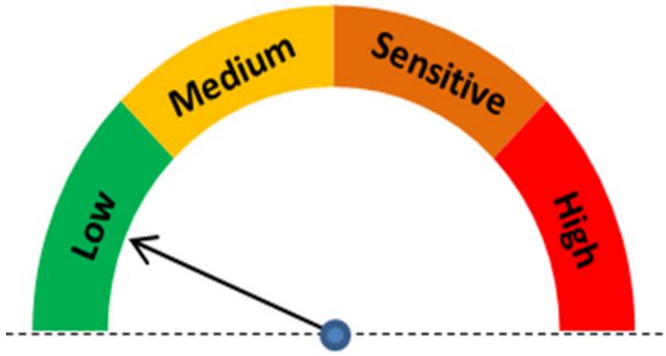
Euler Hermes Economic Research

Global Sector Report

AGRIFOOD

Sector Risk Rating



What to Watch?

- Agricultural commodities should eventually report a slight pick-up after bottoming out in 2016
- Recovering would enable agrifood companies to improve operating surplus by +2% on average in 2017 after -2.5% in 2016
- Series of deregulation policies to support trade continues with the termination of production and export quotas of sugar in the European Union

Recovering prices should be a boon to margins

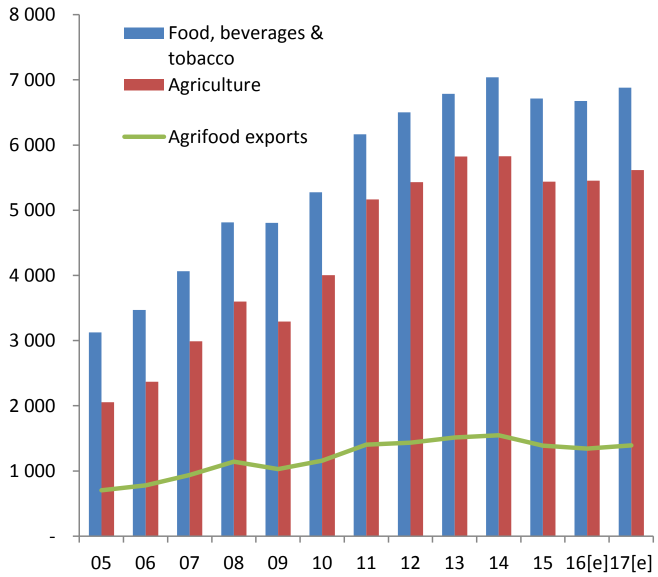
Food prices have stopped plunging in 2016 with a contained -1.5% drawback of the FAO Food index. This is the lowest decrease in five consecutive years. The sharp improvement of Sugar (+34%) and Vegetal Oils (+11%) are the two drivers for this limited drop. Total agrifood nominal output hence steadied at -0.6% to USD12.1tn in 2016 while exports decreased by -3% to USD1.3tn, after a -10% decrease in 2015, reflecting the lack of stamina of demand.

Yet we expect an upswing of exports of +3.5% to USD1.4tn in 2017, thanks to the slightly higher global GDP growth (+2.8% vs. +2.5%) and continued deregulations in the sector. The most remarkable one, scheduled in September 2017, is the termination of the sugar production and exports quotas in the European Union.

The Agrifood sector indeed ranks among the three most regulated sectors for trade as it gathers 19% of total trade barriers. But this trend is reversing: we noted that the number of trade barriers issued in 2016 is a third lower than in 2015.

This should eventually help companies' operating surplus to recover as we forecast a +2% increase in 2017.

Agrifood total output and exports (USDbn)



Sources: Oxford Economics, ITC, Euler Hermes

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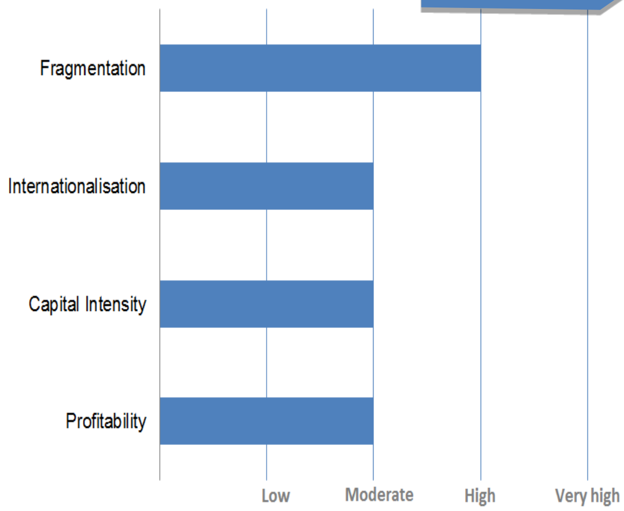
Our knowledge serving your success

Sector Value:
3,801bn
USD

Key Players

Country	Role	Sector Risk
United States	#1 exporter #1 importer #2 producer	
China	#1 producer #2 importer	
Germany	#3 exporter #3 importer	

ID Card



Strengths

- Strong long-term prospects thanks to relentless population growth and a burgeoning middle class
- Sound financial structure with little indebtedness, high solvability, and correct earnings

Weaknesses

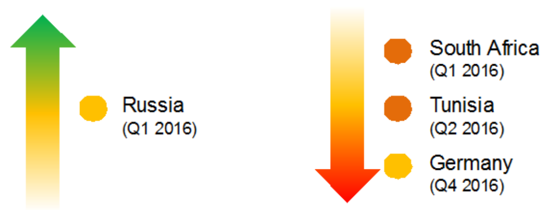
- Sector performance reliant on exogenous factors: climate (e.g. *El Niño*) and health hazards such as restrictive sanitary measures
- High dependency on agricultural commodities' prices, which themselves hinge on climate and financial conditions

Subsectors Insight

Agriculture: Farming activities are the most vulnerable to agricultural prices volatility, which hampers the yield of harvesting surfaces and entail revenue decline.

Food Industry: Global activity is steadily growing, underpinned by the demographic growth momentum. The important feature is the dietary shift towards 'finer food' by the growing middle class (40% of world population by 2020 vs. 25% currently), at the cost of basic food producers.

Recent Sector Risk Changes



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