Spotlight on the ASEAN Consumer
An Emerging Middle Class Continues to Drive Consumption Growth

Taken together, the 10 member countries of the Association of Southeast Asian Nations (ASEAN) represent a large, diverse and rapidly growing consumer and retail market. While Southeast Asia's economic growth has recently slowed somewhat amid broader global economic uncertainty, ASEAN countries continue to develop and invest in economic growth, improve infrastructure and raise overall living standards for their citizens. Not long ago, most ASEAN nations were considered to be "emerging" economies. Now the most vital of the group are supporting a large and growing middle class with higher average incomes and a greater ability to spend on consumer goods and services.

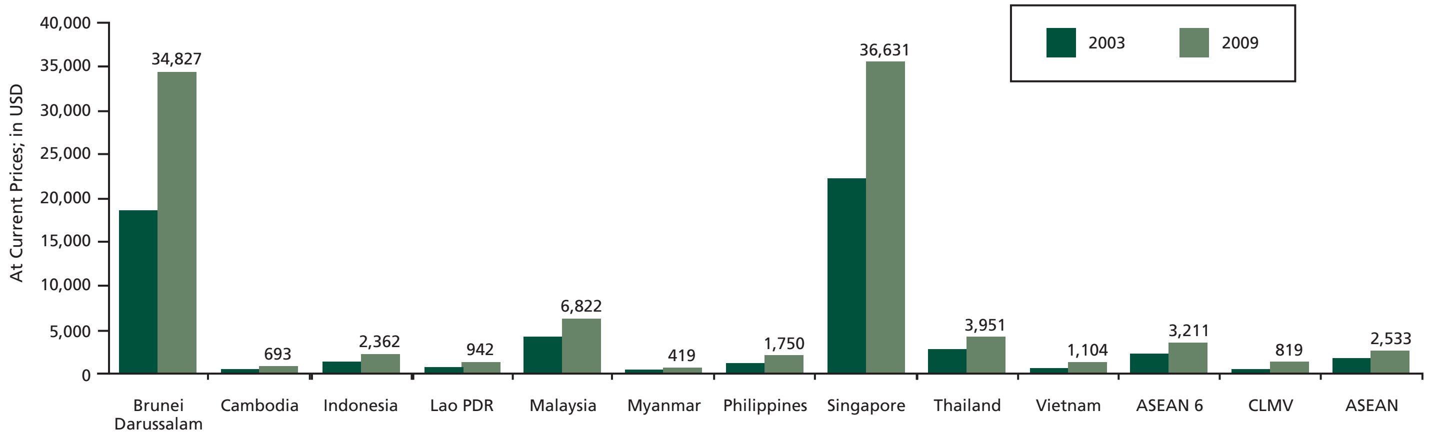
The ASEAN countries – Singapore, Indonesia, Thailand, the Philippines, Malaysia, Vietnam, Myanmar, Cambodia, Lao PDR and Brunei – have a collective population of more than 600 million people, nearly twice that of the U.S. and roughly half of that of China. The ASEAN ten's collective annual GDP exceeds $2 trillion and accounts for slightly more than 4% of global GDP. In 2011, total ASEAN GDP grew 4.7%.

Consumption patterns, however, are not even across this large and diverse region. The less developed ASEAN nations such as Myanmar, Cambodia and Laos PDR remain emerging economies. Others, such as Thailand, Malaysia, the Philippines and Indonesia, have matured beyond emerging status to become significant economies with strong consumption bases. Singapore, while small in population terms, now generates more GDP per capita than the U.S. and most EU countries. What's consistent across the board is a trend of rising household and disposable incomes which is key to unlocking greater consumer spending.

Indonesia is by far the region's largest economy with a population of 247 million people and a GDP in 2012 of $878 billion. In 2012 Indonesian GDP grew at 6.2%, and it's grown by an average of 5.7% per year over the past decade. Although the country is an enormous archipelago of more than 17,000 islands, most of Indonesia's middle- and upper-income population is concentrated around major cities on the island of Java.

Figure 1

2.3 GDP Per Capita in ASEAN Member States

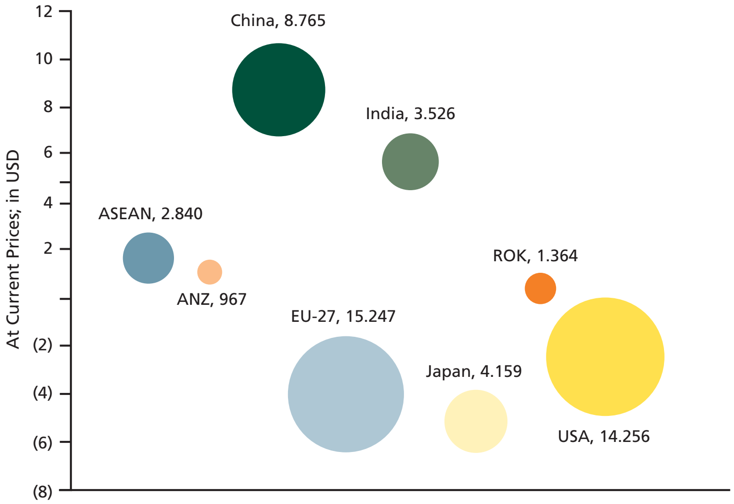


Notes: Myanmar data is based on the parallel exchange rate as used in the IMF-WEO database of April 2010 in which the USD$1=1.168 kyats (for 2009).
Source: ASEAN Finance and Macroeconomic Database and IMF World Economic Outlook Database, April 2010

Domestic consumption now accounts for two-thirds of Indonesian GDP. The purchasing power of Indonesian households has grown dramatically in recent years; by 2014 two-thirds of households are expected to have annual incomes of at least $3,000, about twice as many as were above that income rate in 2007. The increasingly wealthy and urbanized Indonesian middle class is spurring growth in consumer sectors such as fast moving consumer goods and food and beverage. Packaged and processed foods, for example, are now a $15-billion market with double digit growth rates since 2010.

Figure 2

1.3 Gross Domestic Product (GDP) in Billion PPP* Dollars and Rate of Change of Real GDP, 2009



*Purchasing Power Parity

Note: Size of bubble indicates level of GDP in current international (PPP) billion dollars while bubble position plots the growth rate of real GDP.

Source: ASEAN Finance and Macroeconomic Surveillance Database and IMF World Economic Outlook Database, April 2010

Indonesia's consumers are also attracting foreign retailers of food, apparel and luxury goods. In March two large Japanese retailers, Fast Retailing Co. Ltd., owner of the Uniqlo apparel brand, and retail mall developer Aeon Mall Co. Ltd, opened flagships retail operations in Jakarta. South Korea's Lotte Group has opened a few hypermarkets in the country already, and has plans for more, while Malaysia's Parkson Retail Asia and Thailand-based Central Retail Corporation are also planning to open stores next year.

Growth in Indonesia, however, has encountered headwinds as of late. Rising fuel prices and inflation have led to labor protests and subsequent increases in the minimum wage throughout Indonesia (each of the country's 33 provinces sets its own). The International Monetary Fund forecasts Indonesian GDP growth to slow to about 5% annually for 2013 and 2014 given these and other factors.

Consumption growth over the last decade has been similarly robust in **the Philippines**, which has a population of 97 million people and GDP of about $250 billion. According to the World Bank, average annual GDP growth in the Philippines has been about 5% since 2002, reaching 6.6% in 2012 driven by higher exports and government infrastructure spending. The fiscal reforms of President Benigno Aquino's government have recently earned the country "investment grade" ratings from Fitch, Standard & Poor's and Moody's as well as Chinese and Japanese ratings services.

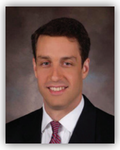
According to Bloomberg, Japanese investment in the Philippines grew about 30% in 2011, while global retailers Harry Winston Diamond Corp, Uniqlo Co. and Forever 21 Inc. have opened or expanded operations recently. Filipino car buyers bought 11% more autos in 2012 than in the prior year, according to the Chamber of Automotive Manufacturers of the Philippines.

A growing middle class in **Malaysia** (population 29.2 million, GDP $303.5 billion) has driven consumption, and exports of petroleum, gas and palm oil have been strong – leading Malaysian politicians to claim that the country will become a "prosperous economy" by 2020. However the country faces significant fiscal challenges, including weak public finances, lower government debt ratings, and ongoing political tension. Furthermore, plans to reduce public subsidies for fuel and sugar, as well as plans to raise tariffs on electricity in 2014, could dent growth in middle-class spending. Despite robust growth over the last few years, **Thailand** (population 66.8 million GDP $366 billion) has similar problems. The country slipped into recession due to rising prices and rising household debt. Since 2009, household debt as a percentage of GDP has risen from 55 to 80%.

The remaining ASEAN economies – **Vietnam**, **Myanmar, Cambodia** and **Lao PDR** – have been slow to develop a large middle class with money to spend on retail goods (**Singapore** and **Brunei**, both wealthy but extremely small, are special cases). **Vietnam** (88 million population, $141.7 billion GDP), for example, has seen overall average household income gains, however weak infrastructure and underdeveloped distribution networks have helped to perpetuate the large income gaps between towns and the countryside. Local grocery stores still predominate in the food and beverage space, although chain supermarkets are growing quickly. One promising note: a third of the Vietnamese population is under 24 years old.

While the ASEAN countries have all been affected by the sluggishness of the global economy (and the expected end of the Federal Reserve's quantitative easing program) they remain poised for further industrialization and growth. Near-term growth is likely to be slower than over the last decade, and the rate and form of that growth will vary by market. However, the rise of the middle class is well underway and looks set to continue for years to come.

Meet Our Experts



Peter Walter
New York

Jon Weber
Boston

Please contact us at retail@lek.com for additional information.