State of Industry Report
Q2 2026

fdf

Executive summary

- Industry's confidence partially recovered in Q2, rising to -31% from -64% in Q1. However, the improved score reflects a slower pace of deterioration rather than an improvement in business conditions.
- 88% of manufacturers say business conditions have deteriorated since the 2024 General Election, rising to 100% among small businesses.
- Manufacturers have also identified the key issues they want the new Prime Minister to address. 75% want future minimum wage increases kept in line with inflation, 56% want action to reduce energy costs, and 50% want the government to limit the regulatory burden.
- Growing UK sales remains the top priority, cited by 63% of manufacturers.
- The conflict in the Middle East has added further cost pressures. During the first four months of the conflict, costs rose by 1.2% for large manufacturers and 6.3% for small businesses. Many manufacturers have absorbed these increases so far, although there are signs that some may seek to pass them on later.
- Against this backdrop, 44% of manufacturers plan to pause or cancel investment, while 31% plan to become more energy-efficient.

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Read more from FDF insights and analysis

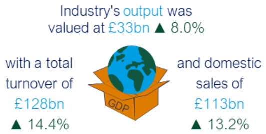
Prices dashboard

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

Trade snapshot

Industry facts and stats



Resilient industry under growing strain

Food and non-alcoholic drink inflation slowed to 1.3% in July, the slowest rate since September 2021 and below UK-wide inflation of 2.9% (Chart1).

In April, we projected food inflation could reach 9–10% by December 2026. We no longer expect this forecast to materialise, for two reasons.

First, manufacturers' behaviour has changed. Following the energy crisis triggered by the war in Ukraine, many mid-size and large manufacturers revised their hedging strategies for energy and agricultural commodities. Businesses are now fixing prices further ahead, often for 12–18 months or longer, lengthening the lag between changes in input costs and consumer prices. Second, gas and electricity pressures have been weaker than expected, making the sector more resilient to the Middle East conflict than initially anticipated.

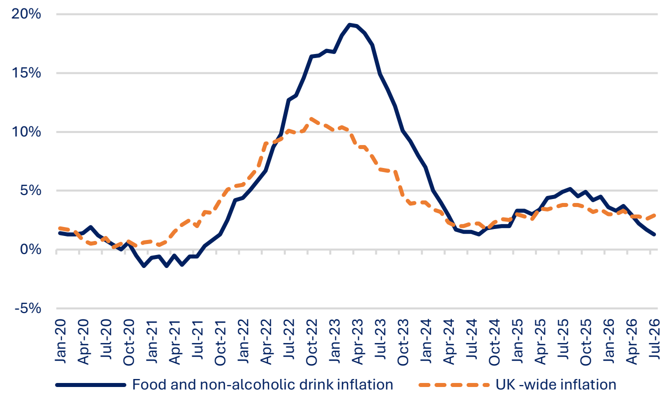
Nevertheless, manufacturers remain squeezed between higher costs and a challenging consumer environment. Some costs have already been absorbed (see page 7), while household finances remain under pressure. KPMG estimates 23% of households are financially insecure, while the grocery price war continues as discounters have gained 5.5 percentage points of market share since 2020. This limits manufacturers' ability to pass on costs, meaning businesses are likely to absorb a significant share of these cost increases. These challenges compound the effects of Brexit, the pandemic and the war in Ukraine.

The strain is evident in business failures. In 2025, food and drink manufacturing insolvencies were almost double their 2019 level, compared with increases of 39% across the UK and 33% across manufacturing. Data for the first half of 2026 points to a similar trend.

Employment is also falling. In Q1 2026, the sector employed 15,000 fewer people than a year earlier, a 3.1% decline, compared with 0.3% across the UK (Chart 2).

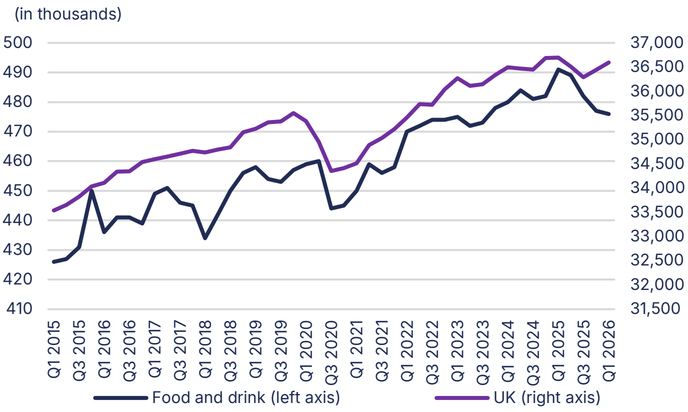
Investment also remains under pressure. While business investment in the UK has been on an upward trajectory since 2022, industry's investment fell in 2023 and 2024 before recovering somewhat in 2025. In 2025, the sector's investment remained 15% below its 2019 level, compared with UK-wide investment 11% above 2019 levels (Chart 3).

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



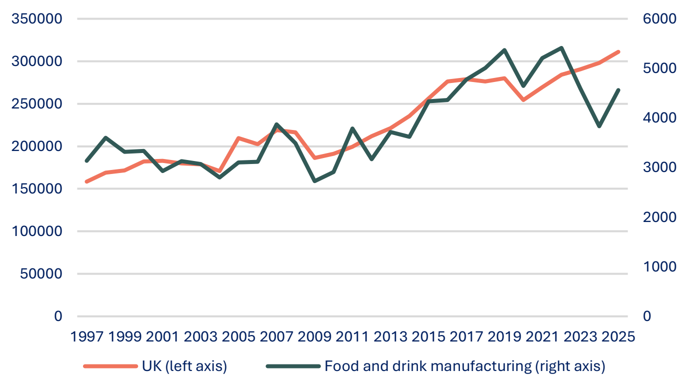
Source: ONS

Chart 2: Number of jobs, UK and food and drink manufacturing



Source: ONS, JOBS03 and JOBS04.

Chart 3: Business investment, UK and food and drink manufacturing



Source: ONS, Business investment by industry, chain volume measures, NSA.

Confidence claws back some ground

Confidence in the food and drink manufacturing sector has partially recovered after the sharp deterioration recorded at the start of 2026. The FDF net confidence score rose to -31% in Q2 2026, up from the -64% low recorded in Q1. 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 4).

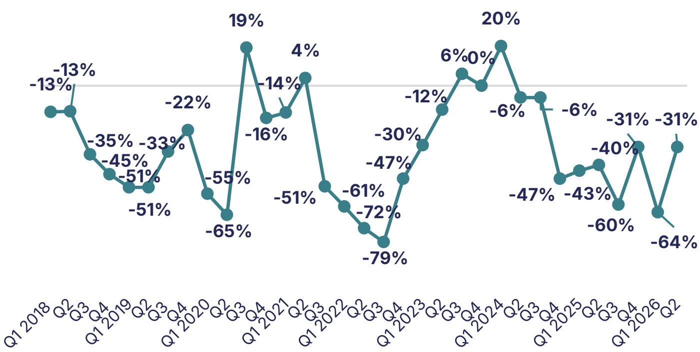
While this is a quarter-on-quarter improvement in the confidence score, it should not be mistaken for a genuine recovery. Half of businesses (50%) report that conditions have remained unchanged since Q1, while a further 41% say they have deteriorated. With negative sentiment now persisting for nine consecutive quarters, the improved score reflects a slower pace of further deterioration rather than actual improvement in business conditions.

Confidence trends were different across company sizes, while remaining negative overall (Chart 5). Mid-size businesses are now the most affected group, recording a net confidence score of -47%, with 53% reporting that conditions had deteriorated over Q2. Large businesses had a net confidence of -25%, with three quarters (75%) reporting that conditions remained the same compared to Q1. SMEs have emerged with the highest confidence score at -9%, a reversal from Q1 when small firms were among the hardest hit. This reinforces the point that an improved confidence score should not be conflated with improving business conditions, with much of the shift reflecting conditions stabilising rather than genuinely improving.

Looking ahead to Q3 2026, the sector's outlook confidence stands at -9%, representing a 42-percentage point improvement on the -51% recorded last quarter. A quarter (25%) of businesses expect conditions to deteriorate in Q3, while 59% expect them to remain unchanged. Businesses remain cautious, with sentiment still negative rather than genuinely optimistic.

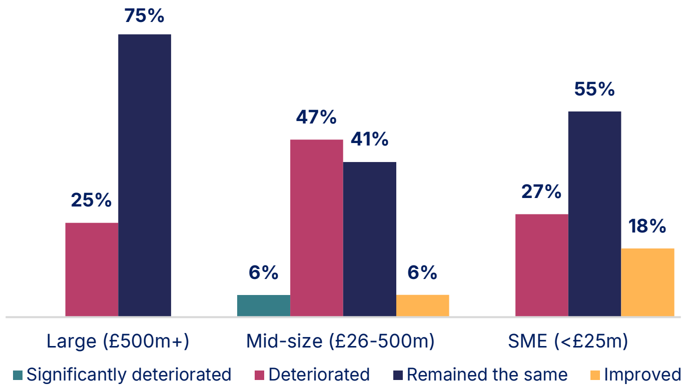
By company size, large businesses have the strongest outlook confidence, with all respondents expecting conditions to remain the same, while mid-size and small businesses remain more cautious, with around a quarter in each group expecting a deterioration into Q3 (Chart 6).

Chart 4: FDF net confidence score



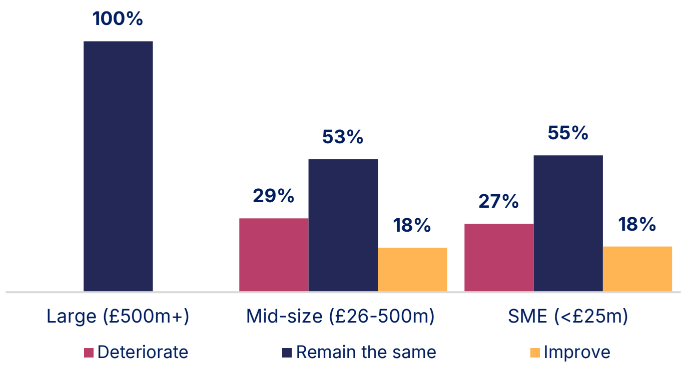
Source: FDF State of Industry Survey

Chart 5: Business conditions in Q2 2026 compared to Q1 2026, by business size



Source: FDF State of Industry Survey

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



Source: FDF State of Industry Survey

A message to the new Prime Minister

88% of food manufacturers report business conditions have deteriorated since the 2024 General Election (Chart 7). Small businesses reported the greatest deterioration, with all respondents in this group saying conditions had worsened since the change of government, compared with three quarters of large businesses. This longer-term view provides useful context for the quarter-on-quarter changes in confidence, indicating that recent movements in the score sit against a backdrop of sustained pressure on business conditions. The finding is further reinforced by the fact that no businesses reported an improvement in conditions over the period.

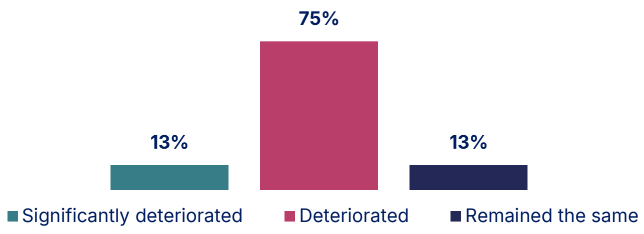
Manufacturers have also set out the key issues they want the new Prime Minister to address, with labour costs emerging as the leading concern. Three quarters of businesses (75%) would like to see future minimum wage increases kept in line with inflation, rather than rising above it. This comes against a backdrop of significant increases in minimum wages over the past decade: since 2016, they have risen by a cumulative 76.5%, compared with a 50.5% increase in average UK earnings. Alongside the increase in employer National Insurance contributions, this has added considerably to the labour cost pressures facing manufacturers.

Over half (56%) want government to focus on measures to reduce business energy costs, while half (50%) want the government to limit the regulatory burden (Chart 8).

With employment costs emerging as a key priority for manufacturers, the sector's vacancy rate rose to 4.3% in Q2 2026, up from 3.9% in Q1, and remains above both the UK average of 2.2% and the wider manufacturing average of 2.0% (Chart 9). In the current subdued business climate, businesses are likely to remain cautious about hiring plans.

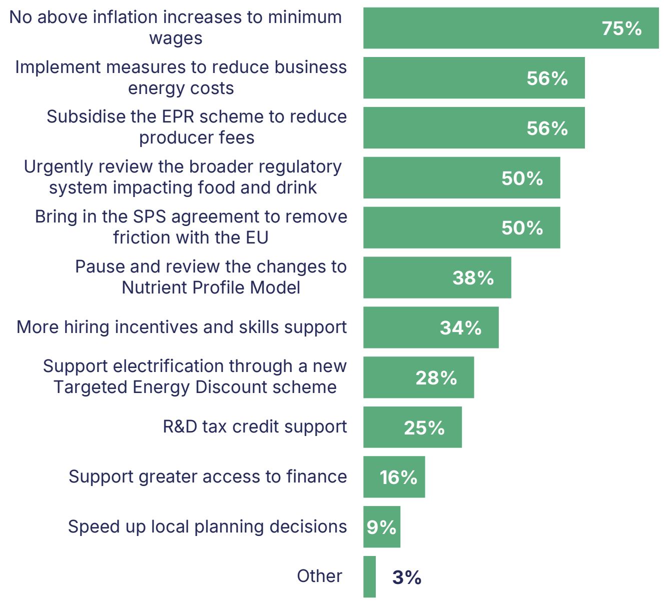
FDF's Powering Communities report shows that food and drink manufacturing employs almost half a million people across every region and nation of the UK and contributes £42bn to the economy. With the new Prime Minister focused on strengthening regional growth, action to address manufacturers' concerns around employment costs, energy and regulation could help improve the conditions for investment and growth, with benefits extending to the communities and regional economies in which the sector operates.

Chart 7: Business conditions in Q2 2026 since the 2024 general election



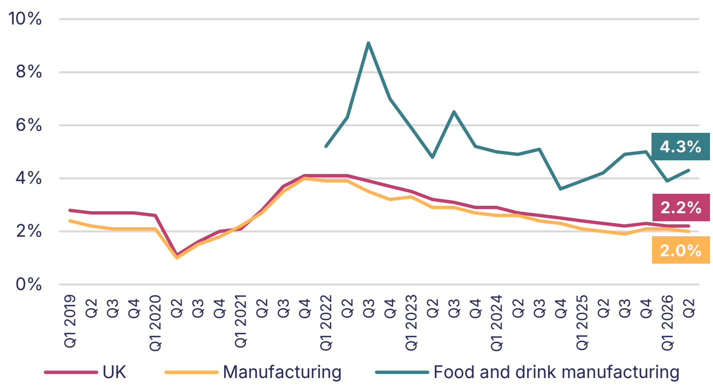
Source: FDF State of Industry Survey
Note: No business chose the options of 'improved' or 'significantly improved', although these choices were offered.

Chart 8: Top policy measures to ease cost pressures



Source: FDF State of Industry Survey

Chart 9: Vacancy rate in UK, manufacturing and food and drink manufacturing *(vacancies per 100 employees)*



Source: FDF State of Industry Surveys and ONS

Manufacturers turn to innovation

Growing sales in the UK market remains the top priority for food and drink manufacturers, although priorities have become more varied this quarter. 63% of respondents cite UK market growth as a priority, down from 82% in Q1 (Chart 10). Developing new products has emerged as the clear second priority, cited by half (50%) of respondents compared with 39% last quarter. This suggests manufacturers are placing greater emphasis on product innovation as they look for opportunities to grow in a challenging domestic market.

Growing sales to foreign markets has also fallen as a priority, mentioned by 22% of respondents compared with 34% in Q1. FDF's Trade Snapshot highlights how food export volumes in Q1 2026 were the third lowest Q1 level since 2000, and only marginally above the pandemic disrupted Q1 2021 figure. Export figures are a useful indicator, and the Trade Snapshot makes clear that a sector that is being squeezed at home cannot be expected to seize opportunities abroad.

Restructuring for competitiveness (down from 45% to 31%) and digital transformation (down from 39% to 28%) have also fallen back as priorities this quarter, as some of the immediate focus on adapting business operations has moderated.

Looking further ahead, the Middle East conflict is expected to have a lasting impact on how the sector operates. Almost three quarters (72%) expect it to result in higher prices over the next few years, while 39% anticipate reducing their dependence on vulnerable trade routes. A third (33%) expect greater investment in automation and resilience, as well as increased supplier diversification (Chart 11).

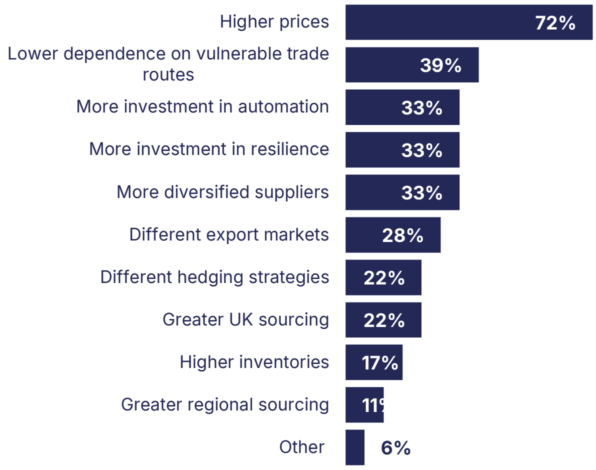
But despite these intentions, planned capital investment appears subdued (Chart 12). Across R&D, plant and machinery, skills and training, and buildings, the most common response is that spending will remain unchanged, with shares ranging from 47% to 65%. This suggests a broadly stable investment outlook rather than widespread expansion or contraction.

Plant and machinery remains the relative bright spot, with 31% of manufacturers expecting to increase investment. This is likely linked to ongoing automation plans, particularly as manufacturers seek to manage rising labour costs.

Chart 10: Growth priorities

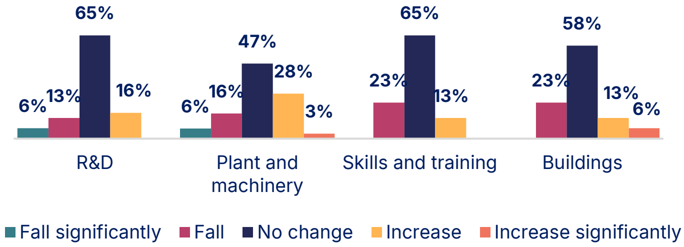
Source: FDF State of Industry Survey

Chart 11: How businesses will operate differently because of the Middle East conflict



Source: FDF State of Industry Survey

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



Source: FDF State of Industry Survey

The conflict adds to costs and weighs on investment

The conflict in the Middle East has added to cost pressures for food and drink manufacturers, although the scale of the impact varies across businesses (Chart 13). Over the first four months of the conflict, 34% of businesses reported cost increases of 5–10%, the most common range, while 28% saw increases of 2–5%. A further 6% reported increases of more than 10%.

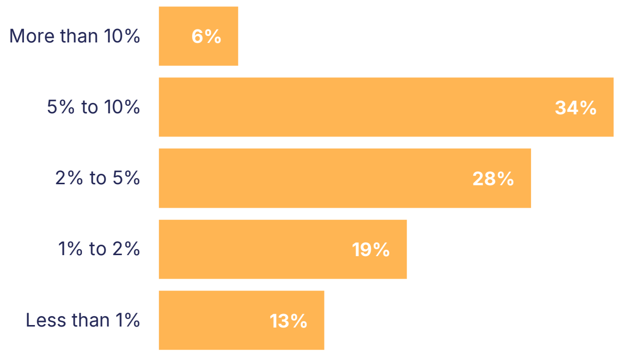
Across the sample, conflict-related costs rose by an average of 2.4%. Small businesses have experienced the largest increases, averaging 6.3%, followed by mid-sized businesses at 5.0%, compared with 1.2% for large businesses. This suggests larger firms have so far been better able to limit their exposure to the cost effects of the conflict.

The impact has been felt most widely through higher costs, reported by 91% of businesses, while 72% point to increased uncertainty around costs (Chart 14). Direct operational impacts are less widespread, with 19% reporting supply shortages, although half (50%) have faced supply delays. The same proportion report pressure from customers to absorb additional costs, limiting manufacturers' ability to pass increases on.

Indeed, many manufacturers are absorbing higher costs, at least for now. While 16% have absorbed them with no plans for recovery, 44% expect to recover them through future price rises. A further 34% have already passed on some of the increase to customers.

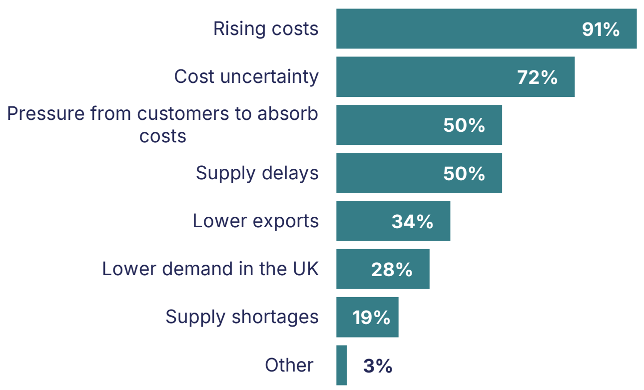
Looking more broadly at how manufacturers expect to respond to conflict-related cost pressures, raising prices remains the most commonly considered action, cited by 78% of respondents, down from 82% in Q1 (Chart 15). Together with the large share of businesses currently absorbing costs but planning to recover them later, this suggests that further price increases are likely to feed through in the coming months. Pausing or cancelling capital investment is the second-most widely considered response, selected by 44% of manufacturers, up from 26% in Q1. By contrast, the proportion considering restructuring or workforce reductions has fallen sharply, from 33% to 9%, suggesting that businesses are currently more inclined to reduce investment than employment in response to these pressures. Improving the energy efficiency of production has also gained prominence, rising by 10 percentage points to 31%.

Chart 13: Costs rises due to the Middle East conflict



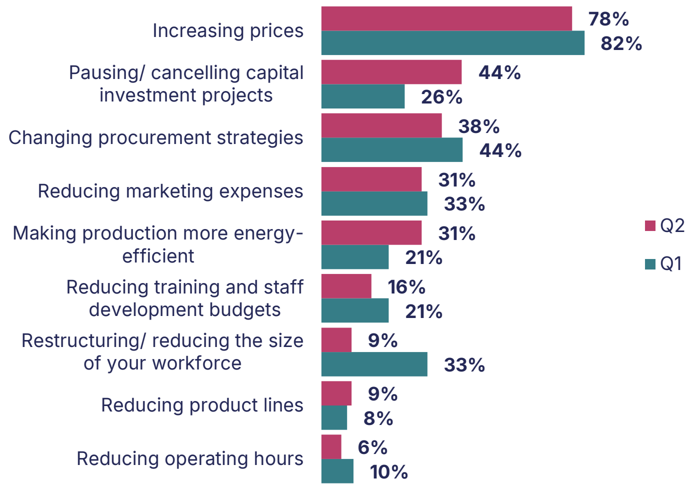
Source: FDF State of Industry Survey

Chart 14: Impact of the conflict on businesses



Source: FDF State of Industry Survey

Chart 15: Plans to manage cost pressures from the conflict



Source: FDF State of Industry Survey

Who responded?

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

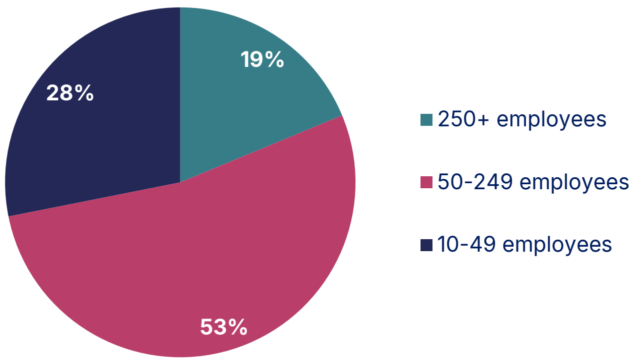
By employment size, medium-sized businesses (50–249 employees) make up the largest share of respondents at just over half (53%), with a further sizeable proportion of small employers with 10-49 employees (28%). Around a fifth (19%) are large businesses with over 250 employees (Chart 16).

By turnover, 56% of respondents are businesses with a turnover of £50m or less, while 9% are businesses with a turnover exceeding £1bn (Chart 17).

Businesses also represent a wide variety of sub-sectors (Chart 18). The best represented subsectors were bakery goods, ingredients, and dairy. The 'Other' category covers businesses operating in sectors such as snacks, breakfast cereals, frozen meats and starch and derivatives.

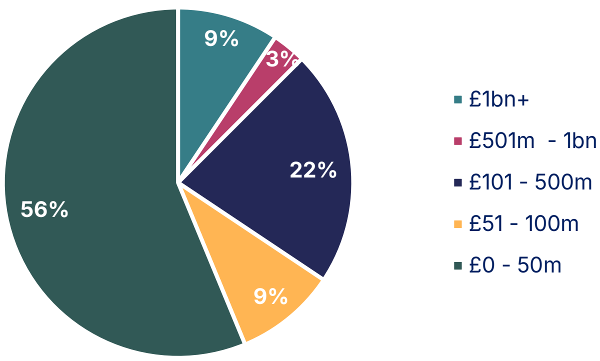
Over two-thirds of manufacturers (69%) operate in England, while just under a quarter (22%) have production facilities located in Scotland and 6% in Wales.

Chart 16: Respondents by employment size



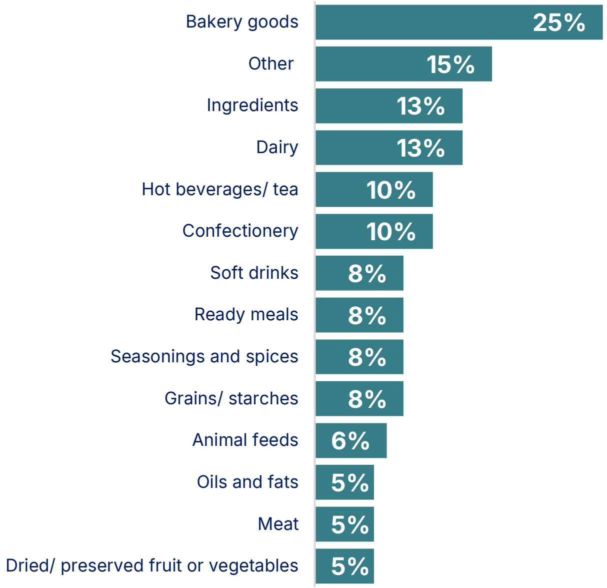
Source: FDF State of Industry Survey

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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