



INDUSTRY FOCUS:

# MANUFACTURE OF FOOD PRODUCTS AND BEVERAGES

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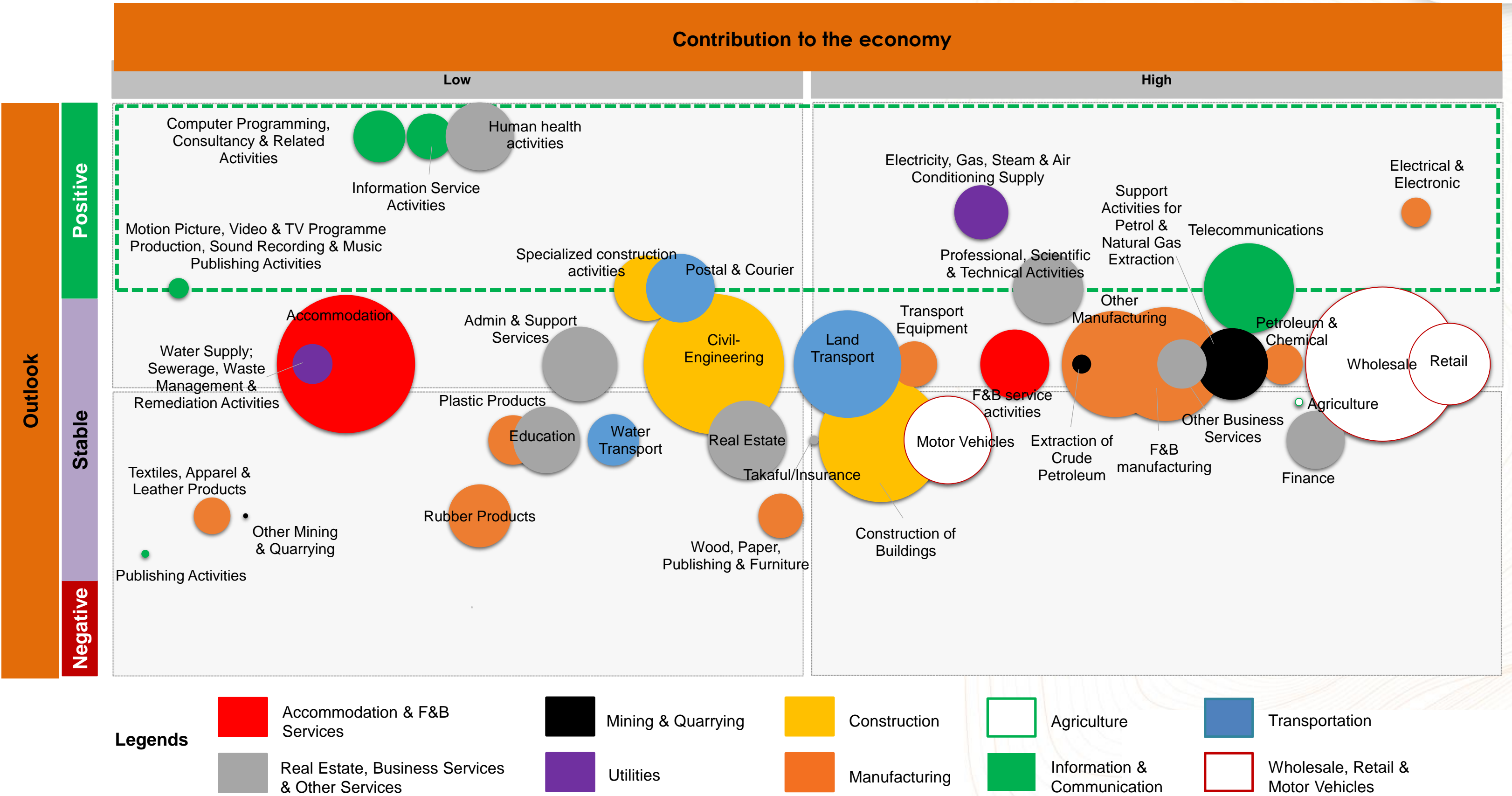
(603) 2615 2020



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## **Industry Focus: Manufacture of food products & beverages**



- Legends**
- Accommodation & F&B Services
  - Real Estate, Business Services & Other Services
  - Mining & Quarrying
  - Utilities
  - Construction
  - Manufacturing
  - Agriculture
  - Information & Communication
  - Transportation
  - Wholesale, Retail & Motor Vehicles

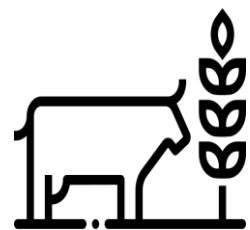
Share of Food & Beverages (F&B) manufacturing to total manufacturing sales has been **steady for the past 10 years, hovering around 7%**. Despite a low share of total manufacturing sales, this sector has been **resilient** and charted a **stable growth** (CAGR of 9% from 2019-2023) even during economic downturn and weak external demand. This sector is mainly **domestic oriented** as **export of F&B manufacturing makes up ~36%** of its total sales in 2023.

Sub-Sector	Outlook
F&B manufacturing	<b>Stable</b>

## OPPORTUNITY



- **Global Halal market** is projected to grow at a **CAGR of 10.0% by 2030, while F&B at 9.3%**. Halal market includes foods (human, livestock & pets), cosmetic & personal care, pharmaceutical etc.
- Halal F&B makes up 79% of Malaysia's total F&B export in 2022.

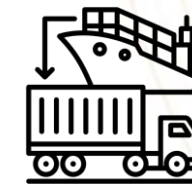


- **Government food security agenda** boosts demand for animal feed:
  1. Fresh milk – target of 100% self sufficiency ratio (SSR) by 2030 (2022: 57%).
  2. Beef – 50% SSR by 2030 (2022: 15%).



- **1 in 6 adults in Malaysia have diabetes** in 2023 (2011: 1 in 10). **Better health awareness** can alter the demand for different types of F&B manufacturing products.
- MSMEs can innovate with healthier product offerings, substitute away from conventional products i.e. offer food products that contain no/less sugar, healthy alternative sweetener etc.

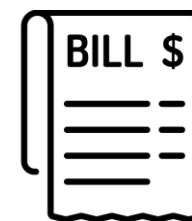
## CHALLENGES



- **Increase in consumer demand for imported F&B**, poses greater competition for domestic products.
- F&B import for household consumption posted a wider trade deficit of -RM6.9 bil in 2023 (2022: -RM5.3 bil)

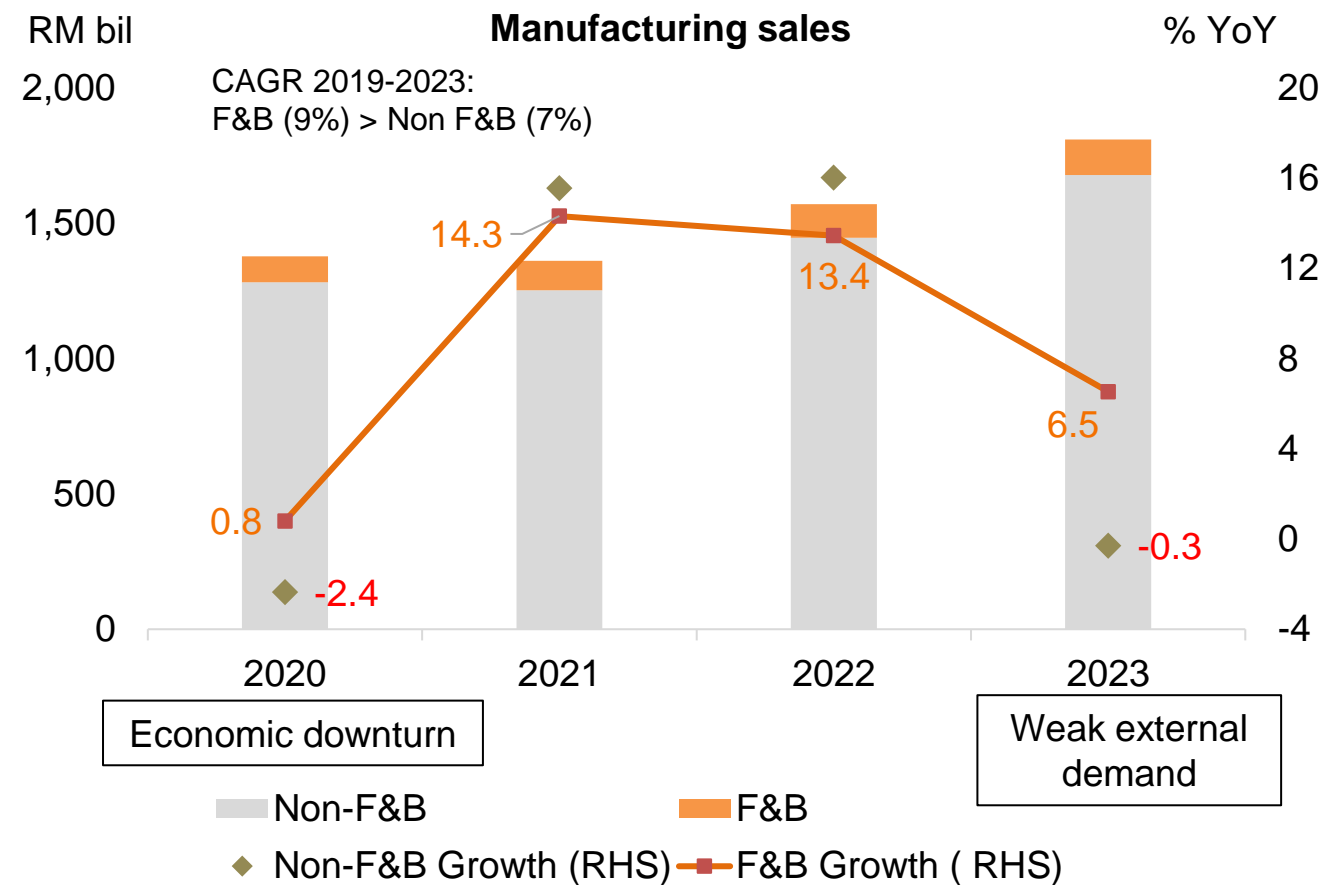


- **Households spend more on out of home F&B**, less on at home F&B.
- Products targeting domestic at home consumers could face less demand (e.g processed/canned fish). MSMEs could aim for restaurants/ café/ catering products.



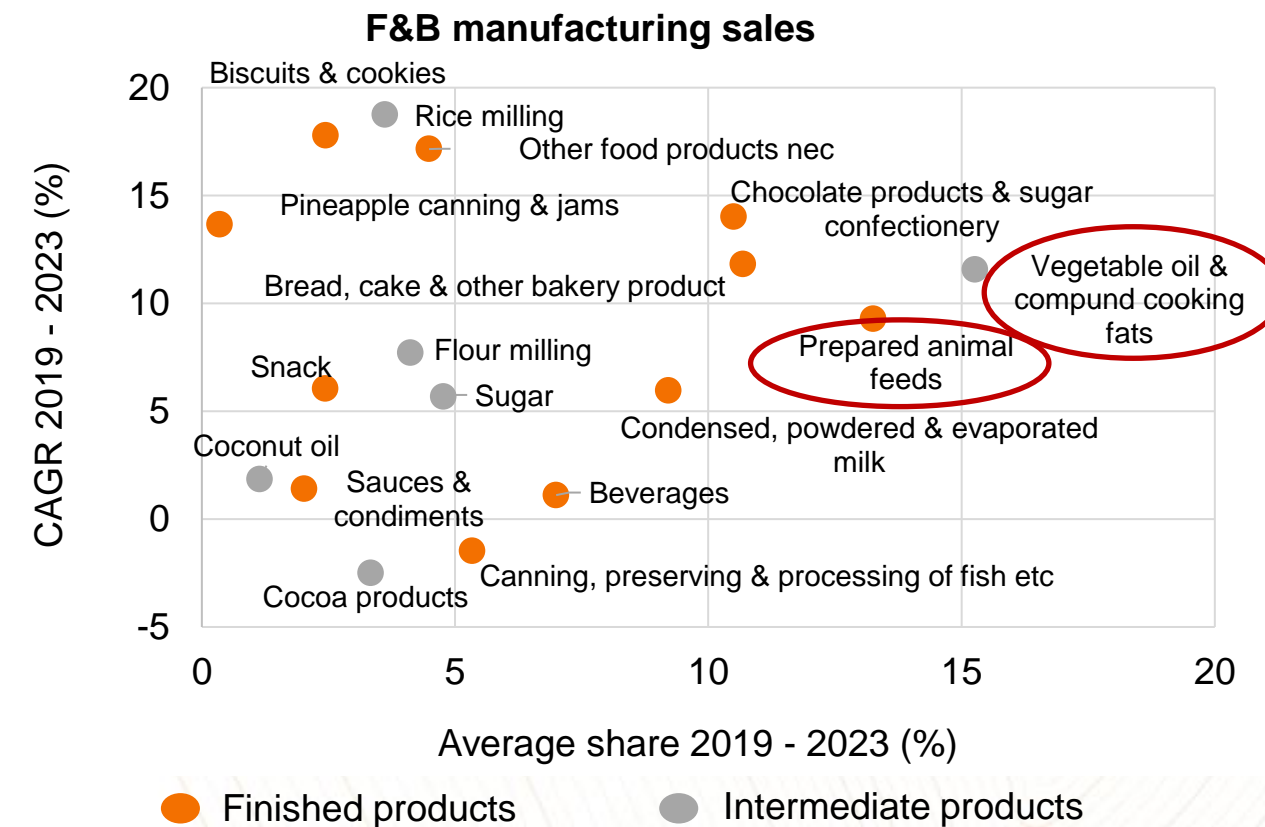
- **Higher production cost** to affect businesses (e.g higher diesel prices, electricity and water tariff, upcoming revision in minimum wage/progressive wage policy). This additional cost is likely to be passed through to customers.
- While rising wages will likely increase F&B cost, the **impact could be lower** compared to other manufacturing sectors. F&B is **among the lowest labour intensive** within the manufacturing sector.

## Stable growth in F&B manufacturing sales despite small share



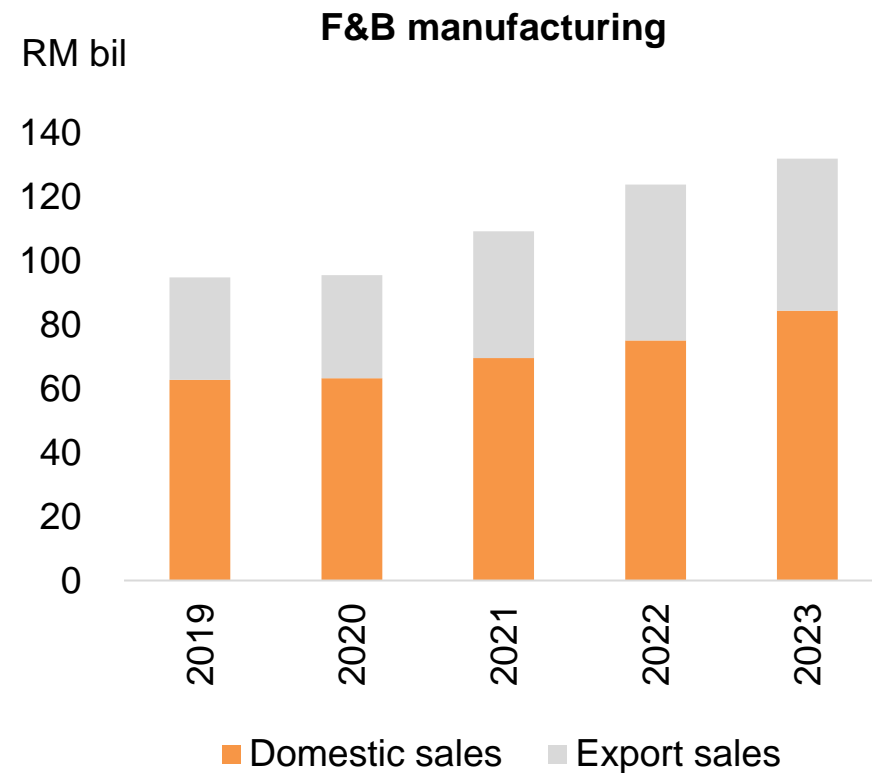
- **Share of F&B manufacturing sales** makes up only a **small** proportion of the total manufacturing sales, hovering around **7% for the past 10 years**.
- Despite lower share, **F&B manufacturing sales** showed a **stable growth** trend even during economic downturn and weak external demand. During the pandemic in 2020, F&B sales grew 0.8% YoY vs non-F&B which contracted by 2.4%.
- **Sales of wholesale and retail of F&B and tobacco** also grew by **8.5% YoY** in 2023 (2022: 9.0%) in line with expansion of this F&B manufacturing sector.

## Most of F&B products saw uptick in sales except cocoa & fish



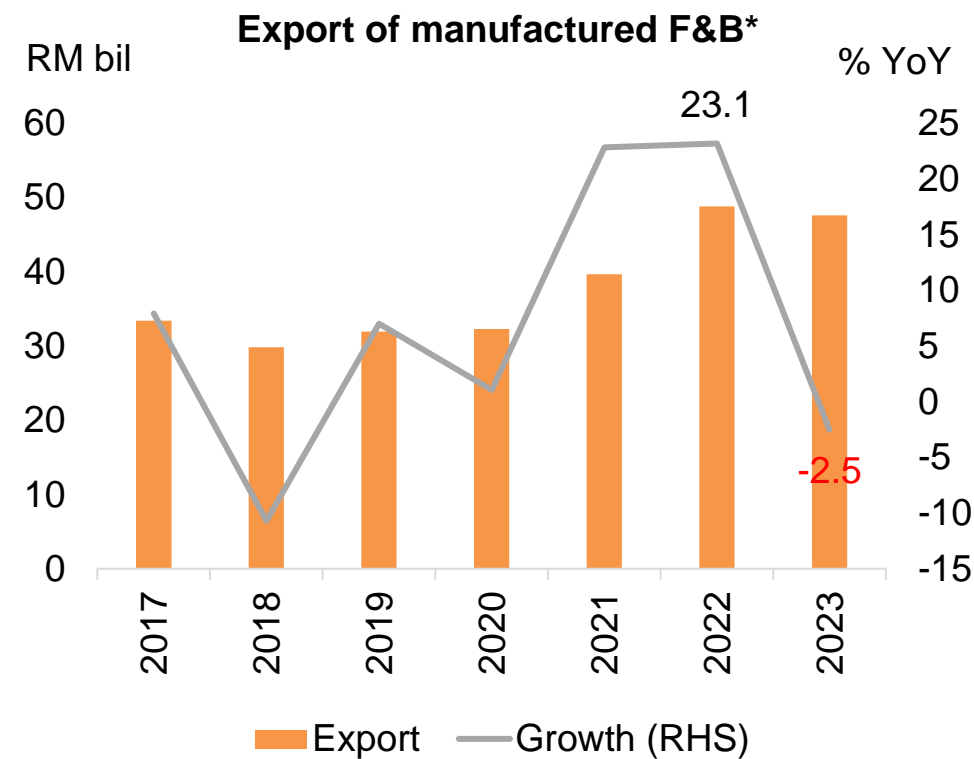
- The largest share of F&B production is **dominated** by **vegetable oil & compound cooking fats** (15.3%) and **prepared animal feed** (13.3%) i.e. livestock & pet food, based on latest average data between 2019 - 2023.
- Followed by bread, cake, other bakery products (10.7%), chocolate products & sugar confectionery (10.5%) and condensed, powdered & evaporated milk (9.2%).
- Meanwhile, the **fastest growth rate (CAGR)** was rice milling (18.7%), followed by biscuits and cookies (17.8%), and chocolate products & sugar confectionery (14.0%).
- **All manufacturing of F&B products posted positive CAGR growth** between 2019 and 2023 except cocoa products (-2.5%) and canning, preserving & processing of fish (-1.5%) which contracted.

## Export of manufacturing F&B grew faster > domestic



- Out of RM131.9 bil manufacturing sales for F&B in 2023, **export makes up 36%** (2019: 34%), while the balance were sales within the domestic market.
- Although lower share, **export grew faster** at **10% CAGR** from 2019-2023, above domestic sales of 8%.
- **Top exports of F&B** are (1) processed animal, vegetable oils & fats (20% share); (2) coffee, tea, cocoa, spices, and manufactures thereof (18%); and (3) cereals and cereal preparations (8%).
- While domestic sales is more stable, growth in export fluctuates according to global economic developments.

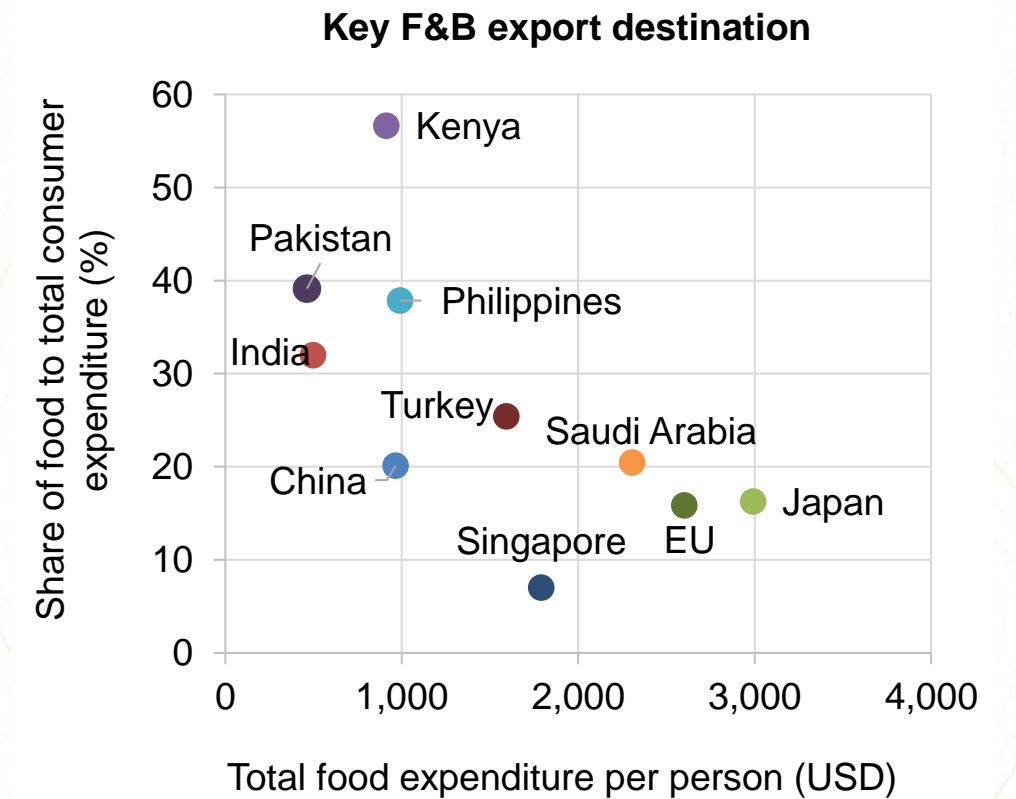
## Uneven recovery in export F&B, but it remains above historical



\*Excludes crude/refined fixed vegetable oils & fats

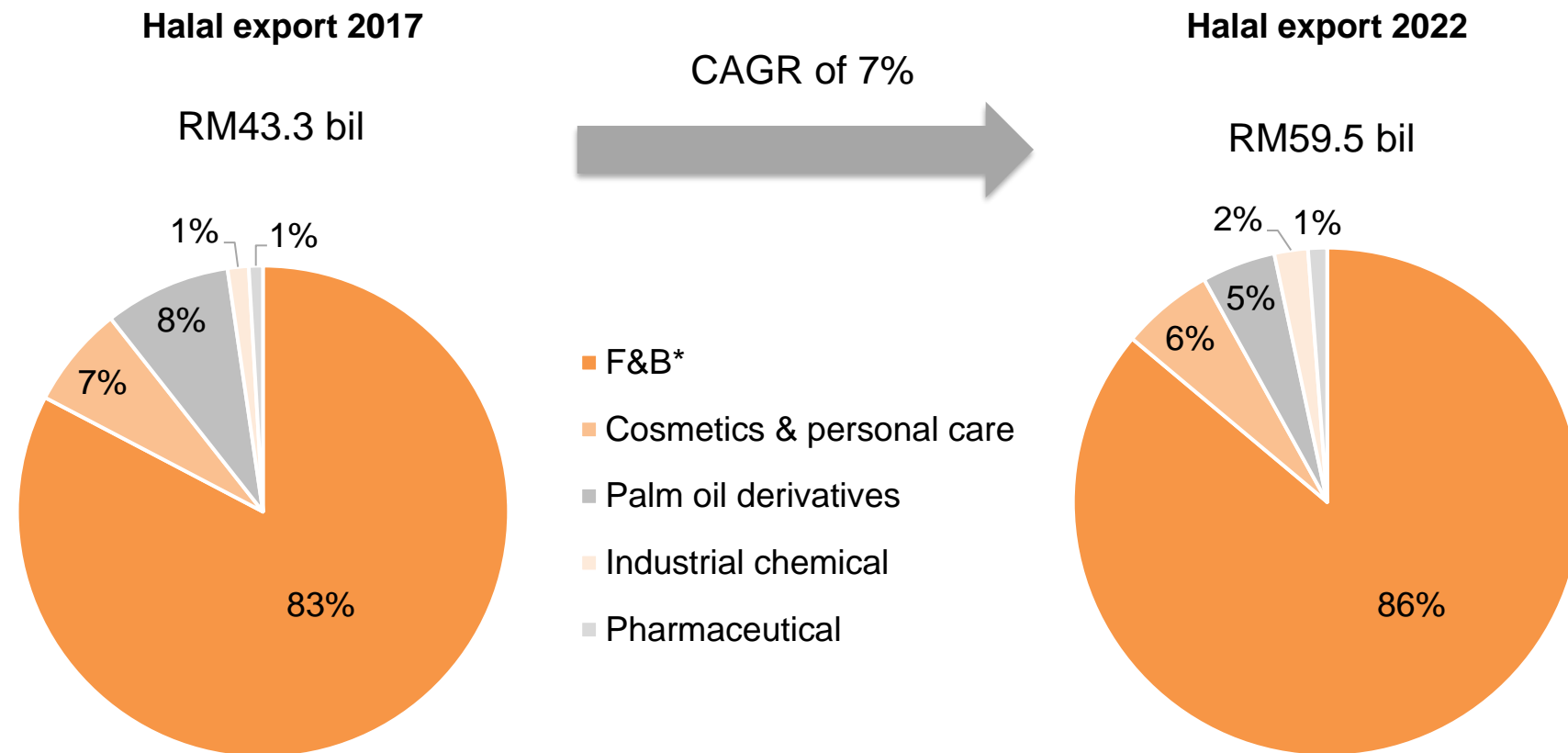
- In 2023, **export of manufactured F&B eased marginally to RM47.6 bil** (2022: RM48.8 bil), but still above its historical average (2017 - 2019: RM31.7 bil).
- After a contraction in 2023 (-2.5% YoY), **export of F&B manufacturing has recovered earlier this year**, up by **6.7% YoY** in **Jan-Apr 2024**.
- All F&B exports have recovered **except**, animal oils and fats (-18.9% YoY), meat and meat preparations (-18.6%), processed animal, vegetable oils & fats (-11.2%), vegetables and fruits (-6.2%), fish, crustaceans & molluscs & preparations thereof (-4.2%), and beverages (-2.7%).

## Malaysia's top F&B export destination and its food consumption



- F&B exporters can expand into markets that have **high food expenditure**.
- **Among key destinations for F&B export**, Japan has the highest total food expenditure at USD3.0k/person. This is followed by EU (USD2.6k) and Saudi Arabia (USD2.3k).
- **High barriers to entry** may be among key challenges to exporters, especially MSMEs. For instance, strict regulations pertaining to food safety requirements, supply chain issues, shipping cost, high competition etc.

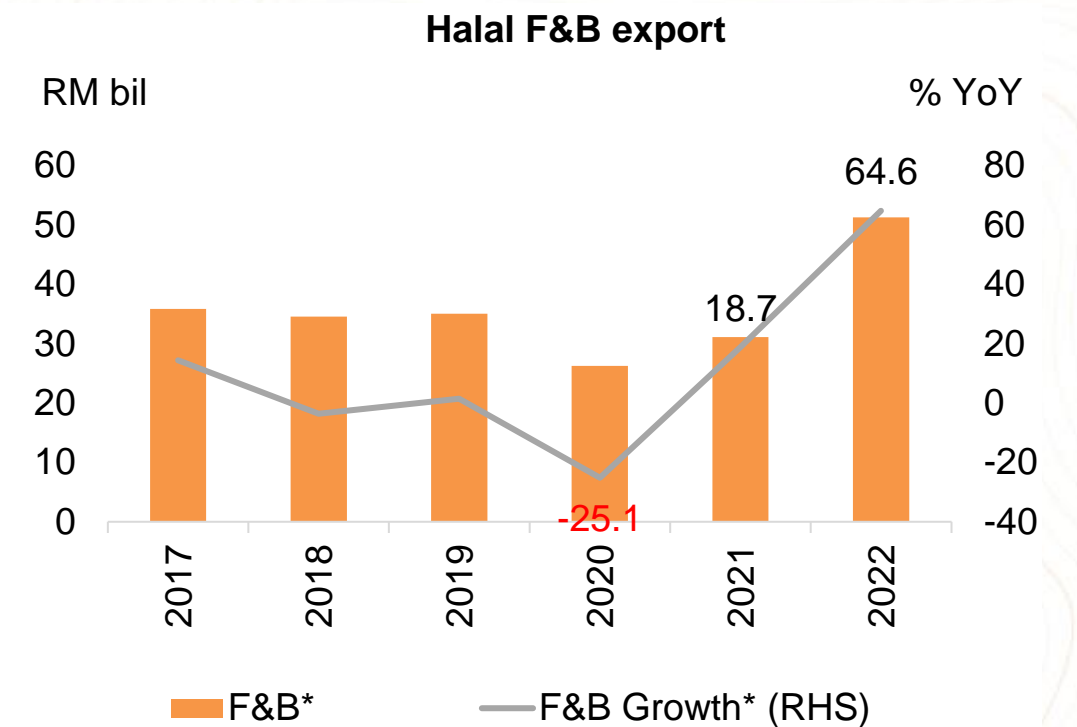
## Halal manufacturing of F&B makes up largest share of Halal export



- The **global Halal market** is projected to grow by a **CAGR of 10.0%** by 2030. Between 2017 to 2022, **Malaysia's Halal export** expanded by a CAGR of 7.0%.
- The **bulk of Halal export is dominated by F&B** at **86% share** in 2022 followed by cosmetic and personal care (6%), palm oil derivatives (5%), industrial chemical (2%), and pharmaceutical (1%).
- **MSMEs make up 88.3%** of players in **Malaysia's Halal industry**. However, in term of export value, **MSMEs only accounted for 8.6% of total Halal export in 2022** (2019: 11.9%). This wide discrepancy reflects the nature of this industry where **MSMEs' F&B manufacturing sales are mainly domestic oriented**.

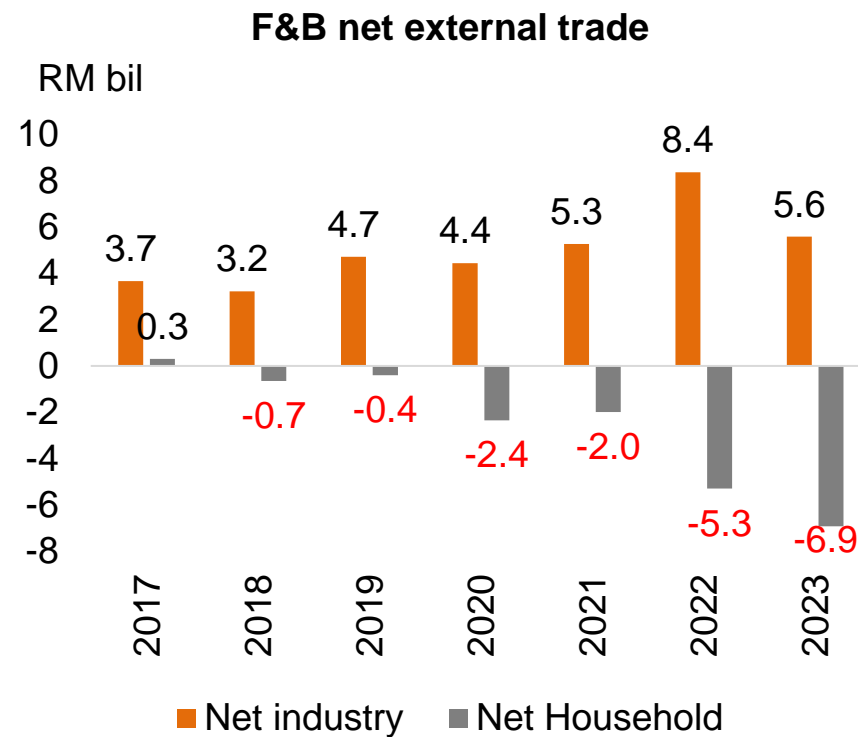
\*F&B including ingredients

## Significant growth in Halal F&B export



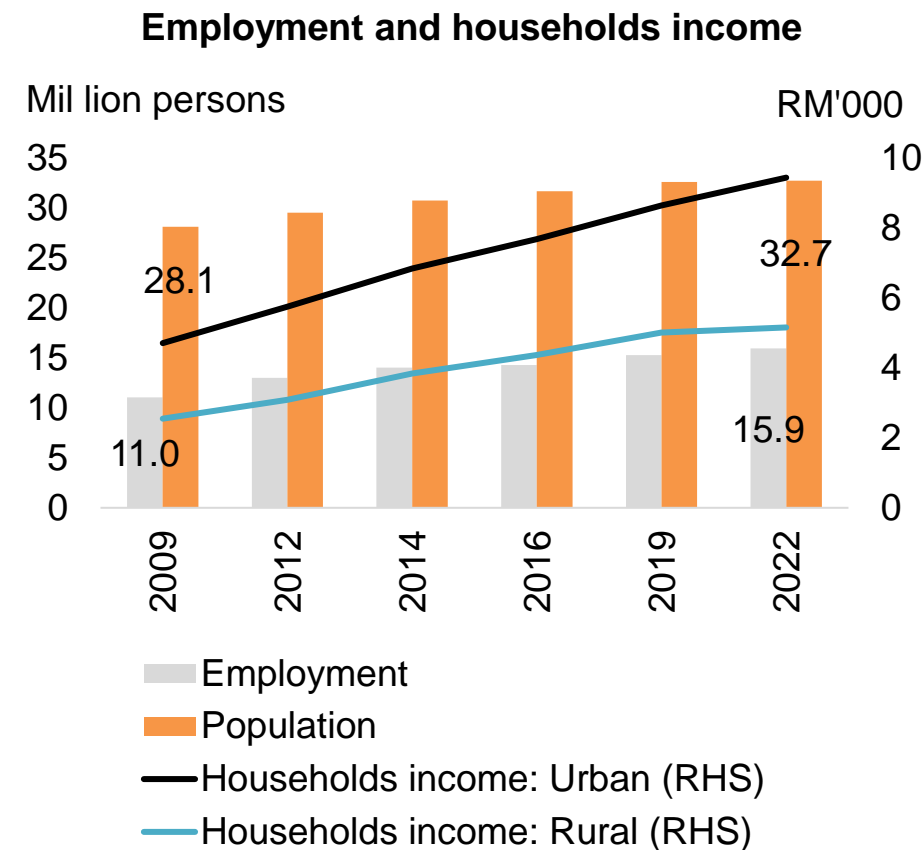
- **Halal F&B makes up a majority (79%) of total F&B export** in 2022 (average 2017-2019: 81%).
- In terms of growth, the Halal F&B export industry **accelerated by 64.6% YoY** in 2022 to RM51.2 bil, which above its pre-pandemic average (average 2017-2019) of RM35.1 bil.
- Halal F&B export has expanded by 45.8% vis-à-vis 2017 – 2019 levels, reflective of **govt effort promoting** Malaysia halal brands in line with **growing global Muslim** population (is expected to reach 2.2 bil people by 2030 or **up 16%** from 2020)
- Future prospect for this industry is good given that the **global Halal F&B market** is projected to grow by a **CAGR of 9.3%** by 2030.

## Wider net trade deficit could raise domestic competition



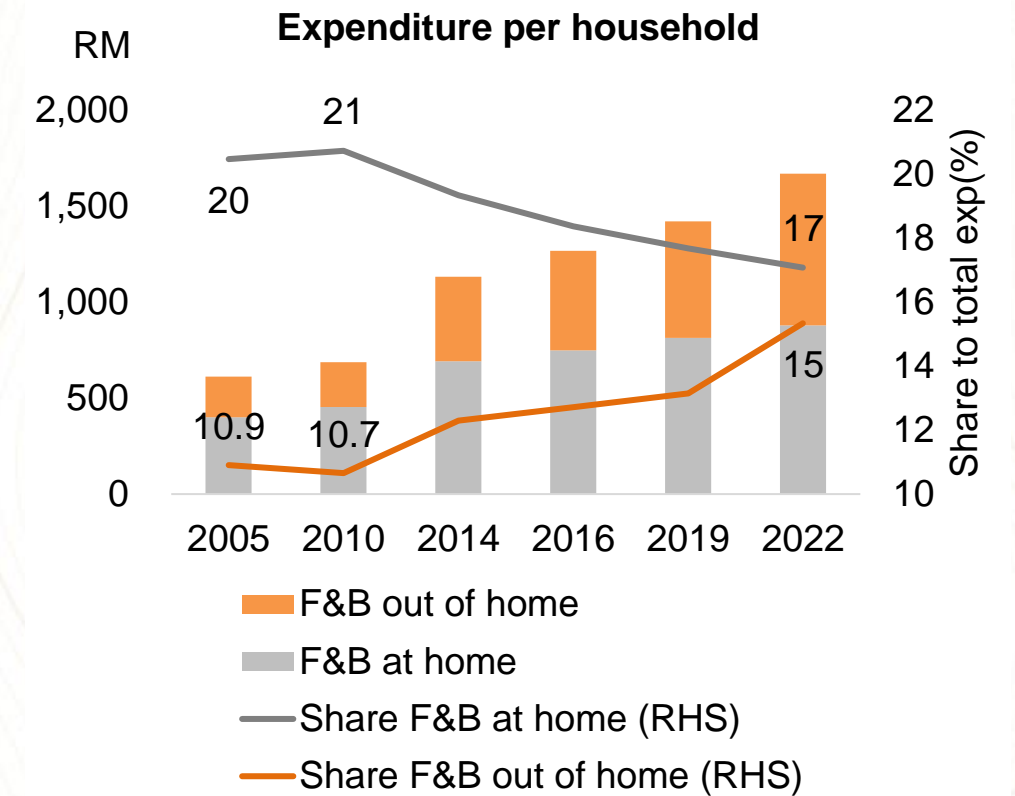
- While F&B trade for industry is consistently in surplus position, **trade deficit** in F&B products for **household consumption widened** in 2023.
- In fact, **import** of F&B products for **household consumption > export since 2018**.
- Share of F&B import for household consumption also rose to 66% of total F&B import (2022: 58%; 2010: 45%), indicating consumer preference for imported F&B household products.
- **Overall, 11 out of 14** F&B trade categories were in **net deficit** in 2023. The 3 F&B net surplus categories are (1) processed animal, vegetable oils & fats (+RM10.6 bil); (2) live animals (+RM0.8 bil); and (3) miscellaneous edible products & preparations (+RM4.5 bil).

## Rising population, employment and income to support expenditure on food



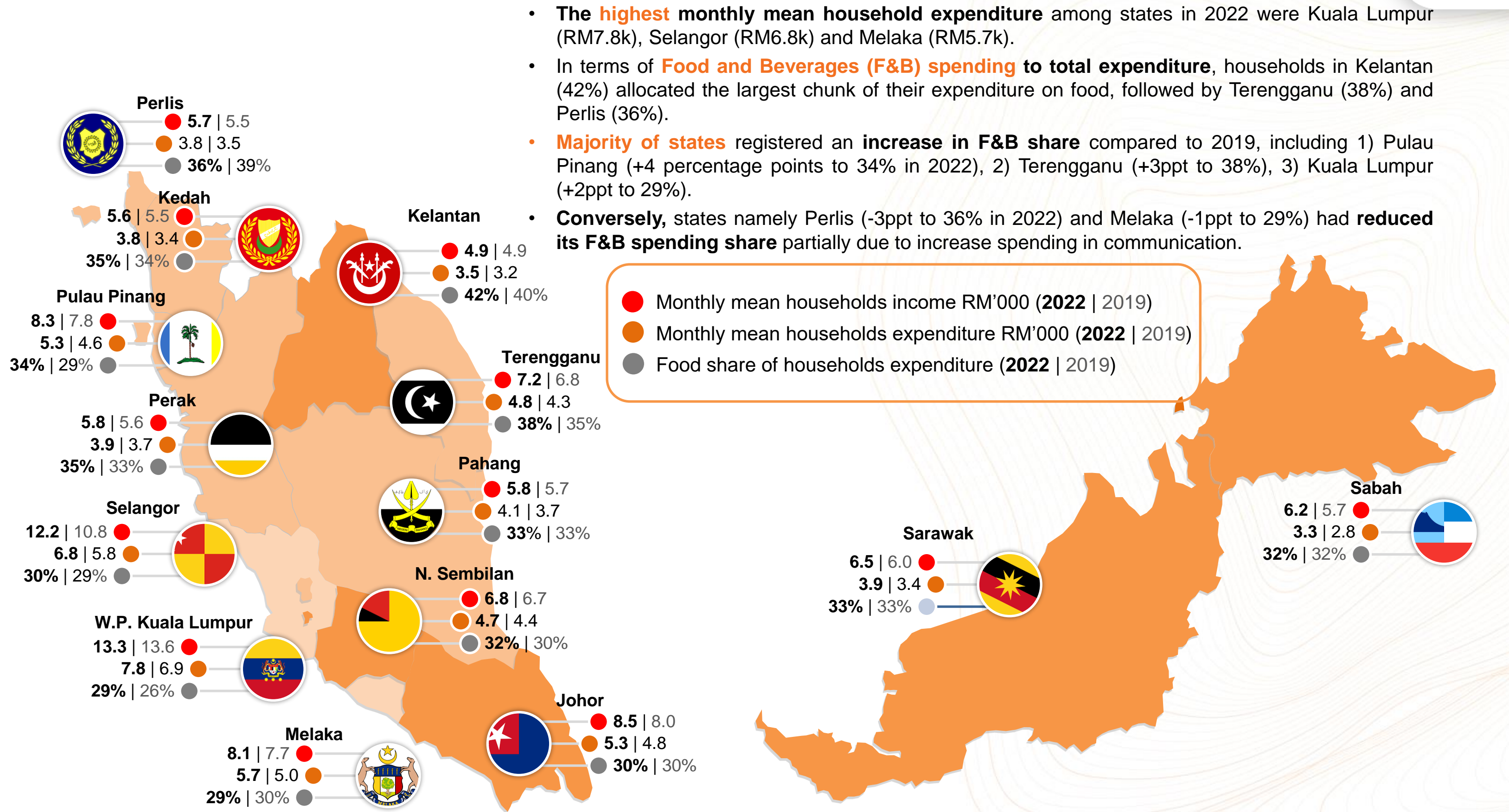
- DOSM forecasts the **Malaysian population to reach 38.1 mil by 2030, up 16%** from 2022 (2014 to 2022: 6%).
- With rising employment and income growth, demand for F&B will continue to expand. Nonetheless, there might be **changes in consumer behaviour** towards F&B consumption i.e. **higher demand for out of home food, healthier food, premium and imported food, ready-to-eat meal**.
- Working households also may face **time constraints**, whereby they are likely to **opt for out of home food or take-away**.

## Rising trend for out of home F&B



- **F&B consumption is the largest household expenditure**, with 32% share, followed by housing, water, electricity and as (23%) in 2022.
- Prior 2010, F&B at home showed a rising trend (2005: 20%; 2010: 21%; 2022: 17%) while F&B out of home declined (2005: 10.9%; 2010: 10.7%; 2022: 15%). Since 2010, there was a **reversal in trend** where consumers prefers food away from home.
- Therefore, F&B products which **targets at home consumers could seen a reduction in demand** over the time.





- The **highest** monthly mean household expenditure among states in 2022 were Kuala Lumpur (RM7.8k), Selangor (RM6.8k) and Melaka (RM5.7k).
- In terms of **Food and Beverages (F&B) spending to total expenditure**, households in Kelantan (42%) allocated the largest chunk of their expenditure on food, followed by Terengganu (38%) and Perlis (36%).
- **Majority of states** registered an **increase in F&B share** compared to 2019, including 1) Pulau Pinang (+4 percentage points to 34% in 2022), 2) Terengganu (+3ppt to 38%), 3) Kuala Lumpur (+2ppt to 29%).
- **Conversely**, states namely Perlis (-3ppt to 36% in 2022) and Melaka (-1ppt to 29%) had **reduced its F&B spending share** partially due to increase spending in communication.

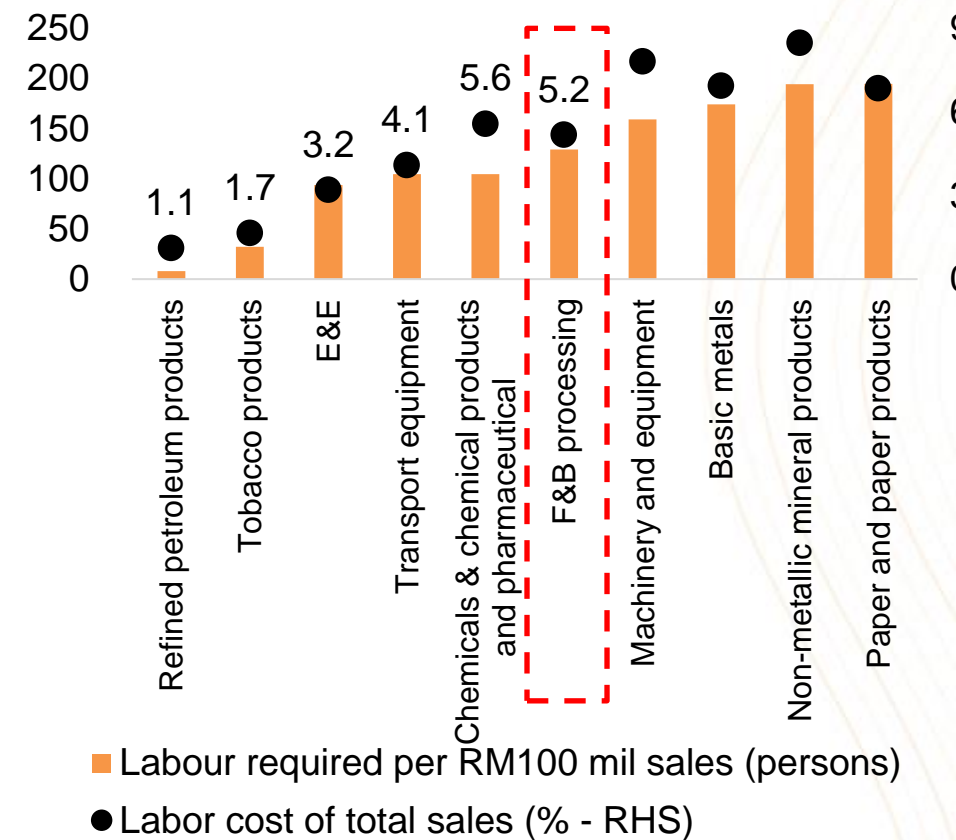
## Commodity prices still above historical level

Commodities	YTD Jan - May 2024 prices	
	% YoY	vs average 2017 – 2019 (%)
Cocoa	+161.2	+229.4
Arabica coffee	+11.2	+71.4
Palm oil	+2.0	+66.9
Skimmed Milk	-2.6	+35.4
Raw sugar	-4.9	+59.0
Wheat	-15.0	+24.2
Soybean	-19.0	+27.8
Corn	-31.4	+18.6

- **Raw materials** are the largest share of total cost, comprising **more than 50%**.
- In the first 5 months of 2024, **most of commodities have eased** compared to 2023 **except** cocoa, arabica and palm oil.
- Nonetheless, all the commodities **prices remained significantly above historical level** (2017-2019).

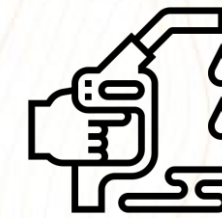
## One of the least labour intensive segment of manufacturing sector

Top 10 manufacturing sector with least labour cost



- While rising wages will likely increase F&B cost, the **impact could be lower** compared to other manufacturing sectors.
- The **cost of labour** for F&B was **5.2% of the total sales**, among the lowest within the manufacturing sector in 2023.
- F&B manufacturing sector is also **among the least labour intensive** compared to other manufacturing sectors as **129 workers** are **needed to generate RM100 mil sales** (ranked 6 out of 18 sub-sectors).

## Higher production cost but likely to pass through customers



- **Fuel** is mainly used for **transportation** (7%-10% of the total cost). Generally, F&B manufacturer will use logistic transportation (still eligible for targeted subsidy). Thus, floating diesel price may have minimal impact, depending on quota given.
- However, players that are not eligible for targeted subsidy will face **increase in fuel cost by 56%** which could translate increase **total cost up to 6%**.



- **Electricity** is used **directly in production**. With new tariff covering 2025 to 2027 (to be announced), There is potential rate hike which will add more cost to businesses in addition of **water tariff** revision in 2023/2024.
- Both electricity and water cost make up **at most 20% of total cost**. A 10% increase in utility cost could translate an increase in **total cost up to 2%**
- However, manufacture can diversify electricity supply by using solar which could reduce the cost.

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