

Q3 2020

Food & Drink Business Confidence Report

Key Findings

- The latest FDF Business Confidence survey shows that net **business confidence bounced back** in Q3, reaching 19.1% as lighter COVID-19 restrictions allowed **food service to reopen**. This followed **record low confidence in Q2**.
- **SMEs were more optimistic** than larger firms, with uncertainty surrounding Brexit and increased prices noted as reasons for pessimism.
- Businesses continued to **experience increased costs in Q3**, from higher packaging raw material and packaging producer responsibility costs to ingredient and label change expenses. Increased costs alongside fluctuations in the exchange rate and staff absenteeism were key factors leading to 40% reporting **reduced product margins in Q3**.
- **Over a third** saw increased output, cash flow and domestic retail sales in Q3.
- Businesses are relatively **pessimistic about UK economic conditions in 2021**, with over half expecting economic growth, exports and business confidence to decrease while over three-quarters expect the unemployment rate and prices to rise.
- **Key opportunities in 2021, include:** increased domestic demand (retail, hospitality and food service), planned investment in new product launches and increased certainty over future EU relationship.
- **Key barriers in 2021, include:** failing to secure a free trade agreement with the EU, border/customs issues and cost of ingredients.

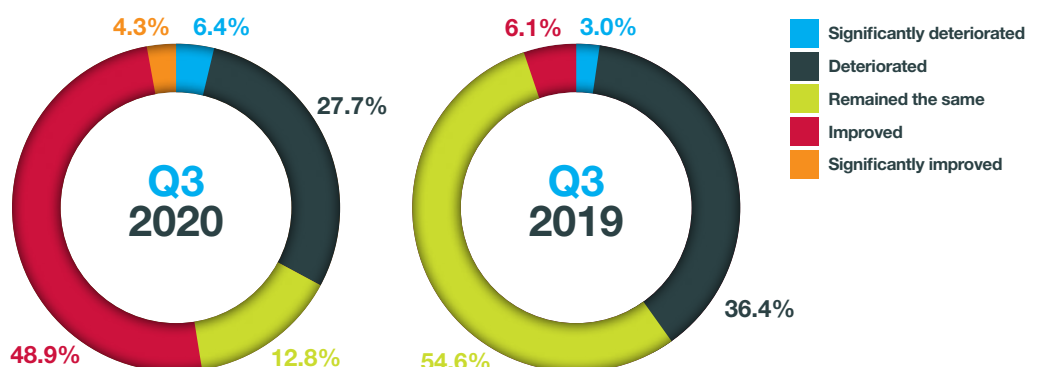
Q3 2020 Confidence Snapshot¹

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%.

The diagrams on the right showcase how member confidence has changed over the last year. Since Q3 2019, FDF data shows a 47-percentage-point **rise in the share of businesses whose confidence improved**. However, there was also a 5-percentage-point increase in those reporting decreased confidence.



Q3 2020 Key Impacts on the Industry

What impacts has your business experienced in the last quarter?²



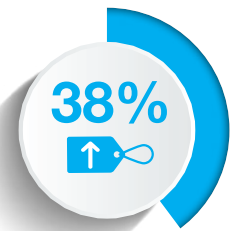
increased domestic retail sales



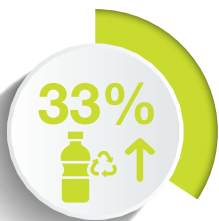
lower number of workers employed



higher ingredients costs



higher label changes costs



higher packaging producer responsibility costs



higher packaging raw materials costs



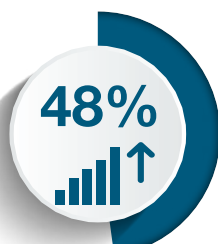
fewer new product launches



increased cash flow



decreased product margins



increased output



increased stockpiling



decreased domestic and food service sales

2021 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 (retail, hospitality and food service)
2. Planned investment in new product launches
3. Increased certainty over future EU relationship
4. Increased demand for healthy food products
5. Stronger sterling

— Barriers

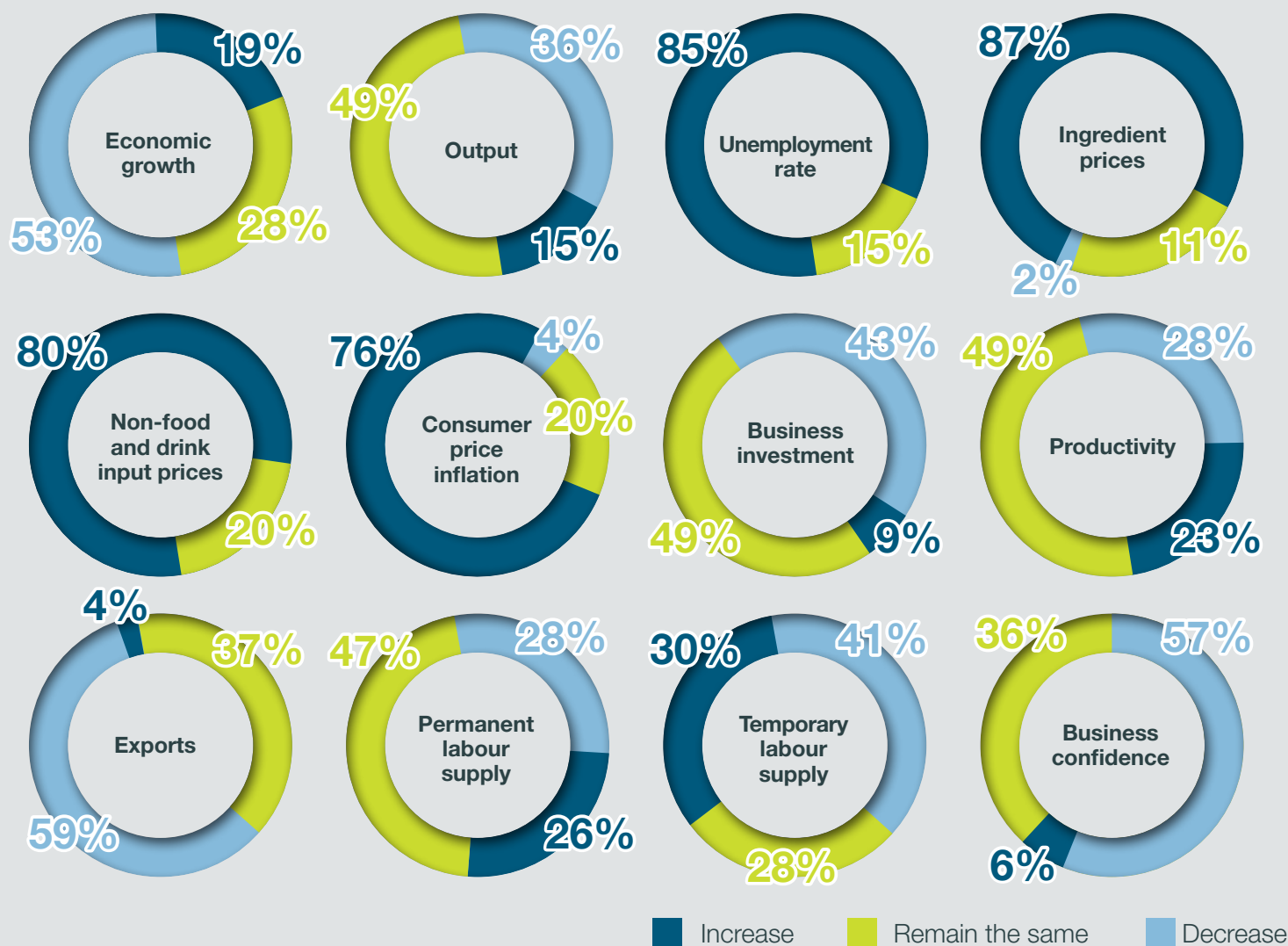
1. Failing to secure a free trade agreement with the EU
2. Border/customs issues
3. Cost of ingredients
4. UK import tariff uncertainty
5. Exchange rate volatility

2021 UK Outlook

- The UK economy expanded by 2.1% in August, as lockdown measures eased over the summer. With lockdown restrictions tightening again, alongside uncertainty surrounding Brexit, **a significantly slower pace of recovery is expected for the rest of the year.**
- Businesses are relatively **pessimistic about UK economic conditions in 2021**, with over half expecting economic growth, exports and business confidence to decrease, while over three-quarters expect the unemployment rate and general prices to rise.
- More larger businesses expect **business confidence to decline in 2021.**

2021 Views on the Wider Economy

Does your business expect the following to increase/remain the same/decrease in 2021?²



Survey Background

FDF conducted its eleventh consecutive quarterly Business Confidence survey between 5 – 26 October 2020. We received responses from businesses with a combined turnover exceeding £9.2bn³, situated 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. 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.
2. 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.
3. This is an estimate calculated using mid-points of turnover brackets and as such is likely to be a lower-bound estimate.