

Q4 2020

Food & Drink Business Confidence Report

Key Findings

- The latest FDF Business Confidence survey shows that net business confidence fell in Q4, reaching -34% as a result of tougher COVID-19 restrictions alongside disruption stemming from the end of the EU Exit transition period.
- SMEs were less optimistic than larger firms. Border issues, lockdown and increased prices were noted as reasons for pessimism.
- Businesses continued to experience increased costs in Q4, from higher transportation and ingredient costs to label change expenses. Increased costs were also the main factor which led to reduced product margins.
- Over a third saw increased output, productivity and domestic retail sales.
- Businesses were relatively pessimistic about UK economic conditions in 2021, with over three-quarters expecting ingredient prices and unemployment to rise, while almost half expect business confidence and exports to continue to decline.
- Key opportunities in 2021, include: certainty over the UK-EU trade deal, increased domestic demand (retail, hospitality and food service), and planned investment in new product launches.
- Key barriers in 2021, include: border/customs issues, cost of ingredients and the prolonged lockdown.
- As a result of the challenges surrounding the end of the EU Exit transition period, half of businesses expressed concerns over future sales.

Q4 2020 Confidence Snapshot¹

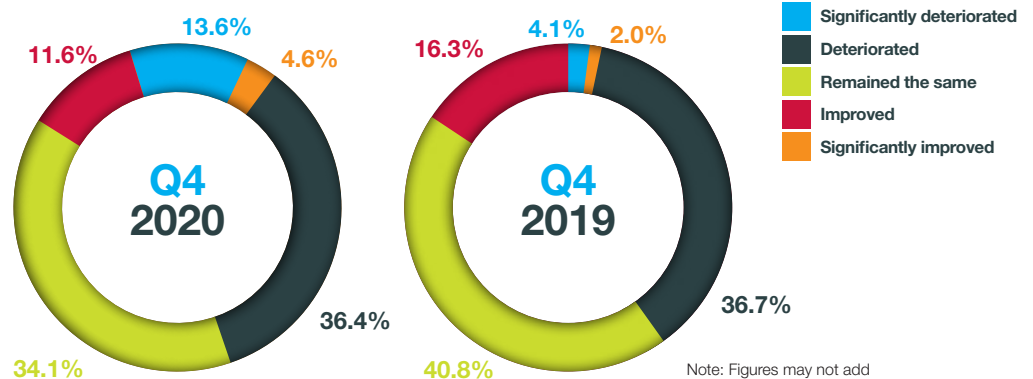
After a few months of optimism in Q3, **pessimism prevailed in Q4**, resulting in negative net confidence. This was due to **tougher COVID-19 restrictions** which forced hospitality and food service to close once more.

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%.

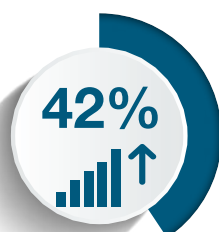
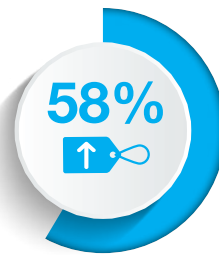
The diagrams on the right showcase how FDF member confidence has changed over the last year. Since Q4 2019, FDF data shows a 9-percentage-point increase in those reporting decreased confidence. At the same time, there was a 2-percentage-point **decline** in the share of businesses whose confidence improved.



Note: Figures may not add up to 1 due to rounding.

Q4 2020 Key Impacts on the Industry

What impacts has your business experienced in the last quarter?²



2021 Top 3 Opportunities & Barriers

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

↑ Opportunities

1. Planned investment in new product launches
2. Certainty over the UK-EU trade relationship
3. Increased domestic demand

— Barriers

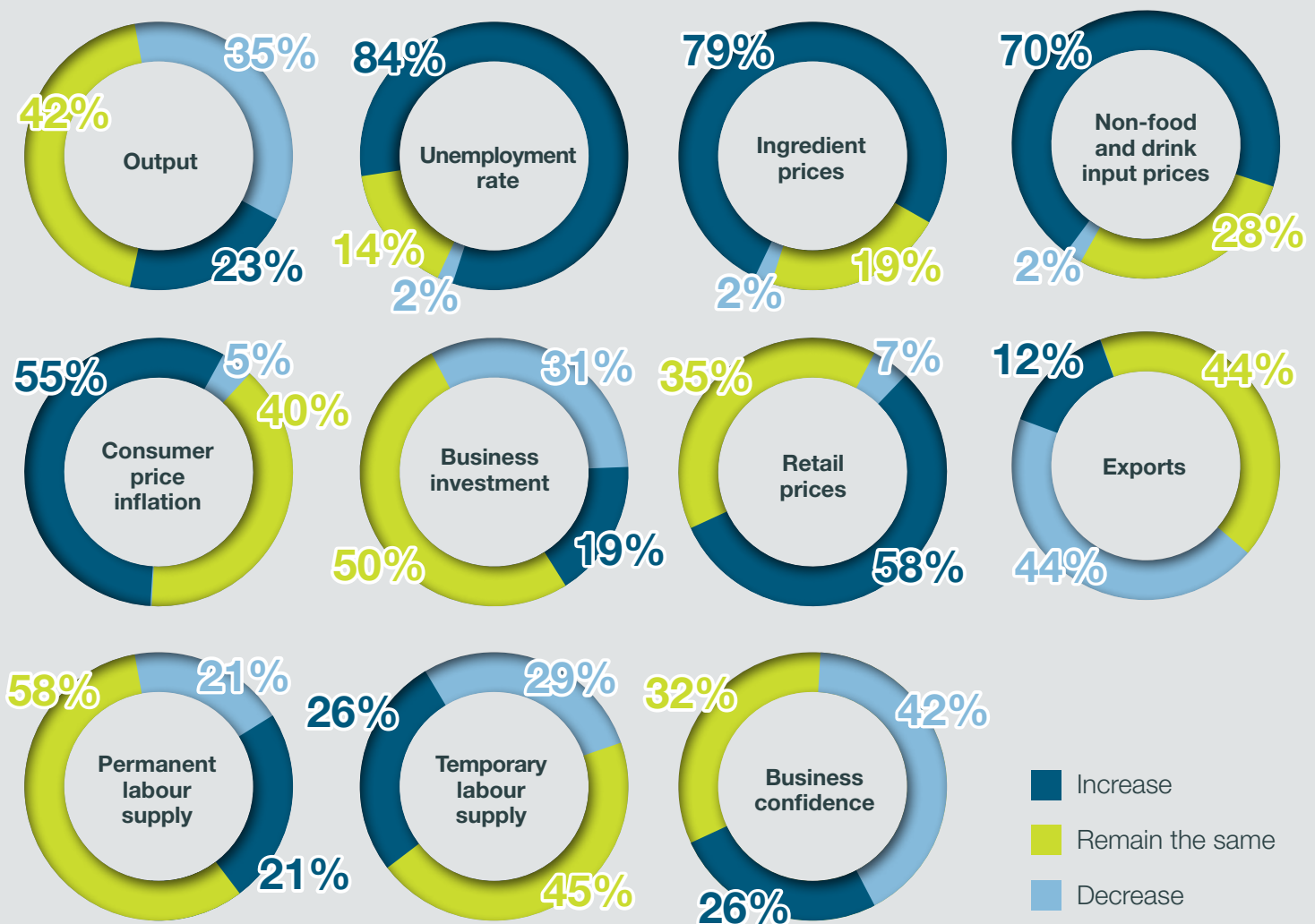
1. Border/customs issues
2. Lockdown and weaker demand
3. Cost of ingredients

2021 UK Outlook

- With further lockdown restrictions in place towards the end of last year, the UK economy contracted by 2.6% in November. As lockdown continues in the first few months of 2021, alongside initial disruption surrounding the UK-EU Trade and Cooperation Agreement, we expect a slower economic recovery.
- Following the end of the EU Exit transition period, almost half of our members expect their sales to be negatively hit, while 19% are still uncertain about the impact the UK-EU Trade and Cooperation Agreement will have on their sales.
- Businesses were relatively pessimistic about UK economic conditions in 2021, with almost half expecting exports to decrease, while over three-quarters expect the unemployment rate and ingredient prices to rise.
- More SMEs expected business confidence to decline in 2021 compared to larger businesses.

2021 Views on the Wider Economy

Does your business expect the following to increase/remain the same/decrease in 2021?²



Survey Background

FDF conducted its twelfth consecutive quarterly business confidence survey between 6 – 25 January 2021. We received responses from 46 members (accounting for 97 businesses) with a combined turnover exceeding £6.9bn³, situated across the UK. Over half of responses were from small and medium-sized enterprises (SMEs).

Footnotes

1. 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.
2. 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.
3. This is an estimate calculated using mid-points of turnover brackets and as such is likely to be a lower-bound estimate.