

Q2 2020

Food & Drink Business Confidence Report

Key Findings

- The latest FDF [Business Confidence survey](#) shows that **net business confidence reached a record low** in Q2, at -65.2%.
- **Key concerns for 2020** include: lack of demand from the hospitality sector, failing to secure a preferential trade agreement with the EU, and UK import tariff uncertainty. All of these were reported by over 65% of members.¹
- **GVA, exports, and net confidence all declined** in Q2, while **inflation and wages increased**. Lockdown measures resulted in reduced demand and cash flow issues for many food and drink businesses supplying the hospitality and out-of-home sectors.

Q2 2020 Economic Background

Food and Drink Indicators	Growth	Change (y-o-y)
Gross value added ²	-9.4%	(May 2020)
Wages ³	2.0%	(Apr 2020)
Exports ⁴	-13.1%	(Apr 2020)
Food & soft drink inflation ⁵	1.8%	(May 2020)
Net confidence ⁶	-13.9pp	(Q2 2020)

workers employed in their business in Q2, and **91% expect UK unemployment to rise** over the second half of the year.

- Latest official data reflects the huge impact of COVID-19 on the UK economy; for instance, **GDP fell by around 25%** over the first five months of 2020.
- **Claimant Count numbers have increased by almost 1.5 million** since January, and ILO forecasts indicate that up to 24.7 million workers (worldwide) could become unemployed in 2020 due to COVID-19.
- One fifth of members reported a decline in the number of
- Increased costs remain a significant challenge for manufacturers – in particular, **imported ingredient prices rose by 3.1% in May** (y-o-y). Over two thirds of members expect ingredient costs to continue to rise over the next 6 months.
- Output has taken a hit since the beginning of the crisis, decreasing by 13% in April, and a further 9% in May. The closure of the hospitality and out-of-home sectors has meant **some manufacturers have seen 100% of their customer base disappear** overnight. In Q2, 41% of members noted a decline in the number of SKUs in production.
- In Q2, **almost half of members reported increased wages**. Official data shows that while half of UK manufacturing sectors have seen wages decreases in recent months, food and drink has maintained positive growth from January to May.

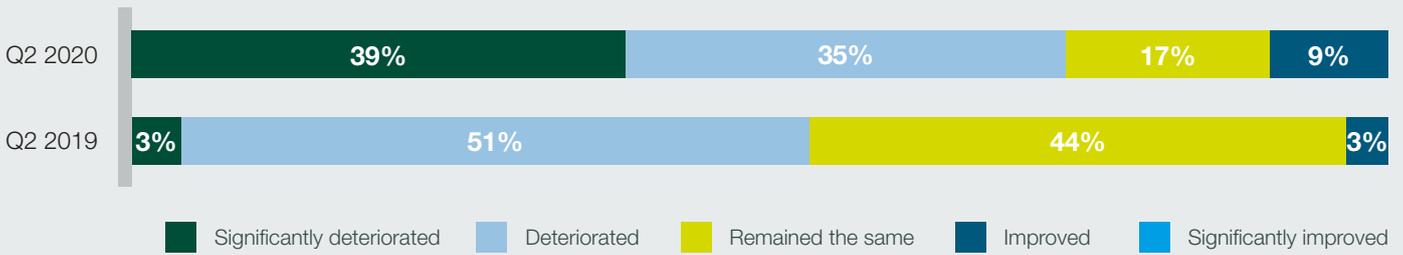
fdf NET CONFIDENCE TRACKER*



* Net confidence represents the difference between the proportion of respondents who expressed a positive and negative sentiment. For example, if 70% of respondents were unconfident, and 20% were confident, net confidence would be -50%.

Q2 2020 Confidence Snapshot

Do you believe that general business conditions this quarter compared to last quarter have...?



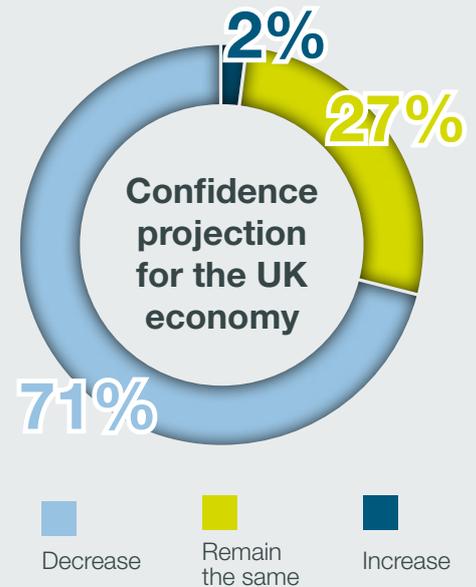
Pessimism in the industry continued to worsen in Q2, demonstrated by the **decline in net confidence** (compared to last quarter).

Key reasons stated by members for lower business confidence included:

- > **Loss of sales to the food service sector,**
- > **Labour supply challenges due to COVID-19, and**
- > **Economic conditions impacting consumer confidence.**

The chart above displays how FDF member confidence has changed over the last year.⁷ Since Q2 2019, FDF data shows a 20-percentage-point **rise in the share of businesses whose confidence deteriorated**.

The chart opposite outlines businesses' projections for confidence in the wider economy in 2020. At present, **almost three quarters of members predict a decline in business confidence** over the next 6 months, while only 2% feel that it will increase.



Q2 2020 Key Impacts on the Industry

What impacts has your business experienced in the last quarter?⁸



decreased hospitality and food service sales



higher ingredient costs



increased average wages



smaller number of SKUs in production



decreased cash flow



increased productivity



higher domestic retail sales



fewer new product launches

2020 Top 5 Opportunities & Barriers

Members ranked the top factors they consider to be opportunities and barriers to the success of their business:

↑ Opportunities

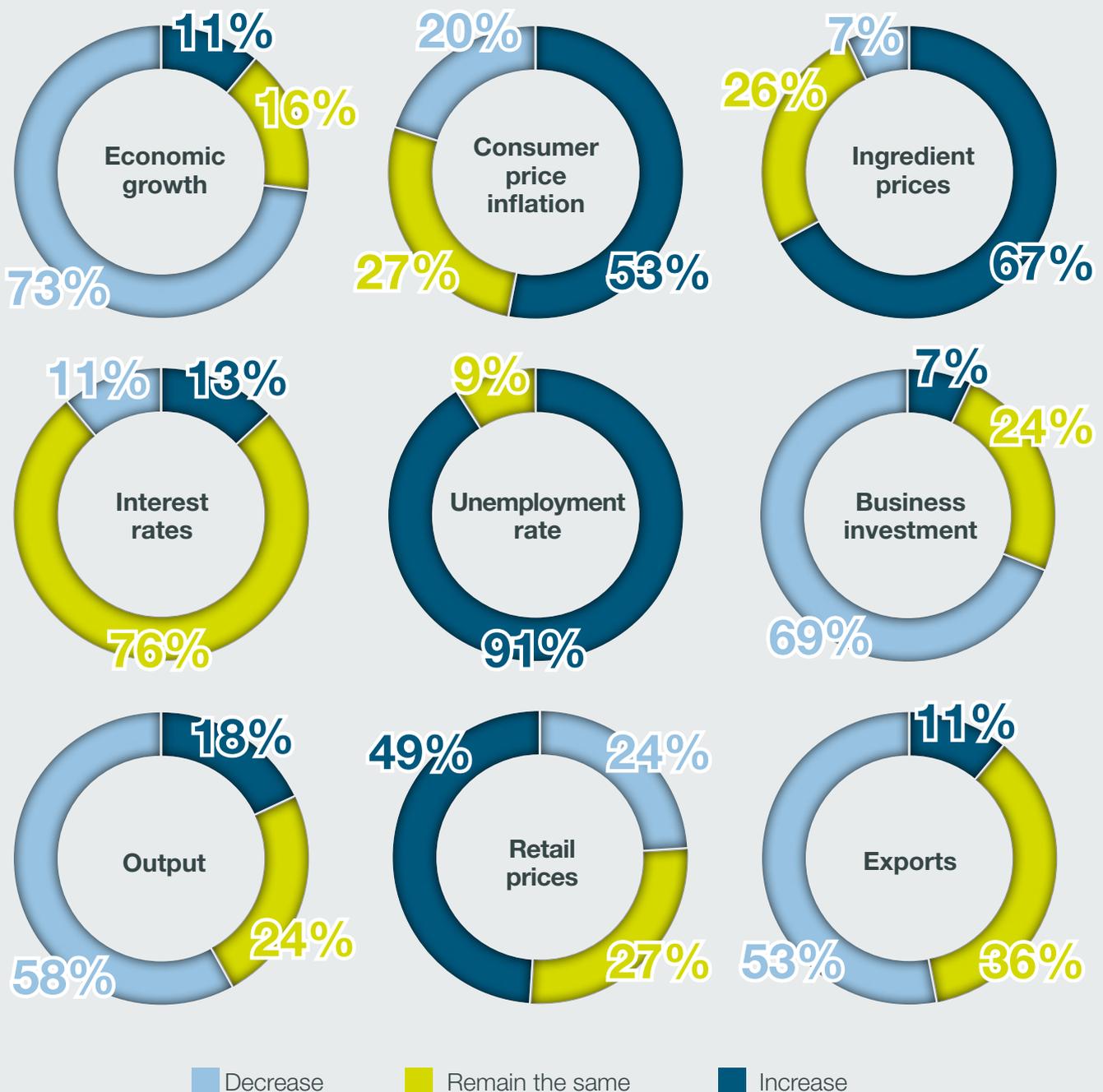
1. Increased domestic demand
2. Access to new UK Preferential Trade Agreements and increased export demand
3. Planned investment in new machinery
4. Increased certainty over future EU relationship
5. Planned investment in new product launches

— Barriers

1. Lack of demand from the hospitality sector
2. Failing to secure a trade agreement with the EU
3. UK import tariff uncertainty
4. Weaker demand
5. Exchange rate volatility

2020 Views on the Wider Economy

Does your business expect the following to increase/remain the same/decrease in 2020?⁸



2020 UK Outlook

- Despite lockdown measures easing in the UK, members continue to have **concerns about business conditions**. 73% feel that economic growth will fall in the coming months, and 71% foresee business confidence plummeting further.
- FDF members' growth expectations are in line with OBR predictions that the UK economy will contract by a further 10-12% in the later part of 2020. According to the ONS, **output was down for the sixth consecutive month in May**, and 58% of members see this continuing over the next 6 months.
- 67% were also **concerned about failure to secure a trade agreement with the EU**. Many manufacturers depend on frictionless, tariff-free access to imported ingredients and raw materials from the EU, and sales of finished goods to EU customers. This would be greatly threatened in a no-deal scenario where we would revert to trading on WTO Most Favoured Nation (MFN) terms.
- Increased costs continue to be a key concern for members – **67% expect ingredient prices to rise in 2020** and 64% expect non-food and drink input prices to increase. The food and drink CPI index is still higher than the general rate, standing at 1.1% compared to the economy-wide rate of 0.8%.
- The most significant concern reported was the lack of demand from the hospitality and food service sectors, with some members selling up to 60% of their output to these sectors pre-COVID-19.
- Around one third of **members emphasised the importance of government support for businesses in the hospitality and food service sectors in the medium-to-long-term**, reflected below.

Government COVID-19 measures manufacturers would like to see to support recovery

Promote manufacturing careers

SME loan schemes

Brexit transition extension

Increased infrastructure investment

Tariff-free EU trade

Sectoral Job Retention Scheme

Support for hospitality/food service

Reduce rent and rate

Brexit clarity

VAT reduction

Survey Background

FDF conducted its tenth consecutive quarterly business confidence survey between 22 June – 9 July 2020. The survey gauges how business sentiment evolves across the food and drink manufacturing sector from quarter to quarter.

We received responses from businesses with a combined turnover exceeding £8.6bn¹⁰, situated across the UK. Over half of responses were from small and medium-sized enterprises (SMEs). It is important to note that responses were received from parent companies on behalf of their subsidiaries, and so the actual number of businesses represented is an underestimate.

Our Industry at a Glance

The UK food & drink manufacturing sector employs

106,000

EU workers...
...over 1/4
of our workforce



Manufactured food and drink contributes more than

£28bn

to the economy, 2.3% more than 2017



In 2018, total sales of manufactured food and drink exceeded

£74bn



FDF members are selling
22.6 billion fewer teaspoons of sugars than they were in 2015



FDF members are selling:

1.2 trillion fewer calories

90.3 million fewer kilograms of sugars

4.9 million fewer kilograms of salt



than they were in 2015

The food & drink industry is the biggest manufacturing sector in the country...
...larger than automotive & aerospace combined



Our industry employs over 430,000 people



across every region and nation of the UK

Our industry has a turnover of more than

£105bn, accounting for almost 20% of total UK manufacturing



96% of the UK's 7,400 food and drink manufacturing businesses are SMEs



In 2019, UK food & drink exports exceeded



£23bn

and went to over 220 countries worldwide

Our top three export markets are

Ireland, the USA & France



The food supply chain employs

4.3 million people & generates over

£120 billion of added value for the economy each year



*Sources: ONS Annual Population Survey, ONS Annual Business Survey, ONS UK Manufacturers' Sales by Product (PRODCOM), BEIS Business Population Estimates, Her Majesty's Revenue & Customs, Defra Agriculture in the UK, FDF Environmental Ambition Progress Report 2019 and FDF Business Confidence Survey.

Footnotes

1. Figures represent proportions of respondents to specific questions.
2. Source: ONS Output of the Production Industries. Values are calculated using seasonally-adjusted chained volume measures of GVA.
3. Source: ONS Average Weekly Earnings. Estimates here are for the combined activity of food, beverage, and tobacco manufacturing and are calculated using monthly figures (excluding bonuses and including arrears).
4. Source: Her Majesty's Revenue and Customs.
5. Source: ONS Consumer Price Inflation.
6. Source: FDF Business Confidence Survey. Net confidence figures are calculated on a quarterly basis, and are dependent upon sample size which varies from quarter to quarter. Our Q2 2020 survey received 46 responses.
7. Respondents were asked: 'Do you believe that general business conditions this quarter compared to last quarter have...?'. Combined figures may not equal 100% due to rounding.
8. Results here are expressed as a percentage of respondents, and do not represent the scale of increase for each category. Response rates can vary from question to question.
9. If a deal is secured with the EU which meets food and drink manufacturers' needs, and this deal is ratified by the UK Parliament.
10. This is an estimate calculated using mid-points of turnover brackets and as such is likely to be a lower-bound estimate.

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