

Thematic Investing: be part of the story

Active is: Investing in the new pet economy



For fund distributors and
professional investors only

THE PET ECONOMY BOOM

They spend their days lounging on memory foam mattresses, sipping non-alcoholic wine and wearing gadgets that track their physical fitness. This is not a typical day in the life of a young adult – but rather, in that of their beloved pets.

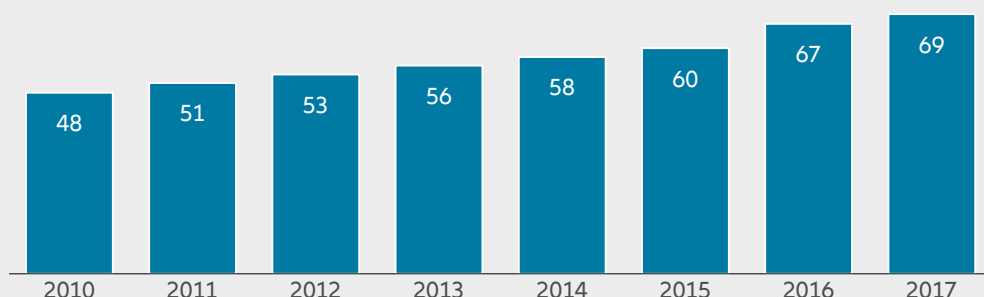
The pet economy may not be what you expect as your next topic of conversation with your financial adviser, but there are several reasons why it's a compelling investment theme.

A thematic investment fund allows people to choose and invest in a theme that is aligned to their personal interests and goals. One segment of people interested in a pet investment fund would be pet owners and animal lovers who are inclined to invest

in companies which help to advance the healthcare and quality of life that pets enjoy – and improve services for the owners.

However, the global pet economy is also a fast growing market segment, with the US taking up the biggest share. The total expenditure in the US pet industry has demonstrated rapid growth between 2010 and 2017¹ (Figure 1), and shows signs that this is likely to continue. This represents a compounded annual growth rate (CAGR) of 5.3%, surpassing the US's GDP growth of 3.8%² in the same period. Other parts of the world are seeing similar developments – for example, the average spending per pet in the United Kingdom has seen a remarkable increase of 76% between 2010 and 2017³.

Figure 1: Total pet industry expenditure in the US, 2010-2017, USD billions



Source: The American Pet Products Association.



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The number of US households that own a pet (85 million) is in fact now far higher than that with children (50 million).

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This rapid growth is attributable to the megatrend of demographic and social change, a megatrend that incorporates macro demographic changes, such as the rise of millennials, ageing population, growing middle class and more single people, with global changes in attitudes.

These shifts are responsible for the two main drivers of the growing pet economy: pet adoption rates rising at the same time as spending per pet is increasing.

Millennial yet-to-be-parents

Millennials⁴ typically have the tendency to delay parenthood and increasingly live in urban areas – but they are still as partial to companionship and the natural world as previous generations. These could be reasons why millennials have just overtaken the baby boomers as the biggest pet-owning age demographic. In 2017, millennials represented 35% of total pet ownership, surpassing the baby boomers' 32%⁵.

Millennials are the most likely age group to treat pets as family members, and, prioritising their health care, they are, for example, more likely to have pet insurance. They are also the most likely age group to state that "money is no object" when it comes to their pets⁶.

In addition to the good news for pets regarding their increasing healthcare budget, pets are getting spoiled with a high end trend of pet pampering. The splurge on pampered pets ranges from the more standard – grooming services and human-grade pet food – to the extreme end – matching pajamas, Pawsecco (non-alcoholic wine) and wearable gadgets to monitor health.

Ageing population

The psychological support from pet companionship is equally important in the hearts and minds of the older generation. With grown-up children and higher disposable incomes, older people spend on average nearly 60%⁷ more on their pets than other age groups in the United States. People are living longer and so there are more single people and couples who seek to benefit from animal companionship.

Increased expenditure on pets by the older generation is witnessed in almost all developed countries, and the trend of the ageing population means that this group is expected to represent one-third of the US population by 2030⁷.

Changing social attitudes leads to recession resistant market

Social attitudes have changed dramatically in the last 50 years. Pets have gone from the yard into the house – and have finally been admitted into the bed. In the US, 95%⁸ of pet owners consider their pets to be part of the family.

As family members are virtually guaranteed a certain level of care, regardless of the state of the economy, this leads to a perpetual demand for products that cater to domestic animals. In addition to traditional veterinary care, pets are increasingly treated to a more human-like standard. For example, in response to the obesity crisis in dogs and cats in the US – where 60% of cats and 56% of dogs were classified as overweight or obese in 2018⁹ – a wide array of premium products such as dietary pet food and health monitoring devices are now available which are gaining momentum as preventative measures.

Due to this enduring and robust level of demand, spending on veterinary products and services has not only grown faster than overall personal consumption, but has also proven to be resilient in recessions. When the Great Recession hit, Americans tightened their belts. However, spending on pets barely declined – and veterinary services spending grew at an average pace of 5.3%, despite the difficult economic climate of 2007 to 2010. Just as people don't stop eating cornflakes in a recession, there're also unlikely to stop paying for their pets' healthcare.

China's rising affluence

Thanks to the country's ongoing economic development and greater disposable income, China's middle class have joined the pet lovers of the world. The pet industry in China has seen significant gains, with a climb in pet care and supplies expenditure amounting to USD 25 billion¹⁰ in 2017, representing an increase of 27% from the year before.

In China, pets are a status symbol. As they remain a non-essential luxury for those on low incomes, once a certain living standard is reached, there is then strong demand. The gradual movement to view pets as family members in developed countries has been rapidly accelerated in China.

Similarly, other developing nations like India and Russia are catching up as growing forces in the pet economy.



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Conclusion

The investment theme of the pet economy appeals to many pet owners and animal lovers. As an investment, it allows them to be part of an area close to their hearts, which helps to advance the healthcare and quality of life that pets enjoy as well as the peace of mind of the owners.

Independently, the theme is attractive for its potential financial growth and the recession resistant nature of its market.

Demographic and social change is one of the most prominent megatrends of our age, but it can be difficult for investors to tap into it precisely and at the right time – given its vast implications across countries, societies and industries. Investing in the pet economy could be one of the most viable ways to participate in the opportunities arising from this megatrend.

The rise of pet influencers

Just as opinion leaders are craving for followers on social media, pet influencers have stepped up their game in publicising their adorable pet pals. It is no rare sight to witness a pet in swanky Gucci “dogwear” in your Instagram feed if you’re an animal lover. The rise of celebrity pets on social media began more than a decade ago. Today, pet influencers with about one million Instagram followers can earn more than USD 10,000 for each photo posted.



Allianz Pet and Animal Wellbeing strategy

Please contact your local AllianzGI representative for information.

FOR FUND DISTRIBUTORS AND PROFESSIONAL INVESTORS IN EUROPE ONLY

AllianzGI, as at April 2019.

Sources:

- ¹ Pet Industry Market Size & Ownership Statistics, The American Pet Products Association
- ² World Bank national accounts data, The World Bank
- ³ Expenditure on pets in the United Kingdom, Statista
- ⁴ Millennials is the phrase used to generally describe a person who reached adulthood in the early 21st century and covers the generation of people born between 1980 and 2000, according to the U.S. Census Bureau
- ⁵ Baby boomers are those born from 1946 through 1964
- ⁶ The 2017 – 2018 APPA National Pet Owners Survey Debut, The American Pet Products Association
- ⁷ 41% of millennials surveyed stated that money is no object when it comes to their pets – APPA National Pet Owners Survey Debut. Statista. IDEXX Laboratories Inc. Investor Day Presentation 2017
- ⁸ Administration on Aging and U.S. Bureau of Labour Statistics
- ⁹ Nielsen survey conducted by Harris Poll, 26th May 2015.
- ¹⁰ 2018 clinical survey, Association for Pet Obesity Prevention
- ¹¹ The World Pet Markets Trend, countries experiencing growth in the pet industry, The Balance Careers

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