

Food and Drink Insights Webinar

Q3 2022

28 October 2022

- Economic overview – Dr Liliana Danila
- Survey Findings – Uros Milosevic
- Q&As

Economic overview

Where is the industry now?

Mixed picture for the industry's subsectors in Q2



With many subsectors smaller than pre-pandemic

	Q2-22 growth compared to Q1-22	Q2-22 growth compared to Q4-19	Share of the food manufacturing sector (Q2-22)
Food manufacturing	0.5%	1.9%	
Meat and meat products	-0.4%	-5.9%	19.6%
Fish, fruit and vegetables	-0.6%	-3.1%	10.6%
Vegetable and animal oils and fats	-9.1%	-11.8%	0.5%
Dairy products	2.3%	9.2%	11.0%
Grain mill and starch products	2.5%	-11.1%	4.0%
Bakery and farinaceous products	2.1%	12.9%	18.9%
Other food products	-0.9%	-0.8%	28.4%
Non-alcoholic drink manufacturing	0.5%	16.2%	

Source: ONS, Gross value added, chained volume measures.

Total exports exceeded pre-COVID levels in H1



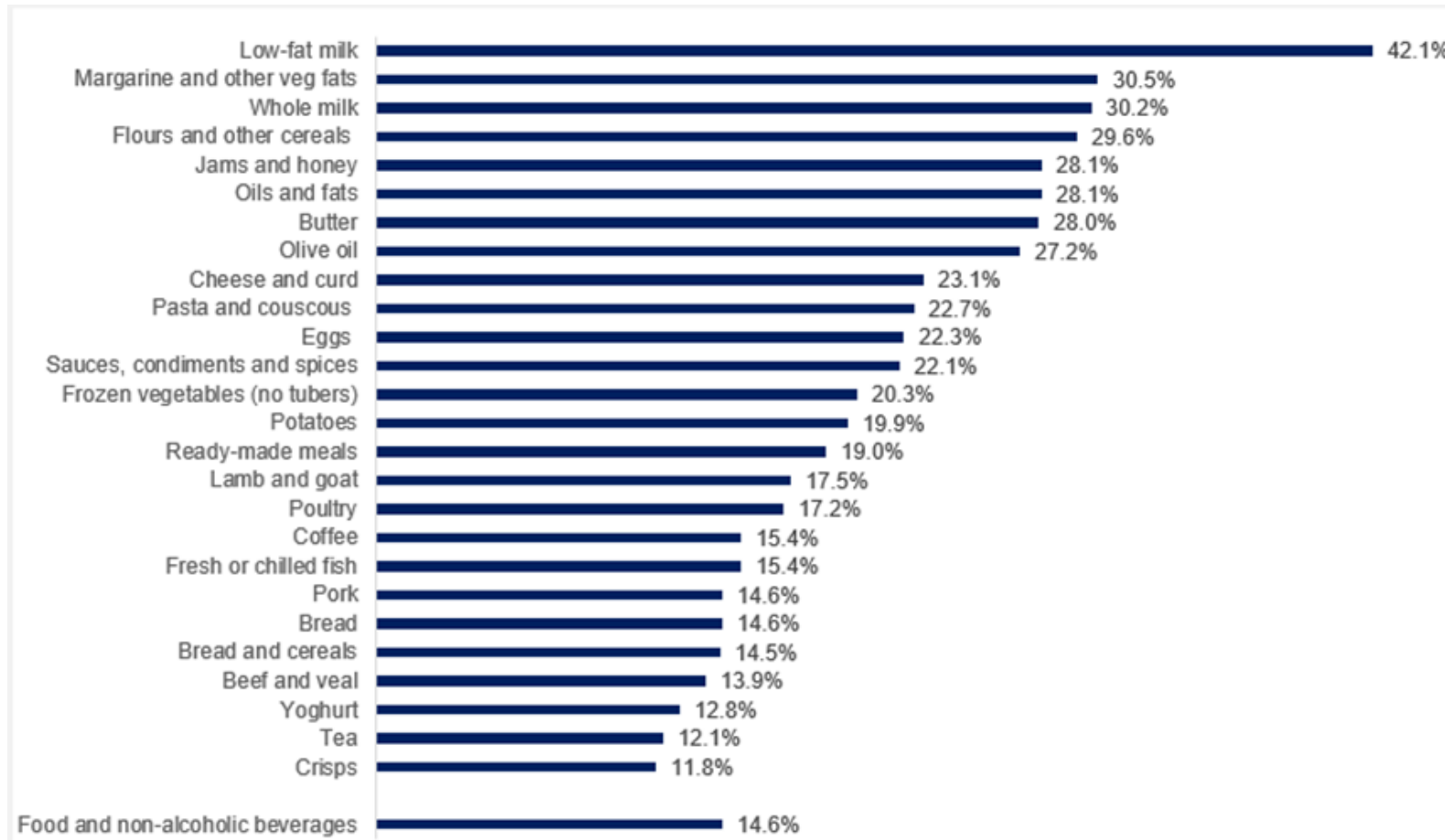
While exports to the EU are yet to recover

	H1 2022	Change 2019-22
All food and drink	£11.4bn	3.1%
EU	£6.4bn	-5.1%
Non-EU	£5.0bn	15.9%
EU share	56.0%	-4.8pp
Non-EU share	44.0%	4.8pp

Source: HMCE.

Food inflation picked up steam in September

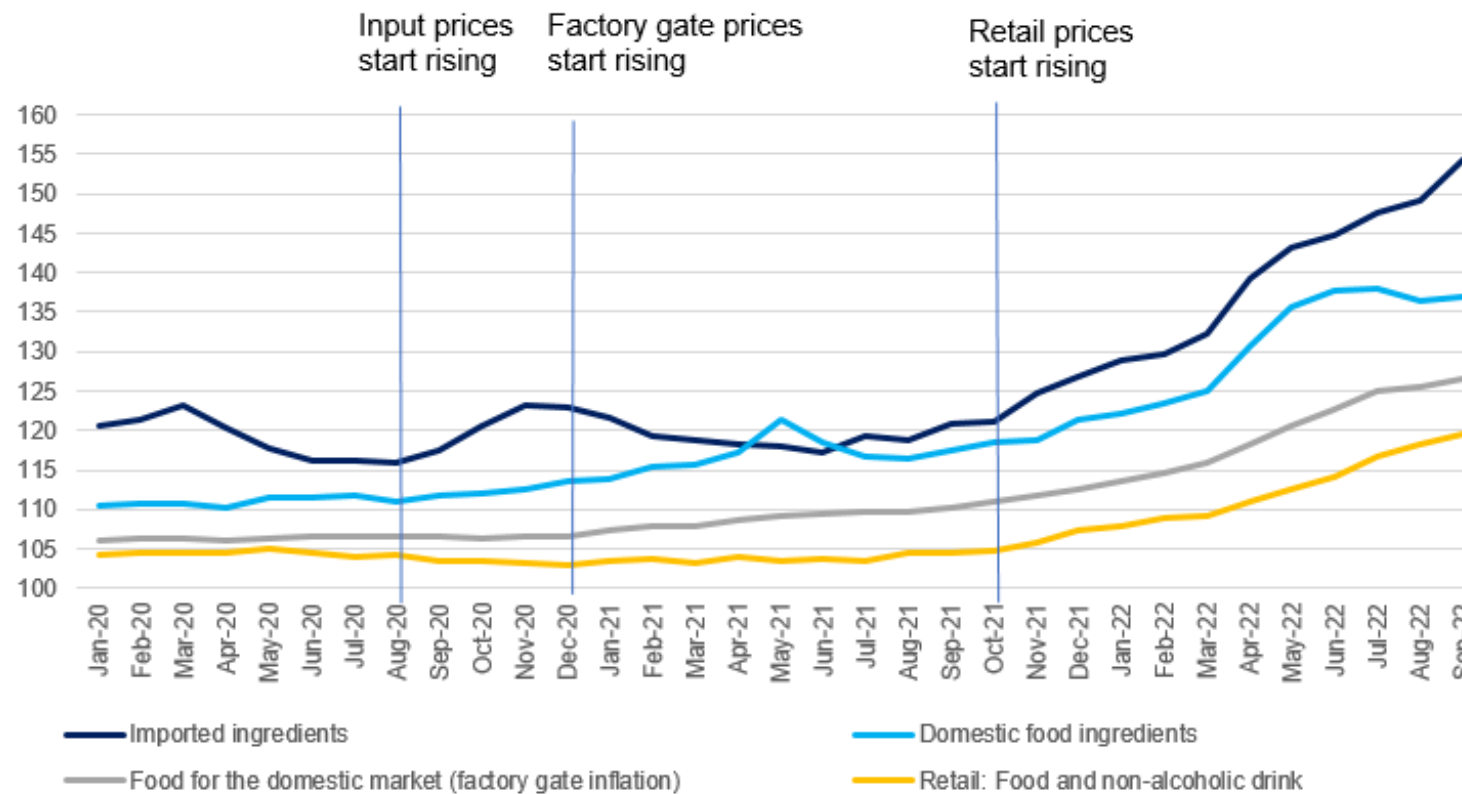
With double-digit inflation for 38 of the 49 ONS reported categories



Source: ONS.

Producer prices of domestic vs imported ingredients move in opposite directions

As the stronger dollar makes imports more expensive



Cost rises filter onto final prices with a lag

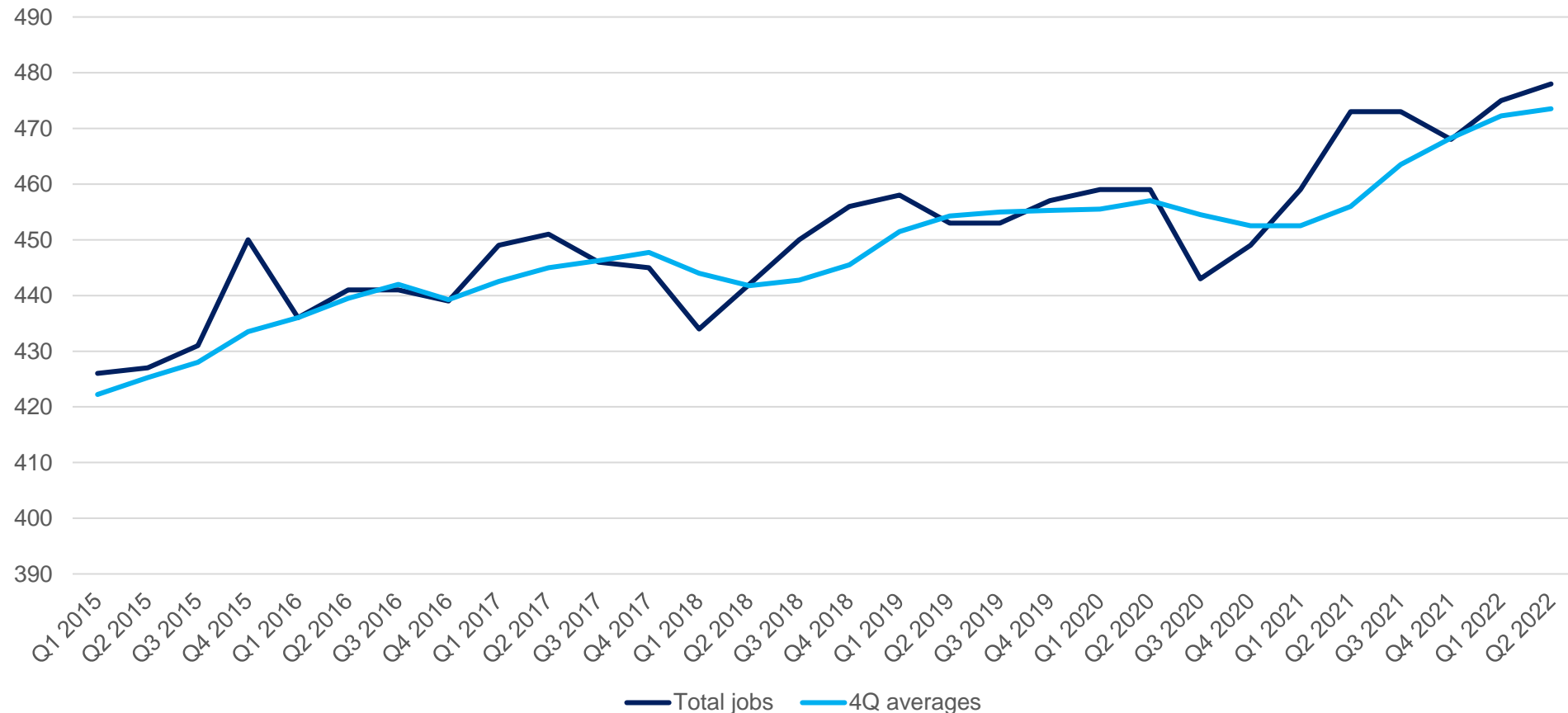
We estimate that lag to be between 7-12 months

	Imported food ingredients	Food ingredients produced domestically	Factory gate food products	Retail food products
Aug-20 to Sep-22	33.3%	23.5%	18.8%	14.8%
Sep-21 to Sep-22	27.8%	16.7%	14.8%	14.6%

Employment in our industry continued to rise in Q2



With 3,000 jobs added, manufacturers provide now 478,000 jobs



Source: ONS, JOBS03 and JOBS04 series.

Industry's insolvencies are on the rise

Food manufacturing insolvencies during the first eight months of the year exceeded the total number of insolvencies seen in 2019

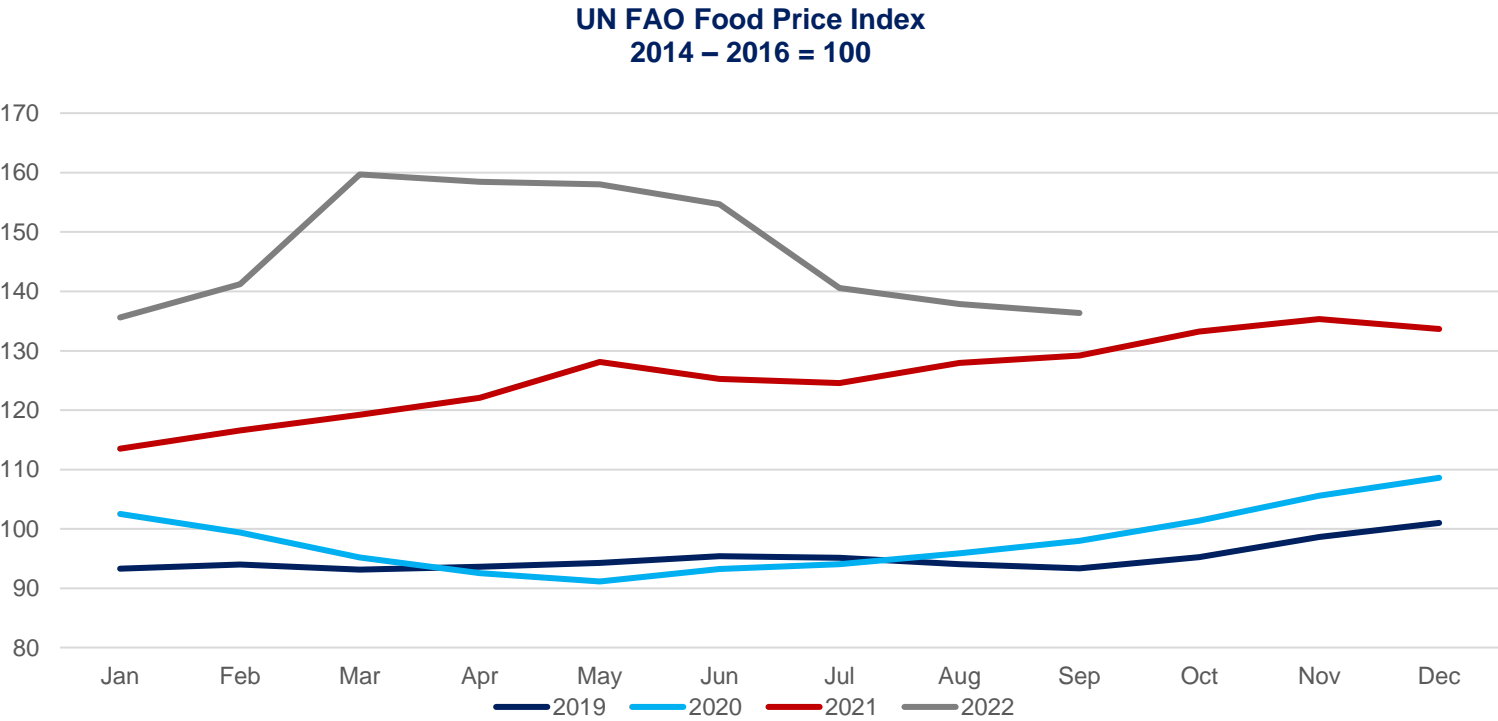
	2019	2022 (Jan-Aug)	2022 insolvencies as a percent of 2019 insolvencies
Food manufacturing	95	104	109%
Drink manufacturing	27	74	274%
GB	18,204	15,242	84%
Manufacturing	1,540	1,168	76%

What's next?

Global food prices have fallen since March



But they are significantly higher than 3 years ago



Changes in the UN FAO Food prices between Sep-19 and Sep-22

Food Price Index	46%
Meat	20%
Dairy	43%
Cereals	61%
Oils	82%
Sugar	49%

Source: UN FAO.

While gas prices almost quadrupled

UK gas prices (GBP/thm)

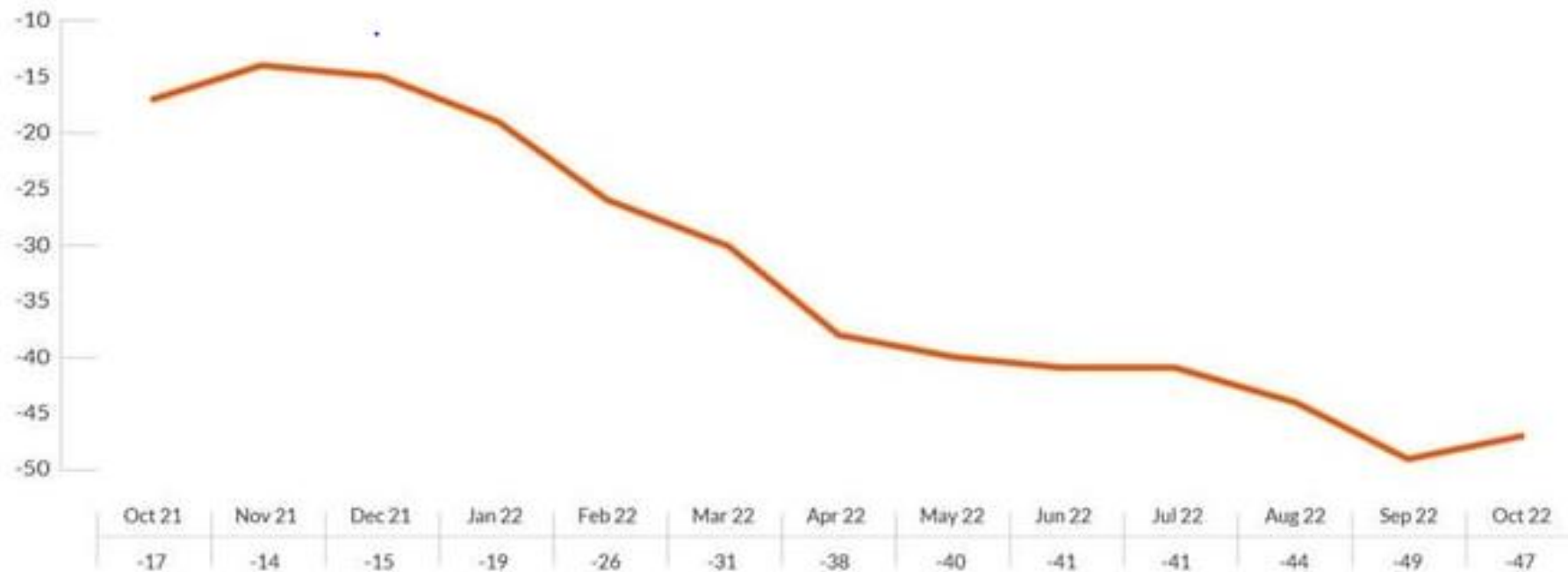


Source: Trading Economics.

Consumers' confidence is close to historic lows



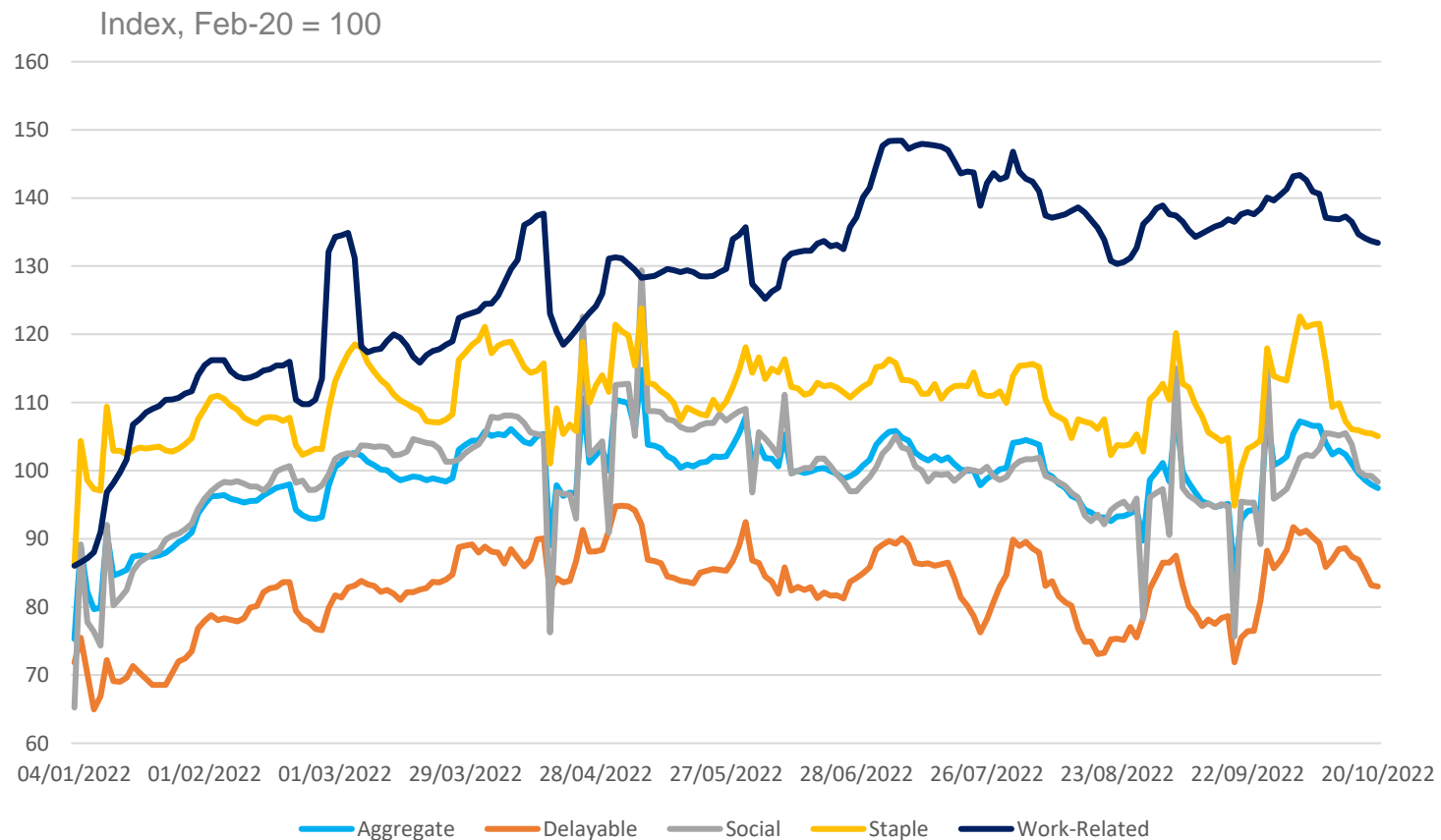
While the major purchases measure continues on a steep downturn



Source: GfK Consumer Confidence Barometer.

Consumer spending is slowing

With credit and debit card spend in decline

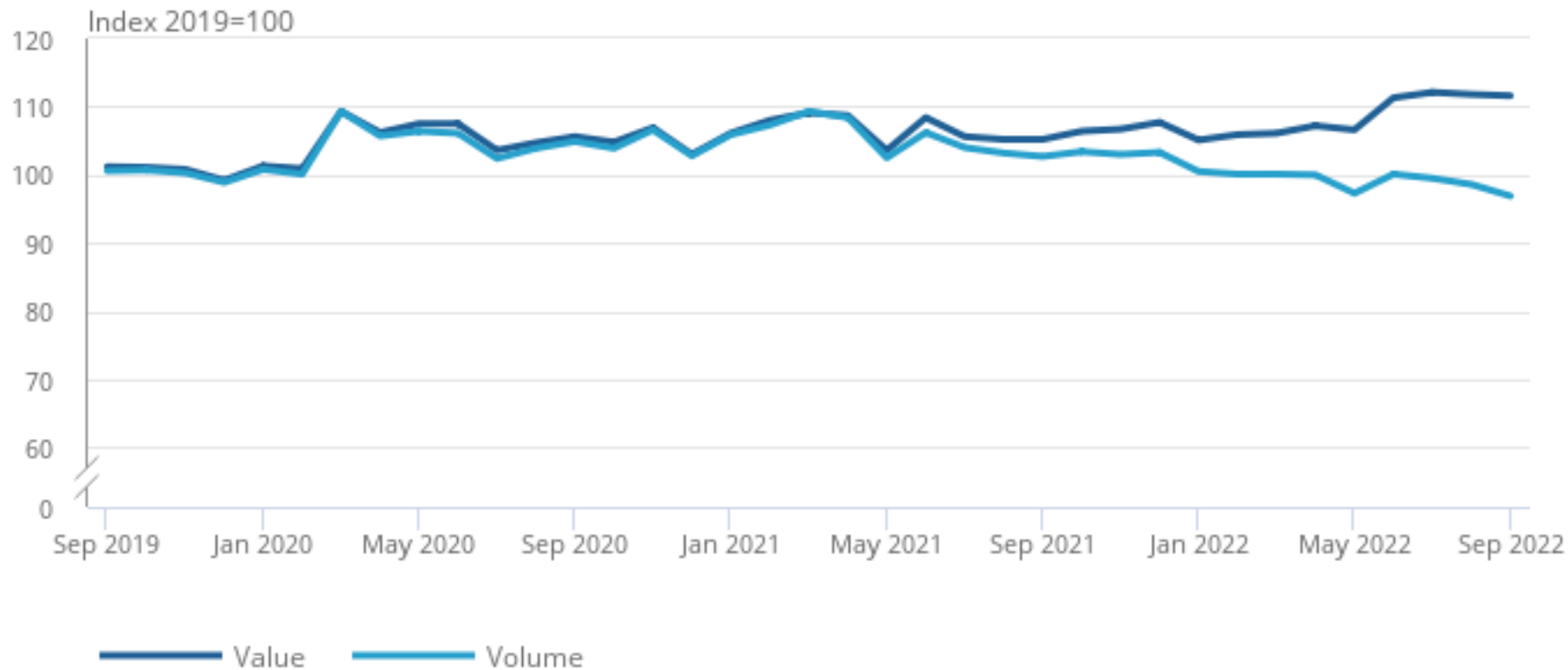


Source: ONS.

Volume of food sales in stores have been on a downward trend



Partly due to the opening of hospitality

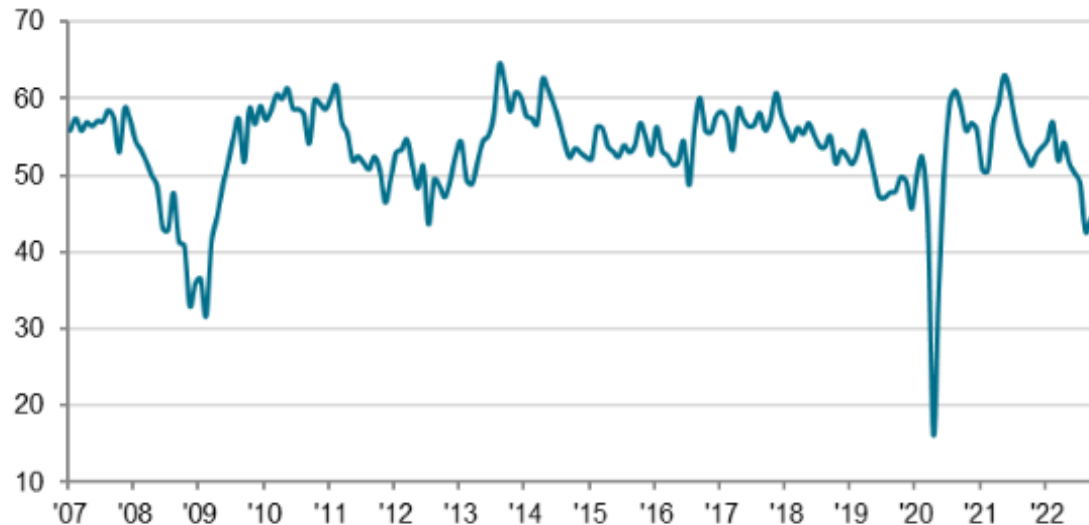


Source: ONS

The UK economy seems to have reached recessionary territory

With both manufacturing and the service sector contracting in October

UK Manufacturing Output Index, sa, 50 = no change



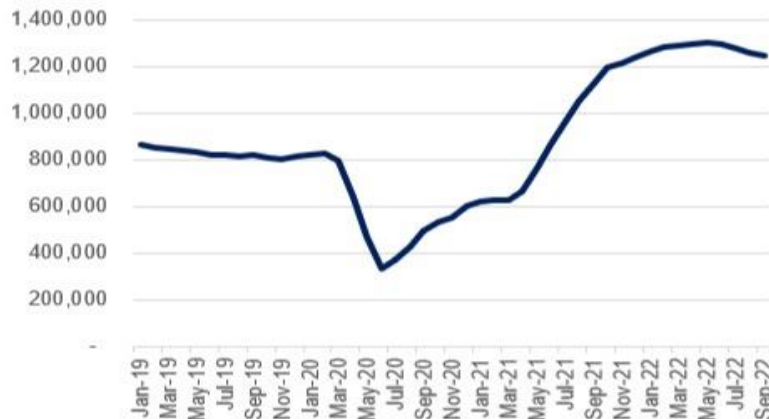
UK Services PMI Business Activity Index, sa, 50 = no change



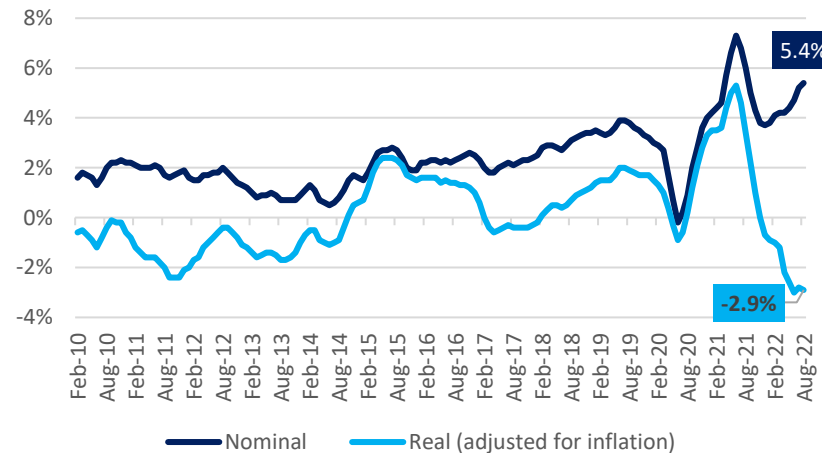
The labour market appears to be cooling

Although wages recorded the highest growth outside the pandemic period

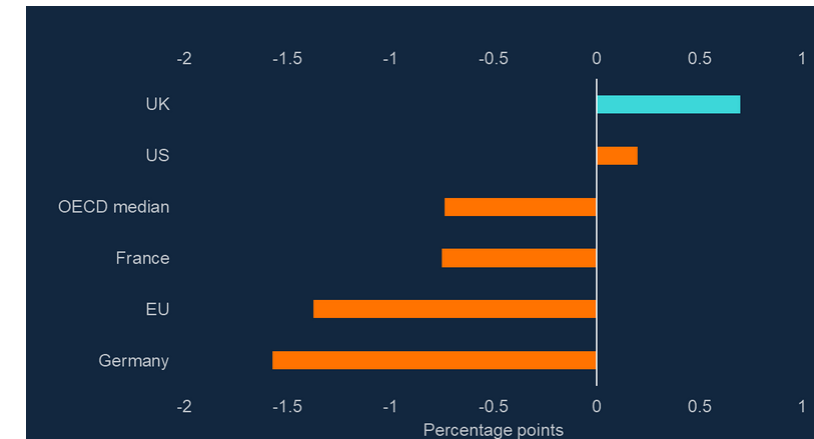
UK number of vacancies



Regular pay growth



Change in inactivity rate between 2019 and 2022 Q1

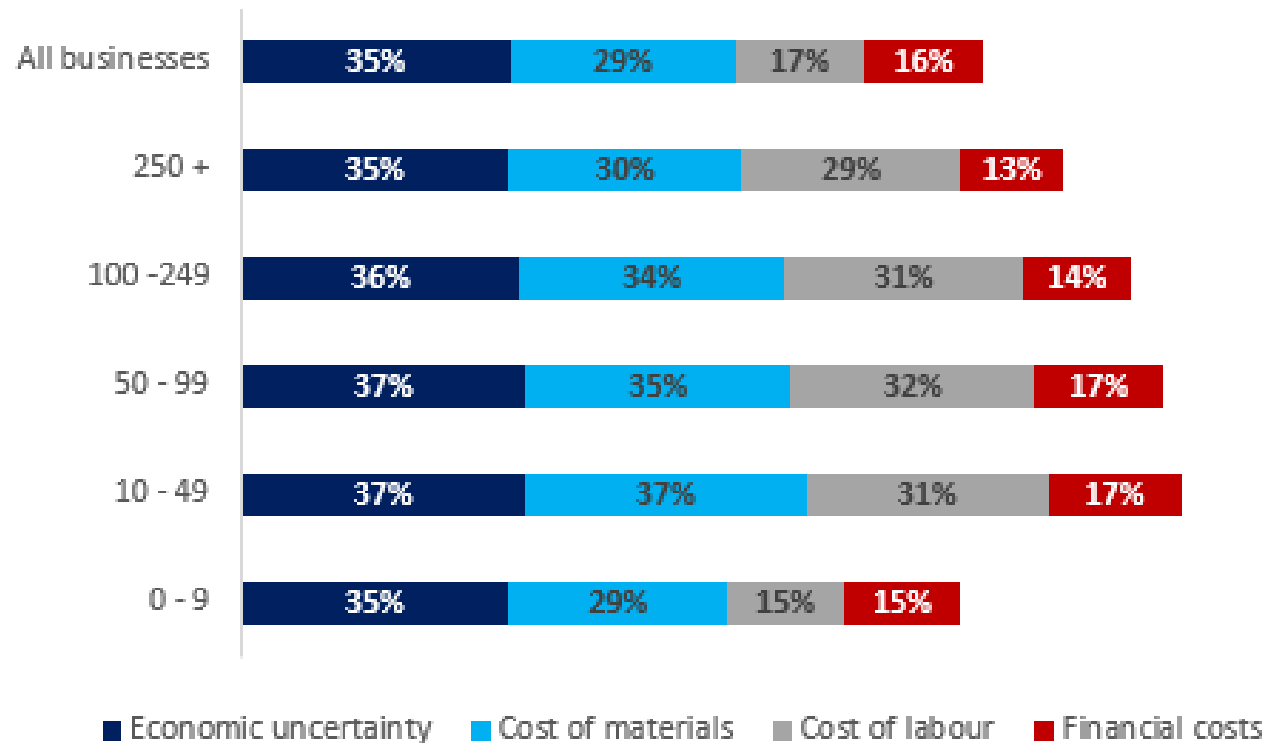


Source: ONS, "Current monetary policy – opening remarks by Jonathan Haskel", October 2022.

While heightened uncertainty will contribute to the economic slowdown



Q: Which of the following challenges, if any, are currently impacting your business's turnover?



Source: ONS, *Business insights and impact on the UK economy*, 6 October 2022 Wave.

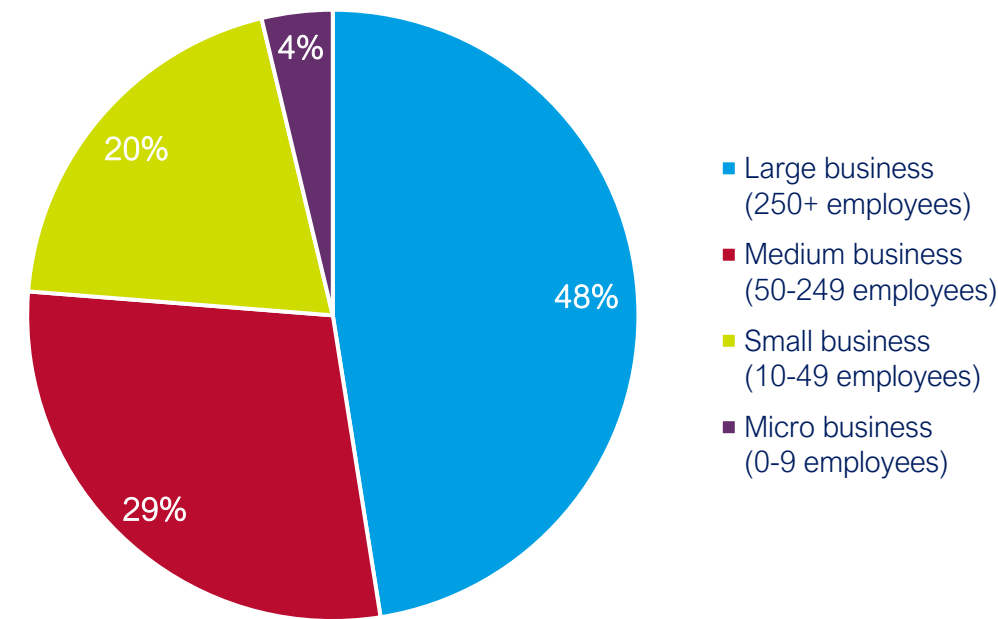
State of Industry Survey findings

Respondents represented approximately 21% of the industry by turnover

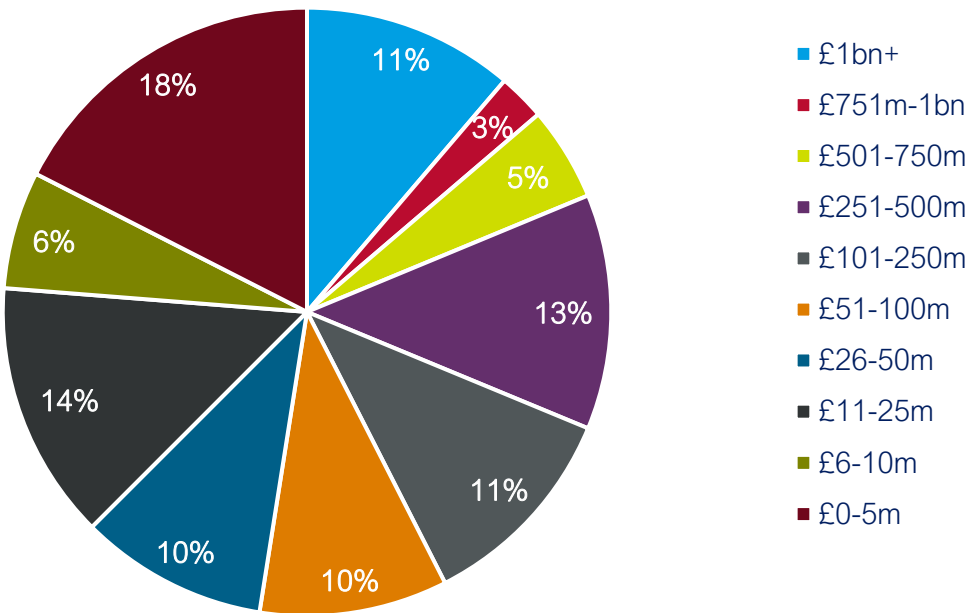


With responses from 80 manufacturers

Employment



Turnover

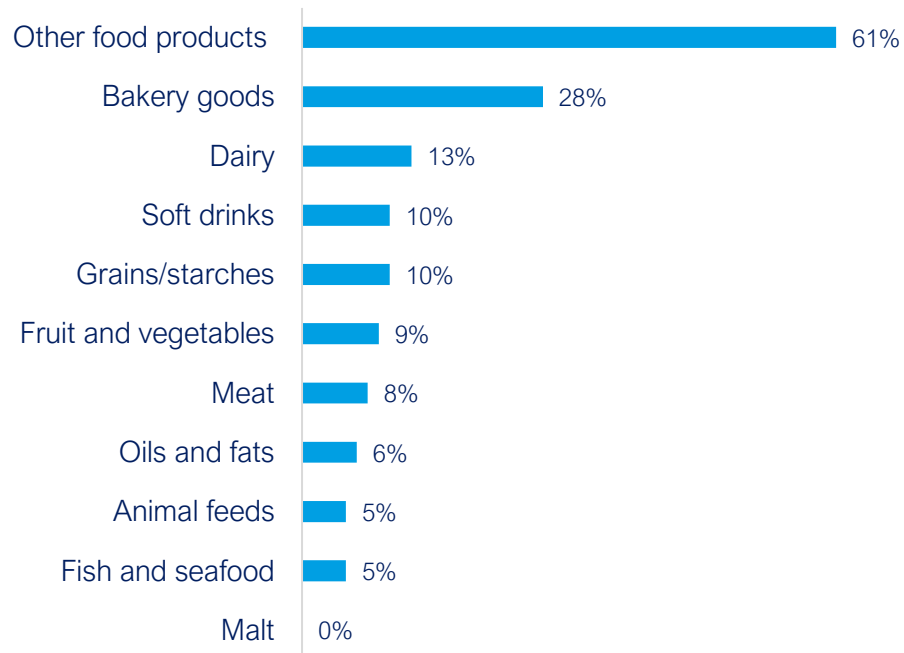


Representation from a wide range of sectors

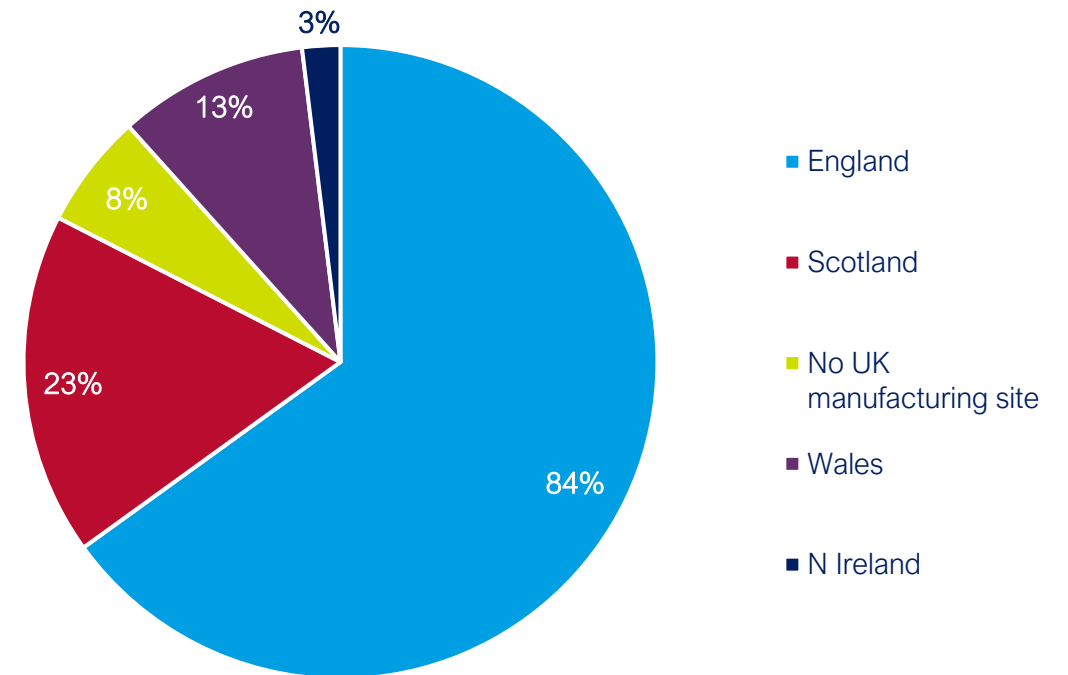


With sites in each nation

Sectors



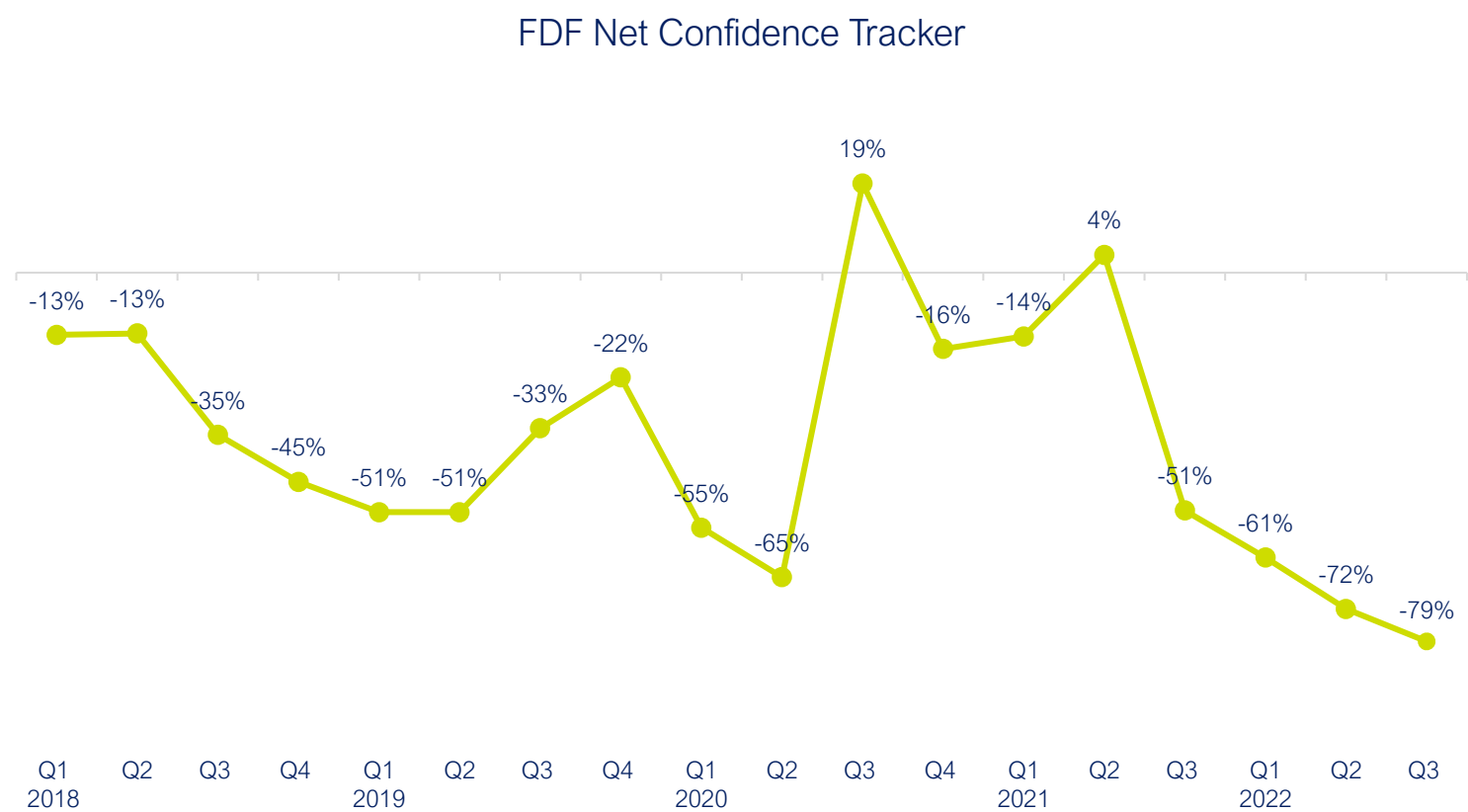
Location



The mood turned even more pessimistic in Q3 2022



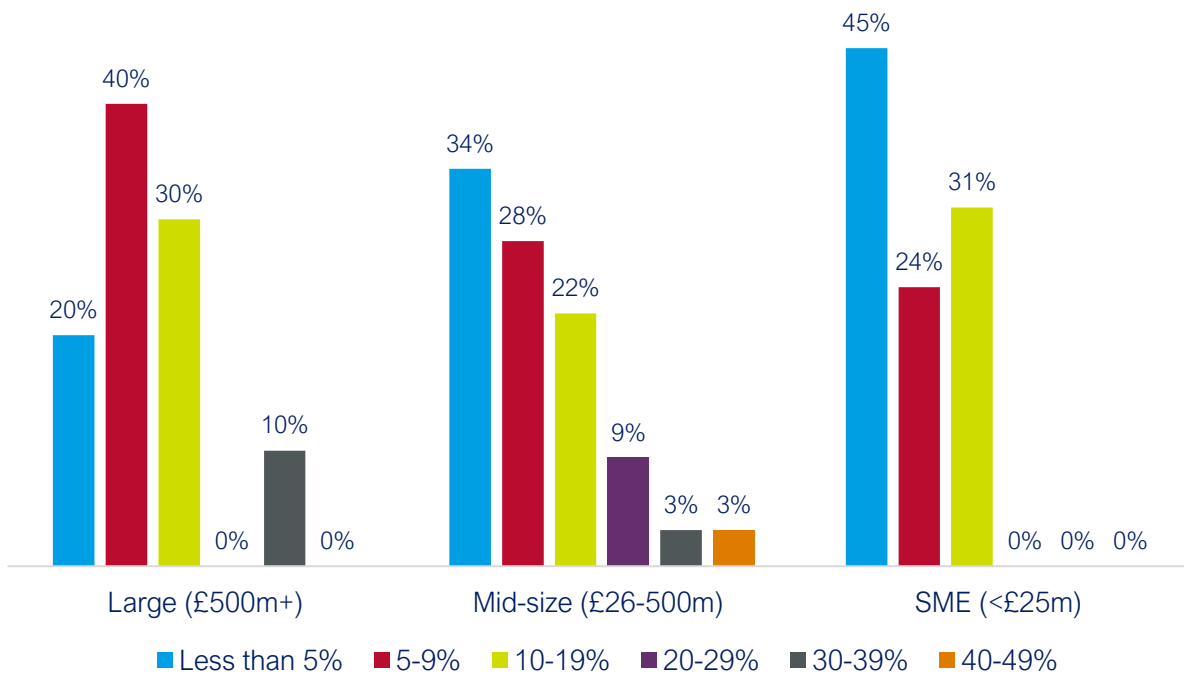
With the number of businesses thinking that general business conditions in Q3 2022 compared to Q2 2022 have deteriorated substantially exceeding those believing conditions have improved



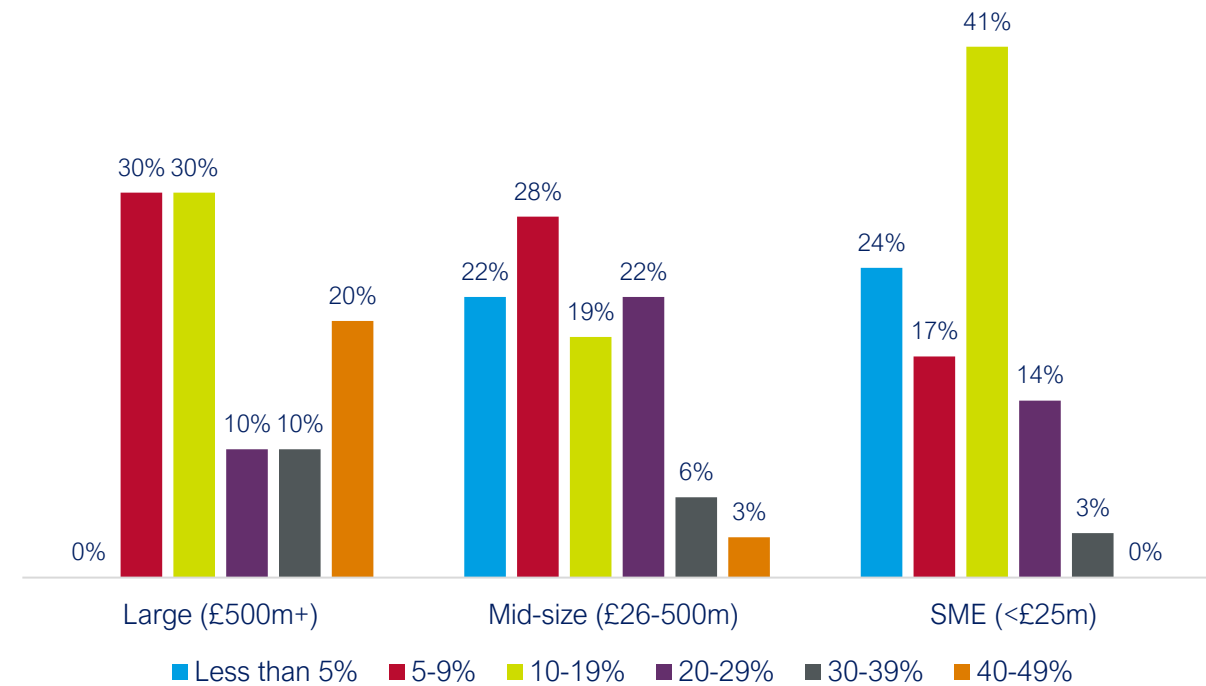
Energy as a percentage of the operating cost has increased for all business sizes over the past year



Q3 2021



Q3 2022



Manufacturers are tackling cost pressures by mainly making their production more energy efficient



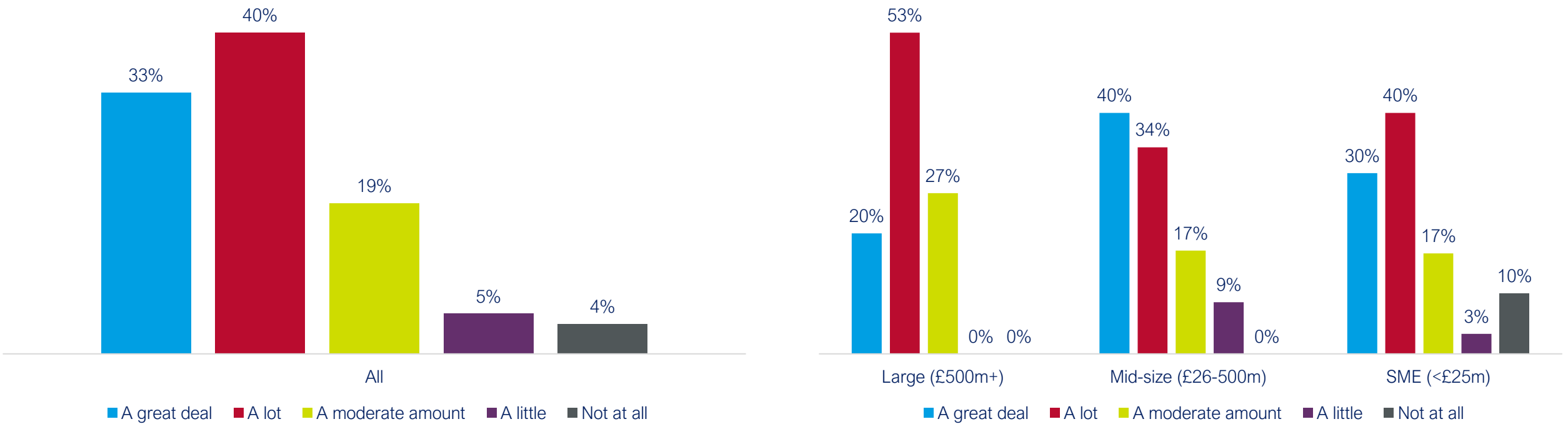
How are you managing increased cost pressures?



Energy contract negotiations are a great cause of concern for all



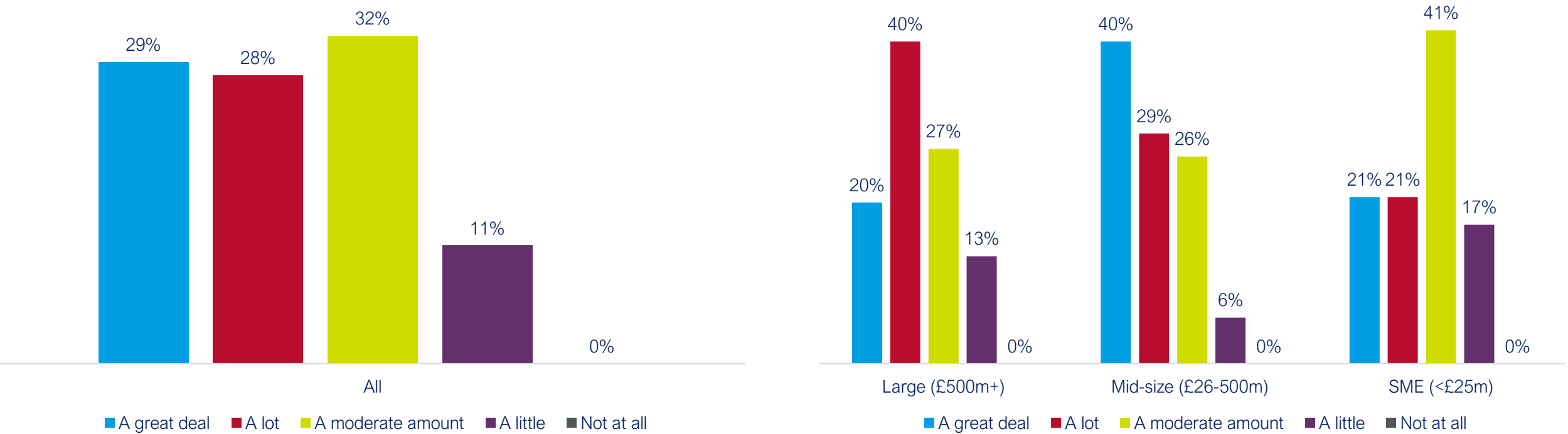
How concerned are you around new energy contract negotiations?



Over 50% of businesses have been greatly impacted by the depreciation of sterling



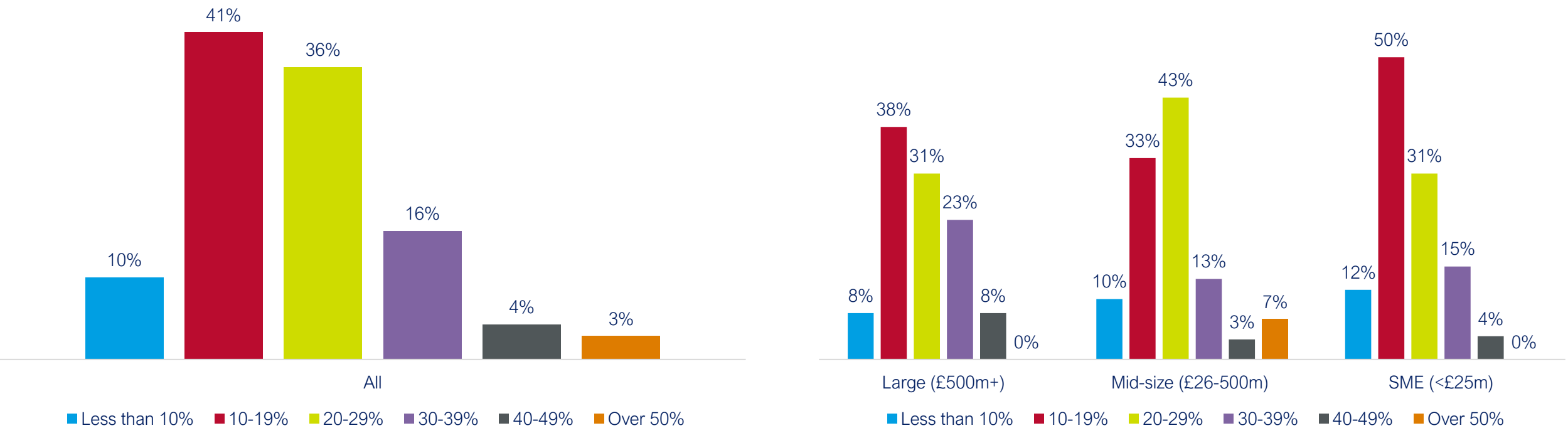
How impacted is your business by the depreciation of the sterling?



90% of businesses saw an increase in production costs of over 10% over the last year



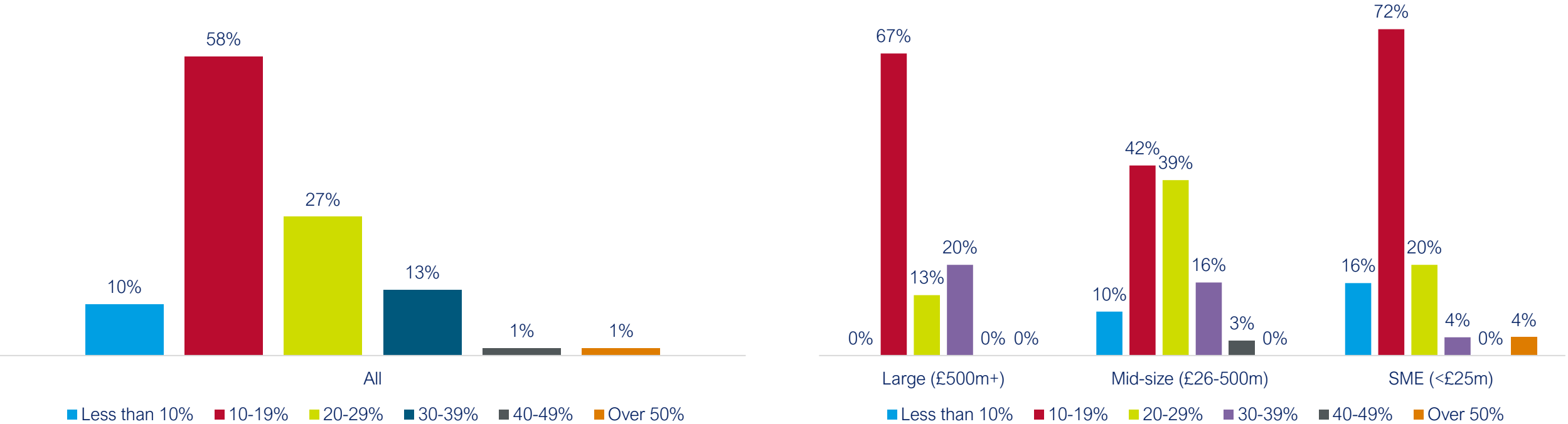
On average, how much have your production costs increased over the last year (Q4 2021 - Q3 2022)?



60% of all business expect production costs to increase by 10-19% over the next year



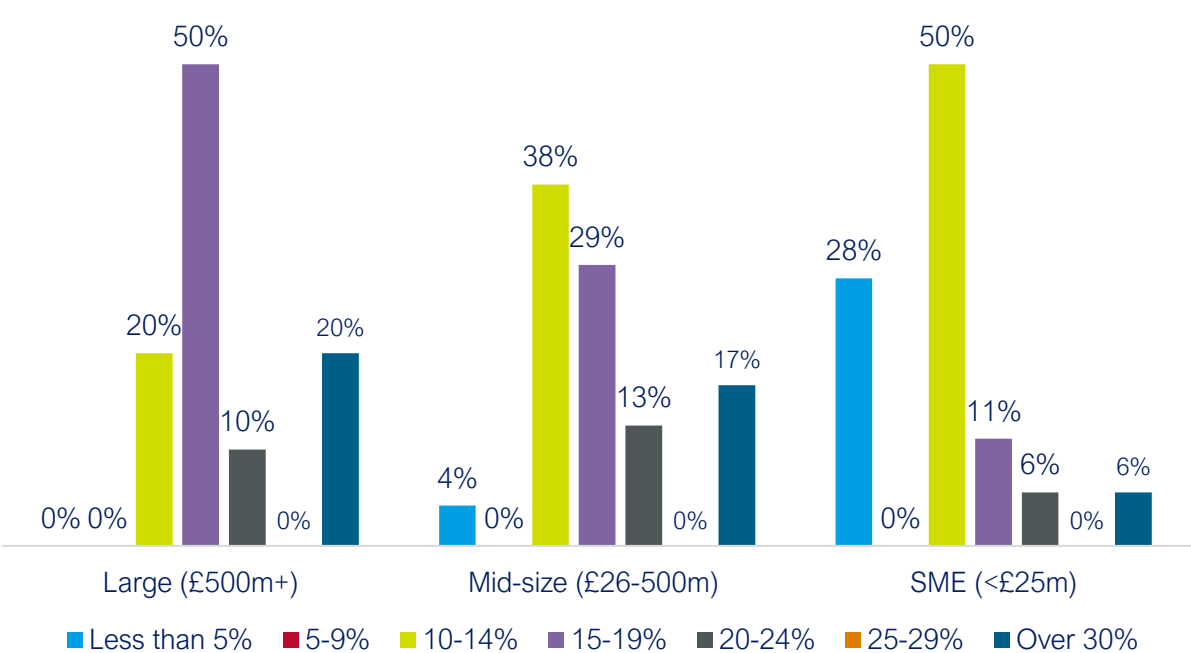
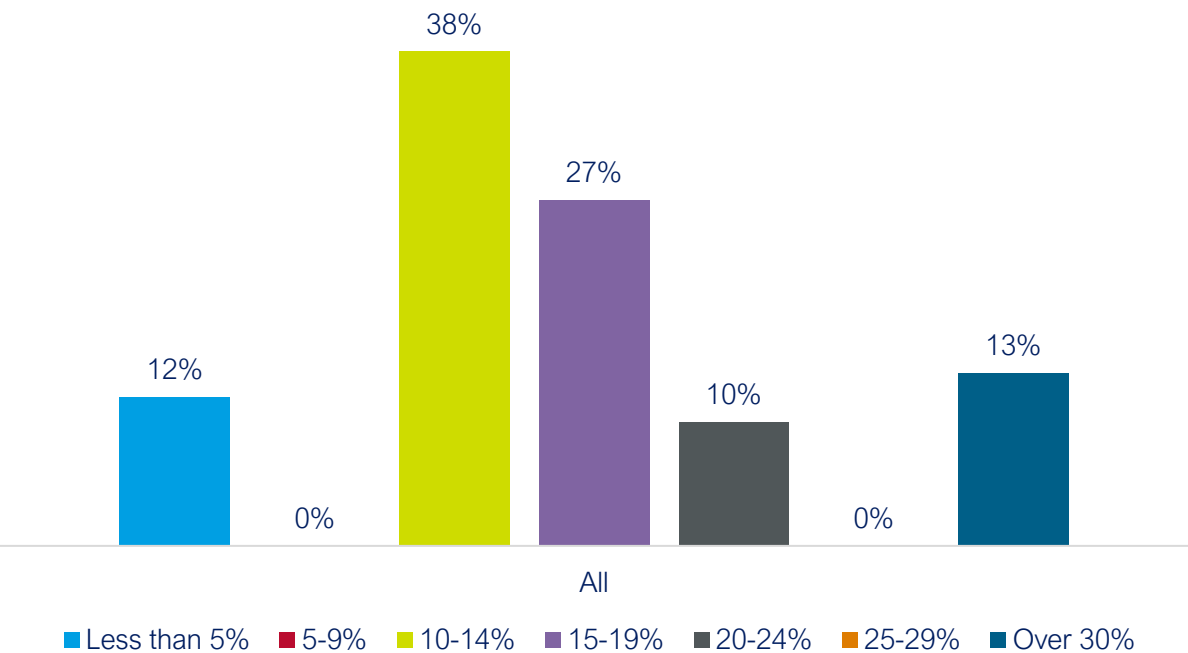
On average, by how much do you expect your production costs to increase over the next year?



Majority of businesses have seen their sales prices increase by at least 10% over the last year



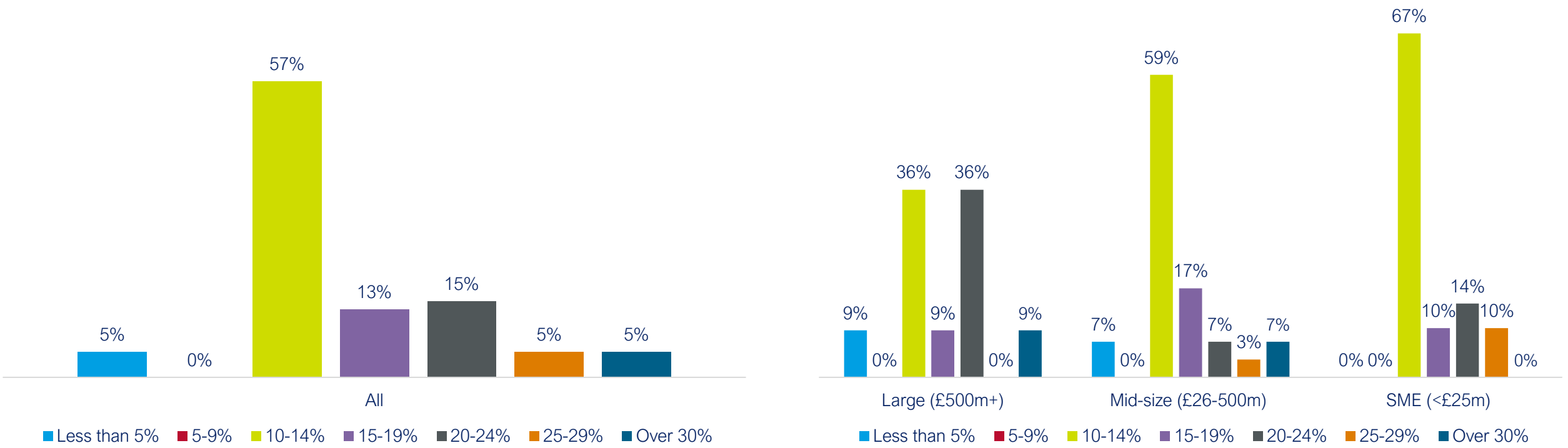
On average, how much have your sales prices increased over the last year (Q4 2021 - Q3 2022)?



95% of businesses will need their sales price to rise by at least 10% over the next year



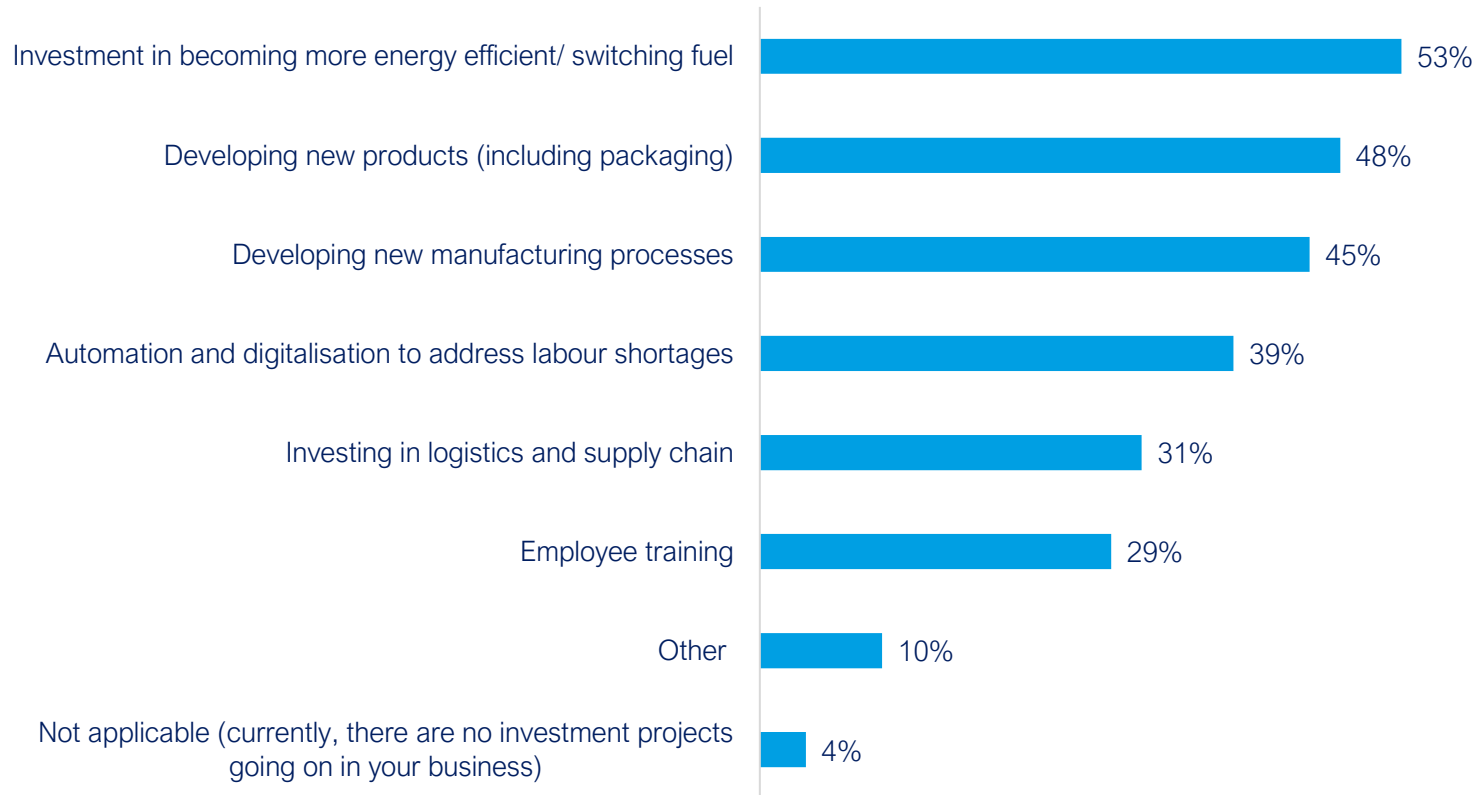
On average, by how much will your sales prices need to rise over the next year?



Becoming more energy efficient is the top priority for majority of businesses



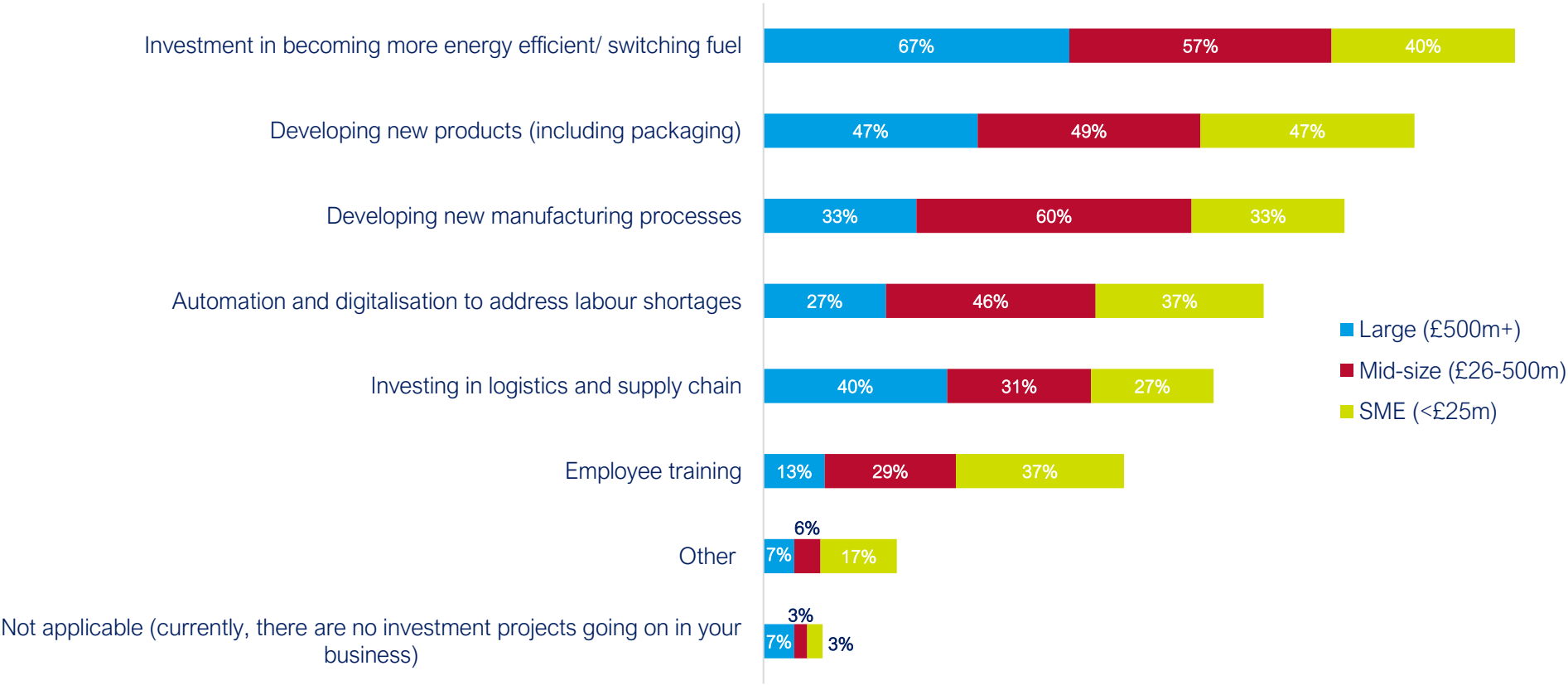
If your business is undertaking any investment, which are the priorities?



Mid-size companies are focused on developing new manufacturing processes



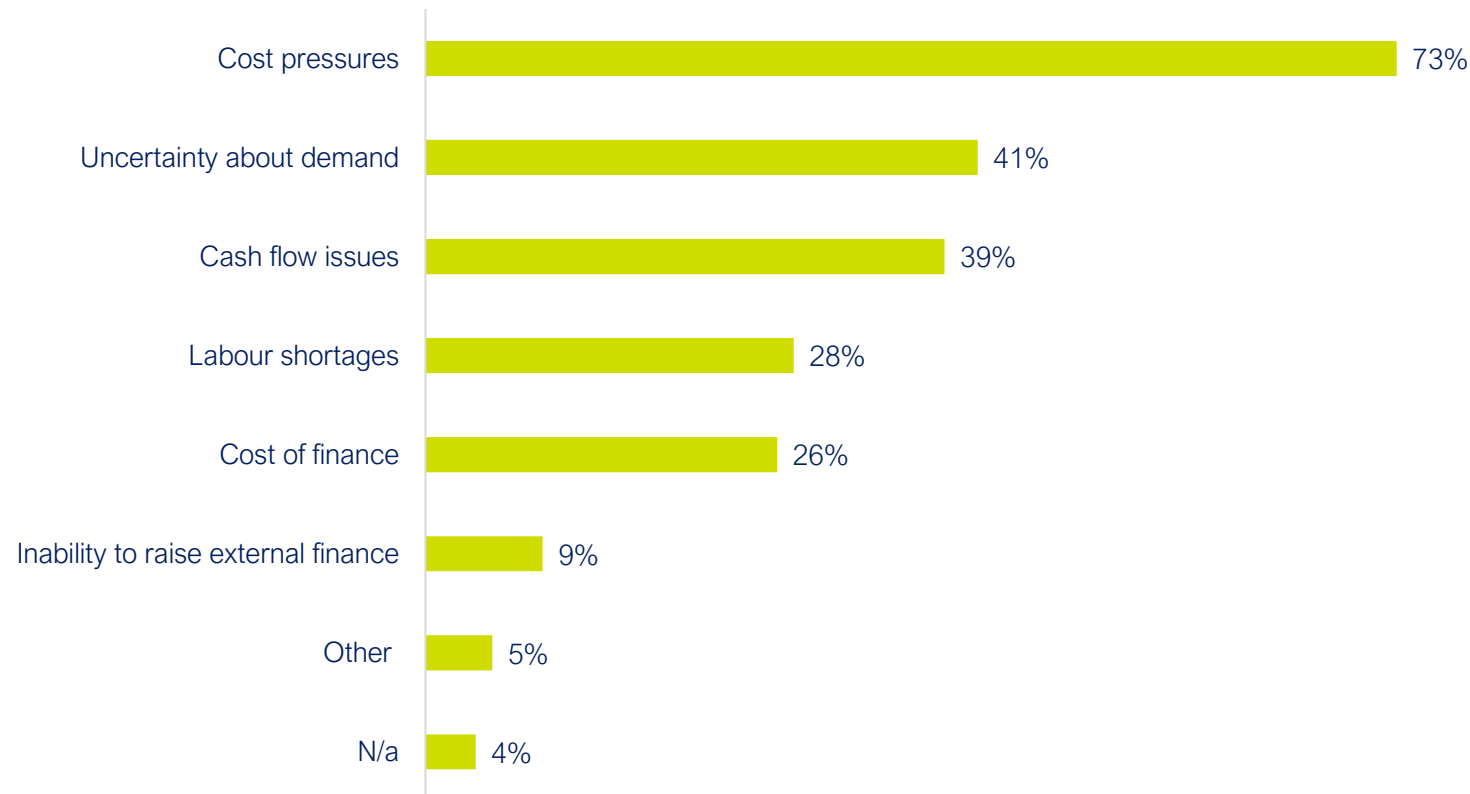
If your business is undertaking any investment, which are the priorities?



Cost pressures are a significant barrier to capital investment expenditure



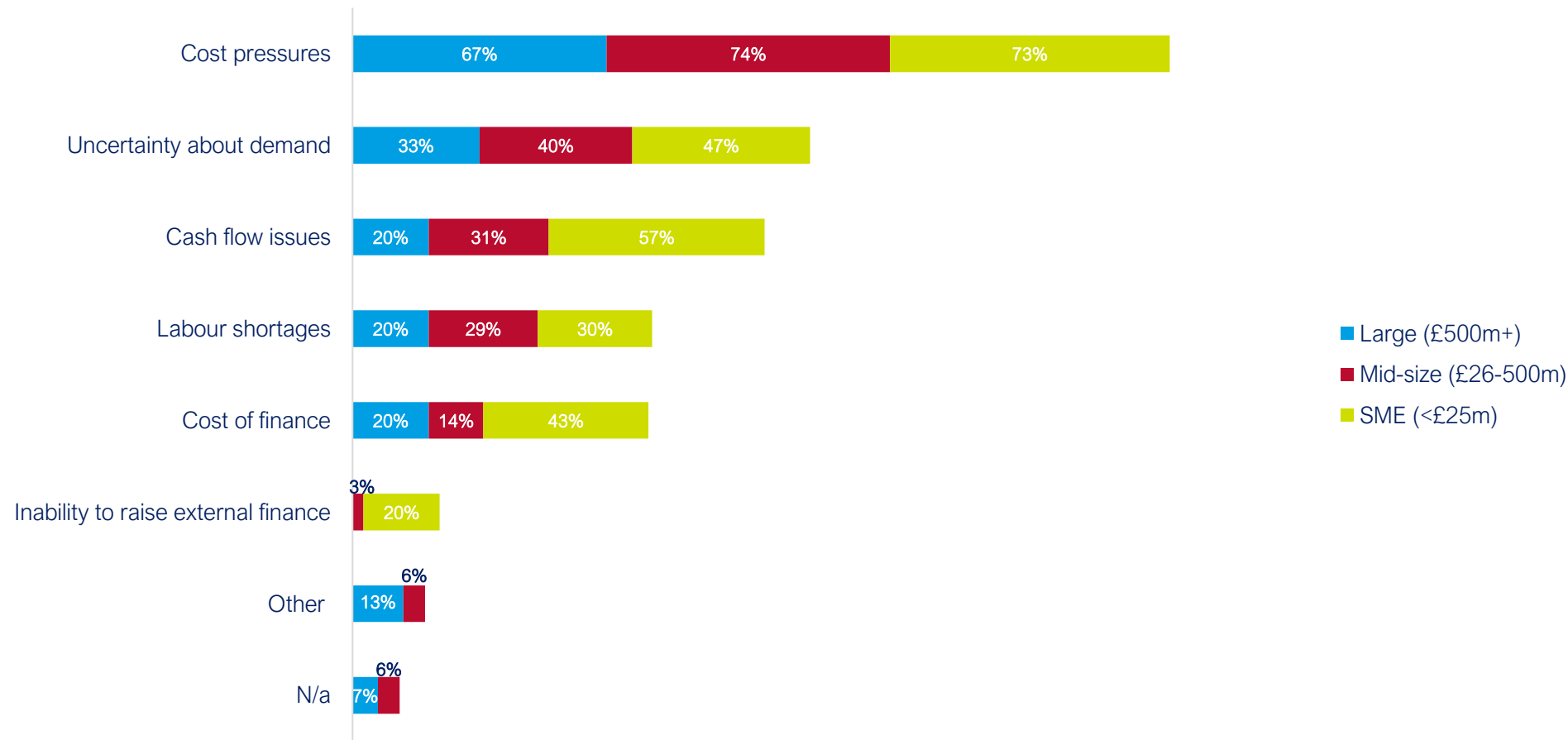
What factors are likely to limit (wholly or partly) your capital investment expenditure over the next twelve months?



SMEs capital investment is limited by finance related issues



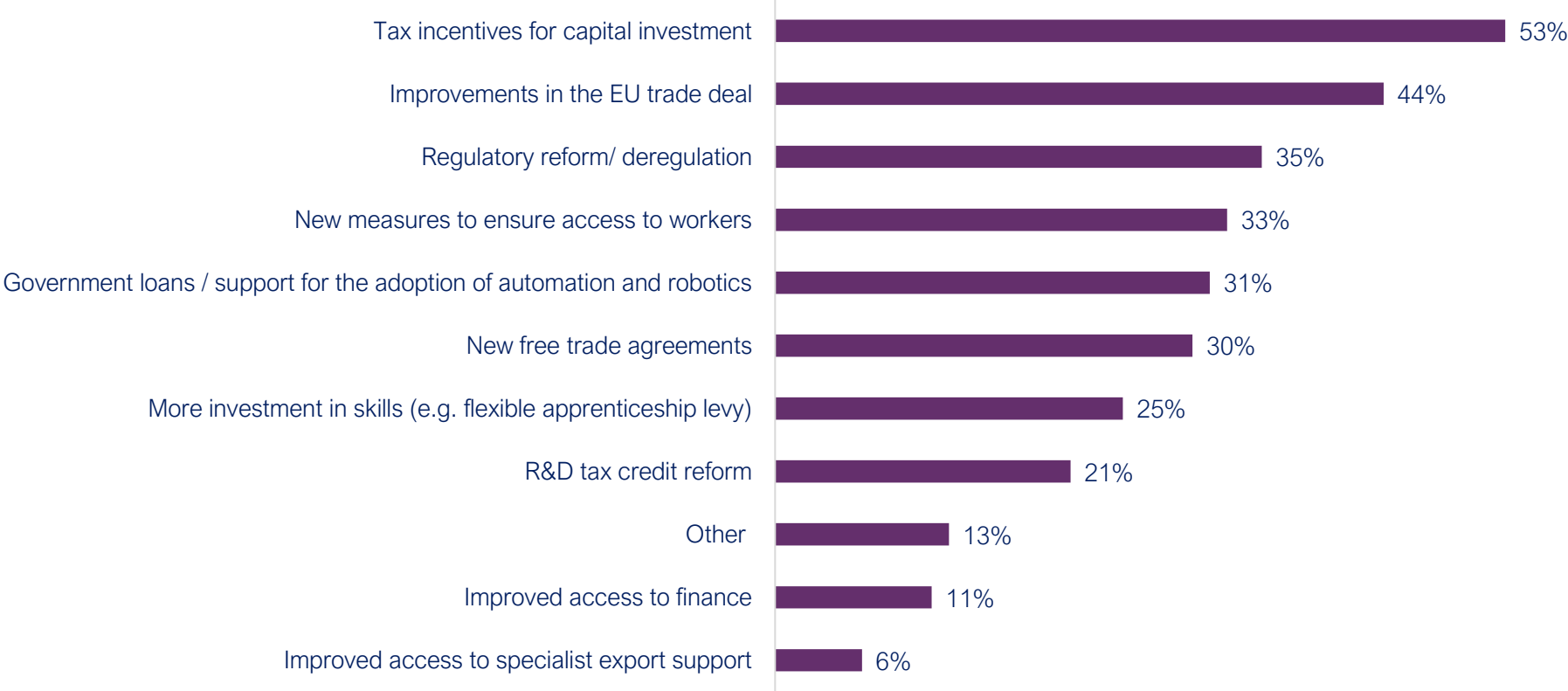
With uncertainty about demand also proving to be a limitation for all business sizes



Manufacturers desire tax investment incentives and improvements in the EU trade deal



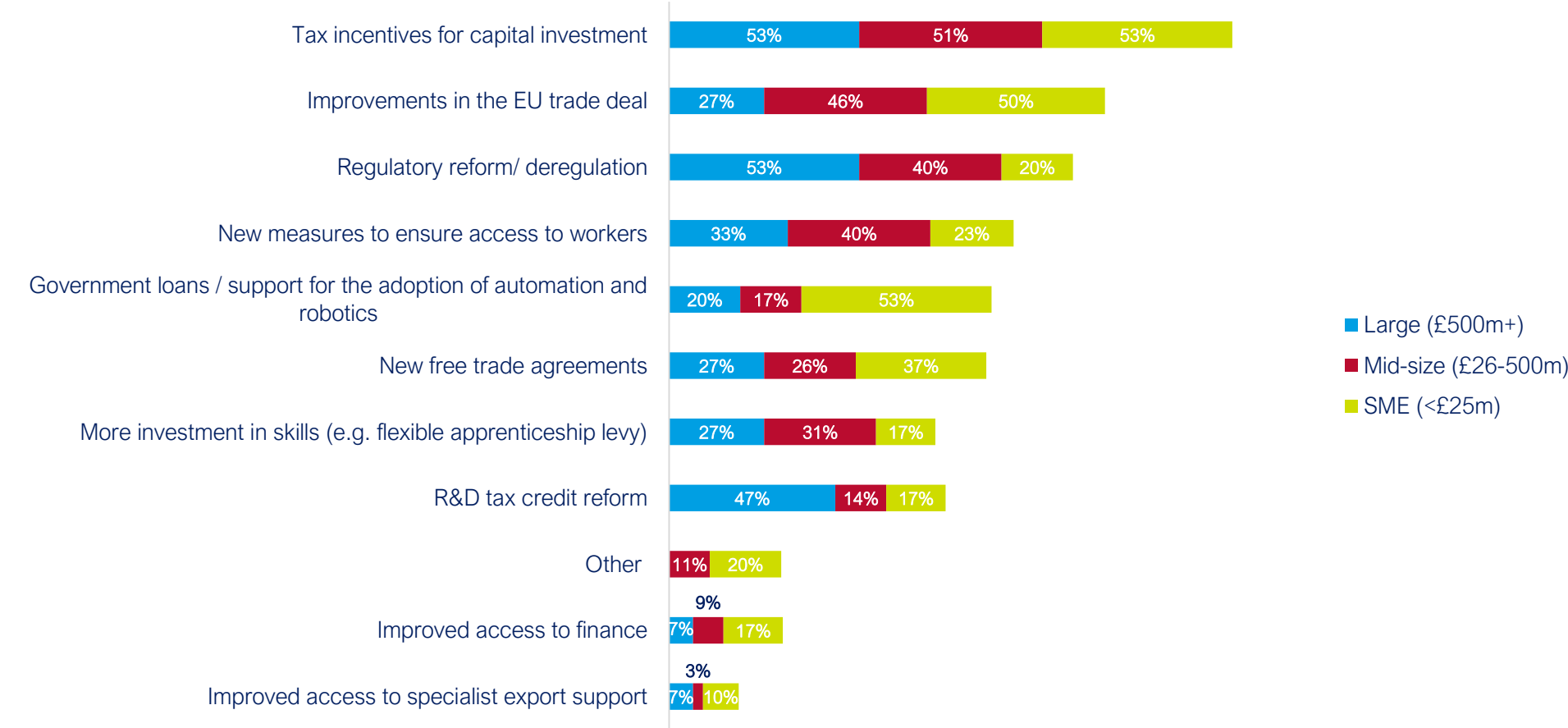
What are the top three government initiatives that would help you grow your business in the next five years?



SMEs welcome support for the adoption of automation and robotics



What are the top three government initiatives that would help you grow your business in the next five years?



Thank you!



Get in touch

Dr Liliana Danila – Liliana.Danila@fdf.org.uk

Uros Milosevic -- Uros.Milosevic@fdf.org.uk

[FDF Business Insights and Economics](#)