S&P Global Ratings

Consumer Products

Brands look to regain volumes as pricing cools down

This report does not constitute a rating action.

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What's changed?

Easing of input, material, and energy cost inflation. This has enabled consumer product companies to moderate pricing and redirect their focus to volume growth.

Carryover pricing will improve gross margins. The previous price increases' carryover effect should help most consumer goods companies to rebuild their gross margin. However, coffee and cocoa are seeing price spikes due to a weak harvest. We expect to see sharp price increases, which will hurt volumes, in the coffee and confectionary segments.

Brands look to regain the market share from private labels. Branded consumer product companies are investing in product innovation and increasing promotions to regain some of the lost ground to private labels.

What to look out for?

Tough negotiations with retailers. Consumer product companies should expect tough price negotiations with retailers, especially grocers and supermarkets, as they seek to restore their price perception compared to discounters.

An increase of advertising and promotional spending. As competition intensifies, gross margin gains from lower input costs and carryover pricing gains will be deployed to strengthen brand equity.

Consumers will cut back on discretionary spending. Lower- and middle-income households remain cautious due to the cumulative effect of higher prices, and they continue to limit purchases of discretionary and big-ticket items.

What are the key risks around the baseline?

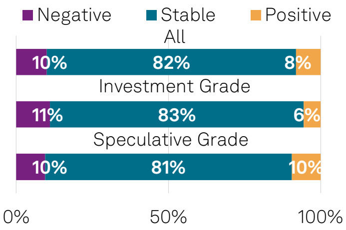
The U.S. and China could remain a challenge. European multinationals (especially those in the personal luxury goods and branded apparel) will experience weaker sales in the major consumer markets of the U.S. and China. In the U.S., cumulative effects of high prices will put pressure on consumer spending, while in China there is a risk of a pronounced slowdown in domestic consumption.

Merger and acquisition activity resuming. In our base-case scenario we expect bolt-on acquisitions; however, multinational investment-grade consumer goods companies, notably in the food and ingredient sectors (who have recovered their credit metrics through strong pricing), may pursue large acquisitions to realign their product portfolio.

Geopolitical risks could hurt trade and supply chains. Spillovers have been lower than we expected but further escalations could induce supply chain bottlenecks and commodity price volatility, negatively influencing global trade and consumer sentiment.

Rating Trends

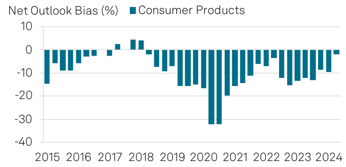
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	36	63	99
Downgrades	1	5	6
Upgrades	3	9	12

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.9	2.2
EBITDA growth (Y/Y%)	4.8	8.0
EBITDA margin (%)	17.4	15.2
Capex growth (Y/Y%)	4.9	12.8
Debt/EBITDA (x)	2.5	5.8
FFO/Debt (%)	31.2	9.1
FOCF/Debt (%)	18.1	3.9

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Sector Update: Sportswear: Robust Growth Prospects Amid Intensifying Competition, June 25, 2024

Credit FAQ: Unilever Streamlines Its Portfolio By Separating Its Ice Cream Business, April 16, 2024

SLIDES: Consumer Goods 2024 Outlook: Carryover pricing supports margins, volumes stay subdued, March 11, 2024