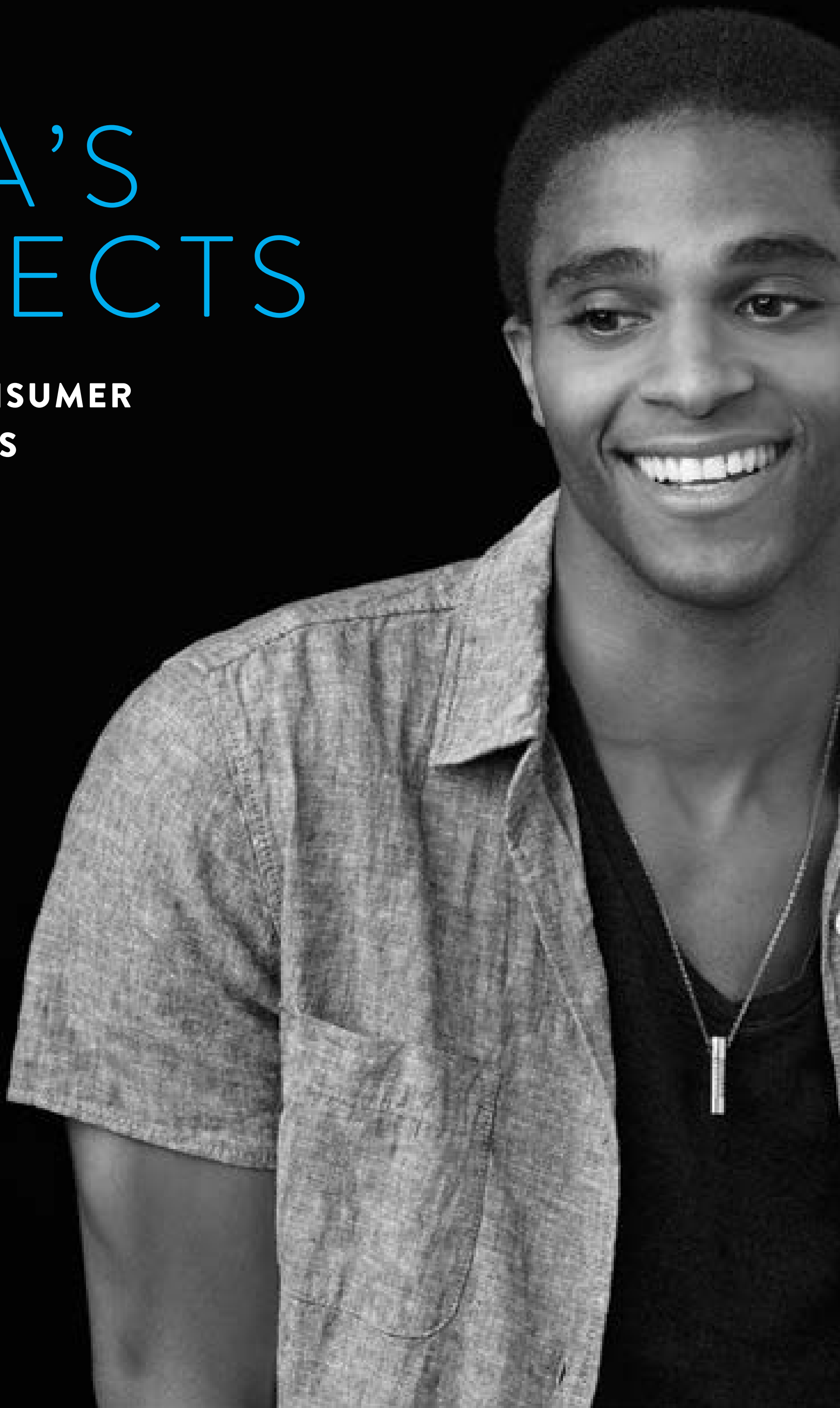
nielsen

AFRICA'S PROSPECTS

MACRO, BUSINESS, CONSUMER AND RETAIL INDICATORS

EDITION 4
QUARTER 1, 2017



CONSTANT CHANGE, BEHIND AND AHEAD

2016 was a year of upheaval and change the world over, with equivalent sways experienced across Sub-Saharan Africa. This resulted in ongoing shifts in country prospects across a range of dimensions. In the latest Nielsen Africa Prospects ranking, seven of the eight markets have moved position, with the exception of Tanzania, which remains steady in third position.

OVERALL RANKING TREND

RANK	Q1'15	Q3'15	Q1'16	Q3'16
1	NIGERIA	COTE D'IVOIRE	COTE D'IVOIRE	KENYA
2	COTE D'IVOIRE	KENYA	KENYA	COTE D'IVOIRE
3	KENYA	TANZANIA	TANZANIA	TANZANIA
4	TANZANIA	NIGERIA	GHANA	SOUTH AFRICA
5	ZAMBIA	ZAMBIA	CAMEROON	GHANA
6	CAMEROON	CAMEROON	UGANDA	CAMEROON
7	UGANDA	SOUTH AFRICA	NIGERIA	UGANDA
8	GHANA	UGANDA	SOUTH AFRICA	NIGERIA
9	SOUTH AFRICA	GHANA	ZAMBIA	

To stay abreast of the rapidly developing movements in 2017, businesses will need to regularly adapt their short-term and long-term country strategies to remain relevant within fluctuating market cycles. In the 4th edition of the Africa Prospects report, the longer-term, trended movements highlight more significant shifts. It's therefore no surprise to see the deterioration in Nigeria's overall prospects. Having debuted in number one position at the beginning of 2015, it has now dropped to bottom place at the end of 2016, of the countries measured.

PERSISTING HEADWINDS

Nigeria has been particularly hard hit by lower oil prices compounded by low oil production and militancy in the Niger delta, resulting in an estimated 60% loss of revenue from oil. This in turn drove the forex shortage, depreciation of the Naira and a curb on imports, creating a strangle hold on the economy which has resulted in sky-rocketing inflation and tougher conditions for businesses and consumers alike.

Predictions are that the worst is over and it will not take much to drive the Nigerian economy into positive growth levels in 2017. Commodity prices, including oil, are recovering, oil production is on the up and an improved outlook is foreseen in the non-oil economy. Of ongoing concern is the resolution of lingering militancy issues in the Niger delta, the poorly functioning forex market and high interest rates.

Despite recent drops in the Nielsen recorded Consumer Confidence Index, Nigerians have remained more positive than Kenyans, South Africans and Ghanaians, in terms of their job prospects and personal finances. As the macro, business and retail prospects recover, expect to see an improvement in the country ranking. In the interim, businesses need to adjust to consumers' altered daily habits which they have employed to cope with tough market conditions. As consumers have been forced to reduce consumption - only buying on an immediate need basis - businesses need to meet these new consumer realities with agility, flexible product offerings, packaging and pricing.

MOVERS AND SHAKERS

The long-term steadiness in East African countries is evident when following Kenya and Tanzania's rankings. Tanzania has remained in third position on the APi for the past 18 months and Kenya has risen from third to first place in the current edition. Cote d'Ivoire has retained consecutive top positions ahead of some of its larger peers, while the prospects for South Africa, relative to other Sub Saharan countries, have improved, as investors refocus on more established markets where it is easier to execute in the known consumer and retail environments.

DYNAMICS WITHIN THE PROSPECTS

CURRENT RANKING					
COUNTRY	OVERALL RANK	MACRO RANK	BUSINESS RANK	CONSUMER RANK	RETAIL RANK
KENYA	1	1	2	2 ▲	6
COTE D'IVOIRE	2	3	3 ▲	8 ▼	1
TANZANIA	3	2	8 ▼	7	5
SOUTH AFRICA	4	5	4 ▲	1	3 ▲
GHANA	5	4	1	6 ▲	7
CAMEROON	6	6	6 ▲	5	2
UGANDA	7	7	5 ▼	3	4
NIGERIA	8	8	7	4 ▼	8 ▼

Cote d'Ivoire's drop to second place is due to the negative shifts in Consumer prospects. Despite strong Macro, Business and Retail positions, the country's Consumer prospects remain the biggest challenge. Cote d'Ivoire's improvements have been outstanding in terms of ease of doing business. It has also recorded strong GDP growth, a number of new IPOs, a doubling of the banking sector, low inflation, stable currency, solid infrastructure and good education. More recently, however, Francophone West Africa's largest economy has faced a growing wave of public sector strikes (students, schoolteachers, civil servants and soldiers).

It's therefore clear that, reform and growth will not be enough unless the population feels that incomes have actually risen substantially. This is because mindset around available discretionary income will directly impact consumer spend and willingness to try new products, and this mounting challenge to state authority, could threaten to undermine the country's recovery.

KENYA'S RETAIL OPPORTUNITY

Kenya has been in the upper regions of the APi ranking since inception and now moves in to top position. As East Africa's most prominent economy, Kenya is pivotal for success as the growth focus shifts from West to East Africa. The World Bank forecasts Kenya's 2016 GDP growth at 5.6%, a robust performance against the 1.5% average for SSA. Strong agricultural output, a resurgence in tourism, as well as increased FDI, resulting in infrastructure projects has spurred on growth within this more diversified economy. The lowest ranking prospect indicator for Kenya is the Retail rank, pointing to executional challenges which businesses will need to overcome in order for spend to increase.

The Ease of Doing Business expressed by retailers, has fallen in the most recent quarter, possibly compounded by the capping of interest rates, which has resulted in loans being extended to only the most established and safest borrowers. Truly informal small and medium sized enterprises, as well as new start-ups, have been negatively impacted by this development which has hindered growth and employment opportunities.

In the long-term, elevated consumer purchasing power due to per capita GDP more than doubling, has resulted in a bigger base of more affluent consumers who are able to maintain retail resilience, even in the face of a near-term, economic slow down. To meet this demand, there is an upbeat outlook for Kenya's retail sector, as it is poised for further expansion with the development of new shopping malls and increased e-commerce activity.

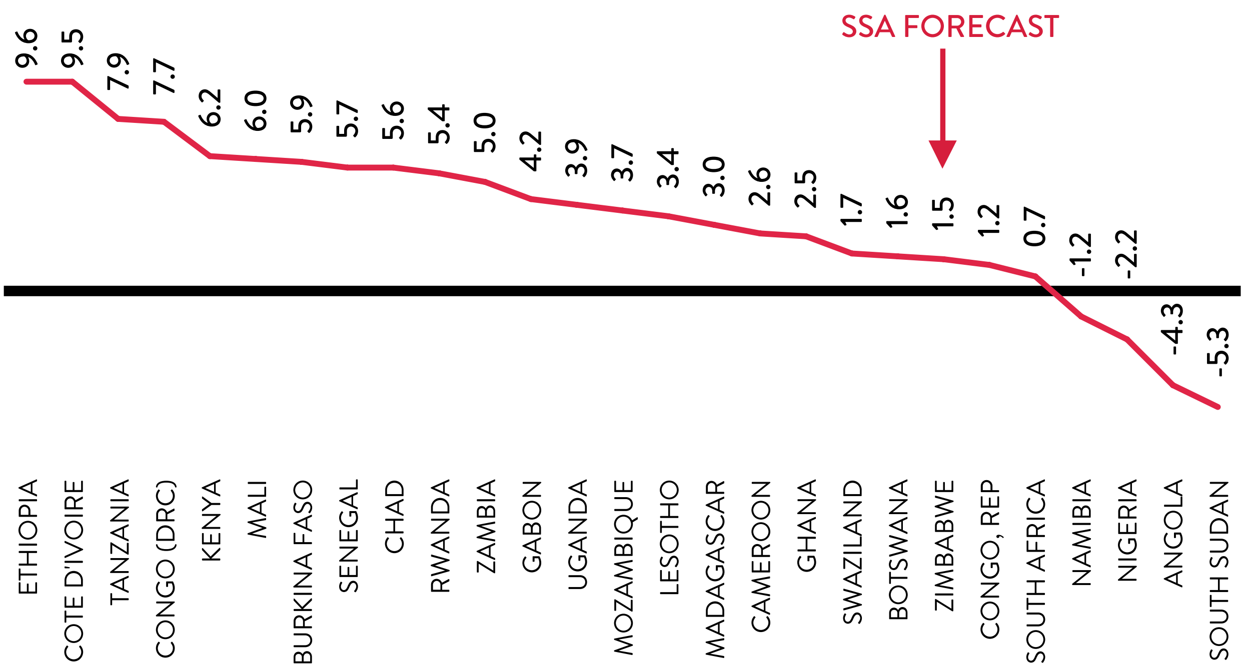
PART 1

MACRO PROSPECTS

Average growth in Sub Saharan Africa is expected to have reached its lowest level of 1.5% in 2016, after slowing from 3% in 2015, buffeted by global turmoil. The slowdown in Africa, however, was not uniform. Oil and mining reliant economies were hurt by the global commodity price declines. South Africa and Nigeria, which together account for about half of SSA's GDP, were both affected. In contrast, East Africa and oil-importing economies in Francophone West Africa, such as Cote d'Ivoire, managed robust growth rates.

Whilst 2017 is likely to bring recovery to SSA there won't be an immediate return to the higher growth rates as seen in previous years. Many SSA markets will, however, continue to present robust prospects at a macro economic level, and well ahead of other developed and emerging markets.

ECONOMIC GROWTH

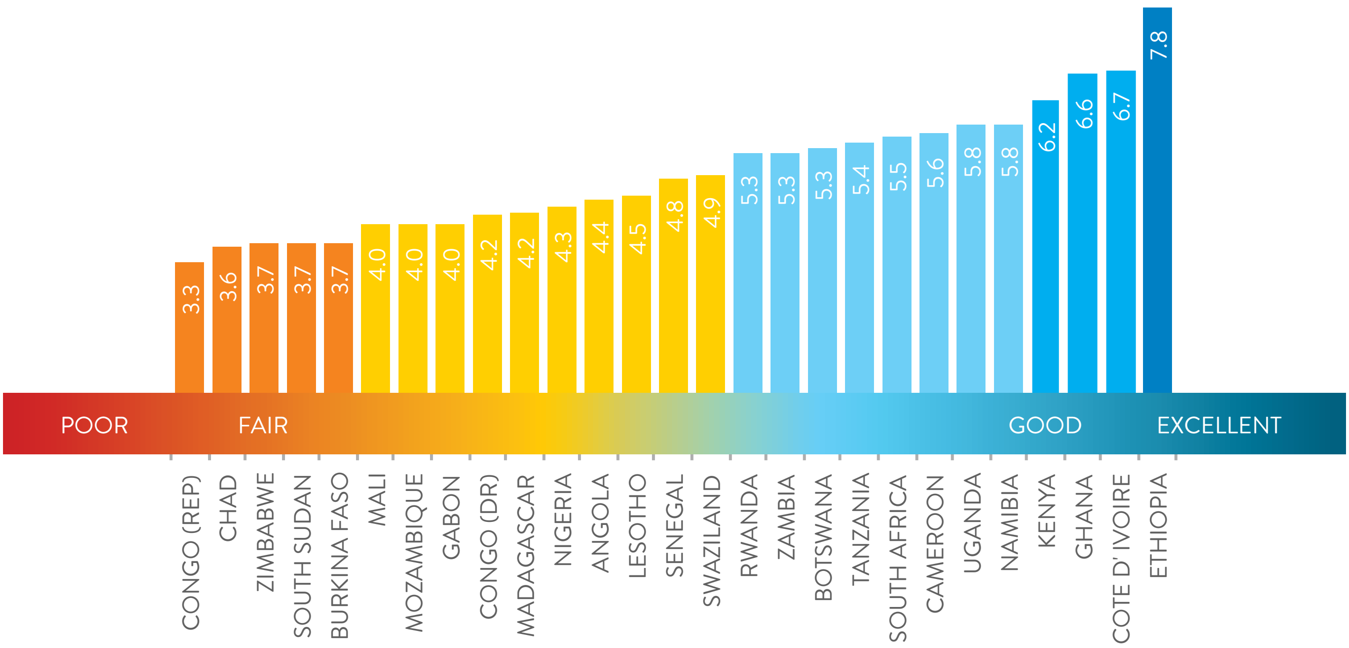


PART 2

BUSINESS PROSPECTS

With the overall weakening in SSA's economic outlook, businesses have also rated the country growth potential as less attractive than before. The average business growth expectation score, across 27 Sub Saharan African countries, has dropped from 5.3 (two year's ago) to 4.9 (with 10 being the highest) indicating only fair growth opportunities. Only four countries, Ethiopia, Cote d'Ivoire, Ghana and Kenya are scored at six or higher which is considered a good growth outlook.

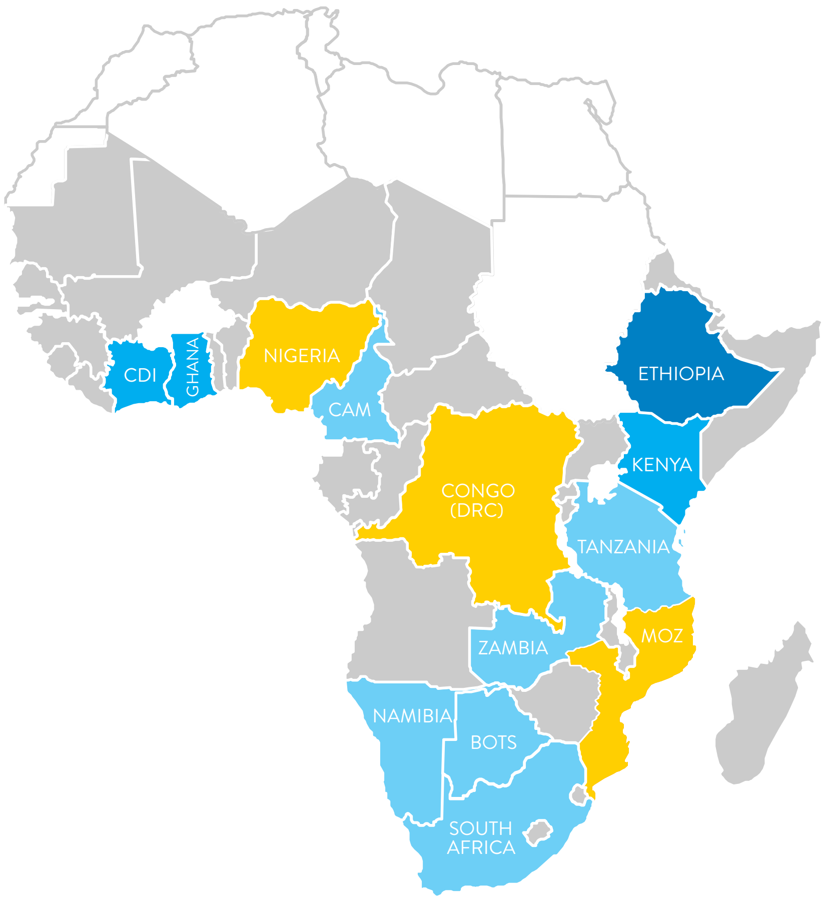
COUNTRY GROWTH EXPECTATION



In Quarter 1'2015 business respondents highlighted seven countries with a score of more than 6 – which represents a good growth outlook. These include: Botswana, Angola, Democratic Republic of Congo (DRC) and Mozambique, which are no longer scored at the same level.

BUSINESS IS MORE OPTIMISTIC ABOUT CAPTURING GROWTH

On a more positive note businesses rate their own growth prospects slightly more favourably, with an average SSA score of 5.3. This includes five countries with a score of six or higher, but similarly the number of countries that feature in this range has dropped from eight countries a year ago, and from 13 countries in total which have scored in this range over the past two years.



In Ethiopia, Cameroon, Botswana, Rwanda and Lesotho (five of the 27 countries surveyed), companies feel that various operational issues hinder an equivalent chance of success, and rate their own growth behind the country growth score.

When assessing the combined, weighted rankings (country and business growth) 13 countries score five or above. This in comparison to 17 countries in the previous survey. What is becoming increasingly evident is that companies are rationalising their focus on fewer countries which are critical for success.

SOUTH AFRICA'S GROWING ATTRACTIVENESS MAY BE SHORT LIVED

When operating across many countries and comparing prospects against each other a clearer picture often emerges. In South Africa, businesses have not expressed a confident view of the country's future, however, as conditions in many SSA countries have deteriorated at varying rates, South Africa is starting to outshine many faster growing or more politically stable African counterparts, however with recent developments the business sentiment is likely to be short lived..

While the economic growth outlook remains fairly subdued and business views on country growth have ranged in the lower fair zone, South Africa is now starting to climb the ranking having gained an impressive 14 places to eighth on the overall country growth outlook ranking. Even more positive are South African business expectations related to their own growth, with South Africa vaulting into fifth place after Ethiopia, Ghana, Kenya and Cote d'Ivoire. Unfortunately, the unsettling developments in more recent weeks surrounding the cabinet reshuffle, the replacement of the finance minister and the subsequent ratings downgrade, will undoubtedly have businesses re-evaluating their growth prospects for the next 12 months.

PART 3

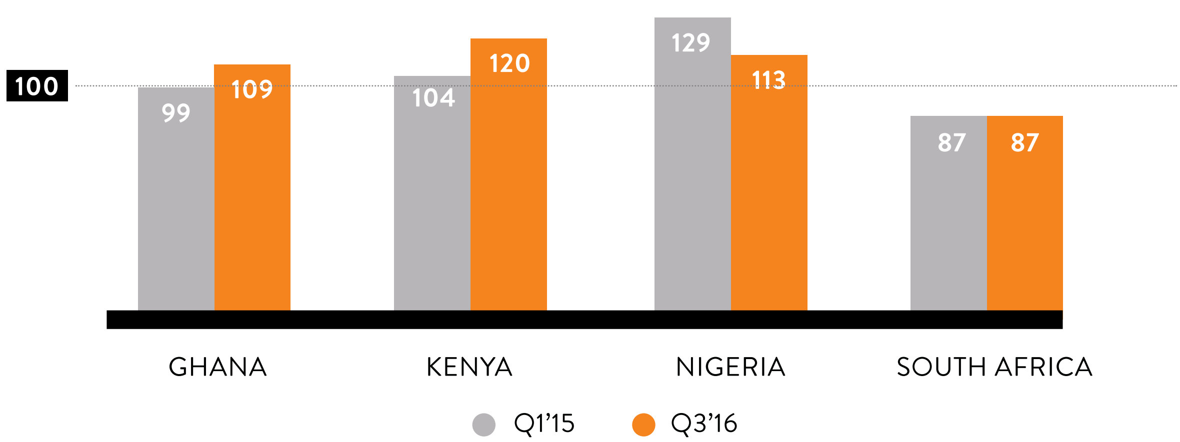
CONSUMER PROSPECTS

Both Kenya and Ghana recorded progression in Consumer Prospects and Consumer Confidence into Quarter 3'2016.

For years the Ghanaian economy grew at 8% annually on the back of its gold, oil and cocoa exports. This slowed sharply in 2013 with the fall of global commodity prices, which resulted in soaring inflation and strain on consumer pockets. With oil production now increasing again as new oil and gas fields come into production, Ghana is forecast to be the third fastest growing economy in Africa. The new administration elected in 2016 is pro-business, pro-free market and focused on ease of business reform to support private business growth to fuel the economy.

This positivity is reflected in the Ghanaian consumer psyche, as all three confidence indicators increased on the previous quarter. The percentage of respondents with a positive outlook for jobs in the next twelve months, rose thirteen points to 57%. In addition, the share expressing favorable personal finance sentiment increased eight percentage points to 77%, while the share with upbeat immediate-spending intentions rose six percentage points to 42%.

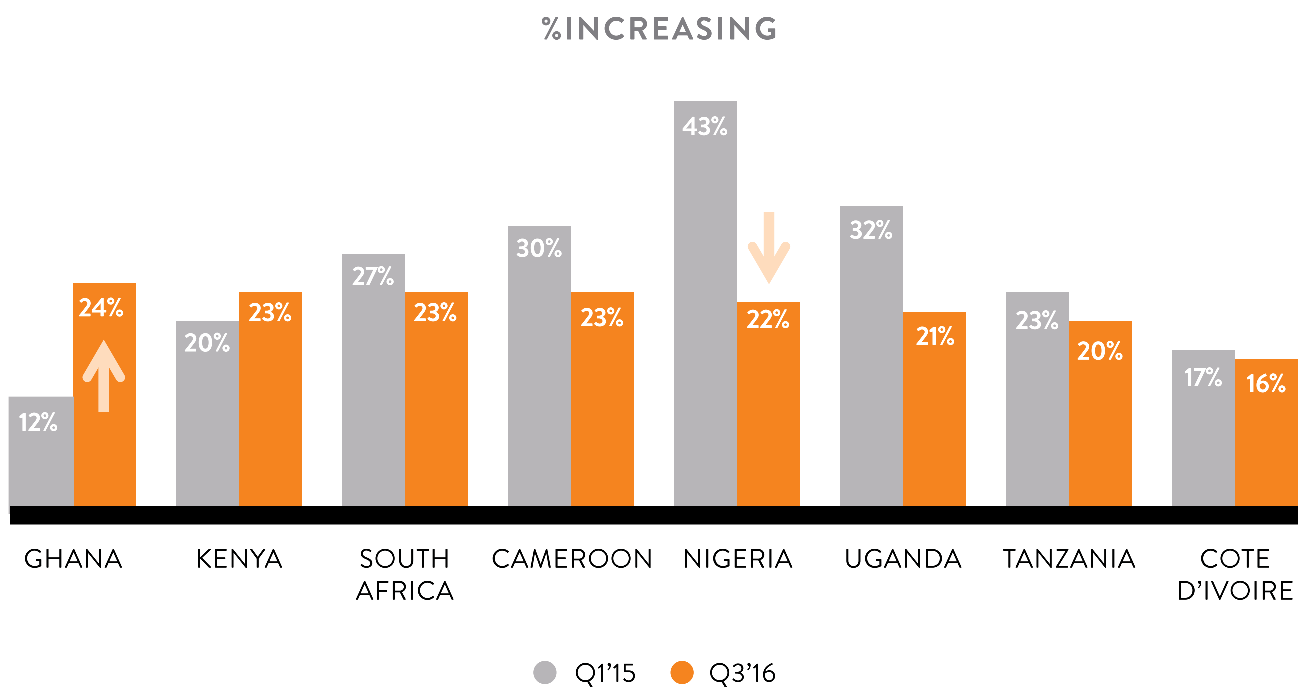
CONSUMER CONFIDENCE INDEX



As the high inflation rates in Ghana ease somewhat, this directly influences consumers' ability to spend. In Ghana there is a significantly better outlook in retailers perception of consumer spending, with 24% of the view that in-store spend is on the up, versus only half with a similar opinion in Q1'2015. Kenyan retailers have a similarly positive view about increasing spend, together with an increased number of retailers who view it as staying the same, indicating greater stability in spend.

Conversely Nigeria, Uganda and Cameroon have the greatest proportion of retailers who believe spend in store is declining. The conditions in Nigeria are accompanied by a substantial climb in inflation to 17.6% in Q3'2016.

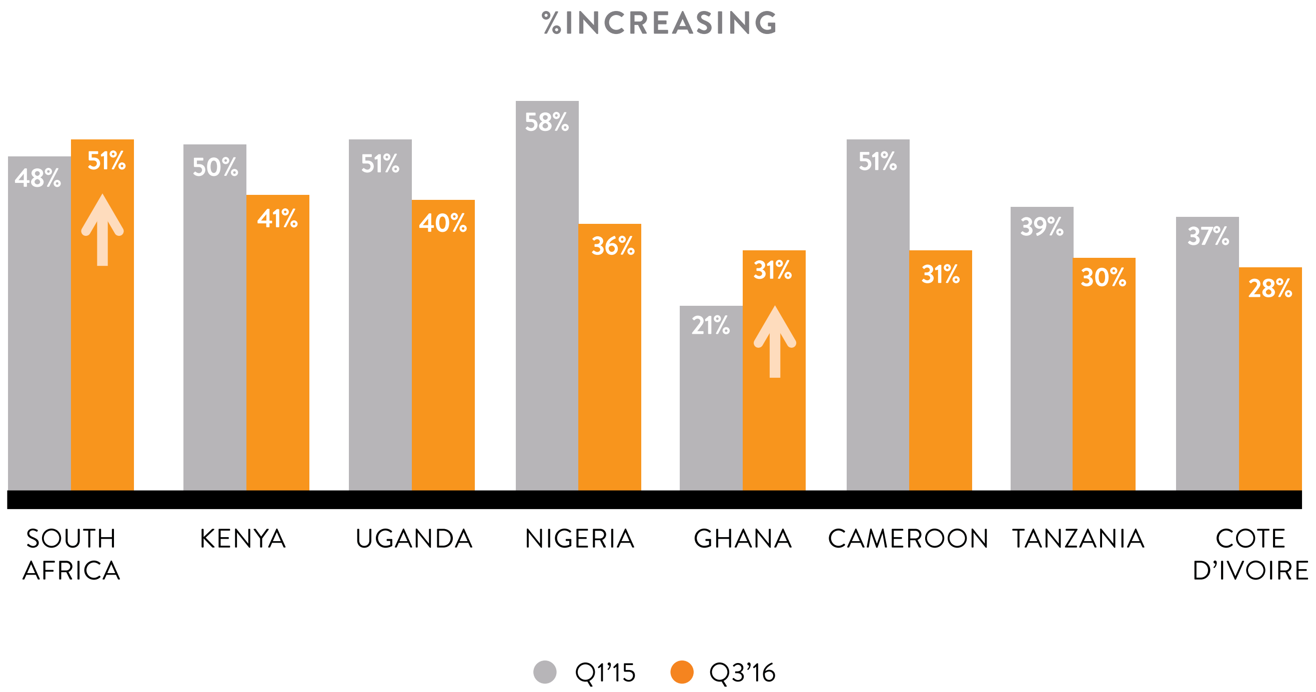
CONSUMER SPEND IN STORE



There have also been notable improvements in consumer spending behavior in Ghana, with 31% versus 21% of consumers in early 2015 willing to try new products. Positive trends are also evident in South Africa, where consumers are the most open to exploring new alternatives, having been exposed to a growing number of new products in the country's evolved modern trade environment.

With declining spending ability, consumers in Uganda, Nigeria, Cameroon, Tanzania and Cote d'Ivoire have also become increasingly risk averse, reverting to purchasing decisions rooted in familiarity, trust and previously tried brands, outstripping choices based on affordability alone.

CONSUMER WILLINGNESS TO TRY NEW PRODUCTS



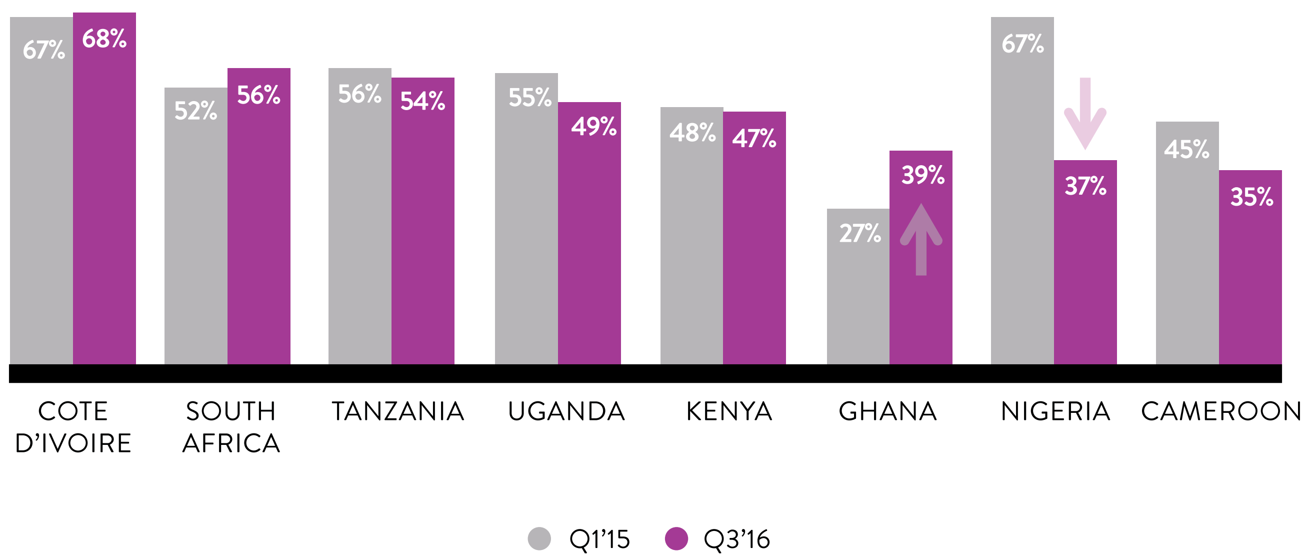
PART 4

RETAIL PROSPECTS

Overall, the positive retailer sentiment trend has deteriorated, with the exception of South Africa and Ghana. Not unexpected is Nigeria's sharp slowdown in growth outlook, with only 37% of retailers holding a positive view for the next 12 months, compared with 68% a year ago. The ease of doing business as expressed by retailers is also at an all-time low with 32% of Nigerian retailers reporting growing difficulty in dealing with suppliers, sourcing stock and managing price.

RETAILER VIEW ON GROWTH

%GOOD/EXCELLENT



NIGERIA'S SHOPPING SHIFTS

Sky rocketing prices in Nigeria, with inflation at its highest levels since 2005, has negatively impacted retail spending, compelling consumers to make drastic changes in what, where and how they shop.

The trade off in spend is evident in the shift away from non essentials like Confectionary (snacks and sweets) and Personal Care (Health and Beauty) items losing out to to Food and Shelf Stable essentials, with consumer purchases focused on immediate consumption and foregoing stocking up. In some instances consumers are cutting back on the quantities of basic food staples to make ends meet.

The retail response to diminished consumption is to reduce stock holdings. This is evident in many categories across various channels, most notably confectionary. Out of stocks have increased even in the basic Food categories showing higher incidences of stock depletion, and the challenge of maintaining optimal levels based on fluctuating demand.

With a reduced disposable income, cash-strapped Nigerian shoppers are shifting towards more frequent purchase patterns. Shopping frequency in Open Markets, Table Tops and Kiosks is on the increase as they are more easily accessed as part of daily commuter routes. The Wholesale channel is also becoming more important, driven by price competitiveness.

Nigerians are not only redefining value by switching to cheaper brands, smaller packs and locally produced goods, but also how and where they shop. The manufacturer challenge is meeting this altered state with product and packaging flexibility in more, smaller informal outlets.

WHAT 2017 HOLDS

Early macro economic predictions promise a slight turnaround in economic growth in 2017, however, there will be little easing of pressure for a return to robust growth and profitability for companies invested in Africa's markets.

New investors may see the cost of investment as more financially viable, given lower exchange rates, or an opportunity to develop products more suited to consumer wallets. The key to success will be the overriding need to focus on consumers, competitiveness and execution.

When consumers are prudent with spending, it is imperative for manufacturers to work jointly with retailers to optimize retail execution to sustain diminishing demand. There is still a significant opportunity for improvement in working with retailers, particularly affected by the tough trading conditions, to retain sales rates.

The common denominators are:

MATCHING THE CONSUMER COPING TACTICS WITH OPTIMAL PRODUCT ASSORTMENT.

PACKAGING AND PRICING FLEXIBILITY TO MEET SHOPPER MISSIONS AND WALLETS.

MAXIMIZING VISIBILITY TO INCREASE CONSIDERATION.

EFFICIENT DISTRIBUTION TO REGULATE STOCK SUPPLY AND MEET CONSUMER DEMAND

With predictions for growth lower than those experienced in the previous ten to twenty years and the volatility and turmoil experienced in 2016 set to continue, business will require resilience, relentless adjustment and adaptation to meet consumers' altered needs.

SOURCING AND METHODOLOGY

Macro Prospects: Represents 27 Sub Saharan Africa countries: South Africa, Nigeria, Kenya, Ghana, Tanzania, Uganda, Zambia, Cote d'Ivoire, Cameroon, Angola, Ethiopia, Democratic Republic of Congo (DRC), Congo (Rep.), Gabon, Mozambique, Senegal, Botswana, South Sudan, Namibia, Lesotho, Swaziland, Madagascar, Chad, Mali, Burkina Faso, Rwanda.

GDP size, GDP growth, Inflation, Food Inflation, Population and Consumer Spending sourced from World Bank reports and country specific Central Banks and Statistical Institutions. Common Consumer Basket sourced from Numbeo. Data is updated quarterly, where available, and quoted as per latest quarter available. Where information is published monthly the reading at mid-month of the quarter is used.

Methodology: Ranking factored on GDP growth and GDP size, updated quarterly.

Business Prospects: Nielsen survey conducted amongst business executives with management responsibility for single or multiple African countries. Edition 4 represents more than 180 country level responses from multinational, regional and local manufacturers and retailers in the Consumer Packaged Goods and Telecommunication industries. Two standard questions are fielded bi-annually, and additional issue-based questions are covered for spotlight features.

Methodology: Ranking factored on Country Growth View and Own Business Growth View.

Consumer Prospects: Nielsen Survey conducted amongst 7,500 Grocery and Kiosk Traders in eight countries: South Africa, Nigeria, Kenya, Ghana, Tanzania, Uganda, Cote d'Ivoire and Cameroon. Nielsen Consumer Confidence Survey conducted amongst 2,500 respondents in South Africa, Nigeria, Kenya and Ghana. An Online methodology is employed in South Africa and Mobile methodology for Nigeria, Kenya and Ghana.

Both surveys are conducted quarterly.

Methodology: Ranking factored on Consumer Spend in Store and Consumer Trend on Willingness to Try New Products.

Retail Prospects: Nielsen Survey conducted amongst 7,500 Grocery and Kiosk traders in eight countries: South Africa, Nigeria, Kenya, Ghana, Tanzania, Uganda, Cote d'Ivoire and Cameroon. Nielsen monthly Retail Measurement Services (RMS) data, aggregated from a basket of categories, analysed by annual rolling quarters.

Methodology: Ranking factored on Retailer View of Growth, Ease of Doing Business and Inflation.

Africa Prospects Indicator: The overall Indicator rankings are compiled from 9 common datasets and 12 weighting calculations to determine the relative indicators for each of the individual dimensions.

Methodology: Overall Ranking factored on an equal weighting combination of the 4 dimensions, available for the 8 countries where common datasets are available.

Other References:
Nielsen: Emerging Market Insight Country Reports.

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