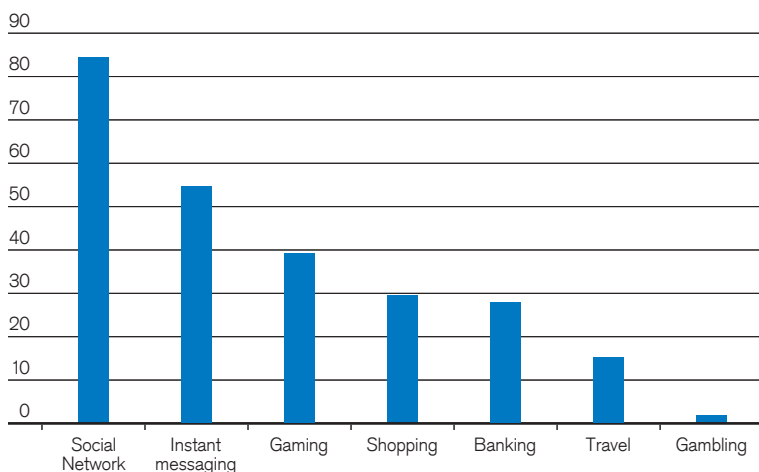
Source: Credit Suisse Emerging Consumer Survey 2016

Figure 8
Share of low-income smartphone users accessing the Internet increased 50% last year



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 9
% of respondents using certain services when on line



Source: Credit Suisse Emerging Consumer Survey 2016



What is particularly impressive in our view is the acceleration of smartphone ownership across rural areas, where Internet access has reached 60%, and also the lower income groups. Almost 50% of low-income consumers with a smartphone use it to access the Internet, according to our survey. This represents annual growth of more than 50%. Countries with the highest smartphone-based Internet usage among lower income groups are Brazil (56%), China (55%) and Turkey (60%).

Momentum towards e-commerce services continues to rise

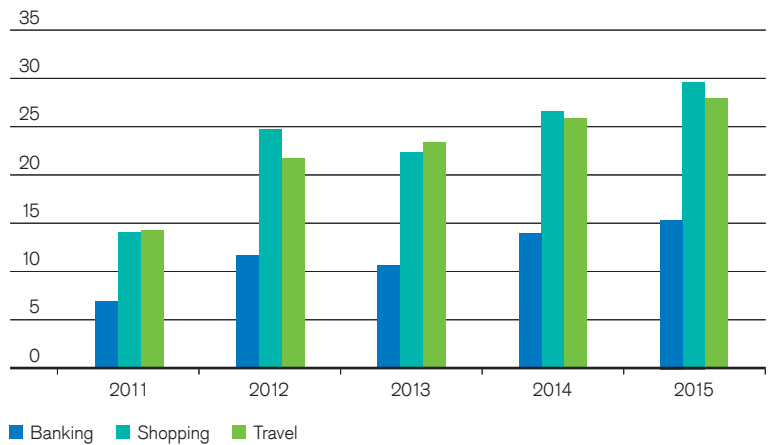
Our previous surveys showed that consumers across most of the surveyed countries used the Internet mainly for social media, instant messaging and gaming. Shopping, online banking and travel were activities that were not widely used.

This year's survey shows that while Chinese consumers remain more frequent online shoppers, users in other countries are starting to catch up. For example, the share of Internet users who shop



Figure 10

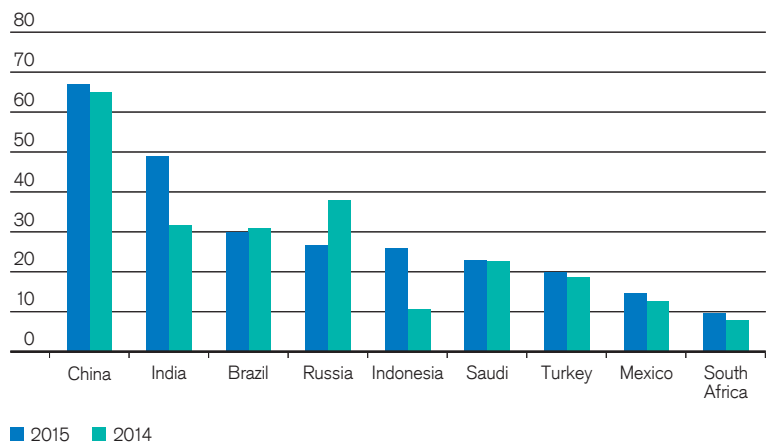
Increasing share of respondents shopping on line, using banking services or travel sites



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 11

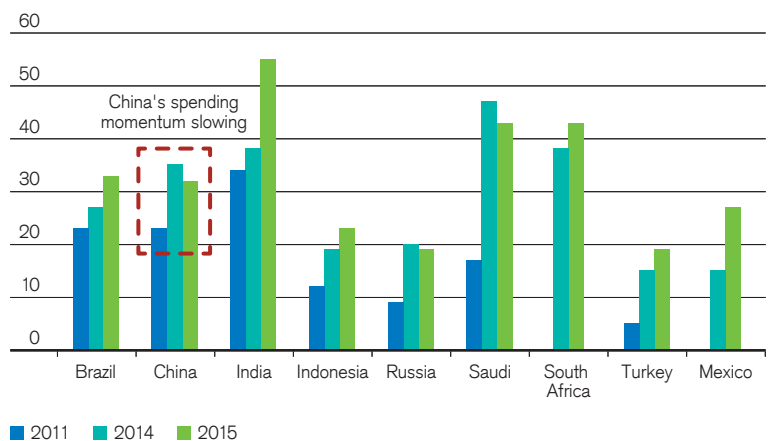
Chinese consumers remain most active online shoppers, India showing strong momentum



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 12

% of respondents expecting to increase Internet spending rising strongly in India, momentum slowing in China and Russia



Source: Credit Suisse Emerging Consumer Survey 2016

on line rose to 30%, up from 27% in 2014 and 22% in 2013. At the same time, we also note that online banking and travel are gaining in popularity. Across all countries, 28% of respondents use online banking services (up from 23% in 2013), whereas 15% use the Internet for travel services (up from 11% in 2013).

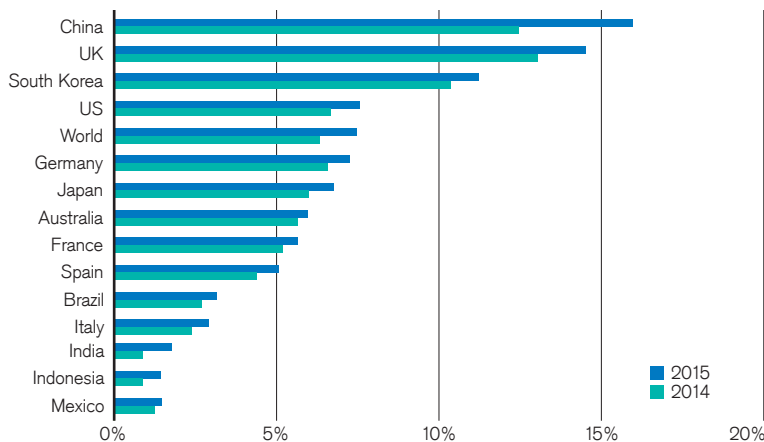
Another positive factor for the outlook for companies exposed to e-commerce is the fact that across most of the surveyed countries, the share of people expecting to spend more online this year is rising. The exceptions to this are China and Russia, although the net balance of spending is positive in all countries.

Potential of the e-commerce market

The online retail market has been growing very rapidly for all markets, but has been most developed in China. In fact as a share of total retail, Chinese consumers are more active online than any other nation globally, with only the UK coming close. Our survey data on questions related to "intention to

Figure 13

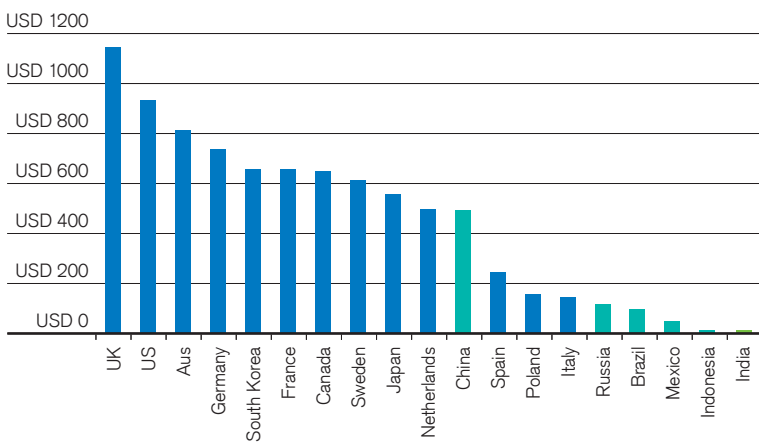
Online retail as % of total retail. Growth across all markets, with most potential still across GEM



Source: eMarketer, Credit Suisse Research

Figure 14

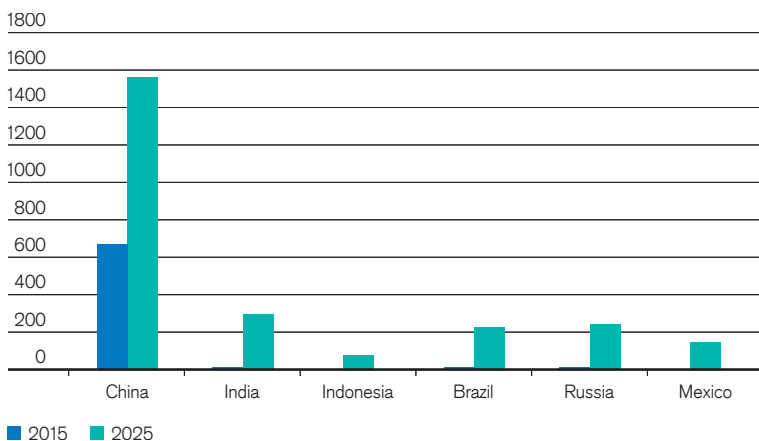
Online spending per capita across GEM leaves substantial growth potential based on DM levels



Source: Emarketer, Statista, retailresearch, Thomson Reuters, Worldbank, Credit Suisse Research

Figure 15

Online-retail market (USD bn) potential assuming that 25% of retail moves online by 2025



Source: Emarketer, Statista, retailresearch, Thomson Reuters, Worldbank, Credit Suisse estimates



spend online" coupled with projected online access and/or smartphone ownership therefore indicate that online retail should indeed keep growing rapidly across the other markets, in our view.

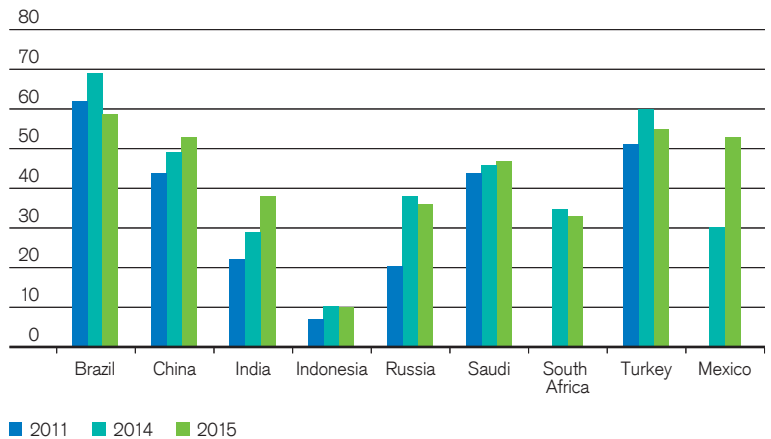
While we appreciate that e-commerce is much broader than just online retail, it is the latter that we are focusing on in order to provide an indication of growth potential. At present, average on-line per capita spending is highest in the UK, at over USD 1,100. The emerging economies remain well below average, owing to a) lower average income levels and b) less developed infrastructure.

We can estimate the potential size of the online retail market for the core of our surveyed countries if we assume that online infrastructure and average spending power continue to grow. We estimate that the total B2C online retail market for the largest six of our surveyed countries could reach total annual turnover of more than USD 2.5 trn by 2025. This would represent a 13% annual growth rate from the c. USD 731 bn in turnover reached in 2015.

Our calculations assume that 25% of total retail spending will move online over the next 10 years. While this may appear aggressive, we note that a) China is already at c. 16% while b) most of these

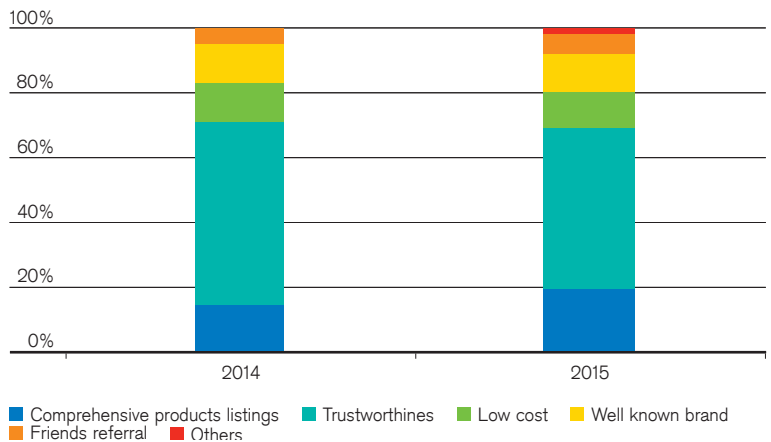


Figure 16
% of spending done with credit cards is rising, supporting our view of e-commerce



Source: Credit Suisse Emerging Consumer Survey 2016

Figure 17
Trustworthiness has come down as a major reason for site traffic in China



Source: Credit Suisse Emerging Consumer Survey 2016

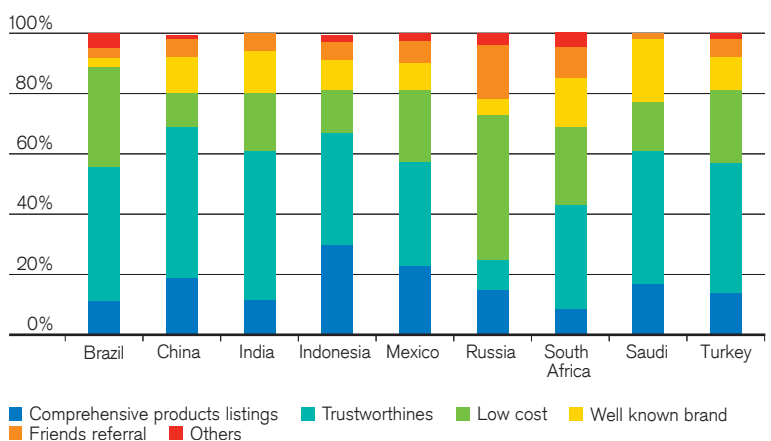
economies have less of a developed “bricks and mortar” retail sector, which makes it easier for retail spending to go directly online if the infrastructure exists.

Improving trust in safety and security

In our previous survey, we highlighted that security-related concerns were likely some of the biggest hurdles for the e-commerce outlook across GEM. It is comforting, therefore, that in this year’s survey we find that 43% of respondents’ spending is done through a credit card, which compares to 36% five years ago. Countries where consumers are increasingly using credit cards for their spending include China, India and Mexico. In Brazil on the other hand, we find that consumers used their credit card less in 2015 (59% vs. 69% in 2014).

Furthermore, we also observe that trustworthiness has declined somewhat as a key reason for visiting certain sites. This in our view suggests that trust in Internet usage tends to be broadly increasing, which again supports our call that the outlook for e-commerce growth going forward remains strong.

Figure 18
With the exception of Russia, consumers remain focused on a site’s trustworthiness



Source: Credit Suisse Emerging Consumer Survey 2016

Emerging online retailers increasingly profitable

Although the growth trajectory for e-commerce across the emerging world looks promising, the question remains whether this growth is profitable to shareholders, and how it compares to the performance of online operators in developed regions. To answer these questions, we have used the “Economic Profit” concept as developed by Credit Suisse HOLT®. HOLT is Credit Suisse’s corporate performance and valuation financial advisory service.

The concept is based on the notion that a firm only really starts to add value if it generates cash flow to equity investors that is higher than what is needed to maintain the existing asset base. There are two key scenarios for companies:

- A positive Cash Flow Return on Investment (CFROI®) spread and a growing asset base: This is the best possible scenario as it suggests that a company not only generates a cash flow return above its cost of capital, but it also manages to do so despite expanding the asset base. Early phase investments typically generate lower returns, but that does not seem to affect these companies.
- A negative CFROI spread and a growing asset base: This is arguably a poor strategy as far as shareholder value is concerned. A company not only fails to generate a return that covers its cost of capital, but does so while adding more assets onto

its balance sheet. This scenario requires careful analysis, especially in regards to whether these newly added assets allow for a change in the poor overall return profile.

Growth in asset base and cash flow returns

In order to review whether online operators across the emerging space provide profitable investment opportunities, we built three baskets consisting of publicly traded online retailers in the USA, Europe and Asia. We calculated average asset growth, return profiles and economic profit for them over a 15-year period.

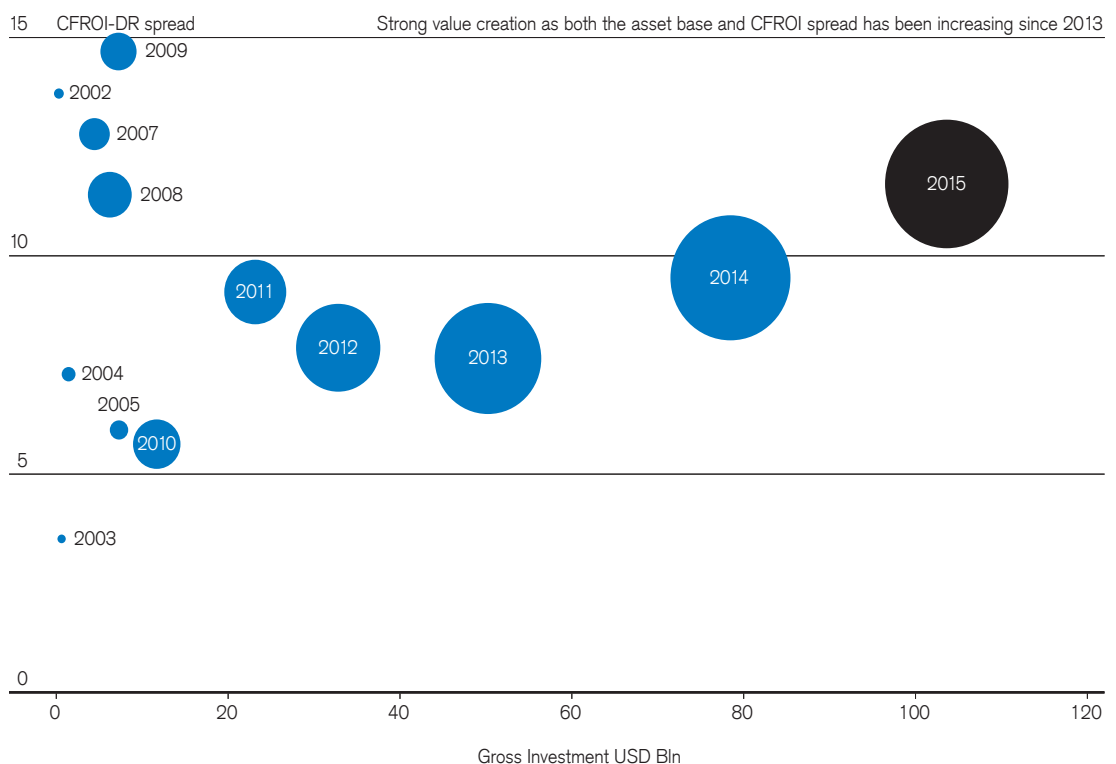
Figure 19 clearly shows that during the past three years, Asian online retailers have managed to substantially improve their profitability. Despite more than tripling their asset base to almost USD 80 bn by the end of last year, the average retailers still managed to increase their cash flow return spread relative to the cost of capital. To put it another way, Asian online retailers are successful in converting market growth into value-adding profits.

Economic profit generation starting to accelerate for Asian online retailers

Against the background of the above-mentioned performance, it should come as no surprise that the

Figure 19

Asian online retailers: CFROI +/- cost of capital vs. total gross investment



Source: Credit Suisse HOLT, Credit Suisse Research

economic profit generated by Asian online retailers has rapidly increased over the past few years.

Our calculations suggest that total economic profit for the basket of listed Asian online retailers reached almost USD 15 bn last year, representing a c. 7-fold increase since 2010.

Asia outperforms developed markets on asset growth and CFROI improvement

We have also compared our basket of listed Asian online retailers to those operating in the USA and Europe. This shows that the Asian operators have stronger momentum on both asset growth and CFROI spread. The difference with the European-listed universe is particularly striking in our view.

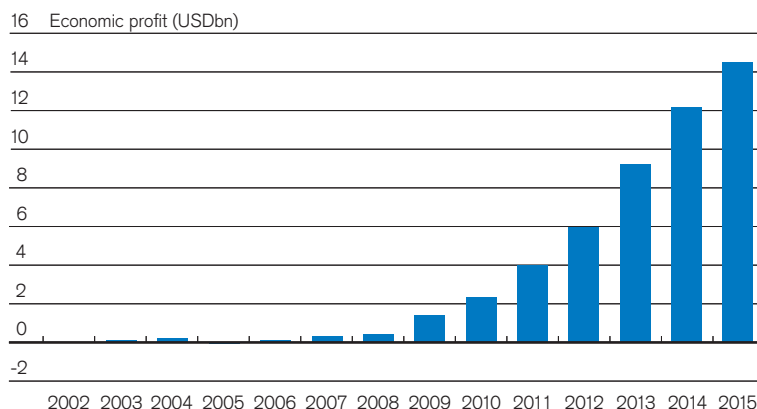
We see two reasons for the relatively strong performance by the Asian operators.

Firstly, we believe that the lack of a “bricks and mortar” retail market means that competition from offline retailers is lower for Asian online players than for European eCommerce companies.

Secondly, we note that European online retailers also compete with a strong presence of US-based retailers, especially Amazon. The Asian-listed companies face a lower level of competition in our view. One indication of the “local focus” by Asian consumers can also be seen through the fact that our

Figure 20

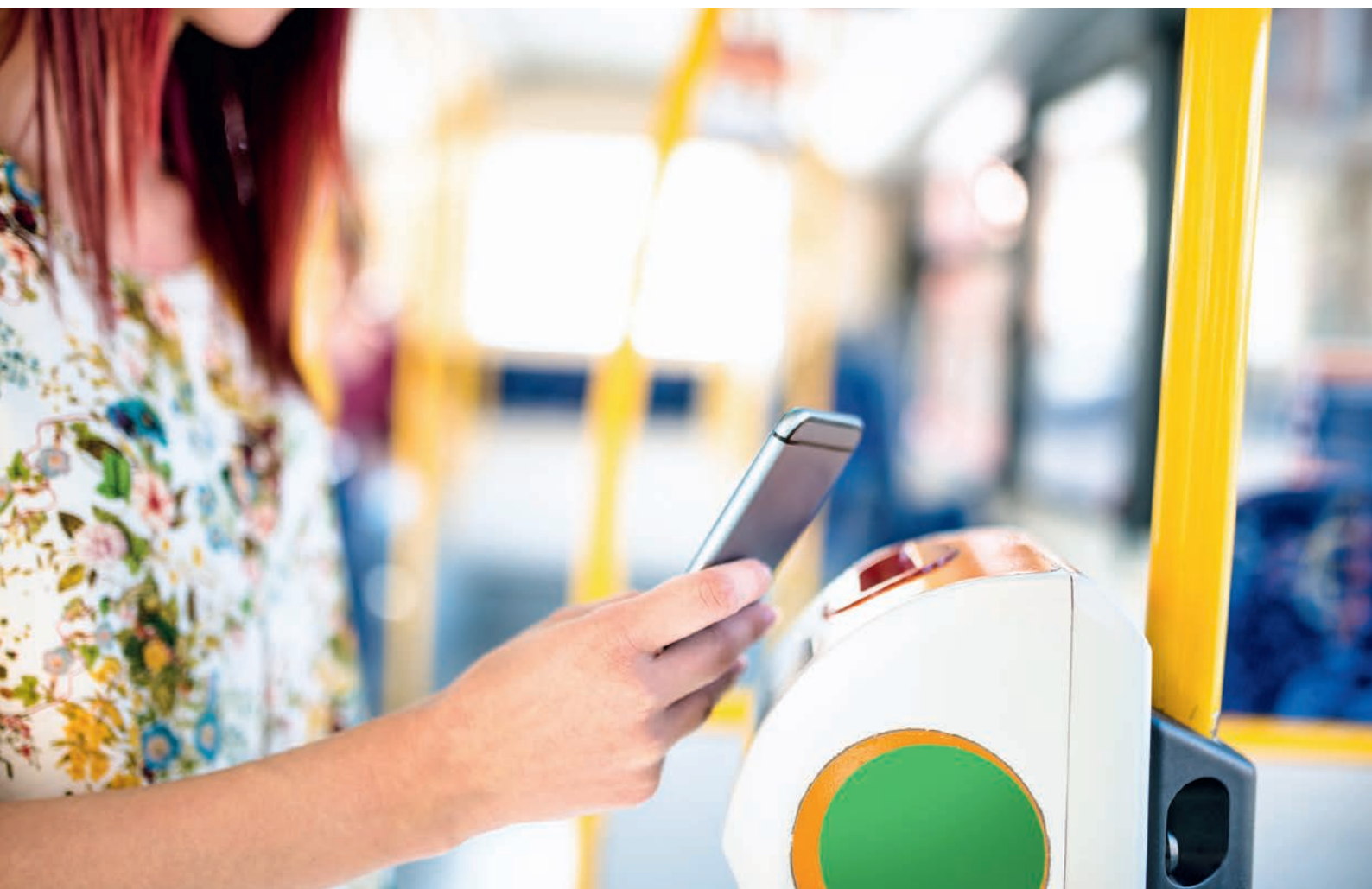
Asian retailers have increased their economic profit by c. 600% since 2010



Source: Credit Suisse HOLT, Credit Suisse Research

survey respondents use Alipay much more than other means of payment.

So overall, we find that the outlook for e-commerce remains very compelling, especially in the case of emerging markets. At the same time, we also find that GEM-listed online players appear to be more successful in converting this growth into valuable cash flows.



Share prices track cash flows, not earnings

Finally, we review whether equity markets are properly rewarding successful online retailers. To this end, we compare average share price performance for the groups of listed online retailers with their development in “Economic Profit”.

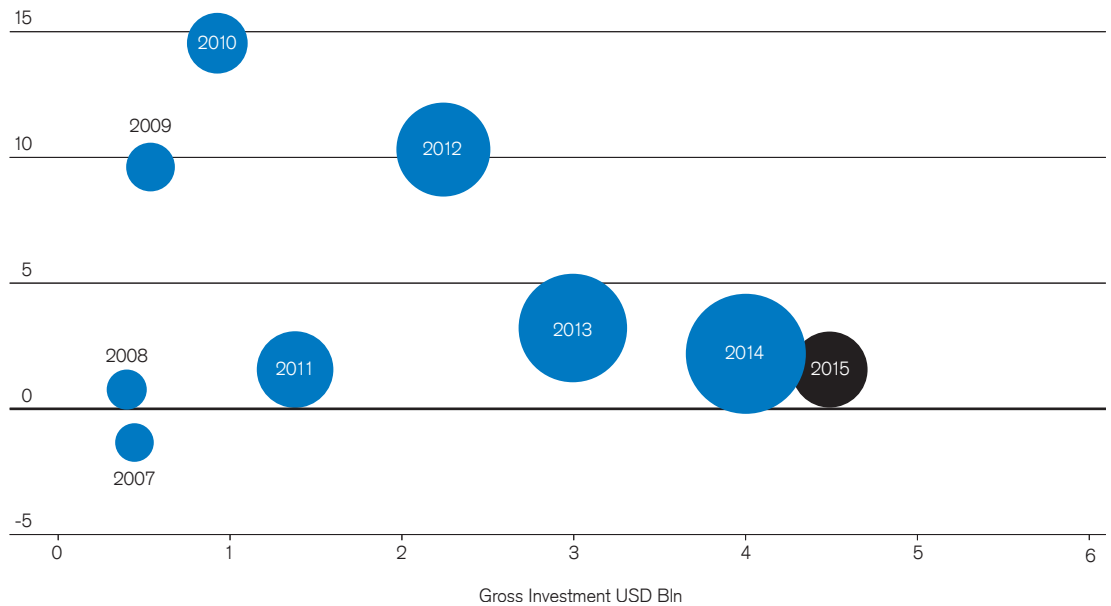
The chart below shows the correlation between these two parameters in case of the Asian-listed online space. The relationship appears very strong,

given an R-squared of more than 90%. In our view, the market appreciates the ability of Asian operators to convert growth into cash. Given this strong relationship and the “evidence” supporting a strong growth outlook for e-commerce overall, we are positive on the outlook for listed e-commerce companies in emerging markets.

Figure 21

European online retailers: Falling CFROI spread and marginal asset growth

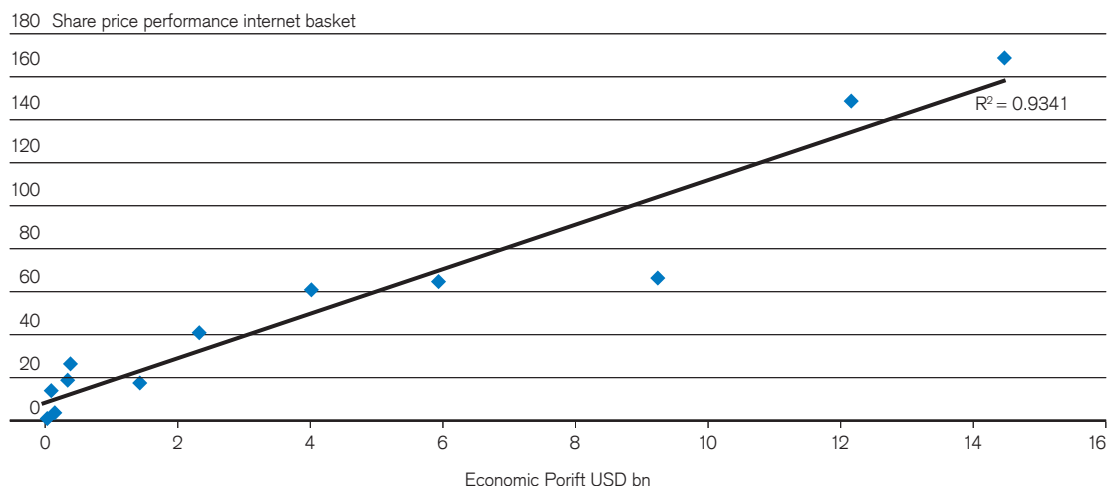
20 CFROI-DR spread European internet retailers have yet to show an ability to convert the increasing assetbase into higher profitability



Source: Credit Suisse HOLT, Credit Suisse Research

Figure 22

Relationship between share price performance and economic profit generation for online-listed retailers in Asia (annual data from 2002–2015)



Source: Credit Suisse HOLT, Credit Suisse Research

Country focus

The role of China's young adults

Dick Wei, Kevin Yin, Sophie Chiu, Tim Sun

The Chinese e-commerce market is the largest in the world. Our local Chinese analysts expect consumer demand growth in China to remain strong, driven largely by demand from 20–30-year-olds. Their share of total consumption should rise to 35% by 2020, from 15% in 2014 on our analysts' estimates. Online-exposed end markets (shopping, banking and travel) look set to be the key beneficiaries.

China has been one of the clear success stories as far as e-commerce is concerned. Although online retail already represents more of total retail than in any other country globally, we see multiple reasons why China's online consumer spending looks set to continue to increase.

In particular we believe that the current generation of 20–30-year olds in China looks set to drive consumption forward during the next 5–10 years. They are well educated, have sustainable earnings power, and strong spending intentions. As such, we expect this age group to contribute 35% to China's total consumption in 2020, up from 15% in 2014.

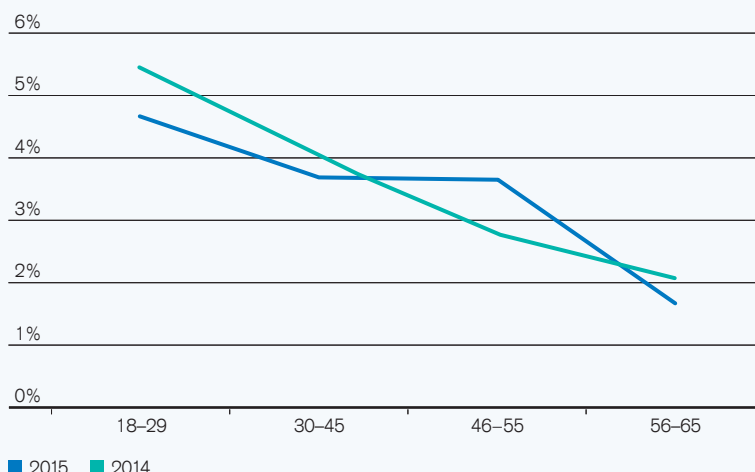
Compared with other age groups in China, the 20–30-year-old generation stands out as (1) well-educated. More than 50% of them have at least a college degree, ensuring sustainability of earnings power; (2) geared to consumer spending, with a focus on products and services that tend to support a more comfortable lifestyle, and (3) a relatively stable financial outlook. As a significant proportion have parents that a) own their own homes, b) have a relatively high income, and c) enjoy government welfare benefits, this leaves the younger population under less savings pressure in relation to new home purchases and therefore with more discretionary income.

Our demographic analysis suggests that this age group accounts for 16% of China's total population in 2015. In the next 5–10 years, they will become the core of China's middle class, contributing to 35% of China's total consumption in 2020, up from 15% in 2014, according to AC Nielsen estimates.

Our Emerging Consumer Survey supports these optimistic forecasts. For example, our 2016 survey showed that young consumers in China (aged <30) expect household income growth of 4.7% during the next 12 months – more than any other age group. They are also more optimistic than the other age groups, as 36% of respondents expect better financial conditions over next six months. This compares to less than 25% for people aged 46 and older.

Figure 23

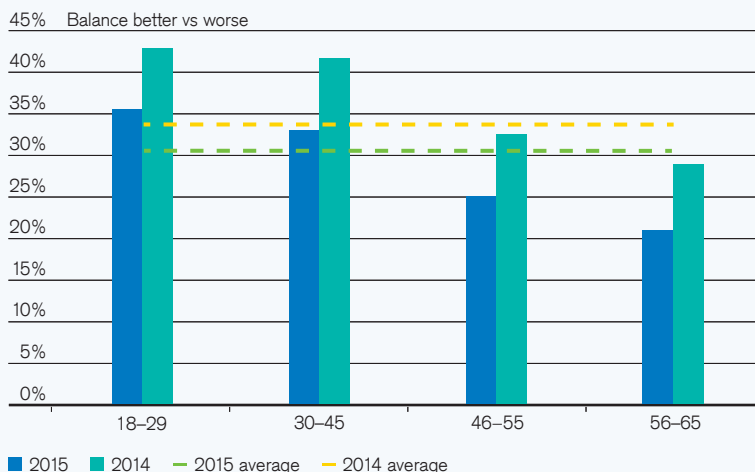
Nominal growth in household income



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 24

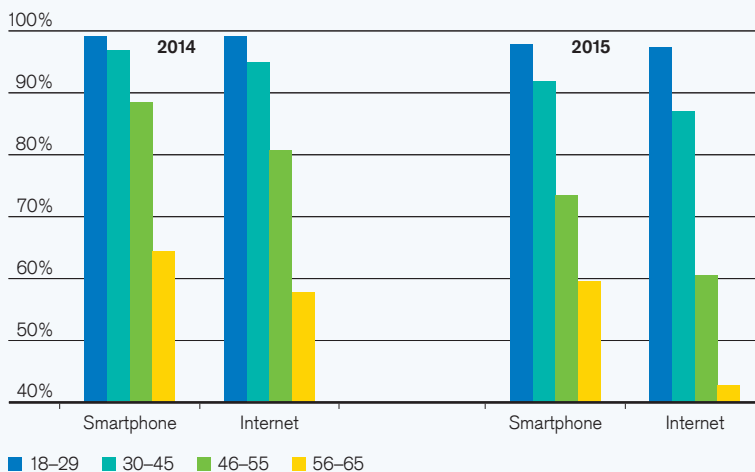
State of personal finances over next six months



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 25

Penetration rate China – Smartphone and Internet



Source: EM Consumer Survey 2016, Credit Suisse research



The 2016 relative readings are consistent with last year's survey. The continued strong confidence in future income makes young adults the major driver of China's consumption going forward, in our view.

Online shopping continues strong development

The high penetration of smartphones and rapid development of mobile Internet allow China's consumers to use online shopping, especially mobile shopping. This trend is most obvious for young adults.

Among different age groups, young Chinese consumers (aged <30) have the highest penetration rate of smartphones (99%) and Internet access (99%). Data from 360 Internet Security Centre's survey showed that about 60% of the generation born in the 1990s (15–25-years old) spend more than three hours per day on the Internet via smartphones, while about 50% of them check their mobile phone every 15 minutes.

E-commerce business is growing rapidly in China, mainly driven by young consumers, and we expect this strong development to continue, with 20%–26% YoY growth in 2016–2018.

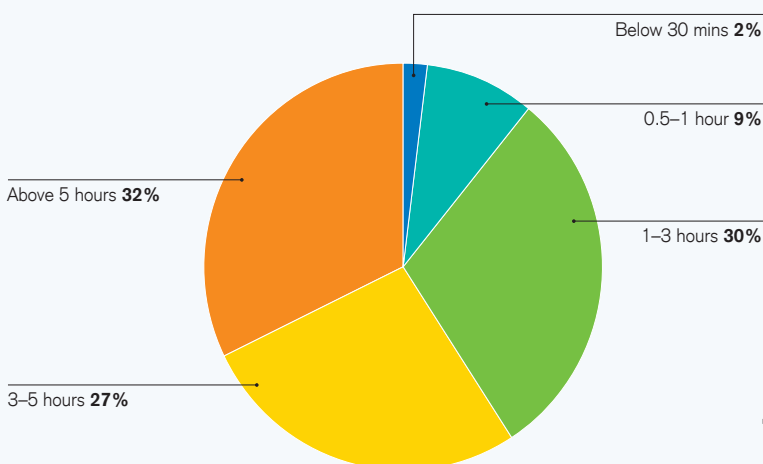
The 1985–1995-born generation (20–30 years old) accounted for 50% of the total normal online shopper population (average online shopping 2.3 times/month) and 51.9% of the total heavy online shopping population (average 12 times/month), according to the China Internet Network Information Center (CNNIC). Excluding those who never do any online shopping, the average Chinese consumer allocated 14% of their total shopping budget to online shopping in 2014, and 76% of them spent 20% of their budget on online shopping. Young consumers are the major driver of online sales growth in China. Online sales increased 49.7%/48.7% in 2015/H1 2015, accounting for 10.6%/11.4% of China's total retail sales, and the rapidly growing momentum is likely to persist in the near future.

In our survey this year, 67% of the total respondents have done shopping online in last six months, with young adults (aged <30) showing the highest ratio of 80%. People are also intensively using social networks, online gaming, online banking and instant messaging services, while the penetration rate of online travelling services increased to 23% from 20% last year. As to internet purchases in the next six months, on average 32.2% of respondents expect to spend more. Among the different age groups, young consumers stand out with a level of 37%, higher than the 35%/21%/23% of the other three age groups.

We expect online shopping to continue its strong development in China over the next three years, on the back of increasing penetration of smartphone/Internet, the strong spending desire of young adults as the major consumers, and higher online shopping budgets. We estimate that online sales will

Figure 26

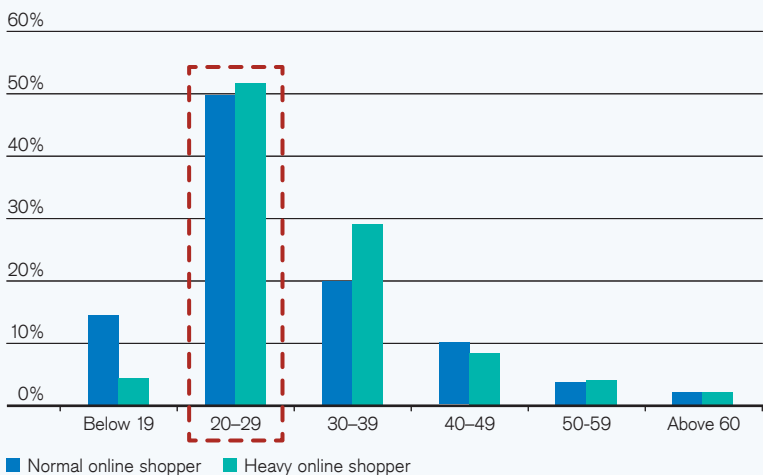
Time spent on Internet via smartphones for those born in the 1990s



Source: 360 Internet Security Centre

Figure 27

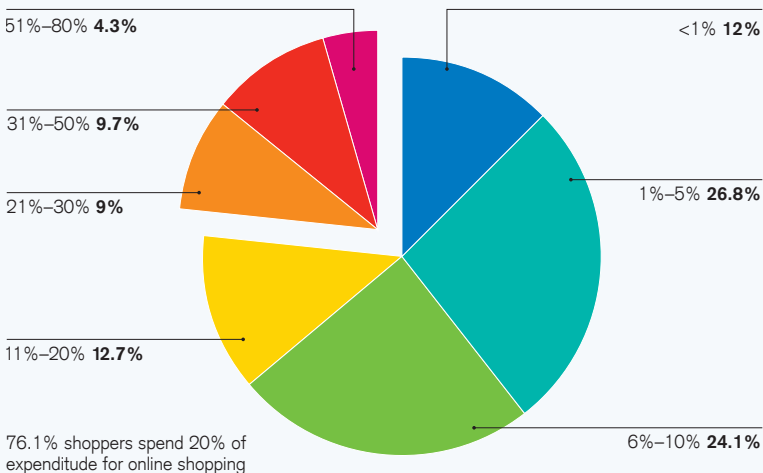
Online shoppers, breakdown by age



Source: CNNIC

Figure 28

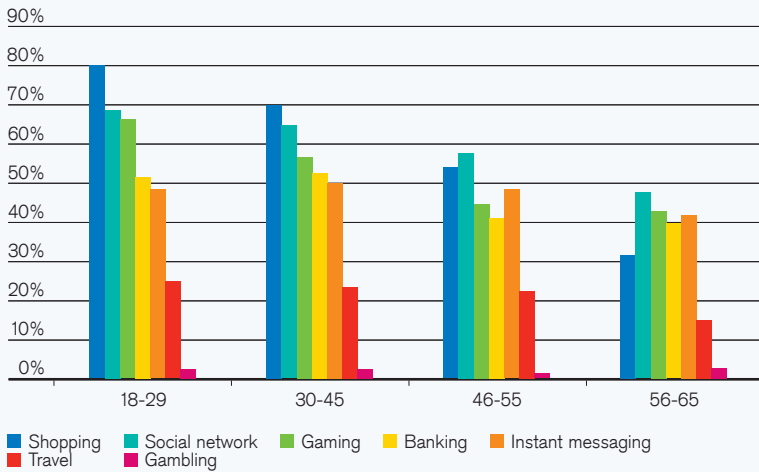
Online as % of total shopping budget (2014)



Source: CNNIC

Figure 29

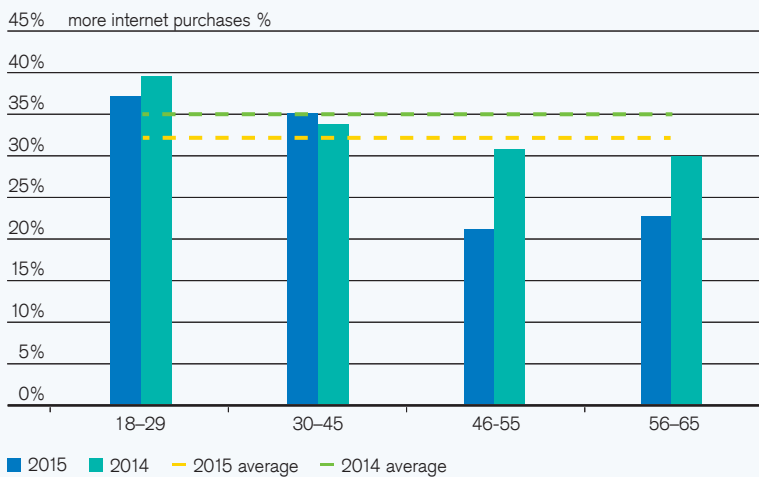
Online service penetration rate



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 30

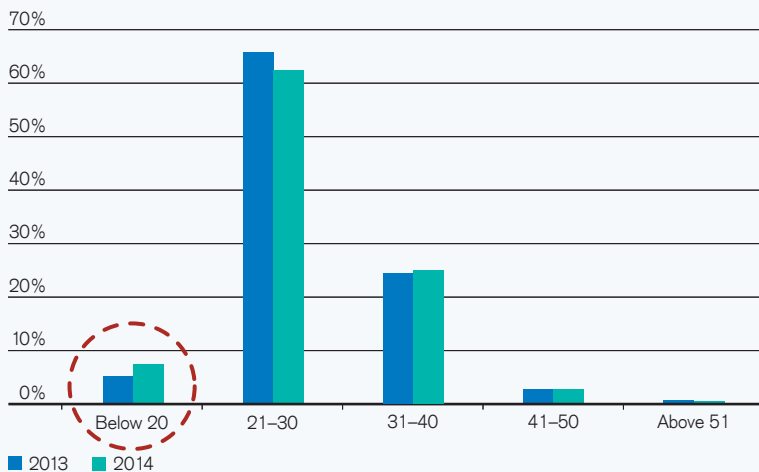
Internet purchase intentions – more vs. less



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 31

Outbound tourists, breakdown by age



Source: Qy.com



grow 20%–26% YoY in 2016–2018, accounting for 16% of China's total retail sales in 2017 (up from 10% in 2014).

New economy to enjoy faster growth

With the backdrop of China's structural change from an investment-driven to a consumption-driven economy, we expect the “new economy” – new lifestyles, new technology and new services – to enjoy faster growth.

Young Chinese consumers habitually gravitate towards a comfortable lifestyle in our view, which leads them to spend more on travel and entertainment. Above 60% of outbound tourists were aged 21–30 in 2014. Young tourists prefer independent travel, spend more on shopping, and over 90% of them would share experiences through social media. Also, young adults accounted for 50% of movie audiences, which is the major contributor for the Chinese box office boom of the past five years (40% CAGR over 2009–14).

Movies, music and “zhai” (staying at home) are the top three forms of entertainment for the younger generations, according to the Entgroup



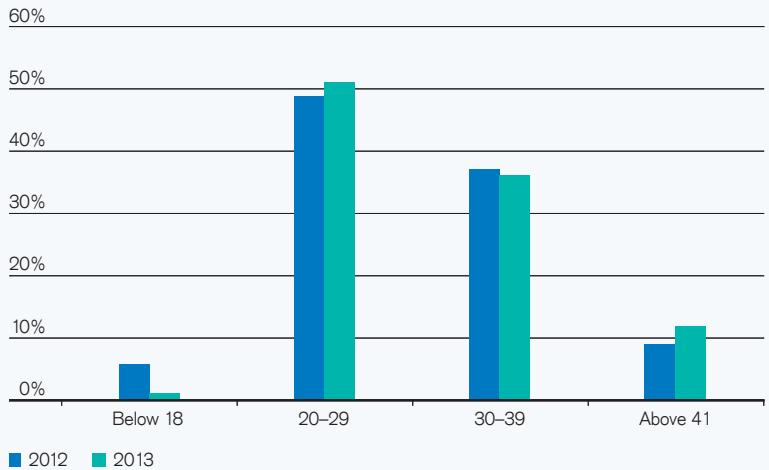
study. In our EM Consumer survey, we also found that they are spending more on lifestyle than the other age groups. Young consumers (aged <30) are spending 11% of their income on travelling, 4.3% on music/online films, 4.2% on clothing and 3.5% on entertainment, all significantly higher than other age groups.

Education is another growing area of consumer spending. In our survey, 20% of total respondents have participated in online education, and 12.1% are planning to spend more on education courses in the next 12 months. Among all age groups, young consumers (aged <29) showed the highest online education participation rate (28%) and the strongest desire to spend more on this (20% of them plan to spend more).

We believe that the new lifestyle (tourism, entertainment, education, online transactions, mobile Internet and cyber life) is set to grow faster than overall economy, mainly driven by the consumption upgrade among Chinese consumers, particularly younger ones.

Figure 32

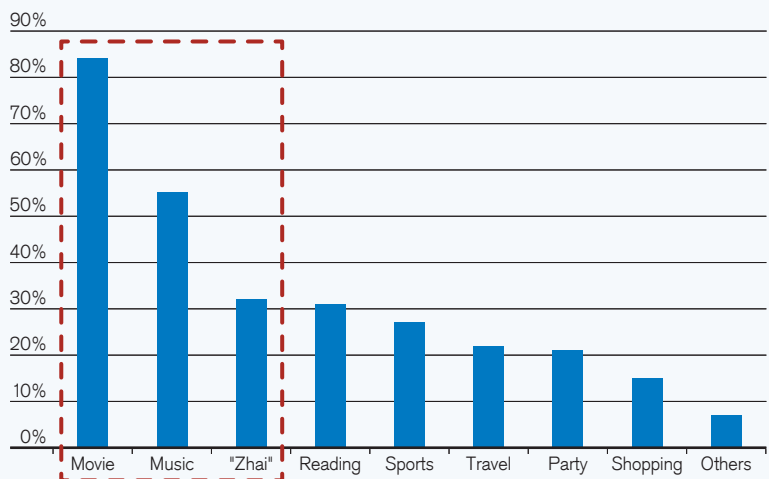
China's movie audience, breakdown by age



Source: Entgroup study

Figure 33

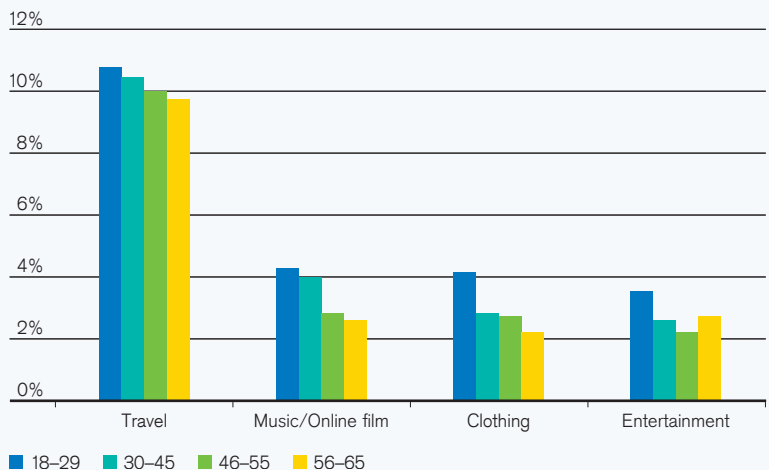
Young generation entertainment ranking



Source: Entgroup study

Figure 34

Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

The EM travel guide

The long-term outlook for travel demand across emerging markets remains positive, although we do note some pockets of weakness in our 2016 survey. Areas of investment that appear unaffected by cyclical conditions include domestic travel, and those companies that have exposure to the online travel market. We believe the strongest growth in the domestic travel theme will be seen in emerging market hotels (notably economy/budget operators), airlines, airports and duty free retailing. The e-commerce theme runs as an overlay to the desire to travel by emerging market consumers.

Tim Ramskill

Our confidence in long-term structural growth is in no way diminished: It is based upon (1) the substantial gap to developed market travel volumes and (2) the ongoing shift towards online travel. Data for a range of more developed countries do indeed support our view that the propensity to travel for emerging market consumers should increase if their average income levels keep increasing.

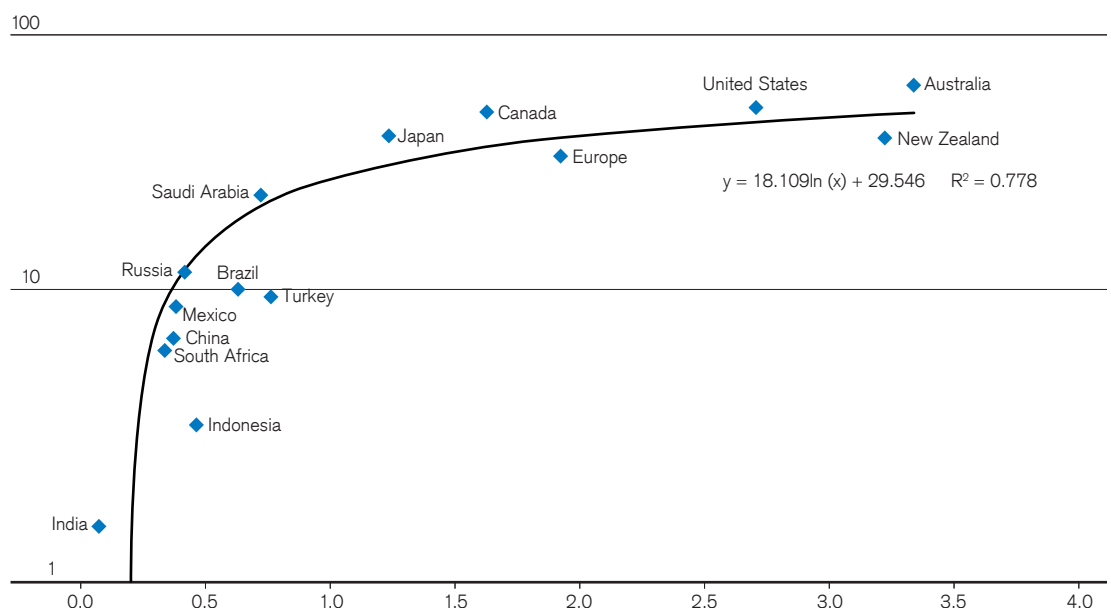
As shown in Figure 2, the growth in domestic airline seat capacity in emerging countries has been running at high single digits to low double digits, with growth in domestic seats across the nine countries we have surveyed rising at a 10% CAGR since 2005.

We consider internal flights to be a more representative measure of true emerging consumer trends, particularly given that the majority of holi-

Figure 1

Travel demand per capita rises with income

GNI per capita in USD 1'000 vs. domestic airline seats per person per year



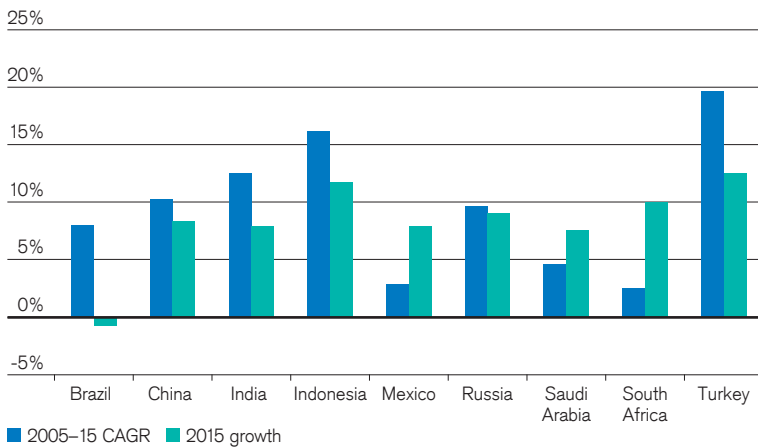
Source: World Bank, Diiio Mi data, Credit Suisse Research



Figure 2

Tracking domestic airline seats a good proxy for EM consumer travel

Growth in domestic airline seats (%)

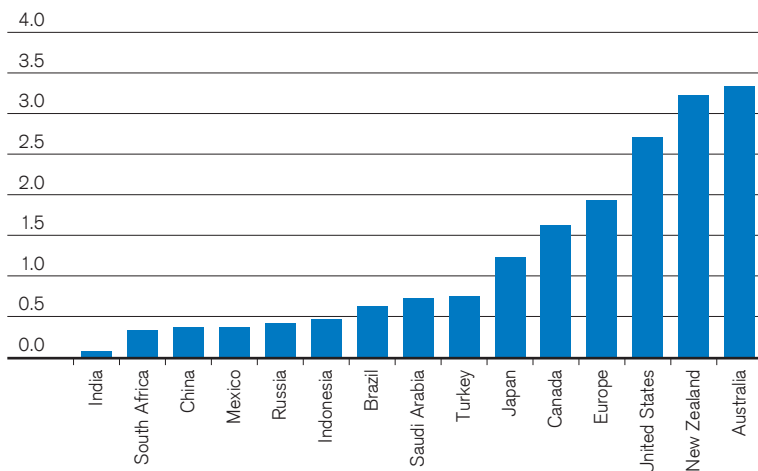


Source: Diio Mi

Figure 3

9x more domestic airline traffic in USA than countries in our survey

Average number of domestic seats available per person per year

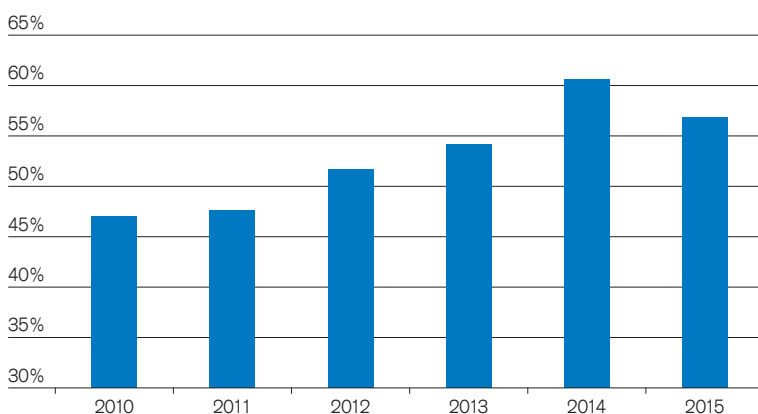


Source: Credit Suisse research

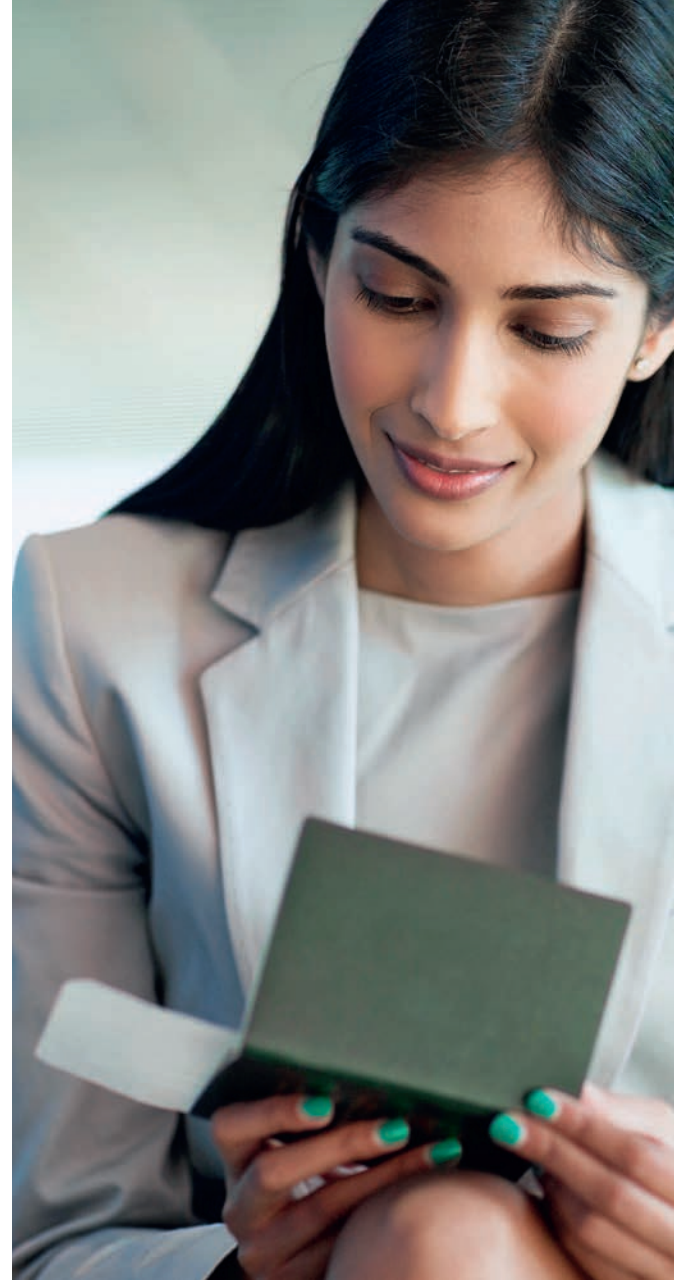
Figure 4

Decline in holidays in 2015 for first time since survey began

Have you been on holiday in the past 12 months?



Source: Credit Suisse Emerging Consumer Survey



daying activity is domestic or intra-regional, as discussed below. Overall domestic seat growth in 2015 remained healthy at 8% across the nine countries covered by the survey, but most saw growth rates slow down and indeed Brazil experienced a decline.

Despite multiple years of strong growth in seat capacity, the long-term potential remains substantial, in our view. In Figure 3, our analysis shows that there are 0.3 domestic seats flown per person in emerging markets (ranging from 0.08 in India to 0.76 in Turkey). In comparison, the US market is nine times greater, suggesting high single-digit growth rates could be maintained for many years to come.

Pause in a firmly established structural trend:

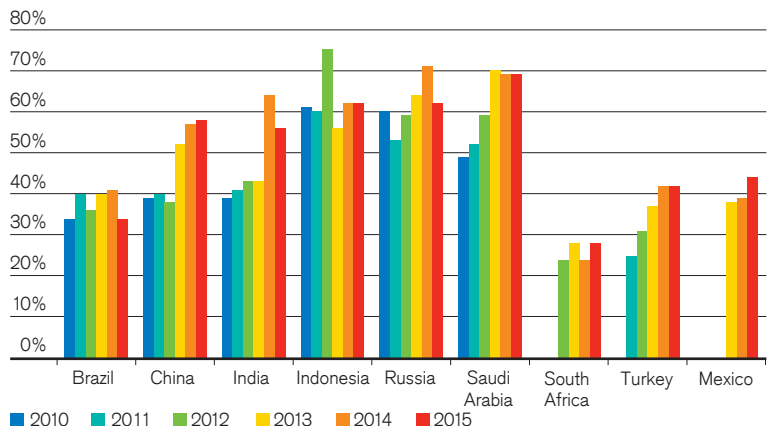
While we continue to believe that the long-term drivers remain firmly in place, our survey does highlight some pockets of shorter-term weakness in 2015, with softer macro trends and material movements in exchange rates the most likely explanations. This is consistent with our analysis of spending trends earlier. Across the countries surveyed



Figure 5

Overall weakness driven by Russia (-9pts YoY), India (-8pts) and Brazil (-7pts)

Have you been on holiday in the last 12 months?

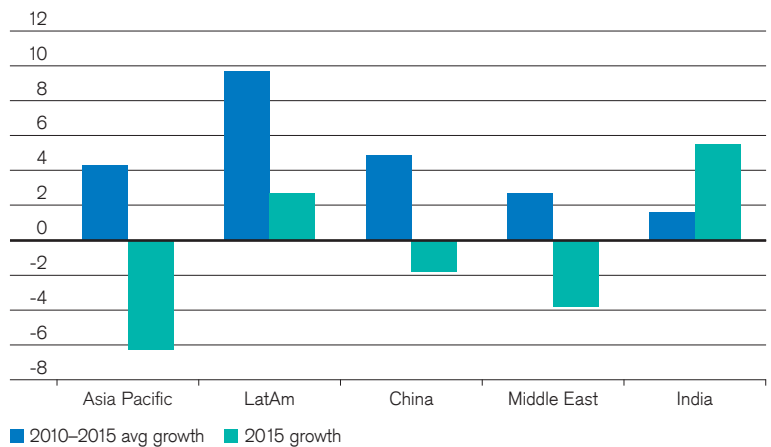


Source: Credit Suisse Emerging Consumer Survey

Figure 6

Majority of emerging markets experienced slower growth trends for hotels in 2015

RevPAR growth (%)

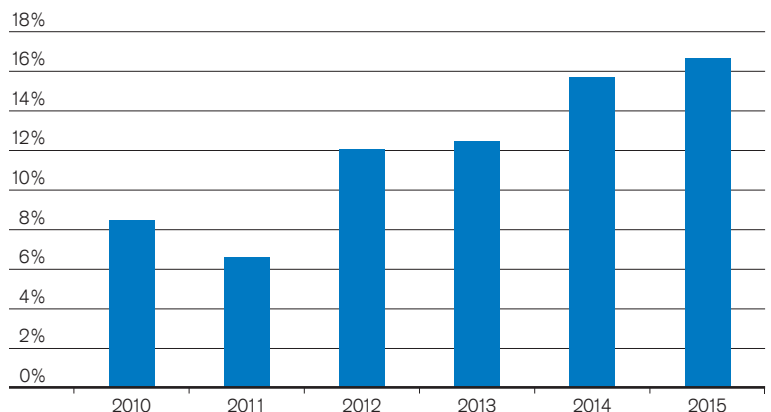


Source: STR

Figure 7

Structural shift towards online travel remains clear

Have you used Internet services in the past six months?



Source: Credit Suisse Emerging Consumer Survey

since 2010, the propensity to take holidays declined for the first time to 57% from 61%, although we would note that this is still 21% higher than when we first undertook the survey in 2010 (Figure 4). The countries experiencing the greatest year-on-year declines were Russia, India and Brazil, while Mexico and China continued to enjoy positive structural growth trends.

Survey findings mirror hotel trading trends

in 2015: In 2015, the hotel industry experienced the weakest trading dynamics since the financial crisis, with growth slowing (and in many cases revenues declining) in most markets as shown in Figure 6. The exception was India. While our survey suggested the propensity to take holidays in India fell during 2015, it is still the country that experienced the biggest uptake in travel activity over the 2013-15 period.

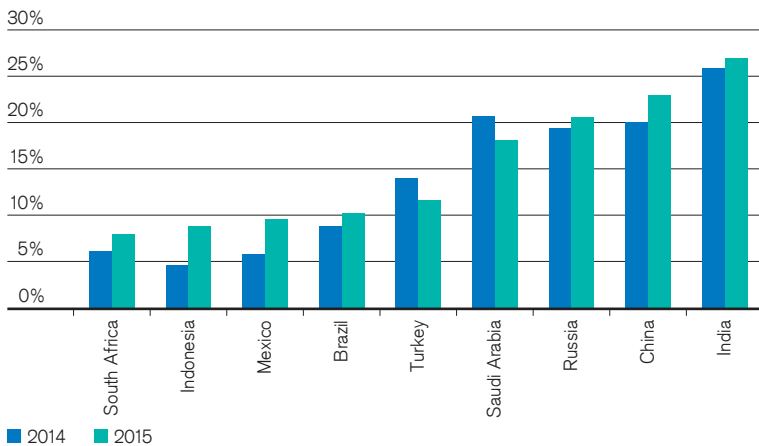
Link between technology and travel is deepening:

As discussed in the e-commerce section of this report, the rise of smartphone penetration continues to facilitate broader e-commerce,

Figure 8

India and China with highest adoption rates for online travel services

Have you used Internet services in the past six months?

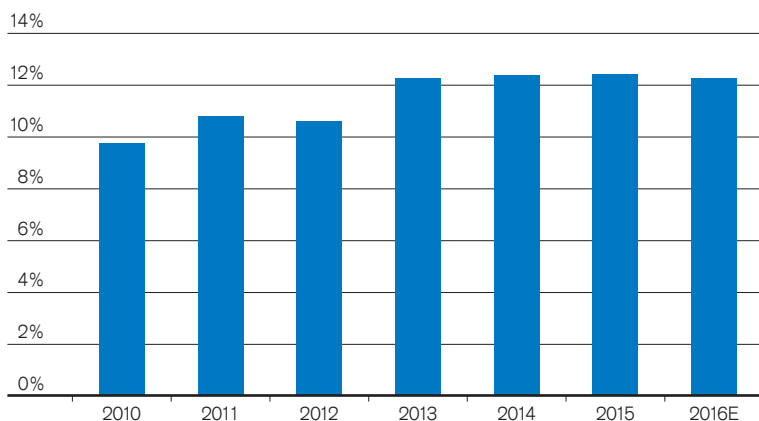


Source: Credit Suisse Emerging Consumer Survey

Figure 9

Proportion of international holidays stable at around 12% since 2013

Where did you/do you plan to go on your last/next holiday? % respondents stating international destination

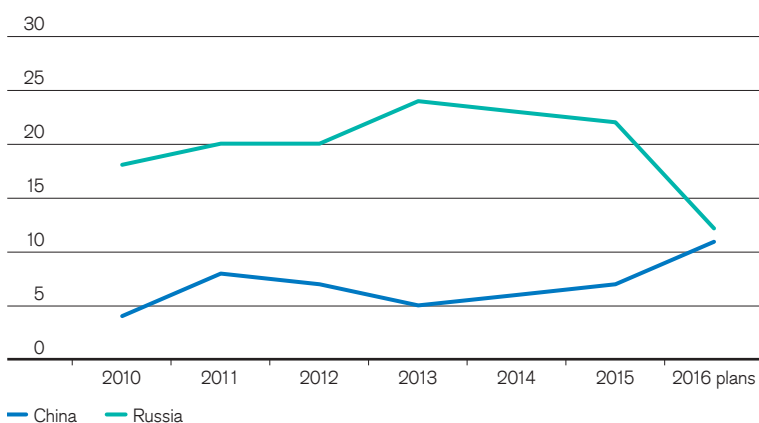


Source: Credit Suisse Emerging Consumer Survey

Figure 10

Significantly divergent trends in international travel plans for Chinese and Russian consumers

Where did you /do you plan to go on your last/next holiday? % respondents stating international destination



Source: Company data

with the travel industry a specific beneficiary of that. This is reflected in our survey, with 17% of respondents utilizing Internet-based travel services during the previous six months compared to 13% in 2013. We acknowledge that the pace of growth has steadied, but this reflects declining trends in Turkey and Saudi Arabia, while notably the two most populous countries – India and China – lead the way with online travel adoption rates of 27% and 23% respectively. The shift has important implications for the entire travel industry value chain. As third-party distributors win a disproportionate share of online bookings, there are negative cost implications for the profitability of travel providers such as hotels.

Survey continues to emphasize importance of domestic travel:

Our survey respondents are asked to provide details of where they visited on their last holiday. While many developed market listed companies highlight the long-term potential of growing international travel by EM consumers, our survey continues to demonstrate the significance of domestic EM exposure. As shown in Figure 9, the proportion of respondents taking international holidays has reached something of a plateau, at around 12%. The survey has remained at a similar level in each of the last three years, and is matched by respondents' expectations for travel in the next 12 months. We believe weakness in emerging-market currencies will have had a large part to play in 2015. That said, when looking at the trends by country, we see substantial divergence. The countries with the most contrasting trends are Russia and China, especially if respondents' future plans prove to be an accurate guide (Figure 10).

Conclusion:

2015 proved to be a challenging year, as emerging consumer behavior across the travel sector was negatively impacted by exchange rate and macro weakness. This led to a decline in the propensity to take a holiday for the first time since our survey began, which has been mirrored by weakness in hotel industry trading across most emerging markets. For now, we continue to see domestic rather than international travel as the dominant segment, with 88% of our respondents holidaying in their home country. This view is further supported by our analysis of domestic airline traffic per head of population, which implies that multiple years of strong compound growth can still be expected. When coupled with the increasing utilization of online booking channels, we see the long-term growth prospects of the travel industry as undiminished, despite the more mixed findings from this year's survey. We believe direct exposure to the domestic travel theme is best secured via investments in emerging market hotels (notably economy/budget operators), airlines, airports, duty free retailing and through the technology consumers are using to book travel.

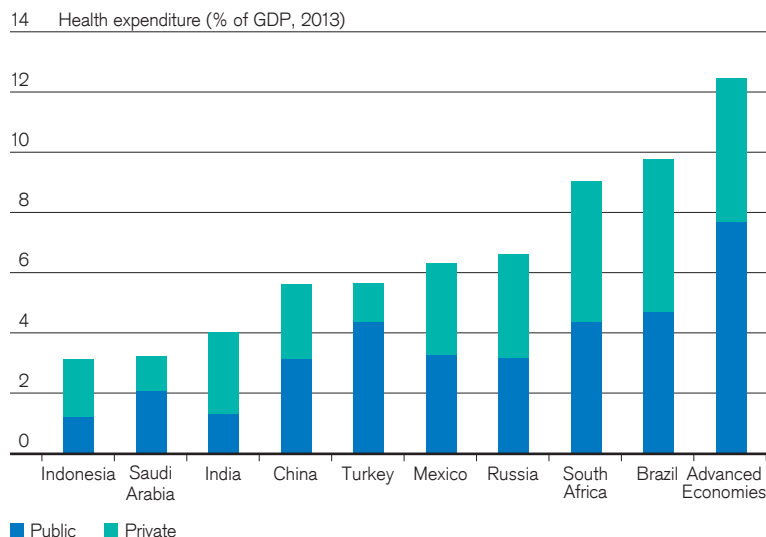


“Pharmerging” markets

Despite the immediate economic pressures, we believe that there is still a strong structural growth story for healthcare in emerging markets, as increased government spending amid aging populations leads to the development of greater healthcare infrastructure. Indeed, our survey highlights an increasing access to healthcare among our respondents, but via growing state provision. Taken alongside the consumer’s enhanced perception and government support of local brands and generics in countries such as China, we think local suppliers look better placed to capture a growing share of this market opportunity.

European Pharma Team

Figure 1
Healthcare spending



Source: World Bank, Credit Suisse research.

Growing access to state-funded healthcare

Healthcare is an area where there is growing government involvement, as demand from citizens for effective healthcare increases. We see increasing state funding of healthcare as a major driver of overall demand for pharmaceutical products, and a key consideration for multi-national companies (MNCs). Healthcare spending typically represents a small percentage of GDP in emerging economies, something that an aging population and improving GDP per capita should push upward.

Our consumer survey continues to show growth in reported access to state-funded healthcare, from 48% in 2010 to 62% in 2015, and correspondingly over the past few years, we have seen a slight decrease in the proportion of disposable income spent on healthcare, from 3.9% in 2013 to 3.1% in 2015.

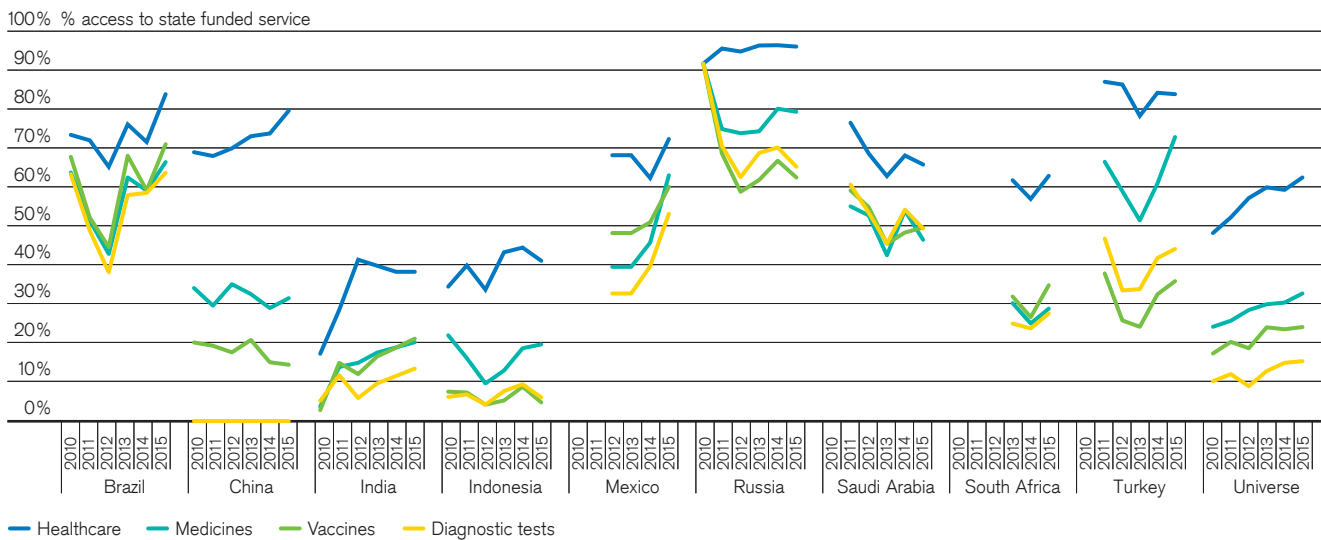
Our survey has also reported an expansion in access to state-funded medicines, from 24% in





Figure 2

Reported access to state-funded healthcare, medicines, vaccines and diagnostic tests



Source: Credit Suisse Emerging Market Consumer Survey

2010 to 33% in 2015. However, we note that the proportion of people reporting out-of-pocket spending on medicines has increased from 54% in 2012 to 61% in 2015. This suggests to us that the coverage provided by governments in emerging markets may be seen as shallow, or that people are willing to pay out-of-pocket to access the brands and healthcare of their choice if they are affordable.

We would expect higher government spending to be positive for MNCs, as it relates to increased infrastructure spending, tempered by the introduction of measures by governments in some regions, including China and Russia, that potentially favor domestically manufactured products over imports.

Out-of-pocket spending on medicines growing but poorer outlook for 2016?

Average out-of-pocket spending on medicines has grown 10%, from USD 90 PPP in 2012 to USD 100 PPP in 2015 for our universe (for households that regularly buy medicines), mainly driven by China. Admittedly, spending on medicines did reverse slightly in 2015 for around half of the universe, including pullbacks in both China and India, despite the positive longer-term trend. We note that the proportion of households who regularly purchase medicines has been stable around 28% according to our survey, in the face of higher reported access to state-funded medicines.

This year, we have looked at the predictive power of historical surveys to suggest the direction of growth in the coming year. We see a modest positive correlation between the net change in respondents' expectations to spend more or less on medicines in the coming year, and their reported change in spending in the following survey (Figure

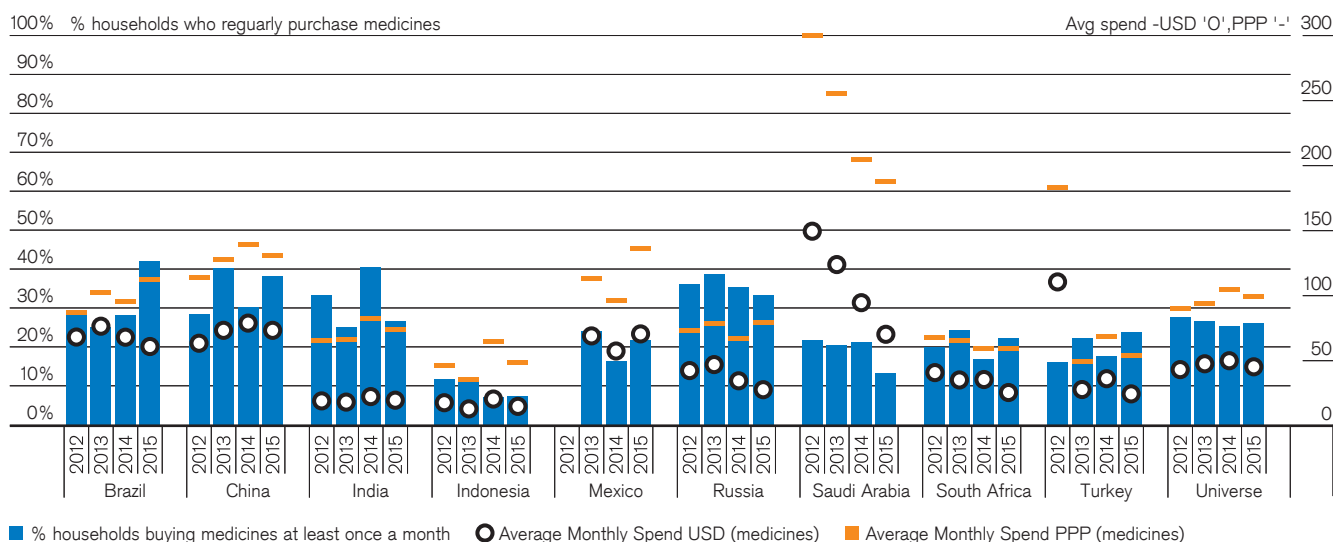
4). We present this for 2015 in Figure 5. With the net change in expectations negative for 2016 compared with 2015, we have concerns about 2016 growth in local currency terms. Of note is the fact that a significant number of people in Brazil expect to pay less in 2016 (net expectations are -17 p.p.). A higher proportion of Brazilians have consistently expected to spend less in the following year on medicines than more since 2012. This is potentially counterintuitive given that medicine costs in Brazil are raised every year by the government automatically. Therefore, our survey suggests that people either expect to get more coverage for the cost of their medicines from the state or that demand will be suppressed as people become more conservative on their spending.

Trust in local brands remains broadly stable, concerns abating in China

We believe an important theme for MNC products in emerging markets is the perception of their premium quality or efficacy over local brands. It feeds through into the pricing power of the global pharma companies. Therefore, the correlation we see between a lack of confidence in local brands and a willingness to pay for international brands continues to be a key feature of our survey (Figure 7). Both trust in local brands and willingness to pay for international brands has been broadly stable for the universe over the past three years, at around 60%. In 2015, doubts over the safety or efficacy of local brands and willingness to pay more for international brands fell in Brazil (-2 p.p.), Russia (-3 p.p.) and China (-5 p.p.), which due to their population size largely offset the more substantive rise in other markets such as India (10 p.p.), Indonesia (13 p.p.), and Mexico (11 p.p.). Indonesia remains one

Figure 3

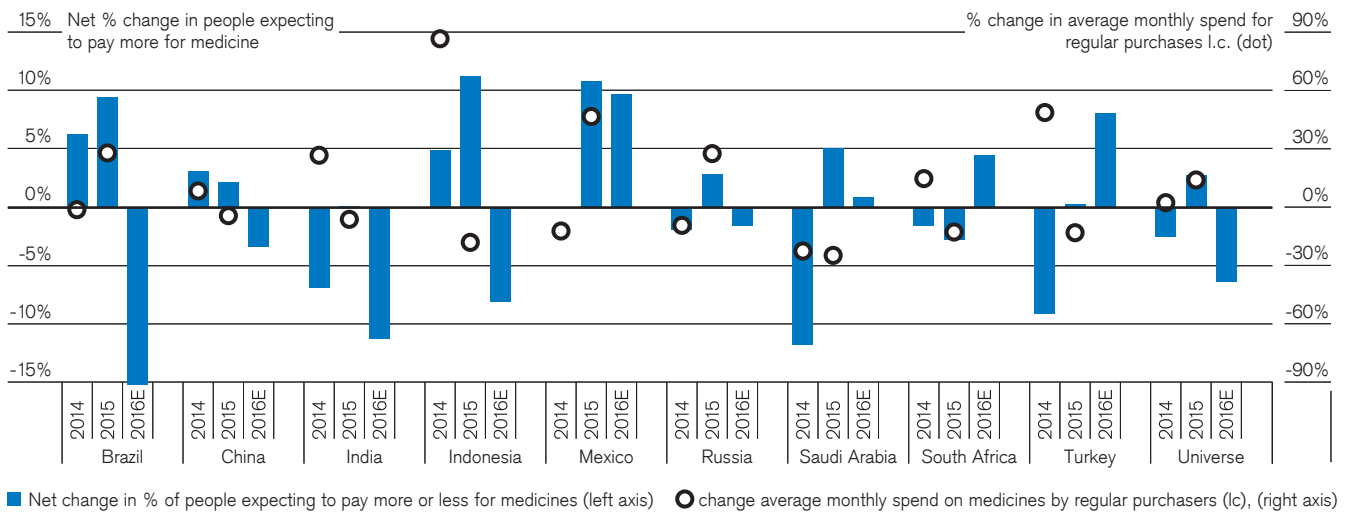
USD spending and households who regularly purchase medicines (at least once a month)



Source: Credit Suisse Emerging Market Consumer Survey

Figure 4

Change in expectation to pay less or more, vs. % reported change in spend on medicines (l.c.)



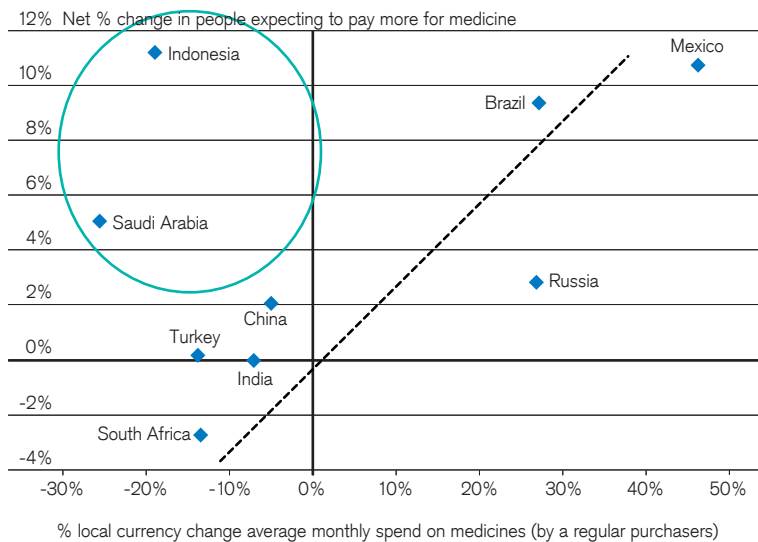
Source: Credit Suisse Emerging Market Consumer Survey

of the markets with the highest trust in local brands at 73%, second to Brazil at 81%, despite the significant 13 p.p. fall in trust in local brands from 2014 to 2015.

Trust in local brands increased in China from 59% in 2014 to 64% in 2015, potentially reflective of statements by the central government pledging to strengthen safety controls for domestic medicines over the past year. There was a corresponding increase – the first recorded in this survey for China – in the proportion of responders that are not prepared to pay more for international brands (from 64% in 2014 to 70% in 2015). China is a key emerging market given its population size, and so this shift, although small, does not reflect positively on MNC prospects in China. This coincides with China's new procurement measures for medicines, whereby local companies can be at a significant advantage, although the impact remains to be seen.

Figure 5

Change in expectation to pay less or more in 2015 (data taken in 2015), vs. % reported change in spending on medicines (lhs)



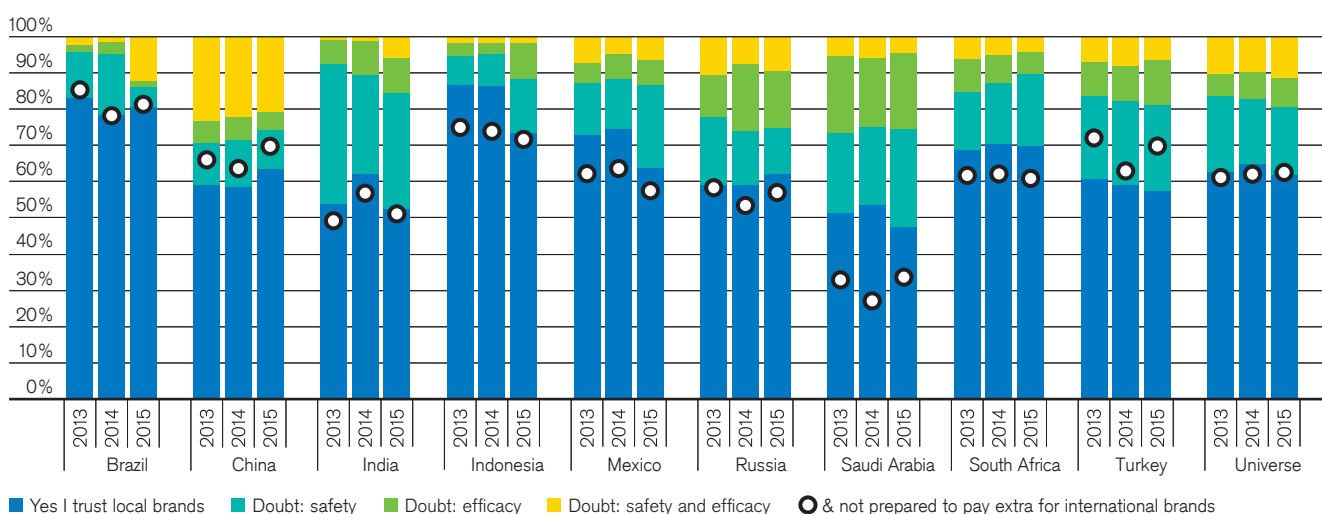
Source: Credit Suisse Emerging Market Consumer Survey

Solving the age/income conundrum

One of the key themes that our consumer survey flags is the greater concentration of wealth and income in the hands of the young in a number of the major emerging economies, most notably China, when compared to the inverse picture in developed markets such as the USA (Figure 8). In a healthcare context, this poses a unique issue as in developed countries, it is typical that older people spend more on healthcare, but thus purchasing power is aligned with their needs. A rising spend on healthcare with age is still apparent in our emerging market universe, but the extent of the increase in spending with age is far less pronounced (Figure 9), lacking the same income profile to sustain it.

Figure 6

Do you trust local brands excluding “Don’t know” (universe population adjusted)



Source: Credit Suisse Emerging Market Consumer Survey

This is a feature that we have highlighted in previous surveys together with the necessity of public healthcare provision to address this age/income mismatch. This is a potentially less profitable backdrop for global pharma and healthcare companies with a less permissive pricing backdrop in dealing with the public rather than the private sector. While the pattern still remains, we would note in Figure 10 that spending is beginning to show some delta to rising age versus previous surveys, if still from a low starting point and a world away from the USA. This will be something to monitor.

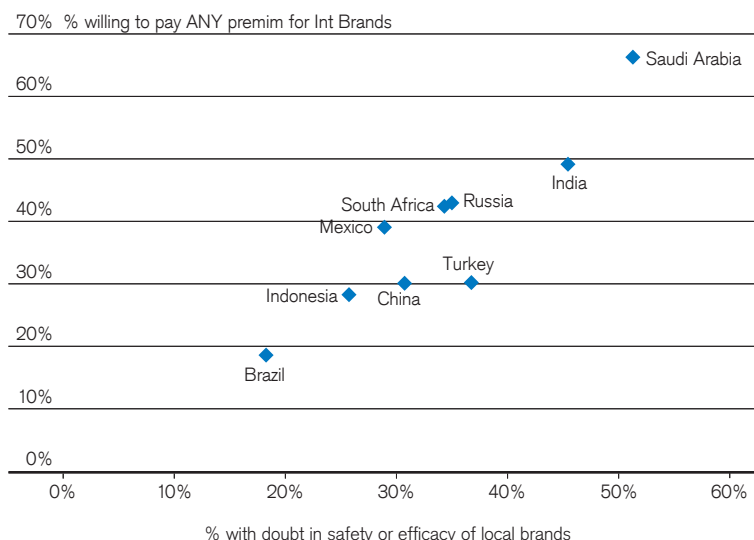
Industry outlook

IMS Institute, the leading healthcare audit company, continues to forecast global growth in pharmaceutical spending of 4%–7% over the 2016–20 time-frame, with 32% of growth coming from “Pharmerging” markets (Figure 11). However, as we noted last year, this reflects a decrease in IMS’s view of its potential revenue pool. In 2014, “Pharmerging” was forecast to reach USD 340 bn, or 27% of the global market in 2017. Now it is forecast to reach USD 360 bn, or 25% of the global market, but only by 2020. We also note that according to IMS forecasts, the contribution to global growth from “Pharmerging” markets is actually set to decrease from 38% between 2010 and 2015 to 32% between 2016 and 2020. Nevertheless, given the constant discussion in the pharmaceutical sector around access to the US market and its future growth prospects, the fact that emerging markets will continue to almost equally contribute to growth means that they are a key region for healthcare.

Greater exposure to GEM has allowed European major pharmaceuticals to benefit more from emerging markets related demand than their US peers.

Figure 7

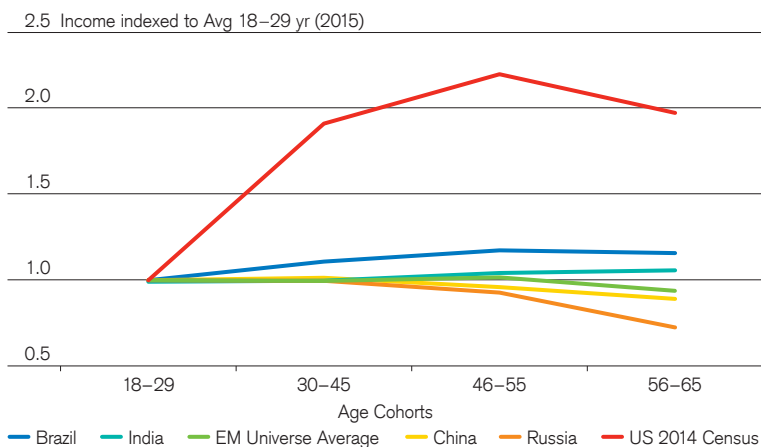
Confidence in local brands correlated with willingness to pay for international brands



Source: Credit Suisse emerging markets Consumer Survey

Figure 8

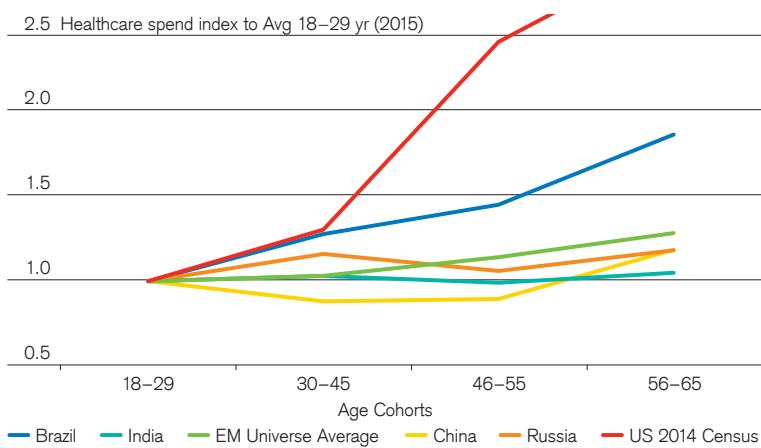
Income indexed to age 18–29 years



Source: Credit Suisse Emerging Market Consumer Survey, US Census 2014

Figure 9

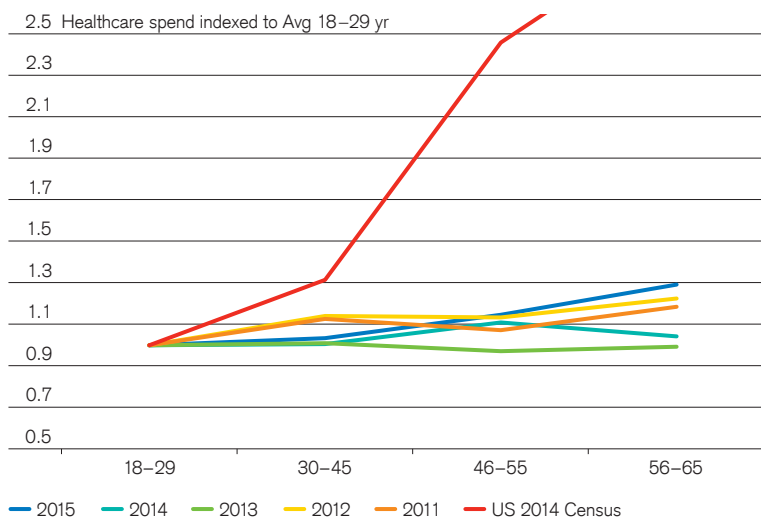
Healthcare spend indexed age 18–29 years



Source: Credit Suisse Emerging Market Consumer Survey, US Census 2014

Figure 10

Healthcare spend indexed to avg. 18–29 years 2011–15



Source: Credit Suisse Emerging Market Consumer Survey, US Census 2014. 2010 excludes Mexico, South Africa, Turkey. 2011 excludes Mexico and South Africa. 2012 excludes Mexico



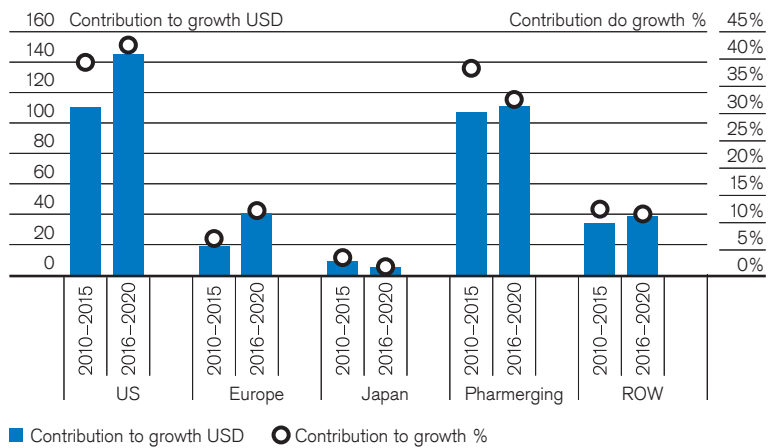
Total sales to emerging markets by European pharmaceuticals increased at an annual average rate of 8% between 2012–2015 to c. USD 45 bn. The share of emerging markets related sales for European pharma has as a result increased to 24.5% in 2015 from 23.5% in 2012. US major pharmaceuticals on the other hand recorded GEM-related sales growth of just 3% per year. The share of emerging markets related sales for US major pharma represented just 17% of sales in 2015.

According to IMS, higher utilization rates and positive price/mix effects will be the main contributors to growth. IMS expects 10% growth on average for the aggregate of China, India, Brazil and Indonesia, with population growth also important in India and Indonesia (Figure 12). However, it is highly probable, as IMS Health suggests, that the majority of this growth will be in the generic product segment, rather than in the new therapeutic segment which is key for international players.

We think that it is appropriate that IMS remains cautious on potential growth in emerging markets, considering current macro uncertainties. With the increase in government investment in healthcare, we expect healthcare infrastructure to improve, paving the way for greater access to medicines for patients. However, we continue to expect a loss in market share for international companies in favor of local suppliers, given the advantages often cre-

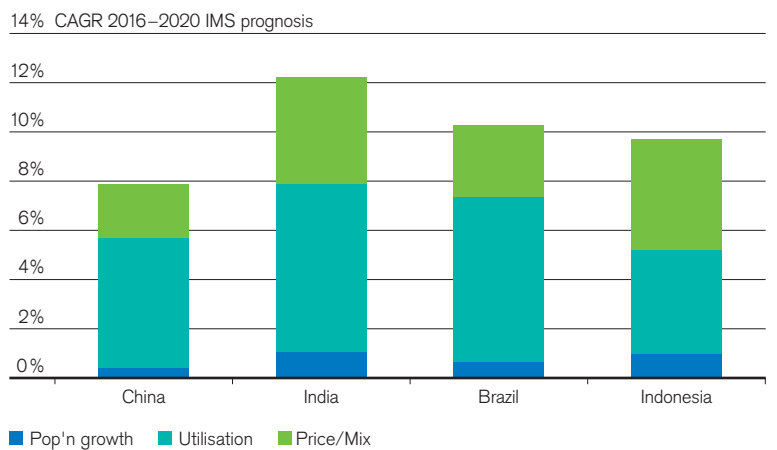


Figure 11
Regional contribution to USD growth



Source: IMS Health, Global Medicines Use in 2020

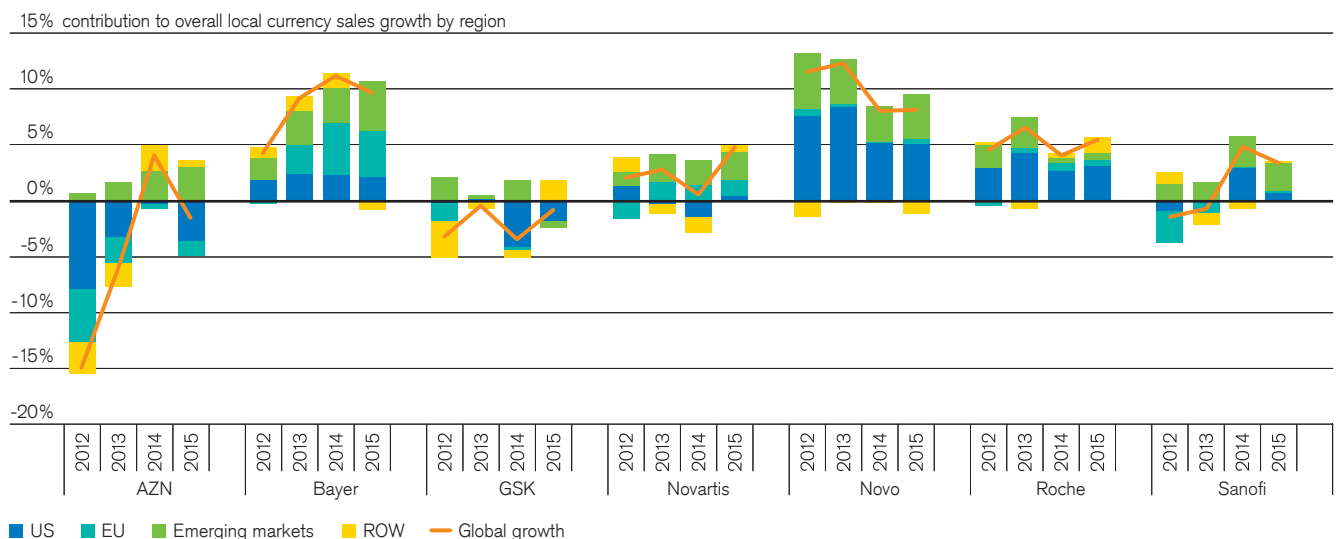
Figure 12
Drivers of growth in emerging markets



Source: IMS Health, Global Medicines Use in 2020

ated by government medicine tendering and regulation. We would stress that we believe that there is a structural case for the development of health-care and medicines in emerging markets, but key questions remain around the profitability and opportunities for Western companies.

Figure 13
Estimated regional contribution to sales growth



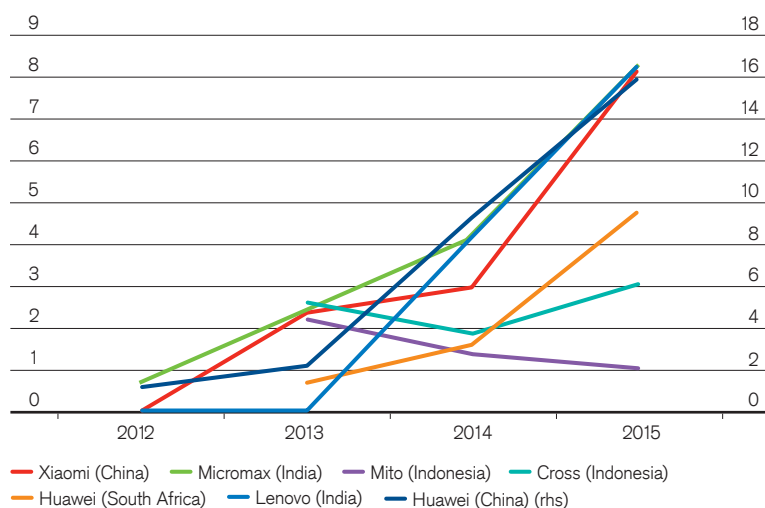
Source: Credit Suisse estimates

Brands and the emerging consumer in 2016

Our Emerging Consumer Survey provides a detailed drill down from the broad categories of consumer spending to the brands that lie below them and their relative momentum. In this section, we specifically review how brand sentiment is changing as it relates to smartphones, “Sharing Economy” services, fashion and the emerging “premiumization” in our top ranked country, India. We find domestic handset brands are playing a key role in kick-starting the e-commerce revolution through domestic rather than Western platforms. This is not to say that the appetite for Western brands more generally is on the wane. 2015 shows how firm the secular shift in tastes has become. For those who can afford premium brand purchases, purchasing preferences and aspirations for Western brands remain strong despite the challenging economic backdrop. At a lower income level, the trading-up by the upwardly-mobile Indian consumer reflects the same sense of aspiration. Only where economic pressures are at their most intense (e.g. South Africa) is this trend being reversed.

Julia Dawson, Arnab Mitra, Rohit Kadam

Figure 1
Domestic brand penetration (%) – handsets



Source: Emerging Consumer Survey 2016

Domestic smartphone brands taking market share

As we have shown elsewhere in this report the smartphone is the key agent for change in consumer behaviour. To that end we note that for the first time, we now see evidence that domestic smartphone brands are beginning to take meaningful market share.

In China lower price offerings of Huawei and Xiaomi for example account for 20–30% of purchasing intentions which is significant as their market share is only just below 30% in 2015. The interest in Huawei and Xiaomi is skewed to older, more price sensitive segments. Despite this success we believe that demand in later replacement cycles may still step towards more sophisticated international smart phone versions driven by the aspiration of owning premium products.



Ion
ORCHARD

ier

G

Cartier

ION ORCHARD

ION ORCHARD

ION ORCHARD

Figure 2

No. 1 brands in purchasing intentions

	Brazil	China	India	Indonesia	Mexico	Russia	Saudi Arabia	South Africa	Turkey
Smartphones									
2016	Samsung	Apple	Samsung	Samsung	Samsung	Samsung	Apple	Samsung	Samsung
2015	Samsung	Apple	Samsung	Samsung	Samsung	Samsung	Samsung	Nokia	Samsung
PCs									
2016	Samsung	Apple	Samsung	Samsung	Acer	Samsung	Apple	Samsung	Samsung/Apple
2015	Samsung	Apple	DELL	Samsung	Samsung	Samsung	Samsung	Nokia	Samsung

Source: Emerging Consumer Survey 2016

In India, we see evidence of the success of Micromax which has effectively doubled its share of purchasing intentions each year since 2012 and has overtaken Apple in our survey for the first time. Micromax, launched in 2008, is now the tenth largest handset manufacturer globally. The very strong growth in smartphone penetration in India is underlined by 32% of respondents in our 2016 survey having bought a handset in the past 12 months compared to just 20% a year ago. Penetration is now 20% overall and, again, we would attribute this growth to consumers buying low price handsets as an entry point into mobile communications and that these consumers will trade-up through replacement cycles.

In Indonesia, local brands Mito and Cross are having an impact with the launch of Smartphone versions and extending their positioning beyond just the low end consumer.

Despite the success of domestic handset brands in local markets, it remains to be seen if their success can be exported to other markets, not least in

the West where Huawei's marketing has been the most high profile of these emerging manufacturers. This will be a trend to watch.

Battle of the "Mega-Brands"

In line with the findings of our 2015 Emerging Consumer Survey, Samsung continues to be the leading international hardware brand in emerging markets, ranking first in thirteen out of eighteen tech purchasing segments (Figure 2). Samsung has defended its leading position in all but three segments. Importantly, we would note that Samsung has lost further ground in the key Chinese market where Apple has extended its comfortable 20 point lead in PC purchasing intentions in 2014 to 32 points in 2015 and its 5 point lead in Smartphones in 2014 to 25 points in 2015.

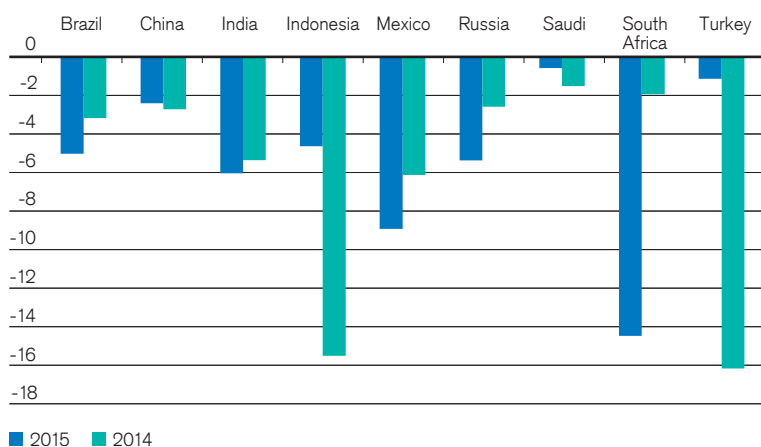
The demographics of the consumers of each brand suggest in our view that Apple should be one of the key beneficiaries longer term. Our database shows that the products from Apple's competitors are concentrated more among older generations. Apple's customer concentration, on the other hand, is among younger and higher income segments. The further expansion of the middle class across emerging markets longer term should therefore benefit Apple more than its peers unless they manage through significant R&D expense to innovate their product offerings. For a more detailed report on the profile of the Apple emerging market consumer, please see Credit Suisse's Equity Research report, **The Apple Consumer – Global and Similar** (March 2016).

So which brands are losing out as domestic manufacturers gain market share and as Samsung and Apple cement their stronghold among preferences? In smartphones, the simple answer is the companies that have been losing share for a number of years. Unsurprisingly Nokia has lost market share in all of our eight markets in both of the past two years. Moreover, we find that Microsoft's

Figure 3

Nokia – the demise of a brand

Change in market share



Source: Emerging Consumer Survey 2016

rebranding of Nokia handsets to Lumia is yet to have any impact in the markets surveyed. Sony has similarly continued to lose market share while BlackBerry is the third international and Western brand to be squeezed out. In PCs, the Western manufacturers have all but sunk from view in our survey with the likes of Lenovo filling the gap at the lower price points, as is increasingly the case in the West. A moot point is whether this pattern will be the shape of things to come in smartphones in the West.

“Sharing” brands and emerging markets

Interest in the sharing economy has increased exponentially during the past few years with the likes of Uber and AirBnB the poster children of this revolution in developed markets. However, the degree to which international “Sharing Brands” will also become successful across the emerging world remains a question in our view. Some of our previous research (e.g. the Emerging Consumer Survey 2015 and our Equity Research report, The Sharing Economy, March 2016) found that leading Silicon Valley brands face strong competition through Emerging Asian equivalents designed to suit local cultural preferences and linguistic and script differences. These companies have often had an early mover advantage as Western brands were slower to roll out their businesses into Asia with, in some instances, concerns over IP infringement and patent protection. Figure 4 details the range of local brands that have emerged across the e-commerce, search and social network platforms.

In this year’s Emerging Consumer Survey, we questioned consumers about plans to use car sharing schemes and taxi-hailing apps (Figure 5). In Brazil, China and India, respondents indicated that they are more likely to use such services in 2016 suggesting the development of the sharing economy is relevant in developing economies too. A key question though is whether Uber and AirBnB will be able to capture share in this growing trend and succeed where other leading Silicon Valley brands have failed. The local competition these brands are already seeing provides limited ammunition at this point with which to suggest they will.

Uber is market leader in pretty much every developed economy it operates in. However this is not the case in China where it is up against Didi Dache and Kuaidi Dache, who merged in early 2015. The resultant Didi Kuaidi reported 1.4bn trips across its networks during 2015, claiming close to 90% market share. Didi Kuaidi raised USD 3bn during its most recent funding round at a valuation of USD 16.5bn and has Alibaba and Tencent as investors. UberChina was valued at USD 7bn in its latest funding in 2015 despite losses of USD 1bn as they, like Didi Kuaidi, currently subsidise both drivers and users. In China, Uber focuses on private-car services and has 30% market share whilst Didi Kuaidi has two thirds of the market as well as a taxi-hailing

Figure 4

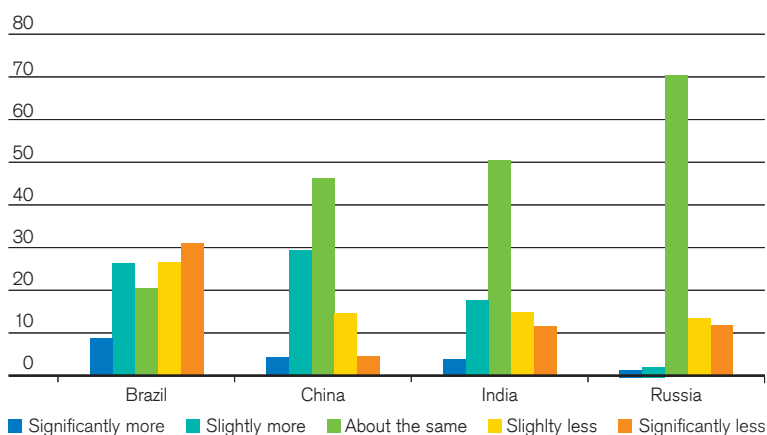
Silicon Valley brands and their Emerging Asian competitors

	Silicon Valley brand	Emerging Asian brand
Search engine	Google	Baidu (China) Soso (QQ – Tencent, China)
Social networking	Facebook	RenRen (China), Kaixin Orkut (India) BBM (Indonesia)
Professional networking	LinkedIn	Ushi (China) Siliconindia (India) Brijj (India)
Instant messaging	WhatsApp	Weixin (WeChat – Tencent, China) QQ (Tencent – China) Momo (China) Nimbuzz (India)
Micro-blogging	Twitter	Weibo (China)
Online payments	PayPal	Alipay (Alibaba – China) Paytm (India) MOLPay (Indonesia)
Online retail	Amazon	Alibaba (China) Flipkart (India) Bukalapak (Indonesia) Kaskus (Indonesia) Lazada (Indonesia)
Online discount clothing retail	Asos / Forever 21 Zalando / 10 Dollar Mall	Vipshop (China) Jabong (India) Zalora (Indonesia)
Online travel booking	Airbnb	Xiaozhu.com (China) Tujia (China) Ibibo (India) Traveloka (Indonesia)
Private taxi-hailing apps	Uber	Didi Kuaidi (China) Ola (India) Gojek (Indonesia – motorcycles)
Online real estate portal	Zillow / Trulia	SouFun (China) Magicbricks (India) Rumah (Indonesia)
Online auction	eBay	Taobao (China) PaiPai.com (Tencent – China) Snapdeal (India) Jualo (Indonesia)

Source: Credit Suisse research

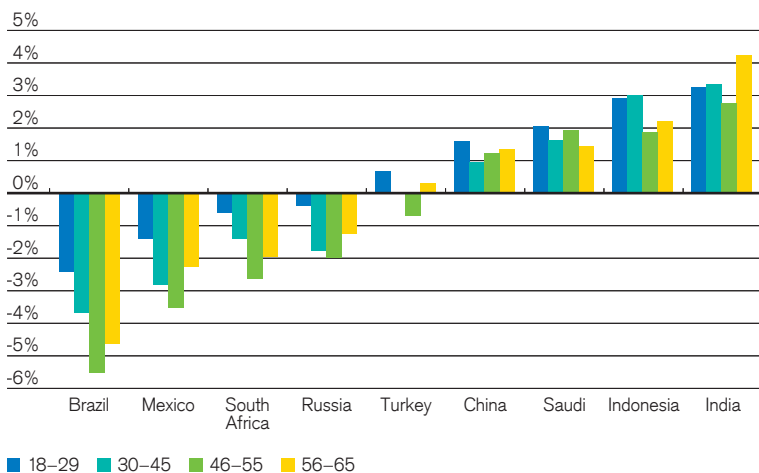
Figure 5

Do you plan to use local car sharing schemes more/less over the next 12 months (Uber, Lyft, Didi Kuaidi)?



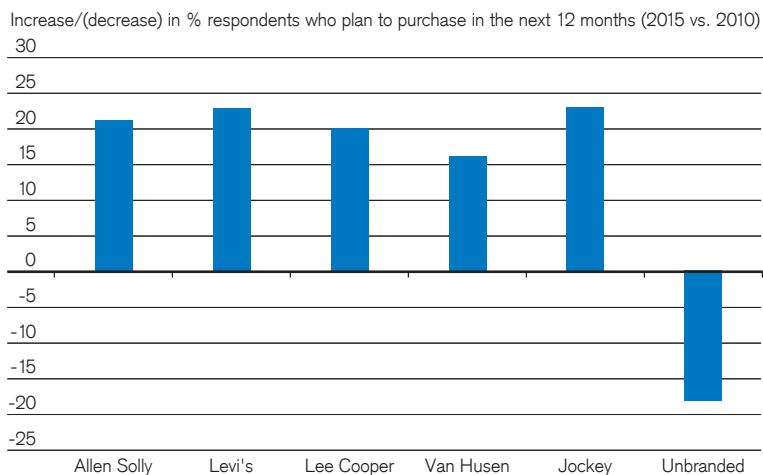
Source: Emerging Consumer Survey 2016

Figure 6
Household total after-tax income change by age (2015 vs. 2014)



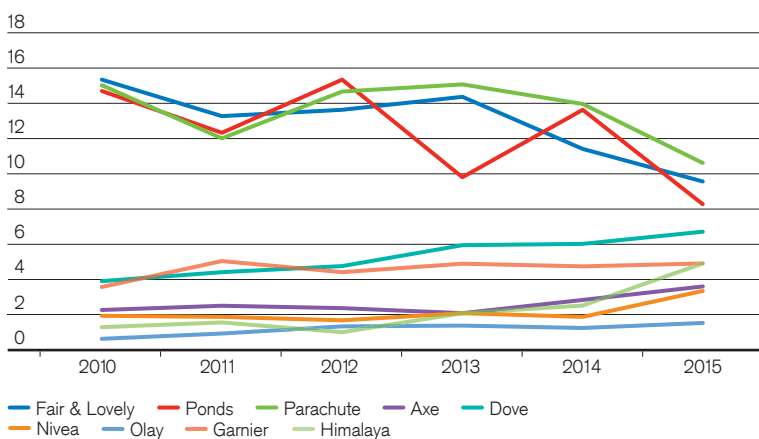
Source: Credit Suisse Emerging Consumer Survey 2016

Figure 7
Apparel – the shift from unbranded to branded



Source: Emerging Consumer Survey 2016

Figure 8
Premiumization among Indian purchasing intentions for hair care and skin products



Source: Emerging Consumer Survey 2016

service in several hundred cities. Uber has announced plans to expand to 55 cities.

AirBnB has accommodation listings in over 190 countries globally and was valued at USD 25.5bn at its 2015 funding round. The company is launching operations in China where it competes with local rivals such as Tujia and Xiaozhu.com. Tujia was founded in 2011 and was valued at USD 1bn at a 2015 funding round and offers similar accommodation services, though tweaked to Chinese-specific tastes offering on the ground check in and check out as well as property inspections. Tujia lists 300,000 properties in 250 cities and is developing an international model to follow the Chinese traveller abroad. Xiaozhu.com offers 30,000 properties in over 200 cities.

India – a “premiumization” story

The Indian consumer tops our Scorecard as we showed earlier. The income momentum that underpins this positive story is also driving a change in consumption patterns and brand preferences. A consistent trend we see emerging among Indian consumers across brands in the Emerging Consumer Survey 2016 is that of premiumization: the declining share of unbranded products in most categories and the higher growth of luxury brands relative to mid-priced brands. This is in a sense a similar aspirational theme to China but in a lower GDP per capita country. Between 2010 and 2015, we have seen an increase of 15-25% of Indian consumers planning to buy one or more fashion brands in the coming 12 months whilst the share for unbranded items has fallen by 18% over the same period.

Premiumization is also apparent across consumer staples and discretionary brands including skincare and cosmetics and hair oils with companies such as Hindustan Unilever and Marico reporting the benefits. Hindustan Unilever has reflected a shift in sales mix in categories such as detergents and soaps over the past three years. Colgate's sales of premium toothpaste brands has increased by c100bps annually. Growth in Marico's Value Added Hair Oil volumes has been consistently above its regular, coconut base 'Parachute' range in the USD 1.4bn hair oil category. In menswear, Page Industries which sells premium Jockey innerwear in India is growing at double the rate of the innerwear industry overall. In men's apparel, we see a clear shift away from unbranded jeans towards brands such as Allen Solly, Levi's and Lee Cooper as show in Figure 6. These specific examples are all reflective of the message in our survey.

In a more discretionary category, premiumization is more than apparent in the 10-15% volume growth in the premium Indian spirits markets whilst mid-market brand volumes remain flat. United Spirits, the market leader, has seen a 5% shift in mix from regular to premium during 2015 with its Prestige+ range showing consistent growth in volumes

while the Regular range has seen volume declines at the same time. This has been characteristic of the Indian whisky market overall. While the starting point of income may be lower relative to other consumers in EM, the theme of “trading up” we have seen elsewhere is taking root.

Chinese consumers: Dedicated followers of fashion

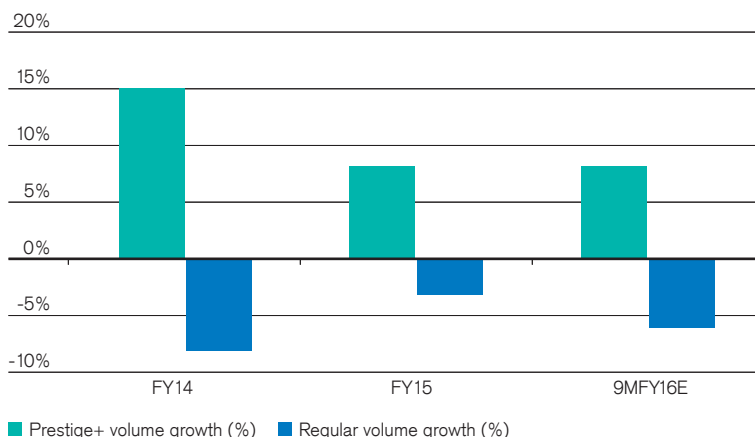
The strong appetite for spending on branded apparel/fashion was one of the standout categories of spending highlighted earlier, particularly among younger consumers. Running through this trend remains the aspirational quality of Western brands, despite the weak macroeconomic backdrop. This year’s survey has seen a rebound in Chinese luxury brand purchasing intentions and a step back from the down-trading to high street brands that was so evident in the 2015 Emerging Consumer Survey. The impact of the anti-corruption measures seems more diluted.

Examining the purchasing intentions by different income groups (i.e. high, medium, low income brackets) in Figure 12 suggests to us there has been a secular shift in emerging market tastes and preferences among those income groups which can afford international luxury brands (eg. Gucci, Hermes, Burberry, LVMH, Prada etc.) and that these preferences are now embedded into purchasing habits. The luxury purchasing intentions of high income earners has not been higher while premium brand intentions (eg. Kenzo, Polo, Calvin Klein, Hugo Boss) are also robust. Whilst still popular with lower income groups, we see in contrast purchasing intentions for international high street brands dropping sharply. Across all income brackets, the share of luxury purchasing aspirations are double those for premium brands and more than three times those for high street names, a clear expression of the considerable wealth that has been created in China in recent years.

A number of leading fashion houses (Burberry, LVMH) highlighted weaker growth in the domestic Chinese market during 2015. In 1H15, there was some shift in the location of sales to Chinese consumers away from China and Hong Kong to Europe due to the weaker Euro and therefore price differentials. This reverted in part during 4Q15. We believe this pattern of increased shopping in Europe has also served to boost the rising interest in specific European luxury brands such as Hermes and Givenchy that we see in this year’s survey.

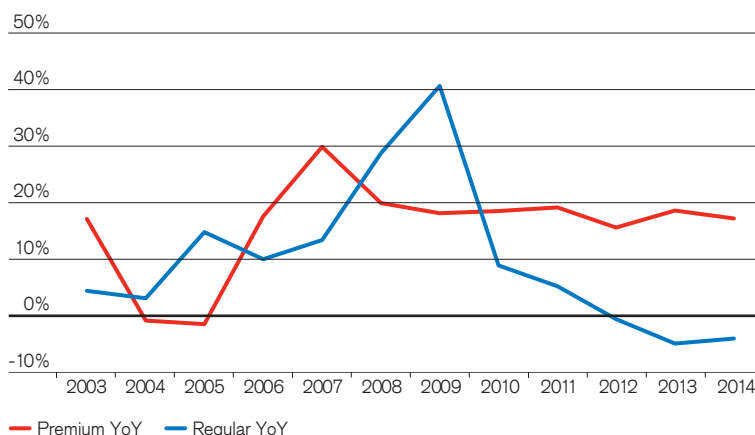
Figure 15 illustrates the brands that have been best able to defend and now grow their standing in purchasing intentions in recent years and we note that a number of them – Hermes, LVMH, Prada, Gucci – are strongly positioned in accessories which would help protect and promote brand recognition and also offer more durable purchases if indeed the tough economic environment is leading

Figure 9
United Spirits’ Prestige+ volumes rising as regular segment volumes decline



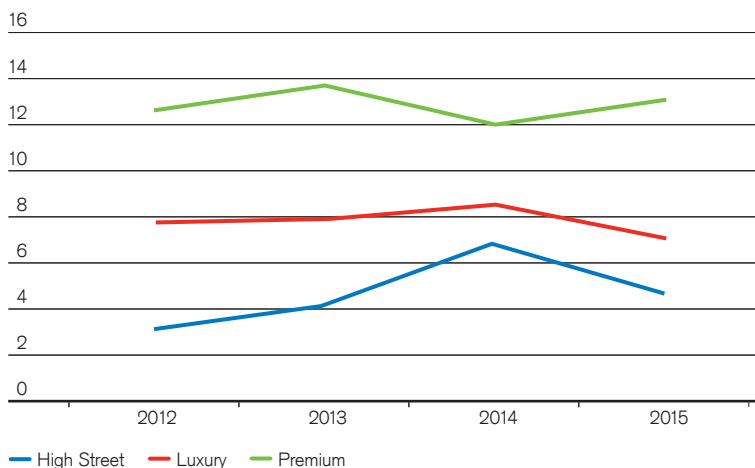
Source: IWSR, Company data, Credit Suisse estimates

Figure 10
Indian whisky market seeing premium brands grow faster than regular



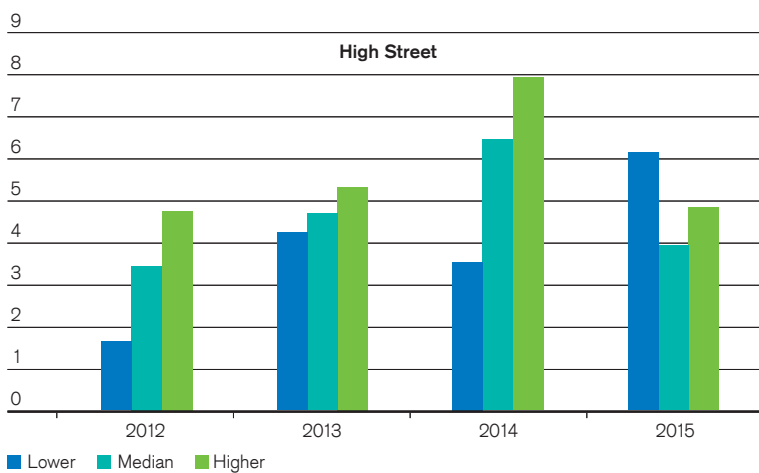
Source: IWSR, Company data, Credit Suisse estimates

Figure 11
Chinese fashion purchasing intentions over the next 12 months



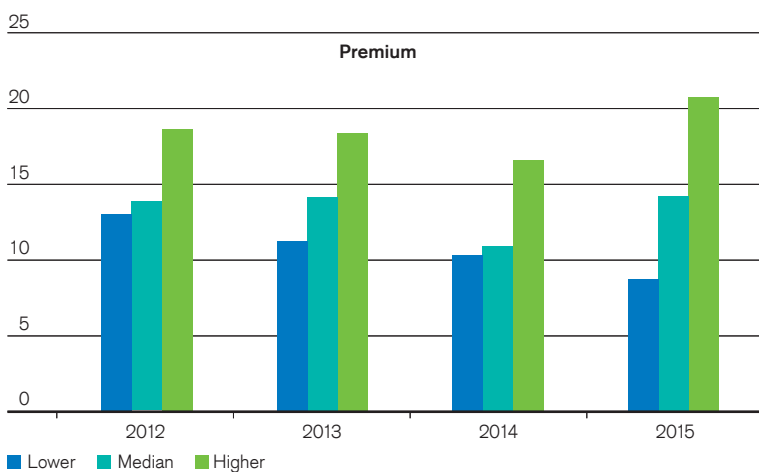
Source: Emerging Consumer Survey 2016

Figure 12
Fashion purchasing intentions by segment – China



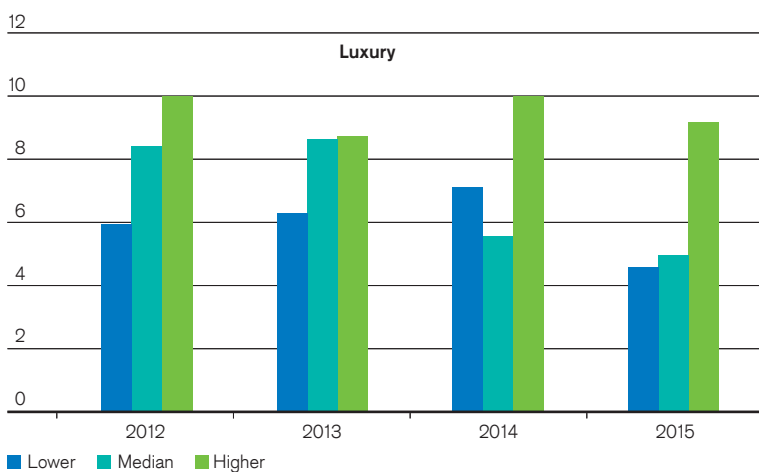
Source: Emerging Consumer Survey 2016

Figure 13
Fashion purchasing intentions by segment – China



Source: Emerging Consumer Survey 2016

Figure 14
Fashion purchasing intentions by segment – China



Source: Emerging Consumer Survey 2016



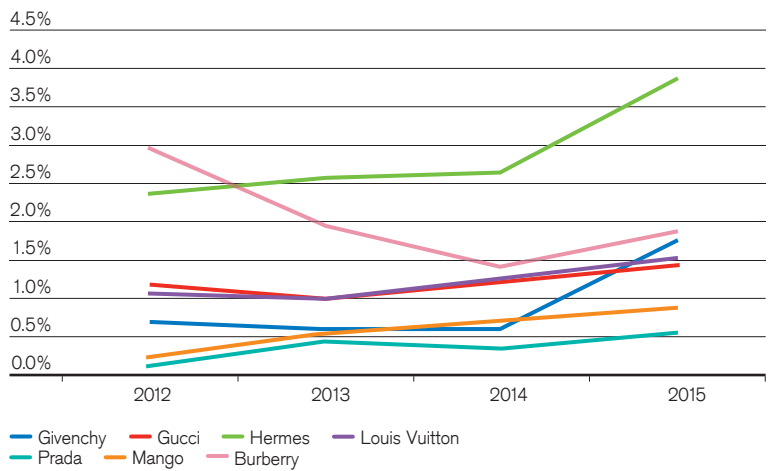
to a shift away from more short duration purchases towards an 'investment' purchase.

Beyond China, the greatest change in fashion purchasing intentions is to be found in South Africa where the Rand's depreciation of over 30% versus the US dollar in 2015 is clearly expressed in consumers' shift towards local brands. This down-trading is evident in all segments indicating that affordability is an issue for all customers and the brief interest in premium brands is once again under consideration. In Indonesia, India and Turkey, we continue to see a further shift in preferences towards domestic brands with the ongoing pressure on the local currencies during 2015.

The other surprise is the shift in Russian interest away from local brands towards international high street fashion in recent years despite the weakness

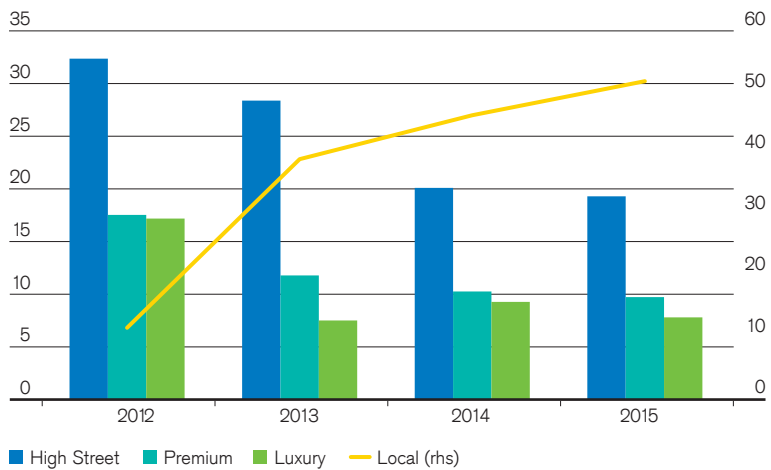


Figure 15
International brand purchasing intentions – China



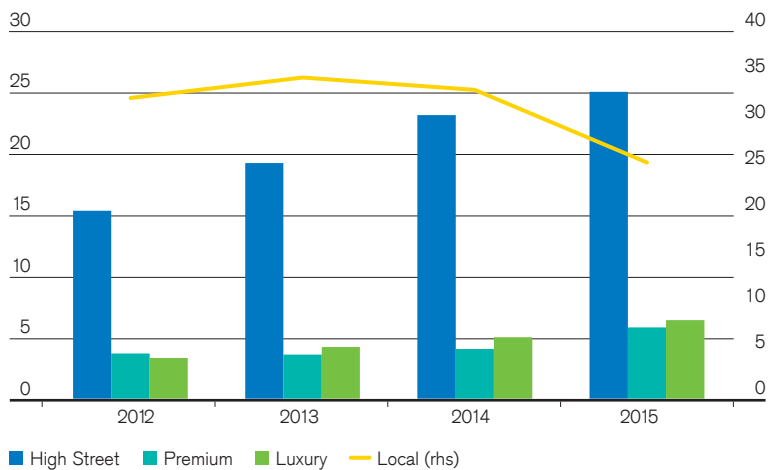
Source: Emerging Consumer Survey 2016

Figure 16
South African fashion purchasing intentions by segment



Source: Emerging Consumer Survey 2016

Figure 17
Russian fashion brand purchasing intentions by segment



Source: Emerging Consumer Survey 2016

of the currency and sanctions being in place. Indeed, Inditex opened 69 stores in Russia during 2015, expanding their penetration by 18%, double the rate of expansion compared to China. H&M increased their network by 35%, virtually in line with the expansion seen in 2014. So sovereign sanctions are not currently hampering longer term corporate development strategies and again the expansion of high street brand networks and product availability underpins the shift in purchasing preferences. It could be argued that Russia does not have a local “fashion” manufacturing base to offer local alternatives to international brands and indeed we see the substitution shifting towards unbranded, imported fashion items from South East Asia. As we see in the case of China, the demand for luxury brands remains robust.

Credit Suisse Emerging Consumer Survey 2016

Number of respondents: 15,906

Across 9 countries

71% in urban areas; 29% in rural areas

TURKEY (10 %*)

No. of respondents	1576
Locations	14
Urban areas	70%
Rural areas	30%

MEXICO (9 %*)

No. of respondents	1510
Locations	5
Urban areas	70%
Rural areas	30%

BRAZIL (10 %*)

No. of respondents	1535
Locations	5
Urban areas	70%
Rural areas	30%

Note:

* % of survey sampled from this country

SAUDI ARABIA (10 %*)

No. of respondents	1579
Locations	14
Urban areas	90%
Rural areas	10%

INDIA (16 %*)

No. of respondents	2544
Locations	10
Urban areas	72%
Rural areas	28%

RUSSIA (9 %*)

No. of respondents	1510
Locations	8
Urban areas	67%
Rural areas	33%

CHINA (17 %*)

No. of respondents	2625
Locations	10
Urban areas	68%
Rural areas	32%

INDONESIA (10 %*)

No. of respondents	1530
Locations	10
Urban areas	66%
Rural areas	34%

SOUTH AFRICA (9 %*)

No. of respondents	1497
Locations	6
Urban areas	70%
Rural areas	30%

Brazil

Another tough year ahead

Tobias Stingelin, Giovana Oliveira

The macro-economic environment in Brazil remains tough, and we continue to believe that it has not yet touched the bottom. CS economists estimate that real GDP could decline by 4.2% in 2016, and by another 1.0% in 2017 following the 3.8% contraction in 2015. This would mark the worst recession since the beginning of the century.

The impact of the severe economic slowdown is clear in the survey. In the past, Brazilians always ranked among the more optimistic consumers, even at the beginning of 2015. This time, Brazilians have fallen well below the average in nearly every benchmark of consumer confidence. As a result, Brazil has fallen to eighth in our scorecard, and last when consumers were asked if now is a good time to make a major purchase.

Brazilians rank above the average of their peers only in regards to income expectations. This may be related to the fact that the local economy remains relatively indexed, and respondents always expect salaries to increase close to inflation. However, only 10% of respondents expect their overall personal finances to improve over the next six months, compared with 50% in 2015. Expectations of higher inflation combined with unemploy-

ment fears have resulted in a more conservative view of overall personal finances – concerns which appear to be shared across the income spectrum.

A closer analysis of expectations with regard to household income indicates that on average, respondents expect their nominal household income to increase between 4.0% and 5.5% over the next 12 months. Again, the divergence in expectations between lower and higher-income brackets was very small between 2016 compared with 2015. Comparing expectations for nominal increases in household income of 4.0%–5.5% with CS estimates of inflation close to 8.0% in 2016 points to an ongoing squeeze in real incomes.

The hostile economic environment is clear in spending patterns. “Holidays”, where overall penetration remains relatively low at around 35%, witnessed a substantial decrease in 2015 versus 2014 (–8%), reflective of a squeeze on “discretionary” spending driven by lower real disposable income. In products with higher penetration, there was also a significant decrease in the spending on cosmetics, beer and even internet access, which had been relatively inelastic in prior surveys. A notable change has been an increase in spending

on further education, which could be explained by consumers looking to improve their skills as a way to better their position in a more competitive and tougher marketplace. Intended spending on smartphones has eased as fewer respondents are willing to upgrade or buy smartphones compared to previous years with Smartphone penetration of around 70% among those surveyed remaining high.

Brazilians experienced a significant increase in public utility expenses during 2015, mostly electricity tariffs, which were raised to reflect concerns about energy rationing and due to the elimination of some subsidies. Despite this, overall expenses for housing and public utilities remained relatively stable at around 16% of monthly spending. Food, which is the single most important item in the consumption basket, did increase to around 19% of monthly spending versus some 17% in 2014, though this is still below the EM average. Savings have been squeezed.

In summary, we continue to believe that the long-term potential of the consumer market is intact, but in the near term, we expect the weak consumer environment to remain depressed due to the cyclically weak economy.



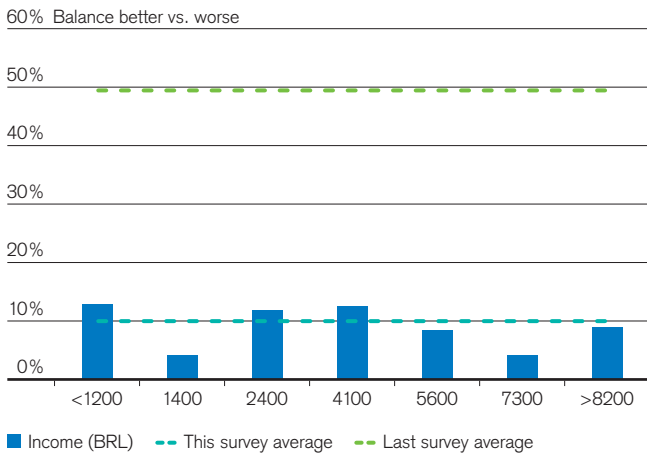
Table 1

Key macro indicators

GDP (2015E)	USD 1,769 billion
GDP per capita (2015E)	USD 8,651
Population (2015)	204 million
CPI inflation (2015E)	10.7%
CPI inflation (2016E)	8.0%
Real GDP growth (2015E)	-3.8%
Real GDP growth (2016E)	-4.2%
Real private consumption growth (2015E)	-4.0%
Real private consumption growth (2016E)	-4.5%

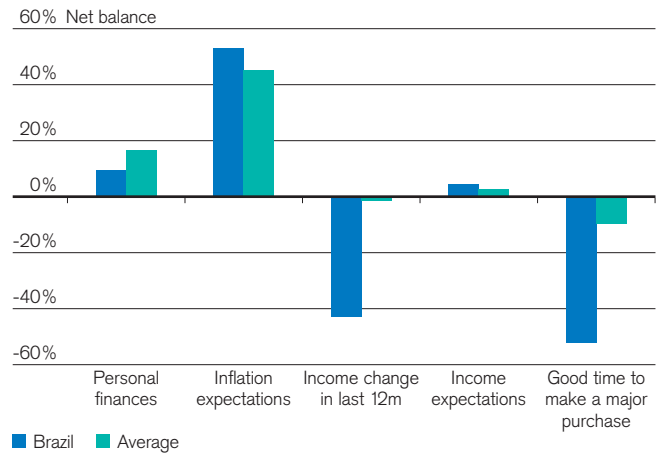
Source: IBGE, Central Bank of Brazil, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



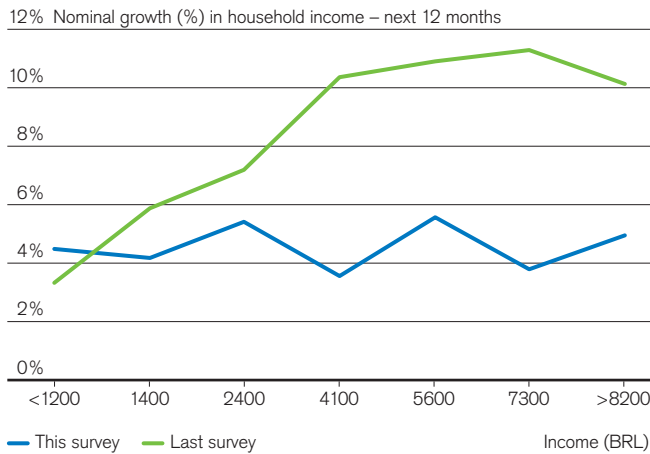
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



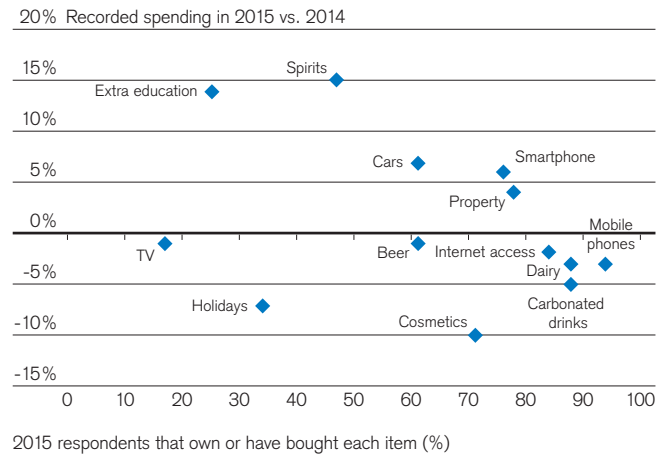
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



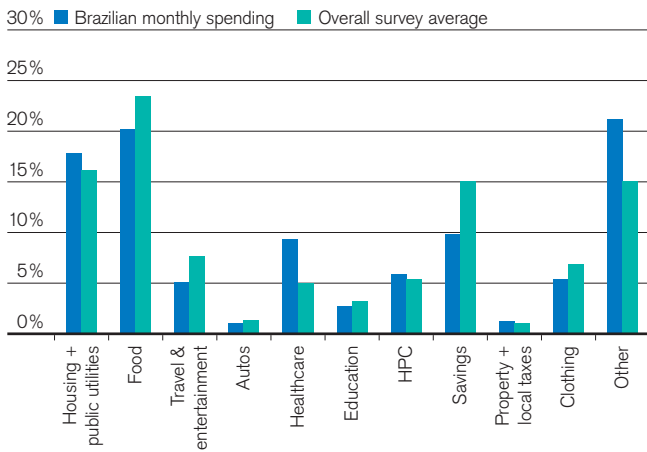
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



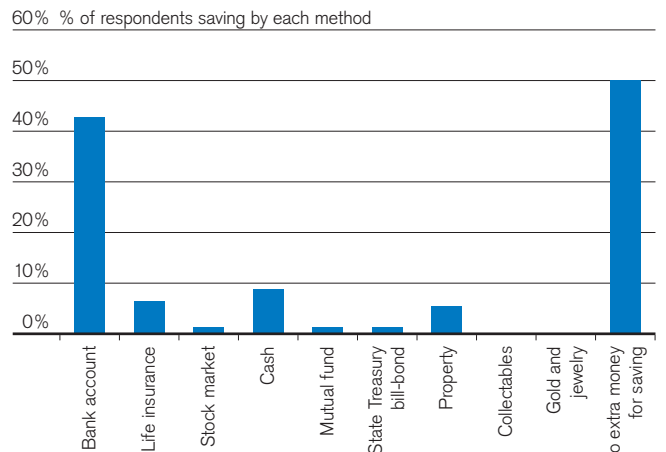
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

China

The young emerging middle class

Kevin Yin, Sophie Chiu, Tim Sun

Despite the prevailing concerns over the health of the country's macro economy, China ranks second in our EM consumer scorecard, even if the headline indicators have slipped in absolute terms. Chinese consumers demonstrate higher confidence levels in income growth and personal wealth, and expect less inflation pressure. A net 6% of Chinese respondents recorded "now is a good time to make a major purchase", versus -10% for the survey average. However, China's 6% in 2015 was lower than its 9% and 15% in 2014 and 2013 respectively.

Consumption penetration in most categories recorded YoY growth in 2015. In particular, penetration of cosmetics was up 12 percentage points (p.p.), internet access up 11 p.p., spirits up 7 p.p., and both smartphone and dairy products up 6 p.p. This growth was mainly driven by income growth and lifestyle changes among the young middle class. 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, and it should contribute 35% to China's

total consumption in the next five years (compared with current levels of 15%).

This middle-class bracket shows the most positive income expectations for the next 6-12 months. The income groups of RMB 5,500-7,500 and above RMB 15,000 expect higher income growth in 2016 compared with 2015. The remaining income groups are more pessimistic, expecting lower growth in 2016 than in 2015. However, we would stress that income expectations are generally more robust than in most EM countries.

Online shopping (especially mobile shopping) continues its strong development in China. Internet access penetration was up 11 p.p. to above 80% of our respondents, and smartphone penetration was up 6 p.p. to above 90%. Rapid growth in the cosmetics category (penetration up 12 p.p. to over 65%) is noteworthy, as it is one of the most popular goods for cross-border trade. In 1H15, cross-border e-commerce recorded a remarkable growth of 43% YoY, outpacing overall online sales growth of 30% YoY. We estimate that online sales will grow 20%-26% YoY in 2016-2018, account-

ing for 16% of China's total retail sales in 2017 (up from 10% in 2014).

Savings behavior in China remains a stand out. The household saving ratio stood at 31.3% in 2015 (vs 29.4% in 2014), far higher than the average of 15% for the survey. Chinese consumers allocated more savings to life insurance, equity and mutual funds; though bank accounts and cash remain the top-two channels for savings. However, despite this precautionary saving, the share of spending on discretionary areas such as travel & entertainment, education and autos is above the survey average.

We retain our positive long-term outlook for consumption in China, though the near-term environment poses challenges to different spending segments. Structurally, the fast-growing e-commerce and demographic changes (one-child policy and aging issue) are changing the demand dynamics, favoring (1) segments which build compelling "young" images with innovative designs; (2) e-commerce, O2O, and services, and (3) the beneficiaries of the "sharing economy" business model.



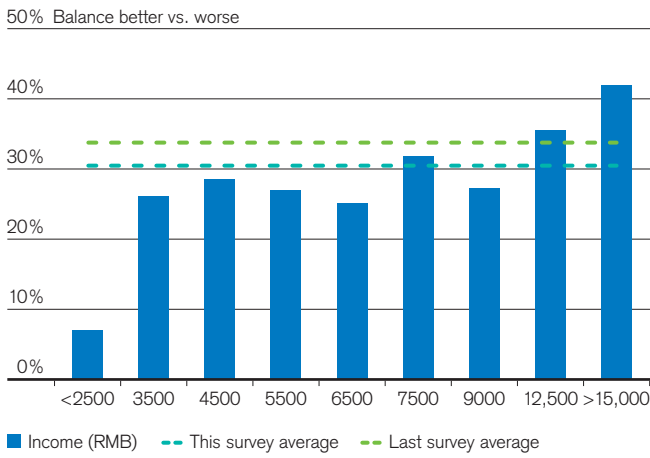
Table 1

Key macro indicators

GDP (2015E)	USD 10,721 billion
GDP per capita (2015E)	USD 7,794
Population (2015)	1,375 million
CPI inflation (2015E)	1.3%
CPI inflation (2016E)	1.4%
Real GDP growth (2015E)	6.9%
Real GDP growth (2016E)	6.6%
Real private consumption growth (2015E)	8.9%
Real private consumption growth (2016E)	7.4%

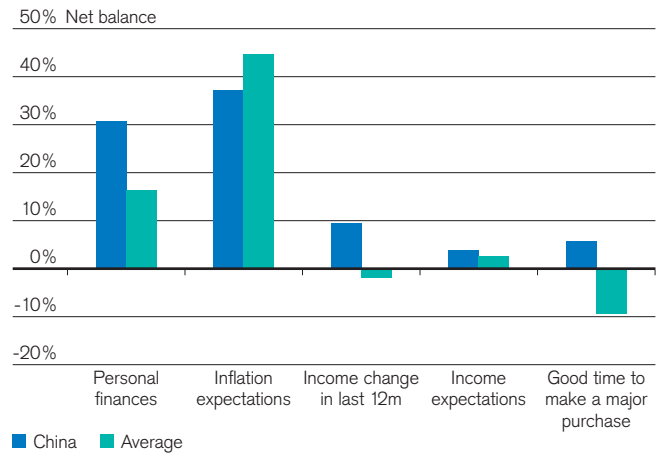
Source: National Bureau of Statistics, People's Bank of China, CEIC, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



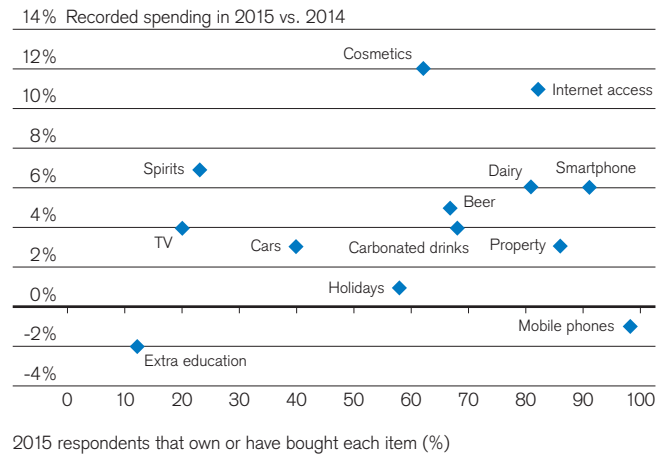
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



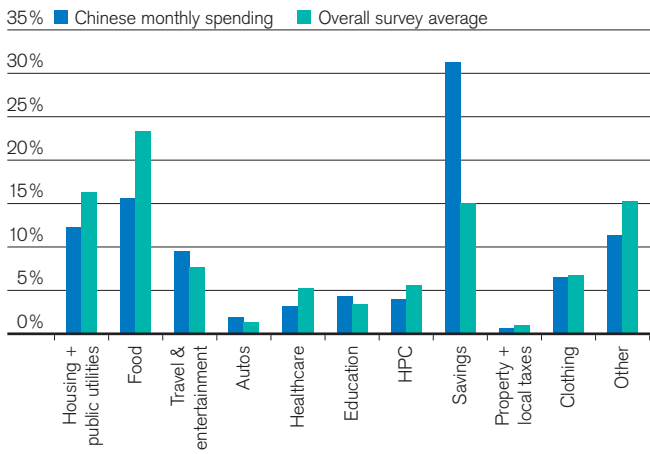
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



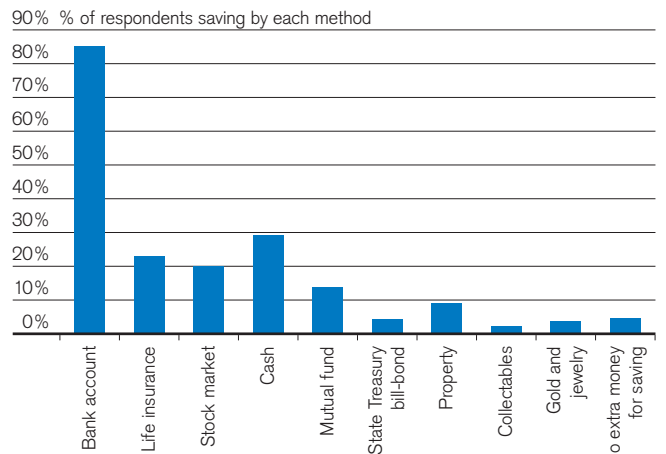
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

India

Top of the scorecard

Arnab Mitra, Rohit Kadam

As was the case last year, India ranks first on our scorecard. Indian consumers stand out among their emerging market peers with higher confidence about their current and future finances and relatively lower inflation expectations. Overall, however, consumer sentiment in India has moderated over the past 12 months.

After the strong election verdict in May 2014, business and consumer sentiment had a positive spurt on the back of high expectations, but things have taken more time to move in reality. While sentiment and expectations in urban India have scaled back due to this, rural India is reeling from two consecutive years of debilitating monsoons and declines in agricultural commodity prices. Only 27% of respondents see their personal finances improving over the next six months, down from 41% in last year's survey (Figure 1). This is, however, much better than the survey average of ~15%.

The average Indian respondent's income has increased by a healthy double-digit measure compared with a decline for the EM average, although income expectations going forward have moderated more in line with other markets.

A major part of the reset in expectations has happened in the highest income bracket in the survey (>INR 40,000 per month, Figure 3), as this segment would usually be the most media-savvy and be expecting a quick economic dividend from the new government's policies.

India has among the lowest penetration rates for most categories, and the survey points to fast growth in consumption in categories with very low penetration, such as female hygiene products (14% improvement in one year) and smartphones (12%), while others such as beer and perfumes are showing fast-improving longer-term trends. While penetration levels in India should continue to improve, another overarching trend should be premiumization, as affluent Indians look to acquire better products within categories. The very strong growth in smartphones in India is seen in 32% of respondents having bought one in the last 12 months, versus only 20% the previous year. To provide some context, smartphone penetration in India stands at around 20%, and is expected to double over the next five years.

Willingness to make discretionary spends on fashion, jewelry, apparel,

leather goods and watches showed muted trends over last year, but the base was high after significant improvement in 2014. Other much lower-penetrated categories such as perfumes and sportswear are improving. Also on the positive side, consumers have been benefitting from lower inflationary trends, and the impending impact from the pay commission wage hike for 34 million government employees/pensioners should boost demand.

The sharp divergence between rural (positive) and urban (negative) India has been a feature of recent surveys. The results confirm a reversal, showing slower growth rates or higher declines in spending categories in rural areas. For example, urban incomes are showing a mild improvement compared to stagnation in rural incomes. Only 22% of rural consumers think that the state of their personal finances will be better over the next six months, versus 42% last year. While urban India has also seen a drop in this metric, 35% of urban consumers see their personal finances improving. We believe that a normal monsoon season, after two consecutive years of poor rainfall, will help revive rural fortunes.



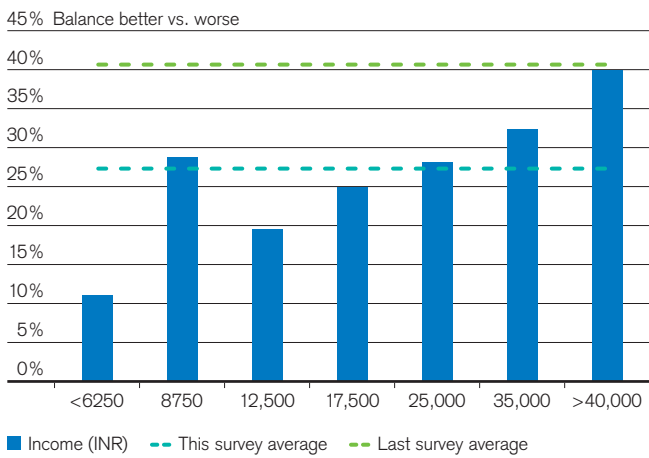
Table 1

Key macro indicators

GDP (2015E)	USD 2,077 billion
GDP per capita (2015E)	USD 1,620
Population (2015)	1,282 million
CPI inflation (2015E)	5.1%
CPI inflation (2016E)	5.5%
Real GDP growth (2015E)	7.7%
Real GDP growth (2016E)	7.8%
Real private consumption growth (2015E)	7.0%
Real private consumption growth (2016E)	8.2%

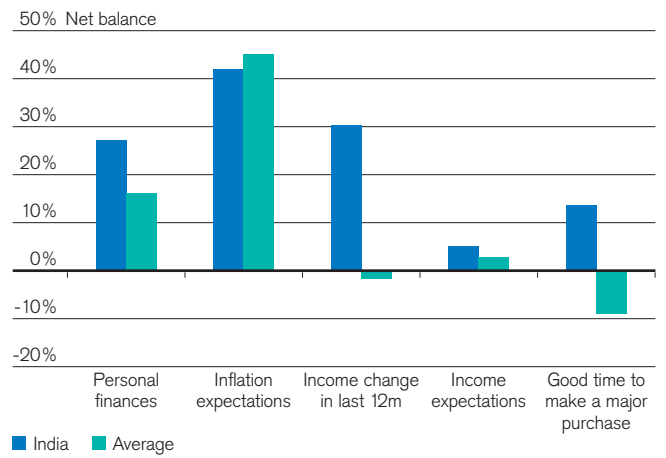
Source: Ministry of Finance, Reserve Bank of India, CSO, CEIC, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



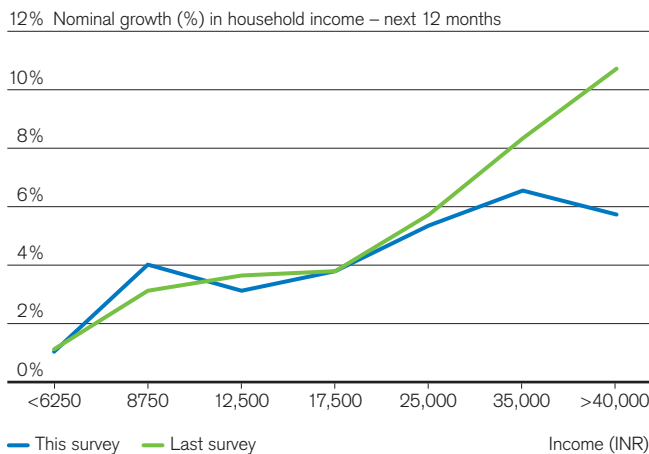
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



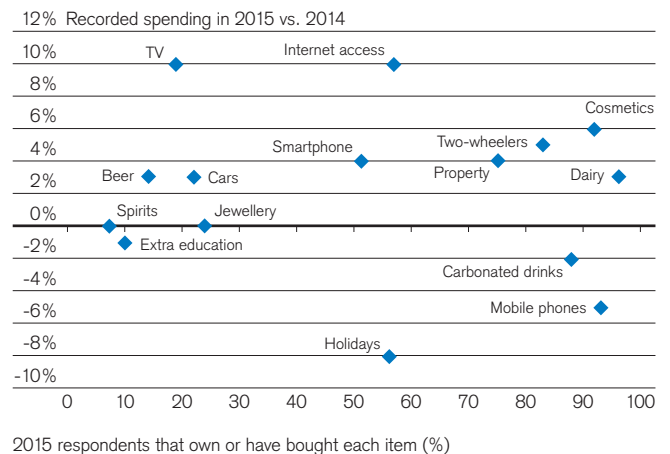
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



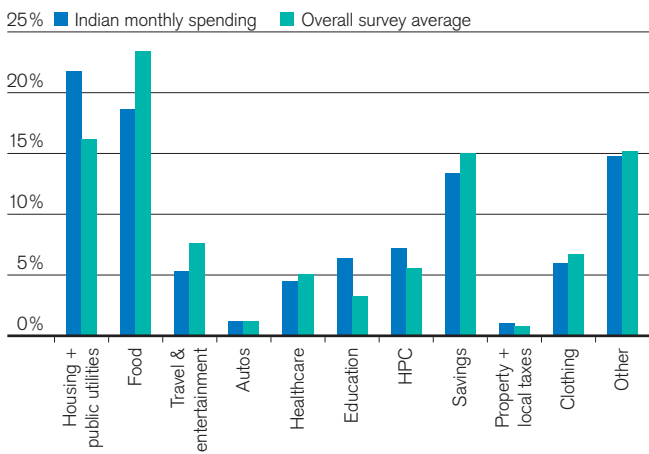
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



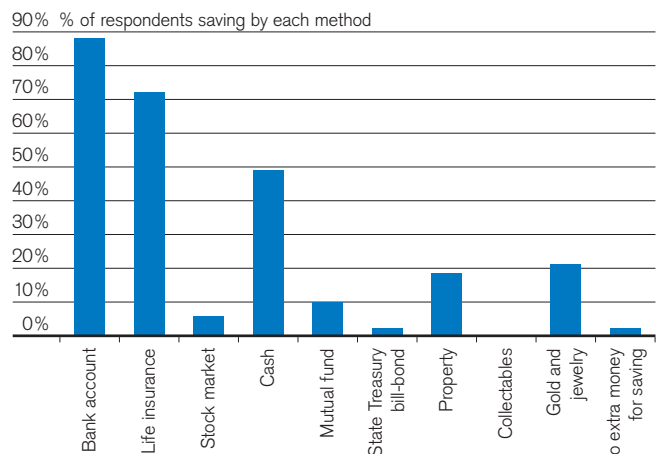
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

Indonesia

Losing its shine

Ella Nusantoro, Christy Halim

Indonesia has dropped from No.3 to No.4 in our consumer confidence scorecard this year, with inflation expectations the principle negative. While expectations of consumers' personal finances and income momentum have declined, they still remain favorable features of Indonesia compared with other survey countries. Notably, more Indonesians are still looking forward to making a major purchase, with the country ranked fourth out of the nine in the survey.

The lower ranking arguably reflects what was a more challenging year for Indonesia in 2015. A new government took office in October 2014 amid high expectations, but these were not met, as problems resulting from the merging of ministries led to a delay in government spending. Furthermore, Indonesia could no longer depend on commodities as a source of income and growth as prices continued to decline.

As such, Indonesia saw its quarterly GDP growth at its lowest in over five years, at 4.7% in Q2 2015, although it

subsequently saw a recovery towards year-end with Q4 2015 GDP growth coming in stronger at 5%, making a full-year 2015 level of 4.8%. Domestic demand, particularly from investment and government spending (which finally started to kick-in from August), has been key. We note that by the end of 2015, the Indonesian government had announced eight stimulus policy packages (of a total of ten), which have started to generate some optimism.

Income momentum has been a positive for Indonesia since the survey was first conducted, and this remains the case. There are, however, other areas of concern as well as those mentioned above, including rising unemployment (6.2% in August 2015, up from 5.8% in February 2015). Based on the survey, nominal income appears under pressure, particularly outside Java as the area continues to be dependent on commodities. The increase in the minimum wage in 2015 was also higher in Java (+17% compared with +13% in outside Java). Across the income

spectrum, we also note the greater shift downwards in income expectations among the low-income earners compared with higher earners (Figure 3).

Consistent with the previous years, Indonesians allocated the bulk of their income to food, followed by savings, housing and public utilities. Savings remain a robust feature, with the savings ratio rising compared with a year ago. We believe that anything above this savings level is supportive for consumption. Consumers continue to spend more on smartphone and internet access, similar to the previous year's findings. We believe this is a result of the much wider availability of smartphones at a more affordable level. Consumers spent less on cosmetics and carbonated drinks, as well as two-wheelers, compared to last year. However, the penetration of these items continues to be high, due in our opinion to a move towards a more modern lifestyle. Most local brands continue to dominate most consumer products, similar to our findings in previous years' surveys.



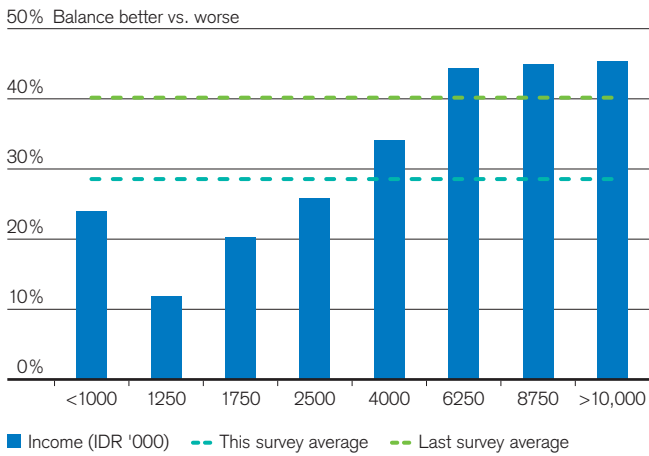
Table 1

Key macro indicators

GDP (2015E)	USD 858 billion
GDP per capita (2015E)	USD 3,401
Population (2015)	252 million
CPI inflation (2015E)	3.4%
CPI inflation (2016E)	4.4%
Real GDP growth (2015E)	4.8%
Real GDP growth (2016E)	5.2%
Real private consumption growth (2015E)	4.8%
Real private consumption growth (2016E)	5.2%

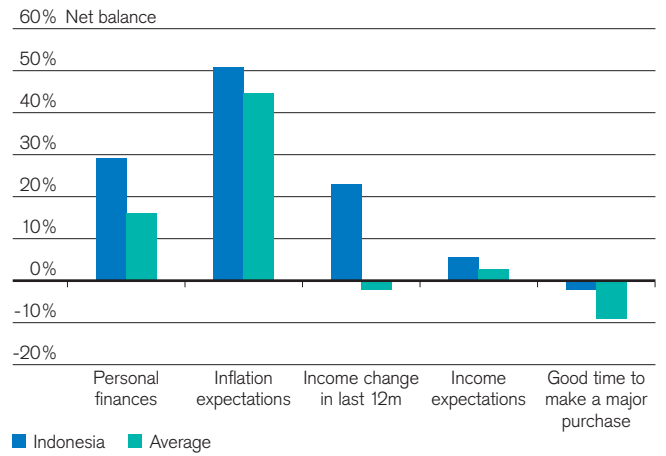
Source: Bank Indonesia, Ministry of Finance, Central Bureau Statistics, CEIC, World Bank, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



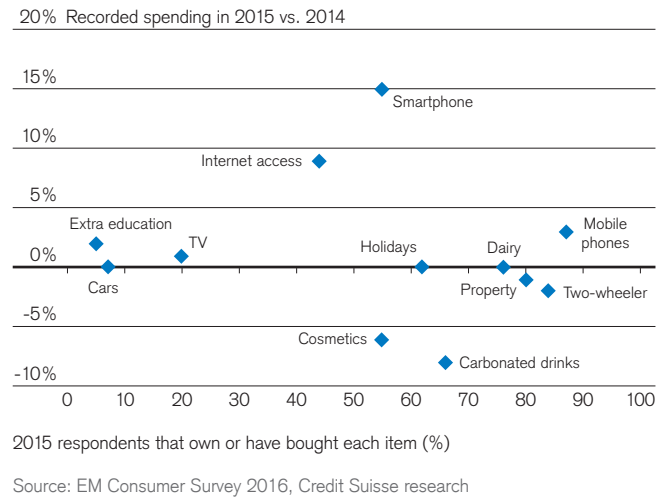
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



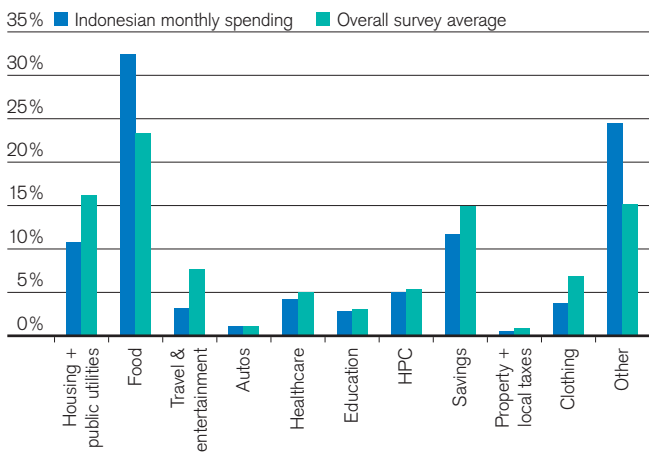
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



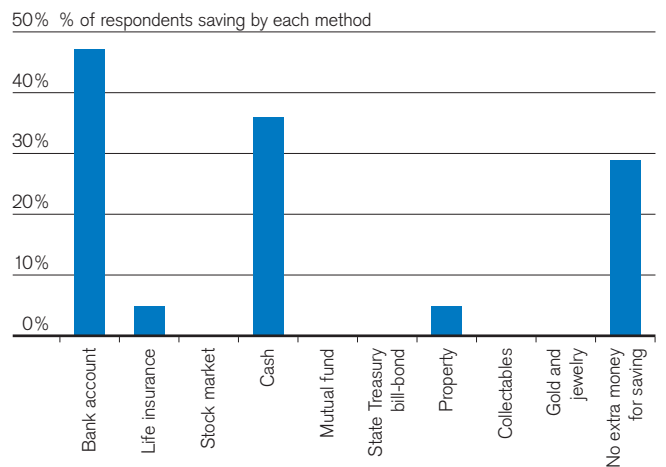
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

Mexico

A growing consumer culture

Antonio Gonzalez Anaya

The situation for Mexico has been improving in macro terms, and our survey has also seen rising trends. Mexico ranks sixth on our consumer scorecard (seventh in 2015), placing it above Brazil. Notably, the percentage of consumers who think now is a good or an excellent time to make a major purchase increased from 32% of respondents last year to 49% this year, potentially supporting a strong performance by discretionary categories.

The macro backdrop is not out of keeping with this message, having improved significantly during 2015, driven by a combination of: (a) highest real wage gains in a decade; (b) benefits from remittances sent from abroad to Mexican households, which increased 25% YoY in local currency terms, helped by the MXN depreciation (c.14% YoY), and (c) a revival from depressed consumption levels in 2014, when fiscal reform was implemented, introducing higher taxes across consumer categories.

On the staples side, 50%–52% of respondents mentioned that they plan on spending more on bottled water and dairy

products versus only 36% planning to spend more on soft drinks, after the first implementation of an excise tax on sugary soft drinks in 2014. Also, 58% of respondents either somewhat or strongly agree that they are eating more 'healthy' options rather than 'non-healthy' products. Consumer preferences are gradually starting to change.

In e-commerce, we would highlight that of those respondents with a mobile phone, 73% own a smartphone, up from 38% just two years ago. Limited fixed broadband penetration had historically been a barrier for e-commerce development in Mexico. However, as consumers migrate to smartphones, this barrier could come down, positioning Mexico as one of the most promising LatAm markets for e-commerce (we expect c.23% compound growth in e-commerce over the next 3–5 years). Overall, respondents without access to the Internet (either mobile or fixed) have come down from 60% two years ago to 30% currently.

The consumer story in Mexico remains promising over the long term, since (a)

social mobility has not yet taken place, unlike in countries such as Brazil (the middle income bracket in Mexico covers c.35% of the total population versus +50% in Brazil); (b) c.60% of the labor force remains informal, and (c) consumer credit penetration remains abnormally low, at c.4% of GDP, versus 10%–19% for other countries in the region.

One of the key immediate risks consumers will face is the depreciation of the Mexican peso, and the eventual effects thereof via final prices. This was limited during 2015 due to existing hedging strategies, and there were one-off benefits compensating for the MXN depreciation, such as a decline in electricity and mobile phone tariffs (4% and 15% respectively). However, as one-off benefits are cycled, companies might ultimately increase prices.

In the longer term, perhaps the largest risk to Mexican consumers remains the need for further fiscal adjustments in light of lower oil prices, with c.18% of total government revenues coming from oil versus c.35% of the total in the previous five years.



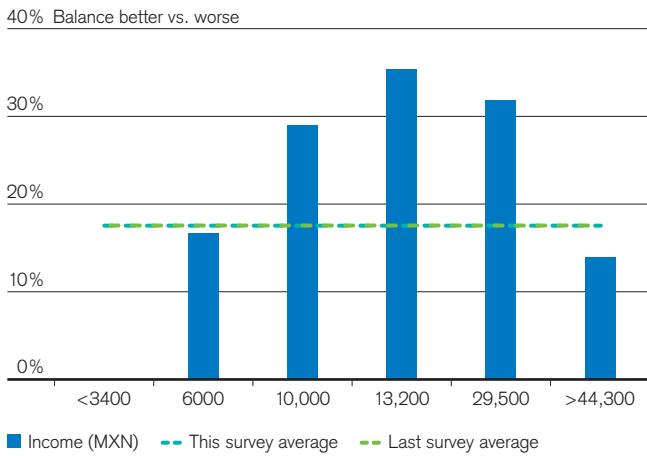
Table 1

Key macro indicators

GDP (2015E)	USD 1,142 billion
GDP per capita (2015E)	USD 9,437
Population (2015)	121 million
CPI inflation (2015E)	2.1%
CPI inflation (2016E)	3.1%
Real GDP growth (2015E)	2.5%
Real GDP growth (2016E)	2.5%
Real private consumption growth (2015E)	2.7%
Real private consumption growth (2016E)	3.0%

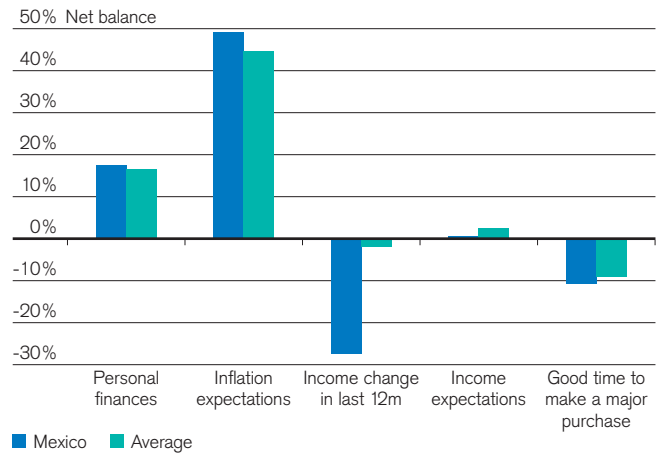
Source: INEGI (Government's statistics agency), Banco de Mexico, Ministry of Finance, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



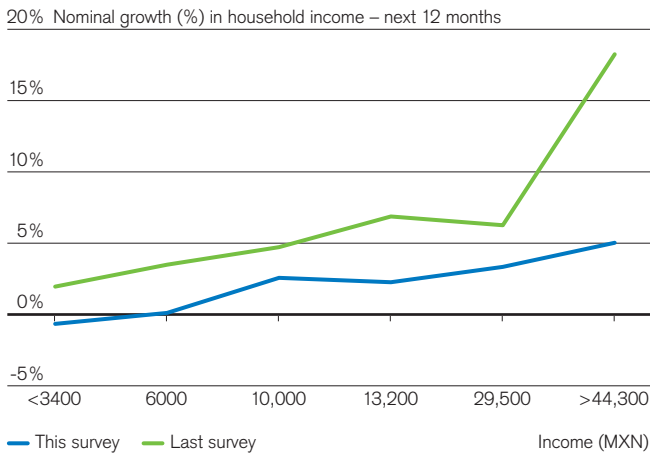
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



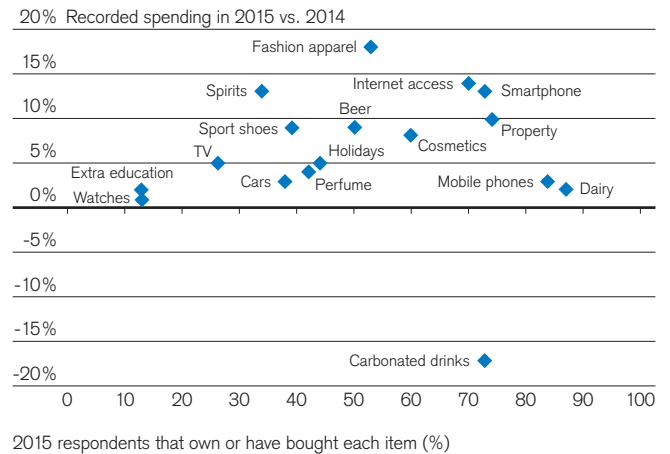
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



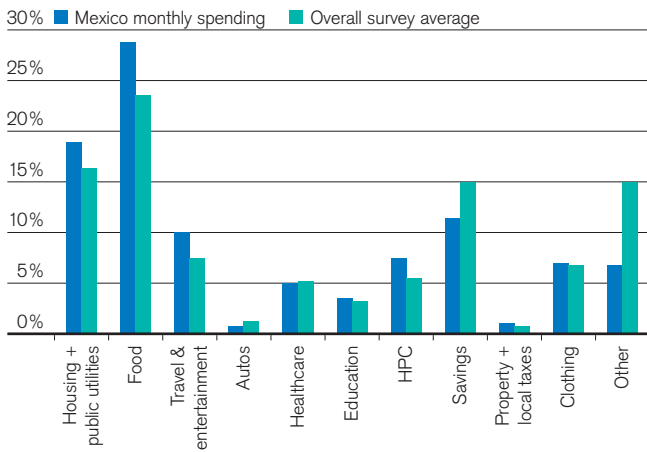
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



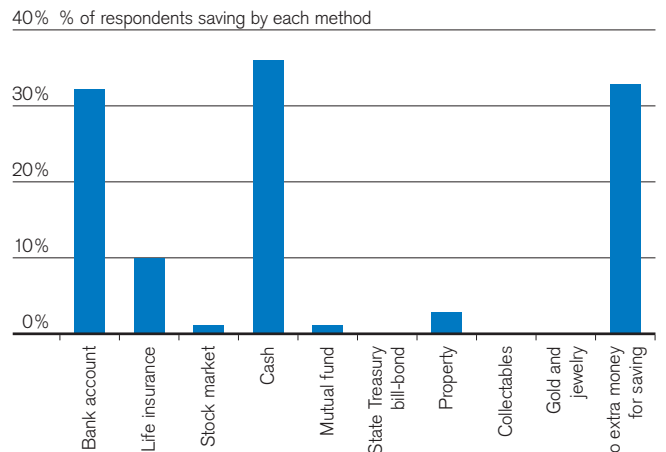
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

Russia

Macro pressures intensify

Victoria Petrova, Roman Reshetnev, Anton Trusov

The deteriorating economic environment has put significant pressure on the Russian consumer, and the survey findings suggest an exceptionally weak outlook from 2015 into 2016. Russia is ninth on our scorecard, down another notch from eighth last year. The perception of future personal finance stays at the bottom (ninth), with expectations of personal finance in the next six months having fallen from 8% to -6%. Russia ranks fifth on inflationary expectations, given that several waves of ruble devaluation in 2015 have created a very high base for inflation, especially for H2 2016, from which it may decline.

The income inequality in Russia remains high. Even though all households have expressed depressed levels of optimism on income prospects, the lowest income earners have seen the biggest deterioration since last year's survey. This group has the highest share of food in total pur-

chases, and given that food inflation exceeded CPI in the latter months (driven by devaluation and the ban on EU and later Turkish products imported into Russia), they were affected the most. We note that the Russian consumer recorded experiencing the highest food and beverage inflation of any EM country. Overall, income expectations for the next 12 months have deteriorated significantly in comparison to 2014. On average, incomes are now expected to fall by c.0.4%. It should be noted that Credit Suisse also expects 9.0% inflation in FY2016.

We have observed a significant deceleration of consumption in discretionary categories such as smartphones, cosmetics and holidays, while the share of spending on staples such as food remains above 30% – the most significant allocation of income. The impact of oil price weakness, sanctions and a prolonged

period of a weak ruble, accompanied by high interest rates and inflation numbers, have come to full force in the past year. After an impressive wave of up-front purchases in 2014, the consumer has started adjusting to a new reality, with a significant trading downtrend across all consumer spending categories.

We expect downtrading to continue throughout 2016, although the second half of the year should benefit from the already weak base. We might observe some accelerated purchases of consumer electronics and other durable items, in the event that the ruble devalues sharply again. The potential turnaround point, in our view, depends on oil prices, budget constraints and the government's willingness to increase pensions and public sector employee salaries as elections approach. For now, weak real and nominal incomes paint a bleak picture.

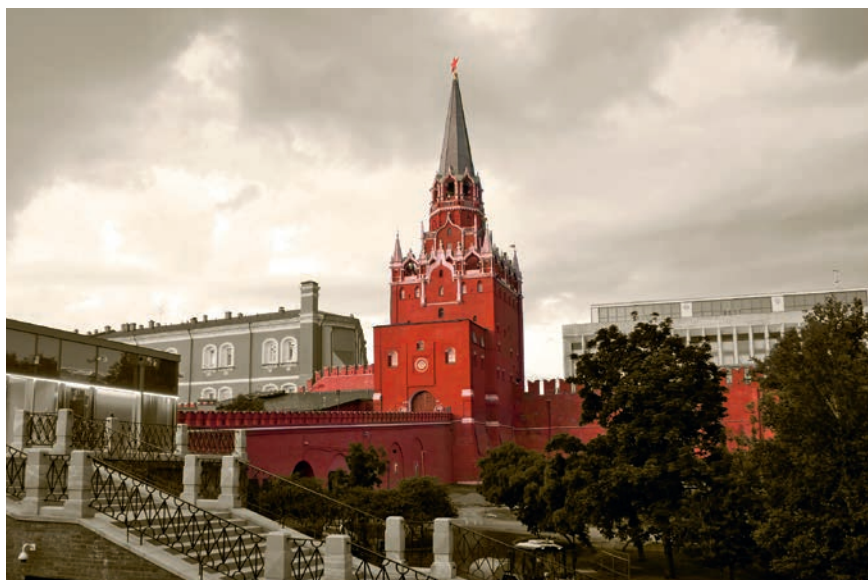


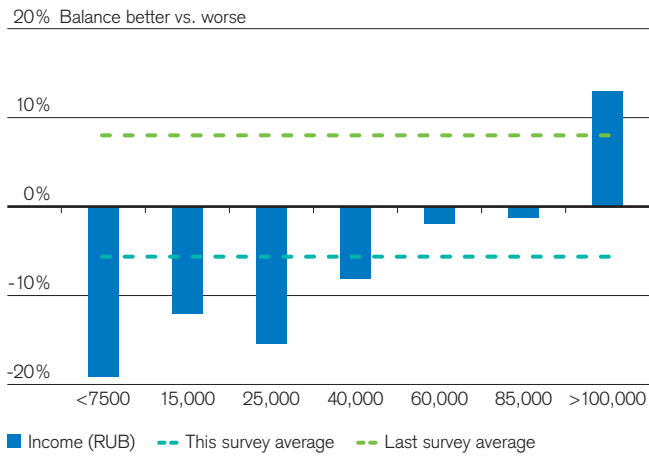
Table 1

Key macro indicators

GDP (2015E)	USD 1,103 billion
GDP per capita (2015E)	USD 7,541
Population (2015)	146 million
CPI inflation (2015E)	12.9%
CPI inflation (2016E)	9.0%
Real GDP growth (2015E)	-3.7%
Real GDP growth (2016E)	-1.5%
Real private consumption growth (2015E)	-10.1%
Real private consumption growth (2016E)	-1.0%

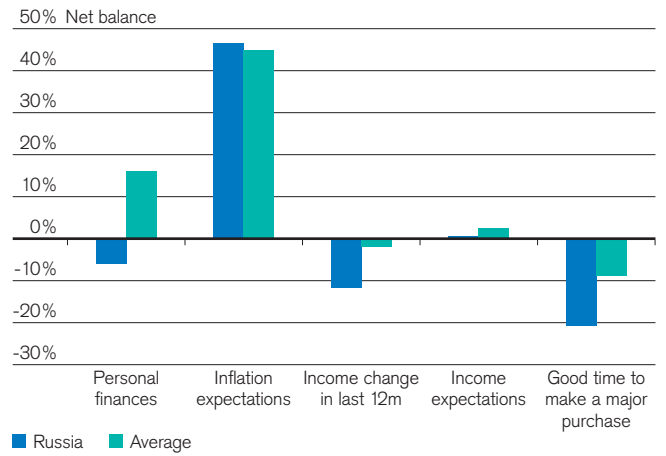
Source: Rosstat, Central Bank of Russia, Finance Ministry of the Russian Federation, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



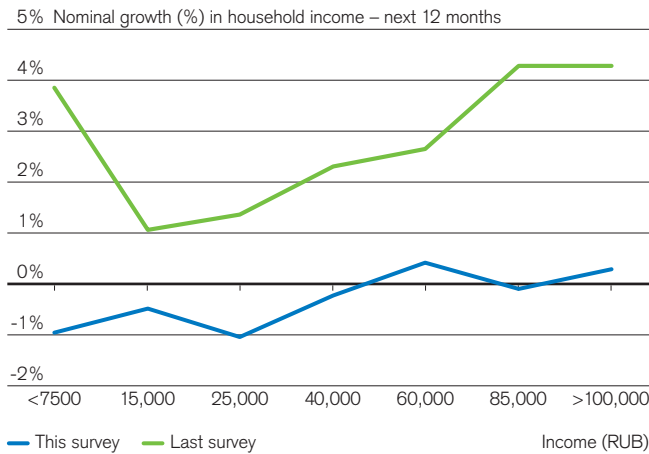
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



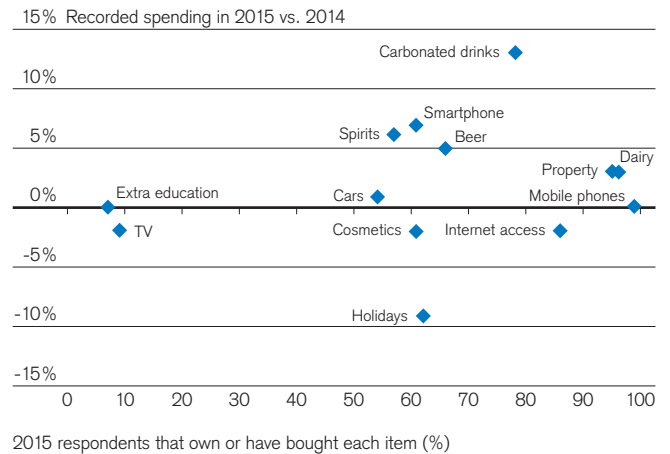
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



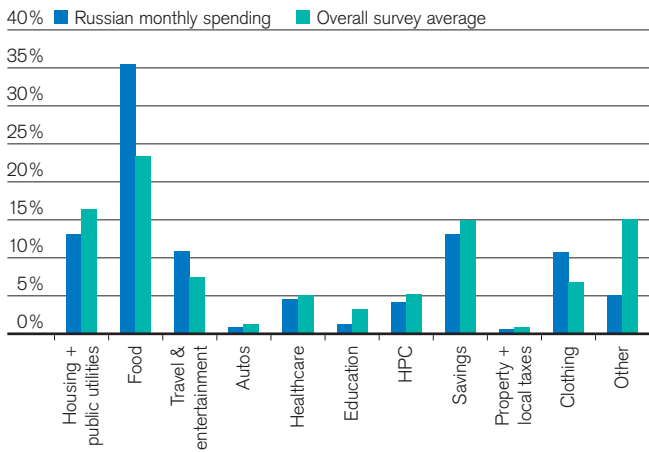
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



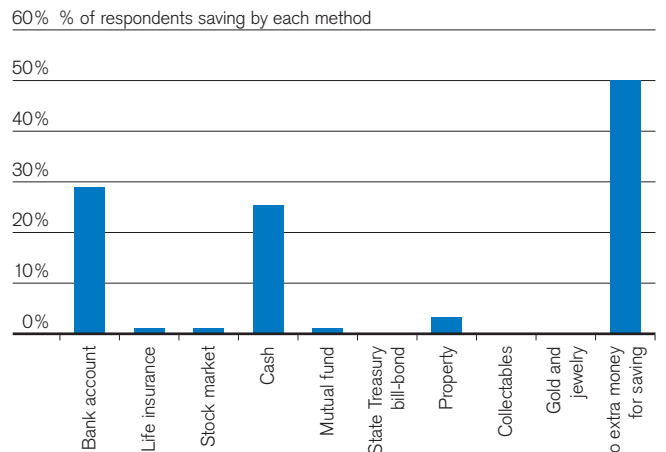
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

Saudi Arabia

Consumer sentiment resilient to lower oil prices

Wael Menhem, Rahul Shah

In what will perhaps be a surprise to some, the Saudi Arabian consumer moved up to number two on our consumer confidence scorecard, from fifth spot the previous year. Despite the free fall in oil prices in 2015, consumer appetite for spending seems to be remaining strong, with most Saudis envisaging an increase in their spending on general discretionary products. The consumer has been insulated from the pressures which the oil price weakness may have had on other aspects of the economy, given a strong buffer of FX reserves, low levels of debt and a currency that remains robust.

Saudi Arabia again ranked best among the nine countries when asked “In your opinion is now a good time to make a major purchase?”. 53% of the respondents voted that it was at least a good time for a major purchase, and 23% of those thought it was an excellent time. Again this year we see a continuation of the trend where the highest income earners

are the most optimistic about the state of their personal finances. This group has been a net 15%–20% more optimistic than the lowest income earners, dating back to 2012.

However, we see a slight deterioration in the expectations of the lowest earners in society, with around 18% (compared to 24% last year) of those earning less than SAR 5,000 expecting their personal finances to improve over the next six months. We believe Saudis remain positive about the outlook of their personal finances due to their expectation that the government will continue to support private consumption by disbursing bonus salaries, although we believe it is unlikely this year.

Market penetration in Saudi remains high across products, with above 90% levels for items such as computers, cars and smartphones. This indicates that the opportunity in some areas lies in product substitution rather than increased penetration.

The Saudi Ministry of Labor introduced the Nitaqat program in 2011, with a view to increasing the proportion of locals in the workforce. The third phase of this scheme was due to kick off in April 2015, but the government was forced to postpone this move, as various industries struggled to implement the policy. With the tough macro environment, we believe that the third phase is likely to be delayed further.

There is, however, an important caveat that we should keep in mind. The survey was conducted before the announcement of the 2016 budget on 28 December 2015 when the government announced for the first time an increase in gasoline prices as part of an overall review of subsidy levels (fuel, electricity, water, etc). The budget hinted at the introduction of fees and taxation which has been common in several Gulf Cooperation Council countries so far. Both previously mentioned initiatives look set to put relative pressure on the Saudi consumer's purchasing power in the future.



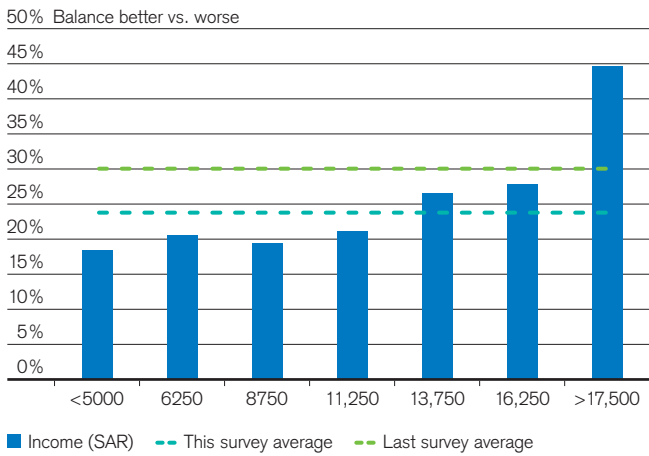
Table 1

Key macro indicators

GDP (2015E)	USD 653 billion
GDP per capita (2015E)	USD 20,711
Population (2015)	31 million
CPI inflation (2015E)	2.3%
CPI inflation (2016E)	4.3%
Real GDP growth (2015E)	3.4%
Real GDP growth (2016E)	1.7%
Real private consumption growth (2015E)	3.4%
Real private consumption growth (2016E)	2.6%

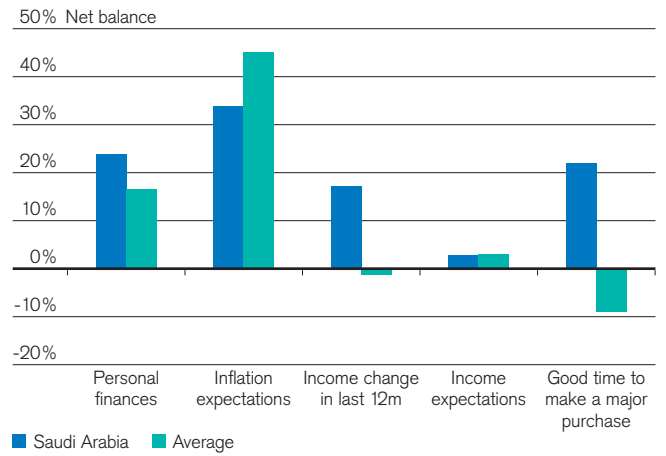
Source: Saudi Arabian Monetary Agency, United Nations, IMF, IHS Global Insight

Figure 1
State of personal finances over next 6 months



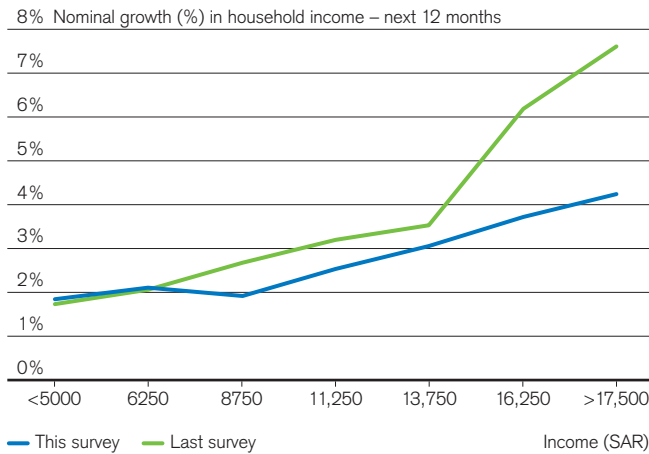
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



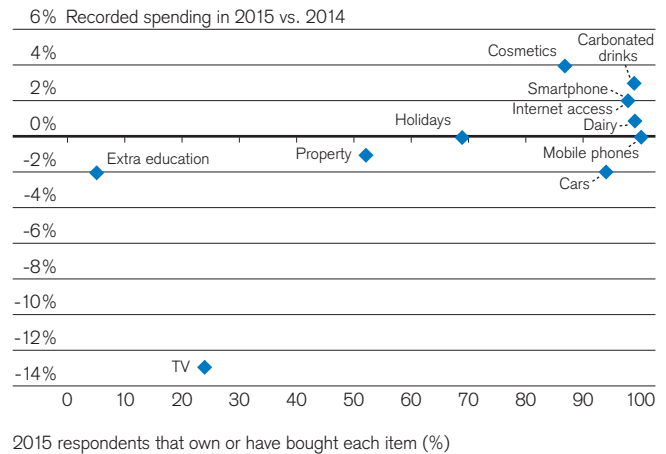
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



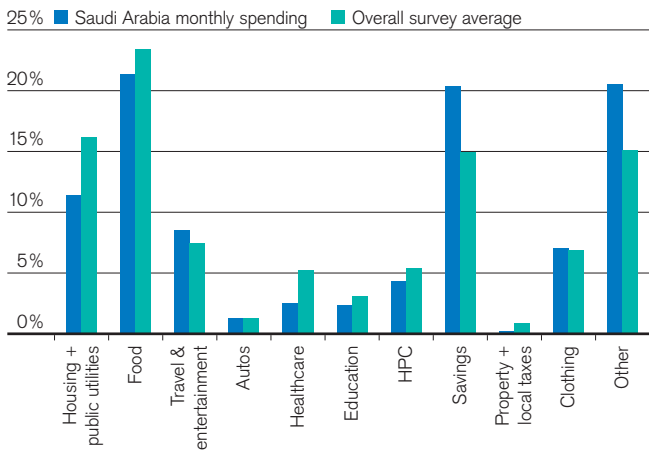
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 4
Spending momentum and market penetration



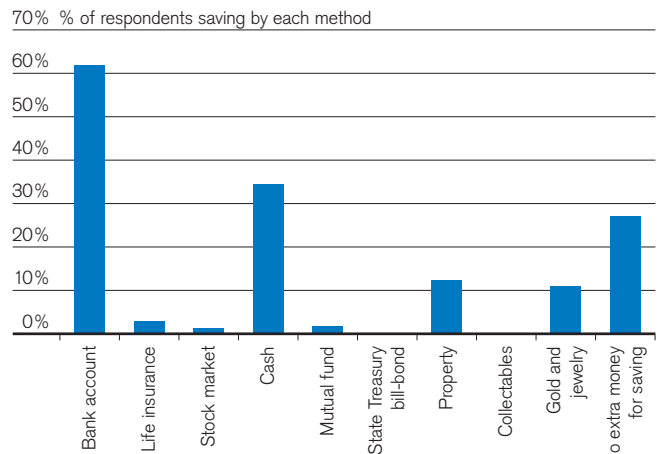
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

South Africa

Multiple challenges

Pieter Vorster

South Africa once again ranks at the low end of a range of the survey's indicators with continued disparities between income groups. The 2015 survey shows a marked decline in overall consumer confidence, and not only has the gap between high and low-income groups increased but much reduced optimism in the middle income groups was also evident. A net 4% of respondents expected their personal finances to improve over the next six months, considerably lower than the 11% last year and well below the survey average of 16%.

Inflation expectations are elevated and a net 65% of respondents expected higher inflation, compared with the survey average of 46%. This contrasts with only a net 1.5% of consumers anticipating increased income over the next 12 months. The majority of consumers still did not believe that now was a good time to make a major purchase, although sentiment was less negative than last year. Perhaps sur-

prisingly, those who stated that they had no extra money for saving declined from 38% to 30%, putting South Africa below the survey average of 32%.

There remain large disparities between low and high-income earners, and these increased further in 2015. At the high end (ZAR 30,000+ per month), a net 31% of respondents expected the state of their personal finances to improve over the next six months, similar to the 33% the year before. There was, however, a marked deterioration in optimism in the low-income group (monthly incomes below ZAR 3,000), with a net 16% anticipating that the state of their personal finances would deteriorate, compared with 6% the year before.

Whereas in our previous survey, Internet access and smartphone expenditure topped category momentum, this year has seen spirits registering the highest number of consumers who reported increased spending, closely followed by beer. Look-

ing at penetration rates, spirits stand out as a category with long-term growth potential, with a current penetration level of only 28%. A standout observation, albeit a concerning one, is a continued low and deteriorating propensity to devote money to education, with only 12% of respondents reporting spending in this area.

South African consumers face multiple challenges in 2016, with higher inflation due to severe drought conditions and a weak currency, as well as likely interest rate increases demanding higher shares of already constrained disposable incomes. The prospect of job cuts in the mining industry looms large, and will likely place further pressure on low-income households in particular, who are also expected to bear the brunt of drought-related food price increases. Mid- and higher-income households will likely face further interest rate hikes this year and, combined with currency weakness, constrain purchases of higher-end, often imported products.

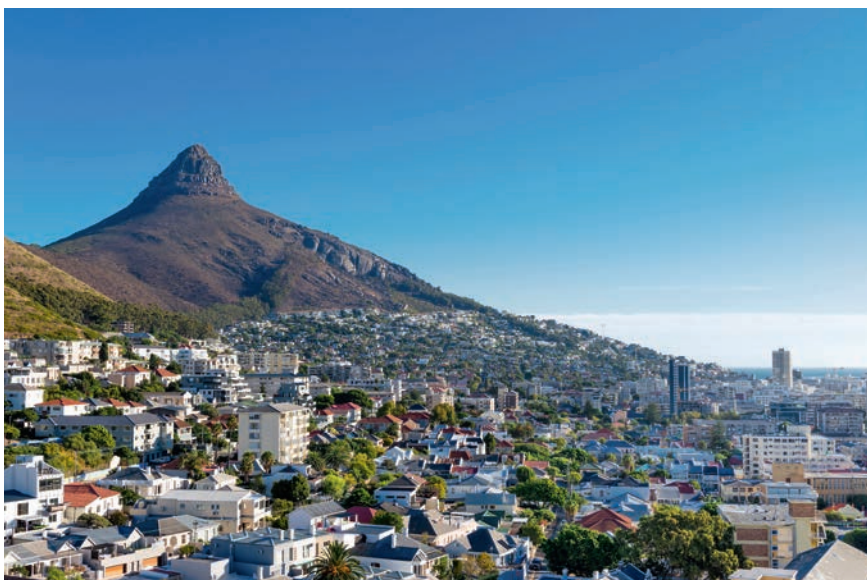


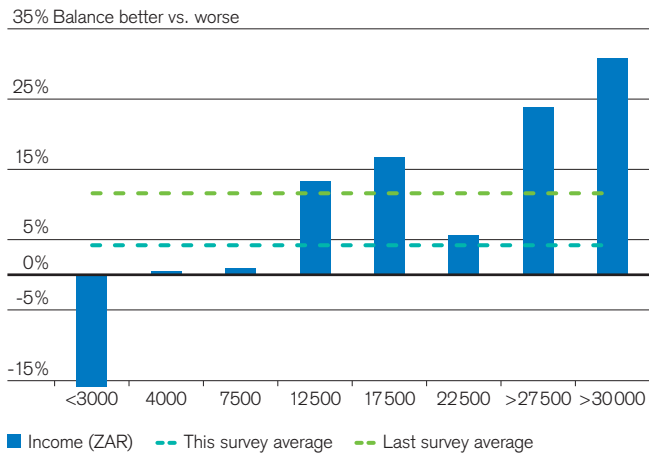
Table 1

Key macro indicators

GDP (2015E)	USD 315 billion
GDP per capita (2015E)	USD 5,733
Population (2015)	55 million
CPI inflation (2015E)	5.2%
CPI inflation (2016E)	6.4%
Real GDP growth (2015E)	1.3%
Real GDP growth (2016E)	0.9%
Real private consumption growth (2015E)	1.5%
Real private consumption growth (2016E)	0.7%

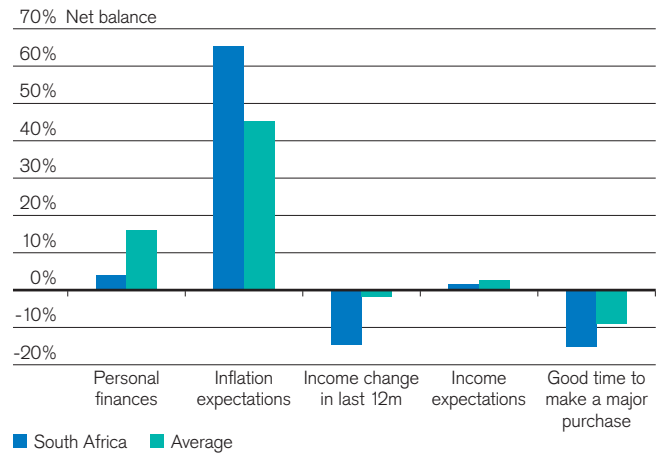
Source: South African Reserve Bank, Statistics South Africa, National Treasury, Credit Suisse estimates

Figure 1
State of personal finances over next 6 months



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 2
Consumer confidence indicators



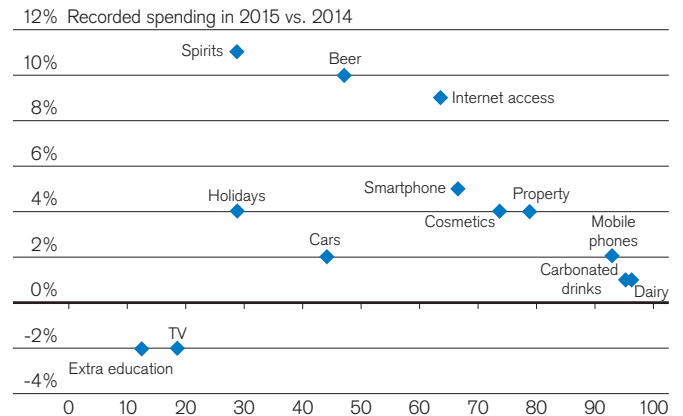
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 3
Nominal growth in household income



Source: EM Consumer Survey 2016, Credit Suisse research

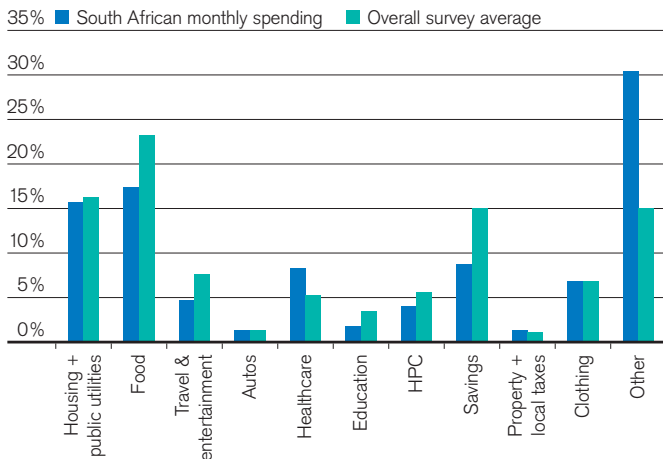
Figure 4
Spending momentum and market penetration



2015 respondents that own or have bought each item (%)

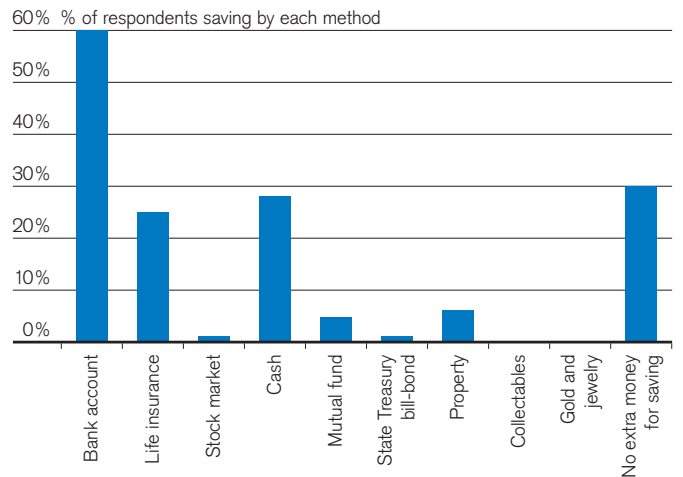
Source: EM Consumer Survey 2016, Credit Suisse research

Figure 5
Monthly spending by category



Source: EM Consumer Survey 2016, Credit Suisse research

Figure 6
Savings by distribution channel (%)



Source: EM Consumer Survey 2016, Credit Suisse research

Turkey

Moving up the rankings

Onur Muminoglu, Atinc Ozkan

Turkey stands fifth, and thus in the middle of our scorecard, having risen from sixth last year and seventh in 2014. This progress is notable, given a track record of engrained pessimism among Turkish consumers. Turkey has been the only country in the survey where personal finances are expected to improve, from a very low base of previous-year results. Inflation worries are also lowest. There is an implicit concern about the immediate outlook, with a net negative balance of 20% recorded for those seeing now as a good time to make a major purchase. Geo-politics may of course be an issue here.

Likewise, Credit Suisse economists' private consumption growth forecast for Turkey in 2016 is more constructive than ex-Asian emerging countries we surveyed. Furthermore, there have been a number of structural changes for Turkish consumer spending since early 2015, and we believe that the balance overall is slightly positive. The most important change is that Turkey has come out of the heavy election period of 2014/2015 with a continued single-party government after the November 2015 election, which was supportive for confidence (although there is still tension

in Turkey's south-eastern regions bordering Iraq and Syria). Second, there was a statutory 30% hike for minimum wage earners (effective January 2016). This should increase the disposable income of households representing c.13% of the population, and we think that the key beneficiaries will be food and beverages, personal care and electronics appliances. Finally, we expect foreign tourism activity to be visibly lower this year (due to sanctions imposed by Russia on charter flights and recent terror attacks). In contrast, the recently agreed EUR 3 bn of annual EU aid in addition to ongoing spending by the Turkish government for around 2 million Syrian and Kurdish refugees may support demand for food, basic needs and housing.

In terms of policy, we are expecting a more benign environment for 2016 versus 2015. Regulators introduced a few prudential measures in February 2014 by limiting instalment sales in a number of cyclical, import-driven sectors (such as mobile handsets and automobiles), given the structural current account problem in the Turkish economy. With the sharp fall in energy prices, we expect policymakers now to be less worried about the deficit.

The low-income segment could record a one-off boost in spending. Although it has historically been the highest income segment that has the most positive personal finance outlook, we note in Turkey's survey results this year that there is a YoY improvement in expectations of personal finances in the populous TRY 1001–2000 per month income bracket. This has not yet been reflected in the purchasing decisions for big-ticket items, since low-income earners only began to receive higher salaries in January/February 2016.

Turkish respondents are considering the highest spending increase in "semi-discretionary items", and consumer confidence indicators suggest that Turkish consumers are not yet convinced about making bulk purchases. There is already a good penetration of staples and thus we think that any incremental disposable income is likely to be spent on "affordable-but-non-necessity" items (such as alcoholic drinks, cosmetics and technology). We believe that the higher budgets for alcohol can be explained by pricing expectations rather than higher consumption (with heavy tax hikes and premiumization in the sector).



Table 1

Key macro indicators

GDP (2015E)	USD 727 billion
GDP per capita (2015E)	USD 9,852
Population (2015)	74 million
CPI inflation (2015E)	8.8%
CPI inflation (2016E)	7.8%
Real GDP growth (2015E)	3.9%
Real GDP growth (2016E)	4.1%
Real private consumption growth (2015E)	4.5%
Real private consumption growth (2016E)	4.0%

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

Figure 1
State of personal finances over next 6 months

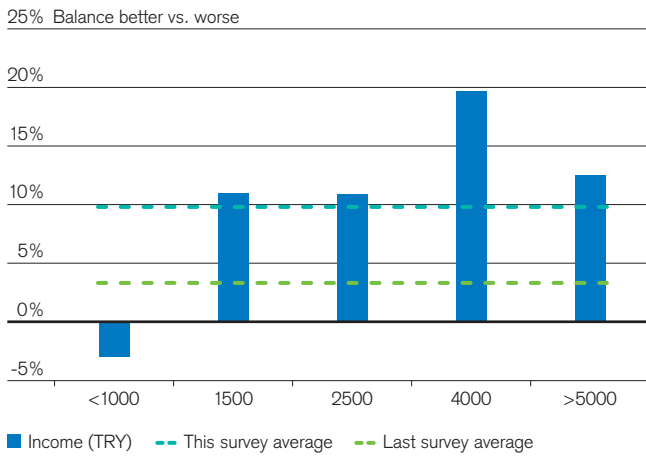


Figure 2
Consumer confidence indicators

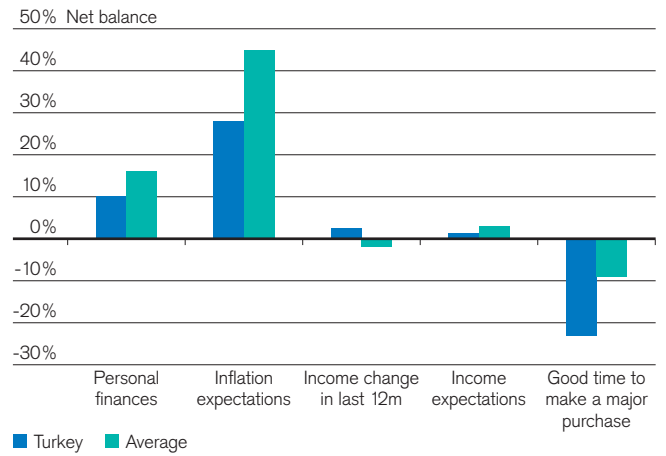


Figure 3
Nominal growth in household income

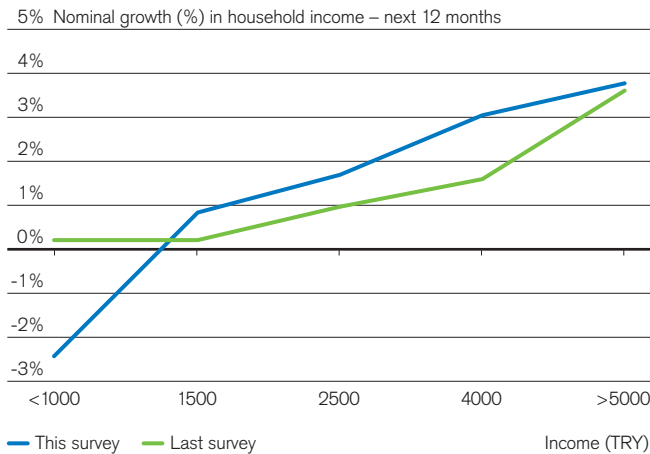


Figure 4
Spending momentum and market penetration

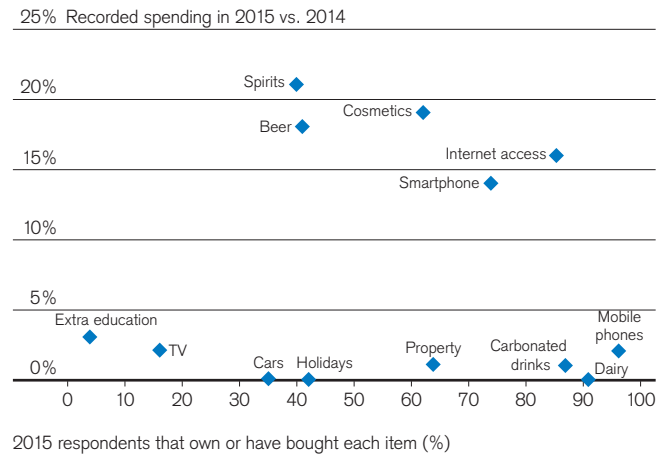


Figure 5
Monthly spending by category

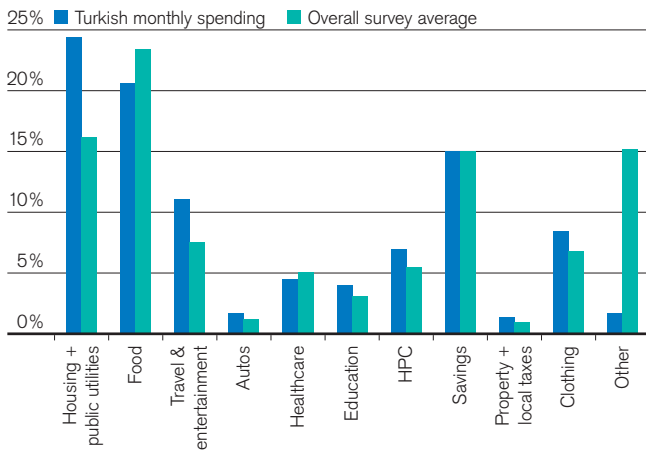
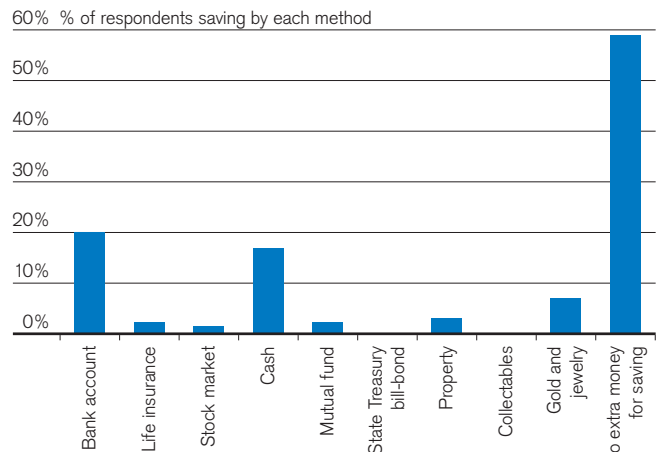


Figure 6
Savings by distribution channel (%)





alia long summer 2015 new collection

矜貴冬蟲夏草成份
激活肌膚、亮澤妝容

FITX 8週開! 目標減重10磅

601

5%

5%

5%

SOGO 30%

About the survey

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

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

The original AC Nielsen was founded in 1923 by Arthur C. Nielsen, Sr., who

invented an approach to measuring competitive sales results that established the concept of "market share" as a practical management tool. For nearly 90 years, they have advanced the practice of market research and audience measurement for the benefits of their clients in a constantly evolving marketplace.

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

Imprint

PUBLISHER

CREDIT SUISSE AG

Research Institute
Paradeplatz 8
CH-8070 Zurich
Switzerland

cs.researchinstitute@credit-suisse.com

PRODUCTION MANAGEMENT

Ross Hewitt
Katharina Schlatter

AUTHORS

Anton Trusov	Antonio Gonzalez Anaya	Arnab Mitra
Atinc Ozkan	Brandon Vair	Christy Halim
Dick Wei	Ebba Bjorklid	Ella Nusantoro
Eugene Klerk	Giovana Oliveira	Jo Walton
Julia Dawson	Kevin Yin	Marcelo Preto
Onur Muminoglu	Pieter Vorster	Rahul Shah
Rebekah Harper	Richard Kersley	Rohit Kadam
Sophie Chiu	Tim Ramskill	Tim Sun
Tobias Stingelin	Victoria Petrova	Wael Menhem

EDITORIAL DEADLINE

30 March 2016

General disclaimer / Important information

This document was produced by and the opinions expressed are those of Credit Suisse as of the date of writing and are subject to change. It has been prepared solely for information purposes and for the use of the recipient. It does not constitute an offer or an invitation by or on behalf of Credit Suisse to any person to buy or sell any security. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. The price and value of investments mentioned and any income that might accrue may fluctuate and may fall or rise. Any reference to past performance is not a guide to the future.

The information and analysis contained in this publication have been compiled or arrived at from sources believed to be reliable but Credit Suisse does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. A Credit Suisse Group company may have acted upon the information and analysis contained in this publication before being made available to clients of Credit Suisse. Investments in emerging markets are speculative and considerably more volatile than investments in established markets. Some of the main risks are political risks, economic risks, credit risks, currency risks and market risks. Investments in foreign currencies are subject to exchange rate fluctuations. Any questions about topics raised in this piece or your investments should be made directly to your local relationship manager or other advisers. Before entering into any transaction, you should consider the suitability of the transaction to your particular circumstances and independently review (with your professional advisers as necessary) the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. This document is issued and distributed in the United States by Credit Suisse Securities (USA) LLC, a U.S. registered broker-dealer; in Canada by Credit Suisse Securities (Canada), Inc.; and in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.

This document is distributed in Switzerland by Credit Suisse AG, a Swiss bank. Credit Suisse is authorized and regulated by the Swiss Financial Market Supervisory Authority (FINMA). This document is issued and distributed in Europe (except Switzerland) by Credit Suisse (UK) Limited and Credit Suisse Securities (Europe) Limited. Credit Suisse Securities (Europe) Limited and Credit Suisse (UK) Limited, both authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, are associated but independent legal entities within Credit Suisse. The protections made available by the Financial Conduct Authority and/or the Prudential Regulation Authority for retail clients do not apply to investments or services provided by a person outside the UK, nor will the Financial Services Compensation Scheme be available if the issuer of the investment fails to meet its obligations. To the extent communicated in the United Kingdom ("UK") or capable of having an effect in the UK, this document constitutes a financial promotion which has been approved by Credit Suisse (UK) Limited which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority for the conduct of investment business in the UK. The registered address of Credit Suisse (UK) Limited is Five Cabot Square, London, E14 4QR. Please note that the rules under the UK's Financial Services and Markets Act 2000 relating to the protection of retail clients will not be applicable to you and that any potential compensation made available to "eligible claimants" under the UK's Financial Services Compensation Scheme will also not be available to you. Tax treatment depends on the individual circumstances of each client and may be subject to changes in future.

This document is distributed in Guernsey by Credit Suisse (Channel Islands) Limited, an independent legal entity registered in Guernsey under 15197, with its registered address at Helvetia Court, Les Echelons, South Esplanade, St Peter Port, Guernsey. Credit Suisse (Channel Islands) Limited is wholly owned by Credit Suisse AG and is regulated by the Guernsey Financial Services Commission. Copies of the latest audited accounts are available on request. This document is distributed in Jersey by Credit Suisse (Channel Islands) Limited, Jersey Branch, which is regulated by the Jersey Financial Services Commission for the conduct of investment business. The address of Credit Suisse (Channel Islands) Limited, Jersey Branch, in Jersey is: TradeWind House, 22 Esplanade, St Helier, Jersey JE4 5WU. This document has been issued in Asia-Pacific by whichever of the following is the appropriately authorised entity of the relevant jurisdiction: in Hong Kong by Credit Suisse (Hong Kong) Limited, a corporation licensed with the Hong Kong Securities and Futures Commission or Credit Suisse Hong Kong branch, an Authorized Institution regulated by the Hong Kong Monetary Authority and a Registered Institution regulated by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); in Japan by Credit Suisse Securities (Japan) Limited; this document has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore Branch to overseas investors (as defined under the Financial Advisers Regulations). Credit Suisse AG, Singapore Branch may distribute reports produced by its foreign entities or affiliates pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact Credit Suisse AG, Singapore Branch at +65-6212-2000 for matters arising from, or in connection with, this report. By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore Branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. ; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorized entity in the relevant jurisdiction: Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, and elsewhere in the world by the relevant authorized affiliate of the above.

HOLT Disclaimer

The HOLT methodology does not assign ratings or a target price to a security. It is an analytical tool that involves use of a set of proprietary quantitative algorithms and warranted value calculations, collectively called the HOLT valuation model, that are consistently applied to all the companies included in its database. Third-party data (including consensus earnings estimates) are systematically translated into a number of default variables and incorporated into the algorithms available in the HOLT valuation model. The source financial statement, pricing, and earnings data provided by outside data vendors are subject to quality control and may also be adjusted to more closely measure the underlying economics of firm performance. These adjustments provide consistency when analyzing a single company across time, or analyzing multiple companies across industries or national borders. The default scenario that is produced by the HOLT valuation model establishes a warranted price for a security, and as the third-party data are updated, the warranted price may also change. The default variables may also be adjusted to produce alternative warranted prices, any of which could occur. The warranted price is an algorithmic output applied systematically across all companies based on historical levels and volatility of returns. Additional information about the HOLT methodology is available on request

CFROI, CFROE, HOLT, HOLT Lens, HOLTfolio, HOLTSelect, HS60, ValueSearch, Signal Flag, Forecaster, "Clarity is Confidence" and "Powered by HOLT" are trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

HOLT is a corporate performance and valuation advisory service of Credit Suisse.

This document may not be reproduced either in whole, or in part, without the written permission of the authors and Credit Suisse. © 2016 Credit Suisse Group AG and/or its affiliates. All rights reserved.

Also published by the Research Institute



**Latin America:
The long road**
February 2014



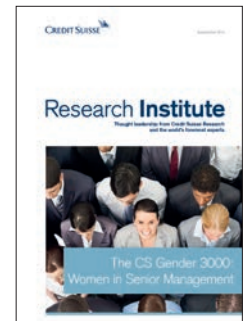
**Emerging Consumer
Survey 2014**
February 2014



**Emerging capital
markets: The road
to 2030**
July 2014



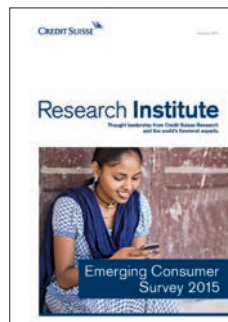
**The Success of
Small Countries**
July 2014



**The CS Gender 3000:
Women in Senior
Management**
September 2014



**Global Wealth
Report 2014**
October 2014



**Emerging Consumer
Survey 2015**
January 2015



**Credit Suisse Global
Investment Returns
Yearbook 2015**
February 2015



**The success of small
countries and markets**
April 2015



**The Outperformance
of Family Businesses**
July 2015



**Fat: The New
Health Paradigm**
September 2015



**The End of
Globalization or a
more Multipolar
World?**
September 2015



**Global Wealth
Report 2015**
October 2015



**How Corporate
Governance
Matters**
January 2016



**Credit Suisse Global
Investment Returns
Yearbook 2016**
February 2016

CREDIT SUISSE AG

Research Institute
Paradeplatz 8
CH-8070 Zurich
Switzerland

cs.researchinstitute@credit-suisse.com
www.credit-suisse.com/researchinstitute