# BRICs Monthly

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## The BRICs as Drivers of Global Consumption


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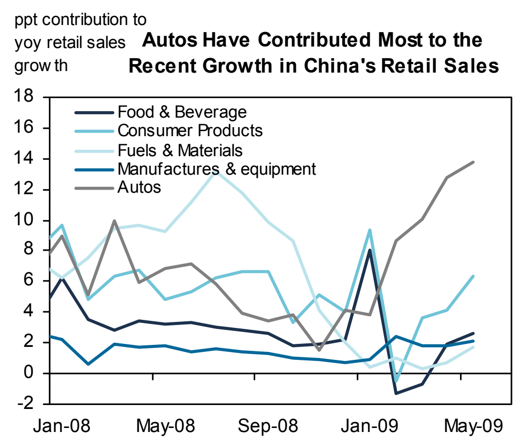
**As the G3 countries face a slow and difficult recovery, final demand will need to rise in the rest of the world to sustain global growth in the future. The world can look to the BRICs to increase their contribution to global domestic demand through higher consumption. This month we examine this possibility through consumption trends in the BRICs.**

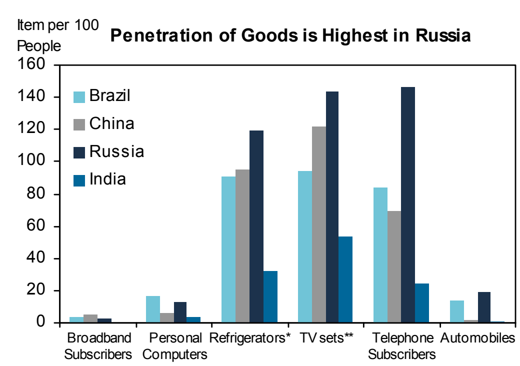

Real retail sales in the BRICs, with the exception of Russia, have held up much better than in the advanced economies over the past two years, and we expect this trend to continue. Our consumption growth forecasts imply that, by 2010, the BRICs will contribute almost half of global consumption growth.

This month, we look at the individual components responsible for this resilience. In China, consumer-based components (consumer products, food and beverages) have contributed the most, compared with other components, such as materials and equipment. Auto sales have picked up markedly in both China and India. In Brazil, retail sales have recovered substantially, thanks to government tax breaks, monetary and fiscal policy stimulus, and the resumption of credit lending to households. On the other hand, the sluggish retail sales report from Russia is mainly due to the sharp decline in non-food products.

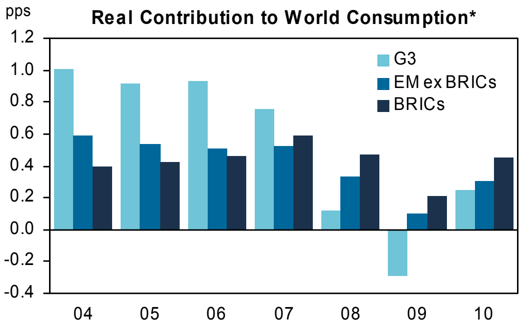
The resilience of BRICs' consumption is supported by our now well-known, long-term growth story, according to which we expect income per capita to continue to rise in the BRICs and spending power to shift from the richest countries towards a growing middle-income bloc, comprising emerging markets in general and the BRICs in particular. The rise in consumption is more apparent as the penetration of different goods in the BRICs economies, with the exception of Russia, is currently low, suggesting there is more room for growth.



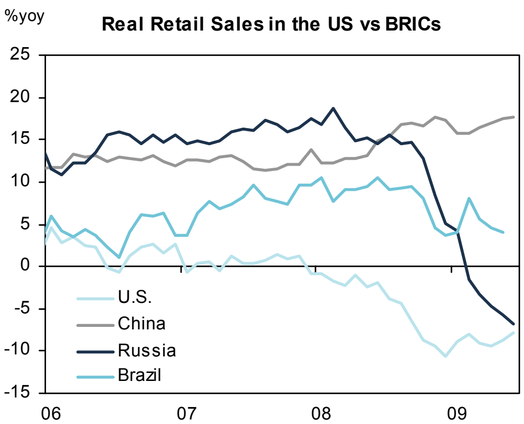
Source: China National Bureau of Statistics.



Most recently available data.
*As a % of urban households
**As a % of households
Source: National Sources. World Bank.




*Calculated from consumer expenditure for India, US, Japan, Euroland, and EM ex BRICs. Brazil and Russia use private consumption and China uses household consumption. Annual averages 2004-08, GS forecasts 2009-10.
Source: GS Global ECS Research.

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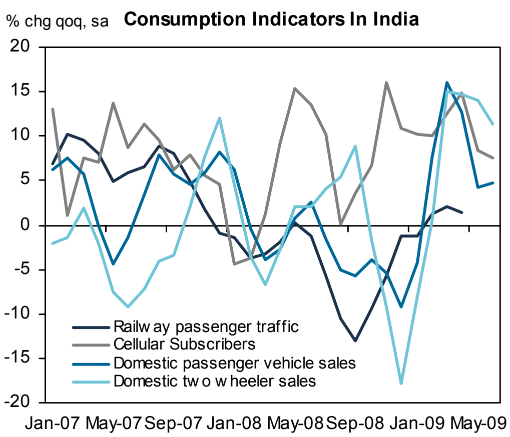
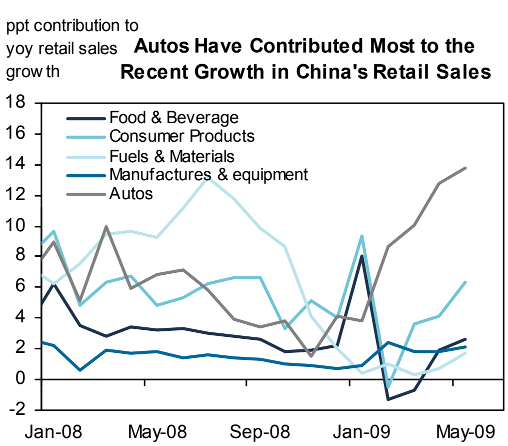



Source: National Sources. GS Global ECS Research.




Source: China National Bureau of Statistics.

## Are the BRICs the Future Drivers of Global Demand?

- Given that we expect the G3 to experience a tepid recovery next year, it is the emerging markets that will contribute the majority of world consumption growth in 2010, and the BRICs will account for a significant part of that contribution.

- Our consumption growth forecasts imply that, by 2010, the BRICs will contribute almost half of global consumption growth. In particular, China will contribute almost 30% of global consumption growth, more than the G3 and almost double that of the US.

- We have already seen these forecasts begin to play out in indicators such as retail sales data. While retail sales account for only a portion of household consumption expenditure, they are a strong indicator of final private consumption.

- We estimate that real retail sales growth in China accelerated to a historical high of 17.6%yoy in June, slightly higher than the 17.4%yoy recorded in May. Brazil's real retail sales growth, although lower than in 2008, remains significantly positive and comparable to growth rates in early 2007. We expect private consumption to increase in Brazil from 2009Q3 to the end of 2010.

- While there is no direct measure for retail sales in India, other data act as coincident indicators. Vehicle sales, often a major component of retail sales, have picked up markedly and are now growing faster than before the crisis. Cellular subscriptions have held up well and railway traffic has also improved fairly steadily since the low.

- Meanwhile, after years of strong growth, Russia is the only BRIC where retail sales growth has been suffering since the beginning of the year: the latest June print showed a decline of 6.72%yoy in real retail sales growth, on the back of a sharp fall in non-food products.

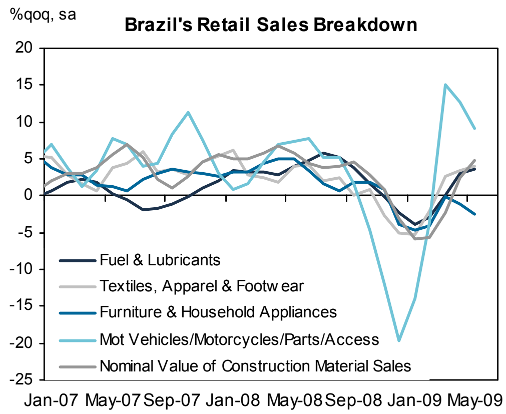
## Auto Sales Contribute Most to China's Retail Sales

- In China, a breakdown of retail sales shows that automobile sales have risen dramatically over the past six months, lifting retail sales with them. Interestingly, the more consumer-based components (consumer products, food & beverages and autos) have contributed the most to the recent rise in retail sales in China, rather than other components, such as materials and equipment.

- While we expect Chinese household consumption to be slower in 2009 than in previous years, we think it will return to double-digit growth in 2010. Although part of this recovery is due to the significant monetary and fiscal policy stimulus over the past year, we also note that the authorities have embarked on social security reform. It seems that China has entered a new, healthier stage of economic development led by domestic demand and consumption.

- In Brazil, the recovery in retail sales reflects the temporary reduction in IPI sales taxes as well as both monetary and fiscal stimulus. Also important, the real wage bill has been resilient and continues to grow, albeit at lower rates.

- The vehicle component of Brazilian retail sales fell dramatically at the end of 2008, but recovered substantially in 2009. Other components have followed similar, albeit less dramatic, paths. The exception is furniture and household appliances, which continue to languish. In general, the government's strategies seem to have succeeded in boosting demand, though at the expense of a worsening fiscal position.

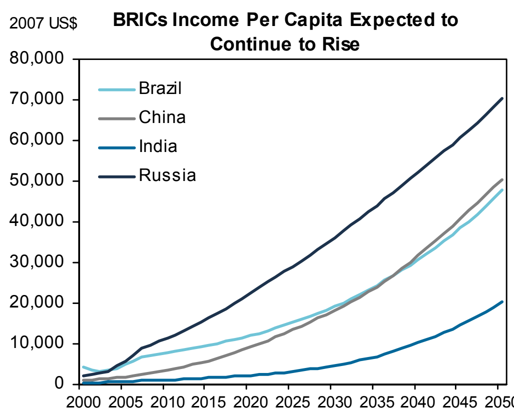



Source: Fundação Instituto Brasileiro de Geografia e Estatística

## Consumption in the BRICs Likely to Rise Further In the Long Term

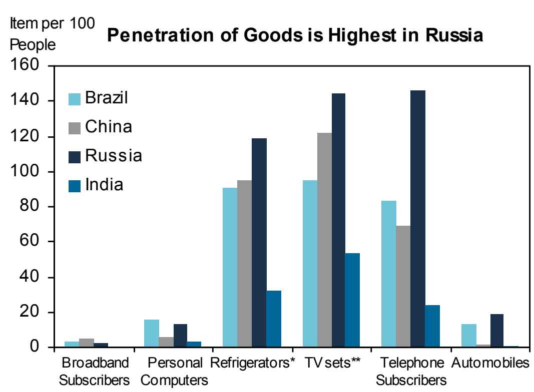
- In the long run, our projection implies that income per capita in the BRICs will continue to rise. Also, spending power is likely to shift away from the richest countries towards a growing middle-income bloc, comprising emerging countries in general, and the BRICs in particular (see *Global Economics Paper 170*: "The Expanding Middle Class"). This will lead to higher consumption as BRICs middle-class consumers catch up with their counterparts in richer countries.

- The rise is more apparent as the penetration of different goods (number of goods per 100 people) in the BRICs economies, with the exception of Russia, is currently low, suggesting there is more room for growth. Russia is generally the most mature consumer market, followed by Brazil; given that income per capita is much higher there than in India and China, Russia and Brazil are ahead in the development stage.




Source:GS Global ECS Research

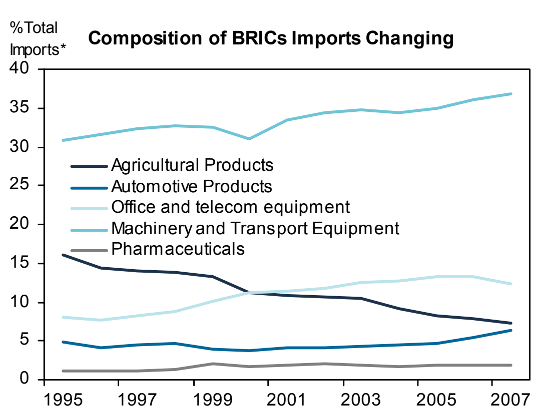
- Although China's income per capita is lower than Brazil's, the penetration of some goods (broadband subscribers, refrigerators, TVs) is higher than in Brazil. However, the number of cars per 100 people in China is significantly below that in Brazil and Russia, which implies that car sales will continue to grow rapidly as the country tries to catch up with the living standards in these other emerging markets.




Most recently available data.
*As a % of urban households **As a % of households
Source: National Sources, World Bank.

- Of the BRICs, India is the clear laggard in penetration of goods. However, as the middle class continues to grow and consumer expenditure rises, there is plenty of room for increased consumption. In particular, consumption is likely to rise when the rapid economic growth in China and India feeds through to the rural population.

- The change in the structure of consumption in the BRICs is also likely to gradually transform the type of products that the BRICs import, with the import share of low-valued-added goods falling. The import share of agricultural products has already fallen across the board from 1995 to 2007, as BRICs consumers slowly increased their imports of higher-value-added goods, such as cars and office & telecom equipment.



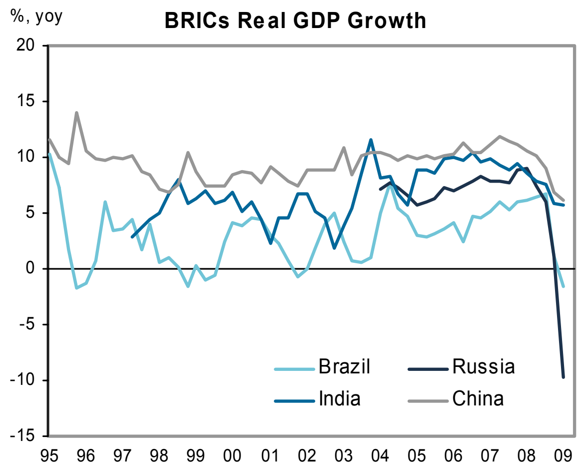

*Equally w eighted average of individual BRIC countries.
Source: WTO, GS Global ECS Research

- Russia's composition of imports has changed the most, with the import share of cars rising sharply from 5% in 1990 to 15% in 2007, and the share of agricultural products falling from 12% to 6% over the same period.

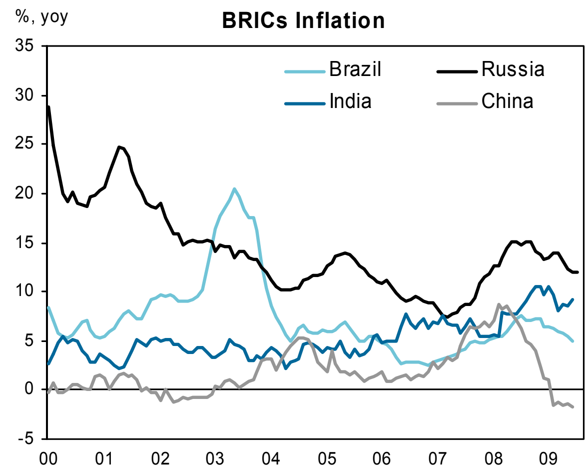
- In China, the import share of office & telecom equipment has increased dramatically since the late 1990s. China's import share of automotive products remains low at 2.5%, compared with 6.8% in Brazil and 14.7% in Russia.

# Economic Activity in the BRICs

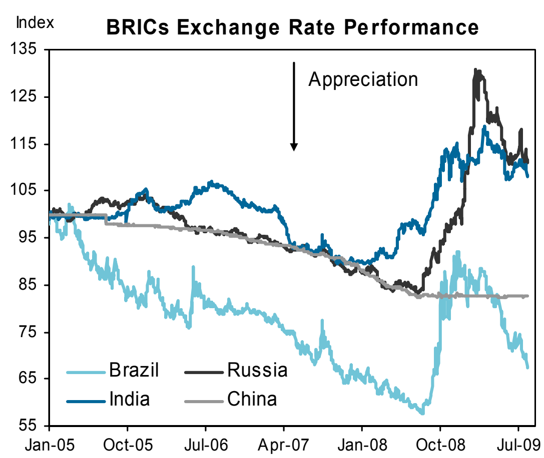
*In China, real GDP growth accelerated to 7.9%yoy in 2Q2009. We estimate sequential GDP growth accelerated to 16.5%qoq (annualised).*




*Headline inflation in China has remained in negative territory since February. Meanwhile, inflation continues to fall in Brazil.*




*The BRL appreciated 3.5% in July as commodities rallied and investors took on more risk. Meanwhile, the RUB has benefited from higher a oil price.*




*After dropping in mid-July, Russian equities have rallied substantially (more than 30%). Brazilian, Indian and Chinese equities have also rallied.*