



FOOD AND DRINK INDUSTRY REPORT 2020

Interim Report. September 2020

fdf food & drink
federation
passionate about food & drink

In partnership with:

 Santander

Foreword



Food and drink manufacturers have performed heroically over the last few months in mitigating the impact on food supplies of Covid-19.

Despite being under enormous pressure and considerable personal risk, those who work in the industry have done a great job, keeping food flowing and the nation fed. Never has our status as part of the UK's critical national infrastructure been clearer.

As we seek to promote recovery (especially for the hospitality sector), keep our people safe and continue to meet the expectations of shoppers and consumers

– we must also look ahead to the potential turbulence arising from the separation with the EU single market. Our greatest challenges lie in maintaining uninterrupted supply of imported food and ingredients to all parts of the UK. Our successes in response to the Covid-19 pandemic – which, perhaps surprisingly, did not materially impact on UK food imports – in no way guarantees a smooth passage following 31 December 2020.

There remains significant headroom for growth for UK food and drink exports, both within the EU but also with international markets further afield. Working with and encouraging more businesses to identify and overcome trade barriers is a high priority for FDF and for Santander. We know that the world loves the provenance, impeccable quality and fabulous taste of UK food and drink. Now, more than ever, is the time to seize that opportunity.

Ian Wright, CBE

Chief Executive,
Food and Drink Federation



Santander is delighted to partner with the FDF to share insights and explore the potential for international expansion at this critical moment.

British food and drink producers are already highly successful exporters. In the wake of Covid-19 and as we contemplate life after Brexit, now is the time to redouble our efforts.

UK companies are well-positioned to succeed as new global consumer needs and behaviours make some product categories particularly buoyant. Our demanding retail environment means the UK are often at the forefront of trends, such as health and wellbeing, and 'Made in Britain' is an internationally recognised hallmark of quality, innovation and safety. As consumers increasingly seek trustworthy brands from socially responsible companies, we can all benefit.

For many UK food and drink businesses, increasing export sales offers a potential route to recovery and growth and diversification benefits. The pandemic has shown that over-reliance on any single market, sales channel, or customer leaves businesses vulnerable to increased risk.

The UK's departure from the EU strengthens the need for global aspirations. As Europe will remain a key trade partner for the UK, businesses need to understand the changing regulatory environment to ensure a smooth transition.

Now is the time for companies to reassess their strategic approach to international expansion. By building understanding of regional markets and developing relationships with local partners, companies can respond to changing consumer needs – which is key to strong and sustainable international growth. Santander is ideally placed to help food and drink exporters to succeed by helping to maximise commercial opportunities and minimise risk.

Our dedicated sector and specialist relationship teams are ready to help.

Andrew Williams

Head of Food & Drink Sector
Santander Corporate & Commercial Banking



Covid-19 Impacts

Tim Rycroft, Chief Operating Officer, Food and Drink Federation

Prior to Covid-19 hitting the UK, investment in the food and drink manufacturing sector had already begun to drop off in late 2019, while GVA and exports had seen growth over the year. Productivity had started to decline after reaching a 12-year high in 2017.

Current circumstances have been challenging for the sector. The onset of the pandemic, and subsequent lockdown, led to domestic turnover falling by 8.6% in Q1 compared with Q4 2019, and a further 4.0% decline in Q2. As the UK officially entered into recession, GVA in the industry was also down (year-on-year) for the seventh consecutive month in June.

According to FDF survey data, net business confidence declined in both Q1 and Q2. Members are also facing increased costs. 48% reported increased costs of stockpiling in Q1, 40% increased ingredient costs in Q2 and over one third reported import costs rising by 5% or more.

The challenge now is to successfully restart all sectors of the industry, protect food industry employees and customers, and support businesses in each sector of the food chain through to recovery - and to do so with an understanding of changing public sentiment and new behaviours and needs.

The opportunity is to build on the lessons of the Covid-19 crisis. We have shown how industry and government can make transformative changes, at speed, when we act decisively and collaboratively. We should maintain this approach through this period of recovery and build on it further through the National Food Strategy to create a more resilient, cleaner, greener and healthier food system for the future.

FDF backs recent **recommendations adopted by the Food and Drink Sector Council**, designed to successfully restart all sectors of the industry, protect employees and customers, and support businesses across the food chain.



Food & Drink Business Confidence Report

Q2 Industry Performance

- FDF data shows that net business confidence among food and drink manufacturers reached a record low of -65.2% in Q2.
- Rising costs have been a significant challenge in Q2, 40% experienced increased ingredient costs in Q2.¹
- While half of UK manufacturing sectors have seen wage decreases, food and drink bucked the trend in the months leading up to June.²
- Food and drink exports have fallen by around 15% so far.
- The closure of the hospitality and out-of-home sectors caused demand to nosedive. In Q2, 41% noted a fall in the number of stock keeping units (SKUs) in production.

FDF NET CONFIDENCE TRACKER



Q2 KEY IMPACTS³



TOP 3 OPPORTUNITIES & BARRIERS

↑ Opportunities

1. Increased domestic demand
2. Planned investment in new machinery
3. Increased export demand and access to new UK preferential trade agreements.

⊖ Barriers

1. Lack of demand from the hospitality sector
2. Failing to secure a trade agreement with the EU
3. UK import tariff uncertainty

¹ Figures represent proportions of respondents to specific questions. ² Source: ONS Average Weekly Earnings. Estimates are for food, beverage, and tobacco manufacturing (excl. bonuses and incl. arrears). ³ Results are expressed as a percentage of respondents, and do not represent the scale of increase for each category.

Exports Snapshot



KEY INDICATORS			
	May 2019 YTD	May 2020 YTD	Change
All food & drink	£9.5bn	£8.1bn	-14.6%
EU	£5.8bn	£4.9bn	-16.6%
Non-EU	£3.6bn	£3.2bn	-11.4%
EU share	61.7%	60.3%	-1.4pp
Non-EU share	38.3%	39.7%	+1.4pp

TOP 10 BRANDED PRODUCTS



MARKET OPPORTUNITIES

UAE & THE GULF REGION

- The UAE and wider Gulf region have been highlighted as priority markets. In recent years, the Gulf region has been a source of growth for UK food and drink exports. While overall food and drink to the UAE has seen a value decline over the year-to-date, chocolate, sauce, condiments and soft drinks have all seen over 20%* value growth.
- The Covid-19 crisis has meant that 90% of sales are now expected to come from retail (up from 70% in the previous year)¹. With an increasing focus on health and adopting a 'healthier lifestyle' there is increased demand for organic, functional foods, and nutritionally rich products.
- **Monika Gajek**, Santander's UAE market specialist, can provide dedicated support for UK F&D companies to help them access and navigate the market.

*Data Source: Her Majesty's Customs & Excise. ¹Food Navigator article, 17 June 2020.

CHINA

- Despite experiencing a prolonged period of lockdown in 2020, growing demand for UK food and drink continued. This was largely driven by increased sales of beef and pork, with exports up by over £60m (y-o-y)*. The pandemic has also accelerated consumption at home vs. eating out. However, the fragile political situation between the UK and China could present risks for exporters in H2.
- **Dennis Lin**, Santander's China market specialist has a dedicated focus on supporting UK Food & Drink companies to succeed in the Chinese market, whether that be through finding trusted connections or understanding and managing the complex bureaucracy requirements.

USA & CANADA

- The USA is the UK's second largest trade partner for exports of food and drink, and Canada is the UK's third largest non-EU preferential trade partner. Exports to Canada have grown 5.7%* so far in 2020, led by exports of gin, beef and salmon.
- UK companies are globally recognised as leaders in many fields of food and drink and it is these leading product innovations that are in demand in the US market, especially in the free from and health and wellbeing areas.
- **Adam Payne**, Santander's US & Canada market specialist, has taken some of the UK's leading food and drink companies on dedicated trade missions to the US using expert local partners within the seafood, confectionery, health and wellbeing, alcohol and food service sectors.

Our Industry at a Glance

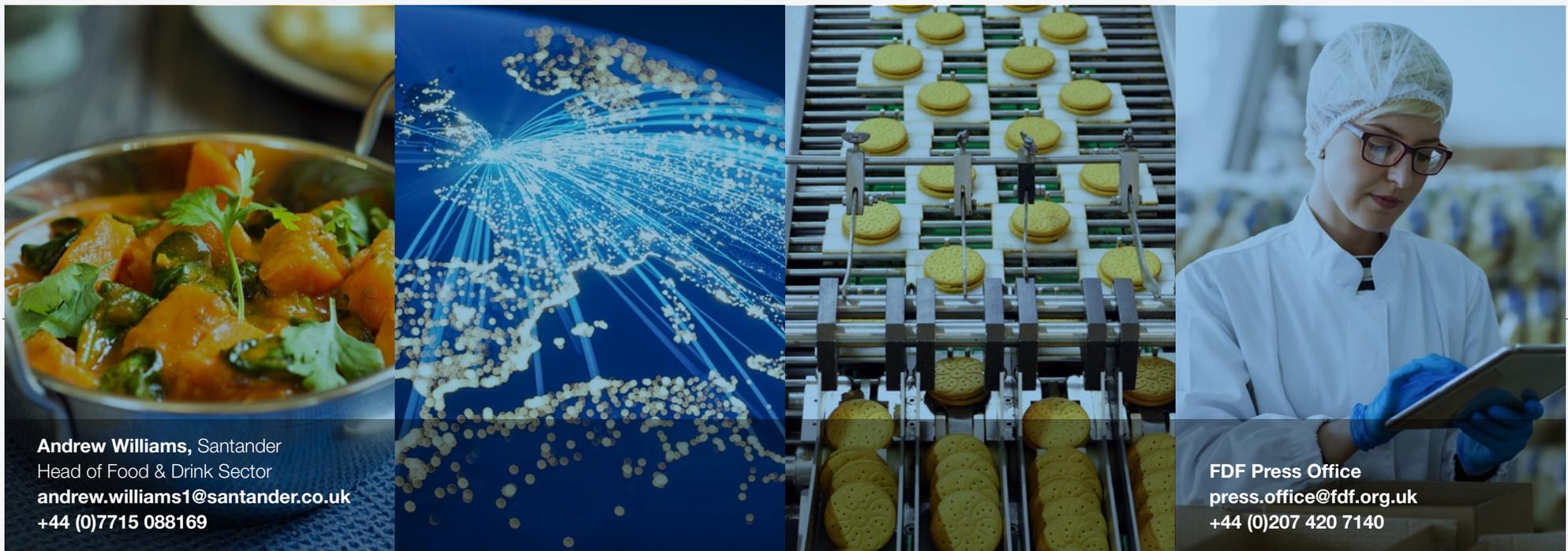
The food & drink industry is the biggest manufacturing sector in the country...
...larger than automotive & aerospace combined

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

In 2019, UK food & drink exports exceeded **£23bn** and went to over 220 countries worldwide

*FDF 'Industry at a Glance' 2019 data.



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