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FOOD AND DRINK SECTOR SHRUGS OFF EU VOTE CONCERNS

- *Build up to the EU Referendum had a negative impact on businesses, and leaving the EU is cited as biggest potential challenge to sector but wider outlook is positive*
- *Almost half of firms said that investment in their business had increased since the EU referendum result*
- *Food and drink firms in England and Wales forecast 19 per cent growth over next five years, up on 2015*
- *Sector plans to create more than 75,000 new jobs by 2021*

Food and drink firms in England and Wales have raised their growth forecasts and plan to create more than 75,000 new jobs over the next five years, despite uncertainty since the EU referendum vote, according to a new study by Lloyds Bank Commercial Banking.

Lloyds Bank's third annual study of the Food and Drink sector found that firms across the industry are eager to shrug off uncertainty in the run up to the referendum and move ahead with their plans to enter new UK markets and develop new products. As an industry they forecast 19 per cent growth in the next five years, up 3 percentage points from 2015.

The research is the first study of the sector following the UK's decision to leave the European Union. It surveys English and Welsh producers of alcohol, fresh produce and food and drink products, and helps to understand the opportunities and challenges faced by the sector.

EU Referendum

Just over half (52 per cent) of firms said that the build up to the EU Referendum had had a negative impact on their business.

Although the majority of firms said that the EU referendum had affected their long-term planning (89 per cent) and their investment plans (82 per cent) before the vote, it now seems that the sector is looking to put the referendum behind it.

Almost half of firms (44 per cent) said that planned investment in their business had increased since the vote result, twice as many as the 22 per cent who said it had fallen.

However, businesses do see leaving the European Union as the biggest potential threat to the industry (44 per cent), a view which remains unchanged year-on-year.

A small majority of businesses said that their expectation of growth was higher now that the vote had been held, with 37 per cent expecting increased growth in the wake of the referendum against 32 per cent who had downgraded their growth predictions.

Andrew Connors, head of client propositions at Lloyds Bank Commercial Banking, said: "The food and drink industry has faced some unprecedented challenges in 2016 notwithstanding the uncertainty surrounding the EU referendum vote.

"However our research shows a relatively confident and upbeat sector which recognises the challenges ahead and is finding ways to address them. In particular food manufacturers are working together more to improve productivity through joint ventures."

Exporting to Europe

Food and drink producers still plan to achieve growth by entering new export markets, with 30 per cent focusing their growth ambitions overseas – the same figure as in the 2015 report.

The number of exporting firms targeting Western Europe has declined from 60 per cent last year to 47 per cent this year, though it remains the top target for the sector.

In fact, intentions to target all the major markets have declined slightly, with the exception of Eastern Europe and Russia, which 33 per cent of firms now plan to target - an increase of 22 per cent on 2015. This is despite the Russian embargo on EU food imports.

Jobs, growth and productivity

More than a third (37 per cent) said their job creation plans had increased since the referendum result, while a quarter (25 per cent) said they had decreased.

By the same token, a third of firms (33 per cent) have increased plans for R&D activity in response to the referendum result, with just 17 per cent revising down their R&D plans.

When asked how they plan to fund growth over the next five years, joint ventures emerged as a popular route, with a third of firms (32 per cent) looking to team up with fellow food and drink companies to share knowledge and access to different customer groups and markets.

The report revealed a continued focus on productivity, as firms aim to make efficiency savings (42 per cent), streamline processes (37 per cent), invest in staff training (34 per cent) and restructure operations (30 per cent).

A growing number of firms are reporting that the depressed oil price is having a positive impact on their business, up from 19 per cent to 32 per cent, and concerns about agricultural price volatility seem to be easing too.

Ian Wright CBE, director general, at the Food and Drink Federation, the organisation that represents and advises UK food and drink manufacturers, said: “The Lloyds Bank food and drink report this year is as useful as ever for revealing the challenges and opportunities faced by the sector.

“Bringing the right people with the right skills into the industry is central to our future success and we must also address the biggest business challenge of our times. The decision to leave the European Union poses a major test to most food and drink businesses. Yet we are a resilient and resourceful industry. We are now focused on transforming those very real risks into real opportunities.”

Elena Paitra, Managing Director, Head of Food, Beverages and Tobacco, Global Corporates said: “Although export intentions have declined slightly for UK food and drink producers, it’s encouraging to see that almost a third of producers plan to achieve growth by focusing their ambitions overseas. It’s important that the sector continues to focus on export growth as this is clearly a key to maximising future opportunities.

“We’re confident that the sector can continue to grow in the UK and overseas. Lloyds Bank has publically committed to supporting UK businesses to scale up and trade internationally as part of our ambition to help Britain prosper globally and as part of our joint export commitments with The Department for International Trade.”

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Notes to Editors

- For more information please contact Ed Smith in the Lloyds Banking Group press office at ed.smith1@lloydsbanking.com or 020 7661 4936
- Case studies are available for interview opportunities

Methodology

Field research for this report was undertaken in June and July 2016 by Coleman Parkes Research.

To gather representative data from this diverse industry, a broad cross-section of 100 food and drink manufacturers and producers in England and Wales were interviewed from companies ranging in size from less than £25m, £25-£750m and more than £750m annual turnover.

Business owners, managers, senior managers, directors and department heads took part in the survey.

Our survey questions focused on growth and export plans, job creation, capacity and investment, international markets and challenges.

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