

# Food and Drink Manufacturing Insights

Q1 2024

**fdf** food & drink  
federation



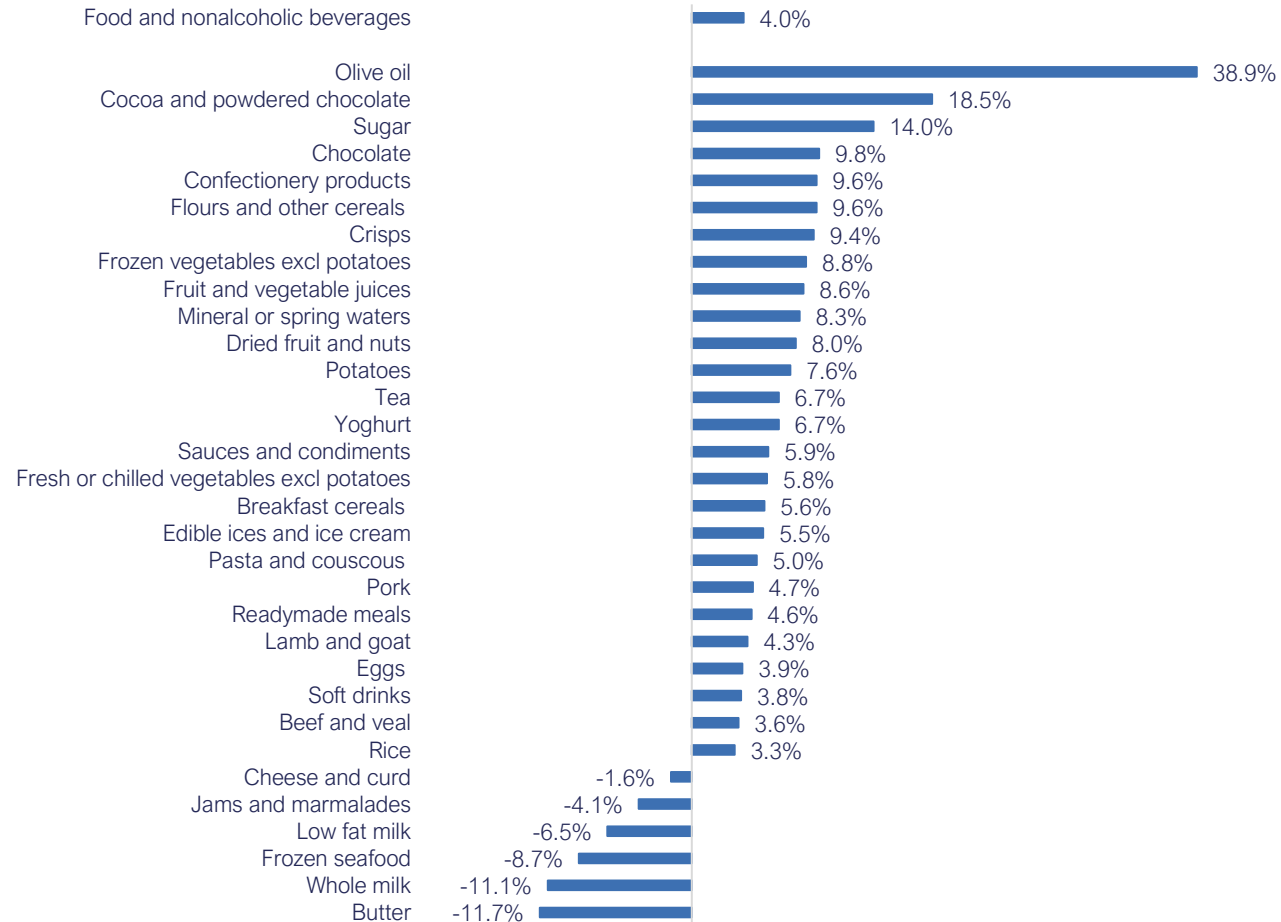
# Agenda

- Economic overview – Dr Liliana Danila, Lead economist
- State of Industry Q1 Survey Findings – Uros Milosevic, Economic Analyst
- Q&As

# Food and drink manufacturing developments

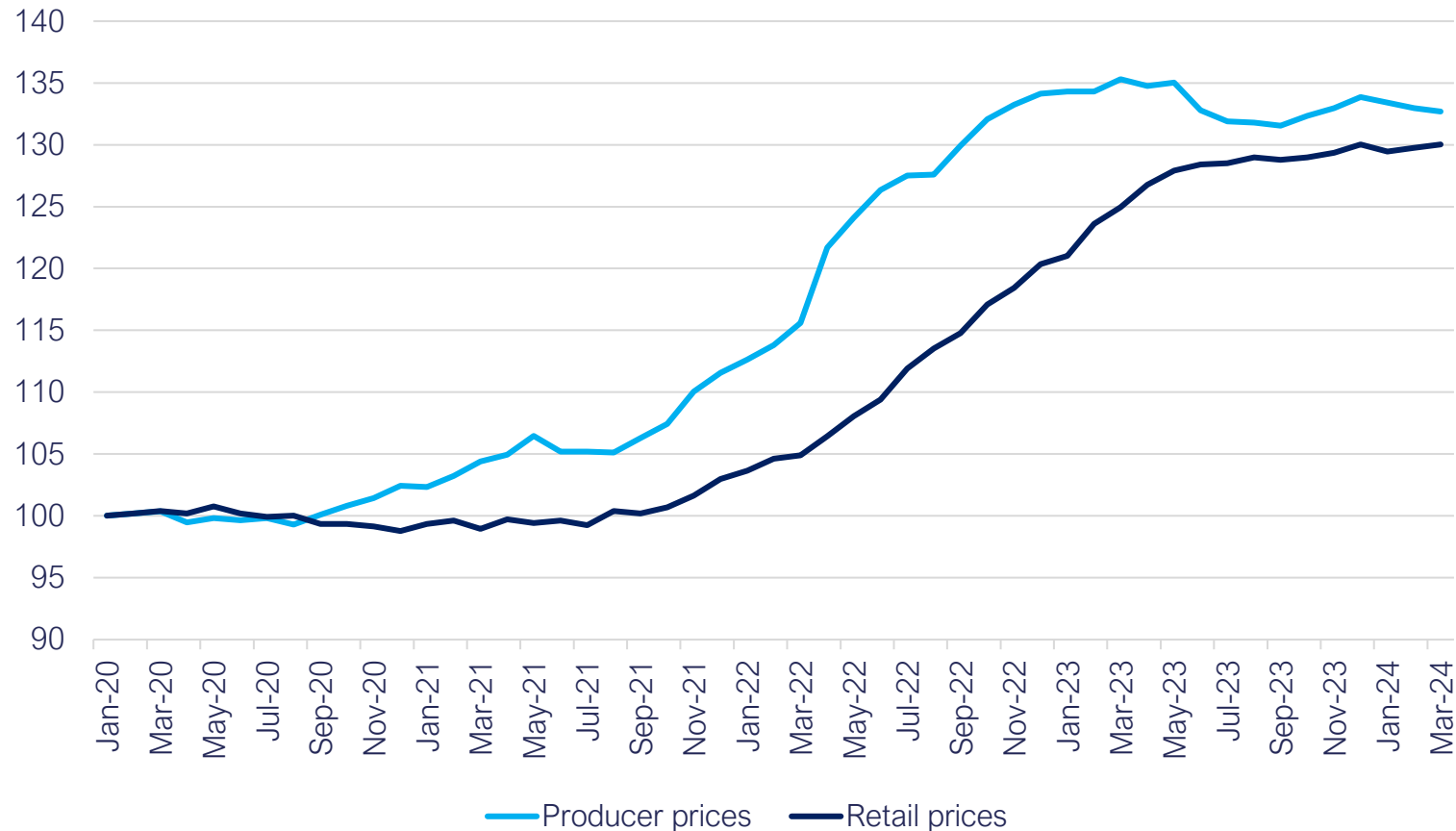
# March marked one year of easing food and non-alcoholic inflation

With annual food inflation reaching 4.0%



# Production costs have started to fall

But manufacturers need to be able to recover lost ground for industry's investment to pick up

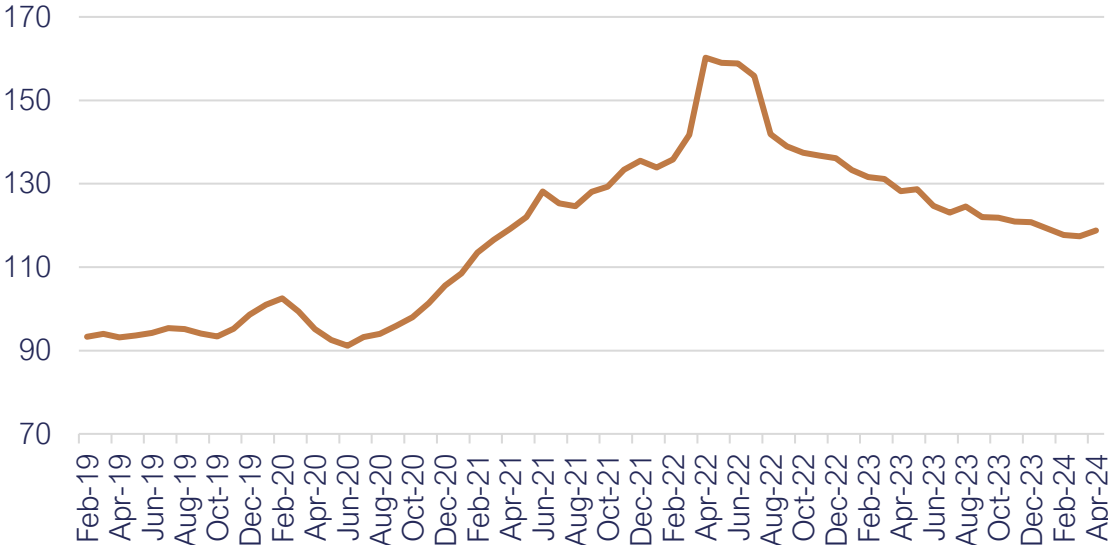


**Market conditions have generally stabilised, although risks from geopolitics and climate change**

# Global agricultural commodities have seen an uptick in the last two months

And remain significantly above 2020 levels

## UN FAO price index



## Changes in the UN FAO prices, April 2024

	Apr-24 on Feb-20	Apr-24 on Apr-23	Apr-24 on Mar-24
<b>Food Price Index</b>	20%	-7%	0%
<b>Meat</b>	16%	0%	2%
<b>Dairy</b>	20%	-4%	0%
<b>Cereals</b>	12%	-18%	0%
<b>Oils</b>	34%	1%	0%
<b>Sugar</b>	39%	-15%	-4%

Source: UN FAO Prices

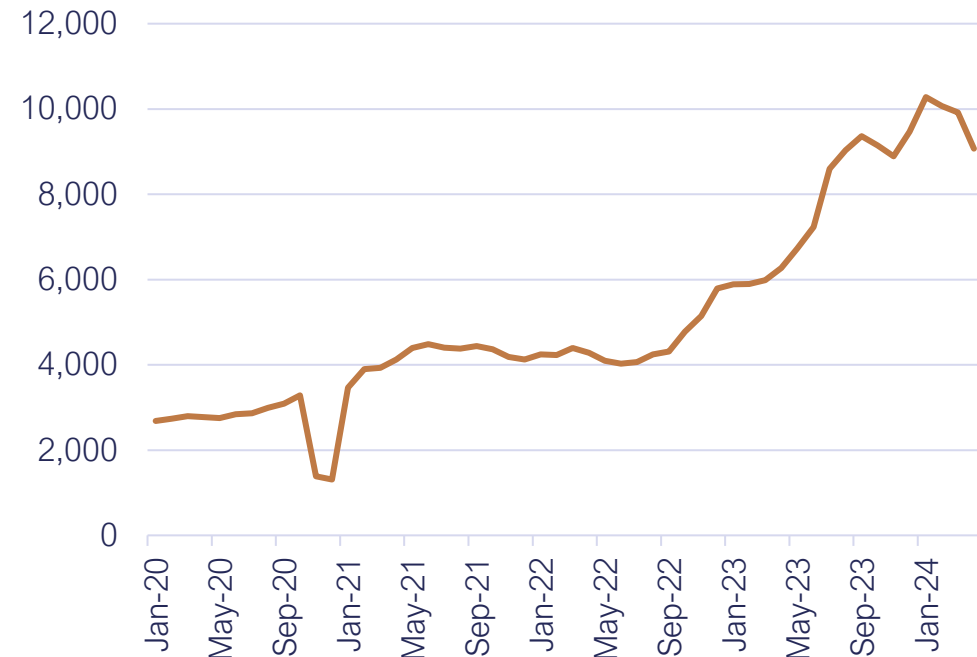
# Climate change and underinvestment continue to wreak havoc in some commodities markets

Although rises have cooled recently

## Cocoa prices



## Olive oil prices

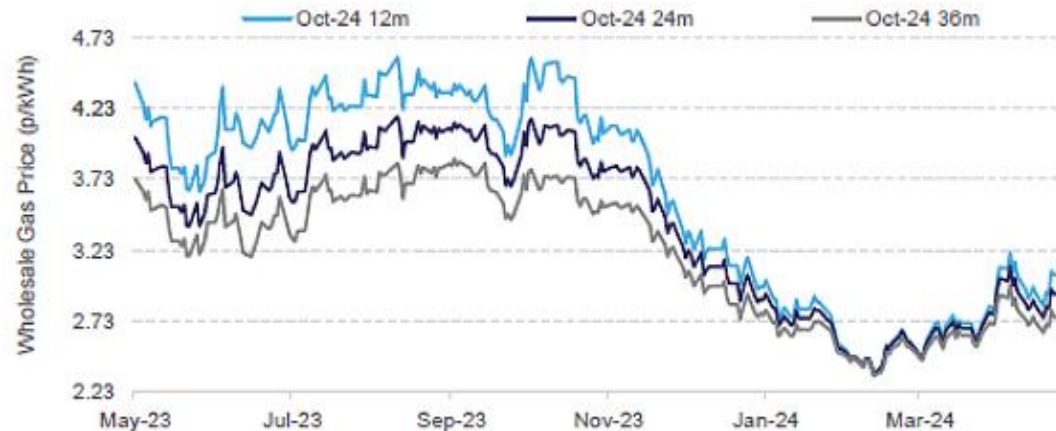




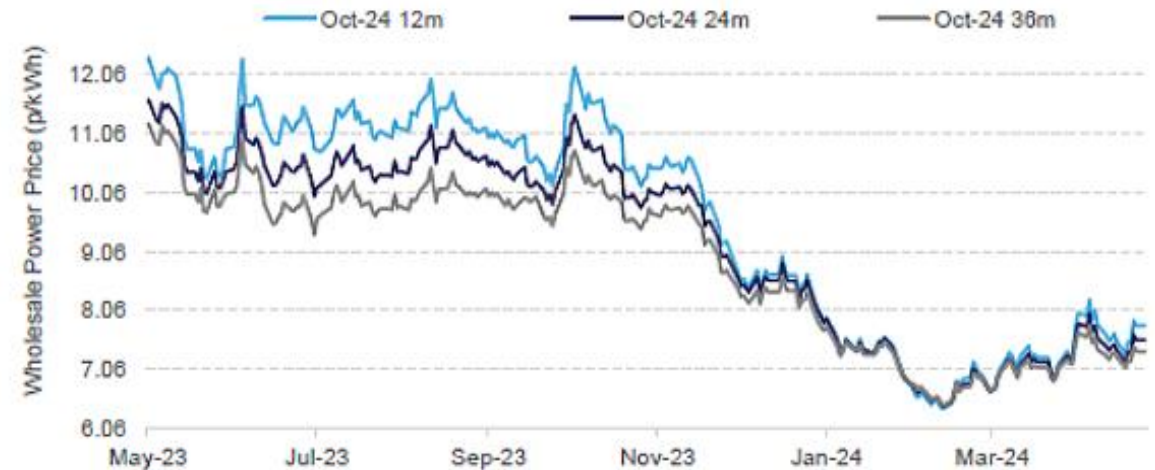
# Energy markets have stabilised

And despite recent upticks, ample supplies suggest they will not climb further

## Natural gas prices

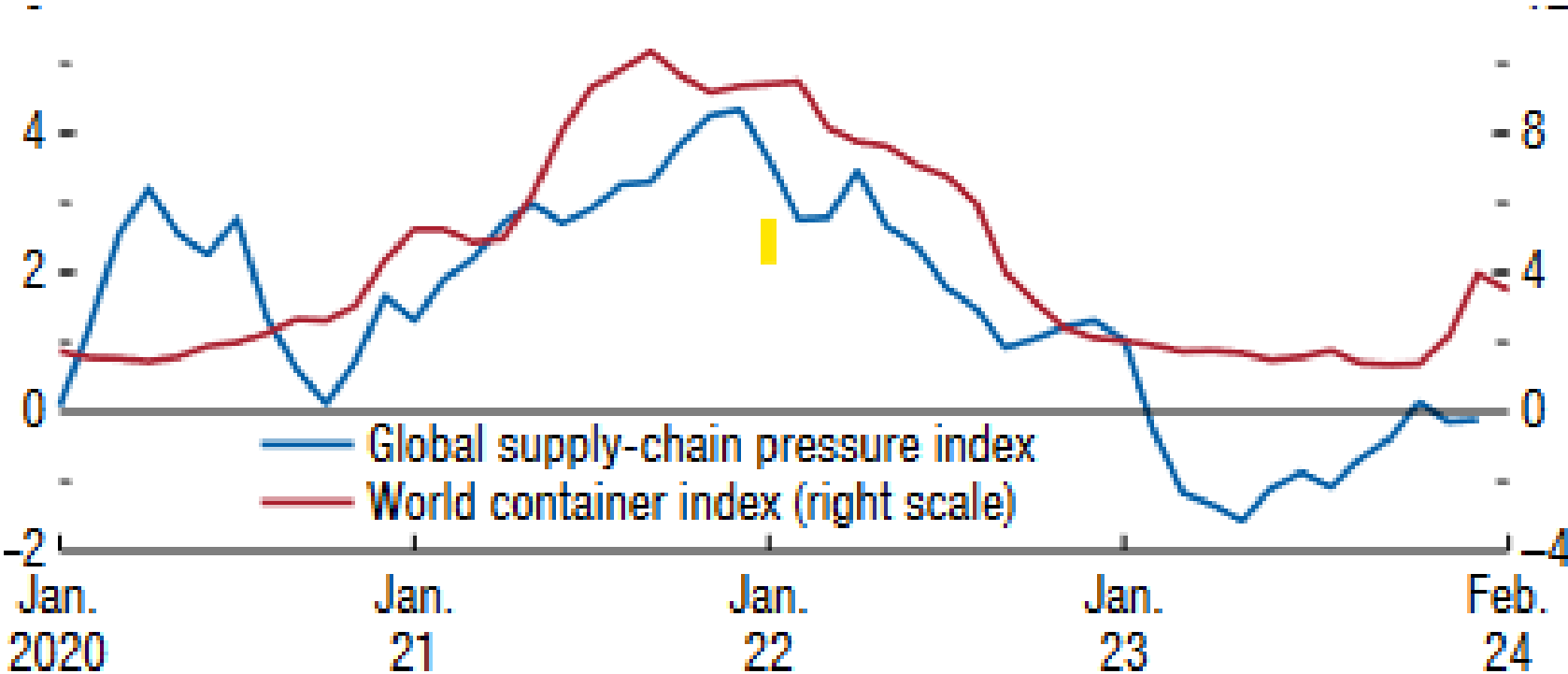


## Wholesale electricity prices



# Shipping and supply chain disruptions continue

With no signs of easing



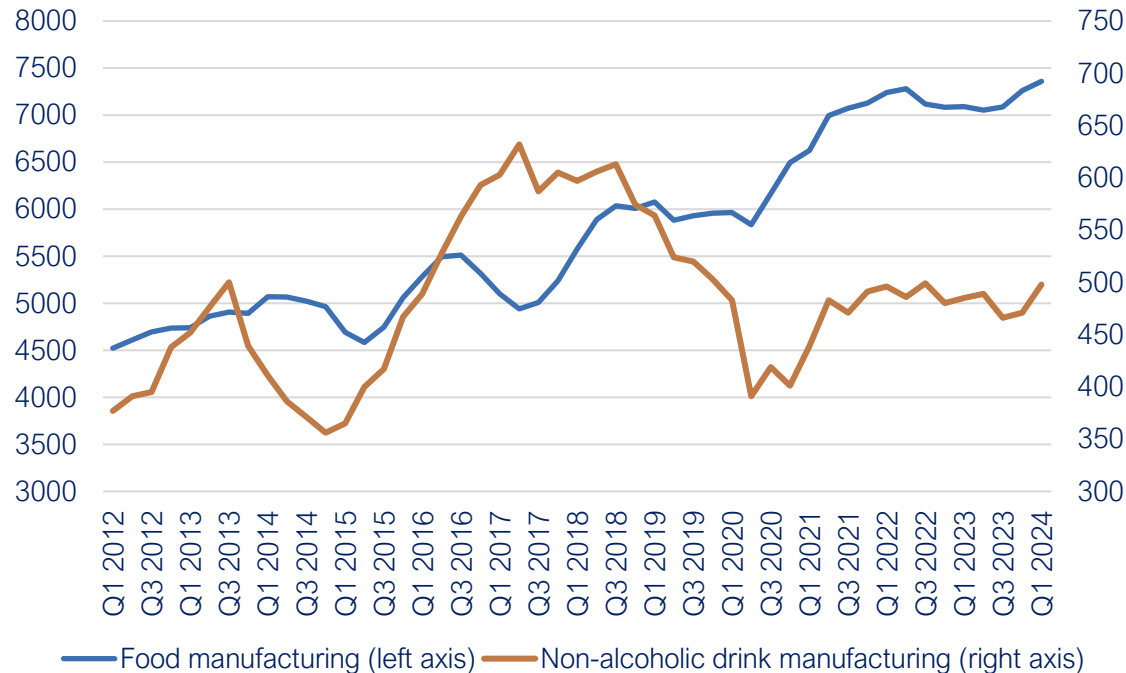
Source: IMF

**Output shows encouraging signs of recovery, personal finances are not yet repaired**

# Some signs that output has improved

Although that is not generalised across all subsectors

### Output (GVA)

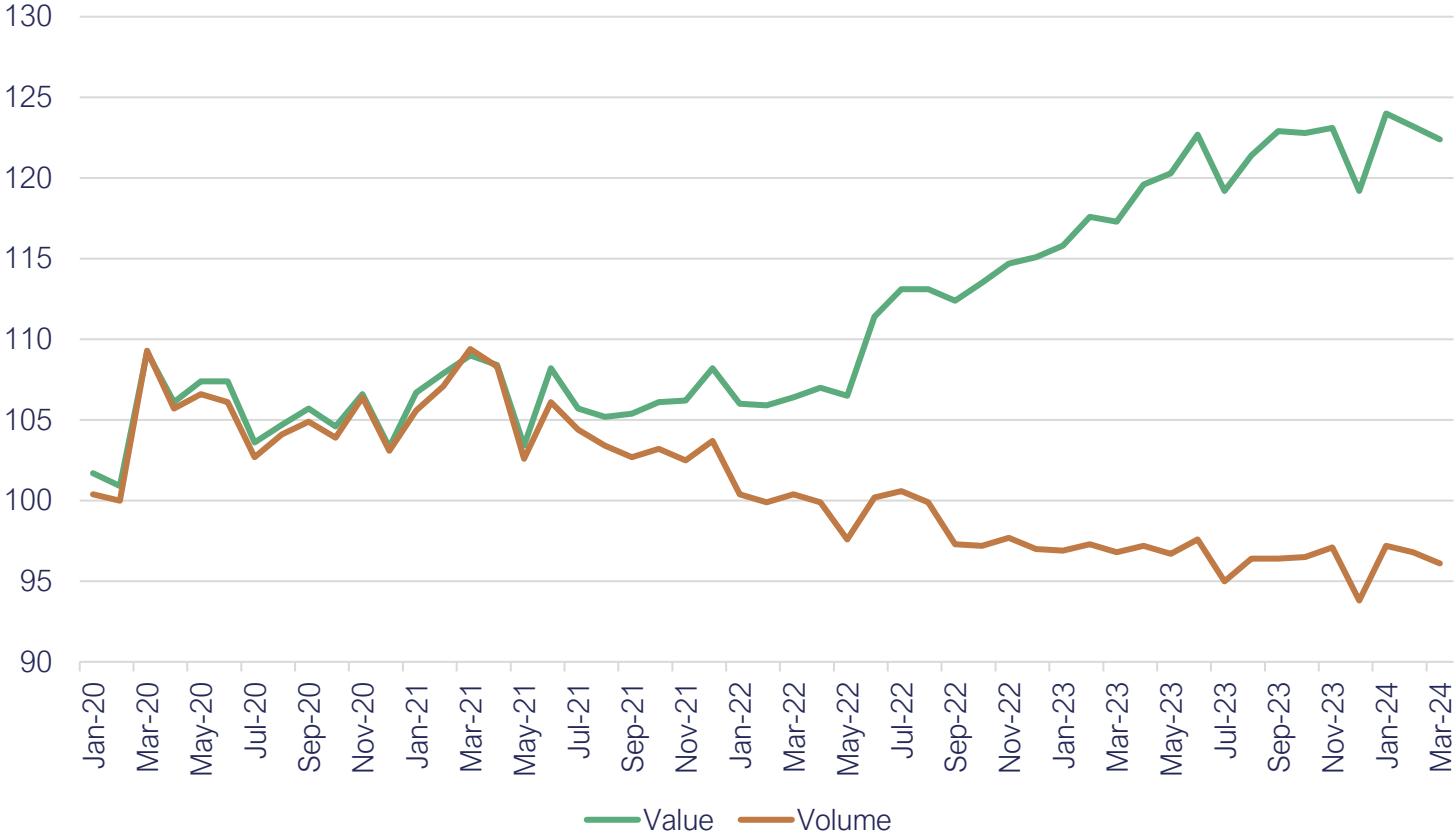


### Growth by subsector

	Q1 2024 on Q4 2023	Q1 2024 on Q1 2023
<b>Food</b>	<b>3.8%</b>	<b>1.3%</b>
<b>Meat</b>	<b>0.7%</b>	<b>1.4%</b>
<b>Fish, fruit and vegetables</b>	<b>7.7%</b>	<b>5.1%</b>
<b>Oils and fats</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Dairy</b>	<b>-0.1%</b>	<b>1.2%</b>
<b>Grain mill and starches</b>	<b>-0.6%</b>	<b>3.3%</b>
<b>Bakery</b>	<b>-1.1%</b>	<b>-0.8%</b>
<b>Other food products</b>	<b>10.2%</b>	<b>0.4%</b>
<b>Non-alcoholic drinks</b>	<b>2.7%</b>	<b>5.7%</b>

# Although food retail sales show a slightly different picture

With sales volumes in Q1 up by only 0.9% from Q4



Source: ONS

# Households are still feeling the bite of the cost of living crisis

Despite rises in real wages, it will take time for personal finances to repair

ONS surveys found that in UK households were dealing with the cost of living crisis in the following way in April:

- 37% of UK households are spending less on food shopping and essentials
- 61% of UK households are spending less on non-essentials
- 28% of UK households are using their savings

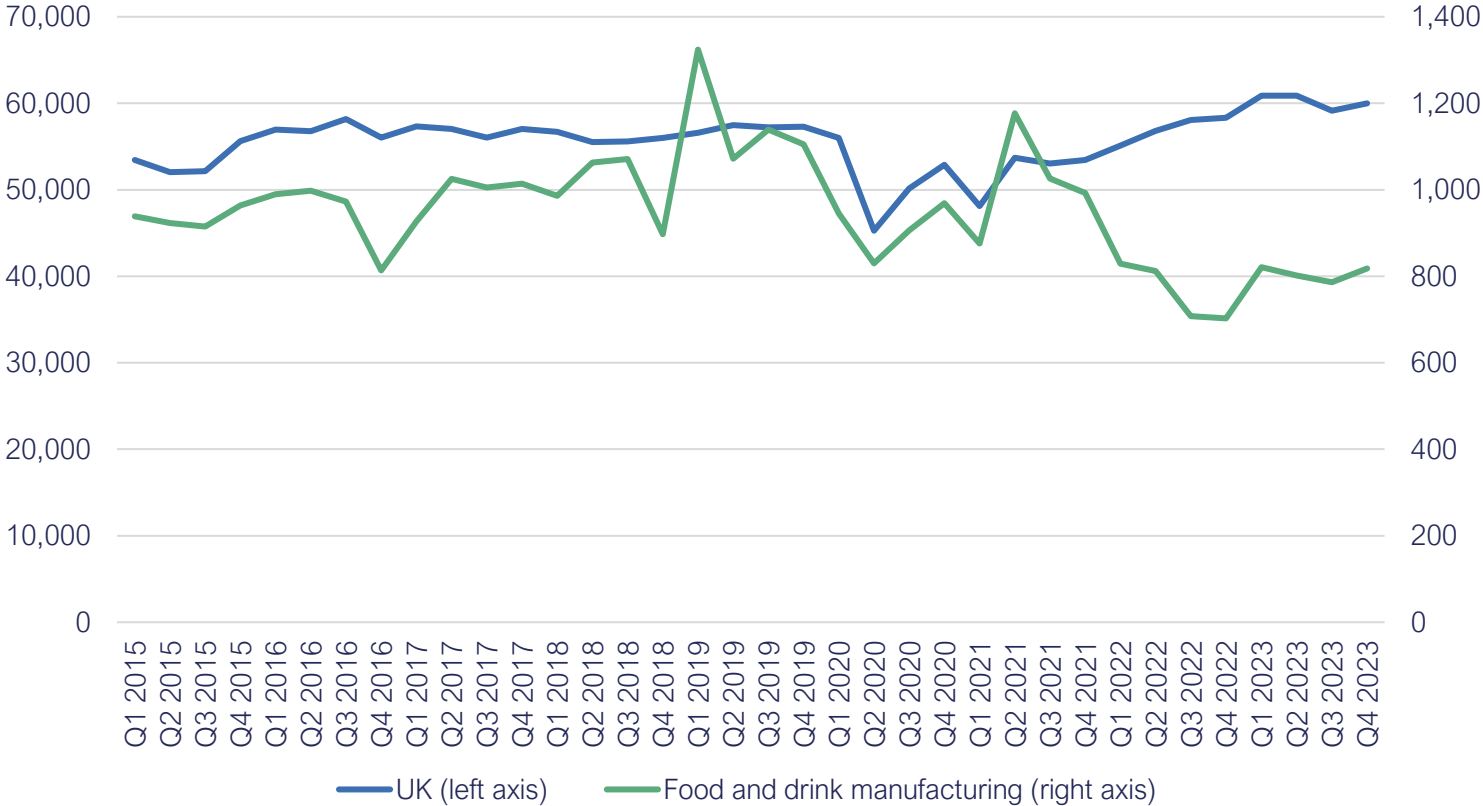
Similarly, a KPMG survey found that in Q1, UK consumers:

- 38% bought more own brand or value items
- 37% bought more promotional or discounted items
- 35% bought fewer items
- 27% did their shopping at lower cost retailers

**There's an urgent need for  
investment to rebound**

# Investment is the engine of growth

Industry's investment is 30% below its 2019 level



Source: ONS, Chained volume measures, £m



# The industry is the worst performer amongst other manufacturing sectors when it comes to investment

And diverges from national performance as well

## Business investment growth, 2023 compared to 2019

Food and drink manufacturing	-30%
UK	5%
Total manufacturing	0%
Total manufacturing, <i>excluding food and drink manufacturing</i>	5%
<hr/>	
Other manufacturing	36%
Solid fuels & oil refining	17%
Chemicals and man made fibres	15%
Textiles, clothing, leather and footwear	1%
Engineering and vehicles	-5%
Metals and metal goods	-21%

# And stubborn vacancies persisting

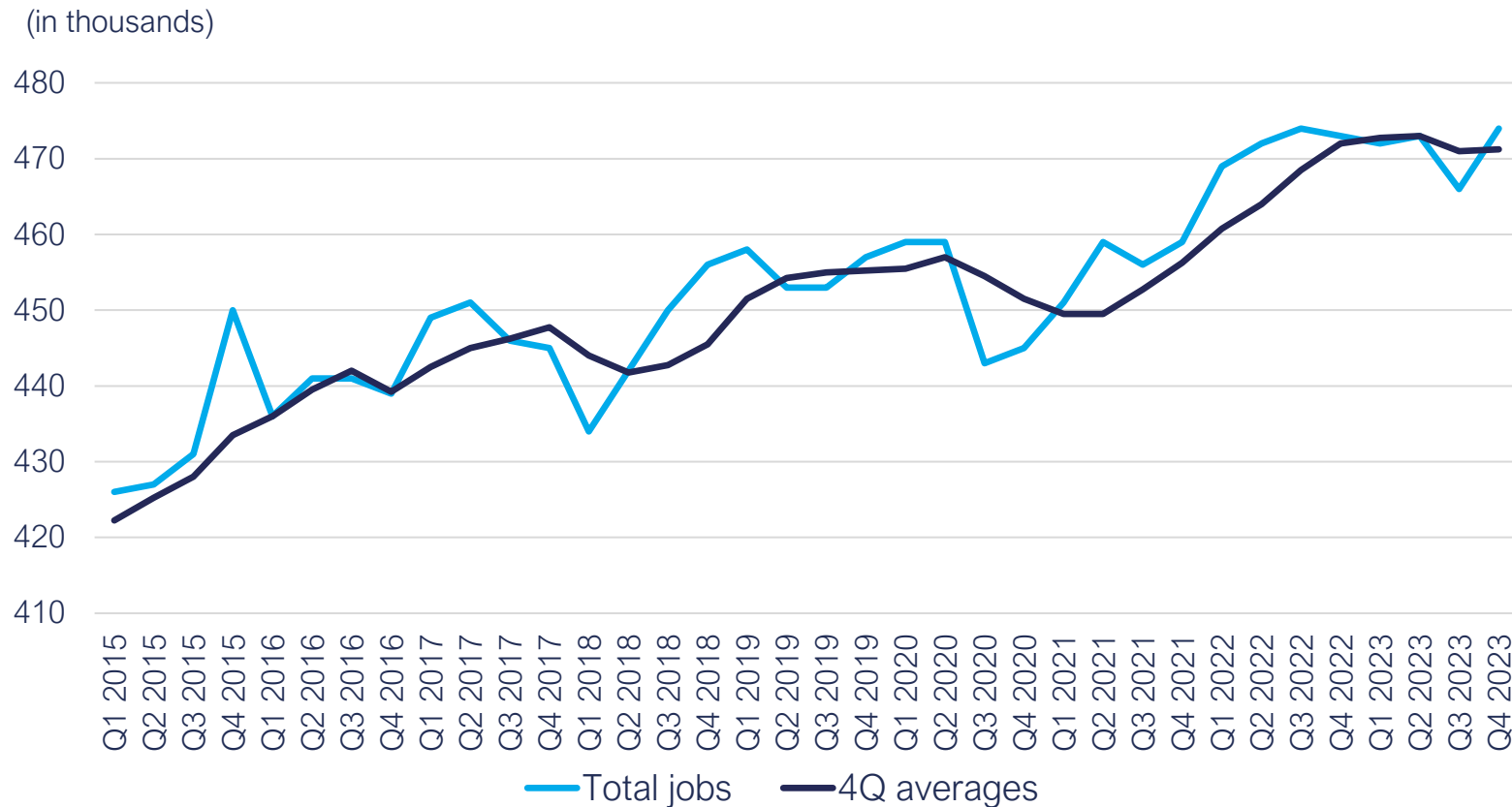
Above national averages



Source: ONS and FDF State of Industry Surveys

# Employment for the industry has remained fairly stable

With the number of jobs unchanged at 471,000 in Q4



# Key takeaway points

The year started with some **positive developments**:

- Cost pressures are subsiding, with geopolitics and climate change the main risks
- Output showed encouraging signs of recovery in Q1
- Although labour shortages remain above national averages

It's expected **more improvements** will follow:

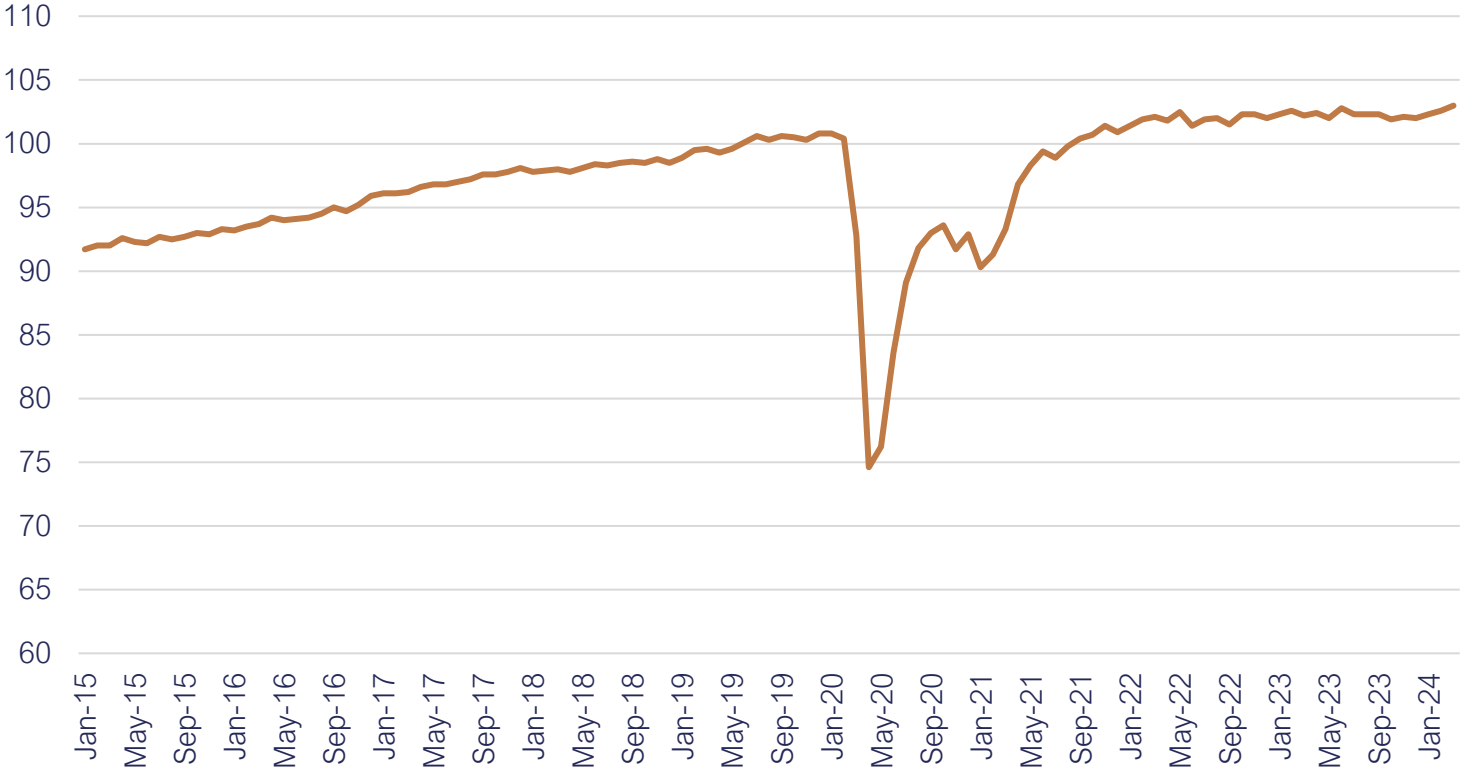
- Many households still feel the cost of living crisis bite, but higher wages should help volumes
- In turn, this should translate into a rise in industry's investment which currently is a third below the 2019 levels.
- Regulatory changes might pose some challenges

# The wider economy

**The economy is expected to see a weak recovery, with inflation easing**

# The economy turned the corner from last year's technical recession

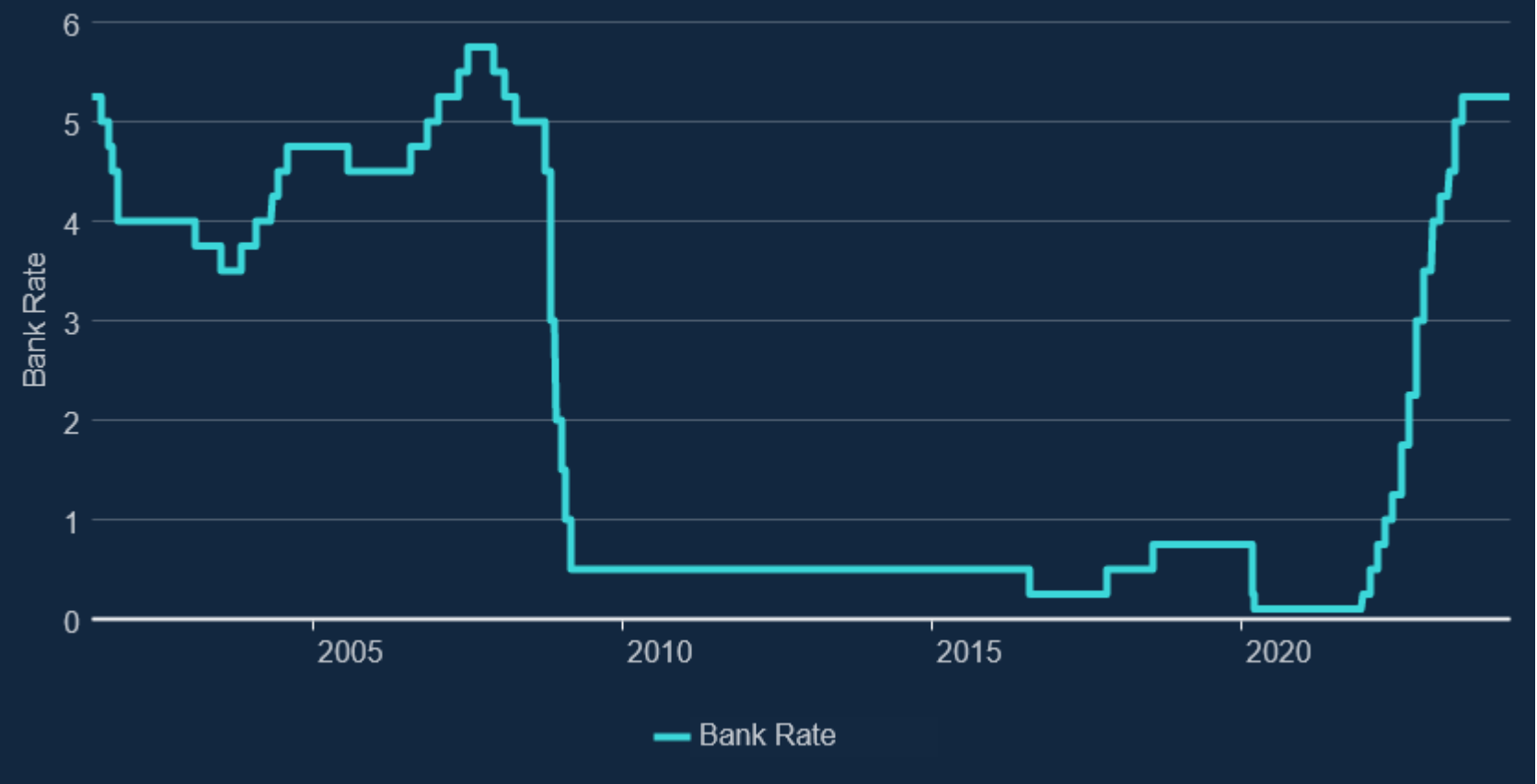
With output growing above expectations in Q1



Source: ONS

# The Bank of England decided to keep rates unchanged

But signals cuts are on the way

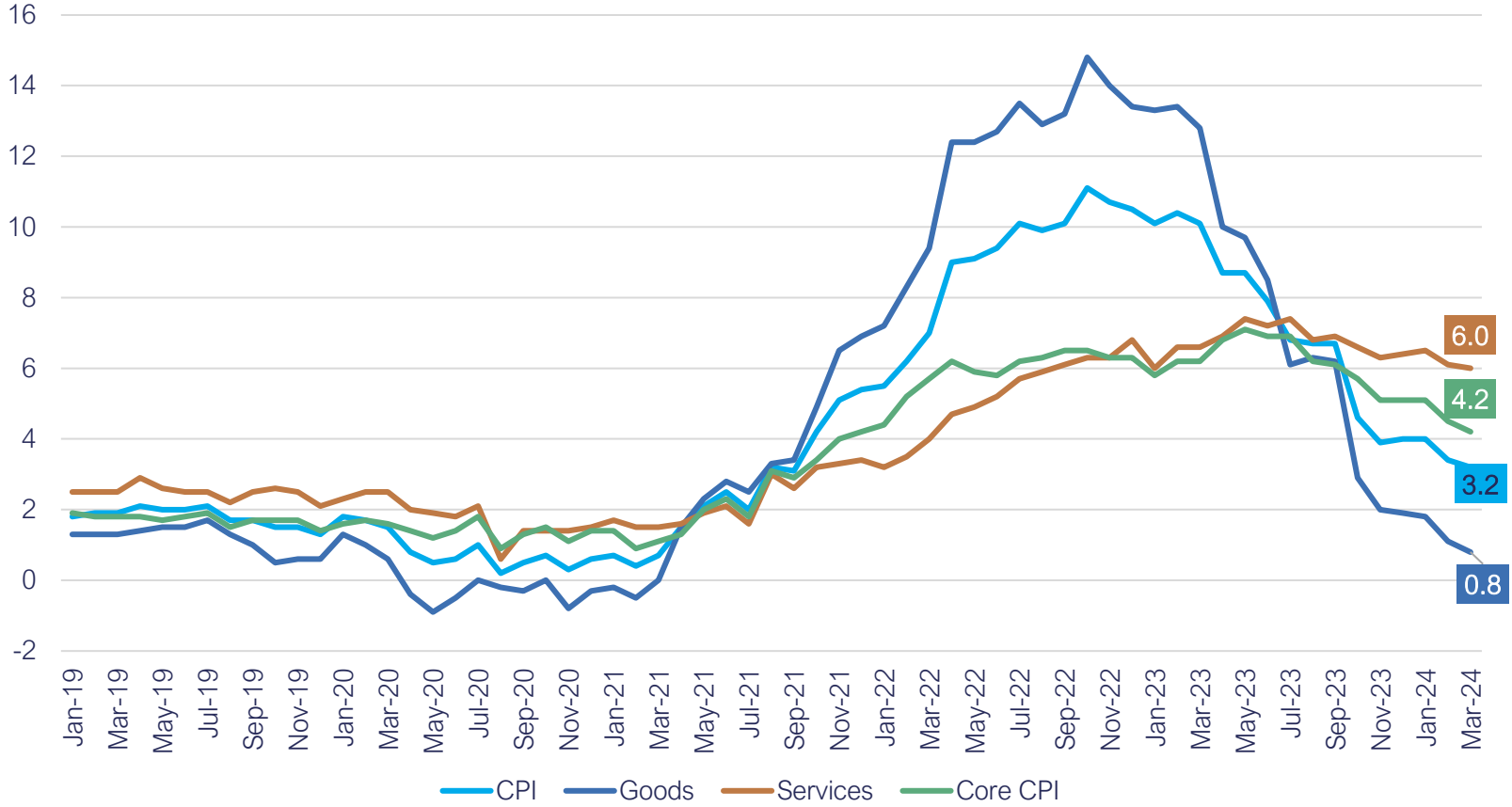


Source: Bank of England



# Inflation has been slowing

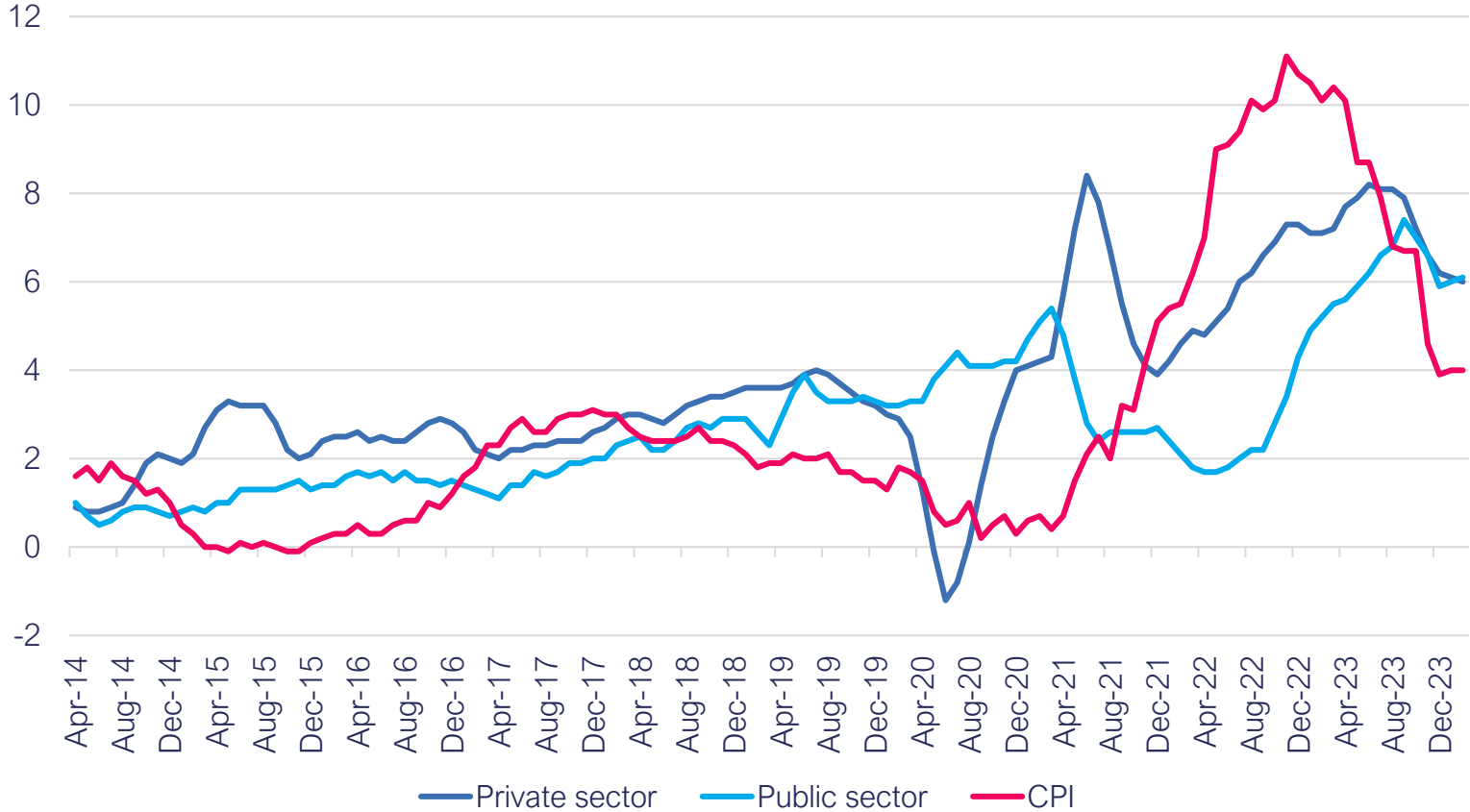
Albeit at a slower pace than desired



Source: ONS

# Wage growth has been slowing and the labour market seems to be cooling

Which will have implications for the economic recovery as well



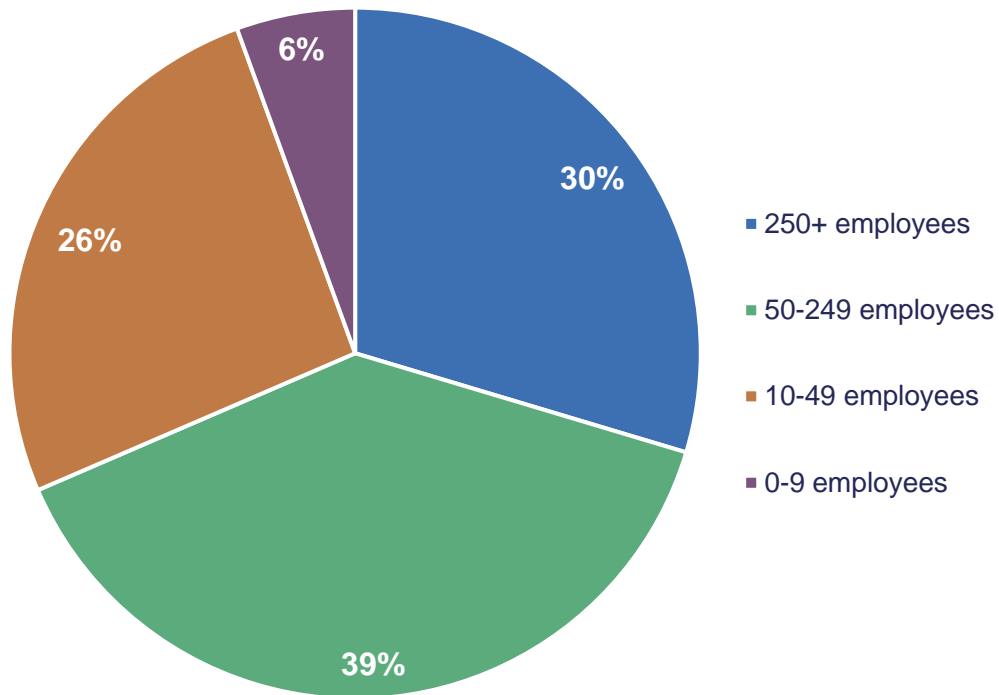
Source: ONS

# Q1 2024 State of Industry findings

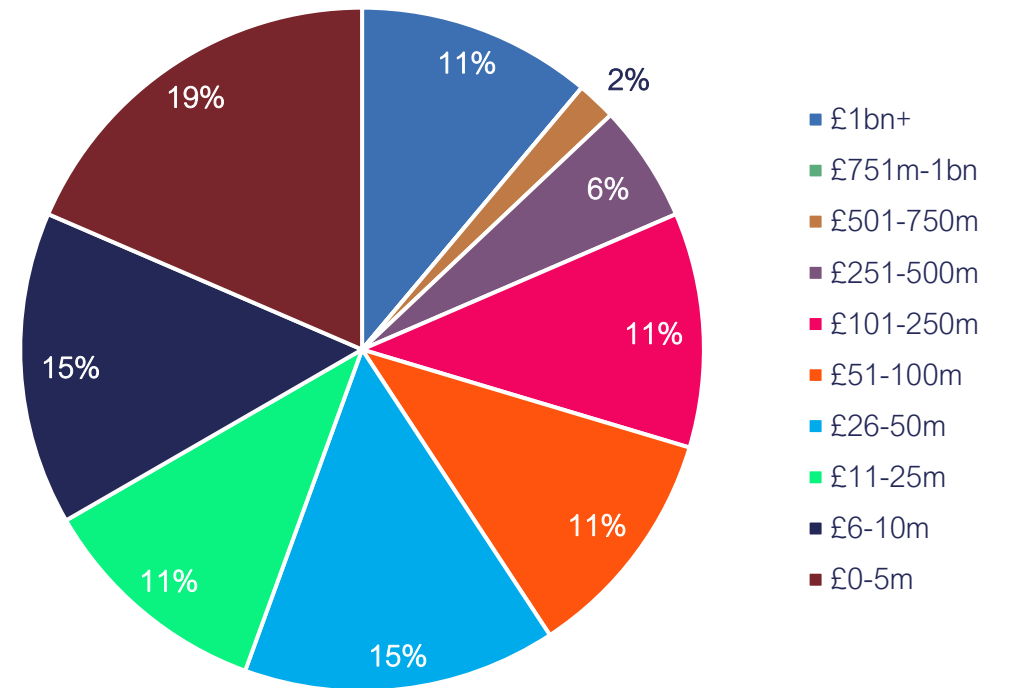
# Who responded?

# Businesses of all sizes responded

## Employment



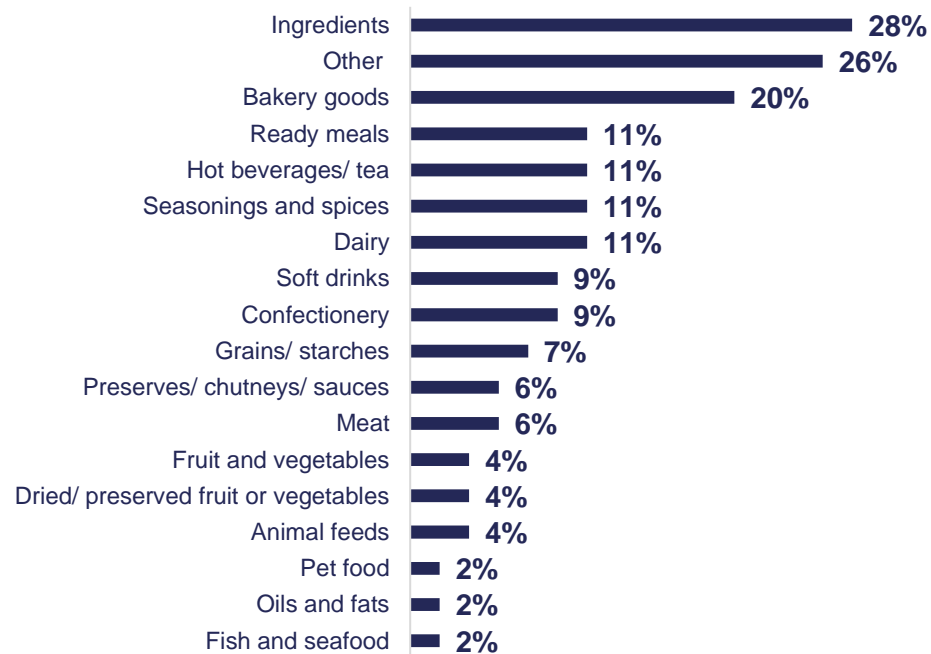
## Turnover



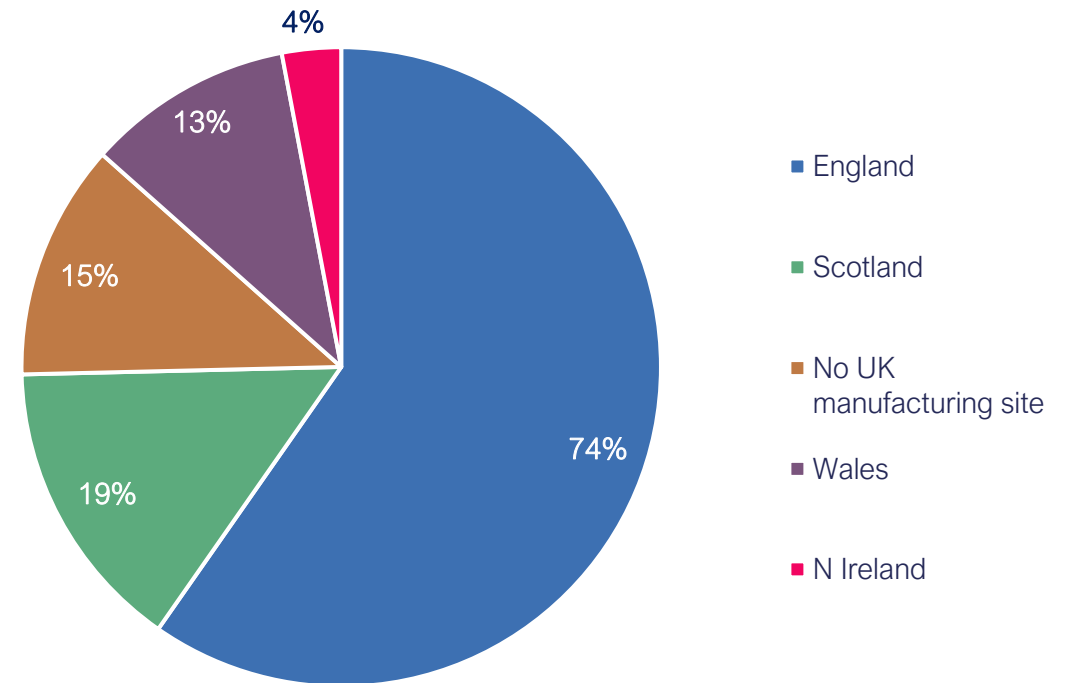
# Representation from a wide range of sectors

With sites in each nation

## Sectors



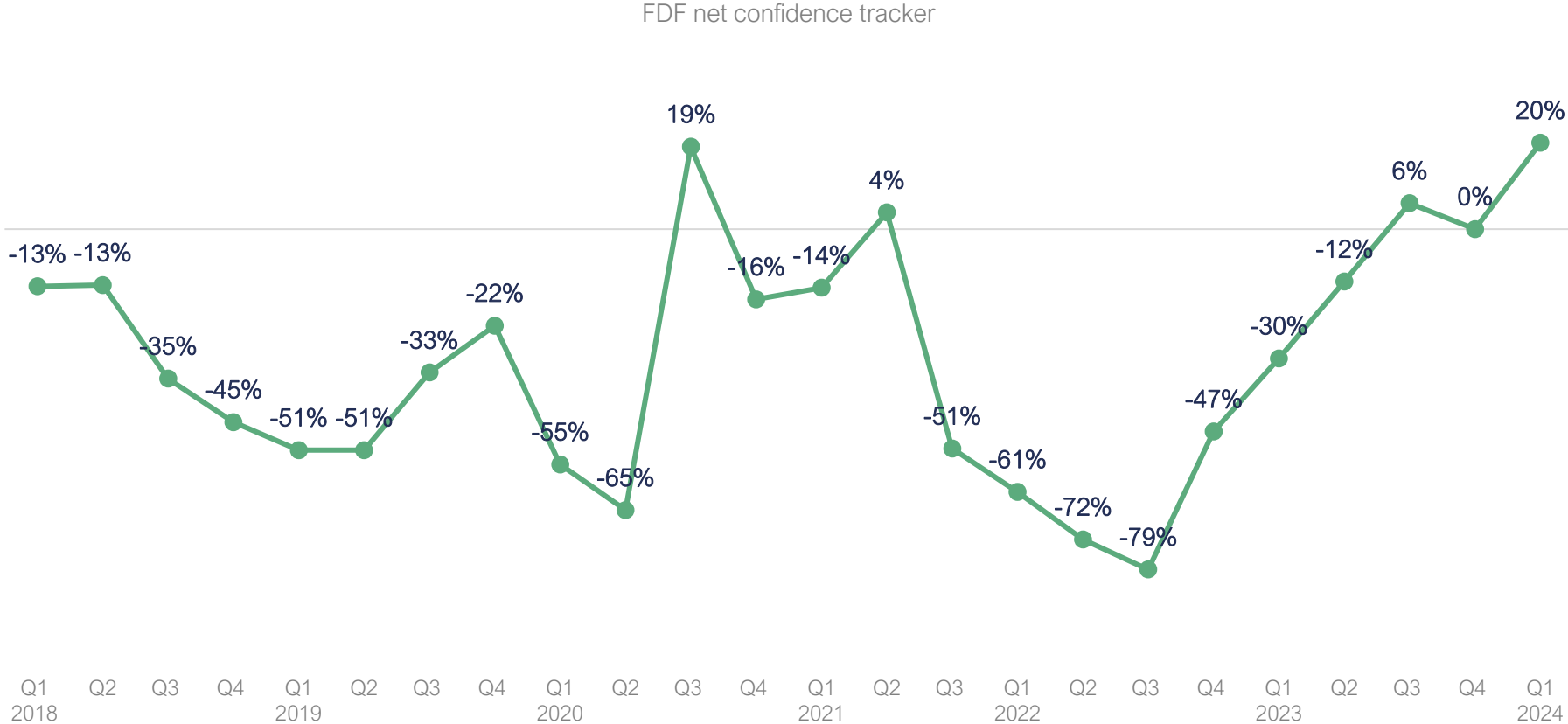
## Location



# **A year of slowing food inflation brings some optimism**

# Net confidence is at 20%, with over half of manufacturers saying conditions remained the same

Net confidence = conditions improved – conditions deteriorated



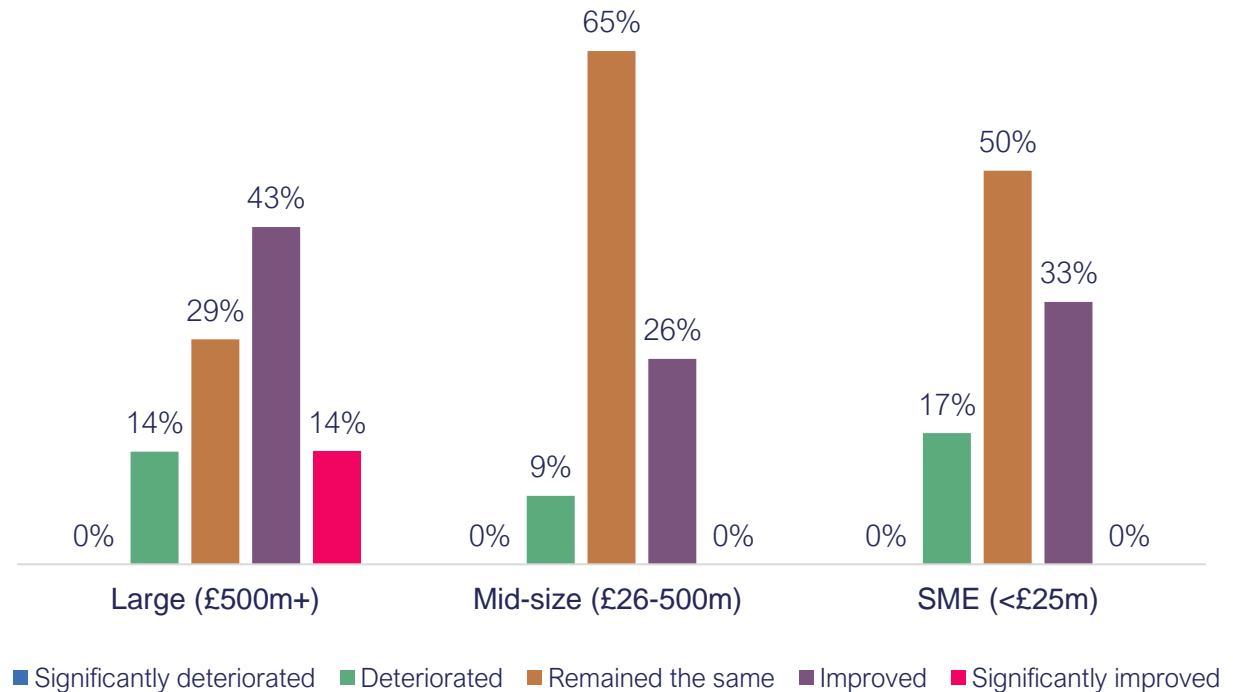


# SMEs have a 17% net confidence score, up from -44% in Q4

With 57% of large businesses seeing an improvement from the start of the year

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

All	20%
Large (£500m+)	43%
Mid-size (£26-500m)	17%
SME (<£25m)	17%

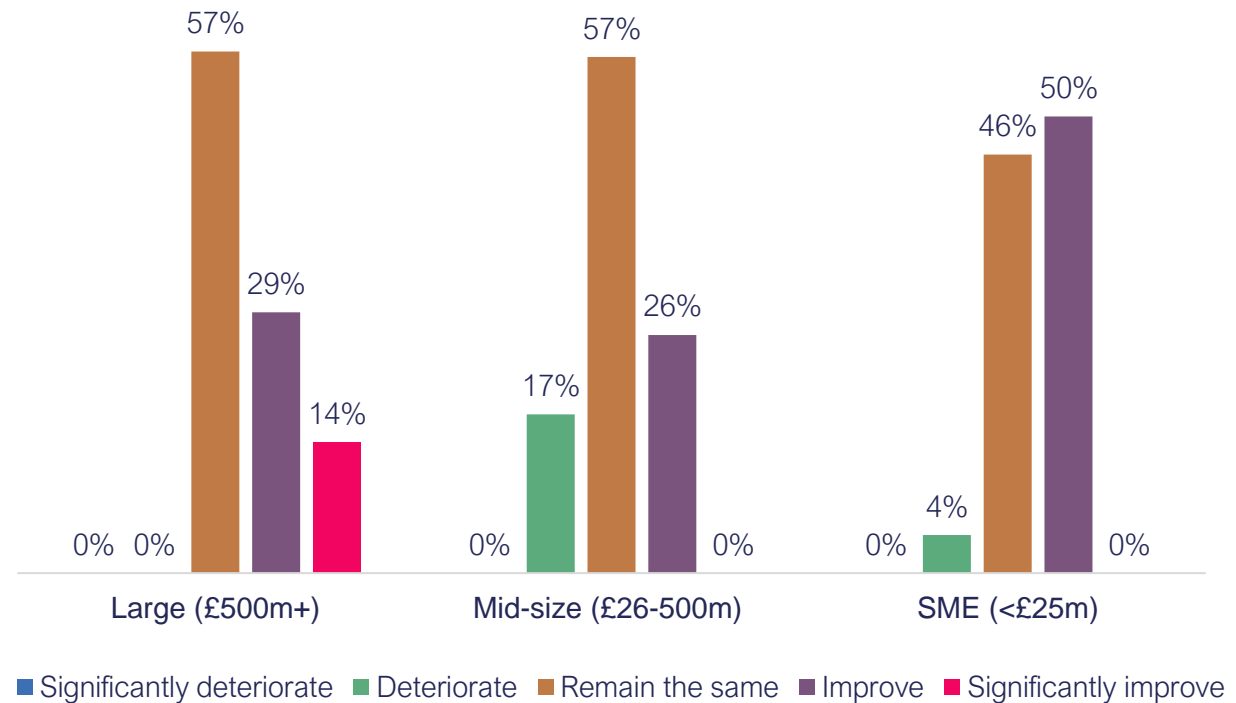


# Outlook confidence for Q2 2024 is at 30%, down from 31% for Q1 2024

Conditions are largely expected to remain, with some improvement also anticipated

Outlook confidence (Q2 compared to Q1)

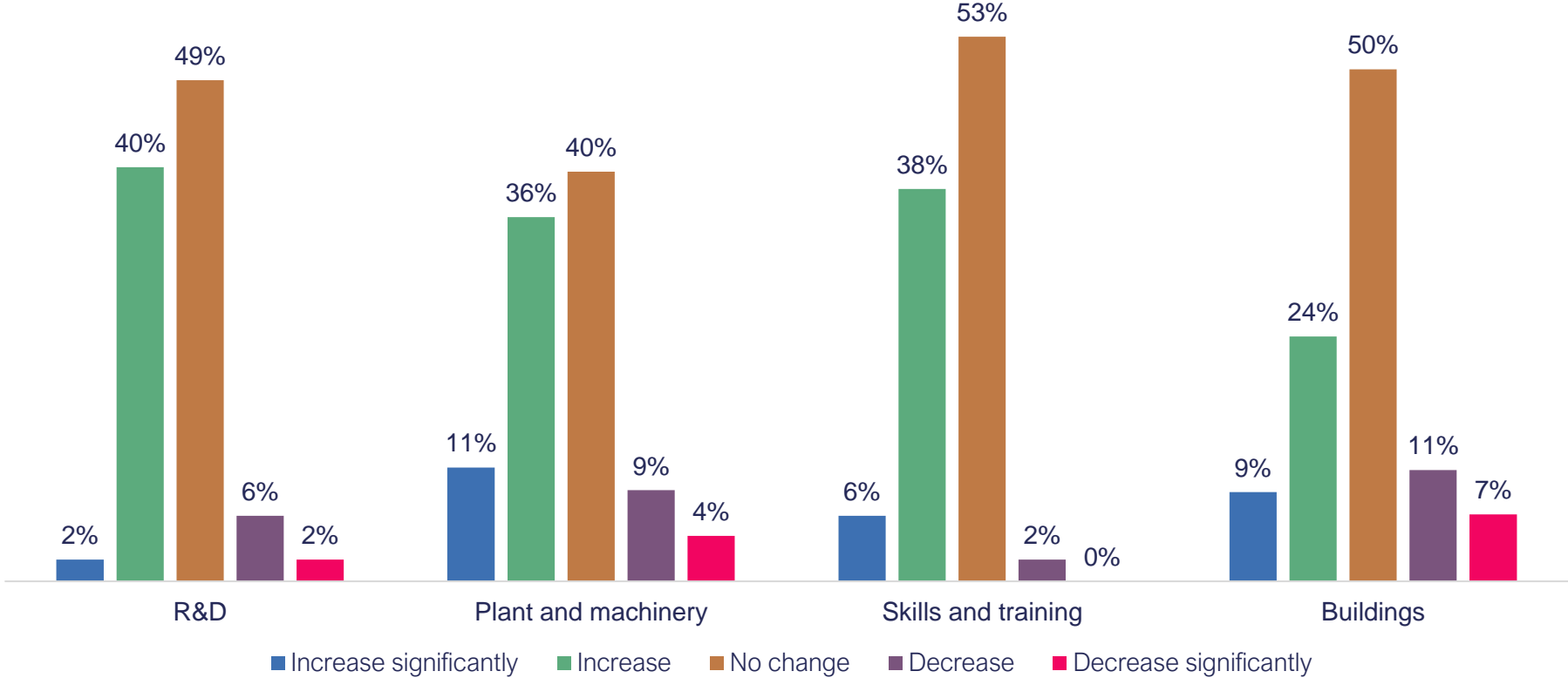
All	30%
Large (£500m+)	43%
Mid-size (£26-500m)	9%
SME (<£25m)	46%



# Further support needed for investment and innovation

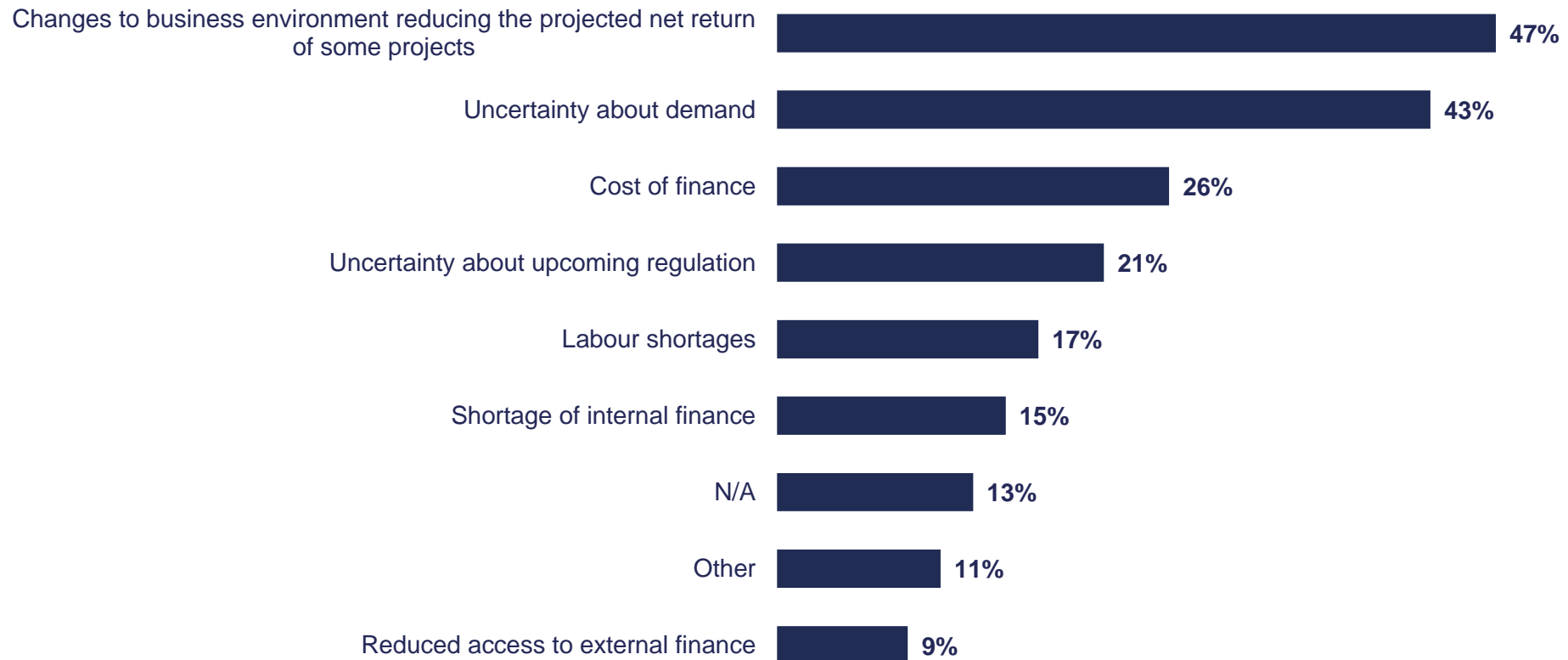
# The plan is to sustain or increase investment over the year across the business

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



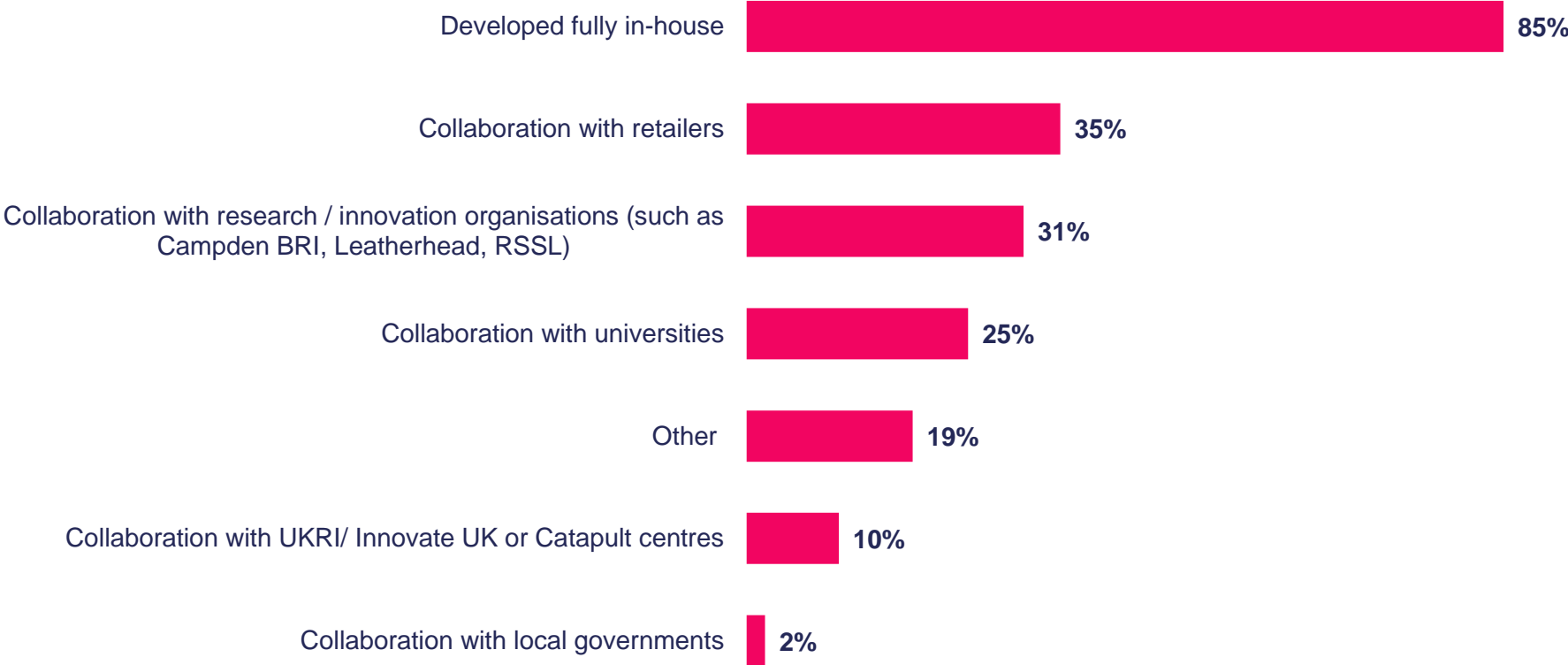
# Investment is being limited by uncertainty around the economy

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



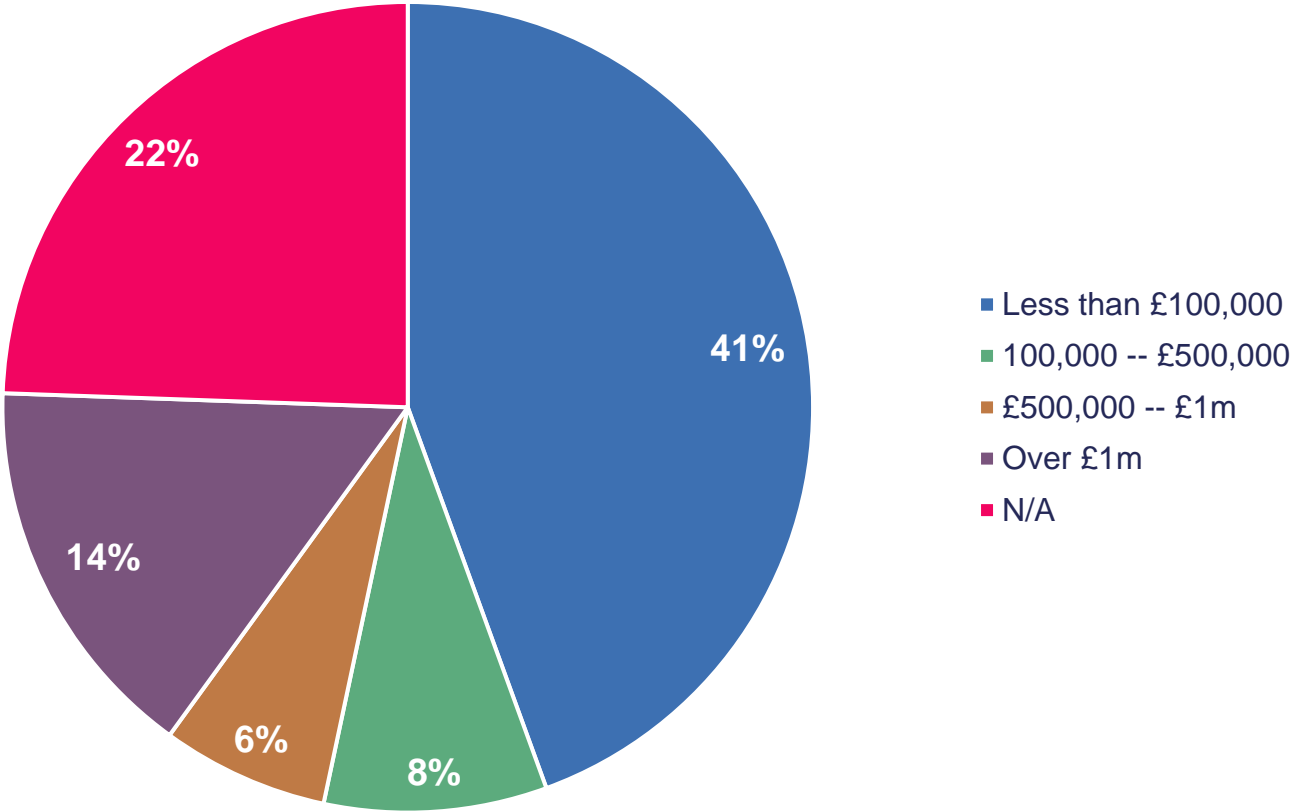
# 85% of innovation projects are developed fully in-house

How do you deliver your innovation projects?



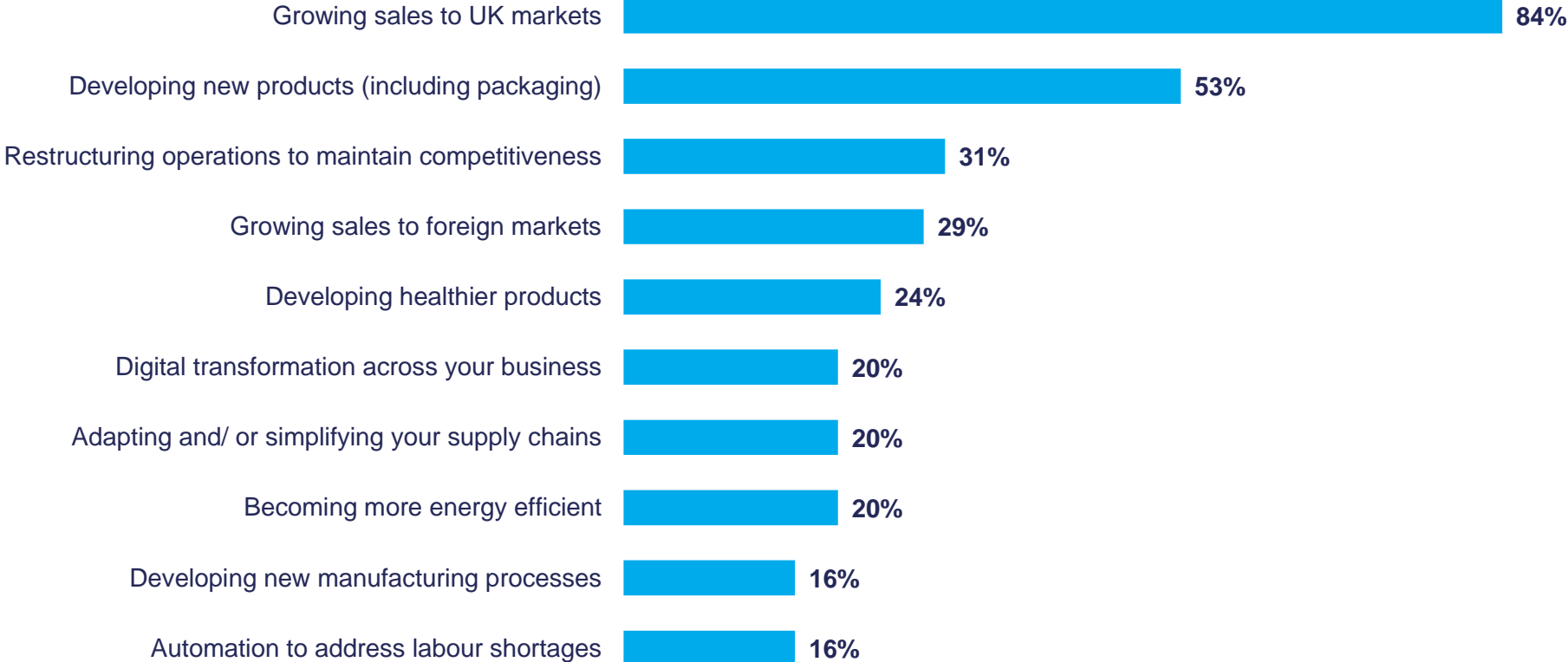
# Over 40% of businesses spend less than £100,000 on healthier product innovation, while 14% spend over £1m

Approximately, how much has your business invested in healthier product innovation (including reformulation, healthy NPD, and portion size) in 2023?



# Growing sales to the UK market remains a top priority for most businesses

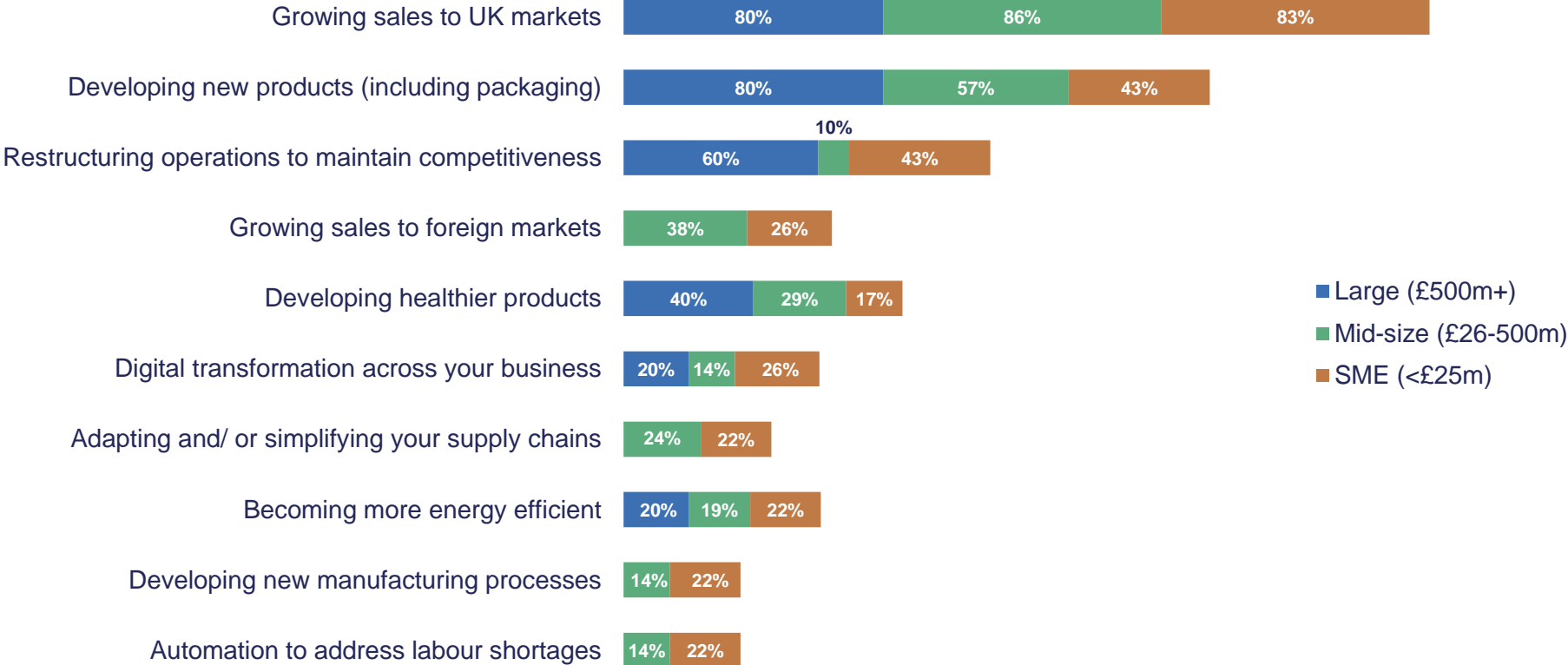
What are the top three growth priorities for your business?





# 60% of large manufacturers are restructuring operations to maintain competitiveness

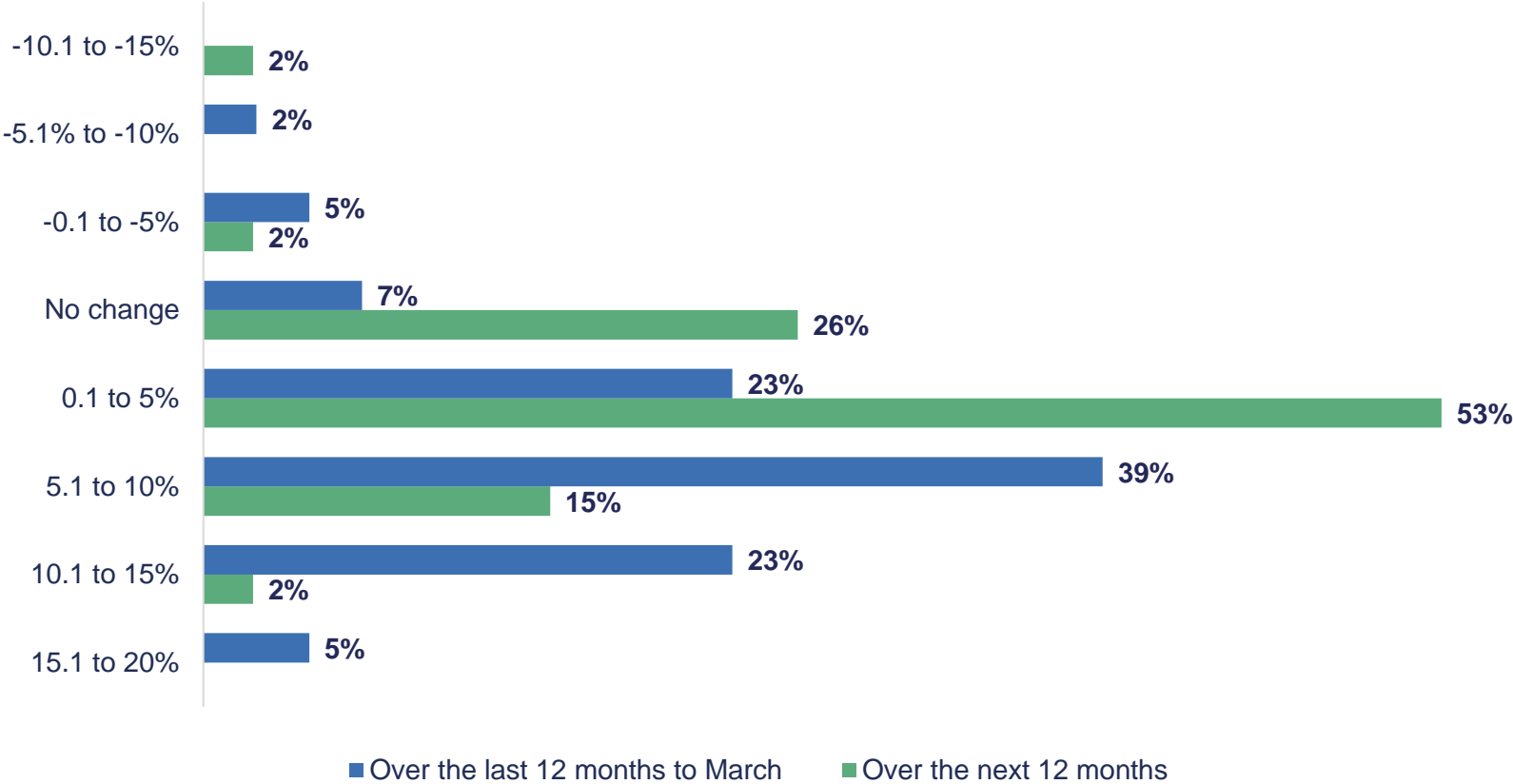
With all business sizes focusing on growing sales to UK markets



# Easing cost pressures amid regulatory challenges

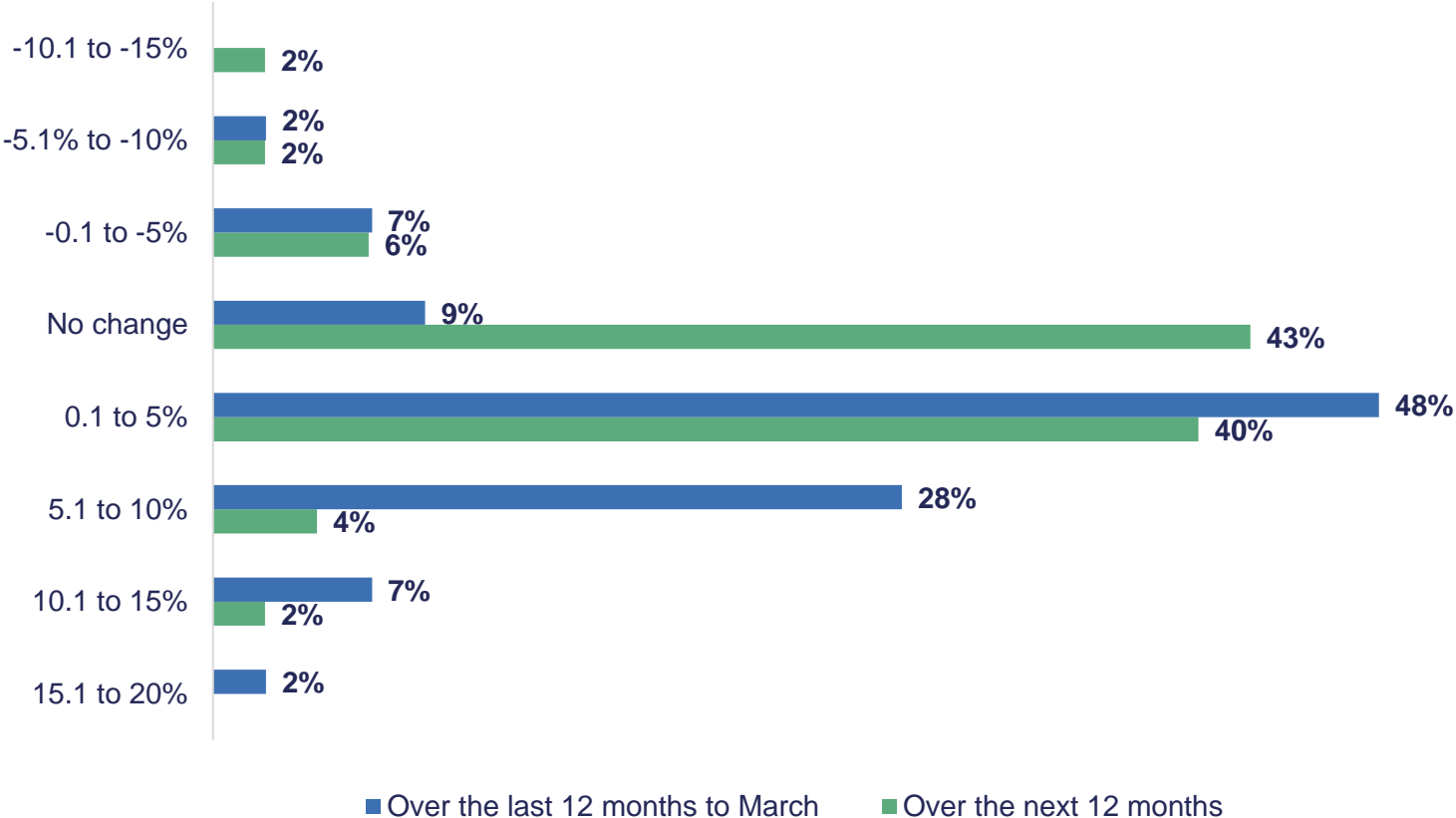
# Total production costs increased by 9.2% over the last 12 months

They are expected to continue to increase by 2.1% on average over the next 12 months



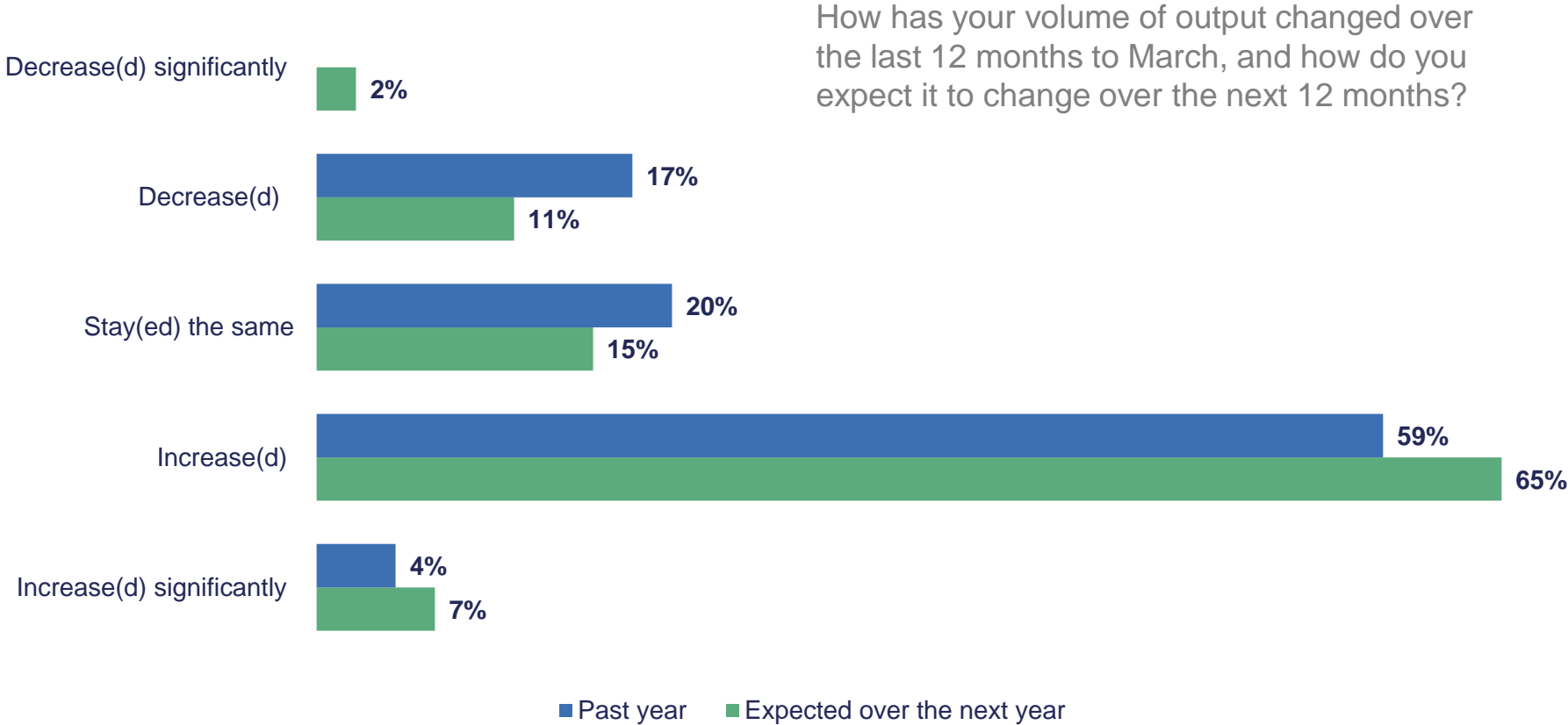
# The average selling price rose by 4.3%

Over the next 12 months, it is expected to rise by 1.1%



# 59% of businesses increased their volume of output over the past year

72% believe that their volume of output will increase over the next year



# Lack of clarity and increased costs, delays are concerns with the next phases of the BTOM

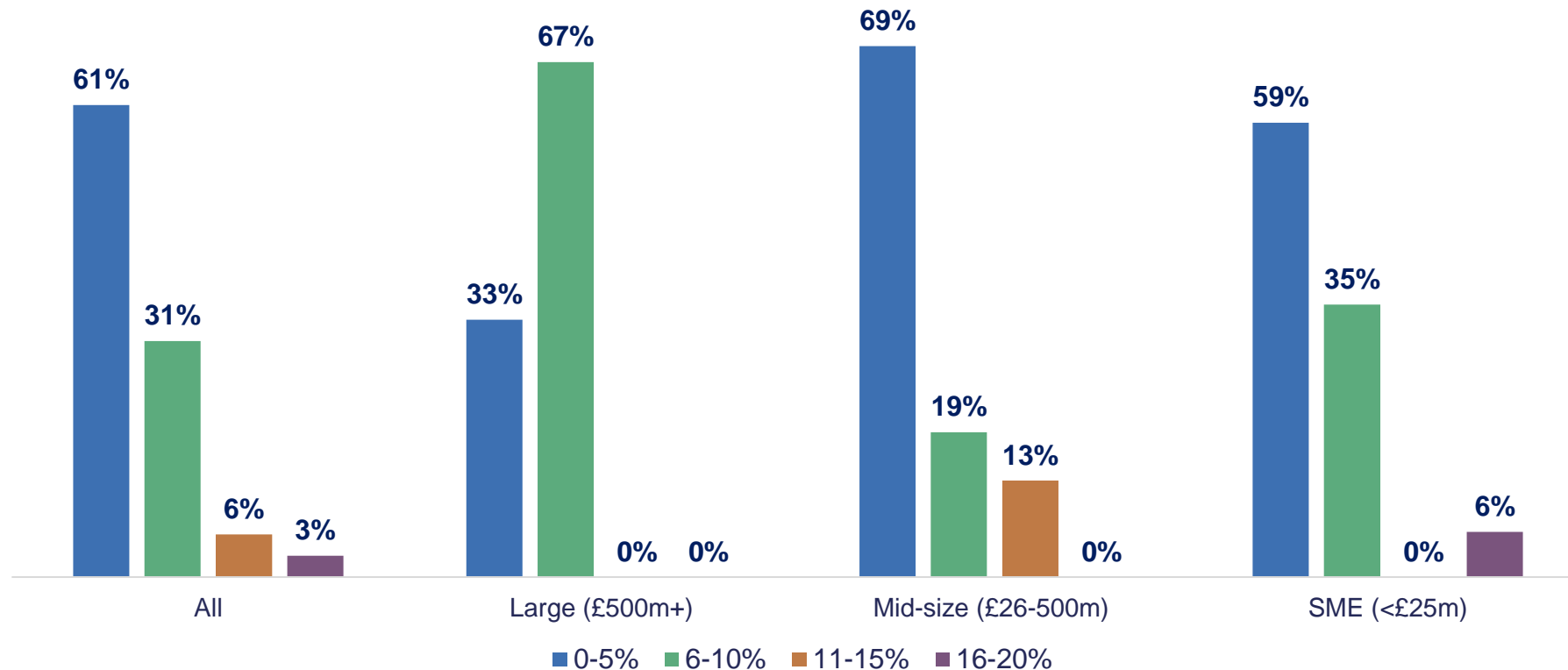
Do you have any outstanding concerns on the next phases of the Border Target Operating Model (30 Apr 2024)?

Concerns with the next phases of the BTOM
Increased costs and delays
Lack of clarity on requirements
The preparedness of smaller suppliers
Clear, precise and timely communication needed from the government
Concerns over the effectiveness of APHA phytosanitary inspection service
Extra paperwork

# **Manufacturers continue to deal with a tight labour market**

# Unfilled vacancies fall, now at 5.0% from 5.2% in Q4

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



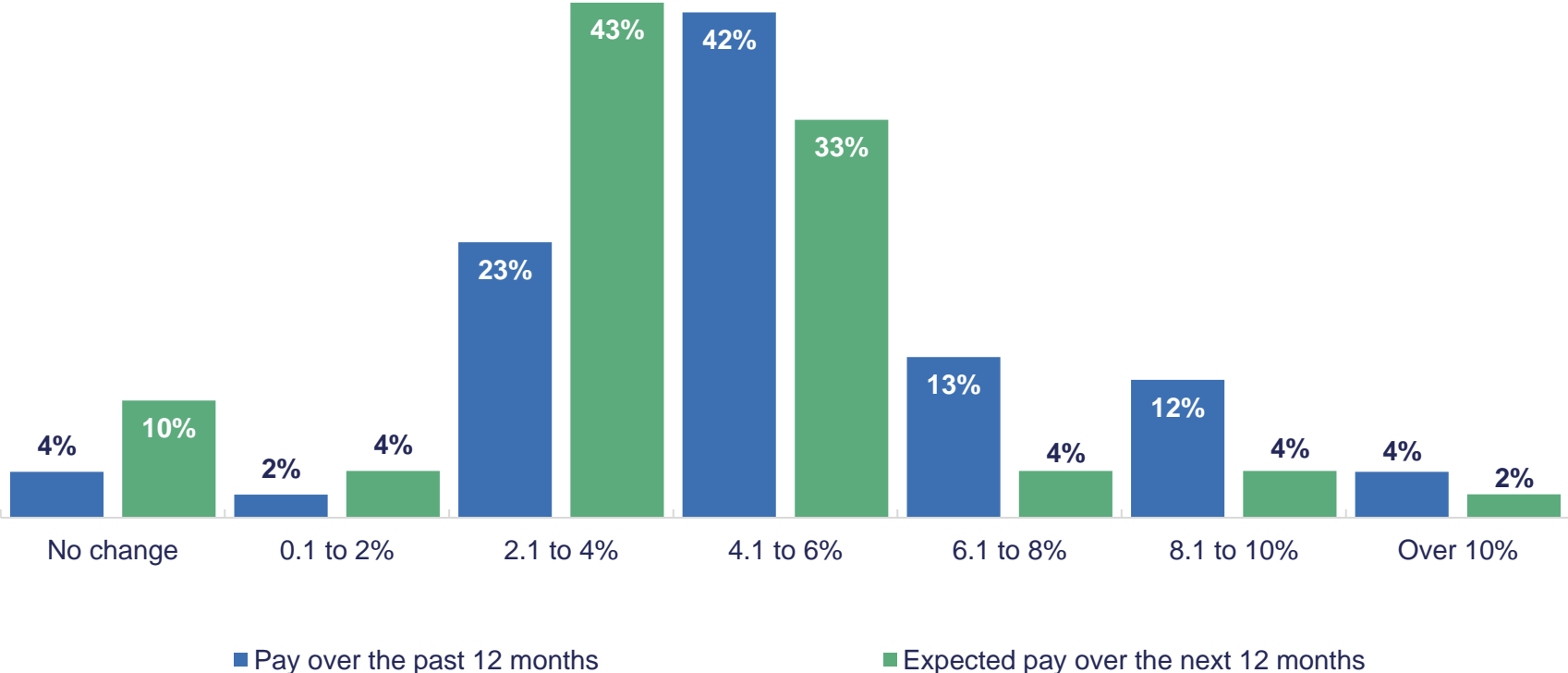


# Vacancies are widespread across roles and skills

High-skilled positions
Agronomists
Software development
Automation
First line managers
Engineering
Technical positions
Engineering technicians
Sales
Electrical maintenance technicians
Lower-skilled positions
Hygiene/cleaning roles
Food packers
Warehouse and factory operatives

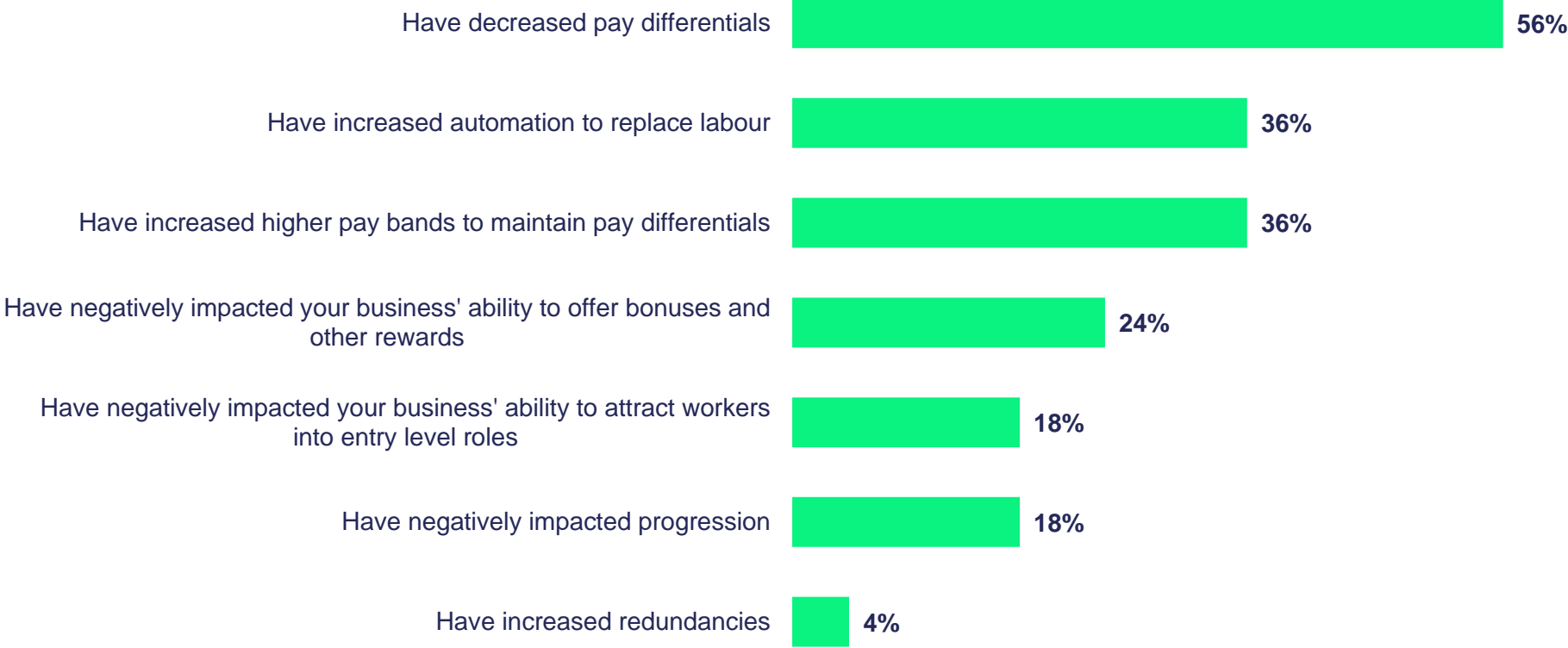
# Pay rose by 6.0% over the last 12 months, and is expected to increase by another 4.7% over the next year

With regard to pay (excluding bonuses), how has it changed over the last 12 months to March, and how do you expect it to change over the next 12 months?



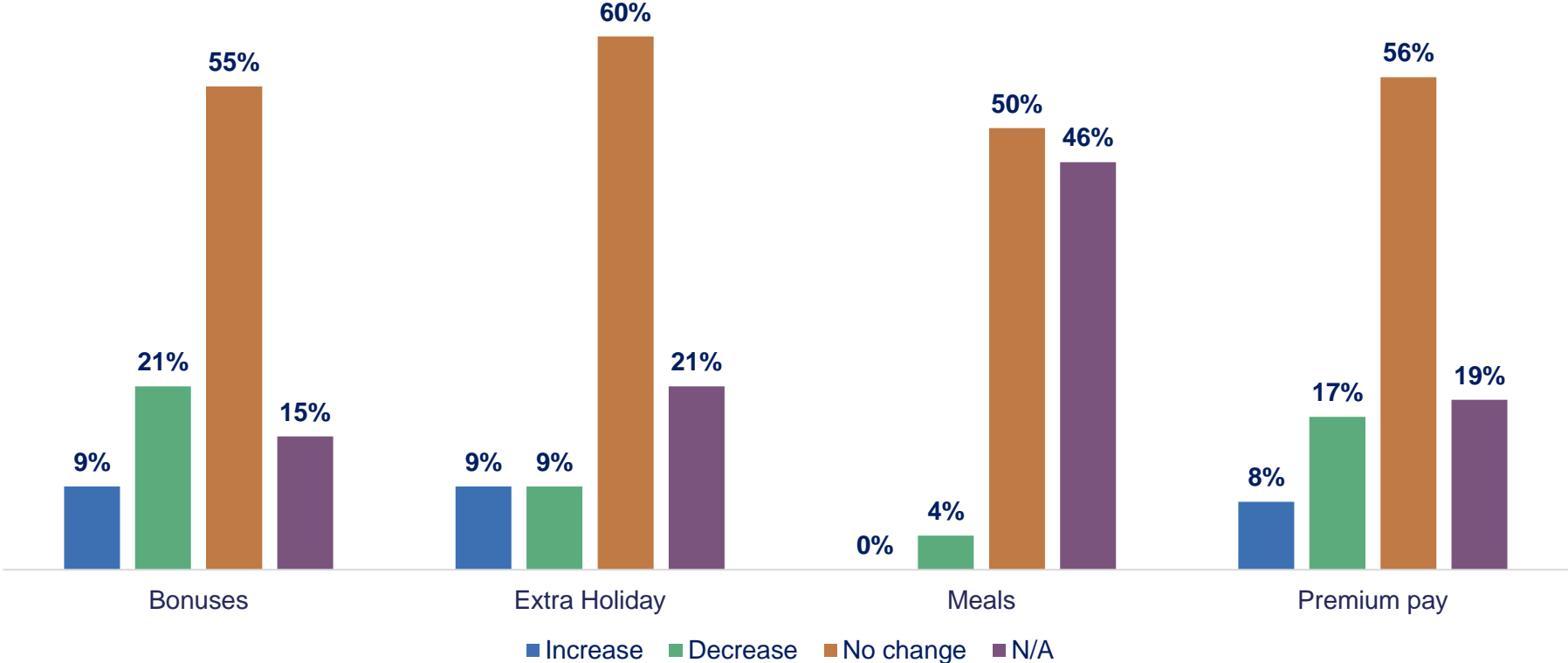
# Over half of manufacturers are decreasing pay differentials due to rises in the National Living Wage

What are the impacts of the National Living Wage rises on your business?



# 21% of businesses will reduce their bonuses because of the 9.8% rise in the NLW rate

How do you expect the following to change over the coming year as a result of this year's rises in the NLW rate?



# Key Takeaways

With **industry's investment** down by a third compared to 2023 and about half of manufacturers planning for unchanged investment spending over 2024, the industry needs to significantly advance investment in R&D, innovation and new technologies.

There are some reasons for **cautious optimism**, as majority of businesses (84%) focus on increasing their UK sales as business conditions have stabilised and 63% of manufacturers have seen higher output.

However, **we're not in the clear just yet**: cost pressures have eased, although not dissipated yet, and poorly designed and implemented regulations have brought restructuring to the forefront for a third of manufacturers. While labour shortages above national average and uncertainty about demand (for 43% of respondents) and about the wider economy (47%) might hinder growth.

# Thank you!

## Get in touch

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