Industry Top Trends Update

Consumer Products

A weaker consumer intensifies pressure

Sarah Wyeth
New York
sarah.wyeth@
spglobal.com
+1 212 438 5658

What's changed?

Consumers' financial health and shopping patterns are dramatically shifting. Consumer savings rates are now below pre-pandemic levels, pointing to the inevitable erosion of excess savings in the face of decades-high inflation. With a focus on value, the deferral of discretionary spending and trade-down poses risks and opportunities in the sector.

Extraordinary inflation will pressure margins into 2023. We expect inflationary pressures to last into the first half of 2023 due to the Russia-Ukraine conflict and ongoing supply chain challenges. With unemployment still relatively low, we expect union contract renewals and labor costs to remain high. Also, high energy costs along with labor shortages will keep freight costs high.

What to look out for?

The weakening operating environment will continue to pressure credit quality. In aggregate across the sector, negative rating outlooks outnumber positive outlooks by more than 3 to 1. Many negative rating actions have been driven by inflation and supply chain bottlenecks, which are not likely to abate until 2023. A weakening consumer on top of these challenges is likely to result in continued pressure on ratings.

Aggressive financial policies could limit financial flexibility at an uncertain time. Difficult financial markets could make debt-funded acquisitions and transformative transactions few and far between, but companies may be pressured to return cash to shareholders in a low-growth environment which could reduce cushion to absorb unexpected shocks.

What if there's a recession?

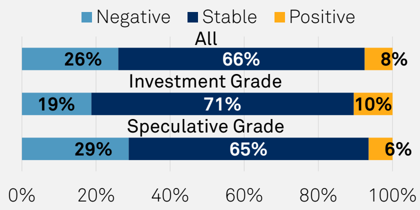
Household staples should fare well. Historically, packaged food companies fare well during a recession--consumers eat at home more and trade down to private label--and we expect that trend to continue.

Discretionary categories, especially related to the home, will be challenged. A slowdown in discretionary spending will compound already tough comparisons as companies lap a strong 2021. Many durables benefited from what we believe was a pull-forward of demand for housing-related products. The category has already seen stress due to supply chain challenges. A recession would weaken it further.

Latest Related Research

- Credit FAQ: Inflation Hasn't Quenched U.S. Beverage Companies' Thirst For Growth, May 17, 2022
- U.S. Packaged Food Companies Could Fail Additional Inflationary Stresses, April 21, 2022
- Russia-Ukraine Conflict Will Test Agribusiness Supply Chain Efficiencies And Consumers' Appetite For More Food Inflation, March 18, 2022

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	48	128	176
Downgrades	2	26	28
Upgrades	5	8	13

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias