



Why This Industry Could be the Fastest-Growing Sector in the World

Description

It's always challenging to determine the long-term growth rate of any industry. Inevitably, things change and forecasts can often prove inaccurate. However, one industry where there could be growth potential in the long run is the tobacco sector. Clearly, the popularity of smoking is declining across the developing and developed world. However, with new products and a rising world population, the future could still be relatively bright for tobacco stocks across the globe.

Rising population

Consumers across the developed and developing world are becoming increasingly health conscious. This means that the proportion of adults who smoke is on a downward trend. This looks set to remain over the long run, with fewer adults choosing to take-up smoking due to the health risks which it poses.

While this would normally mean fewer smokers, the reality is that world population growth could cause the absolute number of smokers to rise in future years. In other words, while the proportion of smokers may fall, their total number may be higher in a decade than it is today. This could create a tailwind for tobacco companies, who may be able to generate higher volumes even with the threat of plain packaging and higher duty by governments across the globe.

New products

One feature of the tobacco industry is its increasing use of new technology. Until the last few years, the sector was viewed as a quasi-utility, with it offering a degree of stability and resilient growth. Thanks to e-cigarettes, however, the nicotine delivery marketplace offers strong growth potential, with other Reduced Risk Products (RRPs) set to come to market over the medium term.

Eventually, tobacco companies may be able to produce a product which offers the same consumer experience as tobacco products, but with next to no negative health effects. Although this may be some way off, tobacco companies are investing heavily in new technology and it could prove to be a growth area for the business. Without the negative health effects of smoking, the downward trend in the proportion of adults who smoke may cease, and it could even be argued that smoking will become

more popular in future.

Long-term growth opportunity

As well as RRP's, tobacco companies may also have scope to move into other product areas such as marijuana. In the US, this is expected to become a much larger market, since an increasing number of states are considering its legalisation. At the same time, a number of major tobacco companies are apparently considering entry to the market, where their ability to generate efficiencies and produce products on a large scale could allow them to generate economies of scale versus smaller rivals.

Alongside the forecast for world population growth and the increasing popularity of RRP's, this means that the tobacco industry could become the fastest-growing sector in the world. As such, now may be the perfect time to consider investing in it.

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Author

peterstephens

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