

California: The Agrifood Valley at-risk

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Executive summary:

- Californian strongholds in fruit & vegetable product, dairy product and other food* manufacturing.
- Growing food products exports, putting California at the forefront of the state exporters.
- 2013 forecast for the food manufacturing in California: limited output growth (<1%) and deterioration of the operating profitability during the first-half of the year.

*including snacks, coffee and tea, flavour syrup, seasoning and dressing, prepared food manufacturing

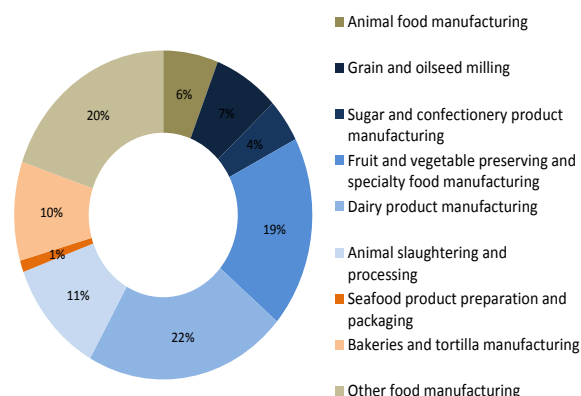
The Golden State happens to also be a food basket, and not only the IT incubator of the US

The food industry in California mirrors the specificities of the local agriculture. Naturally the dairy and fruit & vegetable sectors make up a significant part of the shipments of the Golden State (respectively 22% and 19% of the total). When combined with the third heavy-weight, "Other food manufacturing"*, which accounts for 20% of the whole shipments, the food industry in California has a higher level of concentration than the U.S. (the top 3 food industries cumulates 56% of the shipments nationwide).

While California represents 12% of the U.S. population, its food manufacturing accounts for only 10% of U.S. shipments but is a key player in fruit & vegetable processing (21% of the U.S. sub-sector shipments in 2011), other food manufacturing (16%) and the dairy manufacturing (15%).

In 2011, food manufacturing ranked second amongst the Californian manufacturing sectors, in terms of shipments (\$71bn – 14% of the state manufacturing revenue), behind petroleum and coal product industry (20%) and employed close to 150,000 people.

Chart 1: Distribution of the food manufacturing shipments in California (2011)



Source: Census Bureau

The Californian food industry is well-positioned to benefit from overseas economic growth

In 2012, Californian food product exports grew +2.5% over 2011 to reach \$9.0bn and stood at 14% of the U.S. exports. The food manufacturing sector in California is more integrated in international trade than the industry nationwide. Indeed, exports in 2012 accounted for 14% of California's food product shipments, while only 9% of the U.S. food manufacturing industry as a whole.

The food product exports have been oriented mostly toward the two other members of NAFTA and toward Asia. For 2013, the food manufacturing exports are forecast to continue to increase at a similar pace as robust growth drivers (Canada, Mexico and Asian countries, except for Japan) are expected to offset the declining demand from industrialized countries weakened by prolonged economic doldrums (EU, Japan). California concentrated nearly 25% of the U.S. beverages* exports in 2012 (\$1.7bn, +8.9% versus 2011). Canada was by far the main destination for Californian beverages exports (27%) and was followed by United Kingdom and Japan (respectively 14% and 13%). Wine sector played a central role in this expansion.

*including soft drinks & ice cream, wines, distilled liquors and malt & beer

Table 1 : Californian food product exports

Exports destination	Value in 2012*	Exports**
Mexico	\$1.4bn (+5.6%)	Other food products (27%), dairy products (22%), meat products (20%)
Japan	\$1.4bn (-13.3%)	Grain and oilseed milling products (25%), fruit & vegetable products (22%), meat products (17%)
ASEAN	\$1.2bn (+7.6%)	Dairy products (43%), other food products (24%), fruit & vegetable products (10%)
Canada	\$1.2bn (+11.6%)	Fruit & vegetable products (31%), other food products (25%), bakery products (11%)
China / Hong Kong	\$1.0bn (+13.4%)	Meat products (47%), dairy products (18%), other food products (15%)
South Korea	\$0.7bn (-16.1%)	Other food products (26%), dairy products (18%), meat products (15%)
EU	\$0.5bn (-3.5%)	Fruit & vegetable products (58%), other food products (19%), grain and oilseed milling products (12%)

* in brackets, change 2012/2011

** in brackets, share of the subsector exports in Californian food product exports to the designated country

Source: International Trade Administration

Stability in sight for the Californian food industry output in 2013

The food production in California declined slightly during the economic recession and bottomed out in 2010. In the wake of the economic turnaround, the sector output progressively recovered its pre-recession level and posted a sound +4.0% growth in 2012 when compared to 2011. The food manufacturing output is now approximately 4% higher than in 2007.

For 2013, the food manufacturing output should experience a moderate growth (less than 1%) in California, due to a limited U.S. economic dynamic.

Chart 2: EH food output index in California
(Index basis 100 = 2007)

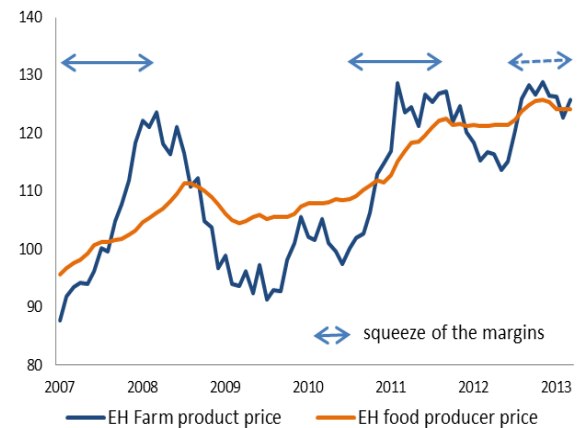


Sources: Euler Hermes estimates, Fed

The recurring vulnerability of the profitability to commodity price fluctuations

Since 2007- 2008, the food manufacturing in California as well as in the U.S., has faced growing and fluctuating agricultural raw material prices. This new “normality” has hurt the profitability of the sector players who have struggled in passing on these price increases to their clients. The operating margins improved in 2012 but the mounting commodity prices recorded in the last months of 2012 squeezed once again sector profitability. Despite decreasing prices in commodity markets in early 2013, the farm product prices have remained at high, which indicates that, amid current economic uncertainties, the margins in the Californian food industry should continue to get strained throughout the first-half of the year.

Chart 3: EH farm product price and EH food producer price indexes in California (Index basis 100 = 2007)

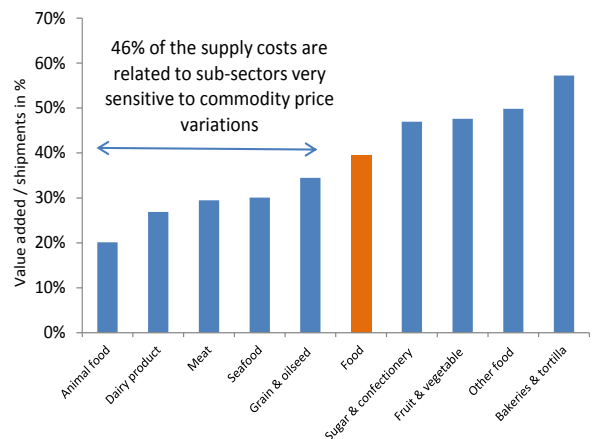


Sources: Euler Hermes estimates, Bureau of Labor Statistics

Some sub-sectors under surveillance in 2013

The growing and fluctuating commodities prices are more damaging for the sub-sectors that generate lower value added. Animal food, dairy product, meat, seafood, grain and oilseed manufacturing will be the sub-sectors under closest scrutiny in 2013, but the other sub-sectors shouldn't be spared by potential erosions of their operating margins.

Chart 4: Value added rate of food manufacturing sub-sectors in California (2011)



Source: Census Bureau

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