

Food & Drink Business Confidence Report

FDF conducted its first quarterly business confidence survey of 2019 between 2 April - 25 April. The survey is designed to gauge how business sentiment has evolved across the food and drink manufacturing sector in Q1 2019, and over the past year in general.

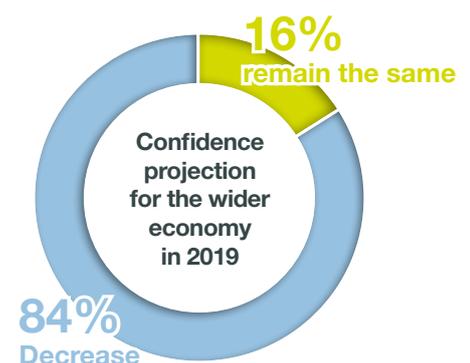
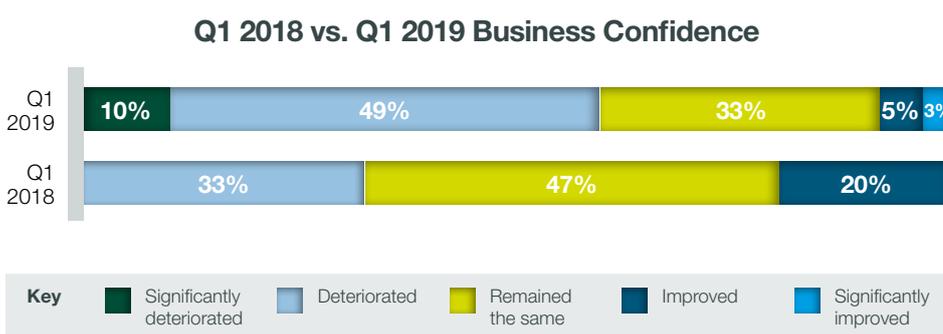
We received responses from businesses with a combined turnover of approximately £8.7billion¹. Over half of the responses came from small and medium-sized enterprises (SMEs).

Q1 2019 Economic Background

- Official data of the food and drink manufacturing sector shows **mixed performance over Q1 2019**, with monthly growth (to date) in average weekly earnings exceeding the 2018 average of 1.8% (month-on-month)^{2,5}. Similarly, exports of value-added food and drink have increased over the start of 2019, by a monthly average of 3.6%³. Inflation of manufactured food and non-alcoholic beverages has increased moderately in Q1, up 1.4 percentage points on Q4 2018².
- Despite the data outlined above, **net confidence has decreased by 38 percentage points⁴ since Q1 2018**. The risk of a 'no-deal' Brexit, exchange rate volatility, and border/customs issues were all reported as being amongst the top 3 barriers to business success.
- In line with trends over 2018, **51% of businesses indicated falling profit margins over the first quarter of 2019⁷**, alongside the majority of businesses reporting rising input costs (comprising energy, ingredients, and packaging).
- 70% and 73% of businesses respectively stated that their **expenditure on research & development and capital has either decreased or remained the same in Q1⁷**. This remains a concern for those surveyed, as shown in our 2018 survey findings, in which sentiment around investment was generally negative. When looking ahead, however, members highlighted planned investment in both new machinery and new product launches as opportunities for the rest of the year (both reported by over 40% of respondents)⁶.
- In terms of existing workforce, **more than 75% of businesses reported increased average wages**, and almost half stated that they have increased spending on staff training⁷.

Confidence Snapshot

Do you believe that general business conditions in Q1 2019 compared to Q4 2018 have...?^{6,7}



2019 Top 5 Opportunities & Risks

OPPORTUNITIES

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

RISKS

1. **Political uncertainty**
2. **Increased cost of ingredients**
3. **Exchange rate volatility**
4. **Border/customs issues**
5. **Risk of 'no-deal Brexit'**

Q1 Key Perceived Impacts on Food & Drink Businesses



increased packaging costs



increased ingredient costs



increased energy costs



increased average wages



increased expenditure on staff training



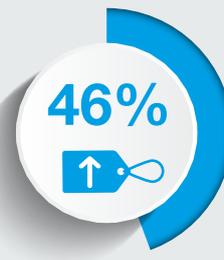
decreased product margins



increased EU workers leaving the business



increased cost of stockpiling for no-deal Brexit



increased cost of label changes



decreased labour supply^{7,9}

Key Business Impacts of Brexit

➤ To understand how much recent political uncertainty has affected businesses' ability to future-plan, respondents were asked to indicate the impact on a scale from 0 to 100, where 0 was 'not at all', 50 was 'moderately', and 100 was 'significantly'. Our results showed that the average response was greater than 'moderate', at 73. **The effect of Brexit on businesses' ability to plan for the future has been significant**, with 89% of respondents indicating a more than 'moderate' (50 on the scale opposite) impact on their planning⁸.

➤ Respondents were also asked to indicate reasons behind their inability to plan. **Brexit uncertainty was mentioned by 53% of respondents**. Specific hindrances raised by respondents included:

- trade barrier uncertainty
- resource diversion due to Brexit
- the UK's reliance on the EU for trade

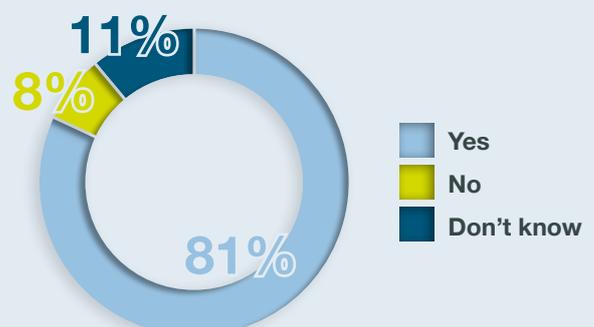
In general, the sentiment was that **political instability in the UK is heavily impacting businesses'** ability to undertake strategic activity such as investment and domestic performance improvement.

➤ On a positive note, it appears that businesses are not experiencing excessive difficulty in obtaining the working capital they require. **81% of respondents reported that they are managing to maintain/secure sufficient levels of working capital** in the run up to Brexit.

How much has recent political uncertainty affected your businesses' ability to future-plan?

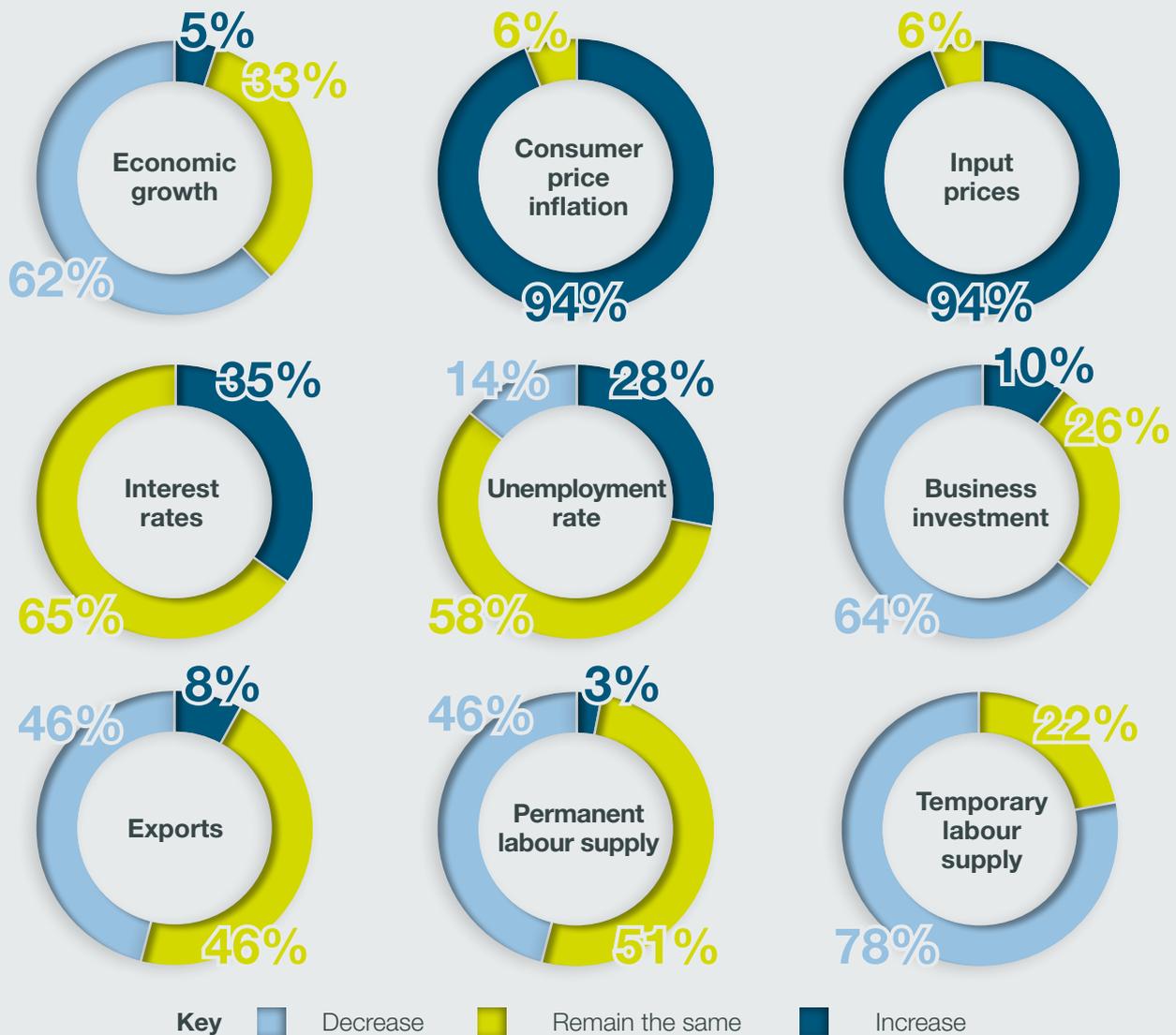


Is your business managing to maintain and/or secure sufficient levels of working capital in the run up to the UK leaving the EU?



2019 Views on the Wider Economy

Does your business expect the following to **increase/remain the same/decrease** in 2019?^{7,9}



2019 UK Outlook

- As outlined in the confidence snapshot on Page 1, businesses are pessimistic about business confidence in the economy over 2019. Amongst other factors, this reflects our findings that **94% of respondents expect input prices and consumer price inflation to increase** this year.⁷
- Looking ahead to 2019, businesses are continuing to express **concerns over the general availability of labour**, especially around temporary staff. Almost half of respondents expect permanent labour supply in the UK to fall over 2019, whilst 78% expect the same for temporary labour. Over 30% of respondents listed both access to permanent and temporary labour as factors that will act as barriers to their businesses' success this year.
- As the UK's exit from the EU approaches, **businesses appear increasingly concerned over the UK's growth outlook**. In Q1 2019, the highest proportion of respondents (62%) since the introduction of our quarterly surveys⁸ stated that they feel growth will decline over the next year.
- Despite the fact that businesses seem relatively positive around their own investment, **almost two thirds of respondents feel that business investment in the UK is set to fall**. 50% of respondents noted that current economic uncertainty inhibiting their ability to invest will be a barrier in 2019.
- Pressure to reduce plastics, and uncertainty over EU regulatory exemptions were noted as concerns** by our members (39% and 45% of businesses respectively). Increased food legislation and political attention on the health agenda were also highlighted by around one third of respondents.
- Given the current high level of political instability, businesses have highlighted **difficulties in conducting 'business as usual'**. The cost of stockpiling, and Brexit-related resource diversion were both reported in our survey. This reinforces the concerns of our members, who have stressed the impact that Brexit-planning is having on their engagement with non-Brexit-related policy consultations.

Footnotes

¹ This is an estimate calculated using mid-points of turnover brackets and as such is likely to be a lower-bound estimate.
² Source: The Office for National Statistics.
³ Source: Her Majesty's Revenue & Customs.
⁴ Net confidence figures are calculated on a quarterly basis and are dependent upon sample size (which vary from quarter to quarter).
⁵ Estimates here are for the combined activity of food, beverage, and tobacco manufacturing.

⁶ Number of respondents, and hence sample size, varies from quarter to quarter. Our Q1 2019 survey received 41 responses.

⁷ Results here are expressed as a percentage of respondents to specific questions. Response rates can vary from question to question.

⁸ Respondents were asked to indicate the impact on a scale from 0 to 100, where 0 was 'not at all', 50 was 'moderately', and 100 was 'significantly'.

⁹ Results here are expressed as a percentage of respondents and do not represent the scale of increase for each category.

Our Industry at a Glance

The UK food & drink manufacturing sector employs more than

103,000 EU workers...
...over 1/4 of our workforce



The UK is Ireland's largest trading partner for food & drink...

37% of its food & drink exports go to the UK (€4.6bn)



Food & drink contributes

£31.1bn to the economy



Sugar intake from overall soft drink consumption is down over 17% since 2013



With the support of industry, the UK Government has set up the most ambitious sugars reduction programme anywhere in the world

to help lower sugar in the national diet



The food & drink industry is the biggest manufacturing sector in the country...

...larger than automotive & aerospace combined



In 2018, total food & drink export figures were worth more than

£23bn



Our top three export markets are

Ireland, the USA & France

Grow exports of branded food and non-alcoholic drink by a third...

FDf export ambition

...to reach £6bn by 2020



The food supply chain employs

4 million people & generates over £121 billion of added value for the economy each year



Our industry employs over 450,000 people



We will need 140,000 new recruits by 2024



to feed an expected population of 70m people & meet market demands

Our industry has a turnover of

£104bn, accounting for 19% of total UK manufacturing



The top 3 opportunities identified for food and drink manufacturers in 2019 are domestic demand, healthy food products & investment

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