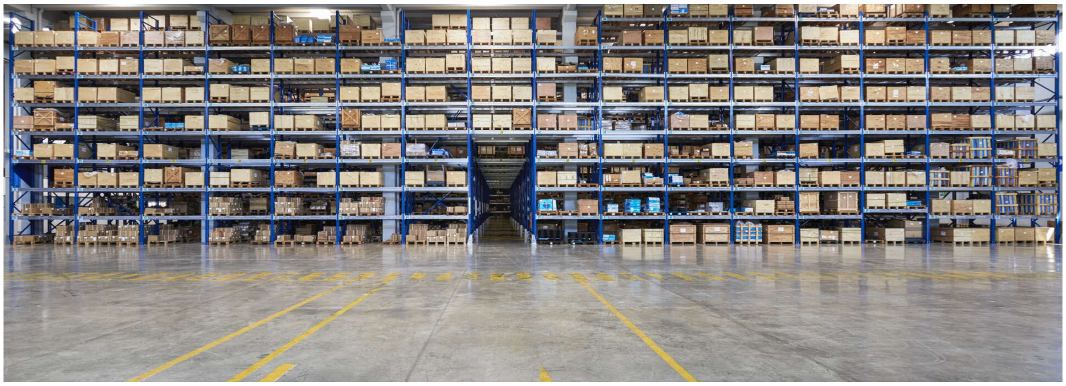
S&P Global Ratings

Consumer Products

Volumes remain anemic even as brands rein in pricing

January 14, 2025

This report does not constitute a rating action.



What's changed?

Rejuvenating volumes is the top priority. As the capacity to raise prices further is limited, consumer goods companies shift their focus from price to volume-driven organic growth.

The appeal of private-label products is up among consumers. With falling inflation, private labels have more flexibility to cut prices compared with brands.

Many companies have dialed back on premiumization. High list prices have temporarily slowed premiumization. However, it will remain a long-term industry trend, especially in mature markets.

What are the key assumptions for 2025?

Promotions will increase even as list prices will remain high. Faced with value-conscious consumers, brands will ramp up promotions and commercial initiatives to regain market share.

The West nears peak volumes. Large consumer markets in Asia, Latin America, and Africa will drive growth opportunities but will not compensate for the sluggish volumes in the West.

Financial policy surprises will be limited. Shareholder returns will be predictable and M&A selective. Conglomerates will carve out noncore, lower-growth, or less-profitable product lines.

What are the key risks around the baseline?

Sales contracting in the U.S. and remaining weak in China. Simultaneous weakness in the large consumer markets will stress operating performance and weaken credit metrics.

Inability to recalibrate growth targets and optimize inventory levels. Weaker demand will lead to increased working capital and hit free cash flow.

Tariffs and geopolitical conflicts. High tariffs and possible retaliatory actions, coupled with the escalation of geopolitical tensions, could severely hit global trade and supply chains.

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Ratings Trends: Consumer Products

Chart 1

Ratings distribution by region

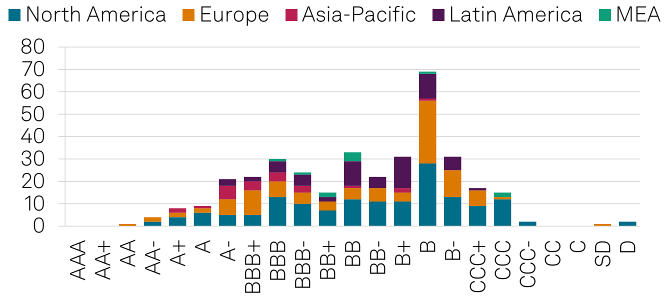


Chart 2

Ratings distribution by subsector

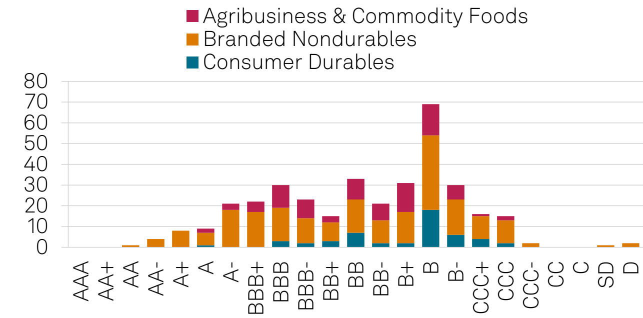


Chart 3

Ratings outlooks by region

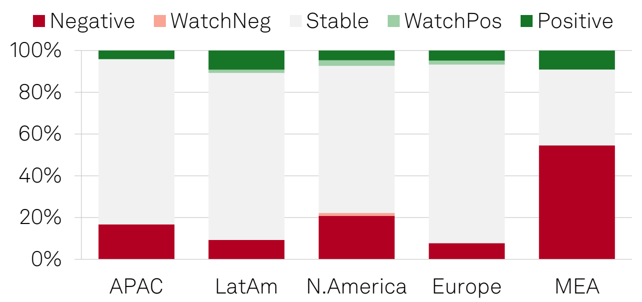


Chart 4

Ratings outlooks by subsector

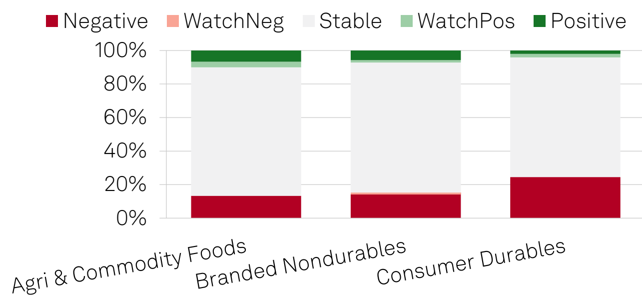


Chart 5

Ratings outlook net bias by region

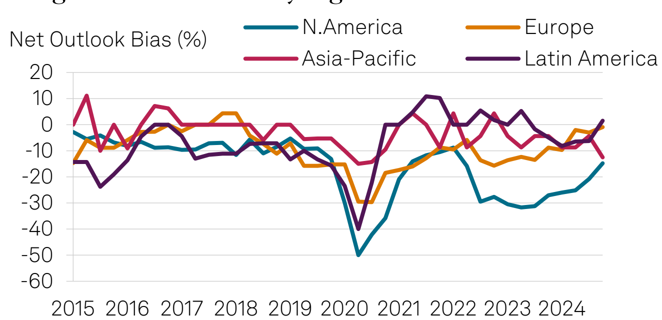


Chart 6

Ratings net outlook bias by subsector

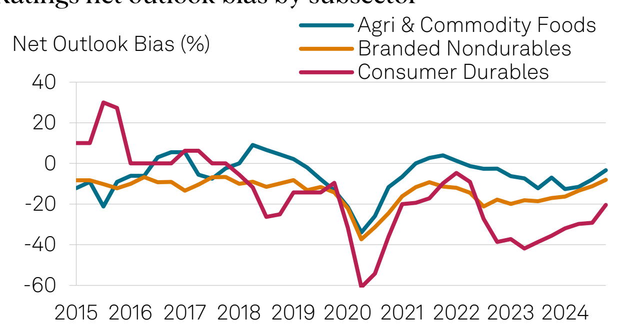


Chart 7

Ratings outlooks

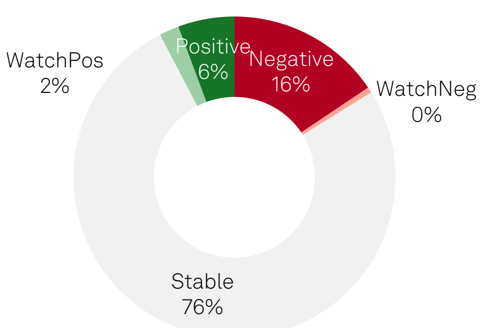
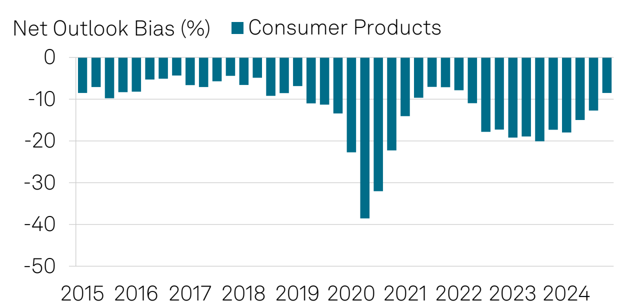


Chart 8

Ratings net outlook bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook

Ratings trends and outlook

In 2024, upgrades and downgrades were almost evenly matched. There were 45 downgrades across the global consumer products sector (across branded nondurables, agribusiness and commodity foods, agricultural cooperatives, and consumer durables) compared with 44 upgrades. Most of the downgrades (38) were to speculative-grade issuers. The negative rating actions were primarily due to these companies' weakness in top lines, stemming from higher exposure to discretionary demand and weaker margins in addition to high leverage. With already-high prices, many of these companies experienced volume pressure and aim to cut costs to improve margins, but risk intensified because of high interest rates and economic uncertainty. Weakening of consumer demand also led to the negative outlook bias remaining high. Globally, we have negative bias (negative outlooks and CreditWatch negative placements) on about 16% of the issuers we rate in the sector—7% lower than a year ago. More negative outlooks in North America reflect the greater proportion of discretionary products manufacturers instead of greater pressure in the region.

In the U.S., rating actions became more positive, with the ratio of upgrades to downgrades at 1.2 to 1. This is opposed to 2023, whereby downgrades exceeded upgrades. Margins improved as inflation moderated and companies lap up the large price increases over the past few years to offset inflation. Some speculative-grade issuers addressed debt maturities as interest rates fell. Still, 70% of ratings on U.S.-based issuers are speculative-grade and negative outlooks constitute about 21% of issuers. About 15% of these issuers are in the 'CCC' category, highlighting the sector's greater default risk.

For 2025, large consumer goods multinationals with strong brands, significant geographical presence, and wide product ranges will strengthen their competitive advantage. These companies have sufficient price and mix flexibility, as well as product range across value, mass market, and premium segments, to curtail the overall impact of tepid volumes. Accordingly, credit prospects are broadly stable for investment-grade companies, given their strong market positions within their categories, generally good product diversification, sound cash flow, and flexibility to tighten discretionary spending in times of stress.

Still, the 'B' rating category accounts for the highest number of issuers in the sector, at about one-third. This group includes many smaller and highly leveraged companies with weak business risk profiles. They remain vulnerable to significant volatility in operating performance and could find it challenging to restore profitability and cash flows. Higher-for-longer interest rates will also gradually intensify the pressure on many, even as these companies' margins and cash flow haven't fully recovered to pre-pandemic levels. Meanwhile, a pullback in consumer spending or disruption to supply chains from geopolitical conflicts could be a tipping point for many issuers with limited financial flexibility.

Main assumptions about 2025 and beyond

1. Consumers will be resilient but still cautious and price-sensitive.

Easing inflation and resilient labor markets in most developed countries should broadly support consumer spending next year. While the eurozone continues to recover, and emerging markets find their footing, we forecast global slower economic growth in the U.S. and China, the world's two biggest economies and largest consumer markets. Coupled with the lingering effects of permanently higher prices on consumer purchasing power and constrained pricing power, we expect most consumer goods companies will be unable to achieve meaningful top-line growth.

2. Moderate improvement in margins on carryover pricing, offset by higher promotions.

The previous price increases' carryover effect should help most consumer goods companies to rebuild their gross margins. However, as competition intensifies, gross margin gains from lower input costs and carryover pricing gains will be deployed to strengthen brand equity. Greater competitive intensity will lead to more spending on advertising and brand building, but also higher price promotions.

3. Consumer goods companies will have to continue to balance investment priorities.

Companies will continue to invest in digital capabilities, so we expect that capital expenditure will remain elevated. However, we also anticipate higher restructuring spend to improve operations and supply chains. Together with largely consistent shareholder returns, this will leave limited capital for M&A, which will be largely limited to bolt-on acquisitions and opportunistic purchase of distressed businesses.

U.S.

Growth in consumer spending in the U.S. has been surprisingly strong, supported by increases in real disposable income and solid household balance sheets. Consumer resilience was marked by recent increases in personal income and the saving rate. Stronger income growth looks to be more supportive of spending capacity, which has caused us to lift our near-term consumption forecast. However, Donald Trump's policy proposals from his campaign, at face value, could result in higher inflation in the near term and lower growth in the medium-to-long term. The probability of a disruption to the Fed's easing bias over the next two years has risen.

Canada

Unlike the U.S., high interest rates and cumulative effects of inflation have caused Canadian consumers to limit spending. With unemployment forecast to be higher in 2025 and shelter expense remaining high, we expect Canadian consumers to focus less on discretionary spending.

China

In China, we expect retail sales to expand 4%-5% in 2025, similar to 2024 levels. Government subsidies provided through the targeted trade-in program has supported retail sales growth in 2024. Home appliances and electronics such as computers and, to a smaller extent, smartphones have been key beneficiaries. While the program ended in December 2024, the government is guiding an extension of it, possibly with expanded categories. We see a high likelihood for extra stimulus—given ongoing property weakness, and the potential U.S. tariffs hikes to hurt exports—and have assumed the benefit to flow across all categories.

Consumers are cautious and rational in spending despite subsidies from the government and discounts from merchants or retailers. Impulse purchases have been largely absent in 2024. Consumers are anchored toward an every-day-low price mentality; they look for higher quality at the same or lower prices. As such, product makers need to roll out stronger value propositions to attract customers.

Eurozone

Confidence in the eurozone remains weak and labor markets appear more fragile. Despite easing inflation, consumer prices have not declined. Energy and food prices even remain at historical highs, with low-income households most affected. In Europe, we believe the labor market slowdown could accelerate in 2025. That the strong disinflation in the eurozone, underway since fourth-quarter 2022, did not result in job losses is unusual. We anticipate the European Central Bank will cut rates more quickly due to persistently weak confidence and better visibility on the disinflation trajectory. We expect European consumers will remain extremely value-focused and will maintain a cautious outlook toward discretionary spending on consumer goods in 2025.

U.K.

General uncertainty about the U.K.'s economic prospects could continue contributing to consumption reticence over 2025. This is also visible in the difference between consumers' confidence regarding their personal situations and their confidence in the wider economy over the past year. Brexit, the pandemic, cost-of-living issues, and geopolitical developments are making households more worried about job prospects. This is also seen in the U.K. household savings ratio, which suggests consumers have been relatively cautious and spent less than they could afford, despite a robust recovery of real disposable income.

Latin America

Real consumption continued to grow especially in Mexico and Brazil, but year over year volumes were impaired, with higher inflation pressuring consumers’ pockets. The main risk factor for Brazil is the increasing interest rates, which just rose another 100 basis points to 12.25% and is expected to continue rising in the next six months at least to control inflation. Higher policy rates could drag companies’ capacity to invest and led them deploy a significant amount of EBITDA to pay interest. For Mexico, the major risk is potential new policies under the Trump administration that could hinder immigrants’ remittances from the U.S., which could affect consumption in Mexico.

Japan

Real consumption in 2024 will likely end up in broadly flat year-over-year. We expect a moderate recovery in 2025. Nevertheless, underlying consumer sentiment will remain weak following past price hikes on everyday items. Expectations of moderating inflation will also weigh on consumer sentiment. The Bank of Japan could pursue an additional rate hike in 2025. Its policy rate as of November 2024 is 0.25%, the highest in more than a decade. We project its policy rate will rise further to 0.75% by 2025 year-end. However, we do not think it will hinder consumer spending because we expect the hike will likely correlate with income and consumption increases.

Subsector assumptions for 2025

Agribusiness. After significantly lower earnings for most agribusinesses in 2024, which reflected a weak industry cycle across various subsegments, we expect a modest rebound in sector earnings in 2025, if below the highs of 2022 and 2023. The one sector that we project to remain depressed in 2025 is U.S. beef processing, as herd rebuilding is not likely until 2026. A rebound has already taken hold for certain segments, including pork and chicken processors globally (which benefited from lower feed costs, a rational supply volume, and price support from high beef prices), and ingredient manufacturers globally for which lower input costs and inventory restocking enabled margins to rebound closer to historical levels. Brazilian sugarcane processors should continue benefiting from high sugar prices and a recovery in productivity levels from this year's decline of 10%-25% due to the severe drought, while ethanol prices continue to recover to parity with gasoline prices. The overall sector could benefit from the change in regulation to increase ethanol blend into the gasoline to 30% from the current 27%. Those trends should continue in 2025, although cautious consumer sentiment elevates the risk for ingredient manufacturers if input cost inflation returns.

Still, global agricultural commodity supplies remain high, which we think will mute the earnings rebound from the lows of 2024. This is particularly the case for grain traders, which we project will face limited margin opportunities given elevated stocks and expected large harvest volume in 2025. Although higher tariffs could cause trade flow dislocations, which would benefit the sector, we think the impact will be muted as trade flows are less likely to be disrupted after they are reconfigured, namely China prioritizing South American imports following any U.S. tariffs. Other headwinds muting a more pronounced rebound is the high level of uncertainty on U.S. biofuel policy, which could keep oilseed crush margins under pressure, though growing biofuel demand in other regions coupled with healthy demand for feed continue to support our expectations for a modest rebound for grain and oilseed processing. Elevated and expected rising interest rates in Brazil could hinder investments and cash generation, especially for highly leveraged issuers that will need to redirect a large part of EBITDA for interest payments.

Overall, credit measures remained largely in line with our expectations during the 2024 downturn, even rebounding for issuers with high leverage as their cyclically weak earnings sequentially improved, resulting in several outlook revisions to stable from negative. As such, any rating pressure in 2025 should be limited to issuer-specific circumstances, including recent M&A, governance, and financial policies.

Alcoholic beverages. With most alcoholic beverage companies underperforming our expectations year-to-date in calendar 2024, we expect performance to remain subdued at least through first-half 2025, when most rated issuers close their fiscal years. The sector continues to face several near-term issues, including weak consumer demand in developed markets (particularly the U.S.) leading to a shift away from premium sales, weak Chinese sales that have further hurt premiumization, lower on-premise demand, inventory destocking (although these are stabilizing), currency issues, and possible tariffs. With regard to the latter, we anticipate amplifying effect on already-weak Chinese sales for European players exposed to the cognac and brandy category, given the ongoing trade spat between the two parties. Chinese authorities formally implemented additional tariffs ranging from 30%-40% in late October 2024. As a result, we have a cautious outlook for 2025, with the possibility of additional risks materializing. Still, there are pockets of growth in certain emerging markets (like Brazil, Southeast Asia, and India) that should offset risks for issuers with a global footprint, particularly brewers. In addition, we view current problems plaguing the sector as temporary and continue to think the trend toward premiumization will continue benefiting the sector beyond 2025. M&A is not likely to pressure credit measures in 2025 as the handful of recent acquisitions have not materially increased leverage while several other issuers have announced divestitures of noncore brands that should lead to debt repayment. Moreover, cash flow remains healthy and credit measures largely in line with expectations such that downgrade risk for the sector in 2025 is largely contained.

Apparel. Our rating outlook on the subsector is negative due to an uncertain macroeconomic landscape and cautiously spending consumers that will lead to flat revenue in 2025. New products could drive brand momentum after industrywide inventory challenges over the past few years. Tight inventory management will be key to avoiding excessive discounting and good cash flow. We forecast profitability metrics to continue improving, mainly from cost-saving actions of recent years and better inventory management. Specifically, we expect EBITDA margins to rise nearly 150 basis points. Footwear continues to evolve as new competition is taking market share and large brands such as Nike, Under Armour, and VF Corp. have had strategy misses.

Given the challenges of the past few years, many issuers in the industry have new management teams focusing on brand turnarounds and elevation. Share repurchases remain turned off or muted for these issuers and we forecast this to continue in 2025 as operating conditions remain uncertain. We expect M&A to be limited to brand management with companies seeking to buy the intellectual property of brands in financial distress.

Beauty and cosmetics. Our rating outlook for the subsector is stable because we forecast modest revenue growth as consumers seek affordable indulgences during weaker economic periods. However, U.S.-based cosmetics company Coty Inc. has lowered its revenue guidance based on weaker consumer demand trends, while Estee Lauder is still facing challenges, primarily in China and its travel retail channel. If consumer sentiment in China improves, we could see a return to more normalized growth of mid-single digits for the industry. Competition has increased, mainly because of e-commerce growth, new brands, and a rise in promotional activities for product launches. Additional competitive pressure comes from small, new, and digitally focused regional players. Skincare, making up more than 40% of the cosmetic market by value, has been particularly resilient and remains one of the key growth factors. The growth spurt in fragrance continues as consumers seek fragrance use for different occasions and to give as gifts. Overall, we expect growth from both price and volume, and margin expansion through lapping higher costs and cost-savings initiatives.

Durables. Our outlook on the subsector is stable, but this could change depending on the magnitude of potential U.S. tariffs and possible retaliatory action from trading partners. This could reignite inflation in the category, dampening demand. Moreover, issuers that sell more expensive products tied to the housing market—like large appliances—could face negative rating actions if interest rates remain elevated, which would continue to depress housing turnover. In the U.S., the building of new houses could suffer, or prices could become more expensive, if sizable deportations that reduce labor availability materialize. Issuers depending on commercial real estate occupancy—such as contract office furniture manufacturers—continue to face office space downsizing risk. However, more recent order and backlog trends suggest improving confidence as clients adapt to a hybrid work environment.

Household appliance manufacturers, Whirlpool (BBB-/Stable/A-3) and Electrolux's (BBB/Negative/A-2) saw negative rating actions in 2024. Whirlpool was downgraded by one notch and we revised our outlook on Electrolux to negative following two downgrades in 2023. These rating actions were due to lower-than-expected volumes and weaker margins, coupled with uncertain recovery prospects.

Absent the tariff risk, we expect subsector net sales in 2025 to rebound by mid-single digits following the weak performance in 2024—as supportive commodity costs and issuer productivity initiatives translate into more promotions and higher customer spending. We think retailers will remain cautious but steady on inventory ordering; this should give manufacturers incentives to produce closer to sell-out levels and reduce the risk of margin damaging production cuts to clear excess inventory.

M&A strategies are unlikely to change from 2024 and will be limited to tuck-ins. We expect financial policies will largely prioritize credit metric improvement over large shareholder payments.

Household products, beauty, and personal care. Our outlook on the subsector is stable, reflecting recurring purchase patterns for these low-cyclicality staple products and margin restoration as issuers benefit from lower inflation, improved supply chains, and productivity initiatives. We expect 1%-3% net sales growth across the subsector in 2025 as the ability to increase prices remains limited to value-added innovation given the cumulative effect of high inflation, while volume increases should track population growth. The growth in S&P Global Ratings-adjusted EBITDA for the subsector should modestly exceed percentage growth in sales, given operating leverage and better supply chain conditions, despite elevated advertising and promotional spending to support the top line.

We expect demand for personal and consumer health care products to fare better than household products. The former benefits from consumer trust of branded products and the latter faces ongoing store brand competition. Still, the timing of a recovery in China—which has been weak following the pandemic and economic softness—remains a risk for personal care product issuers. We also think litigation remains a medium-term risk for consumer health care issuers recently spun off from their pharmaceutical parents. However, the aging population in developed markets and growing middle classes in emerging markets create long-term tailwinds for preventative health care products. We expect large multinational household and personal care product companies' financial policies to remain consistent, with some bolt-on acquisitions, regular dividend payments, and share buybacks.

Personal luxury goods. The industry is experiencing a challenging environment mainly owing to weak demand in China and economic volatility in developed markets. The industry is characterized by increasing polarization in companies' operating performance, with the global luxury players more exposed to an aspirational clientele (as opposed to the ultra-premium segment) experiencing higher volatility. In 2023, the industry experienced average organic growth of 6%-8% year-on-year, while for 2024 we estimate an annual contraction of 2%-3%, with a modest recovery expected in 2025, with a sequential quarterly improvements especially in the second half. We expect the industry growth mainly coming from a positive mix and the recovery in travel retail, together with limited contribution from pricing initiatives. The U.S. and Western Europe show overall resilience while Japan, driven by exceptional tourism spending, represents the fastest-growth country, accounting now for 8%-9% of the total personal luxury industry. Despite the ongoing industry pressures primarily related to significant low consumer confidence in China (impaired by higher saving rates, real estate issues, and demographics), the personal luxury industry has a long track record of positive performance, with few negative trends (examples include the 2008-2009 economic crisis and the start of the COVID-19 pandemic in 2020). Finally, in terms of strategic priorities, global industry players are implementing elevation strategies for their core brands, supported by operating expense in marketing and communication activities and coupled with investment in real estate retail networks and manufacturing capabilities. For this reason, over the next year, we do not assume any profitability upside.

Nonalcoholic beverages. The top-line outlook for nonalcoholic beverage companies in 2025 varies depending on portfolio and channel mix. Categories facing top-line pressure include bottled water, sports, and energy, the latter of which also faces the additional stress of lower convenience store traffic. Some categories face commodity input cost pressure like orange juice, coffee, and high-protein offerings due to still-elevated dairy costs. Moreover, less away-from-home dining should continue to pressure higher-margin fountain volumes at least through first-half 2025. Still, companies with broad portfolios have innovated and managed their price-pack architecture to sustain organic growth. As such, we think the overall sector will grow sales 1%-3% next year and expand EBITDA by similar levels by reducing costs and improving manufacturing efficiencies through automation and stock-keeping unit rationalization to enable longer line run-times. Still, we don't expect margins to rebound to historical levels next year given the mixed demand outlook across categories and channels, pressure to increase promotions, commodity-specific input cost pressure, and the negative impact from the move to more value-oriented pack-sizes. Despite a mixed top- and bottom-line outlook, credit measures remain largely in line for investment-grade issuers for which our rating outlook is largely stable and for which M&A risk is less pronounced given companies' preference for targeted acquisitions of individual emerging brands. Speculative-grade issuers with product concentration in underperforming categories will face rating pressure.

Packaged foods. We expect volume changes will largely remain slightly negative-to-flat through at least first-half 2025 for most industry players as consumer spending remains cautious. For 2025, we estimate sector revenue being flat or rising up to 3% on average, thanks to low price increases, a favorable mix partially offset by slightly negative to modestly positive volumes, and increased promotions. We expect cautious consumer behavior to continue, including value-seeking and buying close to consumption. Assuming inflation remains at current levels, we forecast EBITDA margins will modestly expand for most companies in 2025 that have manageable input costs and higher productivity measures. These measures will help fund investment in promotions, innovations, and brand-building to restore volume growth. While most input costs have decreased, cocoa, coffee, dairy, sugar, packaging, and labor costs remain elevated. Companies with greater exposure to those inputs will implement price increases to partially offset the higher input prices. Higher costs will impede volume growth and lead to more open book pricing negotiations between manufacturers and retailers. In 2025, margins will contract for Hershey and Mondelez, who have greater cocoa exposure than peers. Key risks to our forecast include renewed inflation with proposed tariffs, higher labor costs, and potential food regulatory changes under the new administration. We think additional pricing will be limited because prices remain high, and the consumer is stretched. Higher costs could hurt profitability if companies cannot pass along the cost increases or mitigate them with productivity measures. Increased risks associated with ultra-processed foods and a more widespread use of glucagon-like peptide-1 products, could also weigh on demand for some packaged food companies. Companies that can quickly adapt to changing consumer tastes and preferences will fare favorably.

Consumers have traded down as they seek value, and private labels have gained market share over the past few years, but we think share gains have slowed. We expect companies to continue reshaping their portfolios through divestures of noncore assets and acquisitions—most of which will likely be into faster-expanding categories or new regions. Furthermore, we expect continued dividends and share buybacks will be in line with companies' stated long-term targets.

Tobacco. Our rating outlook on the subsector is stable, reflecting issuers' high margins and cash flow, substantial pricing power, historically moderate elasticity due to nicotine's addictive nature, and conservative leverage profiles, notwithstanding high shareholder payments. We assume combustible cigarette volume declines will remain elevated (mid-single-digit declines, including high-single-digit declines in the U.S.) though pricing will offset much of the negative impact, as it has historically. We think illicit products—including flavored vaping products in the U.S.—will remain a headwind well into 2025 as industry participants, including regulators, try to stem the flow. Combustible cigarette trade-downs by lower income smokers is likely to continue, especially in mature markets; we think this was a factor in Japan Tobacco Inc.'s late 2024 acquisition of U.S.-based deep discount cigarette manufacturer Vector Group Ltd. Issuers owning a portfolio of next-generation smokeless products—including oral, vapor, and heat-not-burn—will fare better as nicotine users move between categories, allocating a portion of their spending to these alternatives. Oral nicotine pouches are now a multibillion-dollar category and have emerged as one of the fastest-growing segments within the U.S. tobacco industry, with manufacturers investing heavily in production capacity expansion to meet the rapidly accelerating demand.

In Japan, the largest market for heated tobacco products, there is a rising likelihood of a tax hike for the category starting in 2026. This would eliminate the tax advantage, because the category has grown sharply in the past 10 years thanks in part to lower tax rates to represent about 40% of the country's total tobacco market. Moderate downtrading is already in place in the category. We think price competition for market share might intensify further before the tax hike, which could leave the growing category less profitable.

Regulatory risks designed to reduce tobacco use or at least move nicotine users to products deemed to have less of a negative impact on public health remain a risk factor. Still, any potential ban on menthol cigarettes in the U.S. would not affect the industry for a few years. If enacted, we think this would be a moderate headwind for issuers since many smokers would switch to nonmenthol products.

In December 2024, the proposed plan for the resolution of the tobacco product-related claims and litigation against the local subsidiaries of Philip Morris International Inc., British American Tobacco, and Japan Tobacco Inc. in Canada was approved. The plan was put forward by a court-appointed mediator, whereby it was proposed that the companies will pay a total settlement of C$32.5 billion (approximately $23.5 billion), solely from the profits and cash and cash equivalents in Canada and split among the three parties in an allocation still to be determined. Following the creditor approval vote, this matter will move to a Sanction Hearing scheduled for Jan. 29-31, 2025, where the court will consider whether to approve the plan. Approval and implementation of the plan would ultimately allow industry players to close a long-standing chapter on this matter, a development we would in general view as credit positive because it removes an uncertainty that has been hanging on the companies for many years. That said, we think the matter's full resolution may take several more months to complete after a potential court approval, as full implementation is still subject to, among other things, agreement by the companies on how to split the total settlement, with Japan Tobacco already signalling some disagreement.

We expect financial policies to remain consistent with recent behavior as issuers focus on maintaining strong credit metrics given sustained smokeable tobacco product volume declines and the desire to make organic investments aimed at strengthening next-generation smokeless product portfolios while paying sizable dividends.

Credit metrics and financial policy

We forecast a moderate improvement in credit metrics for the global consumer goods sector in 2025. This would follow a fairly challenging period, starting with the pandemic through to the period of very high inflation in 2023 when high costs eroded EBITDA margins; the sector's median leverage remained elevated after peaking in 2022. Our forecasts for 2025 indicate a pickup in revenue, mainly from easing inflation and resilient labor markets. The 3% revenue growth in 2025 in local currency is aligned with our economic forecast of global economic expansion of 3% next year.

Overall, adjusted sector EBITDA margins should expand slightly by 40 basis points in 2025 due to the combined benefit of previous strong price increases, and our expectation of waning inflationary pressure. We expect that, with broadly stable financial policies, median adjusted debt to EBITDA will improve to 3.1x in 2025 from 3.3x in 2024.

The bulk of the global consumer goods companies we rate are mostly speculative-grade, with a large majority in the 'B' category. Many have weak business risks profiles, alongside highly leveraged capital structures. Higher-for-longer interest rates will further constrain these companies' already-limited financial flexibility.

At the other end of the spectrum, many large highly rated global multinationals continue to allocate a significant part of their free cash flow to shareholder returns. In the event of any significant operating issues, these companies can choose to limit shareholder returns to preserve cash and increase headroom under the ratings.

In Europe, we do not expect big financial policy surprises. Most rated companies will likely maintain their stated financial policy, with limited revisions to shareholder remuneration. Considering that several challenges continue to restrict management bandwidth, namely higher funding costs and fairly limited financial headroom, we do not anticipate large M&A transactions. We think consumer goods companies will approach sizable M&A with caution, but we continue to factor in portfolio transformation through investment, bolt-on acquisitions, and disposals. This trend also reflects strategies focused more on growing market share in core and higher-margin businesses.

In the U.S., we expect financial policies to remain balanced, but larger M&A could present some risk to ratings. Sustained stagnant demand in both durables and staples, along with lower interest rates, could spur deals for investment-grade issuers. Ongoing portfolio refinements will continue as well, as companies look to shed lower-growth assets. We expect dividends will remain steady and share repurchases opportunistic. Companies will pull back on discretionary buybacks after acquisitions to restore credit measures. Speculative-grade issuers will remain challenged because interest rates remain high.

We expect Canadian companies to focus more on balance sheet strength. With consumers spending less, companies irrespective of product offerings will focus on costs to maintain margins. We don't expect any material change in profitability; high fixed expense will continue to present issues. As a consequence, we expect companies to maintain conservative financial policies. However highly-leveraged issuers will continue to face headwinds associated with high interest rates and tightening liquidity.

In Latin America, we expect companies to remain cautious regarding acquisitions, especially while the largest markets such as Brazil and Mexico face their own uncertainty. For Brazil, higher interest rates will increase the cost of funding, while inflation and opening up of the betting market will continue to limit consumers' spending on goods. In Mexico, companies will likely wait to see potential tariff implementations in the U.S. and their impact on volumes and margins. Inflation in Argentina is gradually being controlled but the related policies have reduced consumer demands. Overall, we see stable to slightly worsening consumption conditions, but easing costs could help maintain operating profits.

In Asia-Pacific, we expect prudent financial policies to not change in 2025, keeping cash flow leverage at the same levels as in the past few years. This will support the credit profiles of consumer product companies in the region amid economic uncertainty. We also expect resilience in operating performance. Still, any material improvement in profitability is unlikely due to limited markup opportunities considering intensified price competitions. We expect consumer sentiment to remain somewhat weak across major regional economies.

We think multinationals in Japan and China will maintain their ongoing financial policies, with spending targeting their focus areas. These companies include Japan Tobacco Inc., Suntory Holdings Ltd., Ajinomoto Co. Inc., and Midea Group Co. Ltd. We saw slightly more aggressive financial activities than before at the rated Japanese multinationals in 2024 such as increased shareholder remunerations, acquisitions, and a reduction in hybrid capital, pushing up at most their respective debt to EBITDA leverage by about 0.5x. We also witnessed Chinese issuers allocating a larger portion of their cash flow to shareholder returns while controlling total cash outlays for their financial soundness.

For most rated issuers, we do not assume material impacts from the potential U.S. tariffs. Some issuers have relatively large exposure to the U.S. However, they locally source goods and manufacture products, which are likely to mitigate any impact. We also think most rated issuers can buffer potential ancillary impacts from effects such as higher volatility in the market.

For China, we assume consumers will remain cautious despite our expectation of continuing subsidies from the government. Households could reduce their spending should the country's property crisis worsen, hitting confidence. Most rated Chinese consumer product companies have sound finances for our ratings on them. However, smaller issuers or those with higher financial leverage could see rating headroom compression given shrinking household wealth and tepid consumer sentiment amid property sector woes. We assume China's property crisis will not greatly affect the credit quality of rated Japanese consumer companies because of limited exposure to the Chinese market.

Key risks or opportunities around the baseline

1. Volumes remain subdued, leading to higher inventory levels.

Consumers might remain reticent and sales volumes might not recover, due to high list prices, persistent competition from private label products, or a downturn in the labor market.

2. Technology enhancing product lifecycle management, provide visibility on supply chains, and help optimize costs.

Consumer goods companies will increasingly continue to use new technology to improve product design and improve personalization options.

3. Physical climate risk, climate transition risk, and customer health and safety are increasingly becoming more material factors.

Physical climate risk will likely increase as natural disasters become more frequent and intense, with credit implications for many subsegments of agribusiness and consumer goods. Consumer goods companies will continue benefiting from trends relating to more consumers embracing wellness and self-care products.

Weak sales volumes stress operating performance and cash flow. Despite price promotions and commercial initiatives to grow volumes, many branded consumer goods companies might not be able to grow sales volumes in line with their growth aspirations. After a period of normalizing inventory levels over much of 2023 and 2024, management teams expect to see a rebound in sales volumes. Many companies, particularly those with exposure to discretionary products, will see weaker cash flows if inventories build up again. This scenario could occur due to high inflation in emerging markets such as India and Brazil, downturn in the labor markets in the U.S. and Europe leading to a contraction in consumer spending and continuing weakness in China despite government stimulus. Given the high list prices of branded products, the improving quality and depth of store brands will continue to pose intense competition.

Digital tools will also help optimize processes and supply chains and partly offset higher labor costs. We also expect consumer goods companies will expand their direct-to-consumer retail channels and interact more directly with their target consumers. This will give them greater control over the user experience and garner customer insights. In addition, consumer goods companies will increasingly continue to use new technology based on AI and Blockchain to design better products for consumers and make greater inroads into personalization.

Physical climate risk, climate transition risk, and customer health and safety will also play key roles. Physical climate risk will likely increase as floods and droughts become more frequent and intense due to climate change, with credit implications for many subsegments of the agribusiness and consumer goods sectors in particular. Coupled with geopolitical risks that could affect supply chains, there could be increased earnings volatility, depending on the exposure to affected regions and diversification of operations. Climate transition risk is likely to both benefit and disrupt the sector, which is a major contributor to greenhouse gas emissions, although disruption risks will likely outweigh benefits from biofuels, renewable fuels, and more sustainable food sources. Although rating actions linked to consumer health and safety continue to be company-specific and event-driven, customer health and safety is a social factor that remains highly material to creditworthiness, with operational risk related to product safety and recalls, reputational risk, litigation risk and more intensive regulatory scrutiny.

Consumer goods companies will continue benefiting from trends relating to more consumers embracing products self-care products that enhance health and wellness. We expect more companies will be leveraging scientific evidence to demonstrate the value of their products, command higher pricing premiums, and differentiate from private label products. However, companies need to continue investing in ongoing product development, manufacturing, and brand building to stay ahead of the competition. Brands in subsectors like packaged food, personal care, and beverages will benefit most from these trends.

Related Research

- China Retail 2025 Outlook: Subsidies Will Further Help Stabilize Spending, Jan. 7, 2025
- Sector Review: Sector Update: Consumer Health, Dec. 20, 2024
- EMEA Consumer Goods: Credit Stories Unfolded, Dec. 12, 2024
- ESG Credit Brief: Agribusiness, Dec. 4, 2024
- Consumer Product Companies: The Road To Volume Growth Remains Elusive, Oct. 15, 2024
- 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

Industry Forecasts: Consumer Products By Region

Chart 9

Revenue growth (local currency)

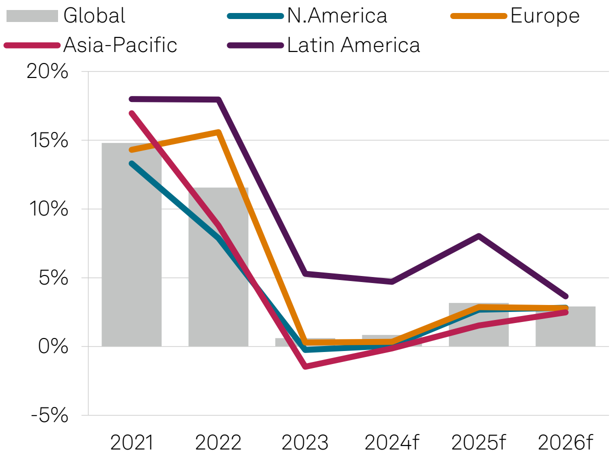


Chart 10

EBITDA margin (adjusted)

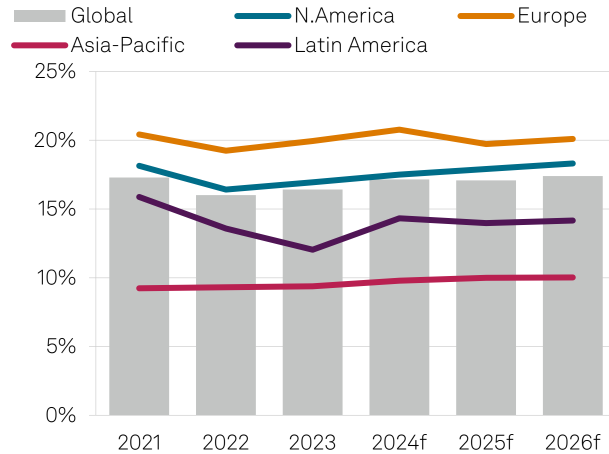


Chart 11

Debt / EBITDA (median, adjusted)

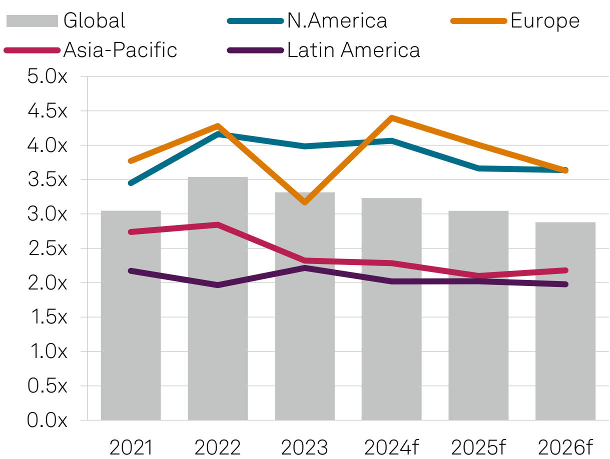
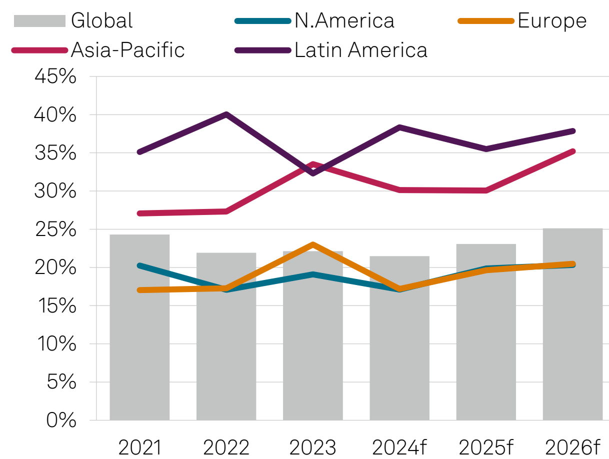


Chart 12

FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Industry Forecasts: Consumer Products By Subsector

Chart 13

Revenue growth (local currency)

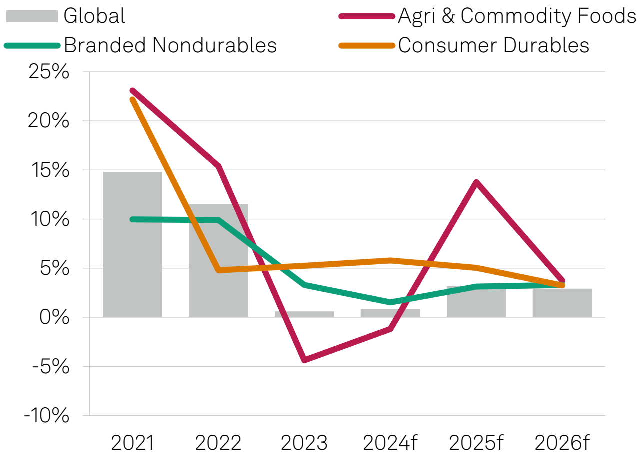


Chart 14

EBITDA margin (adjusted)

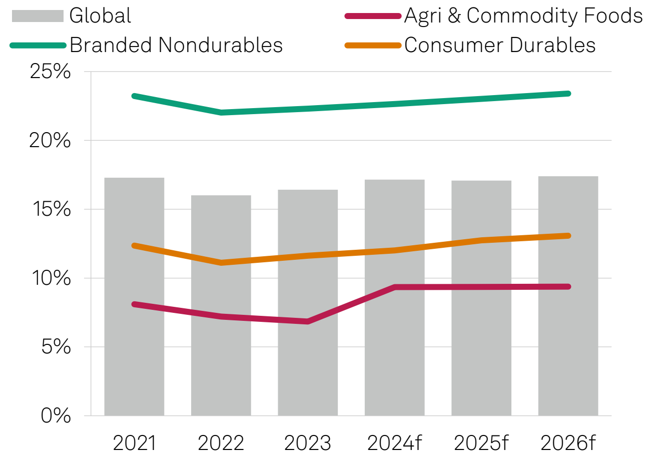


Chart 15

Debt / EBITDA (median, adjusted)

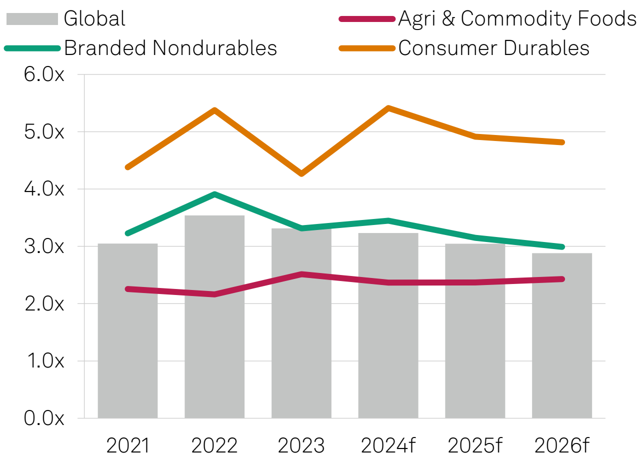
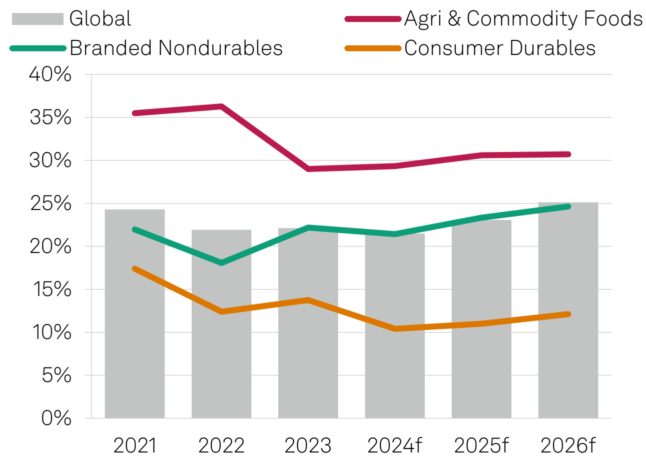


Chart 16

FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Consumer Products

Chart 17

Cash flow and primary uses

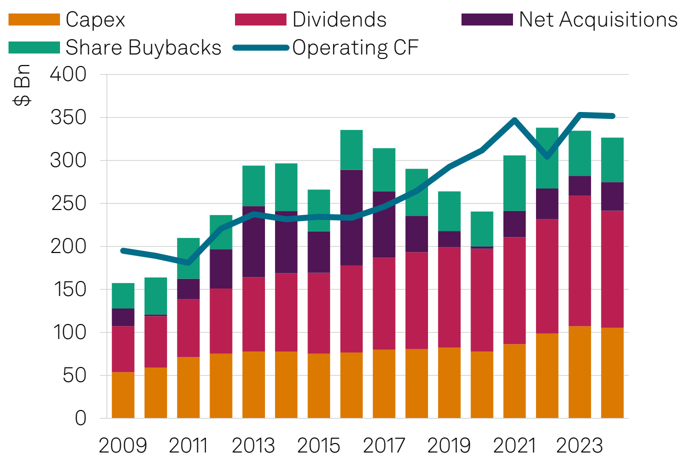


Chart 18

Return on capital employed

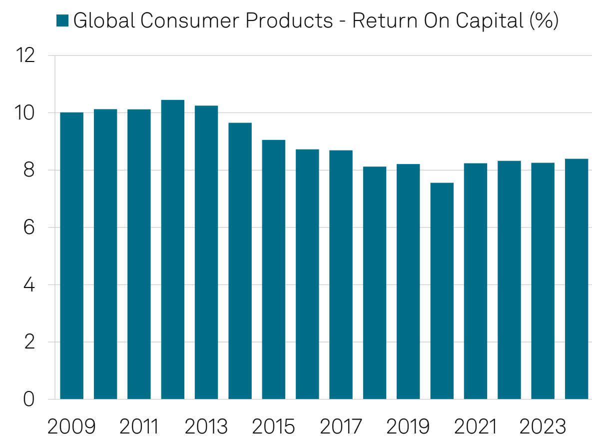


Chart 19

Fixed- versus variable-rate exposure

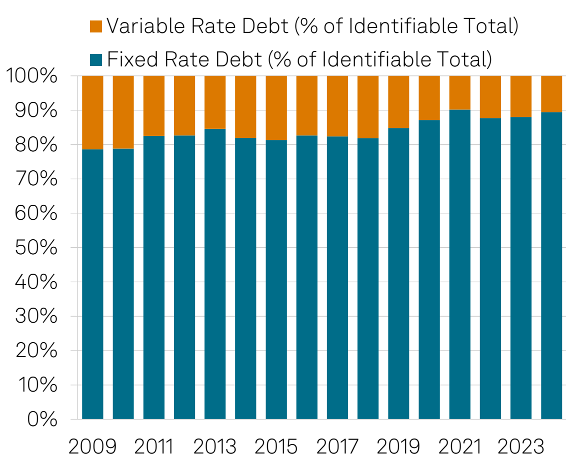


Chart 20

Long-term debt term structure

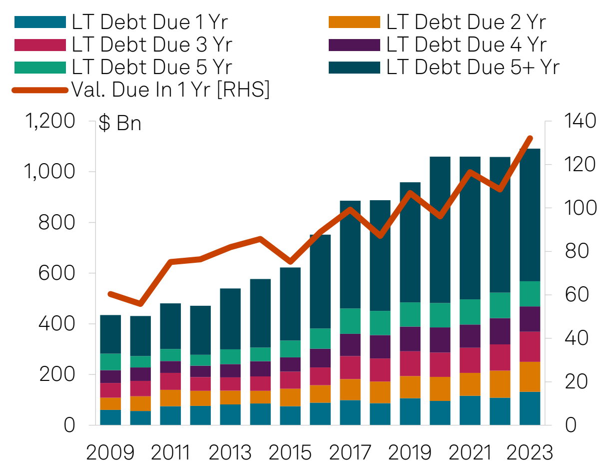


Chart 21

Cash and equivalents / Total assets

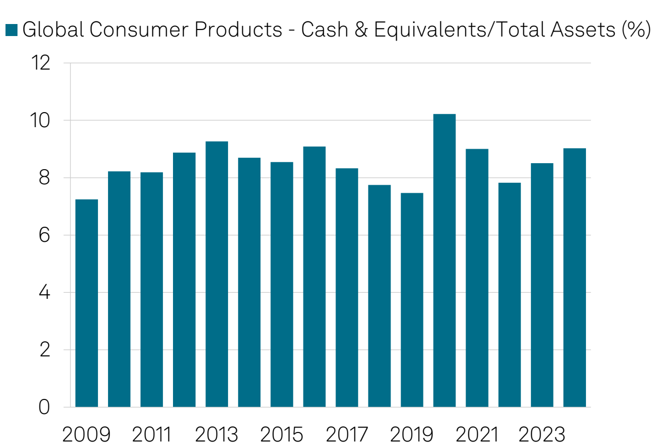
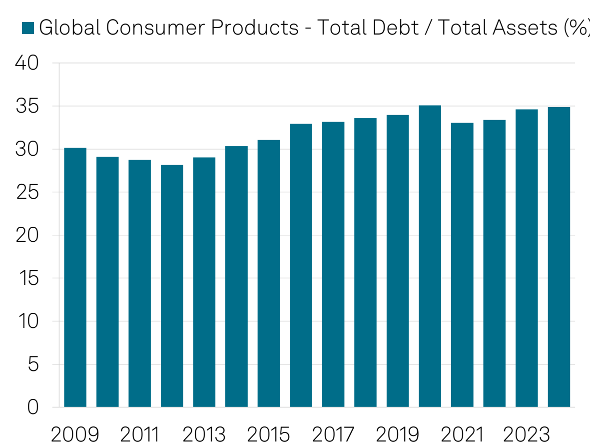


Chart 22

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.