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# 2016 JULIUS BAER WEALTH REPORT: ASIA FACTSHEET

The below text provides the background and key findings of the 2016 Julius Baer Wealth Report: Asia.

## BACKGROUND

- Julius Baer has been publishing its flagship Wealth Report: Asia since 2011. The core content covers forecasts of the asset base of Asia's High Net Worth Individuals (HNWI) and how the cost of luxurious living in the region changes, year over year (y/y). The latter is captured by the Julius Baer Lifestyle Index, which as per 2016, tracks 21 items in 11 separate cities.
- In 2015, we forecasted that Asia ex Japan's HNWI asset base would reach USD 9.3 trn by 2016, 55% of which would be in Mainland China. India ranked second, with over USD 1.4 trn in HNWI assets, followed by Hong Kong with USD 756 bn.
- We reiterate these forecasts this year, in part because we expect to see incrementally better economic conditions in 2017 and beyond.

## CHAPTER 1: MACRO LANDSCAPE

- With reference to the above 2015 HNWI forecasts, we note that GDP in Asia since the inaugural Julius Baer Wealth Report in 2011 has increased by USD 3 trn. Asia has grown by 157 million people over the same period, with 40% of the population living in cities with over one million inhabitants.
- Even more impressive, Asia's share of global GDP has climbed to over 30% since the first report in 2011. This means that despite the marked deceleration of growth in China, Asia has remained in the driving seat as to how the world's economy is shaped.
- There is clear evidence that China has excess capacities across a number of 'old economy' industries. The process to address this supply glut will likely extend well into the medium term and act as a drag on overall growth.
- Low levels of inflation (or in some cases, deflation) are likely to stay the norm across developed markets; whereas the rapid adoption of new technologies in Asia is likewise deflationary.
- The key policy change over the coming years will be a shift away from super accommodative monetary policy in favour of increased fiscal spending, as the limits of the former appear to have been reached.

## CHAPTER 2: JULIUS BAER LIFESTYLE INDEX

- Overall prices for the items in our Lifestyle Index fell by 0.68% y/y in local currency terms and by 1.68% y/y in US dollar terms.
- In local currency terms, 16 of the 21 items showed positive price momentum y/y, suggesting the overall demand for a number of luxury goods and services remains relatively resilient. In USD terms, 8 of the 21 items measured suffered price declines as US dollar strength negated stable or relatively small price increases in local currencies.
- The biggest price increases were found in cigars (+7.62%), ladies' shoes (+4.91%) and university fees (+4.55%) while the largest declines came from residential property (–8.35%), tooth implants (–6.12%) and wine (–3.01%).
- New items have been introduced to the index:
  - For the first time we include a high–end skincare cream (retailing at over USD 1000 per unit) to our Lifestyle Index to complement Botox as a facial aesthetic item.
  - We have replaced the luxury sedan in our index with the redesigned BMW 7 Series (previously Mercedes–Benz S–Class) which is also the flagship model of the brand for BMW.
- For the second year running, Shanghai is ranked as the most expensive city while Mumbai continues to rank as most competitive. Singapore has overtaken Hong Kong as the second most expensive city in Asia.

## CHAPTER 3: ARISING ASIA – BEAUTY CAPITAL

- The size of the global beauty market, according to L'Oréal, reached USD 229 bn, recording growth of 3.9% in 2015, in line with the average of 3.9% observed in the past decade.
- By geography, according to Euromonitor, Asia continues to dominate demand at 36%, followed by North America (24%) and Western Europe (20%). The Asian beauty market is expected to grow much faster than the global market over the next five years at 4.5% per annum.
- By country, China ranks second in the global beauty market after the US in terms of revenues with a size of USD 47 bn in 2014 or a compound annual growth rate (CAGR) of 14% since 2000. China is already the largest consumer of skincare products globally due to exceptionally strong demand in the skincare segment which has seen 15% CAGR since 2015.
- By product, Asian consumers tend to spend or invest more on skincare than their global counterparts due to a high cultural emphasis on keeping skin well-maintained. Local cosmetic players in Asia are gaining market share from international brands and even exporting Asian beauty concepts to the west.
- In conjunction with our research on this topic, we have added an ultra–prestige skincare item to our Lifestyle Index to complement Botox as a facial aesthetic item. We expect demand for this category to grow over the long–term as an important luxury consumer product for the HNWI in Asia.

## CHAPTER 4: SINGAPORE MACRO

- Singapore has regained much of the ground it lost since the crisis of 2008. Singapore's annual average nominal GDP growth rate in the new millennium (2000–08) was 6.4%. Since 2008, the growth rate has fallen somewhat to 5.8%.
- As a small, open economy, Singapore remains vulnerable to a downturn in the world economy. That is a non–diversifiable risk for Singapore. However, Singapore is managing its domestic risks quite ably.
- Under the circumstances, Singapore has opted to manage the difficult transition through restructuring and deflation in the prices of goods, services and assets rather than through asset price reflation.
- Singapore's strategy of managing the transition through income support for lower income families while the rest of the economy restructures appears sound. That marks out the Singapore dollar as a long–term store of value.

## CHAPTER 5: CHINA MACRO

- As referenced above, China's need to address excess capacities in lower-value added manufacturing has contributed to the secular slowdown in GDP growth rates. At the same time, the economy has added USD 2 trn in debt over the past decade; these two points together have generated considerable concern among investors.
- We argue that China's debt levels are well below those of some advanced economies such as the United Kingdom, France and Japan. At the same time, China's external debt service capacity remains very strong. Hence worries about China's debt stock are largely misplaced.
- By 2017, according to Citi Research, China will see almost one billion smartphones sales. This captures the disconnect between a slowing 'old economy' and a booming 'new economy', driven by e-commerce and online services.
- According to official Japanese statistics, Chinese tourists spend USD 500 alone on cosmetics on a typical trip to Japan. This is 60% higher than the average. Such numbers argue that beauty capital is not just about the increase in demand for beauty-related goods amid aging populations, but is also a theme that binds together regional economies: China's demography now points to an ageing, wealthier society, with some key markets such as Korea and Japan in pole position to service these new needs.

## CHAPTER 6: INDONESIA MACRO

- Barring a significant deterioration in external conditions, the outlook for Indonesia is moderately positive. The positives as mentioned include moderating inflation, stronger rupiah, pick–up in business sentiment and credit growth as well as higher spending on infrastructure investment by the government.
- In addition, a number of economic reform packages, including the Tax Amnesty programme which recently came into force, have been implemented. These should help to support the currency and attract greater investment interest from both portfolio and foreign direct investment (FDI) investors.

## CHAPTER 7: INDIA MACRO

- India has witnessed a largely hesitant rebound in recent years, but conditions are in place to be more optimistic for the coming years, predicated on the addressing key structural challenges. Among these include the bad debts in the banking system, transportation and communication infrastructure and water access.
- The Government of India (GoI) has ramped up public investment spending, which has yet to be matched by the private sector. Indeed, gross fixed capital formation has been trending lower over the past few years, implying a shrinking base for future overall economic growth. New legislation and other structural reforms promise to motivate more private sector involvement, which has been equally overshadowed by robust FDI flows.
- As echoed in Chinese and Japanese data, India is also making significant advances towards to the digital economy, with over 700 million registered GSM mobile users last year. The importance of the digital economy has in part reflected strong consumer spending and remain a key pillar for future growth.

## CHAPTER 8: JAPAN MACRO

- Over the past five years, Japan's population has fallen by one million, yet per capita income has risen by USD 2,000. Indeed, when the focus is on per capital statistics, Japan fares well and has kept pace with Switzerland in terms of maintaining or growing income levels.
- Growth has not been matched by a meaningful shift in inflation expectations or CPI outcomes. In short, the 2% CPI target that the Bank of Japan (BoJ) target has remain elusive. In part, this has been due to the appreciation of the yen in 2016 owing to the safe haven status of Japan's currency as well as the major correction in oil which has pulled down an array of non-durables prices.
- While higher inflation has been lacking, Japan's shift to a digital economy is well advanced. Stagnant overall retail sales mask the reality that online commerce is booming.
- We do not expect the BoJ to resort to 'helicopter money' in the short or medium term, rather relying on existing measures to support the increase in inflation expectations. With the advent of a stronger yen, we expect the surge in overseas M&A activity to continue, with 2015 having been a record year. Japanese buyers competed over 500 deals, exceeding the previous record set in 2006.

## CHAPTER 9: NEXT GENERATION ENTREPRENEURS

- Mr Amit Lohia, Group Managing Director of Indorama Corporation, discusses the culture of the third generation family business, M&A opportunities as well as the gap between financial markets and Indorama's operating environment.
- Mr. Wu Xinhong, Co-founder and CEO of Meitu Inc., elaborates on the development of successful smartphone apps in China, the key opportunities and obstacles that lie ahead.
- Mr. Toshio Dogu, Founder and CEO of Digital Arts Inc., shares his thoughts on how small versus large companies approach innovation the outlook for market related to IT security globally.

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