Wealthiest Global Consumers Stage Recovery From Global Recession

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The world's top earners saw their incomes and wealth drop in 2008 due to the credit crunch and the ensuing global economic recession, but have subsequently recovered to a large extent in 2009.

Wealthy individuals in emerging markets have in general been more resilient than in developed markets, although income inequality has not fallen in the wake of the recession, and in most countries the incomes of highest earners are rising quicker than those of poorer consumers.

Key points

* The credit and financial crisis, which began in 2007, triggered global stock market crashes over 2007 and 2008 that wiped significant value from the portfolios of many wealthy individuals. At the same time, the economic recession over 2008-09 curtailed the incomes of the highest earners in many countries;

* According to the World Wealth Report 2010, produced by CapGemini and Merrill Lynch, the total number of high net worth individuals (HNWIs, defined as having more than US$1 million in liquid assets) rose by 17.1% in 2009 over a year earlier to reach 10.0 million people after having fallen by 14.9% in 2008. The total wealth of this group stood at US$39.0 trillion in 2009;

* Geographically, although all regions experienced an impact from the global financial crisis, high earners were most affected in developed regions such as North America and Western Europe.

For instance, in 2008 the average annual disposable income of decile 10 households (i.e. the richest 10% of households) in the USA fell by 2.4% in real terms, whereas in China it rose by 8.7% in real terms over a year earlier;

* The top segment of earners is vital to many business sectors. Expenditure from this group drives high-end retail such as luxury goods, as well as high-end property and collectibles.

The market in these goods and services suffered a downturn in 2008 but have also since partly recovered in line with the general recovery in wealthy individuals' fortunes;

* However, income growth of the high earners is not necessarily a reflection of the wider economy, or the incomes of other groups. Real GDP growth continues to be very sluggish in most developed markets whilst unemployment remains high.

Moreover, income inequality has not been improved by the credit crisis and recession: this has caused social unrest, resentment and exacerbated tensions in many countries.

Wealthy consumers recover

* The wealthiest consumers worldwide saw their fortunes decline sharply in 2008. Many held large proportions of their assets in stock market equities or property, where market crashes in 2008 and 2009 subsequently caused the net worth of these individuals to fall accordingly.

The World Wealth Report 2010 estimates that the total number of HNWIs globally fell from 40.8 million in 2007 to 32.8 million in 2008;

* However, global stock markets recovered sharply in 2009 and in parallel so did the value of many wealthy individuals' assets and incomes. The number of HNWIs rose from 32.8 million in 2008 to 39.1 million in 2009, slightly below the 2007 levels. This rising trend is likely to have continued into 2010;

* Despite this, Euromonitor International's data showed falling real disposable income growth of richest households in 2009 and 2010 in many countries. In South Africa, for instance, annual disposable incomes of the richest 10% of households (decile 10 households) rose by 0.4% year-on-year in 2008 but then fell by 4.2% year-on-year in 2009 in US$ constant terms.

Although top earners in emerging markets were much more resilient, real disposable income growth in decile 10 households in China, for instance, fell from 8.7% annually in 2008 to 7.9% in 2009;

* Similarly, the number of wealthy individuals in many countries fell in 2009. For example, in Greece the number of

HNWIs fell by 1.2% in 2009 over a year earlier, while in the United Arab Emirates (UAE) it fell by 19.0% in 2009 over a year earlier due to a real estate market crash, as much of the country's private wealth was invested in property.

Regional distribution
The highest earners in developing regions were much more resilient:

* In many developing countries, the incomes of the wealthiest consumers continued to rise throughout the recession. Asia Pacific was in general the best performer: the average real annual disposable income of decile 10 households rose by 7.9% in China and 7.8% in Indonesia in 2009 compared to 2008. Smaller Central Asian countries such as Uzbekistan and Kazakhstan also saw large increases;

* In terms of distribution, however, the wealthiest global consumers continue to be concentrated in developed regions. In 2009, 53.0% of HNWIs were located in the USA, Japan and Germany, according to the World Wealth Report 2010, with this figure only having fallen from 54.0% in 2008 despite the quicker growth in developing regions;

* Similarly, in 2009 the USA made up 31.3% of all households worldwide with an average annual disposable income of over US$300,000. However the actual number of such households shrank by 2.6% year-on-year in 2009 (and by 4.7% in 2008) whereas it grew by 9.8% in China, for instance, or 7.7% in Morocco and 6.6% in Indonesia in 2009 over a year earlier;

* In addition, average incomes of decile 10 households are in general still much higher in developed countries than in emerging economies, with the exception of some very small, wealthy states such as the UAE. In India, for example, the average annual disposable income of a decile 10 household was US$12,721 in 2009, compared to US$463,543 in the UAE.

Spending implications
Expenditure by the world's top earners is critical for many businesses:

* The very wealthiest consumers are key drivers of sectors such as high-end jewellery, cars, collectibles and property, as well as accounting for a disproportionately large amount of overall spending. For instance, total spending by decile 10 households in the USA was US$2.4 trillion in 2009, accounting for 24.5% of total consumer expenditure. This ratio was even higher in China, at 36.2% of total consumer spending in 2009;

* Luxury goods and services were most affected by the downturn in high-end consumers in 2008. For instance, consumer expenditure in the USA on jewellery, watches, and travel goods fell by 5.5% in 2008 in real terms over a year earlier, compared to an overall fall in total consumer expenditure of 0.8%;

* The highest-earning consumers may have also altered their spending habits following the recession. The perception of risk in the stock market has grown, with more wealthy individuals now allocating more assets to collectibles such as art or antiques, which are considered to hold their value over the long-term;

* The number of wealthy individuals and higher earners is rising much more quickly in developing regions, especially Asia-Pacific and Latin America, than in more mature markets like Western Europe. Businesses targeting these consumers are switching their focus accordingly to these new sources of growth.

Income inequality grows, despite recession
The global recession has not caused a shift in the wider income disparity apparent in most countries:

* Income growth continues to be higher amongst the high earners and richer households. In the UK, for instance, decile 10 household disposable incomes fell by 4.3% in real terms in 2009 over a year earlier, but decile 5 household disposable incomes fell by 4.6% and decile 1 household disposable incomes by 5.1%.

In China, decile 10 disposable incomes grew by 7.9% in 2009 but decile 5 disposable incomes grew by 6.3% and decile 1 household disposable incomes by 5.8% in real terms;

* In India, decile 10 households accounted for 29.4% of total annual disposable income in 2009 compared to 27.9% in 2004, while in China it rose from 37.7% to 39.8% over the same period;

* This trend has important social implications, given that ongoing public spending cuts in many developed markets in 2010 are seen to have the greatest impact on low earners, causing job losses and lower benefits, whilst the wealthiest segment of consumers is accounting for an increasing proportion of total income.

Prospects

In general, the top earners are set to fare better than other income brackets in 2010. For instance, decile 10 household disposable incomes in the USA are expected to rise by 1.6% in constant terms in 2010 compared to a 0.3% contraction in decile 1 incomes.

There are, however, exceptions: decile 10 household disposable incomes in Russia are forecast to grow at 11.1% year-on-year in real terms in 2010 compared to 21.9% for decile 1 incomes, while in Brazil the equivalent rates are 5.1% and 6.2%. These are partly due to government policies aimed at more equal income distribution.

Regionally, developed markets will perform much less favourably than developing ones. Decile 10 household disposable incomes are forecast to fall by 2.3% in Spain in 2010, for instance, while in China they are expected to rise by 7.9% and in India by 8.2% year-on-year in real terms.

Austerity and public spending cuts, as well as limitations on the size of top executive pay (especially in the financial services sector) partly explain this general trend, as does the overall economic outlook forecasts: annual real GDP growth in Western Europe is expected to be 1.7% in 2010, and 7.6% in Asia Pacific.

The key implication for businesses is that growth in the number and wealth of the world's highest earners will be in emerging countries, even though the concentration of this segment of consumers remains gathered in developed countries.

Over the long term, this too is likely to gradually shift away from North America, Western Europe and Japan.

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