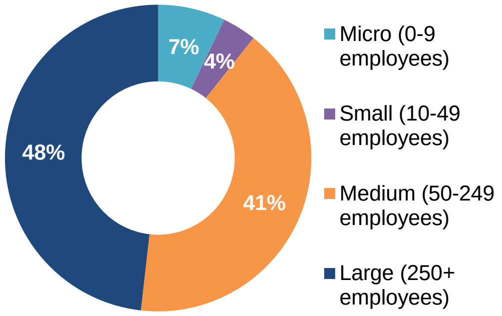
February 2017 Food and Drink Business Confidence Survey

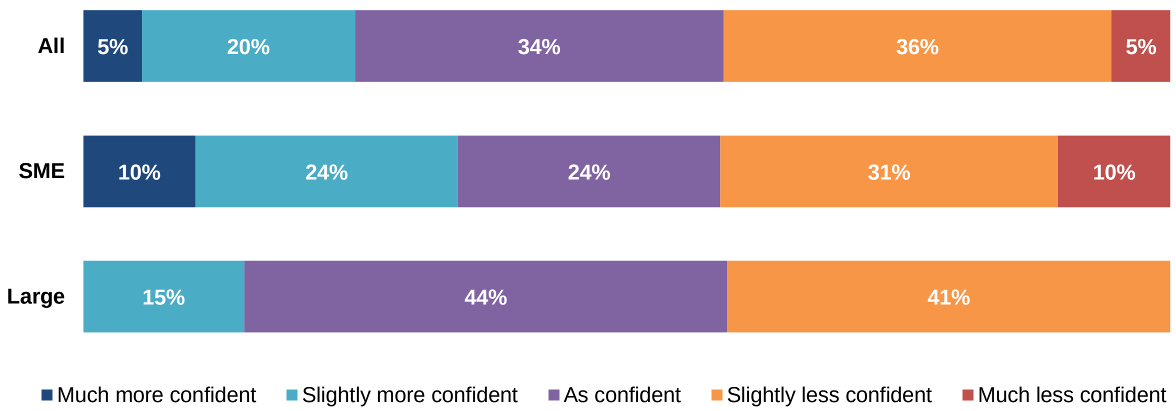
FDF conducted a member survey from 8-17 February 2017 to gauge latest industry confidence levels and business expectations for the two years until the UK leaves the EU.



We received responses from businesses with a combined UK turnover of more than £10bn. 52 per cent were from small and medium-sized enterprises (SMEs).

Our latest survey shows that 41 per cent of industry is less confident than it was in October 2016, while 25 per cent of businesses are more confident. Our October 2016 survey had showed that since the referendum, confidence had fallen among 70 per cent of UK food and drink manufacturers. The latest findings are set out below with a selection of respondents' comments.

How optimistic are you about the UK's business environment in comparison to October 2016?



Verbatim comments from FDF members (8-17 February 2017)

"Volatile pricing is driving down margins."

"The uncertainty that Brexit brings is starting to affect decisions about future investment."

"I'm concerned that since the last survey, the Government has made it clear that remaining in the Single Market is not an option. They also seem less worried than I am about reverting to a WTO-based arrangement."

"There is concern about the terms on which we will be able to access the EU market after we have exited the EU."

"Currency impacts and concerns about future non-tariff barriers to trade in EU affecting project pipeline and customer relations."

"Indy ref 2 is making the situation worse."

"Brexit has created a lot of uncertainty and increased our base costs."

Impacts on business in the last four months

	INCREASED	UNCHANGED	DECREASED
Capital expenditure	21.2%	59.6%	19.2%
Expenditure on staff training	13.0%	68.5%	18.5%
Launches of new products	22.6%	56.6%	20.8%
Prices of ingredients/raw materials	90.9%	7.3%	1.8%
R&D expenditure	11.8%	72.5%	15.7%
Volume of exports outside the EU	39.5%	52.6%	7.9%
Volume of exports to the EU	28.9%	63.2%	7.9%
Volume of sales in the UK	40.0%	30.9%	29.1%
Your product margins	5.6%	29.6%	64.8%

"Margins have increased in the last four months as we have implemented price increases. However, these selling price increases are not as big as the increases in raw materials seen in the last 9 months and therefore whilst margins may be higher than four months ago, they are much lower than those prior to Brexit."

Expectations for the next two years until the UK leaves the EU

	INCREASE	UNCHANGED	DECREASE
Capital expenditure	25.9%	50.0%	24.1%
Expenditure on staff training	10.9%	70.9%	18.2%
Launches of new products	43.6%	49.1%	7.3%
Prices of ingredients/raw materials	90.9%	5.5%	3.6%
R&D expenditure	20.4%	70.4%	9.3%
Volume of exports outside the EU	62.5%	37.5%	0.0%
Volume of exports to the EU	40.5%	45.2%	14.3%
Volume of sales in the UK	63.6%	25.5%	10.9%
Your product margins	14.8%	31.5%	53.7%

"We export significantly to Ireland and were hoping to increase our trade with that country. Currency is on our side, but not as certain about Irish willingness to do business with the UK."

"We are actively looking to expand our premises through acquiring a new plot of land for a purpose built facility. We are confident that Brexit will be resolved and that our business will be growing."

"Uncertainty and FX volatility are the most challenging of issues, along with the way UK implements EU regulations which is far more draconian than other markets."

"Hopefully EU & GB politicians understand that playing "hard ball" will not do EU or GB food manufacturers any good. Long term Brexit will provide UK food manufacturers with more opportunities to grow their overseas business."

"Businesses are seen purely as a cash cow for local and national government funding. It's a reckless approach and compounded with Brexit is a recipe for difficult times ahead."

Opportunities and risks during the next two years until the UK leaves the EU

OPPORTUNITIES	
Increased domestic demand	52.8%
Still too early to say	41.5%
Increased export demand	32.1%
Weaker sterling	30.2%
Long term uncertainty around EU membership	26.4%
Lower regulatory burden	13.2%
No opportunities identified	13.2%
Lower interest rates	7.5%
Procurement opportunities	5.7%
Scottish Independence Referendum 2	3.8%
Lower costs	1.9%

RISKS	
Exchange rate volatility	92.7%
Increased costs	92.7%
Access to labour	41.8%
Access to skills	32.7%
Supply chain resilience	32.7%
Weaker demand	32.7%
Attitude of parent company	23.6%
Scottish Independence Referendum 2	21.8%
Increased tax burden	20.0%
Status of EU funding	14.5%
No concerns identified	0.0%

“I feel that the UK economy, although currently resilient, will start to weaken as we near 2019. The effect of inflation on food prices will strengthen, which I fear will reduce sales and quite possibly, margins.”

“Scottish independence would be a major risk for our business.”

“Whilst sterling's weakness may help exports, those of us with a heavy or exclusive bias to UK sales and whose products are imported, will continue to suffer the pain seen since Brexit.”