

# Q3 2018 Food & Drink Business Confidence Survey

FDF conducted the third of its new quarterly business surveys between 19 September - 8 October 2018 to **gauge confidence levels across the food and drink manufacturing sector in Q3 2018.**

We received responses from businesses with a combined turnover of **approximately £11.4 billion\***. Almost two thirds of the responses came from small and medium-sized enterprises (SMEs).

## Q3 Economic Background

- Official economic indicators for the food and drink sector over the first three quarters of 2018 have shown a mixed picture, with **growth in average weekly earnings remaining positive and inflation weakening, whilst exports continue to increase.**
- Our latest survey shows that **net confidence has decreased by 21 percentage points between Q1 and Q3**, with increased cost of stockpiling for no-deal Brexit, decreased product margins and increased energy, packaging, and ingredients costs noted as key impacts on food and drink businesses in Q3.
- On a positive note, businesses reported **increased domestic volume sales and average wages.**
- Despite expectations of over half of businesses surveyed that **business investment across the overall UK economy will decrease in 2019**, almost a quarter of respondents said that planned investment in new food and drink product launches would be an opportunity for their business going forward.

## Confidence Snapshot\*\*

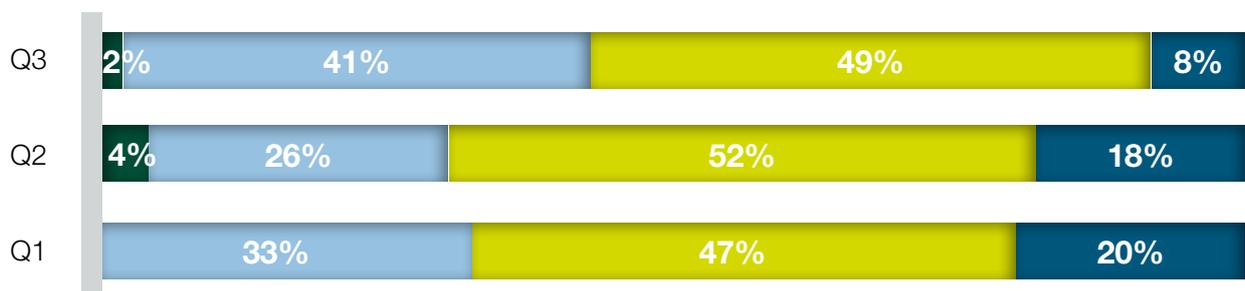
When compared with Q2 of 2018, do you believe that general business conditions in Q3 of 2018 have...?



### Key

- Significantly improved
- Improved
- Remained the same
- Deteriorated
- Significantly deteriorated

### 2018 Business Confidence



\*This is an estimate calculated using mid-points of turnover brackets. As such this is likely to be a lower-bound estimate.

\*\*Please note that results here are expressed as a percentage of respondents.

# Key Perceived Impacts on Food and Drink Businesses in Q3\*



increased packaging costs



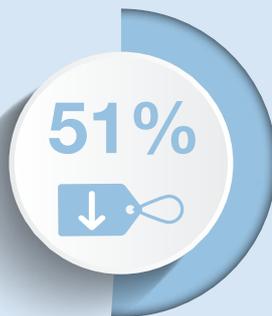
increased ingredient costs



increased energy costs



increased average wages



decreased product margins



increased volume sales in the UK



increased cost of stockpiling for no-deal Brexit

\*Percentages here represent the share of respondents to our survey and not the scale of increase for each category.

## 2019 UK Outlook

- Given the number of uncertainties surrounding the future UK-EU relationship, **businesses remain split over economic growth for 2019**.
- The majority of businesses surveyed feel that overall business investment will fall, with **only 8% expecting investment to rise**. This is in line with expectations that interest rates will increase next year.
- **Increased ingredient costs and exchange rate volatility continue to be a concern for members going into 2019**, as many businesses rely on imports of ingredients to produce their finished products. In a similar vein, tariffs and quotas came in as a risk to their business, according to two thirds of businesses.
- For SMEs, **retail market consolidation** was quoted as one of the **top 3 barriers expected to impact the success of their business in 2019**.
- Specifically, the proposed **Sainsbury's/ASDA merger** was highlighted, by almost 60% of both large and small respondents, as a **possible obstacle next year**.

## Top 3 Opportunities & Risks for 2019

### OPPORTUNITIES

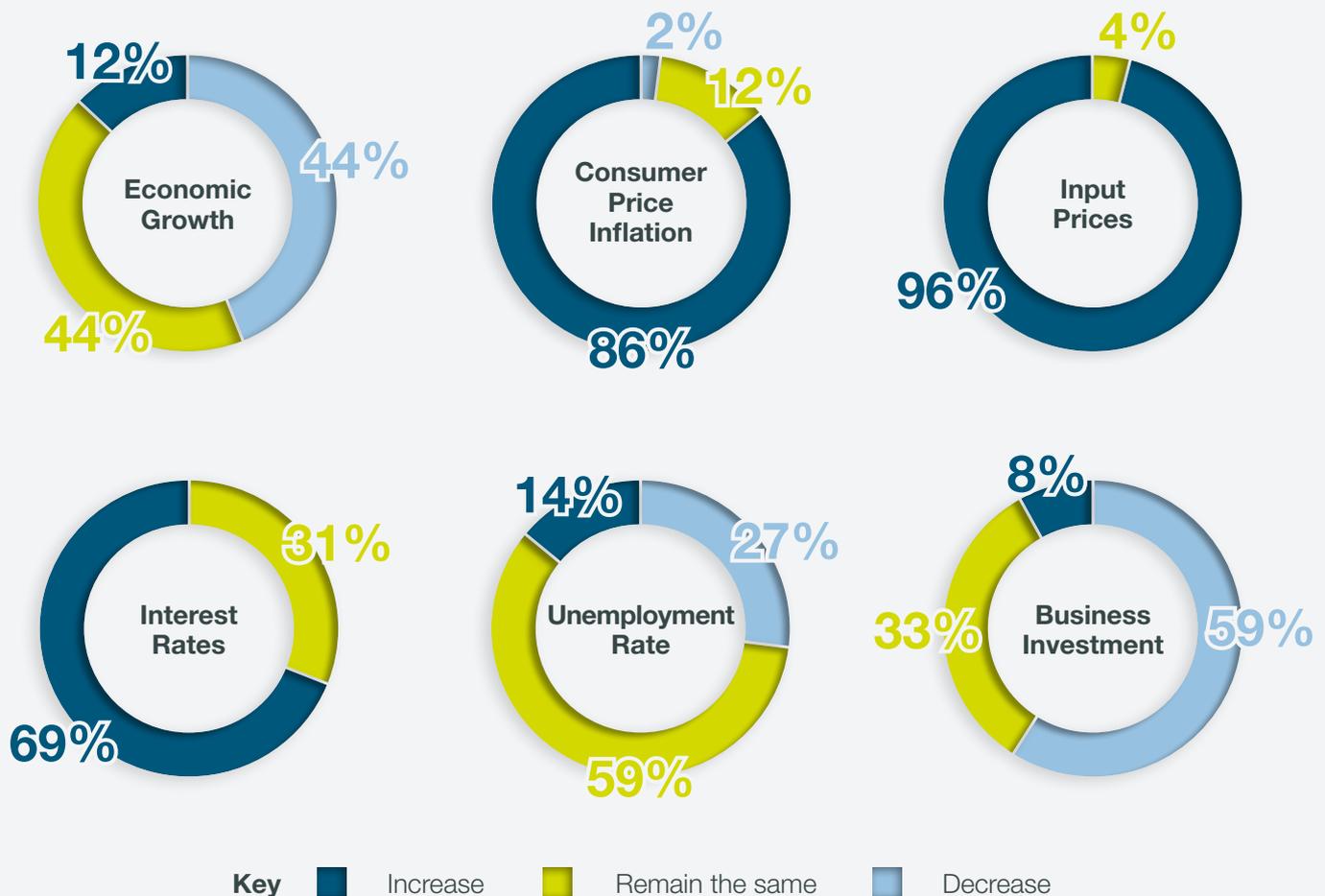
- Increased domestic demand
- Increased certainty over future EU relationship
- Planned investment in new product launches

### RISKS

- Increased ingredients costs
- Exchange rate volatility
- Tariffs and quotas

# Views on the Wider Economy for 2019\*

Does your business expect the following to **increase/remain unchanged/decrease**?



\*please note that results here are expressed as a percentage of respondents.

## Key Business Asks from the Autumn Budget

- > Given net business confidence across the food and drink sector has decreased over the year to date, **it is vital that the right business conditions** are created to ensure **continued success of the sector going forward**.
- > This is a pivotal time for the United Kingdom, as it is now less than six months away from leaving the European Union. **The Budget presents opportunities** for government **to ensure the optimal business conditions** are in place to drive **greater confidence and further investment in the industry**.
- > Member companies have identified the Food and Drink Manufacturing Sector Deal, and **increased support for industry innovation, as top priorities** when asked what measures they would like to see announced in the 2018 Autumn Budget.
- > **Other priorities included:**
  - **Clarity on Brexit**
  - **Economic measures to support hard Brexit**
  - **Free trade agreement with the EU**

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