Measuring the middle
Quantifying market opportunities in Latin America’s cities

A report by The Economist Intelligence Unit

The world leader in global business intelligence

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Executive summary

For Latin America's megacities (those with populations over 10m) and its rapidly-growing mid-sized cities alike, the burden on housing, basic services, transport infrastructure and the environment requires good governance, efficient long-term planning and the shrewd outlay of limited resources. But the continued dramatic rise in the region's urbanised population also offers huge potential in the coming decades as the emerging middle class grows and expands into new cities. The Economist Intelligence Unit (EIU) forecasts that by 2030 the number of people in Latin America's 122 largest cities, who earn over US$15,000 annually in nominal terms, will more than double, to over 88m.

The findings of this report draw on Market Explorer, a unique tool powered by EIU Canback evaluating the market size and opportunity of over 1,000 cities in 145 countries. When it comes to urban markets in Latin America, the region's biggest cities unsurprisingly offer the largest numbers of middle-class consumers, but these markets are already displaying signs of maturity. Market Explorer data reveal that the greatest growth and concentration of consumers will occur in medium-sized cities, which start from a lower base and still lag behind in terms of infrastructure and service provision. The region's urban centres will compete with one another to offer the best business opportunities and to attract the highest levels of investment. In the next decade the political, economic and regulatory environment, in addition to urban-management policies, will impact on the rise and fall of Latin America's cities in market opportunities rankings.

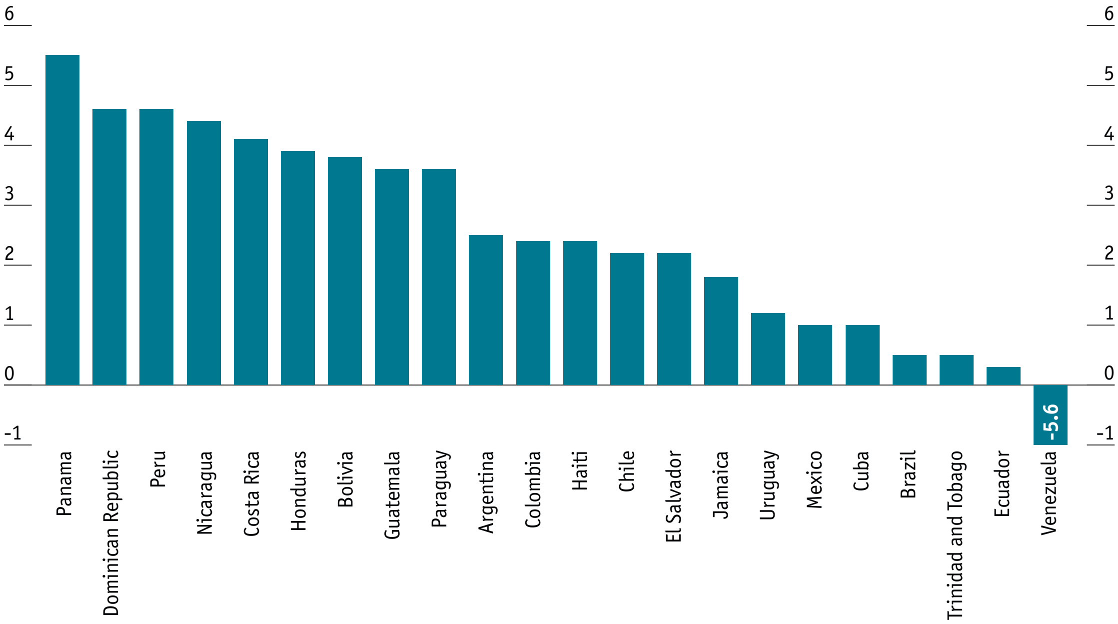
For more information please visit **eiu.com/market-explorer**

The outlook for Latin America

Latin America is at a turning point. For many of the region's major economies, 2016 was a year of continued macroeconomic policy adjustment to the end of the commodities boom of the past decade. The scope and pace of this adjustment have varied among the region's commodity producers, contributing to a heterogeneous growth outlook within the region. Nonetheless, The EIU expects that for many countries the adjustment process will be reaching or nearing its end in 2017. We forecast real GDP growth of 1.2% in the region this year and average GDP growth of 2.2% per year in the five-year period to 2021. Our forecasts rest on the assumption that, after contracting for three years, fixed investment will recover from its recent lows to an average annual growth rate of close to 4% in 2017-21. Private consumption will remain well below the peaks registered during the commodity boom, but it too will pick up on the back of a return to positive real wage growth and a steady decline in the unemployment rate from the high of close to 10% recorded last year.

Nevertheless, the aggregate figure masks a diverse outlook, and market opportunities will vary dramatically across the region. Brazil will finally emerge from its long recession this year, but progress will be sluggish. Argentina will post a more robust recovery from last year's recession, but growth there will remain below that of the region's stand-out performers, including Peru and a number of Central American countries. Mexico's outlook, by contrast, will be weighed down by uncertainty over US trade policy, causing an economic slowdown. Venezuela will remain mired in a deep recession.

Projected GDP growth rates for Latin America and the Caribbean, 2017
(% change, year on year)



Source: The Economist Intelligence Unit.

The market opportunities presented by Latin America's return to growth are uneven, but throughout the region governments face many of the same political and policy challenges. Progress on poverty reduction, which made rapid strides during the commodity boom, has stalled. Despite recent improvements, income inequality remains higher than in any other region in the world. At the same time, the rise of the middle class in Latin America during the past decade has shone a spotlight on the continued failings of governments in the region to provide basic services as a result of persistent fiscal constraints and weak public-sector implementation capacity.

Governments in the region are pressing forward with policy reforms centred on macroeconomic adjustment and improvements to the business environment that, combined with better external conditions, will produce stronger economic growth and will bolster private consumption. But in the meantime, a combination of weak consumer purchasing power and demand for better public services will be a major policy challenge.

Bolstering institutions and combating corruption to address public-sector inefficiency and lax public governance will be additional challenges. In recent years protests related to perceived corruption have erupted in many countries in the region, including Brazil, Mexico, Chile, Peru and Guatemala. Engagement with politics and political organisations is low, amid weak confidence in government and a perception that public institutions are unaccountable.

Latin America is one of the most highly urbanised regions in the world, and its cities will thus be at the forefront of the policy response to these challenges. The strong growth in the region's urban population and its increasing spending power projected in the period to 2030 point to the immense potential of Latin America's mature and emerging urban markets alike. The EIU's Market Explorer tool identifies and ranks these opportunities in terms of market size, growth and concentration to help businesses make better-informed investment and market-entry decisions.

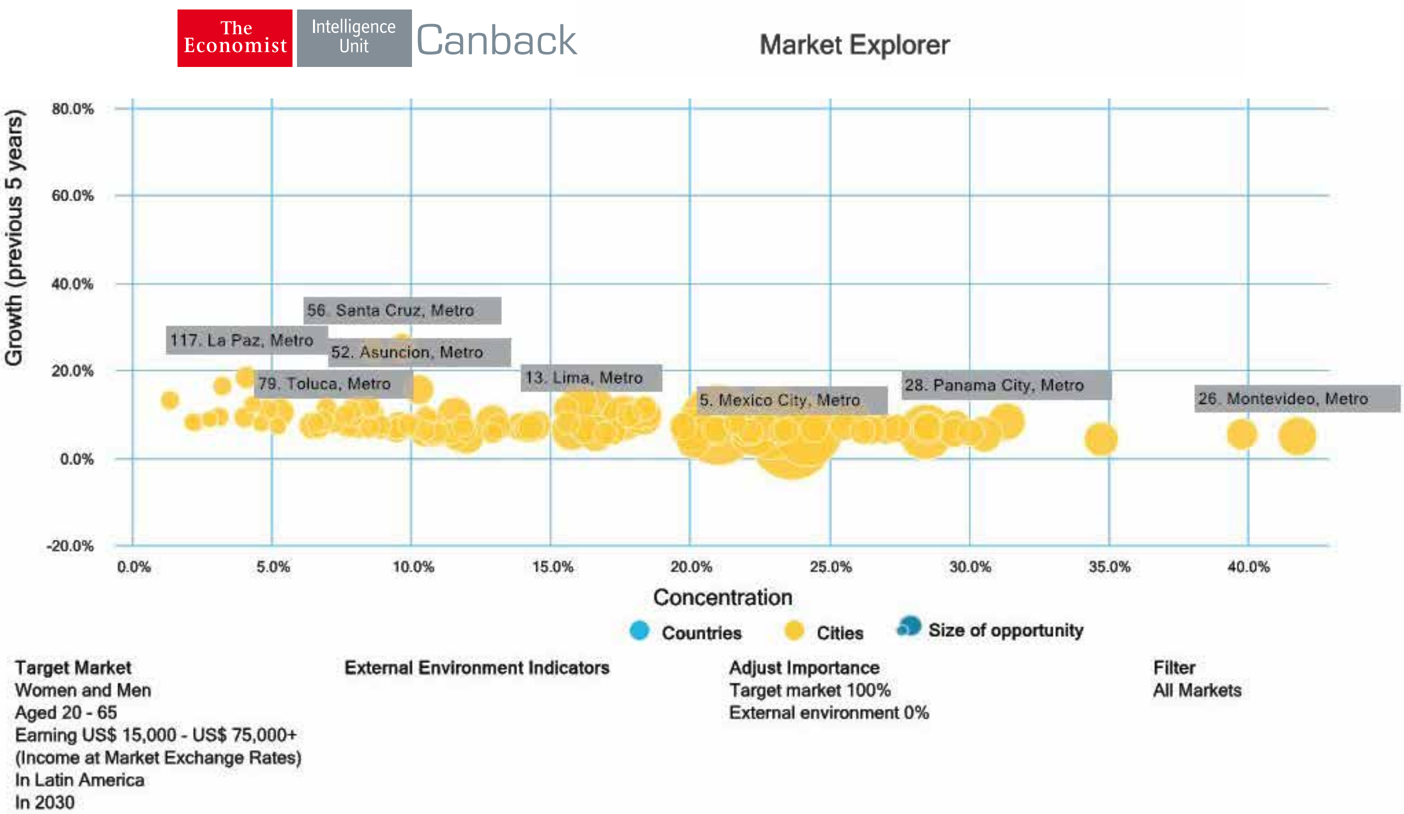
Market Explorer

This report was compiled with information provided by The Economist Intelligence Unit's Market Explorer. Market Explorer is an online global market-scanning and market-forecasting tool that homes in on markets that match your target demographic, covering over 1,000 cities in 145 countries. It delivers powerful, evidence-based, actionable results that are designed to inform your global investment decisions now and in the future.

Market Explorer is the only service of its kind. Here are the features that make it unique:

- Granular: Using over 2,000 data points in more than 1,000 cities and 145 countries.
- Up to date: Data are regularly updated and are comparable across all markets.
- Robust and dependable: Using multiple sources of information, the tool allows users to analyse demographics in specific cities and at certain income levels—today, in the past and in the future.
- Time-saving: Calculations are in real time, returning immediate results.
- Cost-saving: Analysis is immediate, at the click of a button.
- User-friendly, flexible and customisable: Multiple views and choices of reporting, with direct export of data and data visualisations available.

Below is a snapshot of the Market Explorer ranking of 122 Latin American cities in 22 countries based on the target market specifications (that is, demographic group and income levels) selected. The size of each bubble corresponds to the magnitude of the opportunity; thus, Mexico City is highlighted as the top-ranked urban market in the region in 2030.



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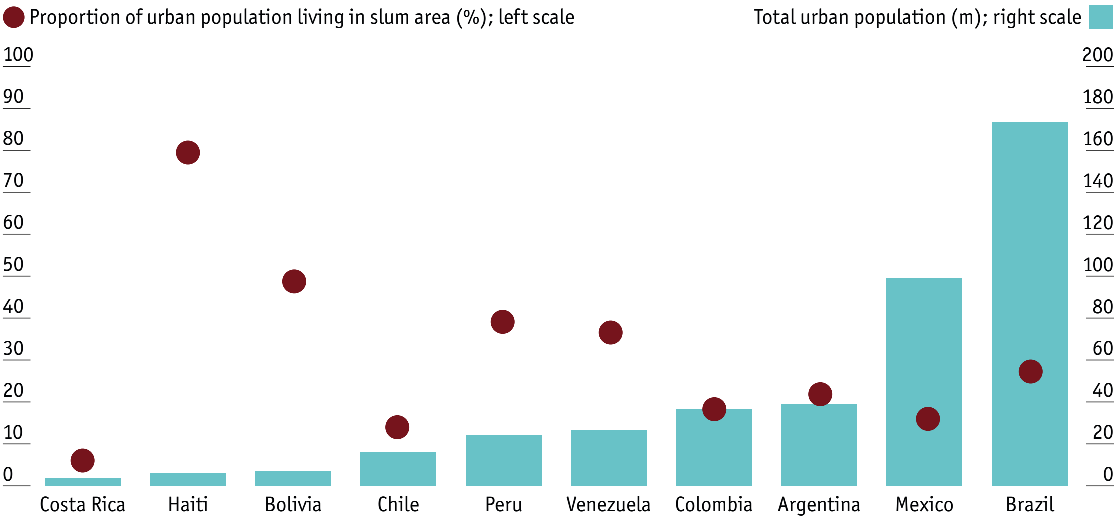
Uneven urban potential

Latin America boasts the second-highest urbanisation level in the world (after North America), at 80%. Consequently, the region presents unique possibilities of learning from the challenges and opportunities created by rapid urban growth, deindustrialisation, globalisation and urban renewal. Migration from rural areas, rather than the natural increase in the urban population, has been the main driver of urbanisation in the region. Cities continue to attract people because of the advantages they offer: greater opportunities to find employment, education and training, as well as better access to health and administrative services, amenities and entertainment, among others.

The Latin American urbanisation model is characterised by densely populated central areas, together with neighbourhoods of poverty and inadequate access to public services (widely known as slums or informal settlements) on the outskirts. Varied patterns of population growth and economic expansion have caused rapid urbanisation without adequate improvements in urban services. Although UN data suggest that Latin America has made significant progress in reducing the proportion of its urban population living in slum conditions on urban fringes from a regional average of 33.7% in 1990 to 21.1% in 2014, there is more to be done. The latest available figures show that in 2014 this average encompassed a wide range, from 5.5% in Costa Rica to 74.4% in Haiti.

Proportion of Latin America's urban population living in slum areas, 2014



Source: United Nations Human Settlement Programme (UN-Habitat), Global Urban Indicators Database 2015.

In several Latin American countries (for example, Argentina, Mexico and Uruguay), a large proportion of the national population is concentrated in the capital city. Findings from Market Explorer highlight the fact that the Mexican capital, Mexico City, is home to more than 16% of that country's inhabitants, while 35% of the population of Argentina lives in its capital, Buenos Aires. This high degree of concentration affects population growth in most major cities. Over the past 20 years Latin America has seen a reduction in population growth rates in its megacities, partly caused by

overcrowding and difficulties faced in urban management, making these urban centres less attractive places to live.

Megacities in Latin America, such as Mexico City and São Paulo, face a number of challenges. As they expand, these urban centres absorb smaller settlements that nevertheless remain outside the jurisdiction of the cities. Fragmented political boundaries lead to fuzzy management responsibilities among local authorities, central governments and other institutions. Moreover, urban planning policies and strategies are often not well co-ordinated and usually do not provide for the long term. These management problems are compounded by inefficient financing mechanisms that lead to underdeveloped infrastructure and, ultimately, further slum expansion.

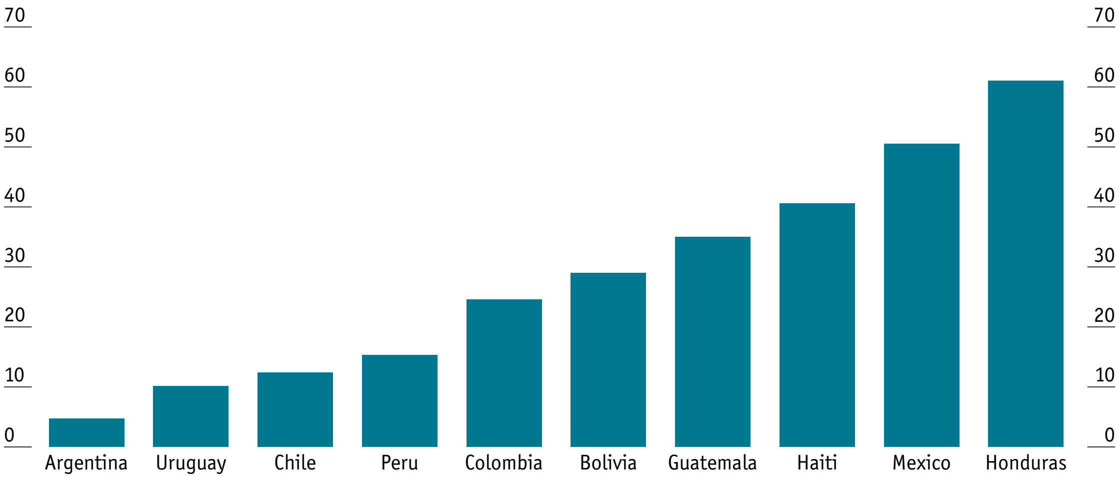
In addition to the challenge of managing informal urban settlements, another phenomenon can be observed on the outskirts of cities. Urbanisation is associated with adverse developments, such as congestion, a reduction of green areas in cities and air pollution, which lead to a deterioration in living conditions. These problems often cause population displacement from cities' core areas and resettlement in their peripheries in the forms of suburbs or gated communities.

Propelling this segregation of the urban fabric is income inequality, which remains one of the main challenges facing the region. The benefits of urbanisation have not been equally shared within countries. Whereas the average regional median disposable income has risen by 4.7% a year over the past 15 years, distribution of incomes has not been equitable. Notably, in urban areas the percentage of residents with income above US$25,000 per year (at nominal prices) has risen rapidly to reach an average of nearly 5% in 2016, up from 1.8% just ten years ago.

Meanwhile, 38% of Latin Americans earned below US$5,000 in 2016. According to the World Bank, the percentage of the urban population living below the national poverty line ranges from 4.7% in Argentina (in 2013) to 61% in Honduras (in 2014). Regional real GDP growth between 2011 and 2015 has not necessarily translated to equitably allocated income gains for Latin Americans.

Urban poverty levels, 2011-15

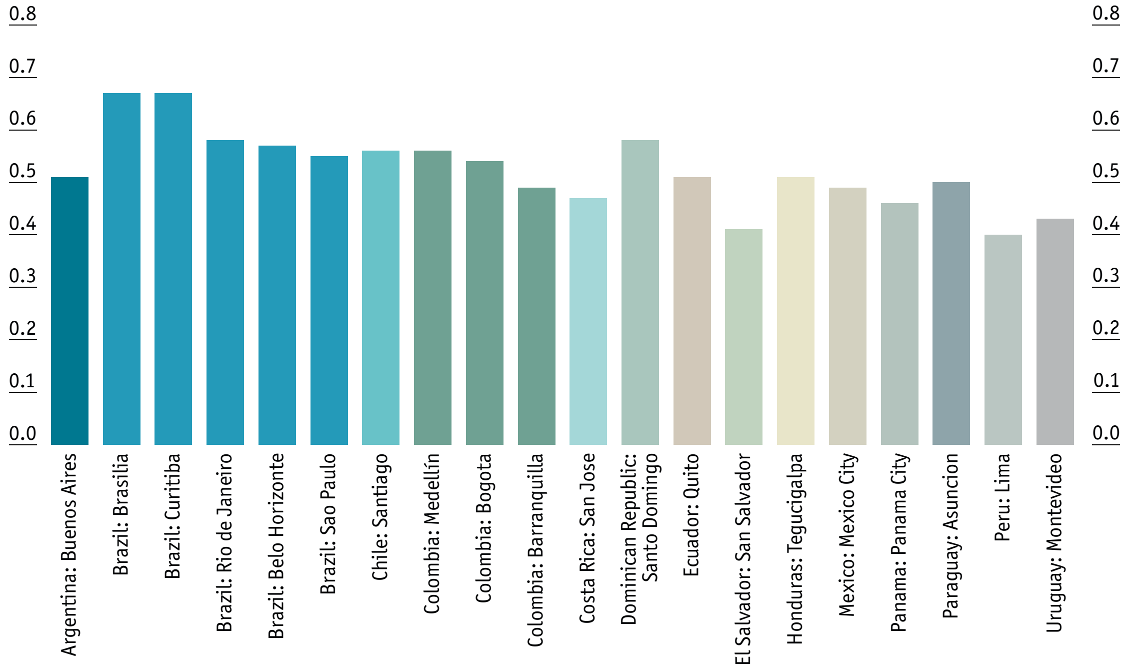
(%)



Source: World Development Indicators, World Bank.

Gini coefficients are commonly used to measure inequality in countries and cities through the statistical dispersion of income. The Gini index measures income distribution based on residents' net earnings. It ranges between 0 and 1, with 0 representing perfect equality and 1 representing perfect inequality. Thus, the closer the coefficient is to 1, the more unequally distributed is the wealth in an economy. Brazilian cities exhibit the highest levels of inequality, with Gini coefficients well above 0.6. In contrast to the likes of Brasília and Curitiba, Peru's capital, Lima, and San Salvador, Salvador's capital, register more equitable distributions, with coefficients of 0.4.

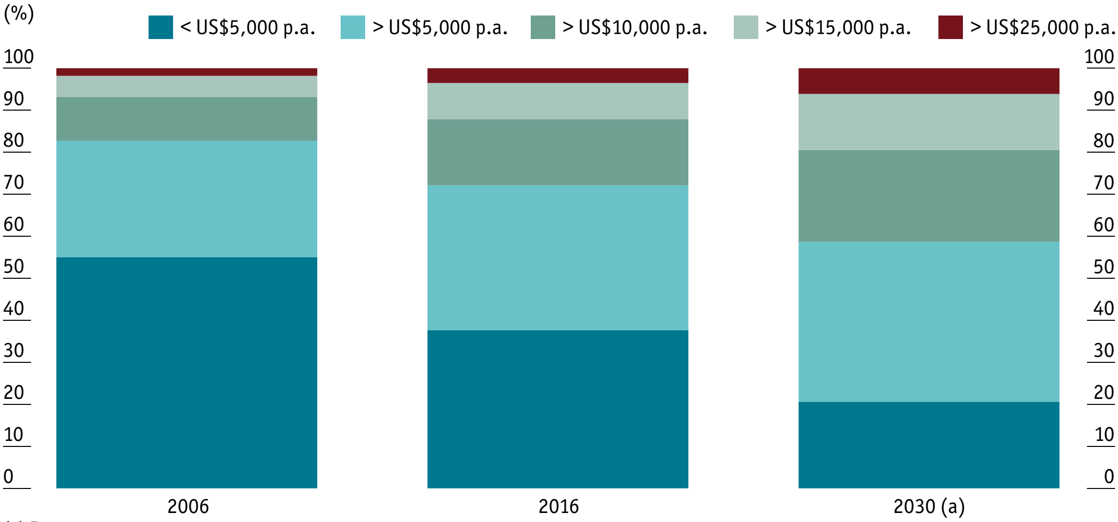
Gini coefficients based on income in selected cities, 2009-10



Source: United Nations Human Settlement Programme (UN-Habitat), Global Urban Indicators Database 2015.

There is one encouraging trend, however. Data and forecasts from The EIU's Market Explorer highlight that the highest compound annual growth rates in the numbers of people are in the income bands of >US$15,000 and >US$25,000 per annum at nominal prices over the past ten and also the next fourteen years. In particular, The EIU projects that a total of 126m people in Latin America will have incomes exceeding US$15,000 per year in 2030 and of these 88m will be found in the largest 122 cities. These are the consumers who will continue to fuel economic growth in the region.

Population by income band in Latin America



(a) Forecast.
Source: The Economist Intelligence Unit.

Between 2016 and 2030 The EIU projects that more than 47m inhabitants will be added to the 122 largest cities[1] in the region. Of these cities with populations above 500,000, in the next decade six will become megacities of more than 10m people, while the vast majority (112) will have fewer than 5m people and around one-quarter of these will have fewer than 1m residents.

In 2016-30 The EIU expects the number of people earning more than US$15,000 per year to more than double in these cities, increasing from 34.6m to 88.4m. The past decade has seen an even larger increase, from 13.7m in 2006.

Latin America's 122 urban areas with populations of 500,000 or more, 2016

[1] In this paper, cities are defined as contiguous, built-up urban areas, which include the metropolitan area rather than merely the area within the city's official administrative boundaries.

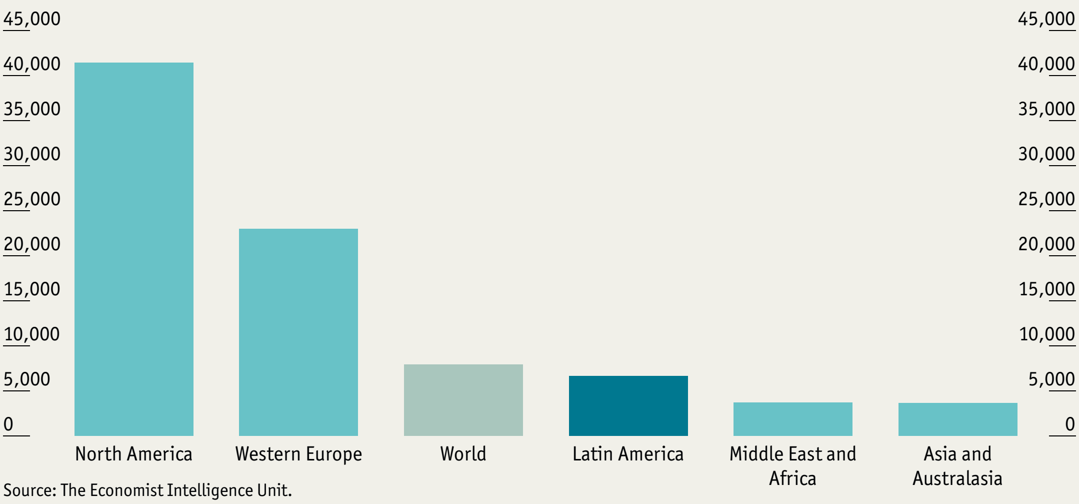
Measuring the middle

The Economist Intelligence Unit quantifies opportunities in emerging markets by the change in absolute number, level of concentration, or rate of growth of middle class consumers. Market development is defined by income levels reaching a certain stage, at which consumers can comfortably afford essential items and discretionary spending on non-essentials takes off. Typically, when income levels reach the point at which food, clothing and shelter are taken care of, spending on items such as cars, cosmetics, and washing machines ramps up as consumers begin to treat themselves.

But measuring this threshold is tricky. The income level that characterises a middle-class emerging-market consumer varies both by country and by definition. In lower-income emerging markets, middle-class status can be achieved on an annual salary as low as US$3,000. Other sources define the middle classes in emerging markets as having per-capita income of US$10-20 per day—a fairly broad range. In wealthier emerging markets, the bar can be set as high as US$15,000 per year (in nominal terms). Unlike in other emerging regions such as Asia and Sub-Saharan Africa, in Latin America the market opportunity is already fairly well entrenched, with the region's consumers already predisposed towards global brands. In per-head terms, the average Latin American citizen falls well short of incomes in North America or western Europe, indicating that there is still plenty of room for growth. In fact, according to Market Explorer's 2016 estimates, metropolitan New York was home to more people earning over US$15,000 (at 18.4m) than the whole of Brazil (16.4m). However, on average Latin Americans earn almost twice as much as their Asian, Middle Eastern or African counterparts. In measuring a viable addressable "middle-class" market this report has chosen to focus on the rate of growth, absolute number and proportional concentration of Latin Americans earning over US$15,000 at nominal prices per year.

Although average income levels are higher than other emerging regions, Latin America is subject to income inequality, which can mask the overall picture. The proportion of people earning less than US$5,000 a year in Latin America remains high, although it varies greatly within the region. In Haiti, for example, 97.4% of the population earn less than US$5,000 per year; while in Uruguay the figure is a little over 20%. But urban dwellers tend to fare better than their rural counterparts, and throughout Latin America pockets of wealth are concentrated in urban centres. It is here where market potential is typically strongest, and when assessing market opportunity in the region it is not enough to look simply at countries as a whole—the relative consumer strength of individual cities must also be considered.

Annual disposable income per head
(US$)



Source: The Economist Intelligence Unit.

In absolute terms, it is the largest cities in the region that will continue to deliver this surge in the number of consumers in the next 14 years. By 2030, the six megacities are projected to add over 20.7m new individual consumers, with Mexico City adding the largest number (at 5.7m), followed by São Paulo with 4.8m, Rio de Janeiro's 3.4m, nearly 2.9m in Buenos Aires, and 2.8m and 1.2m in Lima and Bogotá respectively. Santiago de Chile is also projected to add 2.2m potential consumers in the same period. Meanwhile, Market Explorer highlights the fact that the highest rates of growth in consumer numbers will be recorded in Bolivia's and Peru's largest cities, averaging 20% and 13% respectively. These figures are well above the regional average forecast growth rates for cities of 7.8%. They reflect a combination of relatively high long-term growth projections at national level (from lower bases than for many other countries in the region), along with a continuing rapid pace of urbanisation.

At the other extreme, negative economic growth in Venezuela will translate into a contraction in the numbers of middle-class consumers in the country's major cities. The EIU projects another year of recession in 2017, and assumes that economic recovery will be a slow and arduous process that will not begin until after a political transition transition has occurred. It will require deep policy adjustments that will rein in consumer demand for some time to come.

Megacities that already possess large consumer bases will maintain their attractiveness but will register only modest growth in the number of middle-class consumers, in contrast to the high-growth, high-potential medium-sized cities of Bolivia, Ecuador, Nicaragua and Peru. This divergence between high concentration and high growth in number of middle-class consumers in the next couple of decades will be explored in detail in the following section, which ranks market opportunities of Latin American cities.

Measuring market opportunity

The high level of urbanisation in Latin America and the rapid development of the region's metropolises present a sizeable opportunity for companies, but the degree of opportunity varies greatly by country and from city to city.

The EIU forecasts that by 2030 the addressable market (defined earlier as the number of people earning over US$15,000 per year in nominal terms) in Latin America's 122 largest cities will nearly triple, to reach more than 88m. The citizens of these cities will have a combined annual income of almost US$5.2trn—more than the estimated combined income in China in 2016 (US$5.1trn). But the fortunes of these cities will vary significantly, and tracking the growth, size or concentration of the Latin American urban middle class highlights very different opportunities. There are other factors to consider as well, such as whether cities or countries have a benign business environment, or whether economic, political and social volatility have the capacity to undermine the broader market opportunity.

Concentration

In terms of concentration of the addressable market, Uruguay's capital, Montevideo, offers the clearest market opportunity. In the next 14 years the proportion of consumers earning over US$15,000 per year in Montevideo will more than double, to over 73%. This trend will be driven by a robust long-term rate of economic growth in Uruguay, reflecting the country's attractive business environment as it emerges from a period of economic weakness related to commodity dependence. The EIU also projects a solid outlook for foreign and domestic investment, and success in economic diversification and productivity growth in the long term on the back of investments in human capital and also in research and development.

Highest market concentrations: % of population earning over US$15,000 per annum (Metropolitan areas)

Geography	Rank	2016	2030	% change
Uruguay: Montevideo	1	32.3	73.1	126%
Mexico: Hermosillo	2	28.5	66.6	133%
Costa Rica: San José	3	30.9	57.5	86%
Panama: Panama City	4	19.6	54.4	178%
Chile: Valparaíso	5	20.4	50.4	147%
Brazil: Vitória	6	21.6	49.8	131%
Mexico: Cancún	7	17.8	49.4	178%
Argentina: Rosario	8	32.4	49.1	52%
Argentina: Santa Fe	8	32.4	49.1	52%
Brazil: São José dos Campos	10	22.7	49.0	116%

Source: Market Explorer, EIU Canback, The Economist Intelligence Unit

Although in concentration terms the proportional growth achieved by Montevideo will not be the fastest of the 122 largest Latin American cities—Santa Cruz in Bolivia, for example, will see its

concentration rise almost tenfold in 2016-30—Montevideo will boast the highest concentration of the addressable market of middle-class consumers in the region. By comparison, only 17% of the population of Santa Cruz are expected to earn over US$15,000.

By 2030 Montevideo will be one of five major cities in Latin America where more than 50% of the population earn over this threshold. Currently, no city in the region has more than one-third of its citizens earning over this amount. In per-head terms, Montevideo will also be the region's richest city, with average personal disposable income of over US$32,000, just US$5,000 short of average incomes in Canada in the same year.

While Montevideo offers the clearest single-city opportunity, Mexico, Brazil and Argentina will account for six of the ten cities in the region with the heaviest concentrations of middle-class consumers. However, measuring the middle class purely by concentration does not tell the whole story. While almost three-quarters of Montevideo's population will be earning over US$15,000, this will create an addressable market of only 1.4m people (out of a total forecast city population of 1.9m). Of the cities with the highest concentrations of middle-class consumers, only Panama City will have a population of over 2m (at 2.2m), and its addressable market will amount to just 1.2m middle-class inhabitants.

Given the constraints that Montevideo's relatively small population will place on the city's market potential, a shrewder approach might be to assess the potential addressable middle-class population in terms of its absolute size.

Montevideo

Montevideo is in an enviable position in our rankings of middle-class consumer concentration, but in this rapidly growing mid-sized city long-term urban planning will nonetheless be vital to ensuring that growth does not place insupportable strains on basic service provision, infrastructure or the environment.

As the city adapts to the challenges posed by a growing middle class, a solid policy framework and economic and political structure at national level will be a boon to Montevideo. Major national reform processes that have benefited the city in recent years include a landmark redistributive tax reform, intended to reduce income inequality in a country that already has among the lowest levels of inequality in Latin America and the Caribbean (the national Gini coefficient stood at 0.4 in 2014, according to World Bank data). On top of this, a national-level drive to convert to renewable energy generation and consumption has been hugely successful in the past decade.

Long-term urban planning for Montevideo has not been neglected, however. Proyecto Montevideo 2030 is an ambitious plan for the development of the city, centred on urban regeneration to include increased green and public-leisure spaces; projects to improve the efficiency and capacity of the city's transport system; and an increase in waste management capacity. Concurrently, the city is participating in the Emerging and Sustainable Cities Initiative of the Inter-American Development Bank (IDB). Montevideo's areas of focus include projects to reduce poverty and income inequality in the city and to improve public transport and citizens' security. Even with support from the IDB, financing will remain a key determinant of the city's ability to follow through with the long-term urban development plans set out in the likes of Proyecto Montevideo 2030. In this regard, the difficult fiscal outlook at national level, which is likely to see gradual fiscal consolidation for several years from 2017, will complicate spending initiatives. Progress on the agenda for Montevideo's development is likely to continue, but meeting the expectations of a burgeoning middle class will prove challenging.

Size

Biggest overall markets: Number of people earning over US$15,00 per annum ('000) (Metropolitan areas)

Geography	Rank	2016	2030	% change	Absolute change
Mexico: Mexico City	1	3,772.3	9,440.6	150%	5,668.3
Brazil: São Paulo	2	3,220.8	8,025.4	149%	4,804.6
Argentina: Buenos Aires	3	3,844.7	6,709.2	75%	2,864.5
Brazil: Rio de Janeiro	4	2,193.9	5,591.6	155%	3,397.7
Chile: Santiago	5	1,238.8	3,470.6	180%	2,231.8
Peru: Lima	6	641.3	3,413.4	432%	2,772.1
Mexico: Guadalajara	7	646.2	2,177.2	237%	1,531.1
Brazil: Belo Horizonte	8	720.8	1,848.5	156%	1,127.8
Colombia: Bogota	9	442.4	1,645.7	272%	1,203.3
Brazil: Brasilia	10	571.7	1,613.5	182%	1,041.8

Source: Market Explorer, EIU Canback, The Economist Intelligence Unit

It is when assessing market potential purely in terms of size that Latin America's megacities really come to the fore, and the list of cities providing the greatest opportunity in absolute terms has a familiar feel to it. While only 40% of the population of Mexico City will have income levels in excess of US$15,000 in 2030, this will still amount to an addressable market of 9.4m people. In the next 14 years Mexico City will generate almost 6m new consumers in this bracket per year. In opportunity terms, the Brazilian cities of São Paulo, Rio de Janeiro, Belo Horizonte and Brasília will be home to a combined population of over 17m middle-class consumers, offering opportunities for the creation of synergies between cities at national level.

There are further distinct advantages to the opportunity presented by Latin America's megacities beyond absolute market size. These cities are likely to have the capacity, infrastructure and scope for investment. However, there is a downside. The biggest markets in absolute terms are established target markets. Competition from both domestic and international businesses is already strong, and success may be harder to come by. When making investment decisions, most firms will already have established strategies in place for the obvious targets. As a result, when looking ahead to the next couple of decades, firms may want to seek out the "next big thing": markets that are growing quickly from a smaller base at a rate that will deliver strong returns in the future.

Mexico City

Although it is no longer growing as rapidly as in the 1960s and 1970s, Mexico City remains the Western Hemisphere's largest urban agglomeration, with a metropolitan population of over 21m. Despite recent economic weakness, the sheer size of the Mexican capital has created a compelling opportunity, which is set to increase further as the city's burgeoning middle class grows from fewer than 4m in 2016 to over 9m by 2030. By this time, average incomes in the city will be in excess of US$20,000. But with economic opportunity come pitfalls, and Mexico City faces numerous infrastructure and environmental challenges that will need to be addressed as its economy grows.

In early 2016 Mexico City witnessed the return of an old foe: air pollution on a scale that triggered the first ozone alert (declared when air pollution is deemed to be a health hazard) in 14 years. Authorities have made significant progress in de-industrialising the city over the past few decades: the city's oil refinery was closed in 1991, and most manufacturing now takes place in the urban periphery.

Yet the most noteworthy cause of pollution has been poor urban planning, particularly in terms of transport. The capital appears to have the worst of both worlds: building densities commonly seen in Europe (and which on paper would make the city an ideal area to be served by public transport), combined with a level of car reliance that closely resembles that in North America. Use of private vehicles remains extremely high, despite restrictions implemented by the local government to curtail increasing greenhouse gas emissions. It is hard to blame Mexico City's residents for this: the Metro underground network does not connect many of the city's dispersed business districts (Santa Fé, on the western fringes, is the most prominent example of an area that is almost unreachable except by car); the bus network, composed mostly of "microbuses", is in a poor state and is prone to crime; and the newer Metrobus (a Bus Rapid Transit system) suffers from severe overcrowding.

After two years of austerity, major investments in public transport infrastructure that could help to erode car dependence are not on the horizon. Mexico City is ranked as the worst city for traffic congestion, according to a 2016 study ranking nearly 200 cities internationally by TomTom, a Dutch navigation-system manufacturer. Although this would suggest that the incentive exists to switch to public transportation, the reign of the car—with all the environmental consequences that it brings—will remain unchallenged unless the authorities invest in a more comprehensive and safer alternative.

Growth

Appraising the growth potential of Latin America's middle-class consumer base at city level provides an opportunity for smaller, less obvious locations to come to the fore. Of the megacities delivering the greatest overall addressable market potential, only Lima features among the fastest-growing locations in the next couple of decades. In fact, the combined populations with annual incomes exceeding US$15,000 of the ten fastest-growing cities will amount to about 6.5m, significantly fewer than the 9.4m citizens earning over the same amount that are expected to reside in Mexico City by 2030.

Fastest growing markets: Number of people earning over US$15,000 per annum ('000) (Metropolitan areas)

Geography	Rank	2016	2030	% change
Bolivia: Santa Cruz	1	36.2	522.4	1343%
Bolivia: Cochabamba	2	20.6	263.0	1178%
Bolivia: La Paz	3	17.6	168.1	854%
Ecuador: Guayaquil	4	157.2	980.2	524%
Peru: Chiclayo	5	18.8	109.4	483%
Peru: Arequipa	6	50.5	281.7	458%
Peru: Trujillo	7	32.8	182.9	457%
Haiti: Port-au-Prince	8	15.3	83.0	444%
Paraguay: Asunción	9	103.2	561.1	444%
Peru: Lima	10	641.3	3,413.4	432%

Source: Market Explorer, EIU Canback, The Economist Intelligence Unit

That said, the cities experiencing the fastest growth in their middle-class base are not all small, and most are expected to have populations of over 2m in the next decade. Only Chiclayo in Peru will have a population smaller than 1m by that year, by which time Guayaquil in Ecuador will be home to almost 1m people earning over US$15,000 annually. In some cases, however, spectacular growth in this income bracket does not translate into sufficient overall numbers to warrant significant investment. Haiti's capital, Port-au-Prince, will see the proportion of citizens in the same income bracket rise rapidly from a very low base owing to high levels of income inequality and persistent poverty in Haiti. But by 2030, a fivefold increase in the number of consumers in this income bracket will still deliver an addressable market of just 83,000 people. A clear market opportunity in terms of the emergence of a substantial middle class in Haiti may yet be some decades away. In terms of growth of the addressable market, Bolivian cities offer the greatest potential, with the country home to the three fastest-growing middle-class populations in the region. Although these will be coming from a smaller base than the region's megacities, they do represent strong potential. Santa Cruz de la Sierra is expected to experience fifteen-fold growth in the number of people with these earnings in the same period. This highlights a national-level opportunity in a country that is rapidly converging with its peers off the back of a recent (albeit now moderating) commodity boom.

Santa Cruz

Bolivia's largest city, Santa Cruz de la Sierra, is projected by Market Explorer to have the fastest-growing addressable market in Latin America between 2016 and 2030. In the past half-century it has been transformed from an isolated frontier town into Bolivia's oil industry capital, a major agro-industrial zone and a hotbed of entrepreneurial activity. Santa Cruz's isolated location makes it an unlikely candidate to become a fast-growing city: topographical barriers separate it from the country's other urban centres and from markets beyond the national borders. Yet by the 1990s Santa Cruz had largely overtaken Bolivia's seat of government, La Paz, as the country's financial capital.

The city is increasingly linked to global circuits of capital and labour, and its leaders are seeking to untether it from national political and demographic pressures via claims for autonomy. Santa Cruz was the main beneficiary of urban development strategies under both state-led import-substitution and market-driven approaches to promote inter-regional competition and local development programmes. Economic growth has fuelled urban expansion, creating new opportunities for capital accumulation, and has resulted in significantly better scores on human development indicators for Santa Cruz than for the rest of Bolivia.

Moreover, civic leaders of all political stripes have shared a common vision that aims to secure Santa Cruz's place as a world-class city, by providing the infrastructure and support services needed to attract global businesses and to aid domestic entrepreneurs in extending their reach in order to compete in the global marketplace. For the city's autonomists, Santa Cruz is a harbinger of Bolivia's future and points to a new paradigm in the country's urbanism in which individualism, entrepreneurship and free markets prevail.

But all is not rosy in Santa Cruz: the city faces challenges in terms of social inequality, intercultural tensions and conflicts over use of public space. Poverty and inequality remain high, and could spark future social unrest. It remains to be seen whether the municipality will be able to balance the needs of the city's business elite with those of its wider and growing population.

Possibilities and pitfalls

Viewing the opportunity presented by Latin American cities purely in terms of the addressable market is a useful tool, but it should never be the only metric applied when assessing the potential of that market. Latin America has seen significant economic, political and social volatility in recent years, and any assessment of its urban middle class should be conducted hand in hand with appraisals of the other opportunities and potential pitfalls that any given market presents.

For example, while Mexican and Brazilian cities seem to offer the greatest opportunity in absolute terms to tap into Latin America’s burgeoning urban middle class, they will continue to pose operational challenges. Within the region, it is Chile that offers the most benign business environment, scoring 7.8 out of 10 in The EIU’s Business Environment Rankings (the highest score achieved by any Latin American country). Mexico scores 7and Brazil 6.3, with opportunities in cities in both countries constrained by challenging labour markets, unstable political environments, inadequate infrastructure and difficult tax regimes (although they achieve much better scores for their policies towards foreign investment).

As well as the broader business environment, the costs incurred in entering a new location may need to be assessed. Montevideo may present the greatest concentration of citizens with annual earnings over US$15,000 (in nominal terms) by 2030, but it is currently the most expensive city in Latin America, according to the findings of The EIU’s latest Worldwide Cost of Living Survey. Companies that are looking to combine an established addressable market with relatively low overheads may be better off looking for opportunities in cities such as Monterrey. This Mexican city is 40% cheaper to live in than Montevideo, but is still likely to deliver nearly 1m new consumers.

The list of caveats goes on, and will vary by sector. The prevalence of domestic and international competition needs to be considered, as do supply chains, along with issues like sustainability, healthcare and information technology infrastructure. However, in all cases the addressable market should come first. When a city does present a viable addressable market, then there is scope to perform the due diligence required to maximise the potential opportunity in that city. Conversely, if a company cannot identify and measure the potential demand for the goods or services that it wishes to supply to a city, then there is no value proposition on which to build a market strategy for that location.

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