Global Trends - Wine Industry Key Elements

Global Economies and Consumers in 2017

The evolving economic and consumer landscape

Political instability is a key challenge going into 2017, and surprisingly, two of the biggest risks are in advanced economies. First is the Trump effect; it is hard to ascertain the exact impact a Trump presidency will have on the US and global economies, as much remains unknown about how many of his campaign promises were rhetoric and, of those that do go with him to the White House, how many he could successfully enact. The ramifications of protectionist trade policies and an expansionary fiscal stance are global, with emerging market currencies already suffering from a "Trump tantrum" in late 2016.

Brexit is another unknown quantity.

Consumers enter 2017 to this backdrop of uncertainty. Over the course of the year, Euromonitor International is expecting consumer expenditure to rise by 2.3% in real terms. The US still accounts for almost one in three dollars spent globally. Despite a slowing economy, Chinese consumers will continue to see one of the largest increases in spending, and expenditure in emerging and developing economies overall will grow by more than twice that of developed markets.

Authenticity, convenience and experience will continue to be trends. New Consumerism will strongly influence behaviour, as consumers reassess their priorities and values.

The Trends

1. Risks of increasing trade barriers. The risk of trade barriers and economic isolation is growing in western countries, as popular discontent with globalisation feeds support for populist and far-right parties.

2. Infrastructure investment to spur economic growth. Infrastructure spending has recovered from the financial crisis, as some developed economies - notably, the UK, US and Canada - are planning infrastructure investment with the aim of boosting economic growth; in addition, urbanisation in emerging markets is driving the need for infrastructure development.

3. Work-life integration. Digital transformation continues to change the way we work. Work-life balance, suggesting a strict separation of work and private lives, has given way to work-life integration, where the boundaries between the two are increasingly blurred. Work will be more
about what people do, not where or when. The future of work is about results, not the process or the time spent; it’s also about connectivity. Workers are expected to be available at any time, not just between the hours of 9 – 5, and regardless of whether they are in the office. Working life for many is now characterised by short-term contracts, freelance work and entrepreneurship. It often involves work done at home, in public spaces such as coffee shops and in rented offices. For some, this is a positive choice, for others less so.

4. The fastest-growing cities will be in the Middle East and Africa.

5. Three-quarters of high-income households will live in the world’s major cities.

6. Major cities will drive economic growth.

7. On-going political, policy and economic volatility around the world pose risks of further inertia due to a “wait-and-see” sentiment in the private and public sectors. The main downside risks are expected increases in trade tariffs and immigration restrictions.

8. Political risks threatening to impede economic growth in Europe. The US is not the only country to witness the rise of anti-trade and anti-immigrant populism. Right-wing parties are gaining ground across Europe, adding to significant political uncertainty for many.

9. Increasing pressure of over-indebted Chinese corporate sector. High credit growth is anticipated to persist in China, despite the recently introduced government’s measures to fight excessive debt levels.

10. Asia Pacific will hit 40% of production output and will account for close to 70% of all high-tech goods produced globally, with virtually all major companies having production capacities in the region. The transport equipment industry is significantly increasing its capacity in Asia Pacific to be closer to the growing customer base, with close to 60% of output produced in the region in 2017 and an expected 75% of transport equipment to be produced in Asia Pacific by 2025. Intermediate goods are expected to record the highest growth, with over 9%, driven by rubber, plastic, glass, cement and other non-metallic mineral products. As manufacturing approaches its maximum potential, the long term future growth of Asia Pacific lies in the service industries, especially finance and insurance and business services.

11. Pharmaceuticals to accelerate, driven by innovative and specialty medications.

12. Commodity industries bouncing off the bottom. Oil and gas prices are expected to recover in 2017, thanks to declining extraction activities in non-OPEC countries and recovering global demand for oil products. However, oil prices will remain at the relatively low level of US$50 per barrel, eroding profits.

13. No rollback on climate initiatives.

14. The new era of sustainability. The momentum to make resource management a key priority is growing and ushering in a new normal, driven by both demand and supply sides. From the demand side, growing eco-awareness is leading consumers to pressure companies for stronger green credentials. On the supply side, fast depletion of resources triggered by population and economic growth, as well as fears over security of supplies, mean that key inputs are under stress.

15. The Circular Economy gains traction. The Circular Economy will gain traction as a viable alternative business model; it is the antithesis of the current “build, buy, bury” model, consisting of a system in which everything is reused and nothing is wasted. The Circular Economy closely resonates with The New Consumerism, which sees consumers reassessing their priorities - conscious consumption replacing conspicuous consumption.

16. New digital services will propel digital commerce growth. Consumers turn to digital channels for purchases like travel, which can be easily researched and purchased at lower prices online. Such service-oriented purchases are helping to propel digital commerce growth and will continue to do so. More service-oriented purchases, including media downloads, online tickets and foodservice online orders, were their most frequent mobile purchases. Digital has enabled new forms of commerce, including digital streaming services, the sharing economy and subscription services. These services would have not been possible before the widespread adoption of digital
devices and will be important drivers to digital commerce expansion.

17. Apparel will drive product-based digital growth. A decade ago there was scepticism at the idea of selling clothes online; today apparel is one of the biggest growth stories on the product-based side of the digital commerce universe. Western European and North American consumers are comfortable with the multi-channel strategy by key players and the continual integration of physical and digital operations. As a result, services like click-and-collect, store pick-ups and store returns are the "new normal".

18. Bank-led mobile proximity payments will expand.

19. Multi-tasking appliances. Household durables that perform more than one core task have been around for a while. But recently they have become affordable, well-designed and mainstream. 2017 is the year that multi-tasking appliances become the norm for new, on-the-shelf options, changing fundamental perceptions of what a refrigerator, for example, should be.

20. Increasingly educating households.

21. Boomerang kids. More Millennials, or Generation Y kids, will be staying in their parental households than previous generations, as rising real estate prices, steep costs of higher education and rising indebtedness is encouraging them to cut costs. In Australia, they are called "boomerang kids", because they move out but keep returning home. In Japan, they are named "parasite singles", since they don't contribute to the household in a financial sense and live off their parents well into adulthood.

22. The bottom of the pyramid (BOP) is gaining strategic importance. In the context of the subdued growth outlook, especially in advanced economies, and increasing uncertainties, the BOP is gaining importance as a new growth avenue for companies. Reaching consumers at the BOP can be a smart strategic move, because it can help businesses establish a new, substantial consumer base. India, Nigeria, China, Indonesia and South Africa are the top five markets due to the large size of their BOP both in absolute terms and as a share of the adult population.

23. The squeezed middle is not to be overlooked, despite rising inequality. While enticing the "squeezed middle" with big discounts was top of the agenda in the aftermath of the global financial crisis, businesses have come to realise that price promotions are not the only way. Instead of racing to the bottom and eroding brand value, businesses will need to innovate to offer good quality at a good price as a smarter strategy in order to retain the loyalty of the squeezed middle and revive their demand. Discounters Aldi and Lidl, for example, are growing their premium lines twice as quickly as the rest of their ranges, while Waitrose launched its "Waitrose 1" premium range in 2016 in an effort to win back middle-class customers who had drifted away to rival supermarkets. 2017 will see an acceleration of this Premiumisation trend.

24. 55% of the global population will live in urban areas in 2017.

25. The median age of the global population will hit 30 years.

27. Nearly one in ten adults will suffer from diabetes.

Conclusion
Uncertainty is the main theme for 2017. In advanced economies, the key risk is political volatility stemming from the Trump presidency and Brexit. In addition, with many countries struggling to raise productivity, weighed down by debt and ageing populations, stagnation is a threat. The Eurozone will continue to see anemic growth, with all major economies seeing growth slow down next year.

On the other hand, growth in emerging and developing markets is expected to strengthen.

Source: Euromonitor International Report - Global Economies and Consumers in 2017