

Industry trends

Pharmaceuticals



Ageing populations, emerging markets and new products drive growth

Global overview

Output and sales growth pick up in 2024

Global pharmaceuticals output growth slowed to just 0.5% in 2023 - after a whopping 17.3% increase in 2021 and 6.8% in 2022. This spike was driven by the massive production of Covid vaccinations. In 2024, we expect global output and sales to increase by 4.6% and 5.1% respectively, mainly driven by the Asia Pacific region. Vaccine production will continue to support growth, although at a lower level than in previous years.

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 more than USD 75 billion by 2030. Improving access to healthcare within emerging markets will also support pharmaceuticals' output and sales.

Potential constraints ahead

High inflation and interest rates have been impacting household spending power, leading to lower demand for products such as over-the counter medicines. The need

to reduce fiscal deficits and government debt levels is also likely to affect public healthcare spending. Some markets including the EU, US and UK are imposing new or revised drug pricing regulations in a bid to lower state healthcare costs. This is meeting some resistance from the industry, which argues regulated pricing could impact their ability to invest in R&D.

That said, 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 expenditures.

Industry performance forecast

Europe		Asia and Oceania		Americas		<p>Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p> <p>Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p> <p>Fair The credit risk situation in the sector is average / business performance in the sector is stable.</p> <p>Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.</p> <p>Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p>
Austria	Netherlands	Australia	New Zealand	Brazil		
Belgium	Poland	China	Phillipines	Canada		
Czech Republic	Portugal	Hong Kong	Singapore	Mexico		
Denmark	Slovakia	India	South Korea	USA		
France	Spain	Indonesia	Taiwan			
Germany	Sweden	Japan	Thailand			
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey					
Italy	UK					

Industry trends

Pharmaceuticals

Pharmaceuticals key figures	2022	2023*	2024*	2025*
Production	6.8	0.5	4.6	4.5
Gross output (sales) (real, USD)	6.9	-0.2	5.1	4.8
Investment (real, USD)	-1.8	0.6	5.0	4.6
Gross operating surplus (profits)	-4.4	5.5	2.7	8.1

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

Pharmaceuticals output per region	2022	2023*	2024*	2025*
Americas	0.8	6.4	1.3	1.8
Asia Pacific	-2.0	-2.7	9.1	8.0
Europe	17.5	0.1	3.3	3.3
Middle East & Africa	-7.4	5.0	1.6	2.9

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	2.7	3.6	3.0
Canada	6.5	1.7	-0.7	3.1
Mexico	11.0	14.9	-3.8	1.3
United States	0.5	7.0	1.4	1.7

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

USA

A slowdown in sales, drug pricing regulation and liability litigation impact industry

US pharmaceuticals output and sales increased 7% and 7.7% respectively in 2023. This year a slowdown to 1.4% is forecast as the economy weakens. Consumer spending on discretionary drugs such as over-the-counter-medicines will slow due to the squeeze on household incomes, a weaker labour market and tighter lending conditions.

Labour shortages and government pressures to reduce drug costs for consumers are affecting the sector. The Inflation Reduction Act authorises Medicare to engage in price negotiations with pharma producers and ten medicines have been selected for price cuts. A further 50 will be chosen over the next four years. Some of the industry have objected to the price regulation of medicines, arguing that it could impact investment and reduce innovation. Some pharmas have 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.



Strong liquidity, an ageing population and new products present opportunities

Despite the challenges, the sector performance outlook remains good. Margins for branded pharmaceuticals are robust, leading to strong cash flow and credit profiles. Many pharmaceutical companies appear to have financial strength or have ample liquidity sources in the financial markets.

Ongoing demand will be driven by the ageing population that will continue to fuel sector growth in the future. Baby Boomers (now aged 59-77) will become more dependent on pharmaceuticals as they get older. The surge in demand for weight-loss drugs will also benefit some major US pharmaceuticals producers.

Intellectual property concerns favour retaining production of value-added products in the US, rather than using low-cost centres abroad. The Biden government wants to strengthen supply chains, reshore production and reduce reliance on imports of active pharmaceutical ingredients (API). While this could trigger additional sector growth, reshoring pharmaceutical production is not simple. Regulatory issues and the ongoing cost-advantages of retaining large-scale API factories overseas are dampening appetites for change.

Industry performance forecast

Brazil	Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
Canada	Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
Mexico	Fair The credit risk situation in the sector is average / business performance in the sector is stable.
USA	Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
	Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



Pharmaceuticals sector expertise for the Americas: Patrick Scardina, Atradius Manager, Regional Underwriting in Irvine, California, USA.

Pharmaceuticals outlook

Asia Pacific

Pharmaceuticals output	2022	2023*	2024*	2025*
China	-3.5	-4.8	11.5	8.8
India	-11.1	12.5	3.2	9.8
Japan	12.7	1.7	2.5	4.3
Singapore	-10.1	-16.4	11.8	10.7

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

China

Government support drives growth

After a 4.8% contraction in 2023 we expect pharmaceuticals output to rebound by 11.5% in 2024 and by 8.8% in 2025. China accounts for about 40% of global active pharmaceutical ingredients (API) output. While some Western countries have announced the desire to reshore API production, it is likely that China’s cost advantages will support continued demand in the coming years.

China’s share of global pharmaceutical output is expected to grow from 21% in 2023 to 27% in 2030. Growth drivers are government initiatives to increase accessibility to healthcare, medical services and to support innovation. The government supports the shift away from producing generics towards high quality drugs. Additionally, demand will be boosted by a growing middle class that can afford high value-added medicines and by the demands of an ageing population.

India

Strong expansion of manufacturing base expected

After a 12.5% increase in 2023 we expect pharmaceuticals output to grow by 3.2% in 2024 and by 9.8% 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.

Japan

Ageing population will drive domestic sales

After a 1.7% increase in 2023 we forecast pharmaceuticals output to grow by 2.5% in 2024 and by 4.3% in 2025. Japanese pharmaceutical businesses are financially strong. We expect robust domestic demand for medicines related to chronic illnesses in the coming years, as Japan has one of the largest elderly populations in the world (by 2030 the share of the population over 65 is expected to increase to 32%). However, the set-up of pricing schemes reduces the attractiveness of substantial domestic R&D investments. Increasing imports of generics from low-cost centres help to reduce healthcare costs but could dampen domestic production.

Industry performance forecast

	Australia
	China
	Hong Kong
	India
	Indonesia
	Japan
	Malaysia
	New Zealand
	Phillippines
	Singapore
	South Korea
	Taiwan
	Thailand
	Vietnam
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Pharmaceuticals sector expertise for Asia Pacific:
Judy Ji, Atradius Senior Underwriter in Shanghai, China

Pharmaceuticals outlook Europe

Pharmaceuticals output	2022	2023	2024*	2025*
Germany	4.9	-1.3	1.2	1.4
Ireland	-4.6	-2.5	-1.9	3.5
Switzerland	-8.4	-7.4	2.5	8.1
United Kingdom	3.1	-1.4	-8.2	-5.1

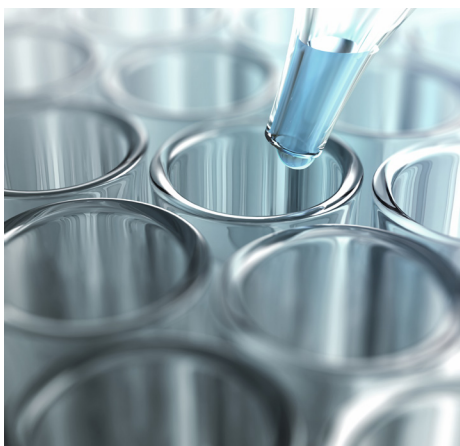
Year-on-year, % change /*forecast – Source: Oxford Economics

Eurozone and UK

Growth picks up again, but regulatory issues remain

After a modest 0.1% increase in 2023 we expect pharmaceuticals output in Europe to grow by 3.3% in both 2024 and 2025. As inflation continues to ease, household incomes should rebound in the coming months, supporting demand for over-the-counter drugs. However, ongoing high energy prices affect the industry directly through the cost of fuels, and indirectly through increased production costs for active pharmaceutical ingredient (API) feedstocks.

Most of the individual markets in Europe are highly regulated and many feature constraints that could impact profits of pharmaceutical businesses. For example, there is permanent pressure from national health authorities to lower prices of drugs and medicines. In order to increase access to medicine across all member states, the European Commission has proposed to reduce the minimum period of market exclusivity from ten to eight years. Some pharmaceutical companies argue that this could deter investment in research and development (R&D).



The European Medicines Agency (EMA) has published a list of 260 treatments that need to be stockpiled or made in the EU to avoid further shortages. Proposals aimed at boosting self-sufficiency include incentives to invest in new manufacturing facilities in the bloc. Additionally, the European Commission has announced plans to increase supply chain resilience and to reshore APIs, but concrete measures have not yet been agreed.

Strong financials, but SMEs could face trouble

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.

The outlook for the sector in Europe in both the mid and long-term is solid. 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 is demand for products to treat chronic illnesses and other conditions associated with ageing.

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