



FEATURE

Asian Consumers

Short-term risks may be a niggle this year

Akrur Barua

In Asia, consumers are facing slowing economic growth and incomes this year. In some economies, household debt is also high. And any escalation of tensions in the Middle East may well topple the inflation appletart too.

AS THE MEMORIES of New Year's Eve festivities recede from people's minds, the dreary motions of everyday life take over. In Asia, as in other parts of the world, consumers are hoping for a better year—more jobs, more incomes, more wealth, and perhaps, less uncertainty. Yet it is less of hope and more of underlying economic and financial conditions that will determine Asian consumers' prospects in 2020. While the economic outlook for Asia is favorable over the long term, with expectations of healthy economic growth, rising incomes and wealth, and an expanding middle class working in the region's favor,¹ there are a few risks in store this year. And in the spirit of the great John Maynard Keynes, it is worth looking at these near-term risks for they may well impact the fortunes, thereby spending and investment decisions, of Asian consumers this year.

So, what do Asian consumers need to be wary of in 2020? Economic growth and uncertainty related to international trade is a key concern. While there are hopes that trade disagreements among major economic powers, especially the United States and China, will get resolved,² it is still early days to say anything. Until a resolution is reached, these tensions will weigh on trade and investment in Asia and likely on the region's economic growth, labor market, and personal incomes. And with household debt high in some economies, any decline in income growth will only add to consumers' woes. Consumers in many parts of the region are enjoying low interest rates,³ but if tensions in the Middle East escalate, crude prices will likely rise, causing inflation to flare up. In that case, central banks will be forced to raise interest rates, thereby pushing up the cost of borrowing and repaying debt for consumers.

Keep an eye on economic growth

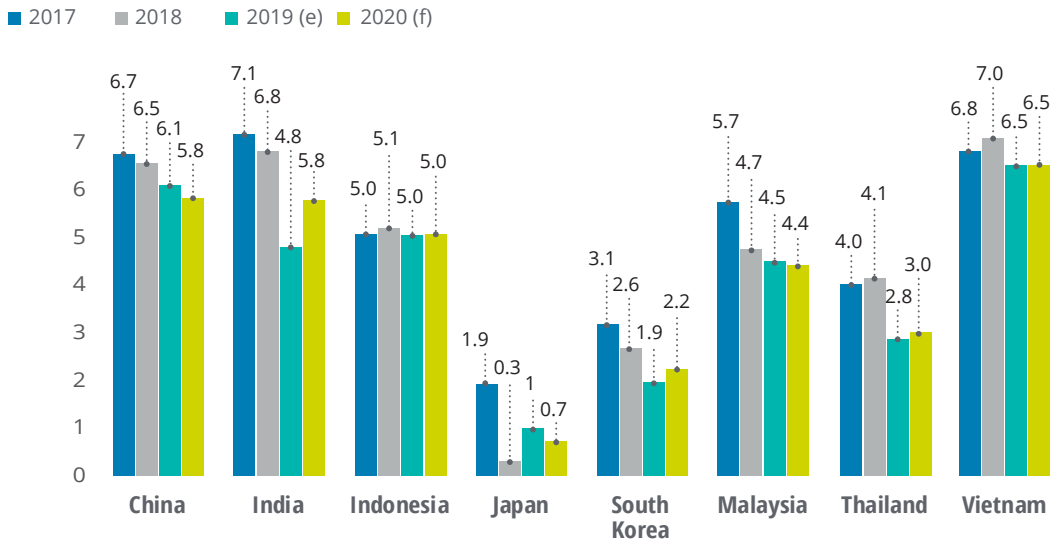
Strong growth due to fiscal and monetary sops in the earlier part of the last decade—to overturn the worst effects of the Great Recession—has given way to slower, yet likely more sustainable, growth in Asia. This trend is likely to continue into 2020, according to estimates by the International Monetary Fund (IMF).⁴ Emerging and developing economies⁵ in the region grew by an estimated 5.6 percent in 2019, down from a 6.4 percent rise in 2018. Overall, the region's estimated growth in the last five years of the decade (6.4 percent) is lower than in the first five years (7.6 percent). Specifically, growth in China has been slowing steadily—by more than 4 percentage points over 2010–2019—and is expected to decline further this year as the economy matures, credit-fueled expansion slows under the weight of rising debt, and trade tensions with the United States add to uncertainty. In India, disruptions due to demonetization, introduction of a goods and services tax, and deterioration in banks' asset quality have pushed growth down to an estimated 4.8 percent in 2019 from 8.2 percent in 2016.⁶ Economic activity has also lost momentum in Indonesia, a key Asian market, with growth slowing from an average of 5.8 percent per year in 2010–2014 to an estimated 5 percent in the following five years. The trend is similar for Malaysia.

For developed markets such as Japan and South Korea, growth is unlikely to pick up sharply this year. While Japan is still struggling despite years of quantitative easing to escape deflationary pressures, trade tensions have weighed on South Korea's economy (figure 1).

FIGURE 1

Growth Fell in key Asian economies in 2019

Real GDP growth (percent)



Notes: (e) denotes estimates and (f) forecasts, both by the International Monetary Fund. Data for China, India, and Japan are based on the January 2020 interim outlook by the International Monetary Fund. Data for Indonesia, South Korea, Malaysia, Thailand, and Vietnam are from the wider forecasts published in October 2019.

Sources: International Monetary Fund (sourced through Haver Analytics); Deloitte Services LP economic analysis.

Income growth has slowed in major economies

Slowing growth in key economies has impacted labor markets there. In India, for example, unemployment was 7.7 percent in December 2019 from a low of 3.8 percent in July 2017.⁷ In China, employment growth has been steadily declining since 2015—in fact, employment contracted by 0.1 percent in 2018. Unemployment has picked up, albeit slowly, in South Korea since August 2019. And in countries such as Malaysia, although unemployment has held steady of late, the figure is relatively higher than in the first half of 2010–2019. Given that GDP growth is unlikely to swing up sharply in 2020, improvement in labor-market conditions will likely only be gradual.

Slowing GDP growth, along with its impact on labor markets, has weighed on income growth in key economies in the region. According to estimates by Oxford Economics,⁸ growth in real

disposable personal income in China is estimated to have fallen from an average annual rate of 11.4 percent per year in 2010–2014 to 7.0 percent in 2015–2019.⁹ Relative to 2018, growth in real disposable personal income in 2019 is estimated¹⁰ to have slipped in quite a few major economies in the region; it likely fell the most in Hong Kong (SAR), followed by Indonesia, Taiwan, Japan, Thailand, and Malaysia. Oxford Economics’ forecasts for 2020 is a mixed bag—while real incomes are expected to grow faster year on year in countries such as India and Indonesia, they will likely not in China, Japan, and South Korea (figure 2).

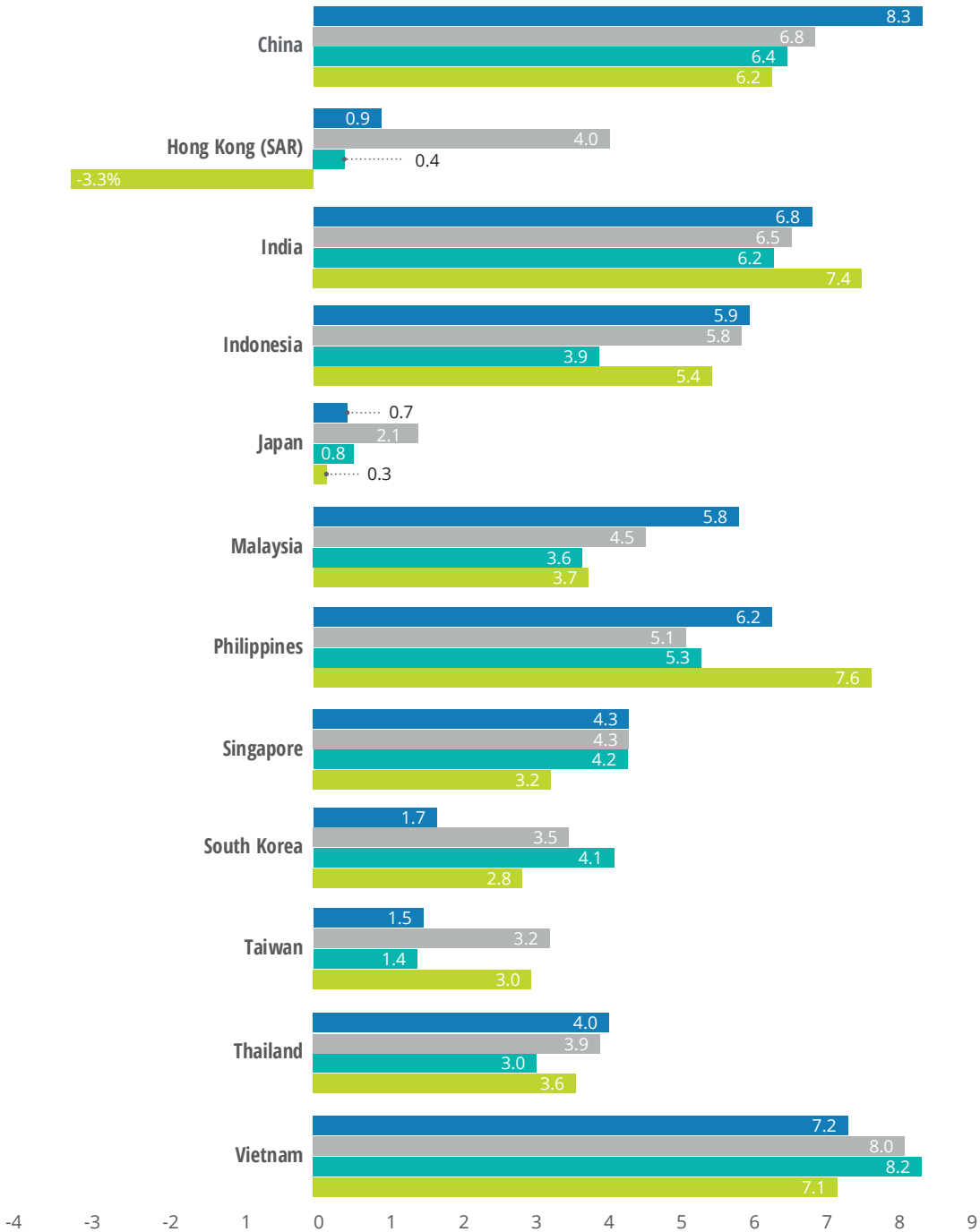
Slower income growth and labor market strains, in turn, have slowed the pace of growth in consumer spending. Passenger vehicle sales fell 18 percent in India between April¹¹ and November 2019 compared to a year before.¹² In China, growth in the value of retail sales picked up in the first quarter of 2019 but has been on a broad downward

FIGURE 2

Income growth has slowed in Asia and is unlikely to go up by much in 2020

Growth in real disposable personal income (percent)

■ 2017 ■ 2018 ■ 2019 (e) ■ 2020 (f)



Notes: We have used 2017 estimates for Vietnam, and 2018 estimates for Vietnam, India, China, and Singapore. (e) denotes estimates and (f) denotes forecasts, both by Oxford Economics. Sources: Oxford Economics (Global Economics Databank); Deloitte Services LP economic analysis.

trend since. A similar trend is evident for retail sales volumes in Indonesia and Thailand. In Japan, retail sales growth picked up sharply in September, before the sales tax hike in October 2019,¹³ only to then contract in October and November. In Hong Kong, political tensions took a toll on tourism and consumer spending.¹⁴ By November 2019, retail sales were down 32 percent from December 2018.

from houses to cars pushed up household debt. Between 2010 and 2019, for example, total household financial liabilities are estimated to have grown by an average annual rate of 19.3 percent in China, 13.0 percent in India, 8.7 percent in Malaysia, and 8.4 percent in Thailand.¹⁶ With incomes not rising by as much as debt, households' debt burden has gone up.

Don't forget household debt

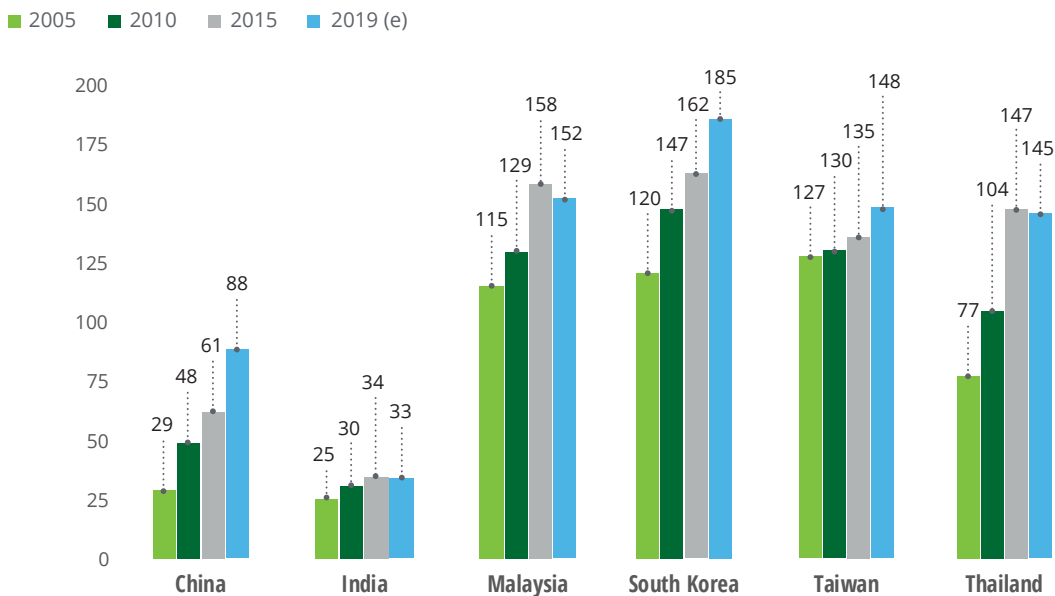
For consumers in economies such as South Korea, Thailand, Malaysia, Taiwan, and China, there is yet another worry—high household debt. Household debt in these economies and a few others (figure 3) has surged over the past two decades, first picking up pace in the years leading up to the Great Recession and then in the subsequent recovery as governments there turned to consumers to drive economic growth through easy credit and fiscal incentives.¹⁵ The rush to take loans for everything

Interestingly, while China's household debt burden appears less than some of its Southeast Asian neighbors', the surge has happened over a short period. In 2005, for example, household financial liabilities in the country amounted to 29 percent of disposable personal income; by 2019, that figure is estimated to have increased more than threefolds to 88.5 percent. While the risk from high debt is likely manageable in a low interest rates environment and a strong labor market, any uptick in the cost of repaying debt and strains on the labor market may take a toll on households and, hence, consumer spending.

FIGURE 3

Household debt relative to income is high in key economies in Asia

Household financial liabilities as a share of disposable personal income (percent)



Note: (e) denotes estimates by Oxford Economics.

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

Geopolitical risks may put inflation back in play

Consumers in major Asian economies enjoyed lower cost of borrowing in 2019 than in 2018. The Reserve Bank of India, for example, cut its key policy rate by a total of 135 basis points in 2019. Central banks in Indonesia, Malaysia, the Philippines, Thailand, and South Korea also cut rates that year. While monetary easing last year was due to a shift in focus to economic growth, what aided such rate cuts was benign inflation. Risks to inflation have, however, risen in recent months. Inflation is edging up in China and India, partly due to short-term supply constraints. A bigger risk to inflation though is any flareup in tensions in the Middle East, a major exporter of crude oil to Asia. On January 3, for example, the price of Brent crude went up by 3.4 percent due to rising tensions between Iran and the United

States.¹⁷ Any escalation for an elongated period would push oil prices further up, thereby aiding consumer inflation in key crude importers in Asia. And if this is followed by a dent to currencies, imported inflation will likely go up. As of writing of this article, tensions appear to have eased for now and oil prices have receded.¹⁸

Consumers in Asia will be hoping that the risk of potential conflict in the Middle East reduces and that risks in the near term give way to more healthier prospects over the medium to long term. After all, they can draw comfort from expectations that economic growth in key economies in the region is expected to pick up in 2021–2024,¹⁹ with the uptick likely to gain momentum if current trade-related disagreements are resolved. That would aid gains in household income and wealth and will ensure that the legions of the middle class keep expanding.



Endnotes

1. Akur Barua, *Asian consumers: Long-term prospects top short-term worries*, Deloitte Insights, February 1, 2019.
2. David J. Lynch and Anna Fifield, "White House offers first details of partial trade deal with China," *Washington Post*, December 14, 2019.
3. Haver Analytics, sourced in January 2019. Unless otherwise stated, all data is sourced from Haver Analytics.
4. International Monetary Fund (IMF), *World Economic Outlook*, sourced through Haver Analytics, January 22, 2020. All data in this paragraph and the next, unless otherwise stated, has the same source. Data for countries such as India, China, and Japan and for economic blocs such as emerging and developing Asia and ASEAN 5 are from the IMF's interim outlook on January 2020; data for Indonesia, Malaysia, and South Korea are based on the complete forecasts published in October 2019.
5. The IMF's classification of different country aggregates, such as advanced economies and emerging and developing economies, is based on per capita incomes, export diversification, and degree of integration into the global financial system. For more details see, IMF, "Frequently asked questions: How does the WEO categorize advanced versus emerging market and developing economies?," accessed January 2, 2020; IMF, "World Economic Outlook: Country information," accessed January 6, 2020.
6. GDP data for India is quoted for fiscal years instead of calendar years. For example, a fiscal year runs from April of that year to March of the next year.
7. Bombay Stock Exchange and Center for Monitoring Indian Economy, sourced through Haver Analytics, January 10, 2020.
8. Oxford Economics (Global Economics Databank), sourced January 10, 2019. All data in this paragraph is from the same source.
9. Real disposable personal income data for China for 2018 and 2019 are estimates by Oxford Economics.
10. Annual data for real disposable personal income in 2019 for all countries are estimates by Oxford Economics.
11. India's financial year starts in April and ends in March of the next calendar year. The data is reported by financial years.
12. Society of Indian Automobile Manufacturers, "Some segments of auto industry show positive growth; overall automotive sales down by almost 16 percent," press release, December 10, 2019.
13. Daniel Leussink, "Japan's retail sales slump the most since 2015 as tax hike hits demand," Reuters, November 28, 2019.
14. Huileng Tan, "'Very hard to imagine' that Hong Kong tourist arrivals, retail sales will improve in November, economist says," *CNBC*, December 2, 2019; Haver Analytics, sourced in January 2020.
15. Oxford Economics (Global Economics Databank), sourced in January 2020; Haver Analytics, sourced in January 2020.
16. Oxford Economics (Global Economics Databank), sourced in January 2020. Estimates for India start in 2016 and for Taiwan in 2018, and for all other economies in 2019. The estimates are by Oxford Economics. All data on disposable personal income and household financial liabilities as discussed in this paragraph and the next are sourced from Oxford Economics.
17. Haver Analytics, sourced January 6, 2020; Amrith Ramkumar, "Oil prices surge after US strike kills Iranian military general," *Wall Street Journal*, January 3, 2020.

18. Stanley Reed and Clifford Krauss, "Oil prices are slow to reflect US–Iran tensions," *New York Times*, January 7, 2019; Saheli Roy Choudhury, "Asia markets bounce back after US–Iran tensions appear to ease," *CNBC*, January 8, 2020; Haver Analytics, sourced January 10, 2020.
19. International Monetary Fund, *World Economic Outlook*, sourced through Haver Analytics, January 22, 2020.

About the author

AKRUR BARUA | abarua@deloitte.com

Akrur Barua, Deloitte Services India Pvt. Ltd., 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.

Contact us

Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

Industry leadership

Akrur Barua

US economics | Deloitte Insights
Executive manager | Deloitte Services India Pvt. Ltd.
+ 1 678 299 9766 | abarua@deloitte.com



Deloitte.

Insights

Sign up for Deloitte Insights updates at www.deloitte.com/insights.



Follow @DeloitteInsight

Deloitte Insights contributors

Editorial: Kavita Saini, Preetha Devan, Aparna Prusty and Rupesh Bhat

Creative: Tushar Barman and Sanaa Saifi

Promotion: Nikita Garia

Cover artwork: Tushar Barman

About Deloitte Insights

Deloitte Insights publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte Insights is an imprint of Deloitte Development LLC.

About this publication

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.