

State of Industry Report Q4 2025

fdf



Executive summary

- 2026 is likely to be defined by weak consumer demand and sustained structural cost pressures.
- Industry confidence partially recovered in Q4 2025, rising to -31%, up from -60% in Q3. This is consistent with the broader pattern seen across 2025, with Q3 appearing to be an outlier.
- Growing sales in the UK market remains the overwhelming priority for 69% of food and drink manufacturers, a view shared across all firm sizes. Product innovation ranks as the second most important priority.
- Greater certainty following the Budget has lifted investment intentions, with 74% of businesses planning to maintain or increase overall investment over the next year, up from 65% in the previous quarter. The most notable shift came from smaller companies: 66% plan to increase spending on plant and machinery.
- The sector's labour vacancy rate inched to 5.0%, up from 4.9% in Q3, remaining well above the rate in manufacturing as a whole (2.1%) and the UK average (2.3%).
- Businesses are becoming more cautious ahead of the Employment Rights Act. Potential slower hiring, increased automation, and higher HR and legal spend are expected. 66% of businesses identified payroll and staffing costs as their greatest concern.
- On average, total production costs are reported to have increased by 4.4% over the year to December, while selling prices rose by 4.6%.

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Read more from FDF insights and analysis

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%

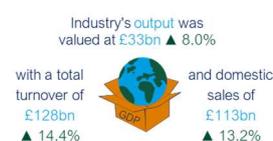
Inflation forecast



Trade snapshot



Industry facts and stats



2026: not yet out of the woods

The food and drink sector continues to face sustained cost and demand pressure. Annual food and non-alcoholic inflation eased to 3.6% in January, but remains above overall UK inflation of 3.0%. Across 2025, food prices rose by 4.2% — more than double the long-term average (Chart 1).

Much of this pressure has been policy-driven. Extended Producer Responsibility added £1.1bn in costs to manufacturers, with some SMEs reporting that this alone wipes out their annual profits. Higher employer National Insurance contributions added more than £400m, alongside further burdens from the Soft Drinks Industry Levy, EU trade measures and advertising restrictions.

Despite these increases, manufacturers have been unable to pass through costs fully due to intense retail competition and weak consumer demand. Retail food volumes remain below pre-pandemic levels, although it's difficult to get a clear picture, given substantial ONS data revisions. Revised data show food volumes sold in retail were 6.6% below January 2020 levels in December (previous estimates suggested a 10.0% drop) (Chart 2). This prolonged volume weakness continues to compress margins.

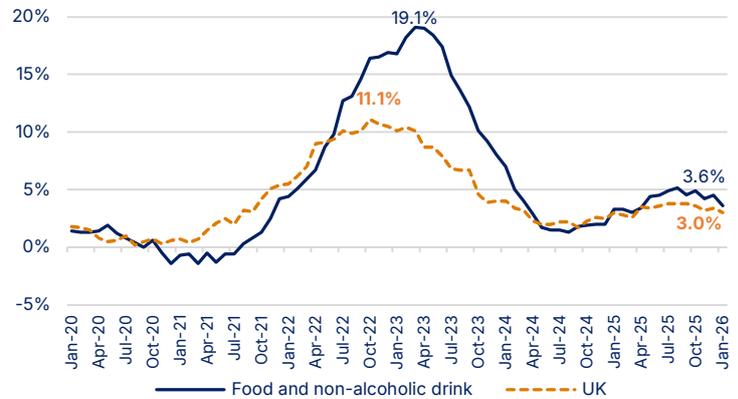
The structural strain is visible in business dynamics. The number of UK food manufacturers has fallen for two consecutive years — the first sustained decline since 2010 (Chart 3), and insolvencies in the last four years are more than double 2019 levels.

Looking ahead, while most global agricultural commodity prices have stabilised, structural risks persist. Climate change is one of them, with the record-breaking rain in the UK affecting arable crop yields and livestock production. Electricity costs are expected to rise in 2026 due to the nearly-doubling of transmission costs for grid maintenance. It's estimated that non-commodity charges will make up nearly 60% of a typical business electricity bill.

At the same time, food manufacturers face further regulatory changes, including the Employment Rights Act, the Deposit Return Scheme, the Nutrient Profile Model and new SPS arrangements, all of which add to compliance costs and operational complexity.

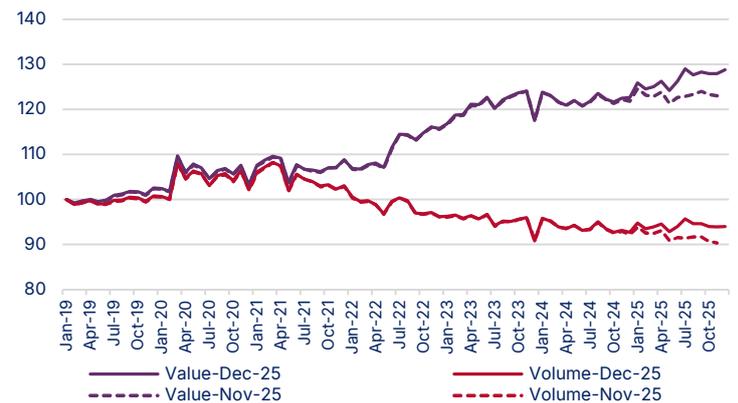
2026 is likely to be defined by weak consumer demand and sustained structural cost pressures.

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



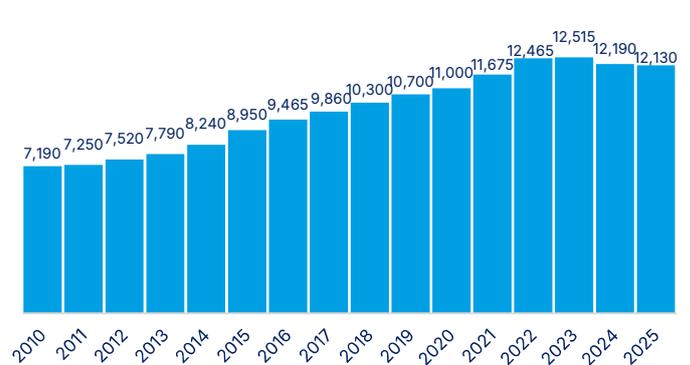
Source: ONS

Chart 2: Retail sales of food



Source: ONS

Chart 3: Number of UK food and drink manufacturers



Source: ONS, Nomis

Confidence improves, but remains weak

Confidence in the food and drink manufacturing sector showed a partial recovery in Q4 2025, although it remains firmly in negative territory.

The FDF net confidence score — calculated as the difference between the share of businesses reporting improved conditions and those reporting deterioration, excluding those reporting no change — rose to -31% in Q4, up from -60% in Q3 (Chart 4). The Q3 reading was the lowest level recorded outside periods of structural shocks. This appears to have been driven by uncertainty ahead of the November’s Budget and the extended period of speculation beforehand. With that uncertainty now reduced, business conditions in Q4 looks more consistent with the broader pattern seen across 2025, excluding Q3.

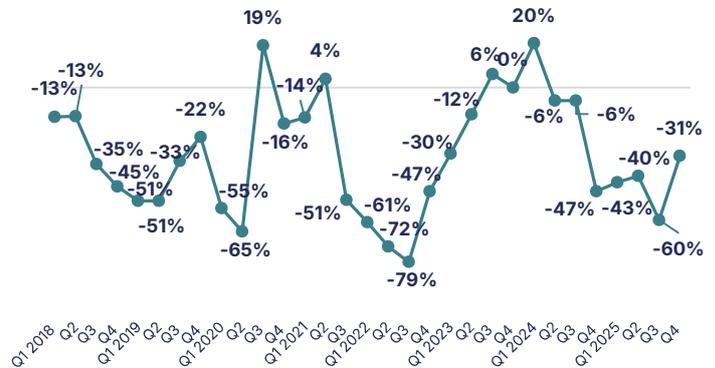
In Q4, 41% of businesses reported a deterioration in conditions compared with the previous quarter, while 49% reported no change (Chart 5).

Confidence trends diverged significantly by company size. SMEs and mid-sized businesses continued to face challenging conditions, recording net confidence scores of -38% and -33%, respectively. Among SMEs, 50% reported worsening conditions. In contrast, all large businesses reported that conditions remained unchanged, highlighting the relative resilience that scale can provide during periods of uncertainty.

Looking ahead to Q1 2026, the sector’s outlook has improved markedly. The net outlook confidence score rose to -3%, an increase of 17 percentage points from -20% in the previous quarter. Majority of businesses (51%) expect conditions to remain stable in the coming months (Chart 6). However, size-based differences persist: mid-sized firms report the weakest outlook (-17%), while large businesses report a strongly positive outlook (+60%), suggesting that uncertainty may have peaked for larger operators.

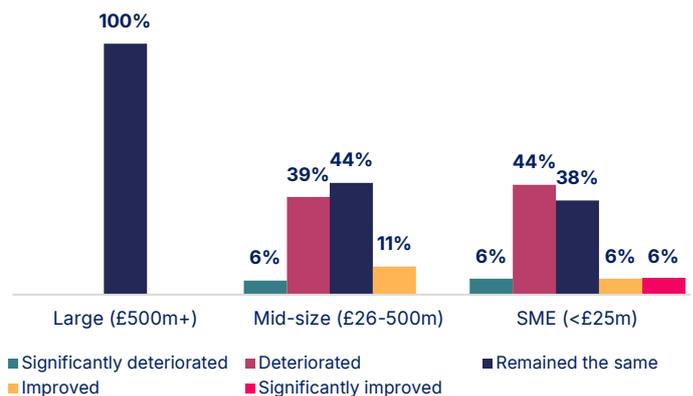
Overall, while conditions remain difficult for small and mid-sized manufacturers, there are signs of stabilisation among larger firms. Historically, larger businesses tend to signal turning points earlier than the rest of the sector. Their stabilisation may therefore indicate that broader conditions could begin to improve in the months ahead.

Chart 4: FDF net confidence score



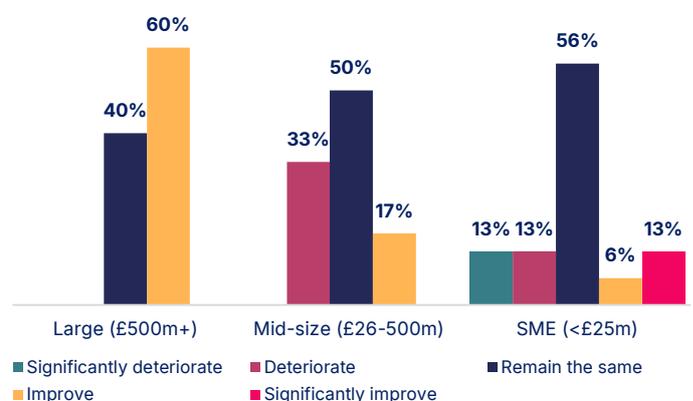
Source: FDF State of Industry Survey

Chart 5: Business conditions in Q4 2025 compared to Q3 2025, by business size



Source: FDF State of Industry Survey

Chart 6: Outlook confidence: Expectations of market conditions in Q1 compared to Q4, by business size



Source: FDF State of Industry Survey

Greater certainty lifts investment intentions

Growing sales in the UK market remains the overwhelming priority for food and drink manufacturers (69%) (Chart 7), a view shared across all firm sizes (Chart 8).

Product innovation ranks as second most important priority, with 56% of respondents, up from 46% prioritising this last quarter. New product development is central to large businesses' plans, with three quarters (75%) focusing on this, compared to 65% of mid-sized firms and 53% of SMEs. This really reflects the industry's role as a leading global research and development hub.

International expansion is also high on the agenda, with 26% of manufacturers prioritising growth in foreign markets. Export growth is a high priority for SMEs (40%), suggesting that smaller firms are seeking to offset weak domestic demand with sales elsewhere

A significant share of businesses (74%) plan to maintain or increase overall investment over the next year, up from 65% the previous quarter (Chart 9). Greater certainty following the November Budget has increased commitment to investment. This is reflected in plant and machinery investment intentions, with 53% of respondents intending to increase spending in this area. Skills and training investment intentions have shifted significantly, with 24% planning to increase this compared to 8% in the previous survey, reflecting the need to upskill existing staff to deliver automation and digital transformation plans.

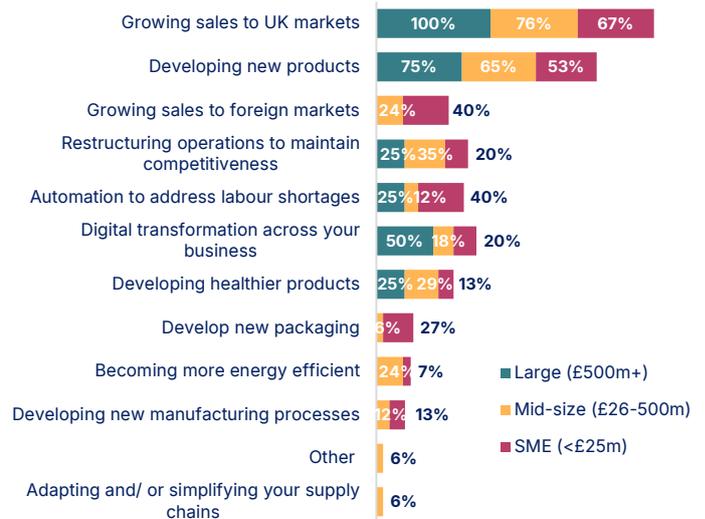
By firm size, the most notable shift in investment intentions came from smaller companies. Two thirds of the smaller businesses (66%) plan to increase spending on plant and machinery in the coming year, while 35% intend to raise their R&D budgets. This underlines the importance of certainty in driving investment decisions, particularly for financially constrained smaller firms. Unlike larger businesses, SMEs typically have less access to capital and thinner margins, making them more sensitive to policy clarity.

Chart 7: Growth priorities



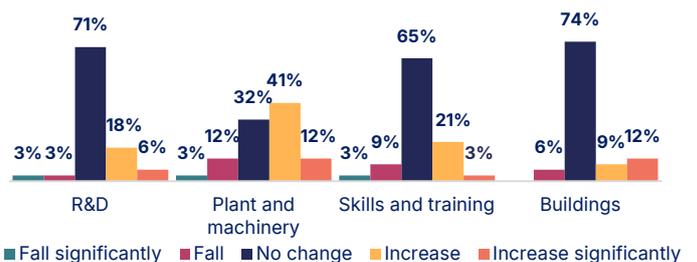
Source: FDF State of Industry Survey

Chart 8: Growth priorities by size



Source: FDF State of Industry Survey

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



Source: FDF State of Industry Survey

Labour market pressures ahead of regulatory change

The labour vacancy rate in the sector inched to 5.0%, up from 4.9% in Q3 (Chart 10), more than double the rate in manufacturing as a whole (2.1%) and above the UK average (2.3%).

While 69% of companies report vacancy rates of up to 5.0%, larger businesses face the most pronounced recruitment pressures, with an average vacancy rate of 5.4%, compared with 4.6% for mid-sized firms and 4.4% for small businesses. 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.

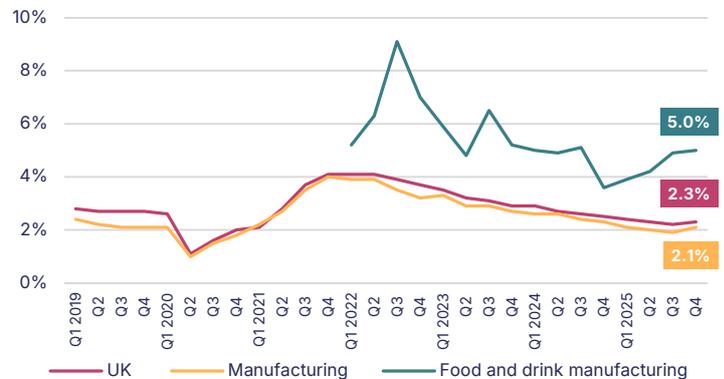
Persistent high vacancies and increasing labour costs are a significant challenge for food manufacturers. The Employment Rights Act (ERA) introduces changes across 28 different areas of employment law over the next two years and is expected to add further employment cost and regulatory complexity.

Significant uncertainty remains regarding the detailed implementation of the ERA. Hence, businesses are cautious: 28% of respondents state that it is too early to determine what actions they will take (Chart 11). However, future hiring may slow (39%), automation may increase (36%) and HR and legal spend may rise (31%). By firm size, 75% of large companies are considering increased spend on HR, legal or compliance support, indicating that larger employers are more likely to build up internal capability in response to the ERA rather than making immediate workforce changes.

Costs associated with the Act are a key issue. 66% of businesses identified payroll and staffing costs as their greatest concern (Chart 12). Legal advice and disputes (49%) and compliance and HR administration (49%) also rank close behind. 80% of SMEs cite payroll and staffing costs as their main concern — significantly higher than other firm sizes. Large firms are more focused on legal disputes and compliance burden (both 75%), reflecting exposure to litigation and regulatory complexity.

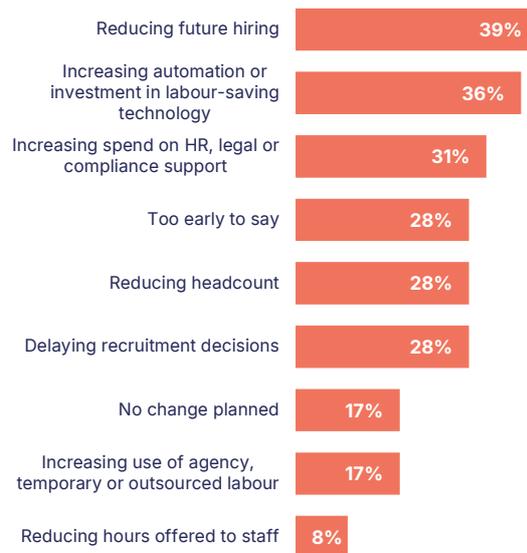
The scale and complexity of the changes introduced under the ERA present a substantial operational and financial challenge for the sector, particularly for smaller firms without significant HR departments.

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



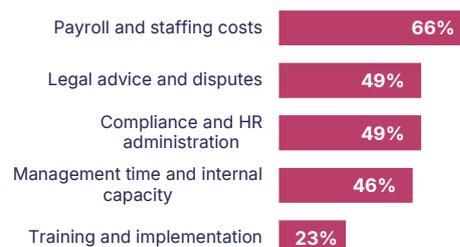
Source: FDF State of Industry Surveys and ONS

Chart 11: Business actions in response to the Employment Rights Act



Source: FDF State of Industry Survey

Chart 12: Concerns over costs of the Employment Rights Act



Source: FDF State of Industry Survey

Smaller cost and price rises expected for 2026

On average, total production costs are reported to have increased by 4.4% over the year to December 2025, while selling prices rose by 4.6%.

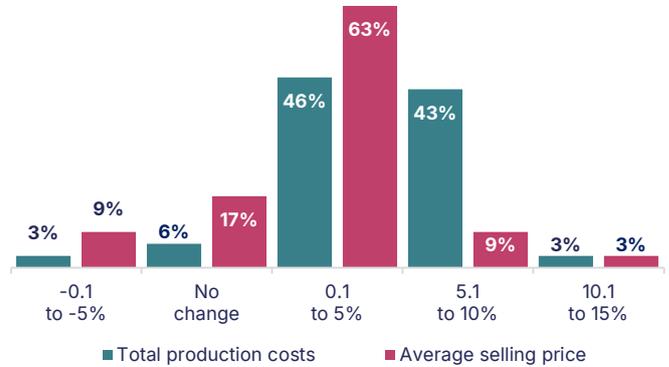
46% of manufacturers experienced cost rises of over 5.0%, with 3% experiencing increases of over 10.0%. In contrast, costs fell for only 3% of respondents (Chart 13). SMEs saw the highest cost increases with an average rise of 5.3%, compared to 4.1% for mid-sized businesses, and 4.6% for large businesses. In terms of prices, almost three quarters (72%) increased their average selling price by less than 10.0%, similar to 78% in Q3. 9% of manufacturers saw their prices fall over the year, whilst 17% kept theirs unchanged.

For 2026, manufacturers expect their costs to rise by 2.5% and prices by 2.3%, on average. Almost three quarters of respondents (74%) are expecting no change in their production costs over the next year, and 60% are expecting no change in prices. A third (34%) of manufacturers are expecting a fall in their prices (Chart 14).

In 2025, the international trade environment added further cost pressure for food and drink manufacturers. Higher tariff exposure and more complex global trading conditions have increased the cost of moving goods and heightened uncertainty. While over a third (37%) of businesses do not plan to grow internationally (Chart 14), a quarter (26%) are maintaining or increasing their exports from UK facilities, whilst 23% are expanding production presence in key markets outside the UK as well as having a hybrid approach. The diverse responses highlight that businesses are taking different steps to combat the uncertainty in trade.

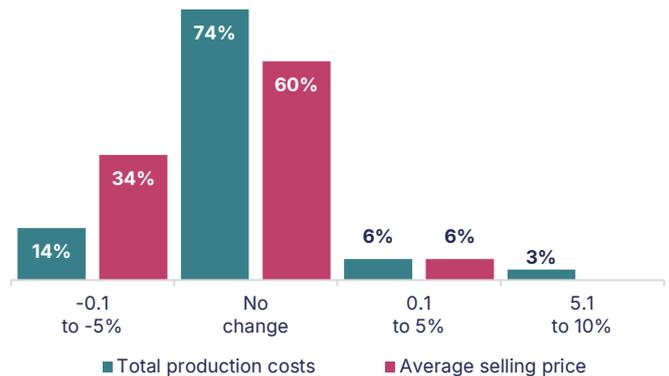
Smaller businesses face greater barriers to trade, given limited financial resources and lack of expertise. [FDF's Q3 Trade Snapshot](#) highlights that government partnership can help achieve the [FDF's ambition to grow](#) exports to £35bn over the next decade by developing a comprehensive SME export plan alongside the UK-EU SPS framework. While the Business Growth Service has consolidated domestic and international trade support, there is still a critical information gap for SMEs on wider export requirements (e.g. Classification, Rules of Origin, Safety and security declarations). A focused export plan should provide SMEs with clear guidance and resources to navigate these complexities, helping them seize new opportunities as trade barriers ease.

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



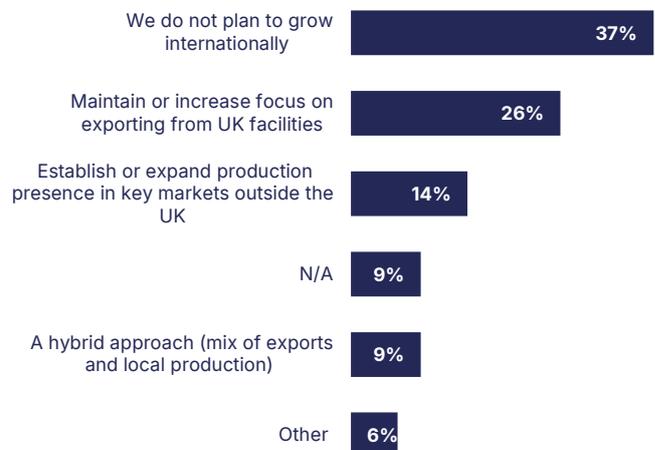
Source: FDF State of Industry Survey

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



Source: FDF State of Industry Survey

Chart 15: Impact of the change in the UK's trade landscape



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.

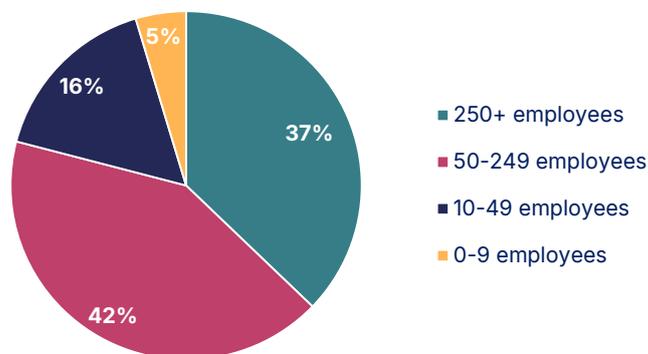
Medium-sized businesses (50–249 employees) make up the largest proportion of respondents at 42%, followed by large employers with more than 250 employees (37%). A further 16% are small businesses with 10–49 employees (Chart 16).

By turnover, just over half (51%) of respondents are businesses with a turnover of £50m or less, while 7% 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 seasonings and spices. The 'Other' category covers businesses operating in sectors such as snacks, savoury and salty goods, and breakfast cereals.

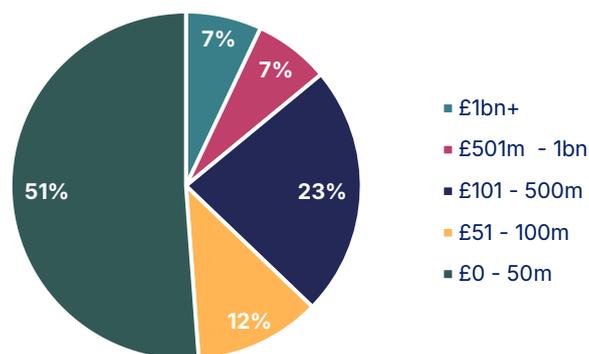
Over three quarters (77%) of manufacturers operate in England, while just under a quarter (23%) have production facilities located in Scotland and 14% in Wales.

Chart 16: Respondents by employment size



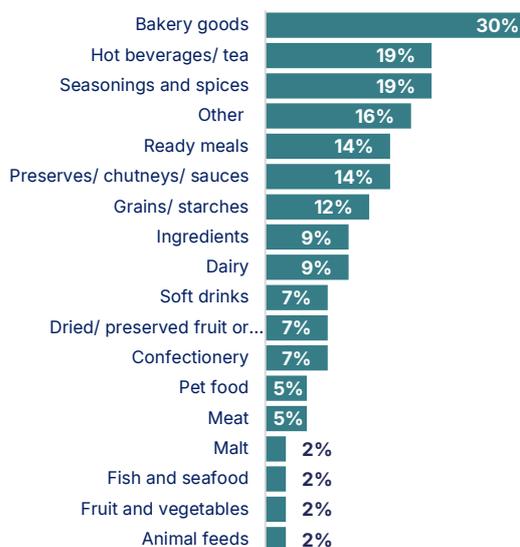
Source: FDF State of Industry Survey

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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