

Food & Drink Business Confidence Report

FDF conducted its third quarterly business confidence survey of 2019 between 23 September – 11 October. The survey gauges how business sentiment evolved across the food and drink manufacturing sector in Q3 2019, in comparison to previous quarters.

We received responses from businesses with a combined turnover of approximately £6 billion¹, located across all regions and nations of the UK. Almost two thirds of these 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.

Q3 Economic Background

- Despite a strong start to 2019, **the sector has seen a quarter of weak overall performance**. While output growth figures for early 2019 were positive (3.5% on average), these have entered negative territory since June, averaging -0.5% over recent months².
- This decline supports evidence from members that early 2019 output and export growth was significantly inflated by impacts of stockpiling. **45% of respondents also foresee UK exports decreasing over the remainder of 2019³**. FDF analysis of official export figures can be found [here](#).
- While jobs have been on an upward trajectory since early 2014, recent years have seen volatility. For instance, the industry has seen a 7,000-person decline between Q1 and Q2 2019, the largest quarterly decline since Q1 2018⁴.
- Access to workers is a consistent concern for members**; our most recent results indicate that 42% expect the UK's permanent labour supply to decline over 2019, and **almost 90% predict a fall in temporary labour supply**. Members looking for information to support their EU workers in preparation for Brexit can find more information via the [Brexit Food Hub](#). FDF has also recently published [Preparing for a Changing Workforce](#) on behalf of the Food and Drink Sector Council, which outlines early priorities to address the industry's workforce and skills needs.

Q3 Confidence Snapshot

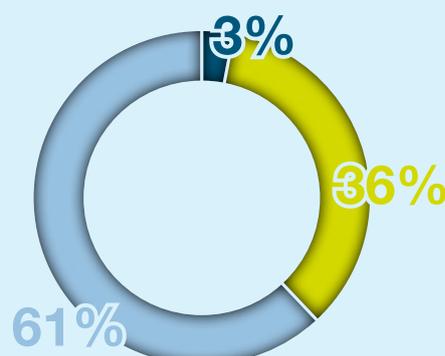
Q3 Business Confidence*

Do you believe that general business conditions this quarter compared to last quarter have...?⁵



*Percentages in this chart are unweighted and represent the proportion of respondents in Q3 who selected each option.

Confidence projection for the UK economy in 2019



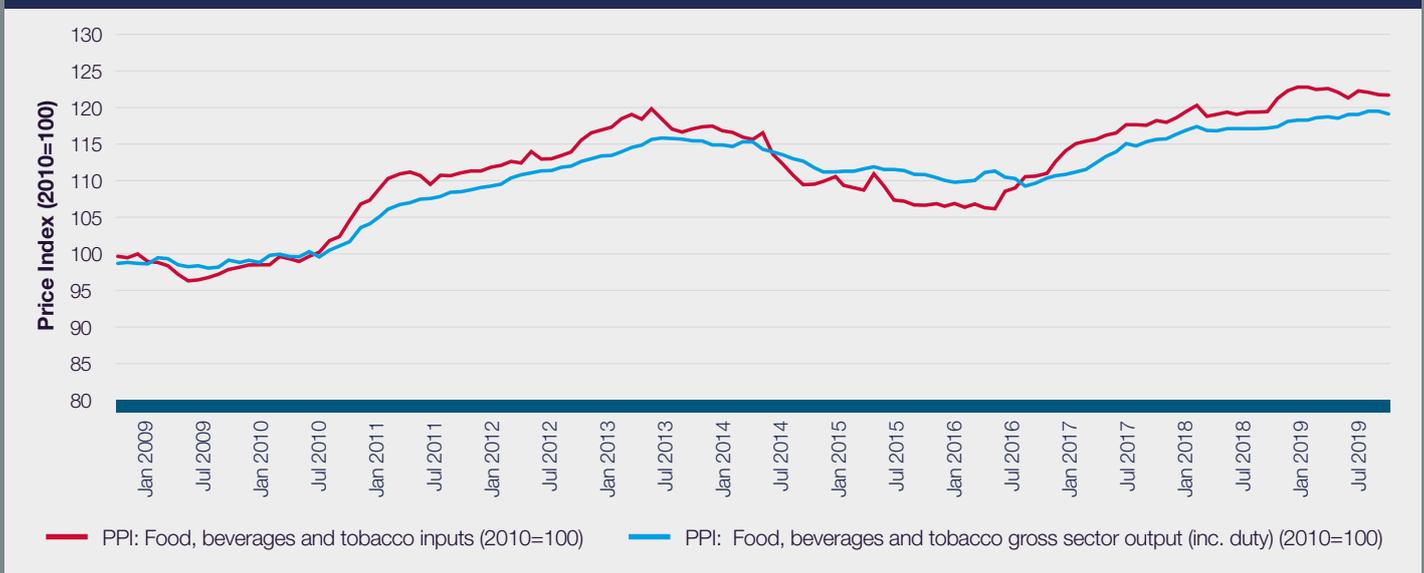
2019 Food Prices

- **Input prices continue to be a key concern** for manufacturers, with over half reporting increased ingredient costs in Q3 and 81% predicting further increases for the rest of 2019. This is expected to continue to act as a barrier to success in 2019 according to 61% of businesses.
- Overall **food and non-alcoholic beverage inflation has risen by 0.9% since January 2019⁶**, compared with a 0% rise over the same period in 2018. Moreover, both input and output prices have increased for both the agriculture and manufacturing sectors over the last decade.
- The relative spike in prices post-EU referendum has been pronounced, and trends show that **manufacturing⁷ input prices have grown at a faster rate than output**

prices since late 2016. This indicates that manufacturers may have been forced to take a hit on margins to avoid price increases passing through to consumers.

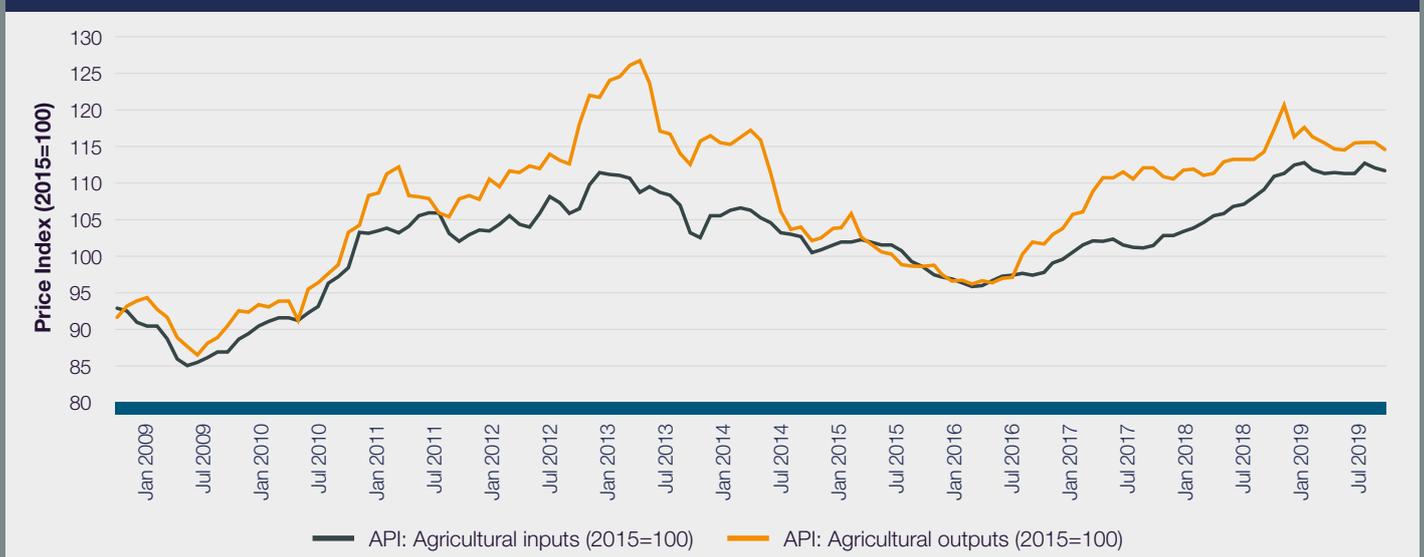
- At the same time, compared with early 2018, **the gap between the growth rate of agricultural ingredient input and output prices has narrowed**, as shown below. According to the Department for Environment, Food and Rural Affairs (Defra), the fall in output prices has largely been driven by cereals and potatoes. This aligns with [widely-reported lower yields across the UK and Europe](#) due to extreme weather conditions. In addition, inputs such as plant protection products, energy and fertilisers have all seen a price rise, which has contributed to the overall increase in input prices.

MANUFACTURING INPUT AND OUTPUT PRICE INDICES



Source: ONS, Producer Price Inflation (2019)

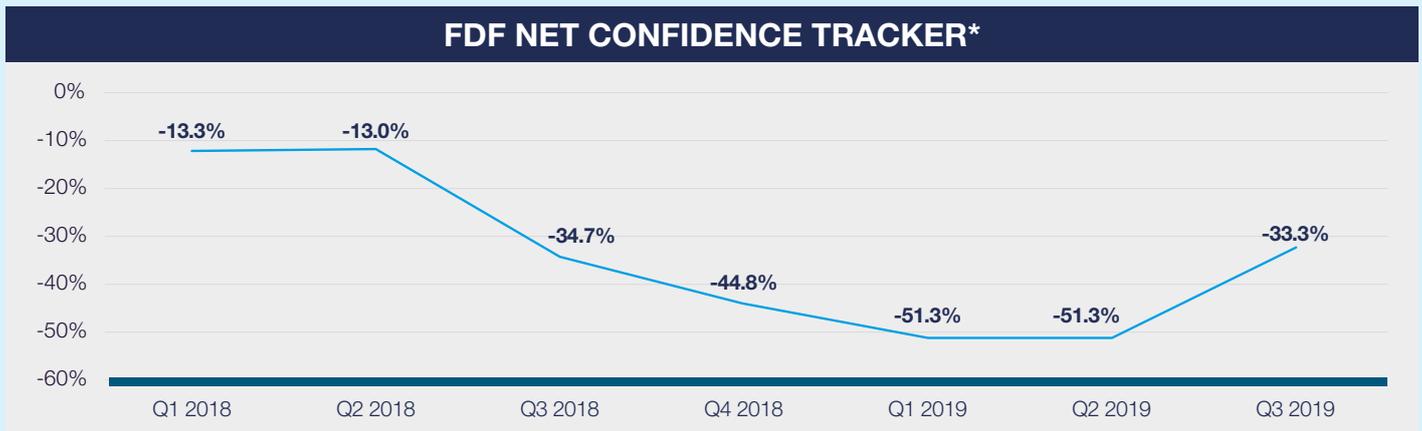
AGRICULTURAL INPUT AND OUTPUT PRICE INDICES



Source: Defra, Agricultural Price Index (2019)

Food and Drink Net Confidence

Since FDF began reporting in Q1 2018, net confidence has declined by 20 percentage points⁸.



*Net confidence figures are calculated on a quarterly basis and are dependent upon sample size which varies from quarter to quarter. Our Q3 2019 survey received 33 responses.

Q3 Key Impacts

What impacts has your business experienced in the last quarter?⁹



2019 Top 5 Opportunities & Risks

Members ranked the top factors which are considered to be opportunities and risks:

OPPORTUNITIES

1. Increased domestic demand
2. Planned investment in new machinery
3. Increased certainty over future EU relationship¹⁰
4. Increased export demand
5. Planned investment in new product launches

RISKS

1. Exchange rate volatility
2. Ongoing political uncertainty
3. UK import tariff uncertainty
4. Possibility of a 'no-deal Brexit'
5. Cost of ingredients

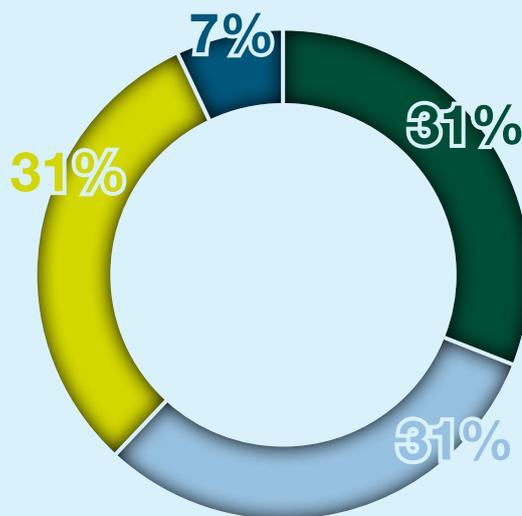
2019 UK Outlook

- Net confidence remains negative, indicating members' pessimism about business conditions. In Q3, almost half of respondents were still reporting **declining product margins**.
- Official data indicate that investment has fallen significantly compared to 2018, with a 69% drop in business investment in Q2 2019¹¹. **Economic uncertainty inhibiting investment is a concern going forward** for over a third of businesses, as well as ongoing political uncertainty (65%) which also significantly impacts confidence when making investment decisions.
- Positively, 68% feel that **domestic demand will be an opportunity** for the remainder of 2019 (an eight-percentage-point increase on Q3 2018).
- As reported in Q2, **all of the top five risks for 2019 were Brexit-related**. These included the possibility of no-deal Brexit, exchange rate volatility, cost of ingredients, UK import tariff uncertainty, and ongoing political uncertainty.
- While political uncertainty was previously lower on the list of perceived barriers, this is now the second highest concern after exchange rate volatility.

Brexit Preparedness

- **The UK was granted its third Brexit extension in October**, with the date now pushed back from 31 October 2019 to 31 January 2020. Food and drink manufacturers have already spent millions of pounds preparing for a no-deal exit three times in the last 12 months and will now be hoping that some clarity on the Brexit process will present itself once a new Government is formed.
- When asked about their no-deal expenditure over the last year, 56% said they have spent up to £100k, while **more than a quarter have spent over £100,000 on no-deal Brexit preparations**. Some respondents reported spending of up to £3 million.
- Businesses were also asked whether they are satisfied that **government information and guidance** is sufficient to ensure preparedness for a possible no-deal Brexit, to which **62% are dissatisfied or extremely dissatisfied**. Key reasons were:
 - Lack of clarity on regulatory and customs requirements;
 - Late announcement of temporary tariff schedule;
 - Uncertainty surrounding the logistics of importing goods post-Brexit.
- Positively, many members noted that trade associations such as [FDF](#) have been vital in informing industry on how best to prepare for the possibility of a 'no-deal' Brexit.

Are you satisfied that the information and guidance published by the Government is sufficient to ensure your business can prepare for a possible 'no-deal Brexit'?



Key

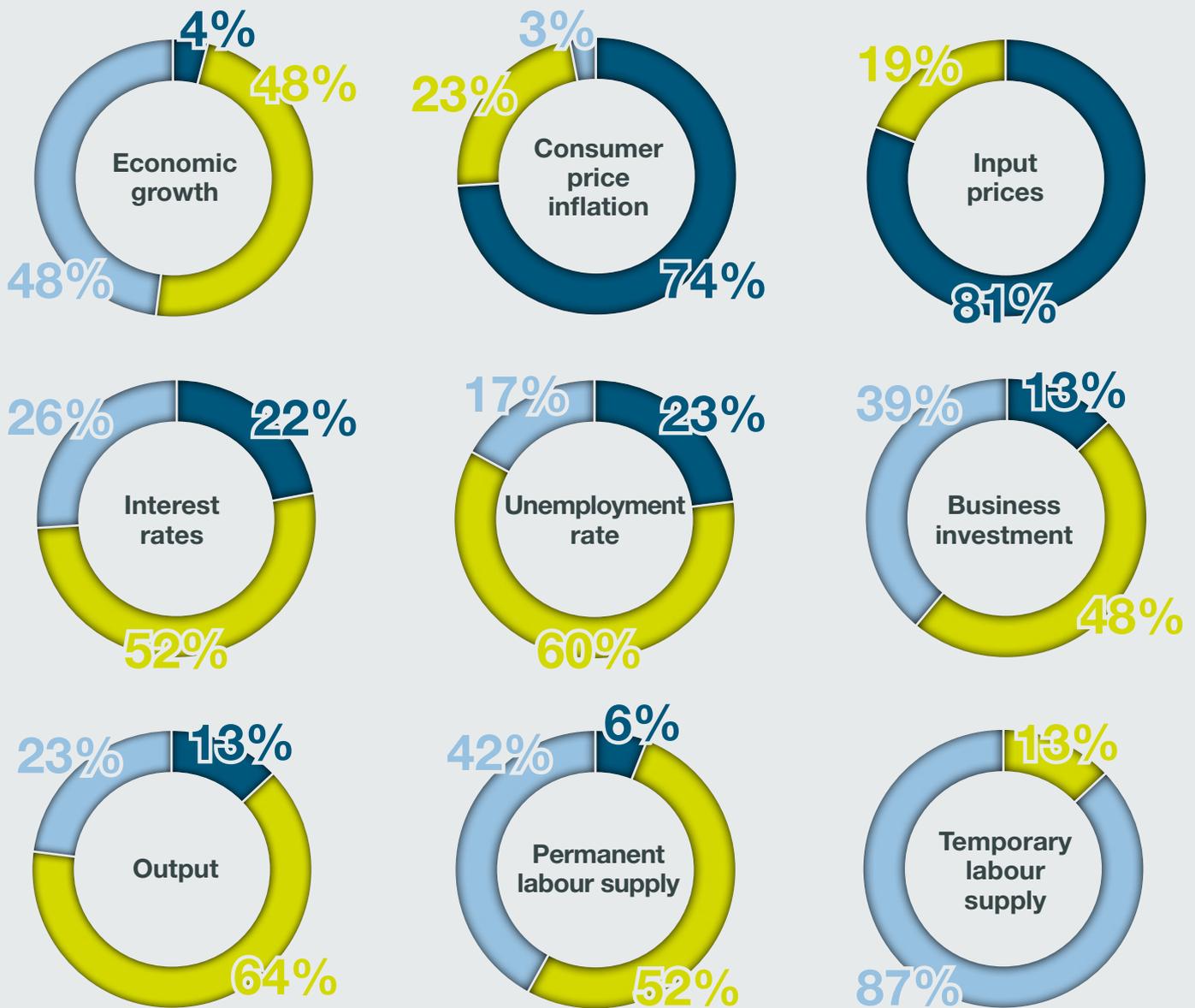
- Extremely dissatisfied
- Dissatisfied
- Neither satisfied nor dissatisfied
- Satisfied
- Extremely satisfied

- As well as contributing to the joint industry [Brexit Food Hub](#), FDF has published a wide range of [guidance](#) for businesses. This includes:
 - [20 Essential Actions for Businesses](#),
 - [Understanding Incoterms](#), and
 - [Answers to FDF's Outstanding Questions for Government](#)

For further information on FDF's Brexit guidance, please contact brexit@fdf.org.uk.

2019 Views on the Wider Economy

Does your business expect the following to **increase/remain the same/decrease** in 2019?⁹



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: ONS, Index of Production. Figures represent (monthly) chained volume indices of gross value added, and are calculated from seasonally-adjusted indices (2016=100).
3. Results are expressed as a percentage of respondents to specific questions. Response rates can vary from question to question.
4. Source: ONS, Employee jobs by industry (not seasonally-adjusted).
5. Combined figures may not equal 100% due to rounding.
6. Source: ONS, Consumer price inflation time series (2015=100).
7. Source: ONS, Producer price indices (2010=100). Estimates include food, beverages and tobacco.
8. Net confidence figures are calculated on a quarterly basis, and are dependent upon sample size which varies from quarter to quarter. Our Q3 2019 survey received 33 responses.
9. 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.
10. If a deal is secured with the EU which meets manufacturers' needs, and this deal is ratified by the UK Parliament.
11. Source: ONS, Business investment by industry and asset. Calculated using seasonally-adjusted chained volume measures (reference year 2016) for manufacture of food, drink and tobacco.

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