



TREATT

ECONOMIC DRIVERS

*Influencing the
beverage market*

2022

5 FACTORS SHAPING THE GLOBAL ECONOMY IN 2022

Some major themes set to influence the beverage market

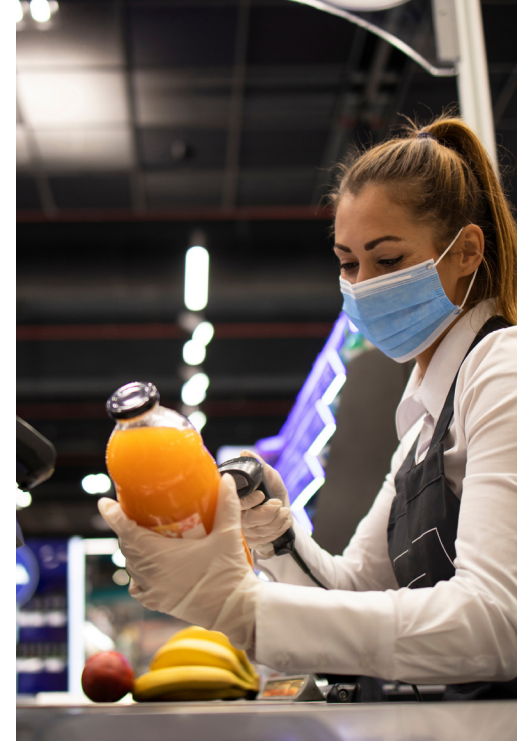
When considering the trends within the beverage industry (as we do a fair bit) it is important to take into consideration some of the macro drivers influencing the global economy.

The global economy continues to be in a state of flux with recovery moving at varying speeds across regions and nations. Unsurprisingly, countries that have managed pandemic controls better and accelerated a vaccine programme, are in general seeing a stronger and faster economic recovery. But the pace of economic recovery is still being influenced by the pandemic recovery and the peaks and troughs being felt by surges in infection rates.

In a report published in 2021, PwC reported that by the end of 2021, early 2022, they expect the global economy to revert to its pre-pandemic level of output. Noting however, that the recovery will be uneven across sectors, countries, and income levels. 'At one end of the scale is the Chinese economy, which is already bigger compared to its pre-pandemic size. On the other end are mostly advanced economies which are either service based (UK, France, Spain) or more focused on exporting capital goods (Germany, Japan) and are unlikely to recover to their pre-crisis levels by the end of the year'.

As 2022 gets well underway, and the world pivots from pandemic to recovery, consumer behaviour and purchasing power remain highly dependent on economic realities, and perhaps now more than ever, understanding some of the key factors impacting the economic landscape is crucial for business strategy.

Euromonitor identify five key factors that are shaping the new global economic age as: uneven rates of economic recovery from COVID-19, rising public debt, globalisation reset, a shift away from primary industries to higher value-added activities and shifting market frontiers. All of these will have an impact and filter down to the beverage industry and consumer in one way or another.



TOP 5 MACRO ECONOMIC DRIVERS



1.
ECONOMIC
RECOVERY POST
COVID-19



2.
PUBLIC DEBT LEVELS



3.
GLOBALISATION



4.
HIGHER VALUE-ADD
ACTIVITIES



5.
GEN Z



1. ECONOMIC RECOVERY POST COVID-19



The speed of economic recovery post COVID-19 will not be equal amongst nations or within nations, as different generations and income groups continue to be unevenly impacted by the economic recession. CPG businesses' will need to consider the shifting income and spending dynamics of their targeted consumer groups to ensure appropriate pricing and value strategies for their products.

2. PUBLIC DEBT LEVELS



Public debt levels increased faster in 2020 than during the 2008-2009 global financial crisis. Long-term high debt levels will pose a significant challenge not only to vulnerable developing and emerging markets but also to disposable income levels amongst consumers in wealthier nations.

3. GLOBALISATION



Globalisation was going through a profound change even before the COVID-19 pandemic, driven by technological developments, diverging growth paths between developed and emerging economies, and the rise of geopolitical uncertainties underlined by the fallout from BREXIT for example. Furthermore, global businesses have been put under stricter scrutiny as consumers increasingly demand more socially responsible and transparent supply chains.

The pandemic has revealed the fragility of the global supply chain. With ongoing supply bottlenecks impacting industries from retailing to manufacturing, many multinational companies are already seeking to mitigate future issues and strengthen resilience across their supply chains. Samsung, for example, is shifting much of its display production from China to its plant in southern Vietnam, and Walmart plans to invest heavily in its US production sites over the next few years.

The transformation of globalisation beyond the pandemic will no doubt impact the global manufacturing, retailing and consumer landscape.

4. HIGHER VALUE-ADDED ACTIVITIES



Developing and emerging economies continue to shift away from primary industries to higher value-added activities in the global supply chain. The expansion of service industries, such as retailing, hospitality and finance has contributed to increased incomes, enabling consumers to spend more on non-essential goods and services. India is an example of this, where the share of the service sector to GDP in India increased significantly from 49% in 2010 to 55% in 2020.

E-commerce is leading the revolution in the services industries, particularly in emerging economies, such as China. Starbucks, for example, signed a partnership with Chinese e-commerce giant Alibaba in 2020 to expand its delivery services to 2,000 stores in 30 cities across China. The boom in e-commerce, borne largely from necessity during the past 18 months, is expected to continue gaining momentum as we move to life beyond the pandemic.

5. GEN Z



We cannot discuss global macro drivers without reference to Gen Z. As the largest generational cohort in history, Gen Z's (Born 1997 – 2021) attitudes and expectations will be central to shaping the new normal. Transparency, accountability, and trust are key to engaging with Gen Z. Shifting the focus from 'shareholder' to 'stakeholder' capitalism will also be key to businesses and brands resonating with this audience.

For the older Gen Z's, the COVID-19 pandemic will undoubtedly be looked back on as a generation-shaping event, much like the 2008 financial crisis and Great Recession were for Millennials. From school shutdowns and lockdowns to social distancing and high unemployment rates, Gen Z is coming of age amid a dramatic socioeconomic period in our history.

The state of the climate and moving towards a 'green' economy are high on Gen Z's agenda. Climate change will become exponentially worse as Gen Z matures and this generation will bear the brunt of the procrastinations of today's governments and leaders. Gen Z is disillusioned with the status quo and are eager to lead the transformational reforms necessary not only to reverse climate change but to achieve equal economic opportunity and social justice.

A recent report by Ernst and Young's global thinktank EYQ, Beyond COVID-19, The Gen Z Perspective, cites three ways businesses need to change today to thrive in a Gen Z-led tomorrow:

TREAT SUSTAINABILITY AS A COMPETITIVE EDGE AND NOT A COMPLIANCE EXERCISE

Build and sustain relationships with a new generation of environmentally conscious consumers, employees and investors, organisations must act now to adopt sustainable operating practices and authentically showcase their positive environmental credentials.

MAKE A GENUINE COMMITMENT TO EQUALITY AND BE TRANSPARENT ABOUT PROGRESS

Gen Z demand the products and brands they buy play an active role in delivering social and economic equality for all. Brands must be transparent, and crucially, honest about where they need to improve with a demonstrable action plan.

MOVE AT THE SPEED OF SOCIETAL CHANGE

In a rapidly evolving post-pandemic world, sitting on the side-lines and waiting for everyone else to move first is not an option. Fortune will favour the brave, and the speedy.

Whilst some may consider this to be a rather idealistic stance, as companies look for ways to sustain their businesses and strategise for growth in the post-pandemic world, they will need to carefully consider the expectations of this generation.



**LIKE OUR TASTE?
LET'S TALK**

www.treatt.com



Copyright© 2022 Treatt plc.