OXFORD ECONOMICS

Bright Continent

The future of Africa's opportunity cities

EXECUTIVE SUMMARY

African Cities Income and Consumer Spend Outlooks to 2030

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The African Cities Income and Consumer Spending Forecasting Service

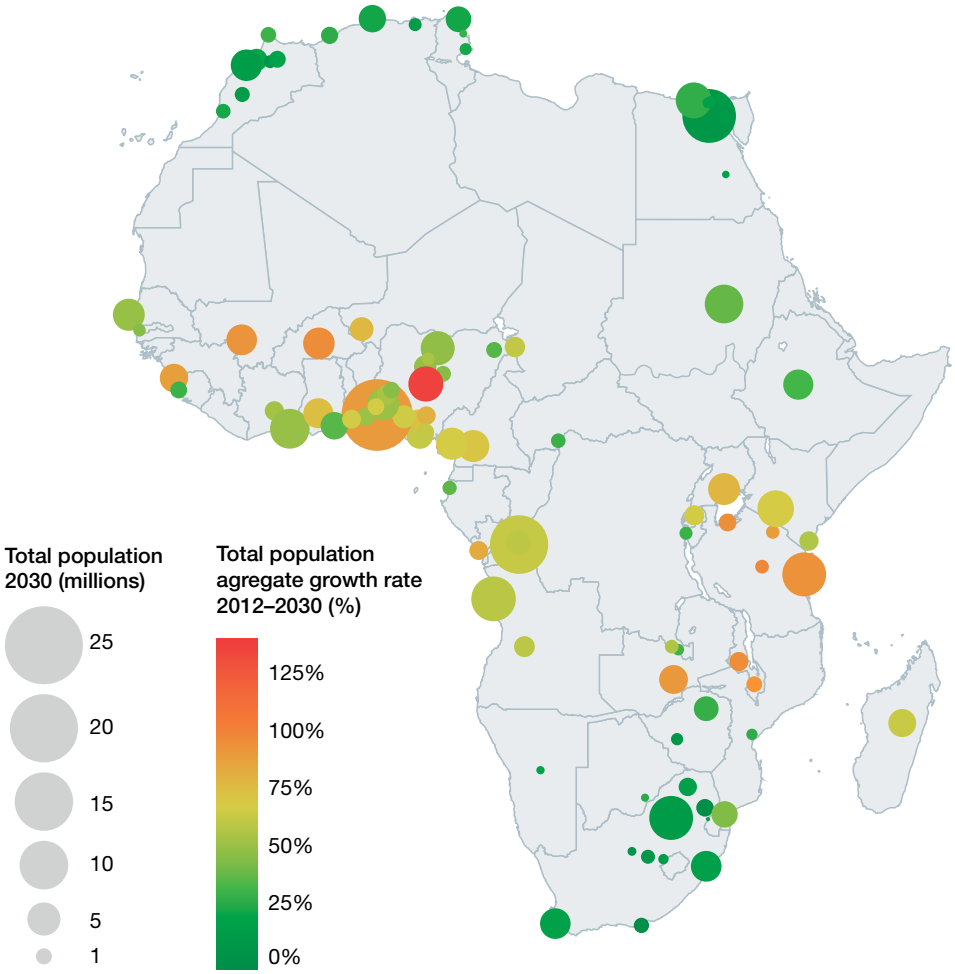
Executive summary

Half a century on from independence, many African economies are finally exhibiting a dynamism that has been absent for too long. Annual economic growth across the continent has averaged 4.5% since 2000. The Oxford Economics forecast suggests that GDP growth is set to outstrip that of any other world region between now and 2030.

Aggregate spending power will balloon from $420 billion to $1 trillion, making it the world's last mass market consumer frontier.

As a result of rapid economic and population growth, Africa is urbanising at a faster rate than any other continent. By 2030 an additional 300 million people will flood into Africa's 'consumption cities'. To take a closer look at these trends, Oxford Economics has developed the **African Cities Income and Consumer Spending Forecasting Service**. This powerful analytical capability allows us to get beneath the surface of the new African growth story, exploring the economic trajectory of different cities on the continent and the commercial opportunities they offer. This report develops some of the highlights of the new service.

Africa's population heavyweights in 2030

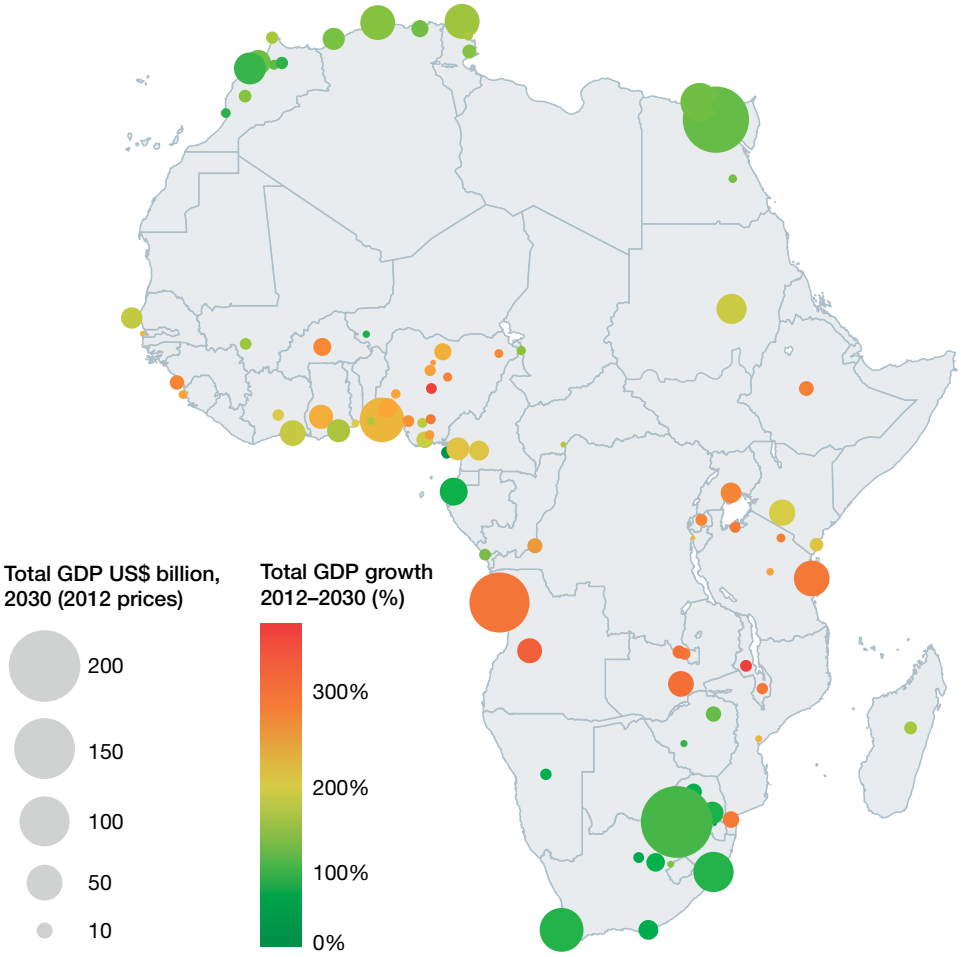


Source: Oxford Economics

If the continent can tackle its infrastructure and governance challenges, then we can expect to see strong economic growth throughout Africa and its cities over the next two decades. The continent's large urban areas will be the engine room of that expansion. Today, Africa's major cities account for almost $700bn of GDP, 36% of Africa's total output. By 2030, our forecast indicates that the GDP of these cities will more than double to reach $1.7 trillion. (All monetary values are expressed in constant, 2012 dollars).

Africa's top cities also represent a large and growing consumer market. Exceeding its growth in other regions, disposable income in Africa's major cities will average 5.6% growth per year. Aggregate spending power will balloon from $420 billion to $1 trillion, making it the world's last mass market consumer frontier.

Africa's economic giants in 2030



Source: Oxford Economics

Differences in the evolution of the continent's cities are changing the distribution of economic output and consumer power, away from the cities of Northern Africa and South Africa, and towards areas of Sub-Saharan Africa, east and west, which have in the past lagged behind.

- 51 of the 96 cities in our forecast are set to see population growth of more than 50% by 2030. Lagos will more than double in size to over 25 million people, becoming the continent's biggest city by some distance.

- The economic output of cities such as Dar Es Salaam in Tanzania and Luanda in Angola will grow rapidly, allowing them to join the African economic giants of Cape Town, Cairo and Johannesburg by 2030.
- More mature cities, such as Johannesburg and Cairo will see their aggregate consumer spending power double by 2030, while spending in cities such as Abuja, Nigeria and Huambo, Angola spending will be between three and five times bigger by 2030 than it is today.

A different set of heavyweights across population, GDP and GDP per capita

Africa's top 15 cities in 2030
(2012 ranks in brackets)

Rank	Population 2030 (000s)		GDP 2030 (US$bn 2012 prices)		GDP per capita 2030 (US$ 2012 prices)	
1	Lagos (2)	25,145	Johannesburg (1)	196	Libreville (2)	29,749
2	Kinshasa (3)	16,707	Cairo (2)	168	Gabarone (3)	26,836
3	Cairo (1)	14,105	Luanda (4)	138	Malabo (1)	24,854
4	Luanda (5)	9,768	Lagos (8)	76	Johannesburg (5)	20,830
5	Dar Es Salaam (9)	9,449	Cape Town (3)	73	Port Louis (6)	20,769
6	Johannesburg (4)	9,426	Pretoria (5)	67	Pretoria (4)	20,438
7	Abidjan (8)	7,712	Durban (6)	62	Cape Town (7)	16,013
8	Khartoum (6)	7,306	Alexandria (7)	56	Windhoek (8)	14,818
9	Nairobi (13)	6,593	Dar Es Salaam (13)	49	Tunis (12)	14,504
10	Alexandria (7)	6,332	Tunis (11)	47	Luanda (14)	14,126
11	Abuja (27)	6,029	Algiers (10)	46	Bloemfontein (10)	13,823
12	Kano (14)	5,672	Casablanca (9)	39	Constantine (19)	13,668
13	Douala (20)	5,013	Khartoum (14)	35	Durban (9)	13,435
14	Ibadan (17)	5,011	Libreville (12)	30	Port Elizabeth (11)	13,128
15	Dakar (16)	5,011	Nairobi (17)	27	Oran (18)	12,989

Source: Oxford Economics

Understanding evolving consumer demand across different parts of the continent is an essential element of building a business strategy to serve it.

Understanding evolving consumer demand across different parts of the continent is an essential element of building a business strategy to serve it. But the nature of that opportunity depends upon the kinds of consumers in each city, rather than just the city's aggregate spending power. Looking at spending power per head and population growth rates, we identify four types of consumer city:

- **In Volume Opportunity** cities, exploding population numbers are set to create new opportunities in the form of a rapidly growing emerging consumer class, primarily still buying low-cost items and essentials. In Lagos, for example, per capita incomes are projected to grow by over 50%, to $2,810 per year, and absolute spending on food will more than double by 2030.

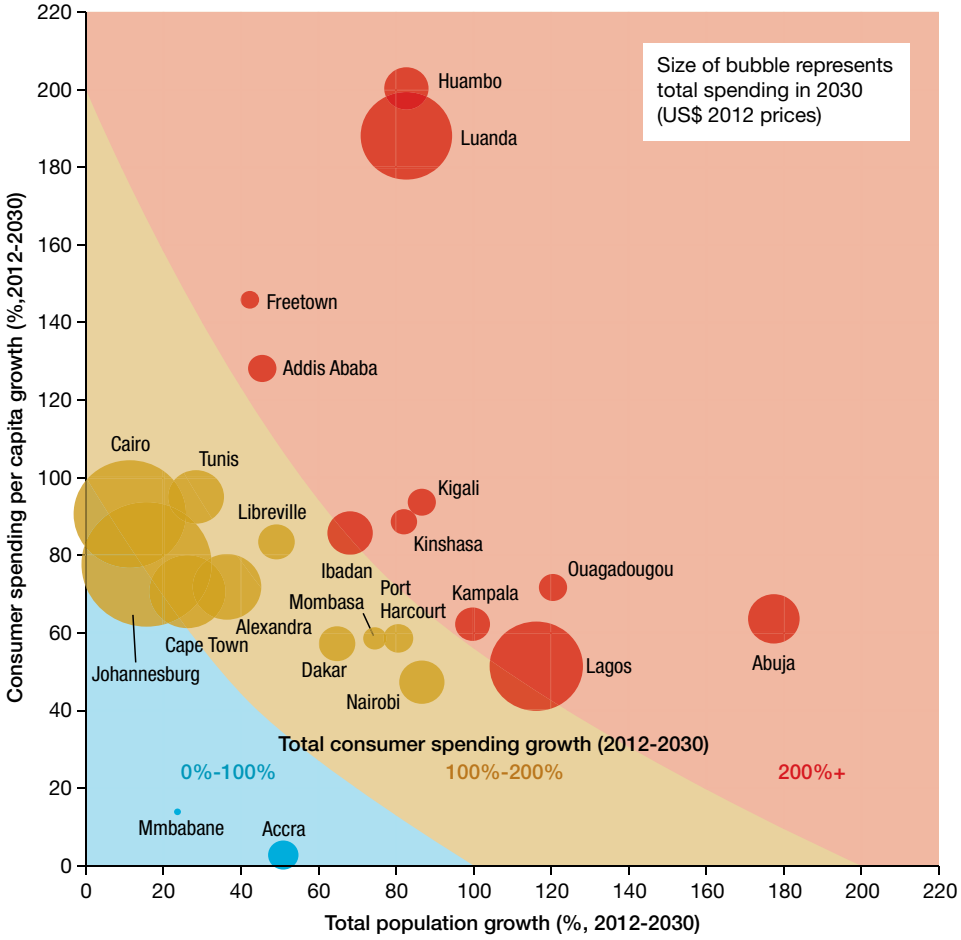
- **Expanding Mid-market** cities are characterised by both rapid population growth and high levels of consumer spending power per head. In Luanda, the biggest example of such a city, the level of spending on food will almost halve as a proportion of overall consumption, albeit continuing to grow significantly in absolute terms. Consumption of non-essential items will therefore grow rapidly, with the city's spending on hotels, restaurants and recreation becoming ten times its current size by 2030.
- **Mature Mid-market** cities are characterised by relatively high levels of per capita consumer spending and populations that are comparatively stable in size. In Johannesburg, for example, the distribution of growing consumer spending will remain more stable than in other cities, although spending on hotels, restaurants and recreation will approximately triple by 2030, in absolute terms.
- **Stable Essentials** cities offer relatively limited opportunity, with slower population growth than many of their peers and low levels of spending power per head.

Across all of Africa's cities, the fastest growing categories of consumer spending will be recreational and cultural expenditure (growing 291% in 2012 dollar terms by 2030), restaurants and hotels (up 237%), and communications goods and services (rising 231%). However, by far the biggest consumer categories will remain food (doubling to almost $120bn), and housing-related spending, including utilities (more than doubling, to around $150bn).

Segmenting households by income group across Africa's major cities gives a sense of the diversity and rate of growth of the different consumer markets across the continent.

- Dar Es Salaam is set to see the biggest expansion in **emerging middle-class** households with incomes between $5,000 and $20,000 per year, their numbers growing by 251% by 2030.
- Luanda will have the largest increase in **established middle class** households, with incomes above $20,000 per year. But Cairo, with almost 3½ million such households, will have by far the largest number of any city on the continent by 2030.
- At the more **affluent** end of the household income distribution, several cities will see the number of households with income above $70,000 increase several times over. However, Johannesburg will have by far the biggest such market, with 475,000 such households in 2030.

Rapid growth, new opportunity



Source: Oxford Economics

If Africa's cities and states can navigate the political, social and economic challenges ahead, their future – and that of the firms doing business in them – looks bright.

Finally, this report explores the changing industrial structure of the continent's major cities and how it is likely to change in the years ahead. Sector analysis gives a clearer picture of the sources of each city's economic power as well as its stage of economic development.

- In Lagos, an example of a **low-income consumer city**, we can expect to see consumer services grow from contributing 52% of the city's output to providing 57%.
- **Transition** cities such as Cairo, following a more conventional development path, will see the contribution of secondary industry shrink from 44% to 35% of overall output, as other sectors like transport, information and communication, and consumer services take a proportionately larger role in the city's output.
- Finally, in Africa's more **advanced service cities**, such as Cape Town, the industrial structure will remain broadly similar between now and 2030, reflecting the slower evolution expected in more mature, service-based economies.

The picture of Africa's cities painted by this Oxford Economics analysis is one of economic diversity and commercial opportunity. There are risks to the positive outlook. But if Africa's cities and states can navigate the political, social and economic challenges ahead, their future – and that of the firms doing business in them – looks bright.

Oxford Economics' African Cities Income and Consumer Spending Forecasting Service

Oxford Economics' African Cities Income and Consumer Spending Forecasting Service is an unparalleled analytical tool in terms of the breadth of African cities covered and depth of variables included, as well as its rigorous underpinning methodology. It is based around Oxford Economics' world-leading global macroeconomic forecasting service, together with an exhaustive and innovative bottom-up collection of official African country data.

A large amount of data does exist, just as long as you know where to look and who to ask, and invest the time to develop it as we have done.

The 96 cities currently covered by the service, spanning 43 countries, represent everything from the largest cities in Africa in population terms - where sufficient data exists - to smaller, but still important, capital cities of other countries. The service offers regularly updated annual forecasts for key demographic, economic, industry, household income distribution, and consumer spending variables. The variables available in the service range from population and GDP forecasts, to consumer spending forecasts by category, using the UN's COICOP classification system. Data is produced in current and constant 2012 prices, and in both local currency and US dollar terms, to allow comparative analysis of market size and growth. Some variables are also available in purchasing power parity (PPP) terms. The data generally refers back to 2000, with forecasts to 2030 for all locations, thus providing a 30-year time series.

The potential of African cities has rarely been quantified because there has, until now, been no single go-to source of data on the scale and range provided by our service. The lack of data is regularly cited as a problem by analysts looking at Africa's markets.

A large amount of data does exist. But, there are gaps in the data which our analytical methods have sought to remedy. For example, few cities have official GDP estimates, and because of the informal nature of many African cities, comprehensive urban income data is a rarity. But having built up a rich collection of urban data across many other countries on the continent, and across the globe, and by anchoring on Oxford Economics' national macroeconomic projections, our economists have been able to fill these gaps.

On the whole, consumer spending data conforms to a broadly consistent pattern, and evolves in a predictable way as average income rises.

Methods to fill data gaps have been varied and sophisticated, drawing upon our understanding of numerous economic dynamics such as: how the economic structure of cities varies against the national structure; how city productivity compares to national productivity; and how income relates to consumer spending.

Where official data does exist, in some instances there are question marks over its veracity. On the whole, consumer spending data conforms to a broadly consistent pattern, and evolves in a predictable way as average income rises. But some country and city data suggest spending patterns we would not have predicted.

Since these projections are based on official data, we have retained them despite their implications, but not without flagging their limitations.

Economic output
of Africa's top cities
will be 152% greater
by 2030

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