What the Next Recession Could Mean for the Cannabis Industry

By Matt P - October 22, 2019

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In July 2019, the US economy officially entered its 121st month of expansion – the longest in history and a new record.

Now a number of forecasters believe this is coming to an end – while estimates vary, many believe that the next recession could happen within the next twelve months.

This has left cannabis industry observers and insiders speculating on what this will mean for the business. With 2019 being a year of ups and downs, will the next recession do lasting damage? Or is cannabis “recession proof”?

How Bad Will The Next Recession Be?

Like most impending downturns, predictions have ranged from a short, barely-noticeable dip to a full-on economic apocalypse.

First and foremost, it’s important to put things in perspective. It’s understandable that the size and scope of the Great Recession a decade ago has left everyone with a nasty taste in their mouth, and any talk of a future recession is going to put people on edge.

But at the end of the day, they are, fundamentally, a natural part of the market cycle. And while nobody likes them, the last one was certainly an anomaly in its severity.

So, could the next one be an absolute disaster? It’s possible.

But a number of experts like Duke University’s Campbell Harvey are predicting a much milder event. Being haunted by the specter of the late 2000’s, the public and business communities are much more highly tuned to the possibility of a recession, and are ready to act accordingly.

Compare this to a sudden, dramatic shock to the system like the one we saw a decade ago, in which everyone was caught off guard, leading to a sharp, dramatic reduction of jobs and
investment.

**How Well Will The Cannabis Industry Fare?**

Whether it's a mild recession or an aggressive one, the fact of the matter is that – sooner or later – it's going to happen.

While it would be great to get some nice easy predictions based on past data, the question of whether or not the cannabis industry will be hit hard is largely a speculative one. The last major recession was over a decade ago, long before legal pot really became established.

But while we can't rewind the tape to look at past data, we can definitely look to other, similar industries, and see how well they've performed historically.

**Comparisons To Other Industries**

When it comes to recessions, there are some industries which are seemingly "immune" to the effects (or at the very least resistant to them). Essentials like food and beverages, repairs and health services are all no-brainers.

But there are other industries on top of these that also seem immune to the pressures of a downturn as well. This includes two in particular – alcohol and tobacco – which have long have been seen as being in the same “category” as cannabis.

While smoking rates have been falling in general for decades, the sale of cigarettes doesn't seem to decline during periods of economic hardship (many tobacco companies even do well during these periods).

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Despite persistent comparisons, however, it's far more appropriate to look at cannabis in the same vein as alcohol. For starters, marijuana's potential for addiction is far smaller than tobacco's. It also (at least for most smokers) represents an ongoing habit, repeated multiple times per day.

On the other hand, THC usage tends to reflect a similar pattern to alcohol for many people – a non-habitual indulgence. Canadian statistics on cannabis use show that while the rate of daily users (a small chunk of the population) has remained unchanged since legalization, the rate of weekly and occasional users have both gone up.

And while the alcohol industry may not be recession “proof”, it's certainly shown itself to be resilient. During the Great Recession, alcohol was one of the few industries to sustain growth, both during the recession itself and in the years afterwards.

So, apart from comparisons to other “sin” industries, what else does cannabis have going for it that could keep it out of harm's way when the economy eventually takes a hit?

**The Resilience Of Medical Cannabis**

One of the advantages pot has that alcohol doesn't is the fact that it isn't just recreational in nature. The legal cannabis industry is projected to be worth up to $66.3 billion by 2025, and medical marijuana is a massive chunk of that (healthcare is another industry that has historically been very resistant to recessions).

Remember, people don't stop getting sick just because the economy is doing poorly. The fact that the tide has turned, and cannabis has become much more accepted as a form of medicine, combined with more and more doctors prescribing medical marijuana for an ever-increasing variety of conditions, could bode very well for the industry.

**Legalization Efforts**

The fact that cannabis is rapidly being legalized at the state level in the US gives it a massive leg up over other industries. New jurisdictions are being added to the list every year, meaning that there's a steady supply of new brand new markets emerging. The changing and evolving nature of legislation also means that sub-industries (like edibles and infused-products in Canada) are constantly being created.

In addition to this, newly legalized jurisdictions typically benefit from a nice surge in entrepreneurial activity, from growers and dispensaries to marketing companies.

And with a number of state efforts already in motion for 2020, multiple Democratic candidates voicing their support for progressive drug policies, and reform movements happening everywhere from Luxembourg to New Zealand, there's no reason to believe that the trend is going to change anytime soon.

The bottom line is this – even if the industry does take a hit, the fact that it's so new and has so much room to grow is a massive advantage that most other industries simply lack.

Combined with everything else it has going for it (and a little bit of luck) cannabis could very well come out of the next recession relatively unscathed.