

# State of Industry Report Q1 2026

fdf



# Executive summary

- The conflict in Iran unleashed the worst energy crisis in history, worse than the previous crises of 1973, 1979 and 2022 combined, according to the International Energy Agency.
- With Gulf economies now deeply embedded in the global food system, the industry is facing another major external shock.
- For now, this crisis is about higher costs, not shortages. Energy, transport, plastic packaging and cleaning chemical costs have risen sharply, while supply chains have been disrupted.
- Food and drink is the manufacturing industry with the largest energy consumption. Many businesses remain partially protected by existing energy hedges, but coverage declines into late 2026–27.
- Higher inflation is unavoidable. We forecast food inflation will reach 9–10%. Yet maintaining market share remains the industry’s top priority (82%). But fragile household finances leave little room to pass through rising costs.
- Government support with energy costs would be the most effective policy intervention to ease pressure on industry (69%). As a critical security industry, food manufacturing should be included in the British Industrial Competitiveness Scheme, alongside automotive and aerospace manufacturing.
- The industry confidence is in freefall, reaching levels comparable to those seen in the pandemic.
- Rising labour costs continue to accelerate automation (53%), while negatively affecting

bonuses (47%) and pay differentials (36%). The sector vacancy rate fell to 3.9% in Q1, down from 5.0% in Q4.

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### [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%

### [Inflation](#)



### [Trade snapshot](#)



### [Industry facts and stats](#)

Industry's output was valued at £33bn ▲ 8.0%

with a total turnover of £128bn ▲ 14.4%

and domestic sales of £113bn ▲ 13.2%

# The worst energy crisis

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**The conflict in Iran unleashed the worst energy crisis in history**, worse than the previous crises of 1973, 1979 and 2022 combined, according to the International Energy Agency (IEA). Not only is the size of the crisis unprecedented, but so too is the context in which it is unfolding. This is the fourth structural shock to hit the industry in less than a decade, following Brexit, the pandemic and the war in Ukraine.

The scars of these previous shocks have not yet healed. The number of businesses in the industry has been declining for the past two years, many food and drink manufacturers are yet to rebuild their margins, and household finances are strained, while the regulatory burden remains substantial, with more on its way. As a result, from a cost perspective, resilience is running thin.

**The Gulf economies have come to play a key role in the global economy and the global food system.**

About 20% of the global oil supply comes from the Gulf. The region is a major producer of key inputs: around 20% of global liquefied natural gas, 30% of urea and 20% of ammonia and phosphate fertilisers, 15–20% of polymer production, and about 9% of aluminium output, as well as critical chemicals. The region is also central to global food trade flows, with extensive port, warehousing and processing infrastructure.

**Financial markets appear to be underpricing the risks of the war.** Historically, markets have a poor record of pricing structural shocks. At the time of writing, the oil price was around \$100 per barrel, a level that does not appear to reflect the underlying supply disruption. The oil shock to date has been substantial. The IEA puts the oil deficit at around 6m barrels per day (b/d), while other market analysts place it between 8 and 13m b/d. The difference reflects the difficulty of assessing how sharply global demand has fallen and the extent to which commercial inventories have been drawn down.

By comparison, the deficit when the Ukraine invasion happened was of 3m b/d, yet oil prices peaked at \$129 per barrel in 2022 versus a peak of \$118 on 30th of April 2026. To absorb the shock, emergency reserves have been released and commercial inventories significantly depleted.

**Market traders seem to believe the conflict is temporary** and the flows of goods from the Middle East will restore quickly once an agreement is

reached. This is highly unlikely. Restoring normal activity is not as simple as flipping a switch. Oil wells shut because of storage constraints are expected to take four to five weeks to restart.

Meanwhile, dozens of refineries, pipelines, gas plants, aluminium facilities, ports and other energy infrastructure across the Middle East have been damaged by missile and drone strikes. Repairs are likely to take up to a year because of long lead times for critical equipment. For the part of the Qatari gas plant heavily damaged (producing 3% of global gas output), recovery could take three to five years.

Maritime trade flows will take at least four months to recover. Ships that previously serviced Gulf routes have already been redeployed elsewhere, so they'll need to complete their journeys. The IEA estimates that, if the conflict ends by early June, global oil production will not be sufficient to meet demand until October 2026. That implies oil stockpiles will continue to decline for most of the year, while replenishing reserves depleted since February will take considerably longer.

**The full economic impact of the conflict on industry, households and the wider UK economy will ultimately depend on both its duration and intensity.** However, another wave of inflation is now ahead of us.

**For the industry, for now, this crisis is about higher costs, not shortages.** The conflict is increasing costs of transportation, energy and commodities. Diesel prices have risen by around 40%, road transport by 20–25%. Shipping costs have increased due to higher fuel prices and war-risk premiums, while vessel rerouting and container shortages have brought supply chain disruptions, causing delays of four to six weeks for some products.

While many businesses remain partially protected by existing energy hedges, exposure risks are increasing as coverage declines into late 2026–27. Forward energy contracts are already 20–25% higher, with unhedged positions facing steeper increases.

Commodity markets are also tightening. Prices for plastics, packaging materials, aluminium and chemicals are rising sharply, while fertiliser costs are up by 40–50%, increasing risks to future crop yields and planting decisions. Some producers supplying the Middle East have also delayed or cancelled shipments to the region due to operational disruption.

# A new shock before recovery

Food and non-alcoholic drink inflation slowed to 3.0% in April, from 3.7% in March, while UK-wide inflation also eased to 2.8% from 3.3% (Chart 1).

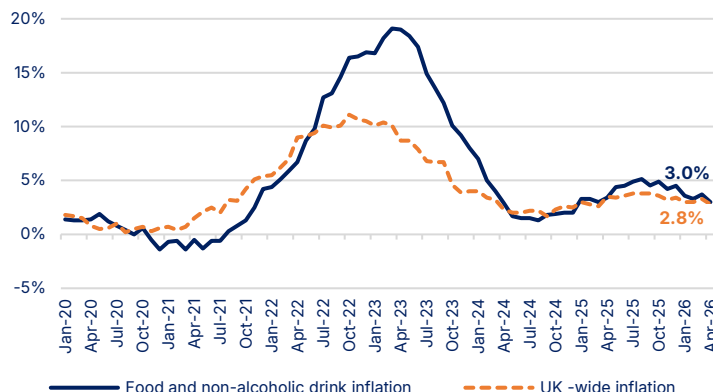
However, this easing is just the calm before the storm. Cost pressures are building, but they are not yet fully reflected in retail prices because of how pricing works in the food industry. Manufacturers typically buy agricultural commodities, packaging, and energy under long-term contracts, and they also operate through agreements with retailers. As a result, it can take up to a year for cost changes to be reflected in retail prices. For more details, read our [Understanding UK food inflation report](#).

On 1 April, we revised our food and non-alcoholic drink [inflation forecast](#) to 9-10% for December 2026, up from 3.2% in our September 2025 forecast. The [Bank of England expects](#) food inflation to reach 4.6% by September and 6-7% by the end of the year. Given the current stalemate in US-Iran negotiations, we believe this may be optimistic.

At present, this is an energy crisis. Energy (gas, electricity and fuel) is embedded in every stage of food production, which means energy will impact food prices directly through its impact on food manufacturers, and indirectly by pushing up costs at every stage of the supply chain. Moreover, food manufacturing is energy-intensive. Key processes include baking, boiling, pasteurising, refrigeration, and packaging. Energy also impacts farming, fertiliser production, processing, transport, and retail refrigeration. Unsurprisingly, food and drink is the manufacturing industry with the largest energy consumption, higher than in chemicals or car manufacturing (Chart 2).

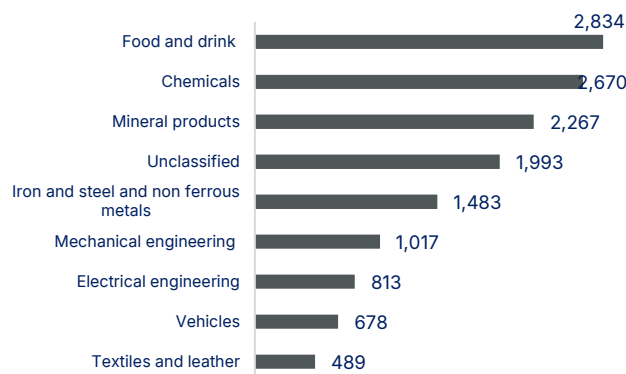
This comes at a time when the industry and households alike have not fully recovered from the previous inflation shock. Food sales volumes remain 7% below pre-pandemic levels (Chart 3), which means protecting market share remains the key priority for the industry. The question is how households will respond to the next round of inflationary pressures. In the past, consumers have often smoothed the impact by reducing savings, but conditions today may be less supportive. Inflation uncertainty remains elevated, and the labour market is weaker than in previous years, with higher unemployment and lower vacancies. The sector faces a difficult balance between rising costs and limited room to pass them on.

**Chart 1: Food and non-alcoholic drink inflation and CPI inflation, April 2026**



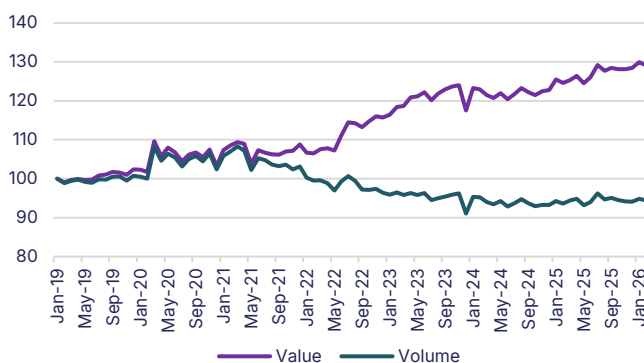
Source: ONS

**Chart 2: Total energy consumption, by industry, 2024**



Source: DESNZ, [Final Energy Consumption](#) (Final Energy Consumption Tables, Table C3.1)

**Chart 3: Food retail sales**



Source: ONS

# Higher inflation is unavoidable

The conflict in Iran is a significant challenge for the industry. To manage the expected cost pressures, businesses are pursuing a range of responses (Chart 4). The most common approach, cited by 82% of firms, is to raise prices, indicating that the impact will be felt across the supply chain. Other planned measures include changing procurement strategies (44%), reducing marketing expenditure (33%), restructuring the workforce (33%), and cancelling or pausing investment (26%). The "Other" category includes cost savings in other areas and operational efficiency improvements.

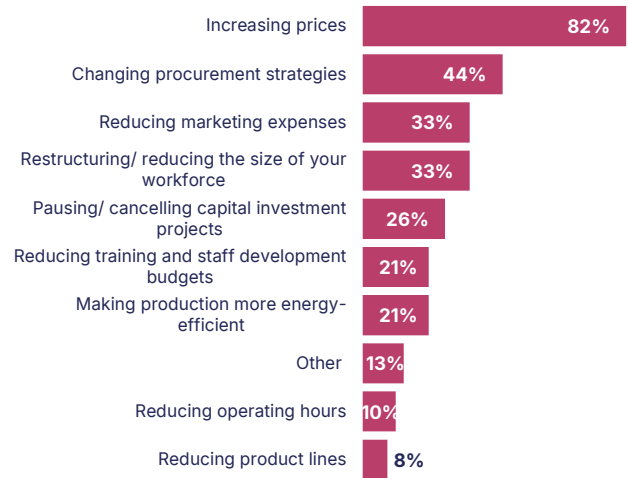
Notably, only 21% of manufacturers plan to make production more energy efficient. This suggests that the crisis is crowding out investment that could strengthen the sector's long-term resilience.

When asked which government policies would best support the industry by easing cost pressures, the most frequently cited measure was support for energy costs, selected by 69% of respondents (Chart 5). This is unsurprising given that the sector has the highest energy consumption amongst UK manufacturing industries. However, it is excluded from the upcoming British Industrial Competitiveness Scheme (BICS), while car and aircraft manufacturing are included.

Other measures viewed as helpful include scrapping Producer Responsibility Notes (38%), phasing in certain provisions of the Employment Rights Act (33%), and allowing capital expenditure to be included in R&D tax credits (33%).

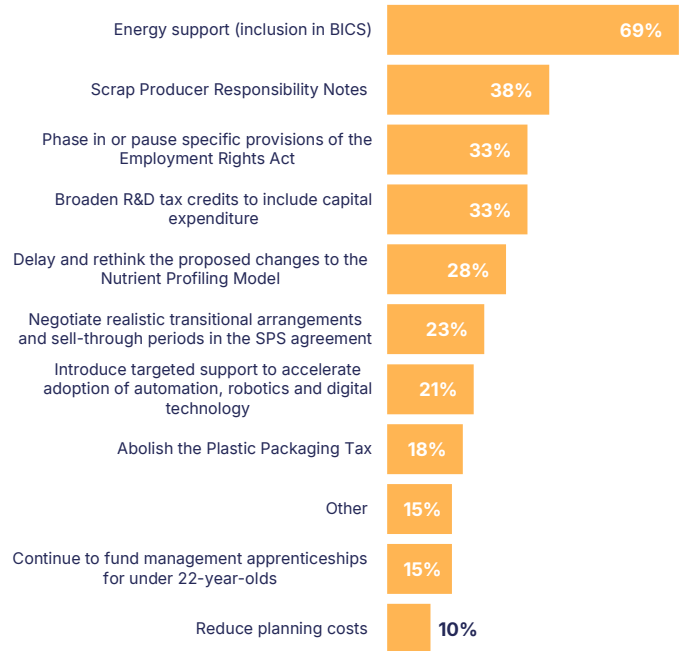
Energy is a major concern because it represents a substantial share of manufacturers' costs. On average, energy accounts for around 9% of total costs, although this varies by activity. For most manufacturers (51%), energy represents 5% to 9% of operating costs (Chart 6). For 18% of businesses, the share is below 5%, while for 8%, energy accounts for 20% to 24% of costs.

**Chart 4: Plans to manage cost pressures from the conflict**



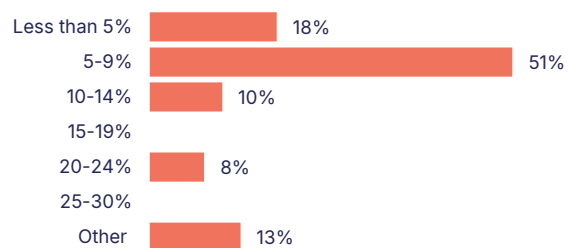
Source: FDF State of Industry Survey

**Chart 5: Top policy measures to ease cost pressures**



Source: FDF State of Industry Survey

**Chart 6: Energy as a share of total cost base**



Source: FDF State of Industry Survey

# Confidence in freefall

**Confidence in the food and drink manufacturing sector weakened notably at the start of 2026.** The FDF net confidence score fell to -64% in Q1, down from -31% in Q4 2025. The score is calculated as the difference between the share of businesses reporting improved conditions and those reporting deterioration, excluding those reporting no change (Chart 7).

The Q1 reading is among the lowest in the series, comparable to levels seen during the pandemic. Confidence had shown signs of recovery toward the end of 2025 before declining by 33 percentage points in Q1. The onset of the Iran conflict, alongside its associated impacts on costs, supply chains, and demand, appears to have weighed on business sentiment.

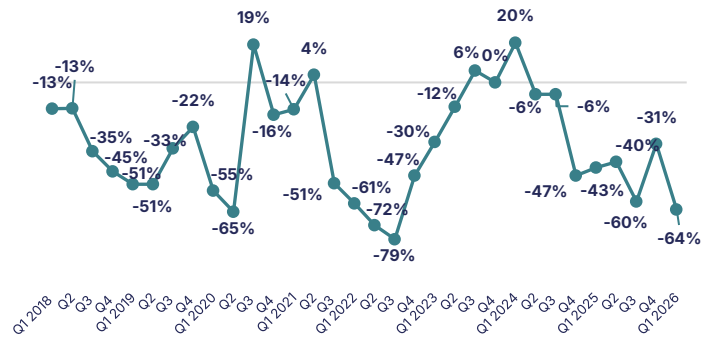
In Q1, 67% of businesses reported a deterioration in conditions compared with the previous quarter, while 31% reported no change.

Confidence trends were broadly similar across company sizes and remained negative overall (Chart 8). Large businesses recorded a net confidence score of -83%, with 67% reporting deteriorating conditions and 17% reporting a significant deterioration. Confidence among mid-size businesses and SMEs was also subdued, at -60% and -61% respectively. Only 6% of SMEs reported an improvement in conditions. This suggests that pressures are being felt across the sector, including among larger and more resourced firms.

Looking ahead to Q2 2026, the sector's outlook confidence stands at -51%, representing a 48 percentage point decline from the -3% recorded for Q1 in the previous survey. This is the lowest outlook score since records began in Q1 2022.

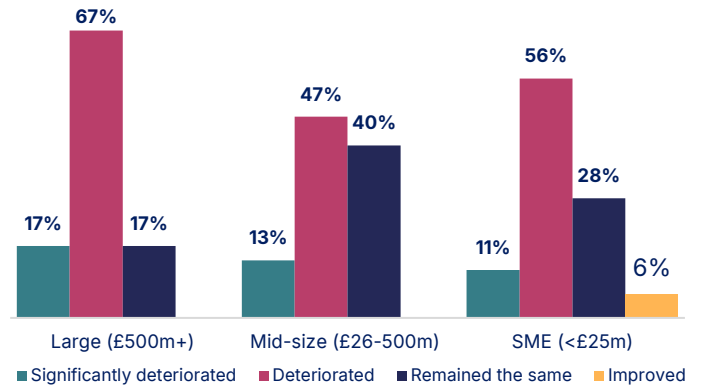
By company size, 74% of mid-size businesses expect conditions to deteriorate, compared with 50% of small businesses and 33% of large businesses (Chart 9). Overall, this suggests that businesses anticipate continued challenges rather than a short-term disruption.

**Chart 7: FDF net confidence score**



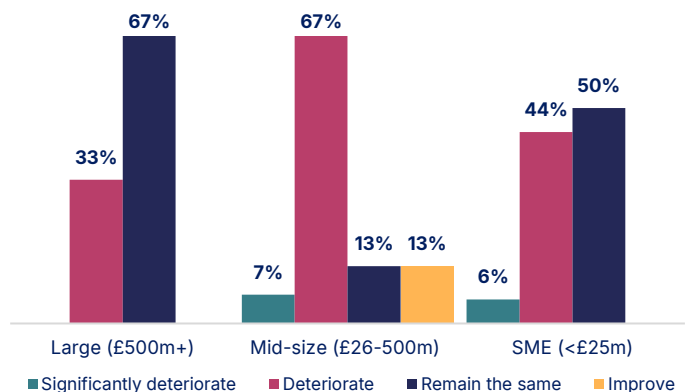
Source: FDF State of Industry Survey

**Chart 8: Business conditions in Q1 2026 compared to Q4 2025, by business size**



Source: FDF State of Industry Survey

**Chart 9: Outlook confidence: Expectations of market conditions in Q1 compared to Q4, by business size**



Source: FDF State of Industry Survey

# Sales growth is the key priority

Growing sales in the UK market remains the clear priority for food and drink manufacturers, cited by 82% of respondents (Chart 10). This focus is consistent across firm sizes, with similar shares reported by large businesses, SMEs, and mid-size firms (Chart 11), indicating a broad alignment across the sector on the importance of domestic demand.

Alongside this, a significant proportion of businesses (45%) report restructuring operations to maintain competitiveness. This is particularly pronounced among SMEs, where over half (56%) identify this as a priority. This pattern suggests that, in addition to pursuing growth, many firms are adapting their operating models in response to ongoing cost and market pressures.

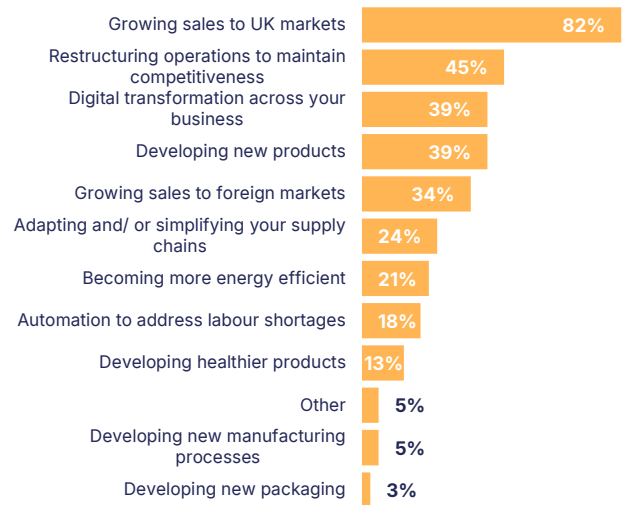
Investment in digital transformation and new product development (39%) also features prominently. This indicates that, despite a more challenging environment, a sizeable share of businesses continue to prioritise longer-term capability building.

Energy efficiency is a focus for 21% of firms, reflecting the continued importance of energy costs in shaping business decisions. In this context, energy-related policy support remains a relevant consideration for the sector.

Looking ahead, planned capital investment appears relatively cautious (Chart 12). Across R&D, plant and machinery, skills and training, and buildings, the most common response is that spending will remain unchanged, with shares ranging from 43% to 66%. This suggests a broadly stable investment outlook rather than widespread expansion or contraction.

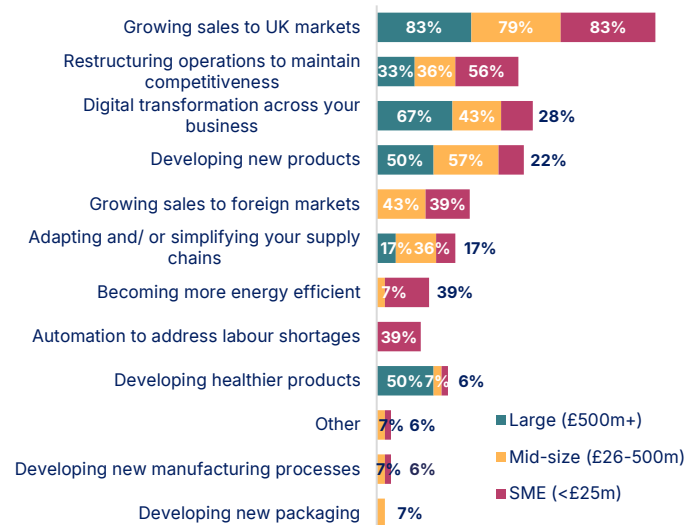
Plant and machinery stands out as a relative area of strength, with 30% of manufacturers expecting to increase investment. This may reflect ongoing investment in automation and efficiency improvements, particularly in response to labour cost pressures and workforce constraints.

Chart 10: Growth priorities



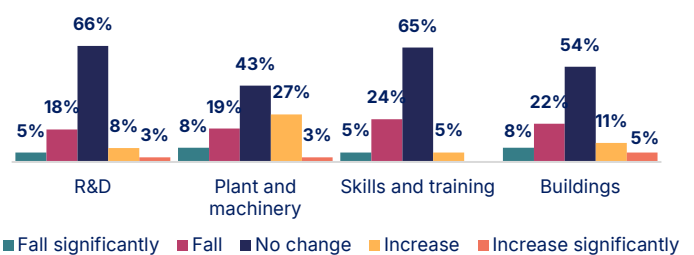
Source: FDF State of Industry Survey

Chart 11: Growth priorities by size



Source: FDF State of Industry Survey

Chart 12: Expectations of planned capital investment expenditure over the next 12 months to March 2027



Source: FDF State of Industry Survey

# Labour costs accelerate automation

The labour vacancy rate in the sector fell to 3.9% in Q1, down from 5.0% in Q4 (Chart 13). Despite this decline, it remains above both the manufacturing average (2.1%) and the UK average (2.2%). In the context of recent geopolitical and economic pressures, this easing may partly reflect softer hiring demand rather than a full resolution of recruitment challenges.

The majority of firms (78%) report vacancy rates of up to 5.0%. Larger businesses continue to report relatively higher vacancy rates (4.1%) compared with mid-sized firms (3.4%) and small businesses (3.0%). Recruitment challenges persist across a range of roles, including production, warehousing, skilled technical positions, and professional functions.

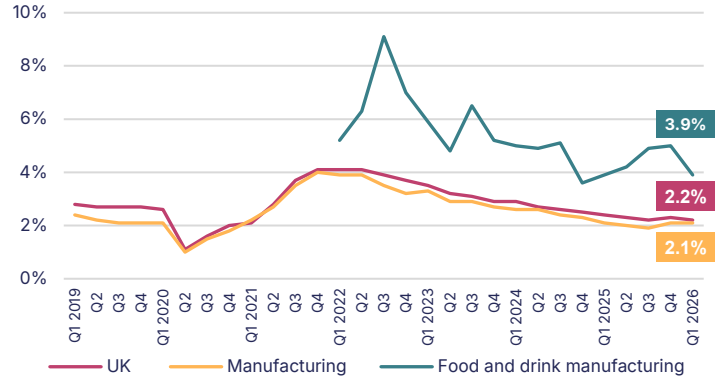
Increases in the National Living Wage (NLW) are continuing to shape employment decisions across the sector. Just over half of businesses (53%) report increasing automation in response (Chart 14). At the same time, 47% report constraints on their ability to offer bonuses and other rewards, while 42% have adjusted higher pay bands to maintain differentials. Around 36% report some compression of pay differentials, and 25% indicate that NLW increases have contributed to higher redundancies.

The impacts vary by firm size. SMEs report the highest levels of automation adoption (61%), while larger businesses are more likely to report challenges in attracting workers into entry-level roles (33%) (Chart 15).

Pay increased by an average of 3.1% over the past 12 months, with most businesses (55%) reporting increases in the 2.1–4% range. Looking ahead, firms expect pay growth to moderate slightly, with an average increase of 2.6% over the next year.

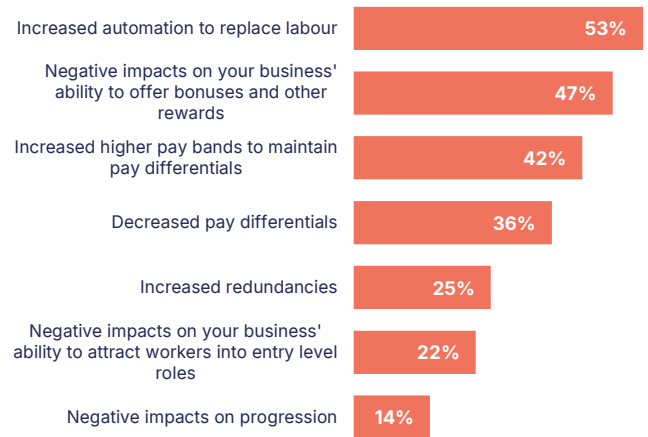
Cost pressures are also reflected in non-pay benefits. Around 39% of businesses expect to reduce bonuses over the coming year, with some also indicating potential reductions in benefits such as meals and premium pay. This suggests a degree of adjustment in overall reward packages as firms respond to ongoing cost pressures.

**Chart 13: Vacancy rate in UK, manufacturing and food and drink manufacturing (vacancies per 100 employees)**



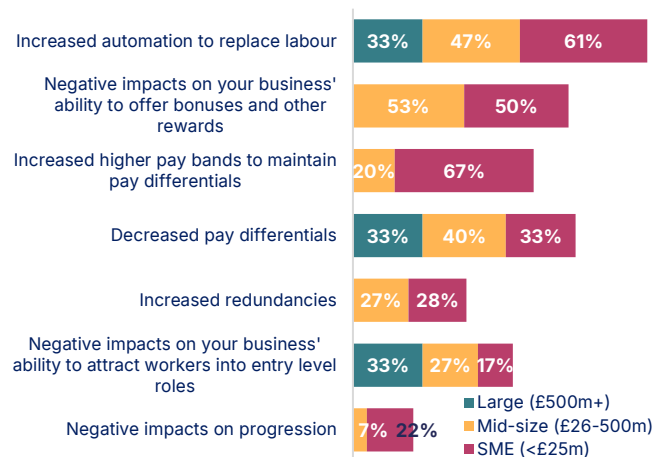
Source: FDF State of Industry Surveys and ONS

**Chart 14: Impacts of the National Living Wage increase**



Source: FDF State of Industry Survey

**Chart 15: Impacts of the National Living wage increase by size**



Source: FDF State of Industry Survey

# Who responded?

This survey is representative of the industry, including companies of all turnover bands, all employment sizes and a wide range of industry subsectors.

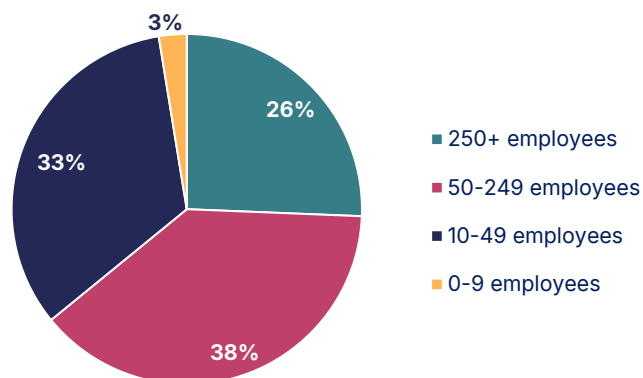
Medium-sized businesses (50–249 employees) make up the largest proportion of respondents at 38%, followed by small employers with 10-49 employees (33%). A further 26% are large businesses with over 250 employees (Chart 16).

By turnover, 62% of respondents are businesses with a turnover of £50m or less, while 10% are businesses with a turnover exceeding £1bn (Chart 17).

Businesses also represent a wide variety of sectors (Chart 18). The best represented ones were bakery goods, hot beverages, and ready meals. The 'Other' category covers businesses operating in sectors such as savoury and salty goods, breakfast cereals and sports nutrition.

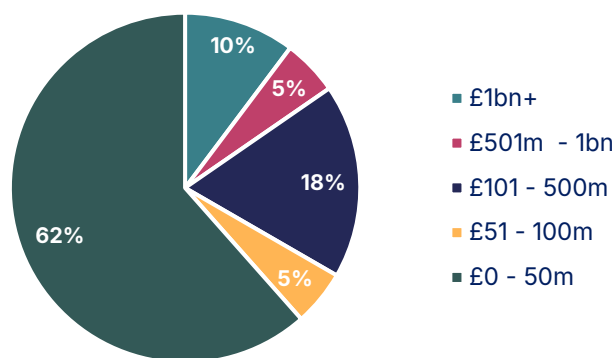
Two-thirds of manufacturers (67%) operate in England, while just over a third (36%) have production facilities located in Scotland and 13% in Wales.

**Chart 16: Respondents by employment size**



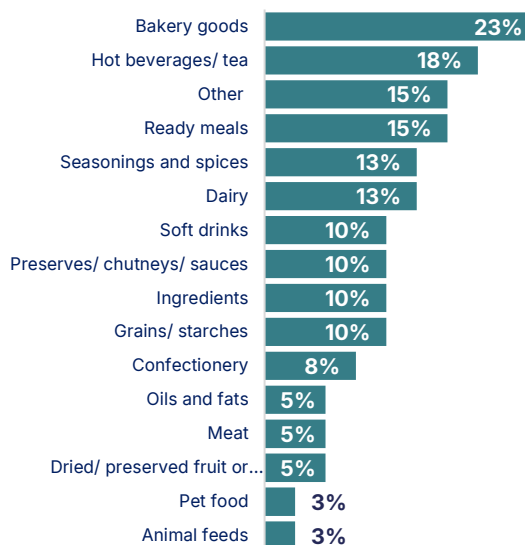
Source: FDF State of Industry Survey

**Chart 17: Respondents by turnover**



Source: FDF State of Industry Survey

**Chart 18: Respondents by sub-sector**



Source: FDF State of Industry Survey



## Shaping the future of food and drink manufacturing

Our industry is at the heart of the nation's daily lives, providing nourishment and joy with a wide range of affordable and nutritious products for all. Join us in creating a secure, sustainable future for food and drink.

[fdf.org.uk](https://www.fdf.org.uk)

