How consumer-facing companies can speed up, as economies slow down (PART 1)

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A recession is coming — consumer products and retail companies that can take it as an opportunity to innovate are likely to emerge stronger.

In brief

- Inflation, rising interest rates and market volatility are signs the global economy is heading for a downturn.
- Consumer products companies and retailers that can invest strategically while competitors are struggling stand to emerge as winners.
- While all recessions are different, companies can learn from those that succeeded through previous hard times by focusing on growth and value.

As dark clouds of recession gather, many consumer products (CP) companies and retailers may be tempted to adopt a defensive posture and prepare for lean times. However, companies that approach it as an opportunity to invest in innovation, cost efficiency and brand differentiation stand to emerge stronger.

Persistent inflation, higher interest rates and market volatility indicate a global economic downturn is coming – or indeed may already be here – and the only real question, according to economists, is whether it will be short and mild or protracted and severe.

CP companies and retailers are likely to be caught between rising costs and weakening consumer demand as price increases hit household budgets. Leaders should plan for multiple scenarios – including an environment of more persistent inflation, elevated interest rates and a globally synchronized slowdown – and what these may mean for the business.

While lessons learned from past recessions may be helpful, the current situation is different in many ways. Still, experience from past downturns suggests that CP companies and retailers that take a proactive stance, for example, by maintaining advertising spending and seeking to differentiate their product portfolio, rather than simply cutting costs and lowering prices, can find ways to preserve value and profits even in a downturn.

Some examples are companies like Lego, Netflix and Walmart, which all grew during the 2008 recession because of new products and investments.

In this article, we describe what is different this time compared to prior recessions, what is likely to come, and what CP companies and retailers can do to prepare and build resilience.

CHAPTER 1

The underlying drivers of a recession are different from the past

The spark this time is inflation, not the financial crisis.

CP and retail executives are making decisions in an environment dominated by inflation, which is at a 40-year high because fiscally stimulated demand during the early stages of the pandemic in the US, persistent supply constraints and the war in Ukraine, caused a rapid escalation in energy and commodities prices.

With central banks around the world tightening monetary policy extremely rapidly, the current environment is very different from the 2008 crisis, which was triggered by the US housing market bust and subsequent collapse of financial markets. Where the 2008 downturn was exacerbated by a massive household deleveraging cycle and accompanied by widespread job losses, household finances remain relatively healthy today, and the labor market appears robust – for example with the US unemployment rate at a 50-year low.

And while policymakers responded to the 2008 crisis by cutting interest rates and launching an asset purchase program (quantitative easing) to encourage spending and investment, today's policymakers are intent on raising interest rates and tightening financial conditions to combat inflation.

The downturn will affect regions differently

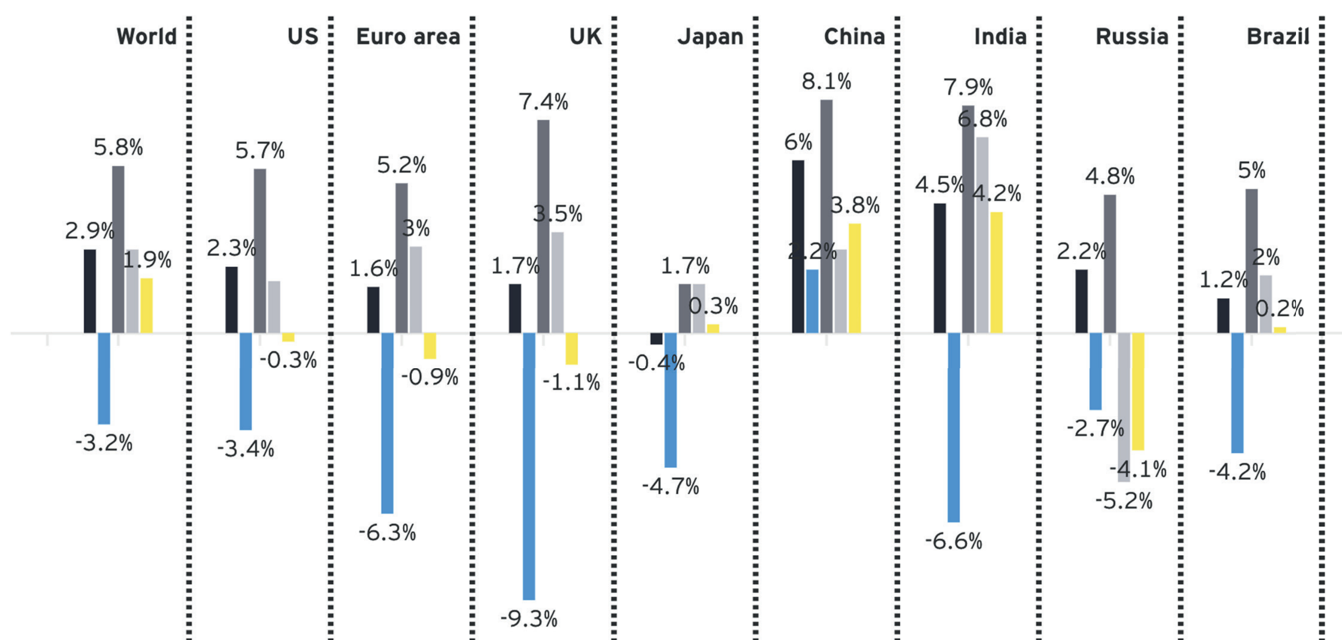
Globally, the economic landscape is complicated by elevated macroeconomic uncertainty, ongoing geopolitical tensions and constrained product and labor supply.

In Europe, economic activity is rapidly cooling with elevated inflation weighing on consumer and business outlays and forcing the European Central Bank to tighten monetary policy at the fastest pace since 1999. Europe's energy situation is particularly concerning, and while government action to minimize energy shortage risks and shield households from surging energy prices may avoid the most somber of outcomes, energy supply disruptions will remain a key concern over the next couple of years.■

(CONTINUED IN NEXT EDITION)

Year-on-year percent change in real GDP*
2019 - 2023F

2019 2020 2021 2022F 2023F



Source: EY-Parthenon research
*GDP = gross domestic product

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