

# Secular Sector Trends

# Global economic theme: Secular sector trends

This study analyzes Swiss consumption data 1936-1989 and U.S. consumption data 1946-2003. Secular consumption patterns help to understand sector trends in industrialized countries and help to benchmark sector growth trends in major emerging economies. In fact, Chinese data confirm secular trends witnessed in Europe and the USA.

Key secular trends (industrialized countries, emerging countries):

- ❑ Basic needs like food, apparel, shelter/housing, energy show some growth, but the rates are generally below average. “Eating out” sticks out within the food category. Beverage expenditures outgrow expenditures for food.
- ❑ The service sector grows strongly over time:
  - Transportation and communication is by far the strongest growing sector as mobility needs become affordable with rising incomes.
  - Healthcare (a well known growth area).
  - Entertainment (and education).
  - Other (includes financial services).

# Introduction, data and methods: Swiss data

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We analyse consumption trends between 1936 and 1989, both economy-wide and per capita.

Data:

- ❑ Federal Statistics Office (Income and consumer patterns; “EVE – Einkommens- und Verbrauchs-Erhebung”).
- ❑ Data is always nominal expenditure in CHF (for entire households or per capita, as described). Nominal expenditure is the sum of volume and price and therefore only shows expenditure, but gives no hints if volumes are up or down.
- ❑ Growth rates are compound annual period growth rates.

We consider the period from 1936 to 1989 as a proxy period through which some more advanced emerging economies may go in coming decades (we remember that Switzerland during this period developed from a still fairly agrarian oriented economy into a service economy). We nonetheless note that consumption patterns may be markedly different in many emerging economies (e.g. related to climate, cultural differences, availability of technology (e.g. mobile phones, internet)).

Many present trends in Switzerland are also indicative for future developments in this country and most industrialized countries .

# Expenditure growth in Switzerland, 1936 – 1989: Data

Expenditure	CHF mio., nominal				Period growth rate				Annual growth rate (diff. to average)			
	1936	1956	1976	1989	1936-1956	1957-1976	1977-1989	1936-1989	1936-1956	1957-1976	1977-1989	1936-1989
<i>Population (mio.)</i>	4.198	5.097	6.284	6.673	21%	23%	6%	59%				
Food, beverages & tobacco	1915	4457	15055	21382	133%	238%	42%	1016%	1.2%	-2.2%	-0.1%	-0.3%
Food	1666	3929	10329	14075	136%	163%	36%	745%	1.3%	-3.6%	-0.5%	-0.9%
Eating out	85	216	2992	4902	153%	1287%	64%	5647%	1.7%	6.0%	1.1%	3.0%
Beverages	119	207	1357	1865	74%	555%	37%	1463%	-0.3%	1.6%	-0.4%	0.3%
Tobacco	45	105	377	540	133%	259%	43%	1102%	1.2%	-1.9%	0.0%	-0.2%
Apparel	565	1339	5618	7177	137%	319%	28%	1171%	1.3%	-1.0%	-1.0%	-0.1%
Rent/mortgage payments	1107	1676	11544	19978	51%	589%	73%	1706%	-1.0%	1.9%	1.6%	0.6%
Furniture, etc.	228	561	4624	5922	146%	724%	28%	2498%	1.5%	2.9%	-1.0%	1.3%
Energy	320	630	2697	3891	97%	328%	44%	1116%	0.4%	-0.9%	0.0%	-0.2%
Body care, cleaning	100	201	1980	2953	102%	883%	49%	2867%	0.5%	4.0%	0.3%	1.6%
Healthcare	250	780	6081	11353	212%	679%	87%	4445%	2.8%	2.6%	2.3%	2.5%
Education, entertainment	437	1196	11698	17630	174%	878%	51%	3934%	2.1%	3.9%	0.4%	2.2%
Transportation & communicat	149	467	8529	12555	212%	1728%	47%	8299%	2.8%	7.7%	0.2%	3.7%
Other	316	715	6066	10177	126%	749%	68%	3121%	1.1%	3.1%	1.3%	1.8%
<b>Total</b>	<b>5386</b>	<b>12022</b>	<b>73891</b>	<b>113017</b>	<b>123%</b>	<b>515%</b>	<b>53%</b>	<b>1998%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Swiss Federal Statistics Office, R & A Group Calculations

# Expenditure growth in Switzerland, 1936 – 1989: Trends

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Per capita expenditure grew by 1220% (or a factor 12), and total expenditure surged nearly 20fold, helped by a 59% population increase between 1936 and 1989.

Growth rates in sub-periods can be considered “normal” 1936-1956 and 1977-1989, while 1957-1976 sticks out as a high growth and high inflation period.

## **The transformation from an agrarian to an urban service economy is very clearly visible**

- ❑ Basic needs like food, apparel, shelter/housing, energy show some growth, but the rates are generally below average. Food growth exceeded average consumption growth in the period 1936-1956, however (i.e. in the early stages of growth):
- ❑ “Eating out” sticks out within the food category (second highest total period growth rate, and higher than healthcare!). The growth in this category can be attributed to a transformation from an agrarian (home=work) to an urban society where lunch is no longer taken at home, and to higher income levels (eating out becomes an active choice).
- ❑ Beverage expenditures grew twice as much as food 1936-1989.
- ❑ The service sector has been growing strongly
  - Transportation and communication is by far the strongest growing sector as mobility needs become affordable with rising incomes.
  - Healthcare (well known growth area).
  - Entertainment (and education).
  - Other (includes financial services).

## Expenditure growth in Switzerland, 1936 – 1989: Share of wallet

The share of basic consumer goods and services in total consumptions drops over time, led by food which was dropping by half over the 50-year-period observed.

Shares of all service categories rise strongly, led by transportation, followed by entertainment, then healthcare.

Per capita expenditure	Share of total				
	1936	1956	1976	1989	Share diff. 1989-1936
Food, beverages & tobacco	35.6%	37.1%	20.4%	18.9%	-16.6%
Food	30.9%	32.7%	14.0%	12.5%	-18.5%
Eating out	1.6%	1.8%	4.0%	4.3%	2.8%
Beverages	2.2%	1.7%	1.8%	1.6%	-0.6%
Tobacco	0.8%	0.9%	0.5%	0.5%	-0.4%
Apparel	10.5%	11.1%	7.6%	6.4%	-4.1%
Rent/mortgage payments	20.5%	13.9%	15.6%	17.7%	-2.9%
Furniture, etc.	4.2%	4.7%	6.3%	5.2%	1.0%
Energy	5.9%	5.2%	3.6%	3.4%	-2.5%
Body care, cleaning	1.8%	1.7%	2.7%	2.6%	0.8%
Healthcare	4.6%	6.5%	8.2%	10.0%	5.4%
Education, entertainment	8.1%	9.9%	15.8%	15.6%	7.5%
Transportation & communication	2.8%	3.9%	11.5%	11.1%	8.3%
Other	5.9%	5.9%	8.2%	9.0%	3.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

Source: Swiss Federal Statistics Office, R & A Group Calculations

## U.S. data

U.S. Commerce Department data on household consumption reveal similar trends to the Swiss data (by means of extrapolating historic trends, US data contain our projections until 2050).

Food and apparel expenses as a % of total expenses drop sharply, from 44.6% for both categories in 1946 to just 16.7% in 2003.

Mobility demand rose sharply between 1946 and 1985 (from 1.8 to 6.5% of total expenditure).

Healthcare expenses (in % of total expenses) rose from a mere 3.3% in 1946 to 15.9% in 2003 – even with a more moderate relative growth path, healthcare expenses could easily reach a third of household expenditure during the next decades

“Other” include financial services – an above average growth category throughout .

Consumption USA	Share of total					Relative growth*	
	1946	1985	2003	2025	2050	1946-2003	2003-2050
<b>Durable Goods</b>	<b>9.3</b>	<b>13.4</b>	<b>11.8</b>	<b>10.2</b>	<b>9.3</b>	<b>0.4%</b>	<b>-0.6%</b>
Cars	1.8	6.5	5.1	4.0	3.5	2.0%	-0.9%
Furniture/household	5.3	4.7	4.3	3.9	3.6	-0.4%	-0.4%
Other	2.3	2.2	2.4	2.3	2.2	0.1%	-0.2%
<b>Staples</b>	<b>58.5</b>	<b>34.2</b>	<b>29.0</b>	<b>25.1</b>	<b>21.0</b>	<b>-1.3%</b>	<b>-0.7%</b>
Food	31.3	18.7	12.4	10.5	7.5	-1.6%	-1.5%
Apparel	13.3	5.6	4.3	3.8	3.0	-2.1%	-0.9%
Energy	3.9	4.1	2.6	3.2	3.5	-0.8%	0.7%
Other	7.9	7.3	8.0	7.6	7.0	0.0%	-0.3%
<b>Services</b>	<b>32.2</b>	<b>52.4</b>	<b>59.2</b>	<b>64.7</b>	<b>69.7</b>	<b>1.1%</b>	<b>0.4%</b>
Housing	10.2	15.0	14.7	14.0	12.5	0.7%	-0.4%
Transportation	3.3	3.7	3.7	4.0	3.7	0.2%	0.0%
Healthcare	3.3	11.9	15.9	21.2	30.5	3.0%	1.5%
Recreation	2.5	2.8	3.9	4.5	4.0	0.8%	0.1%
Other (incl. Financial services)	7.9	12.3	15.5	16.0	14.5	1.3%	-0.1%
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>-</b>

\*Deviation from average

Source: US Commerce Department, R & A Group calculations

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