Atradius

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Global Food Industry Outlook 2024/2025

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Our Trade Sector Experts

The Americas: Selma Rossato
Team Leader of Atradius Risk Services

Selma is Team Leader of Risk Services in Brazil, where her expertise extends across most industries. Based in São Paulo, she began her career with Atradius as a credit manager and has been working in Risk Services for Atradius since 2008. Selma has more than 20 years' experience in the Brazilian credit insurance market.

Asia-Pacific: Shane Tan
Associate Senior Underwriter at Atradius Asia

Shane is Associate Senior Underwriter at Atradius Asia, a position he has held since 2021. Based in Singapore, he is currently responsible for the Food, ICT, Rubber and Scientific Instrument sectors in Singapore, Malaysia and Philippines. Prior to Atradius, Shane worked as Credit Manager in the Credit Operations department of Daimler Financial Services. This position included underwriting construction buyers, project management and management reporting.

Europe: Yoann Gublin
Deputy Industry Leader of Agriculture, Retail and Services

Yoann is Deputy Industry Leader of Agriculture, Retail and Services, based in Paris. His expertise includes a particular focus on the agriculture and agrifood sectors in France. Yoann joined Atradius in 2014, working initially as a Senior Underwriter specialising in Agriculture, Food, Chemicals and Textiles, before he was appointed Deputy Industry Leader of Agriculture, Retail and Services in 2020.

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Production is growing and consumer prices are decreasing, but challenges remain

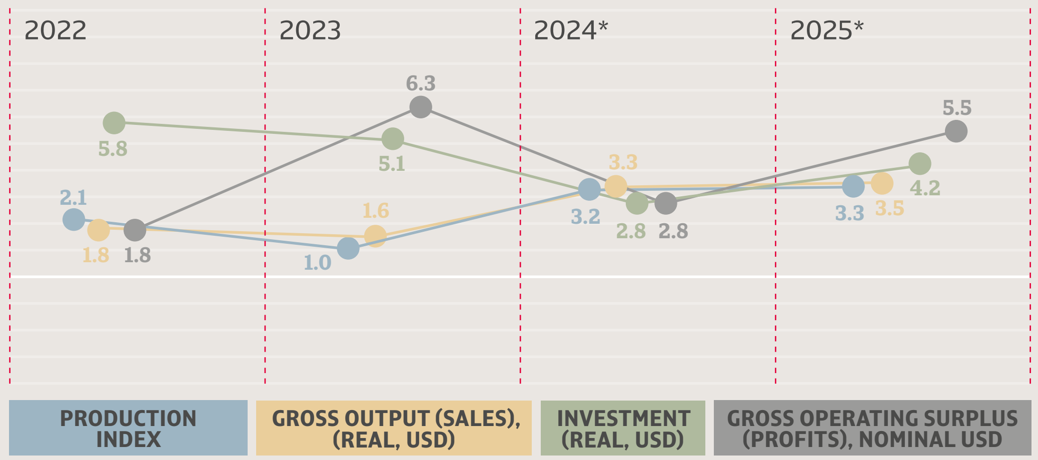
Our basic need to eat underpins the food and beverage industry, insulating it against some of difficulties faced by sectors trading in non-essential goods. This is not to say that the industry is totally protected against economic downturns. Demand for luxuries and non-essential food and drink items decreased last year as consumers tried to balance household budgets against the costs of high inflation and increases in their interest rate payments.

Most indicators suggest the worst is now behind us, with disinflation in the coming months likely to result in a decrease in input costs for producers and food prices for consumers. However, the industry's growth journey is unlikely to be smooth. Geopolitical and climate risks threaten to slow industry growth, especially in the segments and geographies that are most exposed.

What is the global outlook for the food and beverages industry?

Growth predictions for the food and drink industry are notoriously tricky, with unpredictable weather conditions disrupting even the most cautiously crafted outlook. With that disclaimer in mind, we anticipate global food and beverages production to increase 3.2% this year, followed by 3.3% in 2025. Food prices for consumers are expected to ease, although this is likely to be gentle.

Global food and beverages key figures



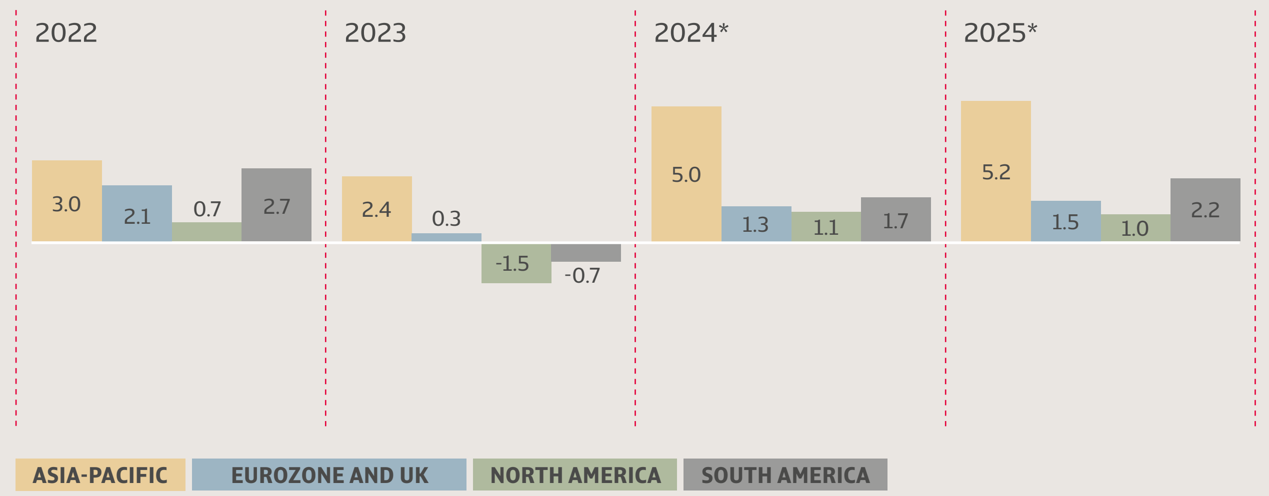
Year-on-year, % change. (*forecast) Source: Oxford Economics.

Clouding the outlook are El Niño, the war in Ukraine, the Israel-Hamas conflict and the Houthi attacks on container ships in the Red Sea corridor.

El Niño usually lasts around a year and typically causes hot, dry weather across Asia and Australia while bringing heavier-than-normal rainfall to the southern U.S. and southern South America. Poor harvests or interrupted supplies could put pressure on prices. Despite the recent decrease, global food prices will stay above 2019 levels. Cost drivers include the high levels of energy prices, transport and labour costs, and elevated loan costs.

In addition, the geopolitical conflicts could cause market instability especially if they lead to energy and food price shocks. This could raise input costs for producers and result in food price inflation for consumers.

Food and beverages output per region



Year-on-year, % change. (*forecast) Source: Oxford Economics.

What is the regional outlook for food and beverages performance?

The Americas

North America

Selma Rossato is a Team Leader of Atradius Risk Services in São Paulo, Brazil. Looking at the the North American food market she says: "Following nearly four years of significant economic disruption led by the COVID-19 pandemic and followed by supply chain challenges, labour shortages and a period of severe inflation, there are signs the North American food and beverage market may be returning to a more stable environment."

"There are signs the North American market may be returning to a more stable environment."

Selma Rossato

That said, until recently US inflation has remained stubbornly high, despite the interventions of the Federal Reserve. The resulting effect is higher food prices for longer, with tight margins for retailers as they increasingly rely on promotions as they compete for customers.

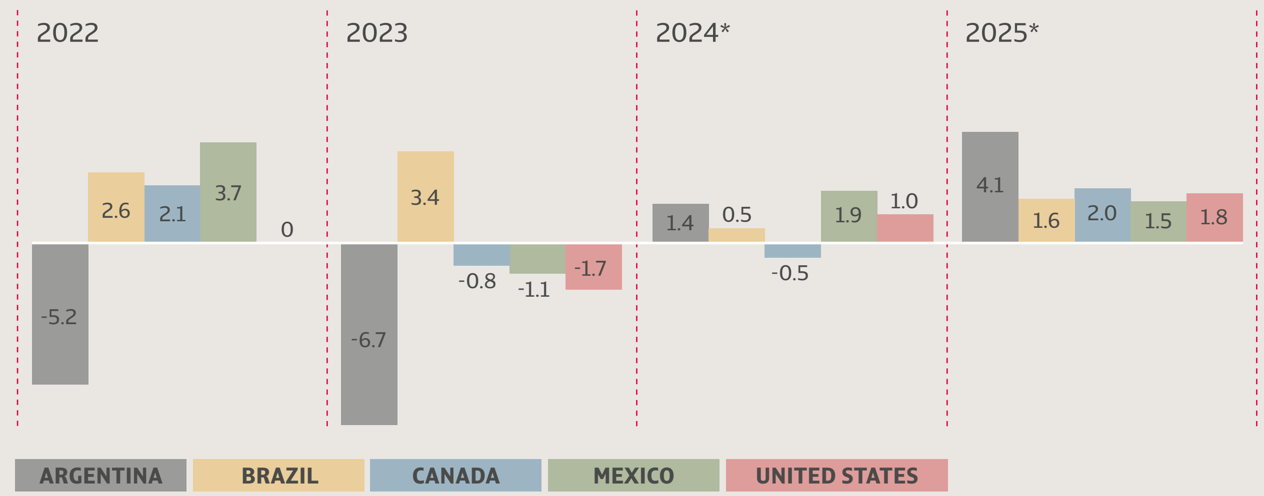
What's more the disruptive effects of El Niño are likely to impact 2024 food production in the US, while labour, logistics and financing costs have also increased. All this weighs on the margins and profitability of businesses all along the food supply chain in North America. The outlook for Mexico is fairly positive, with easing price pressures encouraging greater consumer spending on food and non-alcoholic drinks.

South America

South America is a leading global supplier of fruits and vegetables, supplying about a quarter of global exports in agricultural and fisheries products. Selma notes that the South American food and beverages industry is forecast to grow 1.7% in 2024 after a 0.7% contraction in 2023. She expresses caution over inflation forecasts and warns that despite levels mostly returning to the target ranges set by central banks, there could still be some surprises in 2024.

Some exporters in Brazil have benefitted from the war in Ukraine as global markets pivot towards alternative sources. However, overall agri-food businesses will also remain affected by higher prices for fuel and fertilisers.

Food and beverages output Americas



Year-on-year, % change. (*forecast) Source: Oxford Economics.

Asia-Pacific

Shane Tan, Associate Senior Underwriter at Atradius Singapore, shares his understanding of the industry in the Asia-Pacific region. He explains: “Food makes up a large proportion of spending for general households. Some areas have introduced initiatives to support families via financial aid such as cash vouchers and concessions in order to keep food affordable.”

In many Asian economies, food items make up a big proportion of the overall consumption basket and hence have a large impact on headline inflation. Among the highest are India (46%) and the Philippines (38%). There is not a great deal of margin to enable reductions in costs to consumers, nor in higher profits for producers. As Shane notes: “Food is a very competitive sector with extremely low margins. They do not have the leverage to price higher for profits.”

China

The growth of China’s middle class means more people are spending more on food and drinks. Input costs remain elevated however, especially for energy, transport and labour, and this is causing a squeeze on profits for many producers. Ongoing labour shortages and trade tensions with the US present downside risks.

India

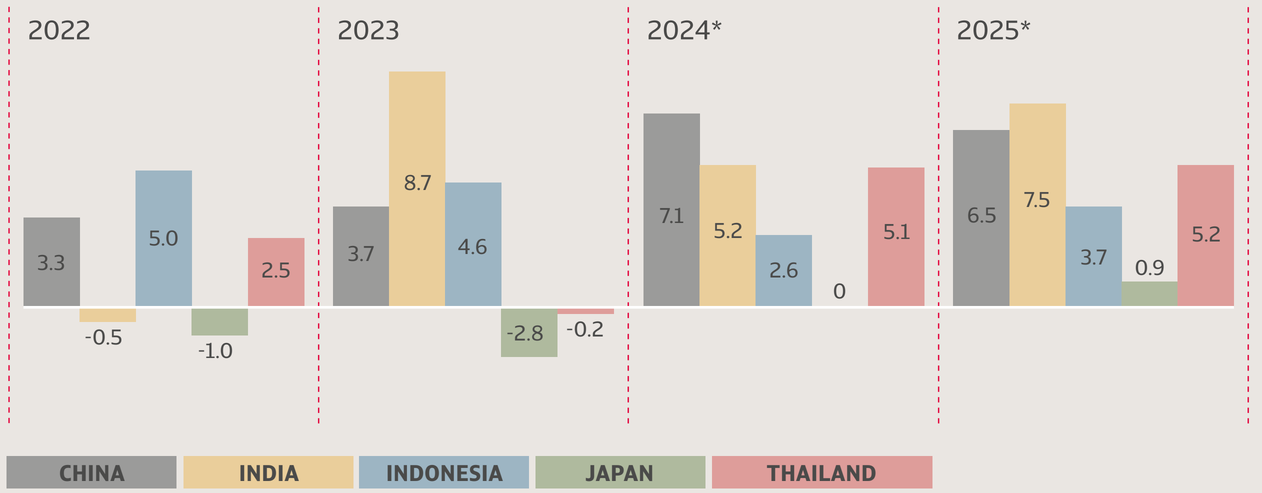
Food price increases over the past few months have hit household incomes, and ongoing high costs for energy and fertilisers could lead to further food price increases. An El Niño heatwave could negatively affect harvests and put further pressure on prices.

Japan

With a shrinking population, the food industry is increasingly looking to expand its exports into Asia. Labour shortages and high costs for energy and transport are also putting pressure on food producers.

> “*There is not a great deal of margin to enable reductions in costs to consumers.*”
>
> ***Shane Tan***

Food and beverages output Asia-Pacific



Year-on-year, % change. (*forecast) Source: Oxford Economics.

Europe

Food price disinflation will lessen the squeeze on household incomes in Europe, although adverse weather conditions including possible El Niño impacts, remain a downside risk for 2024. Fierce competition is putting pressure on margins that are already thin. Smaller producers, especially, may struggle against the bargaining power of major retailers.

Our industry specialist in Europe, Yoann Gublin, says: “The EU should witness a slight economic rebound in 2024 thanks to a general slowdown in price increases, increasing wages, the solidity of the employment market and lower interest rates.” However, he warns of the downside risks presented by geopolitical issues.

France

Consumer spending on food will decrease during 2024, particularly meat, fruits and vegetables, with the organic sector suffering the most. Last year the beverages sector saw a sluggish performance, in particular in export sales of alcohol.

Germany

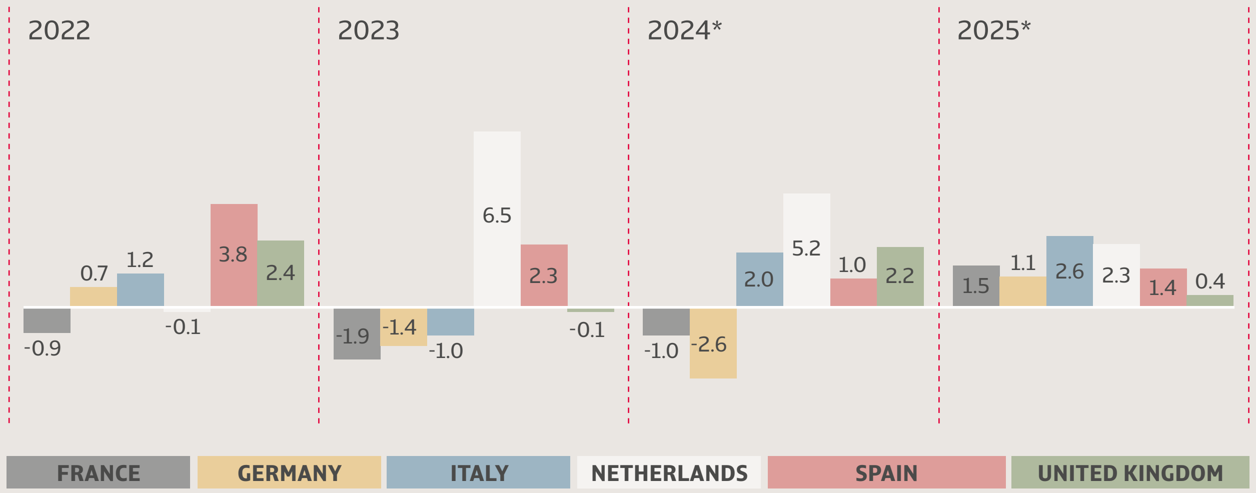
In a rollback of measures to mitigate the effects of Covid 19 in the hospitality sector, VAT on food in the restaurant and catering sector rose from 7% to 19% in January 2024. This is expected to lead to a reduction in the numbers of people dining out in Germany and a possible uptick in bankruptcies in the sector.

UK

The industry is facing another difficult year in the UK, as consumer demand struggles against persistently high interest rates. A deceleration in food prices will help to support sector growth, although this is likely to be modest.

> “*Smaller producers may struggle against the bargaining power of major retailers.*”
>
> ***Yoann Gublin***

Food and beverages output Europe



Year-on-year, % change. (*forecast) Source: Oxford Economics.

What risks does this year's El Niño pose to the industry?

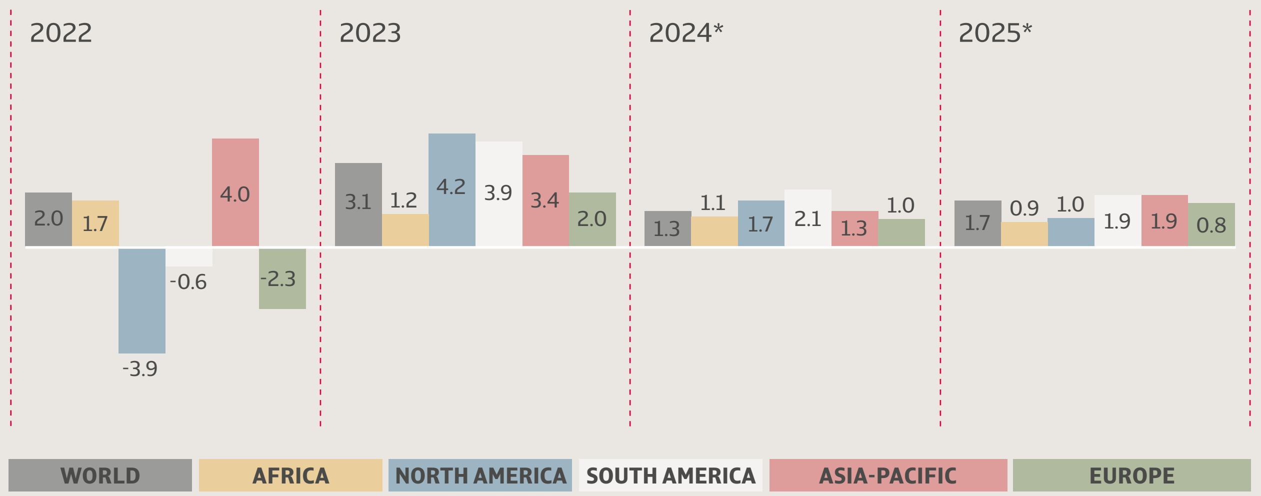
We are currently in the grip of the El Niño weather phenomenon, which along with global warming, has been partly responsible for 2023 being the hottest year on record.

El Niño is expected to last at least through the first half of 2024, according to the latest United Nations forecasts, with abnormally high rainfall due across Latin America raising fears for the agricultural sector. Selma Rossato notes: "In Brazil, El Niño could reduce 10% of corn production and 5% of soy production in 2024 compared to the previous year, according to CONAB (National Supply Company)."

The effects of this year's El Niño in Asia Pacific have been less intense. Shane Tan says: "Although El Niño does induce crop failures, the impact of El Niño on the food sector in Asia-Pacific is expected to be manageable, although it's potential impact on India's monsoon remains a downside risk." He adds: "Even if El Niño conditions persist, price volatility is likely to be short-lived."

El Niño doesn't tend to affect Europe with quite the same force as Asia and the Americas. However, Europe is facing the effects of climate change, including variable drought conditions. Yoann says: "Southern Europe has been the most affected by drought especially the Iberian Peninsula, which has also been impacted by heat waves, which in turn can cause problems for farmers and food producers."

Agriculture output



Year-on-year, % change. (*forecast) Source: Oxford Economics.

How are changing consumer habits impacting the industry?

Consumers look for cheaper and healthier food options in the Americas

The recent surge in food price inflation has led many consumers to change their food-buying habits. In the Americas, Selma Rossato says: "Where food prices are remaining elevated, many consumers are turning to private label products (store own brands) and cheaper retail options like dollar stores, to manage costs. Although nominal spending on food has increased, real spending has been declining."

She adds: "Beyond the price-conscious consumer, plant-based food continues to be one of the most important food trends in 2024. This trend is driven by growing climate and environmental consciousness and more awareness about healthy eating, especially in the younger generation. Consequently, cakes and biscuits, fast food, snacks, sugary drinks and processed meat are expected to lose ground."

Shoppers in Asia-Pacific focus on healthy nutrition

Looking at South-East Asia Shane Tan says: "We've observed lower to middle income consumers switching to cheaper food alternatives and a general fall in luxury spend." Reflecting the experience of the Americas he adds: "In Singapore, we've seen an increase in value dollar shops and more house brand offerings from major supermarkets."

Price-sensitive consumers in China are also changing their buying habits – where they shop, what they buy, how often, and how much they spend. As Shane explains: "I don't expect food and beverage spending to decrease, but rather we are seeing consumers reprioritise their shopping baskets, focusing on at-home solutions that meet their needs in terms of nutrition, health, and sustainability, without compromising on taste."

Lifestyle changes are also affecting consumer shopping habits in Asia-Pacific. With a growing middle class, more people in India have disposable incomes and are increasing expenditure on health and nutrition.

In Japan, increasingly health-conscious consumers are buying more energy and live yoghurt drinks and spending less on processed meats and fast food. Consumers have cut back on coffee, juice and confectionary, as well as cutting down on alcohol (which some attribute to generational change).

Plant-based diets are growing in popularity in Europe

Consumer habits in Europe are also changing. This includes eating out less often and being more price sensitive, choosing supermarket own labels and discounters in place of premium brands. Yoann also points to changes in the types of foods consumers are opting for. He says: "Consumers are making fewer unplanned purchases and are going for cheaper food alternatives, such as substituting red meat for eggs. Many Europeans are also switching to a plant-based diet, although organic food products on the other hand are being neglected considering their high price range."

How have increased input costs impacted the industry?

High costs are resulting in thin margins across the Americas

In many American markets the profit margins of food producing and processing businesses are structurally thin and under pressure. All segments in the Americas have been affected by increased costs of energy, logistics and labour. Selma Rossato notes: “Labour and logistics costs have risen. Retailers are resorting to increased promotions to attract frugal consumers, though this strains profit margins.”

What’s more, many food producers are facing a fiercely competitive environment, in which the bargaining power of major retailers and discounters is very strong. Selma explains: “Big-box retailers are increasingly exploring price reductions, impacting suppliers’ profitability.”

Food manufacturers struggle to pass on costs to consumers in the Asia-Pacific

The prices for energy, transport, and labour are all high in China and this is likely to narrow the profit margins of food producers. Many food manufacturers find it hard to pass on those higher prices.

In Japan, price increases were particularly large for processed wheat products, soybeans, and oils and fats. In addition, the logistics industry is facing the impending “2024 problem” of overtime restrictions for truck drivers. A significant increase in logistics costs is expected locally.

In India, the sharp increase in costs of energy, and soaring prices for fertiliser, packaging, and logistics has led to an increase in the overall cost of food production. Businesses in South East Asia are also sourcing food products from lower cost countries. For example, many food products in Singapore are imported from countries like India, Vietnam and the Philippines. Increasing numbers of food discounters are also appearing across South East Asia, including a rise in the number of own brands from major grocery stores. There is a huge market for these products as the cost of living rises.

Materials costs can be impacted by extreme weather events. As Shane Tan explains: “Torrential rainfall across India caused crop damage and led to green fodder yields to decline. This, coupled with a steep rise in the cost of cattle feed, has led to a nine-year high for fodder prices in the country.”

Ongoing inflation and high wages squeeze European profits

Yoann Gublin explains: “Persistent inflation is squeezing margins for food manufacturers. While some companies have invested in automation, labour costs remain high.”

Conventional food retailers face strong competition from discounters in all European markets. Many food manufacturers are being impacted by cost inflation: higher prices of energy, increasing labour costs, higher costs of raw materials (wheat and other agricultural commodities), increasing logistic costs (fuel) with difficulties increasing prices with food retailers.

While margins in the food industry are structurally low, commodity and energy costs are now reducing. There could be a long lag before seeing immediate effects on their margins since many food manufacturers are committed to energy contracts signed during the highest period of inflation.

Financial resilience and credit risk

The Americas: smaller or younger businesses face higher credit risk

Financing for the sector is available in most markets, but high interest rates mean it is expensive and, as a result, inaccessible for smaller companies and those operating on really thin margins. Selma Rossato says: "Most food producers and processors in the Americas do not have a problem in accessing bank loans, apart from small and young businesses that would normally have limited access to external financing. Access to bank loans depend on individual credit analysis of the producers as well as guarantees offered."

In Brazil, there are specific credit loans (rural credit) supported by the government for agribusiness companies and farmers with lower interest rates.

However, many farming and food producing businesses across the region are operating with higher credit risks. Many of these are smaller or younger companies that have seen interest rates on loans surge, leaving them with tighter cashflows each month as they work to service the debt. In addition, as Selma notes: "Venture capitalists have become more selective over which companies they invest in, shifting their attention to profitable, established businesses."

Asia-Pacific: A mixed picture

External financing is also currently available for most food producers and processors across Asia, with some regional variation. In India, an exclusive food processing fund, amounting to USD 263 million has been established under the National Bank for Agriculture and Rural Development (NABARD). This is dedicated to offering affordable credit to Mega Food Parks across India, with a focus on modernising and expanding food processing units. In addition, loans provided to food processing units and cold chain manufacturers have been categorised under agriculture activities for priority sector lending (PSL).

However, despite such support, many food and agricultural businesses feel pressured to offer extremely competitive terms to buyers, exposing them to excess risk. Shane Tan says: "Food processors of seasonal foods are more likely to be hit by liquidity pressures due to the high inventory they need to hold for a few months. Processors of rice, wheat and pulses remain somewhat vulnerable, given the estimated fall in annual kharif production, as well as the lag in the ongoing rabi sowing season amid El Niño conditions."

Focusing on China, Shane says: "Although it is hard to point to any specific segments facing potential liquidity risks in China, credit risks are present, especially for businesses with longer DSO (days sales outstanding). Credit risk is also higher in general as the economy is experiencing a downturn."

In the food manufacturing industries of Japan, Hong Kong/Macau, South Korea and Taiwan, liquidity safety indicators such as current ratio are generally at favourable levels. That said, this sector is more vulnerable than others to factors such as high inventory, short expiry dates and heavy dependence on a small roster of customers.

Europe: More defaults on the horizon?

In Europe, Yoann Gublin says: "Many European companies benefited between 2020-2021 from cheap lending conditions from the Bond market. Since then, the monetary tightening which was triggered during the Summer 2022 has resulted in the tightening of corporate lending (bank loans and credit lines) conditions in Europe."

He adds: "While interest expenses have significantly increased, this situation led to further pressure on margin generation both for large companies and SMEs. This could lead to corporate defaults. Credit access has also been tightened towards riskier companies, although many food manufacturers seem to have better access to credit than other sectors."

Smaller farming operations and downstream SMEs experience the greatest liquidity pressures. Access to credit can be critical for farmers to strengthen their working capital requirements (especially for fertilisers and animal feed).

Downstream food producers often have to balance higher costs with smaller margins, limiting their capacity to generate liquidity. This includes higher raw material prices, higher energy and packaging prices, higher labour costs, and higher logistic costs. As Yoann acknowledges: "This situation drives many food producers and processors to ask for credit lines to finance their working capital requirements. While large companies may have an easier access to credit, it is not the case for SMEs who often present fragile financial standings and have a higher risk of default."

Are labour shortages affecting the industry?

Labour shortages are an issue for the industry. In many markets, including the USA, China, Japan and Europe, this is part of a wider trend of migration into urban areas and a decline in the numbers of young people seeking agricultural work. In some countries, such as Japan, this is further exacerbated by a declining birth rate and a decrease in the working population.

In the USA, labour shortages cut across food supply chains. There is also a shrinking agricultural labour force as a result of a general decline in agricultural interest of younger adults due to several factors including the barrier to entry caused by high real estate and land prices, as well as set-up expenses and cost of machinery.

The up and down nature of commodity crop pricing, unequal work-life balance and unpredictability of extreme weather events can lead to instability in the industry that is unattractive to many workers. In addition, increased access to education and better job opportunities reduces the number of unskilled laborers available for work in the industry.

Selma Rossato comments: “The most obvious effect of an agricultural worker shortage is of course, less and more expensive food. The second major effect, though, is most visible to farmers, who now have to offer better pay to attract and keep talent.”

Shane Tan reports: “Most factories in China have labour shortages of between 10% and 15%, an issue that could cause food prices to remain high.” He adds: “Lack of labour has always been an issue for food producers and processors in Singapore. The literacy rate in Singapore is extremely high and most Singaporeans have no desire to work in this sector due to poor working conditions and low salary. These jobs are usually taken by foreign workers.”

The role of immigration and new technologies

In Western Europe labour shortages are exacerbated by a negative perception of the sector, fuelled in large part by the low wages, a lack of benefits, limited career prospects and hard-working conditions.

In order to fill shortages, governments such as Italy are turning to immigration by issuing nearly half a million resident permits until 2025. Permits will be delivered to fill shortages in the agriculture and domestic help sectors. French immigration policies have also provided solutions to fill shortages in the agriculture and food sector.

Due to labour shortages many European food producers invest in automation as much as possible. The same goes for other regions. According to Selma: “Smart technology advancements and digital solutions have been in development to address the current labour shortage. Many of these offer clever solutions from drones and self-driving tractors to robotics to help pick, sort, pack and ship. These can increase a farm´s or food processor´s efficiency and improve the working conditions of the workers simultaneously.”

> *“Smart technology advancements and digital solutions can increase a farm’s or food processor’s efficiency and improve the working conditions of the workers simultaneously.”*
>
> ***Selma Rossato***

Food and beverages | Top three opportunities and challenges over the next five years

Top three opportunities for the Americas

1. **Plant-based foods:** The plant-based revolution is sweeping the globe, reshaping our diets and the food industry. With increasing concerns about health, animal welfare, and environmental sustainability, plant-based foods will become the new norm and present a growth opportunity for food producers.
2. **Aquaculture:** Fish farming has been the world's fastest-growing food production system for decades and is now providing more fish than wild capture fisheries for human consumption. While critical to meet future demand for protein, such growth comes with environmental challenges.
3. **Increasing demand:** The world's population will reach more than 9 billion people by 2050. To meet demand, it will be necessary to increase food production by 70% by 2050, according to estimates by the Food and Agriculture Organization of the United Nations (FAO).

Top three challenges for the Americas

1. **Changing customer preferences:** New trends in diets and eating habits are popping up daily (zero-sugar, gluten-free, paleo diet etc), with an increasing rejection of processed food. Food companies will need to adapt in order to avoid losing customers/sales, or damage their brand image.
2. **Young companies in new segments:** Recent food bankruptcies in USA involved companies that were focused on new segments including plant-based, sustainable and alternative agriculture. So although it is important to stay vigilant to changing consumer preferences, these can be risky segments to explore.
3. **Tough competition:** Growing interest in fresh and frozen foods, grab-and-go items and sustainable products will create tough competition for food producers in all segments in the coming years.

Top three opportunities for Asia-Pacific

1. **Food technology innovation:** By introducing technology, farmers could expect improved yields, increased savings and greater climate protection.
2. **Population growth:** The forecast Asian population growth is approximately 250 million over the next decade and this will mean the region more than doubling its total spending on food, from USD 4 trillion in 2019 to over USD 8 trillion by 2030.
3. **Untapped territory:** Large global players are stepping up investments and setting up innovation centres in the APAC region to boost production.

Top three challenges for Asia-Pacific

1. **Climate change:** Unpredictable weather conditions, rising sea levels and temperature swings erode land and severely affect crops and commodities.
2. **Lack of investment:** Asian farmers are typically much smaller than their American or European counterparts with lower capacity or capability for investment in technology. With the expected rise in demand but declining outputs, food prices are likely to rise because of increasing imports from the other regions.
3. **Low margin sector:** This is a highly competitive industry and margins are likely to remain subpar.

Top three opportunities for Europe

1. **Economic growth:** European food production is expected to rise starting 2024 and over the coming years as the European economy should witness modest growth. As inflation is reducing, customer spending power will improve.
2. **EU legislation:** With the European Green Deal, there could be a development in the "Farm to Fork" strategy aiming to make food systems fair, environmentally friendly and healthy.
3. **Ecommerce:** Online distribution is a trend that will keep gaining momentum over the next years through applications and websites. Young consumers tend to buy their groceries online rather than in supermarkets and hypermarkets.

Top three challenges for Europe

1. **Uneven playing field:** The yet to be ratified EU-MERCOSUR trade deal has been protested by farmers all over Europe. Designed to generate exporting opportunities to South America with most EU export tariffs erased, the agreement could unbalance the EU food market with imports of beef and poultry that don't meet strict EU standard and compete directly with European farmers.
2. **Food security:** Given geopolitical tensions, challenge for the EU will be safeguarding food security for EU members over the next years.
3. **Extreme weather and disease:** Climate change will remain a structural issue for European countries but also disease outbreaks that can impact animal breeding (Avian Flu, African Swine Fever) and crop harvests (Fusariosis, Septoria).

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