



Can Cannabis Rescue Beer Stocks From Stagnation?

Description

It has not been a great year for beer stocks. Between flat-lining sales, slow or declining revenue growth, and lacklustre returns, the booze sector has been broadly underperforming this year.

The culprit? Declining beer consumption.

According to a recent Fortune report, [beer sales are falling](#) as people switch to stronger drinks. But even despite the strength in spirits and wine, alcoholic beverages as a *whole* are also on the decline: according to a report by IWSR, U.S. alcohol sales fell by 0.7% in 2017.

Naturally, this has beer makers looking to diversify their product offerings. And it looks like cannabis is going to play a role in their efforts. Companies like **Aurora Cannabis** and **Canopy Growth** have been in talks with beverage companies to develop cannabis-infused beverages. In fact, Corona producer **Constellation Brands** ([NYSE:STZ](#)) went so far as to [invest \\$5 billion](#) in Canopy — a move that was partially inspired by the company's desire to explore this burgeoning product category.

Given all the talks between beer makers and cannabis companies, it seems that we will be seeing a “cannabeer” on the market sooner or later. The question is whether such a product will rescue beer makers from declining sales. To answer that question, we need to look at why beer sales are falling.

Why beer sales are flat-lining

The primary reason for declining beer sales — at least in the U.S. — is people switching to wine and spirits. In 2017, spirits grew by 2.2%, while wine grew by 1%. Beer sales fell in the same period. Reasons for the switch are not fully understood, but may have to do with people seeking lower-calorie alternatives to beer. Another possibility is people switching to cannabis, which is legal in nine states and soon to be legal in Canada.

Cannabis sales on the rise

In contrast to beer, cannabis sales are on the rise. In Denver, Colorado, where cannabis was recently legalized, cannabis sales hit a record high of \$587 million last year. According to **CIBC**, U.S. cannabis

sales will outpace spirits by 2020. And as for Canada, Deloitte estimates that cannabis sales will be worth \$7.17 billion this year with \$4.34 of that coming from the recreational market.

Put simply: booze is in decline, while cannabis is on the rise.

This brings me to my main point:

Cannabis-infused beverages could very well help revitalize beer sales, based on what we're seeing from consumers. While beer sales are declining, the decline is very slight, and the novelty of a cannabis-infused beer alone could drive sales in the short term. Additionally, many cannabis users already use cannabis and beer in conjunction. A product offering the effects of cannabis and booze in one convenient package would be a clear winner with this segment of the market.

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