



2020 vision: Co-packers in Tucson prepped for bullish U.S. economy

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How wars over water, quantum supercomputers and geopolitical mega-trends could affect the lives of every business, including CPA members, according to data presented by A.T. Kearney at the 2014 CPA Annual Meeting.

The U.S. economy is currently riding high on stronger output, higher worker productivity, greater fixed-capital investment, a housing rebound and more, Nausheen Kaul, principal with A.T. Kearney, told attendees of the 2014 CPA Annual Meeting in Tucson on February 28.

Just how these sweeping trends affect the fortunes of contract packagers was the topic of his presentation, "Global Trends Outlook: 2020."

For instance, the current "shale gas revolution," in which 2013 saw the U.S. surpass Russia as the world's largest oil and gas producer, "will impact every aspect of U.S. foreign policy" for a minimum of five to 10 years, Kaul said.



For the first time in more than a decade, the United States returned to the No. 1 spot in A.T. Kearney's 2014 Foreign Direct Investment Confidence Index, an annual survey asking executives where they plan to invest their capital in the coming year.

Highlights include:

- The United States returns to the top spot for the first time since 2001 as it makes progress toward sustainable, steady growth—even, in the context of serious policy uncertainty, as it works to resolve its debt issues and broader fiscal challenges.
Other developed nations in the top 10 include Canada (4th) and Australia (6th), for their unconventional fossil fuels and minerals, and Germany (7th) and the UK (8th), which are perceived as safe despite Europe's ongoing debt and political issues.

Emerging markets continue to charge ahead. They account for 16 of the top 25 countries in the Index, with China (2nd), Brazil (3rd), and India (5th) all in the top five once again.

"The global distribution of economic power has fundamentally shifted," Kaul said.

Consider that today, the gross world GDP, or Gross World Product, from China, Russia, Brazil, India and Mexico is greater than that of the combined dollars generated by the combined developed/advanced economies of the U.S., Japan, Germany, U.K. and France. (See Figure 1)

A Shifting and Dispersing Economic Center of Gravity

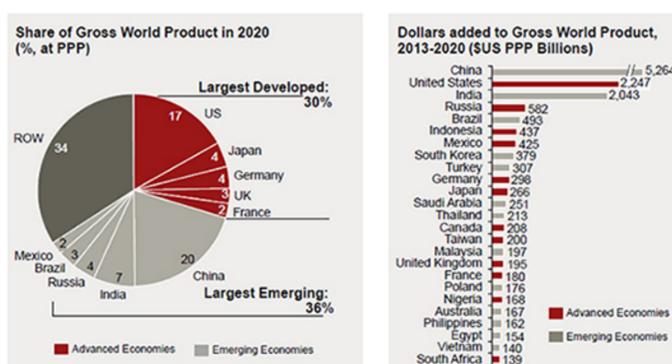


Figure 1

This results in a more dispersed, broadly based global economy that has, said Kaul, "fundamental and strategic impact on the businesses of every single one of your customers, whether they be in the food business, the personal care business or any other consumer business."

Amid the prognostication, Kaul stressed that he doesn't call himself an economic forecaster.

"Economists are under a mistaken belief that economics is a science," Kaul said. He noted that most results from economic forecasters – of which he is not one – (unlike physics or chemistry) cannot be tested under controlled conditions in a laboratory.

To drive the point home that no one can be sure of what the future will bring, Kaul cited a quote from Zbigniew Brzezinski, former U.S. Secretary of State:

"We live in a world today that is in fact already very different from the one which we have begun to comprehend, and by the time our comprehension has caught up with the new reality, the world is likely to be even more drastically different in ways that today may seem unthinkable"

Overall global news is positive, but with 'wildcards'

Caveats aside, the best data at Kearney's disposal indicate that between 2014 and 2020, the global economic recovery appears ready for a return to the average global growth of roughly four percent experience between 1990 and the 2008 global financial crisis.

Key wildcards that can affect forecasts for 2020, Kaul added, include current U.S. Federal Reserve policies that he said may shave as much as a point from GDP next year. Europe's core financial institutions are grappling with "toxic debt" and Japan's late start, if at all, in undertaking needed structural reforms following a decade of deflation are key factors.

Despite the grand scale of such trends, even small contract packagers will be affected by their outcome. For instance, how well countries manage policy discipline and structural reforms will determine which will present stronger market opportunities for large companies — the leading-brands that contract packagers serve. Even today, those leading companies are working on strategies to navigate an era of rapid growth amid constrained resources; increasingly intense competition as fewer, larger companies struggle to secure those resources; and efforts by leaders to "unlock value" and fund growth.

Emerging market growth pains

China overtook the U.S. in 2013 as the world's largest goods trader, and will continue to lead the BRIC (Brazil, Russia, India, China) nations in growth through 2020. But the bubble-prone government investment-driven economy faces growing pains. These include a shift from an external imbalance (over-reliance on exports) to an internal imbalance (over-reliance on domestic investment), which leaves the country vulnerable to slumps in exports and investment bubbles. Through this shift, the key challenge for China remains: a need to unlock consumer-driven as opposed to government-driven growth.

China's challenges present opportunities for economic and market growth in additional regions, including Africa and Latin America, whose justifications for investment vary, despite recent commodity and manufacturing weaknesses in the former and short term structural debt problems in the latter, specifically in Brazil. (See Figure 2)

Looking ahead, three regions to watch are ASEAN, Sub-Saharan Africa and Latin America

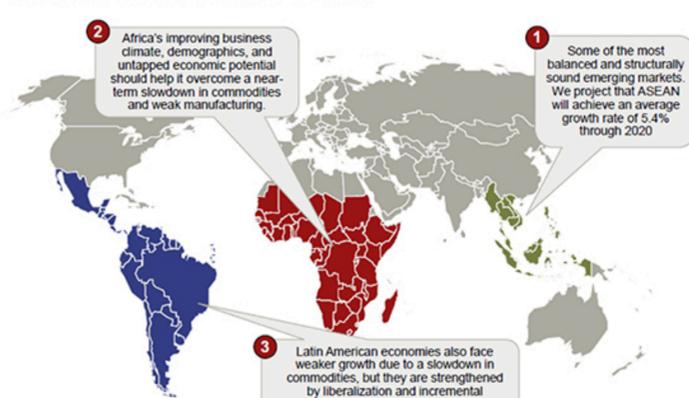


Figure 2

Despite a generally optimistic global economic outlook, significant risks persist in a number of areas including:

- The pace and coordination of U.S. monetary tightening
The state of European bank health and credit growth
China's "hard landing"
Post-Crisis bubbles
Deflationary pressures
Resource scarcity and volatility
Geopolitical instability

Worrisome water, formidable technology

"Did you ever think about water as a weapon?" asked Corelogistics CEO Eric Wilhelm in introducing Kaul at the CPA Annual Meeting.

This question was asked because the scarcity of water and other resources, as well as political instability, will not only change how goods and services are manufactured and distributed, but also as it's already driving many of the world's top food and CPG brands as well as retailers, to brace for impact.

In turn, Kaul spoke of a "Global Resource Nexus" in which the interplay supply and demand for food, energy and water entails some troubling considerations. Consider the demand for these resources: from water, demand will rise 50% from 2000-2050; agricultural demand by 35-50% by 2050; and energy demand by 15% by 2020. At the same time, as water supplies are becoming constrained, agricultural productivity has flattened over the last decade and geopolitical instability is expected to disrupt energy supplies.

This complicates major industries such as food. Whereas price was the leading issue for food in the past, Kaul said that in the future, limited resources may make food unavailable to populations at any price.

Major agricultural firms are already seeing the writing on the wall, and are seeking to buy-up more global resources. Also currently underway, Kaul noted, the U.N. Food and Agriculture Organization's Annual Price Indexes have recorded "record volatility in food prices – and we expect this to volatility to intensify."

Despite the potential upheavals, emerging technologies may help alleviate resource shortages. The coming power of new supercomputing technologies will dwarf today's big data as "exscale" computing, quantum computing and artificial intelligence technologies emerge.

Additional disruptive forces, Kaul said, may alleviate crises, including precision, farming, plant genetics, "test tube" meat proteins and greater farm-to-fork traceability.

As these mega-trends progress, the global economy broadens and workforces shift to new, emerging economies, "hyper-urbanization" will drive more workers — and the world's consumers — to urban centers.

Citing U.N. data, Kaul said that more than 70% of the world's population will be living in cities. The news is mixed, because growth is expected to slow, and the world will face demographic challenges as aging-driven expenditures in developed economies may crowd out investment, weaken economic performance and polarize political landscapes. The world is in transition and no organization participating in it will be unaffected.