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# The Growing Middle Class

As the balance of the world economy shifts and income in Asia and, to a lesser extent, South America and Africa grows over coming decades, billions of people will move out of poverty and into the middle income classes [1]- defined as those with a daily expenditure of \$10-100 at purchasing power parity (PPP).

This group is poised to expand both proportionally and in absolute numbers during the next 15-20 years. [2] As a result they are likely to demand, and receive, more political influence. They are also likely to be more mobile, place greater value on education and be less accepting of the status quo.

As more people aspire for middle class lifestyles, and are able to achieve them, global consumption will no doubt increase. Furthermore, the nature of people's consumption will also change, as rising global demand for meat, dairy and luxury goods has already demonstrated.

The growth of the consumer class masks a rise in global income inequality, however: although economic growth has benefitted many people up to now, the inequality index shows that wealth polarisation is generally increasing.

Footnotes:

1. Hajkowicz SA, Cook H, Littleboy A. 2012. Our Future World: Global megatrends that will change the way we live. The 2012 Revision. CSIRO, Australia. Page 3
2. National Intelligence Council (2012, Dec). Global Trends 2030: Alternative Worlds, pg v.

## Implications

- Competition for resources in global markets – i.e. oil, food and minerals – will increase. The demand for food and imports may therefore grow at a higher rate than the increase in population, largely due to increased consumption by the new middle class. With the spread of electrification there will also be a sizeable growth in energy demand over the next decades.
- The growing middle class in the emerging world implies the rise of the 'global citizen'. Discretionary expenditure will likely increase much more than food consumption, benefiting transport, leisure, personal products and financial services. [1]
- Lifestyle and chronic diseases like obesity and diabetes could become more prevalent, requiring greater investment in public health-care systems.
- The growing middle class is opening up huge new markets for multinational companies seeking growth outside of developed economies. Despite having strong global brands these companies could face challenging competition when entering emerging markets, as these economies often boast aggressive local players that have already captured a significant portion of consumer spending.

Footnotes:

1. BBVA (2013, Jan). Economic Watch - Emerging middle class in "fast-track" mode.

## Current trajectory

- The emerging-market middle class – defined as households with a daily expenditure of \$10-100 per person at purchasing power parity (PPP) – is projected to double its share of global consumption from one-third to two-thirds by 2050. Its members will be concentrated in existing and new cities. [1]
- Total middle-class spending in Asia Pacific is estimated to grow from US\$4.9 trillion in 2009 to US\$32.9 trillion in 2030, at which point it will comprise 59% of global middle-class spending. [2]
- According to the Euromonitor, the BRIC middle class markets are expected to add a combined US\$3.3 trillion (in 2012 prices) to their consumer spending between 2013 and 2020. [3]
- While the consumer class is poised to grow rapidly, the proportion of consumers who are European and North American is likely to shrink from 50% today to just 22%. [4]
- Despite having incomes above international – or even national – poverty lines, the new middle classes remain vulnerable. Their employment (many work in the informal sector), education (few have university degrees) and consumer behaviour do not always tally with standard perceptions of a middle class that can drive domestic consumption and growth. For instance, in Bolivia, Brazil, Chile and Mexico there are up to 44 million informal middle-class workers – more than 60% of the total middle-class working population (72 million). Unsurprisingly, social protection systems fail to reach even half of this population, and coverage rates for informal workers are extremely limited: below 15% in Brazil, Chile and Mexico, and almost negligible in Bolivia. [5]

Footnotes:

1. World Economic Forum (2014, Aug). The Competitiveness of Cities, pg 9.
2. World Economic Forum (2013).
3. Euromonitor International (2013). Reaching the Emerging Middle Classes Beyond BRIC.
4. Rohde, D. (2012), 'The Swelling Middle'
5. OECD Observer. (2012). An emerging middle class.