Santanomics: The economics of the festive season

At a glance…

Businesses gearing up for Christmas

In many countries, the Christmas period is a 'make or break' time for both retailers and their supply chain. Therefore, these businesses need to understand how their customers behave at this time of the year.

Last year, total spending over the Christmas period in the major Western economies, which we define as the G7 excluding Japan, amounted to around $445 billion. But which country has the most generous spenders over the Christmas period?

Irish consumers are the most generous

We have ranked countries based on their average spending per person over the Christmas period. Our results show that:

- Ireland tops our Christmas spending league with expenditure of around $1,200 per person in 2013;
- Amongst the major Western economies, the UK tops the rankings, spending around a third more than consumers in the US on a per person basis; and
- Of the Eurozone countries that we've looked at, French Christmas spending per person is the highest, followed by Germany.

What about emerging markets?

Our analysis shows per person spending over the Christmas period in Brazil and Russia is relatively low. This is unsurprising as a low GDP per capita would typically be expected to be reflected in lower Christmas spending (see Figure 1).

In aggregate terms, it's a different story

However, the real might of the emerging economies comes through in the aggregate numbers.

When looking at total, rather than per person spending over the Christmas period, we find that Brazil and Russia rank in the Top 10. This is because they are homes for a large number of consumers, even though individual spending might be comparatively low.

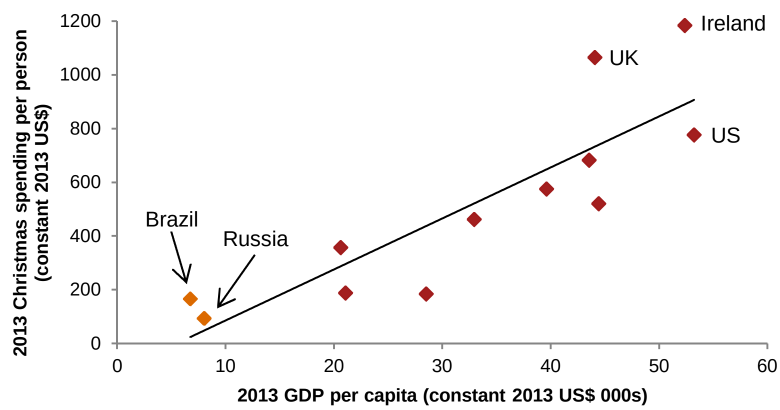
Using this measure the US is a clear leader in overall Christmas spending as it has a 'golden combination' of a large number of consumers with high levels of per capita income.

Scars of the financial crisis still evident

Our analysis also shows that some of the scars of the financial crisis are still visible on spending over the Christmas period. Specifically our results show that:

- Last year, Christmas spending per person in the US remained 10% lower compared to 2007 in real terms despite 1% growth in real income levels.
- On the flipside, the UK and Germany are the only major Western economies where Christmas spending has exceeded pre-crisis levels in real terms.

Fig 1: Countries with a high GDP per capita tend to spend the most during Christmas



Sources: PwC analysis, Datastream, national statistical agencies, World Bank

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Economic update: China cuts interest rates

Below target inflation spurred the Central Bank into action

Recent data releases have shown that both GDP growth and inflation are slowing in China. In Q3 output growth moderated slightly to 7.3% year on year, while the October inflation rate dropped to 1.6%, which is significantly below the central bank's target of 3.5% (see Figure 2). In an attempt to bring the inflation rate in line with the target, the People's Bank of China (PBoC) took action in November.

Sigh of relief for highly indebted private sector

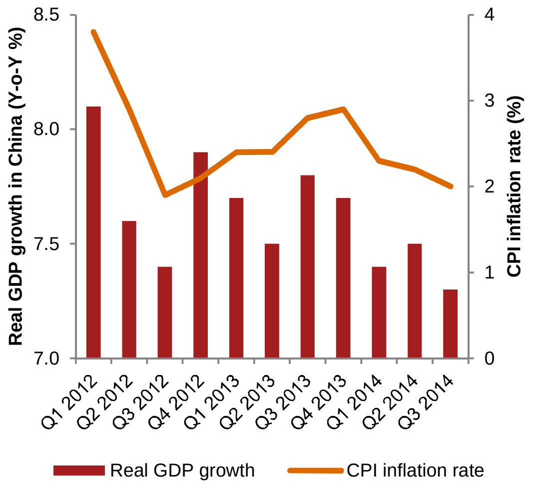
What happened? The PBoC cut the one-year benchmark loan interest rate by 0.4 percentage points to 5.6% and the deposit interest rate by 0.25 percentage points to 2.75%. These same percentage point changes were also applied across loans and deposits for other maturities.

Impact of rate cut

As mentioned in our previous analysis, 'Growing pains: How fast is too fast for financialisation?', China's private sector loans to GDP ratio stands at around 180%, which is high relative to the rest of the E7 economies. Assuming the rate change is passed on by financial institutions to the private sector, this could affect business in two main ways:

1. Those that are highly indebted could refinance their debt and use the savings to either pay down debt or choose to bolster their balance sheet through higher profitability. Either way this could contribute to financial stability as it would keep non-performing loans in check.
2. Businesses which couldn't access credit because of the higher rates could potentially do so now, with positive effects on economic activity (though the likely effect should not be overstated given the relatively small magnitude of the rate cut).

Fig 2: Slowing economic growth and falling inflation is not just a Western problem



Sources: Datastream, National Bureau of Statistics of China

Scars from financial crisis still visible on Christmas spending

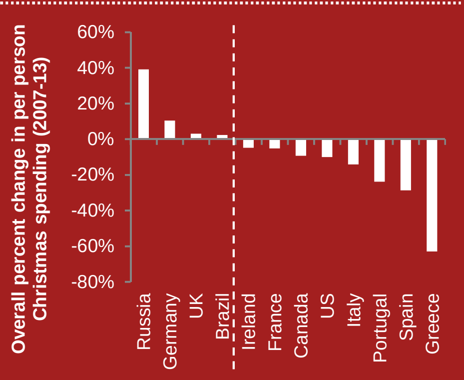
Emerging markets are spending more during Christmas….

For most G7 economies real GDP is now above pre-crisis levels. However, does this trend also apply to spending over the Christmas period?

To answer this, we estimated spending over the Christmas period using annual household consumption data from the World Bank and monthly retail sales data from national statistical agencies (see Assumptions and methodology box for more details). Doing so gave us a broad indication of cross-country differences in spending over the Christmas period as opposed to precise dollar estimations and therefore the results should be treated with some caution.

Figure 3 shows that the evidence on the recovery of Christmas spending after the financial crisis is mixed. In the two largest emerging markets that celebrate Christmas, Brazil and Russia, consumers spent more in real terms last year during the Christmas period than in 2007. This makes sense as their economies have grown at reasonably strong rates since the Global Financial Crisis (despite some recent slowdown).

Fig 3: Christmas spending in the US has still not recovered since the financial crisis



Sources: PwC analysis, Datastream, national statistical agencies, World Bank

…but scars from the crisis are still visible in some advanced economies

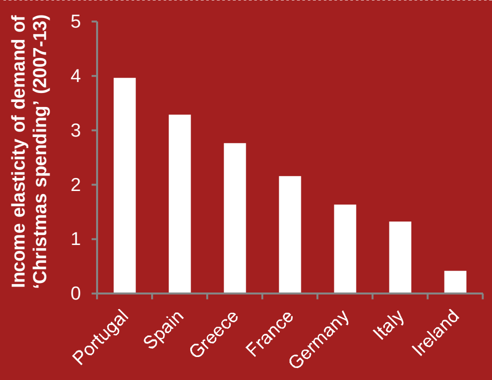
In contrast, the picture is less clear for advanced economies. Figure 3 shows that spending per person over the Christmas period has recovered to above pre-crisis levels in Germany and the UK, but not in the US. This is surprising, as US GDP per capita grew by 1% overall in real terms since 2007 compared to a decrease of 6% overall in the UK. This pattern could suggest that UK consumers are less willing to cut back on Christmas spending compared to those in the US.

Focusing on the Eurozone, our analysis suggests a core-periphery divide with those in the periphery cutting back drastically on Christmas spending. In Greece, for example, real per person Christmas spending decreased by around 60% overall in the six years to 2013, which is the worst performance out of the 12 countries in our sample. Figure 3 also shows that Spanish and Portuguese real Christmas spending per person remains significantly below 2007 levels. This makes sense as the austerity measures implemented in the peripheral economies included significant nominal wage cuts, which have directly affected the purchasing power of consumers, and remain at lower levels compared to the pre-crisis era.

Christmas a luxury good?

Figure 4 shows the sensitivity of real spending per person over the Christmas period to the changes in real GDP per capita (also known as income elasticity of demand for 'Christmas spending'). This analysis shows that:

Fig 4: Christmas spending has been more responsive to income in the periphery since 2007



Sources: PwC analysis, Datastream, national statistical agencies, World Bank

- Per person Christmas spending is more sensitive to fluctuations in income levels in the peripheral economies compared to the core economies. This suggests that consumers in the peripheral economies view Christmas spending as something of a luxury and are therefore more likely to cut-back on this type of discretionary spending at times of crisis.
- At the other end of the spectrum Irish per person Christmas spending is the least responsive to changes in income compared to the other Eurozone economies in our sample. This could perhaps be explained by cultural differences whereby local traditions assign greater importance to Christmas compared to other events during the year. This trend is also consistent with Figure 1 which shows that real Irish per person Christmas spending is proportionally higher for its level of real GDP per capita.

Santanomics: Who spends the most during the festive season?

Table 1: Irish consumers are the most generous when it comes to Christmas spending

Rank				Christmas spending per person (constant 2013 US$)		
2003	**2007**	**2013**	**Country**	**2003**	**2007**	**2013**
1	1	**1**	Ireland	1156	1244	1184
2	2	**2**	UK	1018	1033	1065
3	3	**3**	US	956	862	776
5	4	**4**	Canada	691	753	682
8	5	**5**	France	496	606	574
6	8	**6**	Germany	606	471	520
4	6	**7**	Italy	754	538	462
9	9	**8**	Portugal	390	469	357
7	7	**9**	Greece	498	506	188
10	10	**10**	Spain	330	258	184
11	11	**11**	Brazil	132	162	166
12	12	**12**	Russia	34	67	93

Sources: PwC analysis, Datastream, national statistical agencies, World Bank

Table 2: But the US tops the list in aggregate terms

2013 total Christmas spending (constant 2013 US$ bn)					
Rank	**Country**	**Spending**	**Rank**	**Country**	**Spending**
1	US	245	**7**	Canada	24
2	UK	68	**8**	Russia	13
3	Germany	42	**9**	Spain	9
4	France	38	**10**	Ireland	5
5	Brazil	33	**11**	Portugal	4
6	Italy	28	**12**	Greece	2

Sources: PwC analysis, Datastream, national statistical agencies, World Bank.

Assumptions and methodology

The following approach was used to obtain estimates of Christmas spending:

- We obtained annual household consumption data from the World Bank and monthly retail sales data from national statistical agencies.
- We used the retail sales data to convert annual household consumption data into a monthly series. To do this we assumed that household consumption follows the same trend as retail sales.
- Using this new series we defined and estimated Christmas spending as the excess expenditure arising in November and December compared to the other months of the year. However other seasonal spending patterns may exist during a calendar year and so these numbers should be interpreted as giving a broad indication of cross-country differences in Christmas spending habits as opposed to precise dollar estimates.
- We limited our analysis to the G7 excluding Japan, Brazil and Russia, and the peripheral Eurozone economies which we monitor. We excluded China, Japan and India as Christmas is not a traditional holiday in these countries.
- All of our numbers are in constant 2013 US dollar terms.

Christmas spending is a 'make or break' event for retailers

In most countries retail sales spike during the last two months of the calendar year. This is because households temporarily increase their discretionary spending for Christmas. Retailers know they have to get it right during the Christmas period, which is a 'make or break' event, as poor sales in the last two months of the year can have a disproportionate impact on their profitability.

But the Christmas period is not just important for retailers as its effects can be felt throughout the entire supply chain. As a result, affected businesses need to have a good understanding of the seasonal spending habits of their customers. So how do countries rank in their Christmas spending patterns and what messages can businesses draw from this?

Hey Big Spender!

Our analysis (see Table 1 and our 'Assumptions and methodology' box below) shows that Ireland emerges as the leader in our league table of spenders over the Christmas period. Specifically, Irish consumers spent around $1,200 per person at Christmas in 2013. We also find that spending increases by around 16% on average during the months of November and December compared to the rest of the year. This emphasises the importance of the festive season for the revenue cycle of affected businesses.

However, our analysis for 2013 also points to other important trends within the major Western economies, which we define as the G7 excluding Japan. Specifically:

- UK households are the most generous spenders in the major Western economies during the Christmas period in per person terms (see Table 1), comfortably outstripping their US counterparts by around one third.
- From a European perspective, German households spend around half that of their UK peers.
- Italian households spend even less than Germany and this appears to have been accentuated by their stagnating economy.

Emerging markets small in per person terms…

But what about emerging markets? We have looked at the two biggest emerging markets that celebrate Christmas, Brazil and Russia. Table 1 shows that they rank at the bottom in terms of real per person spending over the Christmas period. This is not surprising as Figure 1 shows that there is a strong and positive correlation between GDP per capita and Christmas spending per person. However, this correlation also points out the untapped business potential of emerging markets as we expect that the gradual catch-up of income levels in emerging economies to Western standards will lead to greater Christmas spending in the future.

…but big in aggregate numbers

On a more general point, we expect emerging market spending over the Christmas period to continue to grow in the future driven by the following trends:

- Gradual convergence of income levels in emerging economies towards Western levels (although this will be a very slow process given the large difference in starting points); and
- An increase in the *number* of consumers in some younger emerging markets.

This is an important distinction to make and we have captured the latter point by ranking real Christmas spending on an aggregate basis in Table 2. Doing so, gives a more complete picture of Christmas spending. The key messages we draw out are that:

- Brazilian Christmas spending is bigger in aggregate terms than that of Italy. This is despite scoring lower on the per person measure and reflects the large consumer base present in Brazil.
- But the US remains by far the biggest Christmas spender in the world consuming over $240 billion per annum, which is more than that of the UK, Germany, France and Brazil combined. This is because the US has the 'golden combination' of a large *and* affluent consumer base.

Projections: December 2014

	Share of 2013 world GDP		Real GDP growth				Inflation			
	PPP*	MER*	2013	2014p	2015p	2016-2020p	2013	2014p	2015p	2016-2020p
Global (Market Exchange Rates)		100%	2.7	2.8	3.1	3.2	2.4	2.6	2.7	2.6
Global (PPP rates)	100%		3.3	3.3	3.6	3.9				
United States	16.4%	22.4%	2.2	2.3	3.2	2.4	1.5	1.7	1.9	1.9
China	15.8%	12.7%	7.7	7.4	7.2	7.0	2.6	2.2	2.3	3.4
Japan	4.6%	6.6%	1.5	0.5	0.2	1.2	0.4	2.7	2.0	1.5
United Kingdom	2.3%	3.4%	1.7	3.0	2.5	2.3	2.6	1.6	1.6	2.0
Eurozone	12.3%	17.1%	-0.5	0.8	1.2	1.5	1.4	0.5	1.0	1.5
France	2.5%	3.8%	0.1	0.5	1.0	1.7	1.0	0.7	1.0	1.5
Germany	3.4%	4.9%	0.2	1.2	1.2	1.3	1.6	0.9	1.5	1.7
Greece	0.3%	0.3%	-3.9	0.2	1.8	3.0	-0.9	-1.2	-0.3	1.3
Ireland	0.2%	0.3%	0.2	4.2	3.2	2.5	0.5	0.5	1.0	1.5
Italy	2.0%	2.8%	-1.8	-0.3	0.6	1.0	1.3	0.3	0.5	1.4
Netherlands	0.8%	1.1%	-0.7	0.8	1.5	2.0	2.6	0.9	1.2	1.4
Portugal	0.3%	0.3%	-1.0	0.9	1.3	1.8	0.4	-0.1	0.5	1.5
Spain	1.5%	1.8%	-1.2	1.3	1.8	1.5	1.5	-0.0	0.5	1.0
Poland	0.9%	0.7%	1.6	3.3	3.2	3.5	1.2	0.2	1.0	2.5
Russia	3.4%	2.8%	1.3	0.1	-1.0	2.0	6.8	7.8	6.8	5.0
Turkey	1.4%	1.1%	4.1	2.8	3.4	4.5	7.5	8.9	7.1	4.8
Australia	1.0%	2.0%	2.3	2.8	2.6	3.1	2.2	2.6	2.5	2.7
India	6.6%	2.5%	4.7	5.4	6.5	6.5	6.3	4.4	4.9	6.0
Indonesia	2.3%	1.2%	5.8	5.2	5.8	6.3	6.4	6.2	5.9	5.1
South Korea	1.7%	1.7%	3.0	3.4	3.6	3.8	1.3	1.4	1.4	2.9
Argentina	0.9%	0.8%	2.9	-0.4	-0.1	3.3	-	25.0	25.0	-
Brazil	3.0%	3.0%	2.3	0.5	1.0	4.0	6.2	6.3	5.5	4.8
Canada	1.5%	2.4%	2.0	2.4	2.5	2.2	1.0	2.0	1.8	2.1
Mexico	2.0%	1.7%	1.7	2.3	3.7	3.6	3.8	3.9	3.7	3.6
South Africa	0.7%	0.5%	1.9	1.4	2.3	3.8	5.8	6.2	5.6	4.8
Nigeria	1.0%	0.7%	5.5	6.2	6.2	5.7	8.5	8.4	8.7	7.3
Saudi Arabia	1.5%	1.0%	4.0	4.3	4.2	4.3	3.5	2.8	3.2	4.0

Sources: *PwC analysis, National statistical authorities, Thomson Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI), with the exception of the Indian indicator which refers to the Wholesale Price Index (WPI). Argentina's inflation projections use the IPCNu Index released by INDEC which is based in the fourth quarter of 2013 (therefore we do not provide a 2013 estimate). We will provide a 2016-2020 inflation projection once a longer time series of data is available. GDP projections for Argentina use the 2004 base year national account data (previously base year 1993). Our Nigeria GDP projections relate to the new rebased GDP figures but are subject to high margins of error. Also note that the tables above form our main scenario projections and are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios.*

Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	0-0.25% (December 2008)	Rate to start to rise during the second half of 2015	16-17 December
European Central Bank	0.05% (September 2014)	Rates on hold following decrease in September	22 January
Bank of England	0.5% (March 2009)	Rate to start rising gradually during 2015	8 January

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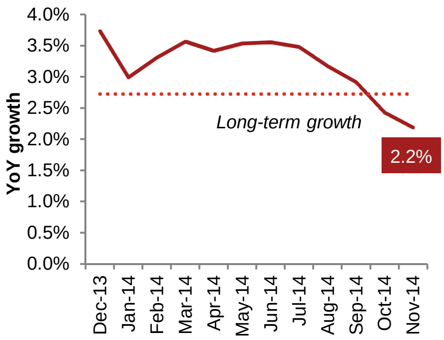
PwC's Global Consumer Index

Global consumer spending growth has continued its downward trend for the fifth consecutive month, remaining below the long-term average.

Although industrial production figures have improved, global stock markets are still experiencing jitters and money supply growth has slowed, underlining weakening growth in China, Japan and Europe, which could dampen consumer spending growth in the short-term.



The GCI is a monthly updated index providing an early steer on consumer spending and growth prospects in the world's 20 largest economies. For more information, please visit ***www.pwc.co.uk/globalconsumerindex***

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