Industry Top Trends Update

Consumer Products

Continued price increases test resilience of brands

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What's changed?

The rise in input and operating costs is unrelenting. Consumer products companies continue to pass on price increases to consumers as they battle significant increases in input prices and operating costs.

Excess household savings and sizable pent-up demand prop up spending. The tailwind from pent-up demand, backed by high household savings, will continue somewhat supporting consumer spending for now, which augers well for sectors relying on trade consumption such as beverages and food services.

Yet persistent inflation has begun to erode consumer confidence. Inflation has reached peaks not seen in decades, and this, together with geopolitical conflicts, has begun to dent consumer confidence. Higher prices on essentials have hit disposable income, leaving less room for discretionary spending.

What to look out for?

Consumer spending is likely to slow. As they spend down savings and face higher food, fuel, and energy bills, consumers will increasingly turn more cautious and begin to moderate spending toward the end of this year.

Working capital requirements will be elevated. As supply-side disruptions continue, companies have less room to maneuver working capital and trade terms as their main priority is to secure supplies on time to prevent stock outages.

Flexibility in passing price increases to retailers will become more critical. Retailers, keen to maintain their price perception, will become more discerning as branded consumer goods companies continue passing on higher prices. Brand strength and price-value appeal will become more prominent in negotiations with retailers.

What if there's a recession?

Consumers will cut back on discretionary spending and trade down. Sales volumes will fall as price conscious consumers increase their take up of private label and discount products. Branded consumer goods companies will curtail price rises and take a hit on margins to stem volume declines.

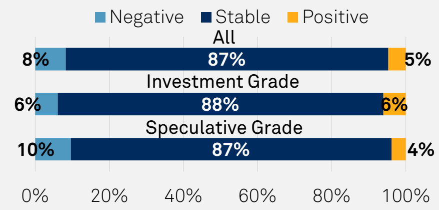
Better capitalized investment-grade companies will fare better. Geographically diversified companies, with solid brands and pricing power, will remain resilient. Investment-grade consumer goods companies that continue to return cash to shareholders can moderate these to preserve their credit quality.

Companies with inflexible cost structures and limited room to pass through higher prices will see credit quality weaken further. This will be the case particularly for highly leveraged companies in the subsectors most exposed to high raw material prices, such as packaged foods and personal hygiene products.

Latest Related Research

- Consumer Goods: Unrelenting Inflation Puts Pricing And Brand Power To A Grueling Test, July 13, 2022
- European Retailers: Forced To Raise Prices While Wary Of Consumers Cutting Back Spending, June 9, 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	33	53	86
Downgrades	0	10	10
Upgrades	1	4	5

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

Ratings Outlook Net Bias