

UNDERSTANDING THE EMERGING MIDDLE CLASS CONSUMER IN AFRICA

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Introduction

The rise in household incomes in several emerging and developing countries has drawn attention to the changing dynamics of the global population of the middle class. On one hand, it signifies a growth in the middle class population and reduction in poverty levels, whilst equally highlighting a considerable shift of the share of the global middle class from the west to other parts of the world. Indeed, it is estimated that the size of the global middle class will increase to 3.2 billion by 2020 and 4.9 billion by 2030. A larger part of this growth is expected to come from Asia, representing about 66% of the global middle class by 2030 and 59% of middle-class consumption, compared to 28% and 23%, respectively in 2009.¹ Even in Africa where middle class growth has not been very robust over the years, strong economic growth over the past two decades has also resulted in the emergence of a sizeable middle class, representing about 34% of Africa's population (AfDB, 2011).

Although expectations on the emerging middle class has largely focused on Asian emerging markets (particularly India and China) leading the way in middle class expansion in future, some recent studies by the Standard Bank, African Development Bank (AfDB) and Mc Kinsey Global Institute have drawn attention to a sizeable middle class emerging in parts of Africa and posited further growth in the coming decades. In Angola, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Sudan, Sudan, Tanzania and Uganda, for instance, it is estimated that the number of middle class households in those countries would grow from 15million to more than 40million by 2030 (Standard Bank). This raises the question of where Africa fits in this growing middle class trend, the potential of this middle class growth and its implication for economic growth on the continent.

The interest in this middle class trend, especially in Africa, is because they represent an important economic and social actor. Indeed, empirical evidence has demonstrated that the growth of the middle class is associated with economic growth, the promotion of human capital development and a well-educated population, etc. Economic historians emphasize how the presence of a strong middle class impacts economic development. Adelman and Morris (1967), for instance, have noted how the middle class served as a driving force in the economic development of Western Europe; while Landes (1998) cites the English middle class as an explanation for England being the first at industrialisation.

Undoubtedly, fostering the developing world's rising middle class could provide a stable foundation for growth. Consider the differing experiences of the middle class in driving consumption and domestic demand in Brazil and Korea from the mid nineties. Kharas and Gertz (2010) explain that from the 1960s and 1970s, Korea followed a similar path of growth as Brazil, with roughly similar income levels and rates of growth; by the 1980s however, Korea's evenly-distributed growth had resulted in a sizeable middle class, which accounted for about 53% of the population. This was however not the case in Brazil,

where, due to high inequality, the middle class made up only 29% of the population. Korea's middle class enabled the country to move away from export-driven growth towards domestic consumption, a transition that did not occur in Brazil. Korea capitalized on the increased demand from its middle class to grow its service industries and to lay the foundation for its knowledge economy unlike Brazil.

The Emerging Middle Class in Africa

Estimates of the size of the middle class in Africa vary, depending on how it is measured. Both the African Development Bank (AfDB) and the Standard Bank have different estimates of the size of the middle class based on a daily spending range of between \$2-\$20 and \$15-\$115 respectively. Per the AfDB's definition therefore, the African middle class is projected to grow from 355 million (34% of the population) to 1.1 billion (42% of Africa's population) by 2060. The AfDB defines the middle class in relation to the average income, an average which is considerably lower in Africa than in the west. Although the AfDB's definition appears quite low to be classified as middle income by the developing countries' standards, the argument is that it is justifiable owing to the cost of living in Africa.

These estimates notwithstanding, it is important to remember that the figures on Africa's wealth gap are not promising, with more than 60% of the population living below the \$2-a-day poverty line. Equally worth mentioning is the fact that the AfDB estimates that about 60% of those in the middle class fall in a category called the 'floating class' which is a vulnerable position because they can drop back into the poor category in the event of any exogenous shocks. On the face of it, this dampens the alluring picture of a growing middle class set to improve the continent's prospects. Indeed, as others have pointed out, the optimism about Africa's middle class and growth may be nothing less than 'much ado about nothing'.ⁱⁱ

True, the continent's share of the global middle class may remain small in comparative terms, but it does not altogether preclude the growth potential. What is evident is that improved economic performance in Africa over the past two decades has contributed to poverty reduction, increased per capita incomes and the size of the continent's middle class and resulted in rising consumption expenditures. Take into consideration the forecasts for Nigeria, one of the emerging economies in Africa. Per capita incomes increased significantly from 2000 owing to rapid economic growth. In 2008, the Nigerian middle class accounted for 34.5 million or approximately 28% of the continent's middle-class, while at the same time the Nigerian middle income class accounted for 22.8% of the total population of Nigeria.ⁱⁱⁱ The Standard Bank estimates that Nigeria, which is Africa's biggest economy, will lead the growth of the new middle class households in Africa with an increase of about 7.6 million middle class households by 2030. Other countries like Angola, Ghana and Sudan are also poised to witness a sizeable growth of their middle class households, corresponding to 1million, 1.6million and 1million respectively by the same period; while east African countries like Uganda and Ethiopia are only expected to see a significant middle class growth that will foster a consumption-driven economy within 5 to 10 years.

Factors Driving the Middle Class Growth

As indicated earlier, improved economic performance has lifted a considerable part of the population out of the poverty trap and placed them in a position where they have more disposable income to constitute the middle class population. To this end, future economic growth is expected to trickle down to the population and impact average incomes in the future.

Secondly, the continent is characterised by a growing population, projected to reach about 2 billion by 2050. Not only is the total population expected to grow, but the continent has a youthful population, with the economically active population expected to increase from 56% to 66% between 2010 and 2050.^{iv} What this implies is an assured consumer base characterised by rising demand for goods and services.

Thirdly, Accenture points out that the continents' population is rapidly becoming urbanised, with almost two thirds of the population expected to be living in cities by 2050 as compared to 40% in 2010. Consequently, this will result in increased demand for goods and services because as people move from farm work to urban jobs, their incomes increase. Also, increase in demand will be facilitated as more companies will be able to reach consumers with their products.

The Middle Class Potential

As the historical experiences of middle classes elsewhere have shown, they have potential in driving consumption and hence development. Indeed, Deloitte observes that in reality, Africa's growth is being driven mainly by consumption of goods and services- retail, financial services and telecommunications- with consumption accounting for two thirds of its GDP growth. The AfDB also points out that consumer spending by the middle class was estimated at \$680 billion in 2008, representing nearly a quarter of Africa's GDP (based on 2008 purchasing power parity). To this end, the AfDB projects that if consumption grows at the same rate, consumption expenditure would reach \$2.2 trillion by 2030 and Africa will comprise about 3% of global consumption.

Not only is the middle class population demanding access to more goods and services, they are also requesting higher quality services beyond what is currently available to them. Therefore, this middle class population may be no different from their counterparts elsewhere and may possess similar characteristics in terms of trends and influences that shape their consumption patterns and behavior. For instance, as noted by the Standard Bank and Deloitte, in countries like Angola, Ethiopia, Ghana, Kenya and Nigeria, the percentage of incomes spent on travel, technology, car ownership and mobile phones have increased. Although the level of development in some of these countries may fall short of the blooming Southeast Asian market, the retail opportunities are far-reaching.

This new consumerism on the continent presents an opportunity for investment. With the African middle class projected to experience a sizeable growth, the demand for consumer goods and services exist and can be fully harnessed to further enhance the continent's economic growth. Certainly, it is not merely a question of meeting the growing consumer demands of this rising middle class. Beyond that, it is also about how the middle class growth can be fostered to impact the rest of the population. Hence, more investments by companies will create jobs which will lead to income growth and increased consumption. At the same time, this will foster middle class growth and impact economic growth, poverty and governance.

Harnessing the Middle Class Potential

Over the years, African investment opportunities have tended to be largely in commodities and mining, with many businesses seeking to be a part of Africa's natural resources opportunities. However, with what can be considered a sizeable middle class forming in parts of the continent, the investment landscape is evolving to include this growing consumer demand. While minerals resources will continue to be important, domestic demand promises to be one of the significant contributors to growth.

The main implication of this burgeoning middle class is for consumer goods and services. It is noteworthy that a growing middle class is not simply satisfied with a lack of choice. Thus, after their basic needs have been met, their preferences extend to more sophisticated shopping. In addition, not only do they want value for their money, but they also desire high quality products. Middle class households are typically likely to spend more on education, health, household assets like refrigerators, television sets, and so on. Hence, from increased demand for technology, automotive products, financial services, housing, healthcare, telecommunications, transportation, clothing and entertainment, the changes in consumer demand and increasing disposable income of the middle class population is expected to drive demand for more goods and services on the continent. However, the biggest consumer categories are expected to be food and housing-related spending.

The question is how businesses can explore the growing middle class market? Perceptibly, with demand for goods and services expected to increase, this will drive manufacturing industries on the continent. For example, sale of refrigerators, television sets, mobile phones and automobiles have surged in most African countries. There are also significant opportunities for global luxury goods like sports cars, jewellery, designer clothes and accessories. To this end, multinational companies stand to make gains from physically establishing industries and offices in those countries with sizeable middle class populations to serve their needs.

This presents prospects not only for western companies as has traditionally been the case, but more importantly, for Asian businesses which have carved a niche for themselves in several products or in the process of doing so. Ranging from LG, Sony, Samsung home appliances and phones to Honda, Hyundai, KIA and Toyota's car brands, which are already household names on the continent, their ability to be part of the middle class growth is crucial. To illustrate the size of the opportunity in phone sales for example, the World Bank estimates put Africa as the world's fastest growing mobile phone market, with the continents' 600 million users said to be the second biggest user of mobile phones globally after Asia.

In the same vein, the middle class population represents a challenge for housing; a growing middle class requires housing. However, housing shortage is a particular problem confronting the rising middle class in some countries. This is because over the years, housing market needs have not been taken into account, with emphasis being placed on housing for high income earners. Consequently, there are shortfalls in the supply of middle income properties that meet the needs of the middle class. This is also coupled with existing challenges of financing home purchases.

This reality reflects the existing middle class opportunities available for property developers who have the potential to invest in more modern yet affordable housing. Other possibilities exist via financial institutions in the provision of mortgages and other financial products to the middle class, as well as building materials suppliers who can also invest in the real estate markets. Construction companies and property developers can also benefit from the growing market and provide formal retail infrastructure, particularly shopping malls and supermarkets as well as restaurants and hotels.

Despite this optimism about the growing consumer market in some of these places, it is important not to lose sight of the fact that there are still challenges in doing business in Africa. Indeed, the African emerging middle class and the opportunities it presents does not necessarily imply that the usual hurdles in investing have been surmounted. Rather, it suggests that the rewards of investment could be worth the risk if appropriate strategies are developed to circumvent the challenges.

Conclusion

The growing African middle class cannot be compared to the middle class in Asia in terms of its consumption power and share of the global middle class population. Nonetheless, with Nigeria and other countries in the sub region set to contribute to this middle class growth, the optimism for its growing consumer market may not be completely unwarranted. A growing part of the population is earning more incomes and purchasing more goods and services that meet their aspirations. The prospects for investment are therefore available and the adoption of strategies that address the needs, preferences and peculiarities of Africa's middle class population can only help maximise this middle class opportunity.

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