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# Sectoral Analysis: Food industry

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*The analysis is based on the results of the Special Survey of Enterprises "Export in Wartime", which was conducted by the IER in August 2024 (Methodology is presented in the Annexes).*

*The report and its results do not necessarily reflect the views of the United States Agency for International Development or the United States Government.*

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## Executive summary

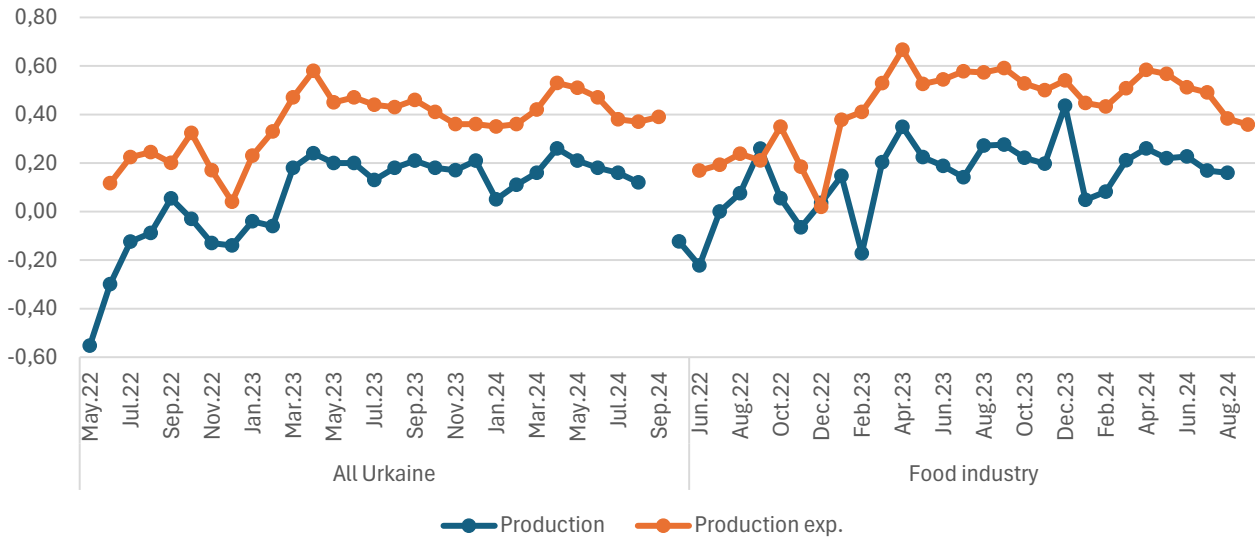
- Since the beginning of the full-scale war, the food industry has remained one of the leaders in the recovery of production. According to the State Statistics Service of Ukraine, the food industry reduced production in 2022 in response to the war and reduced demand. At the same time, it began to recover rapidly in 2023 and continued to grow significantly in the first quarter of 2024. The industry produces essential products that are in demand even during the war.
- The main impediments to the food industry, as well as to other industries, remain problems with access to electricity, although the industry has coped better with power outages compared to other manufacturing industries. Other impediments include labor shortages and rising prices for raw materials, goods, and supplies. Another challenge is the lack of long orders.
- An important impediment to the operation of the industry is also the lack of labor. That is why the Skills Alliance program, which the government launched together with international partners, is becoming extremely important. The program is designed to introduce training and retraining for the adult population.
- The level of uncertainty remains high. Food companies still have positive expectations for production indicators (production, sales), although since the spring of 2024 there has been a downward trend in optimism
- The industry is one of the country's main exporters. Among the main non-tariff barriers to exports are long queues at the border and long waiting times for export clearance.

## Production indicators

### Production

- **Since the spring of 2024, there has been a downward trend in production performance in the food industry, reflecting the situation for the entire processing industry at the country level.** *The index of production changes* in August 2024 for the food industry was 0.16 (0.17 in July, 0.23 in June and 0.26 in April). For comparison, at the country level, the *Index of Production Change* decreased from 0.26 in April to 0.12 in August. The share of industry enterprises that increased production in August 2024 was 28.8%, while the share of those who reduced production was 12.8%, And 58.4% of industry representatives did not change production volumes.
- **There is also a deterioration in expectations of the food industry for the next three months.** *The index of expected changes in production* for the food industry is 0.36, which is the lowest result since October-November 2022, when expectations for all businesses were affected by Russia's massive air attacks against the Ukrainian energy sector and power outages. In August 2024, 40.7% of industry representatives expected an increase in production in the next three months, and only 4.9% expected a decrease (38.2% and 4.8% at the country level, respectively). The result of the food industry is somewhat lower than the country-level indicator (0.39), although the industry generally shows a higher level of optimism.
- Since the beginning of the war, the food industry has remained one of the leaders in recovery. In recent months, the situation may have been affected by the return of power outages and the deteriorating labor situation (see Figure 1). *Impediments to Activity*). It should be noted that it is the food industry that is best prepared for power outages. In July 2024, food companies lost 10% of their working time due to power outages, but this is the lowest result among all industries studied. That is, the food industry can be best prepared for outages, in particular when working with products that require a stable power supply for processing and storage.

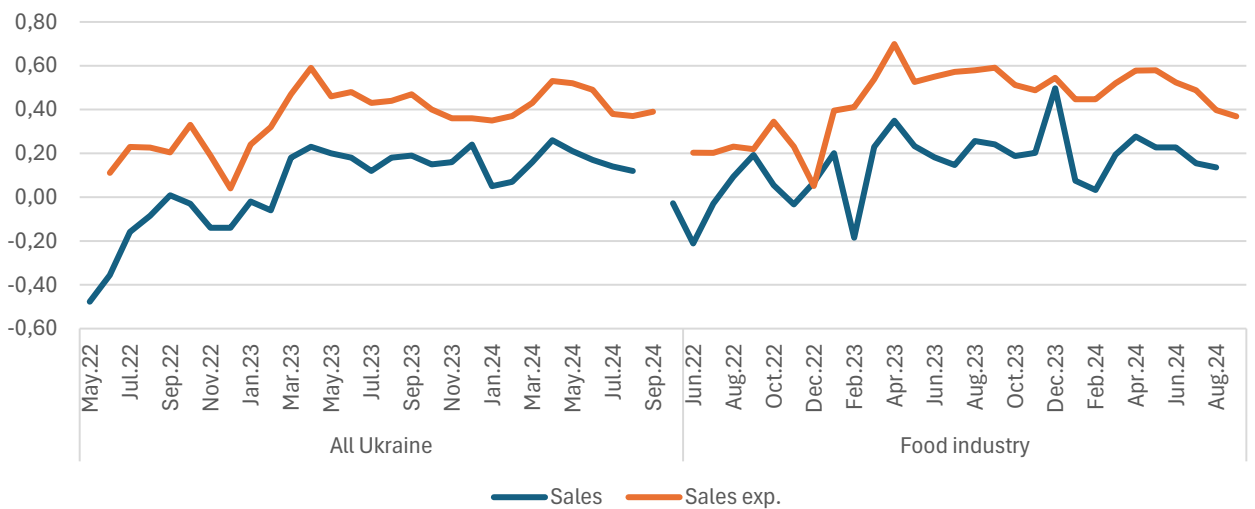
**Fig. 1. Production Change Index**



## Demand & Sales

- Estimates of demand among food companies reflect a downward trend in other production indicators from spring 2024.** The value of the *Sales Change Index* for the food industry is 0.14 (it was 0.28 in April, 0.023 in May and June, 0.16 in July). By comparison, at the country level, the *Sales Change Index* fell from 0.26 in April to 0.12 in August. The share of industry enterprises that increased sales in August 2024 was 29.6%, while the share of those who reduced production volumes was 16.0%, and did not change production volumes was 54.4% of industry representatives.
- The forecasts of entrepreneurs in the region regarding the growth of sales volumes have been gradually deteriorating since the spring of 2024.** The *Index of Expected Sales Changes* for the food industry is 0.37, which is the lowest result since October-November 2022. The result of the food industry is slightly lower than at the country level (0.39), although the industry generally showed a higher level of optimism about the expected changes in sales. In August 2024, 41.8% of industry representatives expected an increase in production in the next three months, and only 4.2% (39.5% and 6% at the country level, respectively).

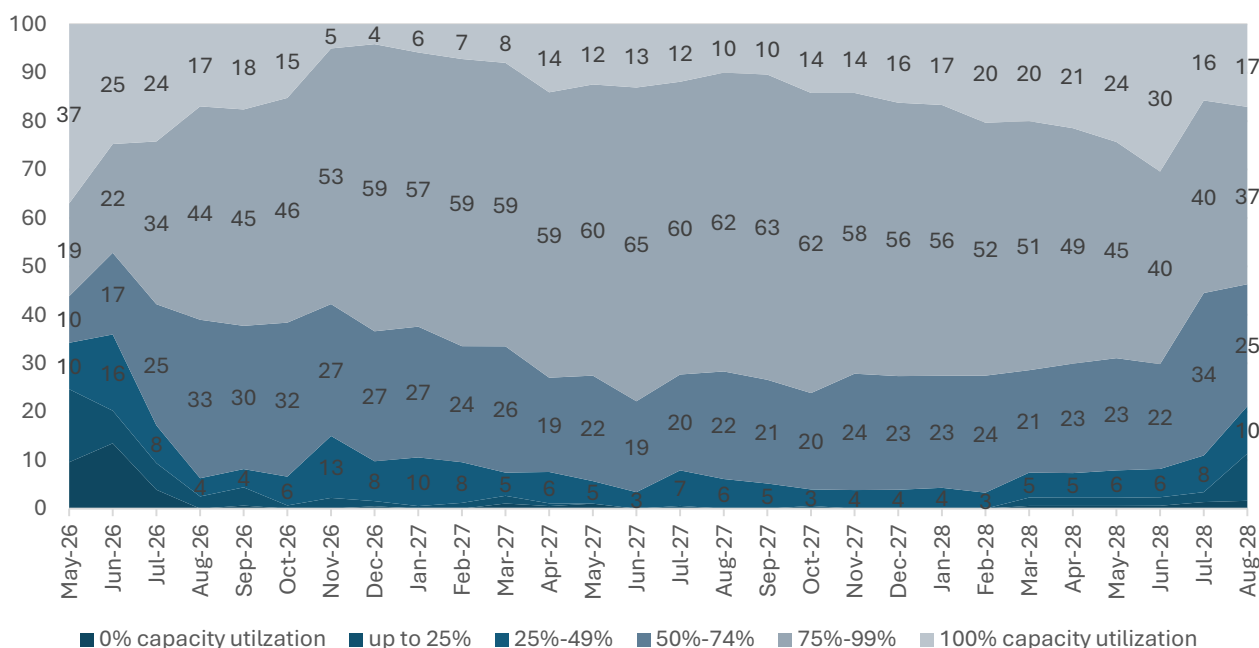
**Fig. 2. Sales Change Index**



## Capacity utilization

- **The food industry continues to demonstrate a high level of capacity utilization compared to the entire processing industry as a whole.** In August 2024, 54% of enterprises in the industry operated at almost full, full or even higher capacity compared to the pre-war period (41% at the country level): in particular, 17% at 100% and above (10% at the country level), and 37% at almost full capacity (75% - 99%) (31% at the country level).

Fig. 3. The impact of the war on the work of enterprises (% of respondents)



- **Due to the power outage, capacity utilization has been decreasing over the past two months.** For comparison, back in March-June of this year, 69-71% of enterprises were operating at almost full, full or even higher capacity. In June 2023, there was a record level of capacity utilization – 78%. At the same time, the share of enterprises that reduced the level of workload increased. 21% of respondents worked at a capacity utilization level lower than 50% or did not work compared to the pre-war period, which is the highest figure from May to June 2022, crisis months at the beginning of the war (then it was 34 and 36%, respectively).

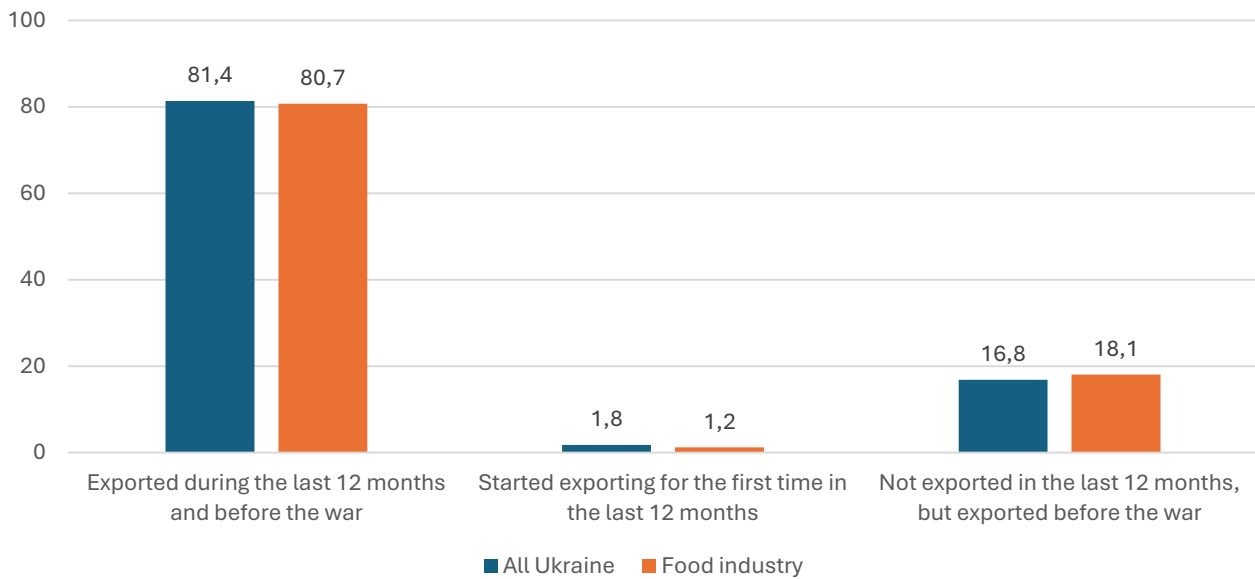
## Export of the sector

- In the food industry, among those surveyed in August 2024, 66.4% of enterprises (those that were able to answer) were or are exporters (60.9% at the level of Ukraine).<sup>1</sup>
- **As of August 2024, most exporters in the industry continued their foreign economic activity over the past year.** In particular, 80.7% of enterprises indicated that they exported before the war, and also continued to export over the past 12 months (81.4% at the country level). Another 1.2% started exporting over the past 12 months (1.8% at the country level). 18.1% of enterprises in the industry have not exported in the last 12 months, although they did so before the war (16.8% at the national level). Thus, the situation

<sup>1</sup> It should be noted that such a high level of business involvement in export activities also reflects the peculiarities of the sample for the survey, which, first of all, reflects enterprises representing the manufacturing industry.

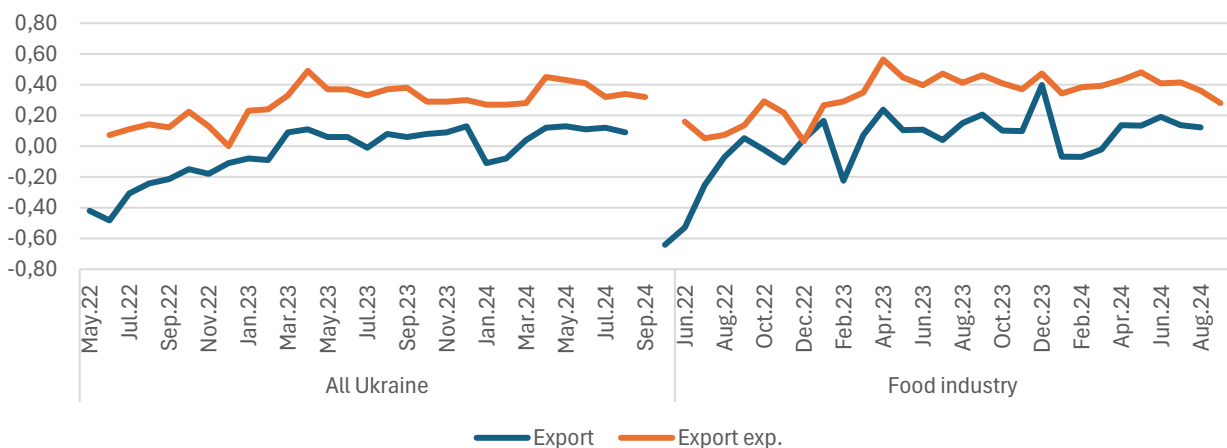
in the industry as a whole reflects the trends towards the recovery of exports in the country as a whole. English Businesses have reached a certain level of resumption of export activities, as some businesses cannot overcome new challenges to resume exports.

**Fig. 4. Impact on export activities, December 2023 (% of exporters surveyed)**



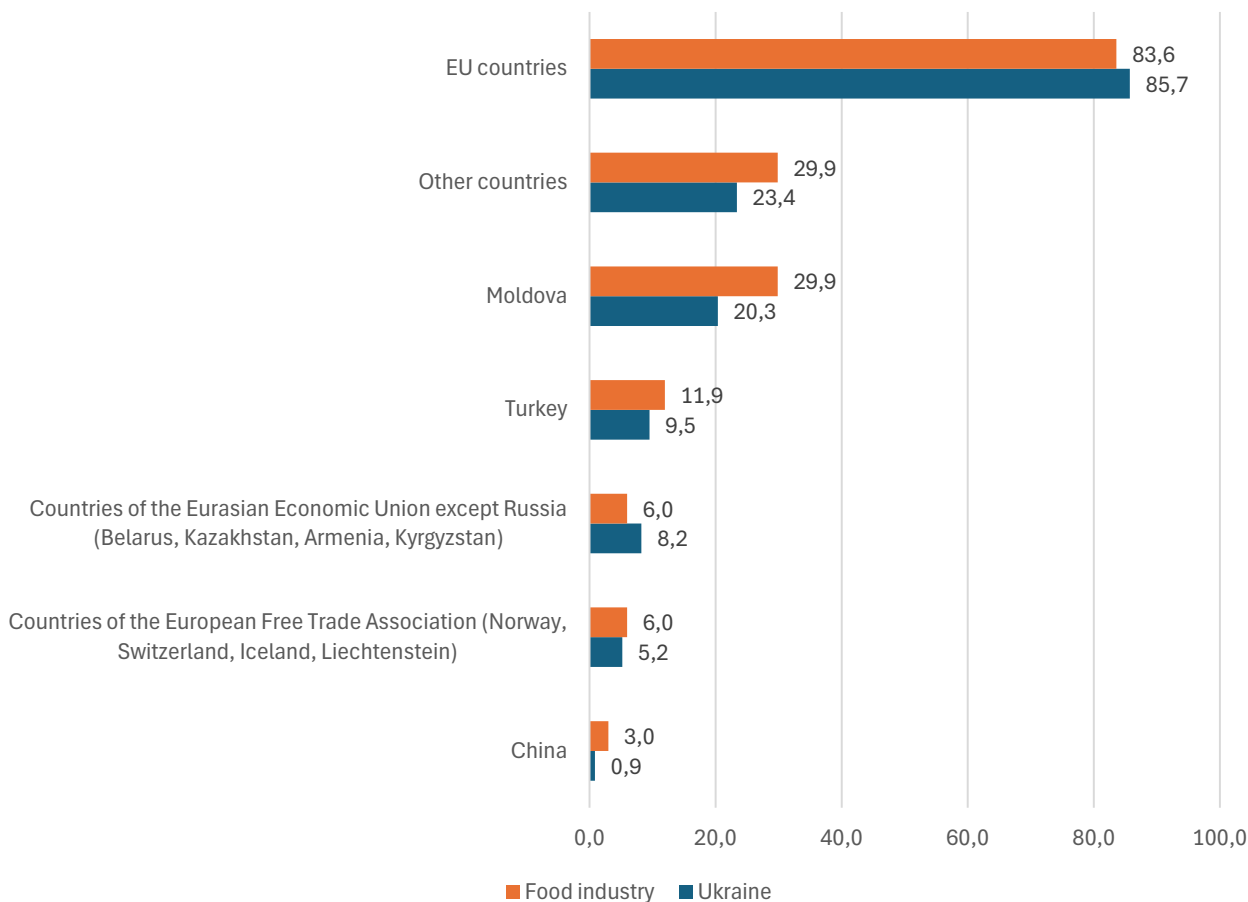
- In August 2024, the pace of recovery in exports in the food industry remains higher than the level of the entire country. In August, the export change index was +0.12 in the food industry, while at the country level it was 0.09.** At the same time, 25.6% of the region's exporters increased exports, 61% did not change, and 13.4% reduced exports. Data from the spring of 2022 shows that the pace of export recovery is low. At the same time, in January-March 2024, there was a decrease in export volumes. This situation demonstrates the presence of barriers to the resumption of exports.
- Expectations for export growth in the short term have been deteriorating since spring 2024, similar to other production indicators. If in April the index of expected changes in exports in the industry was 0.48, then it decreased to 0.28 in August (0.43 and 0.32 at the country level, respectively). However, only 4.9% of respondents expected a decrease in export volumes, while 62.2% expected no change, and 32.9% expected growth.**

**Fig. 5. Export Change Index**



- In August 2024, the European Union remained the main export destination for food industry enterprises, as well as for all industries in general. In particular, 83.6% of food industry enterprises exported to the EU (85.7% in general among all respondents). In addition, another 6% are exported to the countries of the European Free Trade Association (Norway, Switzerland, Iceland, Liechtenstein) and 6% to the countries of the Eurasian Economic Union (except for Russia and Belarus). Other important areas for the food industry include Moldova (29.9% of respondents), Turkey (11.9%), and China (3%).

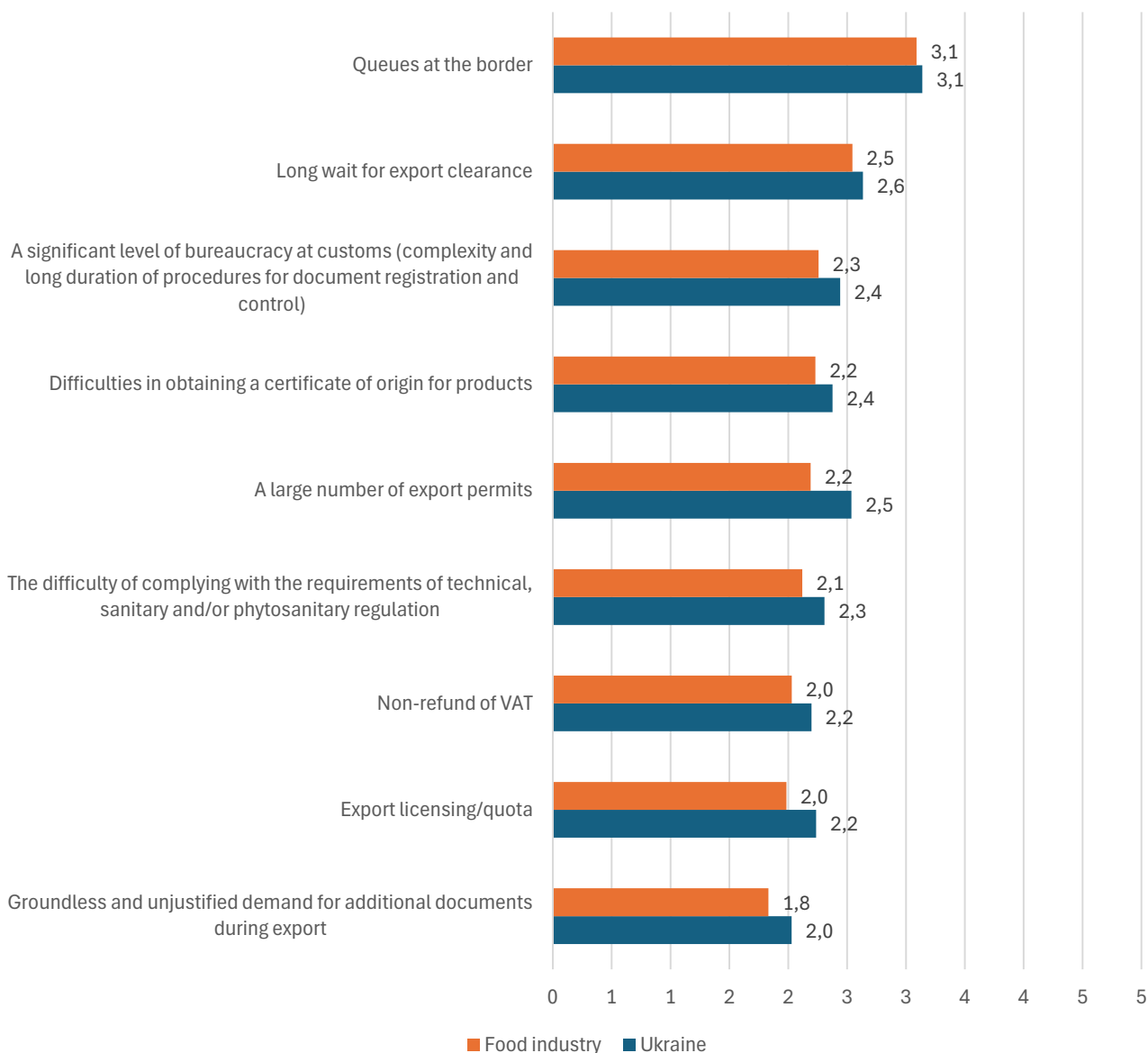
Fig. 6. Main export destinations, August 2024 (% of surveyed exporters)



### Non-tariff barriers to exports

- The results of the survey of exporters show that, in general, enterprises mostly moderately assess the presence of barriers to exports (9 barriers were proposed for assessment). Most of the barriers that were offered to respondents arise mainly from "sometimes", "rarely", or even "never".
- After recalculation into grades on a 5-point scale, the main impediment for exporters from the food industry is queues at the border – 3.1 points (among all exporters, also 3.1 points and 1st place). On the second step in terms of distribution, the long wait for export clearance is 2.5 points (2.6 for all enterprises and also 2nd place). On the third step for food industry enterprises there is a significant level of bureaucratization at customs (complexity and long duration of paperwork and control procedures) – 2.3 points (2.4 points for all exporters). In contrast, the least common barrier is the unjustified and unjustified demand for additional documents when exporting – 1.8 points (2.0 points for all exporters).

**Fig. 7. Non-tariff barriers to the export of food industry enterprises**



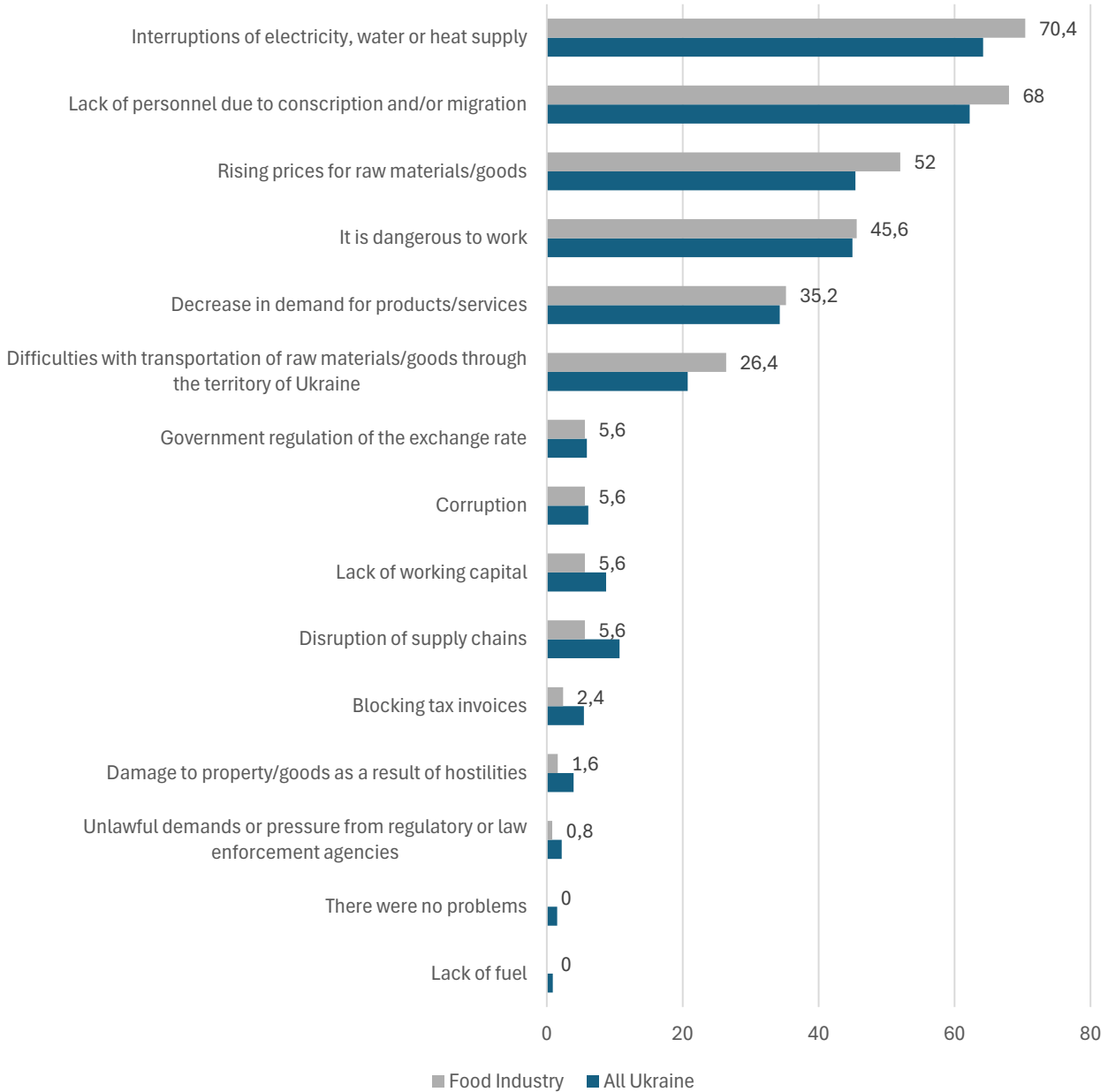
- Companies also had the opportunity to assess their experience of passing customs control during export-import operations over the past 12 months. In particular, 56.8% of respondents indicated that there were almost no cases when they failed to pass customs control the first time. That is, as a rule, more than half of food enterprises usually always pass the control on the first try, which is higher than the average among all exporters (47.2%). Another 39.2% said they rarely failed to pass the control the first time (46.4% for all exporters). In contrast, only 4% indicated that in the last 12 months they often failed to pass the control the first time, which is slightly lower than for all respondents (5.8%).

## Impediments to Activity

- In August 2024, the main problem for the food industry, as well as for the industry as a whole, was power outages associated with Russian attacks against Ukrainian energy infrastructure. In particular, this problem was indicated by 70.4% of food industry enterprises, which is slightly higher than in general among all respondents (64.2%). The food industry is also experiencing more problems with labor shortages (68.0% vs. 62.2%). The problem of labor shortage became relevant for all enterprises in 2024 and reached a record result in August – the highest figure in all waves of the survey.

- For the food industry, impediments such as rising prices for raw materials, materials and goods (52.0% vs. 45.4%) and difficulties in transporting raw materials or finished goods through Ukraine (26.4% vs. 20.7%) are also more relevant than for all respondents as a whole.

**Fig. 8. The most important problems for the surveyed business in the food industry, August 2024 (% of respondents)<sup>2</sup>**



## Expectations and uncertainty

- **In August 2024, the average period of provision of new orders for the surveyed food companies was 5.3 months, which is slightly lower than the result for all respondents (7.1 months).** Until now, most

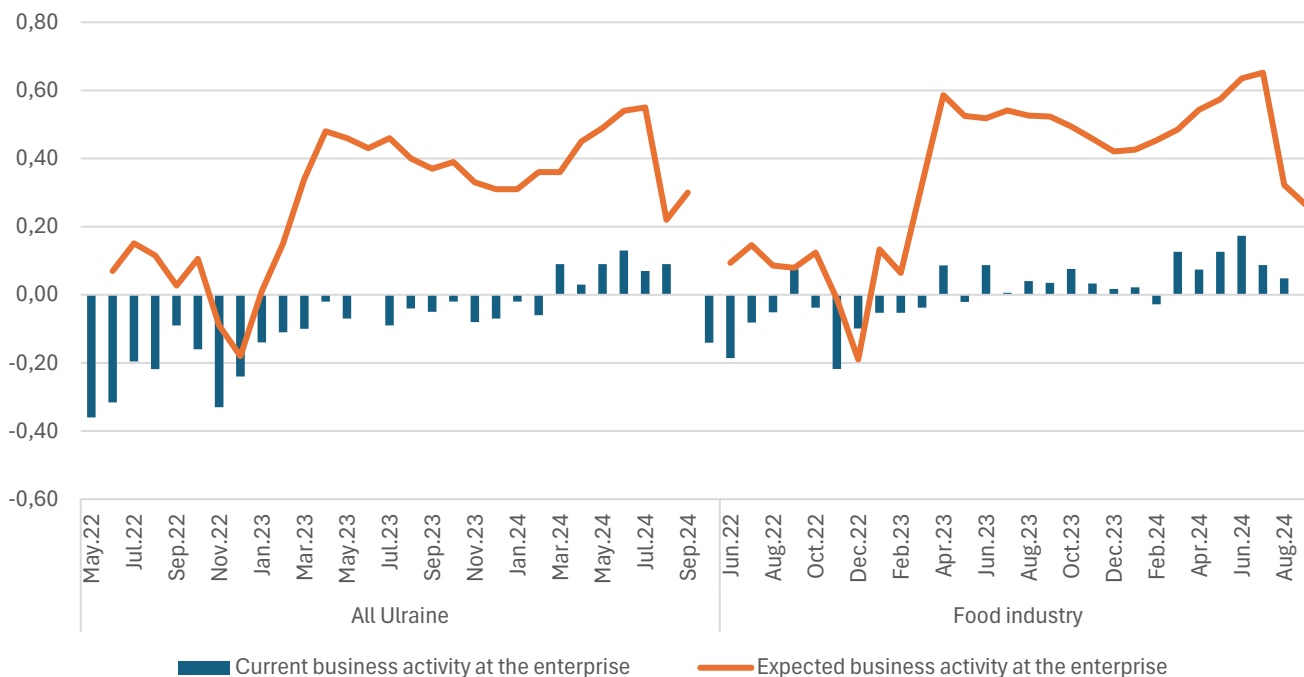
<sup>2</sup> The sum of the answers may exceed 100 percent, as respondents had the opportunity to choose several options.



enterprises in the industry have orders for short periods of time. In particular, only 12.2% of respondents have orders for 12 months or more (18.7% among all respondents).

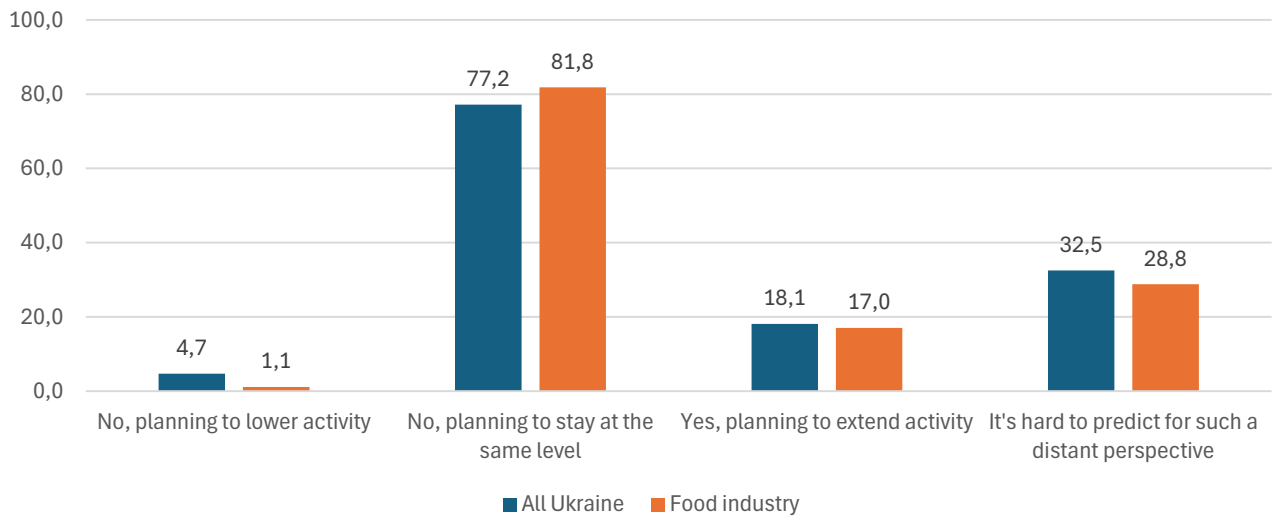
- **Assessments of their own financial and economic situation by food industry enterprises are slightly lower than the result for all respondents, despite the better state of the industry compared to others.** *The index of the current financial and economic situation* for the food industry in August 2024 is 0.05 (0.09 for all respondents). In particular, only 16% of representatives of the food industry assess the situation as good (19.1% for all respondents), while 72.8% give a satisfactory assessment (64.8% for all). However, only 11.2% give a negative assessment (16.1% for all respondents).

**Fig. 9. Financial and economic situation at the enterprise now and expectations for 6 months, indices**



- The forecasts of food industry entrepreneurs for the next six months regarding their own financial and economic situation have been deteriorating for 2 months in a row, which is in line with the all-Ukrainian trend. The *value of the index of expected changes in the financial and economic situation at the enterprise* for the industry is 0.27, while it was 0.32 in July and 0.65 in June. At the same time, at the country level, this indicator decreased from 0.55 in June to 0.30 in August. That is, the level of optimism in the industry about the future has more than halved, while at the country level it is slightly less than twice. Such changes reflect the situation with the deterioration of production indicators due to power outages and lack of work forces.
- In the summer of 2024, the level of uncertainty in the industry about its own financial and economic situation also increased. In July, 18.0% of respondents could not give a forecast for the next six months, and in August – 20.8%, which is the highest figure after the winter of 2022-2023. On average, over this period, the level of uncertainty was half as low. For all respondents, the level of uncertainty also increased, from 15.4% in June to 21.9% in July and 20.3% in August.
- Among those who can answer this question, the majority (81.8%) indicate that they plan to remain at the current level (77.2% among all respondents). Only 1.1% plan to narrow their activities (4.7% among all). At the same time, 17.0% plan to expand their activities for the next 2 years (18.1% among all respondents). Thus, the food industry's plans for the next two years are slightly more optimistic compared to other industries.

**Fig. 10. Do you plan to expand your company's activities over the next two years?, % of respondents**



- There is a high level of uncertainty about long-term plans. In particular, 28.8% of respondents in the food industry (32.5% of all respondents) did not indicate that they could not predict in the long term.

## Appendices

### Survey Methodology

- This report presents the results of the light industry based on a special survey of enterprises "Export in wartime", which the IER conducted in August 2024. The data was collected through a combination of several data collection methods: telephone interviews of business representatives with responses to the online form entered by the interviewers and, in a small number of cases, self-completion of the online form by representatives of enterprises who during the previous telephone contact expressed a desire to enter the data into the online form themselves. All answers – both filled in by the respondents themselves and provided to the interviewers by phone – were collected in one database. At the end of the survey, the IER experts monitored and cleaned the data and analyzed the responses.
- In this survey, in particular, we continue to study the indicators of the business climate and conjuncture that the IER examines in quarterly surveys of industrial enterprises within the framework of the Business Opinion project. These are, in particular, indicators that numerically show changes from month to month of such important business indicators as production and sales volumes, export volumes, stocks of raw materials and supplies, the number of new orders, etc., as well as business expectations for their changes in the next 3 and 6 months.
- Such indices are calculated according to a single methodology. We count the answers as +1 when the company responds that the indicator has increased, 0 if it has not changed, and -1 if it has decreased, and the result is a balance between positive and negative responses. For example, if out of a hundred respondents, twenty indicated an increase in production, fifty respondents indicated a decrease in production, and thirty noted that everything remained unchanged, then the corresponding value of the index will be -0.30. A positive (negative) value of the index means that the share of enterprises where production has increased is larger (smaller) than the number of those where production has decreased. For a more accurate measurement at the microdata level, each response is weighted taking into account the size of the enterprise in terms of the number of employees. With the help of such indices, it is possible to track the dynamics of changes in these indicators, compare them over time and quickly assess the general direction of changes in the conditions for doing business and the situation at enterprises.
- For the purposes of writing sectoral reports, the IER also included a set of special questions on the significance of non-tariff barriers for exporters.
- The field phase of the survey lasted from August 14 to August 30, 2024.

### Sample

- A total of 458 enterprises were interviewed. They are located in Vinnytsia, Volyn, Dnipropetrovsk, Zakarpattia, Zaporizhzhia, Zhytomyr, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytskyi, Cherkasy, Chernivtsi, Chernihiv regions and in the city of Kyiv. In each of these regions, from 4 to 36 enterprises were interviewed<sup>3</sup>.
- The majority of the sample was made up of industrial enterprises – 406 enterprises or 88.6% of the sample. Among them, food (125 units or 27.3%), light industry (40 units or 8.7%) and mechanical engineering (37 units or 8.1%) prevail.
- Among the surveyed companies are enterprises of various sizes, which are determined by the number of employees. Of these, micro-enterprises (up to 10 employees inclusive) – 65 or 14.2% of the sample, small

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<sup>3</sup> The survey indicated the region in which the company was located at the time of the survey.

(from 11 to 50 employees) – 135 or 29.5% of the sample, medium (from 51 to 250 employees) – 152 or 33.2% of the sample, and large (more than 250 employees) – 106 or 23.1% of the sample.

## Performance indicators of enterprises and the business environment

Performance indicators of enterprises and the business environment, change indices (August 2024)

	All Ukraine	Food industry
Production	0.12	0.16
Expected changes in production	0.39	0.36
Sales	0.12	0.14
Expected Sales Changes	0.39	0.37
Export	0.09	0.12
Expected changes in exports	0.32	0.28
Accounts receivable	-0.10	-0.13
Expected changes in accounts receivable	-0.08	-0.09
Accounts payable	-0.10	-0.17
Expected changes in accounts payable	-0.16	-0.21
Tax arrears	-0.19	-0.30
Expected changes in tax arrears	-0.17	-0.16
Raw material stocks	0.12	0.03
Expected changes in raw material stocks	0.26	0.17
Stocks of finished products	0.00	-0.17
Expected changes in inventories of finished goods	0.08	-0.04
New orders	0.05	0.03
Expected changes in new orders	0.34	0.30
Prices for raw materials and supplies	0.29	0.26
Raw Material and Material Prices Expectations	0.34	0.35
Prices for finished products (selling prices)	0.24	0.25
Prices for finished products (selling prices) expectations	0.32	0.32
Number of employees	-0.02	-0.05
Expected changes in the number of employees	0.07	0.03
Number of employees on forced vacations	0.01	0.02
Expected changes in the number of employees on forced leave	0.01	-0.03
Skilled Workers	0.49	0.59
Unskilled workers	0.33	0.48
Assessment of the financial and economic situation	0.09	0.05
Expected changes in the financial and economic situation	0.30	0.27
Assessment of the business environment	0.04	0.02
Expected changes in the business environment	0.26	0.21
Do you plan to expand your business in the next two years?	0.15	0.16
How do you assess the financial and economic situation of your company in the current month, compared to the same period in 2021?	0.15	0.10