

Euler Hermes U.S. food industry outlook: Increased 2013 crop yields, food company profits

U.S. healthy beverages, nuts sectors should also benefit from growing global nutritious product demand

BALTIMORE, Md. – November 12, 2013 – Food companies should reap benefits from 2013's unexpectedly low price inflation and a larger-than-anticipated crop yield, according to the [U.S. Food Industry Outlook](#) released today by [Euler Hermes](#), the world's leading provider of [trade credit insurance](#). Profits will also be boosted by food retail price increases implemented in 2012's period of higher input costs.

"The U.S. summer 2012 drought was the most severe and extensive in over 25 years, and was expected to considerably impact food retail prices," said Umar Sheikh, industry sector credit analyst at Euler Hermes. "But when prices spiked in July 2012, production also increased for the next several months. Inventories came in higher than expected as farmers planted more crops to cash in on the higher prices."

The U.S. Department of Agriculture (USDA) had initially projected 2013 food retail prices to increase between 3% and 4%, though prices had only risen 1.4% year-over-year as of July. The USDA projects a 2013 grain yield well above that of 2012, and Euler Hermes expects most prices, while still volatile, to remain lower than initially projected through year-end.

"Healthy food" sectors benefit from lifestyle changes

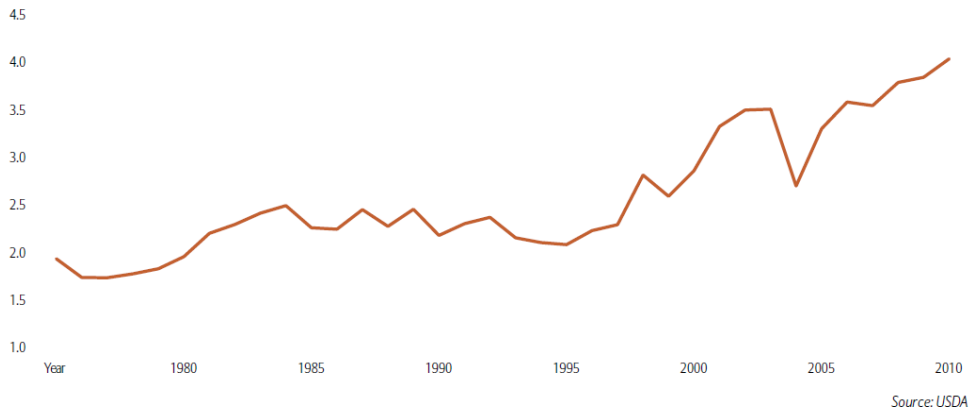
The U.S. nonalcoholic beverage sector has changed significantly in recent years. Growing demand for low-calorie, natural beverages continues to reshape the industry, as the three leading producers see demand for traditional carbonated sodas decline in favor of healthier alternatives.

Growth during the next five years should predominantly come from healthy beverage options – drinks with lower calorie counts and natural ingredients – while sodas are expected to decline. Bottled water is expected to grow modestly. As "healthy" products gain greater distribution, and as local governments continue to promote awareness of healthy diet benefits, these beverages should continue to see volume and revenue growth.

Tree nuts are another food product benefiting from heightened interest in health and nutrition. This sector is particularly strong in California, where approximately 90% of the nuts consumed in the U.S. are produced. Moreover, U.S. producers are taking advantage of growing consumption in emerging markets, as more than half of all U.S. almonds, hazelnuts, pistachios and walnuts are exported. Increased international demand, coupled with a drought that damaged supply in 2011, led to a price spike and a 17% drop in consumption last year.



Tree Nuts Per Capita Consumption in Pounds



Going forward, local growers should benefit from the increasing awareness of nuts' health benefits, as well as growing demand for U.S. nuts abroad. Export volumes through June 2013 have increased for essentially all nut varieties, and this demand is expected to keep local producers' margins stable.

"While both beverage companies and nut producers have faced some difficulties in recent years, we expect both sectors to benefit from the growing global interest in healthier foods," Sheikh said. "Increasing international demand for U.S. tree nuts, in particular, will help maintain margins for local growers. To fully participate in this export growth, producers will need to take advantage of resources that help them identify and mitigate the risks of entering new and dynamic growth markets."

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