

Recession: Shifting Consumer Responses - September 2013

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We explore the latest news within consumer themes including the newest thrift news, shifting consumer loyalty and downsizing and to what extent consumers are trading up or back to normal. This tracker includes stories on how Colombians are riding high in luxury cars; Filipinos would rather splurge than save; and Austrians shop until they drop.

THRIFT UPDATE/FRUGALISTA NEWS

Favourable exchange rate entices Ramadan shoppers to Malaysia

Bazaars in Geylang Serai (traditionally the most popular area in Singapore for shopping during the month of Ramadan) saw a 70% drop in sales during Ramadan this year. The falling value of the Malaysian ringgit against the Singapore dollar prompted many Singaporeans to travel across the border to shop. Massage therapist and mother-of-five Nur Hayaty Jaafar told newspaper The Star: "We have come to Malaysia to buy most of our festive goods because everything is cheaper here. We saved about 30% on food and clothes."

SHIFTING CONSUMER LOYALTY (TAKING IN LUXURY/ BRAND NOSTALGIA/PRIVATE LABEL GOODS)

Chinese import restrictions lead to fears of milk formula shortage

The Chinese authorities have halted all imports of baby formula from New Zealand and Australia due to concerns regarding contamination with a bacterium that causes botulism. Consumers are worried that this will result in a shortage of formula and lead to higher prices. Imports of formula from Western Europe and North America are likely to increase. Many domestic consumers believe foreign brands of formula are safer than their domestically produced counterparts, with some stocking up on foreign brands when they travel overseas. Euromonitor International data states that value sales of milk formula in China were worth US\$14.6 billion in 2013, having more than doubled in real terms over the previous five years.

Polish small shops struggle to compete with supermarkets and hypermarkets

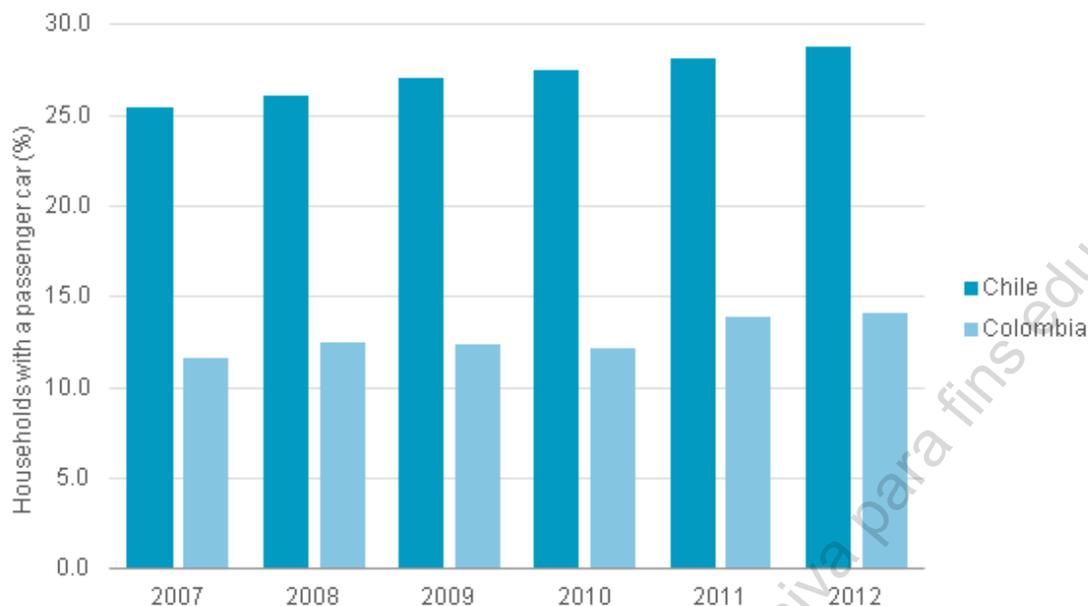
A study by the Polish Chambers of Commerce during late 2012 found that at least 50,000 small shops had gone out of business nationwide since 2009. According to Euromonitor International data, the share of Polish packaged food sales accounted for by independent small grocers plunged from 39.6% to 25.8% between 2007 and 2012. Over the same period, the share of supermarkets increased from 16.8% to 23%, while that of hypermarkets grew from 20.8% to 26.7%. Speaking to newspaper Gazeta Wyborcza, economist Maria Drozdowicz-Biec said: "As long as salaries keep decreasing, people will look for cheaper alternatives." At the same time, Poles will not be easily persuaded to return to small shops once they have become accustomed to supermarkets, he added.

Rise in sales of luxury cars in Colombia

According to data from the Colombian vehicle registration office (RUNT), demand for luxury cars boomed during the first quarter of 2013, with 3,906 new high-end vehicles sold. Business magazine La Semana attributes this growth to the weakness of the US dollar, market liberalisation in the automotive sector and an increased choice of luxury marques. All of these factors have helped

to push down prices. The most popular luxury marques are Mercedes-Benz, BMW and Audi, followed by Volvo and Mini. Sales of cheaper vehicles fell at an annual rate of 10% during the first quarter of 2013, according to RUNT. Euromonitor International data indicates that the proportion of Colombian households with a passenger car rose from 11.6% to 14.1% between 2007 and 2012.

Households in Chile and Colombia with a Passenger Car: 2007-2012



Source: Euromonitor International from national statistics

ATTITUDES TO PLASTIC, OTHER FORMS OF CREDIT AND SAVING

Lured by a weak rupee, expat Indians send more money home

The rupee's recent slump on foreign-exchange markets and higher interest rates in India are prompting Indian expats to send more money home as they now get more rupees for every US dollar they remit. Between May and mid-August, the value of the rupee depreciated by 13% against the US dollar. "There have been strong flows from the Gulf region in particular," A. Surendran, head of retail and international banking at Federal Bank India, told The National newspaper. Some are taking advantage of the situation by borrowing abroad to pay off loans taken out in India.

Filipinos living for the moment

Most Filipinos are spenders, rather than savers. Speaking to 24-hour news channel ANC, Benedicto Cid of consultancy Mansmith and Fielders said: "Some cultures value sacrifice, frugality and delayed gratification. Ours is not one of these - we like to enjoy life." He added: "We have a young population that is in love with brands." However, he predicted that "As these consumers grow older, they will learn the value of money." The Filipino economy has expanded steadily over recent years, with remittances from Filipino expats and young Filipinos employed by foreign companies driving growth in consumer expenditure. Euromonitor International data states that real per capita annual consumer expenditure in the Philippines grew by 10.1%, to US\$1,940, between 2007 and 2012, with the country's savings ratio declining from 2.7% to 2.5% over the same period.

Kuwaiti debt write-off fuels renewed boom in consumer lending

Following a decision by the Kuwaiti government to write off the interest on US\$2.6 billion in loans owed by local consumers, many of them have been going on spending sprees, website Bloomberg reports. In April 2013, a decision was taken to write off

the interest on loans issued prior to March the 30th, 2008, and to reschedule repayments on these debts into smaller instalments. Website Arabian Business noted that "Kuwait has been here before" but "Obviously little has been learned, as consumer lending in Kuwait has now surged to its highest level in almost four years." It concluded that "If consumers go out and build up more debt buying luxury goods, then it simply feeds into a vicious cycle of debt and debt relief."

More Thai households saving money, but overall savings rate dips

According to Chaiyasit Anuchitworawong of the Thailand Development and Research Institute (TDRI), a growing number of Thai households are saving money: the proportion of households with no savings fell from 48% in 1988 to 25% in 2009, TDRI data states. However, Euromonitor International data indicates that the country's savings ratio has fallen over recent years, from 16.3% to 14.2% of household disposable income, between 2007 and 2012. In real terms, per household annual savings fell by 9%, to US\$1,580, during this period.

DOWNSIZING, TRADING UP OR BACK TO NORMAL?

Romanians shy away from used mobiles

Despite their relatively low purchasing power, most Romanian consumers prefer to buy new rather than second-hand mobile phones. A survey by GfK during June 2013 found that 82% of Romanian mobile phone owners bought their device new, rather than second-hand. Those with a monthly mobile phone subscription and living in Bucharest were found to be the most likely to purchase a new phone. Euromonitor International data states that 83.1% of Romanian households had at least one mobile phone in 2012, up from 66.6% during 2007.

Huge new underground mall opens in Hanoi

On July 26th, thousands of shoppers visited a giant underground shopping mall in Hanoi owned by billionaire Pham Nhat Vuong on its first day of business. The mall, touted as Asia's biggest underground retail and entertainment complex, covers 230,000 square metres and boasts 600 shops, 200 restaurants, a cinema and an ice-skating rink. It aims to tap into a surge in Vietnamese retail spending. According to Euromonitor International data, annual retail sales in Vietnam grew by 27.3% in real terms, to US\$62.2 billion, between 2007 and 2012.

Upmarket wines thrive, even as overall consumption falls

Although volume sales of wine are falling in Chile, sales of ultra-premium domestic wines priced US\$200 or higher are growing. Euromonitor International data states that per capita consumption of still light grape wine in Chile (among those aged 15 years or older) fell from 19.2 litres to 14.7 litres between 2007 and 2012. Affluent consumers often buy five or even ten bottles at a time, according to newspaper Pulso, as these wines are produced in small quantities and sell out fast. As a result, the number of ultra-premium brands is growing.

THE GREEN BAROMETER OR ARE CONSUMERS FINANCIALLY FIT ENOUGH TO CARE?

Danish ethical eggs

Animal welfare proponents applauded Kvickly supermarket's decision to stop selling factory-farmed eggs across its 76 stores nationwide. "For us, it is about acting responsibly, and many of our customers want that as well, even though caged eggs are cheaper," the director of the chain, Jesper Faurholdt, told Politiken newspaper. Britta Riis from the Danish animal welfare society, Dyrenes Beskyttelse, hopes that other supermarkets will follow the lead.

German upcycling chic

Many less than well-off consumers down the years, adopting the adage of "waste not, want not", have turned over worn-out shirt collars, patched up threadbare sheets, unpicked old jumpers to knit into new ones, or sewed a dress out of curtains. A new branch of the fashion industry, under the banner of "upcycling", has rediscovered the art of thrift, not out of need but out of

environmental awareness. In Berlin, Luise Barsch, co-founder of fashion label Aluc, uses fabric swatches and spare bits of material from manufacturers. Others transform old clothes into chic new creations, out-of-uses fire-hoses into belts or lorry canvases into promotional bags, a trend started by the Swiss Freitag label. Websites such as recyclingbags.de and blogs like love2upcycle are showing ways of re-using some of the 2 million tons of fabrics and clothes that the German federation for Waste Disposal estimates are disposed of every year. 40% of these are recycled.

WHAT'S FOR DINNER?

Noodles grow in popularity in Indonesia

Indonesians are increasingly turning to cheap wheat-based foods, such as noodles, as an alternative to rice. 20-year-old student Mohammed Rezky Utama often eats a bowl of noodles after a long day in school. "They are cheap, tasty and don't need side dishes," he told news agency Reuters. Paul Deane, an agricultural commodity strategist at Australian bank ANZ, commented: "Increased fuel and food prices have led consumers to trade down to cheaper products, such as wheat noodles." According to Euromonitor International data, annual per capita consumption of noodles in Indonesia stood at 6kg in 2012.

Czech farmers' shops flourish

Following the success of farmers' markets in Prague over recent years, farmers' shops are beginning to sprout up around the city. In July, one customer told Radio Prague: "For me it is really important to support local products and local producers. I really get something that comes from the countryside. Many people have a problem with the prices because they are a bit higher, but I really don't care because I go there only once a week." Vojtech Kotecký of environmental organisation Hnutí Duha commented: "Consumer attitudes are already changing. Customers go to farmers' shops because they want quality, rather than cheap food. They have been scared by the many scandals relating to food from supermarkets over recent years." Nonetheless, farmers' shops are likely to remain a niche, as the majority of Czech consumers remain price sensitive.

TREATS THAT CONSUMERS CAN'T DO WITHOUT

Pakistani smartphone sales rising, but users still waiting for 3G networks

Website Channelnewsasia.com reports that sales of smartphones are beginning to take off in Pakistan, despite the country lacking a third generation (3G) mobile phone network to facilitate mobile internet access, let alone a fourth generation (4G) one. Mudassar Jehangir of More Technology magazine said: "Pakistan imports between 1.4 million and two million handsets a month, and around 9% of these are smartphones." He added that 3G networks were unlikely to be up and running before the end of the year.

Austrians shopping mad

A survey compiled in June by the Society for Consumer Research (GfK) shows Austrians to be the second most passionate shoppers in Europe. Despite an encroaching fear of a possible decrease in income, Austrians enjoy shopping more than any other Europeans. GfK interviewed 1,500 consumers in 12 European countries, awarding them a point score ranging from minus 100 to 100 depending on their perceived desire to spend. Austria scored 12, outshone only by German consumers. Data compiled by Euromonitor International show that internet retailing is also prospering with market value increasing by over 11% in 2012 over the previous year.

Japanese addicts spend millions of yen on smartphone game

According to the National Consumer Affairs Centre, 80% of the 5,000 inquiries they received last year related to mobile phone spending by adults, particularly those in their 30s. Many complained that they had been cheated into spending large amounts on virtual items in smartphone games.

One of the most notorious games is "IdolM@ster," the aim of which is to produce and manage pop stars. On average, those who lodged complaints admitted spending between ¥50,000 (US\$504) and ¥100,000 a month on the game. A book called

"Mobamasu Haijin" (IdolM@ster Addict), in which some interviewees admitted spending several million yen on this game, was published in June.

Spending on leisure over summer feels less committing to Israelis

Israel's broadsheet newspaper, Haaretz, reported that over the summer, locals have been splashing out on leisure despite the gloomy economy. Behavioural economist Dan Ariely points out that while Israelis feel it's not the time to spend money on permanent things that will commit them to extended instalment obligations; they are more comfortable splurging on leisure activities and holidays over the summer. In August, when most summer camps and other kids' activities have ended, parents look for more creative ways to spend the rest of the school holidays. Shopping centres, where they can spend hours in play areas, penny arcades, food courts and shops in a climate-controlled environment, are the simplest solution. Credit card companies which reported a limited 6.5% growth in purchases in July compared to July of 2012, are reporting that spending on entertainment and recreation increased by 9% to 17% in July 2013 compared to last July. Money spent at restaurants, cafes and on fast food increased by 13%, 9% and 14% respectively.

THE LATEST FROM THE CONSUMER COCOON (THE HOME/ENTERTAINMENT HUB)

Argentineans travelling to Chile for snow and shopping

Winter sports are a popular pastime among affluent Argentines. According to the Argentine Mid-Sized Companies Association, 4.3 million people travelled domestically during winter 2012, with 13% of them going to ski resorts. Although most Argentine skiers continue to favour local destinations, a growing number of them are crossing the border into Chile. According to Chilean government data, a record 60,000 Argentines crossed the border during July. Many utilise these trips to do a little shopping, and skiing is just a pretext. Consumer electronics are particularly popular, as import duties on these items are much lower in Chile than in Argentina. "TVs are 70% cheaper in Chile than in Argentina, so I bought two - one for me and another one for my brother," said 32-year-old Javier Montenegro.

Canadian homeowners prefer remodelling and repairing to moving

A nationwide survey by kitchen and bathroom tap maker Moen during March 2013 found that 80% of respondents had completed a home improvement project during the prior year, with 65% completing more than one. 78% said they planned to tackle "at least one" project during the next six months. According to Moen, "Canadian homeowners spent a median of C\$16,350 on home improvement during the 12 months to February 2013, up from C\$15,830 during the previous 12 months." It concluded that a growing number of consumers were remodelling their homes "to fit their lifestyles," rather than moving.

THE TRAVEL BUG?

Holiday flop for Italians

Due to a mixture of bad weather and stretched budgets, only three million Italians chose to take a holiday in June. According to market research data from news service Coldiretti, only 9% of Italians took more than one day's holiday outside their homes, leaving gelaterias, bars and restaurants empty. The crisis has also forced families to reduce their holiday budgets, with 33% of Italians forgoing the cinema, theme parks and discos. 25% fewer people economised on hotels, resorting to lower grade hotels and hostels, while 11% of holidaymakers gave up buying souvenirs.

Mexican tourists are big spenders

A growing number of Mexicans are travelling abroad as tourists. Euromonitor International data states that the number of leisure departures from Mexico grew from 9.8 million in 2000 to 14.1 million during 2012. Many of them are big spenders: a study conducted by consultancy Factor Delta based on 2012 data found they "were among the top-35 biggest spenders worldwide." It added that "Mexican tourists now book their trips earlier, stay away for longer and spend more."

Spanish thrifty summer fun

News agency AFP reports that cash-strapped Spaniards are still finding ways to go on holiday and enjoy themselves this summer. Madrid resident José Lázaro is unemployed, but this has not stopped him from taking his family on their annual camping trip. The campsite in El Escorial, northwest of Madrid, is one of many offering free short stays to unemployed families with children. "We have noticed that guests are booking three or four days instead of one or two weeks. We have adapted and now offer special rates," said Carlos Perez, marketing manager at El Palasiet, a spa hotel in Benicassim. "Spanish people are going abroad less. Instead, they drive to their parents' village to get out of the city and relax for a while," he added.

Brazilian shoppers splash the cash in Miami and Buenos Aires

Brazilians are shopping abroad like never before, with Miami in the USA and Buenos Aires in neighbouring Argentina the most popular destinations. According to data from Brazil's central bank, the expenditures of Brazilians abroad reached a record US\$12.3 billion during the first half of 2013.

According to newspaper Folha de São Paulo, Brazilians "love" Miami, even though the average price for a 13-day touristic package in Florida rose by 16% between March and June. During July, there were 112 flights from Brazilian airports to Miami, up from 91 in July 2012. Most of them were fully booked, the newspaper said. Meanwhile, Buenos Aires remains the most popular destination for international flights from Brazil.

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