

Drinking in an economic downturn

IWSR analyses the impact of the 2008 financial crash on the beverage alcohol industry and assesses whether similar patterns may unfold in the wake of Covid-19

London, UK - The Covid-19 pandemic is set to cause a deeper and more long-lasting impact to the global drinks industry than the 2008 financial crash, with the on-premise and global travel retail both suffering a severe impact, the IWSR believes.

The crisis of just over a decade ago sent shockwaves through the global economy, prompting major changes to consumer demand and to the shape of the beverage alcohol industry. While every downturn has its own characteristics, the IWSR looked at the impact of the 2008 financial crash and assess whether similar patterns are likely to unfold in the wake of the Covid-19 pandemic.

While the pandemic and its economic consequences may share some common aspects with the downturn of more than a decade ago, such as increased at-home consumption, price stagnation and falling beer sales, there are also marked differences.

These include not only the enforced closure of the on-trade and severe restrictions on international travel, but also the fact that the BRIC markets are less likely to prop up demand this time, and the likely disproportionate impact on smaller and craft producers. The speed and extent of any recovery – which came relatively quickly following the 2008 crash – will depend on the path of the virus, how quickly restrictions can be lifted and the impact of any future Covid-19 surges.

China to the rescue?

During the global economic downturn of 2008/9, the BRIC markets provided a much-needed silver lining: while global alcohol consumption in 2009 was essentially flat, it would have fallen by 2% without the contributions of the BRIC nations, where consumption volumes rose 3.7% in 2009, according to IWSR figures.

With the expansion of these markets over the past decade, the industry cannot depend on them to shore up demand this time around – although China's recent easing of lockdown restrictions might bring pockets of renewed growth.

“China is likely to provide a boost, especially if no further outbreak occurs, but Russia, India and Brazil will likely not provide as much of the demand this time around,” says IWSR CEO, Mark Meek. “The new ‘BRIC’ is Africa and I suspect that this region will be heavily affected by the low price of oil and the impending Covid-19 crisis likely to develop across the continent.”

Travel retail woes

Travel retail sales suffered in 2009, with wine and spirits volumes dropping by 8%, but recovered in 2010, rising by 12% as the worst of the crisis passed. This time around, however, there is continued uncertainty about social distancing at airports and on board aircraft, and many airlines are in severe financial trouble.

“It is very hard to see a recovery as quick as last time until a vaccine is widely available,” says Meek. “This will have long and deep ramifications for the whole travel retail channel and the relationship between suppliers, operators and landlords.”

Craft crisis and diversity reversal

The years since the 2008/9 crisis have been marked by expanding numbers of suppliers and increased diversity of products on offer, especially with the rise of craft brewing and distilling. However, these businesses are typically disproportionately reliant on “cellar door” and on-premise sales, both of which have been heavily affected by the pandemic.

The last economic crisis also saw a “shake-out” of small brands from retail as operators seek to maximise returns, which Meek believes will happen again. “Both these factors spell a very difficult time looming for the majority of craft producers, unless they have size already,” he says.

Bad for beer, better for spirits and wine

Beer and cider were hard-hit in the 2008/9 economic crisis, due to a combination of duty rises, an on-premise slump and increased at-home consumption, which tends to favour spirits and wine. Beer and cider sales dropped from 6% growth in 2007 to a 1% decline in 2009, according to IWSR figures. We will likely see the trend continue, with ongoing social distancing measures also likely to curtail sports fixtures, major events and festivals – all traditionally strong drivers of beer and cider consumption.

Meanwhile, Champagne consumption, often tied to celebratory drinking occasions, will likely be hit hard, with a slow recovery to reach pre-virus levels. Sparkling wine, which has declined steeply in the short-term, should recover as lockdown restrictions ease in markets where it is viewed as an everyday drink, but sparkling wine celebration markets will likely take longer to return to growth.

The new on-premise

The closure of much of the global on-trade has had a huge impact, but there will be no swift recovery as restrictions are eased. In China, consumers have so far been reluctant to return to the on-premise, and some reopened bars and nightclubs have closed again as social distancing proves difficult to uphold.

Spain’s restriction of the reopening on-premise to outdoor spaces and 30% capacity will likely prove difficult for many operators, and sales are likely to remain limited at first. But, the gradual re-opening of the on-premise is the step needed to give brand owners and their distributors a path forward.

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Value suppressed

In 2008 and 2009, standard- priced wines and spirits declined and growth for premium-and-above flattened, with a clear shift to low price and value brands. We can expect history to repeat itself as the economic consequences of the pandemic shrink disposable incomes, with consumers gravitating to value products, the wealthy still treating themselves and standard representing the squeezed middle. High-end products will likely remain stable and could even grow, especially as an investment.

During the last crisis, average prices stagnated, barely shifting between 2008 and 2010 before rising by just over 5% in 2011. Meek expects a repeat, alongside “much more” promotional pricing for major brands.

To find out more about the IWSR’s data and insights visit: www.theiwsr.com

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For further information please contact: E: press@theiwsr.com / T: +44 (0)20 7689 6841
Other enquiries: enquiries@theiwsr.com

About the IWSR

The IWSR is the leading source of data and intelligence on the alcoholic beverage market. The IWSR’s database, essential to the industry, quantifies the global market of wine, spirits, beer, cider, and mixed drinks by volume and value in 157 countries, and provides insight into short- and long-term trends, including five-year volume and value forecasts. The IWSR tracks overall consumption and trends at brand, price segment and category level. Its data is used by the major international wine, spirits and beer companies, as well as financial and alcoholic beverage market suppliers. The IWSR’s unique methodology allows it to get closer to what is actually consumed and better understand how markets work. Its analysts travel the world in order to meet over 1,600 local professionals to capture market trends and the ‘why’ behind the numbers.