

Q1 2020

Food & Drink Business Confidence Report

Key Findings

- The latest FDF [Business Confidence survey](#) shows that **net business confidence among food and drink manufacturers has significantly declined since Q4 2019**, with 68% reporting a decline in business conditions in Q1 2020.
- **Key concerns for 2020** include the COVID-19 pandemic, exchange rate volatility, and failure to secure a Free Trade Agreement with the EU – all of which were highlighted by over 70% of respondents¹.
- **GVA, exports, wages and net confidence all saw a decline** in early 2020, while **inflation continued to increase**. Despite the current difficult conditions, 64% continued to report increased domestic demand as an opportunity for their business this year.

Q1 2020 Economic Background

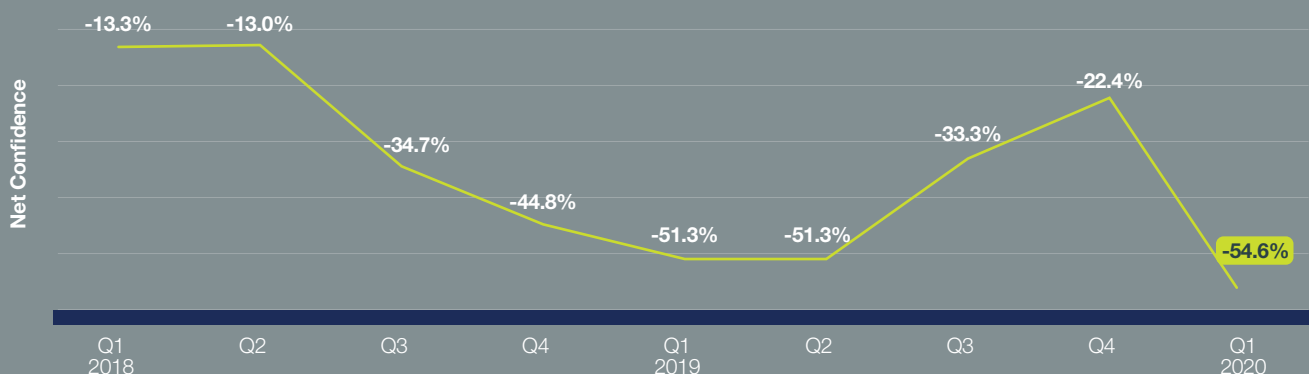
Food and Drink Indicators	Growth	Y-O-Y change
Gross Value Added (GVA) ²	-1.4%	(Feb 2020)
Wages ³	-8.8%	(Feb 2020)
Exports ⁴	-11.6%	(Feb 2020)
Food & Soft Drink Inflation ⁵	1.3%	(Mar 2020)
Net Confidence ⁶	-3.3pp	(Q1 2020)

- Latest official data has already started to reflect the huge impact of the COVID-19 pandemic on the UK economy; for instance, the **UK Manufacturing Output Index reached a 92-month low** in March according to IHS Markit⁷. This figure is even lower for the UK Composite Output Index (comprising of all UK industries), which has reached a survey-record low.
- The latest ONS coronavirus business survey showed that over 25% of firms have decreased working hours, and have had to lay off staff in the short-term. FDF

members are also facing similar challenges, with over 50% of respondents to a recent survey stating that **workforce sickness, and fulfilling production demand are concerns** for their business⁸.

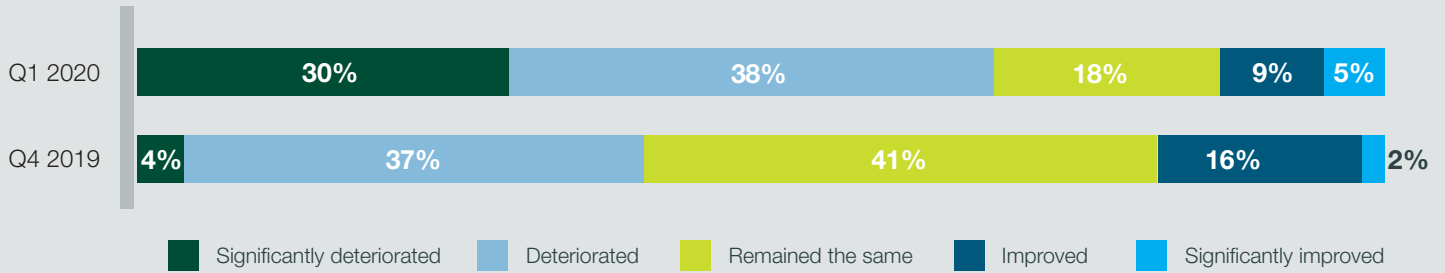
- In addition, the surge in demand for staples has resulted in **price increases for high-demand products** (HDPs). The latest ONS analysis of HDPs, including long-life food products such as tinned tomatoes, dried pasta and flour, shows a 1.1% increase in the basket of HDPs in the second week of UK lockdown and a 1.8% increase most recently⁹. As well as rising demand, almost 60% of manufacturers had faced **difficulty in sourcing raw materials**, another key driver of consumer prices⁸.
- In Q1 2020, 34% of businesses surveyed reported a decline in their product margins, with **key impacts on margins** reported being **trends in consumer demand, raw material prices**, and **supply of inputs**. This reflects the significant risks created by the COVID-19 pandemic, which has seen high levels of uncertainty strike businesses across the food and drink supply chain.

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%.

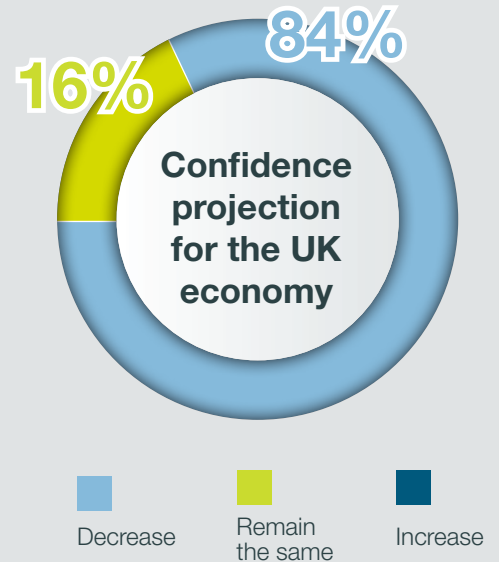
Q1 2020 Confidence Snapshot



Pessimism continues to outweigh optimism in food and drink manufacturing, demonstrated by the **32-percentage-point decline** in net confidence (compared to last quarter). A decline is also seen when we compare Q1 2020 with the same quarter in 2019.

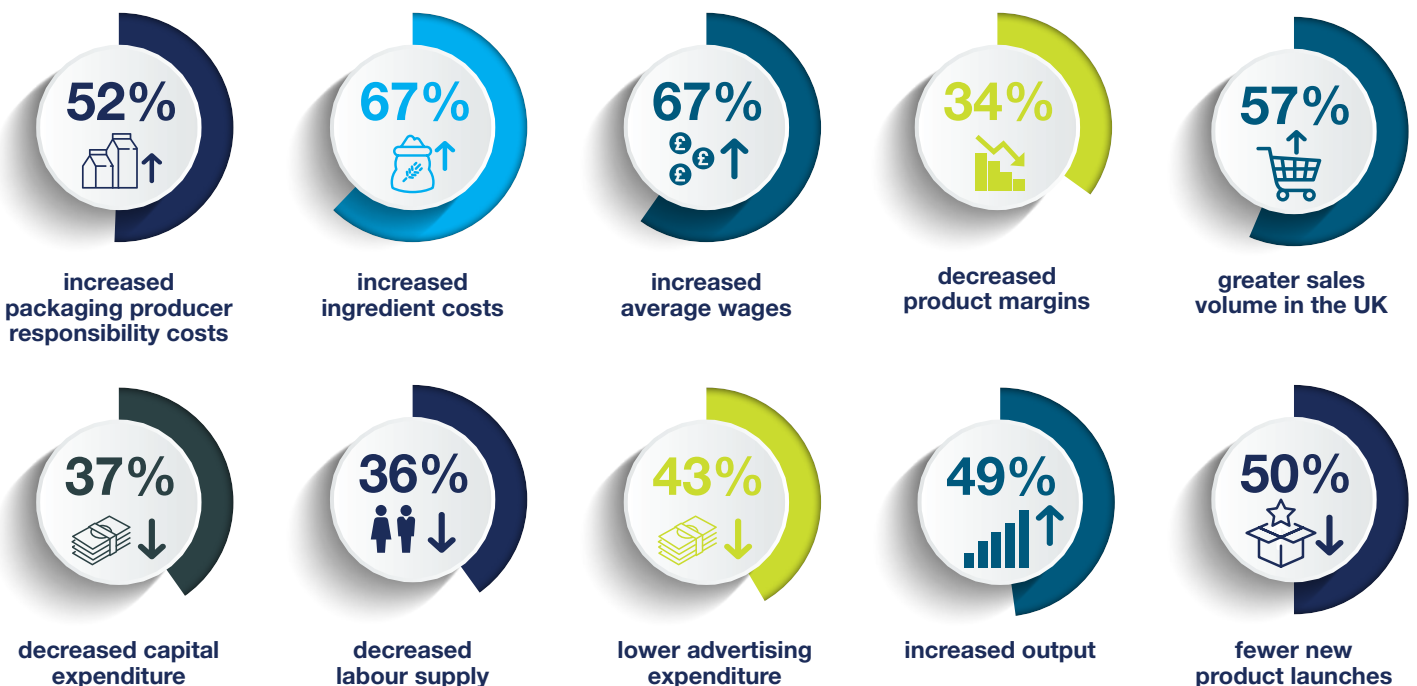
The chart above displays how FDF member confidence has changed between the end of 2019 and early 2020¹⁰. Between Q4 2019 and Q1 2020, FDF data shows a 27-percentage-point **rise in the share of businesses whose confidence had deteriorated**, while 4% fewer respondents reported an improvement in their business confidence.

The chart opposite outlines businesses' projections for confidence in the wider economy in 2020. When comparing results with Q4 2019, **the share predicting negative performance has increased more than threefold**. At the end of 2019, fewer than 25% believed business confidence would fall in 2020, increasing to 84% in Q1 2020.



Q1 2020 Key Impacts on the Industry

What impacts has your business experienced in the last quarter?¹¹



2020 Top 5 Opportunities & Barriers

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

↑ Opportunities

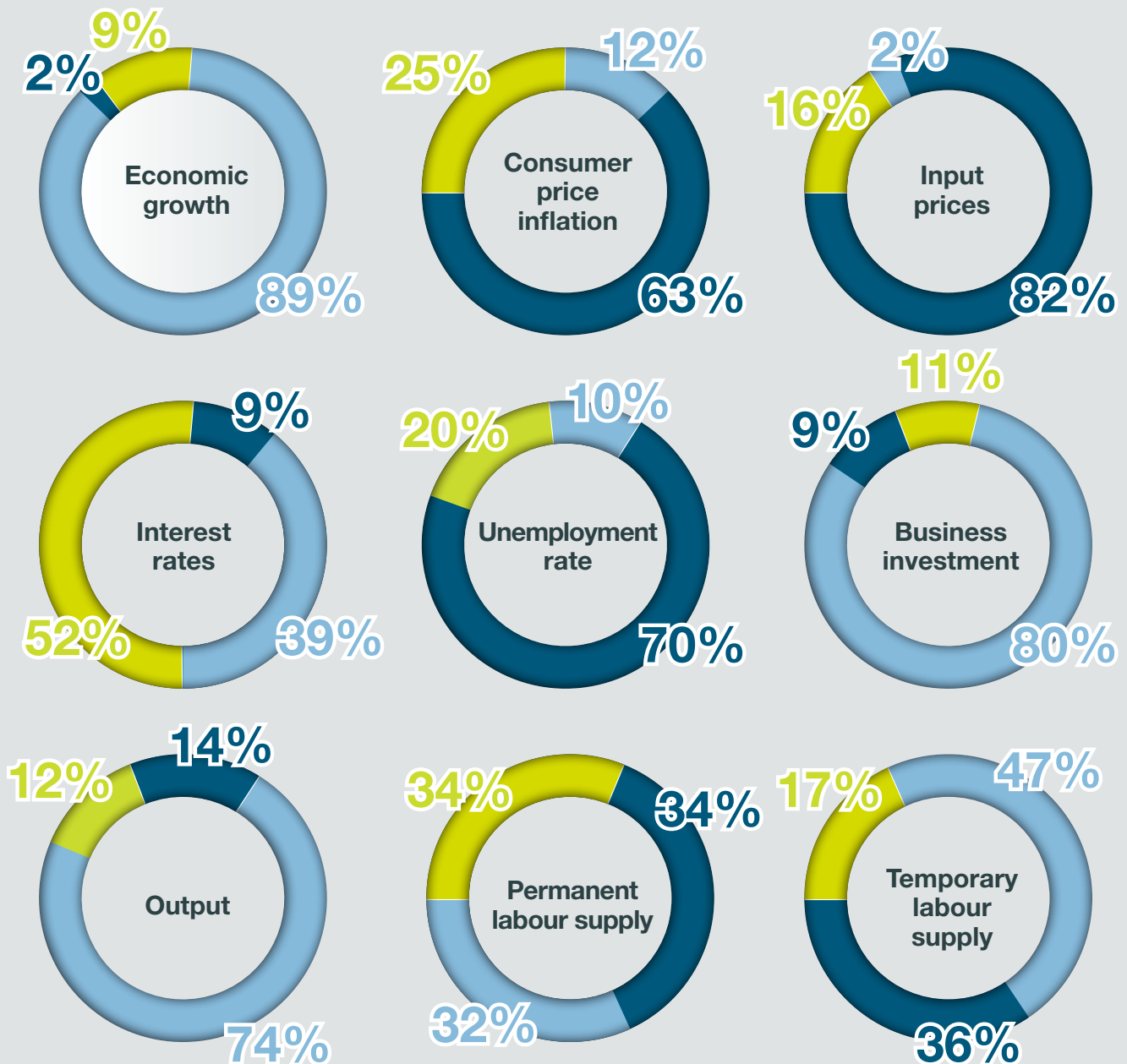
1. Increased domestic demand
2. Planned investment in new machinery
3. Possibility of a Brexit transition period extension
4. Increased certainty over future EU relationship¹²
5. Increased export demand

— Barriers

1. The COVID-19 pandemic
2. Exchange rate volatility
3. Failing to secure a Free Trade Agreement with the EU
4. UK import tariff uncertainty
5. Cost of ingredients

2020 Views on the Wider Economy

Does your business expect the following to increase/remain the same/decrease in 2020?¹¹



■ Decrease
 ■ Remain the same
 ■ Increase

- While manufacturers' net confidence improved over the course of 2019, Q1 2020 has seen a significant drop-off. Unsurprisingly, this is reflected by **98% reporting the COVID-19 pandemic as a key risk to their business** this year.¹³
- 71% are also **concerned about exchange rate volatility**, which has the potential to hit the food supply chain in many ways, including through rising input prices. The Pound has seen increased volatility over the past few months, as the COVID-19 crisis has worsened.

Pound Sterling Exchange Rates



- While input costs including energy, ingredients and packaging regularly feature as key concerns in our survey results, these have been overtaken by issues relating to the COVID-19 pandemic (98%), and the UK's relationship with the EU (71%) in early 2020.
- Members' outlook for the economy has taken a turn for the worse, with **89% predicting economic growth to decline**, 70% foreseeing rising unemployment, and 67% expecting to see a fall in exports. While recent OBR estimates predict a V-shaped recovery, there is debate around whether the economy will in fact take longer to rally and experience a U-shaped recovery.
- Prices continue to be a key concern – **63% expect CPI to rise in 2020**, and 80% for input prices. The food and drink CPI index is currently at its highest level since February 2014, with the annual rate standing at 1.2% - this represents the 37th consecutive month of positive year-on-year inflation for food and drink.

Survey Background

FDF conducted its ninth consecutive quarterly business confidence survey between 24 March – 14 April 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 £9.8billion¹⁴, 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. Figures represent proportions of respondents to specific questions.
2. Source: ONS Output of the Production Industries. Values are calculated using seasonally-adjusted chained volume measures of GVA.
3. Source: ONS Average Weekly Earnings. Estimates here are for the combined activity of food, beverage, and tobacco manufacturing and are calculated using monthly figures (including bonuses and arrears).
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 Q1 2020 survey received 44 responses.
7. IHS Markit / CIPS Flash UK Composite PMI®. Seasonally-adjusted indices; >50 = growth since previous month.
8. Source: FDF COVID-19 Member Survey, March 2020.
9. Source: ONS Coronavirus, the UK economy and society, faster indicators: 16 April 2020.
10. 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.
11. 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.
12. If a deal is secured with the EU which meets food and drink manufacturers' needs, and this deal is ratified by the UK Parliament.
13. Source: FDF Business Confidence Survey (Q1 2020).
14. 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

Our Industry at a Glance

The UK food & drink manufacturing sector employs

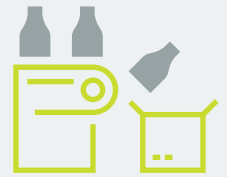
106,000
EU workers...
...over 1/4
of our workforce



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

22.6 billion fewer teaspoons of sugars than they were in 2015

FDF members are selling:

1.2 trillion fewer calories
90.3 million fewer kilograms of sugars
4.9 million fewer kilograms of salt
than they were in 2015



The food & drink industry is the biggest manufacturing sector in the country...
...larger than automotive & aerospace combined

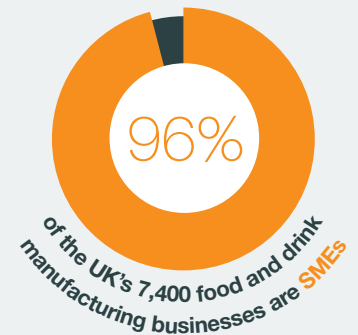


Our industry employs over **430,000** people

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 2019, 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

*Sources: ONS Annual Population Survey, ONS Annual Business Survey, ONS UK Manufacturers' Sales by Product (PRODCOM), BEIS Business Population Estimates, Her Majesty's Revenue & Customs, Defra Agriculture in the UK, FDF Environmental Ambition Progress Report 2019 and FDF Business Confidence Survey.