State of Industry Report

Q1 2025

fdf

Executive summary

- The UK food and drink manufacturing industry is under intense pressure, caught between relentless cost increases, a wave of new regulations and weakening consumer demand, with little ability to pass on higher prices.
- The confidence in the food and drink manufacturing remains significantly depressed, standing at -43% in Q1 2025 compared to -47% in Q4 and -6% in Q3.
- The top priority for food and drink manufacturers remains increasing domestic sales, with 65% of respondents focusing their efforts on this area.
- The outlook for investment remains stable: around 80% of manufacturers plan to maintain or increase investment in the next year. By investment type, half of them intend to invest more in plant and machinery to drive automation.
- Labour shortages in the sector rose in Q1, with the vacancy rates now at 3.9% from 3.6% in Q4 2024. This is considerably higher than vacancy rates in broader manufacturing (2.1%) and the UK overall (2.4%).
- Between April 2024 to March 2025, pay in the industry is estimated to have risen by 2.9%. This is up from 6.0% the previous year, but below last year's anticipated rise of 4.7%.
- For the year to March 2026, manufacturers expect their costs to rise by 4.8% and prices by 2.8%, on average.
- Packaging EPR fees are expected to drive up food prices.

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Read more from **FDF business insights and economics**

Prices dashboard

Agricultural raw materials	
Sunflower oil ($/mt)	▼ - 3.7%
Rapeseed oil ($/mt)	▼ - 2.6%
Palm oil ($/mt)	▲ 3.4%
Wheat, US HRW ($/mt)	▲ 2.2%
Maize ($/mt)	▲ 3.1%

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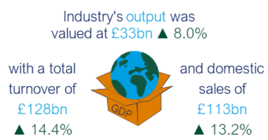


Between a rock and a hard place

The UK food and drink manufacturing industry is under intense pressure, caught between relentless cost increases, a wave of new regulations and weakening consumer demand, with little ability to pass on higher prices.

Annual food and non-alcoholic drink inflation has slowed in March to 3.0% from 3.3% in February (Chart 1). Prices fell the fastest for 'rice' (-4.7%) and 'pasta and couscous' (-4.0%), while the following categories saw double -digit rises: 'cocoa and powdered chocolate' (12.5%), 'chocolate' (13.6%), 'lamb and goat' (14.9%) and 'butter' (18.9%).

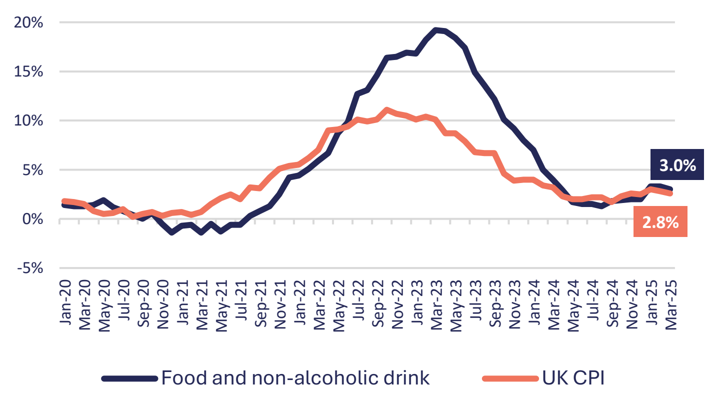
As rises in costs take about seven to twelve months to filter to into retail prices, we expect inflation to accelerate in the coming months. Moreover, manufacturers face a raft of new and upcoming regulatory costs: Extended Producer Responsibility (EPR) is expected to add £1.1bn per year, changes to employer National Insurance Contributions another £410m annually, and higher Soft Drinks Industry Levy rates £290m over five years. In addition, minimum wages have risen, new EU trade measures on imports are costlier, and the Employment Rights Bill and the Deposit Return Scheme (DRS) will also impose additional costs.

The food and drink manufacturing business model is low margin high volume. With the cost of living crisis continuing (87% of the British public believes that the most important issue facing the UK today is the cost of living crisis) and demand seeing a persistent fall since the start of the pandemic, this is taking a toll and resilience has been running thin.

Insolvencies in food and drink manufacturing have more than doubled since 2019, with insolvencies in 2022, 2023 and 2024 far outpacing the rest of manufacturing and the wider economy (Chart 2).

Moreover, the active price war going on between retailers will add to pressures. The cost of living crisis meant that households have shifted to buying cheaper and fewer goods. As a result, the discount grocers have gained significant market share (4.9%) to the detriment of "traditional retailers" (Chart 3). As price matching is a common practice these days, households will benefit. But that means that manufacturers will likely not be able to pass on their cost increase. Which, given the context, will mean more insolvencies in the sector and less investment.

Chart 1: Food and non-alcoholic drink inflation and CPI inflation, March 2025



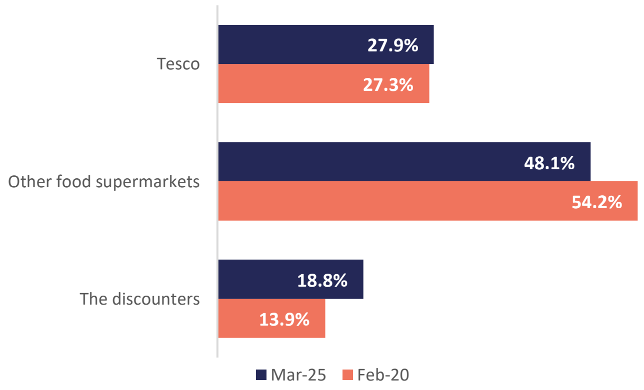
Source: ONS

Chart 2: Growth in insolvencies, compared to 2019

	2022	2023	2024
Great Britain	27%	45%	38%
Manufacturing	15%	36%	31%
Food and drink manufacturing	100%	138%	107%

Source: The Insolvency Service, gov.uk

Chart 3: UK grocery market shares



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

Business confidence stuck in the doldrums

The confidence in the food and drink manufacturing remains significantly depressed, standing at -43% in Q1 2025 compared to -47% in Q4 and -6% in Q3 (Chart 4).

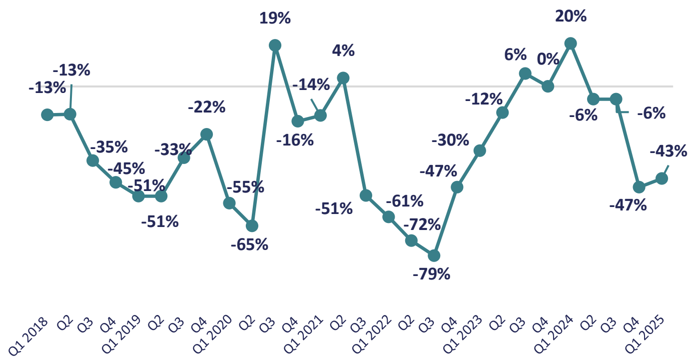
It's no surprise that manufacturers failed to find reasons for optimism. In April they saw their labour costs rising substantially, with both higher minimum wages and higher Employer NICs contributions coming into effect. We estimate that the change to the Employer NICs (higher rates and lower threshold) will cost the industry an additional £410m per year. A food manufacturer would have to pay an additional £870, on average, per employee per year, and a drink manufacturer an additional £949. And this comes against a stalling UK economy and heightened geopolitical uncertainty.

The FDF net confidence score is calculated as the difference between respondents who perceive business conditions have improved in Q1 compared to Q4 and respondents who believe conditions have deteriorated. Businesses that saw conditions unchanged are therefore excluded from this calculation. In Q1, over half of businesses (55%) said conditions deteriorated from the previous quarter and a third of businesses perceived conditions to be similar.

Perceptions of market conditions in Q1 were broadly similar between all business sizes, with over 40% of each group size reporting a deterioration (Chart 5). 60% of large manufacturers saw conditions remain the same compared to Q4, while 18% of SMEs saw an improvement. Mid-size manufacturers had the lowest net confidence score once again at -44%. Large businesses reported a score of -40% and smaller businesses of -41%.

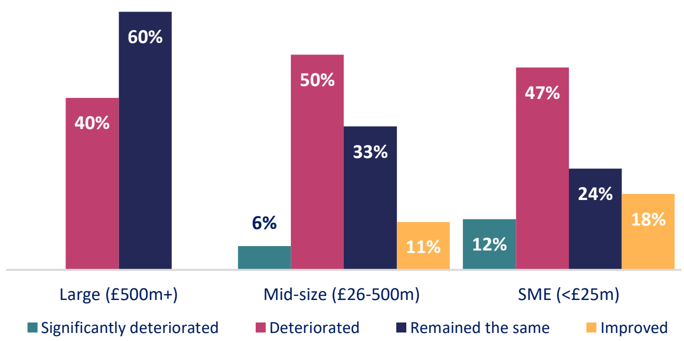
A fifth of businesses (20%) are expecting an improvement going into Q2, increasing the outlook score to -13%, up from -35% the previous quarter. A third (33%) of businesses are expecting worse conditions in Q2. Small businesses have the lowest outlook score at -29%, with both large and mid-size businesses having an outlook score of 0% (Chart 6).

Chart 4: FDF net confidence score



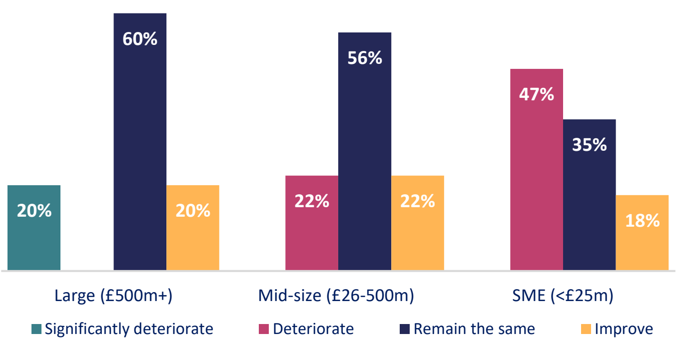
Source: FDF State of Industry Survey

Chart 5: Business conditions in Q1 2025 compared to Q4 2024, by business size



Source: FDF State of Industry Survey
Note: No business chose the option of 'Significantly improved', although this choice was offered.

Chart 6: Outlook confidence -- expectations of market conditions in Q2 compared to Q1, by business size



Source: FDF State of Industry Survey
Note: No business chose the option of 'Significantly improved', although this choice was offered.

Growing UK sales is top priority for the industry

As in the previous quarters, the top priority for food and drink manufacturers remains increasing domestic sales, with 65% of respondents focusing their efforts on this area (Chart 7). This focus is understandable given recent industry challenges. Over the past few years, profit margins have been squeezed: between 2019 and 2024, retail prices for food and non-alcoholic drinks rose by 31%, while industry costs, excluding labour, regulatory, and finance costs, increased by 33%. As a result, manufacturers have absorbed much of these cost increases. At the same time, the volume of retail food and drink sales is now 6% lower than in 2019, and food export volumes have dropped by an average of 19% between 2020–2024 compared to 2015–2019. By company size, 60% of large firms and 76% of small firms identified growing UK sales as their main priority, suggesting that smaller businesses are under greater pressure.

There is also significant interest in export growth, with 23% of respondents aiming to boost overseas sales (noting that not all businesses currently export).

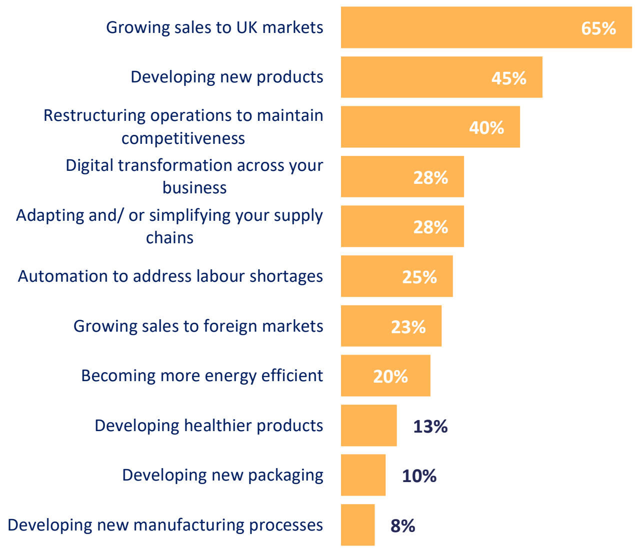
Product innovation is the sector's second-highest priority, with 45% of manufacturers focused on developing new products. This aligns with the goal of increasing sales, as new or reformulated products-especially those with reduced fat, sugar, or salt-can help attract more customers. Similarly, 40% of businesses list restructuring operations to stay competitive as their third priority, which is key to managing ongoing cost pressures.

For the longer term, the determinant of industry health is investment. The outlook for investment remains stable: around 80% of manufacturers plan to maintain or increase investment in the next year (Chart 8). By investment type, 50% intend to invest more in plant and machinery, which would increase automation, and 23% plan to boost spending on skills and training, recognising that more automation requires a more skilled workforce.

When asked about the impact of recent government policy changes (such as NICs, National Minimum Wage, and EPR fees) on capital investment, 54% of businesses said they plan to focus on automation (Chart 9). This emphasis varies by company size: 20% of large companies, and 59% of both mid-sized and small companies, are prioritising automation. Larger manufacturers are often already highly automated, so there is less room for further automation compared to SMEs, where automation is less widespread.

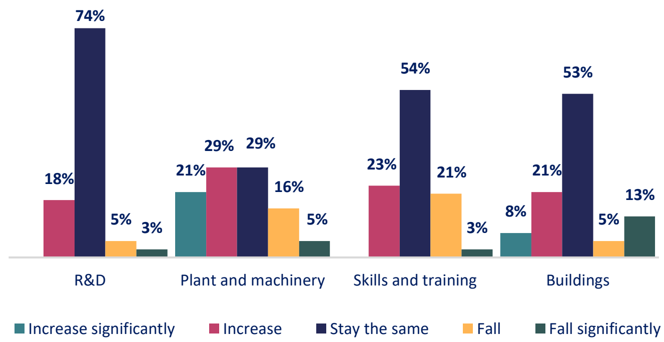
Finally, 13% of manufacturers plan to cancel planned investments to cover regulatory costs. This includes 18% of mid-sized and 12% of small companies, but no large firms-reflecting the fact that SMEs are more likely to face financial constraints.

Chart 7: Top three growth priorities



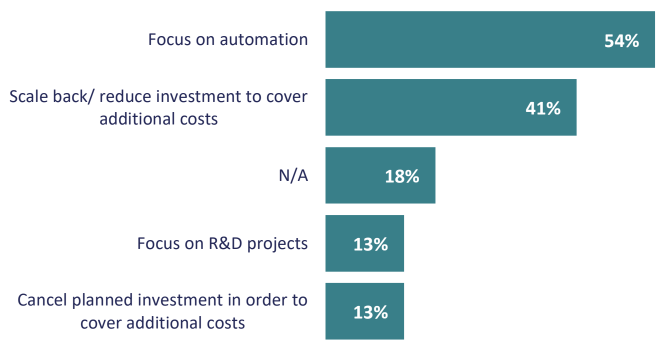
Source: FDF State of Industry Survey

Chart 8: Expectations of planned capital investment expenditure over the next 12 months to March-26



Source: FDF State of Industry Survey

Chart 9: How will recent government policy announcements (eg: NICs, National Minimum Wage and EPR fees) impact your capital investment decisions over the coming year?



Source: FDF State of Industry Survey

Industry’s vacancies outpace the national average

Labour shortages in the sector rose in Q1, with the vacancy rates now at 3.9% from 3.6% in Q4 2024 (Chart 10). This is considerably higher than vacancy rates in broader manufacturing (2.1%) and the UK overall (2.4%).

82% of manufacturers reported vacancies of up to 5%. SMEs faced the most significant recruitment challenges, averaging a 4.8% vacancy rate, compared to 4.3% for large companies and 3.0% for mid-sized businesses.

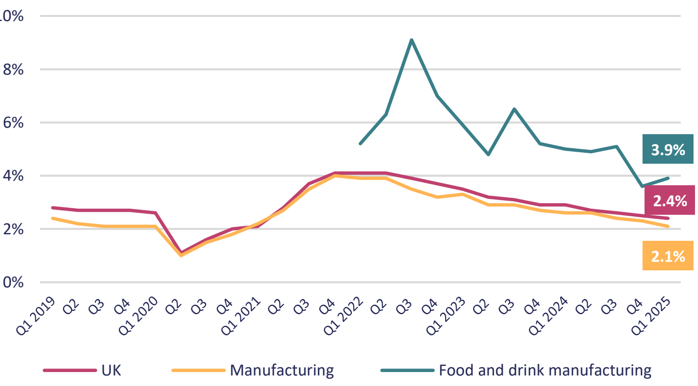
These shortages affect a broad spectrum of roles, from production and warehouse operatives to skilled machine operators, quality assurance, project management, sales, and engineering positions.

The increase in employer National Insurance contributions and minimum wage rates at the start of April has further driven up labour costs, with the Employment Rights Bill expected to add more pressure. The National Living Wage increased by 6.7% in April 2025, following record rises of 9.8% in April 2024 and 9.7% in April 2023. While food and drink manufacturers typically pay above the minimum wage, increases at the bottom end tend to push up wages across the board.

Between April 2024 to March 2025, pay in the industry is estimated to have risen by 2.9%. This is in addition to the 6.0% rise [the previous year](), but below last year’s anticipated rise of 4.7%. Over half (54%) of businesses raised pay by up to 4%, 30% increased pay by 4-8%, and 11%-all small businesses-offered no pay rises at all (Chart 11). By company size, large firms raised pay by 2.6%, mid-sized by 3.2%, and small businesses by 4.4%, highlighting that smaller firms must offer higher increases to stay competitive, though some struggle to afford this.

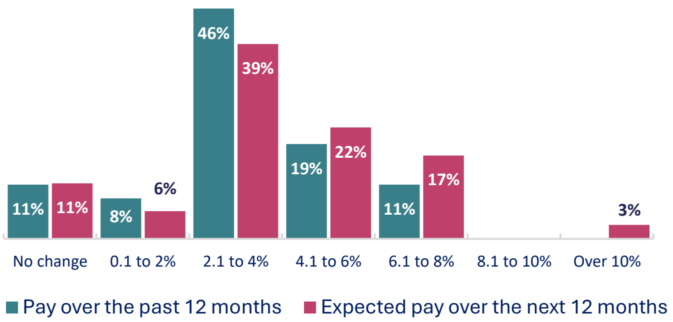
Looking ahead, the sector expects pay to rise by another 2.4% over the coming year, aligning with historical averages and reflecting the limited resources available amid ongoing cost pressures. Despite these challenges, some manufacturers have prioritised maintaining pay differentials (52%), while a significant proportion (42%) have reduced them (Chart 12). Automation is increasingly viewed as a solution to both labour shortages and rising labour costs.

Chart 10: Vacancy rate in UK, manufacturing and food and drink manufacturing *(vacancies per 100 employees)*



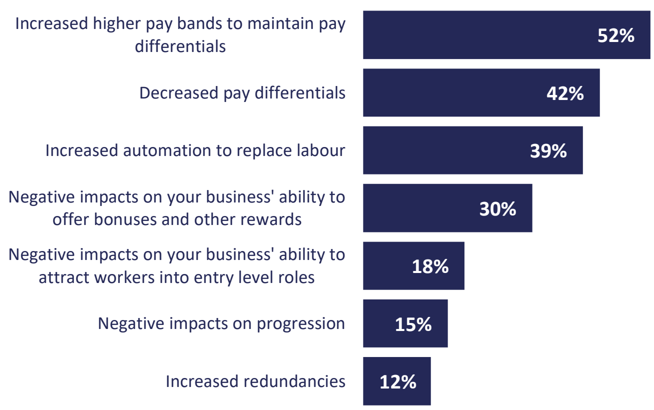
Source: FDF State of Industry Surveys and ONS

Chart 11: Pay rises in the industry



Source: FDF State of Industry Survey

Chart 12: What have been the impacts of the rise in labour costs?



Source: FDF State of Industry Survey

New packaging fees will push up food prices

On average, total production costs are reported to have increased by 4.5% over the year to March, while selling prices rose by 2.7%.

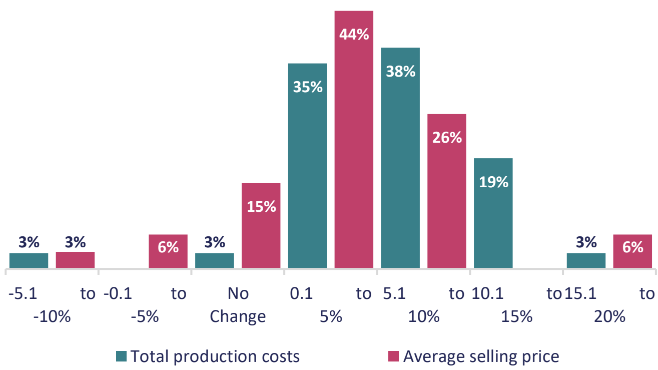
Cost rises of over 10% were still experienced by 22% of manufacturers, a significant increase from the 9% in the previous survey. In contrast, costs fell for only 3% of respondents (Chart 16). SMEs saw the highest cost increases with an average of 5.6%, compared to 4.5% and 4.4% for large business and mid-size businesses, respectively.

In terms of prices, just over three-quarters (76%) increased their average selling price by less than 10%, down from 98% in Q4. 44% of businesses had their prices increase by 0.1 to 5%.

For the year to March 2026, manufacturers expect their costs to rise by 4.8% and prices by 2.8%, on average. Notably, half (50%) of manufacturers expect production costs to increase by 0.1 to 5% and 54% expect the same range of increases for their prices. (Chart 17).

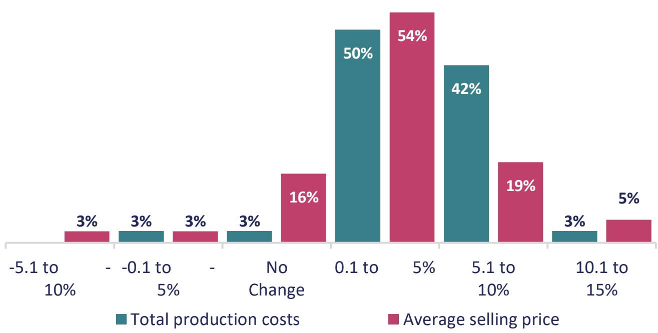
A significant driver of future costs is regulation. The upcoming packaging EPR fees are estimated to cost the industry £1.1bn per year. This will result in higher consumer prices, as costs are so high that some manufacturers will end up operating at a loss (3%), while others will divert investment resources to cover these fees (19%) (Chart 18). 87% of manufacturers will pass on, in part or fully, the EPR packaging fees. 45% expect to see lower profits. Also, 19% expect to shift to cheaper packaging materials to mitigate cost impacts, with implications on sustainability.

Chart 16: Changes in total production costs and average selling price over the year to March 2025



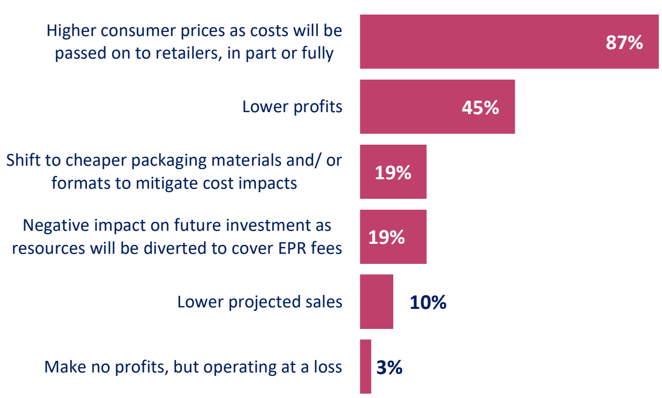
Source: FDF State of Industry Survey

Chart 17: Expected changes in total production costs and average selling price over the year to March 2026



Source: FDF State of Industry Survey

Chart 18: What impact will packaging EPR fees have on your business?



Source: FDF State of Industry Survey

Who responded?

There was strong representation from the industry, with companies from all turnover bands, all employment sizes and from a wide range of industry sub-sectors.

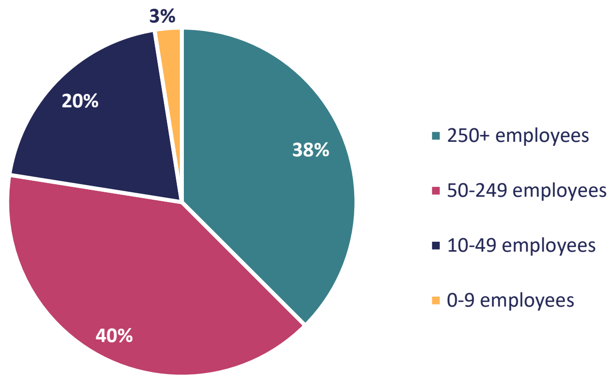
Over a third (38%) of the businesses surveyed are large employers with more than 250 employees, while 40% are businesses with 50-249 employees, and 20% small businesses with 10 to 49 employees (Chart 19).

By turnover, over two-thirds (68%) of respondents are businesses with a turnover of £50m or less, while 5% are businesses with a turnover exceeding £1bn (Chart 20).

Businesses also represent a wide variety of sectors (Chart 21). The best represented ones were bakery, ingredients, and confectionery. The 'Other' category covers businesses operating in sectors such as snacks, cereals, chilled goods, alcoholic drinks and organic ambient grocery among others.

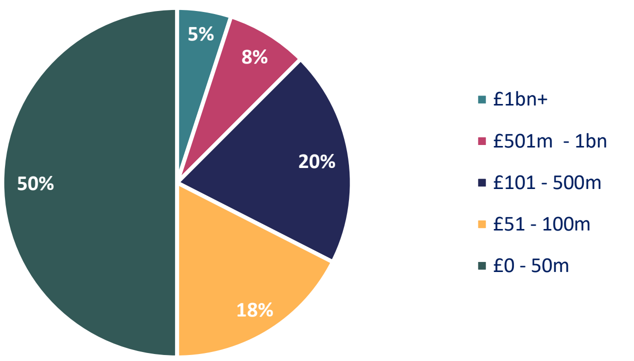
59% of manufacturers operate in England, while just under a quarter (24%) have production facilities located in Scotland and 6% in Wales.

Chart 19: Respondents by employment size



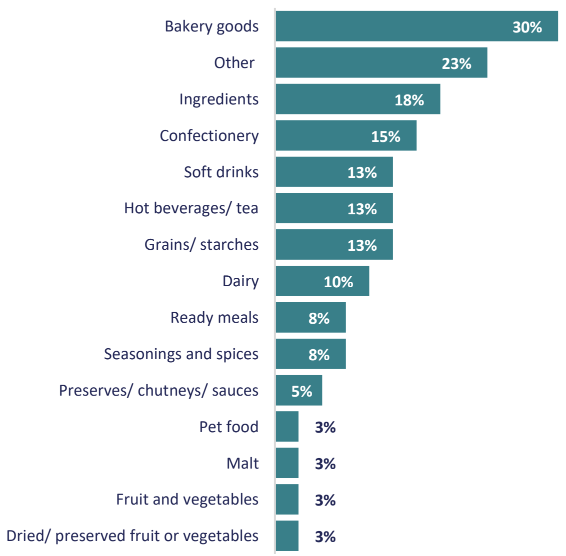
Source: FDF State of Industry Survey

Chart 20: Respondents by turnover



Source: FDF State of Industry Survey

Chart 21: Respondents by sub-sector



About the FDF

The FDF is a powerful voice for the UK's vibrant, resilient and diverse food and drink manufacturing industry. For over 100 years, we have successfully contributed to policy making and legislative development, championing our members' views – large and small – on the critical issues of the day.

We bring together business, government and stakeholders to ensure our manufacturers have the right conditions to grow, invest and employ, while continuing to produce high quality, nutritious and affordable food and drink. With more than 1,000 members – from the most recognisable global brands to the most innovative start-ups – we represent the largest manufacturing sector in the country.

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