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Turning crisis into opportunity

Amidst rising geopolitical instability and aging populations in most major markets, chemical companies need to find new growth strategies which could focus on hot spots such as defence, sustainability and water treatment

Paul Hodges New Normal Consulting

A year ago, we suggested in our New Year Outlook that 2025 would be dominated by "Known Unknowns – issues that we are aware of, but don't properly understand". And the first year of President Trump's second term didn't disappoint.

It also justified our suggestion that "In the short term, agility will be a key success factor in navigating an increasingly complex and uncertain landscape. In the medium-term, however, the ability to develop and implement reinvention strategies will likely separate potential winners from likely losers" (ICB. 10-16 January 2025).

Today, many of these Unknowns have been resolved, and we are much clearer about the challenges ahead. Trump's new National Security Strategy, for example, highlights his intention to "Restore American pre-eminence in the Western Hemisphere".

And his decision to capture Venezuela's President Maduro and bring him to trial in the US confirms this priority. In turn, these developments confirm the need for chemical companies and their business partners to focus on "reinvention strategies" for today's new normal. There is vanishingly little chance now of a return to the Old Normal.

The key issue is that geopolitics, rather than economics, are now the key driver for decision-making.

This means we are living in a different world, where strategic decisions are likely to be increasingly dependent on judgment and risk-analysis rather than number-crunching.

PARADIGM SHIFT

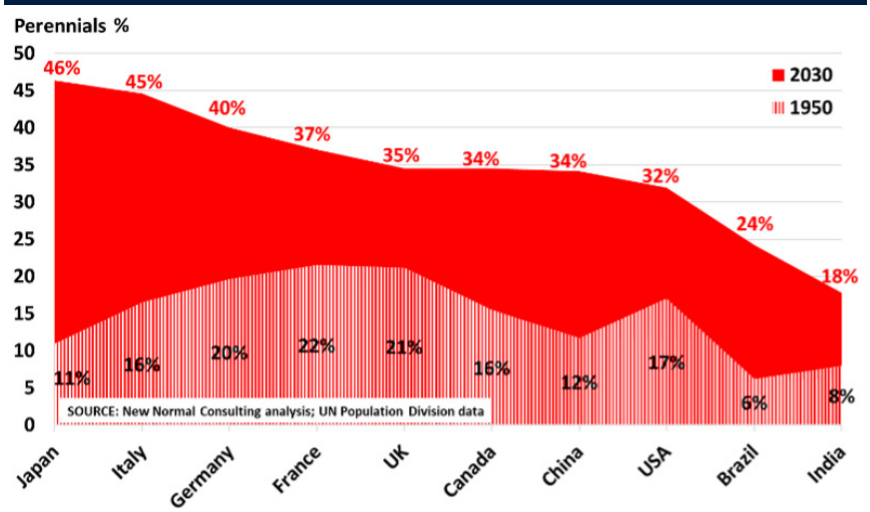
Demographics are a key example of this paradigm shift in action. They are continuing to create a massive shift in demand patterns. The Old Normal was dominated by the vast BabyBoomer generation (born 1946-1970).

They turbocharged chemical demand growth from the 1980s as they moved into the Wealth Creator 25-54 cohort. This is the period when people typically settle down, buy homes and cars, and start moving along in their careers. This dynamic made a perfect fit with chemicals production, which was primarily focused on construction, autos and electronics. Almost inevitably, we moved into a SuperCycle as all the Boomers joined the Wealth Creator group by 1995.

But 2026 marks a major turning point for the Boomers, and for global demand. They all now belong to the Perennials 55+ cohort. This demographic hardly existed even as recently as 1950 when life expectancy averaged around pension age.

And at the same time, fertility rates have collapsed since 1970 in most major countries.

Perennials 55+ population in % in Top 10 economies 1950 & 2030 (F)



Future demand is no longer going to be based on a multiple of GDP growth. Instead, we need to develop new offerings based on meeting today's key untapped Perennial customer need of 'doing more with less'

So for the first time in history, the Perennials are the main source of population growth in the world, and in 9 of the top 10 global economies. The chart highlights the journey we have been on since 1950:

- In 1950, the Perennials were less than 1 in 5 of the population in the Top 10 economies
- By 2030, the combination of medical advances and healthier lifestyles mean they will be more than 1/3rd of the population
- Japan highlights the change – 46% of its population will be Perennials in 2030, versus just 11% in 1950.

REPLACEMENT ECONOMY

The key issue from a demand perspective is that older populations are essentially a replacement economy. They already own most of what they need, and their incomes generally reduce as they enter retirement.

This, of course, is why the central bank stimulus programmes have failed to produce the promised return to SuperCycle levels of growth. Instead, they have turbocharged a massive rise in global debt from $90tn in 2000 to $350tn in 2025, according to the In-

stitute of International Finance (IIF).

And, of course, this increase creates a major headwind for future growth, as the main function of debt is to bring forward demand from the future.

This is why reinvention needs to be the key priority for chemical companies and their business partners. The average Boomer will be 68 this year. And their average spend will be 20%-40% lower than in their peak Wealth Creator levels, according to government data.

Spend on housing and household furnishings, clothing, transport and entertainment is already suffering a major decline. Living on a pension, however generous, is forcing most Perennials to cut back on the discretionary spend that is a key driver for chemical sales.

Essentially, "I want" is being replaced by "I need" for most Perennials, when they come to decide on their spending. Their priorities are also starting to differ by country. Americans, for example, are set to spend increasing amounts on healthcare, whereas these costs are generally covered by national health services elsewhere.

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REINVENTION

This paradigm shift is the key rationale behind the need for reinvention. Until recently, the downturn in age-related spending has been disguised by the stimulus programmes, which supported massive asset price increases in housing and financial markets.

But bubbles can only be kept alive for so long. Already, we are seeing the emergence of a two-speed, K-shaped economy.

People owning houses and stocks have kept spending, whilst others have faced an affordability crisis.

In the USA, for example, the top 10% of US earners account for nearly half of all consumer spending, according to the *Financial Times*.

There are now clear signs that the stimulus party is coming to an end. Bond markets highlight the concerns with longer-term interest rates seeing significant increases. Second order impacts are also starting to appear, with a new Asian Financial Crisis becoming a real possibility.

The IIF estimates Japan and China's debt has now reached 240% and 310% of GDP respectively. Any downturn in their economies will quickly impact the rest of the G10 economies. And unfortunately, the geopolitical tensions created by today's rise in trade and military wars make it unlikely that world leaders would come together, as during the 2008-9 Great Financial Crisis, to agree a co-ordinated response.

Essentially, therefore, most companies now need to reinvent their business models to succeed in today's New Normal world. Trump's trade war, for example, is making it increasingly difficult to operate globally, given the way that tariffs can now change overnight.

OPPORTUNITIES

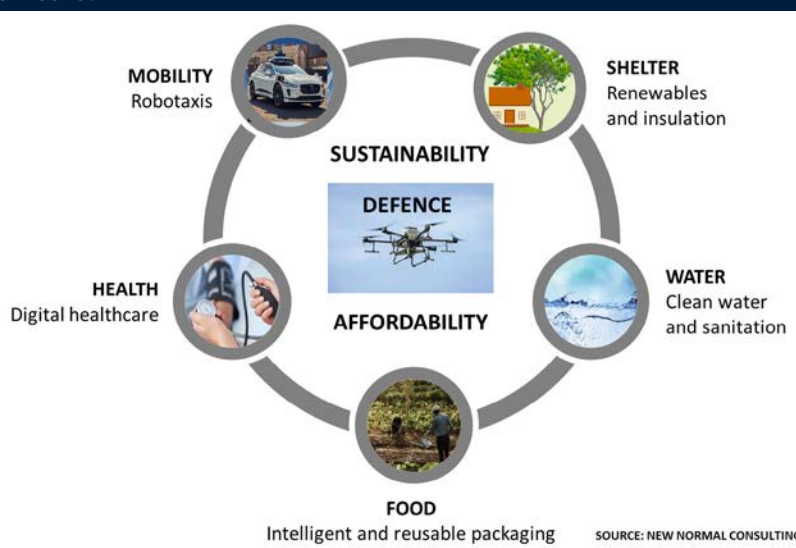
Instead, potential winners will be those who focus on supply chain resilience and being close to their customers. The good news is that this approach allows a range of new opportunities to be quickly identified, as the chart shows:

- Defence is an obvious and urgent need as military wars spread across the globe. It is in urgent need of new thinking and technology, given the lack of investment since the fall of the Berlin Wall in 1989. Ukraine's rapid development and deployment of drones highlights the opportunities that now exist
- Sustainability and plastics recycling are another key area, given the growing need for more local solutions. ExxonMobil is now expanding its advanced recycling capacity in the US to 227,000 tonnes/year. They are also working with Cyclyx, Agilyx and LyondellBasell to build Circularity Centres – which create jobs and reduce waste
- Water treatment also offers major growth potential. Water is, after all, a chemical. Yet water companies are still mostly using expensive and very inefficient civil engineering technologies. Chemical companies using process technologies could do a very much better job at a fraction of the cost, and also gain major public support
- Similarly, the UN Food & Agriculture Organization suggests the world currently wastes one third of all the food produced for human consumption. Intelligent and reusable packaging could dramatically reduce this volume. And other major opportunities exist in the markets for shelter, mobility and health

As these examples confirm, the key to success in today's New Normal world is based on becoming more service-led. Our industry has a wealth of technical and commercial expertise. Today's opportunity is to use this expertise to open up the major new markets that will drive future revenue and profit growth.

Future demand is no longer going to be based on a multiple of GDP growth. Instead, we need to develop new offerings based on meeting today's key untapped Perennial customer need of 'doing more with less'. ■

Consumers need more cost-effective solutions – businesses will become more service-led



SOURCE: NEW NORMAL CONSULTING

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