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# Five recession resistant industries to watch



# Introduction

Despite a positive GDP in Q3, the reality is that we haven't yet reached the lowest point of the current economic cycle. The positive GDP can be attributed to a few circumstantial factors that are unlikely to persist, and with continued inflationary pressures and additional interest rate hikes expected by the Fed, overall economic output will continue to decelerate.

A real recession is coming by early next year and executives need to plan for a down market. As part of that planning, it's important to be aware that even in a down market there are pockets of the economy that will provide opportunities for growth.

**Here are five recession resistant industries to watch:**

## 1. Discount Retailers/Private Label Brands

We know that consumers are currently adopting a budget conscious and savings mentality. To unpack this a bit, we need to return to the height of the pandemic when consumers were able to build up savings thanks to stimulus benefits, Child Tax Care credits, and being stuck at home unable to spend on service sector activities. The level of savings in the U.S. ballooned, and remains elevated relative to pre-pandemic savings levels.

However, at the household income level, the story is a bit different. Middle to lower level income consumers continued to spend even when inflation was up earlier in 2022, bolstered by their savings. However, those savings have now been significantly depleted. As a result, as consumers are becoming more budget conscious across the board, a savings mentality has really taken hold among middle and lower income households.

In looking to save wherever possible, we can expect to see some positive activity from discount retailers and private label brands. Where they weren't before, consumers will be price comparing to find the best deal.





## 2. Non-Discretionary Food at Home

A budget-conscious consumer means that we are also going to see a slight shift away from restaurant and takeout/delivery food services as more food will be prepared at home for a lower cost. As such, food at home products are likely to perform very well during this economic downturn.

Furthermore, when consumers are in the store shopping, they're still going to be looking to save money. Non-discretionary basic goods, necessities and food staples will do especially well, while higher priced specialty products may take a bit more of a hit.

## 3. Automation Technology

The labor market is extremely tight right now with nearly two job openings for every unemployed person, and it's very challenging for businesses to fill open positions. A softening economic environment may help alleviate some of this pressure, but any rise in the unemployment rate next year will be mild compared to past recessions.

Overall, there are less people in the labor force than there were pre-pandemic. Due to a lower level of labor force participation and less people out there looking for jobs, the economy is significantly underemployed relative to economic output.

For the U.S. to be more efficient when it comes to economic output, automation technology, and especially labor market automation, will be an area of growth during the recession. As the labor market shifts and reallocates resources a bit during this economic downturn, efforts to automate labor and reduce headcount will offer businesses some opportunity.

## 4. Healthcare

The opportunity in healthcare is relatively straightforward. The U.S. has a significant aging demographic, representing a large portion of the population entering into retirement age. Healthcare spend is likely to continue to be supported by that older demographic in the long run, regardless of an impending recession.

## 5. High End Luxury Goods

As discussed, this recession is going to be felt most by middle and lower-income consumers. Comparatively, consumers at the highest level of household income will likely emerge from this recession relatively unscathed. We don't expect as significant of a pullback in demand for those goods that target the highest earners as their core consumer demographic. High-end luxury brands, products, and companies are likely to fare better during this economic recession.

## Conclusion

An economic recession is on the horizon, but as in most economic scenarios, there are still growth opportunities to be had. As it is relevant and possible, business leaders should be looking to the industries discussed in this report--Discount Retailers and Private Label Brands, Non-Discretionary Food at Home, Automation Technology, Healthcare, and High End Luxury Goods--as opportunities for investment. These will likely be the most "recession resistant" sectors during the current economic cycle's coming downturn.





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