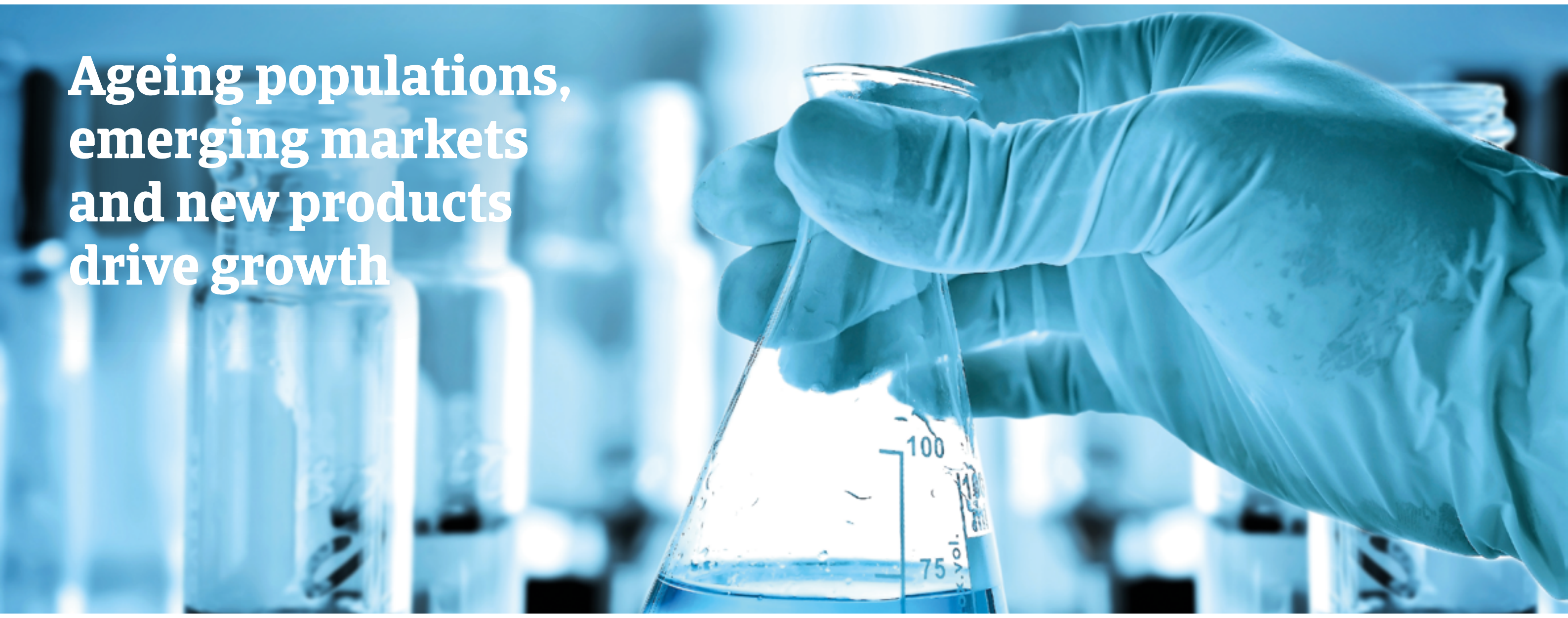
September 2024

Industry trends
Pharmaceuticals



Ageing populations, emerging markets and new products drive growth

Global overview

A robust growth outlook
In 2023 global pharmaceuticals sales amounted to about USD 1.5 trillion. Looking ahead output growth will remain robust. It's forecast to increase by 3% in 2024, 4% in 2025 and 3.6% in 2026. Regions with the largest annual growth rates are Asia Pacific and the Middle East (see chart overleaf). Emerging markets will gradually gain a larger share of global pharmaceuticals output and sales, as improvements to healthcare systems and supply chains increase accessibility and production.

In general, the industry has robust equity, solvency and liquidity. Most pharmaceuticals and biotech businesses are able to enjoy good access to external financing to help sustain high R&D costs.

In the mid and long-term, producers of speciality products, medicines for chronic conditions and generic drugs will find opportunities for growth among ageing populations. Producers of medication for weight-loss are facing growth predictions of about USD 80 billion by 2030. However, production capacity will be an issue in the coming years as demand outstrips supply.

Potential constraints ahead
High government debt and the need to reduce fiscal deficits are affecting public healthcare spending in advanced economies. The US, Japan and most of Western Europe are imposing drug pricing policies to lower state healthcare costs and offer medicines at cheaper prices. This is meeting some resistance from the industry. Pharmas argue that pricing regulations limit their revenues and lower their incentives to invest in R&D. They also say that directing their research areas could prevent the development of new drugs and lead to lower long-term production.

Industry performance forecast

Europe		Asia and Oceania		Americas
Austria (Good)	Netherlands (Good)	Australia (Good)	New Zealand (Good)	Brazil (Good)
Belgium (Good)	Poland (Fair)	China (Excellent)	Phillippines (Good)	Canada (Good)
Czech Republic (Good)	Portugal (Good)	Hong Kong (Excellent)	Singapore (Good)	Mexico (Fair)
Denmark (Good)	Slovakia (Good)	India (Good)	South Korea (Excellent)	USA (Good)
France (Good)	Spain (Good)	Indonesia (Good)	Taiwan (Excellent)	
Germany (Good)	Sweden (Good)	Japan (Excellent)	Thailand (Excellent)	
Hungary (Good)	Switzerland (Good)	Malaysia (Good)	Vietnam (Good)	
Ireland (Excellent)	Turkey (Good)			
Italy (Good)	UK (Good)			

Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

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Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.

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Industry trends
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Pharmaceuticals key figures	2022	2023	2024*	2025*
Production	6.9	-0.4	3.0	4.0
Gross output (sales) (real, USD)	6.9	-1.2	2.8	4.3
Investment (real, USD)	12.8	1.4	7.7	3.8
Gross operating surplus (profits)	-2.7	5.5	4.6	5.5

Year-on-year, % change / *forecast Source: Oxford Economics

Pharmaceuticals output per region	2022	2023	2024*	2025*
Americas	0.9	5.6	2.4	2.5
Asia Pacific	-2.8	-2.9	6.3	5.8
Europe	18.1	-1.5	1.0	3.5
Middle East & Africa	-10.2	4.1	4.1	3.5

Year-on-year, % change /*forecast Source: Oxford Economics

Strengths and growth drivers

Structural resilience. Pharma products are essential and are usually less affected by economic downturns than other more cyclical sectors.

Ageing demographics. Older populations in developed markets and China are driving demand for over-the-counter (OTC) medicines, generics and medicines for treating chronic diseases.

Emerging markets. Improvements in healthcare systems and growing disposable household incomes are driving demand. Generics and OTC drug producers will be the first to benefit.

Digital technology. AI and big data analytics are improving efficiency in drug development, clinical trials and patient care.

Banks and investors. The pharma industry can sustain high R&D costs through continued access to external financing.

Constraints and downside risks

Upcoming patent cliff. The top 15 blockbuster patents will expire over the next decade. Producers of brand-name drugs are likely to increase their R&D spending as they seek to develop new patents. Profits could decline if they are not able to reduce costs or introduce alternative products to increase gross margins.

Public health spending. Many governments are trying to contain or cut public healthcare costs (including via price controls). This price pressure could impact investments, given the high costs of developing new drugs.

Environmental concerns. Some pharma businesses could face rising pressure from environmental activists highlighting issues such as pharmaceutical residues that are contaminating water and soil.

Pharmaceuticals outlook
Americas

Pharmaceuticals output	2022	2023	2024*	2025*
Brazil	-1.5	-0.8	-7.3	2.4
Canada	6.5	0.9	-0.9	3.1
Mexico	11.0	4.0	4.9	1.9
United States	0.5	6.5	2.9	2.5

Year-on-year, % change /*forecast – Source: Oxford Economics

Industry performance forecast
Brazil
Canada
Mexico
USA

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USA

Robust sales and low credit risk characterise the sector
US pharmaceuticals output is expected to increase by 2.9% in 2024 and 2.5% in 2025. After a 17.3% surge in 2023, investments are forecast to increase by 15.8% this year. Gross operating surplus (margins) are expected to grow by about 5% annually in 2024-2026.

Consumer spending on discretionary drugs such as over-the-counter-medicine has rebounded due to robust private consumption. Ongoing demand will be driven by the ageing population. Baby Boomers (now aged 59-77) are becoming more dependent on pharmaceuticals as they get older. Companies making speciality products, like medicines for chronic conditions and generic drugs, will find growth opportunities here. A surge in demand for weight-loss drugs will also benefit the US pharmaceuticals market in the coming years (about 40% of US adults are obese). That said, currently only half of obese Americans have access to the drugs through their health insurance.

The US government has taken measures to strengthen supply chains, reshore production and reduce reliance on imports of active pharmaceutical ingredients (API). This, together with supply chain bottlenecks in recent years and increased transportation costs, has increasingly led US pharmaceuticals manufacturers to re- and nearshore production. This development should continue to support domestic pharma output in the medium-term.

Given solid growth rates and a good long-term outlook it comes as no surprise that the credit risk in the sector is low. Margins for branded pharmaceuticals are robust, leading to strong cash flow and credit profiles. Many US pharmaceutical companies seem financially strong or have ample liquidity sources in the financial markets.

Drug pricing regulation could impact the industry
The US government has taken steps to reduce the price of pharmaceuticals for consumers. The Inflation Reduction Act authorises Medicare to engage in price negotiations with pharma producers, and ten medicines have been selected for price cuts in 2026. A further 50 will be subject to price negotiation over the next four years.

Additionally, the US Department of Health has announced that if prices of 41 prescription drugs rise faster than inflation, producers will be required to pay a rebate to Medicare. Overall, the industry objects to those measures, arguing that it could impact investment and reduce innovation. Some pharmaceutical businesses have even filed lawsuits to challenge the new regulations.

A further issue facing some parts of the industry is product liability risk. This can affect manufacturers, distributors and retailers, and has especially been seen in areas such as the recent opioid settlements.

Pharmaceuticals sector expert for the Americas: Brady McKinney, Atradius Underwriter in Baltimore, Maryland, USA.

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Pharmaceuticals outlook
Asia Pacific

Pharmaceuticals output	2022	2023*	2024*	2025*
China	-3.6	-5.2	7.7	6.1
India	-13.8	16.1	3.8	10.4
Japan	10.7	2.4	6.0	2.3
Singapore	12.9	11.6	10.7	1.5

Year-on-year, % change /*forecast – Source: Oxford Economics

Industry performance forecast
Australia
China
Hong Kong
India
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Phillippines
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China

Government support drives innovation and better access to healthcare
We expect Chinese pharmaceuticals production to grow by 7.7% in 2024 and by 6.1% in 2025. China accounts for about 40% of global active pharmaceutical ingredients (API) output. While some Western countries have begun to reshore API production, it is likely that China´s cost advantages will support continued demand in the coming years.

Pharmaceutical investments in China are forecast to increase by 7% annually in 2024 and 2025. The government aims to make the country more attractive for pharmaceutical production and innovation. Measures include a series of capital investments and policies such as reducing new drug approval wait times. The government strongly supports investment and R&D in order to shift away from producing generics and towards high quality drugs and biopharmaceutical innovations.

China´s pharmaceutical sector is increasingly integrating with global markets. Many new drug licensing deals have been agreed between Chinese and multinational pharmaceutical companies. Both the participation in global clinical trials and export of innovative drugs are increasing.

Domestic demand will be boosted by a growing middle class that can afford high value-added products. It is expected that the number of Chinese households with incomes over USD 35,000 will rise to 160 million in 2030, from an estimated 48 million in 2020. At the same time the population is ageing, which will spur demand for drugs related to chronic illnesses.

India

Strong expansion of manufacturing base expected in the coming years
After a 16.1% increase in 2023 we expect pharmaceuticals output to grow by 3.8% in 2024 and by 10.4% in 2025. Most businesses have strong balance sheets and good access to bank financing. The government has announced a large incentive scheme to boost local API production in order to compete with China. Additionally, some pharmaceutical producers in the US and Europe plan to use Indian contractors in order to lower their reliance on China. Together with a growing population and rising middle class, this could bolster India’s path to becoming one of the world’s largest pharmaceuticals manufacturers over the next decade. However, quality standard issues and incidents of alleged drug contamination remain downside risks. The US Food and Drug administration has increased the number of inspections at Indian drug manufacturing units in 2024 amid growing concerns over quality.

Pharmaceuticals sector expert for Asia Pacific: Judy Ji, Atradius Senior Underwriter in Shanghai, China

Pharmaceuticals outlook
Europe

Pharmaceuticals output	2022	2023	2024*	2025*
Germany	5.6	-1.6	2.1	0.0
Ireland	28.2	-14.6	-3.5	4.7
Switzerland	19.0	4.6	4.7	4.6
United Kingdom	-3.9	9.7	2.6	2.2

Year-on-year, % change /*forecast – Source: Oxford Economics

European Union and UK

Ongoing growth and high M&A activities in the region
After levelling off in 2024, we expect pharmaceuticals output and sales in the EU and the UK to grow by more than 3% annually in 2024 and 2025. Household incomes should continue to rebound in the coming months, supporting demand for over-the-counter drugs. Local production will in particular benefit from announcements by both Novo-Nordisk and Eli Lilly to make large investments in several European countries in order to increase production of their weight-loss drugs.

For the most part, financial indicators in the industry are strong, but some SMEs could face financing challenges. This is due to high R&D costs, competition from India and China, and difficulty accessing financing at competitive interest rates. M&A activity between larger pharmaceutical producers and smaller, often specialist pharmas and biotech businesses is booming, with more than 100 deals announced in Q1 of 2024 alone. In terms of value, this represents a year-on-year increase of more than 400%. We expect this dynamic trend to continue in the coming years.

Most of the individual markets in Europe are highly regulated and many feature constraints that could impact pharma profits. There is permanent pressure from national health authorities to lower prices of drugs and medicines. For instance, due to budget constraints the French government is looking to revise subsidies for medical products, currently worth EUR 16 billion a year. The UK is losing its appeal to pharmaceutical producers due to low profit margins, volatile price schemes, and prolonged licensing and approval periods.

At the end of 2023, the European Medicines Agency (EMA) published a list of 260 treatments that need to be stockpiled or made in the EU to avoid future shortages. Proposals aimed at boosting self-sufficiency include incentives to invest in new manufacturing facilities in the EU. A new plant producing paracetamol is set to open in France next year. However, reshoring could result in higher prices for consumers and healthcare systems.

Solid outlook, but there are competitive weaknesses
The outlook for the sector in Europe is solid in both the mid and long-term. This is because pharmaceuticals are essential goods, the region has well-established manufacturing facilities, secure supply chains and high production standards. Pharmaceutical producers and wholesalers will benefit from the region's ageing population, which can lead to increased demand for products to treat chronic illnesses and other conditions associated with ageing.

However, there are some concerns about the competitiveness of the European pharmaceutical sector. Most of this is directed towards China and India in the generic drug and active pharmaceutical ingredients (API) segments. Regarding talent acquisition for R&D, the United States benefits from the fact that 75% of European science graduates remain in the US after completing their doctorates.

Industry performance forecast
Austria
Belgium
Czech Republic
Denmark
France
Germany
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Netherlands
Poland
Portugal
Slovakia
Spain
Sweden
Switzerland
Turkey
UK

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