



UK Food & Drink Inflation Forecast

2026-2027



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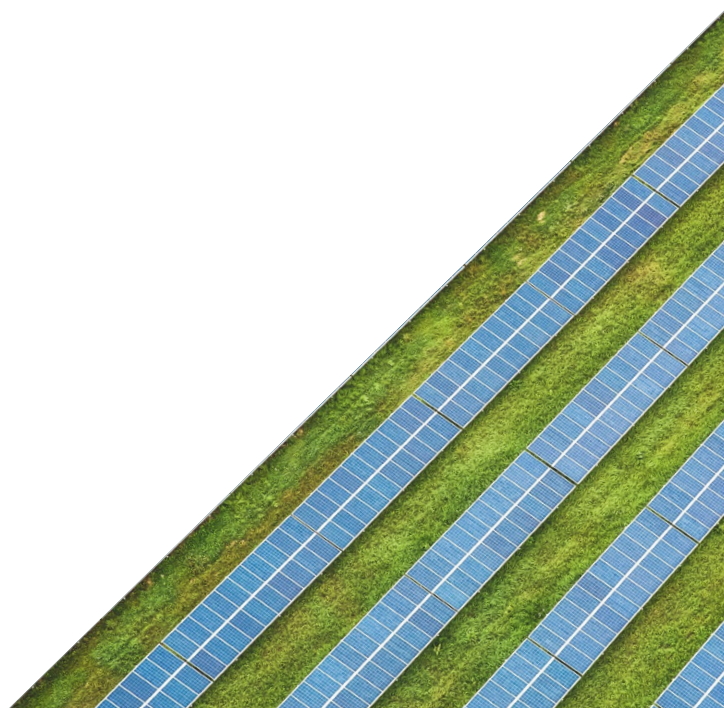


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Executive summary

- We have revised our forecast for food and non-alcoholic inflation and we now predict food and non-alcoholic drink inflation will reach 3.9% in December 2026, putting the inflation rate over 2026 at 2.8%.
- For 2027, we forecast food and non-alcoholic drink inflation to reach 5.5%, peaking at 6.4% in July 2027.
- The slowdown in food inflation in recent months has been surprisingly strong, but this trend is likely to reverse as manufacturers face rising costs across energy, ingredients, transport, logistics and packaging. The Middle East conflict has pushed gas prices to more than double their February 2026 levels, while droughts and El Niño have driven sharp increases in agricultural commodity prices. Over the course of 2026, wheat has increased 45%, sugar 27%, coffee 22%, cocoa over 100% and rice 60%, while UK-grown produce is almost 10% more expensive year on year.
- The tax and regulatory burden on the industry has risen significantly in recent years, adding to already substantial cost pressures. The [CBI Report on business costs estimates](#) that in 2025 the sector paid £7.17bn in business tax and £1.64bn in Employers' NICs. In addition, the Extended Producer Responsibility added a further £1.1bn in annual costs. Together, these costs are equivalent to 23.8% of the sector's GVA.
- Current market conditions are unusually volatile, with the Middle East conflict, climate events and the escalating Russia–Ukraine war creating significant risks that inflation could come in above our forecast.
- Conversely, intense competition in the industry and continued pressure on household finances, coupled with the grocery price war, will limit manufacturers' ability to pass on cost increases and continue to pressure their margins. If households reduce their food purchases (given inflationary pressures will further eat into households' budgets) or if competition for grocery market share intensifies further, given that retailers are the ones setting prices, inflation could come in below our forecast.



Food inflation forecast

We revised our previous forecast

In April, we projected that food inflation¹ could reach 9–10% by December 2026. We no longer expect this forecast to materialise, primarily because input cost increases have taken longer to feed through to retail prices and continued pressure on household budgets.

Following the 2022 energy shock, many medium-sized and large manufacturers extended their hedging horizons for energy and agricultural commodities. Businesses are increasingly fixing prices 12–18 months ahead, and sometimes for up to two years, alongside shorter-term contracts. This has lengthened the lag between changes in input costs and consumer prices.

At the same time, continued pressure on household budgets and intense competition in the sector are limiting manufacturers' ability to pass on higher costs, while retailers have resisted supplier price increases more strongly than expected.

As a result, the next inflationary cycle is likely to come later, with longer-lasting inflation, as cost pressures are feeding through gradually rather than producing another sharp peak.

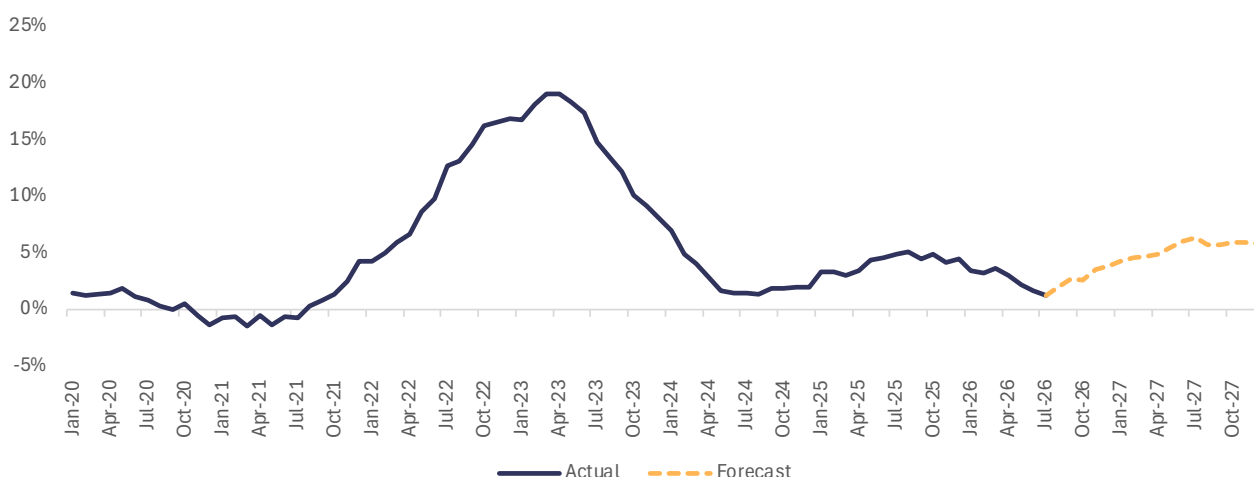
Current food inflation forecast

Annual food inflation reached 1.3% in July 2026, the lowest rate since September 2021. We expect inflation will start to accelerate from August 2026 and reach 3.9% in December 2026, putting the inflation rate over 2026 at 2.8%.

For 2027, we forecast food and non-alcoholic drink inflation to reach 5.5%, peaking at 6.4% in July 2027.

As Chart 1 shows, the inflation profile has changed. During the 2021–2024 inflationary episode, food inflation rose steadily to a peak of 19.1% and then declined steadily. The shape of the next inflationary cycle is likely to differ from that seen in 2021–2024.

Chart 1 – Food and non-alcoholic drink inflation, actual and forecast



Source: ONS and FDF calculations.

¹ Throughout this document, *food* prices and *food* inflation refer to prices and inflation, respectively, for *food* and *non-alcoholic drink*.

Longer and more varied hedging arrangements mean cost increases will feed through more gradually, reducing the likelihood of a sharp inflation peak, but extending the period over which prices remain under pressure. In other words, inflation is likely to be later, longer, lower than we forecast in the early days of the conflict in Iran.

The following section examines the key forces expected to drive food inflation over the forecast period.

Drivers of food inflation

Food inflation is driven by a mix of production costs, supply shocks, and pass-through dynamics. In practice, the biggest drivers are energy, agricultural commodities, regulation, labour costs and market structure. Prices of many of these inputs have already increased on the spot markets or will increase for manufacturers that are on fixed-term contracts and will have to renew their contracts, as we detail below.

The current outlook is particularly uncertain, with several cost pressures potentially reinforcing one another.

Energy costs

Energy will play a key role in the uptick in inflation. Energy (gas and electricity) is embedded in every stage of food production. This means energy has a direct impact on food prices through its impact on food manufacturers, and indirectly by pushing up costs at every production stage of the supply chain.

Both spot and forward gas prices have risen sharply (Chart 2), more than doubling since February 2026. For manufacturers renewing fixed-price contracts later this year, forward prices are more relevant than current spot prices, meaning higher costs could still feed through even if wholesale prices subsequently ease. UK electricity prices are also heavily influenced by gas prices, so higher gas prices mean higher electricity prices as well.

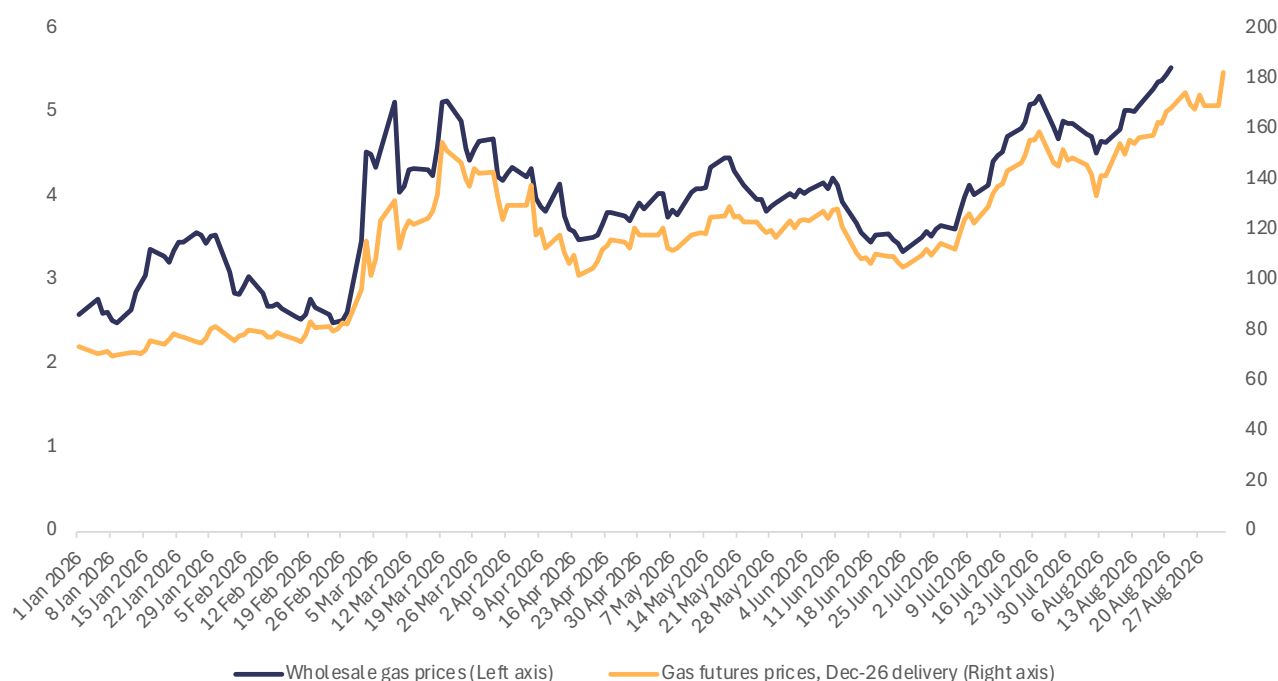
The impact on manufacturers will be delayed. Many businesses remain protected by energy contracts agreed before the recent increase, but members report that contracts are due for renewal in Q4 2026 and Q1 2027. As these hedges expire, higher prices will progressively enter manufacturers' cost bases, creating upward pressure on food prices into 2027.

However, pass-through is unlikely to be immediate or complete. Intense retailer competition and weak consumer demand mean manufacturers are likely to absorb part of the increase, further eroding margins, spreading the inflationary impact over a longer period.

Geopolitical uncertainty, concerns over global gas supplies and Europe's relatively weak gas storage position ahead of winter are all contributing to higher prices.

UK gas supplies remain secure because the UK is supplied primarily through Norwegian pipeline imports, domestic North Sea production and imports from the United States. However, the UK is closely integrated with European and global gas markets and has relatively limited gas storage. This means that UK wholesale prices are heavily influenced by European storage levels and global competition for LNG cargoes, particularly from Asia.

Chart 2 - Wholesale and futures gas prices with delivery in December 2026



Source: ONS and MarketWatch.

Ingredient costs

Agricultural commodity pressures are already building. Wheat is up 45%, sugar 27%, coffee 22%, cocoa over 100%, rice 60%, produce grown in the UK up almost 10%, Bloomberg Agricultural Index² up 26%. Further pressures are likely as a result of the UK drought, El Niño, fertiliser disruption and renewed disruption to Black Sea grain exports. Oxford Economics predicts that global agricultural prices will rise by 11.8% in 2026 and 4.8% in 2027. For reference, the surge seen in 2022 following the invasion of Ukraine stood at 14.2%.

These pressures will reach manufacturers at different speeds. Businesses buying ingredients on spot or short-term contracts will experience increases relatively quickly, while those that have fixed agricultural commodity prices further ahead will be protected initially.

As those contracts roll over, however, higher commodity prices will progressively enter production costs.

The drought in the UK has been severe. The exceptionally hot and dry conditions in spring and summer 2026 have materially weakened UK agricultural output. Initial AHDB estimates suggest wheat yields about 15% below their ten-year average. [ECIU estimates](#) that, if current yield estimates hold, combined production of wheat, barley, oats and oilseed rape could fall roughly by about 13% below expectations formed before the summer heatwaves.

The effects extend beyond arable farming. Poor grass growth has increased livestock farmers' reliance on purchased feed and winter forage, while heat stress has weighed on milk production. Horticultural producers also face greater irrigation requirements and tighter water availability.

² Bloomberg Agricultural Index covers 10 crops: Chicago wheat, Kansas wheat, corn, sugar, coffee, cocoa, soybeans, soy oil, soy meal, cotton.

El Niño is predicted to have a significant impact. El Niño disrupts normal atmospheric circulation by warming the central and Eastern tropical Pacific, altering rainfall and temperature patterns across major food-producing regions, likely impacting the production of wheat, cocoa, coffee, sugar, rice and palm oil in some producing regions, and therefore pushing up their prices. And while the UK will not be directly impacted, it will feel its impacts through higher global agricultural commodity prices.

El Niño also interferes with trade logistics, as drought in Central America reduces the depth of the Panama Canal, where traffic has been restricted since the start of September.

Fertiliser disruption could weigh on future harvests. The Middle East conflict has significantly disrupted global fertiliser markets. The region accounts for around one-third of global urea exports, with an estimated 3.9 million tonnes of Gulf

exports suspended since the effective closure of the Strait of Hormuz. Urea prices roughly doubled in the weeks following the disruption, while higher natural gas, ammonia and sulphur prices have added further pressure to nitrogen and phosphate fertiliser production costs.

The immediate impact is higher costs for farmers, rather than higher food prices. However, fertiliser prices have risen much faster than crop prices, reducing affordability and potentially limiting fertiliser application rates. If sustained, lower fertiliser use could reduce future crop yields and tighten global food supplies. The impact is likely to emerge with a lag and will vary geographically, with import-dependent agricultural producers including Brazil, India and parts of Sub-Saharan Africa particularly exposed.

The risk is therefore primarily medium-term: sustained high fertiliser prices could reduce application rates and weaken future harvests.

Chart 3 – Global wheat prices



Source: World Bank Commodity Price Data (The Pink Sheet); Wheat US, HRW, \$/mt.

These risks could also reinforce one another. The UK drought is already weighing on domestic agricultural yields, while El Niño could disrupt harvests in major producing regions globally. At the same time, high fertiliser prices could constrain future yields even where growing conditions remain favourable. Together, these pressures could reduce agricultural supply both domestically and globally, amplifying the upside risk to food inflation.

The Russia-Ukraine war could also be straining the global market for ingredients, as both countries are striking each other's ports, loading facilities, and vessels, resulting in interruptions to Black Sea and Sea of Azov grain shipments. This has the potential to impact grain prices, especially wheat. Russia is the world's largest exporter of grains and Ukraine the fifth largest.

Together, they supply about 30% of the world's wheat. Wheat prices have risen by about 20% since February (Chart 3), while wheat futures have reached a three-year high in the second half of August.

Transport costs

UK petrol prices increased by about 22.7% and diesel prices by about 28.6% since the start of the conflict in the Middle East. Higher fuel prices are already raising costs across farming, haulage and food distribution, although the timing of pass-through varies depending on fuel contracts and surcharge arrangements. Smaller operators are typically more exposed to spot-price movements, while larger fleets can hedge fuel costs through longer-term procurement contracts.

Global shipping costs have also risen as geopolitical disruption and low water levels constrain key trade routes. Rerouting around the Red Sea and Black Sea, together with drought-related restrictions on the Panama Canal and Rhine, has increased freight rates and transit times. These pressures add directly to manufacturers' imported ingredient and packaging costs.

For instance, Panama Canal rates have hit a new record in August, more than 16 times higher than a year ago, with constrained capacity while geopolitical disruption increased demand for alternative routes.

Packaging costs

Plastic packaging costs have risen sharply since the start of the Middle East conflict, driven by higher petrochemical feedstock, energy and freight costs. In Q2 2026, European prices for BOPP film almost doubled quarter-on-quarter, while PET film rose by around 40%, HDPE by 38% and LDPE by 31%.

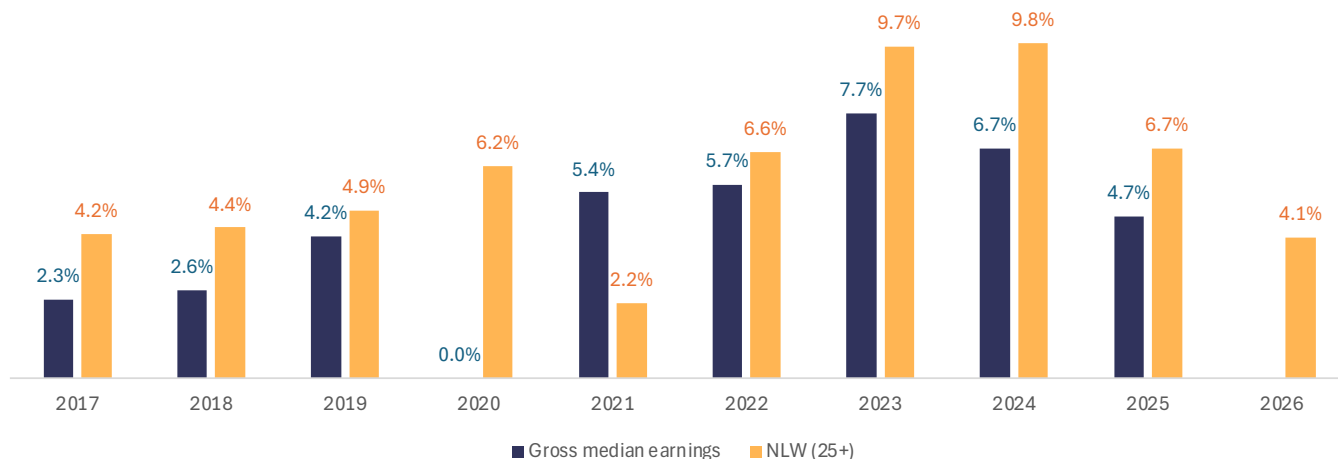
These increases are particularly significant for food and drink manufacturers, which rely heavily on plastic films, bottles, trays and other packaging formats to keep food and drink fresh and safe.

While some polymer prices have since eased, costs remain volatile and are being compounded by government-imposed regulatory pressures including Extended Producer Responsibility, the Plastic Packaging Tax and a significant increase in the cost of Packaging Recovery Notes for plastic which have almost quadrupled since the beginning of the year.

Labour costs

Like energy, labour costs affect every stage of the food supply chain and therefore have a broad impact on final prices. The National Living Wage (NLW) rose by 4.1% in April 2026 and has increased significantly faster than average earnings over recent years, creating additional pressure on pay structures across the sector (Chart 4). Between 2019–2025, NLW increased 49% versus 34% for average wages. These hikes ripple upward, compressing differentials and lifting all pay scales.

Chart 4 – Annual changes in gross median earnings and the National Living Wage rates



Source: ONS, Annual Survey of Hours and Earnings, change in gross median weekly earnings.

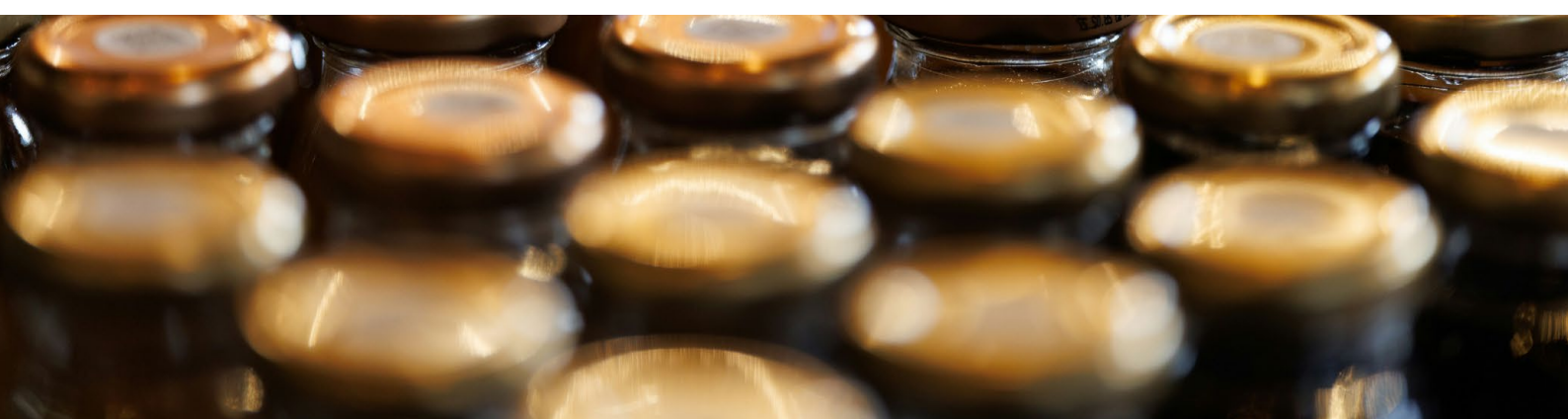
In addition, the upcoming Employment Rights Act (ERA) brings an additional burden on manufacturers. The scale and complexity of the changes introduced under the ERA present a substantial operational and financial challenge for the sector, particularly for smaller firms without significant HR departments.

Labour costs are emerging as a leading concern for manufacturers. In our latest [State of Industry survey](#), we asked members what the new government should prioritise to ease cost pressures. Concerns about future minimum wage increases topped the list, with 75% of respondents calling for rises to be kept in line with inflation rather than exceeding it.

Regulation

The tax and regulatory burden on the industry has risen significantly in recent years, adding to already substantial cost pressures. The CBI Report on business costs [estimates](#) that in 2025 the sector paid £7.17bn in business tax and £1.64bn in Employers' NICs. In addition, the Extended Producer Responsibility added a further £1.1bn in annual costs. Together, these costs are equivalent to 23.8% of the sector's GVA.

For 2026 and 2027, in addition to business taxes, added regulatory pressures will come from the new SPS agreement, the Employment Rights Act, changes to packaging policy, implementation of the High Fat, Salt, Sugar policies across the



UK, including advertising and promotional restrictions. These measures will add to an already substantial regulatory burden on a sector characterised by tight margins, high capital intensity and long investment planning horizons.

Moreover, frequent changes to the regulatory framework further undermine business confidence: firms need stable, long-term rules to plan and invest, yet repeated shifts in policy direction impose additional costs and operational disruption. The realignment with EU law, for example, comes five years after the UK diverged and enacted more than 400 pieces of legislation that differ from EU rules. Similarly, the proposed changes to the Nutrient Profiling Model would alter rules that only came into force in January 2026, effectively moving the goalposts, damaging investment and innovation.

This matters for growth: every additional pound spent on taxes and regulatory compliance is money that cannot be invested in new equipment, technology, innovation or expanding production.

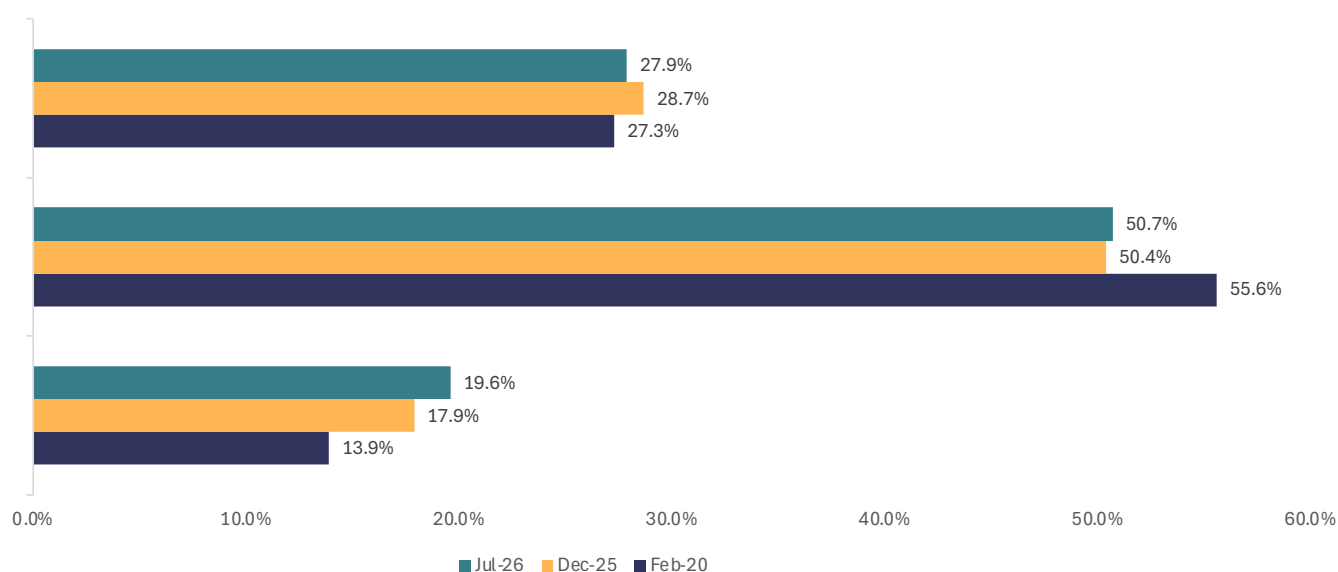
From input costs to consumer prices

The timing of food inflation depends not only on how far input costs rise, but also on when those increases enter manufacturers' cost bases and how much can ultimately be passed through to retailers.

Longer hedging arrangements mean recent increases in energy and commodity prices will reach manufacturers at different times as these contracts expire. Once they do, intense grocery competition and pressure on household budgets will constrain manufacturers' ability to pass them on immediately, with businesses absorbing part of the increase through both efficiencies and margins, which are under strain following repeated global shocks.

This creates a more gradual inflation profile than during the previous shock. Rather than input costs feeding rapidly into a sharp peak in consumer prices, we expect increases to emerge progressively through late 2026 and 2027 as contracts are renewed and pricing negotiations take place. This is the basis of our "later, but longer" forecast.

Chart 5 – Market share in the Great Britain grocery market



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

Risks to the forecast

Potential downside risks (lower inflation)

Industry competition and grocery price war

The UK food and drink manufacturing sector is highly competitive, with more than 12,000 businesses competing for market share. In this environment, manufacturers are extremely reluctant to raise prices, as even small increases risk losing customers to competitors. Price rises are therefore a last resort, with businesses absorbing cost increases wherever possible.

In addition, the UK grocery market is also highly competitive, with retailers engaged in a price war for two years now. The cost-of-living crisis has shifted consumer demand towards discounters, whose combined market share increased by 5.5 percentage points between February 2020 and July 2026.

Traditional supermarkets have responded by matching discounter prices across a growing range of products, but discounters have continued to gain share from most other retailers, with Tesco the main exception (Chart 5).

With household budgets still under pressure, manufacturers and retailers will remain reluctant to raise prices for fear of losing customers, meaning food inflation could come in lower than forecast. That will mean food manufacturers will have to absorb even more of the rising costs across the supply chain, however, margins will remain squeezed, limiting their ability to invest in future resilience.

The impact is likely to be greatest for smaller producers, which often operate under short-term contracts and have limited bargaining power in price negotiations. These businesses may therefore bear a disproportionate share of the inflationary burden, particularly where contracts do not allow costs to be adjusted promptly.

Table 1 – Insolvencies

	2019	2020	2021	2022	2023	2024	2025	2025
Great Britain	18,197	13,273	14,809	23,195	26,398	25,117	25,208	25,208
				27%	45%	38%	39%	39%
Manufacturing	1,540	1,230	1,107	1,767	2,089	2,022	2,046	2,046
				15%	36%	31%	33%	33%
Food & drink manufacturing	122	124	82	244	290	251	237	237
				100%	138%	106%	94%	94%

Source: The Insolvency Service, gov.uk.

Operational efficiencies

Further gains from changing procurement strategies, restructuring supply chains and changing their product mix could offset some cost pressures. However, after several years of repeated shocks, many of these efficiencies have already been realised, limiting the scope for operational improvements to materially reduce inflation.

Potential upside risks (higher inflation)

Climate events more severe than anticipated

In the UK, current drought conditions have reduced crop yields and increased costs for farmers. Drought conditions across Europe could add further pressure to food prices by reducing agricultural output in key producing regions, given the UK's reliance on Europe for imported produce and agricultural products.

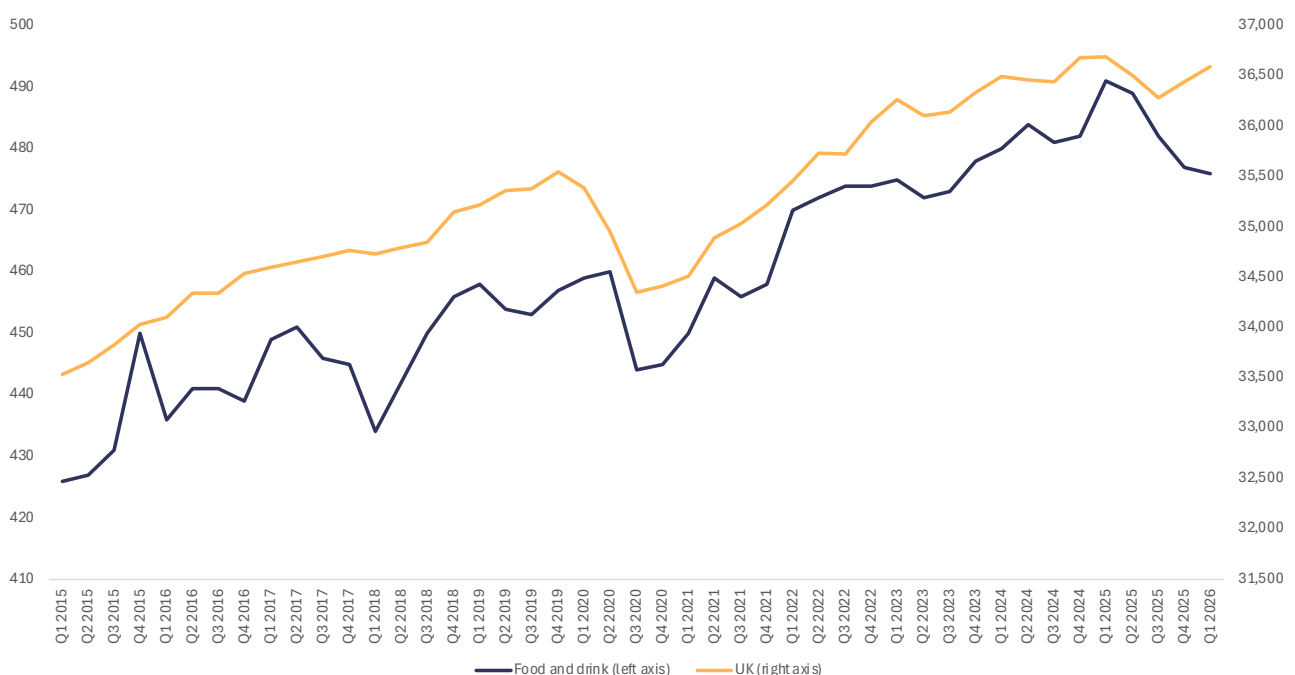
If dry conditions persist or worsen, further pressure on domestic production could tighten supplies and push food prices higher. Combined with high fertiliser prices that could reduce application rates, future harvests could see lower yields, hence higher prices.

A stronger-than-expected El Niño could disrupt harvests across major producing regions, tightening global supplies of key agricultural commodities. The impact would be amplified if poor harvests occurred simultaneously across regions or coincided with elevated energy and fertiliser costs.

A significant deterioration in the Middle East conflict

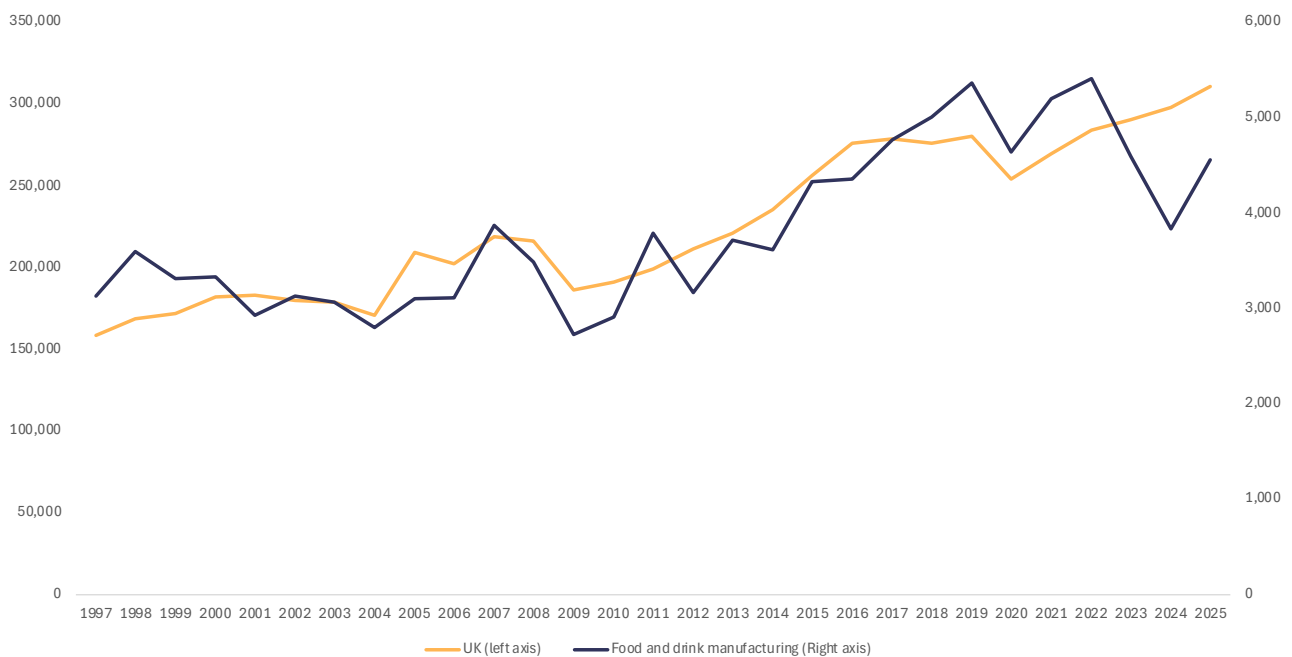
A renewed escalation could push energy and transport costs higher, particularly if oil and LNG flows through the Strait of Hormuz were further disrupted. If sustained, these pressures could feed through to food prices as manufacturers' existing hedges expire and contracts are renewed.

Chart 6 - Number of jobs, UK and food and drink manufacturing



Source: ONS, JOBS03 and JOBS04.

Chart 7 - Business investment, UK and food and drink manufacturing



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

Wider industry picture – disruption is the new normal

The sector has demonstrated considerable resilience through successive shocks, but its capacity to absorb further cost increases is becoming increasingly constrained. Insolvencies remain elevated, employment is falling and investment remains well below pre-pandemic levels.

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 (Table 1).

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 6).

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 7).

Taken together, these trends suggest that manufacturers have less capacity to absorb another sustained increase in input costs without consequences for employment, investment or prices.



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