

2019

Food & Drink Business Confidence Report

Key Findings

- The latest FDF [Business Confidence survey](#) shows that the **proportion of businesses whose confidence has improved is up by 12 percentage points** since Q3 2019.
- Nonetheless, those whose confidence has deteriorated continues to outweigh those who are optimistic.
- Key **concerns** for businesses going into 2020 include the **cost of ingredients, inconsistent policies on plastic reduction, and border/customs issues** – all of which were highlighted by over two thirds of respondents.
- On a more positive note, **63% see increased domestic demand as an opportunity for success** this year, and over 40% are looking forward to increased certainty over the future EU relationship as well as increased demand for healthy foods.
- **GVA, exports and investment all saw a decline** between Q1 and Q3 last year, while **wages continued to increase, alongside food and soft drink inflation**. Despite poor GVA performance, food and drink continues to exceed GVA growth of the overall manufacturing sector.

2019 Economic Background

Overall, the **food and drink manufacturing sector has seen a year of mixed performance**, as highlighted by official figures below:

Food and Drink Indicators	Growth	% change
Gross Value Added (GVA) ¹	-2.0%	(Q1– Q3)
Wages ²	2.3%	(Q1– Q3)
Investment ³	-16.0%	(Q1– Q3)
Exports ⁴	-5.7%	(Q1– Q3)
Food & Soft Drink Inflation ⁵	0.7%	(Q1– Q4)
Net Confidence ⁶	+28.8pp	(Q1– Q4)

- While GVA spiked significantly early last year, members reported this to have been inflated by the impacts of stockpiling for the three-potential no-deal Brexit scenarios. Looking at GVA over the four quarters to Q3 2019, performance was highly volatile⁷. Nonetheless, **food and drink saw a greater relative improvement post-Q2 2019 than overall manufacturing**, with a 0.8% rise, compared with 0.1% across the whole manufacturing sector.
- **Investment has also been volatile**, beginning 2019 with £1.2billion in Q1, followed by £0.6billion in Q2, and £1.0billion in Q3. Investment levels in Q2 2019 reached their lowest point since Q1 2014, reinforcing anecdotal evidence that **investment decisions were largely paused last year** due to prolonged political uncertainty. The uptick in official figures suggests that planned investment highlighted in our survey could prove to be a source of success in 2020.

FOOD AND DRINK VS. MANUFACTURING

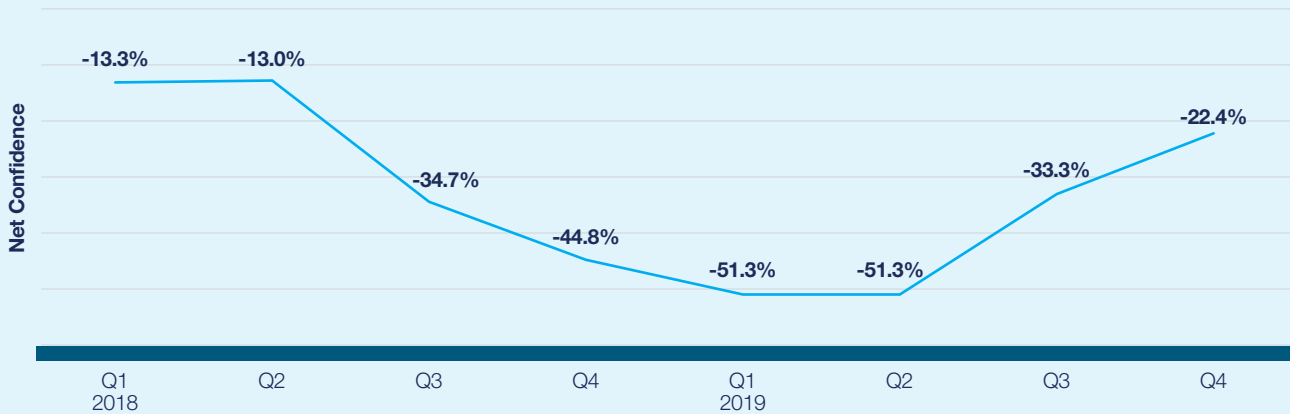


Source: ONS GDP low-level aggregates. Values are calculated using chained volume measures at constant prices.

2019 Confidence Snapshot

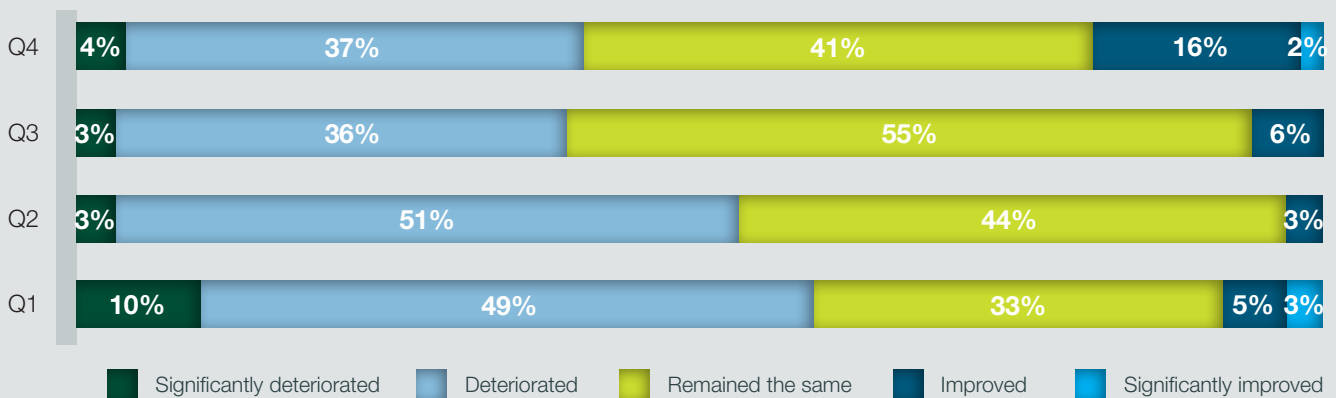
Net confidence remains in negative territory, meaning that pessimism continues to outweigh optimism. However, since Q1 2019, **net confidence in the industry has improved by 29 percentage points**. The proportion of respondents who were pessimistic about business conditions declined over the course of the year, with more respondents now reporting improved business confidence than in any other quarter of 2019.

FDF NET CONFIDENCE TRACKER*



*Net confidence represents the difference between the proportion of respondents who expressed a positive and negative sentiment. For example, if 70% of respondents were unconfident, and 20% were confident, net confidence would be -50%.

2019 Business Confidence



The chart above displays how FDF member confidence evolved during 2019⁷. Between Q1 and Q4, FDF data shows an 18-percentage-point **drop in the share of businesses whose confidence had deteriorated** (on the previous quarter), compared with a 10-percentage-point increase in those whose confidence improved.

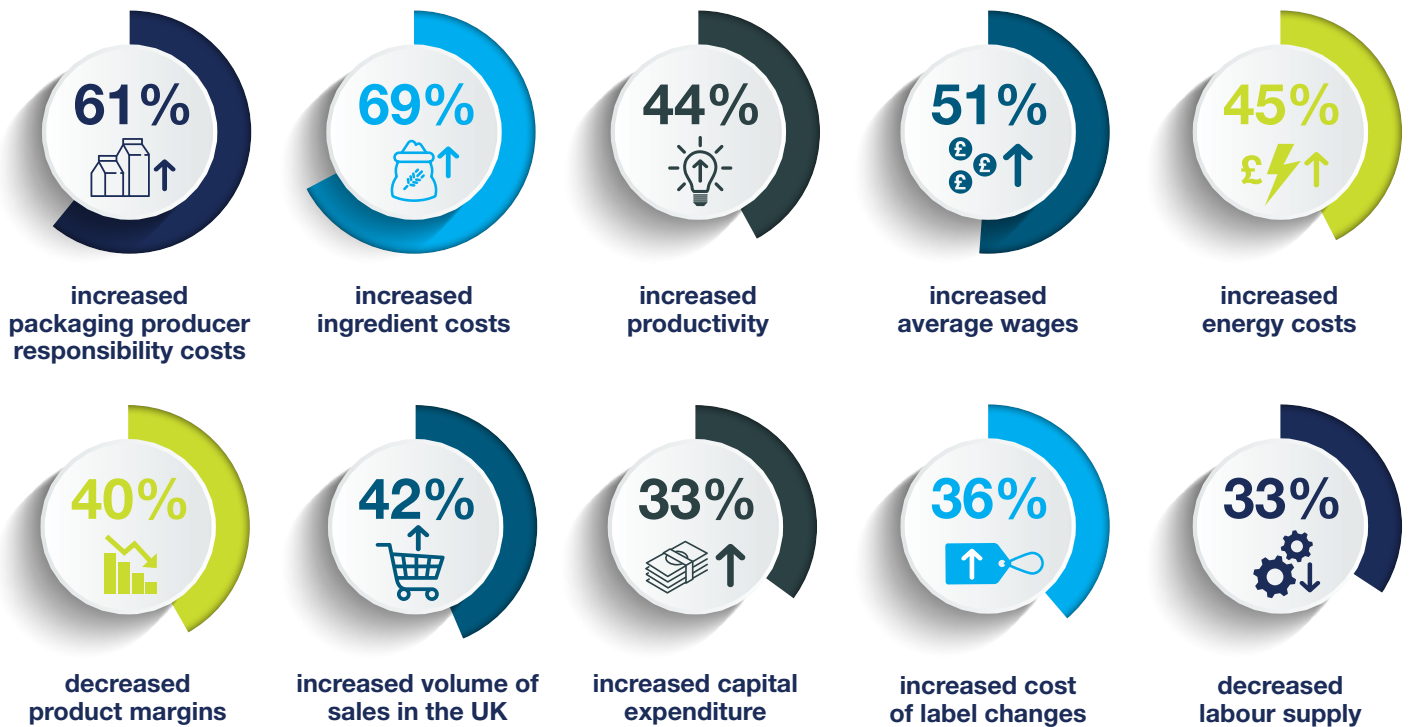
The chart opposite outlines businesses' projections for confidence in the wider economy in 2020. When comparing results with this time last year, **the share predicting negative performance has fallen by over a third**. In Q4 2018, less than 2% of respondents believed business confidence would rise over the coming year – this figure rose to 33% in Q4 2019. **Notably, larger businesses were relatively more optimistic about the year ahead**, with 40% predicting an improvement in business confidence in 2020, compared with 27% of SMEs.



Decrease Remain the same Increase

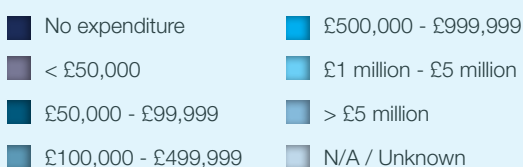
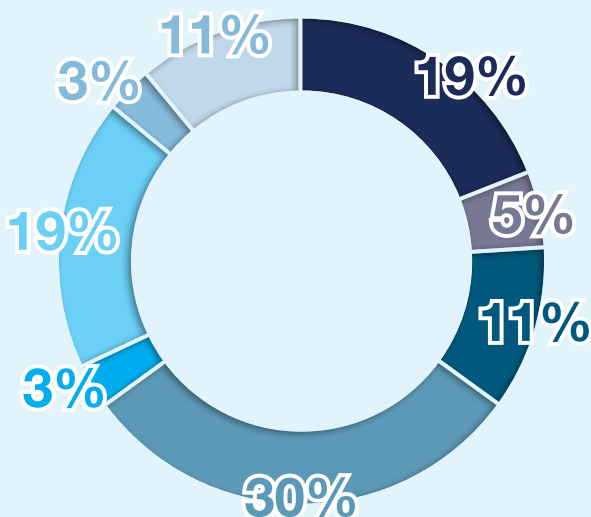
Q4 Key Impacts on the Industry

What impacts has your business experienced in the last quarter?⁸



Brexit and the Economy in 2019

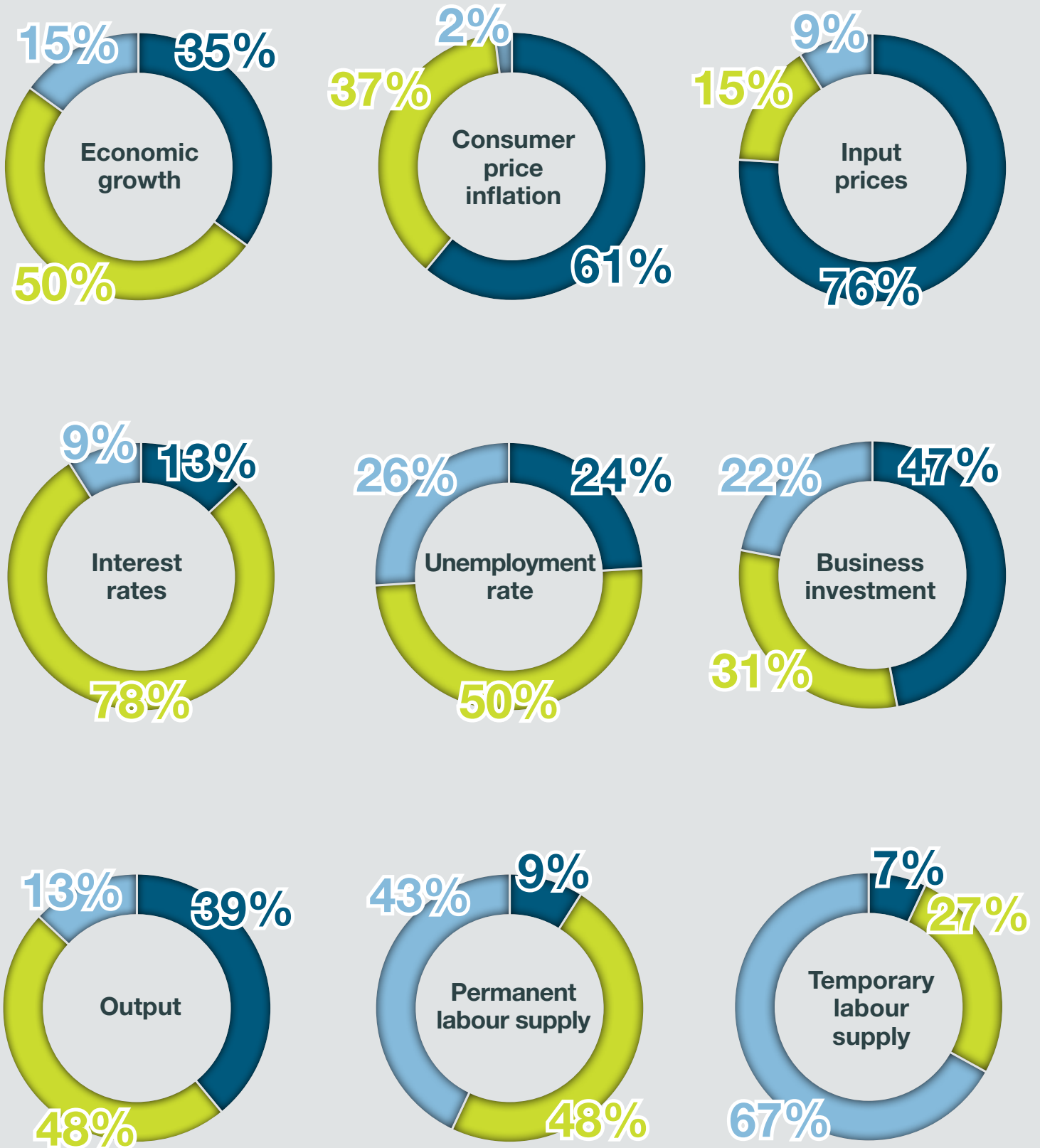
How much did you spend during 2019 on stockpiling ingredients and finished goods in preparation for a potential no-deal Brexit?



- The prolonged uncertainty over the UK's withdrawal from the EU has had a wide range of significant impacts on our economy, and the food and drink industry is no exception. **70% reported expenditure on stockpiling** both ingredients and finished goods last year.
- The majority spent at least £100,000 over 2019, while **almost a quarter reported stockpiling expenditure exceeding £1million**. Businesses also reported significant impacts on their cashflow throughout the year.
- In addition, FDF members continued to express concern over the future UK-EU relationship. In our Q4 survey, **48% reported being 'somewhat' or 'extremely unconfident that the best possible Brexit outcomes for their business will be delivered** in 2020.
- Manufacturers are naturally concerned about potential costs and disruption that could arise due to future regulatory divergence. Non-tariff barriers such as physical and documentary checks and inspections could be a serious impediment to trade in short shelf life products, particularly for SMEs. This is reinforced by the findings of our survey, which indicate that **a higher proportion of SMEs than large businesses are concerned about future border/customs issues and tariff uncertainty**.
- A central negotiating objective for all UK trade negotiations should be to minimise any impacts arising from regulatory divergence that risk affecting UK imports and exports of food and drink. **Uncertainty over whether regulatory divergence will lead to UK businesses facing the EU's standard third country checks and inspections** was highlighted as a concern by **47%** in Q4.

2020 Views on the Wider Economy

Does your business expect the following to **increase/remain the same/decrease** in 2020?⁸



■ Decrease
 ■ Remain the same
 ■ Increase

2020 Top 5 Opportunities & Barriers

Members ranked the top factors they consider to be opportunities and barriers to the success of their business:

OPPORTUNITIES

1. **Increased domestic demand**
2. **Increased certainty over future EU relationship⁹**
3. **Increased demand for healthy food products**
4. **Planned investment in new product launches**
5. **Planned investment in new machinery**

BARRIERS

1. **Cost of ingredients**
2. **Inconsistent policies on plastic reduction**
3. **Border/customs issues**
4. **Exchange rate volatility**
5. **Cost of packaging raw materials**

2020 UK Outlook

- Manufacturers' net confidence has improved over the course of 2019, but remains negative overall. This relative improvement in members' optimism was reflected by the fact that 47% foresee UK business investment rising in 2020. **More than a third consider planned investment (in new product launches and new machinery) to be an opportunity for their business** in the year ahead.
- While over a third reported declining product margins in Q4, the share of businesses that reported **increased UK sales and a rise in overall output** fared well in comparison with previous quarters.
- Despite the relative improvements in business sentiment, many still have concerns for 2020, especially regarding the UK's withdrawal from the EU. In Q4, a wide range of factors related to Brexit were highlighted as barriers to success, including: **border/customs issues, UK import tariff uncertainty, and the possibility of failing to secure a free trade agreement with the EU**, all of which were reported by over 50%.
- Other policy issues and impacts that members feel could hinder their performance this year include: **inconsistent policies on plastic reduction, the cost of packaging raw materials, and the cost of packaging producer responsibility**. These factors were indicated by 67%, 63%, and 49% respectively.

Survey Background

FDf conducted its eighth consecutive quarterly business confidence survey between 20 December 2019 – 20 January 2020. The survey gauges how business sentiment evolves across the food and drink manufacturing sector from quarter-to-quarter.

We received responses from businesses with a combined turnover exceeding £10.8 billion¹⁰, located across the UK. Over half of responses were from small and medium-sized enterprises (SMEs). It is important to note that responses were received from parent companies on behalf of their subsidiaries, and so the actual number of businesses represented is an underestimate.

Footnotes

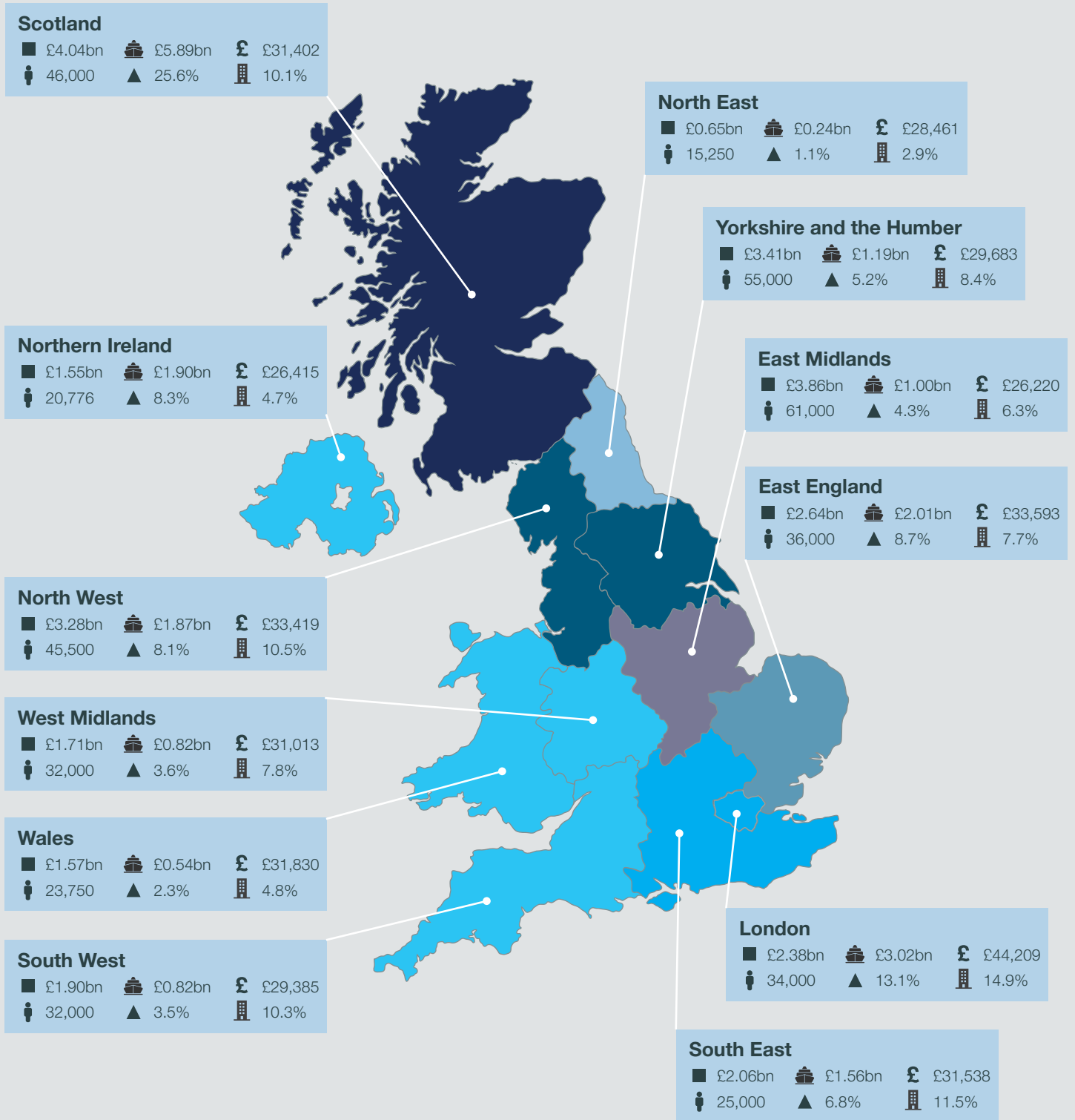
1. Source: ONS GDP low-level aggregates. Values are calculated using chained volume measures at constant prices.
2. Source: ONS Average Weekly Earnings. Estimates here are for the combined activity of food, beverage, and tobacco manufacturing and are calculated using monthly averages.
3. Source: ONS Business investment by industry and asset. Estimates are calculated using chained volume measures at constant prices.
4. Source: Her Majesty's Revenue and Customs.
5. Source: ONS Consumer Price Inflation.
6. Source: FDF Business Confidence Survey. Net confidence figures are calculated on a quarterly basis, and are dependent upon sample size which varies from quarter to quarter. Our Q4 2019 survey received 49 responses.
7. Respondents were asked: 'Do you believe that general business conditions this quarter compared to last quarter have...?'. Combined figures may not equal 100% due to rounding.
8. Results here are expressed as a percentage of respondents, and do not represent the scale of increase for each category. Response rates can vary from question to question.
9. If a deal is secured with the EU which meets food and drink manufacturers' needs, and this deal is ratified by the UK Parliament.
10. This is an estimate calculated using mid-points of turnover brackets and as such is likely to be a lower-bound estimate.

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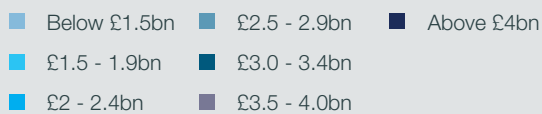
fdf food & drink
federation
passionate about food & drink

Food and Drink Manufacturing Across the UK



Key

GVA (2018) Heat Map



¹Source: ONS Regional GVA (2018). Figures are UK chained volume measures in 2016 money value.

²Source: ONS Business Register and Employment Survey (2018). Employees include anyone aged 16 years or over that an organisation directly pays from its payroll(s), in return for carrying out a full-time or part-time job or being on a training scheme. It excludes voluntary workers, self-employed, working owners who are not paid via PAYE. Figure for Northern Ireland is a 2017 estimate, due to lack of availability of more recent data.

³Source: Her Majesty's Revenue & Customs (2018). Data used here include the export of live animals and tobacco.

⁴Note that 9.4% of overall UK food and drink exports cannot be assigned to one of the 9 English Regions, Wales, Scotland or Northern Ireland.

⁵Source: ONS Annual Survey of Hours and Earnings (2019). Wages cover full-time employees on adult rates who have been in the same job for more than a year. Figures represent the average annual wage of food manufacturing employees and beverage manufacturing employees.

⁶Source: ONS Inter-Departmental Business Register (2019). All figures are rounded to avoid disclosure.

Our Industry at a Glance

The UK food & drink manufacturing sector employs

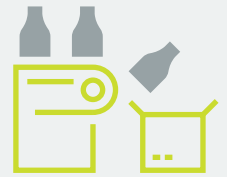
106,000
EU workers...
...over 1/4
of our workforce



Manufactured food and drink contributes more than **£28bn** to the economy, 2.3% more than 2017



In 2018, total sales of manufactured food and drink exceeded **£74bn**



FDF members are selling

14.3 billion fewer teaspoons of sugars than they were in 2015

FDF members are selling:

4.4 million less kilograms of salt
57.3 million fewer kilograms of sugars
35.5 million less kilograms of total fat
1 trillion fewer calories

than they were in 2015



The food & drink industry is the

biggest manufacturing sector in the country...



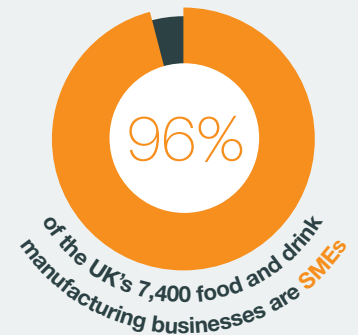
...larger than automotive & aerospace combined

Our industry employs over **430,000** people



across every region and nation of the UK

Our industry has a turnover of more than **£105bn**, accounting for almost **20%** of total UK manufacturing



In 2018, UK food & drink exports exceeded



£23bn

and went to over 220 countries worldwide

Our top three export markets are

Ireland, the USA & France



The food supply chain employs

4.3 million people & generates over **£120 billion** of added value for the economy each year



The food and drink manufacturing sector delivered a **reduction in food waste** of over **30%** on a per capita basis since 2011



FDF members reported an **absolute reduction of 53.2%** in CO₂ emissions

from their use of energy in manufacturing operations in 2018, compared to the 1990 baseline



Almost half of our members identified **investment in new product launches** and **increased demand for healthy food products** as opportunities for 2020