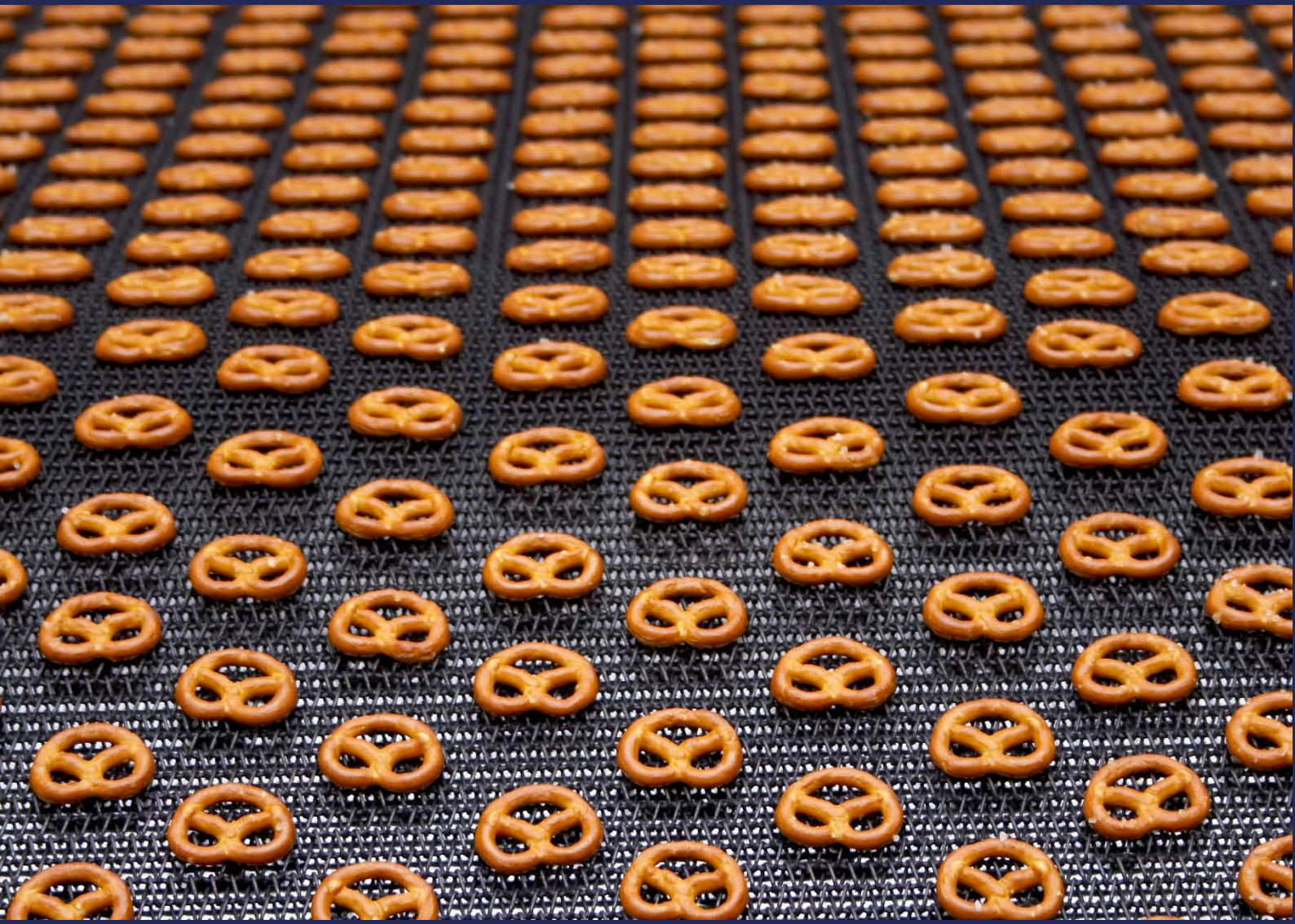


State of Industry Report Q2 2025

fdf



Executive summary

- UK food and drink manufacturers are currently stuck, squeezed from all sides, with cost pressures persisting, now driven mainly by regulations, falling consumer demand and the uncertainty of looming taxes in the Autumn Budget.
- The confidence amongst businesses in food and drink manufacturing remains deeply negative, standing at -40% in Q2 compared to -43% in Q1 and -47% in Q4 2024.
- The top priority for most food and drink manufacturers (74%) remains increasing domestic sales, although that is a priority for more larger manufacturers than smaller ones. Product innovation also remains a key strategic focus.
- 84% of manufacturers cite the ongoing financial impact of recent government policies as their primary concern for the coming year.
- The outlook for investment remains stable, with 84% of manufacturers planning to maintain or increase investment in the next year.
- Labour shortages in the sector rose in Q2, with the vacancy rates now at 4.2% from 3.9% in Q1. This is considerably higher than vacancy rates in broader manufacturing (2.0%) and the UK overall (2.3%).
- On average, total production costs are reported to have increased by 6.3% over the year to June, while selling prices rose by 4.4%.

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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 commentary



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%

Mired in a lull

UK food and drink manufacturers are currently stuck in a lull. While rising costs for agricultural commodities and energy continue to pressure the sector, regulatory expenses have become the main cost driver.

At the same time, falling consumer demand is a significant challenge, with uncertainty lingering around expected tax increases from the upcoming Autumn budget. Although there is more clarity on US-UK tariffs, global trade tensions still pose risks to supply chains.

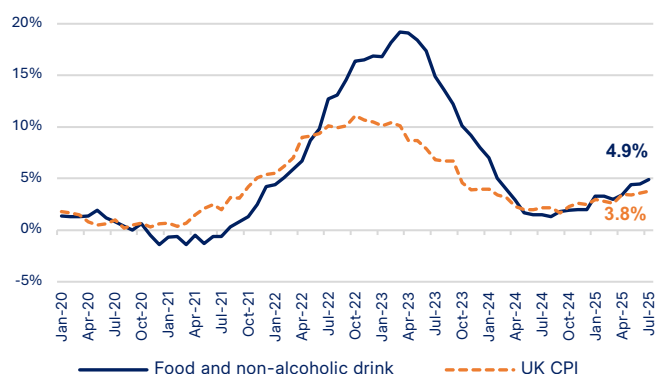
In July, food and non-alcoholic drink inflation rose to 4.9% year-on-year, surpassing the UK's overall inflation rate of 3.8% (Chart 1), and it's forecast by the Bank of England to reach 5.5% by the end of the year. UK food inflation now exceeds food inflation in the EU and several comparable countries.

Agricultural commodity prices are 6% higher than last year. Energy costs are broadly similar to last year's levels, but as the global economy is expected to slow down, they'll likely fall later in the year. Meanwhile, regulatory costs continue to mount, with the Extended Producer Responsibility adding £1.1bn annually to the industry and higher National Insurance Contributions £410m. The upcoming Employment Rights Bill is expected to be costly, along with several other announced policies, like changes to the Soft Drinks Industry Levy and updates to the Nutrient Profiling Model.

The industry is squeezed from all sides. Retail sales of food, in volume terms, have steadily fallen: down 0.7% compared to last year and 7.8% below 2019 levels (Chart 2). Cost of living remains the top concern for 86% of households. While the price war amongst grocery retailers will squeeze manufacturers' profit margins.

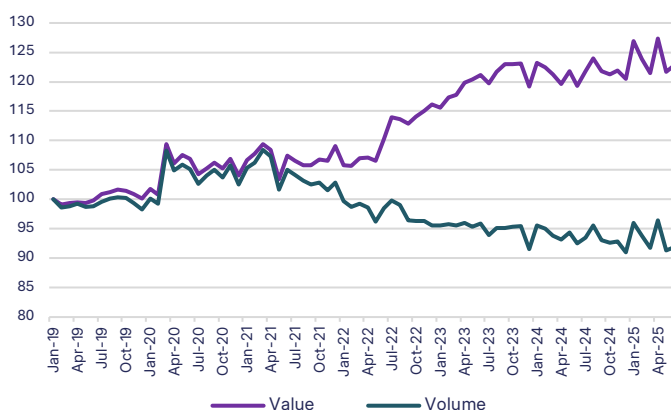
In the long term, the current slowdown is even more concerning, as it follows a period of limited growth. Industry output grew steadily from 1995 to 2009 but then declined sharply, and it barely recovered since (Chart 3). Output in 2024 was just 1.5% higher than in 2009, despite a nearly 10% increase in population over the same period. In contrast, food manufacturing output in other European countries has seen significant growth since 2009, notably Italy (32%), Germany (21%), the Netherlands (20%) and France (15%).

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



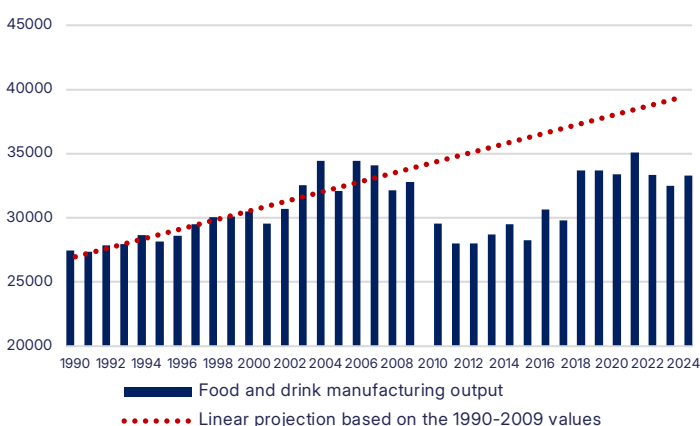
Source: ONS

Chart 2: Retail sales of food



Source: ONS

Chart 3: Food and drink manufacturing output (GVA)



Source: ONS and FDF calculations

Confidence at a low standstill

The confidence amongst businesses in food and drink manufacturing remains deeply negative, standing at -40% in Q2 compared to -43% in Q1 and -47% in Q4 2024 (Chart 4).

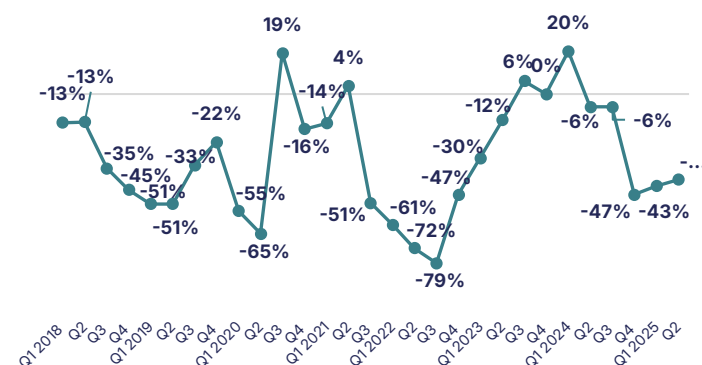
The FDF net confidence score is calculated as the difference between respondents who perceive business conditions have improved in Q2 compared to Q1 and respondents who believe conditions have deteriorated. Businesses that saw conditions unchanged are therefore excluded from this calculation. In Q2, almost half of businesses (48%) said conditions deteriorated from the previous quarter and 45% of businesses perceived conditions to be similar.

Industry's confidence dropped significantly following the Autumn Budget and remained stuck in the -40's range ever since, as the majority of manufacturers reported worsening conditions, a clear indication of the challenging conditions in the industry.

Views varied by business size. Large businesses held up better than most, with 71% saying conditions stayed about the same as in Q1 (Chart 5). Mid-sized manufacturers were the most adversely affected, registering a net confidence score of -47%. Smaller businesses also remained under pressure, recording a net confidence score of -39%.

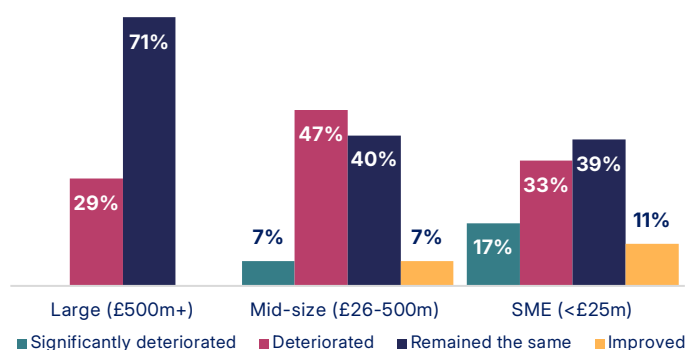
Looking ahead to Q3, a fifth of businesses (20%) anticipate an improvement in conditions, pushing up the outlook score to +5%, an 18-percentage point increase from -13% in the previous quarter. At the same time, only 15% of businesses expect conditions to worsen, compared with one-third in the prior survey. The majority (65%) expect conditions to remain stable across the sector. By business size, outlook sentiment shows a mixed picture (Chart 6). Small businesses reported the weakest outlook, with a net score of 0%, while large businesses were the most optimistic, recording a score of +14%. Mid-sized businesses reported a moderate outlook, with a score of +7%.

Chart 4: FDF net confidence score



Source: FDF State of Industry Survey

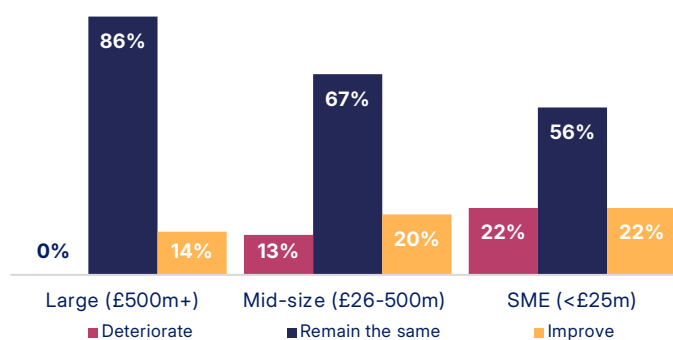
Chart 5: Business conditions in Q2 2025 compared to Q1 2025, by business size



Source: FDF State of Industry Survey

Note: The option 'Significantly improved' was offered, but no business chose it.

Chart 6: Outlook confidence: Expectations of market conditions in Q3 compared to Q2, by business size



Source: FDF State of Industry Survey

Note: The options 'Significantly improved' and 'Significantly deteriorated' were offered, but no business chose either.

Growth ambitions constrained by Government policy

The top priority for most food and drink businesses (74%) remains increasing domestic sales (Chart 7).

83% of large businesses and 86% of mid-size ones are focusing on this, in contrast to 61% of smaller firms. The difference may be due to small manufacturers mainly producing private-label products. The cost-of-living crisis shifted consumer preferences to own-label goods, which have gained market share. This meant smaller manufacturers have been less affected in terms of sales.

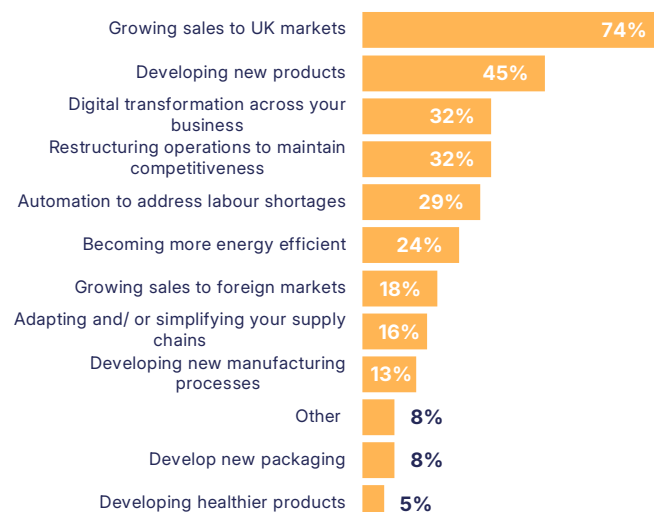
Product innovation also remains a key strategic focus – 45% of manufacturers prioritise the development of new products. Innovation is closely linked to domestic sales growth, as businesses seek to stand out in a highly competitive market. In contrast, healthier product development is a lower priority. Just 5% of manufacturers highlighted it, all of these being large firms. This points to the need for stronger support if smaller producers are to make progress in this area — especially in light of the NHS ten-year plan.

Digital transformation has gained traction as a priority for 32% of manufacturers, with this proportion rising to two-thirds (67%) among large businesses, underlying the growing recognition of technology's role in operational efficiency.

Despite the difficult operating environment, investment intentions remain positive and stable. Most businesses (84%) plan to maintain or increase their spending over the next year (Chart 8). 47% intend to invest more in plant and machinery, signalling a push towards automation. Investment in people remains a focus as well, with 38% planning to increase training and skills development. 30% are committed to boost R&D spending.

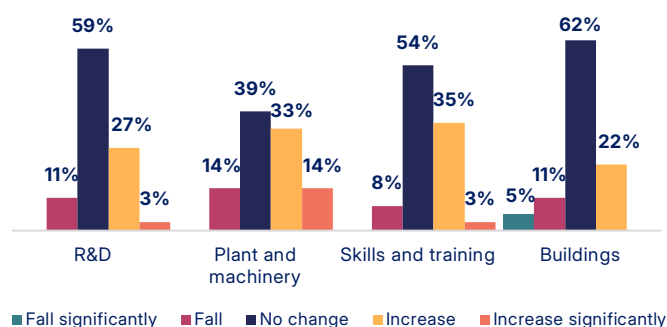
The biggest challenge over the next year is the ongoing financial impact of recent government policies for 84% of manufacturers (Chart 9). This reflects the cumulative strain of regulatory changes, tax rises and wider policy uncertainty. Additionally, weak UK consumer confidence was flagged as an issue by 63% of manufacturers. Smaller producers were particularly concerned (39%) about the current emphasis on channelling government support into other sectors. This underlines the potential role of the new Government Food Strategy in addressing these concerns — by helping to build resilience across the food system and ensuring that smaller businesses are not left behind.

Chart 7: Top three growth priorities



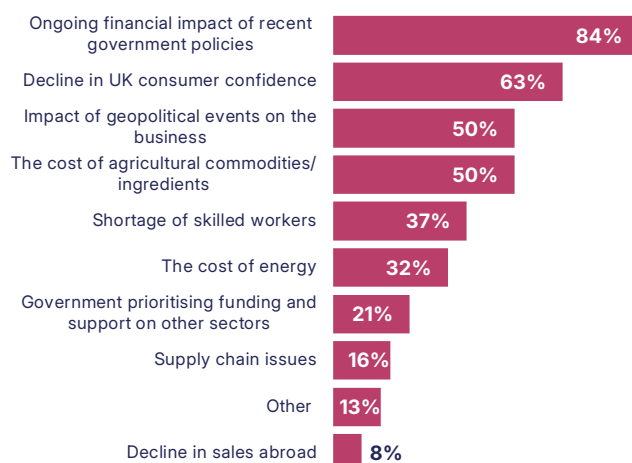
Source: FDF State of Industry Survey

Chart 8: Expectations of planned capital investment expenditure over the next 12 months to June 2026



Source: FDF State of Industry Survey

Chart 9: The biggest concerns/ potential challenges over the next 12 months to June 2026



Source: FDF State of Industry Survey

Labour market challenges persist

Labour shortages in the sector rose in Q2, with the vacancy rate now at 4.2%, up from 3.9% in Q1 (Chart 10). This is more than double the rate seen in the manufacturing as a whole (2.0%) and significantly exceeds the UK average of 2.3%.

Over two-thirds (68%) of manufacturers reported vacancies of up to 5.0%. Mid-size businesses faced the most significant recruitment challenges, averaging a 5.8% vacancy rate, compared to 3.7% for large companies and 5.2% for small businesses.

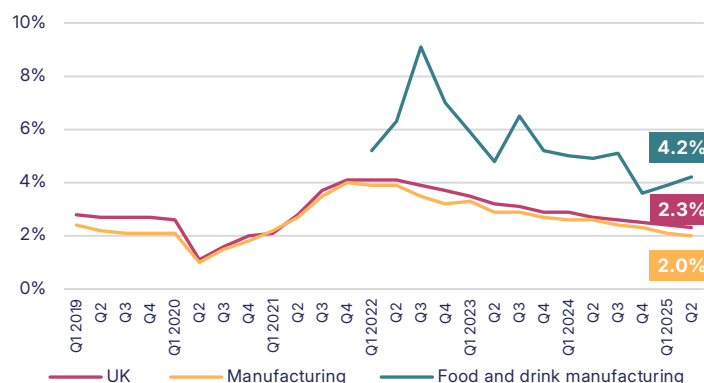
These shortages affect a broad spectrum of roles, from production and warehouse operatives to skilled machine operators, quality assurance, project management, sales, and engineering positions.

Over the next 12 months, 41% of manufacturers expect to reduce their headcount (Chart 11), indicating growing challenges in the sector's labour market. Employers are under increasing pressure from regulatory cost rises, including the April hikes in employer National Insurance contributions and minimum wage rates, which have pushed up labour costs. This adds to the other regulatory costs, in particular Extended Producer Responsibility (EPR) fees. These rising costs are set against a particularly tough economic backdrop, with some manufacturers forecasting that their revenue will either remain flat or decrease in the next year (34% and 11%, respectively), despite cost rises.

Over a third of manufacturers (38%) experienced a contraction in their output in the year to June 2025 (Chart 12). A similar proportion (35%) had increased their output over the 12 months. By size, of the larger manufacturers, 33% saw lower output and 17% higher output. While 33% of the smaller manufacturers saw their output diminish, production increased for 44% of them. This helps explain why fewer smaller firms are focused on growing domestic sales (Chart 7).

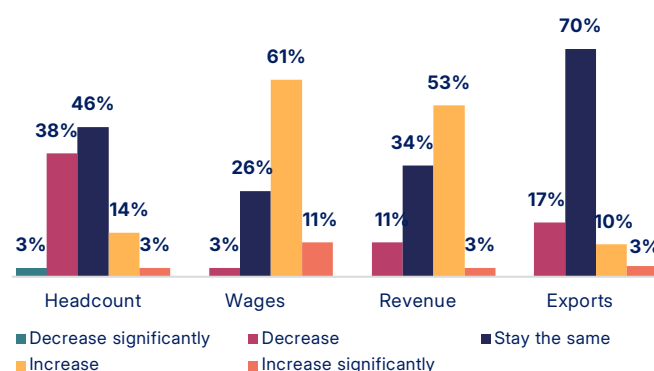
Looking ahead, over half (59%) of manufacturers anticipate an increase in their output, whereas 14% foresee a decline. When broken down by size, 33% of larger manufacturers and 67% of smaller ones expect growth, suggesting that manufacturers believe current household consumption patterns will persist, with a continued shift to own-label alternatives.

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



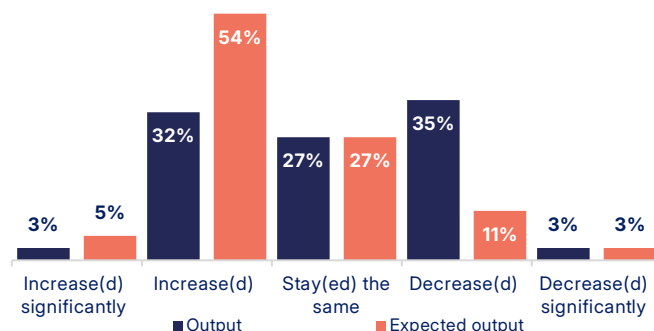
Source: FDF State of Industry Surveys and ONS

Chart 11: Outlook for businesses over the next 12 months



Source: FDF State of Industry Survey

Chart 12: Output changes in the year to June 2025 and expected output changes over the next 12 months



Source: FDF State of Industry Survey

Cost headwinds remain strong

On average, total production costs are reported to have increased by 6.3% over the year to June, while selling prices rose by 4.4%.

Cost rises of over 5.0% were experienced by 61% of manufacturers, with 8% experiencing increases of over 10%, a significant decrease from the 22% seen in the previous survey. In contrast, costs fell for only 3% of respondents (Chart 13). Both SMEs and large businesses saw the highest cost increases with an average of 6.6%, compared 5.0% on average for mid-size businesses.

In terms of prices, over three-quarters (80%) increased their average selling price by less than 10%, up from 76% in Q1. Just under two-thirds (63%) of businesses had their prices increase by 0.1 to 5%, while 9% said that theirs had decreased.

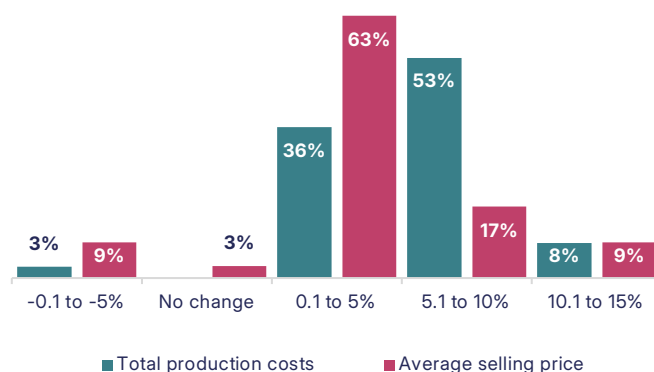
Looking ahead to June 2026, manufacturers expect their costs to rise by 3.6% and prices by 2.4%, on average. Markedly, over three-quarters (77%) of manufacturers expect production costs to increase by 0.1 to 5% and 53% expect the same range of increases for their prices. (Chart 14).

The food and drink manufacturing industry is highly energy-intensive, which is particularly challenging as the UK ranks among the costliest industrial energy markets in Europe. Over the past 18 months, rising energy prices have not only increased production costs but also limited business growth, with 18% of respondents reporting a significant impact on their growth potential and 39% experiencing moderate effects.

To address the rising energy costs, 76% of manufacturers have had to increase their prices to customers, with two-thirds (67%) making investments in energy-saving solutions. (Chart 15). Although investments in renewable energy sources or more efficient equipment marks positive progress, these investments entail significant up-front costs and are unlikely to deliver significant cost relief in the short-term.

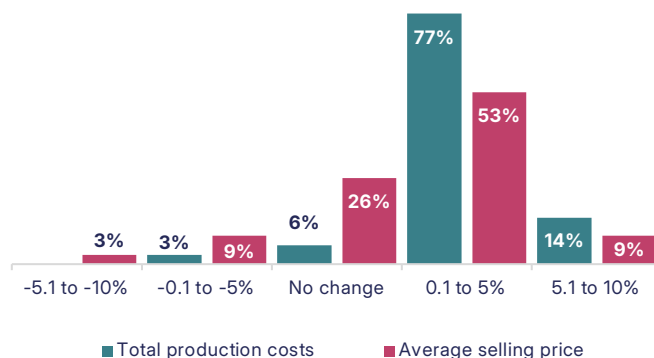
Manufacturers have faced supply chain disruptions throughout the year, with 11% experiencing significant delays, shortages, or cost increases, and a further 24% encountering more limited disruption due to US tariff decisions. Conflicts in the Middle East have significantly disrupted 21% of firms, and 29% faced minimal disruptions.

Chart 13: Changes in total production costs and average selling price over the year to June 2025



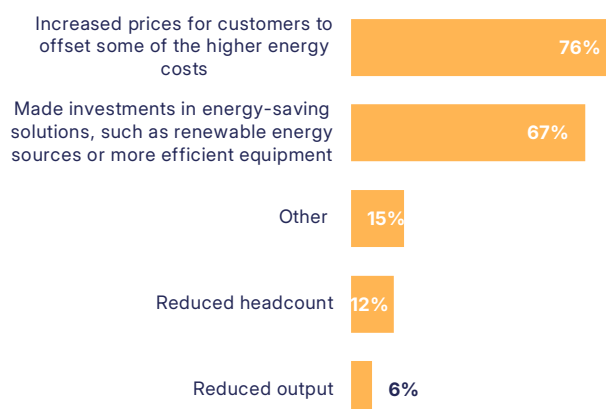
Source: FDF State of Industry Survey

Chart 14: Expected changes in total production costs and average selling price over the year to June 2026



Source: FDF State of Industry Survey

Chart 15: Actions to address rising energy costs



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.

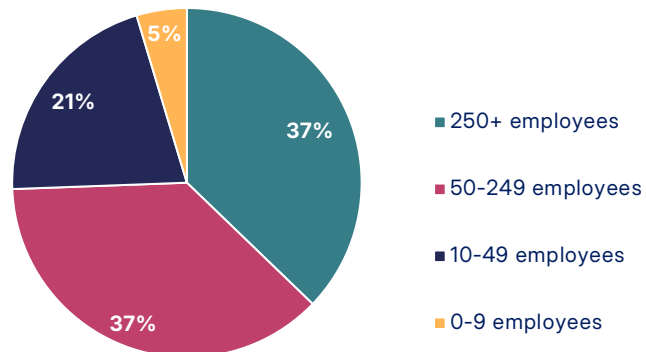
Over a third (37%) of the businesses surveyed are large employers with more than 250 employees, while the same proportion (37%) are businesses with 50-249 employees, and 21% small businesses with 10 to 49 employees (Chart 16).

By turnover, two-thirds (67%) of respondents are businesses with a turnover of £50m or less, while 12% 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, ingredients, and confectionery. The 'Other' category covers businesses operating in sectors such as snacks, cereals, chilled goods, soup and nuts and seeds among others.

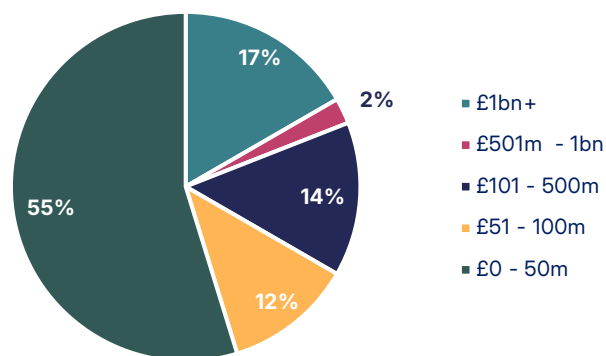
74% of manufacturers operate in England, while just under a quarter (21%) have production facilities located in Scotland and 7% in Wales.

Chart 16: Respondents by employment size



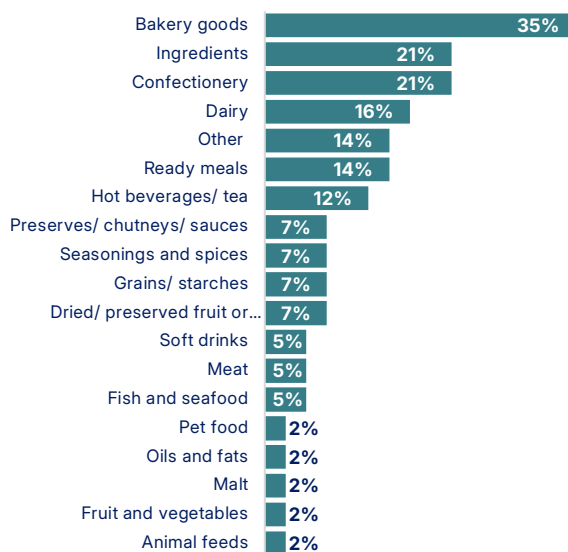
Source: FDF State of Industry Survey

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

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