State of Industry Report Q4 2024

food & drink federation

Executive summary

- Inflationary pressures are gathering pace, as energy, labour, and commodity costs have been rising and upcoming regulations will continue to push costs up further.
- FDF business confidence plummeted to -47% in Q4, a decline of 41 percentage points from Q3, with businesses impacted by measures announced in the Autumn Budget. This is also the lowest score since Q4 2022, when inflation was surging, and the Ukraine war had begun.
- Growing sales to the UK market remains the top growth priority for 74% of manufacturers, while there's also a strong focus on foreign markets. Restructuring operations to maintain competitiveness comes in as a second priority for our sector, for close to half of respondents (45%), to respond to cost rises and financially strained households.
- Taxation is the leading factor constraining investment over the coming year for 54% of respondents, while 52% thought that upcoming regulation will act as a barrier.
- Labour shortages in the sector fell in Q4, with vacancy rates now at 3.6%, a drop from 5.1% in Q3, and slightly above those in wider manufacturing (2.3%) and the UK (2.5%). This is the lowest vacancy rate since FDF began tracking it in Q1 2022.
- Facing higher labour costs, 64% of manufacturers report their main motivation for investment is workforce efficiency, aiming to consolidate and increase productivity of their current employees rather than expanding headcount.

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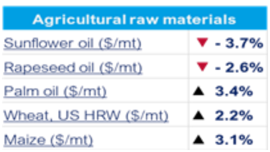

Agricultural raw materials	
Sunflower oil ($/mt)	▼ - 3.7%
Rapeseed oil ($/mt)	▼ - 2.6%
Palm oil ($/mt)	▲ 3.4%
Wheat, US HRW ($/mt)	▲ 2.2%
Maize ($/mt)	▲ 3.1%

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Trade snapshots

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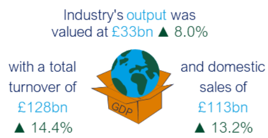


Inflationary pressures are gathering pace

Inflationary pressures are gathering pace, as energy, labour and commodity costs have been rising and upcoming regulations will continue to push costs up. Weak consumer confidence and economic and geopolitical uncertainty make for a difficult start to the year.

Following 16 months of disinflation, annual food and non-alcoholic drink inflation has reversed course and started inching up in September 2024, reaching 3.3% in January, up from 2.0% in December.

Prices fell the fastest for ‘pasta and couscous’ (5.9%) and ‘jams and marmalades’ (3.2%), while edible offal, butter and olive oil recorded the highest rises at 20.2%, 18.3%, and 16.6%, respectively (Chart 1).

Food inflation is expected to continue rising due to regulatory requirements and increasing costs of energy and water, agricultural commodities and labour. Gas and electricity prices are projected to rise further due to geopolitical and regulatory uncertainty. While some agricultural commodities like cereals and sugar were cheaper in 2024, vegetable oils, dairy and meat saw price increases. And some specific commodities have seen significant spikes in prices. Cocoa prices have trebled due to ongoing production shortages since 2022, resulting in higher chocolate prices on the shelves. Wholesale prices for butter have increased by 60% due to a shortage in milk supplies.

Increases to employer National Insurance Contributions and minimum wage rates, as well as upcoming regulation including the Employment Rights Bill, Extended Producer Responsibility (EPR), Deposit Return Scheme (DRS) and new EU imports measures will further increase manufacturers’ costs.

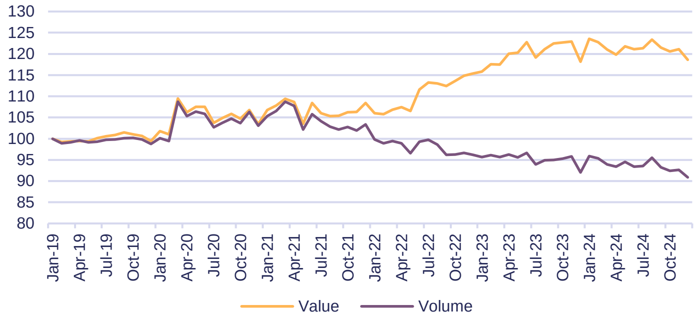
This happens while manufacturers are yet to recover losses from the past five years, with a challenging outlook for demand recovery. Retail food sales, in volume terms, have persistently fallen recently, now 5.8% below 2019 levels in 2024 (Chart 2). 86% of the British public believe that the cost-of-living crisis remains an issue (Chart 3), and 32% of adults find it difficult to afford their energy bills, while 30% of those paying rent or mortgage find it difficult to afford those payments.

UK’s economic outlook is less positive than a few months ago. The UK economy narrowly avoided a recession in 2024, but economic prospects remain uncertain, with institutions downgrading growth forecasts for 2025. While potential budget measures and exchange rate depreciation could stimulate growth, uncertainties remain regarding government spending, global trade restrictions, and supply chain disruptions.

Chart 1: Food and non-alcoholic drink inflation by category, January 2025

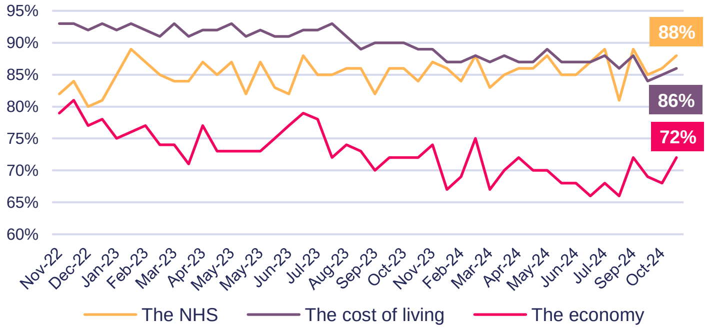
Source: ONS

Chart 2: Retail sales of food and drink



Source: ONS, Retail sales in predominantly food stores, value and volume terms, Jan 2019 = 100

Chart 3: What do you think are the important issues facing the UK today?



Source: ONS, Public Opinions and Lifestyle Survey, Dec 2024

Business confidence plummets in Q4

The FDF business confidence plummeted to -47% in Q4, marking a 41-percentage point decline from Q3, as a growing number of businesses reported worsening business conditions. (Chart 5).

This is the lowest score since Q4 2022, with businesses impacted by measures announced in the 2024 Autumn Budget. The FDF net confidence score is calculated as the difference between respondents who perceive business conditions have improved in Q4 compared to Q3 and respondents who believe conditions have deteriorated. Businesses that saw conditions unchanged are therefore excluded from this calculation. In Q4, over half of businesses (57%) said conditions deteriorated and a third of businesses perceived conditions to be the same compared to the previous quarter.

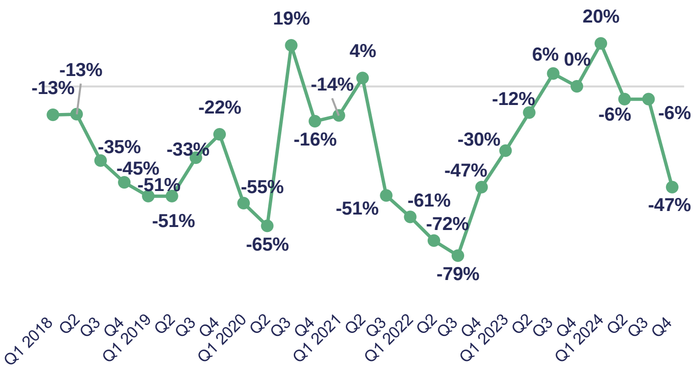
Perceptions of market conditions in Q4 were broadly similar between all business sizes, with over half of each group size reporting a deterioration (Chart 5). 32% of mid-size and small businesses saw conditions remain the same compared to Q3. Mid-size manufacturers had the lowest net confidence score at -58%, a significant drop from their 7% Q3 confidence score. Large businesses reported a score of -57% and smaller businesses of -36%.

The substantial decline from our pre-budget Q3 score reflects the deterioration in the confidence that food manufacturers have in the economic conditions and the impact of the measures announced in the Autumn Budget in October 2024. The government's forthcoming Industrial Strategy and Food Strategy must provide an opportunity to build stronger business confidence by unlocking growth and investment opportunities in the UK's largest manufacturing sector.

The loss of optimism was also reflected in the outlook confidence score for Q1 2025, which dropped to -35%, down from 29% the previous quarter. 45% of businesses are expecting worse conditions in Q1. Mid-size businesses have the lowest outlook score at -42%, followed by smaller businesses with -32%, and larger businesses at -29% (Chart 6).

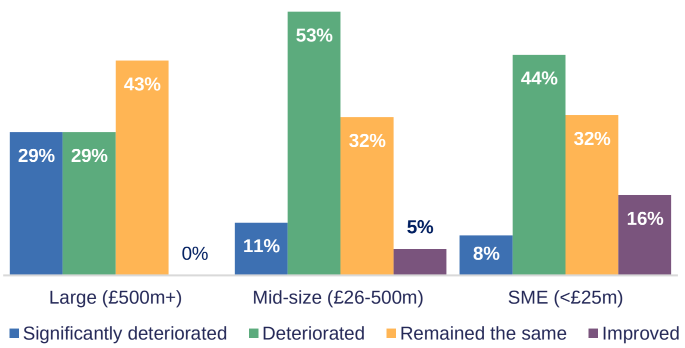
In spite of this, 80% of businesses are expecting to increase or keep their business investment the same over the next twelve months. Most significant investment projects can take two years or more from concept development to final delivery. Just over a third (35%) are expected to decrease their headcount, whilst 79% expect wages to increase. 49% expect an increase in revenue, while a third expect revenues to remain the same over the coming year.

Chart 4: FDF net confidence score



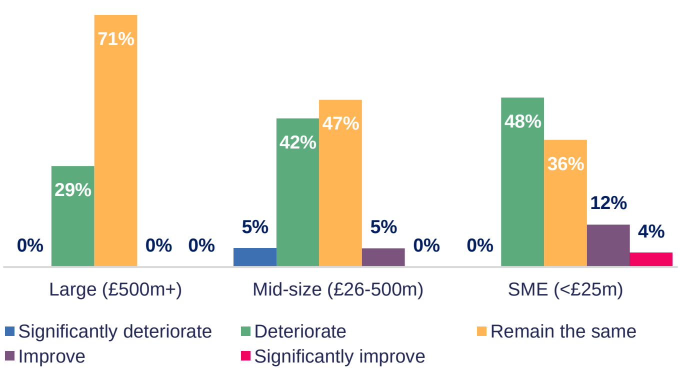
Source: FDF State of Industry Survey

Chart 5: Business conditions in Q4 2024 compared to Q3 2024 by business size



Source: FDF State of Industry Survey
Note: No business chose the option of 'Significantly improved', although this choice was offered.

Chart 6: Outlook confidence: Expectations about business conditions in Q1 2025 relative to Q4 2024 by business size



Source: FDF State of Industry Survey

Taxation emerges as main investment deterrent

Growing sales to the UK market remains the top growth priority for almost three-quarters (74%) of manufacturers (Chart 7). There's also a strong focus on foreign markets, with 32% of respondents focused on growing their exports (this is indicative of a strong interest on exports as not all businesses sell abroad).

Restructuring operations to maintain competitiveness comes in as a second priority for our sector, for close to half of respondents (45%). With cost pressures building and financially strained consumers constantly shifting to cheaper products, streamlining operations is vital to remain competitive. This is especially true for smaller businesses, with 59% of them having this as a priority. Developing new products is also important for many companies, as another way to maintain competitiveness, although it dropped to third place in priorities as new product development entails some risk.

In terms of outlook investment, while at least 80% of manufacturers plan to increase or maintain investment over the next year, there was a decline from 40% to 22% of businesses reporting an intention to increase their R&D spend. This is likely due to the fact that R&D is the riskiest component of investment, requiring finance and resources, without guaranteed returns. 40% of respondents are increasing their investments in skills and training, showing the intent to increase the workforce efficiency (Chart 8).

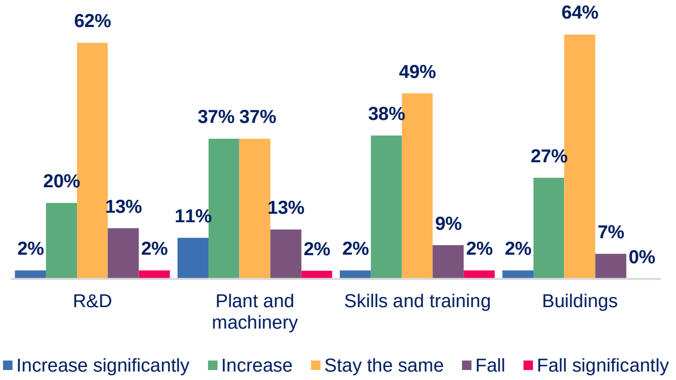
Taxation is the leading factor constraining investment over the coming year for over half of respondents (54%) (Chart 9), while 52% of respondents thought that upcoming regulation will also play an important role. This is likely explained by the fact that upcoming regulation will place a significant financial burden. Against the backdrop of the current pessimistic mood of businesses and households alike in the UK economy, the projected return of investment has probably diminished recently.

Taxation and cost of upcoming regulation was a concern across all business types. Taxation will limit investment for 64% of small businesses compared to 40% for large ones and 47% for mid-size ones. The cost of regulation will impact at least 40% of each business type. These financial burdens have a greater impact on smaller businesses due to limited resources, highlighted by the 55% of SMEs who will be limited by profit uncertainty.

Chart 7: Top three growth priorities

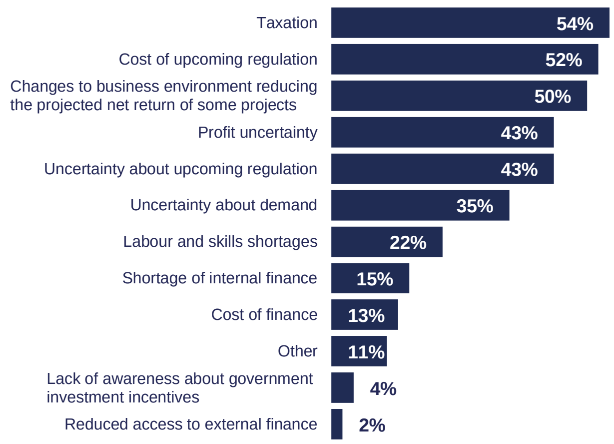
Source: FDF State of Industry Survey

Chart 8: Expectations of planned capital investment expenditure over the next 12 months



Source: FDF State of Industry Survey

Chart 9: Factors limiting investment over the next 12 months



Source: FDF State of Industry Survey

Industry's vacancies fall to their lowest

Labour shortages in the sector fell in Q4, with vacancy rates now at 3.6%, a drop from 5.1% in Q3 (Chart 10), but still significantly above those in wider manufacturing (2.3%) and the UK (2.5%). This is the lowest vacancy rate since FDF began tracking it in Q1 2022.

Almost three-quarters of manufacturers (73%) reported vacancies of up to 5%. We estimate the vacancy rate of SMEs at 4.5%, on average, 3.3% for mid-size businesses and 3.7% for large ones.

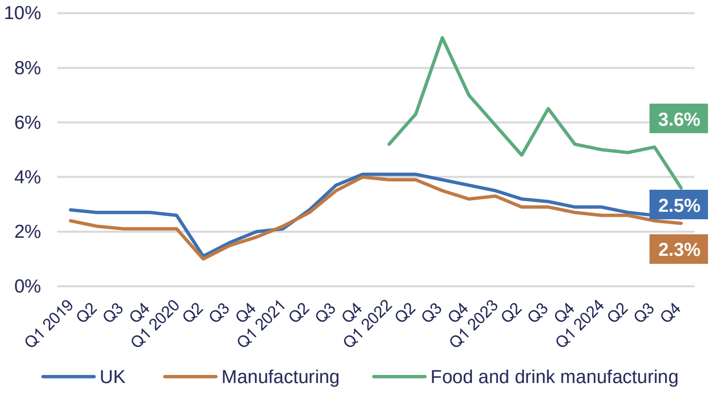
Shortages continue to impact a wide range of roles and skills. Skills England has categorised various roles into three demand levels: 'critically in demand', 'elevated in demand', and 'less in demand'. Among critical roles, 52% of respondents reported shortages in electrical engineers and 45% shortages in electrical service and maintenance mechanics. At least a third of manufacturers face shortages in elevated roles such as production engineers, production managers, and engineering technicians. In the less in demand category, 27% reported shortages in packers and 21% in process operatives.

Rises to employer NICs and minimum wage rates and forthcoming employment regulations will significantly increase labour costs. Two thirds of manufacturers (64%) report their main motivation for investment is workforce efficiency, followed by business efficiency (55%) (Chart 11). Manufacturers aim to consolidate and increase productivity of their current employees rather than expanding headcount. The significant drop in the vacancy rate could be explained by recruitment being frozen. The Autumn Budget measures are likely to make businesses shift away from labour and invest in capital to improve workforce productivity.

The top policies of interest for the coming year for over half of manufacturers (58%) are packaging regulations, trade policy (56%) and labour and skills shortages (52%) (Chart 12). Although the vacancy rate is low, recruitment potentially being frozen still means that the industry continues to struggle with labour and skills shortages. Packaging regulations were a top priority for 57% of the large businesses, 68% of the mid-size ones and 50% of the small ones. These will pose significant costs, such as EPR and DRS, with some small businesses reporting that their entire profits will be wiped out by EPR fees.

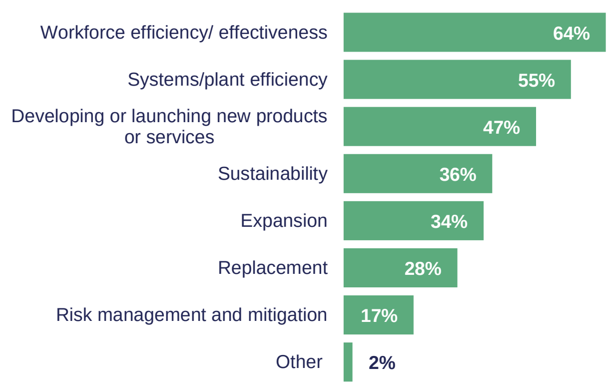
Trade policy is a top interest as accessing new markets would be a key driver for growth. Trade operations, innovation and net zero were also of interest.

Chart 10: Vacancy rate in UK, manufacturing and food and drink manufacturing *(vacancies per 100 employees)*



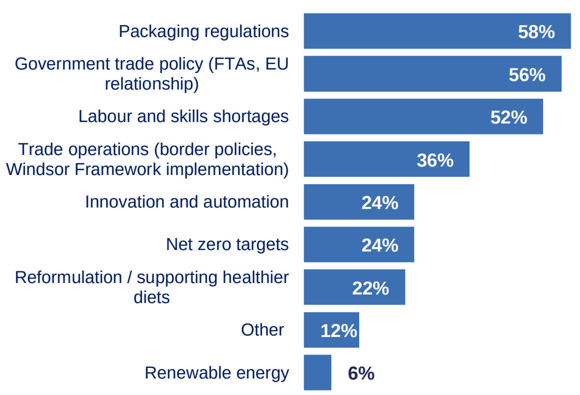
Source: FDF State of Industry Surveys and ONS

Chart 11: Motivations for investment plans



Source: FDF State of Industry Survey

Chart 12: Top policies of interest



Source: FDF State of Industry Survey

Costs are rising while US tariffs threat looms

On average, total production costs are reported to have increased by 4.9% over the year to December, while selling prices rose by 1.9%. Cost rises of over 10% were still experienced by 9% of manufacturers. In contrast, costs fell for only 2% of respondents (Chart 16), below last quarter's figure of 11%. SMEs saw the highest cost increases, similar to last quarter, an average of 6.2%, compared to 5.6% and 4.1% for large business and mid-size businesses, respectively.

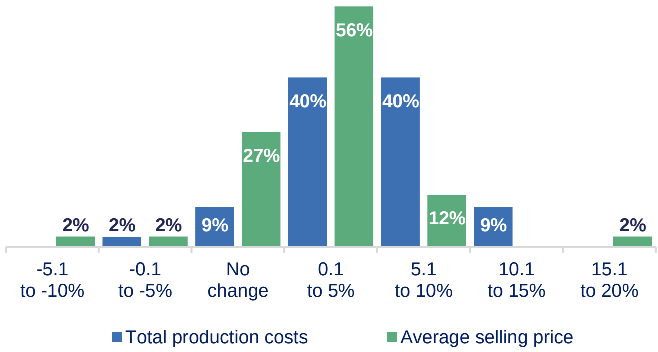
In terms of prices, the majority of businesses (98%) increased their average selling price by less than 10%, up from 79% in Q3. 56% of businesses had their prices increase by 0.1 to 5%.

For the year to December 2025, manufacturers expect their costs to rise by 3.8% and prices by 2.1%, on average. Notably, 40% of manufacturers expect production costs to increase by 0.1 to 5% and 61% expect the same range of increases for their prices. (Chart 17).

FDF Q3 Trade Snapshot shows that the US is the third most important export market for the food and drink sector, with 13% of our exports (in value terms) sent to the US. The US administration has implemented tariffs on imports from some of its trading partners, and at the time of writing there are concerns that tariffs on UK products might also be imposed. As of now, it's difficult to estimate the impacts of such tariffs, as many factors are at play such as who would be affected and whether there are retaliatory measures. New trade policies and potential reconfiguring of global supply chains to more regionalised ones might also impact the value of sterling. With all these moving pieces, it's difficult to estimate the net impact on UK food and drink exports in the medium to long term. In the short term, as a first order effect, it's likely we would see a lower US demand for UK products.

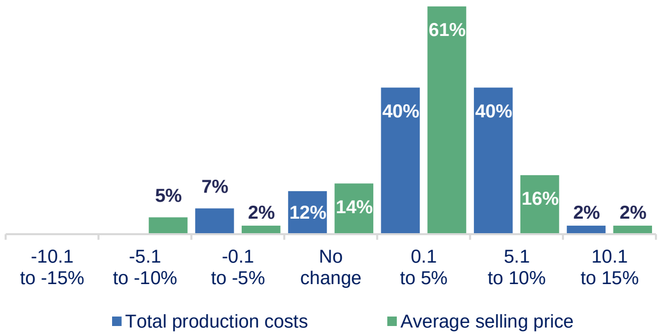
Just over half of manufacturers (54%) increased their output in the year to December 2024, in contrast to the 67% that said theirs increased in the Q3 survey (Chart 18). 21% had seen a contraction in their output. Broken down by business size, 25% of large businesses increased their output, compared to 61% and 55% of mid-size and small businesses, respectively. Smaller manufacturers were the largest group to see a decrease, with 32% experiencing this. Looking ahead, almost two-thirds (66%) are expecting growth in their business, while 18% are expecting a reduction.

Chart 16: Changes in total production costs and average selling price over the year to December 2024



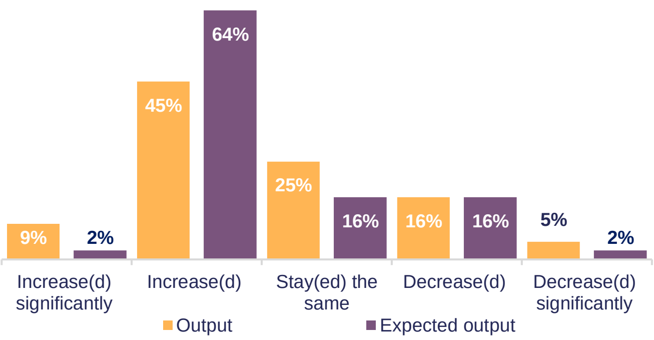
Source: FDF State of Industry Survey

Chart 17: Expected changes in total production costs and average selling price over the year to December 2025



Source: FDF State of Industry Survey

Chart 18: Output changes in the year to December 2024 and expected output changes over the next 12 months



Source: FDF State of Industry Survey

Who responded?

There was strong representation from the industry, with companies from all turnover bands, all employment sizes and from a wide range of industry sub-sectors.

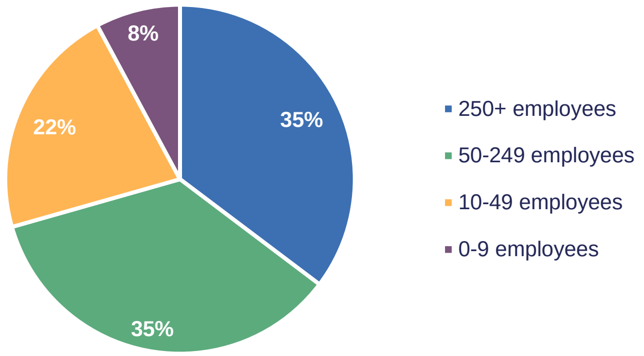
Over a third (35%) of the businesses surveyed are large employers with more than 250 employees, while 35% are businesses with 50-249 employees, and 22% small businesses with 10 to 49 employees (Chart 19).

By turnover, two-thirds (67%) of respondents are businesses with a turnover of £50m or less, while 4% are businesses with a turnover exceeding £1bn (Chart 20).

Businesses also represent a wide variety of sectors (Chart 21). The best represented ones were bakery, ingredients, and seasonings and sauces. The 'Other' category covers businesses operating in sectors such as snacks, cereals, chilled goods, alcoholic drinks and organic ambient grocery among others.

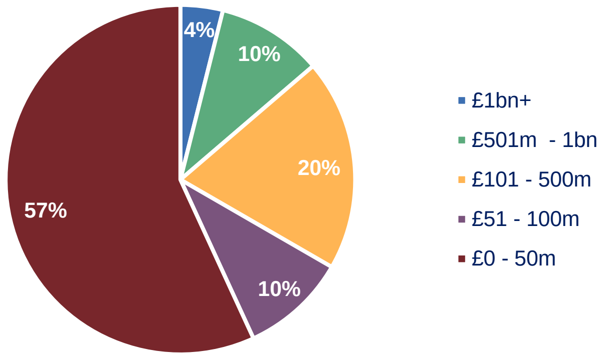
73% of manufacturers operate in England, while over a quarter (29%) have production facilities located in Scotland and 6% in Wales.

Chart 19: Respondents by employment size



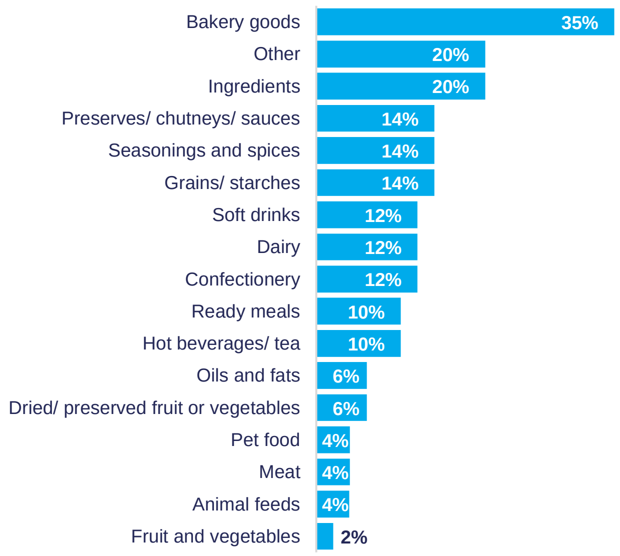
Source: FDF State of Industry Survey

Chart 20: Respondents by turnover



Source: FDF State of Industry Survey

Chart 21: Respondents by sub-sector



Source: FDF State of Industry Survey

About the FDF

The FDF is a powerful voice for the UK's vibrant, resilient and diverse food and drink manufacturing industry. For over 100 years, we have successfully contributed to policy making and legislative development, championing our members' views – large and small – on the critical issues of the day.

We bring together business, government and stakeholders to ensure our manufacturers have the right conditions to grow, invest and employ, while continuing to produce high quality, nutritious and affordable food and drink. With more than 1,000 members – from the most recognisable global brands to the most innovative start-ups – we represent the largest manufacturing sector in the country.

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