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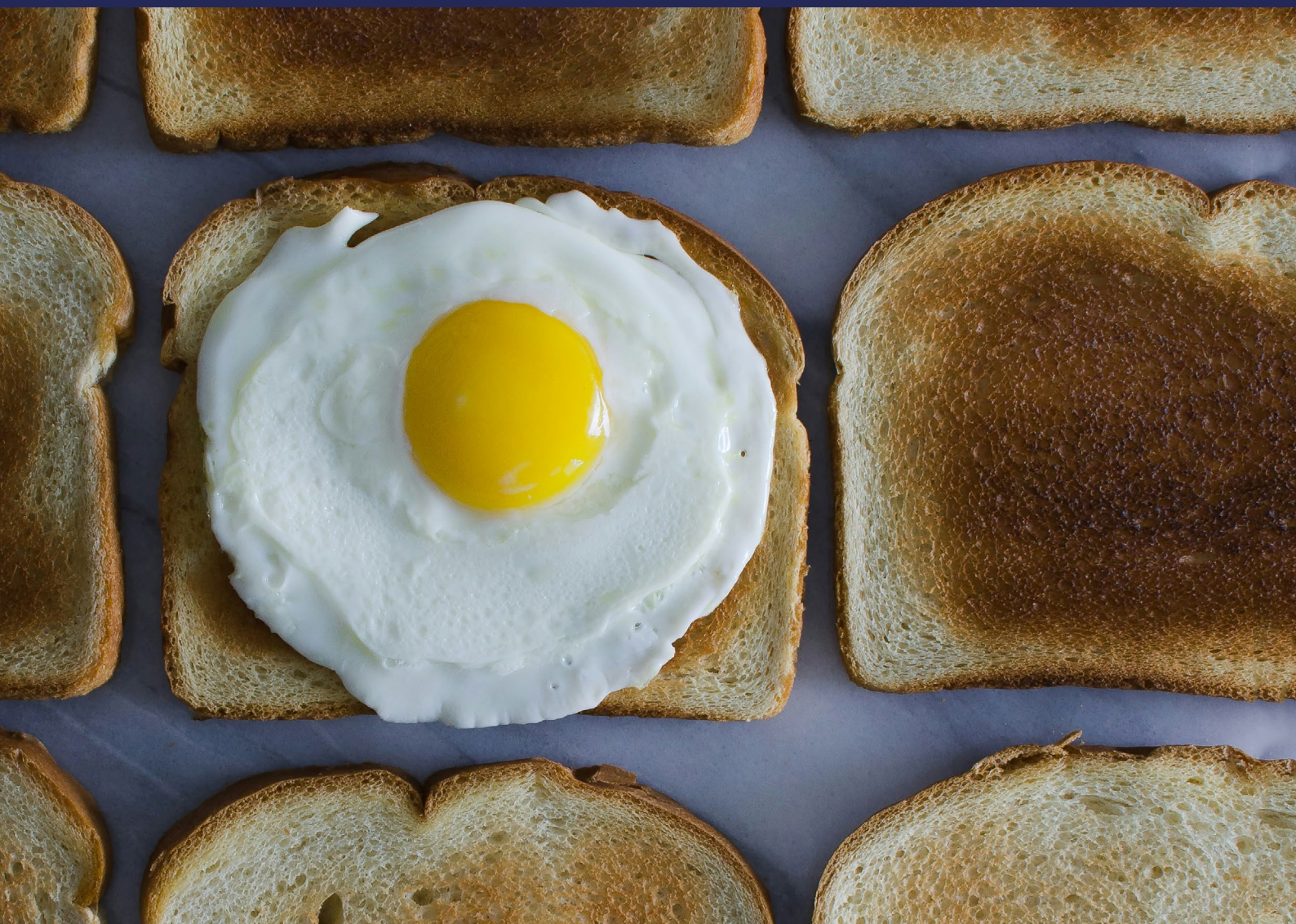
UK Food & Drink Inflation 2025-26

REGULATION SHAPES THE OUTLOOK



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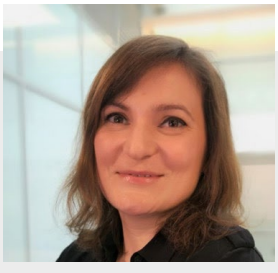

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The current landscape

Food inflation is set to rise to 5.7% by December 2025, before slowing to 3.1% by the end of 2026 (average for 2024: 4.4%)

While traditional cost drivers such as energy and agricultural inputs have stabilised, regulatory costs are now the dominant factor driving **food and non-alcoholic drink inflation**

These pressures compound weakened consumer demand and the prolonged margin erosion the sector has faced

Retail price wars and efficiency gains could dampen inflation, but climate shocks and geopolitical tensions may push prices higher than forecast

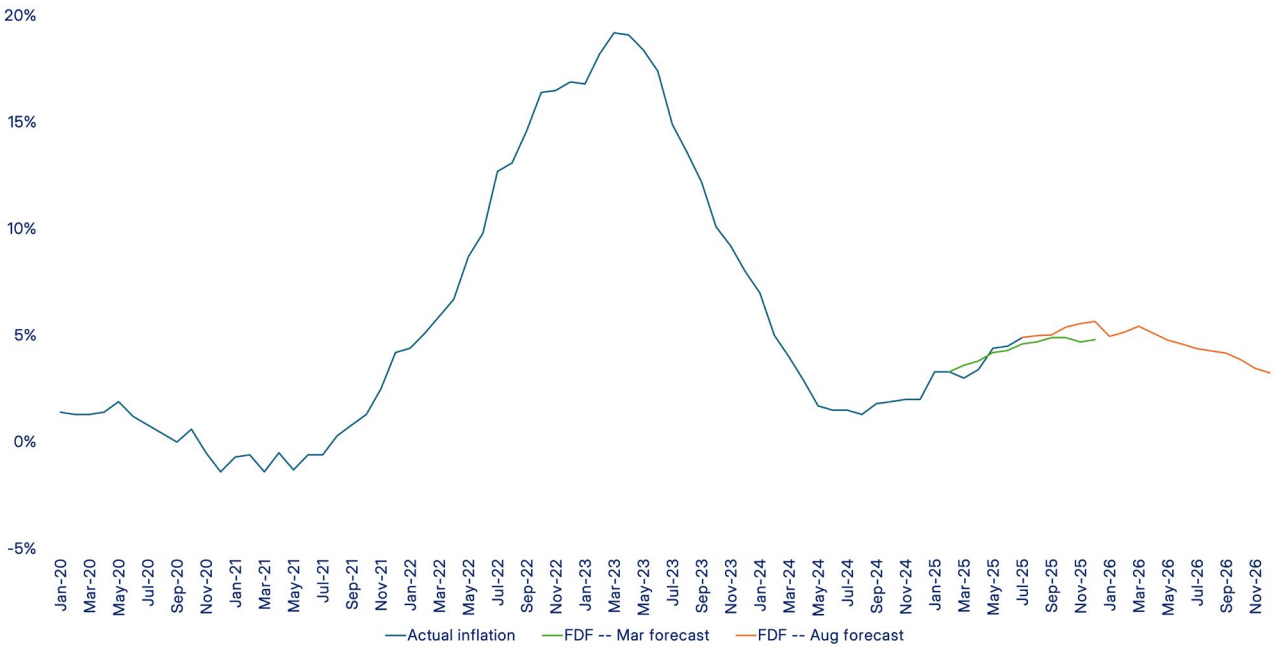
Food and non-alcoholic drink inflation forecast

Food inflation[1] has been on the rise again over the past year, reaching 4.9% in July, from 1.3% in August 2024.

We have updated our forecast, projecting inflation to climb to 5.7% by December 2025. This represents a sharper increase than we anticipated in March, when we forecast food prices would rise by 4.9% in September and 4.8% by December.

Looking further ahead, we expect a gradual easing. For 2026, food inflation is projected to slow, averaging 4.4% across the year and reaching 3.1% by December 2026.

Chart 1: FDF food inflation forecast



Source: ONS and FDF calculations

From a historical standpoint, current food inflation rates are well above long-term trends. During the 1990s, UK food inflation averaged 2.6%, rising slightly to 2.9% in the 2000s, before falling back to 1.6% in the 2010s.

[1] Throughout this document, food prices or inflation refer to prices or inflation for food and non-alcoholic drink

In contrast, in the first half of the present decade, the average food inflation has surged to 5.8%. This represents more than double the pace of the long-term average over the past three decades, underscoring the exceptional nature of recent food price pressures.

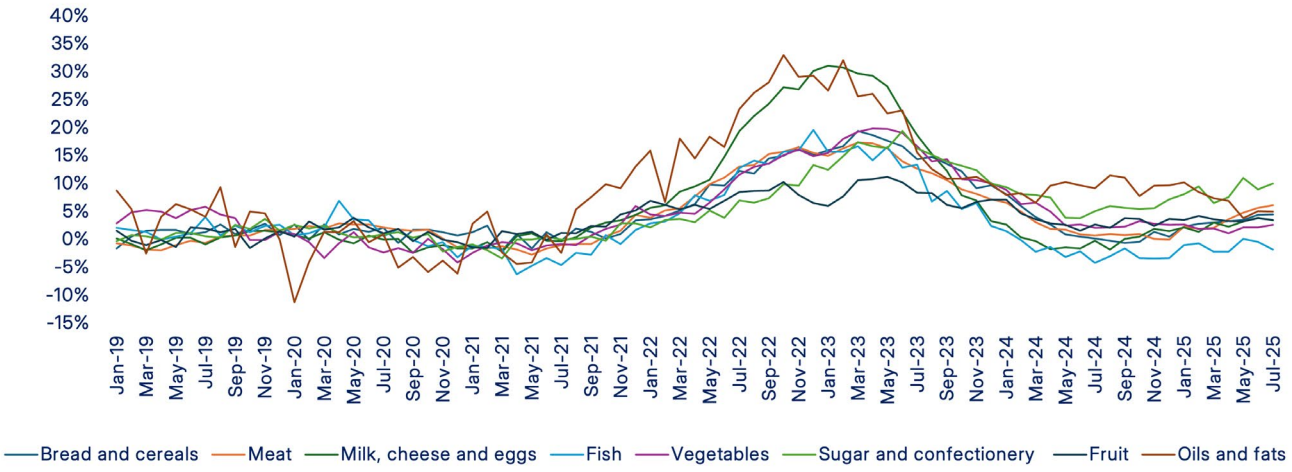
Between 2020 and 2024, UK wages increased by an average of 5.1%. However, because food accounts for a larger share of spending among lower-income households, the gap between rising food costs and wage growth has placed a disproportionate burden on low income families.

Broader context

UK food inflation

Between January 2020 and July 2025, food and non-alcoholic drink prices rose 37%, compared with 28% for overall UK inflation. Within food, categories such as 'milk, cheese, and eggs' and 'oils and fats' have seen the steepest increases (Chart 2).

Chart 2: Food inflation by category, year on year rates



Source: ONS

At the product level, olive oil prices more than doubled, while eggs, butter, and yoghurt rose by 57%, 53%, and 50%, respectively (Table 1).

Table 1: Change in prices between January 2020 and July 2025

Food & non-alcoholic drink	**37%**
UK	**28%**
Olive oil	118%
Eggs	57%
Butter	53%
Yoghurt	50%
Milk	46%
Cheese	36%
Potatoes	33%
Coffee	33%
Bread	30%

Source: ONS

Food inflation is a particularly sensitive issue for society because food is a necessity: households cannot easily cut back on consumption. When prices rise, families are forced to allocate a larger share of their income to food, leaving less for other essentials such as housing, healthcare, education, and savings.

The burden falls especially hard on low-income households who spend a greater proportion of their budgets on food. In 2023–24, the poorest UK households spent an average of £39.2 a week on food and non-alcoholic drinks, compared with £103.70 for the richest households – more than double in cash terms (Table 2). Yet, food accounted for 12.8% of disposable income in the poorest households, compared with just 8.7% for the richest.

Table 2: Average weekly household expenditure for food and energy in sterling and as a percentage of disposable income, by income decile

	All households	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%
Food and non-alcoholic expenditure											
Average weekly household expenditure	£70.50	£39.20	£47.60	£54.20	£61.30	£71.30	£70.20	£76.50	£88.30	£92.90	£103.70
	11.3%	12.8%	15.0%	12.6%	12.7%	12.5%	11.6%	11.0%	11.7%	10.6%	8.7%
Energy expenditure (electricity and gas)											
Average weekly household expenditure	£38.50	£30.60	£29.80	£32.60	£37.60	£71.30	£38.60	£39.90	£41.90	£44.40	£53.00
	6.2%	9.6%	6.9%	6.7%	6.6%	6.0%	5.5%	5.3%	4.8%	3.7%	8.5%

Source: ONS, Family spending in the UK. Data is for fiscal year ending in March 2024

It is also notable that food inflation has placed a greater strain on British families than energy costs. On average, households spent £70.50 a week on food and non-alcoholic drinks, nearly double the £38.50 allocated to energy. This means that rising grocery prices weigh more heavily on family budgets than utility bills.

UK food inflation in comparison to EU inflation

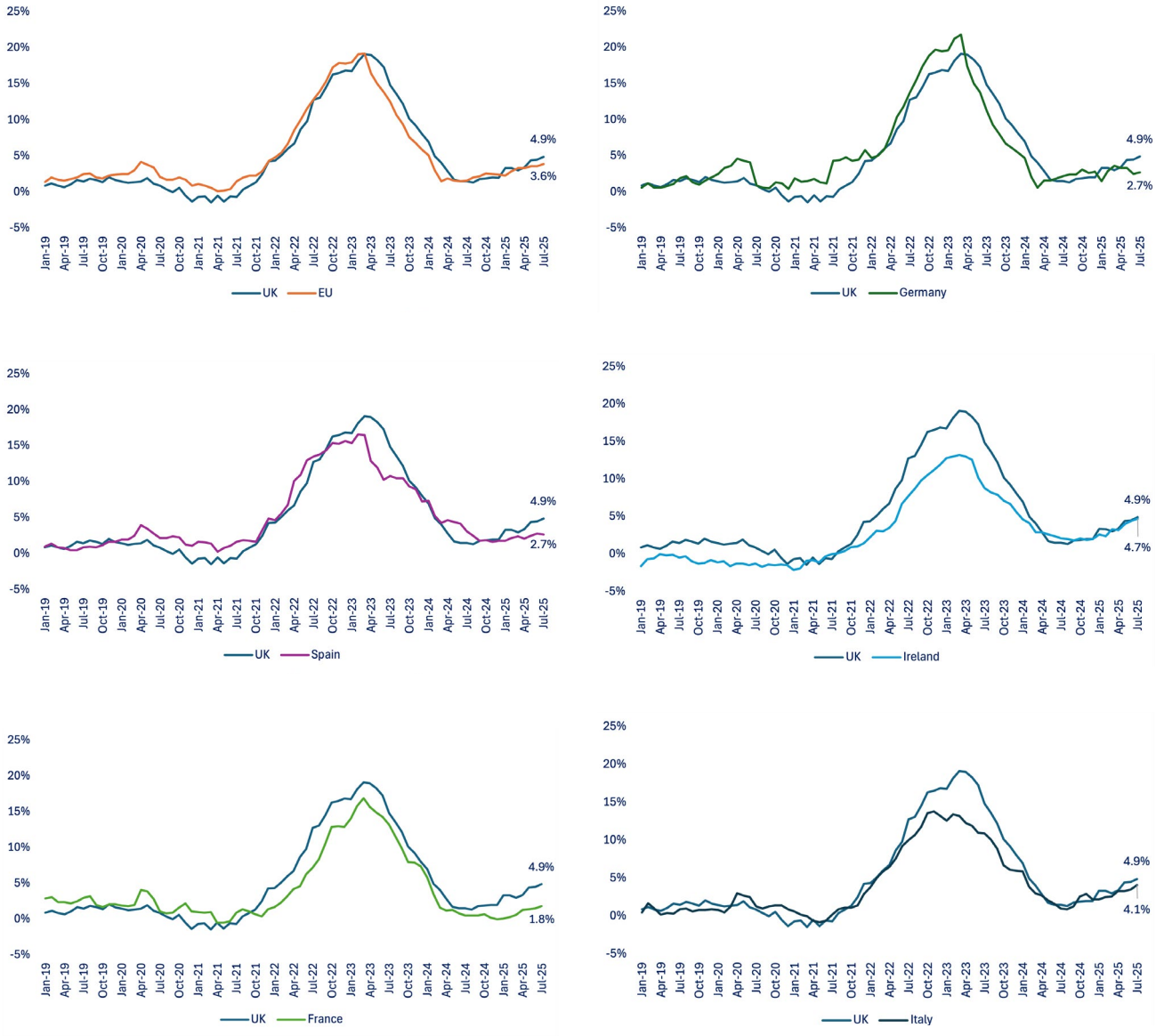
Since 2023, UK food inflation has outpaced that of most comparable European countries.

By July, UK food inflation stood at 4.9%, far higher than in France (1.8%), Germany (2.7%), or Spain (2.8%) (Chart 3). This divergence is driven mainly by:

- **Energy costs:** UK energy prices remain significantly higher than in peer economies, putting British producers and retailers at a clear disadvantage. For instance, in 2023 (the most recent year for which we have data), the UK had the highest electricity prices for industrial users out of 24 countries reporting to the International Energy Association[2]. The industrial electricity price in the UK was 45% higher than in France, 46% higher than in Germany and 93% higher than in Spain[3].

- **Brexit-related trade frictions:** 42% of the food consumed in the UK is imported[4]. New post-Brexit checks have added costs. Import certificates (since January 2024) and full border checks (since April 2024) have raised import prices substantially.

Chart 3: Food & non-alcoholic drink inflation in the UK & selected EU countries



Source: ONS, Eurostat

[2] https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/theimpactofhigherenergycostsonukbusinesses/2021to2024

[3] The industrial electricity price in 2023 in the UK stood at 25.85p/kWh, compared to 17.84p/kWh in France, 17.84p/kWh in Germany, or 13.38/kWh in Spain

[4] https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket#originsof-food-consumed-in-the-uk-2023

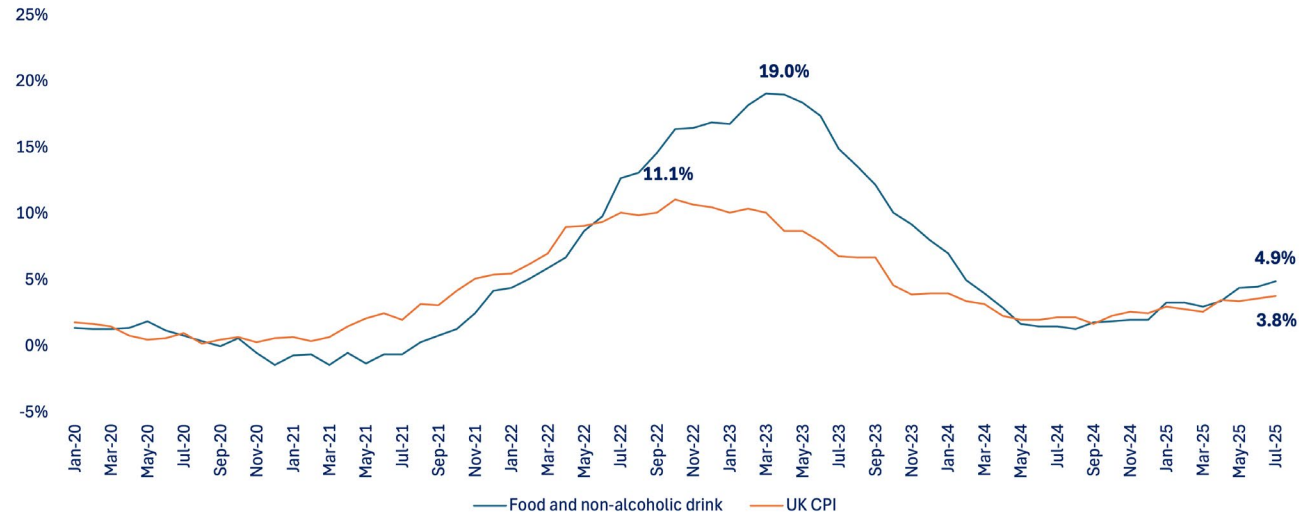
Why is food inflation rising again?

Food inflation peaked at 19.1% in March 2023, before steadily falling to 1.3% by August 2024. Since then, it has climbed up once again. Several factors explain this upward trend:

- **Structural shocks have disproportionately hit food and drink manufacturing**

  Brexit, the pandemic, and the war in Ukraine have had a deeper impact on the industry compared to the rest of the economy. Two clear pieces of evidence support this statement. One is the persistent gap between food inflation and overall UK inflation (Chart 2). The second is the substantially higher growth in insolvency rates in the industry. Insolvency rates in food and drink manufacturing have risen at more than triple the rates of the British economy or the manufacturing sector as a whole over the last three years (Table 3).

Chart 4: Food inflation versus over UK inflation



Source: ONS

Table 3: Growth in insolvency rates

	2022	2023	2024
Great Britain	27%	45%	38%
Manufacturing	15%	36%	31%
F&D manufacturing	100%	138%	107%

Source: The Insolvency Service, gov.uk
Note: Growth in each year is relative to 2019

- **UK demand and exports remain weak**

  This is a serious challenge for a sector built on high volume, low margins. Yet, UK households, squeezed hard by the cost-of-living crisis, are buying 5.8% less food (in volume terms) than in 2019, despite population growth. Export volumes are also down 31.3% compared to 2019.

- **Profit margins have been eroded, limiting further cost absorption**

  Between 2020 and 2022, manufacturers absorbed a large share of the cost rises rather than passing them to consumers. These eroded margins and left the sector less able to cushion renewed cost pressures.

- **The profile of cost pressures has shifted**

  Earlier inflationary spikes were driven by sharp rises in energy and agricultural inputs. Between 2020 and 2023, global agricultural prices rose by 51% and UK gas prices have quadrupled (Table 2). In addition, the cost of all other production factors have increased over the period, including packaging, transportation and labour. However, the cost of ingredients and energy started falling in 2024.

Table 4: Yearly changes in the average cost of global agricultural commodity, daily UK gas rates and minimum wage rates

	Global agricultural prices	Daily gas prices	Minimum wage rates
2020	+3%	-25%	6.2%
2021	+28%	+352%	2.2%
2022	+15%	+157%	6.6%
2023	-14%	-44%	9.7%
2024	-2%	-12%	9.9%
2025 (Jan-Jun)	+7%	+41%	6.7%

Source: UN FAO prices, ONS, System Average Price of gas

- **Food production is highly energy-intensive**

  Rising energy costs have placed exceptional strain on the sector. Table 3 highlights the UK's 20 most energy-intensive subsectors, two of which are in food manufacturing – ranked 6th and 17th. Notably, the production of vegetable and animal oils and fats is more energy-intensive than the manufacture of iron, basic metals, or even cement.

Table 5: Top 20 most energy-intensive UK industries

Rank	Industry	% of gross output
1	Electric power generation, transmission & distribution	**54.3%**
2	Manufacture of gas; distribution of gaseous fuels	**47.8%**
3	Manufacture of industrial gases, inorganics & fertilisers	**11.1%**
4	Water collection, treatment & supply	**4.2%**
5	Manufacture of petrochemicals	**3.7%**
6	**Manufacture of vegetable & animal oils and fats**	**3.6%**
7	Manufacture of dyestuffs, agro-chemicals	**3.4%**
8	Manufacture of paper and paper products	**3.3%**
9	Manufacture of glass, clay, porcelain, ceramic & stone	**3.2%**
10	Accommodation	**3.2%**
11	Manufacture of basic iron and steel	**3.1%**
12	Other mining and quarrying	**2.9%**
13	Manufacture of other basic metals and casting	**2.7%**
14	Manufacture of cement, lime, plaster and articles	**2.6%**
15	Manufacture of rubber and plastic products	**2.6%**
16	Sports activities and amusement & recreation activities	**2.3%**
17	**Manufacture of bakery and farinaceous products**	**2.2%**
18	Libraries, archives, museums & other cultural activities	**2.2%**
19	Rail transport	**2.1%**
20	Retail trade, except of motor vehicles and motorcycles	**2.1%**

Source: ONS, The impact of higher energy costs on UK businesses: 2021 to 2024

Note: Energy intensity is measured by the total intermediate consumption of gas and electricity as a proportion of total output for each industry. This measure of energy intensity is based on an average over 2017 to 2019, when gas and electricity prices were relatively stable

- **Some commodity prices have spiked**

  Prices of cocoa, coffee, sugar, butter, beef, and olive oil have risen sharply since 2024, pushing up production costs. However, some of these prices have now started to stabilise or decline and some companies have already changed recipes to avoid the high costs.

Regulation as a major inflation driver

While cost pressures from "traditional" drivers have eased, government regulation has now become the main driver of food inflation. While there are many new regulatory costs that have come into force or are planned, to highlight a few:

- **Labour costs**

  Changes to regulation on labour costs impacts the entire food supply chain, which means that this will have a threefold impact on food inflation, as farmers, food manufacturers, and retailers are impacted. The National Minimum Wage rose 69.6% between 2016–2025, far outpacing the UK-wide average. While food manufacturing employs relatively fewer minimum-wage workers, retailers heavily depend on them. Increases in minimum wages also push up all other wages. Changes to employer National Insurance Contributions have added £410m in costs to food manufacturing and £5bn to retail, according to estimates from the British Retail Consortium.

- **Upcoming labour reforms**

  The Employment Rights Bill, which will come into effect in 2026 and 2027, is set to raise labour costs significantly. Moreover, this bill will reduce businesses' flexibility to respond to changing circumstances, possibly limiting the industry's future resilience.

- **Packaging rules**

  The Extended Producer Responsibility (EPR) scheme will add an estimated £1.1bn in costs for food and drink businesses from October 2025. The Deposit Return Scheme (DRS), due in 2027, will add more.

- **Trade frictions**

  Brexit has meant that trading with the EU, the largest trading partner for food and drink manufacturing, has become significantly more expensive. New import checks and certification requirements since 2024 have raised import costs significantly. The industry is expected to have paid at least £23.06m in the year to April 2025 for the operating costs of border control posts (through the Common User Charge). In addition, companies have to pay a Port Health fee ranging between £10 – 500/ tonne, depending on the health risk of the imported products and an inspection fee and laboratory fees for selected products of medium health risk (e.g. meat, milk, fish, honey).

  On the export side, it's estimated that export certificates have been costing the industry £60m a year starting with 2021, in addition to inspections fees paid to the EU.

- **Sector-specific levies**

  The uprating of the Soft Drinks Industry Levy (SDIL) will add £290m between 2025–2030[6], while further changes, including a wider scope for the Levy, will add more pressure.

[6] https://www.gov.uk/government/publications/increasing-the-rates-of-the-soft-drinks-industry-levy/soft-drinks-industry-levy-uprating

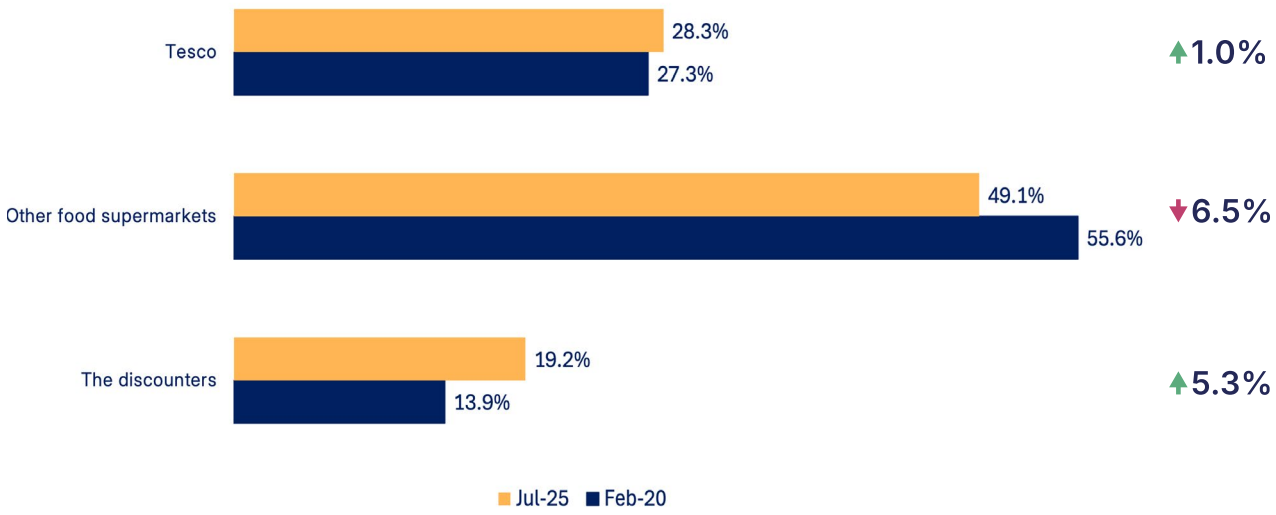
Risks to the forecast

Potential drivers of lower inflation

- **Retail price wars**

  The UK grocery sector has been locked in an intense price war for nearly a year. Shoppers have increasingly shifted toward cheaper products, enabling discount grocers to expand their share of the market by 5.9% since 2020 (Chart 5). In response, traditional retailers have adopted aggressive price-matching strategies to hold on to customers. This competitive pressure has left food manufacturers with nowhere to pass on their rising costs. The challenge is especially acute for smaller producers of own-label goods, who often work under short-term contracts with retailers. Lacking bargaining power in price negotiations, they are forced to absorb more of the inflationary burden themselves.

Chart 5: Grocery market share, Great Britain



Source: Kantar. "Other food supermarkets" category includes Asda, Coop, Iceland, Morrisons, Sainsbury's, Waitrose and Ocado, while "The discounters" includes Aldi and Lidl

- **Operational efficiencies**

  Further gains from supply chain restructuring or product portfolio adjustments could moderate inflation, though most of these efficiencies have already been realised.

Potential drivers of higher inflation

- **Climate impacts**

  The climate crisis is a growing source of volatility. As global heating accelerates and the wider crisis of nature deepens, food production worldwide faces intensifying systemic shocks. Climate stressors are increasingly destroying crops and disrupting harvest cycles. In the UK, farmers are preparing for a second consecutive year of poor harvests. Prolonged dry weather and depleted soil moisture are already undermining yields across a range of crops. Wheat production alone is projected to be around 9% below the 10-year average.

- **Geopolitical tensions**

  Global trade tensions and tariffs could raise costs to UK manufacturers indirectly, although the US has not targeted UK food directly. For example, the US is the world's largest consumer and processor of coffee. With tariffs on coffee exporters, the global coffee price changes, not just the US price.

  For multinational producers, investment and resource allocation decisions in the UK are also shaped by broader company strategies. One manufacturer noted that it operates plants in two countries exporting to the US; when tariffs were applied unevenly, production shifted to the lower-tariff country. Such adjustments are costly and weigh on the company's overall finances. If these global pressures prove deeper or broader than expected, they could drive UK food prices higher than currently anticipated.

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