S&P Global Ratings

Consumer Products

A pinched consumer and more promotional spending

This report does not constitute a rating action.

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What's changed?

Consumer discretionary income further erodes. Higher interest rates and the cumulative effect of inflation have caused U.S. income growth to lag spending since the middle of last year. Excess savings are now depleted. Lower consumer discretionary income, particularly for low-income consumers, will likely lead to less spending.

Aggressive cost savings will support higher brand investment. Many companies expect low-single-digit inflation and limited price increases for the remainder of 2024. Also with fewer supply chain disruptions, they have resumed productivity measures, including cost savings. However, many will reinvest these savings into advertising and promotions to drive volume growth.

Stalled margin recovery from more promotional spending and a negative mix shift. In addition to higher promotional spending to recoup volumes, companies are facing a negative mix shift to lower-margin offerings as shoppers seek value, buy closer to consumption, and shop across multiple channels. More at-home consumption should also pressure margins as higher-margin on-premise sales shift to retail value offerings.

What to look out for?

Market share losses to private label and a pause in premiumization. Private label has gained market share over the past year due to larger price gaps relative to branded competitors and increased availability of products from a normalization of supply chains. Premium priced products are losing share, particularly for spirits companies.

Weak demand for discretionary products, though margins may have bottomed. Demand for household appliances and apparel will remain weak after sales were pulled forward during the pandemic, and discretionary income is now pressured. Moreover, high interest rates will likely constrain durable purchases tied to housing turnover. Although retailers will reorder cautiously, there is no longer a large inventory overhang, so margins could rebound from less discounting.

Less deleveraging with most companies operating within their financial policy targets. Leverage reduction will be limited to companies in subsectors that have underperformed expectations, including durables, apparel, and protein processors. Apart from these, consumer products issuers have largely reduced leverage to their long-term targets and will likely prioritize shareholder returns or bolt-on acquisitions as valuations remain lofty for larger transactions.

What are the key risks around the baseline?

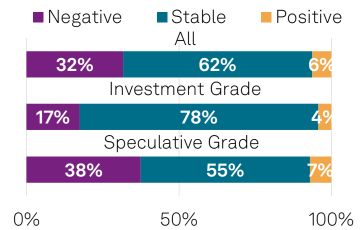
Weaker than expected volumes. Price elasticities may become more pronounced, leading to lower consumption and a higher market share for value products.

Stubbornly high interest rates. If inflation does not fall as expected, rates could stay higher for longer, further pressuring consumer wallets.

Supply chain disruption and heightened geopolitical risk. Geopolitical tensions could escalate and further disrupt supply chains, pressuring margins and cash flow.

Rating Trends

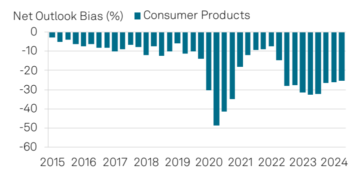
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	46	112	158
Downgrades	3	13	16
Upgrades	0	15	15

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.8	2.0
EBITDA growth (Y/Y%)	3.7	6.3
EBITDA margin (%)	19.8	14.7
Capex growth (Y/Y%)	4.9	4.5
Debt/EBITDA (x)	2.3	5.4
FFO/Debt (%)	33.3	10.5
FOCF/Debt (%)	19.7	5.9

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

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