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Rejuvenating Southeast Asian Economies through Consumer Spending

An opinion piece by
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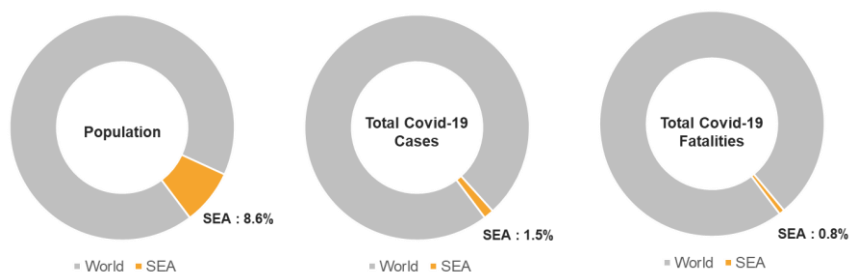


What businesses and policymakers will need to consider

After months of paralyzing lockdowns, most Southeast Asian countries are now in the process of easing restrictions and reopening their economies. Policymakers, businesses and consumers alike are now looking forward to an economic recovery, and a gradual return to normalcy.

There are grounds for optimism - despite initial fears of an uncontrolled outbreak in many of Southeast Asia's more populous nations, most countries have achieved relative success in keeping the Covid-19 epidemic under check. Based on recent data, Southeast Asia has recorded less than 2% of total cases and less than 1% of virus deaths, despite making up about 9% of the global population¹

Figure 1: Southeast Asia Covid-19 figures relative to the global total ²



¹ As of 15th June 2020, open data retrieved from <https://www.worldometers.info/coronavirus/>

² Ibid

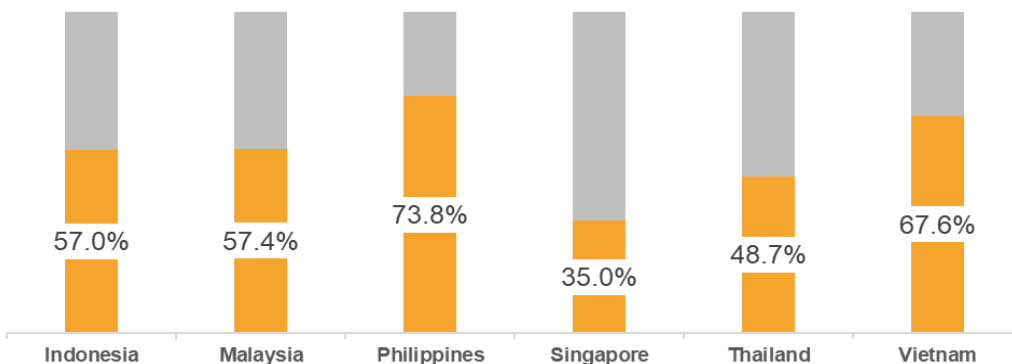
However, the containment measures have come at a high economic cost – Southeast Asia has been one of the fastest growing economic regions in the world, but the latest forecast by the IMF foresees economies within the ASEAN-5³ to instead contract by 0.5% this year⁴. Current and more recent projections from national authorities are seeing an even larger decline in economic activity than what the IMF predicts.

The public health crisis in Southeast Asia is quickly morphing into an economic crisis. With most Southeast Asian countries lacking the depth in financial resources and social safety nets of developed economies, fostering and sustaining a speedy return to pre-crisis economic activity will be quintessential to prevent lasting damage to economic and social development.

For most Southeast Asian (SEA) countries, pursuing a domestic consumption-led recovery is the most viable way to recover from the current crisis. While majority of Southeast Asian countries are dependent on trade, external demand is likely to be weak due to the global spread of the pandemic - the World Trade Organization expects global trade to plunge by up to 32% this year⁵, and hence an export-led recovery will be a challenge.

Given the headwinds on external demand, SEA economies will have to rely on domestic consumption, namely household spending, as one of the primary driving forces in reviving the economies. Boosting household consumption to pre-Covid levels will provide the impetus the local economy needs to recover. However, even when lockdowns have been eased, many businesses are still seeing sluggish sales. Hence, an understanding of the current state of consumer sentiment is critical in boosting demand.

Figure 2: Share of domestic consumption to GDP for selected ASEAN countries ⁶



³ Indonesia, Malaysia, Singapore, Thailand and Vietnam

⁴ IMF World Economic Outlook, April 2020

⁵ WTO, 8 April 2020, https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

⁶ World Bank, 2018



How do we get consumers to spend at pre-Covid levels?

To help policymakers and businesses answer this question, Ipsos conducted a region-wide survey across 6 countries in Southeast Asia⁷. The surveys were done in the month of May, which was a period where lockdowns are gradually being lifted and gauged post-lockdown consumer spending and behavioural intentions relative to the impact the virus has had on them.

The results confirm that consumer incomes have been hit hard across the board with few exceptions, but crucially also point to changes in consumer spending intentions and decision-making. Specifically, a generally high level of public anxiety over the virus, both in terms of current health concerns and future uncertainties over the trajectory of the pandemic, culminate in incipient risk-adverse behaviour and a tendency to suppress spending to 'save for a rainy day'.

These findings highlight challenges for policymakers and businesses to bring consumers back to the domestic economy, but also at the same time point to the ever stronger need to consider the consumer psyche in their recovery strategies. A strong consumer-led recovery is dependent on policymakers and businesses responding appropriately in addressing the underlying concerns and restraints on spending behaviour, namely:

1. The broad decline in household incomes and delayed expectations of a recovery
2. Genuine health concerns over the spread of the virus
3. Uncertainty over the future trajectory of the pandemic

Note: In the following section, we will use SEA to refer to an aggregate of the six countries surveyed (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam).

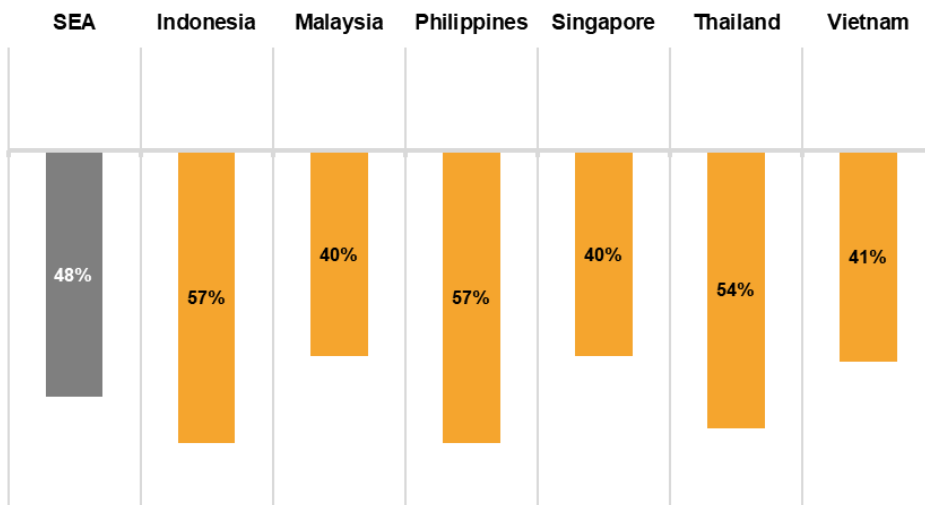
⁷ The survey samples 500 respondents per country, for a total of 3,000 respondents

1 Household incomes have broadly declined, and as a result discretionary spending is expected to similarly decline

The economic impact of the lockdowns needs no introduction – there is less output when businesses close and there is less spending when people stay at home; most people end up poorer as a result.

Many countries are already expecting record levels of unemployment due to the crisis, and Southeast Asia is no exemption, to name a few: Malaysia is expecting unemployment to spike to 5%, the highest in 30 years⁸; Singapore's jobless rate in Q1 2020 is the highest in 10 years at 3.5%⁹; Philippines' unemployment rate hit a record 17.7% in April 2020¹⁰. Even so, unemployment does not provide a true picture of how bad incomes are affected – pay cuts and income losses are taking place on a much wider scale than unemployment:

Figure 3: Proportion of households experiencing more than 20% decrease in income

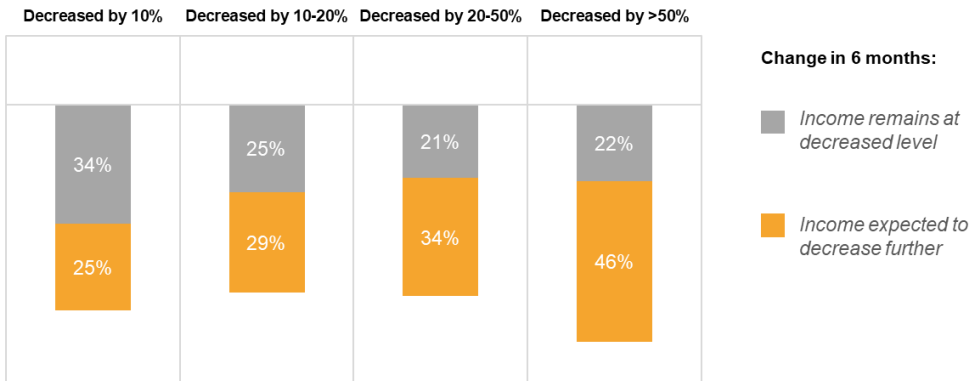


With incomes declining by more than 20%, these households will find it difficult to pay for daily expenses and necessities, let alone discretionary purchases. A quick recovery within the year is off the cards for most of these households, where expectations are for the current income levels to either stay the same or decline further:

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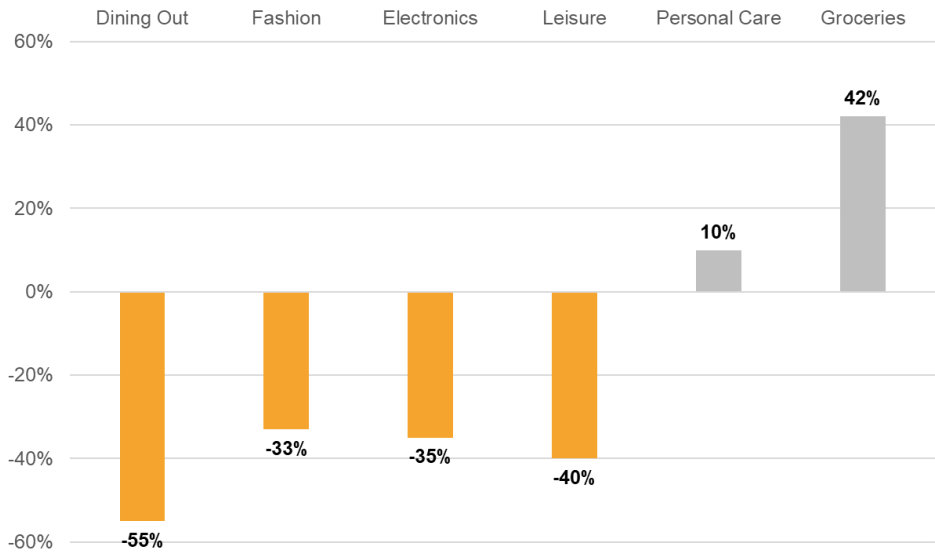
⁸ The Edge Markets, 15 June 2020, Malaysia's April unemployment spikes to 5%, the highest in 30 years
⁹ Channel News Asia, 15 June 2020, Singapore's jobless rate highest in 10 years, total employment registers record decline in Q1
¹⁰ Strait Times, 6 June 2020, Philippines' unemployment rate at record high in April

Figure 4: Expectation of income in 6 months for households experiencing declines (SEA)



The declines in income, and an expectation that incomes will stay depressed, is likely to be a mainstay of consumer sentiment for the rest of the year. This has led households to expect deep cuts in discretionary spending post-lockdowns, while spending on necessities, to preserve savings for rainy days ahead:

Figure 5: Post-lockdown net spending patterns¹¹ compared to before, households where income has decreased by 20% or more



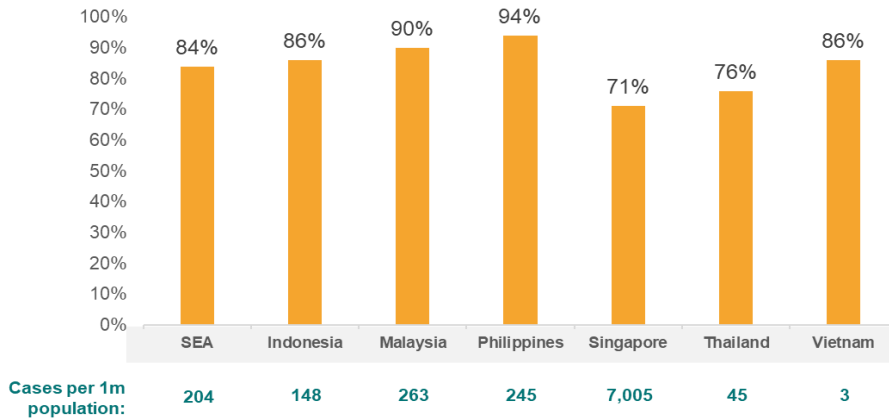
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¹¹ Net spending patterns refers to total spending more – total spending less

2 Public anxiety over Covid-19 remains high relative to the actual spread of the virus, and as a result consumption activity is delayed

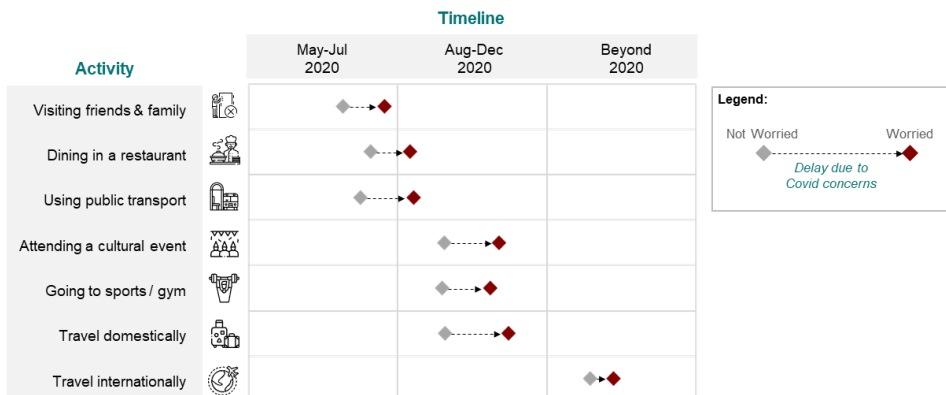
Despite the relative success of governments in combating the Covid-19 outbreak, health concerns over the virus remain at an elevated level across the six countries surveyed, with little relation to the actual spread of the virus in each country:

Figure 6: Proportion of respondents worried about contracting Covid-19 (Very worried + somewhat worried) and confirmed cases¹²



This implies that health concerns over the virus are very high, which, while beneficial in providing better adherence to social distancing rules, means that most consumers will not be returning to their pre-lockdown routines anytime soon, with consequences to consumption spending. The following chart provides an approximation of how much longer those worried about the virus tend to postpone their activities, which ranges between 2-3 months:

Figure 7: Timeline for resumption of normal routines



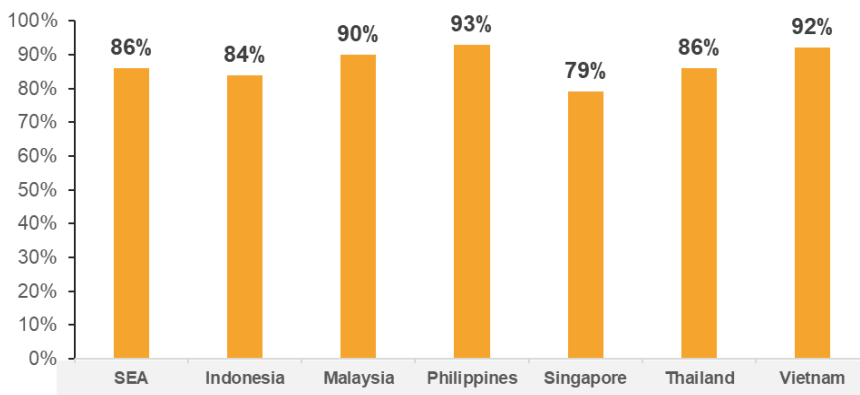
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With public anxiety running high in all SEA countries, there is concern that consumers will continue to shun public places even post-lockdown – many of which essential for some form of consumption and spending to happen. If these concerns are not addressed, the months of forced savings, pent-up consumer demand and direct government transfers due to the lockdowns will not have much of an effect on the economy even when restrictions are lifted.

3 Fears of a second wave and new lockdowns act as a further drain on spending expectations

While consumers welcome the recent moves by countries to ease lockdown measures and reopen economies, the prospect of a second wave that will lead to a renewed lockdown is disconcerting. For the many households which have experienced drop in income during the previous lockdown, there is still fear that the worst is not behind them. This acts as a further barrier on consumer spending as they prepare for another hypothetical hit to their financial condition.

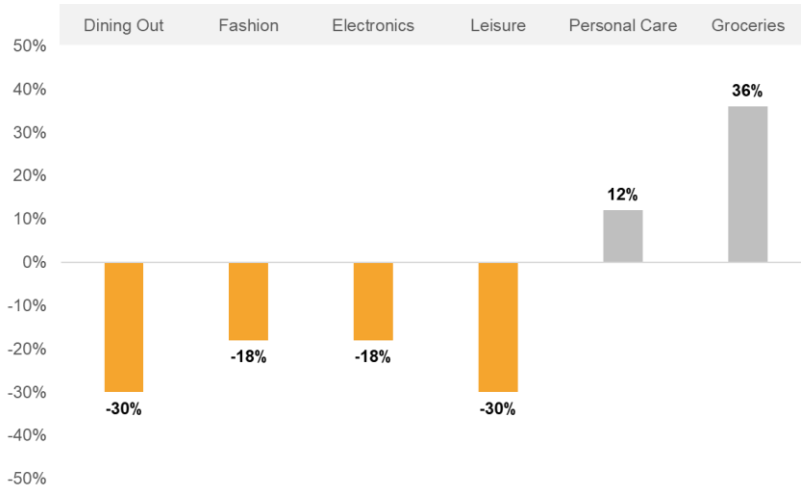
Figure 8: Proportion of respondents worried about incomes if lockdown measures are re-imposed (Very worried + somewhat worried)



The impact of these anxieties is also apparent in the spending patterns of households which did not experience income declines. These households too expect to spend well below pre-Covid levels on non-essential consumption categories:

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Figure 9: Post-lockdown net spending patterns¹³ compared to before, households where income did not decrease



4 The way forward – the importance of accounting for changes in consumer outlook in stimulating demand

The current state of consumer sentiment suggests that post-lockdown consumer spending behavior is no longer primarily a function of income, but equally important are fears about the virus and possible future lockdowns.

For policymakers, this change in consumption behaviour implies that conventional macroeconomic tools to stimulate demand, such as direct cash transfers to households, is insufficient to return consumer spending back to pre-crisis levels, as spending is also fundamentally restrained by anxieties over worsening economic situation brought upon by the pandemic and health concerns.

As such, in pursuit of a consumer-led recovery, policymakers should also place an equal emphasis in addressing reduction in incomes, health concerns and future uncertainties. This could take the form of:

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¹³ Net spending patterns refers to total spending more – total spending less

Balancing optimism and caution in public messaging about the virus

Public anxiety over the virus is high and could result in overly risk-averse behaviour by consumers. To address this, consumers will need to be reassured that the pandemic is under control, and they should be optimistic that conditions are improving and gradually returning to normal.

This implies a need for governments to gradually soften the language used in public messaging about the pandemic – while ‘war-time’ language may have helped governments enforce social distancing during the lockdowns, it has generated a high level of residual fear, most evident in countries with low virus spreads. Changes in messaging highlighting optimism, in both handling of the virus and in the economic recovery, could go a long way in instilling confidence amongst consumers and help return spending to pre-crisis levels.

Assure the public that future responses to an outbreak will be more measured and inspire confidence in current measures

Consumers generally have had a bad experience with the lockdown, leaving them financially and emotionally drained. Governments will need to be clear in communicating a ‘what-if’ scenario pertaining to a new outbreak and highlight that the response will not be a return to nation-wide lockdowns, but rather targeted to specific areas.

This will need to be against a backdrop of visibly effective public health measures, such as high rates of compliance with social distancing rules and effective contact tracing, which are as important to retain public trust in government measures and to reassure the public that the worst is behind them.



For businesses, existing assumptions about consumer decision-making and purchasing processes may have to be re-examined as virus-related concerns take centre stage, leading to a need to re-evaluate product offerings and potentially reorganize strategies along these shifts in consumer behaviour.

Consumer sentiment is expected to remain low due to declines in income and future uncertainties, hence businesses need to create more compelling value to bring back customers. While some categories, such as groceries, personal care and other basic necessities are relatively unscathed, businesses in other sectors will have to reconsider their value propositions to customers. Some key considerations are:

Providing compelling value to consumers who are cautious about the future

Faced with uncertainty about the future, consumers will be more discerning about how they perceive the value of a product or service. Price cuts across the board will not be viable for businesses already suffering from large decreases in revenue, and hence a more tailored response will be more appropriate.

Businesses will need to reconsider how customers see value in their product offerings. For example, is a premium blend cup of coffee still worth the same to customers when they are not able to enjoy the full café experience? Is shopping for clothes as compelling an activity as before when fitting becomes a more tedious and potentially hazardous exercise? An understanding of consumers' perception of value, and how they stack up against their predispositions about their future will be key in this exercise.

Balancing digital and human touch points in ensuring superior customer experience

Social distancing rules and other preventative measures have changed the way customers interact, and as a result will require some reallocation of resources by businesses. The most apparent impact is the stronger requirement for hygiene and safety measures, which are essential in preventing spread of the virus and reassuring customers of their safety.

In a low-touch environment, where businesses are increasingly adopting digital touch points in the customer journey, businesses need to ensure they provide the same quality customer experience. This means knowing where having a personal human touch is essential and where digital interactions can be a substitute.

Businesses will need to ensure their front-liners are still able to connect with their customers even while wearing face masks. Consumers often make final purchase decisions by their experience during the buying process. Consumers who have had a difficult period in the past few months will appreciate some level of emotional connection.

Building new marketing narratives around addressing health concerns and simplicity

The post-virus environment is one where consumers are increasingly leaning on health considerations in their decision-making, hence businesses will need to re-evaluate their current product offerings and adapt them if necessary. Consumers who are now beginning to get back to their daily routines after months of lockdowns would also welcome simplicity in product messaging.

Businesses will need to communicate how the changes they are making prioritize customer well-being. This will require a new marketing narrative centred on making customers believe that businesses understand their needs and current concerns.





Conclusion

As SEA economies ease lockdown restrictions, there are some initial signs of economic recovery. However, many of them are still under pressure from sluggish consumer spending. To boost consumer spending, policymakers will need to instil the necessary confidence that the worst of the pandemic is behind them, and businesses will need to offer products and services that cater to an anxious customer base.

An in-depth country analysis for Malaysia, Thailand, Vietnam, Singapore, Indonesia, and Philippines version of the study is also available. To see how this study can be applied specifically to your industry, please contact your local Ipsos office.

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