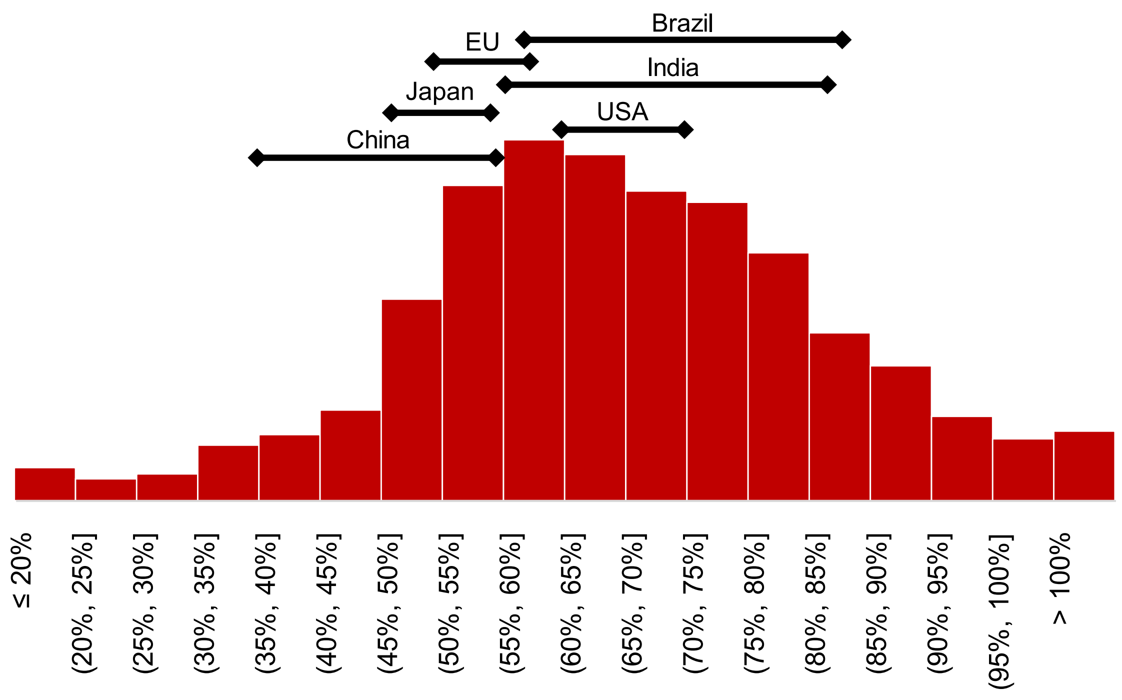
USING THE CORRECT MACRO METRICS: AVOID GDP PER CAPITA

It is bad practice to evaluate consumer goods markets based on gross domestic product (GDP) per capita. Why should GDP have anything to do with consumer demand?

The histogram created with TelluBase[1] data shows why GDP has only a fleeting relationship with consumer demand. It takes 213 countries for 1970-2021 and shows consumer spending's share of GDP.

HOUSEHOLD SPENDING AS SHARE OF GDP

11,076 observations (218 countries, 52 years)



Source: TelluBase; Tellusant analysis

❶ Between countries, consumer spending ranges from 5% to 200% of GDP. The lowest values are countries that are building up resource extraction industries.

The highest values are countries in turmoil such as Yemen or Somalia, where the spending is financed by remittances or aid.

If we estimate market size based on GDP / capita, it is evident that we are far off reality in many cases. Example: we use the US GDP / capita as our benchmark and evaluate EU countries' market size based on their GDP / capita relative to the US. This overshoots EU members' market sizes by 7% to 60%.

❷ Over time, household spending as a share of GDP varies widely. The graph shows that the variation in emerging countries can be over 20%-points for the full period. Affluent countries have a narrower range, below 10%-points.

The variation between sequential years is narrower. But it is still common for GDP / capita to grow at, e.g., 2%, and household spending to grow at 1% or 3% over the same years. This means that predictive models based GDP under- or overshoot almost every year. Sometimes by a lot.

We therefore recommend basing all market analysis on either disposable income or household spending.[2] Ditch GDP.

If this is the case, why do global companies mostly use GDP? It is the street light effect. That is, people use information they find under the metaphorical streetlight: what is easily at hand (GDP), rather than what they need (in consumer goods, disposable income or household spending).

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[1] https://tellubase.telluplan.com

[2] Household disposable income = Household spending + Household savings