Deloitte.

2024 Africa Consumer Outlook

Africa Market Intelligence

October 2024

MAKING AN IMPACT THAT MATTERS since 1845

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Foreword

The 2024 Africa Consumer Outlook report provides a comprehensive analysis of the economic and political shifts impacting consumers and producers in Sub-Saharan Africa. The region faces tightened consumer markets and inflationary pressures impacting consumer spending. Producers are facing increased input prices, supply chain disruptions and squeezed profit margins.

These challenges are further compounded by currency depreciation and political instability. Consumers in Africa are evolving, with increased demand for value-conscious and globally competitive products and services. Businesses must adapt to this changing consumer preferences and economic conditions.

Despite these challenges, expected economic recovery post-2024 indicates future growth opportunities. This report offers valuable insights into consumer behavior, market trends, and macroeconomic factors influencing the region with a deep dive into South Africa, Kenya, Nigeria and Ethiopia covering sectors such as Retail, Hospitality, and Transportation. It also provides a roadmap for growth, highlighting potential areas for innovation and investment. Businesses can leverage these insights to navigate the complex consumer market dynamics in Sub-Saharan Africa.

The report mainly covers:

Inflation Impact 01

Analysing the trend in inflation from 2021-2024 and its impact on revenues, household income and spending patterns. We also assessed the outlook for inflation to 2027 and the expected impact of this trend.

Consumer Behavior 02

Sub-Saharan Africa's consumers are prioritising value-conscious products and cost-effective options due to economic shifts. This has included re-allocation of expenditure to cover essential household items and forfeiture of non-essential items.

Economic Recovery 03

GDP rebound in Sub-Saharan Africa post-2024 indicates potential growth opportunities despite current challenges. The region is experiencing a gradual shift in economic policies, which are expected to accelerate further growth.

Digital Shift 04

Increased digital engagement in retail and hospitality sectors, driven by convenience and cost-effectiveness.

Operational Challenges 05

Businesses face rising operational costs, supply chain disruptions, and infrastructural deficiencies across multiple regions. We assess how businesses are adapting to the increasing operational costs and change in consumer patterns.

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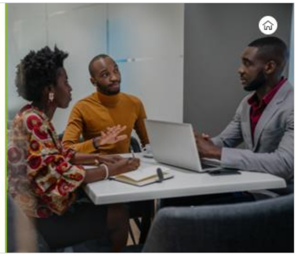
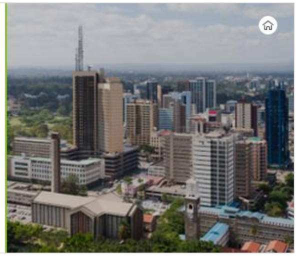


Kenya

Country Profile
Kenya



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Consumer View

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Nigeria

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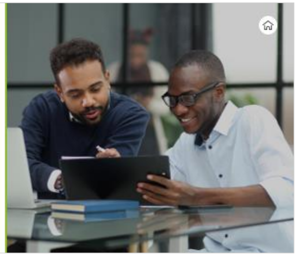
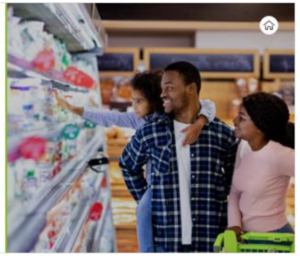


Ethiopia

Country Profile
Ethiopia

Ethiopia
Consumer View



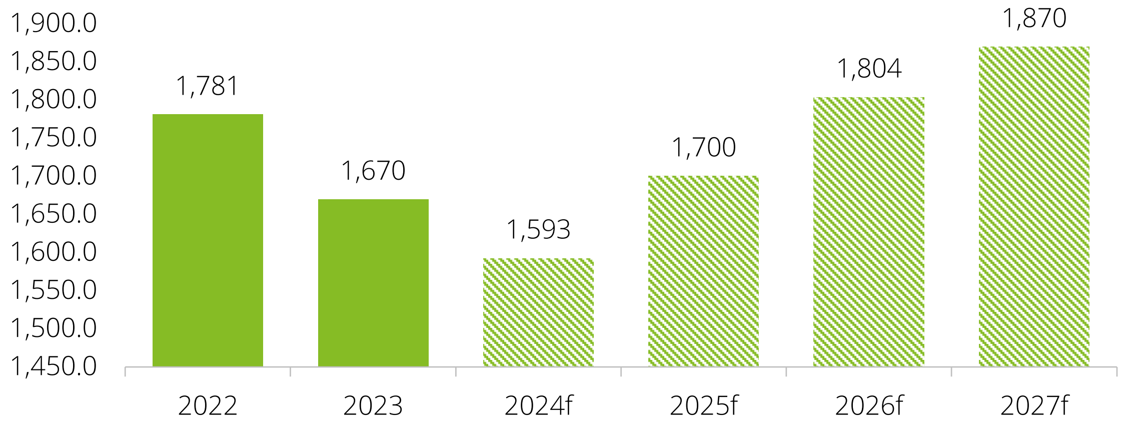
Ethiopia
Producer View

Sub-Saharan Africa Overview

Sub-Saharan Africa Overview

Tightened consumer markets and inflationary pressures (2022 – 2024) in Sub-Saharan Africa have impacted all sectors. GDP rebound anticipated post-2024 indicates recovery and growth opportunities

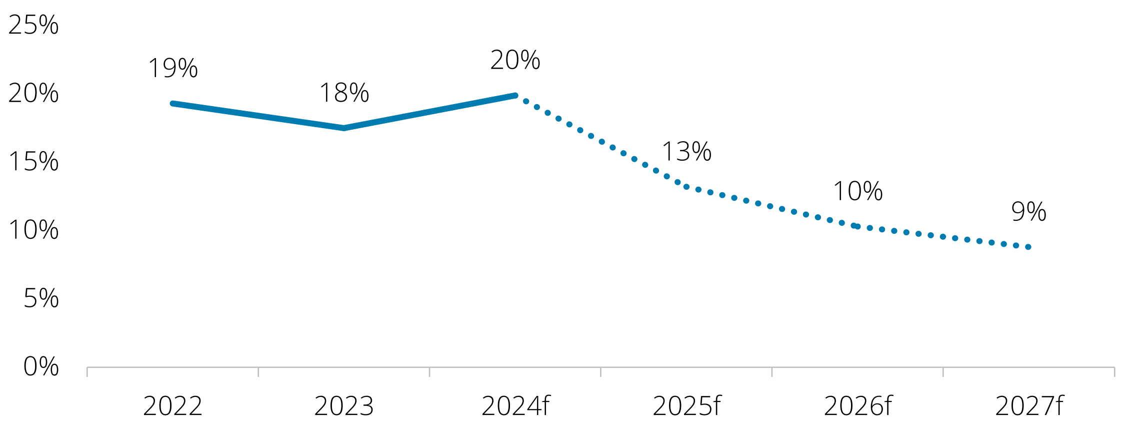
SSA GDP per capita (USD)



Source: IMF, International financial statistics, UN, SSA data

- The **declining GDP per capita** between 2022 and 2024 suggests a **tighter consumer market** in Sub-Saharan Africa, exerting pressure on all sectors. This declining GDP per capita through 2024 may **reduce premium consumer products demand.**
- Sub-Saharan Africa's fluctuating GDP could induce volatility in the manufacturing sector, potentially disrupting the supply chains of the Consumer Products, Transportation, and Hospitality sectors. It is crucial for consumer businesses to **strategise effectively** by preparing for both the **immediate challenges** and the **post-2024 growth phase.**
- Despite the near-term economic challenges, the forecasted increase in GDP per capita from 2025 to 2027 suggests an expected expansion of the **consumer market**. This indicates the potential for consumer industry businesses to **introduce innovative products and explore new consumer segments to increase demand.**

SSA Consumer price (% change per annum)



Source: IMF, International financial statistics, UN, SSA data

- The CPI fluctuations in Sub-Saharan Africa, peaking at 19.9% in 2024, could **dampen consumer spending.** Inflation-induced input cost increases could also **tighten profit margins** for Consumer businesses.
- In the short-term, this inflation volatility could foster an **uncertain investment environment**, potentially **slowing capital inflows** into the region's consumer sector and **restricting growth opportunities.**
- However, **CPI is expected to decrease from 2025** onward, **reaching 8.8% (2027)**. This reduction, coupled with an increasing GDP per capita, may lead to **economic stability** and **growth in the consumer industry**. This could **increase consumer spending and investment**, bolstering business growth and profitability.

Sources: SSA Client data-IMF, International financial statistics, UN

Recent Developments in Sub-Saharan Africa

Amid Sub-Saharan Africa's political and economic shifts, consumers are prioritising value-conscious consumer products, price-sensitive retail choices, cost-effective transportation, and personalised hospitality experiences

Pivotal developments reshaping the consumer landscape

Political instability and investment

The Sub-Saharan African region has experienced a plunge in investment from USD80bn (2021) to USD45bn (2022). With over ten Sub-Saharan African markets facing significant political shifts in 2024, this trend may persist, further eroding investor confidence and market stability. This instability affects businesses by reducing consumer purchasing power and disrupting the supply chain.

Rising cost of living

The Sub-Saharan African region faced an alarming 24% increase in food prices in 2024, the largest since the 2008 slowdown. This economic shockwave further escalated CPI, climbing from 11% (2022) to 15% (2024). The rising cost of living is drastically reshaping consumer behavior.

Monetary easing and fiscal strains

Central banks in Sub-Saharan Africa are likely to initiate moderate monetary easing through interest rate cuts. This could ease financial burdens for businesses by reducing borrowing costs. While this may slightly boost consumer purchasing power, potential tax increases due to ongoing fiscal pressures could offset these gains.

Currency volatility

The significant depreciation of Sub-Saharan African currencies. For e.g. 40% value loss of the Naira and Kwanza against the USD, between 2022 and 2023, has created a volatile economic environment. This volatility, coupled with the public debt-to-GDP ratio, which peaked at 60.1% in 2023, inflates production costs, increasing inflation and putting pressure on businesses.

Impact of these developments

Consumer Products

- **Promotions and discounts** are helping to **counterbalance the impacts of political instability and rising living costs.**
- Consumers are looking for better deals and savings offered by **e-commerce channels** (which saw **a 52% increase in 2023).**

Relevant sectors: Food and Beverage, Electronics

Retail, Wholesale, and Distribution

- Inflation, fueled by currency volatility and monetary policy changes, **led 50% of Sub-Saharan consumers to switch to new retailers in 2023.**
- Consumers **value personalisation** and **convenience** as they adapt to high debt-servicing costs and wide budget deficits. Despite these strains, the **growth of the middle class fosters modern retail expansion**.

Transportation and Hospitality

- **Amid currency volatility and rising living costs, online platforms** are gaining popularity for bookings, **especially in segments for e.g. restaurants/hotels and cab booking.**
- **Anticipated monetary easing could foster competitive pricing.** Political instability may affect tourism, necessitating business innovation. However, **demand for personalised services and flexible pricing remains resilient**.

Consumer Outlook

In Sub-Saharan Africa, low-income consumers seek cost-effective essentials, and in response, retailers are adapting to price-sensitive consumers' preference for small convenience stores and e-commerce

Consumer Products

- Contrasting trends are evident with changing consumer behavior.
  - 60% of the population in 2023, the low-income consumers, primarily demanded cost-effective essentials, showing a preference for promotional deals and versatile products within the personal goods, apparel, and footwear segments.
  - Conversely, high-income consumers (~33m earning USD10,000-USD100,000 in 2023) consistently seek luxury goods (including affordable luxuries), sustaining their consumption habits despite economic fluctuations.

This consumption divergence underpins an evolving consumer landscape in which low-value and luxury goods retain market positions.

Retail, Wholesale, and Distribution

- The diverse retail landscape in Sub-Saharan Africa is largely shaped by the varied consumer behaviors, predominantly driven by their price sensitivity.
  - Small retail shops have a stronghold on the market, making up over 70% of food, beverage, and personal care purchases in 2022.
  - The region's e-commerce market may witness an upward trajectory from 2024 to 2029, with an increase in platform usage among 40% of internet users in key countries in 2023 and an anticipated increase in users by 56% by 2029.

These trends underscore the evolving Retail sector in which modern retail and e-commerce continue to gain ground.

Transportation and Hospitality

- Post-covid, the hospitality sector is yet to witness its full potential growth. By mid-2023, the sector experienced a 25% increase in average occupancy rates compared to 2022, indicating a gradual market growth.
  - A resurgence in travel is projected, with hotel users growing from 31.1m (2023) to 43.7m (2027).
- The rising middle class demands personalised experiences, digital conveniences (e.g., check-ins, QR code menus), and flexible pricing in travel and leisure services.
- The increase in fuel prices is making consumers shift from private modes of transportation to cost-effective options of public and shared transport.

The sector is poised for growth and innovation, driven by consumer preferences for digital conveniences, personalised offers, and flexible pricing.

Macroeconomic drivers of the consumer behavior

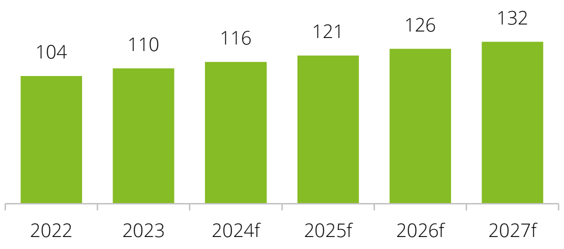
Income disparity	Wide income disparity shapes market demand in the Consumer Products sector, with both low-value essentials and affordable luxury goods in demand.
Inflation	Inflation is reshaping the Retail and Hospitality sectors. It is cultivating a mixture of traditional 'dukas' and emerging e-commerce in the Retail sector while accentuating the requirement for flexible pricing in travel and leisure services.
Technological advances	The digital shift is influencing the Retail, Transportation, and Hospitality sectors. The rise of e-commerce and the preference for digital conveniences in the Hospitality sector reflect the influence of technological developments on consumer behavior.

South Africa
Overview

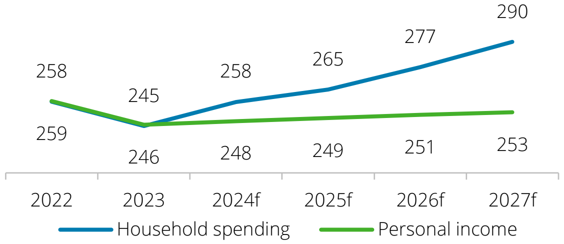
South Africa Overview

Rising costs drive consumers to curb discretionary spending. Businesses are strategically providing value-added services and localising their offerings to foster customer loyalty to offset operational burdens

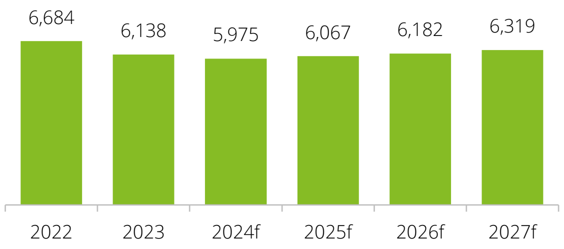
Average CPI (2021 = 100), 2022-2027f



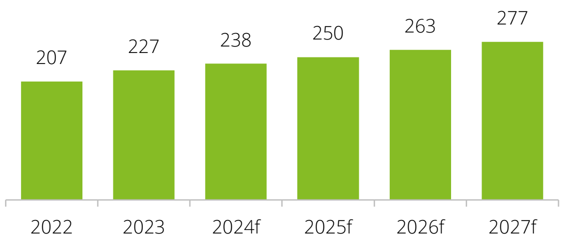
Total HH spending vs total personal income (US$ bn), 2022-2027f



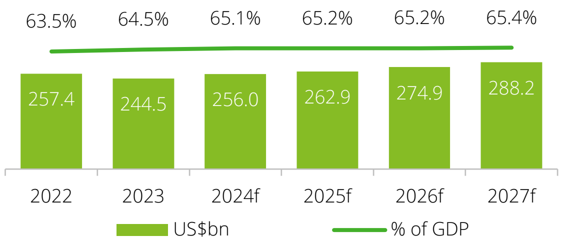
GDP/capita (US$ current prices), 2022-2027f



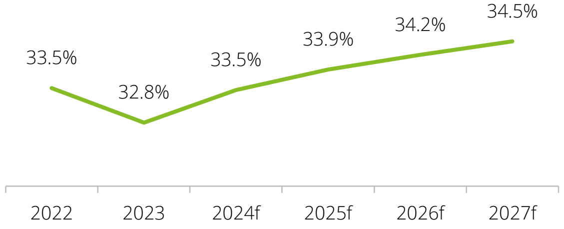
Producer price index (2010 = 100), 2022-2027f



Private final consumption (US$bn & % of GDP), 2022-2027f



Unemployment (%), 2022-2027f



South Africa's economy is expected to gain momentum between 2024 and 2027, leading to an increase in GDP per capita and an increase in household disposable income. This landscape presents positive opportunities for both consumers and producers. However, persistently high unemployment remains a key challenge..

Sources: EIU, Deloitte Consumer Signals, IMF, Fitch Solutions/BMI

Consumer view

Consumer outlook on the economy

Between Aug 2023 and Aug 2024, Deloitte's South African Financial Well-being Index rose from 114 to 118. This increase was driven by moderate inflation, leading consumers to feel more positive about their future financial prospects.

In August 2024, the largest portion of the overall consumer spending was on groceries (14%), housing (12%), and leisure travel (11%).

Consumers are unable to allocate a significant share of their wallet to Education (7%), Transportation (6%), and Healthcare (5%) due to their prioritisation of basic needs.

Producer view

Producer outlook on the economy

Businesses are meeting evolving consumer preferences and enhancing their customer loyalty by providing value-added services, localising their branding and offerings, and capitalisng on the rise of e-commerce.

The surge in fuel prices by over 100% between 2019 and 2023, combined with the financial strain of 330+ days of power outages in 2023, has significantly escalated operational costs. However, since March 2024 electricity supply has stabilized, taking some pressure of manufacturers and retailers.

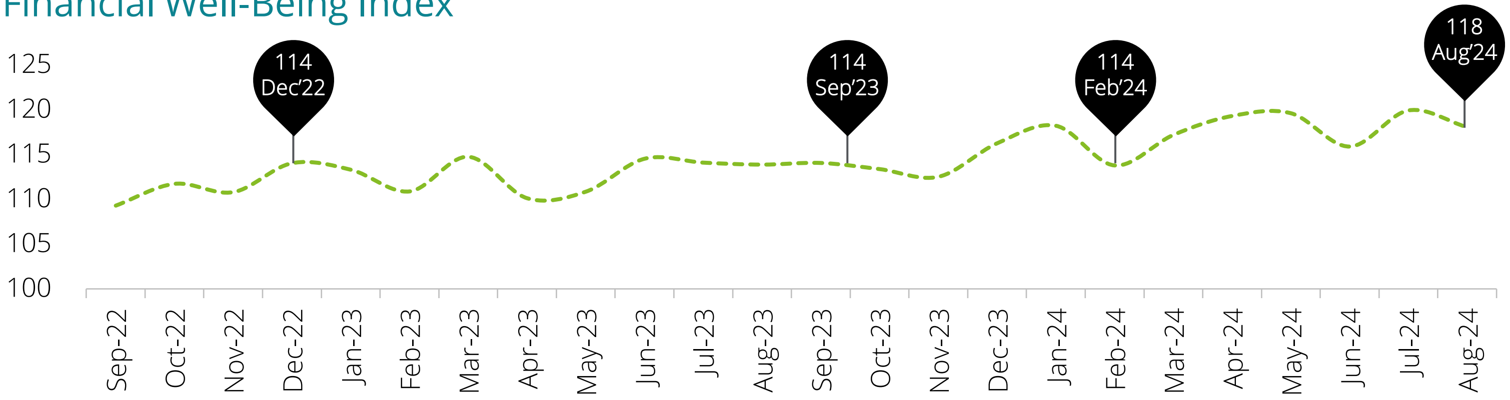
Brands are incorporating cultural nuances and local tastes into their offerings to align with the 65% of consumers who preferred native content and the 40% who sought localised shopping experiences in 2023.

Outlook scale (2024): Negative Neutral Positive

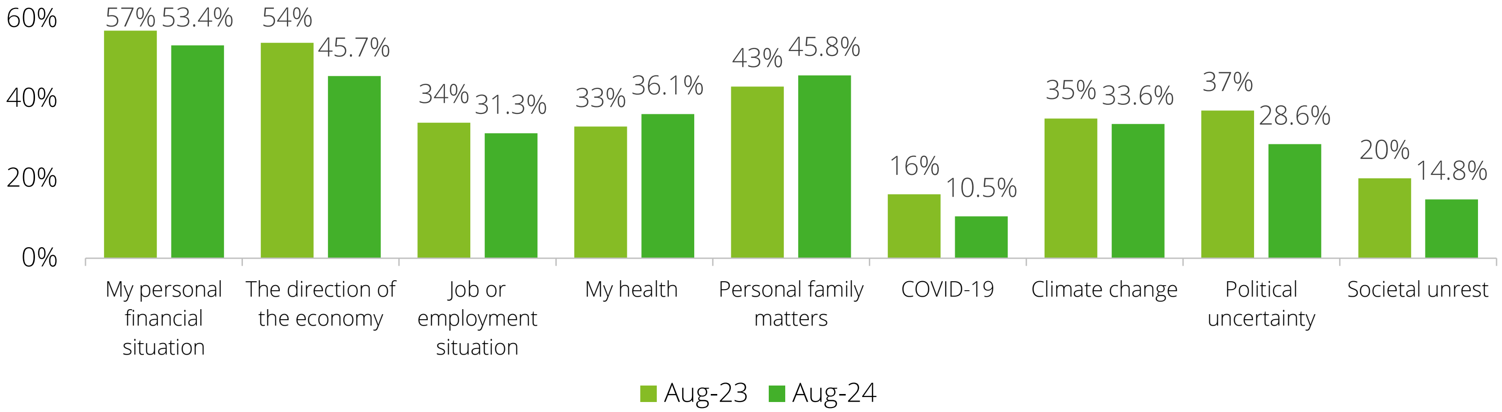
South Africa
Consumer View

Financial Well-being Status

Financial Well-Being Index



Net anxiety drivers: How people felt over the past week



For the graph, Higher index values indicates stronger financial well-being
Sources: Deloitte Consumer Signals

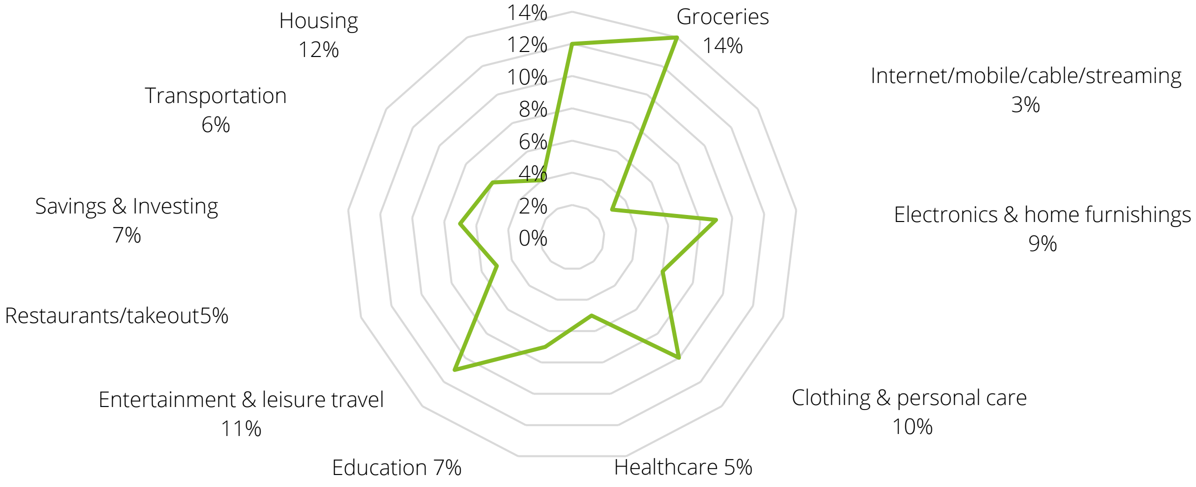
Insights into the South African Consumer's financial perceptions

The recent upturn in South Africa's consumer financial well-being can be attributed to the moderate inflation during the initial six months of 2024. This improvement suggests that consumers are feeling a sense of relief, hinting that their financial health and future financial security are in a better state compared to a year ago.

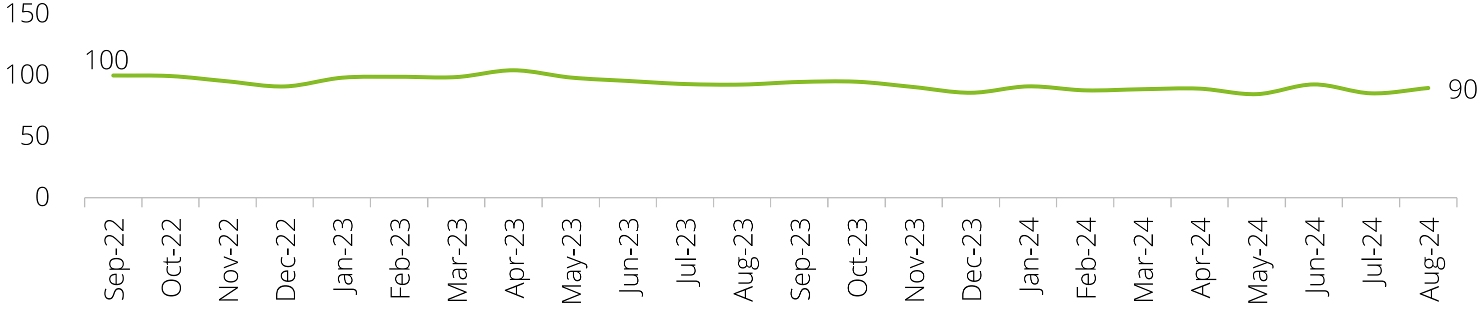
Despite ongoing geopolitical unrest, high unemployment, and a sluggish economy, there is a glimmer of hope for consumers. Many individuals are experiencing improvements in their personal financial situations, and the overall trajectory of the economy appears to be more favourable compared to a year ago. This encouraging financial well-being trend may well gather momentum as we move closer to the final quarter of 2024.

Share of Wallet and Food Frugality

Share of wallet, Aug 2024



Food Frugality Index



Sources: Deloitte Consumer Signals

Insights into the South African Consumer's share of wallet & food frugality

The cost of living is significantly affecting individuals discretionary income, subsequently impacting their holistic welfare. Consumer priorities are shifting towards non-discretionary expenses, with a focus on essential items like groceries and housing, while discretionary spending takes a backseat. Remarkably, crucial sectors such as healthcare and education, vital for individual well-being and future prospects, are receiving a smaller allocation of consumer expenditure due to the prioritisation of basic needs.

The rising cost of living is placing a strain on consumers, with a significant portion of their income being allocated to food expenses. This trend is particularly noticeable in South Africa, where individuals are increasingly adopting cost-saving behaviours and making trade-offs in their purchasing decisions. As a result, consumers are actively seeking better value for their money and are willing to switch to more affordable options within the market. This behaviour is anticipated to persist until food prices reach a more stable level.

In 2024, despite moderate inflation, a combination of sluggish economic growth and increased living expenses has significantly reduced consumer confidence.

South Africa
Producer View

Producer Outlook

Amid falling discretionary spending and persistently high fuel prices, South African businesses focus on alternative energy source, online expansion, local partnerships, and technology-driven customer experiences to reduce costs and retain consumers

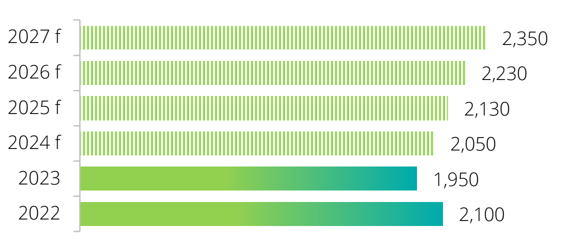
	Key business challenge	Mitigation strategy
Consumer Products	• In 2023, **a 26% increase in food prices,** cut consumer spending to 8% from 16% (2022), reducing food and beverage sales by 2.3% and significantly lowering firm revenues. • **High interest rates** and **a 32% unemployment rate reduced consumer confidence** to -17 points in 2023, impacting consumer business revenues. Specifically, sales in the cosmetics and toiletries segment decreased by 3% YoY since 2023.	• **Supply chain optimisation** can help by negotiating supplier terms, improving inventory management, and streamlining logistics to maintain costs. • **Value-driven offerings**, **flexible payment solutions,** and **innovations in digital spaces** are more cost-effective and may help ease customers' financial burdens.
Retail, Wholesale, and Distribution	• In 2023, retailers faced financial strain due to **330+ days of power outages,** necessitating costly power backups on top of existing transport expenses. • Despite declining retail sales, **e-commerce sales increased by 29% in 2023** compared to the previous year, indicating a need for brick-and-mortar retailers to shift to online models.	• **Leveraging influencer partnerships** to drive cost-effective traffic and increase sales conversions. • **Companies are investing in renewable and self-sustaining energy** solutions to minimise the impact of power outages. • **Partnerships with logistics and supply chain companies** are optimising transportation and logistics costs.
Transportation and Hospitability	• In 2023, **47% of consumers cut down on discretionary expenses,** including travel, entertainment, and dining out. • Between 2019 and 2023, **fuel prices surged by more than 100%**, increasing transport costs. • Online bookings rose by 17.3% in 2023 compared to pre-pandemic levels owing to low prices and consumers' preferences for convenience.	• **Value-added propositions**, discounts, and promotional offers are being incorporated to retain customers who reduce discretionary spending. • **Guest experiences** are being enhanced by adopting technology. • **Stronger online presence** and enhanced offerings are being established by businesses.

Country Profile
Kenya

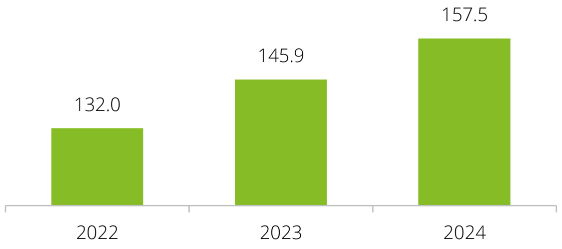
Country Profile: Kenya

Personal financial stability is driving consumer resilience and preference for cost-effective alternatives amid broader economic challenges. Businesses are facing operational complexities due to rising costs, supply chain issues, and competition

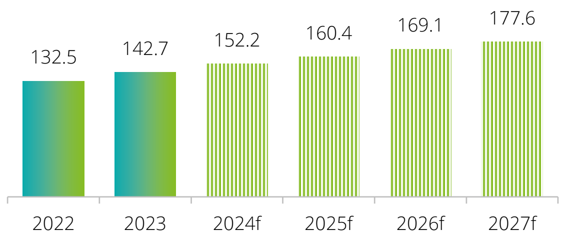
GDP per capita (USD)



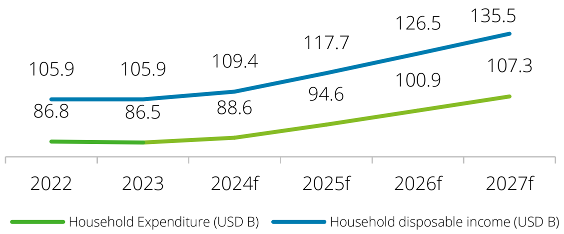
Producer price index



Consumer price index



Household exp. vs income



Macro level key insights

In the face of escalating production costs and inflation, Kenya's growing GDP per capita and disposable income from 2024 to 2027 offer a silver lining. However, these macroeconomic pressures may test the resilience of the consumer industry, influencing both pricing strategies and consumer demand.

Abating inflation, which stood at 3.6% in September 2024, resulted in slashing of the Central Bank rate to 12.0% in early October. Subsequently, lending rates are expected to decline, further increasing availability credit in the market.

Sources: EIU Kenya report, Kenya country risk report, Statista, Statista, KNBS, Trading Economics

Consumer view

Consumer outlook on the economy

In 2023, Kenya's economy demonstrated stability, marked by reduced inflation and enhanced private consumption. From 2024 to 2027, projections indicate sustained consumer financial health, driven by rising private consumption and decreasing unemployment.

In 2023, from the overall consumer spending, the largest portion was for food (32.9%), followed by transportation (9.6%), while Household Equipment and Furniture received the least expenditure. Introduction of new statutory deductions in 2024, which resulted in demonstrations by Gen-Z, is expected to further constrain consumer spending, on account of reduced spending.

In 2023, Consumers increasingly switched brands (57%), used digital platforms (55%), and preferred online loyalty programs (85%), signaling opportunities for brands to enhance digital adoption and customer loyalty.

Producer view

Producer outlook on the economy

Higher input costs, supply chain disruptions, and rampant corruption are straining Kenyan businesses and amplifying operational complexities.

Firms grapple with declining shopping frequency, luxury purchase reluctance, competition from cheap imports, supply chain inefficiencies, high transport costs, difficulties in rural expansion, changing consumer behavior, and fuel price inflation.

Businesses are enhancing profitability and customer experience through various strategies including promotions, product innovation, size adjustments, price increments, loyalty programs, and improved delivery services.

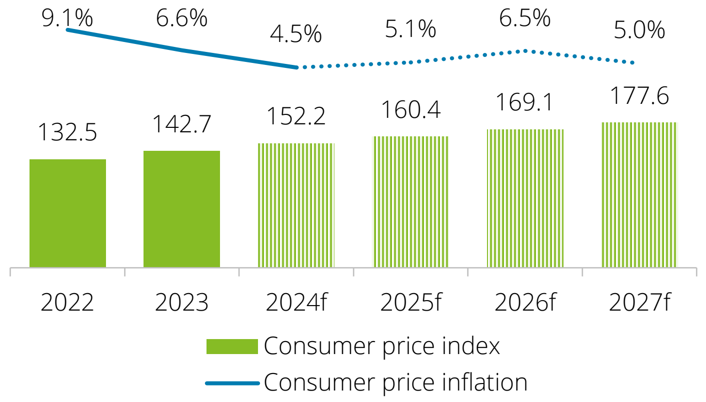
Outlook scale (2024): Negative Neutral Positive

Kenya
Consumer View

Financial Well-being Status

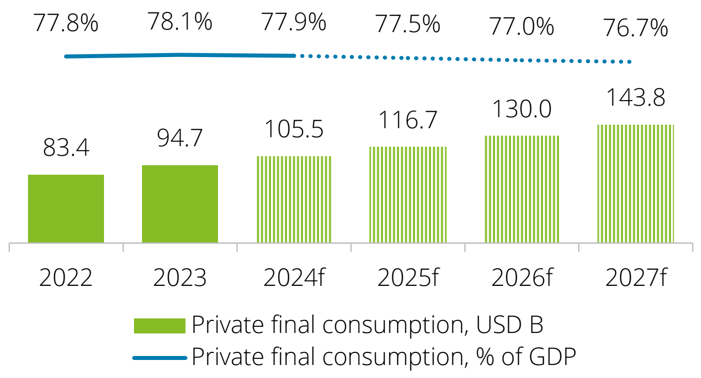
Inflation and job security concerns have strained Kenyan consumers' financial well-being in 2023, affecting spending patterns in the FMCG, Retail, and Transportation sectors. Despite these challenges, a modest recovery is forecasted by 2027

Consumer prices



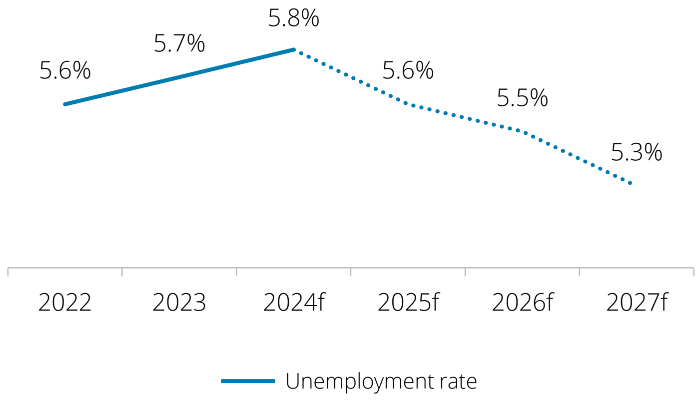
Source: Statista and BMI Kenya Risk Report

Private final consumption



Source: Kenya country risk report

Unemployment rate



Source: EIU

Insights into Kenyan consumer financial perceptions

- In 2023, the Kenyan economy demonstrated moderate financial stability, owing to reduced inflation and an increase in private final consumption, compared to 2022. Over 2024 to 2027 period, estimates suggest that inflation is likely to fluctuate between 5-6.5%, with growth in private final consumption and decline in unemployment rates, indicating a sustained financial health in the forthcoming years.
- Consumer Products Sector: The enduring inflation of 2022-2023 exerted substantial pressure on Kenyan consumers, prompting a shift toward more economical behaviors. This was particularly evident in the FMCG markets, as consumers sought to manage their expenditures by capitalising on promotions and engaging in bulk purchasing. The expected resurgence in inflation from 2025 to 2027 may intensify these consumer trends.
- Retail, Wholesale, and Distribution: In response to Kenya's declining financial health, consumers adopted a more cautious approach in 2023. Around 44% reduced their shopping, and 55% cut down on non-essential spending. However, with macroeconomic conditions projected to stabilise by 2027, an improvement in consumer spending is expected with strong recovery evident in 2024. As of September 2024, inflation stood at 3.6% down from 4..4% in August 2024.. Despite this favourable macroeconomic environment, introduction of new tax policies, including the housing levy and social insurance, are expected to constrain consumer disposable income and consequently consumer spending.
- Transportation and Hospitality: In 2023, declining financial health and escalating fuel prices prompted a significant 63% reduction in other household expenditures. Consequently, Kenyans shifted toward cost-effective transportation options and home-based activities e.g., cooking instead of dining out and curtailing household spending. While improvements in macroeconomic conditions are expected by 2027, the sector may face a slower recovery due to potential delays in fuel price stabilisation.

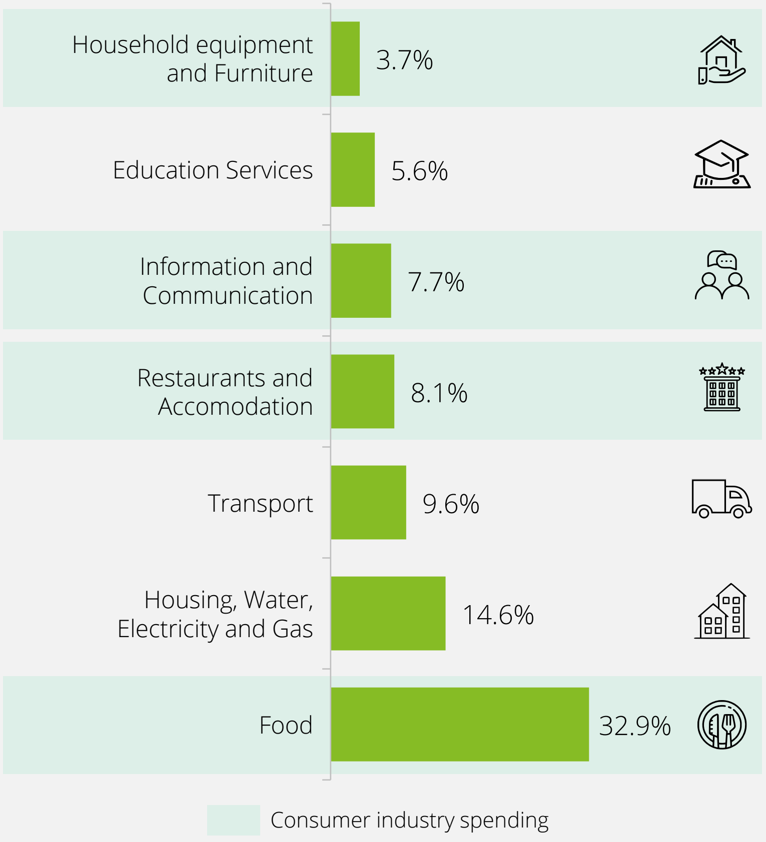
Kenyan consumers' weak financial well-being is expected to improve with economic stabilisation. However, recovery may vary across sectors, influenced by inflation and changing consumer behaviors.

Sources: EIU Kenya report, Kenya country risk report, NIQ, Transunion, Business Daily

Share of Wallet

In 2023, Kenya's FMCG market grew due to growth in food demand, though consumers bought less volume. Traditional trade continues to dominate in retail sector sales, however, witnessed a decline amid the growth of modern trade channels

Consumer spending (2023): Top categories



Source: Kenya country risk report

	Current trends	Implications
CP	• In 2023, the FMCG market in Kenya grew by 3.3%, driven by food segment. • In 2023, essentials for e.g. flour and soft drinks led the consumer basket, valued at USD1.4bn. • Consumers bought smaller volumes to protect household budgets. • Private label brands experienced significant growth.	• Essentials prioritisation: Consumers will likely continue focusing on essentials for e.g. flour, possibly extending to other necessities. • Budget conservation: Strategies for budget conservation, such as purchasing smaller volumes are likely to continue. • Private label expansion: The rise of private label brands indicates a shift in consumer trust and preference.
RWD	• In 2023, traditional trade dominated at 58.4%, valued at USD1.2bn but declined by 2.2% in 2023 compared to 2022. • In 2023, modern trade contributed 41.6%, valued at USD869m, with a growth of 12% in 2023 compared to 2022. • In 2023, the prominence of major supermarkets in Kenya escalated due to deals companies offer shoppers, with an 11% YoY increase in spending and volume.	• Price-sensitive shopping: Consumers seeking promotions and using loyalty cards are likely to continue, driven by their need to manage costs effectively. • Bulk buying: Bulk shopping for cost management is anticipated to increase further, decreasing frequent supermarket visits. • Omnichannel growth: Omnichannel and supermarket shopping will likely increase, offering consumers a broader choice and flexibility in their shopping habits.
THS	• In 2023, 81% of consumers explored cheaper transportation options. • In Q3 2023, the occupancy rate stood at 57% for high-end hotels, marking a 32% increase from 2022, owing to increased tourist travel. • 27% of consumers in 2023 indicated increased time spent at home to avoid travel expenses. • Consumers are adopting creative methods to deal with rising prices, including boarding buses away from usual stops and off-peak travel.	• Cost-efficient commuting: The continuous increase in fuel prices and inflation could likely spur the use of cost saving commuting methods including public transport and cycling. • Alternative travel strategies: New initiatives e.g., late work departures, journey splitting, and bus seat sharing may become more prevalent. • Home-bound consumers: The trend of increased time spent at home to avoid travel is likely to persist, leading to a potential decrease in household expenditures on travel and an increase in home-based activities.

Sources: EIU Kenya report, Kenya country risk report, Kantar, NIQ, NIQ, Business Daily, Knight Frank
CP: Consumer Products, RWD: Retail, Wholesale, and Distribution, THS: Transportation Hospitality Services' * Household includes furnishings, household equipment, and routine maintenance of the house

Consumer Outlook

Consumer behavior is increasingly characterised by brand-switching, a preference for cost-effective products, and greater digital engagement in purchasing decisions

Consumer Products

- In 2023, **primarily driven by promotional offerings, Kenyan consumers engaged in brand-switching**, shifting to cooking oil (69%), maize meal (66%), and cleaning and laundry products (35%).
  - Brand-switching reflects a rising consumer preference for cost-effective options, leading to greater acceptance of private labels, and discounted, and generic products.

Brand-switching highlights a dynamic consumer landscape, significantly influenced by promotional tactics and digital platforms.

Retail, Wholesale, and Distribution

- In 2023, 37% of consumers indicated that rising inflation drives them to **buy in bulk**.
- **E-commerce users rose by 15.4% from 2.6m (2022) to 3m (2023), showing a clear consumer shift towards online shopping.**
  - In 2023, 63% of consumers used search engines, and 47% explored online retail platforms for product information.
- In 2023, the consumer preference for **loyalty programs** during online shopping was high, with **89% favoring paid loyalty programs,** suggesting an effective strategy for brands to enhance digital adoption and loyalty.

The trend portrays a shift toward local supermarkets and e-commerce, fueled by rising inflation and a high consumer preference for loyalty programs.

Transportation and Hospitality

- Due to a significant 63% increase in fuel prices during 2023, consumers in Kenya are **cutting back on household expenses, limiting the use of cabs, and exploring cheaper transportation options**.
- **Online platforms** are becoming increasingly popular, with 33% of online restaurant bookings during 2023.
- The COVID-19 pandemic has catalysed a shift toward **online restaurant orders**. The restaurant delivery market saw a 75% user increase, from 5.9m (2022) to 10.4m (2023).

The transformation is marked by a shift toward economic travel alternatives and a surge in online platform usage for bookings and orders. It reflects a changing consumer behavior in which traditional and digital services are holding their ground.

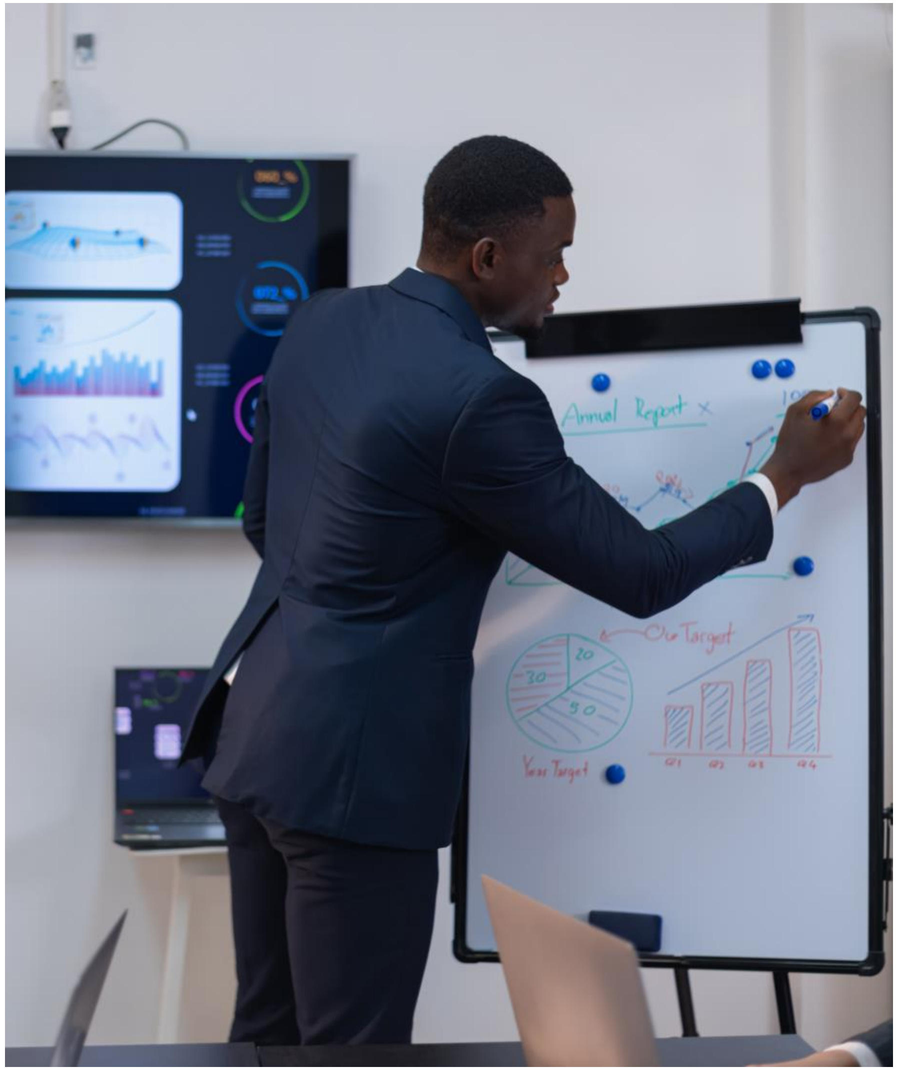
Macroeconomic factors impacting the consumer behavior

Inflation	Inflation has a notable influence on the Consumer Products sector. **As prices increase**, consumers tend to gravitate toward **more economical options**, including **discounted and private-label products, leading to an increase in brand-switching.**
Digital transformation	This significantly impacts both the Retail, Wholesale, and Distribution sector, as well as the Transportation and Hospitality sector. Enhanced digital infrastructure and better internet access in Kenya have led to an uptick in online shopping and hospitality services. This shift is evident in the rise of e-commerce users and online dining bookings.
Fuel price fluctuations	The significant increase in fuel prices has led consumers to seek cost-effective transportation alternatives.

Kenya
Producer View

Macroeconomic Impact on Businesses (1/2)

Kenyan businesses confront significant challenges with a 33% increase in operational expenses and supply chain disruptions, driven by port delays, the Red Sea crisis, escalated tax rates, and soaring utility and fuel costs



Macroeconomic factors

The consumer business landscape across Kenya is undergoing significant financial strain due to escalating costs and soaring utility prices. This impact is evident in:

- Tax increases: The tax regime has seen a notable shift, with capital gains tax increasing from 5% (2022) to 15% (2023) and social benefit deductions like the retirement and health benefits increasing.
- Electricity cost surge: In 2023, businesses faced a 63% surge in electricity prices, which significantly increased operational expenses. A 13.7% tariff cut was however instituted in 2024 providing some relief to firms.
- Escalating fuel prices: The upward trajectory of avg. fuel prices from USD 155.6/liter to USD184.4/liter (2023) further compound the cost burden.

These factors have collectively triggered a substantial 33% surge in overall business expenses, permeating businesses across sectors, with manufacturing firms especially experiencing intensified operational complexities.

Kenya's consumer businesses are experiencing significant disruption due to escalating supply chain challenges. The impact is evident in:

- Port delays: In 2023, around 77% of shipments were experiencing delays at the Mombasa port, hindering trade prospects. Despite the development of the Lamu port, unfinished infrastructure has limited its potential to overcome port-related challenges.
- Impact of the Red Sea shipping crisis: The crisis is expected to impact 15% of foreign trade in 2024, adding further pressure on businesses.
- Energy crisis: In November 2023, the unreliable electricity supply and blackouts in Kenya, which lasted an average of 10 hours, disrupted business operations. This instability in the power supply negatively impacted productivity and sales for consumer businesses. The Energy and Petroleum Authority (EPRA) in 2024 proposed to cap power outages to 20 times per annum per customer.

These issues have resulted in a severe headwind for Kenya's trade prospects, causing significant distress for businesses.

Macroeconomic Impact on Businesses (2/2)

In 2023, Kenya grappled with a depreciated Shilling, surging import costs and corruption, leading to higher operational costs, jeopardised job opportunities, and stifled business competitiveness

Macroeconomic factors

In 2023, Kenya's increased import expenditures, which was equivalent to three-quarters of the national budget put pressure on the Kenyan Shilling. This lead to the US$/KES rate peaking at KES 156.5 in December.

- Surge in import costs: Escalated costs of imported fuel and food led to a 16.2% surge in import expenditure in 2023 from 2022, reaching USD19.45bn. This dependency has exerted pressure on the Shilling against major global currencies, consequently making imported goods more expensive for both businesses and consumers.
- Impact on the consumer industry manufacturing sector: The higher costs are stifling manufacturers, jeopardising job opportunities for skilled youth, and intensifying competition with global products.

Subsequently, in 2024, following the successful redemption of the country's Eurobond the shilling stabilised, ending September 2024 at KES 129.9 against the dollar. Consequently, the costs of imported products are expected to continue to ease, providing relief to both producers and consumers.

Rampant corruption is significantly impeding Kenya's economic growth and business prosperity, with an annual estimated loss of USD6-6.5bn. This challenge is reflected in:

- Price inflation: The cost of bribery and unofficial payments often gets incorporated into the prices of goods and services, leading to price inflation. This impacts the purchasing power of the Kenyan population.
- Corrupt practices: These range from land purchases to large government contracts and are all facilitated by a weak regulatory system.
- Global corruption ranking: According to Transparency International's CPI 2023, Kenya ranks 126th out of 180 countries, indicating high corruption.

This corruption favors foreign firms with a higher bribery tolerance, thereby inhibiting the growth potential and competitiveness of local businesses.

Business-focused Strategy (1/2)

Mounting transport costs, shifting consumer habits, and stiff competition from imports are negatively impacting margins and disrupting traditional business models in Kenya's consumer market

Key challenges

Consumer Products

Customer retention issues

- In 2023, shopping frequency decreased by 6% compared to 2022, disrupting the food, beverage, and dairy sectors. Prominent FMCG brands lost 40-50% of their shoppers in each quarter of 2023.

Luxury purchase reluctance

- Households with upper-middle and high incomes, earning over USD2,235 monthly, are hesitant to invest in premium products. This is in a bid to preserve household income and prioritise necessities.
- This reluctance poses a significant challenge for businesses targeting the upscale consumer market.

Rising competition

- Companies faced stiff competition from low-cost Chinese imports. In Q1 2023, Kenya imported 16,962 tons of second-hand clothing from China, valued at USD20.6m.

Retail, Wholesale, and Distribution

Infrastructure and supply chain inefficiency

- The increase in supermarket retail stores in Kenya has complicated the delivery model, especially for regions outside of Nairobi, the capital. Suppliers are facing challenges in effectively distributing their goods to these retail outlets.
- As of 2023, transport costs accounted for 50-75% of retail prices, squeezing profit margins and hampering supermarket retail expansion.

Challenge of expanding beyond Nairobi

- Supermarkets in small towns grapple with staffing, maintenance, and supply chain issues.
- In 2023, delivery costs from the warehouse to branches constituted up to 15% of the product price.
- These issues have intensified due to economic pressures, making retail operations increasingly challenging.

Transportation and Hospitability

Shifts in consumer behavior

- Millennials (20%) and Gen Z (31.2%), a crucial demographic for the Hospitality and Transportation sector, significantly reduced discretionary spending in 2023.
- In 2023, expenditures on travel and entertainment plummeted by 66% and 55%, respectively, likely driven by escalating consumer costs.

Impact of fuel price inflation

- As reported by the Kenya National Bureau of Statistics, the Transportation sector witnessed a substantial cost hike of 9.7% in March 2024 compared to March 2023.
- The increase was mainly due to a sharp surge in fuel prices that exceeded USD1.56 per liter for the first time in September 2023.

Business-focused Strategy (2/2)

Industries are adapting value-driven marketing and diversification of services. E-mobility is offering solutions to high fuel costs while retail sector is evolving through strategic expansion and technological innovation

Mitigation strategy

Consumer Products

Value emphasis strategy in play

- Robust marketing techniques, including flexible payment options and promotions, are being utilised to highlight product value and quality.

Differentiation strategy applied

- Technology is fostering product innovation, and enhanced customer service is being used as a tool against imports.

Implementation of loyalty program strategy

- Investments are being made in loyalty programs, personalised marketing, and regular customer engagement.

Retail, Wholesale, and Distribution

Expansion beyond Nairobi

- Hyper-local strategies are being contemplated, involving collaborations with fulfillment and logistics companies to ensure affordable goods transportation.

Investment in technology

- Advanced technology, such as AI for inventory management and IoT for real-time tracking, is being considered.

Financial agility in focus

- Contingency plans are being developed including diversified product offerings and investments in digital transformation.

Transportation and Hospitability

Targeted marketing

- Value-driven offerings are being promoted to resonate with Millennials and Gen Z, reflecting their preferences and lifestyles.

Diversified revenue

- Introducing online services or locally-focused services is being considered to counterbalance reduced discretionary spending.

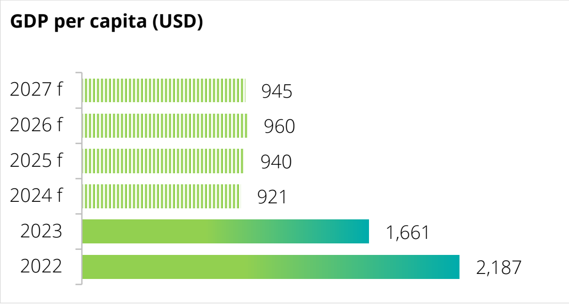
E-mobility solutions

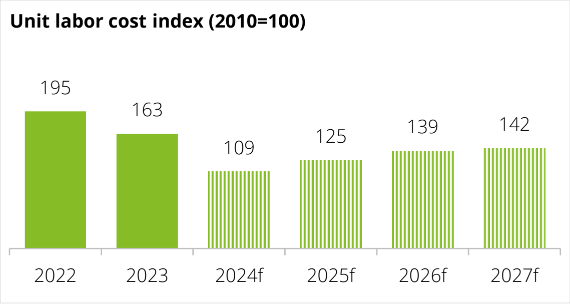
- Shifting to electric vehicles for goods transportation can reduce dependency on fossil fuels and combat rising fuel costs.

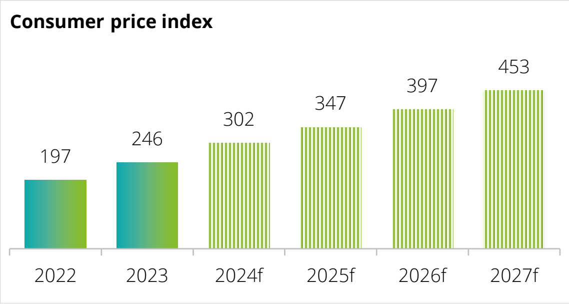
Country Profile
Nigeria

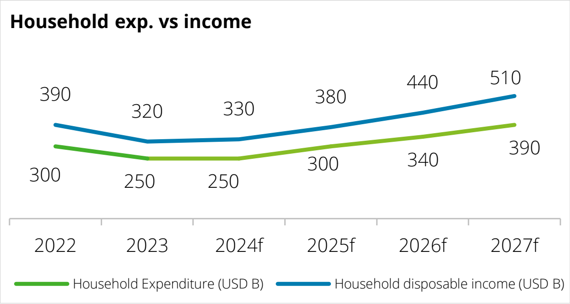
Country Profile: Nigeria

In 2023, businesses faced operational challenges, leading them to adopt strategic measures including diversification, cost reduction, and digital integration, while consumers curtained their non-discretionary expenses









Macro level key insights

Over the 2025-2027 period, unit labor cost is anticipated to recover, and an upward trend in household disposable income and expenditure could offer a respite to the rising CPI compared to 2022-2023 levels. This shift is likely to influence both the affordability of consumer goods and consumers' purchasing power.

The change of the pricing regime of the Nigerian Niara in December 2022, resulted in the Naira exchanging at an average of NGN 644.0 against the dollar in 2023 and subsequently at NGN 1,634.8 in October 2024. Consequently, inflation increased to 31.7% as of September 2024.

Sources: EIU Nigeria report, Statista, Statista
Note: For calculation of consumer’s and producer’s outlook on the economy, refer to the excel sheet embedded at the top right-hand corner of the slide.

Consumer view

Consumer outlook on the economy

Rising inflation and declining consumption from 2022 to 2023 have undermined Nigerian consumers' purchasing power. This is expected to extend into 2024, presenting an ongoing challenge to consumers’ financial wellness. However, the 133.3% increase in minimum wage and a decline in inflation in July 2024 for the first time in 19 months, is expected to offer some reprieve to consumers.

In 2023, from the overall consumer spending, the major portion was for Food (61.9%), Transport (5.9%), and Clothing (5.2%).

In 2023, consumers favored bulk purchasing (65%), loyalty programs (87%), new retailers (51%), and digital delivery services/payments (65%), further emphasizing cost-conscious behaviors.

Producer view

Producer outlook on the economy

Nigerian businesses face escalating operational costs from inflation, Naira depreciation, and infrastructure deficits. However, projected unit labor cost improvements and reduced imports from 2024 to 2027 suggest sustained competitive positioning.

Inflation and infrastructural challenges are altering business operations, prompting diversification and value addition in consumer goods, operational cost reduction, rural expansion in retail, and e-mobility in transportation.

Businesses are enhancing their resilience to adverse macroeconomic conditions by building customer loyalty through flexible payment options, promotions, sachetisation, tech integration, social commerce, and innovative logistics.

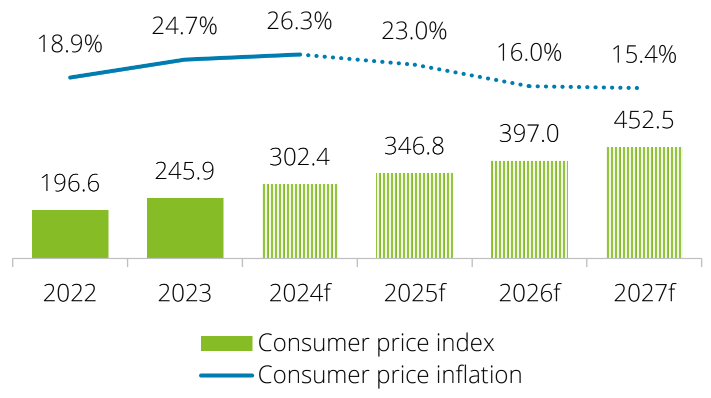
Outlook scale (2024): Negative Neutral Positive

Nigeria
Consumer View

Financial Well-being Status

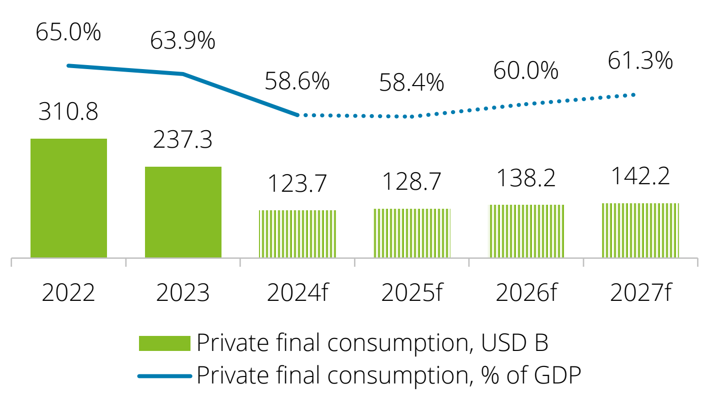
Nigeria's economic challenges in 2023 led to notable changes in consumer behavior, including more frequent brand switching and an increase in bulk purchasing

Consumer prices



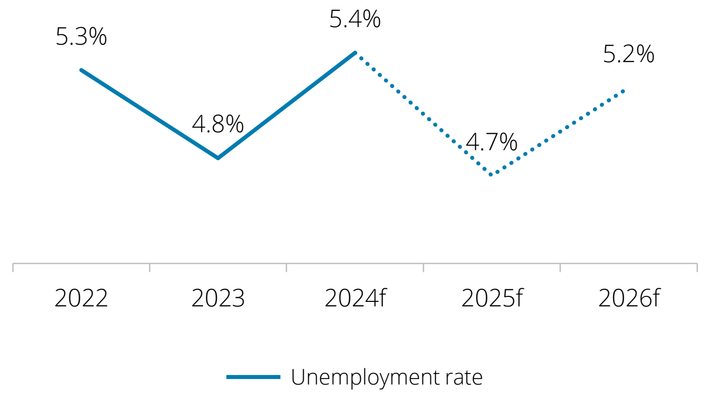
Source: Statista, May'24

Private final consumption



Source: EIU Nigeria report

Unemployment rate



Source: Trading Economics

Insights into Nigeria's consumer financial perceptions

- From 2022 to 2023, Nigerian consumers faced rising inflation, which led to decreased private final consumption, diminishing consumers' purchasing power and elevating living costs. This is projected to continue in 2024, impacting consumers' financial wellness.
- Consumer Products sector: In 2022-2023, high inflation impacted Nigerian consumers, leading to a shift toward more frugal behaviors. This led to a 100% increase in prices for staple food, including beef, rice, and beans, compared to 2022.
- Retail, Wholesale, and Distribution: In Nigeria's retail landscape, traditional trade continued to be the predominant choice in 2023, with 98% of consumers opting for it due to the existing economic conditions and weak financial circumstances. Consequently, 65% of consumers have adjusted their purchasing patterns, favoring bulk buying or in larger sizes or switching brands. With unemployment rates and consumer prices escalating, it is anticipated that the current economic trends will persist.
- Transportation and Hospitality sector: In May 2023, the removal of petrol subsidies led to a 200% surge in fuel prices. In March 2024, city bus fares witnessed a 49.5% increase and intercity fares rose by 79.2%. This development further strained the financial well-being of consumers in Nigeria, a trend anticipated to continue.

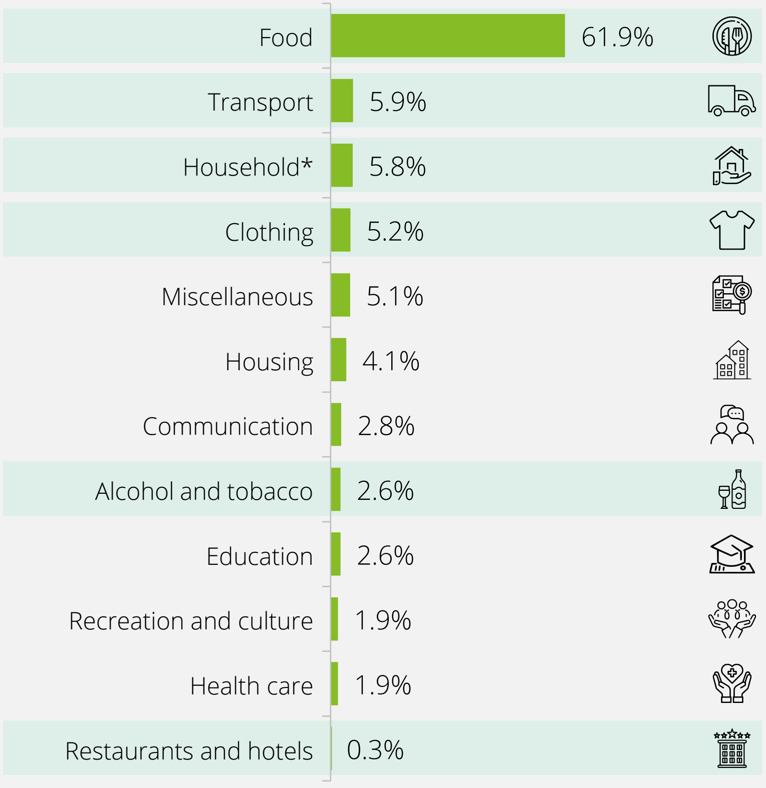
While the outlook for Nigeria's economy appears challenging in 2024, given the persisting high inflation and its impact on consumers' purchasing power, there is an expectation of a gradual improvement in economic growth over the 2025 – 2027 period. Although slow, this improvement could potentially ease some of the current constraints on consumer behavior.

Sources: EIU Nigeria report, Statista, Trading Economics, The Guardian, CNBC, Naira Metrics, Nigerian Stats

Share of Wallet

In 2023, the FMCG sector experienced value growth with a consumer shift towards essentials, bulk buying, and online wholesalers, alongside reduced transport spending due to increasing fuel costs and urban congestion

Consumer spending (2023): Top categories



Source: Statista

	Current trends	Implications
CP	• FMCG value growth was 22% in 4Q23, while volumes dropped by 0.9%. The fastest-growing categories were **food, home care, personal care, and alcohol**. • In 2023, 97.4% of average income was spent on food, **prioritising essential items.**	• Essentials prioritisation: As economic conditions remain uncertain consumers may continue focusing on essentials such as food and dairy.
RWD	• In 2023, **traditional trade** dominated the retail market, contributing 90% (estimated at USD4.5bn) to the total retail sales and experiencing value growth. • 65% of consumers in 2023 opted for **bulk purchases or larger sizes**, primarily from **wholesalers** to cut down on expenses. Private label brands were opted by 57%. • The preference for **online wholesalers** is growing due to their perceived cost-effectiveness and convenience for locating promotions and discounts.	• Traditional trade continuance: Traditional trade's dominance of the retail market may endure, with potential fluctuations based on consumer preferences. • Saving strategies: Bulk buying is likely to persist for consumers when buying from wholesalers, while in continue buying smaller volumes in retail formats. • Online wholesaler growth: Preference for online wholesalers is rising, signaling a shift toward e-commerce and omnichannel shopping. This may stimulate growth in the use of loyalty programs and promotional campaigns.
THS	• In 2023, **per capita spending on transport decreased** significantly, plummeting to USD65.8 due to the increase in fuel prices, increasing urbanisation, and traffic congestion. The per capita spending is expected to **revive up** to USD66.3 in 2024. • **Dine-in and takeaway experiences** dominated, contributing to over 90% of restaurant sales in 2023, driven by consumer demand for convenience and enhanced digital ordering systems.	• Emerging preference for public transportation: A surge in traffic congestion and fuel prices in major cities in Nigeria could lead to growing demand for public transportation services and switching to shared mobility services e.g., ride-hailing, bike-sharing, and car-sharing could increase. • Increase in demand for convenience: Restaurants need to adopt technology to streamline services and meet growing consumer expectations for convenience, ensuring competitiveness.

Sources: CNBC, NIQ, Statista, Statista

CP: Consumer Products, RWD: Retail, Wholesale, and Distribution, THS: Transportation Hospitality Services' * Household includes furnishings, household equipment, and routine maintenance of the house

Consumer Outlook

Consumer behavior is being impacted by their low purchasing power, leading them to look for promotions and discounts on digital platforms across all sectors

Consumer Products

- In 2023, consumers adopted saving strategies to manage their expenses:
  - 66% of consumers shifted their spending priorities to focus more on food products.
- About 68% of consumers in 2023 considered the attributes that matter the most, indicating uncertain brand loyalty.
  - Brand-switching behavior significantly impacted categories including cleaning and laundry products (53%), skincare (51%), and milk and toothpaste (44%), suggesting a consumer inclination toward purchasing brands currently on promotion.

The emphasis on essential goods and promotional brands underscored a transformative shift toward frugality and wavering brand loyalty.

Retail, Wholesale, and Distribution

- In 2023, there was a shift toward online wholesalers, with consumers finding them cheaper and more promotions and discounts.
  - Additionally, 65% of consumers opted for bulk purchases or larger sizes, predominantly from online wholesalers, prompting brands to adopt an omnichannel approach.
  - 91% of consumers favored paid loyalty programs, while 83% preferred free ones.
- In 2023, 51% of consumers tried a new retailer, primarily driven by product availability, quality, and convenience.

The shift toward online wholesalers underscores an evolving retail landscape, significantly steered by cost considerations and the pursuit of promotional offers. Loyalty programs have also gained traction, highlighting consumer preference for value-added experiences.

Transportation and Hospitality

- In 2023, airfares in Nigeria witnessed a significant increase with fuel price hikes, with one-way ticket prices between Lagos and Abuja rising by 192.3% (as compared to 2022) and other routes seeing similar surges. This led to passenger discontent amidst economic challenges.
- Consumers also prefer digital restaurant delivery services. The user penetration is expected to be 9.5% in 2024 and is projected to increase to 15.6% (2029).
- Digital transactions, including transfers, USSD, and cards, comprised 65% of all restaurant payments in 2023.

An increase in the convenience-seeking behavior of consumers has led to a digital shift that was evident in food service delivery and payments, while airline travel continues to face challenges due to the rise in fuel costs.

Macroeconomic factors impacting the consumer behavior

Frugality and brand loyalty	Increased prices due to inflation have majorly impacted the Consumer Products sector. This trend has resulted in prioritised spending on essential items and increased brand-switching based on promotions.
Digital adoption	Digital adoption has affected the Retail, Wholesale, and Distribution, and Hospitality sectors. Consumers have shifted toward online channels due to increased convenience and cost-effectiveness. Consumers also preferred value-added experiences through loyalty programs. The Hospitality sector experienced a surge in digital service delivery and payments.
Airfare increase impact	The sharp increase in airfares in Nigeria significantly impacted the transportation sector by potentially decreasing air travel demand due to heightened costs and growing passenger dissatisfaction.

Nigeria
Producer View

Macroeconomic Impact on Businesses (1/2)

Rising inflation and Naira depreciation have impacted Nigerian businesses with escalating operational costs and supply chain disruptions. Firms are looking to navigate the economic strain through price hikes, sachetisation, and operational shutdowns

Macroeconomic factors

Higher input cost

Rapidly rising inflation rates have created challenges in Nigeria, resulting in soaring consumer prices, escalating transport costs, and rising production costs. Some of the other key factors that have contributed to this challenge include:

- **Removal of fuel subsidies:** Despite Nigeria being **one of the top crude oil producers in Africa,** the halt in fuel subsidies in May 2023 triggered an increase in prices, contributing to **rising transport costs.** The BusinessDay analysis of FMCG companies in the country indicates that **production costs increased by 25% in the first nine months of 2023 vs. the same period in 2022, while operational costs increased by 17% during the same period.**
- **Hikes in electricity prices:** In April 2024, the government hiked electricity prices by almost **300%** compared to the previous rates of USD0.04 (N66), removing subsidies, and consequently spiking business operational expenses.

Inflation in Nigeria stood at 31.7% in September 2024, intensifying the cost-of-living crisis, eroding consumer purchasing power and demand, and escalating business expenses. This could stifle investment and economic growth. Despite this, inflation is expected to average 27.0% in 2025 and further to 16.4% in 2026, signalling an expected decline on the pressure on purchasing power.

Devaluation of currency

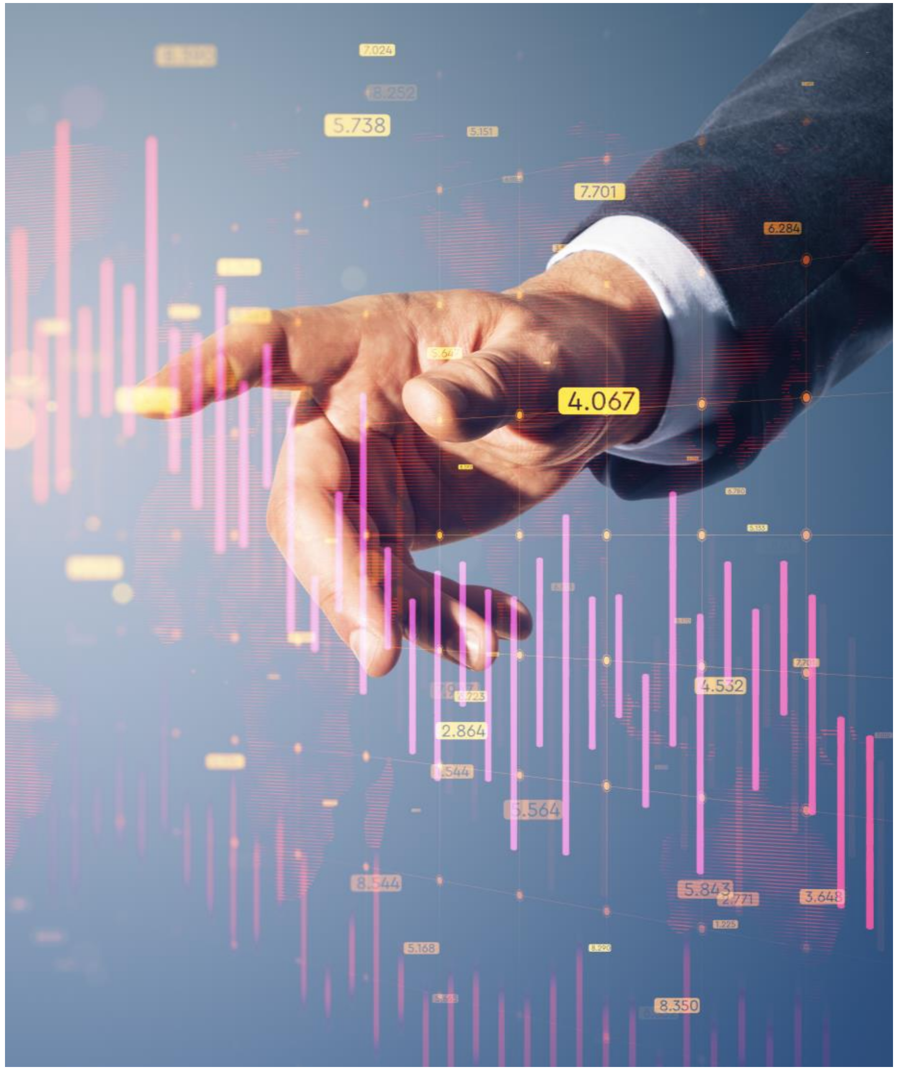
The devaluation of Nigeria's currency led to the **depreciation of the Naira by 69% between June 2023 and February 2024,** leading to significant business loss.

- **Six of Nigeria's largest businesses reported USD385m in losses** due to devaluation in August 2023. The impact of such challenges include:
  - **Escalating import costs:** Higher tariffs have increased the prices of goods; Nigeria's import bill surged 66% in the fourth quarter of 2023.
  - **Higher debt burdens:** Firms that hold debts in foreign currencies, have encountered increased debt obligations and costlier letters of credit.
  - **Operational shutdowns:** Several multinational corporations have been scaling back or exiting operations from Nigeria completely due to high revenue losses.

Devaluation of the currency is expected to prevent the dollarisation of Nigeria's economy in addition to boosting foreign investment.

Macroeconomic Impact on Businesses (2/2)

Nigeria continues to face infrastructural deficiencies, power outages, escalating interest rates, and seaport inefficiencies, resulting in heightened operational costs, disrupted supply chains, workforce reductions, and constrained business growth



Macro factors

Infrastructural deficiencies

In 2023, Nigeria's infrastructure deficit fell short of the World Bank standard by **40%**, resulting in consumer businesses facing infrastructural deficiencies:

- **Power outages:** Persistent power disruptions have led businesses to rely on expensive alternative sources, as **Nigeria's power grid collapsed 46 times between 2017-2023.**
- **Inadequate road infrastructure:** Nearly 90% of goods in Nigeria are transported by road each year. However, inadequate road infrastructure has created supply chain inefficiencies, delivery delays, and increased transportation costs, causing an **estimated annual loss of USD7.8bn for road freight businesses.**
- **Seaport inefficiencies:** The customs clearance process at seaports has been slow, manual, and reliant on agents' discretion, leading to an **extended duration of goods in transit or at ports**, awaiting inspection.
- Together, these issues have escalated costs, disrupted supply chains, hindered access to raw materials, and delayed the distribution of goods.

However, continued government expenditure in infrastructure, as demonstrated by the allocation of 5% of the 2024/25 budget is expected to contribute to towards meeting the country's infrastructure targets These are outlined in the 2021-25 National Development Plan.

High cost of financing

FMCG firms are consistently confronted with the challenge of securing **affordable financing**, a crucial factor for modernisation, expansion, and productivity enhancement; these companies face various hurdles including:

- **Escalating interest rates:** Persistent **high interest rates** from traditional financial institutions significantly have created a burden for small and medium enterprises, that primarily depend on loans to finance operations. Small Nigerian businesses have struggled with production costs and repayment challenges. These issues intensified by the 2024 interest hike, which pushed the policy rate to 26.8%, an increase of 840 bps from 2023.
- **Limited access to long-term equity**: Limited access to long-term equity via capital markets and private equity has restricted companies' abilities to invest in crucial areas including expansion, product development, marketing, and technology, thereby **increasing production costs** and **impacting efficiency**.

These factors have significantly burdened Nigerian businesses. Inadequate access to finance and high operational costs caused a 45% decline in the number of SMEs in 2023, compared to 2022.
Lending rates are expected to remain elevated in 2024 and 2025, averaging at 40.5% posing headwinds in access to finance. Subsequently, interest rates are forecasted to decline, reaching 26.3% by 2027, as inflation begins to decline.

Business-focused Strategy (1/2)

Rising living costs, inflationary pressure, and infrastructural deficiencies are reshaping consumer preferences, challenging distribution, and transforming retail landscapes in Nigeria's consumer industry

Key challenges

Consumer Products

Income stratification

- As living costs increase, with food price inflation hitting a 17-year high of 29.3% in 2023, the economic condition of Nigeria's middle class is gradually declining, leading to more consumers prioritising necessities over luxury items.

Impact of inflation on consumer demand

- In 2023, 60% of consumers shifted from regular to generic brands due to price escalations, leading to declining revenues for consumer product companies.
- A 2023 survey indicated that consumers prefer low-priced consumer products and show a preference for smaller, single-use packets to curb costs.

Retail, Wholesale, and Distribution

Logistics and infrastructure challenges

- Nigeria's rural markets are largely untapped due to infrastructural deficiencies e.g. poor road conditions, inadequate safety measures, and irregular power supply.
- As of 2023, 92.5m rural Nigerians lack proper access to the country's road network.
- Such logistical challenges have led to increased operational expenses, supply chain bottlenecks, and complicated retail distribution networks.

Informal retail sector

- An estimated 90% of consumer goods in Nigeria are sold through informal distribution channels due to consumer perception of low product prices.
- Informal retailers primarily sell through kiosks, open markets, and pop-up stores, that face legality issues and multiple taxations, hindering the steady operation of businesses.

Transportation and Hospitability

Sector instability due to insecurity

- Security and safety concerns have significantly impacted Nigeria's hospitality industry, reducing its market size from USD14.2bn in 2019 to USD12.9bn in 2022. Criminal activities and slow post-COVID recovery have led to a decline in tourist visits, hotel closures, reduced revenue, and investment reluctance impact sector growth.

Increased preference for online bookings

- As of 2023, 54% of Nigerians preferred to make travel and hotel bookings through online platforms due to cost savings and lower prices, however, only 13% of e-commerce portals in Nigeria are dedicated to travel and hospitality.

Aviation sector challenge

- In 2023, a key challenge in Nigeria's aviation sector was the acute shortage of foreign exchange, which significantly impeded aircraft maintenance and the procurement of necessary spares.

Business-focused Strategy (2/2)

Nigerian businesses are focusing on value-based product and service offerings to customers. Reduction of operational costs and rural expansion are being prioritised in Retail, while the Transportation sector is exploring e-mobility

Mitigation strategy

Consumer Products

Tiered product offering

- Product lines with varying feature sets, such as basic and premium versions of the same product, and pricing structures are being developed to ensure comprehensive market coverage.

Collaborations with local suppliers

- Companies are collaborating with local suppliers to minimise operational costs.

Loyalty programs

- Companies are integrating loyalty programs to incentivise consistent patronage and enhance customer retention.

Retail, Wholesale, and Distribution

Collaboration with traditional outlets

- International companies are collaborating with traditional outlets to improve distribution and professionalise retail operations.

Investment in solar power

- Companies are exploring solar energy to enhance sustainable power sources and reduce dependency on the unstable power grid.

Pop-up shops

- Mobile market platforms or pop-up shops are being considered, circumventing the need for fixed retail outlets in hard-to-reach areas.

Transportation and Hospitability

Digital transformation

- Enhancements to digital platforms are being implemented, driven by the increasing demand for online bookings, ensuring improved customer experience and demand.

Security technology investment

- Advanced security technologies, including AI and biometrics, are being invested to address security concerns.

Forex growth

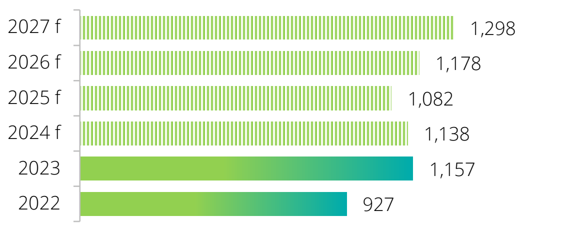
- Strategic partnerships for better forex terms, implementing currency risk hedging strategies, increasing local sourcing of aviation parts, and lobbying for supportive government regulations are being implemented.

Country Profile
Ethiopia

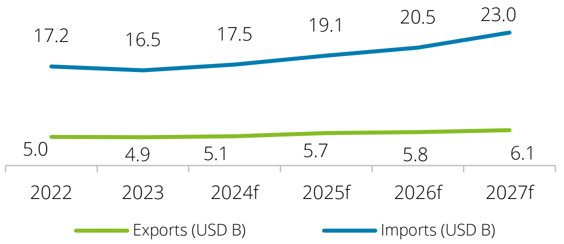
Country Profile: Ethiopia

Ethiopia's structural and liquidity challenges have spurred frugality and conservativeness in consumption patterns. Firms continue to face operational challenges due to logistical bottlenecks, rising input costs, and foreign currency volatility

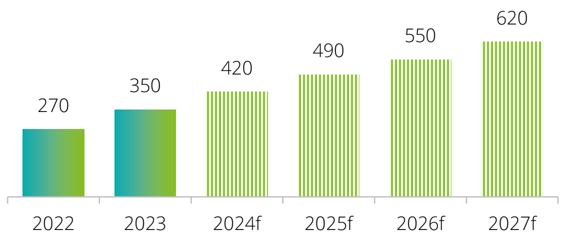
GDP per capita (USD)



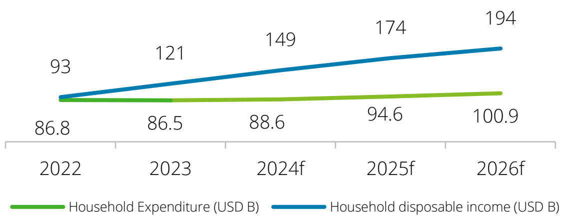
Exports and Imports



Consumer price index



Household exp. vs income



Macro level key insights

In 2023, Ethiopia faced rising consumer prices and a growing trade deficit, affecting both consumers and producers. Despite a projected increase in GDP per capita by 2027 potentially benefiting producers, high CPI and unemployment rates continue to adversely impact consumers.

Subsequently in July 2024, Ethiopia shifted to a floating foreign currency regime from its long standing managed foreign currency regime. This saw the Birr depreciate from ETB 57.0 to the dollar to ETB 114 to the dollar as at October 2024. Consequently, the costs of imported production inputs increased alongside overheads such as salaries. Further, the country's reliance on imported food products has seen food inflation remain elevated, standing at 30.0% in September 2024.
Between 2025 and 2027, we expect the Birr to move in line with country's current account balance.

Source: EIU Ethiopia Report

Consumer view

Consumer outlook on the economy

In 2023, Ethiopia experienced a decline in private consumption and an increase in both the CPI and unemployment, signaling deteriorating consumer financial health. Projections through 2027 point to macroeconomic improvement, as household incomes increase, GDP per capita rises and consumer demand, demonstrated by imports, strengthens.

In 2023, from the overall consumer spending, the largest portion was for food (44%), restaurants and hotels (5%), and clothing (3.9%).

In 2023, peace and security challenges and escalating living costs in Ethiopia prompted frugal consumer behavior, altered transportation preferences, and fueled growth in eco-consumerism. Policy reforms including the devaluation of the Birr that occurred July 2024 are expected to keep inflation elevated in 2024, further escalating the cost of living.

Producer view

Producer outlook on the economy

In 2023, Ethiopian businesses grappled with heightened operational costs and supply chain disruptions fueled by foreign exchange shortages, rising input costs, and logistical challenges occasioned by ongoing internal conflict. The devaluation of the Birr in 2024 further compounded the operational costs, as increase in salaries and wages was necessitated and price of imported inputs increased.

Establishing business in Ethiopia involves significant cost and bureaucratic headwinds. Lengthy and expensive processes make it difficult to set up and operate, with business having to deal with multiple authorities.

Firms in Ethiopia leveraged partnerships, digital technologies, and alternative financing to enhance efficiency and competitiveness. They are also diversifying offerings and investing in operational efficiency to navigate market challenges. Continued Liberalisation of multiple sectors, including the financial and logistics sectors, are expected to drive partnerships, technological and product improvement.

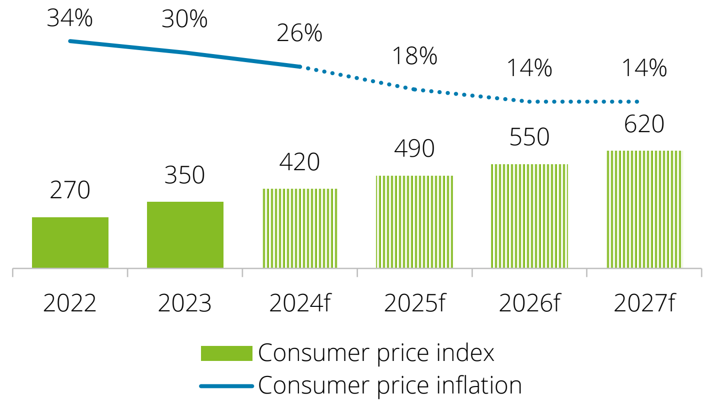
Outlook scale (2024): Negative Neutral Positive

Ethiopia
Consumer View

Financial Well-being Status

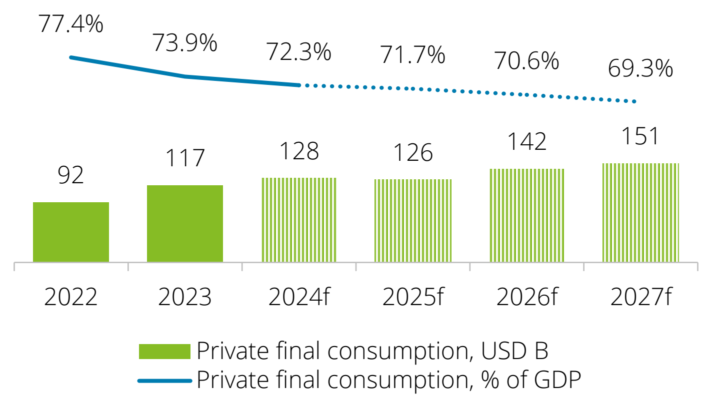
Over the 2022 – 2023 period, high inflation and low incomes have reshaped Ethiopia's consumer habits, influenced retail choices, and escalated transportation costs, with a similar trend expected to prevail for the rest of 2024

Consumer prices



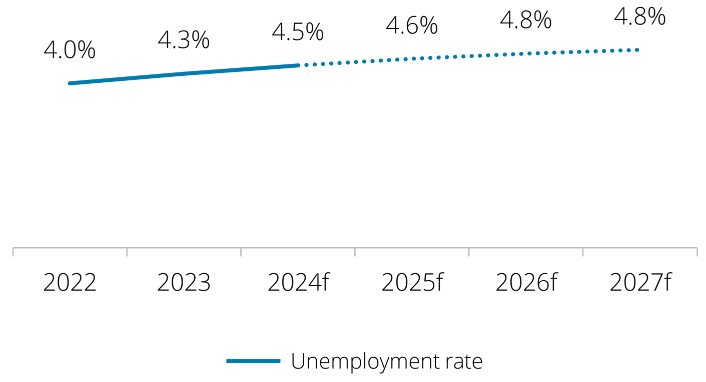
Source: Statista, May'24

Private final consumption



Source: EIU Ethiopia

Unemployment rate



Source: Statista

Insights into Ethiopian consumer financial perceptions

- In 2023, Ethiopia experienced a decline in private consumption as a percentage of GDP, alongside an increase in the Consumer Price Index (CPI) and a rise in unemployment to 4.3% relative to 2022. These indicators collectively point to a **weakening of consumer financial health from 2022 to 2023**. In 2024, following the policy regime shift, **key macroeconomic indicators**, including the CPI, private final consumption, and unemployment rates have remained largely unchanged. However, as policy reforms continue to be implemented, we expect the macroeconomic outlook of Ethiopia to continue to improve and become favourable in the medium term.
- **Consumer Products Sector:** Amid the rising CPI and declining private consumption as a percentage of GDP in 2023, **Ethiopians faced stagnant incomes**, prompting conservative lifestyle shifts e.g. dietary changes and reduced non-essential spending.
- **Retail, Wholesale, and Distribution**: In 2023, traditional open-air markets "souks" maintained their stronghold. However, factors such as **rising urbanisation and population growth spurred the growth of local retail outlets.** The new directive permitting foreign participation in trade suggests potential opportunities for global retailers.
- **Transportation and Hospitality Sector: Inflation and domestic conflicts shrunk growth in tourist arrivals in 2023 to 35.0% from 64.6% in 2022.** The "Back-to-Origins" initiative, targeting the diaspora community with a 25% hotel discount, saw declining engagement during 2021-2023. This sector may experience a slow recovery due to the weaker economic conditions and peace and security challenges.

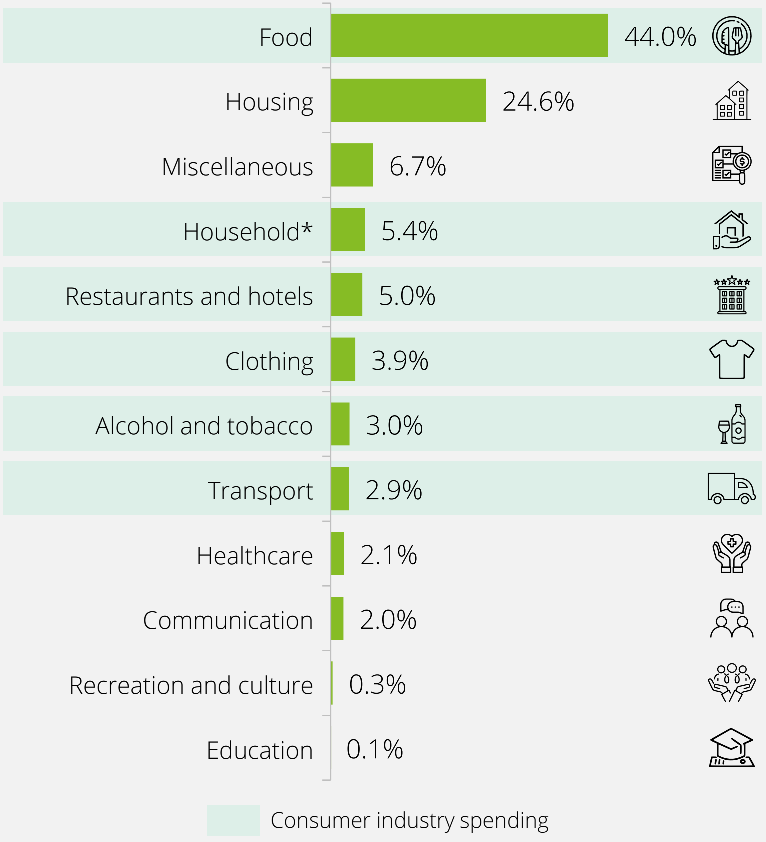
Ethiopian consumers are facing financial challenges, impacting the three sectors, with limited growth prospects and cautious spending patterns. The economic indicators suggest a sustained period of austerity, potentially affecting long-term sectoral stability and consumer confidence.

Sources: EIU Ethiopia report, Ethiopia country risk report Statista

Share of Wallet

Economic pressures have reshaped Ethiopia's consumer consumption patterns, while rising fuel prices have influenced transportation choices, with preferences for public transport and electric vehicles

Consumer spending (2023): Top categories



Source: Statista

	Current trends	Implications
CP	• Struggling with **reduced purchasing power and increased living expenses**, consumers are compelled to cut back even on essentials. • Consumers are shifting their consumption patterns with **meat replaced by lentils and vegetables**.	• Focus on essential items: The uneven price increases would force consumers to allocate more disposable income toward necessities. • Shift in consumption patterns: As consumers navigate the challenging economic scenario, they are likely to shift toward cheaper options due to **uncertain income stability**.
RWD	• Ethiopia's retail sector is in the early development stages; local souks are preferred over supermarkets. • Middle-class urban consumers have shown an inclination to shop at grocery stores, supermarkets, and kiosks. • **E-commerce revenues** in Ethiopia are expected to have an annual average growth (CAGR 2024-2029) of 13.3%.	• Continued dominance of traditional trade: Traditional trade, in the form of local souks, will continue to have a strong presence in the retail market. • Growth of modern retailers: Urbanisation and population growth are catalysing the expansion of modern retail formats (e.g., supermarkets). • Influx of foreign investors: The liberalisation of Ethiopia's Retail sector to foreign investors is expected to stimulate competition and modernisation, benefiting consumers. In addition, the fx policy regime shift will further spur foreign investment.
THS	• Consumers increasingly value **airline reliability and competitive pricing**, significantly influencing their choice of dependable carriers. • The **travel and tourism** sector is expected to witness a growth of 14.2% in 2024, indicating an improvement in tourism. However, the security crisis in the country occasioned by civil conflict remains a key headwind for the sector.	• Increasing price sensitivity: As the cost of living rises, consumers will continue to exhibit heightened price sensitivity, particularly within the airline industry. To weather this sensitivity, airlines ought to continue to prioritise operational reliability and competitive pricing strategies, such as offering tiered pricing options and loyalty rewards • Tourism industry to stabilise: Ethiopia's travel and tourism is estimated to grow albeit gradually, with a focus on ecotourism and cultural experiences. This is however contingent on the evolution of the security situation in the country.

CP: Consumer Products, RWD: Retail, Wholesale and Distribution, THS: Transportation Hospitality Services; * Household includes furnishings, household equipment, and routine maintenance of the house

Consumer Outlook

Rising living costs and stagnant incomes are fostering frugality among consumers, transforming retail preferences amid urbanisation and population growth, and steering transportation choices

Consumer Products

- Rising living costs and stagnant incomes have prompted lifestyle adjustments, with **consumers prioritising staple foods and viewing items for e.g. meat as luxury**.
- Overall, high inflation and the recent devaluation of the local currency continue to challenge consumers. Despite subsidisation of essential commodities, imported goods remain expensive, limiting disposable income available for non-essential items.

Surging living costs and stagnant incomes are prompting a significant shift toward frugality among Ethiopian consumers.

Retail, Wholesale, and Distribution

- Souk's continue to dominate Ethiopia's retail sector, with **rapid urbanisation** and **population growth** driving the **expansion of grocery stores and supermarkets in the capital city, Addis Ababa**. An increasing number of consumers are turning to these outlets for both local and imported food items.
- The Ethiopian government's recent **policy changes**, including **lifting bans on international retailers,** removal of importation bans on 38 product categories and encouraging property ownership are paving the way for global brands to enter the market, indicating a **readiness for a more modern retail environment.**

The expansion of grocery stores in Addis Ababa and the arrival of global brands in Ethiopia's retail market underscores a transformative retail landscape propelled by urbanisation and policy changes.

Transportation and Hospitality

- Data shows that travel and tourism in Ethiopia is predominantly driven by growth in tourist numbers who in 2023, grew by 35%, compared to the growth in tourism receipts of 18.3%.
- While local travel spending remains low, the sector is expected to grow slowly but steadily, with a shift in **traveler preferences toward authentic cultural experiences and eco-friendly options.**
  - The country specialises in ecotourism and is growing adventure tourism, which creates an opportunity for companies to build specialised tour packages and transportation options that are attractive to a wide range of tourists. This however remains contingent on full resolution of the security challenges in the country.

Increased interest in adventure tourism, cultural heritage, and government initiatives to improve infrastructure and simplify visa procedures can create revenue growth opportunities for businesses in the sector.

Macroeconomic factors impacting the consumer behavior

Inflation and stagnant income	Rising living costs and static incomes are causing consumers to adopt more frugal behaviors. This trend is particularly evident in the Consumer Products sector, in which consumers are replacing expensive food items for e.g. meat with lentils and vegetables.
Retail transformation	Urbanisation, population growth, and policy reforms are driving a transition from traditional markets to modern supermarkets and global brands in Ethiopia's retail sector.
Growth in tourism	The hospitality sector is experiencing growth driven by increased international spending and a shift towards ecotourism and adventure tourism, supported by government initiatives to improve infrastructure and simplify visa processes.

Ethiopia
Producer View

Macroeconomic Impact on Businesses (1/2)

Facing political instability and economic challenges, including raw material shortages and rising operational costs, Ethiopian businesses are turning to local sourcing, strengthening supplier relationships, and e-mobility solutions

Macro factors

Ethiopia has struggled with a foreign exchange shortage on account of its long-running current account deficit and hitherto, tightly controlled exchange rates. These had resulted in:

- Decline in foreign exchange reserves: Current account deficit had resulted in a sharp decrease to USD1bn in foreign exchange reserves as at June 2023, covering less than a month's worth of imports
- High operational costs: Ethiopia's **import-dependent manufacturing sector** requires foreign currency to sustain operations. However, **access to foreign exchange had been curtailed** due to the NBEs directive prioritising specific sectors e.g. agricultural products and pharmaceuticals in 2023.
  - Prominent manufacturing businesses were forced to suspend operations in 2023, **due to their inability to import required raw materials**.
  - Subsequently, in 2024, the high cost of manufacturing persisted following the 100% devaluation of the Birr, which increased the cost of imported inputs and other overheads including salaries.

These challenges have put businesses in severe distress as they attempt to sustain operations amid rising expenses.

Ethiopia's inflation rates increased **from 28.3% in November 2023 to 28.7% in December 2023**, primarily driven by **internal conflicts and drought**, leading to:

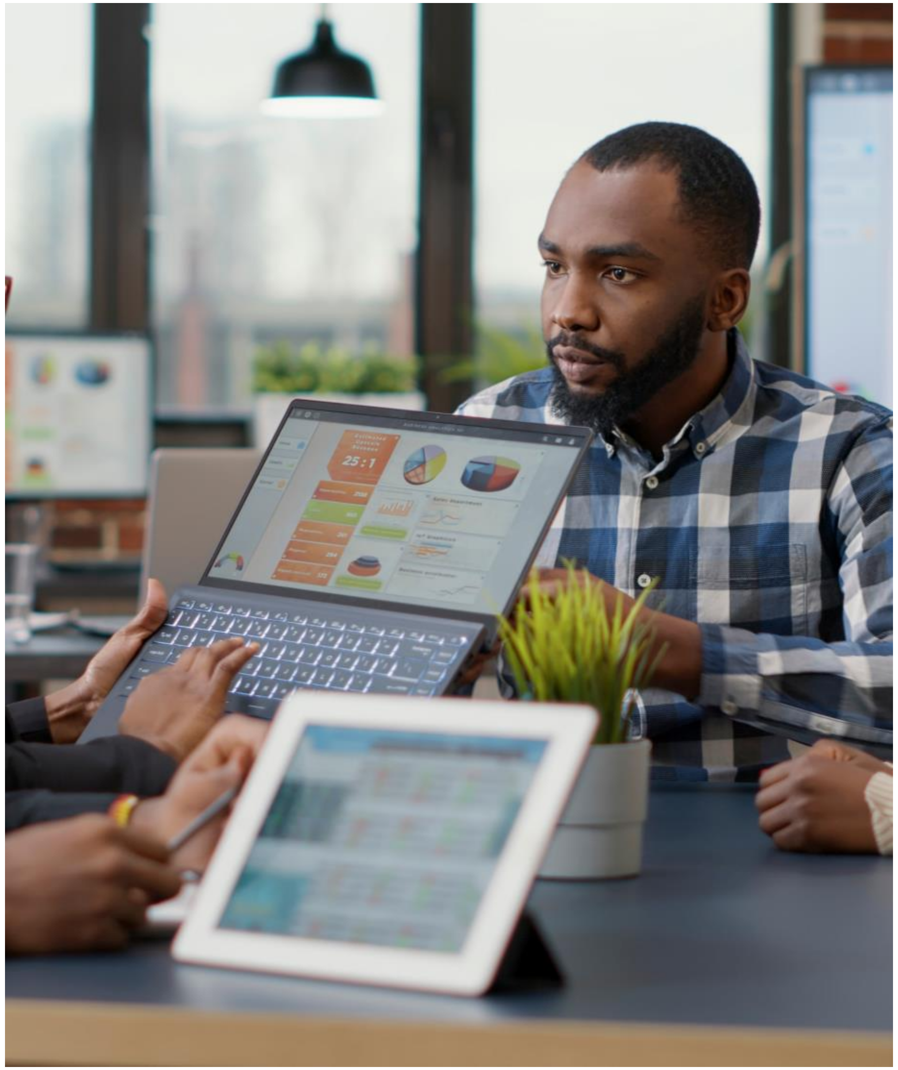
- Increase in food prices: Food price inflation climbed to 30.6% in December 2023 from 2022; **soaring prices** of essential staples, e.g. teff and edible oils have **exasperated cost burdens for consumer goods firms**, hotel chains, and restaurant businesses.
- Fuel price increases: The gradual **removal of fuel subsidies** impacted fuel prices; gasoline prices increased **from USD1.36** to **USD1.41** per liter, while diesel prices jumped from **USD1.38** to **USD1.45** per liter between November and December 2023, escalating operational costs for businesses. Fuel subsidies have however been reintroduced following the shift in fx policy in July 2024. This is expected to provide reprieve on operating costs.
- Higher raw material prices: Soaring wheat prices, VAT pressure in 2024, and the tripling of fertiliser prices between 2022 and 2023 have further escalated production costs.

Together, these factors have impacted the operational complexity of businesses.

Subsequently, as of September 2024, inflation stood 28.3%, primarily driven by food inflation, which stood at 30.0%. As Ethiopia continues to implement structural reforms, inflation is forecasted to decline reaching a forecasted 14.5% by 2027.

Macroeconomic Impact on Businesses (2/2)

Ethiopia contends with costly imports and local business strain due to policy shifts. Firms are innovating with technology and localised sourcing to reduce operational expenses resulting from high transport costs and logistical challenges



Macro factors

Recent policy shifts in 2023 have had profound implications for local businesses and the country's trade deficit, which were reflected in:

- **Policy preference toward foreign firms:** The Ministry of Finance's 2023 directive **offers incentives for e.g. corporate income tax exemptions** and duty-free imports to foreign companies. Although these incentives are sector and project specific, they are targeted at bringing more international firms to Ethiopia.
- **Liberalisation of the Retail sector:** In 2023, the Ethiopian government **liberalised the Retail sector**, placing local businesses and SMEs in a challenging position against larger, better-equipped foreign corporations.
- **Influx of foreign goods:** The surge of foreign goods has resulted in an increased reliance on highly-priced imports, driving up business costs and expanding the country's trade deficit; import spending increased 14.8% YoY in 2022.

In July 2024, the country implemented additional policy reforms, key among them, the move to a floating foreign currency regime that saw the Birr devalue by 100% and the lifting of the ban on importation of previously disallowed products. The foreign exchange regime change is expected to adversely impact the cost of production including input and overhead costs.

Inadequate logistics and transport infrastructure had negative implications for producers and businesses, which were reflected in the following:

- **Inflated transport costs: Since 2022, Logistics contribute to 22-27%** of final product costs due to Ethiopia's **landlocked status** and **reliance on external ports**; additionally, shipping and freight costs are about 60% higher than the neighboring countries, placing a financial strain on businesses and producers.
- **Operational delays:** Obstructions and security concerns cause severe delays; trains are often forced to reduce their speeds, which can increase journey durations by almost 200%, impacting the timely delivery of goods.
- **Exorbitant handling charges:** Ethiopia's Port and **road handling costs are over four times higher** than in parts of Europe and the US, **further escalating operating costs** for businesses and producers.

Asset ownership restrictions for logistics providers in Ethiopia impede the formation of reliable logistics networks, impacting business profitability. However, this is expected to change, as the government announced a policy shift allowing foreign investment in the logistics sector. Liberalisation of the sector is also expected to resolve the inefficiency of the sector through increased competition.

Business-focused Strategy (1/2)

Declining consumer spending, stiff competition, political insecurity, and infrastructural deficiencies have reduced consumer demand, impacted profitability, and curtailed business expansion in Ethiopia's consumer market

Key challenges

Consumer Products

Reduction in non-essential spending

- High inflation, averaging 30% in 2023, and low per-capita income in USD1,157 (2023), forced consumers to cut down on spending on non-essential items; rising food prices encouraged consumers to dedicate household income to daily staples, leading to reduced demand for consumer products.

Competition from Chinese imports

- In 2023, the Ethiopian textile and apparel sectors struggled as Chinese imports, which made up 25% of total imports, undercut local businesses with cheaper garments, diminishing demand for traditional Ethiopian business products.

Retail, Wholesale, and Distribution

Infrastructure inefficiencies impacting distribution

- The inefficiency of the state-owned railway network, that makes up the majority of Ethiopia's railway system, challenges the RWD sector. Poor management and inadequate funding lead to operational shutdowns, that raise the overall cost of business. The Ethiopia Railway Corporation is however undergoing restructuring and this is expected to increase operational efficiency.
- In January 2024, port delays resulted in only 75% of the targeted freight being transported through the Ethio-Dijbouti Railway; additionally, cargo ships at Dijbouti ports endure waiting times 283% longer than the global average, leading to supply chain inefficiencies.

Digital payment adoption challenge

- Despite Ethiopia's Digital Payments sector growth by 750% from 2019-2024, the Retail, Wholesale, and Distribution sectors still rely on cash transactions, particularly for small-scale local businesses. This dependence on cash transactions not only hampers operational efficiency but also increase vulnerability in a competitive market.

Transportation and Hospitability

Political conflict and insecurity

- Ethiopia's travel and tourism sector is severely impacted by political upheaval and security issues. Between 2021 and 2023, the sector suffered a staggering 70% revenue loss, primarily attributed to the onset of a civil conflict in the northern territories, which has affected consumer perception and demand.

Lack of adequate infrastructure

- Ethiopia's Transportation sector continues to struggle with exorbitantly high prices. These factors have curtailed logistical efficiency and increased operational costs, thus stifling business competitiveness and market access.

Business-focused Strategy (2/2)

Ethiopian businesses are leveraging cultural heritage and diversification. Investments in operational efficiency are being prioritised in retail, while security collaborations and infrastructural expansions are being highlighted in travel and hospitality

Mitigation strategy

Consumer Products

Leveraging cultural identity

- The culture and historical significance of the products are highlighted, especially by textile producers to differentiate products from generic imports. The country targets to become a low-cost textile manufacturing hub for global brands.

Investment in operation efficiency

- Companies are investing in production technologies and manufacturing facilities to reduce costs and expand production.

Simplification of portfolio

- Products with diminished demand are being phased out, supplanted by lower-priced product categories.

Retail, Wholesale, and Distribution

Digital technologies

- Small-scale businesses are leveraging digital payment systems and e-commerce platforms to enhance their operations and competitiveness.

Alternative financing

- Informal retailers are tapping into microfinancing schemes to mitigate the challenge of inadequate finance.

Transportation and Hospitability

Infrastructural expansion

- Companies are investing to expand their current infrastructure, including the improvement of current facilities and offerings, to accommodate a significant influx of travelers.

Collaborative security measures

- Companies are collaborating with local security agencies to provide real-time updates on safe travel zones and security escorts in risk-prone areas.

Targeted marketing efforts

- Promoting safer areas undisturbed by conflict and political instability are being explored.

Project brief

Objective

- The report aims to explore factors impacting consumer behavior and investor confidence within the Consumer Products, Retail, Wholesale, and Distribution, and Transportation and Hospitality sectors (excluding services) in the Sub-Saharan African countries of Kenya, Ethiopia, and Nigeria.

Sources, methodology, and limitations

Sources

- Data/insights from internal databases, including EIU and Statista, along with web market research reports such as Nielsen, Euromonitor, Kantar, BMI, news articles, etc.

The following key abbreviations have been used throughout the report

Abbreviation	Expansion	Abbreviation	Expansion
AI	Artificial Intelligence	M&A	Mergers and Acquisition
AR/VR	Augmented Reality/Virtual Reality	RWD	Retail, Wholesale, and Distribution
BNPL	Buy Now Pay Later	SKU	Stock Keeping Units
CP	Consumer Products	SSA	Sub-Saharan Africa
FMCG	Fast Moving Consumer Goods	THS	Transportation and Hospitality Services

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