

## Euler Hermes U.S. food industry outlook: Drought and livestock disease expected to create pressure & operating margin headwinds across the supply chain

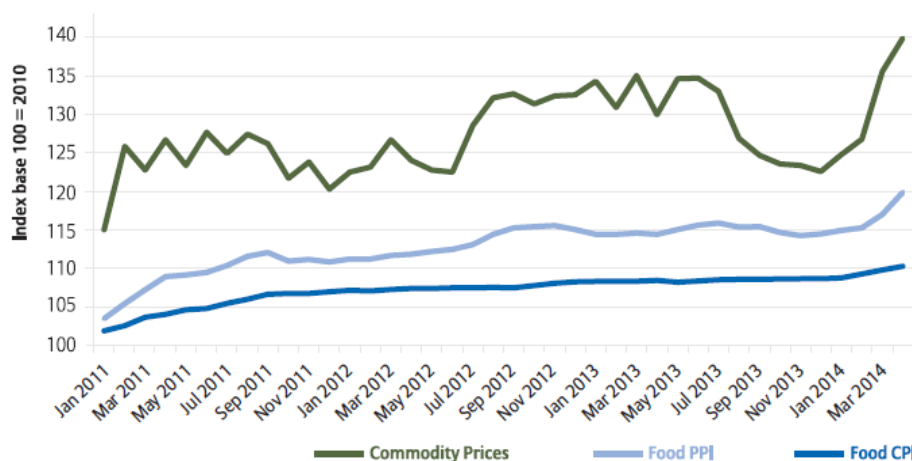
**BALTIMORE, Md. – 10 JULY 2014 –** U.S. consumers should expect higher grocery store prices as drought and livestock disease have negatively impacted food supply, according to [Euler Hermes](#), the world’s leading provider of [trade credit insurance](#). In addition to domestic constraints now filtering downstream, global supply concerns are likely to fuel the rising trend in commodity prices, especially as global demand continues to increase.

“With a growing international dependence on U.S. food production, the impact of any supply disruption is far reaching,” said Umar Sheikh, food industry expert at Euler Hermes Americas. “The 2012 Midwest drought, the current California drought and livestock disease have all contributed to higher consumer prices domestically and abroad. The industry’s ability to manage such disruptions will determine the impact on consumers’ wallets.”

### From Producers to Consumers

While consumers will absorb some increase in prices, producers will find it difficult to fully pass on the higher input costs. The challenge was already evident in Q1 2014, as producer costs for several commodities increased faster than consumer prices. This may result in lower retail margins.

Prices Index in Agri-food Business



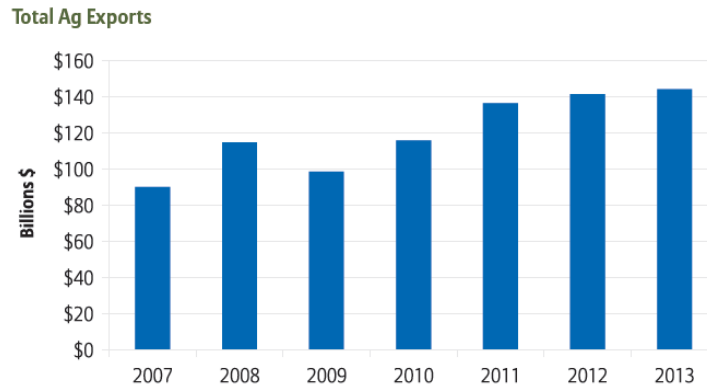
Source: Bureau of Labor Statistics

The California drought’s impact is also expected to become more severe later this year, producing lower-than-normal yields for products such as avocados, grapes, lettuce, tomatoes and tree nuts. Further, there is no relief in sight for high consumer beef prices. Ranchers processed livestock in greater numbers over the past two years, as feed prices skyrocketed due to the Midwest drought. Cattle inventories have reached lows not seen since the 1950s, when the U.S. population was roughly half of what it is today. It will take several years to rebuild herds. Pork prices are also expected to remain high due to an outbreak of the porcine epidemic diarrhea virus (PED or PEDv) beginning in 2013, detected in over 4,700 farms and 27 states to date.



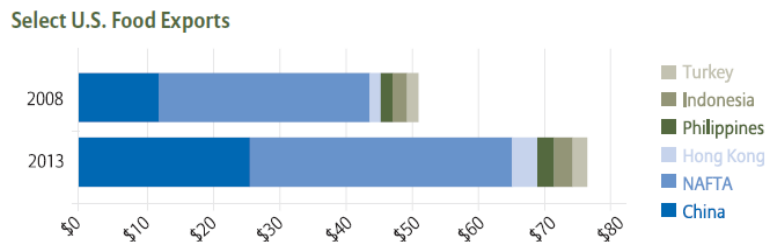
## Surging International Demand

With total agri-food exports exceeding \$144 billion in 2013, the United States has become one of the largest food producers in the world. Economic growth, dietary changes and urbanization in emerging countries are expected to drive continued demand, while population growth and demographic changes will play a crucial role in long-term growth.



Source: USDA

Demand remains strong, particularly among the growing Asian middle classes. While increasing U.S. exports will impact U.S. consumer prices, developing international markets present growth opportunities for U.S. producers in 2014 and beyond. The most promising export destinations: Canada, China, Hong Kong, Indonesia, the Philippines and Turkey. All have seen agricultural product imports increase more than 25 percent over the past 5 years.



Source: USDA

“As international demand for U.S. agri-food increases, growers and producers will also need to manage the risks associated with exports and cross-border business relationships,” said Sheikh. “U.S. food suppliers focusing on domestic trade relationships will also need to consider that the short- to medium-term margin compression could increase the risk of payment defaults and insolvencies.”

For more information, please refer to Euler Hermes' [Industry Outlook: Food](#).

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