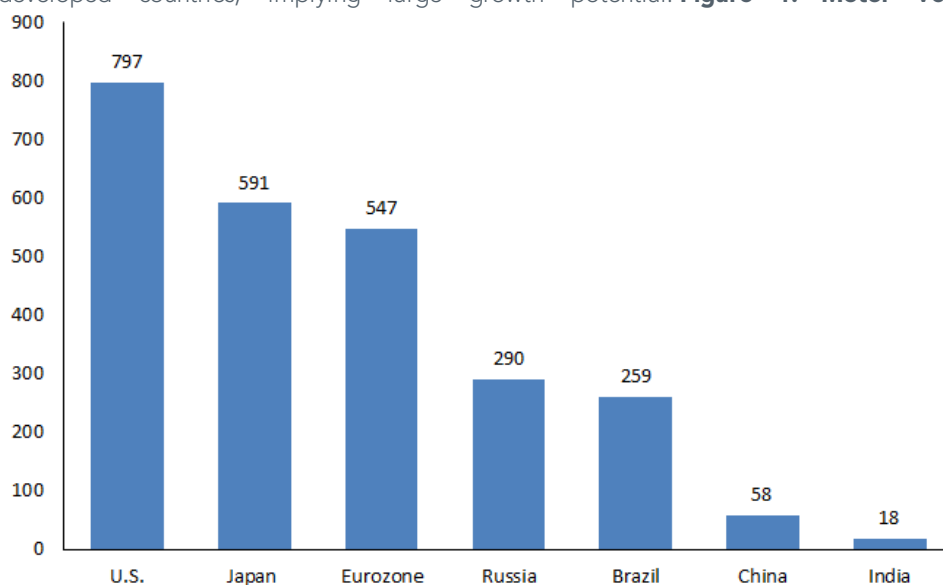


# EMERGING MARKET CONSUMER GROWTH IN AUTOMOBILES

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One of the [major themes](#) that we believe will drive much of the global economy over the coming years is the rise in potential growth from emerging market (EM) consumers. Given EM's youthful demographics and the potential for their low [per capita incomes](#) to catch up with those of the developed world, the ramifications of this trend could be quite large. **The Growth of Automobile Ownership** A major good often cited as a prime beneficiary of moves up the income ladder is the automobile. Current ownership of automobiles in emerging market countries is low compared to most developed countries, implying large growth potential. **Figure 1: Motor Vehicles (per 1,000 people)**

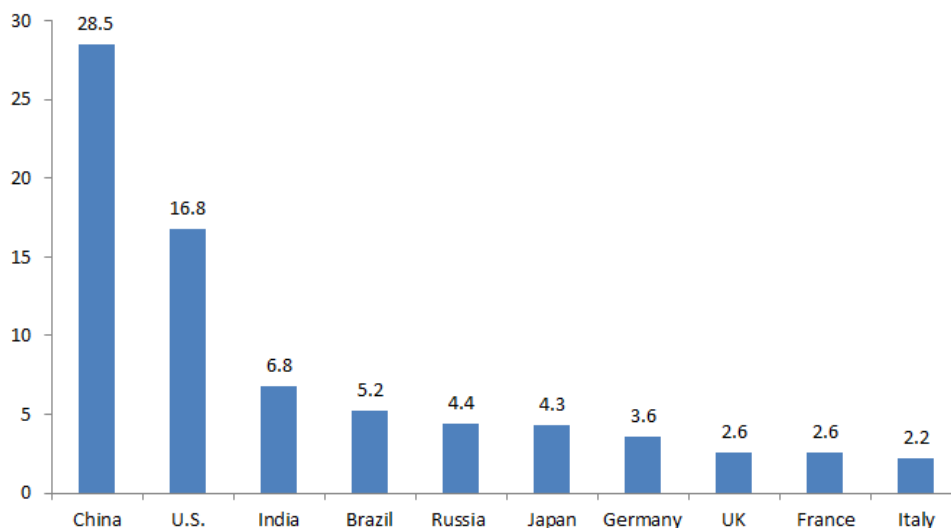


Sources: WisdomTree, World Bank, 2010.

## • Contrasting BRIC

**Ownership with U.S. –** China has less than one-tenth the per capita automobile ownership of the United States or Japan, while India's automobile penetration is a further two-thirds lower. China and India are the two largest countries by population, indicating a substantial market as their per capita ownership converges with that of the developed world. Brazil and Russia still have roughly one-third of the car ownership of the United States. The EM consumer has driven much of the economic growth in EM since 2000<sup>1</sup>, and many are expecting this trend to accelerate as income levels rise. This growth potential can be displayed through estimated vehicle sales provided by the Boston Consulting Group.

**Figure 2: 2020 Estimated Vehicle Sales (Millions)**



Source: Boston Consulting Group, July 2013. Subject to change.

#### • BRIC Vehicle Sales

**Expected to Lead** – These countries are expected to be four out of the five largest purchasers of vehicles by 2020. They are expected to collectively purchase almost 45 million vehicles; over 30% more than their collective [G7](#) developed peers. Leading the way is China, which is expected to purchase approximately 70% more vehicles than the U.S. **How to Participate in This Development?** Few will argue that investors will need exposure to the automobile industry to capitalize on this development, but some will debate the best way to access these future consumers. One could say General Motors, Ford, Volkswagen—large multinationals—have a growing presence in China, and their growth will come from sales in China. However, I believe a better way to capitalize is to focus on local companies that derive a majority of their revenues from within these countries. According to the China Association of Auto Manufacturers, for the first nine months of 2013, Chinese auto companies led in market share and were responsible for approximately 40% of the Chinese market. I believe these local companies often know their consumer market best and have direct access to consumers through their dominant market share. It is for that reason that we have created an index designed specifically to reflect this theme across the broader emerging market economies. [The WisdomTree Emerging Markets Consumer Growth Index](#) The [WisdomTree Emerging Markets Consumer Growth Index](#) (WTEMCG) strives to provide exposure to the emerging market consumer growth trend with a broadly diversified and inclusive approach to selection, while at the same time maintaining sensitivity to [valuation](#). As a result of its index rules, screening criteria and selection methodology, WTEMCG currently has over 15% exposure to the automobile industry. Some of the top names in autos in WTEMCG include: Astra International (an Indonesian company), Dongfeng Motor Group Co. and Great Wall Motor Co. (two Chinese companies), and Tata Motors (an Indian company). In a future blog post, I will go into greater detail about the trends these companies are seeing in their respective markets. To see the full list of Index constituents, please click [here](#). For current holdings of the WisdomTree Emerging Markets Consumer Growth Index, please click [here](#). <sup>1</sup>Source: Bhanu Baweja and Christine Li, “EM by the Numbers: Trying to Get That Engine Going,” UBS Investment Research, 7/26/13.

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## DEFINITIONS

**Per capita income** : The sum of the value of all goods and services produced in a particular country divided by the total population of that country. Higher values imply a higher standard of living for that country's citizens.

**BRIC** : An acronym for Brazil, Russia, India and China.

**G-7 Countries** : France, Germany, Italy, Japan, United States, United Kingdom, and Canada.

**WisdomTree Emerging Markets Consumer Growth Index** : A fundamentally weighted index designed to measure the performance of emerging market equities that have a potential heightened sensitivity to increased emerging market consumption. Weighting is by earnings.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.