

Foolish Takeaway: Millennials Will Be Decisive in the Battle Between Cannabis and Alcohol

Description

Cannabis stocks have been hammered after Canada legalized recreational use on October 17. Part of this pullback is due to the global market pullback. The [supply mini-crisis](#) facing cannabis retailers across Canada has also caused investors to sour on the sector.

This will lead to volatility for cannabis stocks until supply catches up – likely not until mid-2019. However, things are looking bright for cannabis in the long term. Consumer trends are particularly promising. Recent data suggests that cannabis could [present a real threat](#) to the market share of the alcohol industry in Canada, and likely internationally as other nations follow suit with legalization.

A study from the University College London found that the proportion of 16- to 24-year olds who do not consume alcohol had climbed from 18% in 2005 to 29% in 2015. The U.K. study revealed that these consumption trends existed across a broad range of classes and ethnic groups.

An annual survey of 50,000 adolescents and young adults in America from the Monitoring the Future study found that the share of college students who consume alcohol daily dropped from 4.3% in 2016 to 2.2% in 2017. The study found that 6.5% of students consumed alcohol daily in 1980.

Cannabis use is a different story. A 2017 Yahoo News poll found that a majority of the 55 million recreational cannabis users in the United States are millennials. The rates of cannabis use have also increased from the early 1990s to the present day. Millennials are not the largest demographic group in North America, so keeping up with their consumer habits will be crucial in the coming years and decades.

Companies are taking notice of these trends, and some of the giants of the alcohol industry are moving to take a piece of the burgeoning cannabis market. **Constellation Brands**, a U.S.-based beer, wine, and spirits producer, announced an additional \$5 billion investment in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) back in August.

The investment raised Constellation's stake in Canopy Growth from 9.9% to 38%. This sparked a surge for cannabis stocks that lasted until this month. Canopy Growth stock has climbed 50% over a three-month span as of close on October 26 after a 19% month-over-month drop.

Earlier in August **Molson Coors Canada** ([TSX:TPX.B](#)) and **HEXO Corp.** announced a joint venture that will focus on non-alcoholic, cannabis-infused beverages for the Canadian market. Molson Coors will possess a 57.5% controlling interest in the joint venture. Millennial alcohol consumption trends have not been kind to beer, which has seen its market share dwindle in recent years. The millennial demographic has turned to favour wine and spirits, which is a dramatic shift from Generation X and baby boomers who were both large consumers of beer.

Many alcoholic beverage companies already possess the capital and operational capacity to make an impact in the fledgling recreational cannabis industry. Once edibles and cannabis-infused beverages

become legal in Canada – expected in late 2019 at the earliest – these companies may have an even bigger edge.

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2. TSX:TPX.B (Molson Coors Canada Inc.)
3. TSX:WEED (Canopy Growth)

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