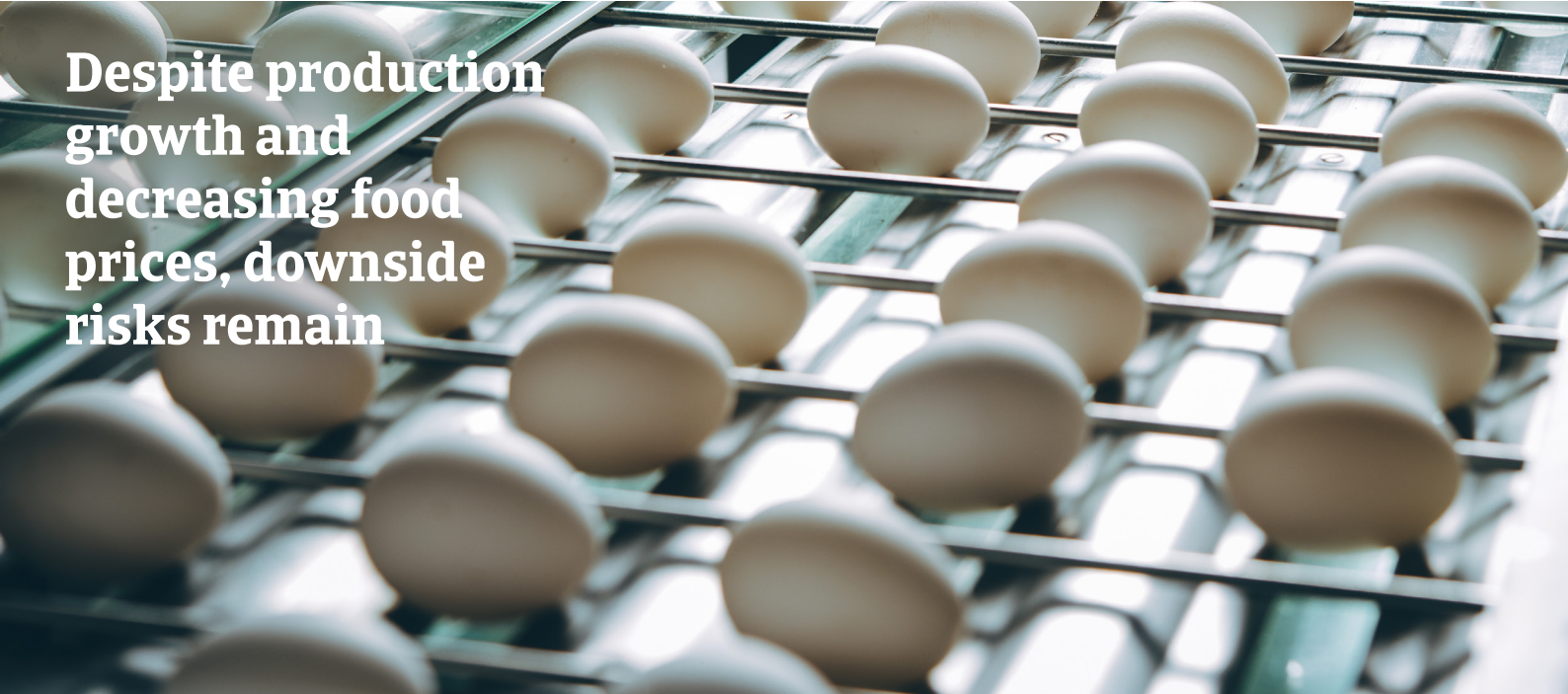


Industry trends

Food and beverages



Despite production growth and decreasing food prices, downside risks remain

Global overview

Output growth of about 3% expected in 2024 and 2025.

Last year tight credit conditions and high inflation weighed on household real incomes across most of the world. While demand for food and beverages is inelastic compared to other consumer goods due to its essential nature, demand for non-essential food products decreased.

This year we expect global food and beverages output to increase 2.8%, followed by 3.1% in 2025. Investment will grow 2.3% and 3.9% respectively. In 2024 all food price indices are expected to decrease, though only mildly. This scenario is dependent on good harvest conditions outweighing the impact of El Niño and India's export restrictions on rice. That dependency on changeable weather conditions highlights the level of uncertainty of food price forecasting.

Geopolitical tensions remain downside risks for agricultural and food price developments. A major escalation of the Russia-Ukraine and/or the Israel-Hamas wars could lead to another energy and food price shock, raising the cost of inputs for producers and lead again to rising food inflation. Another key risk relates to the impact of El Niño, which could disrupt global food supply, putting upward pressure on prices.

Industry performance forecast

Europe		Asia and Oceania		Americas		
Austria	Netherlands	Australia	Philippines	Brazil	Excellent	<p>Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p> <p>Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p> <p>Fair The credit risk situation in the sector is average / business performance in the sector is stable.</p> <p>Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.</p> <p>Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p>
Belgium	Poland	China	Singapore	Canada	Good	
Czech Republic	Portugal	Hong Kong	South Korea	Mexico	Fair	
Denmark	Slovakia	India	Taiwan	USA	Poor	
France	Spain	Indonesia	Thailand		Bleak	
Germany	Sweden	Japan	UAE			
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey	New Zealand				
Italy	UK					

Industry trends

Food and beverages

Global: Key figures food and beverages	2022	2023	2024*	2025*
Production	2.1	1.3	2.8	3.1
Gross output (sales) (real, USD)	1.8	1.7	3.1	3.4
Investment (real, USD)	6.1	4.7	2.3	3.9
Gross operating surplus (profits)	4.8	6.2	1.0	7.2

Output per region	2022	2023*	2024*	2025*
Asia-Pacific	3.0	2.8	5.7	4.9
Europe	2.0	0.4	1.4	1.5
North America	0.6	-0.9	-1.1	0.3
South America	2.3	-0.8	-0.5	2.2

Year-on-year, % change /*forecast – Source: Oxford Economics

Strengths and growth drivers

Structural resilience. Demand is inelastic, due to the essential nature of food.

Emerging markets growth. Disposable incomes are increasing leading to growth in higher value-added goods.

Changing consumer tastes. Consumers are increasingly demanding foods with health benefits.

New technologies. Big data solutions are helping to improve efficiency; there is also growth in scientifically engineered ingredients and products.

Constraints and downside risks

Margin issues. Profit margins for many food producers are structurally thin and under pressure.

Susceptible to sudden crisis. Price volatility, disease and extreme weather are difficult to predict.

Critical consumers. Consumers are increasingly demanding full transparency from producers.

Sustainability. Short-term investment is needed into clean energy, green supply chains, food waste reduction and eco-packaging.



Food and beverages outlook Americas

Food and beverages output	2022	2023	2024*	2025*
Brazil	3.0	1.7	-2.2	2.2
Canada	2.6	-0.7	0.2	2.4
Mexico	2.7	-1.7	-0.9	1.3
United States	-0.4	-1.4	-1.6	-0.3

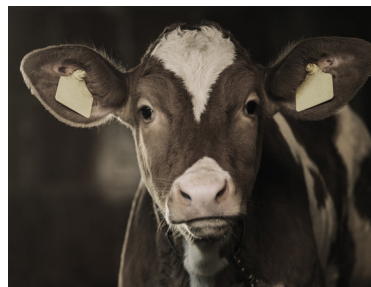
Year-on-year, % change /*forecast – Source: Oxford Economics

USA

Higher input costs weigh on businesses' margins.

Despite the Fed's work to curb inflation, food prices have remained elevated in late 2023 / early 2024. Consumers still seek affordable options, and many retailers have to strain profit margins in a bid to attract them with promotions.

Adverse weather conditions are affecting the supply chain from source to consumer. For example, beef prices have soared as droughts have increased feed cost and led to cattle herd reductions, while orange production has been impacted by severe weather events and disease. El Niño is likely to hamper US agricultural and food production in 2024 due to its impact on temperatures and rainfall. Additionally, labour, logistics and financing costs have increased. All this weighs on the margins and profitability of businesses all along the food supply chain.



Brazil

Impact of higher input prices felt.

The rally in commodity prices triggered by the war in Ukraine has boosted agri-food exporters' profits. However, adverse weather effects caused by El Niño could put a dent in this and reduce production of corn by around 10% and soy by 5% in 2024. Agri-food businesses will also remain affected by higher prices for fuel and fertilisers. Discount promotions by large retailers are likely to result in lower margins for food producers.



Mexico

Outlook for sector remains positive.

Consumer spending on food and non-alcoholic drinks will be supported by easing price pressures. Food consumption will continue to prioritise staples such as meat and poultry, offering opportunities for premiumisation as consumers increase spending. In the beverages subsector tight labour market conditions and income growth will allow increased discretionary spending, driving growth in the alcoholic drinks segment.



Industry performance forecast

Brazil	Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
Canada	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
Mexico	Fair The credit risk situation in the sector is average / business performance in the sector is stable.
USA	Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
	Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Food and beverages outlook

Asia Pacific

Food and beverages output	2022	2023	2024*	2025*
China	3.3	4.2	8.3	5.7
India	-0.5	6.2	2.7	9.1
Indonesia	4.2	0.4	2.6	4.0
Japan	0.6	-1.5	1.0	1.1

Year-on-year, % change /*forecast – Source: Oxford Economics

China

Higher input prices impact margins.

China's rising middle class is more willing to spend than to save on food compared to previous generations. It is also less price-sensitive and seeks higher quality food products. This is partly reflected in growth projections where we expect Chinese food and beverages output to grow 8.3% in 2024 and 5.7% in 2025. Food safety and quality issues remain a top priority for the industry. Prices for energy, transport and labour are currently high and hard to pass on to customers, which could narrow profit margins. Downside risks facing the industry include labour shortages and the additional trade disputes with the US.



India

Food price pressures could increase again.

We expect food production to grow by about 3% in 2024. The sector is characterised by high competition and thin margins. Food producers have been affected by a sharp increase in costs for energy, fertilisers, packaging and transport. As those cost increases have been passed on to retailers and consumers, food price shocks over the past few months have weighed on household incomes. A downside risk this year is the possibility of an El Niño heatwave, which could lead to a reduction in output and increase food price pressures.



Japan

A shrinking population leads to lower demand.

Real incomes are forecast to grow, which is partly boosting demand for more discretionary products like beverages (up 3.4%). Overall, we expect sector output to increase 1% in 2024. Energy, transportation and labour costs have increased, putting pressure on the profits of food producers and processors. Labour shortages are a serious issue for the industry, and as the population is shrinking, domestic food sales will not make advances in the long-term. In response, Japanese food companies are increasingly trying to expand their business further into Asia.



Industry performance forecast

Australia	Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
China	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
Hong Kong	Fair The credit risk situation in the sector is average / business performance in the sector is stable.
India	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
Indonesia	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
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Philippines	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
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Taiwan	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
Thailand	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
UAE	Fair The credit risk situation in the sector is average / business performance in the sector is stable.
Vietnam	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
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Bleak	The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Food and beverages outlook

Europe

Food and beverages output	2022	2023	2024*	2025*
France	-1.0	-1.2	0.7	1.4
Germany	0.7	-1.4	-1.9	0.6
Italy	1.3	-0.9	2.7	2.2
United Kingdom	3.3	0.1	0.5	0.3

Year-on-year, % change /*forecast – Source: Oxford Economics

European Union and UK

Despite a decrease, food prices still stay above 2019 levels.

In 2022 and into 2023 food inflation outpaced headline inflation in Europe. Agricultural commodity prices sharply increased due to supply-chain disruptions, the Russia-Ukraine war and the rising costs of logistics and fertilisers. Surging energy prices severely impacted food production costs, in particular for energy-intensive processes such as refrigeration, processing and transportation.

However, the relative wealth of Western European countries, along with the essential consumer need for food, helped alleviate any severe impact on food sales caused by lower household incomes.

Adverse weather conditions remain a downside risk

The ongoing disinflation in food prices will continue in 2024, with core inflation also decreasing. This will help to ease some of the burden on households. However, despite the recent decrease, food prices still stay above 2019 levels. Current cost drivers in the industry are higher energy, transport, labour and increased loan costs. Food production in the EU and the UK is expected to grow 1.4% in 2024 and 1.5% in 2025. That said, adverse weather conditions such as the heatwaves that scorched southern Europe last summer remain a downside risk for agri-food output and price developments.

In many European markets the profit margins of food producing and processing businesses are structurally thin and under pressure. This is due to a fiercely competitive environment, in which the bargaining power of major retailers and discounters is very strong.



Industry performance forecast	
	Austria
	Belgium
	Czech Republic
	Denmark
	France
	Germany
	Hungary
	Ireland
	Italy
	Netherlands
	Poland
	Portugal
	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
	UK
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Atradius

David Ricardostraat 1 · 1066 JS Amsterdam
P.O. box 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 (0)20 - 553 91 11

info@atradius.com
www.atradius.com

**Connect with
Atradius on social media**
youtube.com/user/atradiusgroup
linkedin.com/company/atradius



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