

Food and Drinks Insights

8 February 2023

- Economic overview – Dr Liliana Danila
- State of Industry Q4 Survey Findings – Uros Milosevic
- Q&As

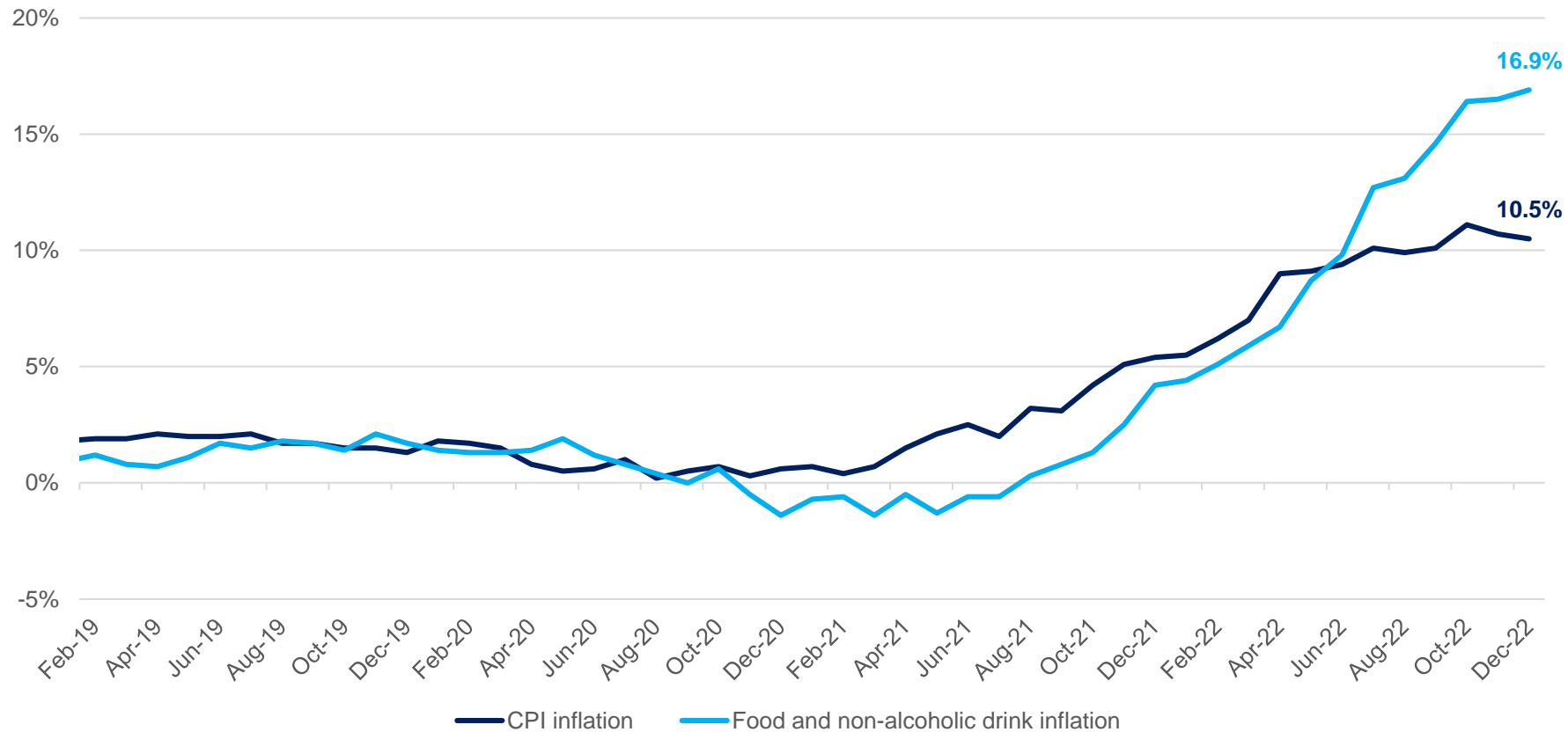
Economic overview

Where is the industry now?

December saw a fresh high in food and drink inflation



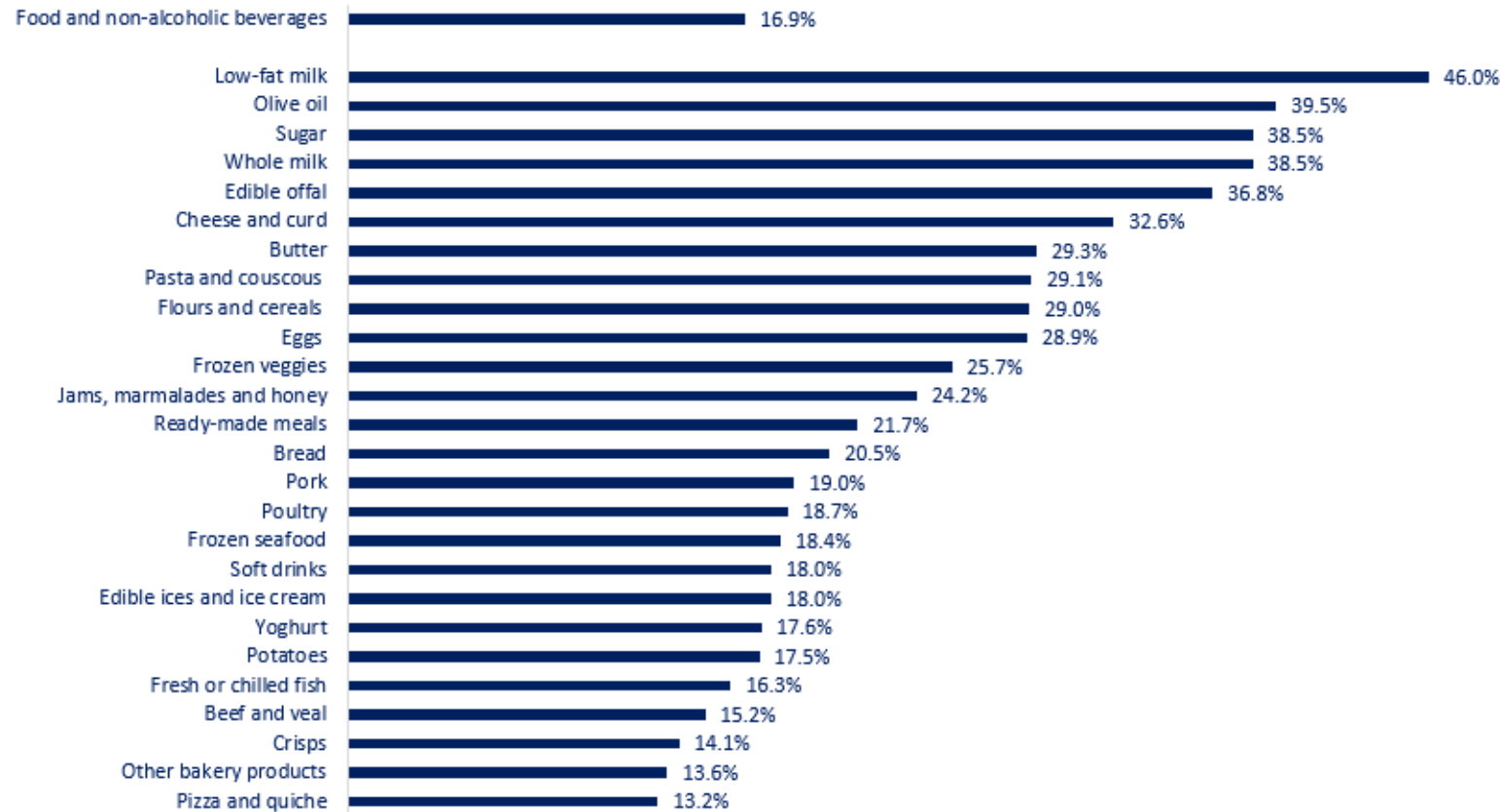
Bringing the rise in food and drink prices over 2022 at 10.9%



Source: ONS

Many foodstuff saw rises in the 30s

With double-digit inflation for 43 of the 49 ONS reported categories



The food manufacturing sector shrunk in Q3



While the non-alcoholic drink sector recorded a slight pick-up

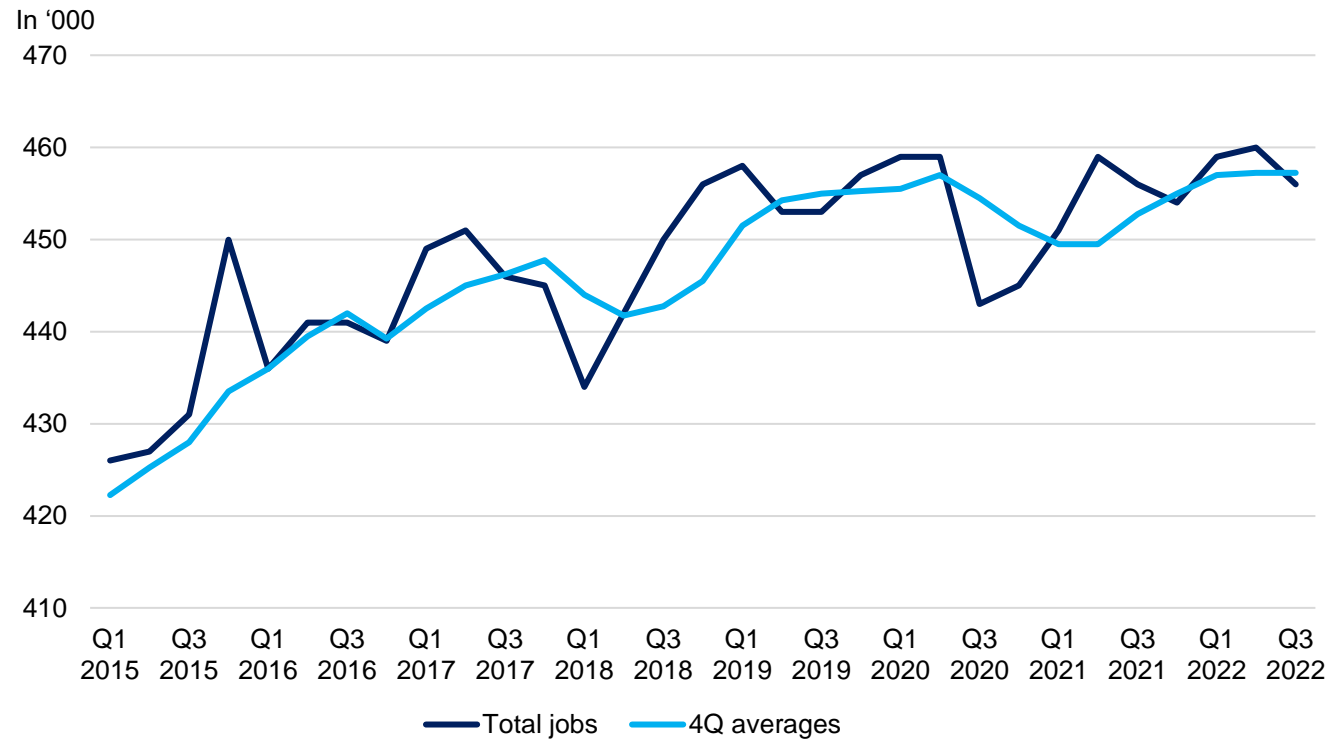
| | Q3 on Q2 2022 | Q1 -- Q3 2022 on Q1 -- Q3 2019 |
|---|---------------------|--------------------------------------|
| Food manufacturing | -3% | 9% |
| | | |
| Meat and meat products | -2% | 18% |
| Fish and crustaceans; fruit and vegetables | -2% | -1% |
| Vegetable and animal oils and fats | -11% | -80% |
| Dairy products | 1% | 9% |
| Grain mill products and starches | -2% | 25% |
| Bakery and farinaceous products | -3% | 18% |
| Other food products | -5% | -3% |
| | | |
| Non-alcoholic drink manufacturing | 1% | -5% |

Source: ONS, Gross value added, chained volume measures

The output slowdown tallies with the fall in employment



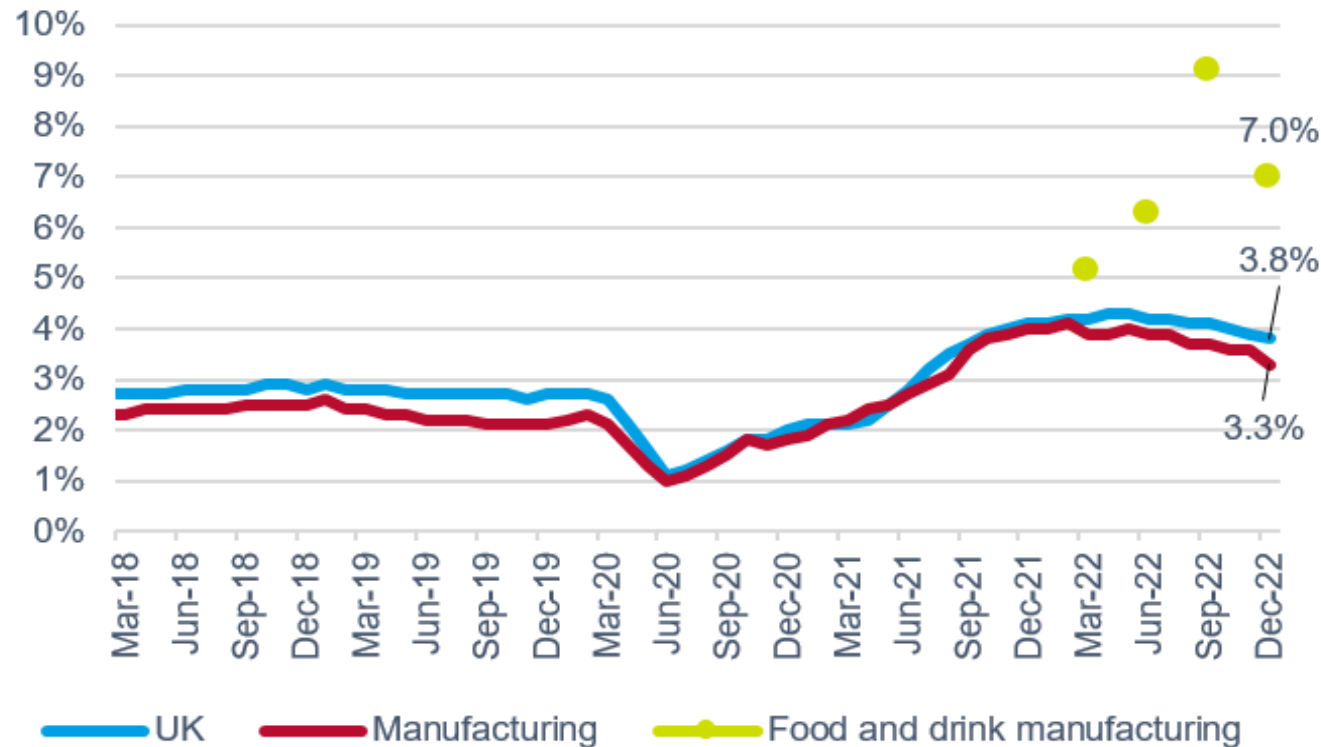
The industry lost 4,000 jobs in Q3, bringing employment to 456,000



Source: ONS, JOBS03 and JOBS04 series

Vacancies have eased in the sector

Although they remain at very high levels, with shortages for all skill levels



Industry's insolvencies continue to rise

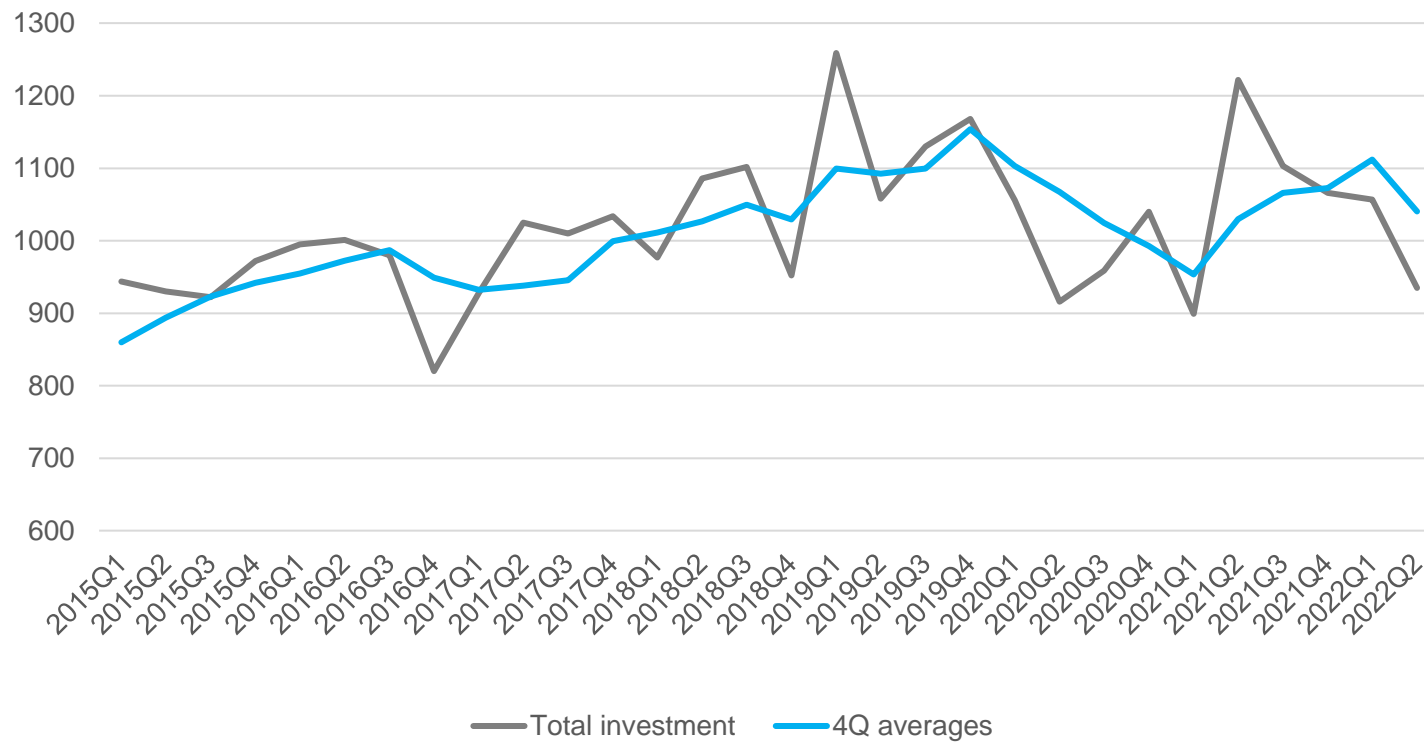
Industry insolvencies during the first eleven months of 2022 exceeded the total number of insolvencies seen in 2019

| | 2019 | 2020 | 2021 | 2022 (Jan-Nov) | 2022 insolvencies as % of total 2019 insolvencies |
|--------------------------|--------|--------|--------|-------------------|---|
| Food manufacturing (GB) | 95 | 94 | 64 | 160 | 168% |
| Drink manufacturing (GB) | 27 | 30 | 18 | 60 | 222% |
| Manufacturing (GB) | 1,540 | 1,231 | 1,107 | 1,605 | 104% |
| Great Britain | 18,205 | 13,277 | 14,810 | 21,105 | 116% |

While investment has been on a downward trajectory since Q3 2021



With little prospects of a strong pick-up this year



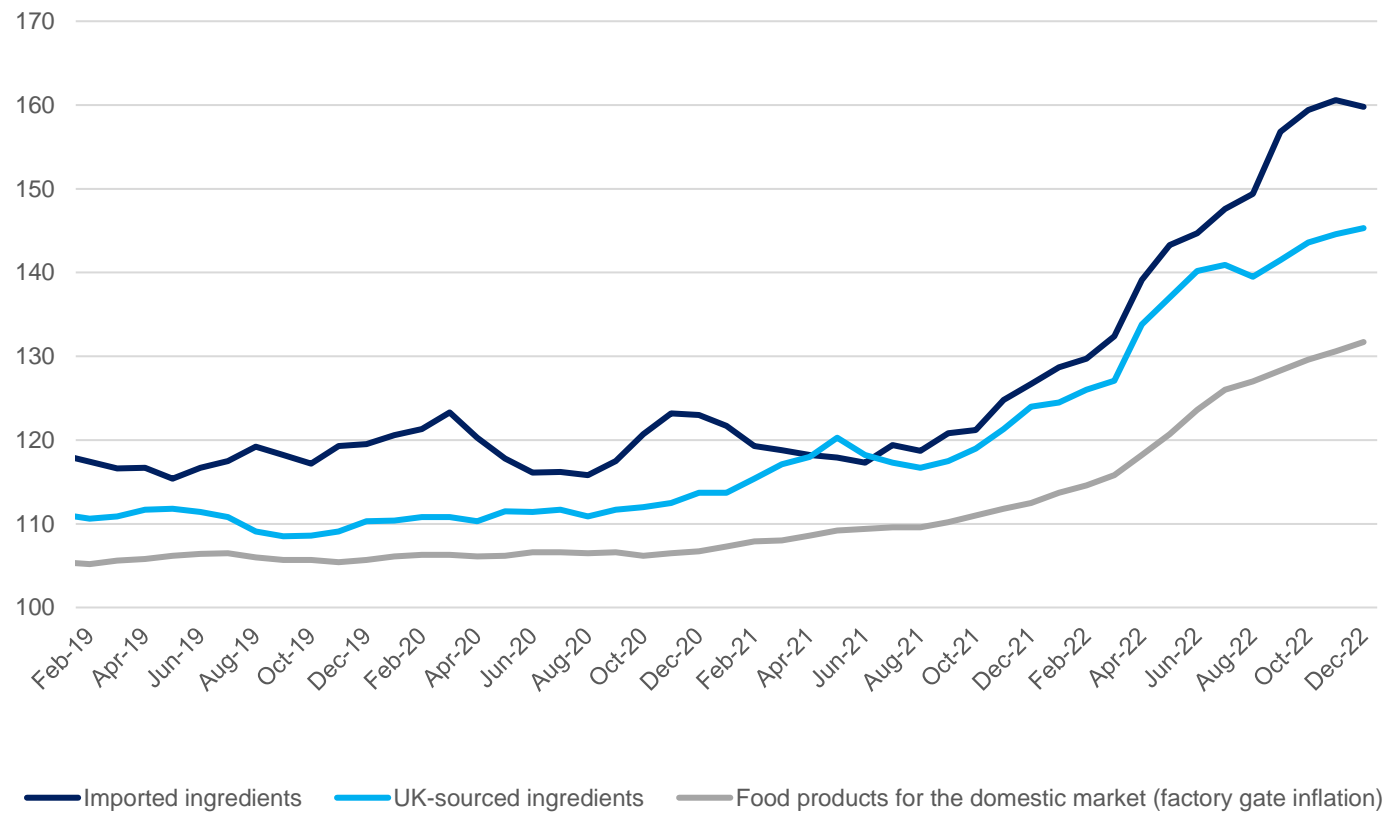
Source: ONS

What's next?

UK producer prices pressures are easing



With a first slight decline in imported ingredients in 18 months



Source: ONS

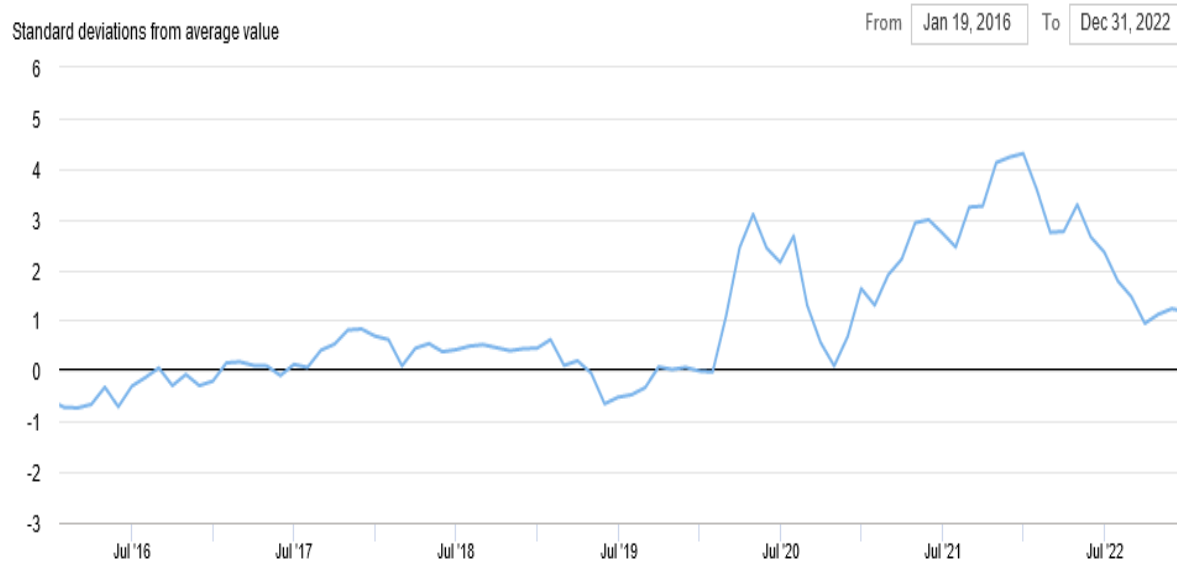
Energy prices have seen markedly declines

With gas futures curves falling over 2023

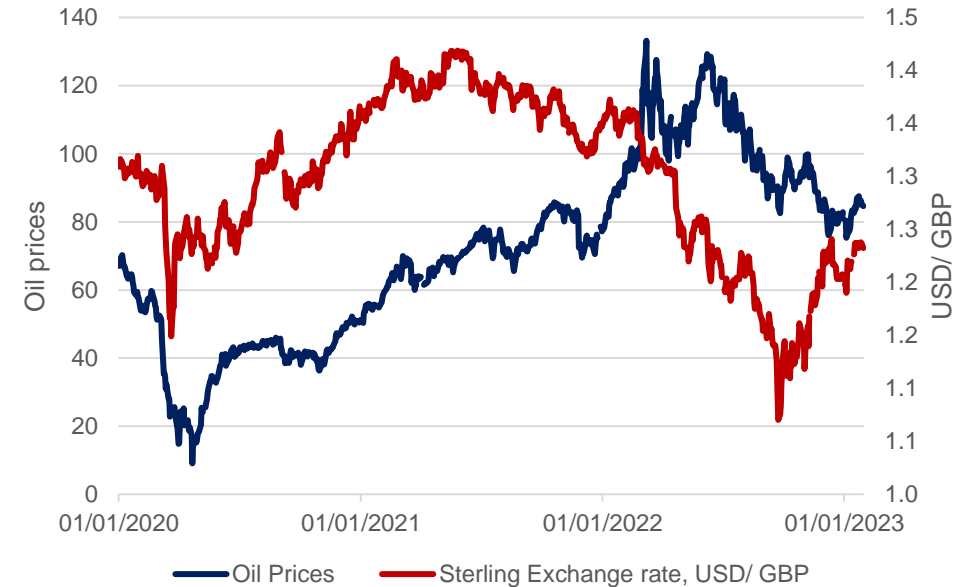


Other pressure points are subsiding

Global supply pressure index in free fall



Oil prices are lower than summer 2022 and the sterling is gaining ground

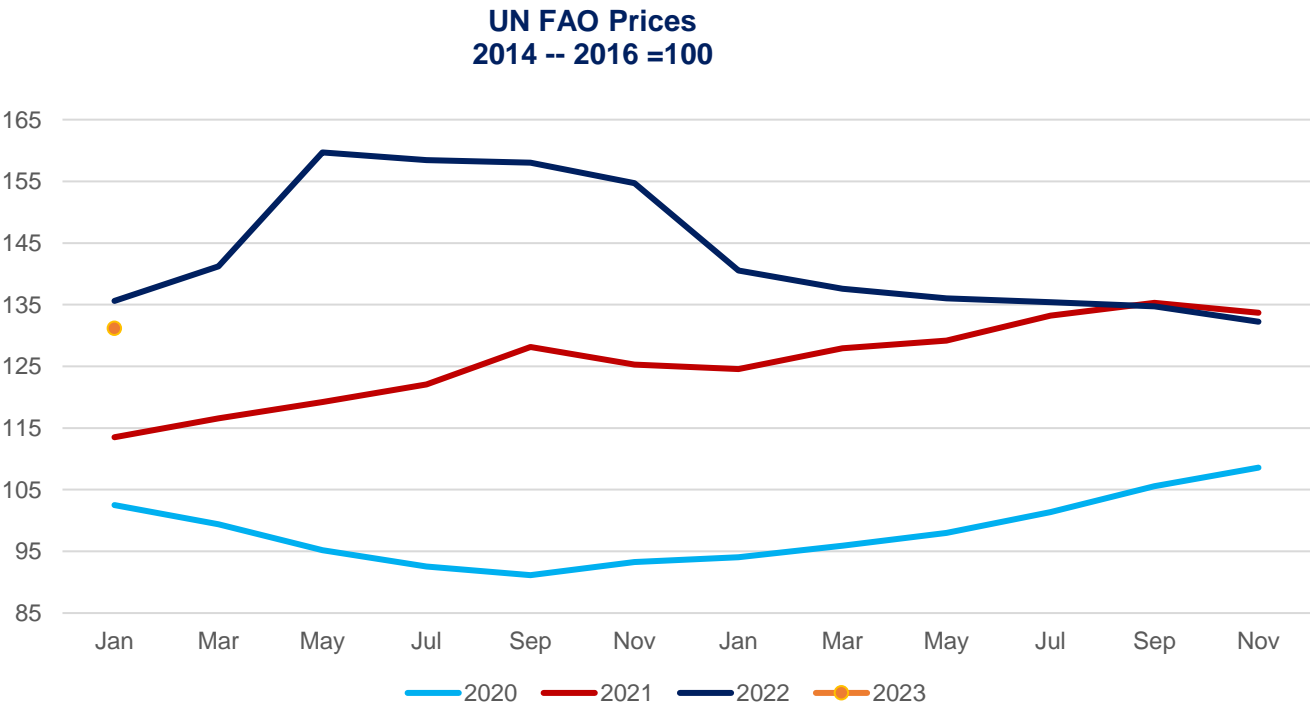


Source: NY Fed, Global Supply Chain Pressure Index and St Louis FRED Economic Data

Global food prices have persistently declined since March



Although they remain at historic highs



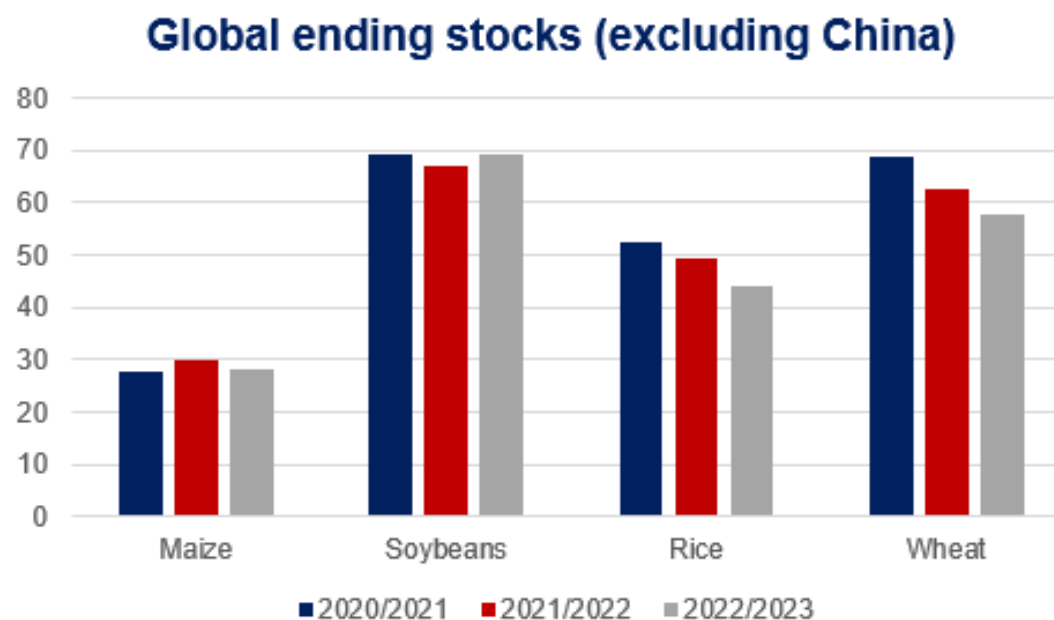
Changes in the UN FAO prices in 2022 compared to 2019

| | |
|------------------|------|
| Food Price Index | 51% |
| Meat | 19% |
| Dairy | 38% |
| Cereals | 60% |
| Oils | 126% |
| Sugar | 46% |

Source: UN FAO

And headwinds persist for global food prices

With multiple risks keeping uncertainty high: from low global grain stocks and reduced fall wheat planting in Ukraine to adverse weather conditions

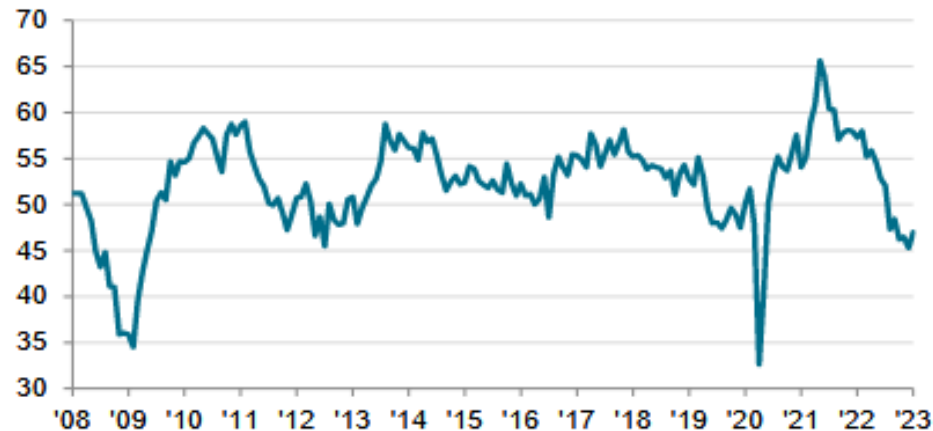


The UK economy is slowing down

2023 started with a further contraction in both the manufacturing and the service sectors

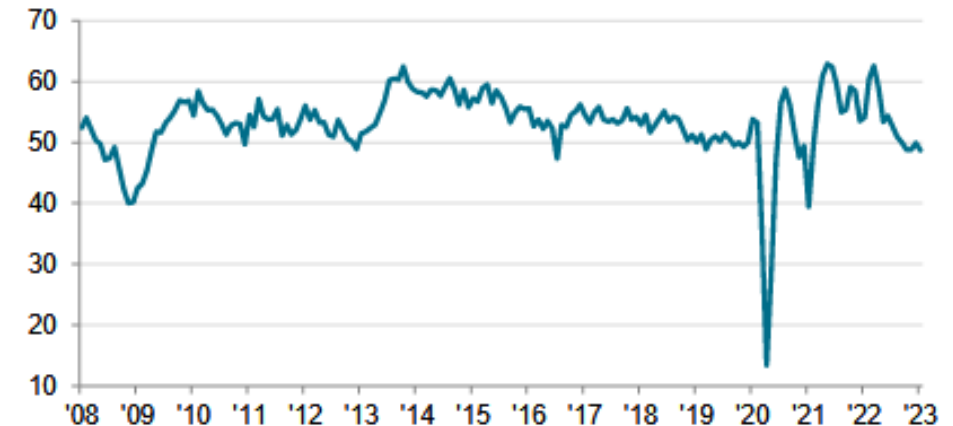
UK Manufacturing PMI

sa, >50 = improvement since previous month



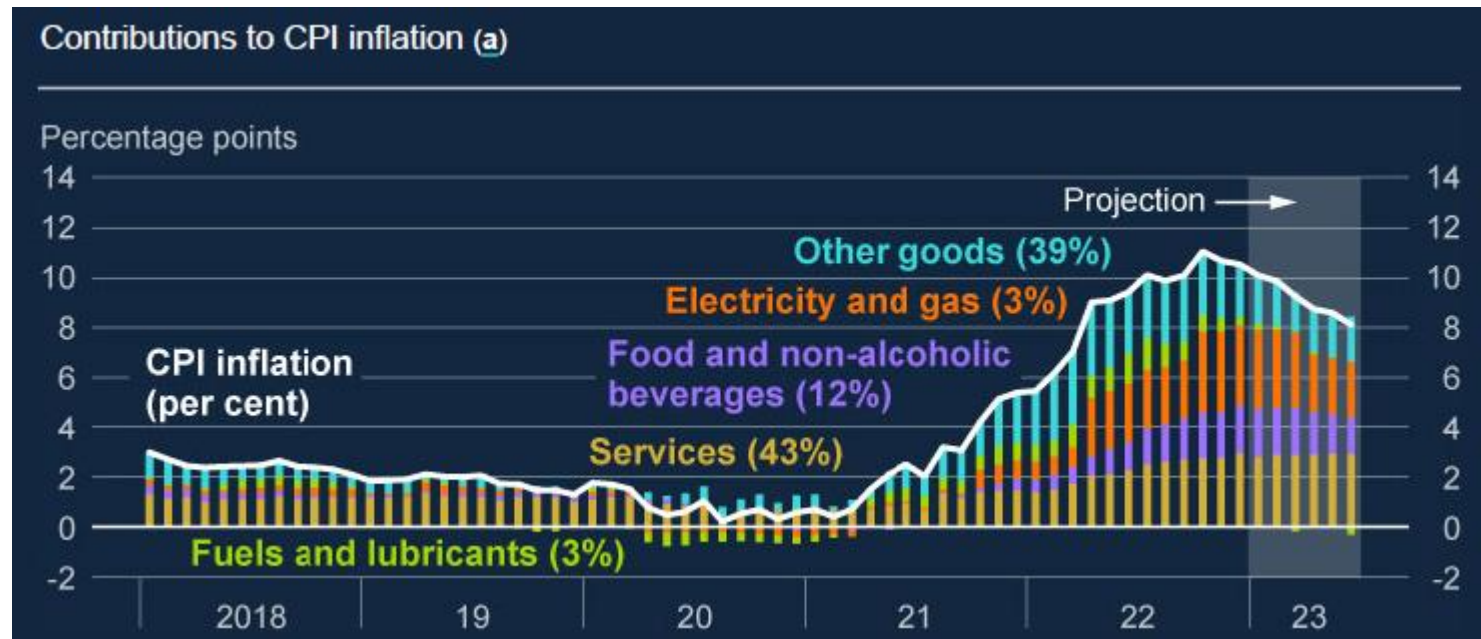
S&P Global / CIPS UK Services Business Activity Index

sa, >50 = growth since previous month



CPI inflation is expected to reach 8% by Q2 and 4% by the end of the year

As base effects take hold and energy and foreign cost pressures are likely to ease

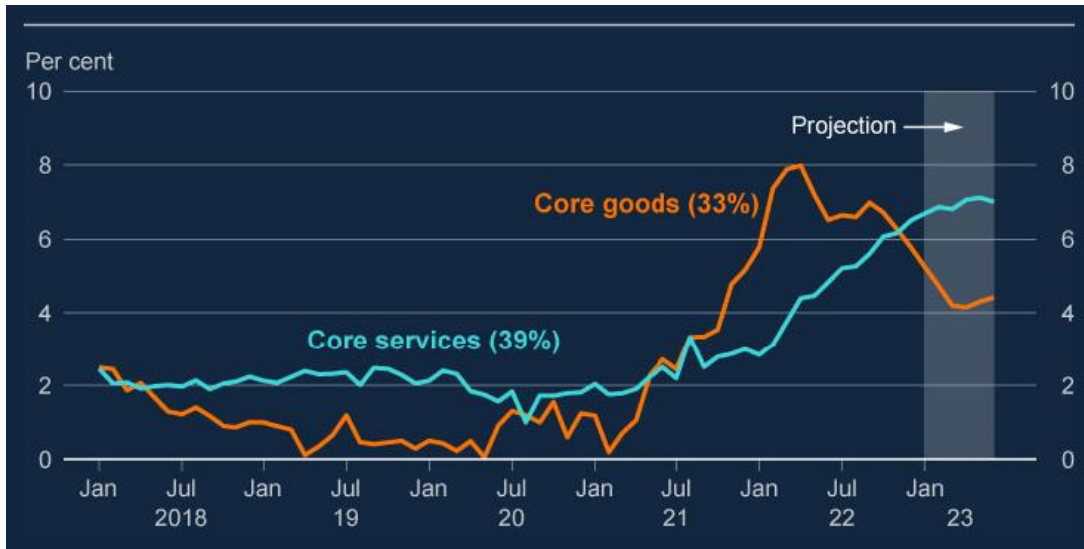


Source: Source: Bank of England, Monetary Policy Report, February 2023

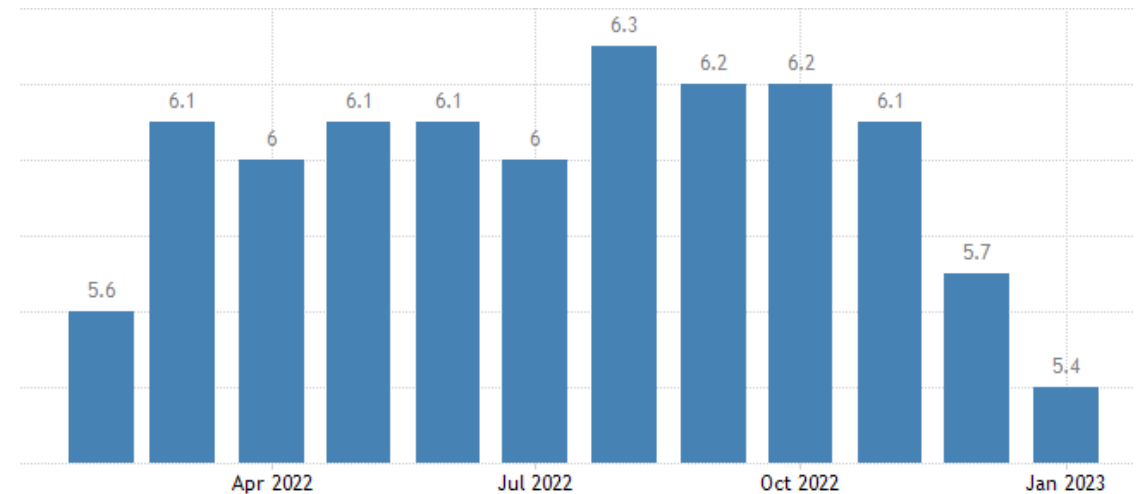
Although domestic pressures remain strong

With high core inflation and inflation expectations

Core goods and core services
inflation



Households' inflation expectations
for the following 12 months

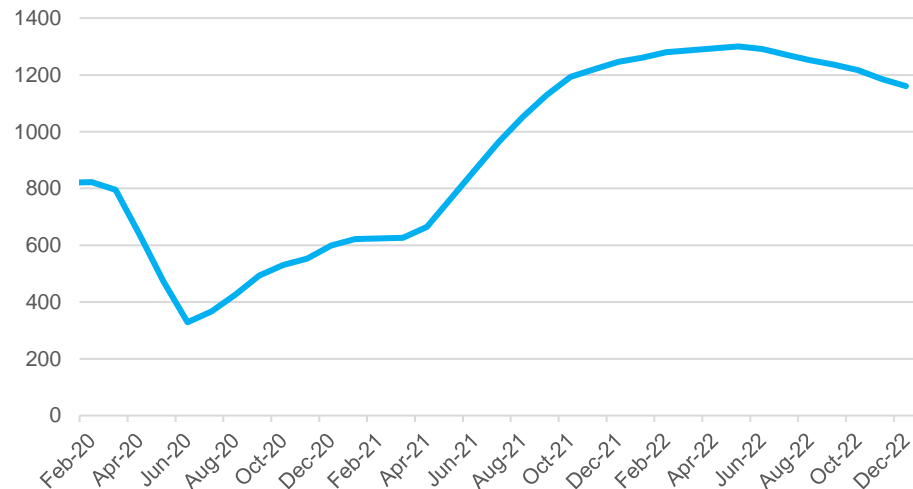


And the labour market remains stubbornly tight

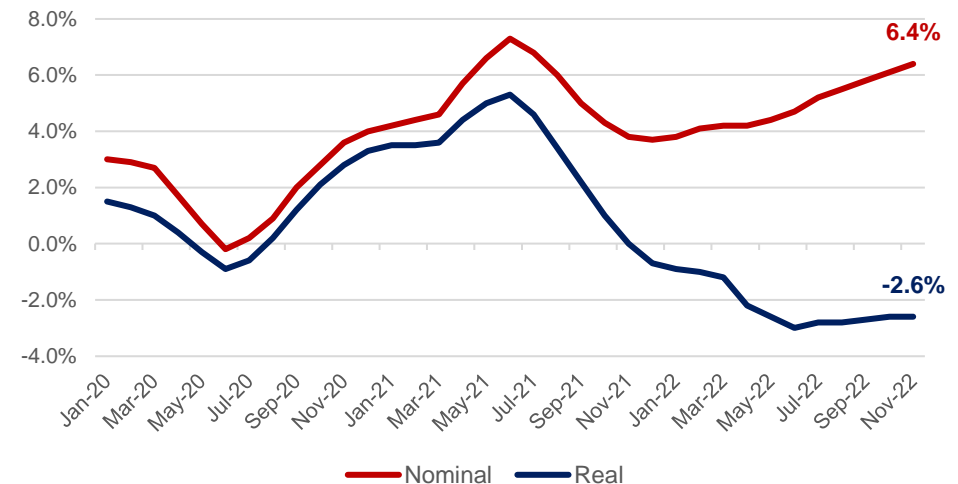


Inflation is now the most important factor driving pay growth

UK number of vacancies



Regular pay growth



Source: ONS

In a nutshell: Some reasons to be hopeful, but not out of the woods yet



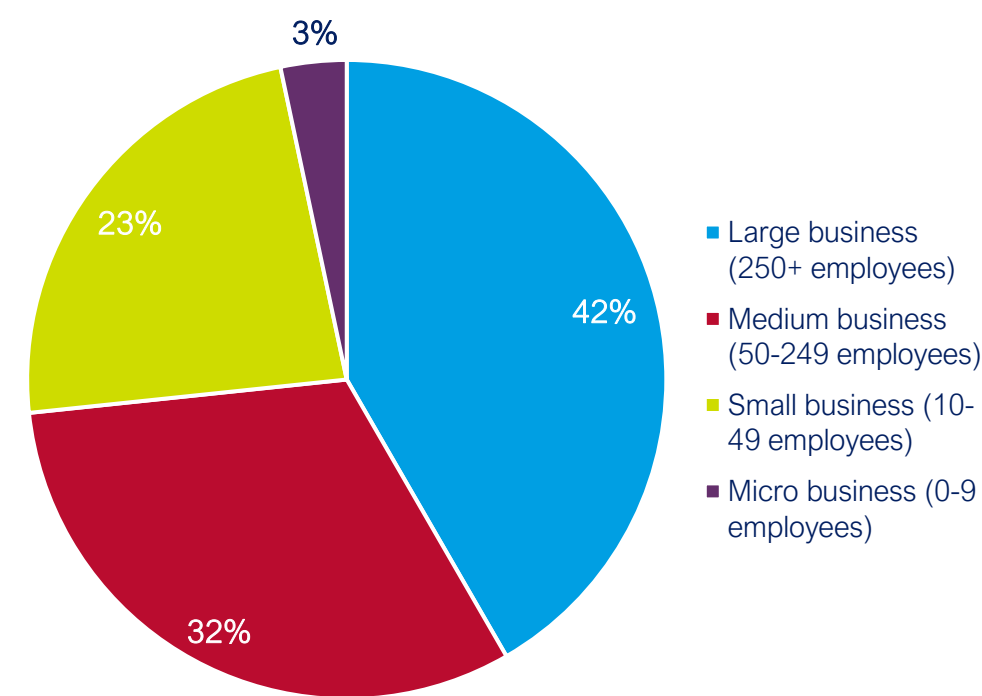
- Significant uncertainty persists, making planning for the future difficult.
- While cost pressures have started subsiding, we're far from reaching price levels seen before the pandemic. Coupled with trials passing on cost increases, margins squeezed, staff shortages and a decline in real spending, growth in the industry will prove a challenge.
- Consumer food price inflation will decelerate this year and sales volumes will decline.

State of Industry Survey findings

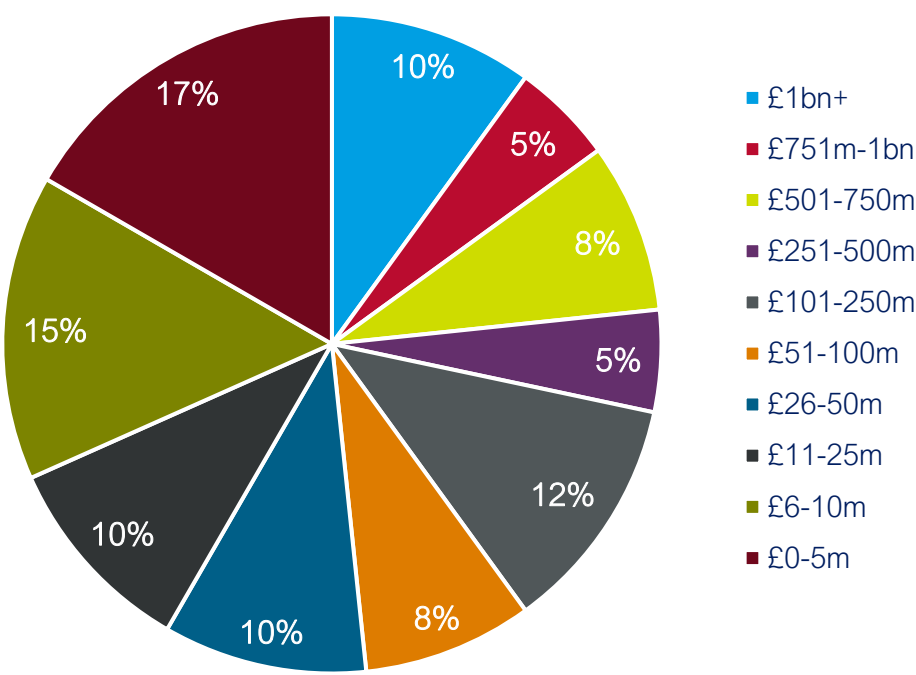
Respondents represented approximately 16% of the industry by turnover



Employment



Turnover

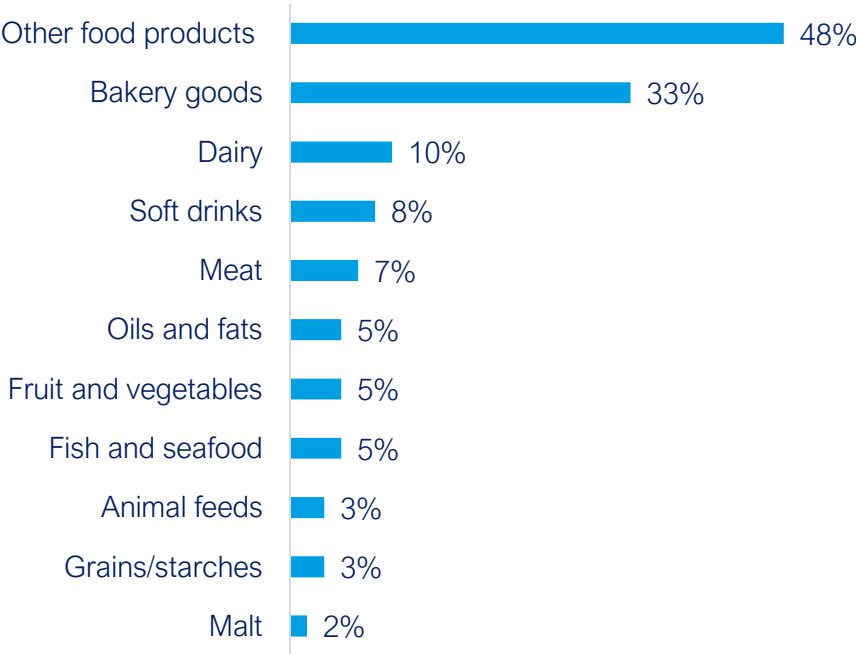


Representation from a wide range of sectors

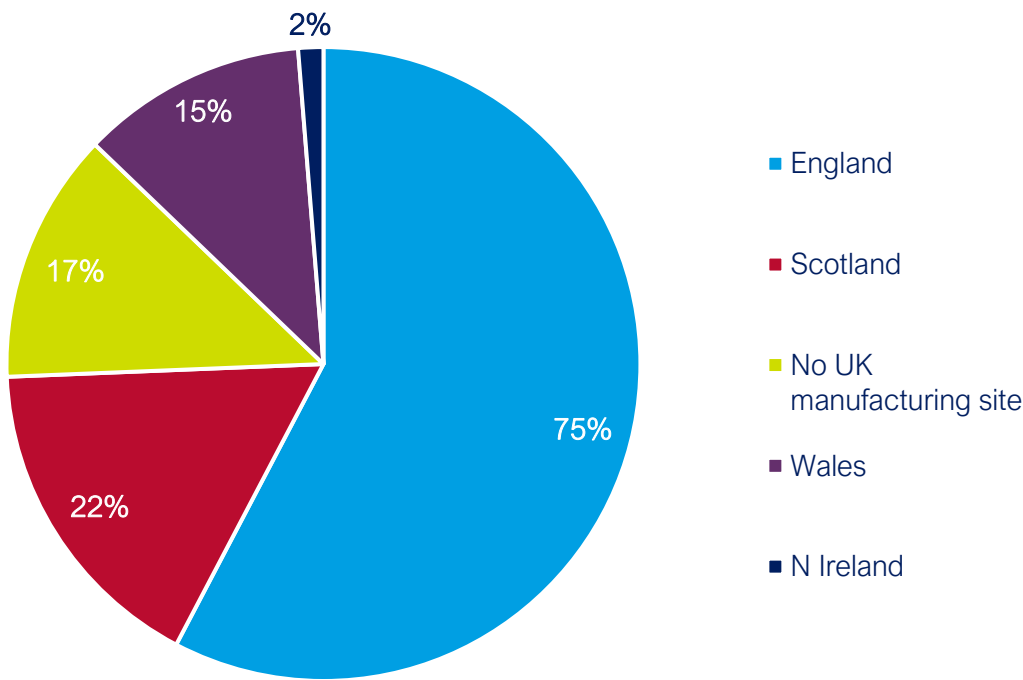


With sites in each nation

Sectors



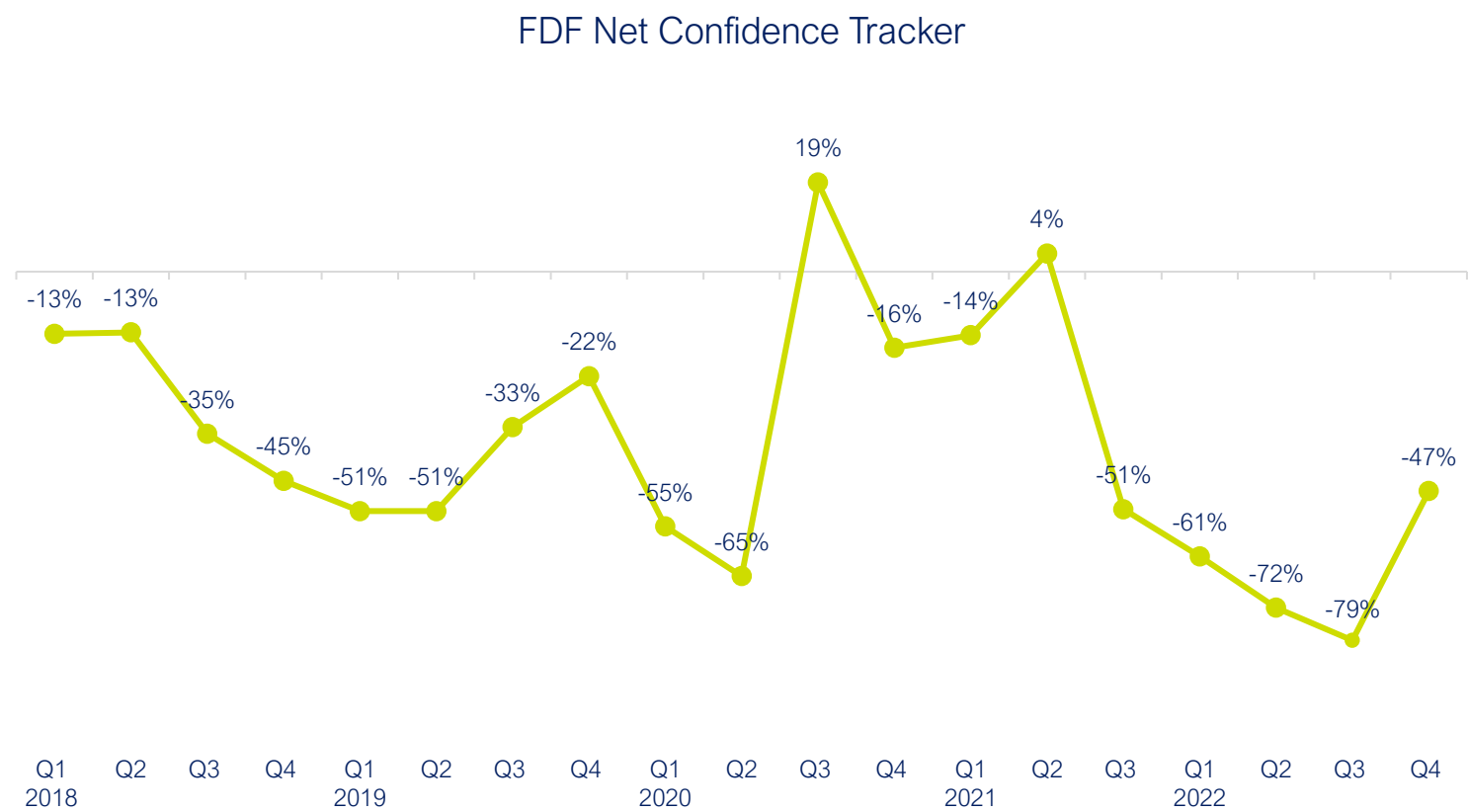
Location



Net confidence rises as more manufacturers felt conditions remained the same



Net confidence = conditions improved – conditions deteriorated



Conditions are likely to stay the same or worsen



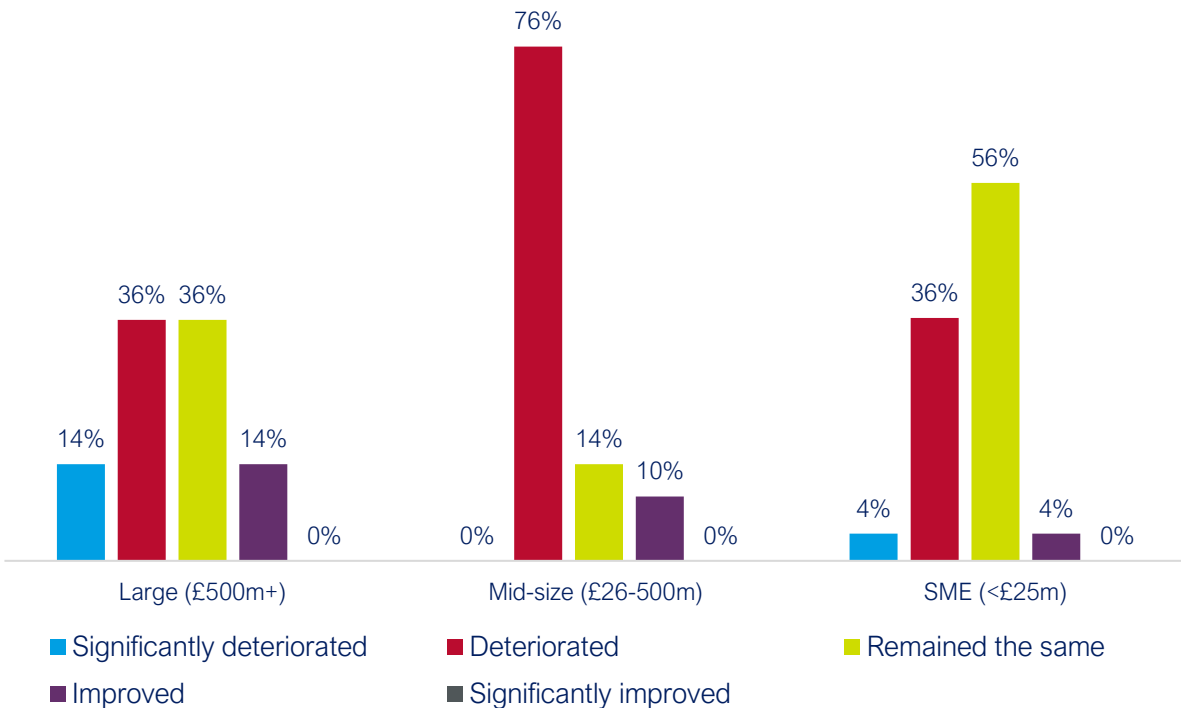
Outlook confidence for Q1 2023 is at -27%, up from -46% for Q4 2022.

| | All | Large (£500m+) | Mid-size (£26-500m) | SME (<£25m) |
|---|------|-------------------|------------------------|----------------|
| Net confidence (conditions in Q4 compared to Q3 2022) | -47% | -36% | -67% | -36% |
| Outlook confidence (Q1 compared to Q4) | -27% | -21% | -33% | -24% |

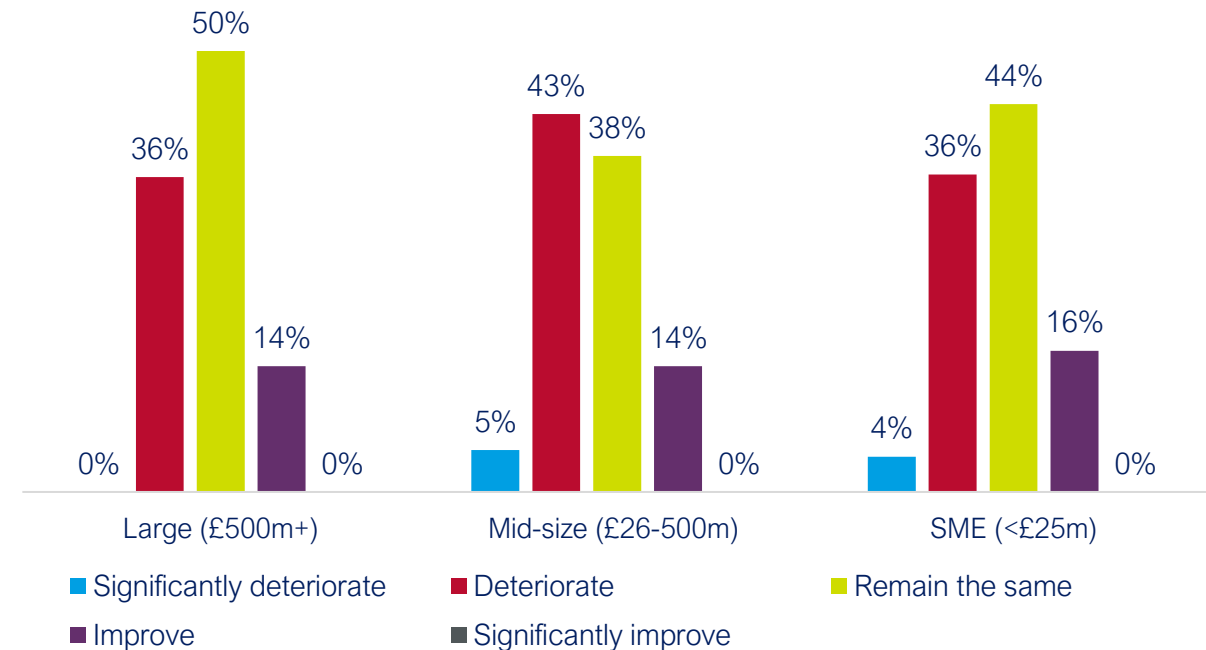
Businesses expect conditions will further deteriorate or remain the same in Q1



Conditions in Q4 2022 compared to Q3 2022



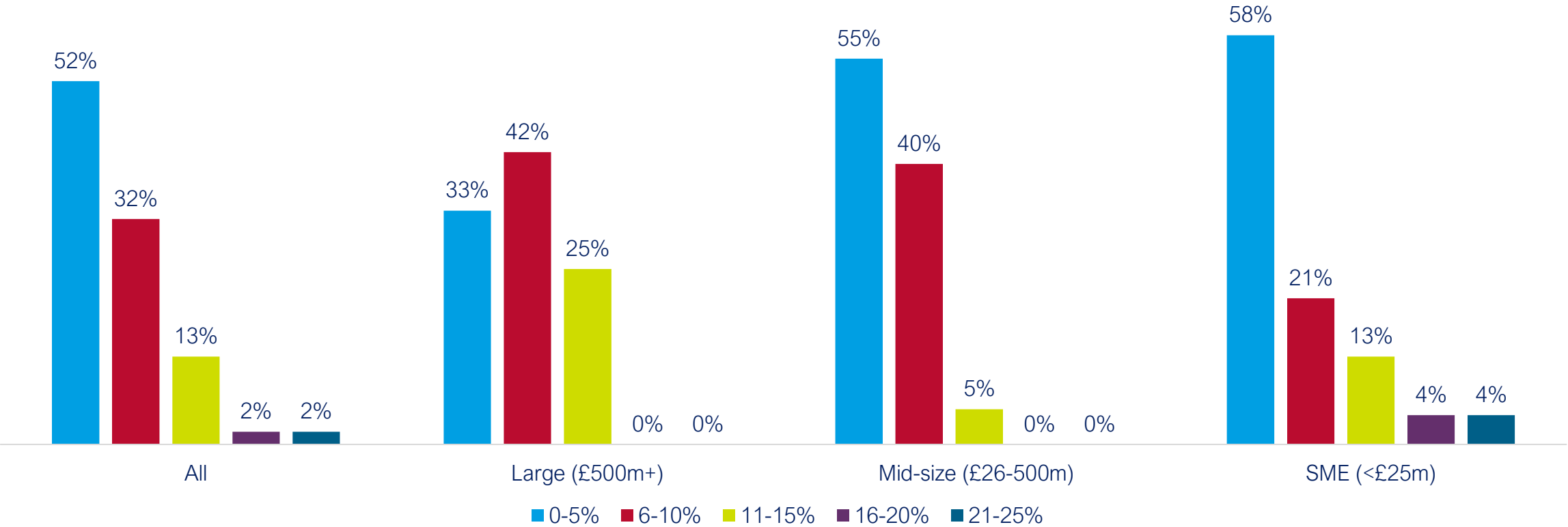
Expectation of Q1 2023 relative to Q4 2022



Unfilled vacancies remain high but fall to 7.0% in Q4 from 9.1% in Q3



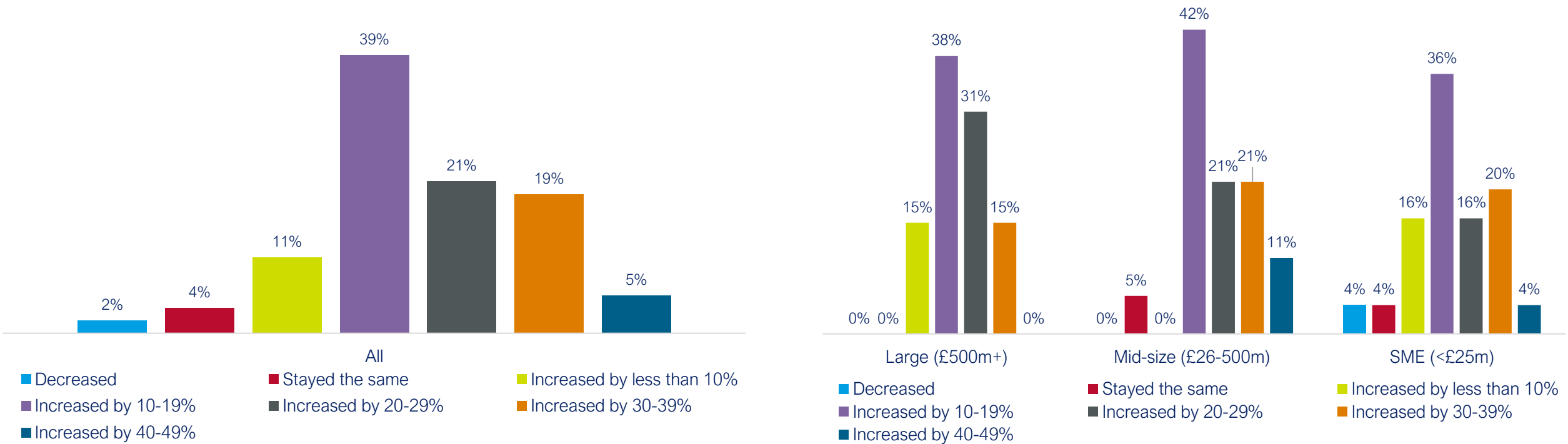
In Q4 2022, unfilled vacancies amounted to what percentage of your labour force?



94% of businesses have experienced an increase in total production costs over the last year



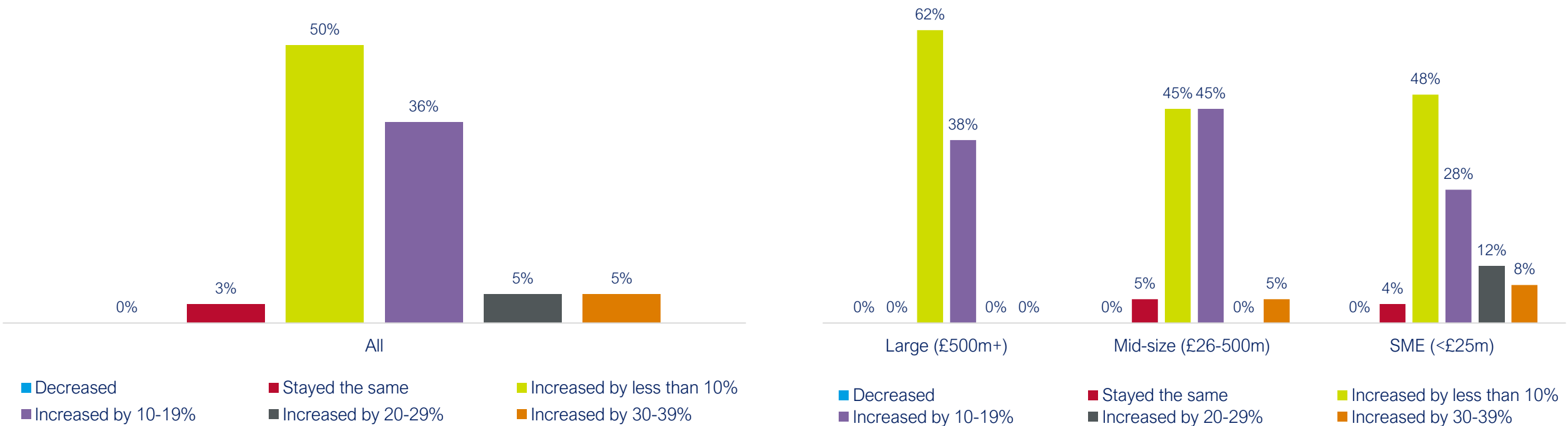
On average, how have your total production costs over the last year (Q1 2022 - Q4 2022)?



Majority of manufacturers have seen labour costs increase by up to 20%



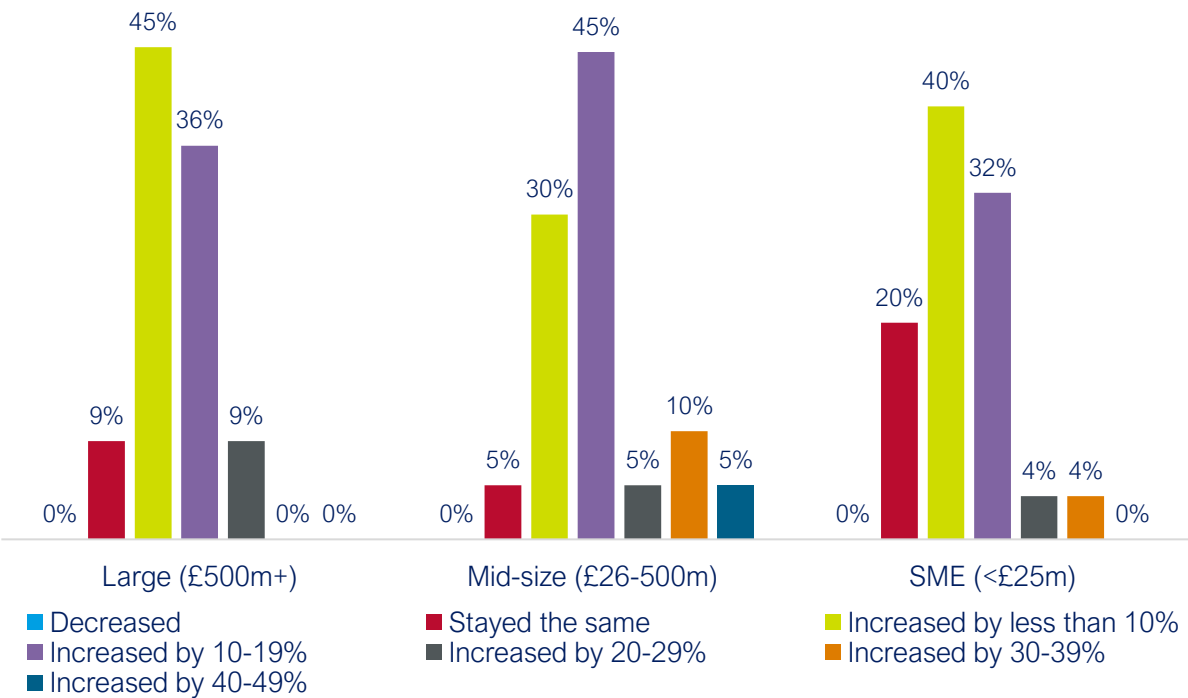
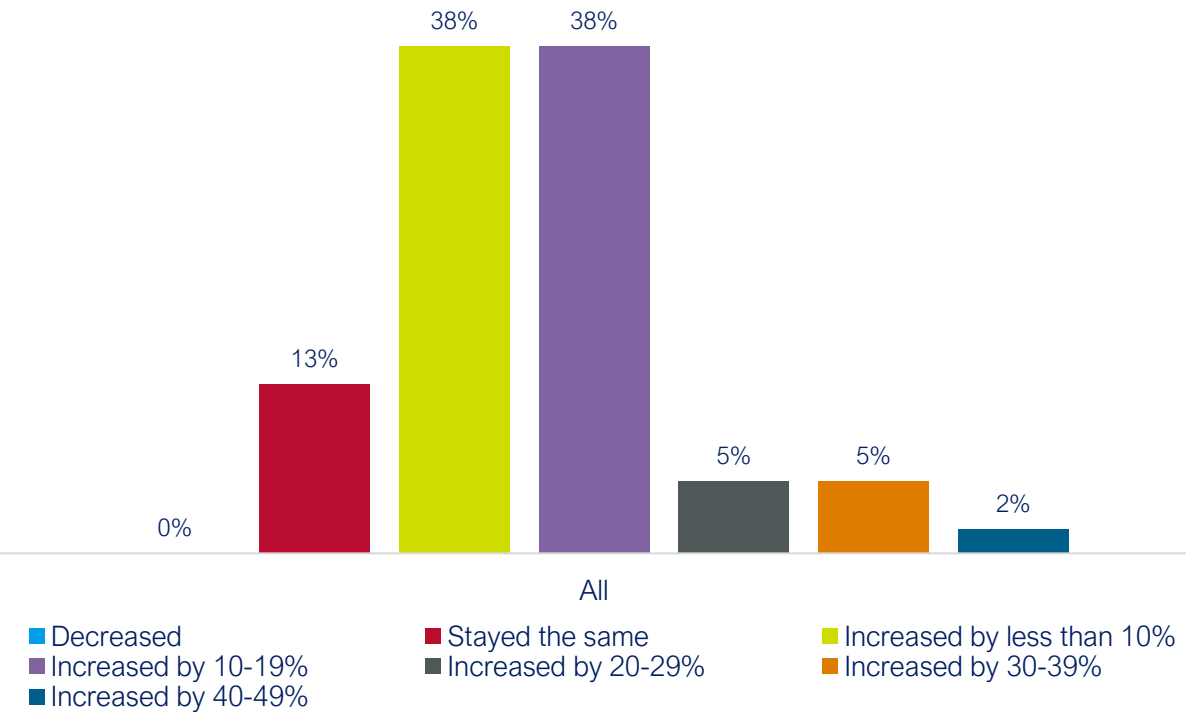
On average, how have your labour costs changed over the last year (Q1 2022 - Q4 2022)?



Businesses have increased their average selling price to manage cost pressures



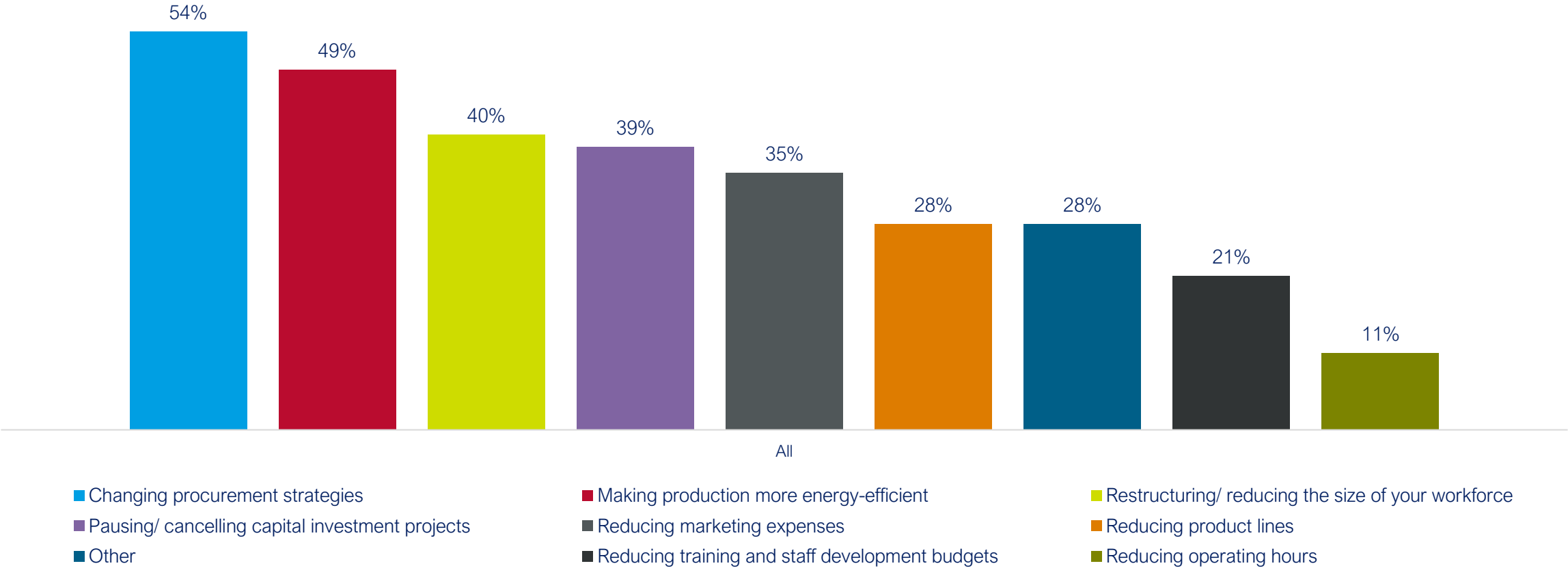
On average, how has your average selling price changed over the last year (Q1 2022 - Q4 2022)?



Manufacturers are tackling cost pressures by changing procurement strategies and making production more energy efficient



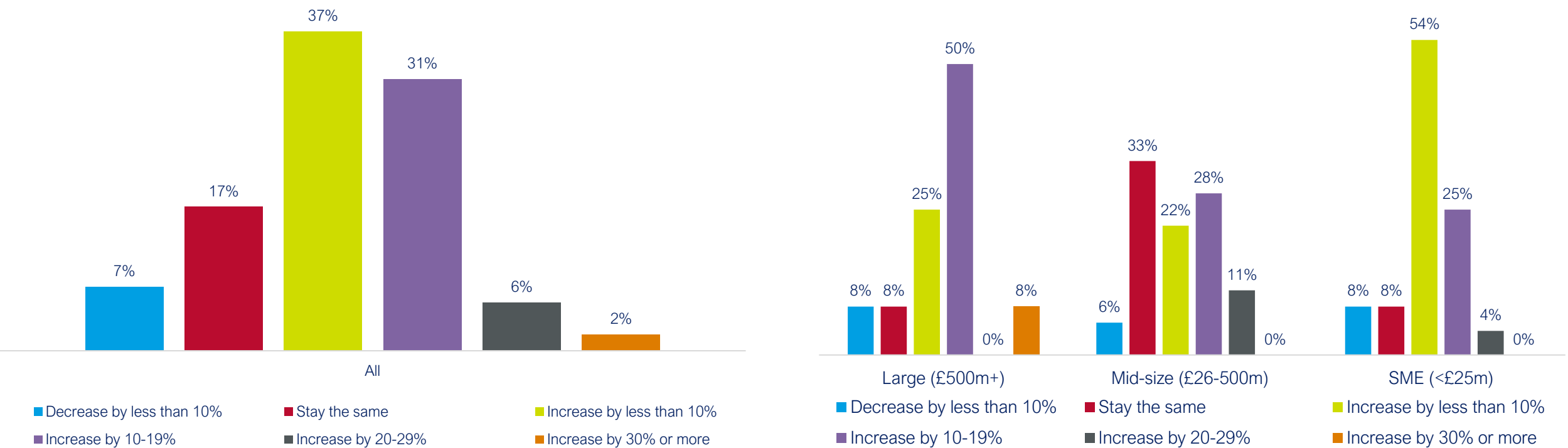
How are you managing increased cost pressures?



Total production costs are expected to continue to increase by 10% on average in 2023



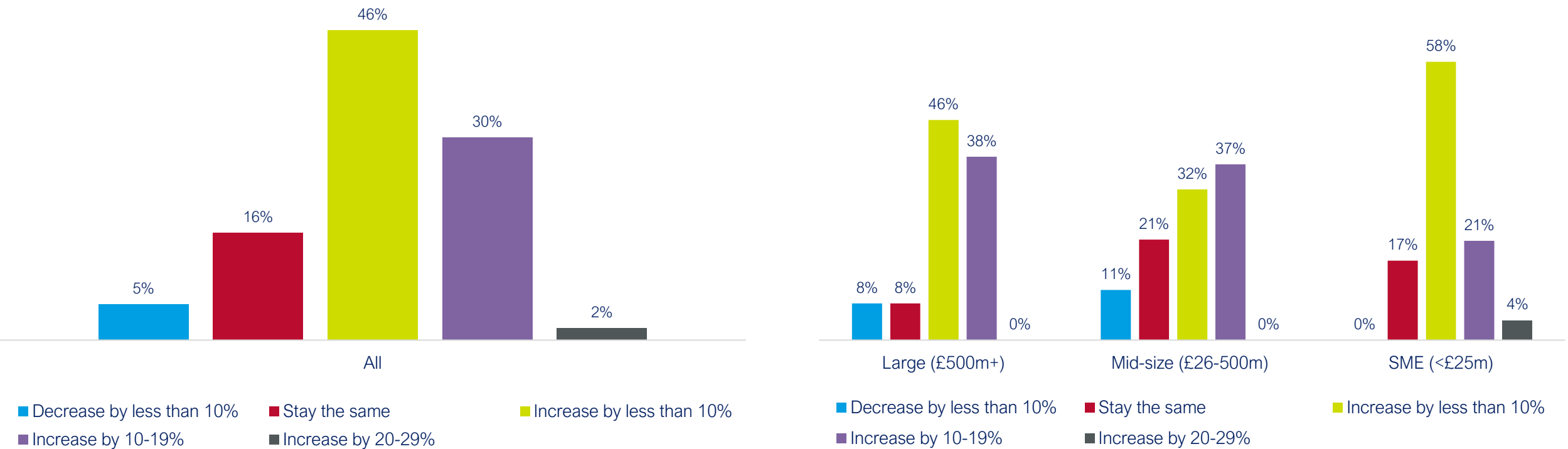
On average, what kind of changes do you expect over the next year with regard to total production costs?



Average selling price expected to rise by 7% on average over the next year



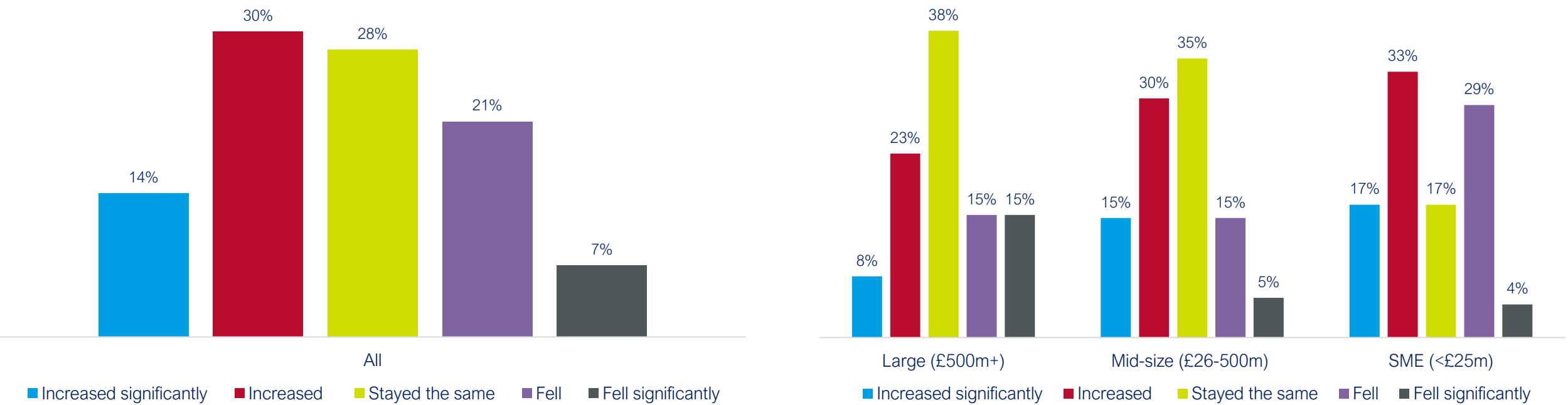
On average, what kind of changes do you expect over the next year with regard to average selling price?



44% of companies stated that their production had increased



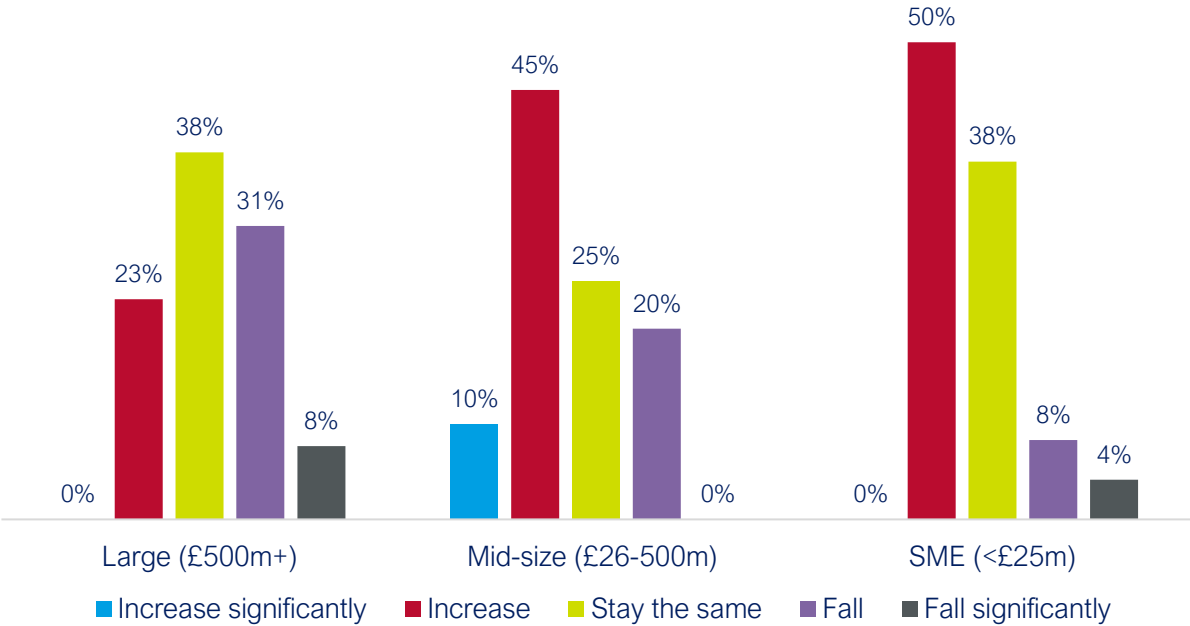
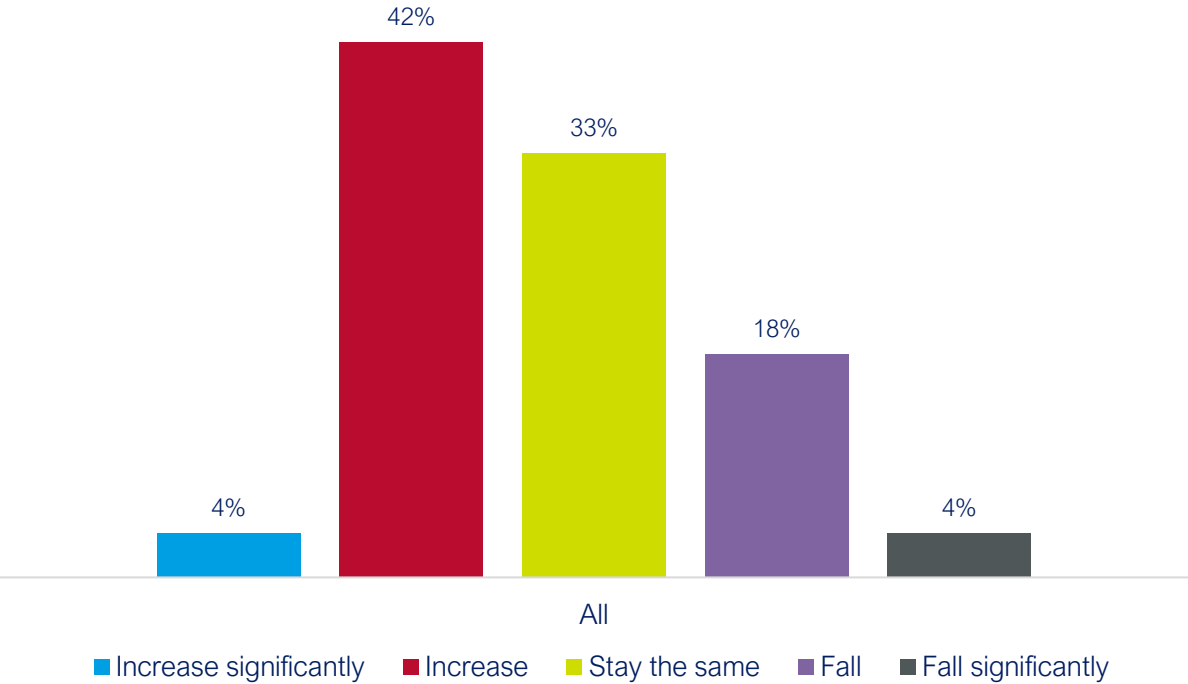
How has your volume of production changed over the last year (Q1 2022 – Q4 2022)?



78% of businesses expect their production to increase or remain the same over the next year



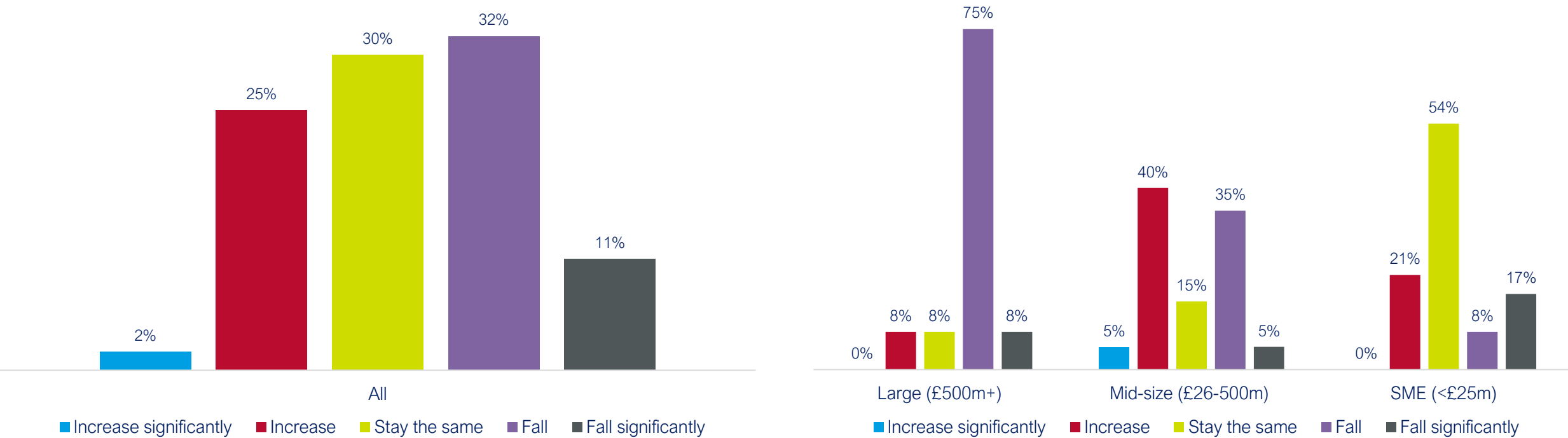
What do you expect for the volume of your production over the next year?



75% of large companies expect capital investment expenditure to fall



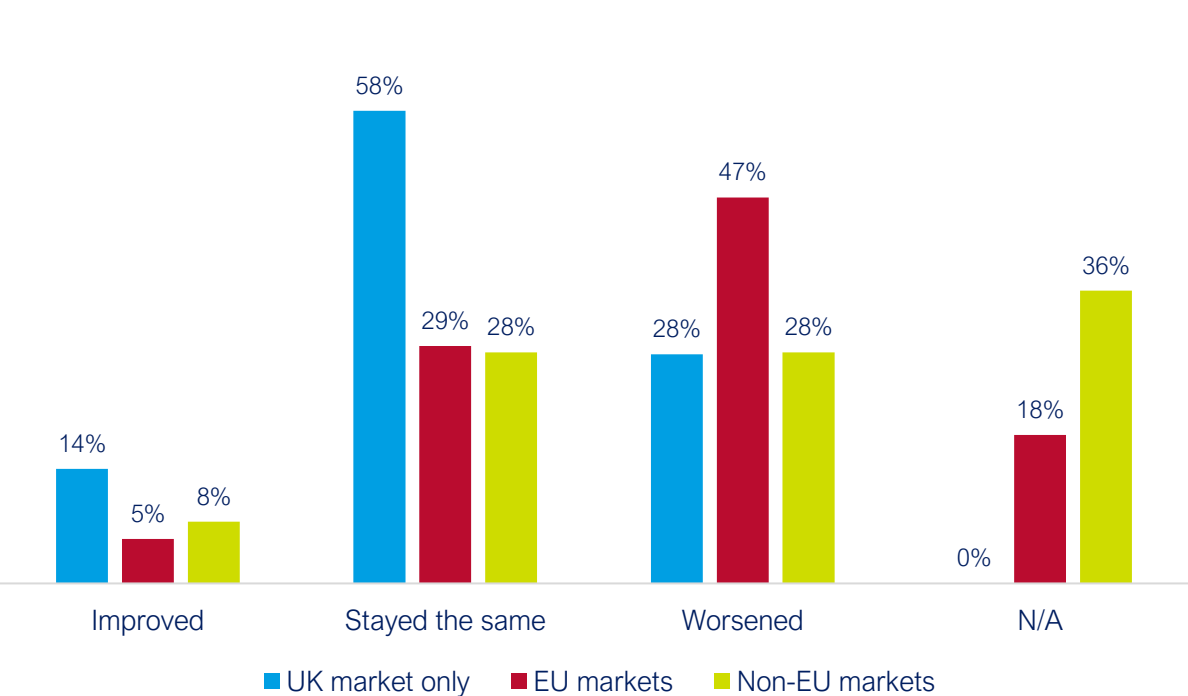
How do you expect your capital investment expenditure to change in 2023 from 2022?



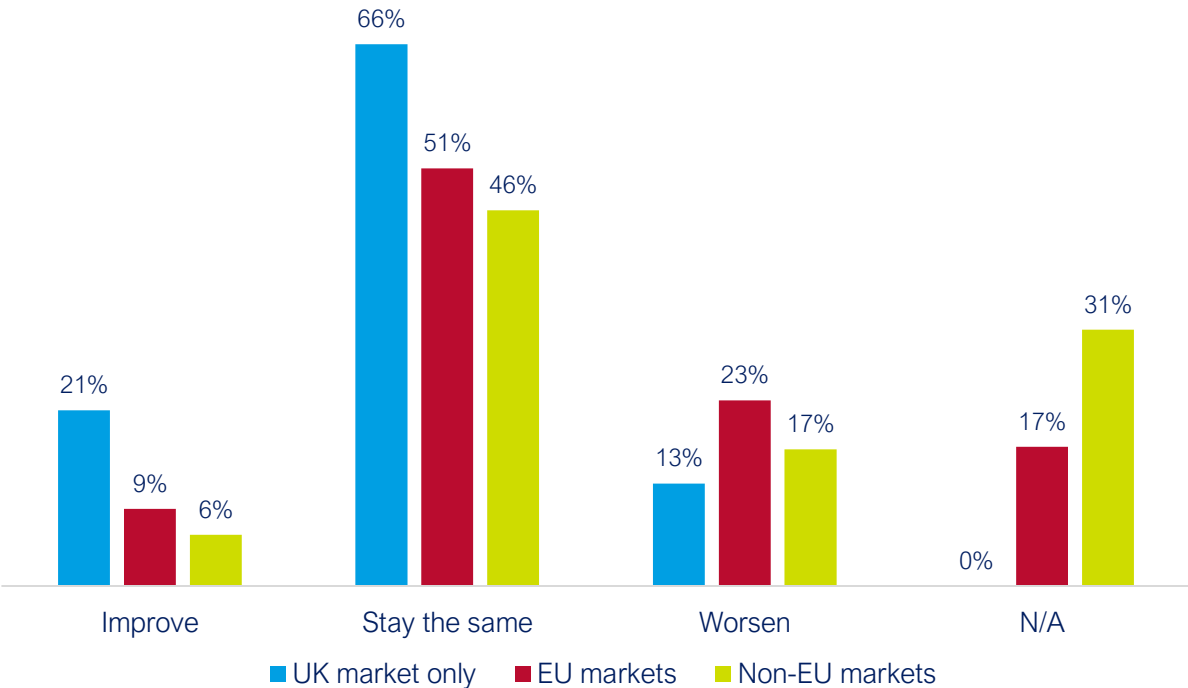
Competitiveness within EU markets worsened over the last year for nearly half of manufacturers



Impact on competitiveness over the last year



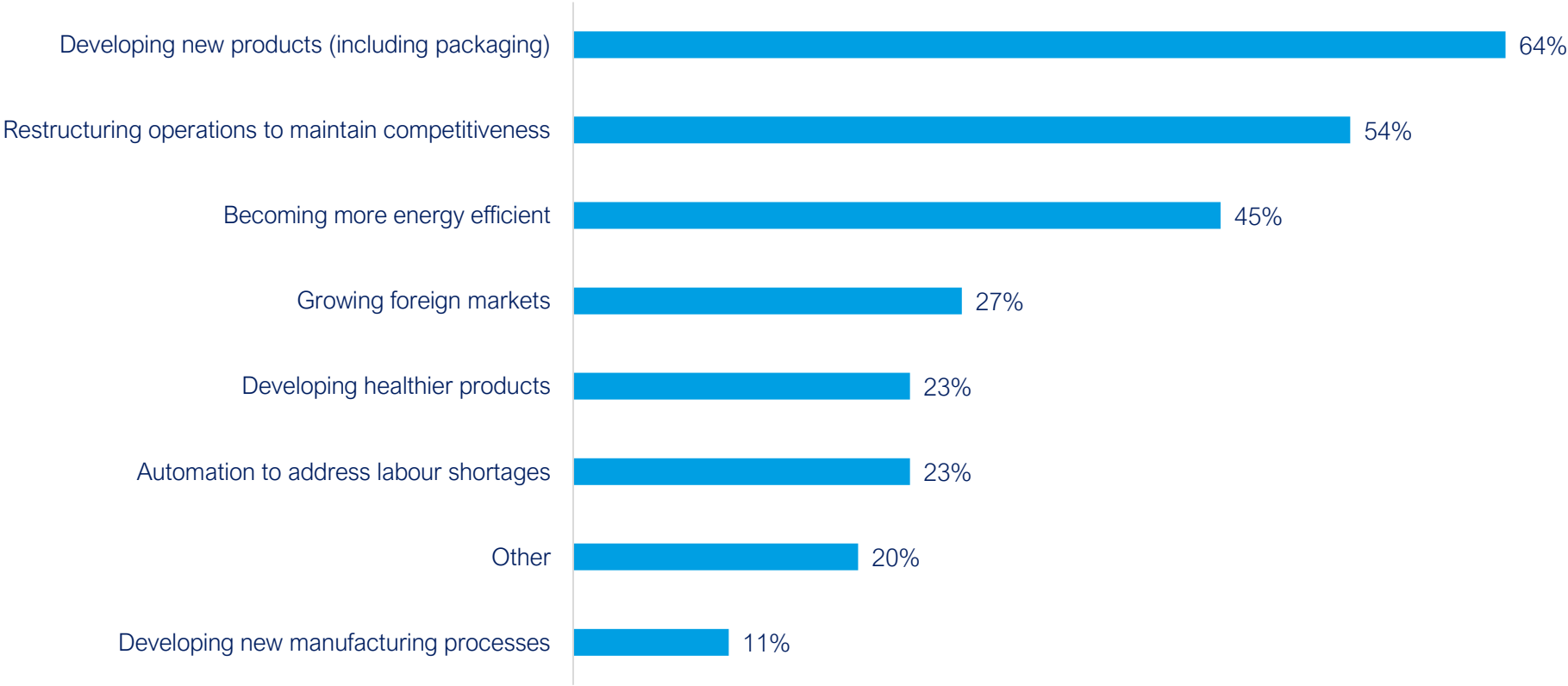
Expectation of competitiveness over the coming year



Manufacturers are focused on developing new products in 2023



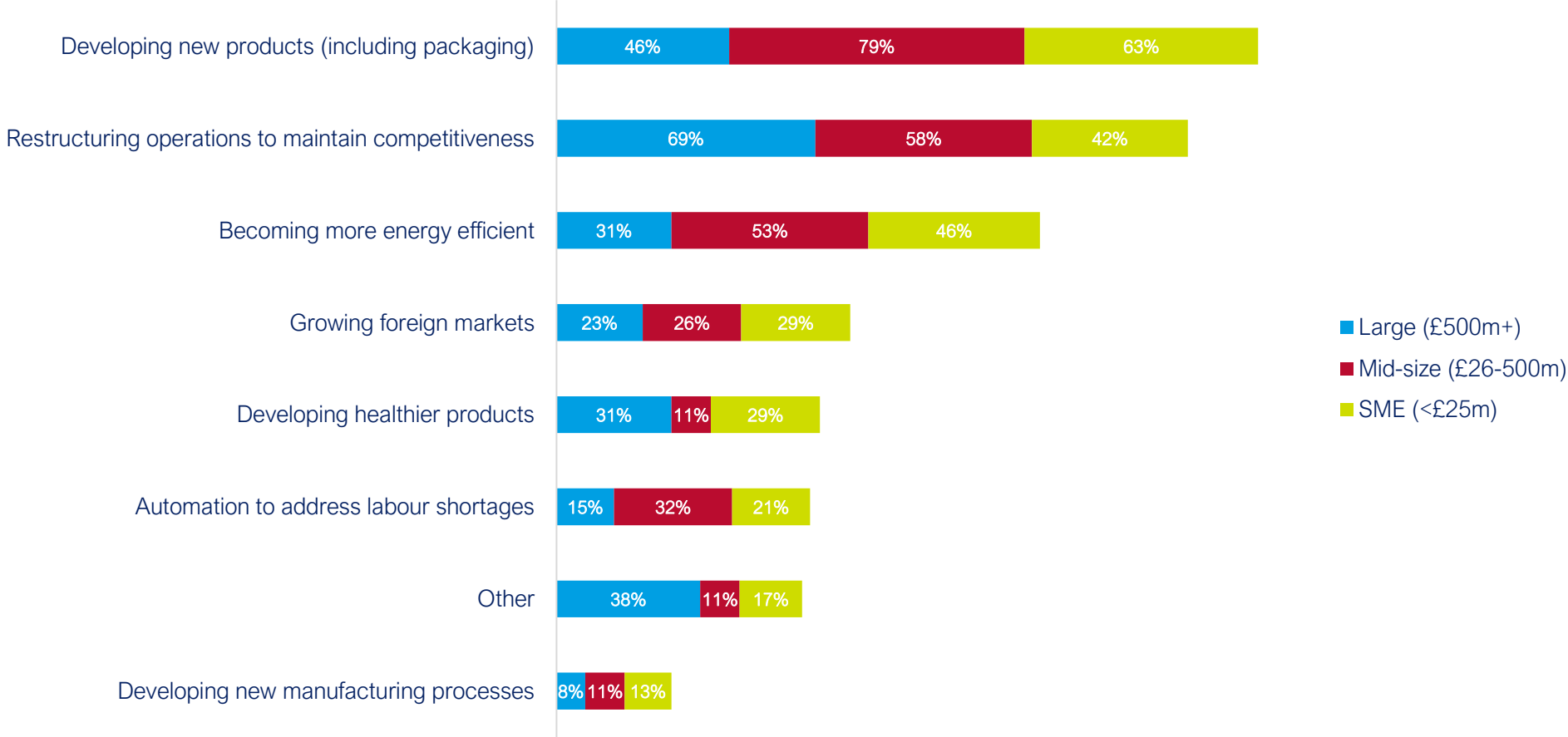
What are the top three growth priorities for your business for 2023?



Large businesses are prioritizing restructuring their operations



With energy efficiency also remaining a focus for manufacturers of all sizes



Thank you!



Get in touch

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