



FEATURE

Asian consumers

The pandemic continues to weigh on wallets and minds

Akrur Barua

The resurgence of COVID-19 in parts of Asia will likely weigh on consumer optimism. As key services sectors continue to feel the burden, consumer incomes are expected to suffer. Speedy vaccination now seems the only way to revive sentiment and wider economic activity.

IT MAY BE tempting to hope that Asian consumers will promptly come to the rescue of their economies, just as they did after the global financial crisis of 2008–2009.¹ But hope amid a pandemic may not be the best weapon to fight a way out of the economic upheaval of 2020.² The experience of handling previous health care crises,³ such as SARS, may have served governments and people well in Asia in this pandemic. Yet COVID-19 is proving to be a more formidable enemy, one that cannot be defeated easily and with a tenacity to surge back right when things appear to be in control. That's why even countries that dealt with the virus most effectively in 2020 are witnessing a rise in cases this year again.

The sheer unpredictability of the ebb and flow of the pandemic has not only brought unprecedented economic uncertainty but has also been tough on people's emotions as they deal with the health-related impact of the virus. Asian consumers, therefore, are fighting on two fronts. Will they be able to overcome this plight and rise again? Yes, certainly so. Data reveals that consumers have been resilient and spending has gone up since the initial shock of the pandemic. But to go back to pre-COVID-19 growth trends, the pandemic must end, or at least there should be a strong, sustainable decline in new cases. That, unfortunately, isn't possible without large-scale vaccination. While vaccination is gathering pace in the region, it will take time to inoculate everyone, especially in countries with large populations. And even when consumers emerge from the pandemic to take charge of an expected recovery starting this year, many will start with balance sheets much weaker than prepandemic levels.

Them waves just keep coming

As 2021 started, hopes were high that GDP growth would pick up sharply in Asia. For example, in April, the International Monetary Fund (IMF) forecasted 12.5% GDP growth for India in the current fiscal year and 6.9% in the next—a sharp rebound from a 7.3% contraction in FY2020–21.⁴ Yet, in a world where COVID-19 is still a force, fortunes change fast. As India suddenly stepped into a second wave,⁵ authorities started implementing localized lockdowns and strict social distancing measures to curb the virus's spread. These measures—some of which were relaxed recently—have clouded some of the early optimism regarding the country's economic outlook. No wonder, then, that the IMF acknowledged the downside risks to India's growth in May due to a second wave of virus cases, hinting at a relook at its forecasts in its interim outlook in July.⁶

When Asian consumers emerge from the pandemic to take charge of an expected recovery starting this year, many will start with balance sheets much weaker than prepandemic levels

India's experience is not unique. Many countries have faced a renewed surge in cases this year after managing to keep a tab on the virus in 2020. In

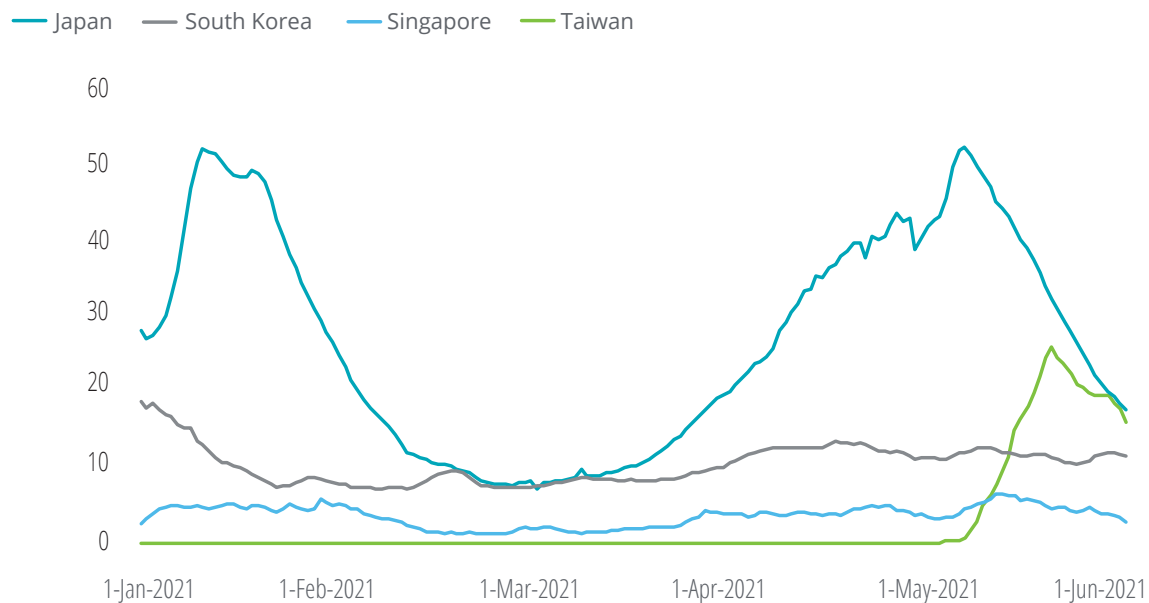
Malaysia, the daily average of new virus cases in May was more than three-and-a-half times that in March, while in Thailand, the figure went up from 1.3 cases per million to 43.7 during this period. Even Singapore and Taiwan, which had managed to control the spread of the virus last year, witnessed rising cases in recent months (figure 1). In China, where the pandemic appears more in control since the middle of 2020, the threat of new infections has forced administrators to implement strong social distancing measures and mass testing.⁷ In fact, for every country, tighter restrictions and surge in testing and treatment appear like a standard playbook applied every time virus cases rise, thereby putting resources and health care systems to arguably the toughest of tests.

It is unlikely that these waves—large or small—of COVID-19 will cease soon, not at least till a large majority of the people are vaccinated, thereby ensuring some form of herd immunity.⁸ Yet, as of June 8, the share of population that has been vaccinated is still relatively low in most countries (figure 2) despite vaccination picking up pace.⁹ Even in China, who is leading the world in total vaccines administered (about 809 million doses), total doses administered per 100 people was 56.2 as of June 8—not enough for sustainable immunity in the country, given that the vaccine regime requires two doses per person.

FIGURE 1

Virus cases have gone up this year even in economies that tackled the pandemic well in 2020

Seven-day moving average of daily new confirmed cases of COVID-19

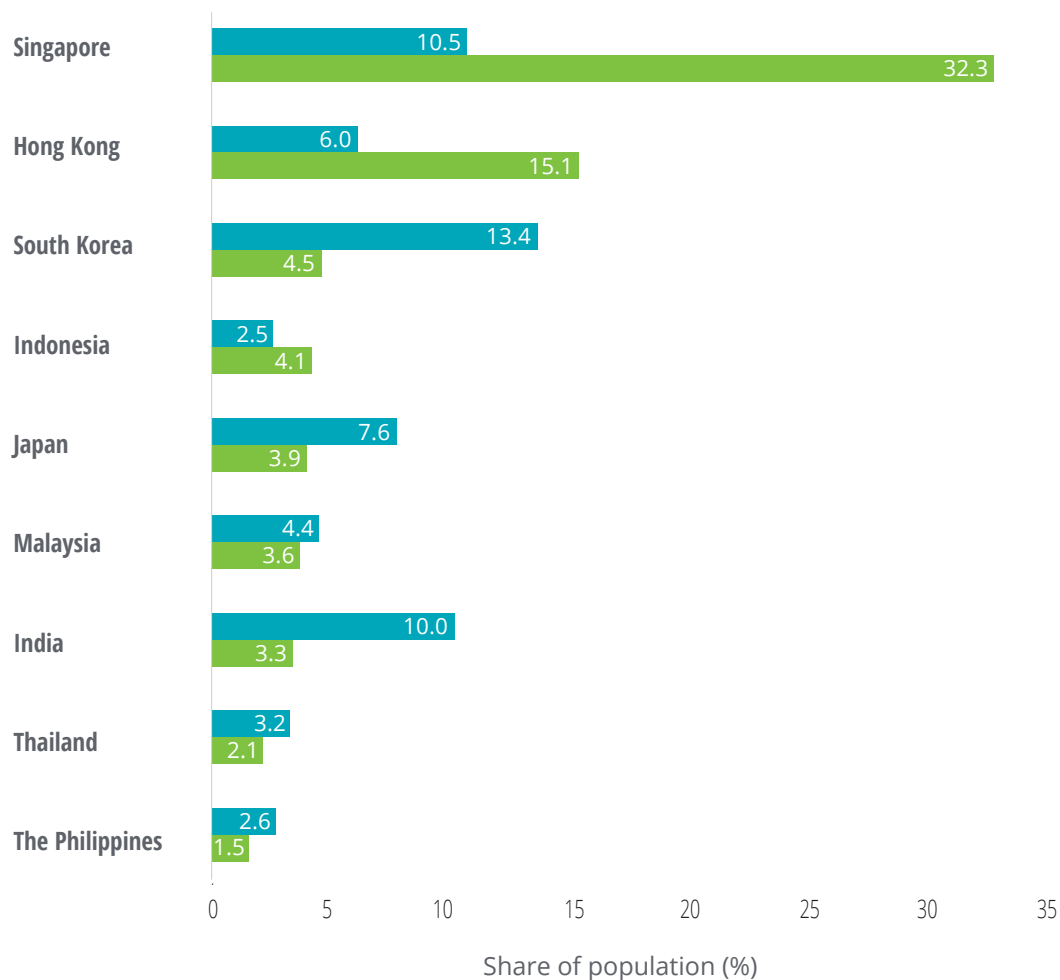


Sources: Johns Hopkins Coronavirus Resource Center; Our World in Data; Deloitte analysis.

FIGURE 2

The pace of vaccination against COVID-19 has increased, but there's a long way to go

■ Partially vaccinated ■ Fully vaccinated



Sources: Our World in Data, accessed June 8, 2021; Deloitte analysis.

Some services sectors will remain under pressure as long as the pandemic continues

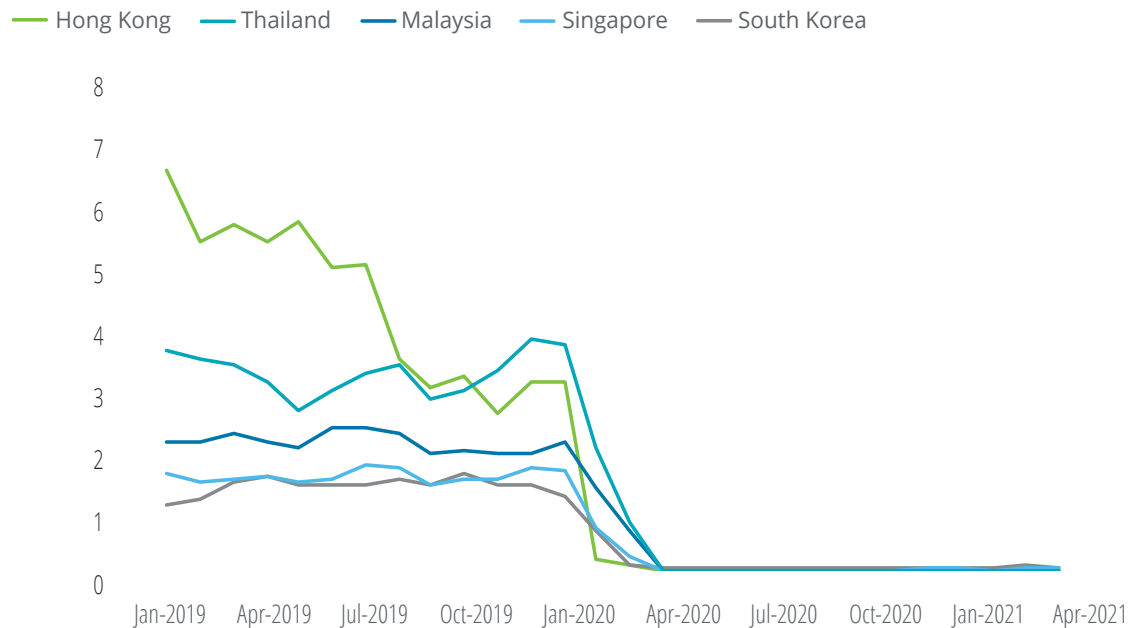
It's not just the health-related impact of the pandemic that has been severe; economic activity, too, has suffered. Fears about catching the virus, air travel restrictions, and social distancing

measures have hit key services sectors, such as tourism, aviation, hospitality, entertainment, and food services. In Thailand, where tourism has traditionally been a key contributor to national income, tourist arrivals have nearly ground to a halt—the figure for April 2021 was about 3.9 million less than for December 2019. Other Asian tourism havens have also fared similarly (figure 3).

FIGURE 3

The drought in tourism arrivals will continue to be a drag on key tourism destinations in Asia

Tourist arrivals (Y-axis, in millions)



Note: Data shown for Hong Kong is for visitor arrivals.
Sources: Haver Analytics; Deloitte analysis.

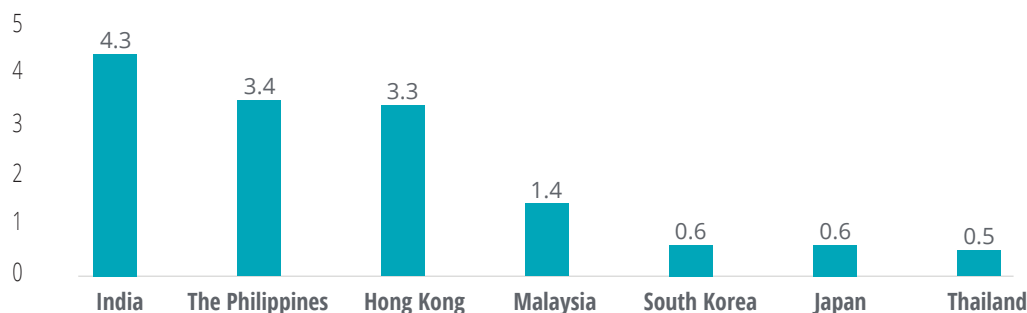
Frequent travel restrictions have added to the pain for travel and aviation. According to the International Air Transport Association, revenue passenger kilometers fell 62% in 2020 and were down 60.4% in March 2021 compared to two years back.¹⁰ Such restrictions, along with a sharp decline in the number of leisure and business tourists, have also dented hospitality. In Singapore, hotel room revenue in April was still 75.7% lower than that witnessed two years back. In Hong Kong, while hotel occupancy has been edging up since the middle of 2020, occupancy rates (57% in April 2021) are much lower than in the prepandemic period (79% in 2019). Moreover, new waves of the pandemic are expected to only add to the uncertainty. In India, for example, hotels and restaurants witnessed a slight uptick early this year but then had to contend with localized lockdowns due to the second wave of COVID-19, raising again the specter of steep losses and closures.¹¹

The dent to these services sectors has, in turn, weighed on economic growth. According to the IMF, GDP in emerging and developing Asia fell by 1% in 2020, the only time a contraction was reported since the IMF's series on the bloc started in 1980. And although China fared better than its peers within the bloc, such as India and the Association of South East Asian Nations, economic growth in the country fell to 2.3% last year from 5.8% in 2019. Furthermore, labor markets have been hit hard due to weak economic conditions, with recent spikes in virus cases likely to weigh on employment growth in services yet again. In India, amid a second wave, unemployment shot up through April to 11.9% in May. In other economies, too, unemployment remains high relative to prepandemic levels (figure 4).

FIGURE 4

Unemployment in Asia is still high compared to prepandemic levels

Difference in the unemployment rate in April 2021 relative to December 2019 (percentage points)



Sources: Haver Analytics; Deloitte analysis.



Declining income and rising poverty have added to consumers' setbacks

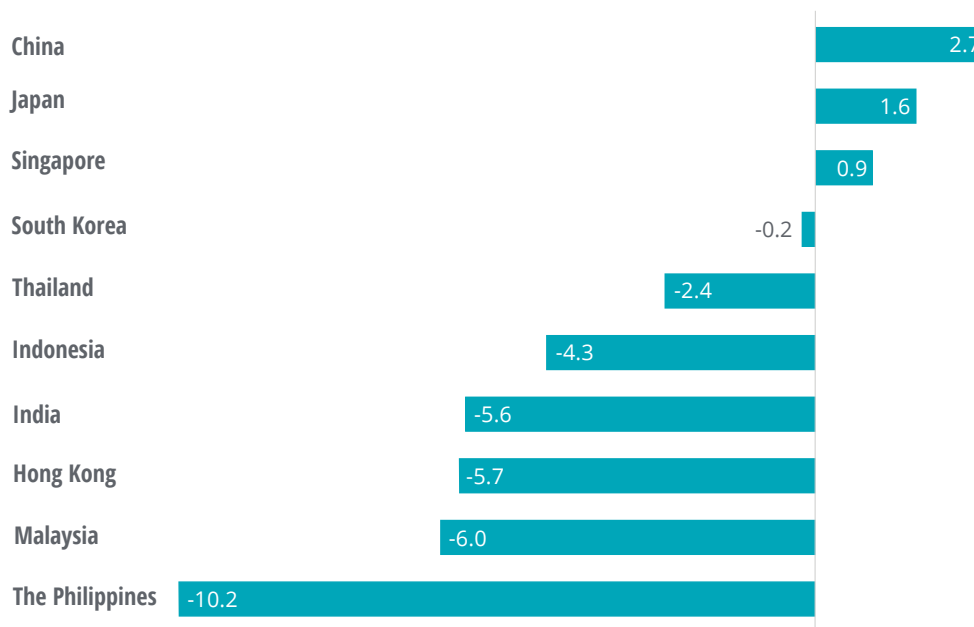
The fallout of labor market woes is the decline in income. Real disposable personal income (DPI) fell sharply for key Asian economies in 2020—it was as high as 10.2% in the Philippines (figure 5).¹² Many households, therefore, have been forced to cut back on spending and borrow more to tide over the crisis. Consequently, household debt has gone up and will likely stay elevated in the near to medium term. This is concerning, especially for economies that were dealing with high household debt even before the pandemic. In Malaysia, for example, total household financial liabilities as a ratio of DPI went up to 161.4% in 2020 from 143.4%, while in South Korea, it went up to 204.8% from 189.3%.¹³

The pandemic has also reversed years of progress in alleviating poverty in Asia. According to the World Bank, the number of people who were forced into poverty due to COVID-19 has gone up sharply in South Asia, and East Asia and Pacific regions—the increase is about 80–82 million at the US\$1.90-a-day poverty line and 180–184 million at the US\$3.20 poverty line.¹⁴ Apart from rising poverty, the pandemic has also hit the growth of the middle class in Asia—a key beneficiary of strong GDP growth over the last three decades and

FIGURE 5

Real disposable personal income fell by 10.2% in the Philippines and by 6% in Malaysia in 2020

Growth in real disposable personal income in 2020 (%)



Note: The data for China, Japan, and South Korea for 2020 are estimates by Oxford Economics. The rest are from national statistical authorities sourced through Oxford Economics.

Sources: Oxford Economics (Global Economics Databank); Deloitte analysis.

a major contributor to the region's global attractiveness as an economic powerhouse. According to Pew Research Center, the size of the middle class is likely to be 32 million lower in South Asia and 19 million lower in East Asia and the Pacific in 2020 relative to pre-COVID-19 estimates.¹⁵ In fact, Asia is likely to have contributed the most to the decline in global middle-class population last year, despite having a lower share of middle-income people in the total population compared to several other regions.

Not all is gloom and doom, though

Nevertheless, it will be a tad unwise to write off consumers in Asia. If the pace of vaccination increases and virus cases continue to decline,

consumer sentiment and spending will likely improve. Across the Pacific, in the United States, consumers' concerns about their health and well-being have gone down due to rising vaccination and slowing down of the pandemic.¹⁶ Consequently, more people appear willing to travel, go to restaurants and pubs, and attend in-person events now than at any time since the pandemic started last year—this has started to aid services spending in the country.¹⁷ The same can be expected in the other parts of the world, including Asia. In fact, consumer confidence in nations across the region has increased every time domestic virus cases have eased. In Indonesia, for example, consumer confidence dipped in January when virus cases went up but then gained as the health situation improved, with sentiment turning to optimism in April for the first time in 13 months.

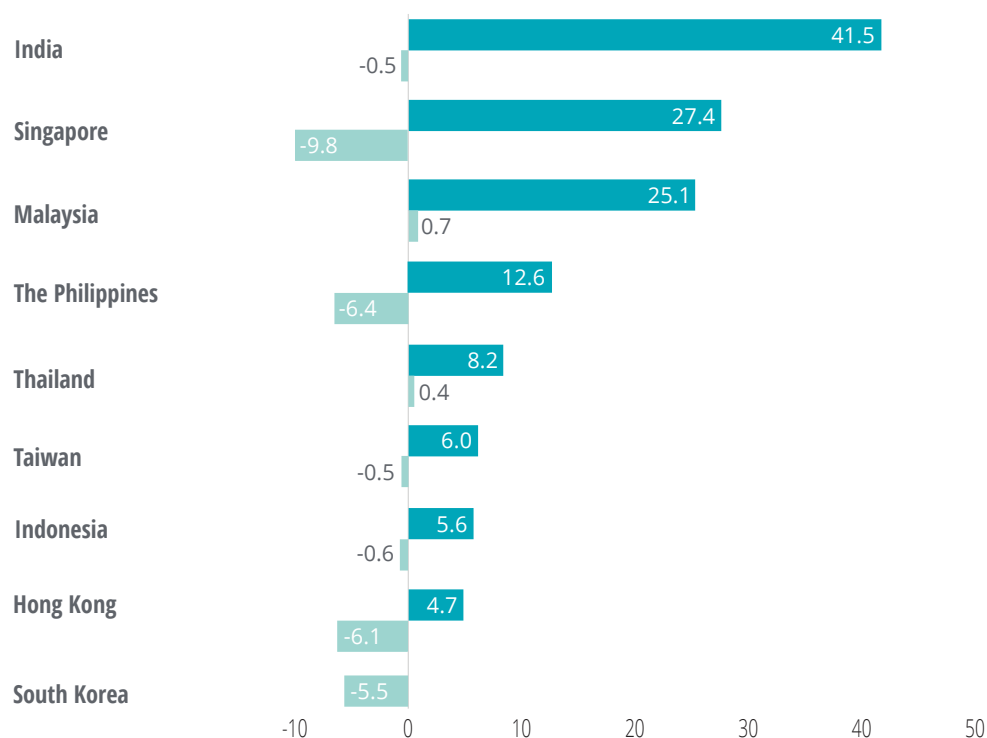
According to national accounts data, change in sentiment leads to an increase in consumer spending. For example, consumer spending started edging up from the second half of 2020 after the initial impact of the pandemic in the first half of the year. Spending, however, at the end of Q1 2021 for most countries was still lower than prepandemic levels (figure 6). This indicates, yet again, that for consumer spending to edge back sharply to pre-COVID-19 levels, countries will have to vaccinate their way out of the pandemic.

While spending is likely to have suffered in the Q2 2021 for some economies due to a resurgence of new virus cases and localized lockdowns, households may find support, directly or indirectly, from fiscal measures that governments are likely to roll out. India¹⁸ and Malaysia¹⁹ have rolled out new stimulus measures, while the Philippines²⁰ and South Korea²¹ are likely to follow suit. Direct cash transfers, low-interest financing, and loan moratoriums will help soften some of the blow of localized lockdowns and their impact on key sectors.

FIGURE 6

Private consumption has witnessed recovery since Q2 2020, but is still weak compared to prepandemic levels

- Growth in Q1 2021 (%) relative to Q2 2020 (pandemic underway)
- Growth in Q1 2021 (%) relative to Q4 2019 (prepandemic)



Note: The data is seasonally adjusted by Haver Analytics for India and Indonesia. For others, the data is adjusted by their national statistical agencies.

Sources: Haver Analytics; Deloitte analysis.

The road to a strong and sustainable recovery starts with large-scale vaccination, and it isn't smooth

The prospect of consumer fortunes in Asia hinges on an end to the pandemic or sustainable low levels of virus cases. This will also allow policymakers to shift spending from emergency measures to more sustainable poverty alleviation programs. For that to happen, vaccination remains the key. This is even more important now given the emergence of certain new, more potent variations of the virus around the world.²² Without vaccines and a drop in the number of virus cases, people's concerns about their health and finances will continue.²³ Yet increasing the rate of vaccination to cover entire populations won't be easy.

- While the pace of vaccination has picked up, supply of vaccines is a key challenge. Only China and India are major vaccine manufacturers in Asia, and they are likely to prioritize their own populations before exporting sizable quantities outside. In India, plans are afoot to expand capacity,²⁴ but ramping up vaccine production takes time and supply will likely pick up pace only in the second half of the year.
- While tapping international vaccine supplies may be a way out, the current global vaccine production is low relative to demand and any Asian country that seeks to buy its way out will have to contend with demand from others within the region and those outside. Richer economies with small populations, such as Singapore, may find it easier in the near term to import adequate quantities of vaccines—even pricier ones—to meet demand than developing economies.
- Once the adult population is vaccinated, countries will have to move on to vaccinating children. However, in most countries, vaccines deemed fit for children are still in the trial phase.
- Emerging and developing economies will also have to ensure that vaccines reach rural and far-flung areas. This will likely be a daunting task given logistical and health care infrastructure challenges outside of large cities.

Some things may not be the same again

That consumers and economies in Asia will recover from this downturn is certain. However, the nature of the recovery may turn out to be different compared to previous ones. Rising poverty and setbacks to the middle class may well likely foment an uneven economic recovery. For example, while recent gains in equities have aided household wealth for many in the region, those without equity holdings have hardly anything to gain from a stock market boom. And the fact that the proportion of people with stock holdings in emerging and developing nations is much lower than in advanced ones further aggravates this situation.²⁵ Moreover, the post-COVID-19 world may turn out to be different from the one we lived in before the pandemic. The way we work, for example, may change and that will likely bring about changes in consumers' basket of goods and service purchases. For many, though, the scars of the pandemic will be as much emotional as financial. Household balance sheets will likely recover over the medium term, but the loss of loved ones or the scare of contracting COVID-19 may remain etched in memory for much longer.

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About the authors

Akrur Barua | abarua@deloitte.com

Akrur Barua is an economist with the Research & Insights team. As a regular contributor to several Deloitte Insights publications, he often writes on emerging economies and macroeconomic trends that have global implications, such as monetary policy, real estate cycles, household leverage, and trade. He also studies the US economy, especially demographics, labor market, and consumers.

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Practice contacts

Dr. Patricia Buckley

Managing director | Deloitte Services LP
+1 703 254 3958 | pabuckley@deloitte.com

Patricia Buckley, Deloitte Services LP, is the managing director for economics with responsibility for contributing to Deloitte's Eminence practice with a focus on economic policy.

Akrur Barua

Executive manager | Deloitte Services LP
+1 678 299 9766 | abarua@deloitte.com

Akrur Barua is an economist with the Research & Insights team.

Industry contact

Dr. Patricia Buckley

Managing director | Deloitte Services LP
+1 703 254 3958 | pabuckley@deloitte.com

Patricia Buckley, Deloitte Services LP, is the managing director for economics with responsibility for contributing to Deloitte's Eminence practice with a focus on economic policy.

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