

# CONSUMER MARKETS TO WATCH THROUGH 2030

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The buying habits of the world's population are undergoing a major shift, according to a new study by McKinsey Global Institute — “Urban World: the Global Consumers to Watch.”<sup>1</sup> Below we review the study's findings regarding some of the major demographic changes that affect consumer spending patterns, the ever-increasing focus on services, and the growing importance of cities, as population concentration in urban centers drives demand for products and services.

Before 2000, population growth fueled increased consumption of goods and services around the world. However, population growth has slowed and this is changing the main driver of global economic expansion. Going forward, consumption levels will be more dependent on increases in individual consumer spending. The McKinsey study projects that rising per capita consumption will generate 75% of global consumption growth through 2030.

Although population growth in several developed countries has leveled off or is declining, the standard of living for many people around the world is rising and creating greater demand for consumer goods and services. To succeed in this changing global marketplace, companies need to understand how the shifting demographic trends around the world will drive future demand for their products and services.

## THE RISE OF THE CITIES

One of the major shifts occurring is the increase in urban populations around the world. Cities matter because they concentrate groups of consumers who can quickly set trends and shape demand. Over the next 15 years, city dwellers will generate the most consumer spending, accounting for 91% of global consumption growth, the McKinsey report forecasts. More surprisingly, this growth will be extremely concentrated in just a few major cities, especially in emerging countries: 315 cities in China and North America are projected to account for more than 40% of global consumption growth by 2030, and just 32 of those cities will generate 25% of that growth.

## DEMOGRAPHIC SHIFTS OCCURRING

The McKinsey report notes that three groups of urban consumers — the retiring and elderly in North America, working-age consumers in North America, and working-age consumers in China — will generate nearly half of the global urban consumption growth over the next 15 years. Increased buying power will be demonstrated by China's retiring and elderly population and working-age consumers in emerging markets in South Asia, Southeast Asia, Western Europe and Northeast Asia.

These demographic shifts matter for companies selling goods and services. For example, the growing number of retiring and elderly consumers in North American cities is driving demand for healthcare services, housing, transportation and entertainment.



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The aging North American population is relatively wealthy compared to the rest of the world, but with healthcare costs rising, many aging baby boomers are finding they may not have saved enough for their retirement and long-term care. Increasingly, more elderly want to age in place and stay in their homes, which has pushed a notable increase in home improvement and home healthcare spending by Americans age 55 and older. The elderly are often overlooked by companies in their strategic marketing plans, yet their spending accounts for half of the overall consumption growth in developed areas.

At the other end of the spectrum, the number of younger, working-age consumers in developing countries is growing, and they are beginning to enjoy a higher economic standard of living. For example, China will add 100 million people in this age group through 2030, and their spending will account for 12% of worldwide spending. This younger generation of Chinese consumers is better educated and living in a very different world from their parents and grandparents. They seek higher education, are eager to try new experiences, and are open to technological innovation, which suggests that their buying habits may become the trends to watch in the coming years, the report says.

### **RADICAL SHIFTS AHEAD**

Although overall urban populations are growing, this growth will be concentrated in a relatively small number of cities. Many countries and regions, such as Japan and parts of Western Europe, are beginning to experience population declines, especially among working-age adult consumers. This trend has troubling ramifications that are beginning to play out in declining tax bases.

Companies that are already well-positioned to respond to increasing urbanization and demographic shifts have reason to cheer, but many companies will need to rethink their business models, the report suggests. Future success will be built on this new model, where growth is based on per capita spending rather than on increasing the number of customers, and products and services are geared more to the needs of urban populations and new age groups. Companies also need to consider how they can add or expand services to supplement current offerings.

**To discuss these topics in more detail, please contact your PNC Relationship Manager.**

<sup>1</sup> "Urban World: The Global Consumers to Watch," The McKinsey Global Institute, April 2016.

The full study and an executive summary are available at: <http://www.mckinsey.com/global-themes/urbanization/urban-world-the-global-consumers-to-watch>

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