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Moscow

Citibank Research 2008: "Russians' New Year credit-card shopping"

During this year holiday season 2008/2009 positive growth in consumer spending is set to continue, although it will be a lot less compared to previous years. Expensive gifts will be forgone, in favor of more symbolic presents. Simple souvenirs are likely to replace top-sellers of recent years such as home supplies, cell phones, and computers. Spending on alcohol, cosmetics and perfumes is to strengthen.

You can In November 2008 ZAO Citibank conducted its second annual Christmas and New Year shopping spend analysis. This year Citibank used innovational and highly unique research methods based on the analysis of the actual monthly expenses of 20 000 card holders and active [credit-card](#) users during the end-of-year holiday season since 2005.

The sample group included males and females aged 22 to 55, with a monthly income of at least 9 000 rubles. Sampling was chosen randomly, and reset each month with the condition that members of the sample group were active card users in a given month. To ensure precision and consistency the average period was nominally taken as 12 months from February to February.

Announcing the results of the research, Mikhail Berner, Head of [Credit Card](#) Business at Citi Russia, noted: "One of the main advantages of bank cards, compared to cash, is the additional control over spending. The card holders can always see on their statements where, when, and how much has been spent. On the national level, this allows us to analyze data and understand current trends in the behavior of consumers. In Russia sales statistics of most trading companies are not often openly available. So this becomes one of the most reliable sources of information about the consumer market."

Analytical report on the research results

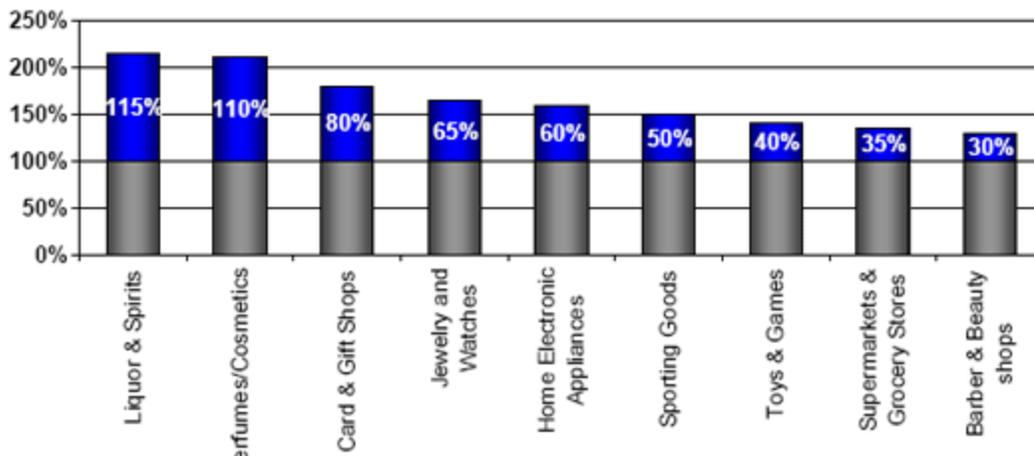
! Curiously, in December and January consumers make far more creditcard purchases, rather than withdrawing cash at ATMs, than in any other month.

Analysis of the Russian consumer market for over four years indicates that greatest increase in spending has always been seen in December. In 2005, the growth reached 10%, relative to the monthly average of the year, 18% in 2006 and 14% in 2007. Undoubtedly, the current economic situation and public sentiment will influence Russian consumption and the New Year growth in spending across some categories of goods and services will decline. We have already recorded a new trend, since August 2008, indicating a deviation from the trend of the past four years. Overall the forecast still remains optimistic – **in December 2008 a 12% growth in spending is expected, compared to the year's monthly average. At the same time, Russians are unlikely to spend much more than in December of last year, so the growth could be only 3% in December.**

The most popular spending categories on the eve of the New Year celebrations that historically been increasing in December included perfumes and cosmetics, liquors and spirits, jewelry and watches, computers and software, toys, games and electronics. Additionally popular sales also included home supplies and telecommunication equipment, although last year the latter fell out of the list of top-sellers, probably due to reduced interest in such goods as gifts.

In December of this year, most of the above mentioned categories are expected to remain popular. This year, the top-sellers are to be alcohol products and perfumes/cosmetics, which will grow by 115% and 110% respectively, compared to the monthly average of the year, and 30% and 15% respectively, compared to December 2007.

Forecasted spending growth in December '08
to the monthly average of the year



Spending on **toys and games** is expected to experience strong growth, however this growth will be less than last year: 40% of the monthly average for the year (compared to 46% last year and 112% in 2006). Thus, the decline of spending in this category was 27% in November, compared to the same period last year.

Spending on jewelry has exhibited unexpected changes. August and September saw very strong growth in this spending category, compared to the same periods last year, of 70% and 66%, respectively. Researches, published in October, provided similar data. However, in October and November spending fell by 8% compared to the same period last year. **At the beginning of the international financial crisis impact on the Russian economy, jewelry was probably seen by consumers as a safe investment. Once initial investments have been made, jewelry returned back to gifts category.** Nevertheless, the growth in jewelry spend will substantially increase, reaching 65% in December and 55% in January, compared to the monthly average for the year, and 25% and 20%, compared to December of 2007 and January 2008, respectively.

Home electronic appliances are expected to be no less popular: December growth in this category is expected to be at least 60% of the monthly average of the year. Rapid growth of this gift category as a whole (in 2005 growth was at 47%, in 2006, 56% and in 2007, 62%) is set to slow down, and a growth of spending compared to December 2007 is not to be expected).

Computers and software are not included in the list of fastest-growing goods categories for December 2008. It is expected that the seasonal growth of spending in this category will be no more than 5-10%, compared to the average for the year, while a major drop is expected, in comparison to December of last year—of 50%. Data for August-November shows the biggest drop in demand for this category (the drop amounted to between 48% and 63%, compared to the same periods last year).

Department stores are likely to experience decline in sales this season. September already saw a drop of 1% compared to September last year, while October had a drop 20%, and in November, 33%. It is unlikely that we will see the traditional Christmas-season growth of 20% (of the monthly average of the year). Interestingly, males started heavily reducing their spending as early as September, while females only joined them last month, reducing spending by 19% compared to November 2007 (for male customers, the same figure was 41%).

Male customers have been seen to make deep cuts into their **clothing purchases** in the last two months—by 20% compared to the same period in 2007. No evidence for the female clothing spend reduction has been recorded so far. The traditional growth of spending in this category during the January sales could slow down somewhat compared to last year, when it stood at 20%. This year, more than 10%-growth is expected, compared to the average monthly value and, most likely, there will be a small reduction compared to January 2008. **The growth in spending on telecommunication equipment (mobile phones and accessories) has almost completely ceased.** However, this is not a new trend, but a general trend of falling interest among consumers in these goods as gifts. This has even affected the main consumers of hi-tech products—males. The growth is expected to be no more than 10% compared to the monthly average of the year, while there will not be any realterm increase in spending, compared to December of last year.

Spending on home supplies will also see no major growth during the holiday season. Males, who used to increase their spending on such items before the holidays, brought down their spending in this category compared to the same periods last year, by 9% in September, 10% in October and 37% in November.

A similar trend can be seen in **sporting goods**. In October and November spending on these items fell by 31% and 35%, respectively, compared to the same periods last year. Nevertheless, growth in December and January, compared to the monthly average of the year, will be fairly high—50% in December and 55% in January, although spending is set to fall by 10-15% compared to last year.

Untypical situation is forming around tourism during the end-of-year holiday season. Over the past three years, the peak of tourism and air-ticket sales came in November, as consumers rushed to organize their vacations early. However, **this year there was no November bump—more than this, spending on travel-agent services fell by 34% compared to last year. Clearly, the trend of the last years**, for spending on winter vacations to increase and to close in with spending on summer ones, will end this year.

Not all spending categories have been affected by the decline in demand. For example, no drop was seen in spending on food. In the run-up to New Year, growth of 35% and 45% in these categories is expected, compared to the monthly average figures, and 18% compared to the same period last year. Spending on **hairstyling, SPAs and beauty salons** will also grow. It is expected that increase in spending in December will be approximately 15%, compared to last year, and 30% compared to the average monthly figure of the year.

Conclusions

Although we still expect a traditional growth in spending during the holiday season this year, the current economic situation will force Russians to adjust their spending. We can expect to see greatest spending cutbacks in department and computer stores. Growth in telecommunication equipment and home supplies will continue to decline. Key 'gift' categories this year will be perfumes and cosmetics, New Year souvenirs, jewelry, electronics, sporting goods and toys and games. It is also expected that during the New Year holidays, Russians will not be saving money on food or beauty salons.

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