# State of Industry Report
# Q3 2024

food & drink federation

# Executive summary

- Industry's business confidence remained steady at -6% in Q3, an indication of broadly unchanged conditions in Q3 compared to Q2.
- Uncertainty over upcoming regulation (53%) is the leading factor constraining investment, while uncertainty about demand (44%) remains a top concern.
- Manufacturers continue to primarily focus on growing UK sales (59%) and new product development (59%). The number of businesses considering digital transformation has doubled in Q3.
- 80% of manufacturers plan to maintain or increase investment over the coming year. By category, 44% of manufacturers plan to increase their spend on skills, 53% to spend more on plans and machinery and 40% plan to increase their R&D spend over the following 12 months.
- A post-budget follow-up survey revealed that 71% of respondents thought that the increase in the employer National Insurance Contributions will have a negative impact on pay. Plans to invest £300m for further education and £40m for the Growth and Skills Levy is welcomed, with 52% believing it will have a positive impact on their businesses.
- Labour shortages in the sector were broadly unchanged in Q3, with vacancy rates at 5.1%, a slight uptick from 4.9% in Q2. Skills shortages continue to impact different roles and levels, from engineers and managers to factory operatives.
- Manufacturers expect costs to rise by 2.9% over the year to September 2025, as inflationary pressures are gathering pace.

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**Read more from FDF business insights and economics**

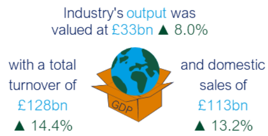
**Prices dashboard**

| 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% |

**Inflation commentary**

**Trade snapshots**

**Industry facts and stats**



# Untapped growth potential of up to £14bn

**Output seems to be on an upward trajectory, but building inflationary pressures could derail this. Removing regulatory uncertainty and supporting investment are key for solid future growth.**

Annual food and non-alcoholic drink inflation inched up in October, reaching 1.9%, up from 1.8% the previous month and 1.3% in August (Chart 1). It remained lower than headline UK inflation, but only because higher household energy costs pushed UK inflation to 2.3%, up from 1.7% the previous month.

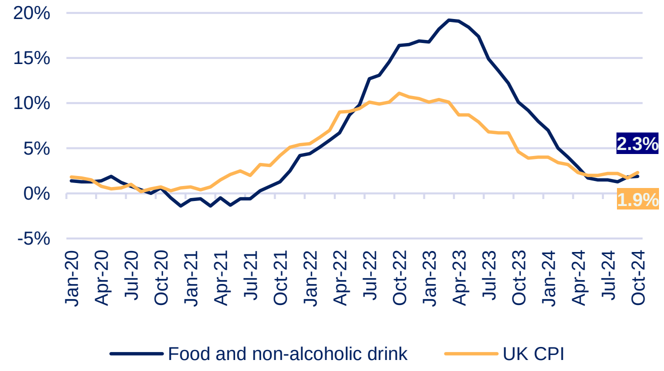
The industry continues to grapple with margin erosion, with ONS data showing that input costs to producers, *exclusive of labour costs*, matched retail prices in October. With labour costs rising significantly since 2020, margin erosion in the industry remains strong.

Besides the supply shocks, falling demand has also contributed to margin erosion. The industry is now smaller than it was in 2019. Output (GVA) in food manufacturing is 2.1% smaller than in 2019 and 21.5% smaller in drink manufacturing (Chart 2), while the UK retail food sales are 6.0% lower, in volume terms. The good news is that recently output has been rising, by 3.7% and 4.2% for food and drink manufacturing, respectively. S&P Purchasing Managers' Index data confirms this, as in October the sector recorded the fastest output growth of all tracked sectors for the fourth consecutive month.

Looking ahead, inflationary pressures are intensifying. Global agricultural commodity prices have been rising since February, reaching their highest level in 18 months, driven mainly by unfavourable weather conditions or high demand. Spot gas prices have also been rising since February. The new border checks for EU imports, increases in employer National Insurance Contributions and upcoming regulation such the Employment Rights Bill, EPR and DRS are also pushing costs up. While geopolitics and extreme weather conditions continue to pose risks both to producers and supply chains.

Removing regulatory uncertainty and boosting investment are key for solid future growth. [New research](#) from strategic delivery consultancy Newton highlights a growth opportunity for the industry of up to £14bn through the adoption of automation, digital technology and AI. The sector has demonstrated better returns than other manufacturing sectors, with food and drink manufacturing historically generating £9 in GVA for every £1 invested, compared to £5 in transport and engineering (Chart 3).

**Chart 1: Food and non-alcoholic drink inflation and UK inflation, October 2024**



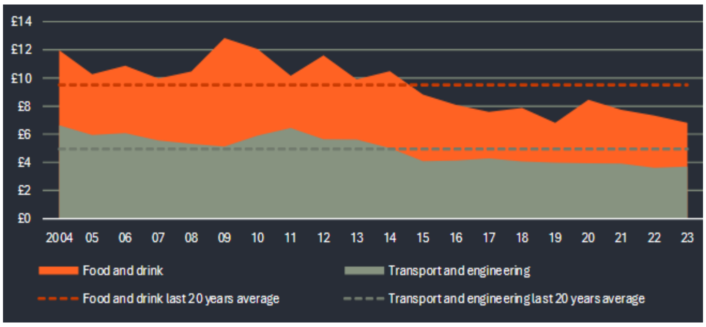

*Source: ONS*

**Chart 2: Output (GVA) growth in the food and drink manufacturing output by subsector**

| | Q3 2024 compared to Q3 2023 | Q3 2024 compared to Q3 2019 |
|---|---|---|
| **Food manufacturing** | 3.7% | -2.1% |
| **Meat** | 3.1% | 5.3% |
| **Fish, fruit and vegetables** | -0.6% | -10.8% |
| **Oils and fats** | 0.0% | -20.0% |
| **Dairy** | 4.8% | -38.5% |
| **Grain mill and starches** | -1.0% | -19.7% |
| **Bakery** | 2.5% | 12.4% |
| **Other food products** | 7.5% | 12.2% |
| **Non-alcoholic drink manufacturing** | 4.2% | -21.5% |

*Source: ONS, Chain Volume Measures*

**Chart 3: GVA to investment ratio**




*Source: Newton Report, 2024, [Future Factory: Supercharging digital innovation in food and drink manufacturing](#)*

# Steady confidence in Q3 compared to Q2

**The FDF business confidence score remained unchanged in Q3 at -6%.**

The FDF net confidence score is calculated as the difference between respondents who perceive business conditions have improved in Q3 compared to Q2 and respondents who believe conditions have deteriorated. Businesses that saw conditions unchanged are therefore excluded from this calculation. In Q3, two thirds (67%) of manufacturers believed conditions remained the same and 14% perceived improved conditions on the quarter. Overall, the net confidence score of -6% in Q3 is an indication of largely unchanged economic conditions.

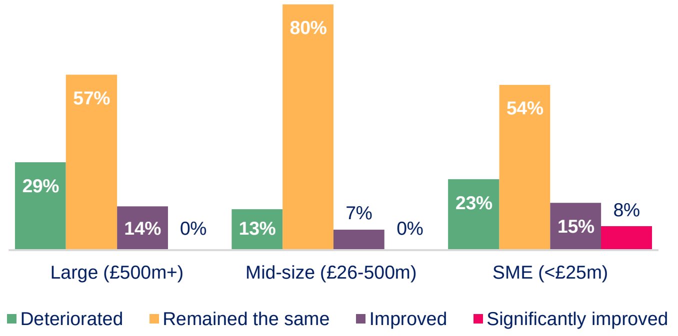
Perceptions of market conditions in Q3 were broadly similar between smaller and larger businesses, with over half of each group reporting no change (Chart 5). In contrast, 80% of mid-size businesses observed unchanged conditions, but only 7% saw an improvement, down significantly from 25% in the previous quarter. Large manufacturers had the lowest net confidence score at -14%, with mid-size reporting 7% and smaller businesses 0%. Smaller manufacturers saw a significant improvement from the previous quarter when their net confidence was -17%.

Manufacturers had completed the survey before the announcements in the Autumn Budget. Ahead of the budget, manufacturers were optimistic about Q4 economic conditions. The outlook confidence score for Q4 2024 was 29%, with 40% of businesses expecting improved conditions in Q4. Mid-size businesses were the most optimistic with a net outlook score of 33%, with almost half (47%) anticipating improved business conditions. Large businesses followed with a 29% outlook score, and small businesses 23% (Chart 6).

**Chart 4: FDF net confidence score**

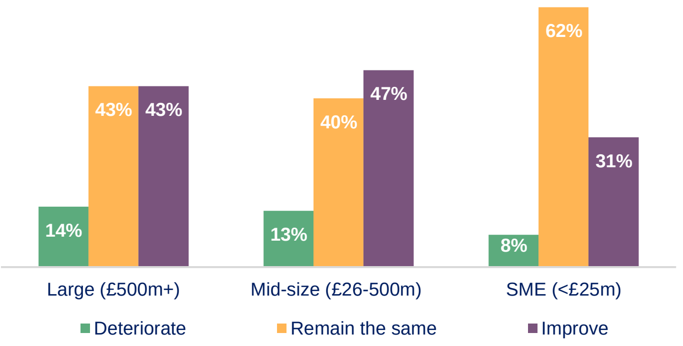

*Source: FDF State of Industry Survey*

**Chart 5: Business conditions in Q3 2024 compared to Q2 2024 by business size**




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

**Chart 6: Expectations about business conditions in Q4 2024 relative to Q3 2024 by business size**




*Source: FDF State of Industry Survey*

# Regulatory uncertainty is constraining investment

**Growing sales to the UK market is one of the top growth priorities for over half (59%) of manufacturers** (Chart 7). With persistent declines in sales volumes over the last four years, this is not surprising. Along the same lines, over a quarter (26%) of respondents are focussed on increasing their sales abroad. Fewer businesses trade internationally, so we'd expect this number to be lower than those targeting the domestic market, but facilitating more exports represents an untapped opportunity.

New product development came out as another top priority for 59% of respondents. This is driven both by the drive to develop healthier products and attempting to increase market share through innovation.

A third (35%) of manufacturers continue to work to adapt and simplify their supply chains, as a result of renewed inflationary pressures, geopolitics and regulations. Over the past year, manufacturers who export to Northern Ireland have had to adapt their supply chains at short notice to accommodate the various requirements of the Retail Movement Scheme, including new certification and labelling.

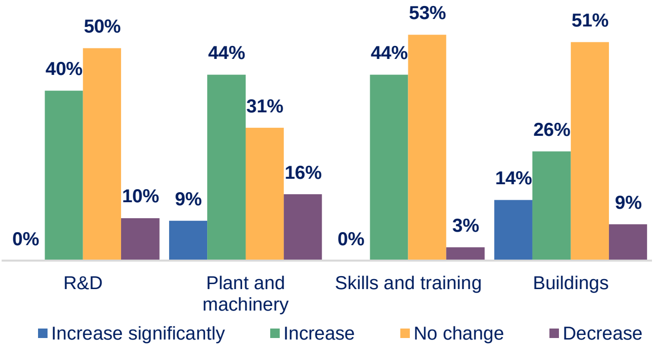
Planned investment spending over the next year will be increased or sustained for at least 80% of manufacturers. Skills and training have seen a large shift, with 44% saying that they will increase their investment in this, up from 29% in Q2. Over half (55%) of respondents are increasing their investments in plant and machinery, highlighting their intent to increase productivity (Chart 8). Although it's positive to see businesses are planning to grow and boost their investment in UK production, this will have been impacted by the Autumn Budget.

Uncertainty over upcoming regulation (53%) is the leading factor constraining investment (Chart 9). Uncertainty about fees for the Extended Producer Responsibility (EPR), the Deposit Return Scheme (DRS), employment reforms, Not for EU labelling, and Forest Risk Commodities legislation were evident. The recent decision by the Welsh Government to withdraw from the UK-wide DRS will increase uncertainty for the scheme and disrupts the previously agreed collective four-nation approach. This highlights the need for clear regulatory and fiscal frameworks to support business confidence and investment. From removing barriers to trade and reviewing regulation and planning rules, through to adopting a more transparent and collaborative approach with business, Government can do more to boost confidence and drive investment.

### Chart 7: Top three growth priorities

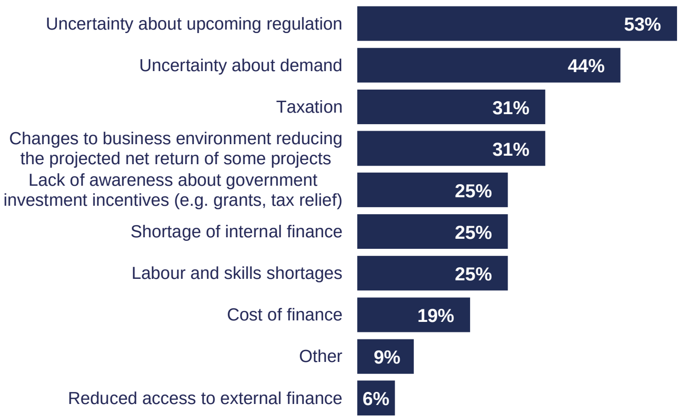

*Source: FDF State of Industry Survey*

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




*Source: FDF State of Industry Survey*
*Note: No business chose the option of "Decrease significantly", although this was offered.*

### Chart 9: Factors limiting investment over the next 12 months




*Source: FDF State of Industry Survey*

# Budget announcements have implications for the workforce

**Labour shortages in the sector were broadly unchanged in Q3, with vacancy rates at 5.1%, a slight uptick from 4.9% in Q2** (Chart 10), above those in wider manufacturing and the UK, at 2.4% and 2.6% respectively.

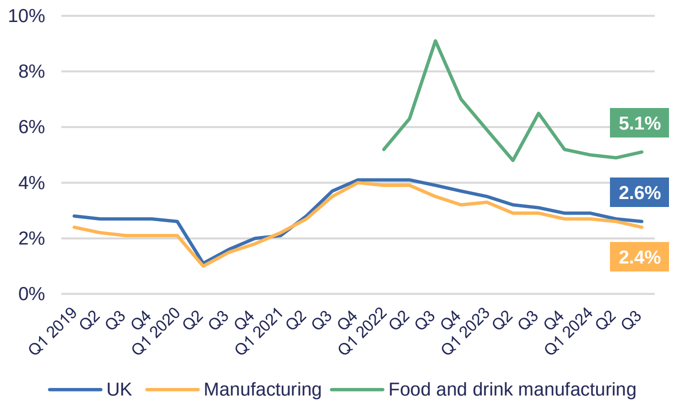
Almost two-thirds of manufacturers (65%) reported vacancies of 0 to 5%. We estimate the vacancy rate of SMEs at 4.9% on average, 4.8% for mid-size businesses and 5.2% for large. Unfilled vacancies continue to affect a wide range of roles and skills, from **high-skilled workers** (financial analyst, sustainability project manager and engineers) to **technical specialists** (engineering technicians, sales) and **production operatives** (warehouse and production operatives).

The Autumn Budget had several implications for employers. On the one hand, the rises to the employer National Insurance Contribution rate and the lowering of the threshold at which they'll start paying will increases labour costs significantly. Based on median wages in the industry, we estimate that rise to be around £410m per year. A food manufacturer would have to pay an additional £870, on average, per employee per year, and a drink manufacturer an additional £949. Unsurprisingly, a separate flash survey undertaken in November found that nearly three quarters (71%) of food and drink manufacturers believe the Budget will have a negative impact on employee pay (Chart 11). Alongside the national minimum wage rises expected in April 2025 which will further squeeze pay differentials in the sector and might also have a negative impact on future hiring.

On the other hand, the pledge to invest £300m for further education and £40m for the Growth and Skills Levy is welcome, with 52% of food and drink manufacturers expecting a positive impact on their business (Chart 12). This has the potential to address some of the longstanding skills shortages, and better align workforce skills with industry needs.

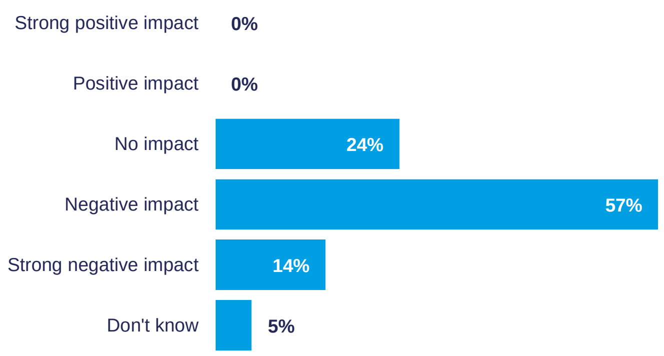
In addition, members also welcomed some other Budget measures. Maintaining Corporation Tax at the 25% rate for the rest of Parliament is welcomed by 57% of manufacturers, as it provides the level of certainty needed for long-term decisions, like investment (Chart 12). Also, over half (53%) of respondents were pleased with changes to allow the mass balance approach to evidence recycled content in chemically recycled plastic for Plastic Packaging Tax. While 14% thought the £37m in extra funding to the Made Smart Innovation programme will prove useful.

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



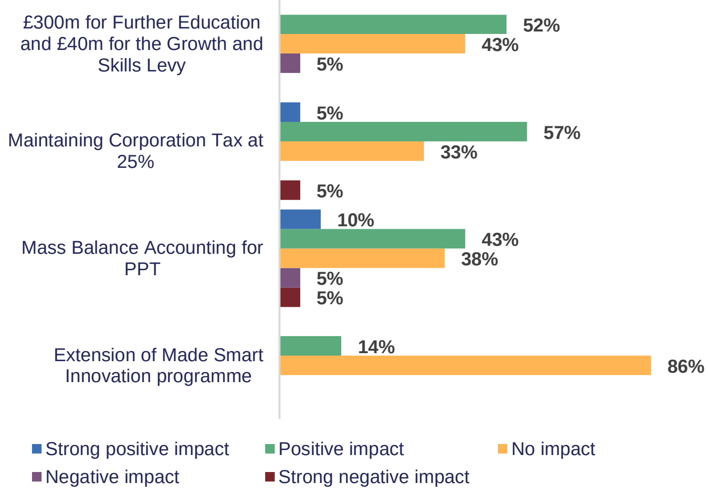

*Source: FDF State of Industry Surveys and ONS*

**Chart 11: Budget impact on planned pay settlements / wages**




*Source: FDF State of Industry Survey*

**Chart 12: Impact of Budget announcements**




*Source: FDF State of Industry Survey*

# Cost inflation is picking up again

**On average, total production costs are reported to have increased by 2.8% over the year to September, while selling prices rose by 2.7%.** ONS data shows that costs to food and drink manufacturers, *excluding labour costs*, rose by 0.3% over the same period. Cost rises of over 10% were still experienced by 11% of manufacturers, below last quarter's figure of 19%. In contrast, costs fell for 11% of respondents (Chart 16). SMEs saw the highest increase in their costs, with an average of 7.0%, compared to 2.9% and 2.4% for large business and mid-size businesses respectively.

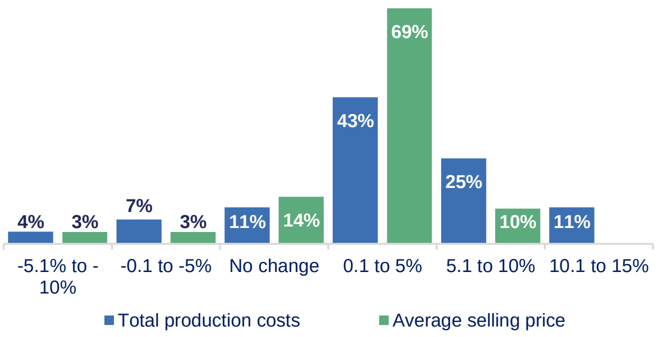
In terms of prices, 10% of respondents stated that their average selling prices rose by over 5%, compared to 15% in Q2. Meanwhile, 6% of manufacturers saw a fall in their average price. Small businesses had the greatest increases in their average price at 3.9% on average, compared to 2.3% and 2.8% for mid-size and large businesses respectively.

For the year to September 2025, manufacturers expect their costs to rise by 2.9% and prices by 1.5%. Notably, 63% of manufacturers expect production costs to increase by 0.1 to 5% and 69% expect the same range of increases for their prices. (Chart 17).

Spot energy prices have been rising, with our latest October Prices Dashboard showing that UK natural gas prices (£/thm) have been on an upward trajectory since February 2024. Movements in energy prices will impact different parts of the industry at different times. Our survey found that 16% of the respondents were on a variable energy contract, so they would be impacted by current price rises. Over half (52%) were on a fixed energy contract expiring after March 2025, so they would be protected from current market volatility. Another 20% of respondents anticipate a rise in their energy costs after their contract expires in March 2025 and 12% anticipate a fall in their energy costs after their contract expires in March 2025, as their current rates are higher than anticipated future rates.

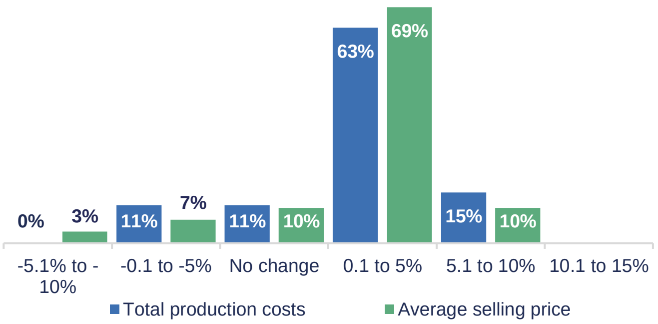
Almost two-thirds of manufacturers (60%) increased their output in the year to September 2024, in contrast to the 35% that said theirs increased in the Q2 survey (Chart 18). 17% had seen a contraction in their output. Broken down by business size, 40% of large businesses increased their output, compared to 73% and 50% of mid-size and small businesses, respectively. Smaller manufacturers were the largest group to see a decrease, with 30% experiencing this. Looking ahead, 55% are expecting growth in their business, while only 6% are expecting a reduction.

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



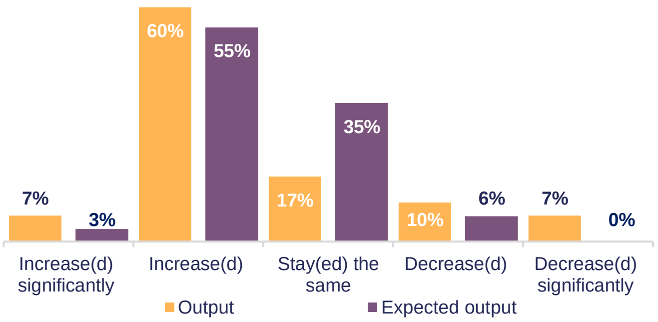

*Source: FDF State of Industry Survey*

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




*Source: FDF State of Industry Survey*

**Chart 18: Output changes in the year to September 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.

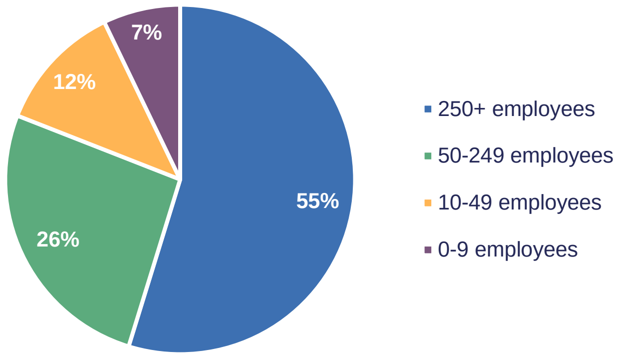
Over half (55%) of the businesses surveyed are large employers with more than 250 employees, while 26% are businesses with 50-249 employees, and 12% small businesses with 10 to 49 employees (Chart 19).

By turnover, 40% of respondents are businesses with a turnover of £50m or less, while 14% 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 spices. The 'Other' category covers businesses operating in sectors such as organic ambient grocery, vegetable seeds, crisps and snacks, and cereals.

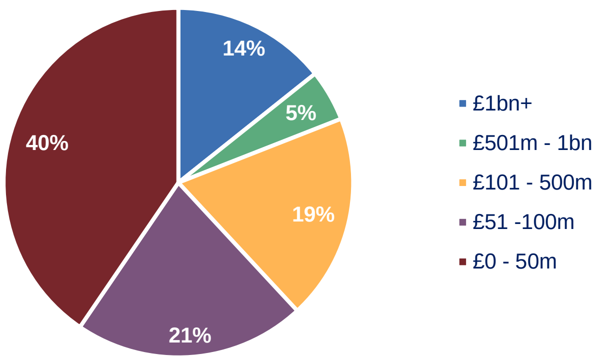
88% of manufacturers operate in England, while almost a quarter (24%) have production facilities located in Scotland and 17% in Wales.

**Chart 19: Respondents by employment size**



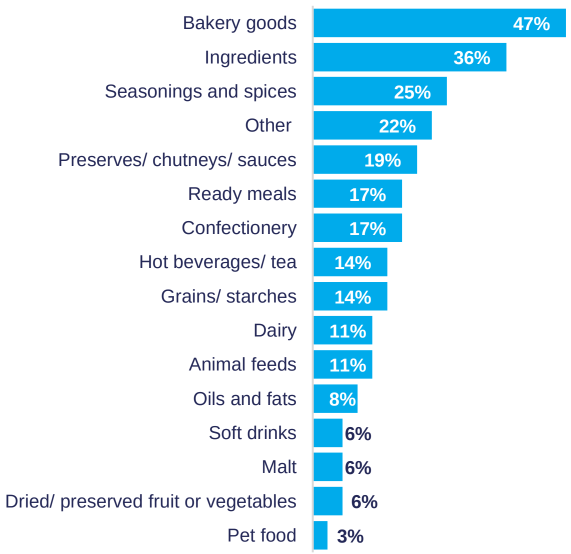

*Source: FDF State of Industry Survey*

**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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