

State of Industry Findings Q2 2024



Agenda

- Economic overview – Dr Liliana Danila, Lead Economist
- FDF State of Industry Q2 Survey Findings – Uros Milosevic, Economic Analyst
- Q&As

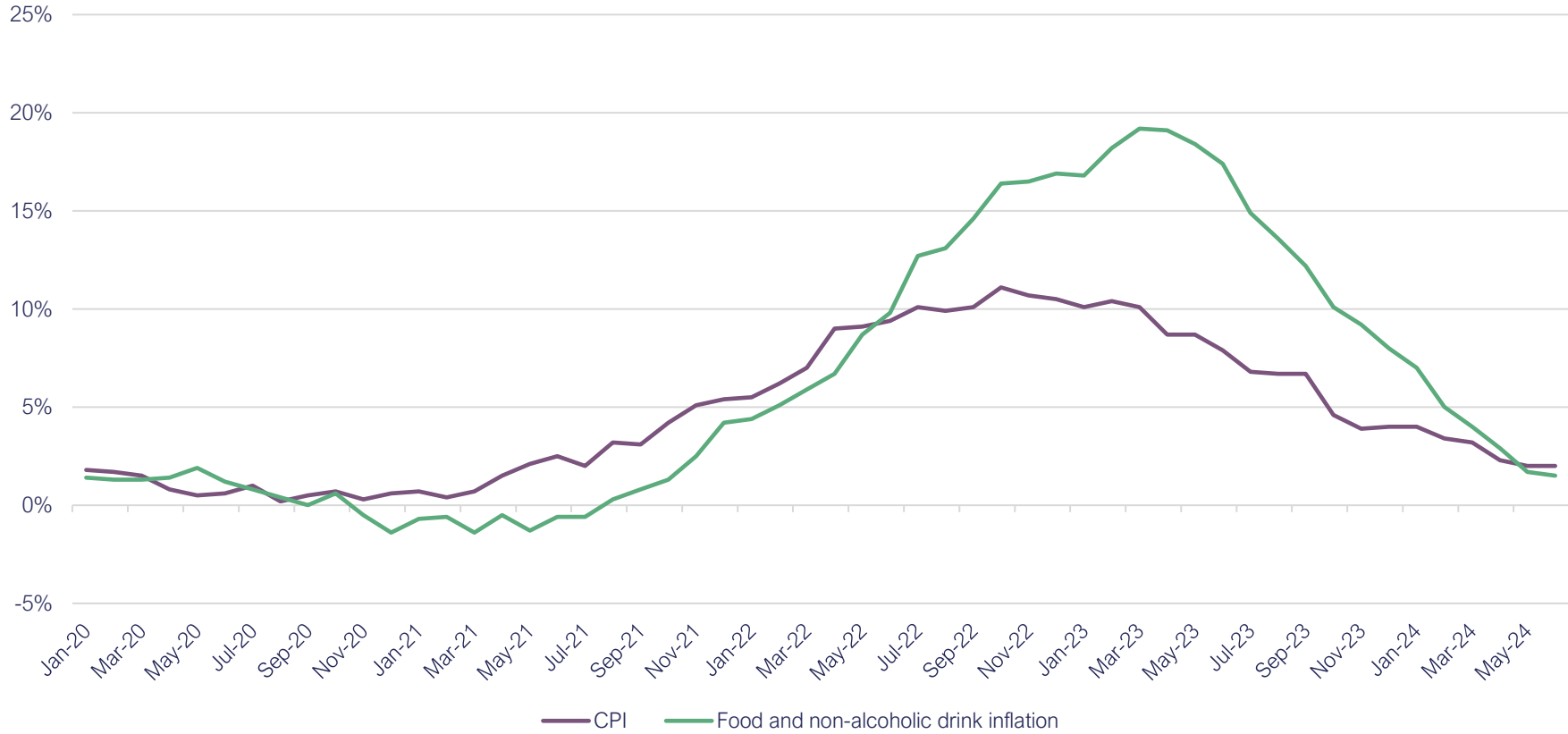
Food and drink manufacturing developments

Key takeaways

- Food inflation is now firmly in low territory and cost pressures seem to have faded. We expect food inflation to remain below 2.0% for the remaining of the year. Adverse weather, geopolitics and new EU import measures pose risks to the upside.
- Investment in the industry has significantly dropped since 2020. Rebuilding margins is key to investment recovery. For that, demand (both domestic and foreign) needs to pick up.
- Long-standing labour and skill shortages need to be resolved.

Food and non-alcoholic drink annual inflation is now lower than CPI inflation

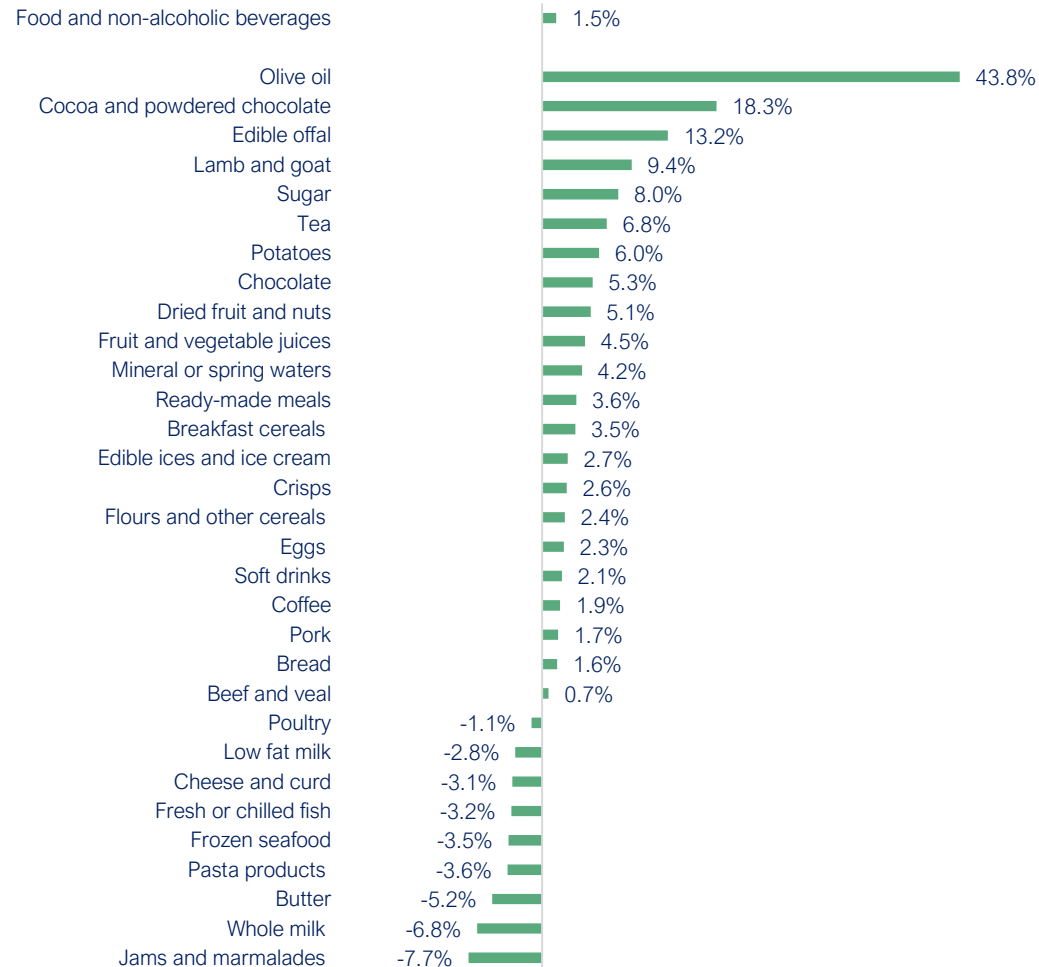
Monthly inflation stood at 0.2%



Source: ONS

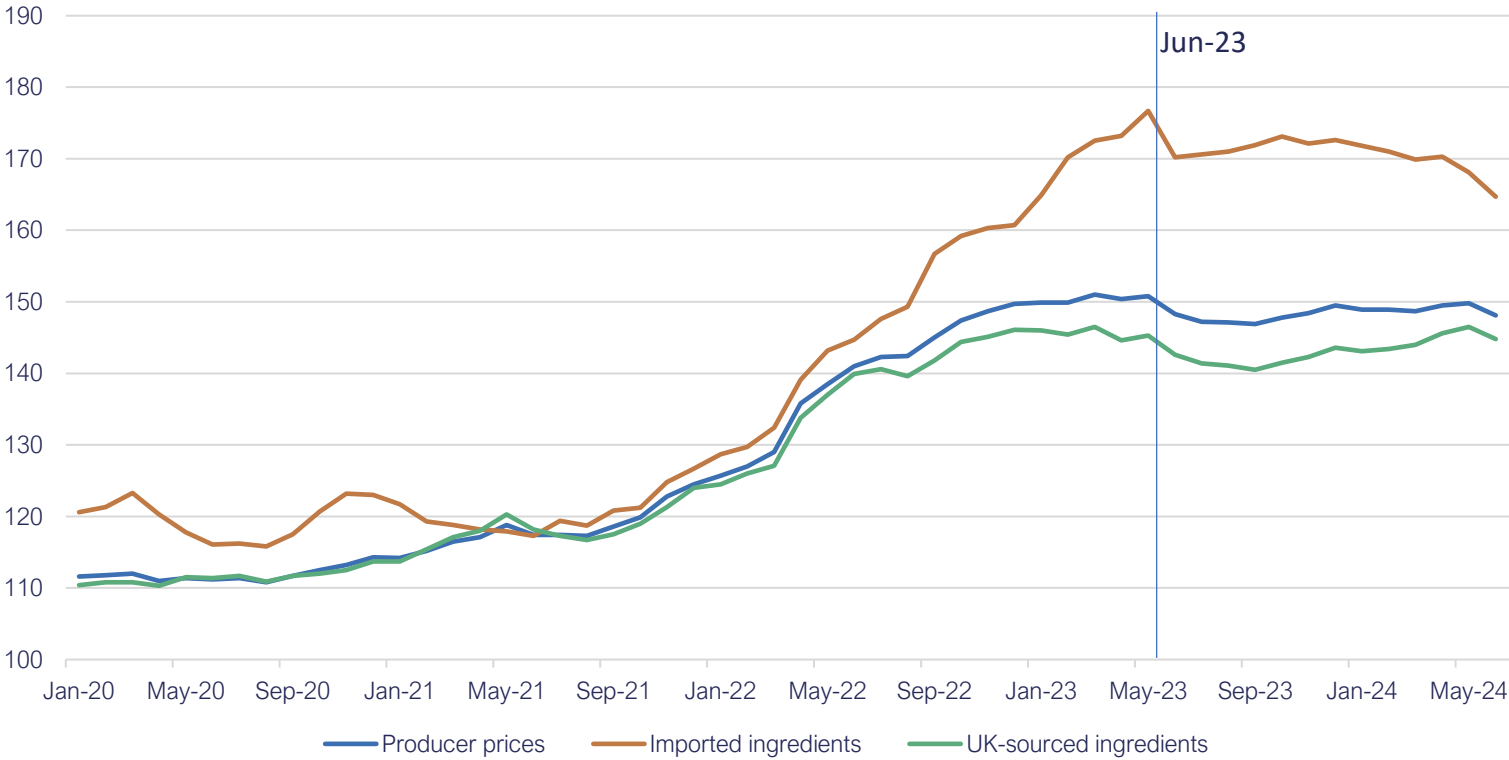
Inflation slowed for most categories

With many goods seeing lower prices than a year ago



Overall production costs (excl labour) are lower on the year

We expect food inflation to remain below 2.0% for the remaining of the year



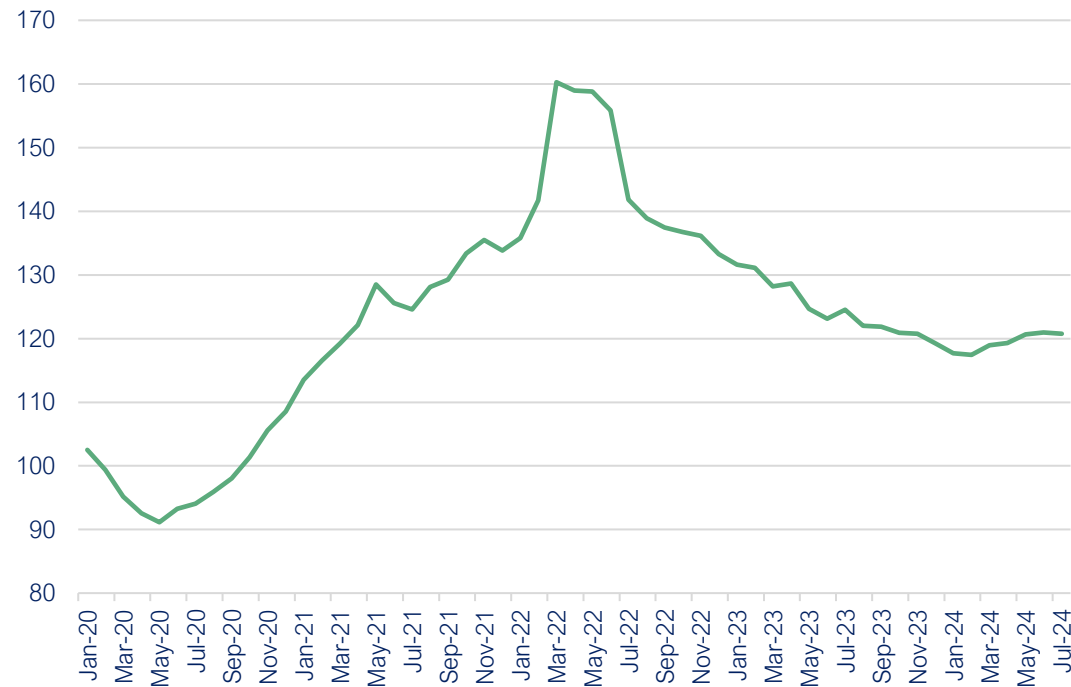
Note: *This producer prices series does not include labour costs.*
Source: ONS

Cost pressures are dissipating

Prices for global agricultural commodities remain fairly stable

Although significantly above 2020 levels

UN FAO price index

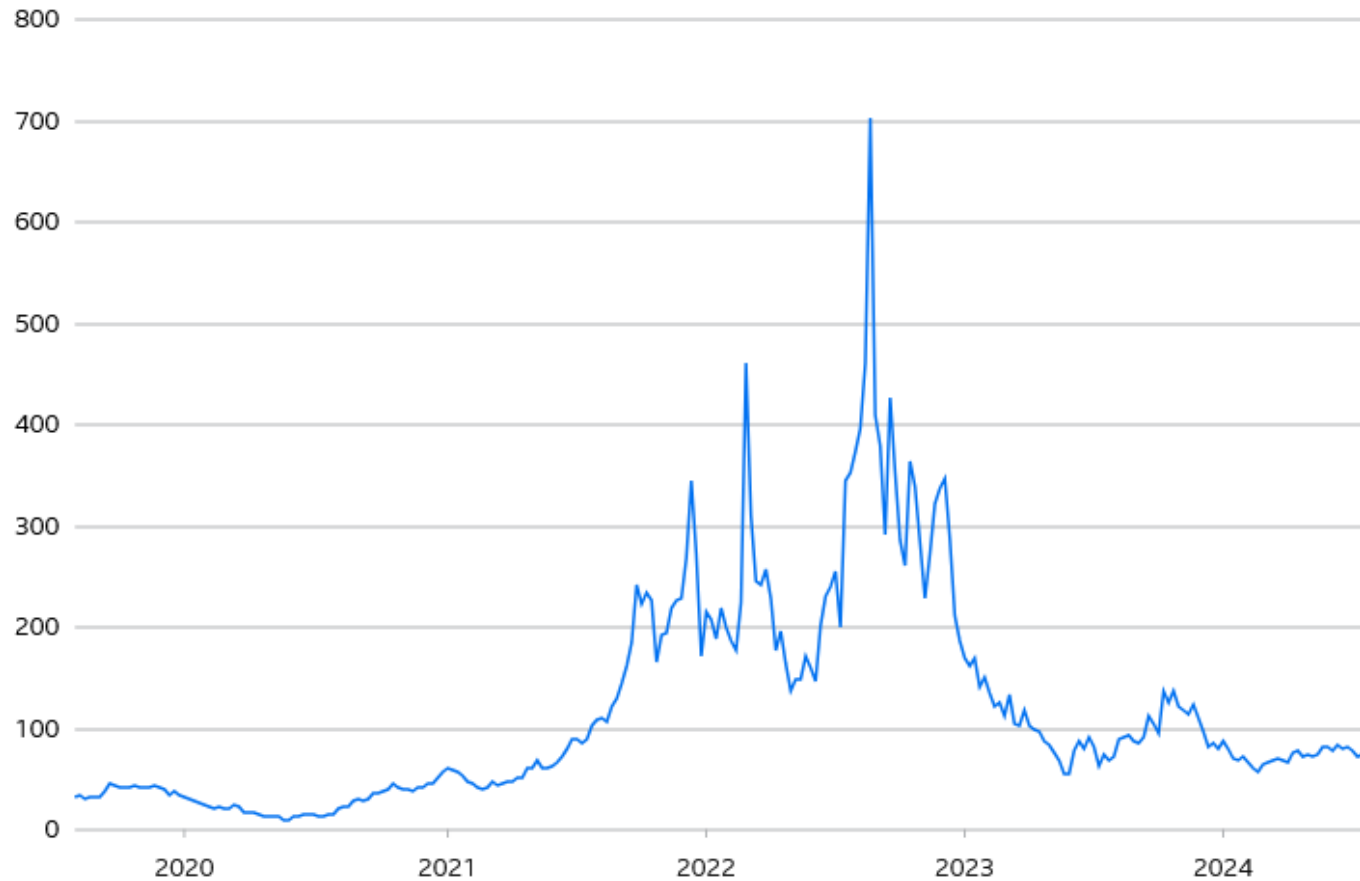


Changes in the UN FAO prices, July 2024

	Jul-24 on Feb-20	Jul-24 on Jul-23
Food Price Index	21%	-3%
Meat	19%	1%
Dairy	24%	7%
Cereals	11%	-12%
Oils	38%	4%
Sugar	31%	-18%

Energy markets have stabilised, but volatility is higher than pre-pandemic

Natural UK gas prices (futures) are about 50% higher than pre-pandemic



Source: Trading Economics

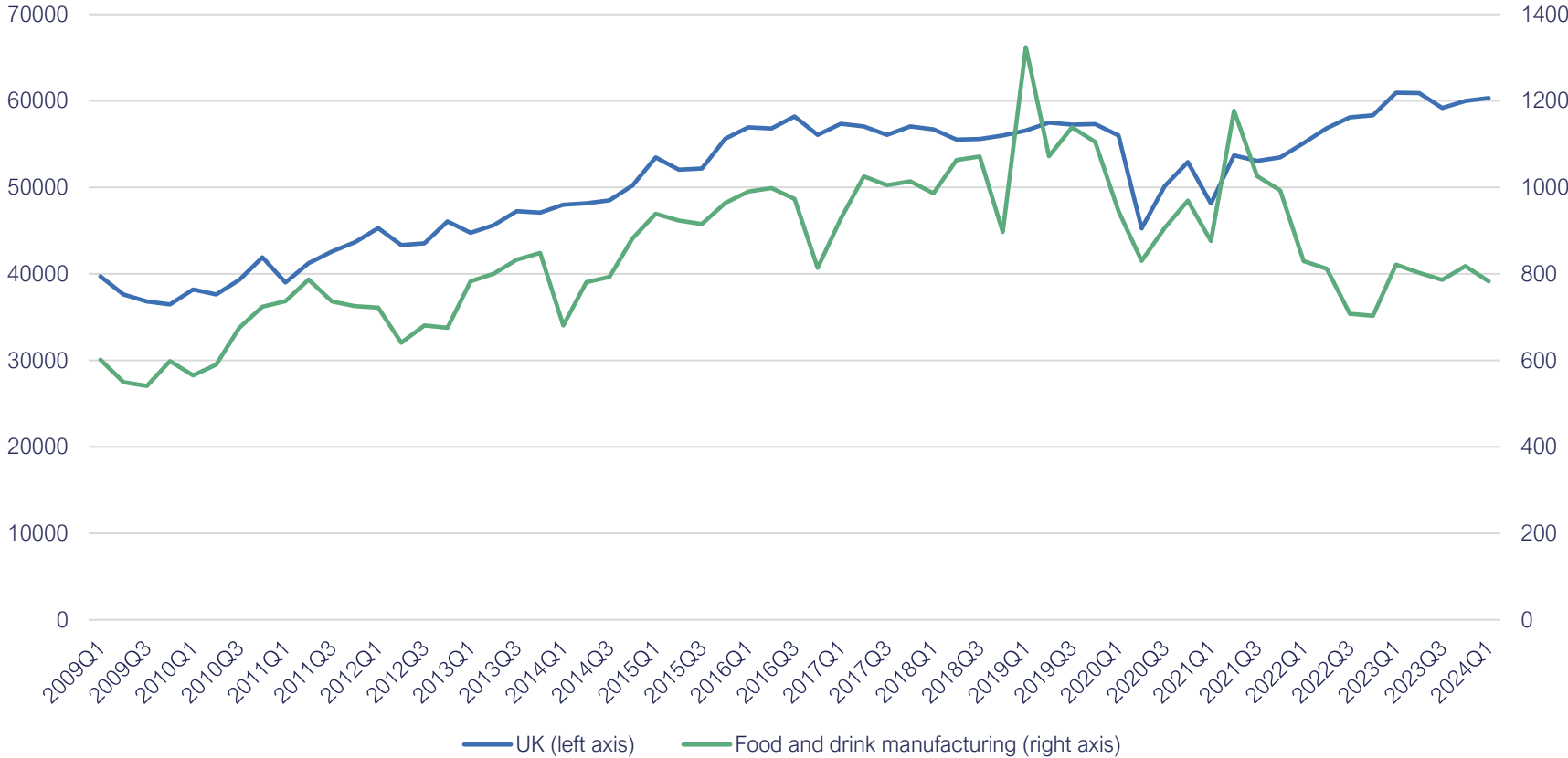
Risks to food inflation

There are some risk factors that could push food inflation up:

- Weather
- Geopolitics (impacts on supply chains, energy costs)
- New EU trade measures on imports (health certificates and check rates at the border)
- Possible policy changes under the next government

Investment is the engine of growth

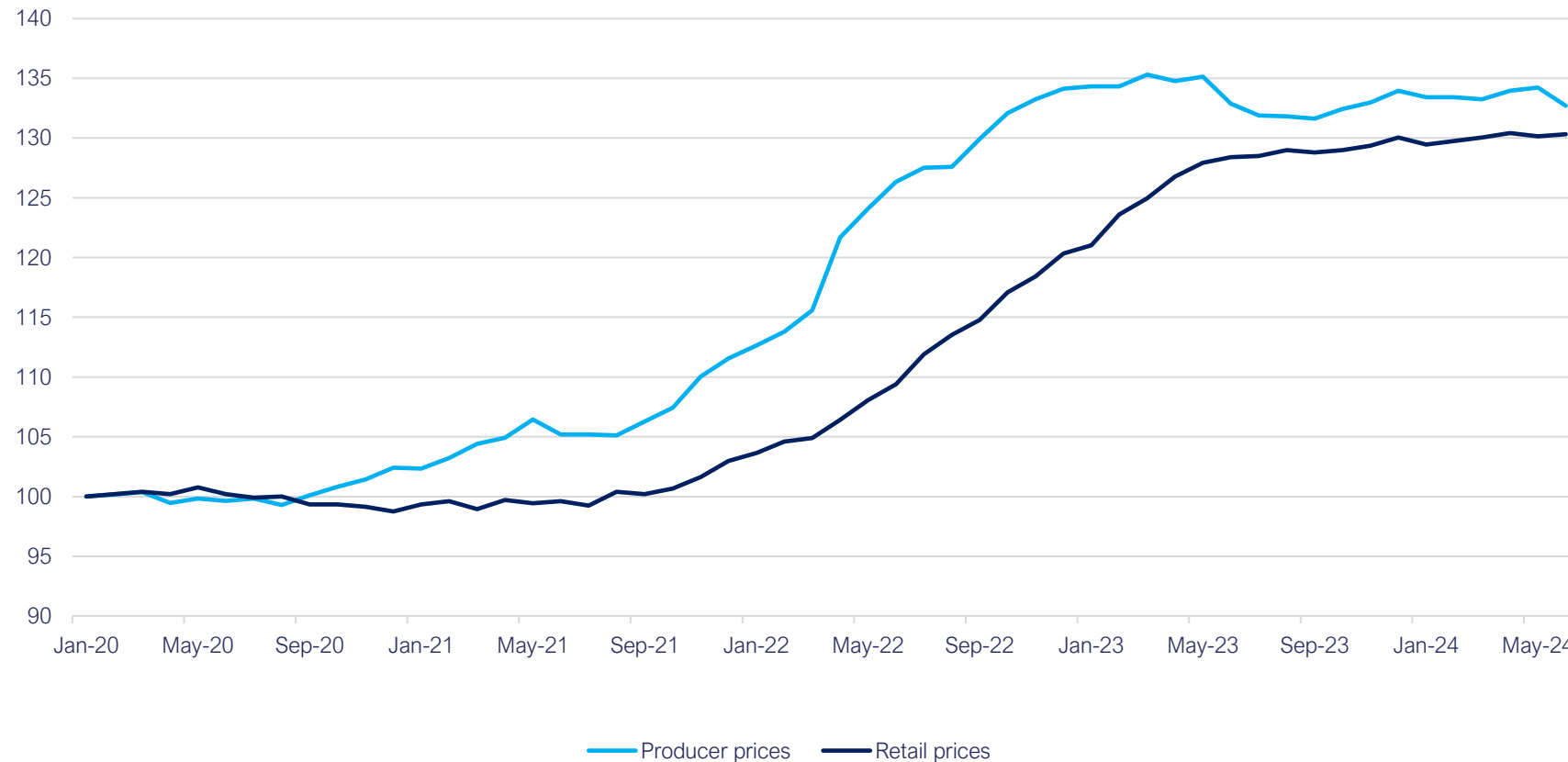
But it has been trending downwards in the industry since 2020



Source: ONS, Chained volume measures, £m

Margins have been squeezed

This lost ground needs to be recovered for the industry's investment to pick up



Note: This producer prices series does not include labour costs.

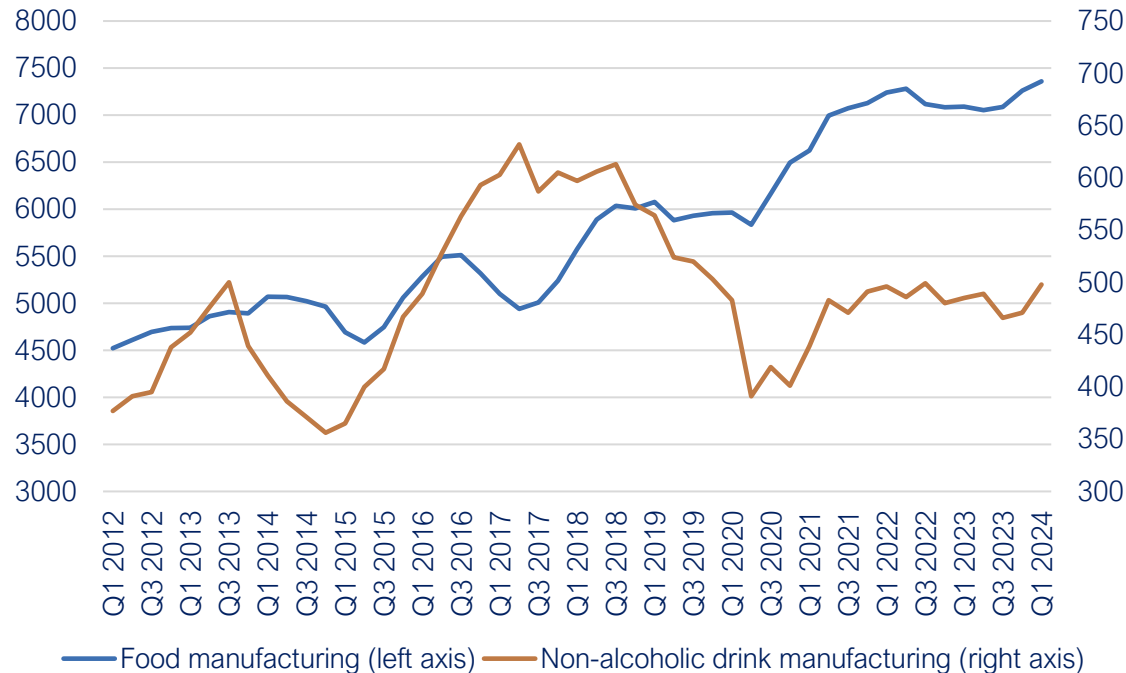
Source: ONS

Demand is yet to recover in earnest

Some signs that output has improved

Although that is not generalised across all subsectors

Output (GVA)

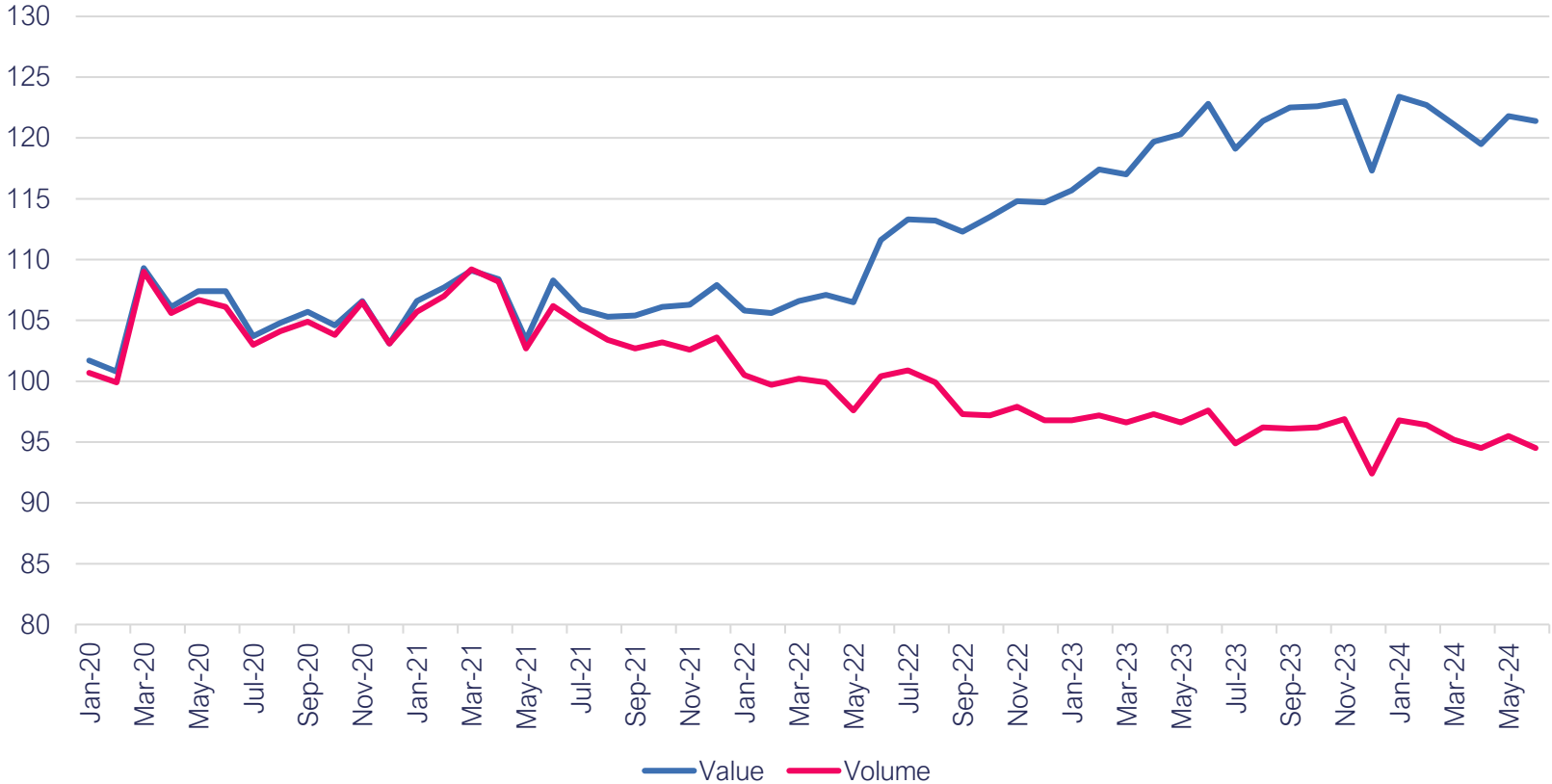


Growth by subsector

	Q1 2024 on Q1 2023	Q1 2024 on Q4 2023
Food	3.9%	1.5%
Meat	0.9%	1.5%
Fish, fruit and vegetables	8.9%	6.3%
Oils and fats	0.0%	0.0%
Dairy	0.0%	1.3%
Grain mill and starches	-0.9%	3.0%
Bakery	-0.8%	-0.5%
Other food products	10.2%	0.4%
Non-alcoholic drinks	2.1%	5.1%

And food retail sales show a slightly different picture

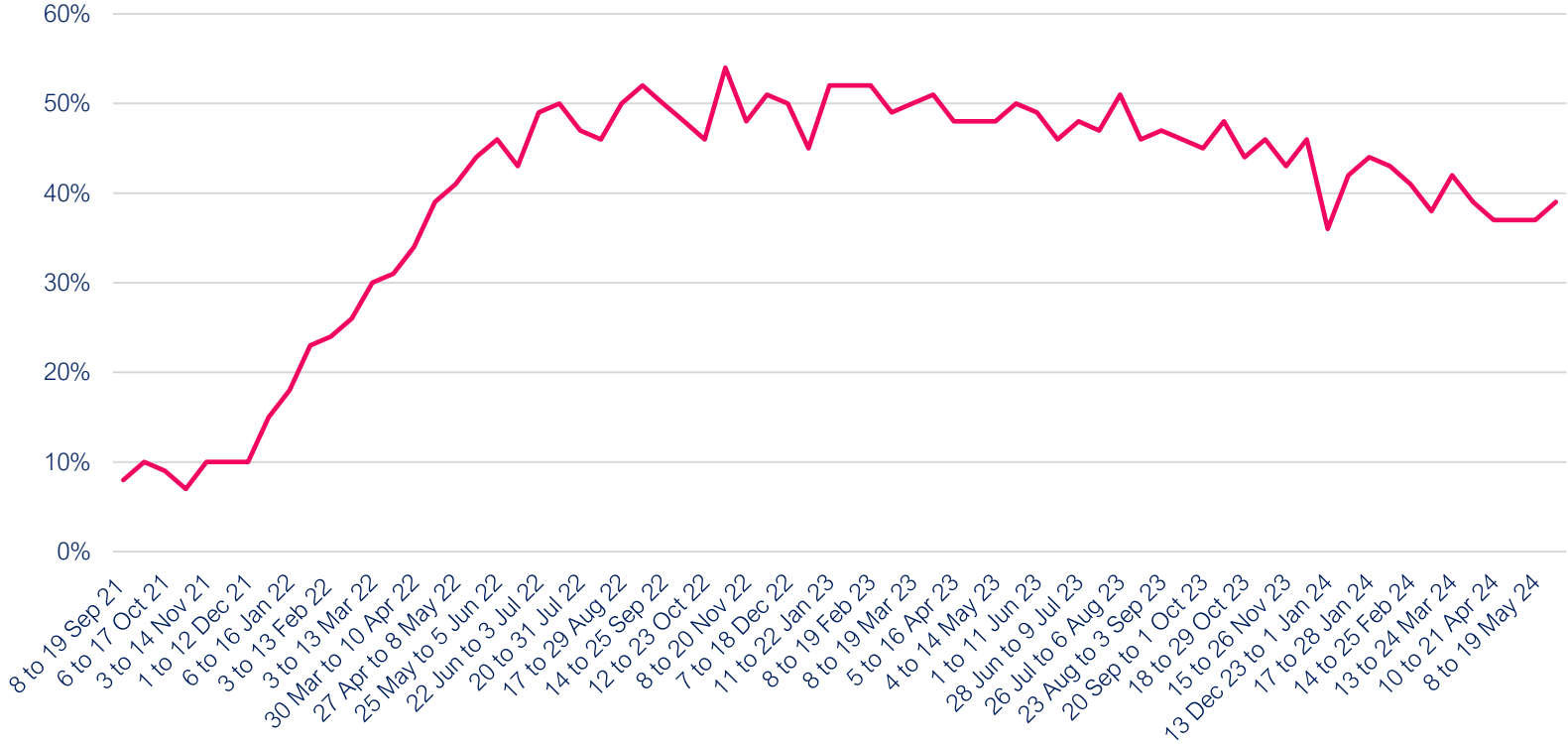
With volumes seeing a persistent decline



Source: ONS, Retail sales in predominantly food stores

Households look as if they've started to recover, albeit the pace of recovery makes for cautious optimism only

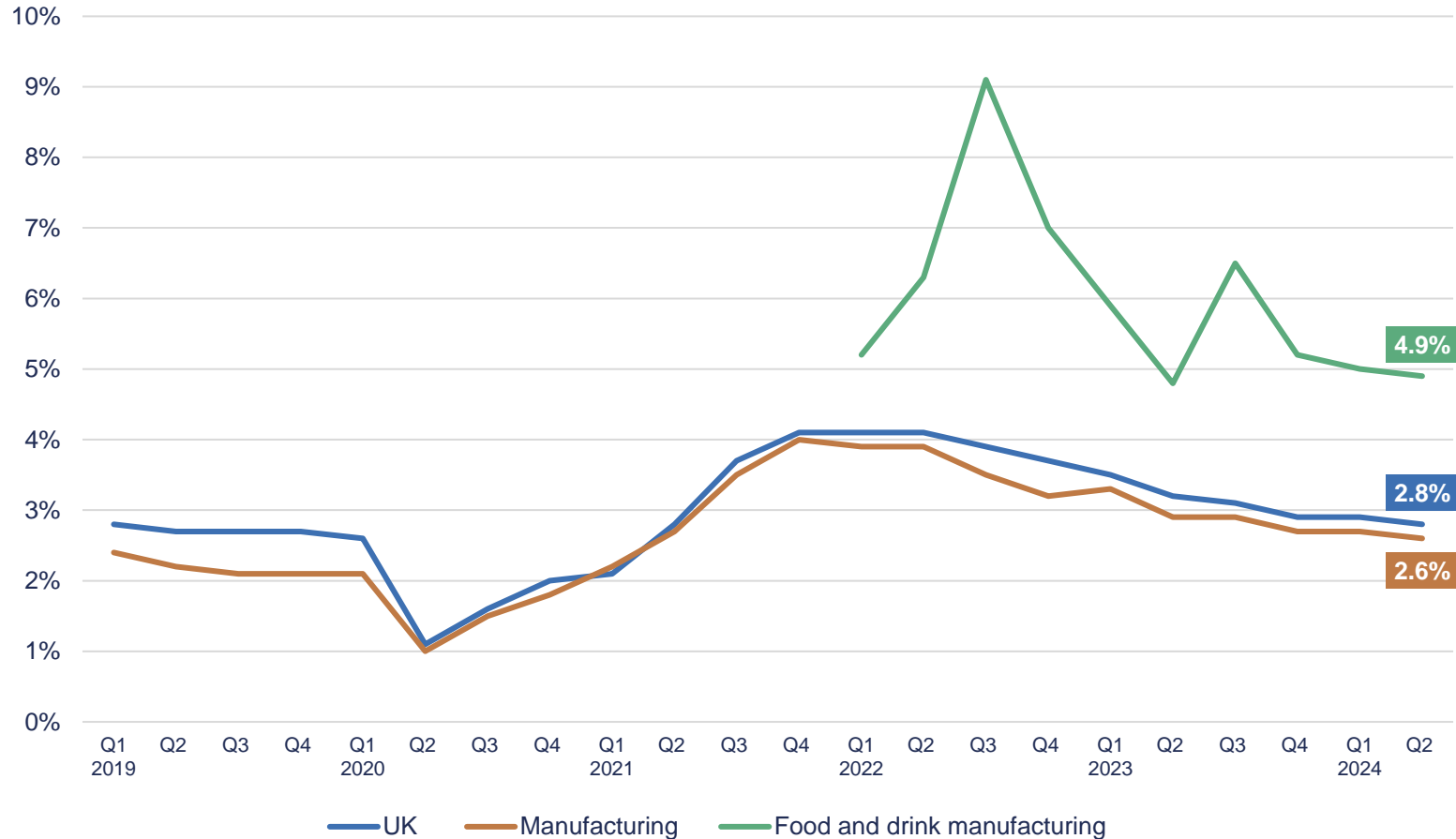
Percentage of adults reporting buying less when food shopping in the past two weeks



Source: ONS, Opinion and Lifestyle Surveys

Labour shortages are a structural issue for the industry

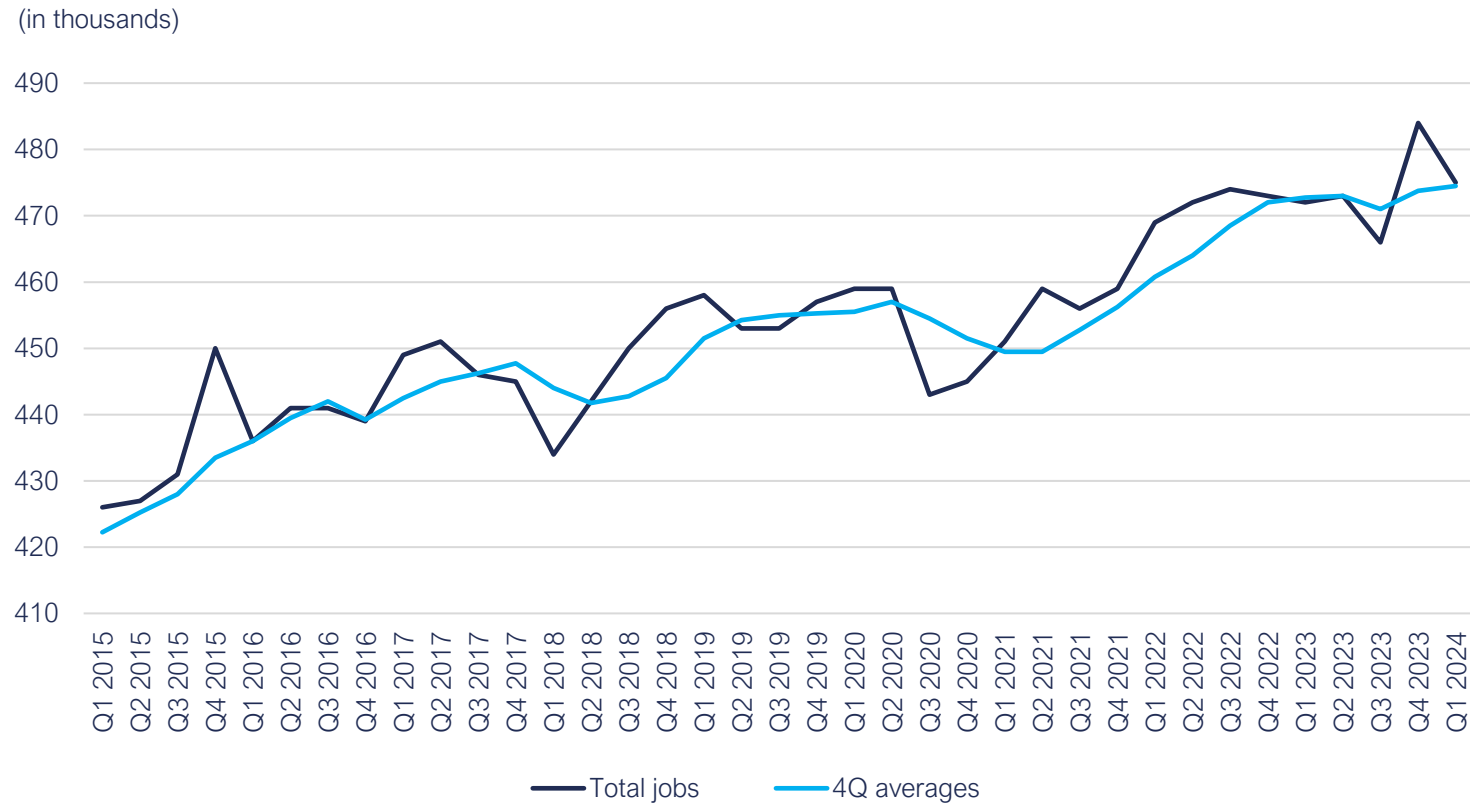
And they persist across all skill levels



Source: ONS and FDF State of Industry Surveys

Employment for the industry has remained fairly stable

With the number of jobs at 475,000 in Q1

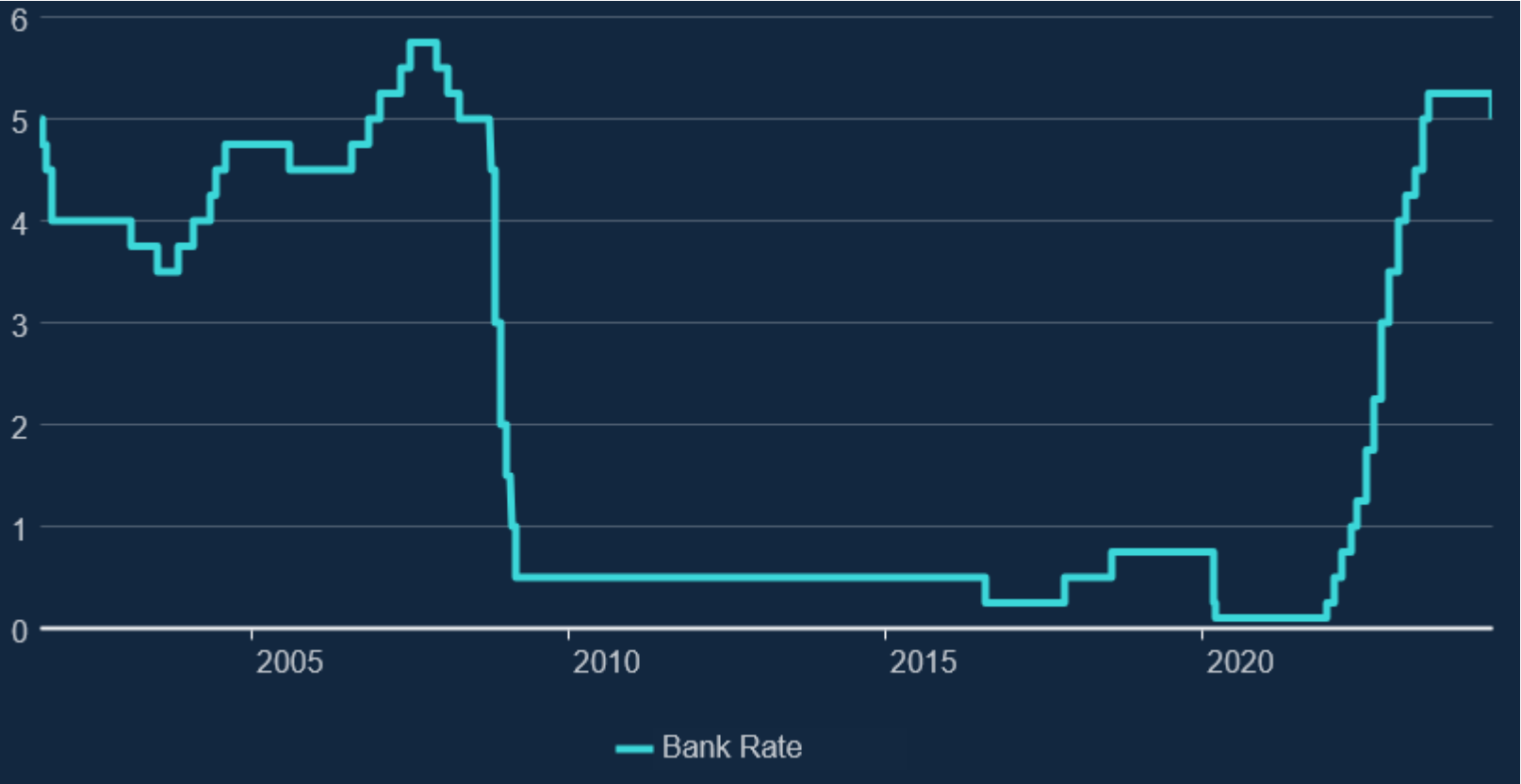


The wider economy

**The economy has seen a
stronger than expected
recovery, with inflation easing**

The Bank of England cut interest rates to 5.0%

First cut since 2020



Source: Bank of England

The decision to lower interest rates was a narrow five-to-four

With different views on current economic conditions

Hawks

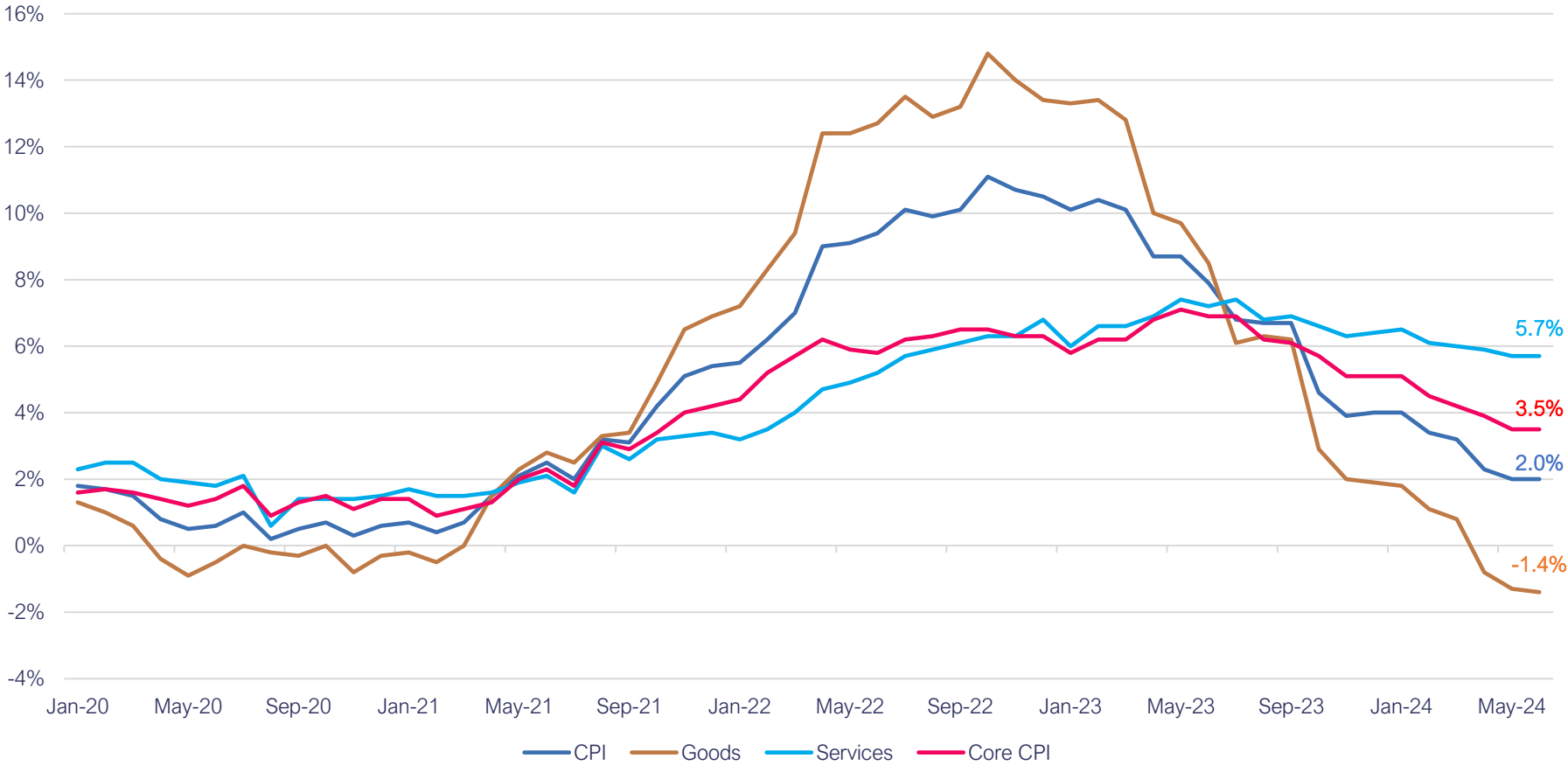
- Current inflationary pressures seem ingrained, so it'll be difficult to bring them under control.
- Wage growth remains strong enough to put upward pressures on prices.
- If growth will continue stronger than expected, that too might push prices up.

Doves

- Current inflation is low enough that it would lessen both wage and price pressures.
- It's expected that the labour market will weaken.
- Growth is unlikely to remain as strong in the second half of the year as in the first half.

Ingrained inflation?

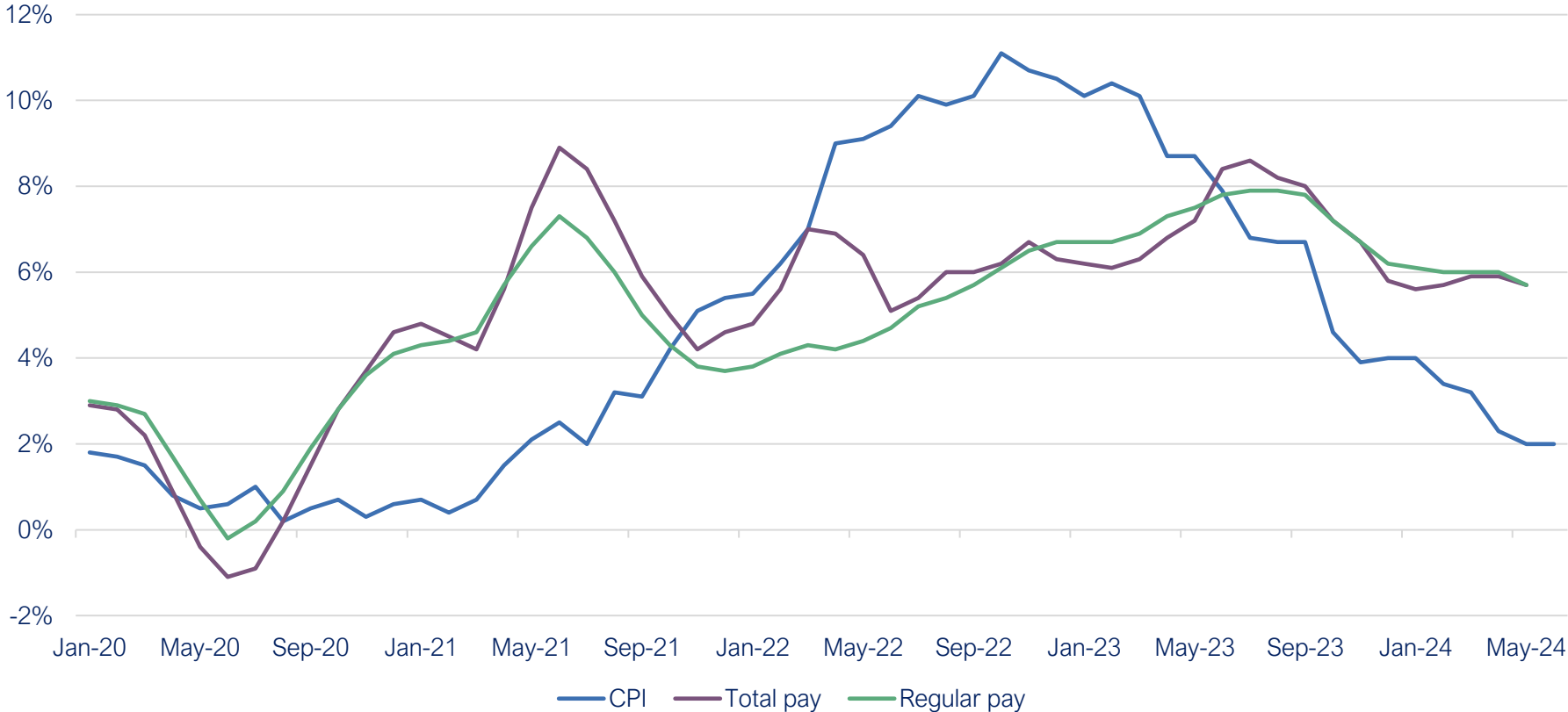
Service and core inflation remain stubbornly high



Source: ONS

Wage growth has been falling slower than the Bank would have liked it to

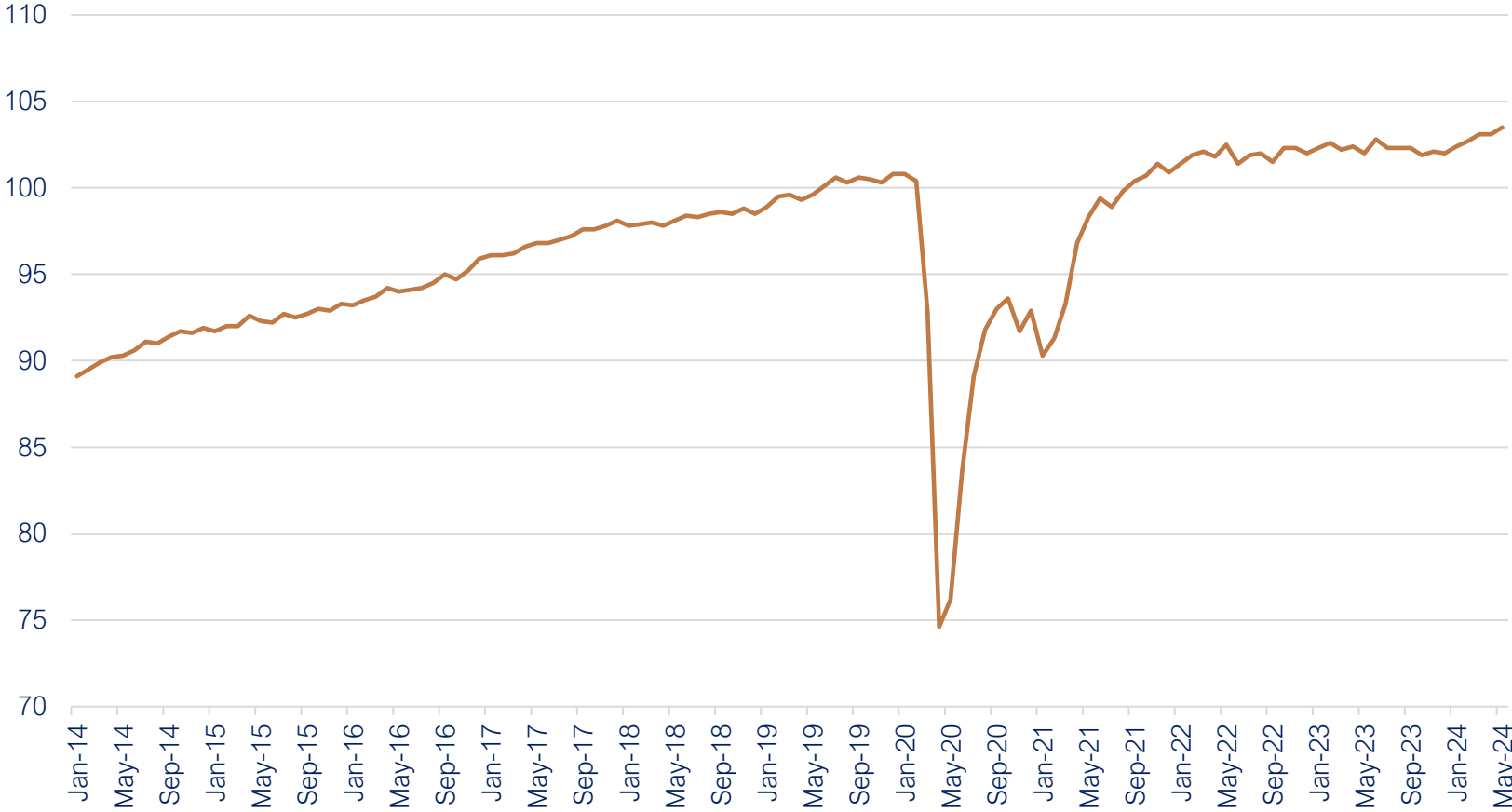
Although in real terms, households are yet to make up the recent lost income



Source: ONS

The UK grew by 0.4% in May

Above expectations of 0.2%



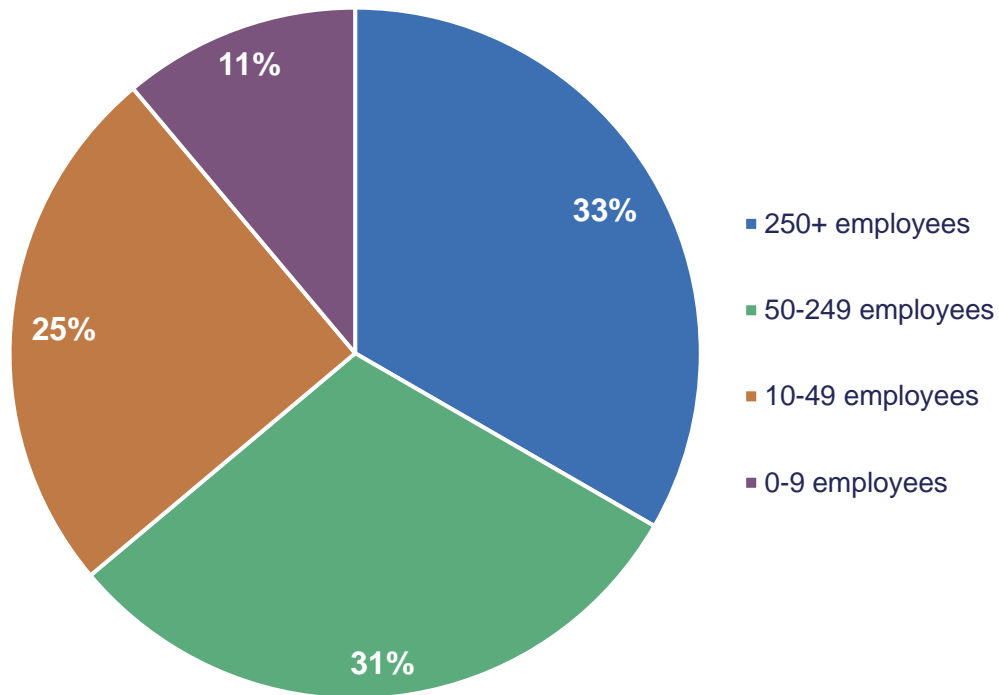
Source: ONS

FDF State of Industry Q2 Survey Findings

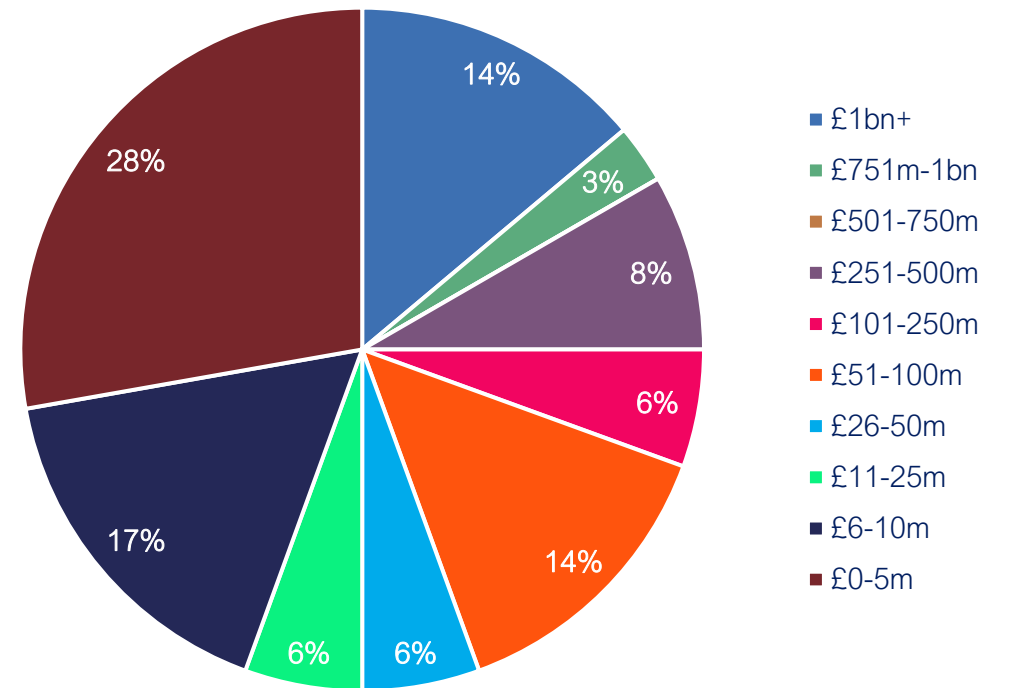
Who responded?

Businesses of all sizes responded

Employment



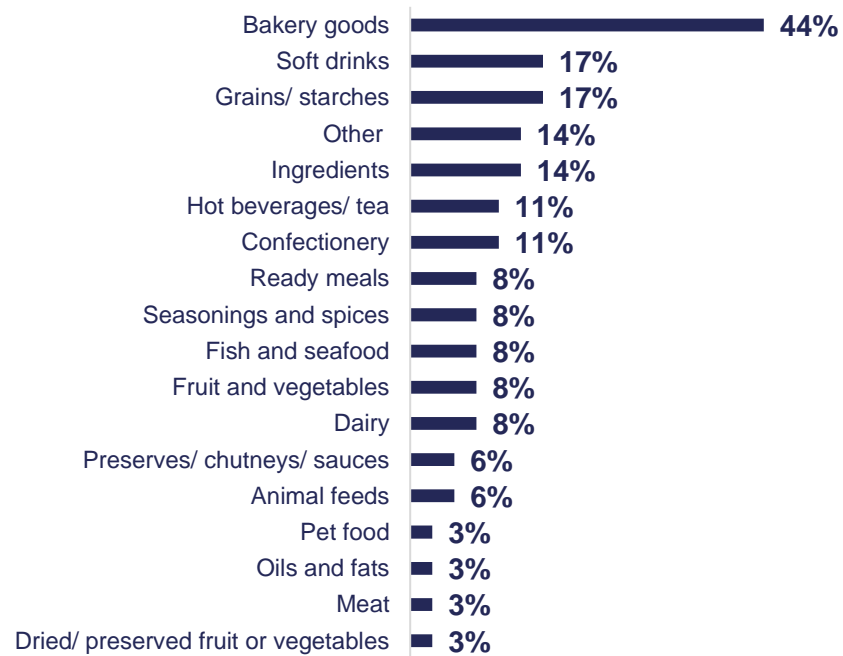
Turnover



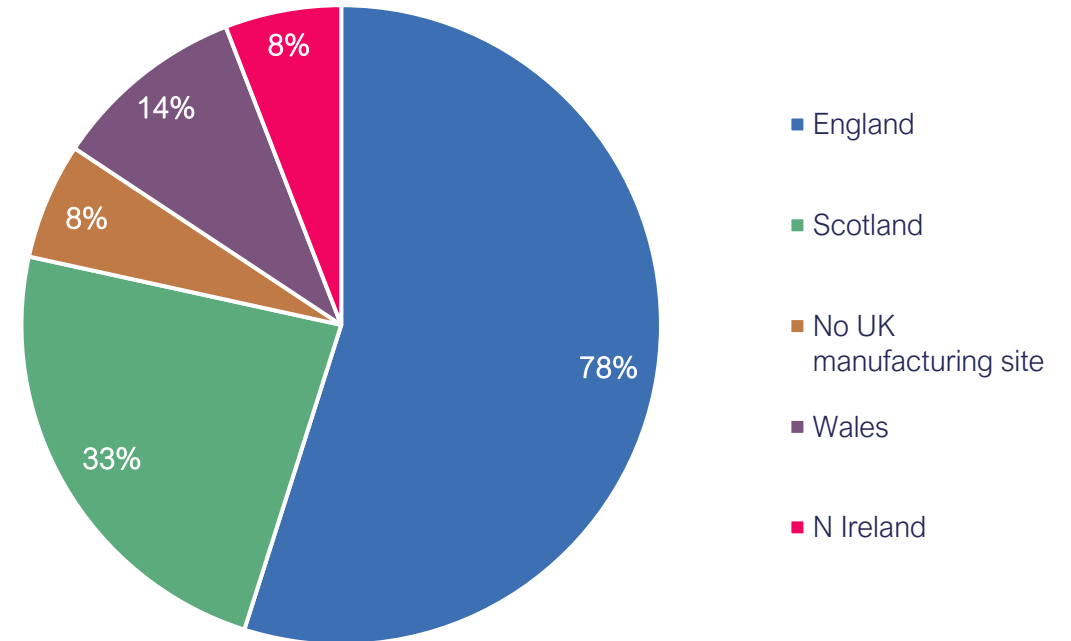
Representation from a wide range of sectors

With sites in each nation

Sectors



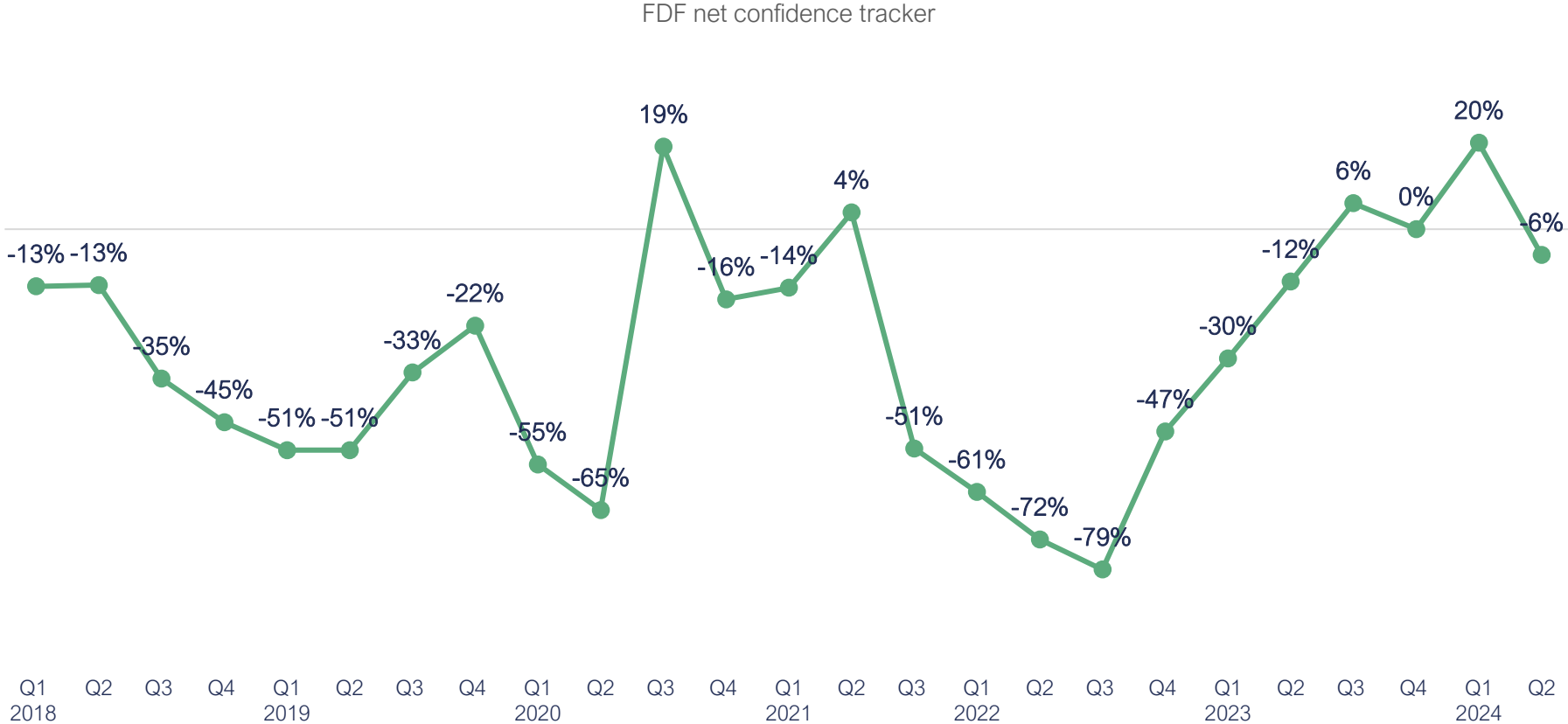
Location



Smaller businesses faced a difficult Q2

Net confidence is at -6%, with over half of manufacturers saying conditions remained the same

Net confidence = conditions improved – conditions deteriorated

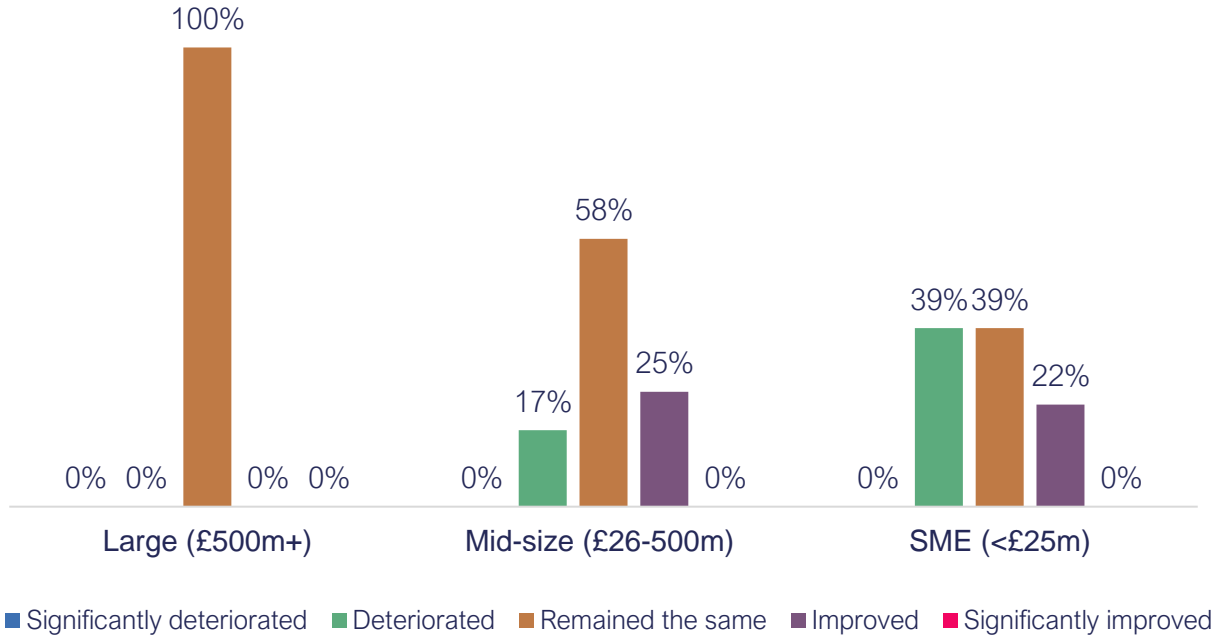


SMEs have a -17% net confidence score, down from 17% in Q1

With 25% of large businesses seeing an improvement during the second quarter

Net confidence
(conditions in Q1 2024
compared to Q4 2023)

All	-6%
Large (£500m+)	0%
Mid-size (£26-500m)	8%
SME (<£25m)	-17%

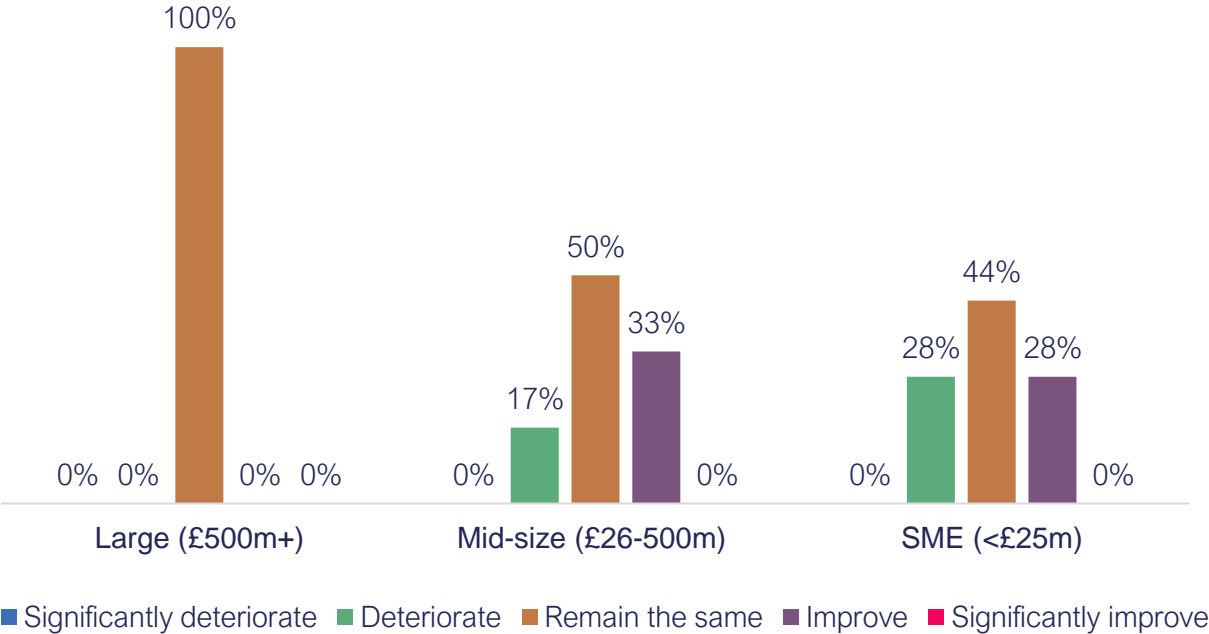


Outlook confidence for Q3 2024 is at 6%, down from 30% for Q2 2024

Over half of businesses expect conditions to remain the same going into Q3

Outlook confidence (Q2 compared to Q1)

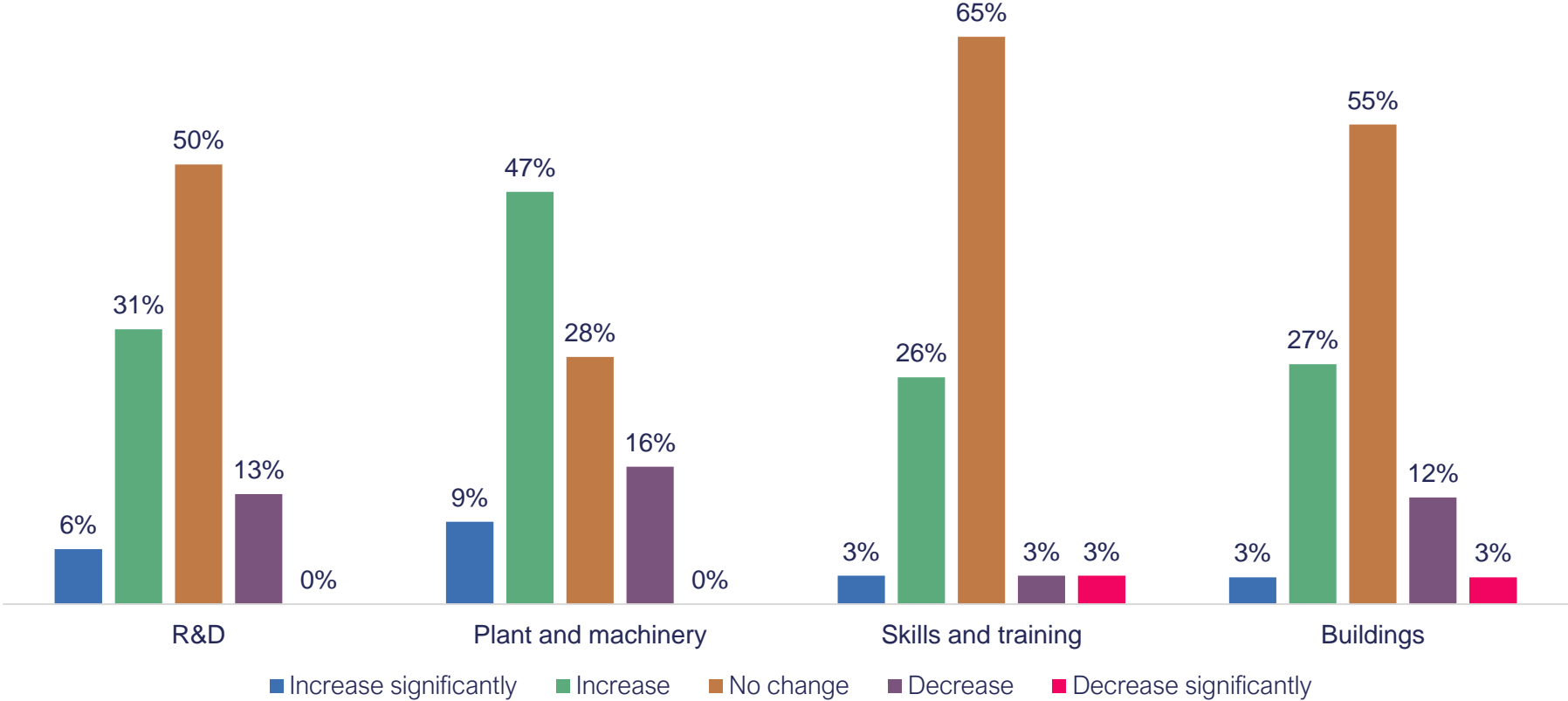
All	6%
Large (£500m+)	0%
Mid-size (£26-500m)	17%
SME (<£25m)	0%



Government incentives for investment and innovation would be welcome

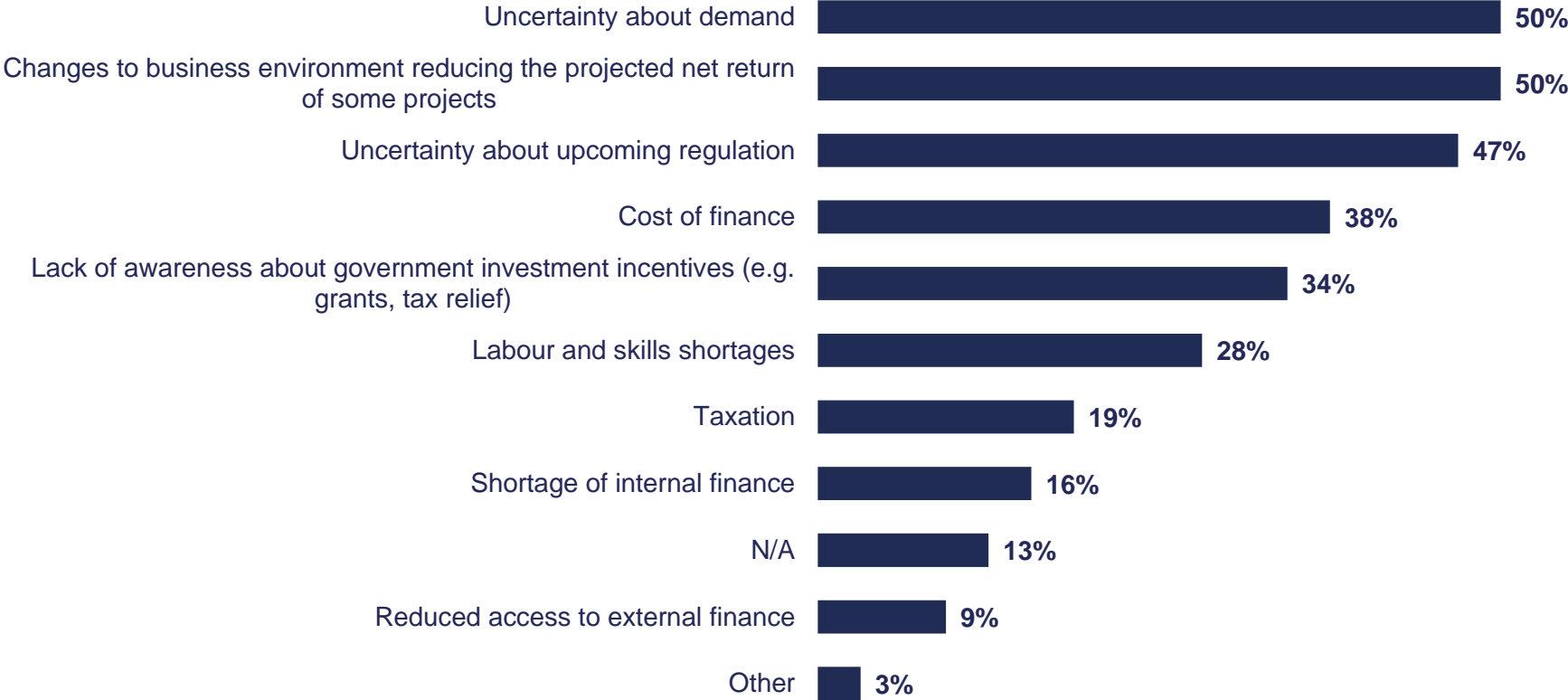
The plan is to sustain or increase investment over the year across the business

How do you expect your planned investment expenditure over the next 12 months to change compared to the previous 12 months:



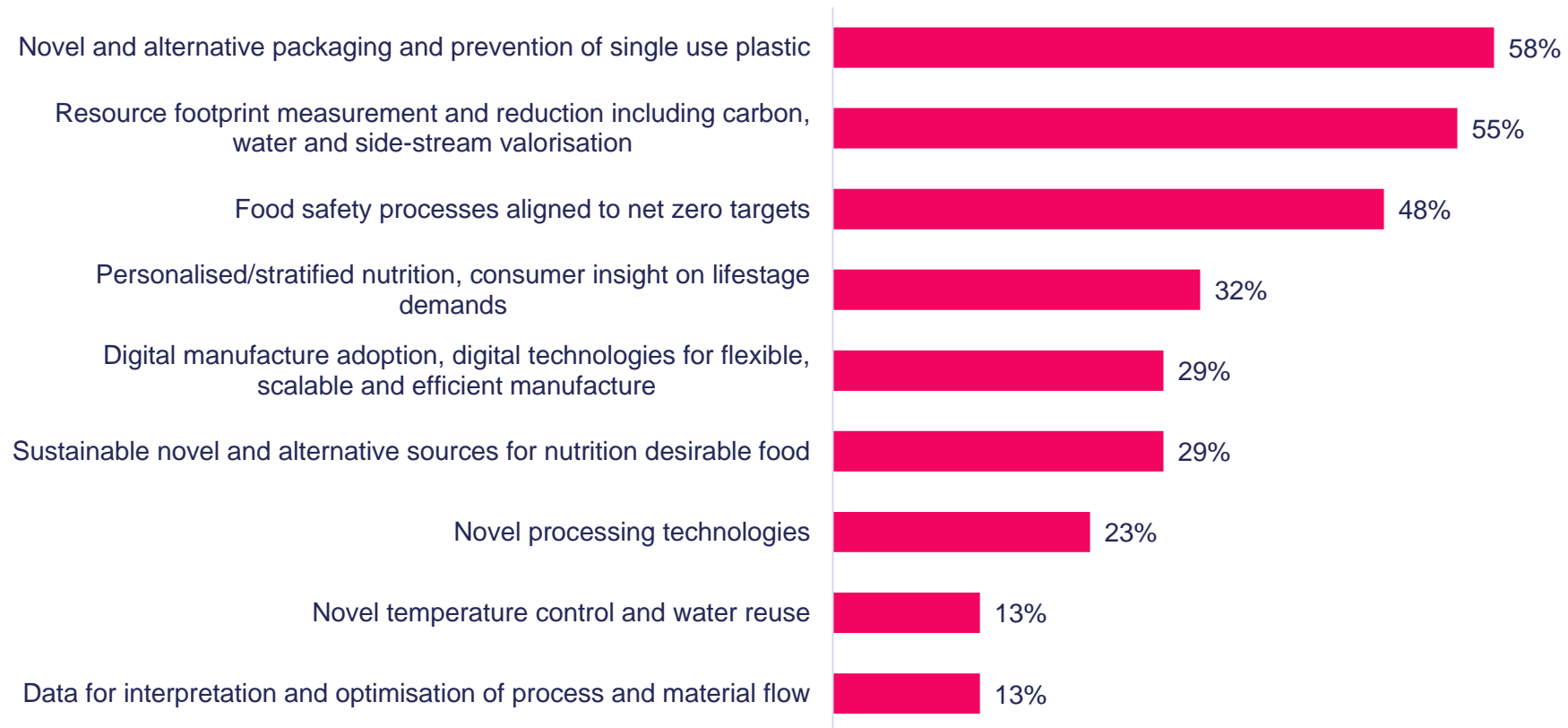
Investment continues to be limited by uncertainty around the economy

What factors are likely to limit your capital investment expenditure over the next 12 months?



Novel and alternative packing and prevention of single use plastic is the top priority for UKRI funding

In which of the following areas would you want UKRI (UK Research and Innovation) to prioritise funding in our sector?



70% of respondents are prioritizing growing sales to UK markets

What are the top three growth priorities for your business?



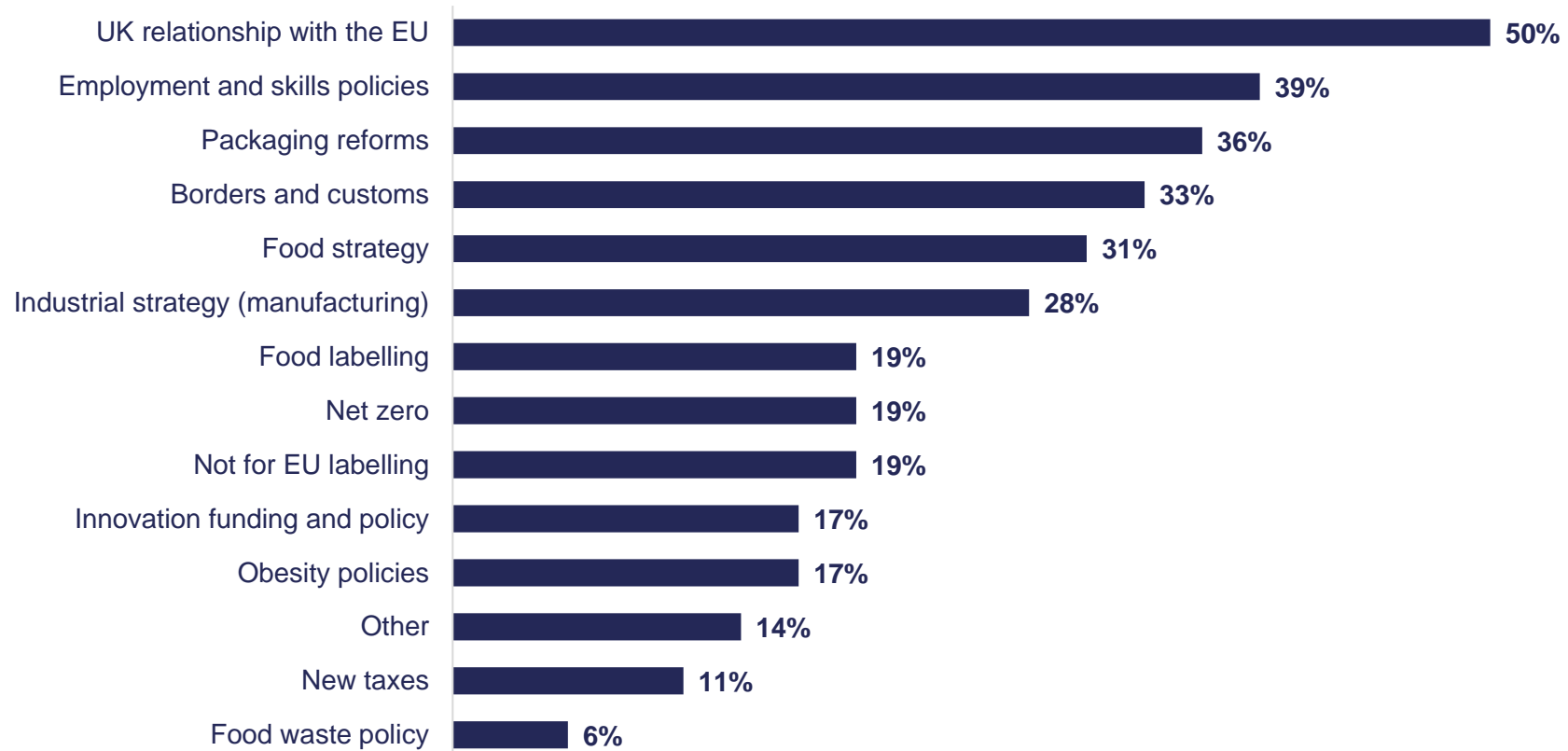
All large manufacturers are focused on growing sales to UK markets and developing new products

With half of SMEs focused on automation and restructuring operations



The UK's relationship with the EU is the leading priority

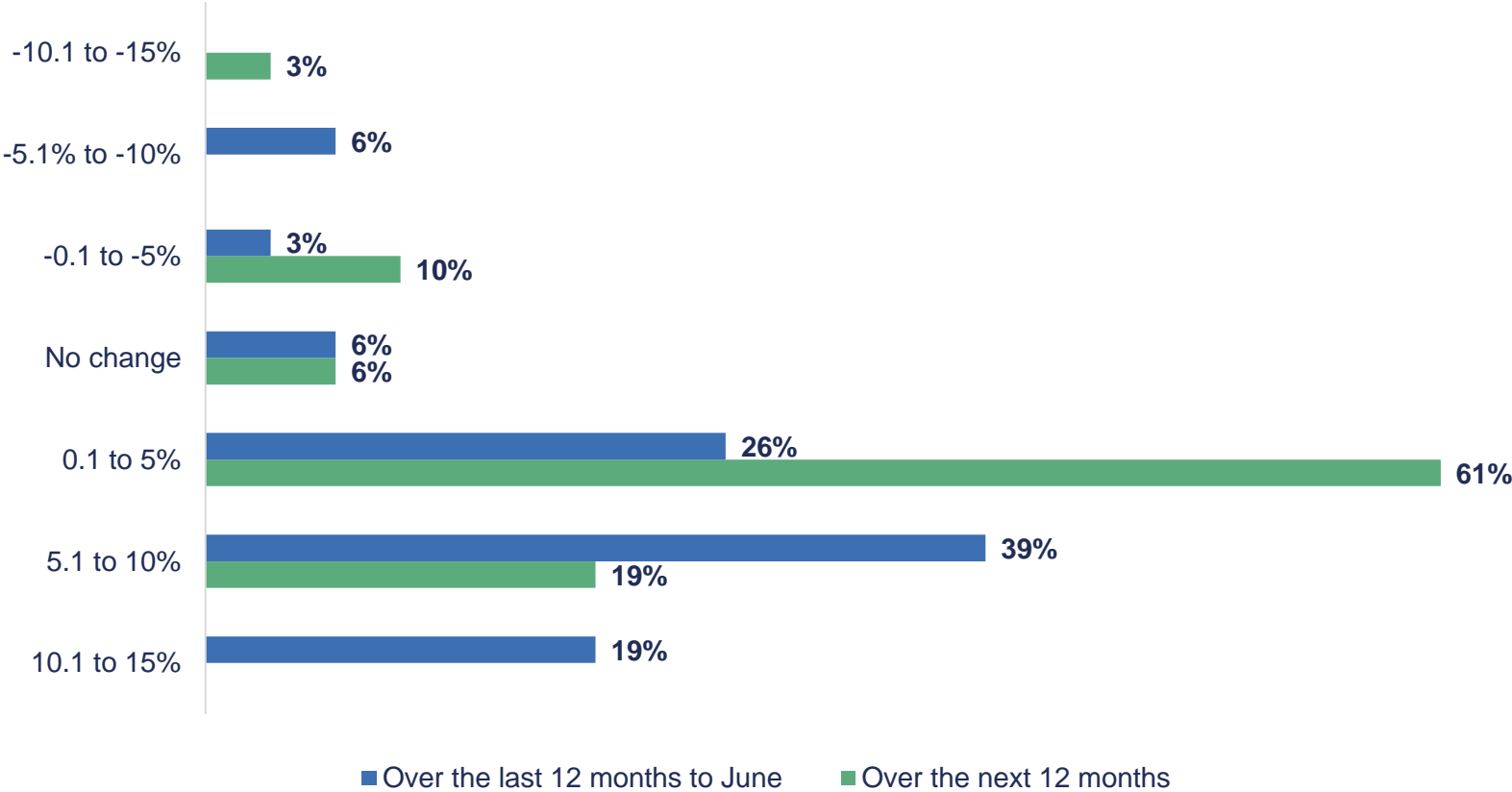
Which are the top three policy areas you think should be prioritised in working with the new government?



Trade impacted by regulation and supply chain woes

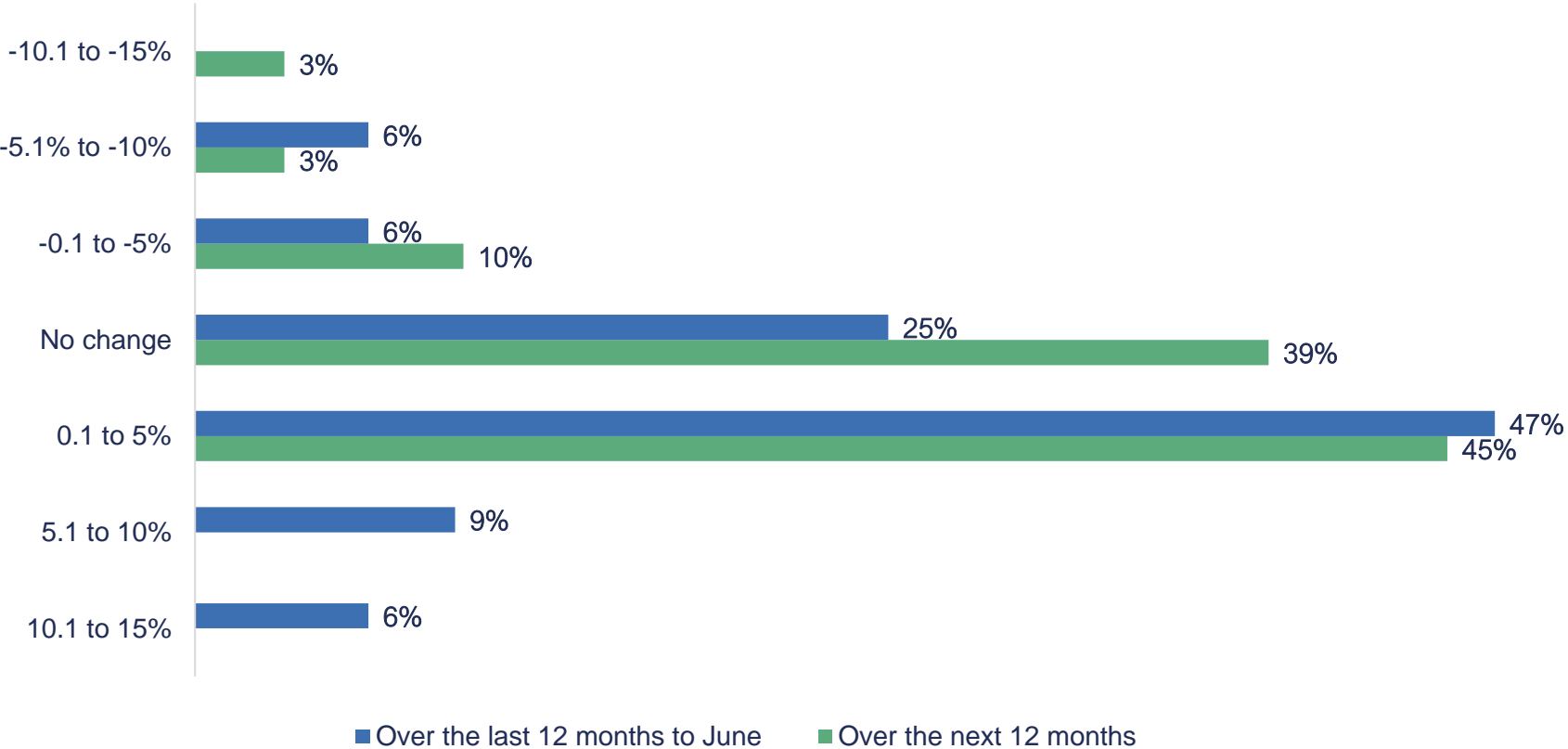
Total production costs increased by 5.4% over the last 12 months

They are expected to continue to increase by 2.9% on average over the next 12 months



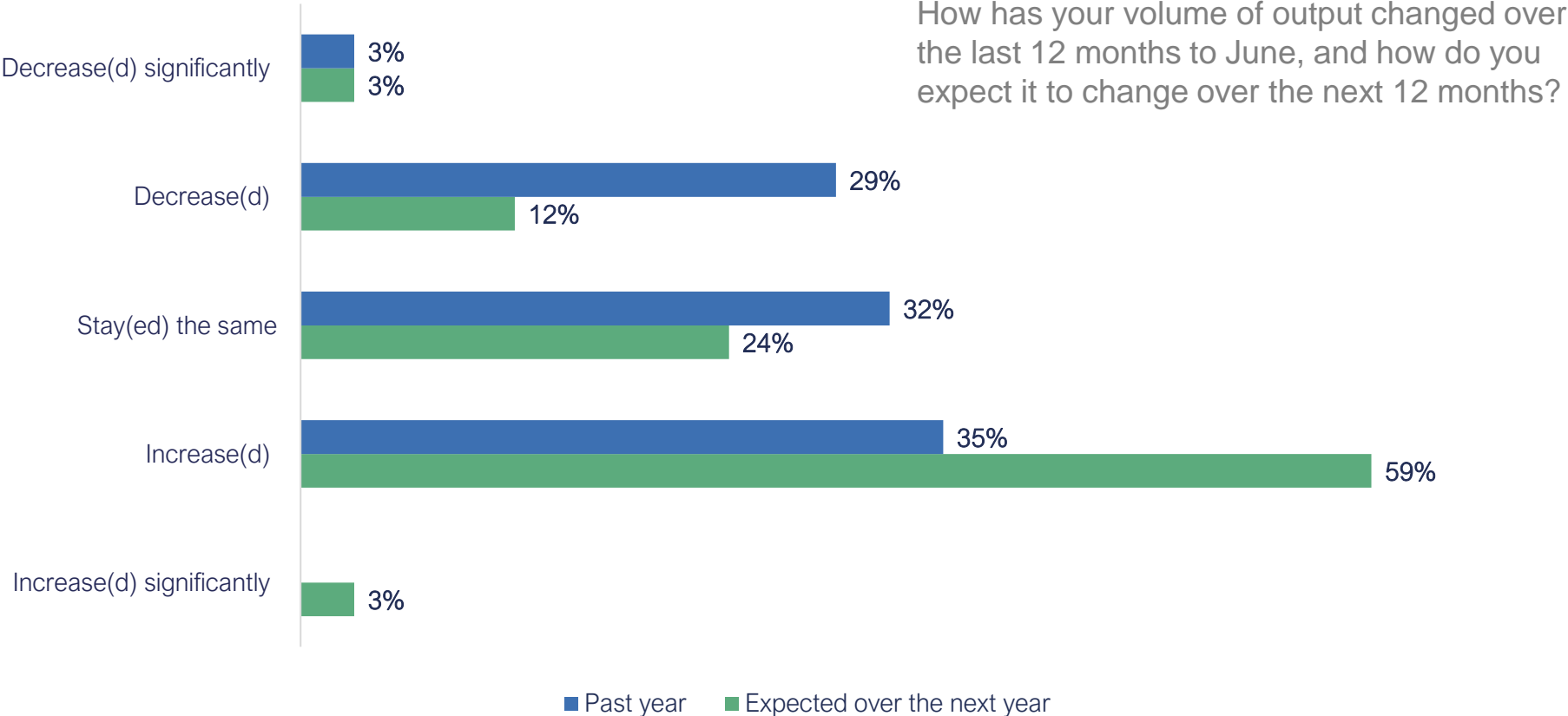
The average selling price rose by 3.9%

Over the next 12 months, it is expected to rise by 1.0%



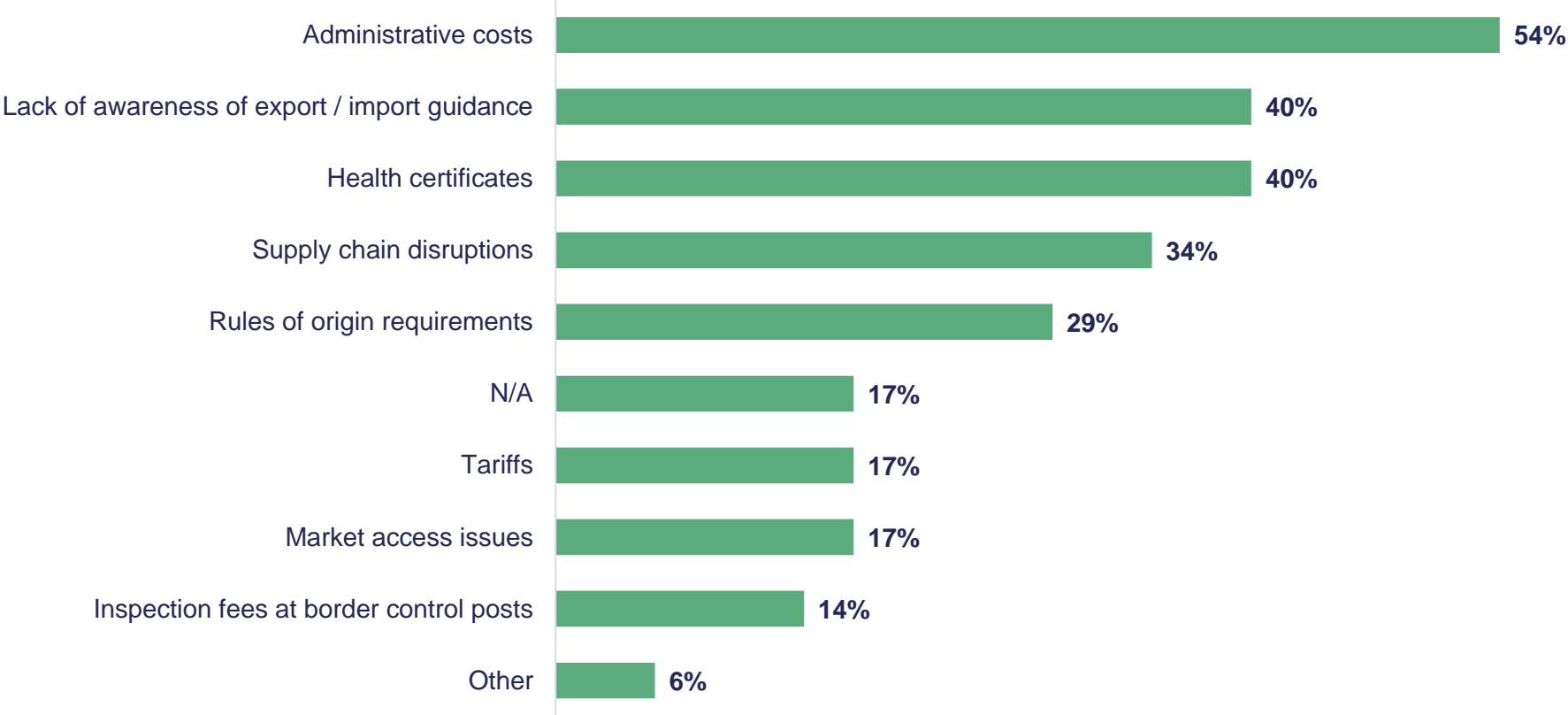
35% of businesses increased their volume of output over the past year

62% believe that their volume of output will increase over the next year



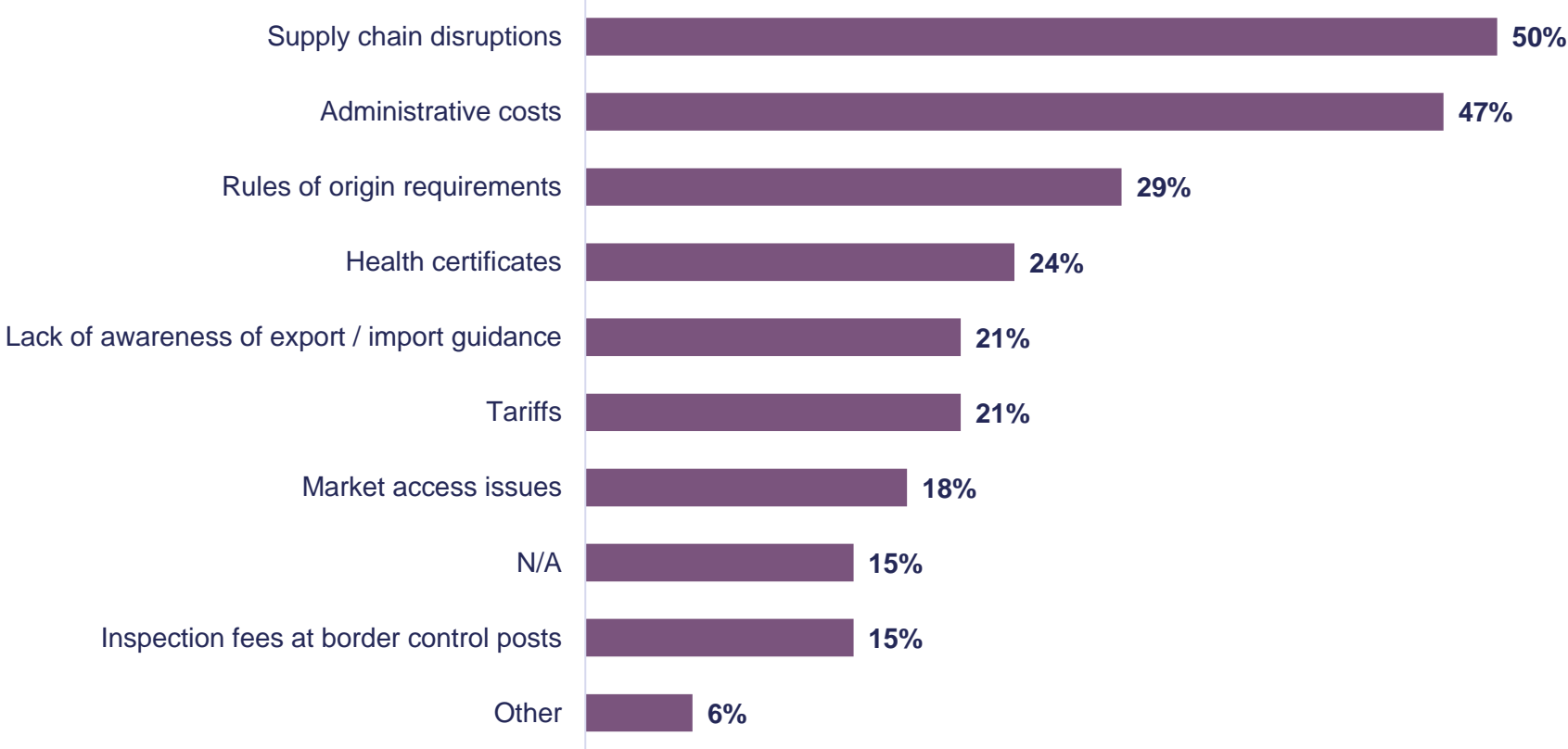
Over half of manufacturers are constrained by the administrative costs of exporting

What are your top three export barriers?



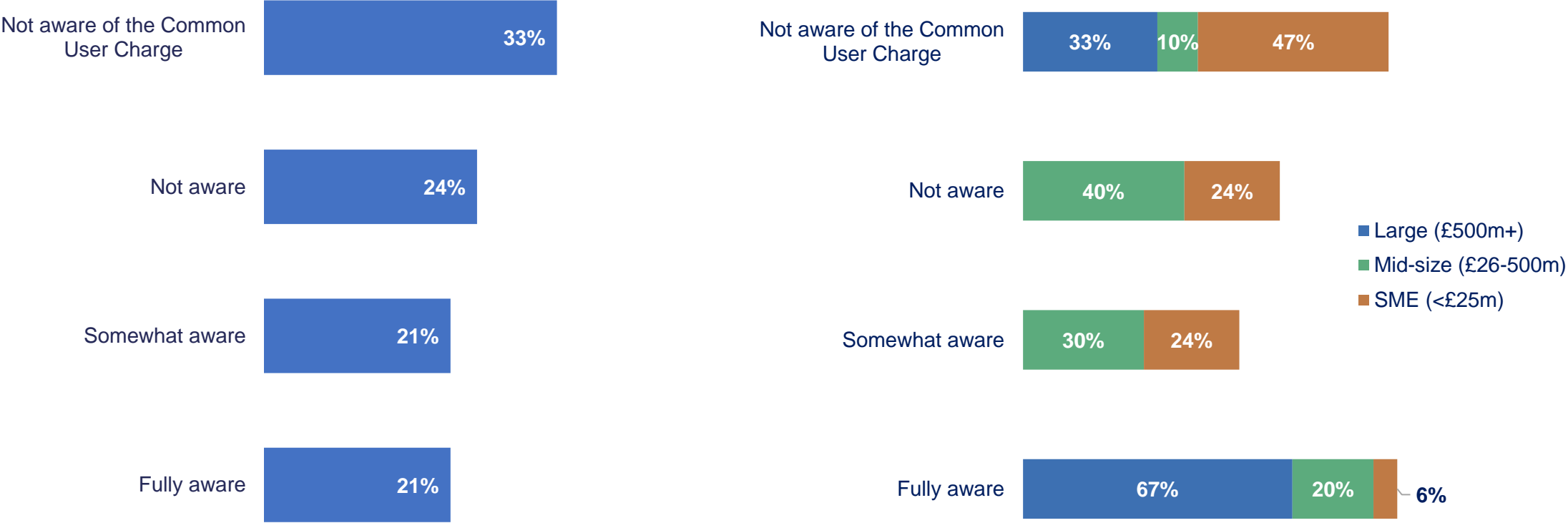
Supply chain disruptions are a headache for importers

What are your top three import barriers?



71% of SMEs are unaware of the upcoming invoices or the Common User Charge itself

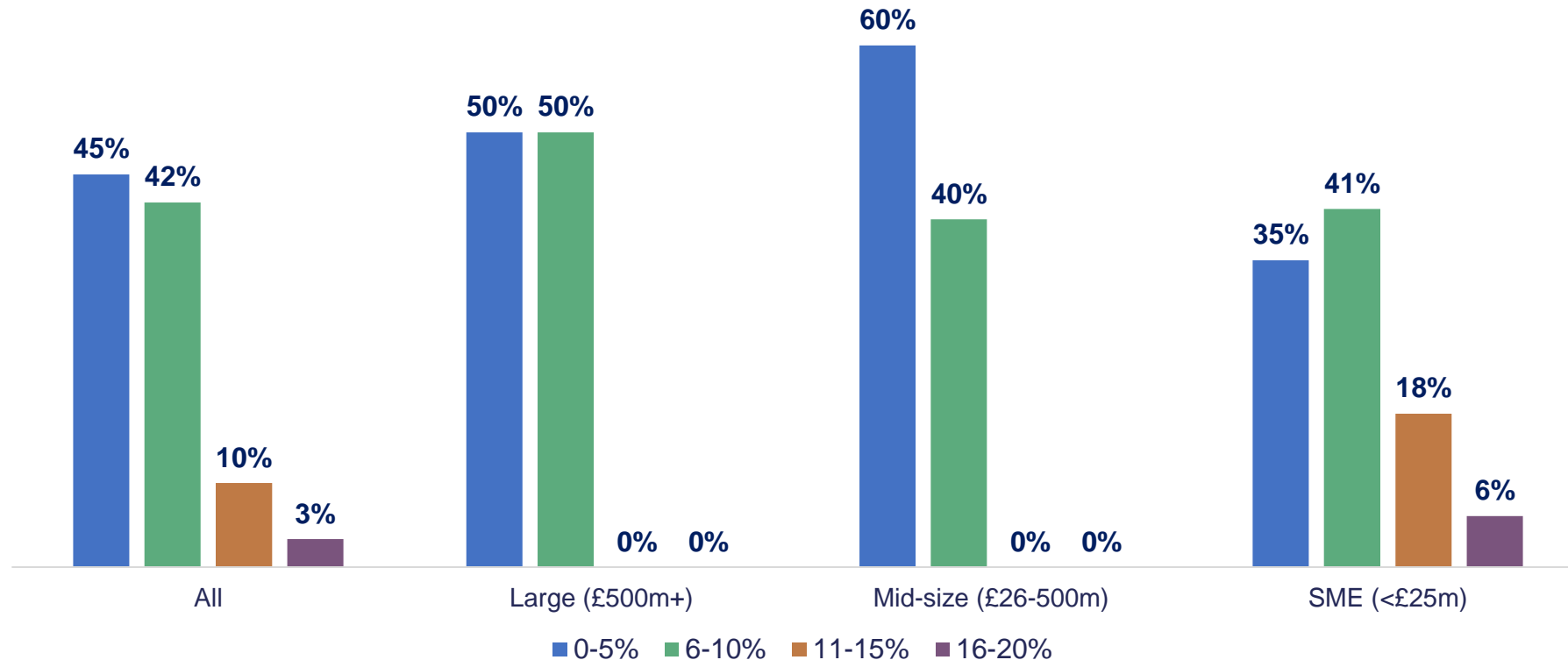
The first invoices for the Government's Common User Charge will be issued in July. How aware is your business of these upcoming invoices?



The new government: An opportunity to address impacts of labour shortages

Unfilled vacancies decrease to 4.9% from 5.0% in Q1

In Q1 2024, unfilled vacancies amounted to what percentage of your labour force?

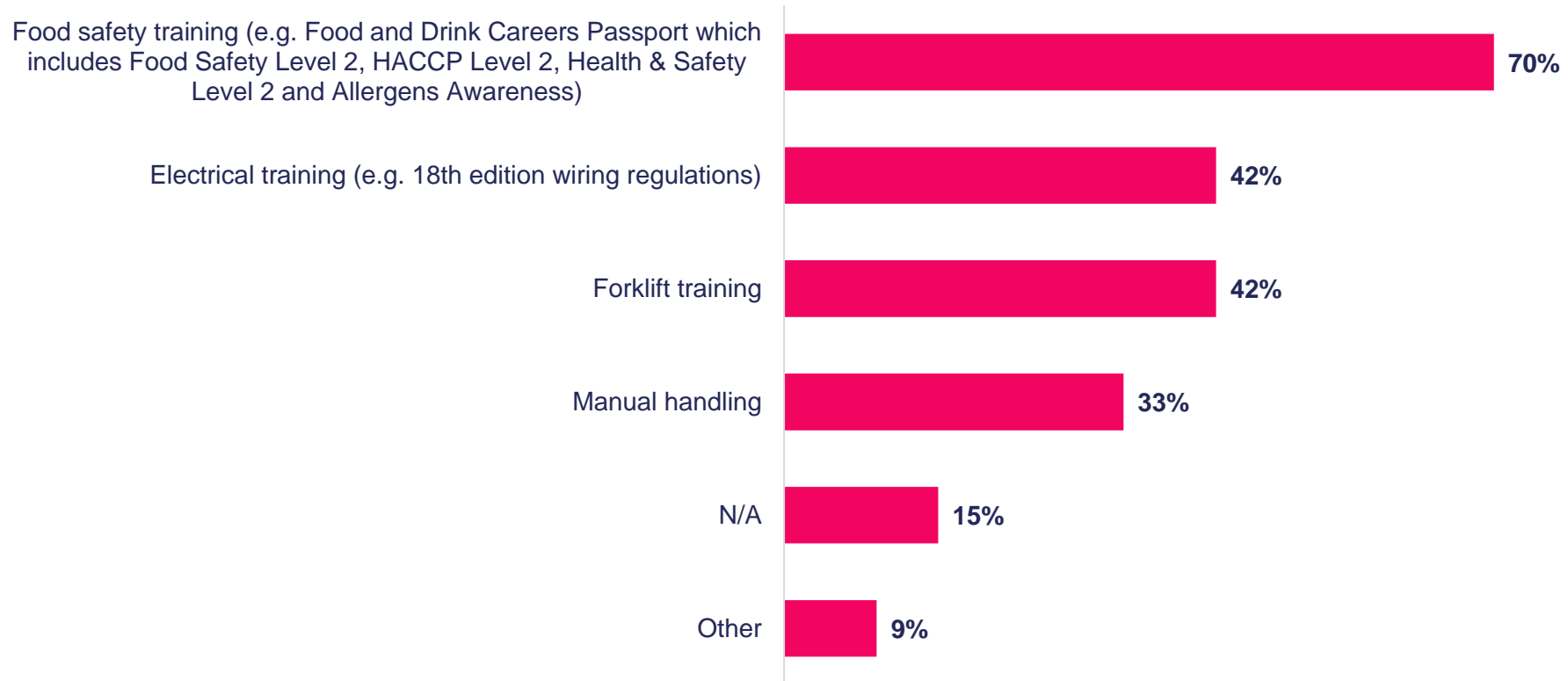


Vacancies are widespread across roles and skills

High-skilled positions
Maintenance managers
Automation / software development
Quality assurance
First line managers
Engineers
Technical positions
Engineering technicians
Sales
Electrical maintenance technicians
Lower-skilled positions
Hygiene/cleaning roles
Agricultural workers
Warehouse and factory operatives

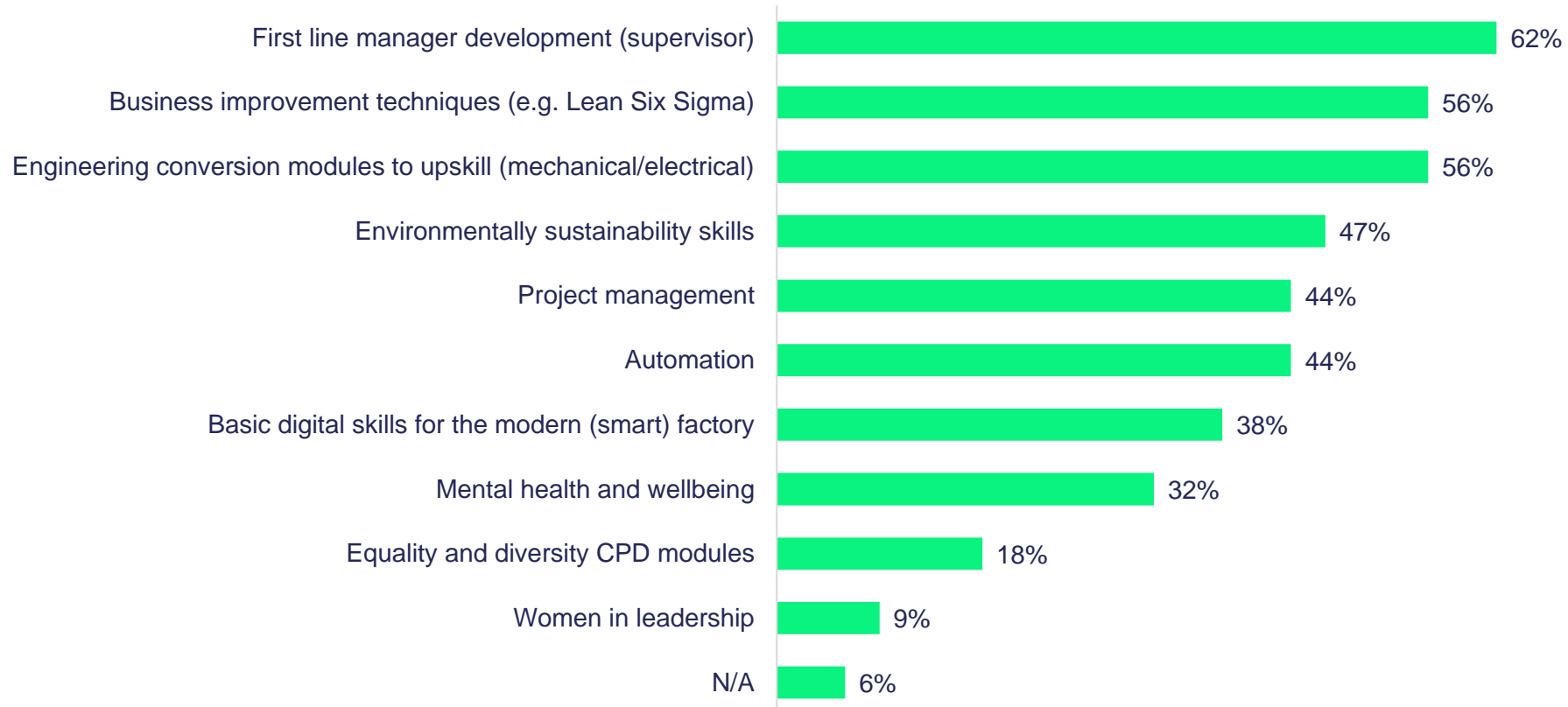
70% of businesses would like to use apprenticeship levy funds for food safety training

There is potential for Apprenticeship Levy reform. What accredited compliance training courses would you like to use Levy funds for?



62% of manufacturers would like to use levy funds for first line manager development

There is potential for Apprenticeship Levy reform. What modular training courses would you like to use Levy funds for?



Key Takeaways

With food and drink being recently recognised as a strategic advanced manufacturing sector, **there is an opportunity for the industry to advance investment in R&D, innovation and new technologies**. Despite a one-third decline in industry's investment compared to 2019, the right support for manufacturers can revive momentum, especially because at least 80% of manufacturers plan on increasing or sustaining their investment over the coming year.

Non-tariff barriers risk denting the industry's export competitiveness. Health certificates are an export barrier for 40% of businesses and administrative costs a barrier for 54% of manufacturers. Smaller companies will be disproportionately impacted by these costs due to economies of scale and lack of guidance.

Reforms to the Apprenticeship Levy would help the industry thrive by addressing both the skill gaps and labour shortages. Over half of manufacturers would like to be able to use the Levy funds for engineering conversion modules or business improvement techniques.

Thank you!

Get in touch

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