

State of Industry Report Q3 2025

fdf



Executive summary

- Five years of structural shocks have eroded the industry's resilience, with higher costs, squeezed margins and depressed demand leaving little capacity to absorb further regulatory or tax burdens.
- Confidence fell sharply to -60% in Q3, from -40% in Q2 and -43% in Q1. This is the lowest confidence in "normal" operating conditions, in the absence of a major structural shock.
- The industry's sentiment about the upcoming Budget is overwhelmingly negative, with 65% expecting further financial burdens.
- The top growth priority for 79% of manufacturers remains increasing UK sales, a view shared across all firm sizes. Product innovation is the second main growth lever.
- The measures manufacturers most want to see in the upcoming Budget to encourage investment and expansion are: no new taxes or other costly regulation (75%), less burdensome regulation (55%) and support with energy costs (43%).
- 65% of manufacturers plan to maintain or increase overall investment over the next year, down from 84% in the previous quarter, suggesting that regulatory uncertainty might be dampening investment.
- Labour shortages in the sector rose in Q3, with the vacancy rate rising to 4.9%, up from 4.2% in Q2, above the rate in manufacturing as a whole (1.9%) and that of the UK (2.2%).
- On average, total production costs are reported to have increased by 5.0% over the year to September. 47% of manufacturers report that the higher water and waste bills are likely to trigger price rises.

Contents

Industry outlook

Mounting pressures, muted growth 3

Industry confidence

Confidence at its lowest in "normal times" 4

Investment

No new regulatory burdens could unlock growth.. 5

Workforce

Persistent staffing strains 6

Costs

Ongoing cost pressures 7

About our survey

Who responded? 8

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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 forecast



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%

Mounting pressures, muted growth

In September, food and non-alcoholic drink inflation stood at 4.5% year on year, down from 5.1% in August, but above headline UK inflation of 3.8% (Chart 1). Some categories continue to see price rises in double digits, including beef (26.9%) and several dairy and confectionery products, while prices are falling for others, such as olive oil (-15.4%), flours (-6.2%) or sugar (-3.9%). On a monthly basis, food prices fell by 0.2%, the first decline since May 2024.

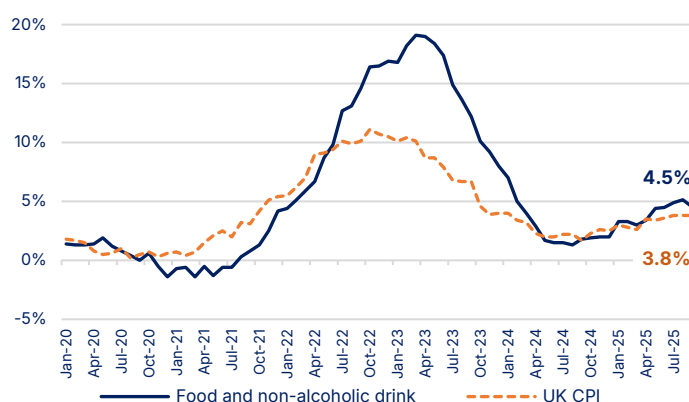
Looking ahead, food price pressures are expected to remain elevated. Our [August forecast](#) puts food and non-alcoholic drink inflation at 5.7% in December 2025 and at an average of 4.4% in 2026. Moreover, we now judge regulation to be the main driver of food inflation, with most agricultural commodity and energy prices having stabilised in 2025. The new Extended Producer Responsibility (EPR) packaging scheme alone is estimated to add around £1.1bn per year in costs to the industry, on top of higher employer National Insurance Contributions (NICs) (around £410m annually), new EU trade measures and increases in the Soft Drinks Industry Levy.

At the same time, many commodity prices have eased this year. Wholesale prices of butter, cheddar and milk powder have fallen in 2025, as have prices of cocoa, coffee, cereals and sugar. Given an estimated lag of 7–12 months between changes in input costs and retail prices, these declines will take time to be fully reflected on shelves.

These pressures are hitting a sector already constrained by weak demand, tight margins and intense retail competition. Food sales volumes remain significantly below pre-pandemic levels: in September, retail food sales volumes in UK supermarkets were 8.3% lower than in September 2019 (Chart 2). Households have responded to the cost of living squeeze by trading down to cheaper and own-label products, enabling discounters to gain 5.3 percentage points of grocery market share since the pandemic (Chart 3). This has intensified a price war among retailers and further constrained manufacturers' ability to pass through additional cost increases.

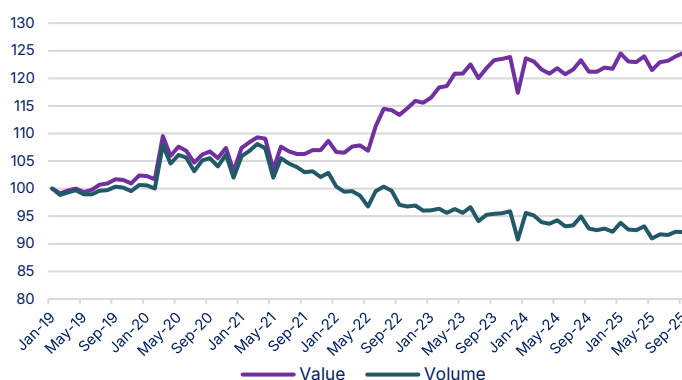
And, as all of the above comes after five years of successive structural shocks, which have already eroded resilience and left the industry with very limited capacity to absorb further regulatory or tax burdens.

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



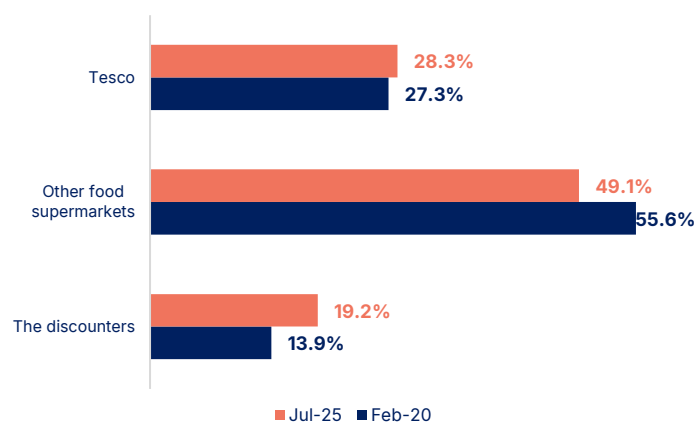
Source: ONS

Chart 2: Retail sales of food



Source: ONS

Chart 3: UK grocery market shares



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

Confidence at its lowest in “normal times”

Confidence in food and drink manufacturing fell sharply to -60% in Q3, from -40% in Q2 and -43% in Q1. This is the lowest confidence in “normal” operating conditions, in the absence of a major structural shock (Chart 4).

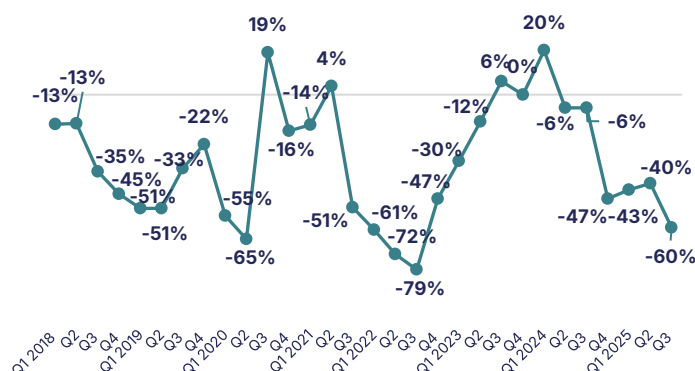
The FDF net confidence score is calculated as the difference between respondents who perceive business conditions improved in Q3 compared to Q2 and those who believe conditions deteriorated. Businesses that saw conditions unchanged are therefore excluded from this calculation. In Q3, almost two thirds of businesses (65%) saw conditions deteriorated from the previous quarter and almost a third (30%) of businesses perceived conditions to be the same.

Small businesses have been hit particularly hard. 78% of SMEs reported conditions had deteriorated in Q3, resulting in a net confidence score of -72%. Mid-sized manufacturers also faced challenging conditions, with a net confidence score of -53%. Large businesses held up a relatively better score of -40%, with over a third (35%) saying conditions stayed about the same as in Q2 (Chart 5).

Pessimism in the industry reflects the economic reality, past and current, as well as weak confidence in the outlook. Over the past five years, businesses have faced unprecedented challenges: Brexit, severe cost pressures linked to the pandemic, sharp increases in energy prices following the war in Ukraine, depressed sales due to the cost of living crisis, as well as a series of costly regulations, such as EPR and higher employer NICs. The industry has been squeezed from all sides and resilience has steadily eroded. Moreover, there is also little evidence that conditions will ease in the near term. When asked about the upcoming Budget, manufacturers were overwhelmingly negative: 65% were pessimistic, expecting further financial burdens, and 25% were nervous, not knowing what to expect from the Budget. This “wait and see” stance is not conducive to investment or long-term planning.

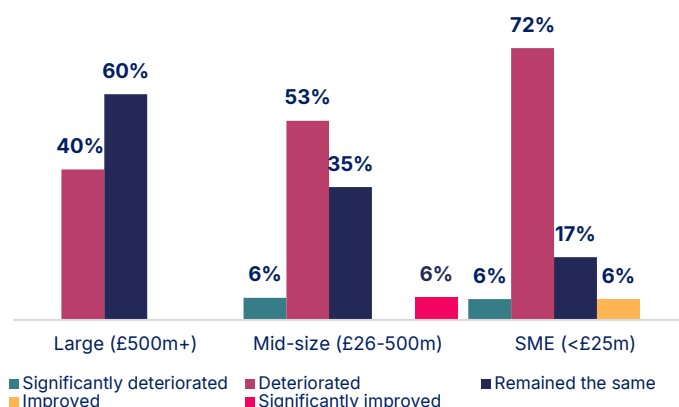
Unsurprisingly, then, looking ahead to Q4, 33% of businesses anticipate a deterioration in conditions. The outlook score dropped to -20%, a 25-percentage point decrease from the previous quarter (Chart 6). Small businesses reported the weakest outlook, with a net score of -39%, with large businesses recording a score of -20%.

Chart 4: FDF net confidence score



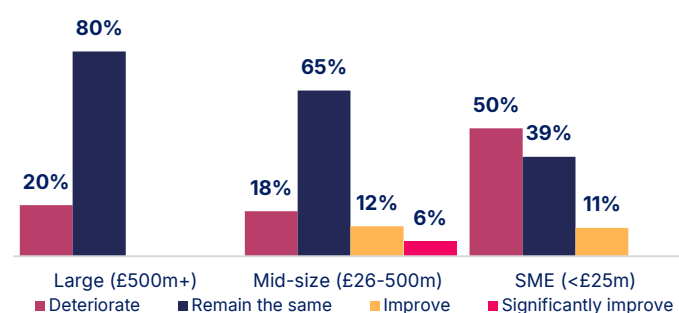
Source: FDF State of Industry Survey

Chart 5: Business conditions in Q3 2025 compared to Q2 2025, by business size



Source: FDF State of Industry Survey

Chart 6: Outlook confidence: Expectations of market conditions in Q4 compared to Q3, by business size



Source: FDF State of Industry Survey

Note: The option ‘Significantly deteriorated’ was offered, but no business chose this option.

No new regulatory burdens could unlock growth

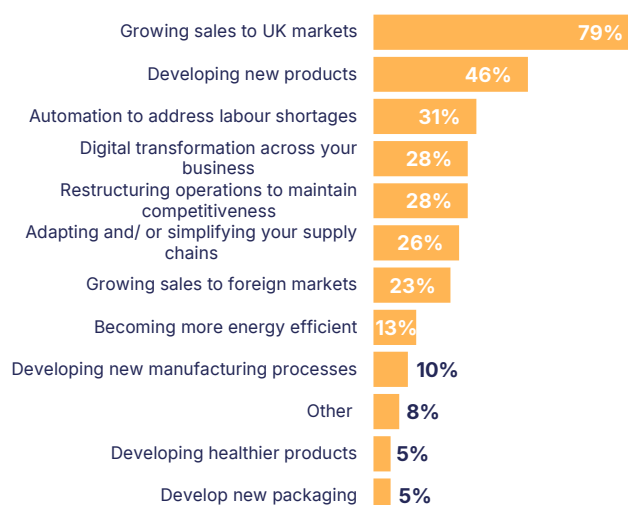
Demand recovery and no new regulations are central to the sector's outlook.

The top growth priority for most food and drink manufacturers (79%) remains increasing sales in the UK market (Chart 7), a view shared across all firm sizes. After several years of falling sales volumes and given the industry's high-volume, low-margin business model, a sustained recovery in domestic demand is critical. Product innovation is the second main growth lever. On average, 46% of respondents prioritise new product development, rising to 60% among large manufacturers. Innovation and domestic growth are closely linked, as new products help attract and retain customers. Automation to address labour shortages has also moved up the agenda, with 31% of manufacturers focusing their growth efforts in this area.

For the UK food and drink manufacturing industry to grow and maintain its position as a leading global R&D hub for product innovation, it will require government support. The measures manufacturers most want to see in the upcoming Budget to encourage investment and expansion are: no new taxes or other costly regulation (75%), less burdensome regulation (55%) and support with energy costs (43%) (Chart 8). Among large companies, 80% would welcome financial support for investment in healthier products, for example through expanded R&D tax credits and capital allowances. Smaller businesses (39%) place greater emphasis on improved access to existing innovation schemes, such as Made Smarter.

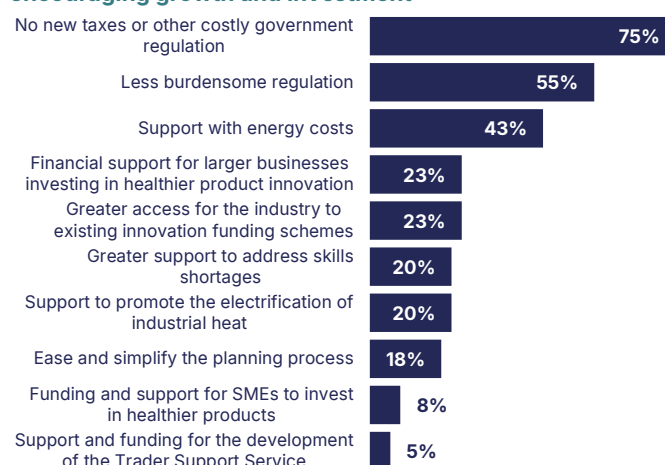
Despite the challenging environment, a significant share of businesses (65%) plan to maintain or increase overall investment over the next year (Chart 9). However, this is down from 84% in the previous quarter, underlining how uncertainty in the regulatory environment might already be dampening investment. Greater clarity and stability are essential to give manufacturers the confidence to commit to new projects. Investment in plant and machinery is relatively robust, with 47% of respondents intending to increase spending in this area, and 25% planning higher R&D expenditure. By contrast, there are signs of weakening investment in critical enablers of long-term growth. Only 8% of manufacturers expect to increase spending on skills and training, down sharply from 38% in the previous survey, and 35% plan to reduce investment in buildings.

Chart 7: Top three growth priorities



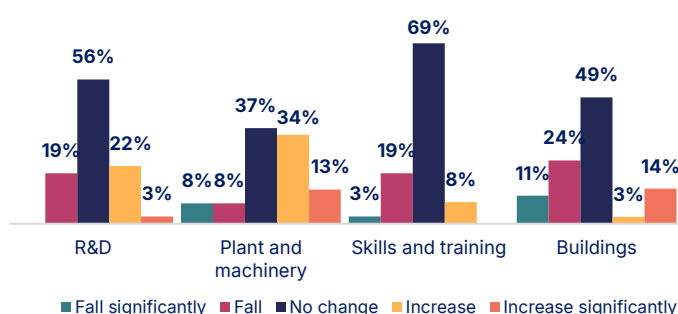
Source: FDF State of Industry Survey

Chart 8: Top three potential Budget measures encouraging growth and investment



Source: FDF State of Industry Survey

Chart 9: Expectations of planned capital investment expenditure over the next 12 months to September 2026



Source: FDF State of Industry Survey

Persistent staffing strains

Labour shortages in the sector rose in Q3, with the vacancy rate rising to 4.9%, up from 4.2% in Q2 (Chart 10), above the rate in manufacturing as a whole (1.9%) and that of the UK (2.2%). A seasonal increase in vacancies in Q3 was expected as manufacturers ramp up production ahead of Christmas, but the persistent gap between vacancy rates in the sector and the UK average points to a structural problem rather than a temporary spike.

73% of companies reported vacancy rates of up to 5.0%. Larger businesses face the most severe recruitment challenges, with an average vacancy rate of 5.3%, compared with 3.9% for mid-sized companies and 4.4% for small firms. These shortages span a wide range of roles, from production and warehouse operatives to skilled machine operators, quality assurance, project management, sales and engineering positions.

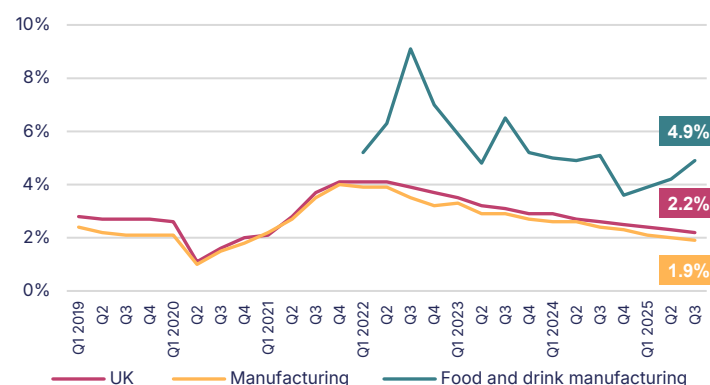
At the same time, the impact of the April increase in employer National Insurance contributions is forcing manufacturers to make decisions that run counter to their hiring needs (Chart 11). Two thirds (66%) of companies have reduced or plan to reduce headcount as a direct result of the policy change. This highlights a clear tension: firms are unable to fill existing vacancies yet are simultaneously cutting staff to manage labour costs. The effects of the policy therefore extend beyond higher costs, with the unintended consequence of weakening the sector's labour capacity.

In response to the increase in employer National Insurance, 74% of manufacturers have also raised prices, while half (50%) are absorbing at least part of the additional cost, further squeezing profit margins.

Extended Producer Responsibility (EPR) is a substantial regulatory burden, with 78% of businesses reporting that EPR will reduce their profit margins and 49% expecting it will divert resources away from other growth initiatives.

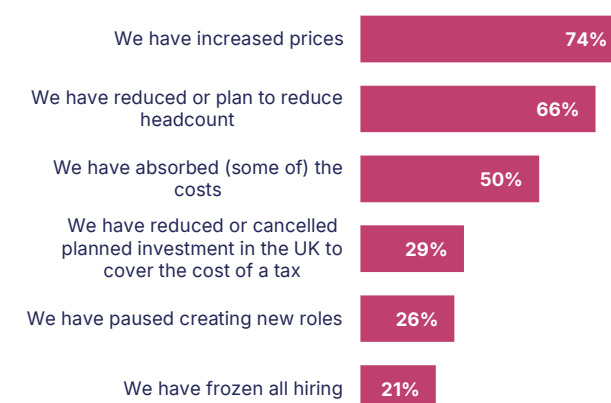
Looking ahead, 88% of manufacturers are concerned about the prospect of higher taxes in the upcoming Budget, 50% about more burdensome regulation, and 45% about policies that negatively affect household finances (Chart 12). This is unsurprising given that the industry is being squeezed from both the cost side and the demand side.

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



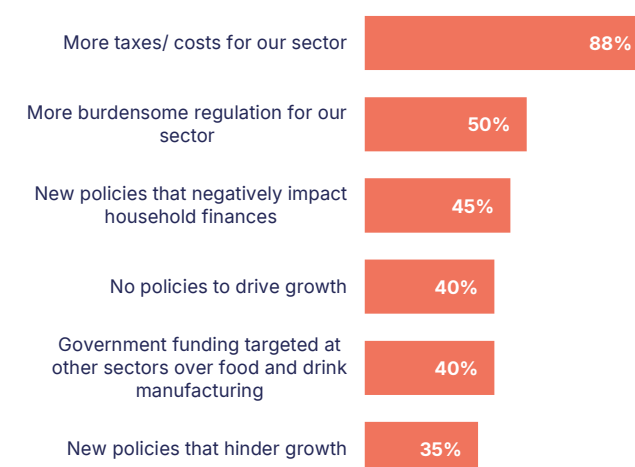
Source: FDF State of Industry Surveys and ONS

Chart 11: Impact of employer NICs to business



Source: FDF State of Industry Survey

Chart 12: Top three concerns about the November Budget



Source: FDF State of Industry Survey

Ongoing cost pressures

On average, total production costs are reported to have increased by 5.0% over the year to September, while selling prices rose by 2.9%.

Three quarters (75%) of manufacturers experienced cost rises of over 5.0%, with 14% experiencing increases of over 10.0%. In contrast, costs fell for only 8% of respondents (Chart 13). SMEs saw the highest cost increases with an average rise of 8.6%, compared to 6.3% for mid-size businesses, and 4.6% for large businesses.

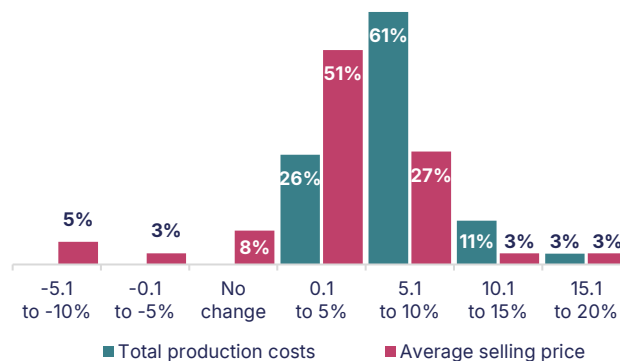
In terms of prices, three quarters (78%) increased their average selling price by less than 10.0%, similar to 80% in Q2. More than one in ten (11%) manufacturers saw their prices fall over the year, whilst 6% kept theirs unchanged.

For the year ahead to September 2026, manufacturers expect their costs to rise by 2.1% and prices by 1.7%, on average. A third (34%) of manufacturers expect production costs to increase between 5.1 to 10.0%, and 14% expect the same range of increases for their prices. (Chart 14).

Higher water and waste bills are a new, potentially significant cost pressure facing the sector in the near term. Nearly half (47%) of manufacturers report that the rises will have a significant or very significant impact on their business, triggering price rises (Chart 15). By size, 40% of large businesses, 56% of mid-size companies and 41% of SMEs expect higher water and waste bills to feed through into consumer prices.

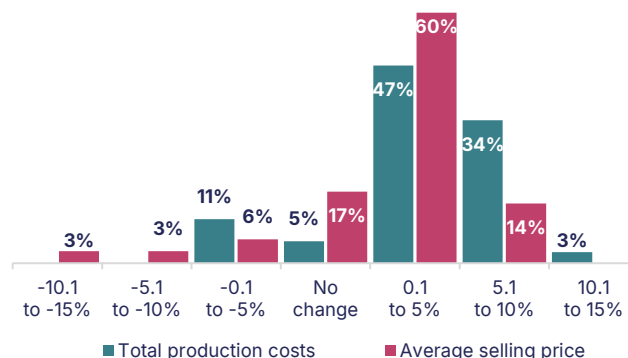
A further 34% of manufacturers regard the higher charges as marginal — they will add to costs but not enough to require price increases — and 18% do not expect noteworthy changes in these utility costs.

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



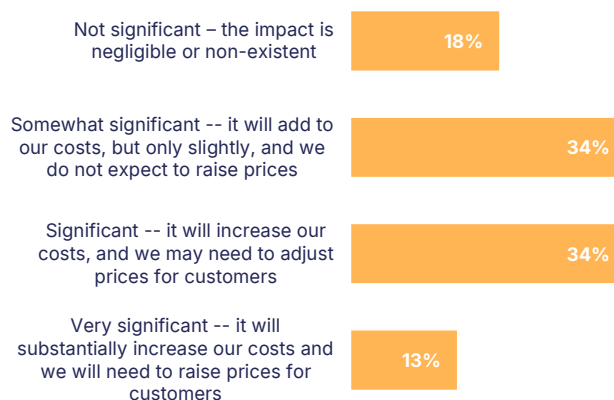
Source: FDF State of Industry Survey

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



Source: FDF State of Industry Survey

Chart 15: Impact of recent or upcoming rise in water and waste bills



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.

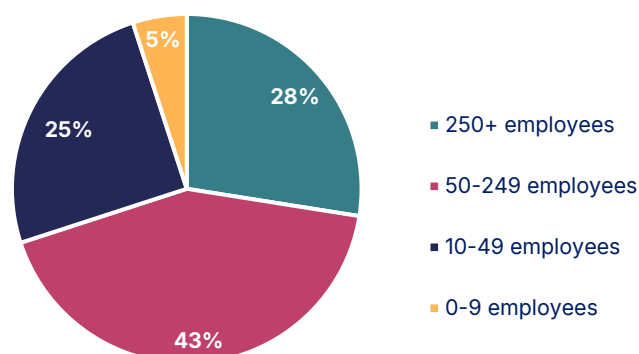
Over a quarter (28%) of the businesses surveyed are large employers with more than 250 employees, while the largest group (43%) are businesses with 50-249 employees and a quarter (25%) are small businesses with 10-49 employees (Chart 16).

By turnover, 60% of respondents are businesses with a turnover of £50m or less, while 13% 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 hot beverages. The 'Other' category covers businesses operating in sectors such as snacks, cereals, topped pizzas or vinegar.

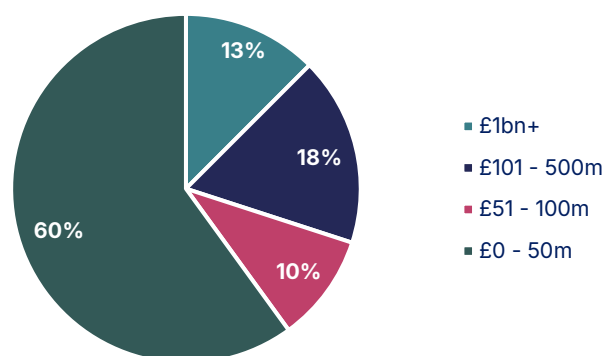
Over two thirds (69%) of manufacturers operate in England, while just under a quarter (24%) have production facilities located in Scotland and 10% in Wales.

Chart 16: Respondents by employment size



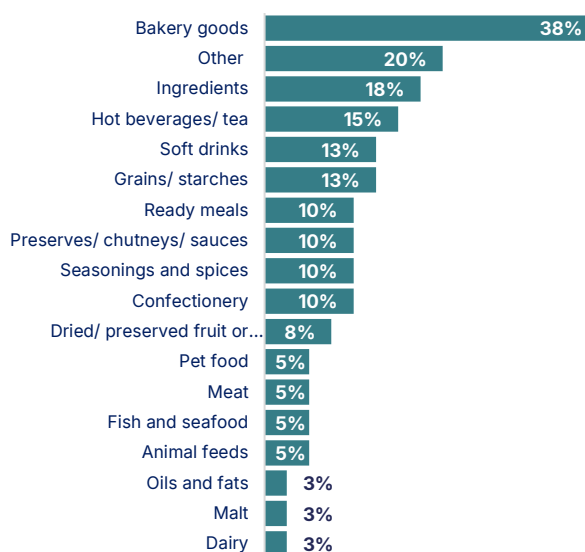
Source: FDF State of Industry Survey

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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