

Food and Drinks Insights

10 May 2023

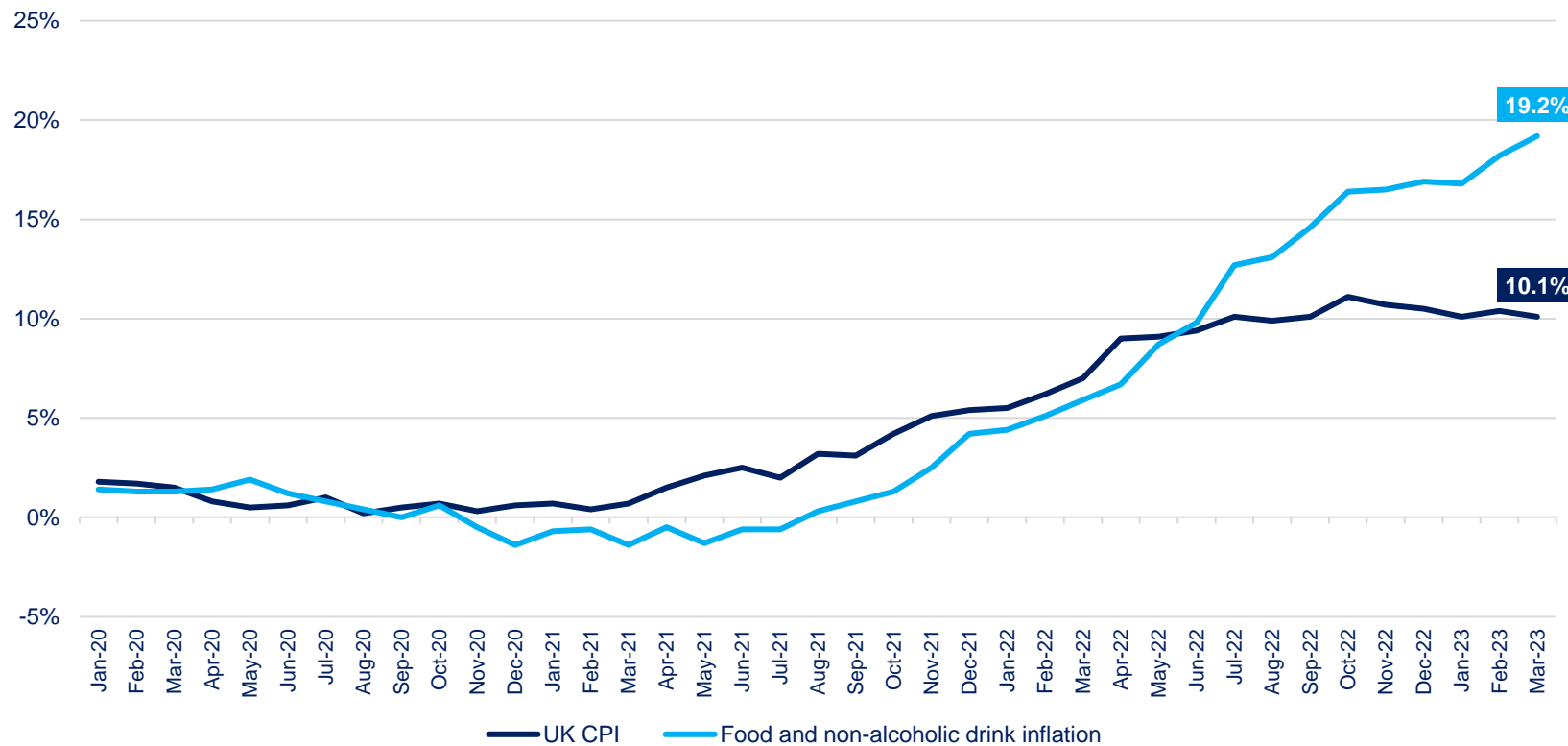
- Economic overview – Dr Liliana Danila
- State of Industry Q1 Survey Findings – Uros Milosevic
- Q&As

Economic overview

Where is the industry now?

Relentless food and drink inflation continued

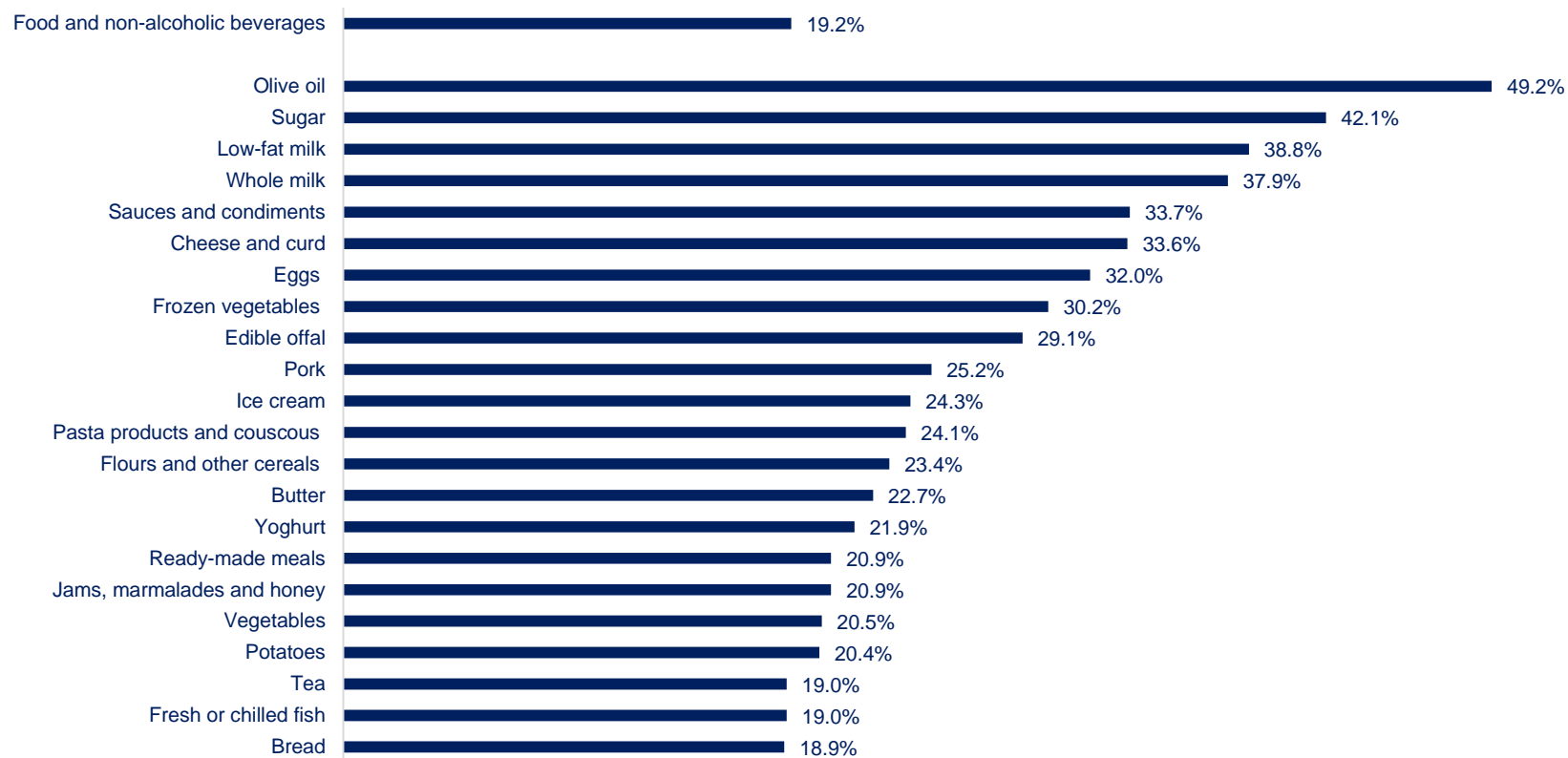
Reaching 19.2% in March, a 45-year high



Source: ONS

Double-digit inflation

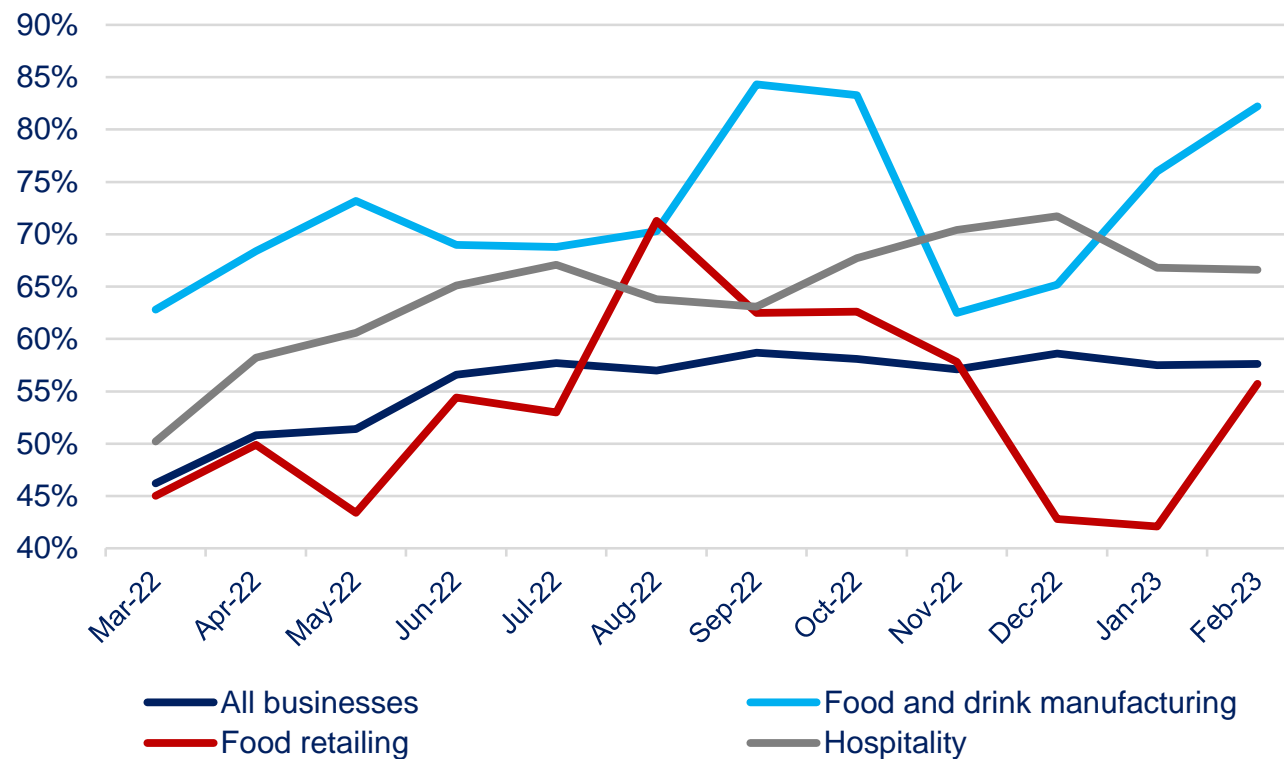
With double-digit inflation for 45 of the 49 ONS reported categories



Source: ONS

Margins in the industry are eroding

Percent of businesses that stated they absorbed costs

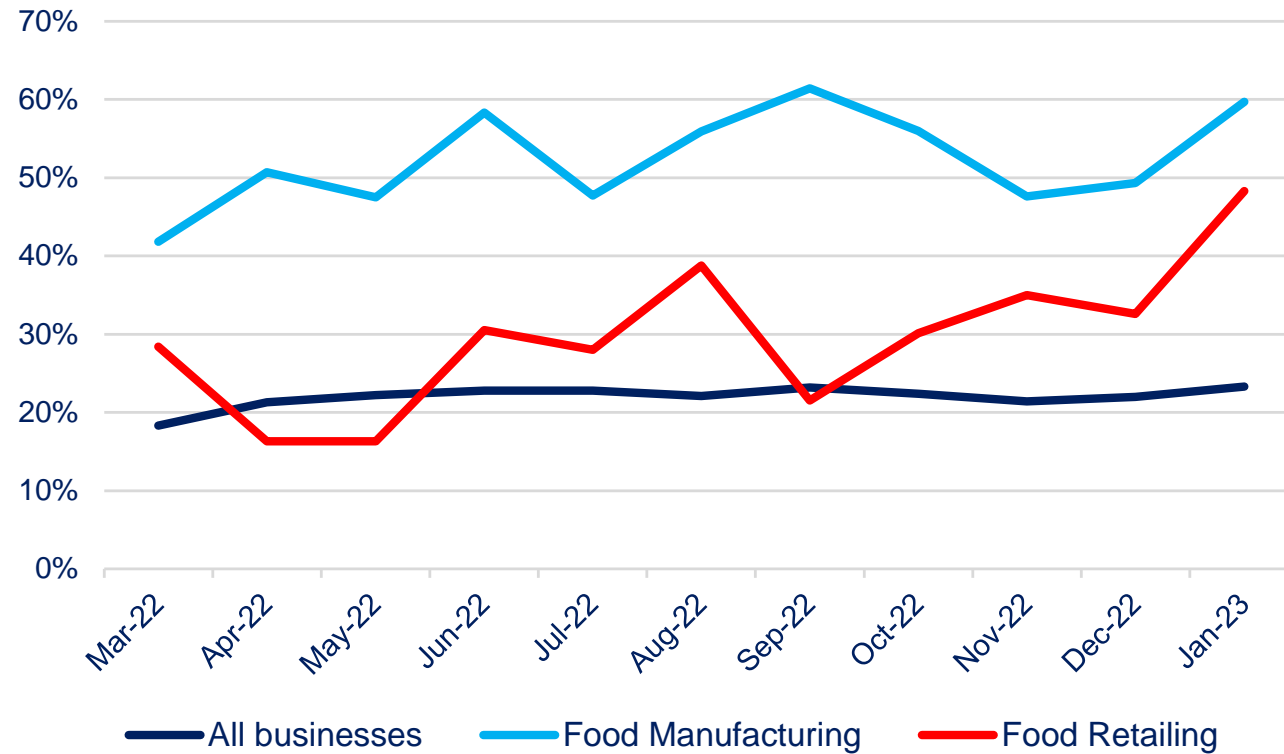


Source: ONS, Business Insights and Conditions Surveys, Mar 2022 – Feb 2023. Percentages are of businesses that have not permanently stopped trading with 10 or more employees.

Although energy prices have disproportionately impacted the industry



Percent of businesses stating that both production and suppliers have been impacted by recent increases in energy prices



Source: ONS, Business Insights and Conditions Surveys, Mar 2022 – Feb 2023. Percentages are of businesses that have not permanently stopped trading with 10 or more employees.

Modest growth for the sector in 2022



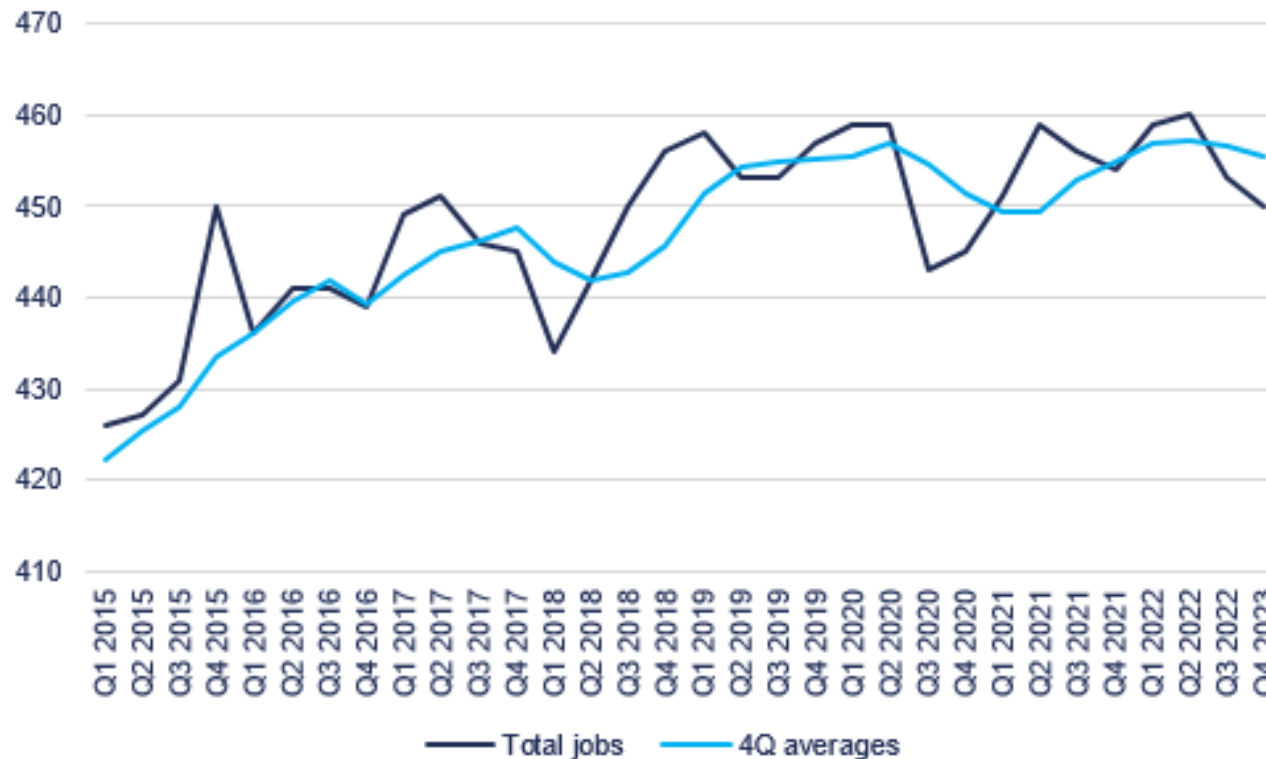
With most sectors shrinking in the last quarter of the year

	YoY growth 2022 on 2021	QoQ growth Q4 2022 on Q3 2022
Food manufacturing	1.5%	0.0%
Meat and meat products	0.5%	2.1%
Fish and crustaceans; fruit and vegetables	0.5%	-1.5%
Vegetable and animal oils and fats	63.6%	15.4%
Dairy products	2.9%	-1.7%
Grain mill products and starches	-1.1%	-1.0%
Bakery and farinaceous products	4.7%	-0.3%
Other food products	-2.0%	-0.8%
Non-alcoholic drink manufacturing	3.4%	-2.6%

Source: ONS, Gross value added, chained volume measures

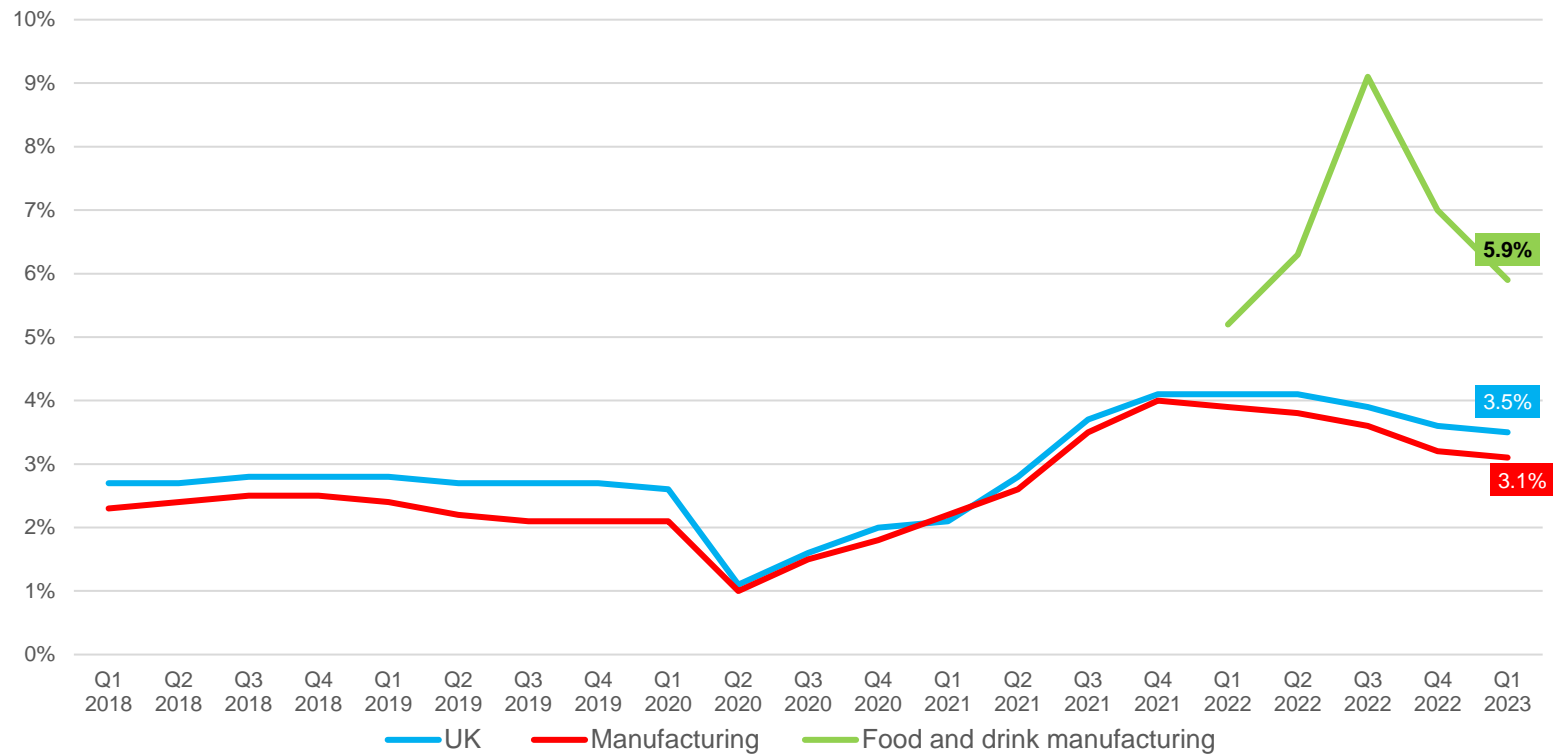
Employment in the industry declined for a second consecutive quarter in Q4

With 3,000 jobs lost in Q4, employment stood at 450,000 at the end of the year



Vacancies have eased

Although they remain high by historical standards

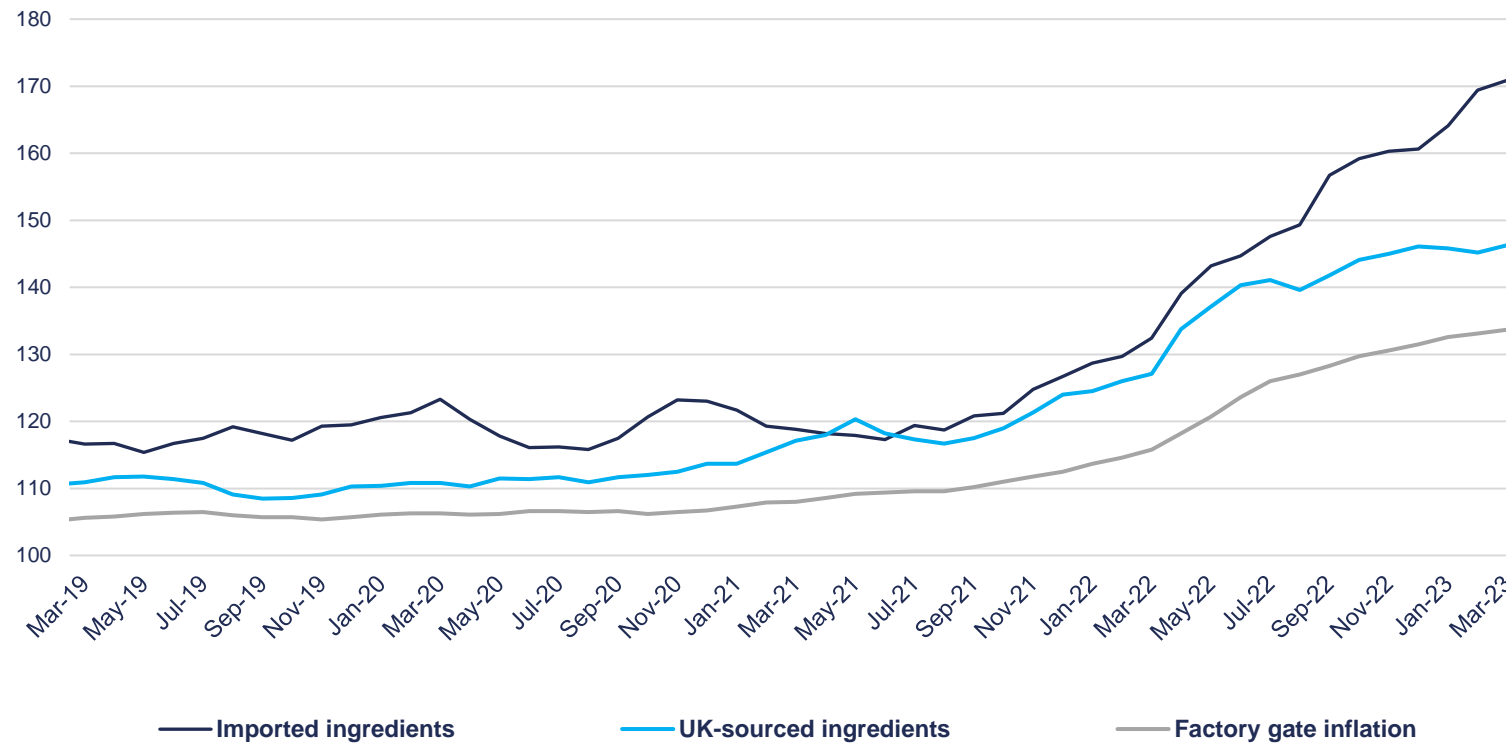


Source: ONS and FDF State of Industry Surveys

Easing price pressures

Producer price inflation might have reached its peak

Although prices have continued to rise in March



Source: ONS

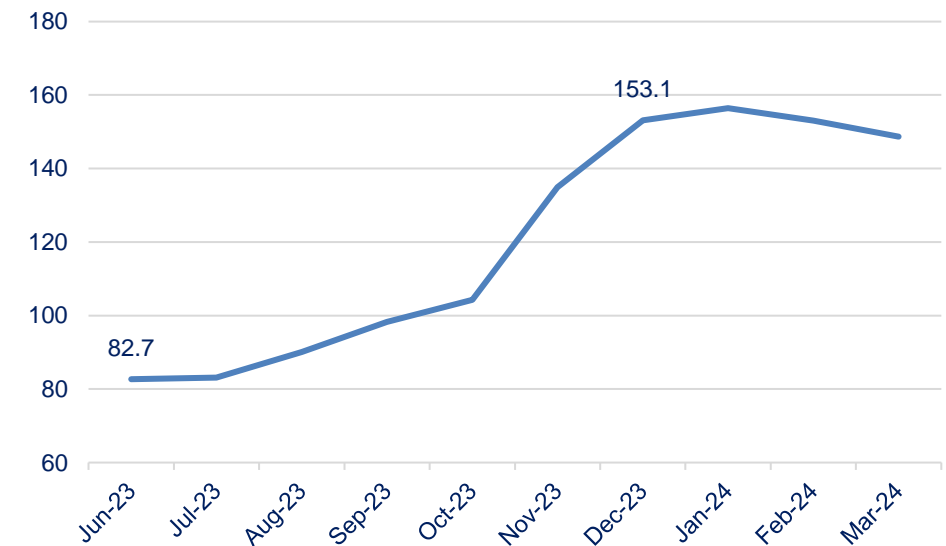
Gas prices have seen a steep decline since Dec

Although futures contracts suggest the free fall might have ended

UK natural gas spot prices



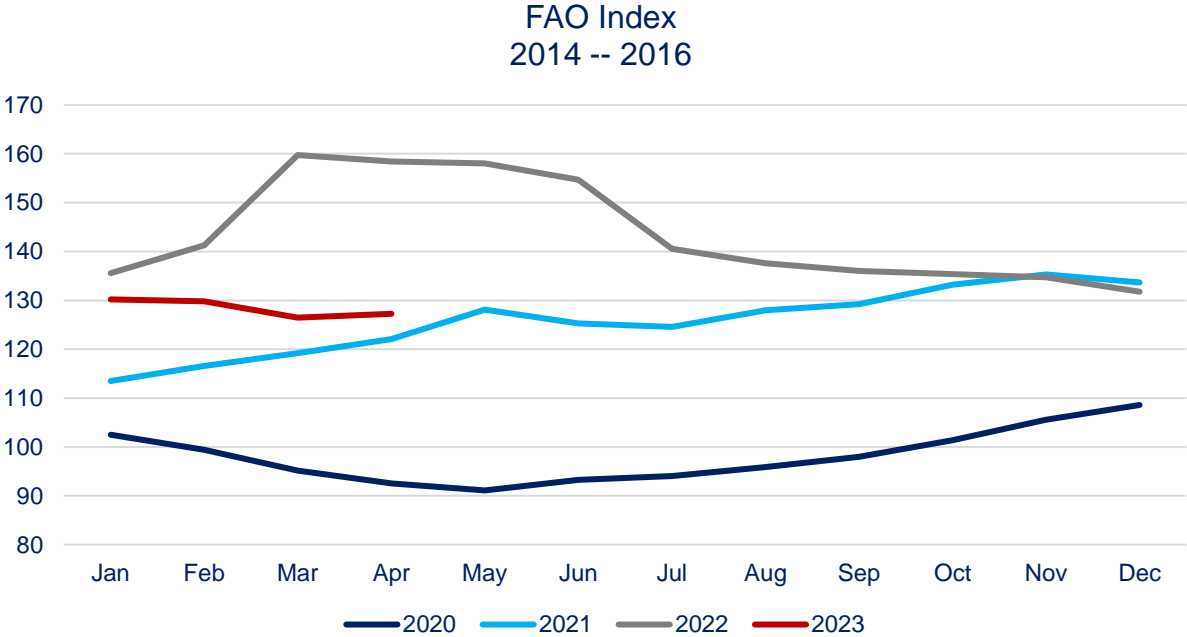
UK natural gas futures prices



Global food prices have been falling since their Mar-22 peak



Nonetheless, they remain at historic highs



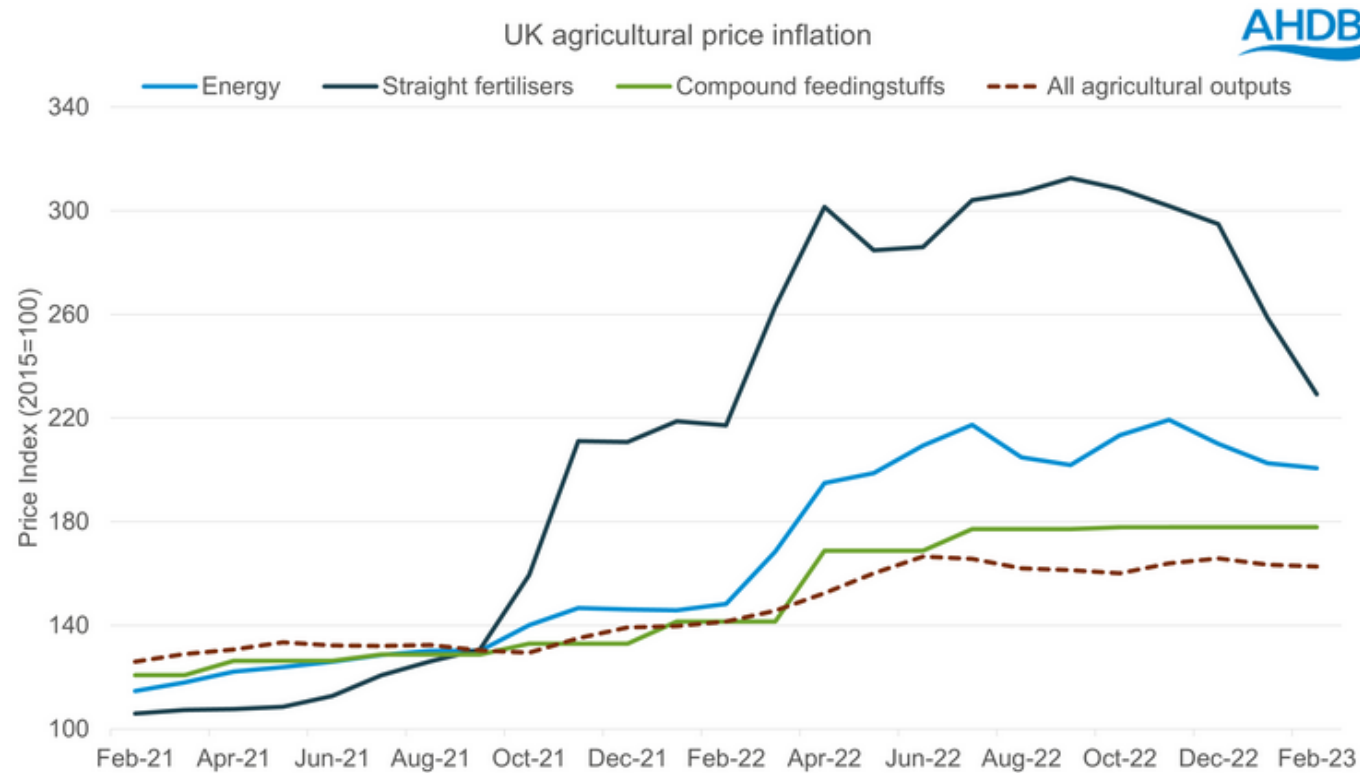
Changes in the UN FAO prices

	Apr-23 on Mar-20	Apr-23 on Apr-19
Food Price Index	-20%	36%
Meat	-4%	17%
Dairy	-15%	17%
Cereals	-20%	44%
Oils	-48%	64%
Sugar	27%	89%

Source: UN FAO

UK agricultural prices are stabilising

With marked decreases in fertiliser prices



Source: AHDB, Defra

What's next?

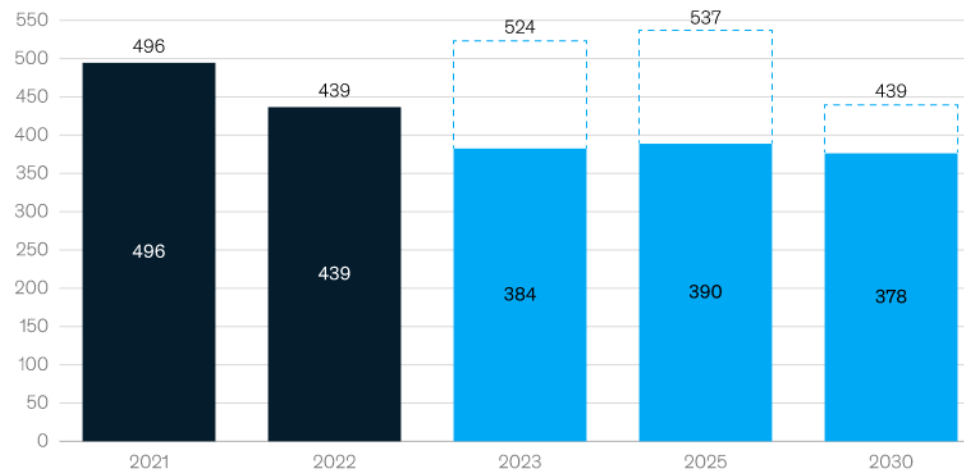
The biggest risk to the industry and economy alike: unexpected spikes in gas prices later in the year



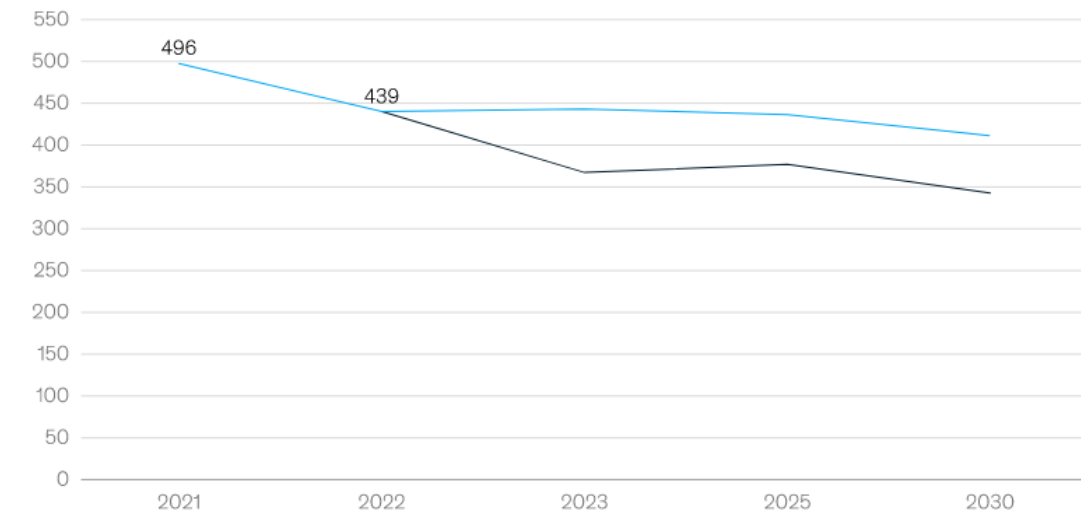
Europe needs to balance its natural gas market

European natural gas supply and demand,¹ bcm

Demand ■ Actuals ■ Projection ■ Demand reduction²



Supply³ — Low case — High case

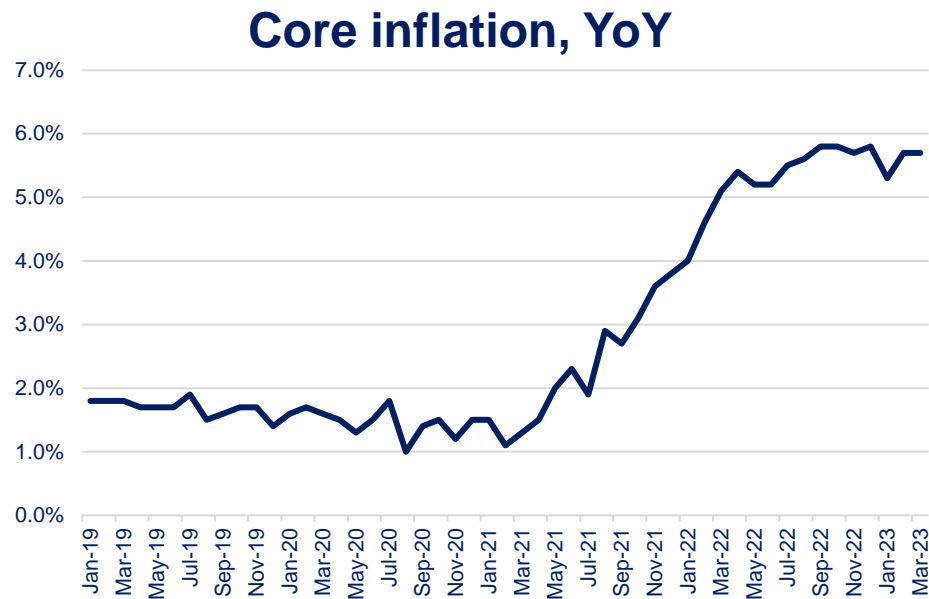


Source: McKinsey, “A balancing act: Securing European gas and power markets”, April 2023.

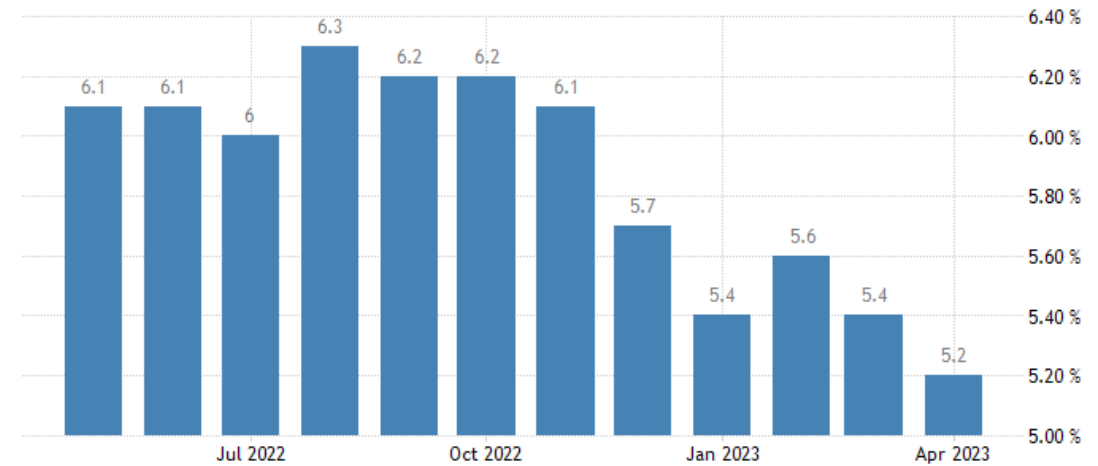
UK headline inflation is expected to reach 4% by the end of the year



While core inflation remains persistently high



Inflation expectations - 12 months ahead



TRADINGECONOMICS.COM | YOUNGOV/CITIGROUP

Source: ONS, Trading Economics.

The labour market goes on strong

And nominal pay rises uncomfortably high for monetary policy

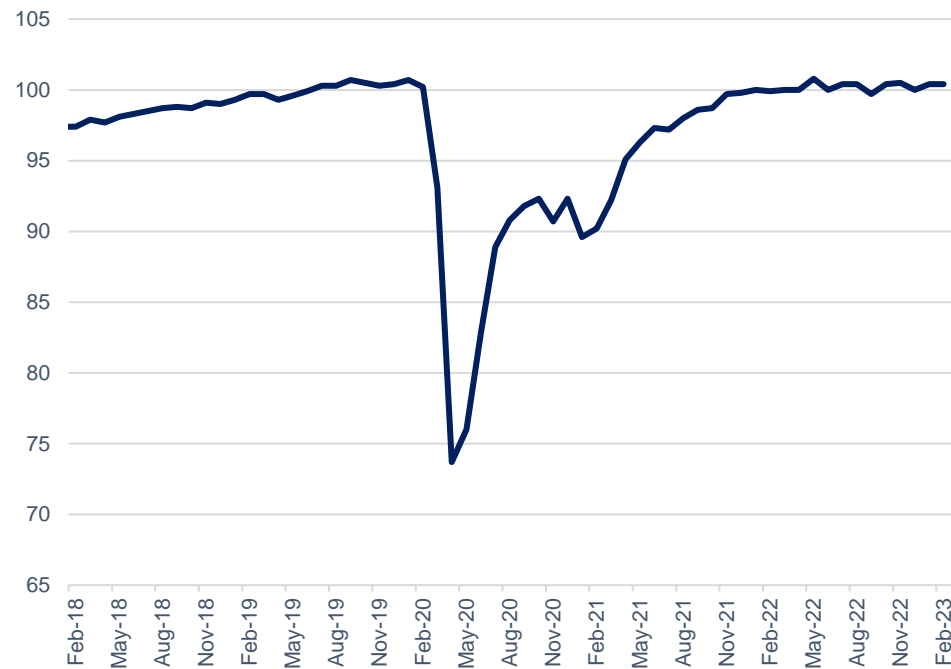


Source: ONS, .

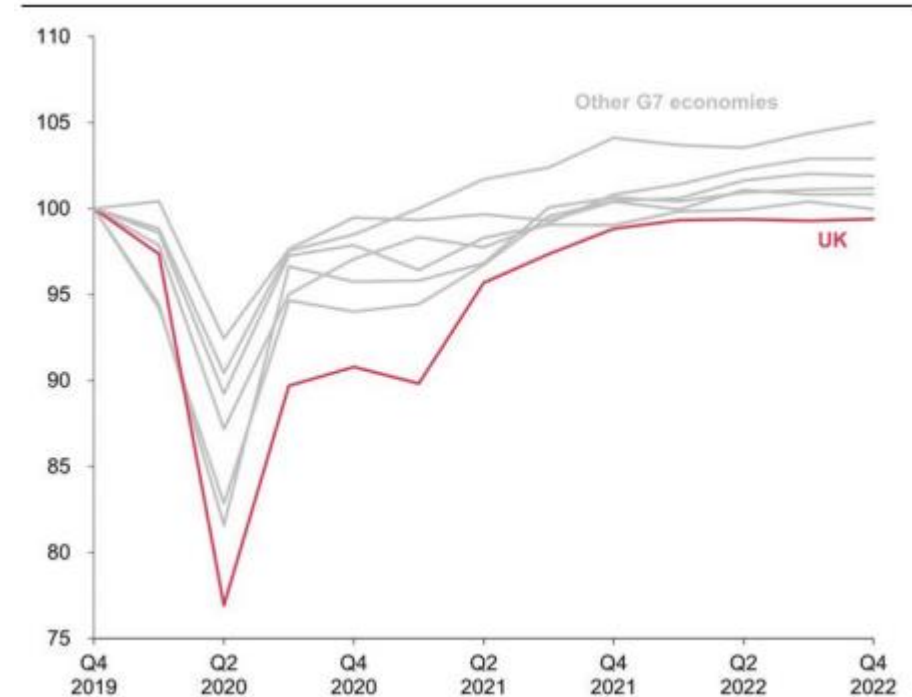
UK output has recovered to pre-pandemic levels

But it's been disappointing relative to the G7 economies

UK monthly GDP, 2019 = 100



GDP, Q4 2019 = 100



Third month of improved consumer confidence



With a pick-up in optimism across all six measures of confidence



Source: GfK

In a nutshell: improved outlook, but not out of the woods yet



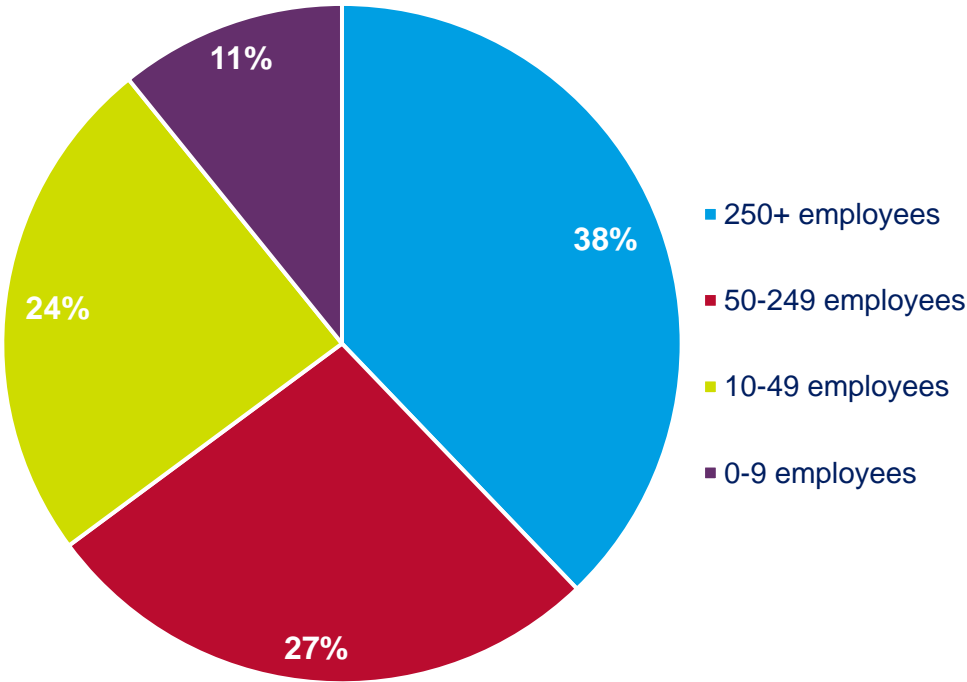
- Significant uncertainty persists, especially in gas markets
- While cost pressures have started subsiding, we're far from reaching price levels seen before the pandemic. Coupled with trials passing on cost increases, margins squeezed, staff shortages and a decline in real spending, growth in the industry will prove challenging.
- We expect consumer food price inflation to decelerate this year, but to still remain in double-digits throughout 2023.

State of Industry Survey findings

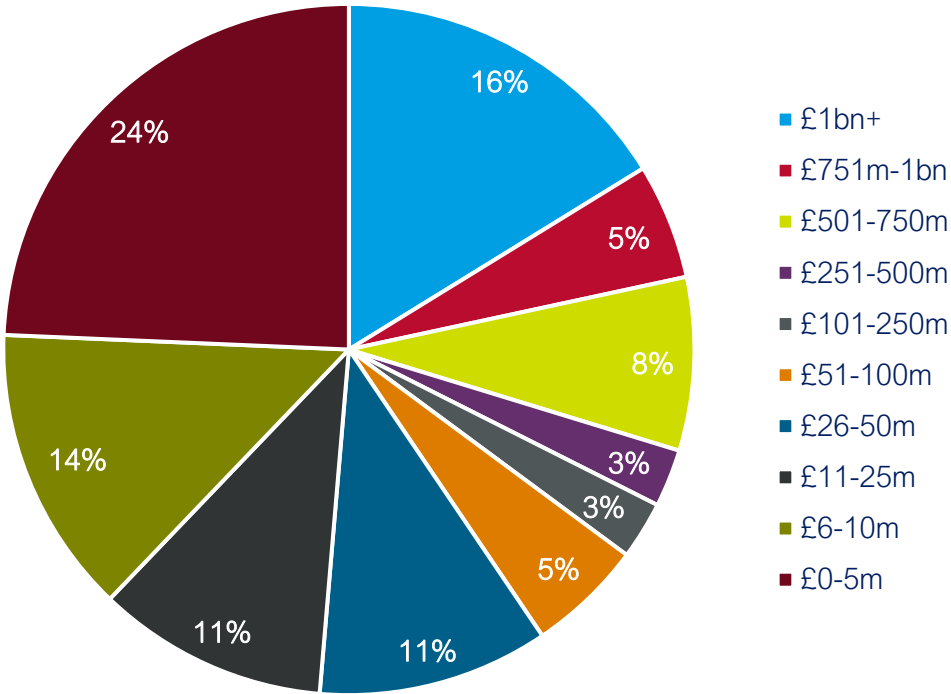
Respondents represented approximately 13% of the industry by turnover



Employment



Turnover



Representation from a wide range of sectors

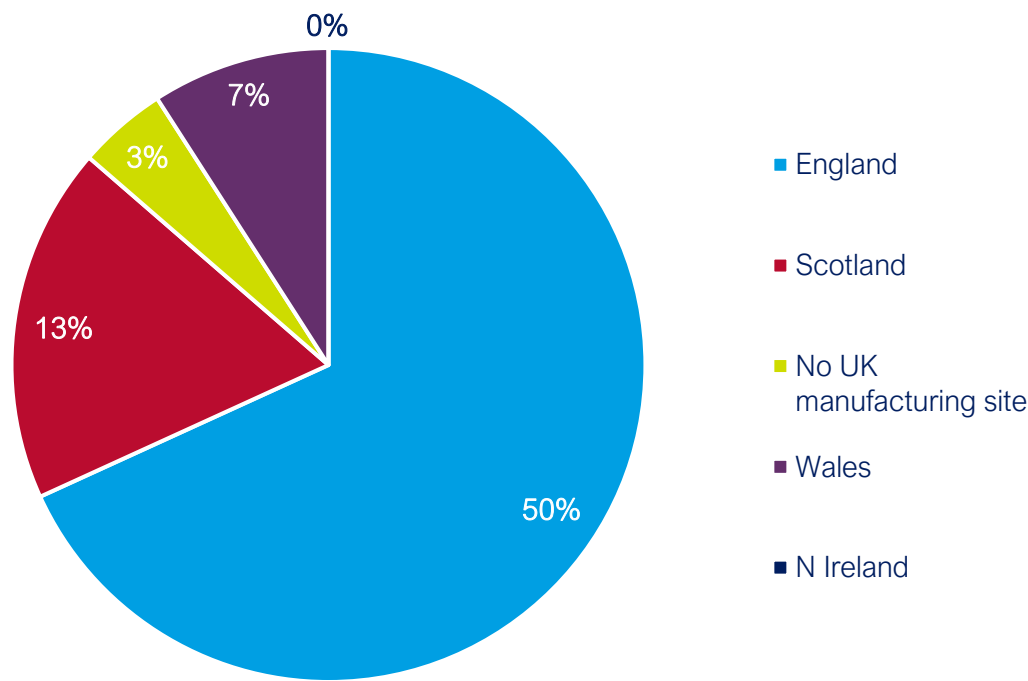


With sites in each nation

Sectors



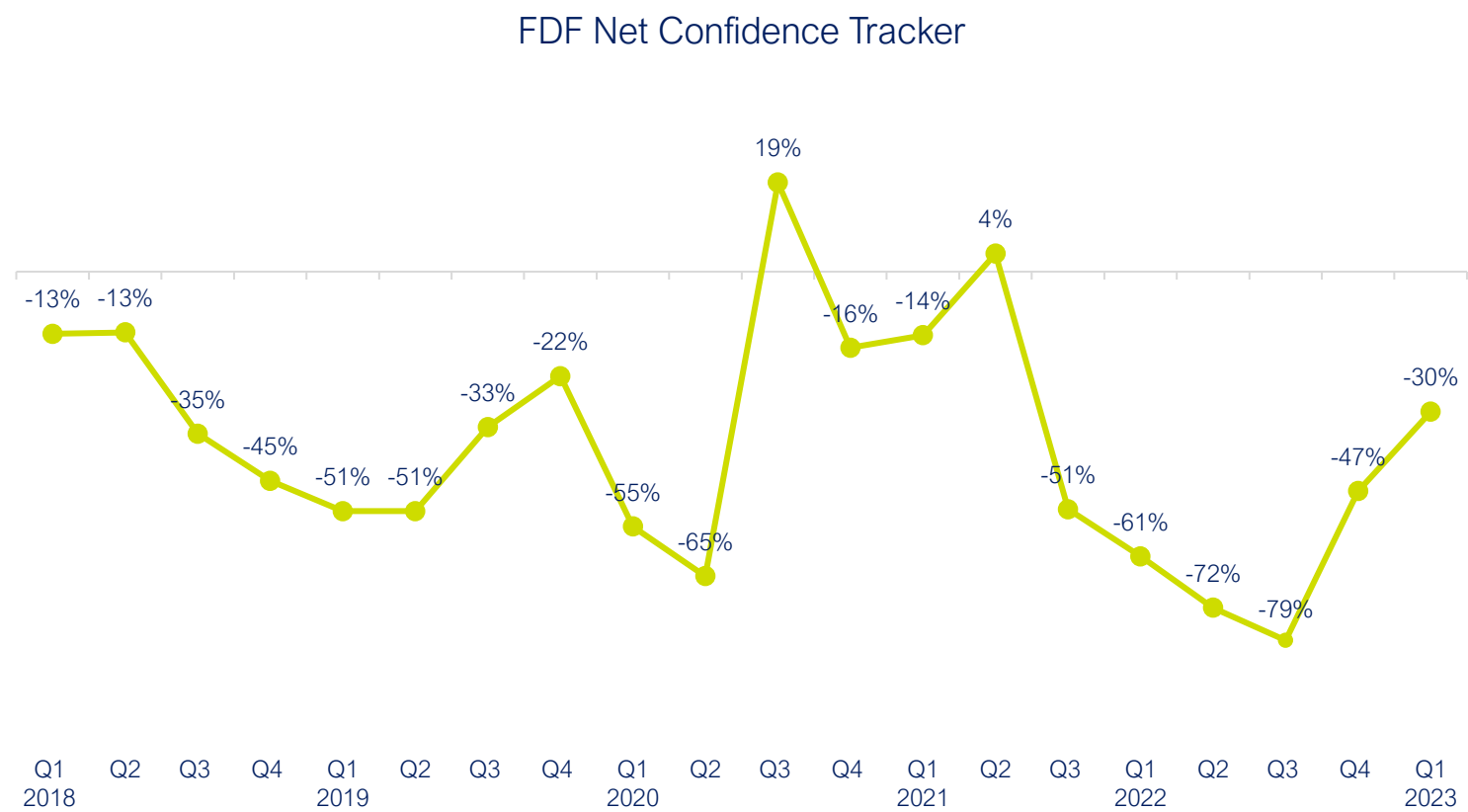
Location



Net confidence rises, however the majority of manufacturers believe conditions remained the same



Net confidence = conditions improved – conditions deteriorated



Conditions are perceived to stay the same or improve



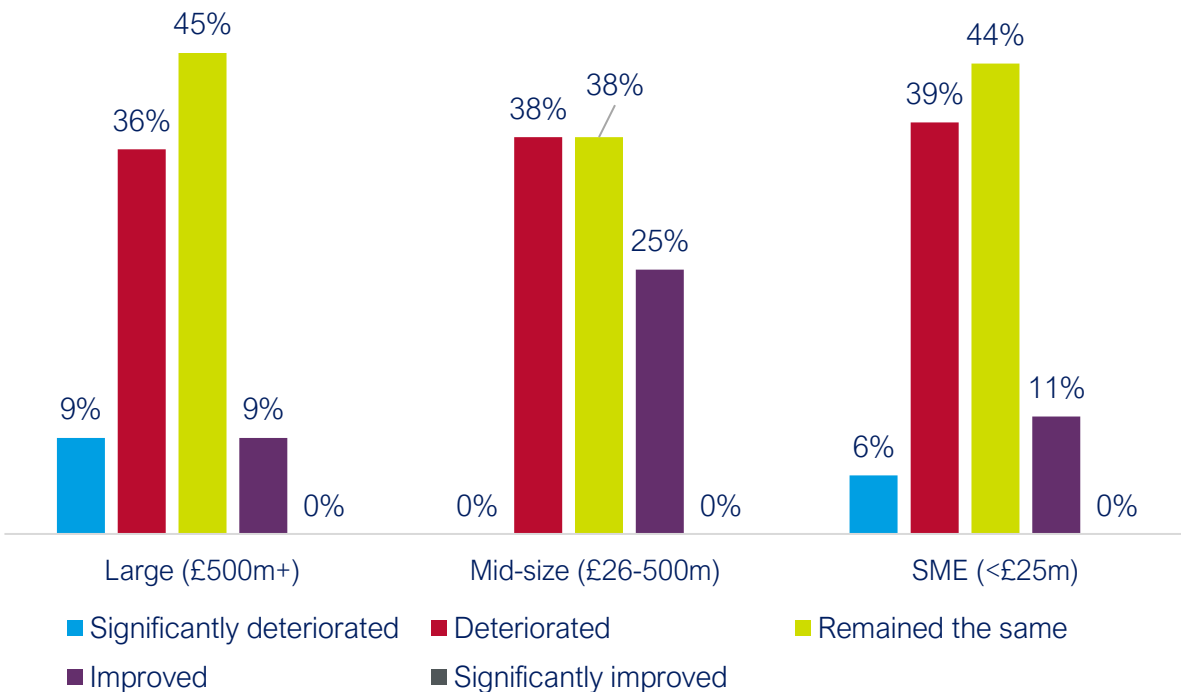
Outlook confidence for Q2 2023 is at 11%, up from -27% for Q1 2023.

	All	Large (£500m+)	Mid-size (£26-500m)	SME (<£25m)
Net confidence (conditions in Q1 compared to Q4 2022)	-30%	-36%	-13%	-33%
Outlook confidence (Q2 compared to Q1)	11%	-9%	13%	22%

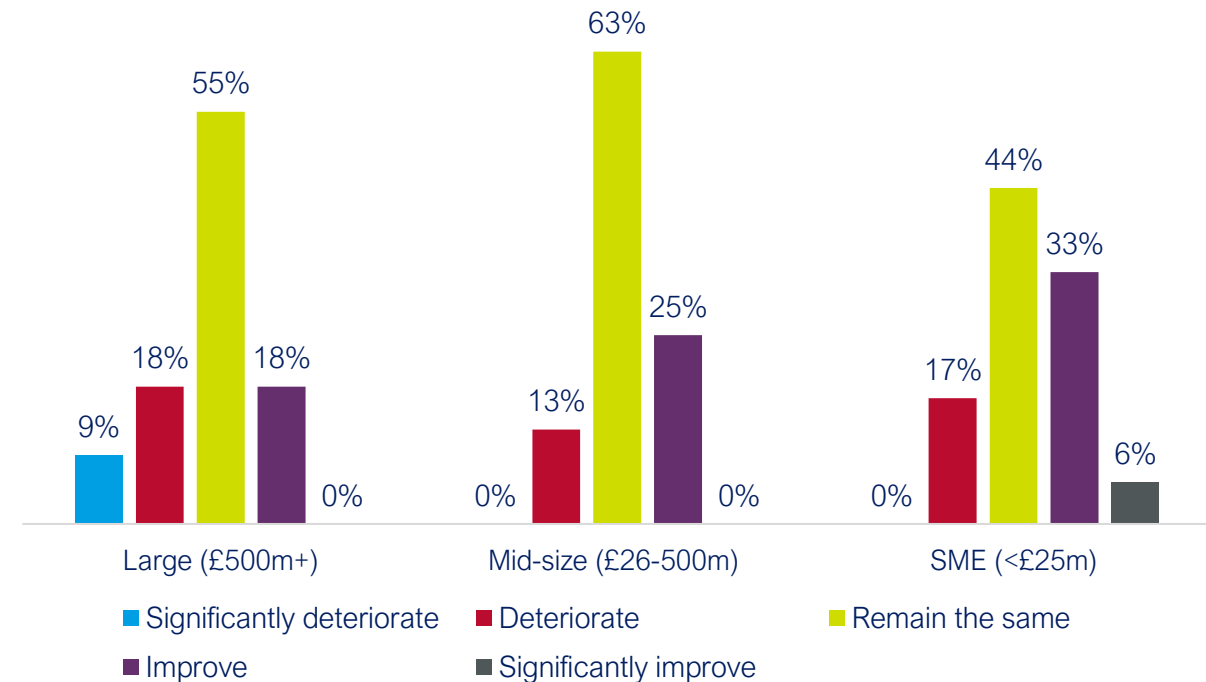
Businesses expect conditions will remain the same or improve in Q2



Conditions in Q1 2023 compared to Q4 2022



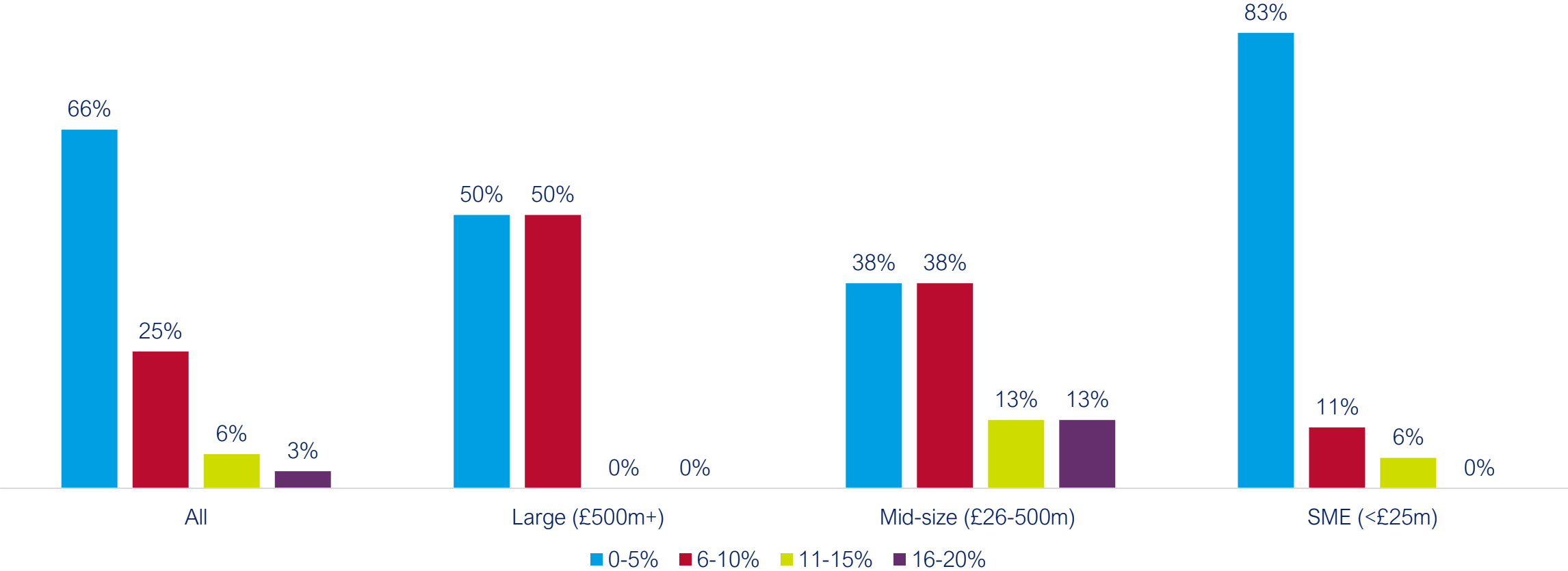
Expectation of Q2 2023 relative to Q1 2023



Unfilled vacancies fall to 5.9% in Q1, from 7.0% in Q4



In Q1 2023, unfilled vacancies amounted to what percentage of your labour force?



Energy was 9.7% of the operating cost for businesses in Q1 2023, up from 8.3% in Q1 2022



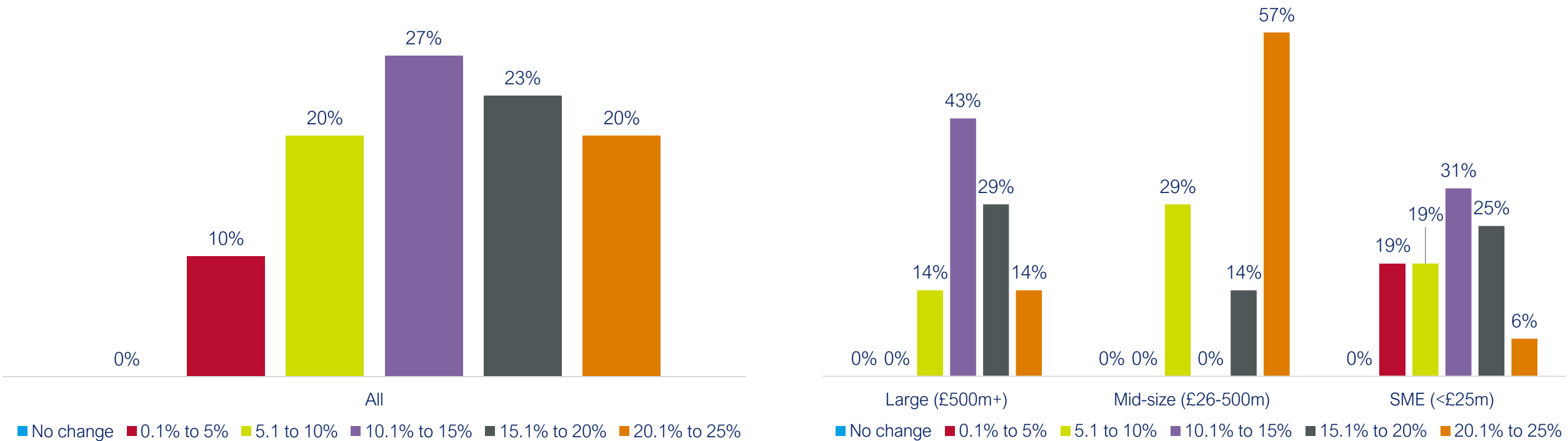
Approximately, what percentage of your operating cost base was energy?



Total production costs increased by 15.4% over the last 12 months



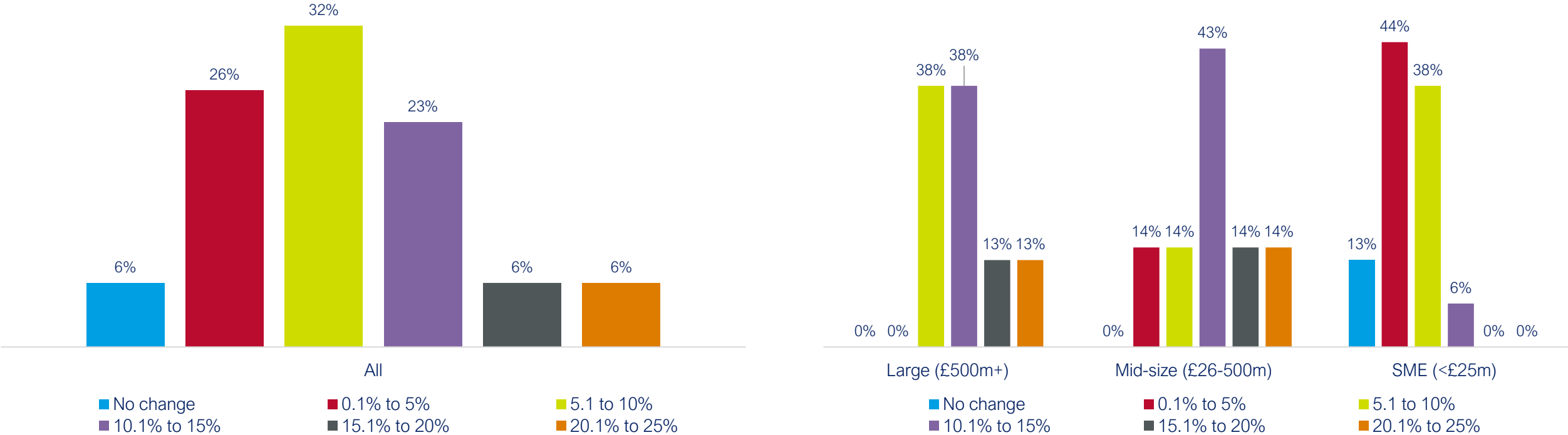
On average, what changes have you experienced over the last 12 months to March, with regard to total production costs?



The average selling price rose by 12.5%, slower than total production cost increases



On average, what changes have you experienced over the last 12 months to March, with regard to average selling price?

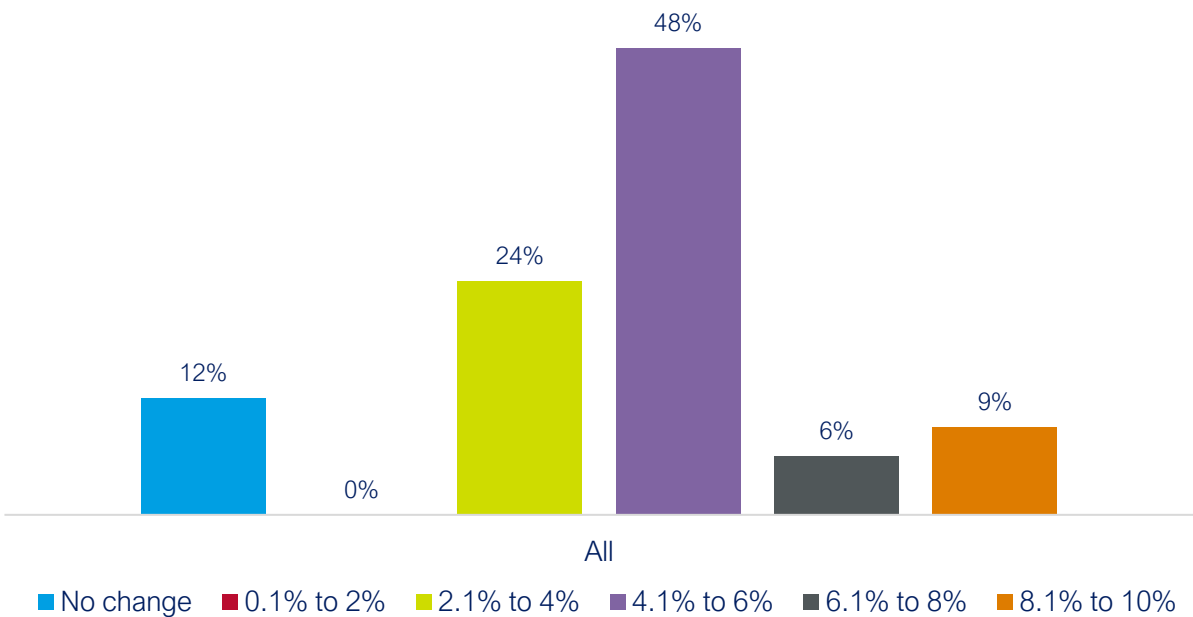


Pay rose by 4.1% over the last 12 months, and is expected to increase by another 5.4% over the next year

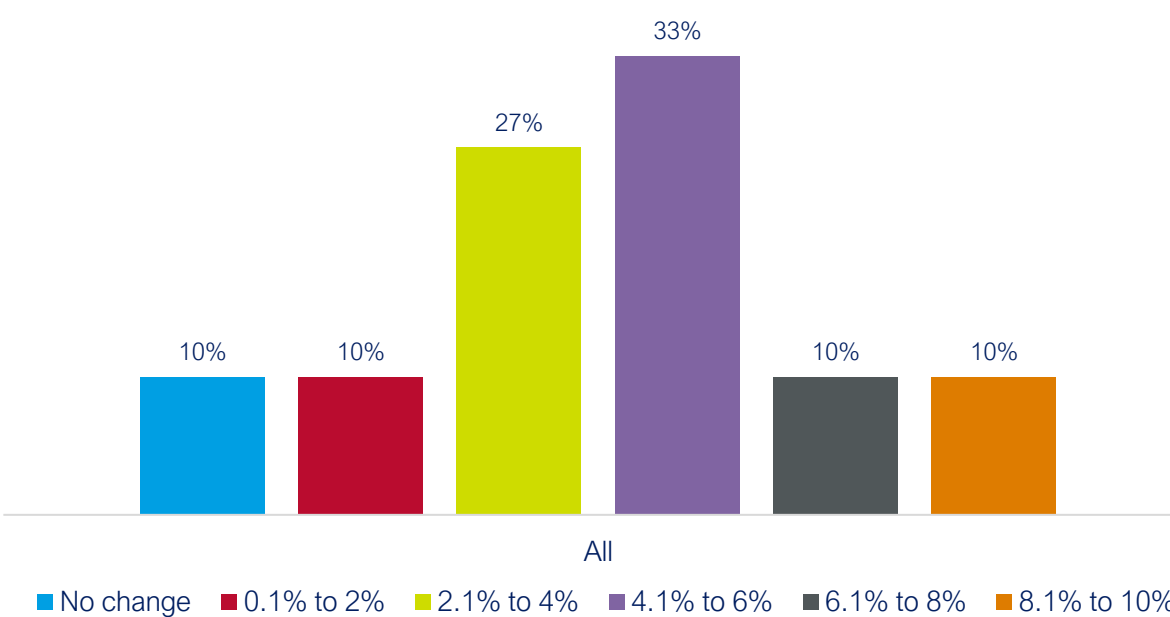


With regard to pay (excluding bonuses), how has it changed over the last 12 months to March, and how do you expect it to change over the next 12 months?

Pay over the past 12 months



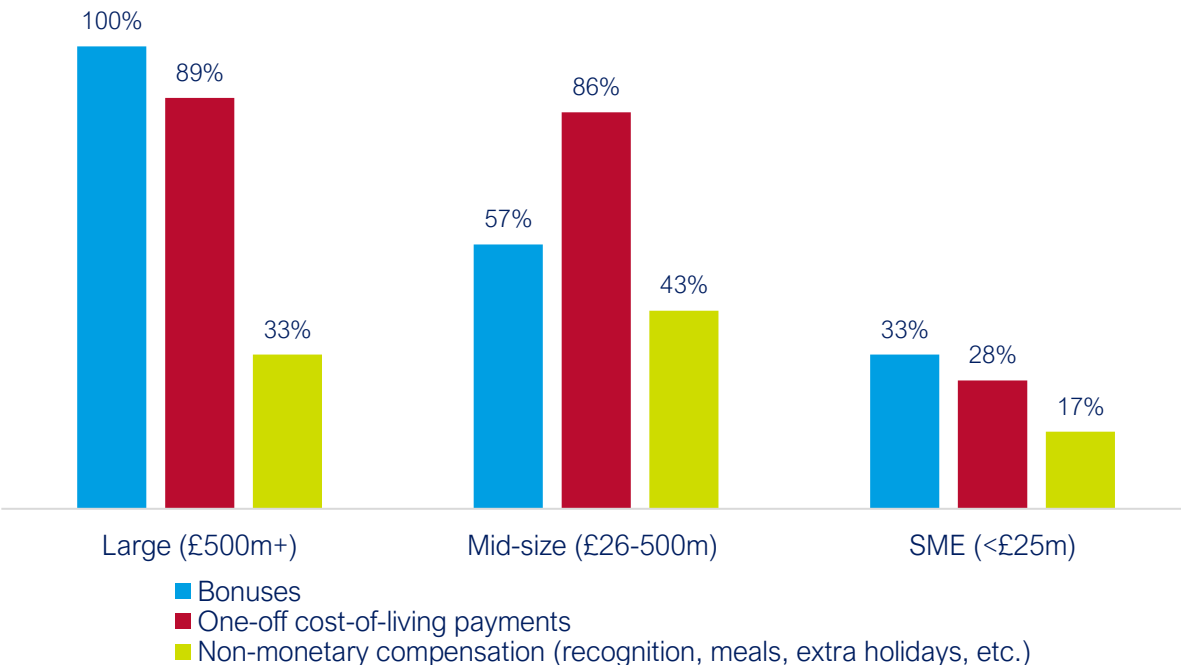
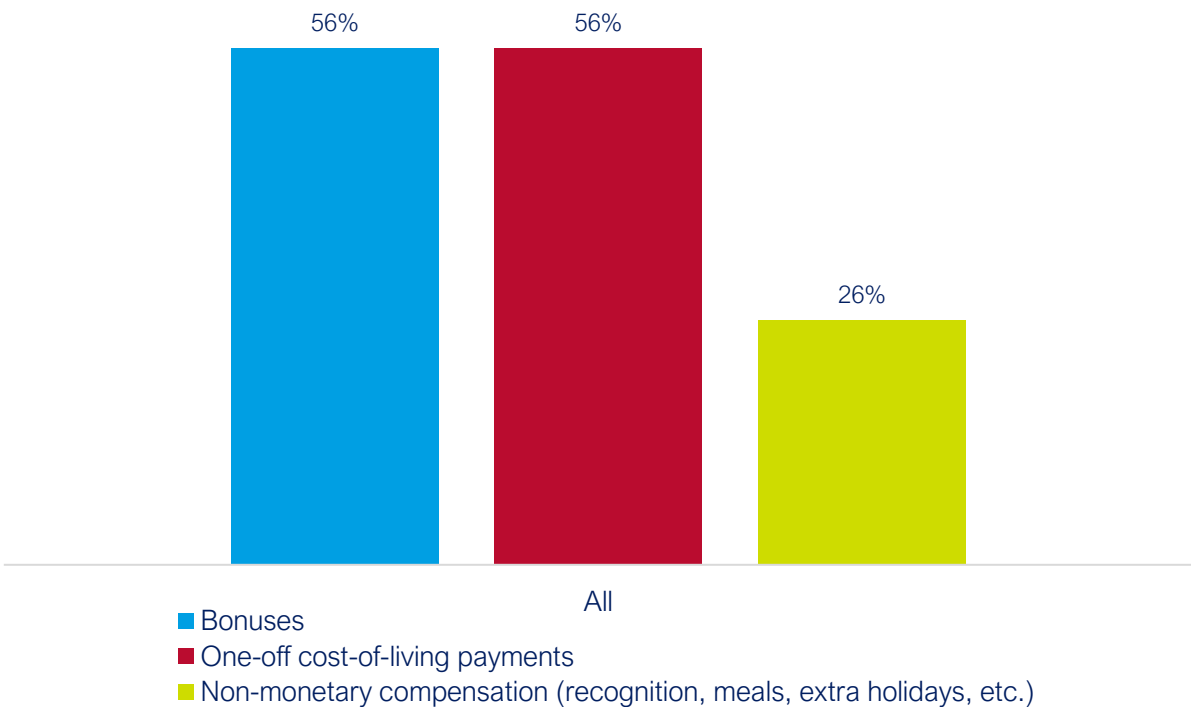
Expected pay over the next 12 months



Businesses are prioritising monetary rewards to retain and recruit staff



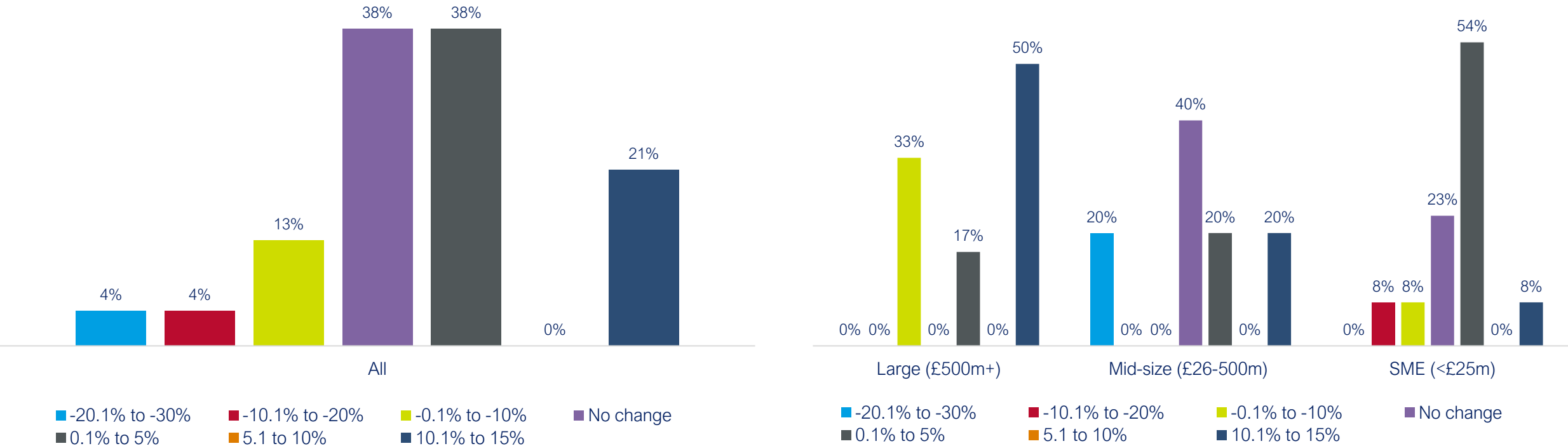
Over the past 12 months to March, have you offered any of the below to your employees to retain and recruit staff?



Total production costs are expected to continue to increase by 5% on average over the next 12 months



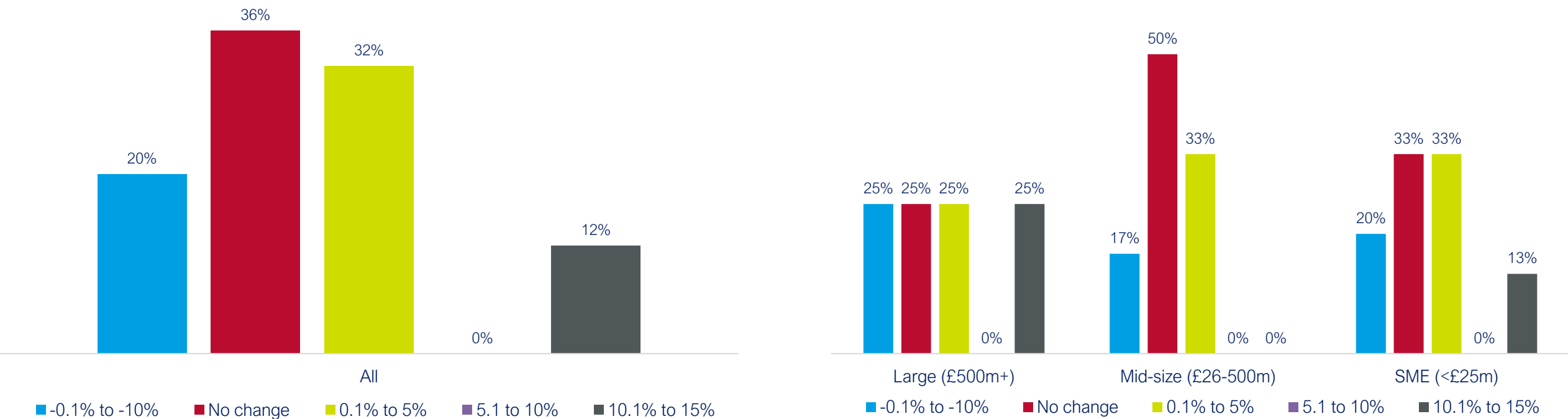
On average, what kind of changes do you expect over the next 12 months with regard to total production costs?



Average selling price is expected to rise by 5.4% on average over the next year



On average, what kind of changes do you expect over the next 12 months with regard to average selling price?

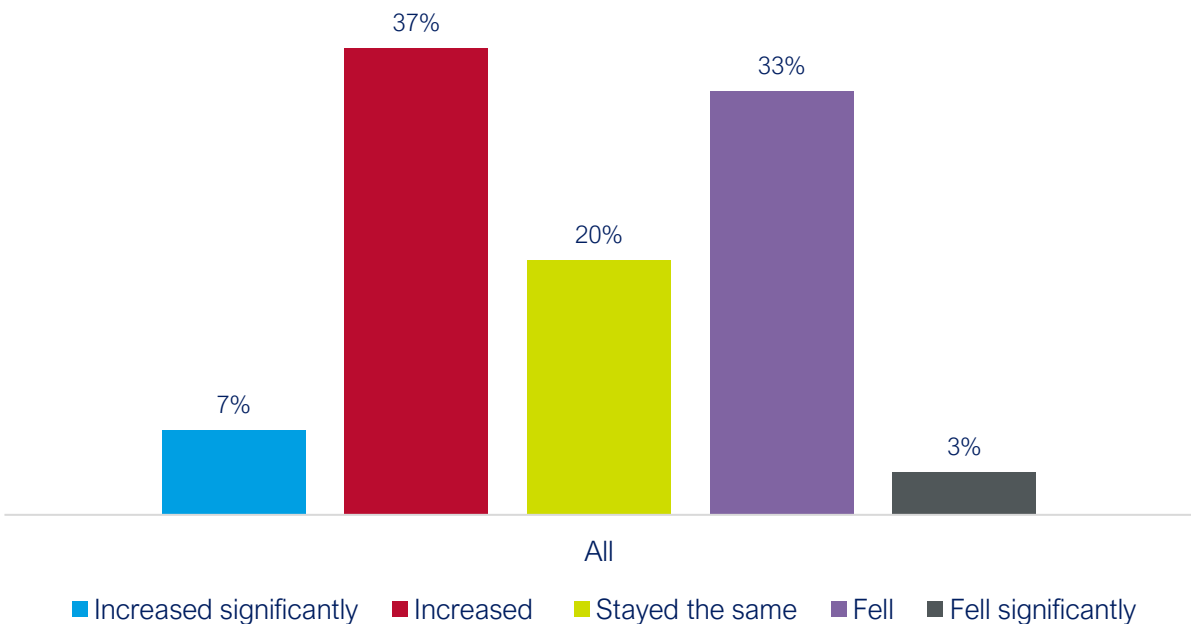


Over a third of manufacturers saw a fall in their volume of production over the last year

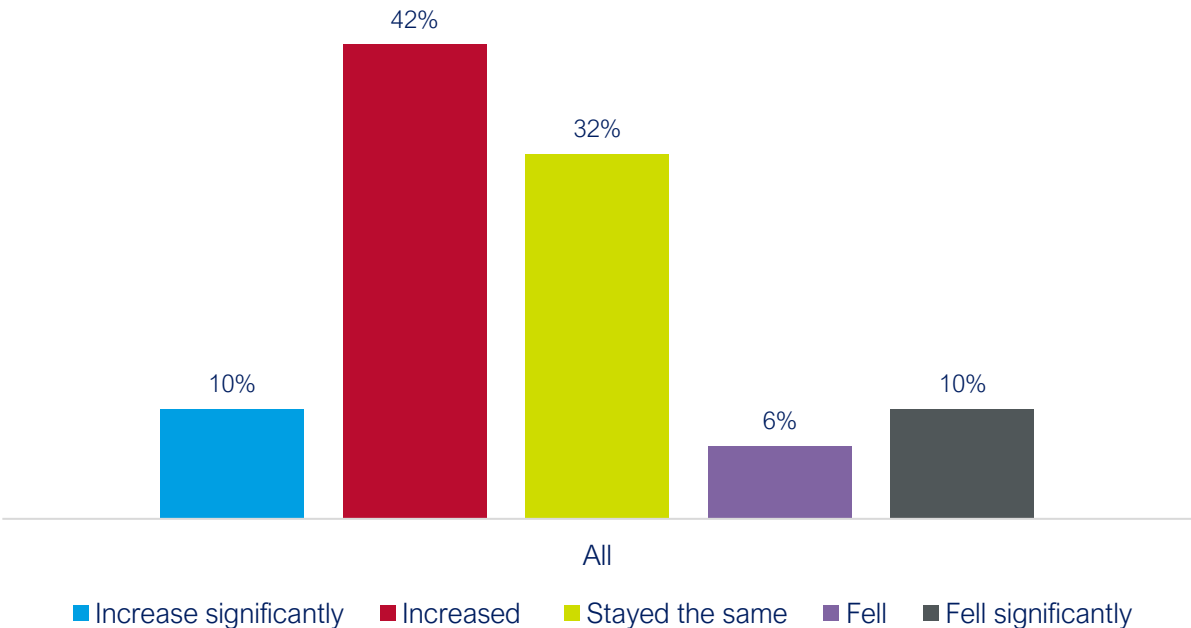


With 84% of businesses expecting output to increase or remain the same over the next year

Volume of output over the last year (Q2 2022 - Q1 2023)



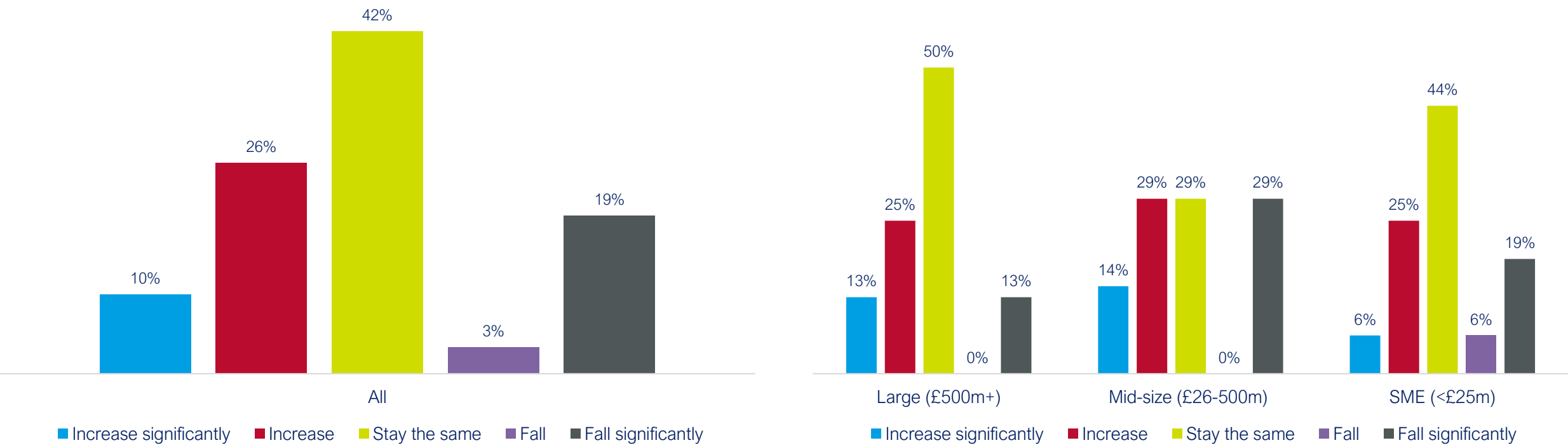
Expected volume of output over the next year



Over 40% of businesses expect their capital investment expenditure to remain the same



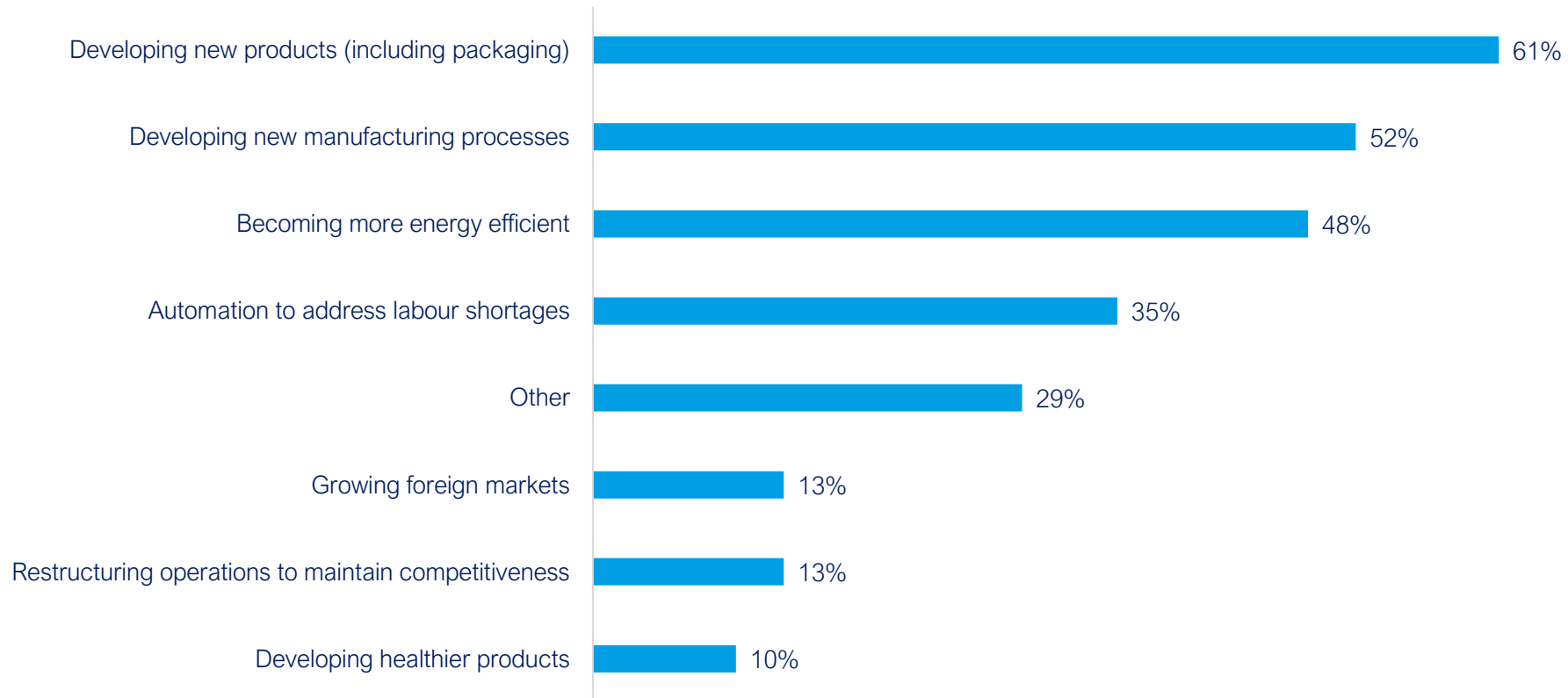
43% of mid-size companies expect theirs to increase



Manufacturers remain focused on developing new products



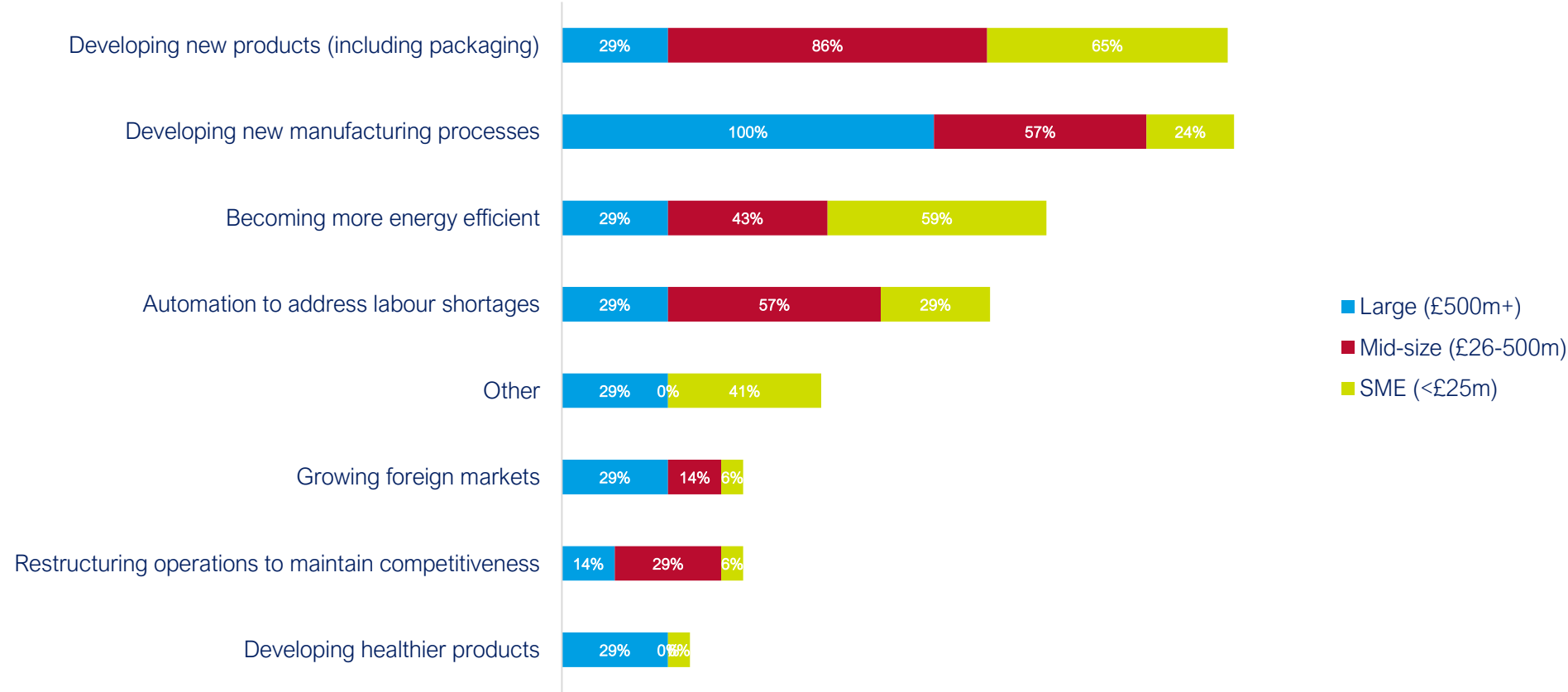
What are the top three growth priorities for your business?



Large companies are dedicated to developing new manufacturing processes



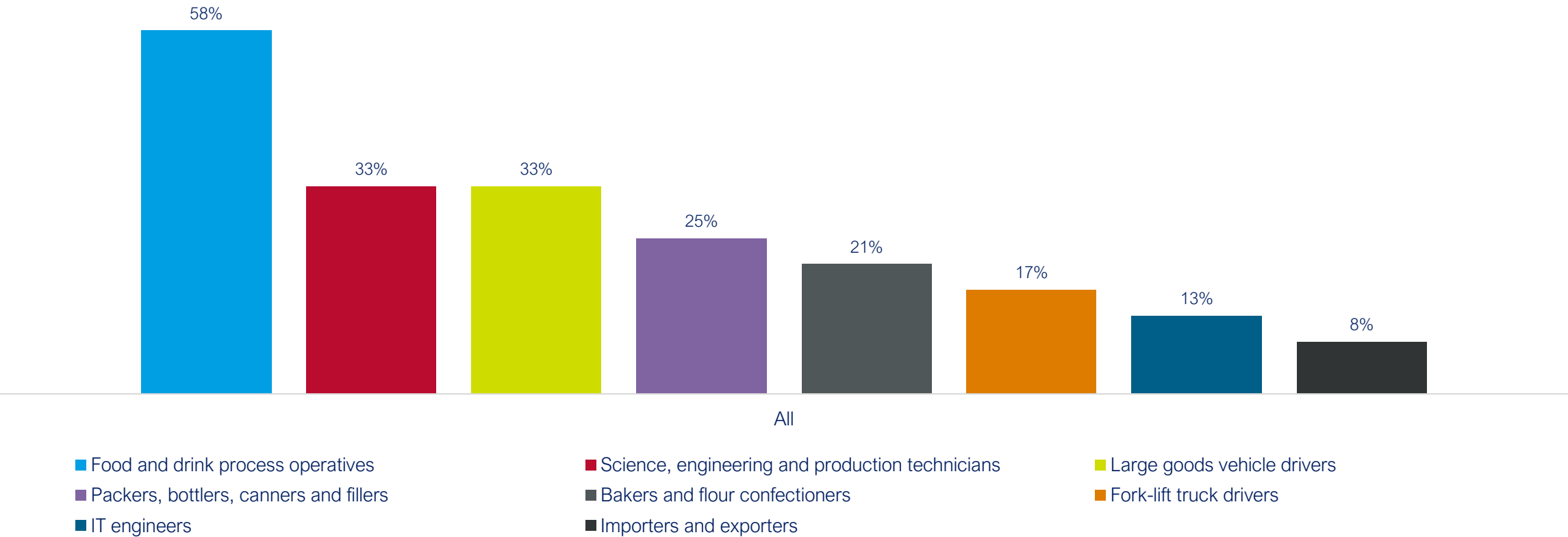
With automation to address labour shortages being a focus for manufacturers of all sizes



Food and drink process operatives are difficult to recruit for a wide range of companies



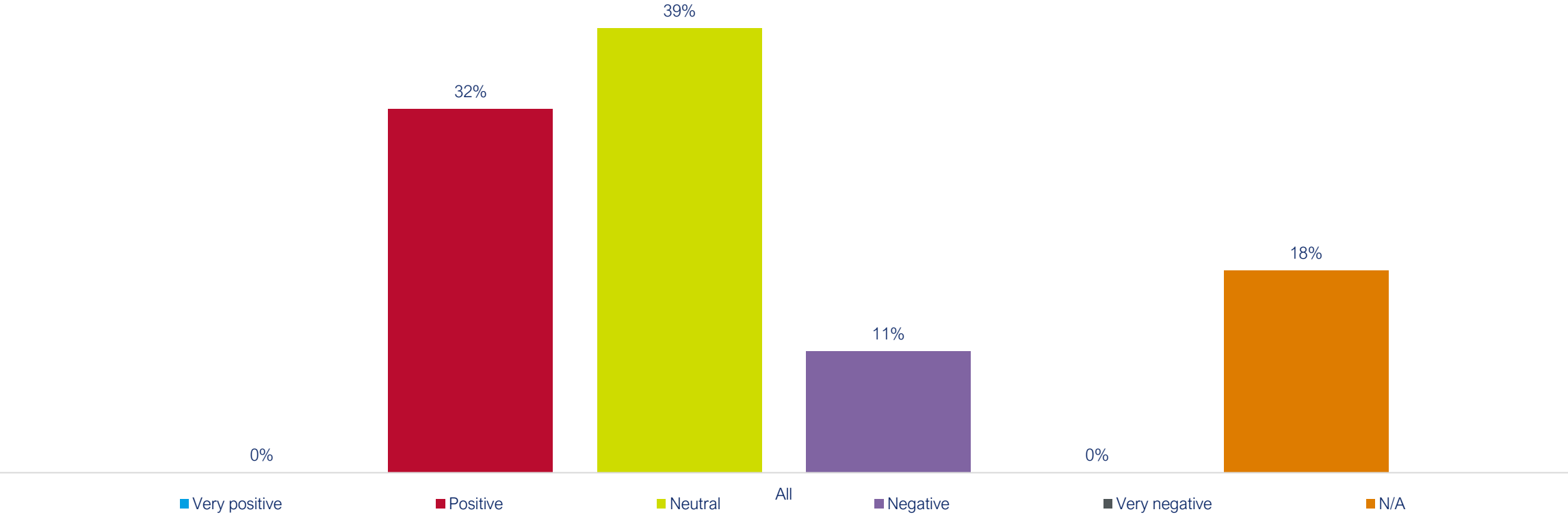
Can you please indicate which of these occupations are difficult to recruit in the UK for your company and / or supply chain?



71% of manufacturers have positive or neutral views on the Windsor Framework



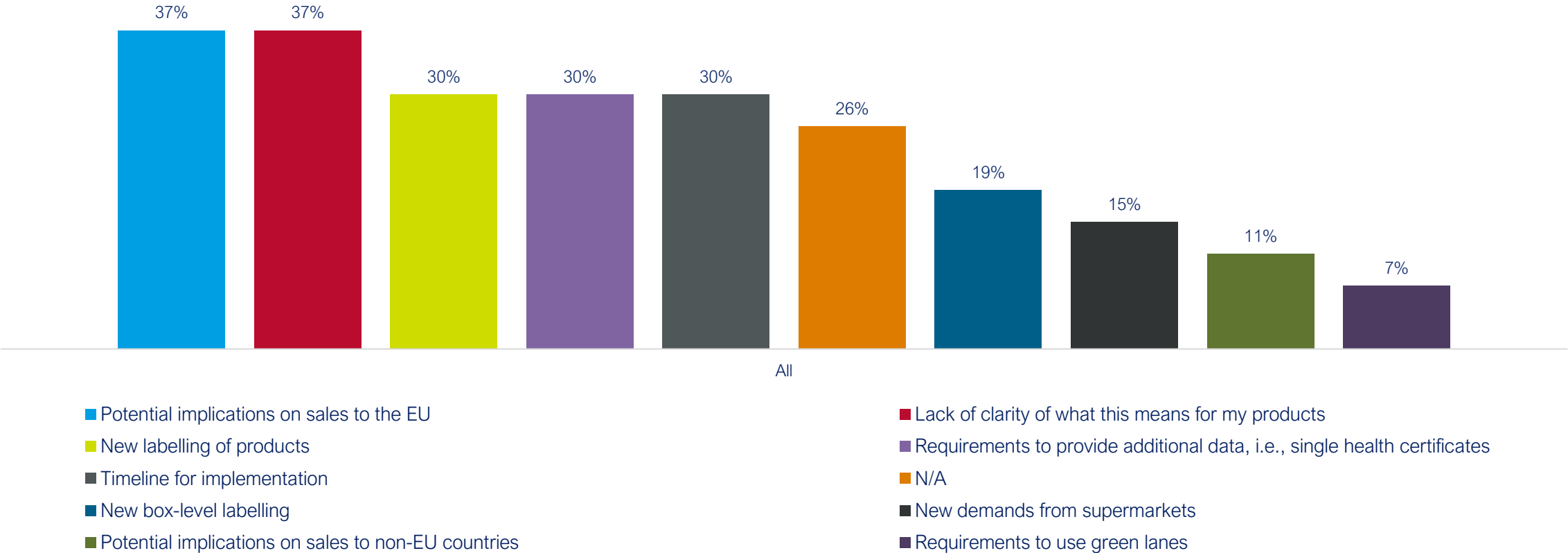
What assessment have you made so far of the implications of the Windsor Framework for your business?



Implications of the Windsor Framework on sales to the EU are a concern



While a lack of clarity remains over what this means for businesses and their products



Thank you!



Get in touch

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