S&P Global Ratings

Capital Goods

All those new factories will need equipment

This report does not constitute a rating action.

Don Marleau, CFA
Toronto
donald.marleau@
spglobal.com
+1 416 507 2526

What's changed?

Revenue growth takes a pause as customers destock. Industry throughput has slowed, but demand still looks good. Inventories are normalizing but could remain elevated as supply chain risks persist.

Equipment investment should follow a boom in plant construction. Our economists expect a jump in equipment investment in 2025 and 2026, following a surge of factory construction from large U.S. stimulus programs.

Demand, profits, and credit hold steady through a cyclical pause. U.S. capital goods companies mostly finished a cautious 2023 with good credit buffer, so any slowdown in 2024 looks manageable.

What to look out for?

Megatrend spending might be lumpy. The race to build factories in the U.S. could also stop quickly. Investment decisions for energy transition, strategic manufacturing, and infrastructure all face starts and stops.

Orders keep slowing while costs stay high. We are assuming that revenue picks up in 2025 and 2026, so more destocking in late 2024 could indicate a deeper downturn. Meanwhile, input costs and labor could be sticky in a moderate downturn.

U.S. capital goods companies go shopping. U.S. capital goods companies have outperformed their global peers in revenue and profit growth for a few years, and the U.S. dollar is strong. The largest transactions in recent years have been spin-offs, so the prospects for international mergers and acquisitions look good.

What are the key risks around the baseline?

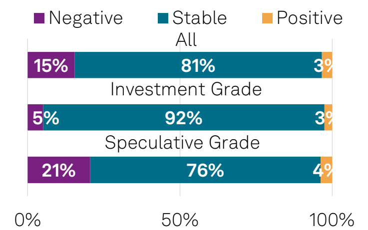
Interest rates slow big investments. Rising interest slows manufacturing activity with nearly every tightening cycle. Fiscal stimulus is counteracting monetary factors in this industry, but tighter funding conditions could throttle the pace of investment.

Costs and capabilities limit growth or eat into margins. Even with robust demand, elevated costs or poor labor productivity could affect earnings amid otherwise good market conditions.

Higher-for-longer interest rates cause more speculative-grade distress. Maturities start rising in 2025 for highly leveraged private equity-owned issuers. Distress is already evident as some companies struggle to fund higher cash interest from earnings while valuations will affect refinancing large debt stacks.

Rating Trends

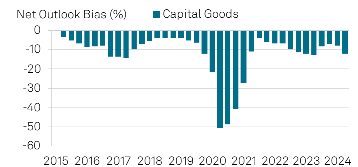
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	39	78	117
Downgrades	2	5	7
Upgrades	2	12	14

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	3.9	4.5
EBITDA growth (Y/Y%)	4.8	6.0
EBITDA margin (%)	21.9	16.8
Capex growth (Y/Y%)	5.2	10.8
Debt/EBITDA (x)	2.0	4.3
FFO/Debt (%)	41.2	13.8
FOCF/Debt (%)	30.9	6.2

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

Related Research

Evolving Risks For Credit Quality In U.S. Capital Goods, Jun 18, 2024

Bulletin: Deere & Co. Maintains Strong Credit Buffer Despite Agricultural Downturn, May 16, 2024,

Rockwell Automation Inc. Downgraded To 'A-' From 'A' On More Aggressive Financial Policy; Outlook Stable, Jul 02, 2024