



# Agri-food - Sector report United Kingdom

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The food industry is a crucial sector that, despite facing various challenges, will always be a key component of the economy. Increasing costs for ingredients, materials, energy, and labor, inflationary pressures, the impact of the Ukraine conflict, and ongoing post-pandemic challenges have been significant factors contributing to insolvencies in the sector. The recent rise in interest rates, the first in over a decade, has led to higher borrowing costs at a time when consumer spending is cautious, making refinancing more challenging and costly.

Input costs rose significantly in 2023 which placed increased pressure on farm business margins, with fertilizer costs being a notable example. Although some input costs are decreasing, they remain higher than pre-inflation levels. This is likely to continue posing risks due to the connection to energy markets and global instability, which could also be evident in 2024 if consumer confidence does not recover. Whilst there have been a few notable cases of insolvencies in the sector, we haven't seen a large increase overall.



Sector rating (global): **Medium Risk**

Sector rating (United Kingdom): **Sensitive Risk**

Strengths	Weaknesses
<b>Demand for food:</b> There is a consistent demand for food, and with a growing population, it's essential to ensure a continuous and adequate food supply.	<b>Cross-border checks:</b> New regulations for imported goods may lead to delays and increased costs, particularly for perishable items.
<b>Pricing power:</b> The sector has been able to pass on higher costs to consumer and to maintain profitability despite lower volumes. Less pressure from rising input prices should help stabilise financial performances going forward.	<b>Climate change:</b> Extreme weather can have unpredictable effects on harvests and crops, posing a risk to the industry.
<b>Technology and automation:</b> The industry can benefit from improved productivity through better utilisation of tools and automation.	<b>Labour shortage:</b> Skills shortages in the sector can lead to higher administrative costs for companies, making it less attractive to individuals.
<b>Consumer preferences:</b> The shift in purchasing habits and dietary choices which have the potential to support companies in expanding their business and achieving sustainable growth.	<b>Supply chain disruptions:</b> Dependence on imported goods can cause severe delays in the supply chain, impacting operations.

The key trends and challenges in the sector are influenced by its strengths and weaknesses. Here are some of the key changes we can expect to see moving forward:

- 1. Systemic factors** such as population and economic growth, cross-country dependencies, geopolitical events and uncertainty are significantly impacting the sector.
- 2. Climate change** remains a critical factor to address in the agricultural sector, as it's beyond human control.
- 3. ESG** considerations are becoming increasingly prominent, impacting both businesses and individuals as they contemplate their actions and environmental impact.
- 4.** The growing linkages between **food prices and energy markets** are expected to drive food price volatility in the coming years, with oil and fertilizer prices also playing a significant role in the sector.
- 5. Veganism:** Much of the world is trending toward plant-based eating and this global shift could be here to stay, representing a considerable decrease in consumption of animal meats and animal-derived products. In the UK, it is estimated that around 8% of the population is already following a plant-based diet.
- 6. Changes in consumer preferences**, particularly those observed post-COVID, will continue to shape the sector in the years ahead.



## Sector overview

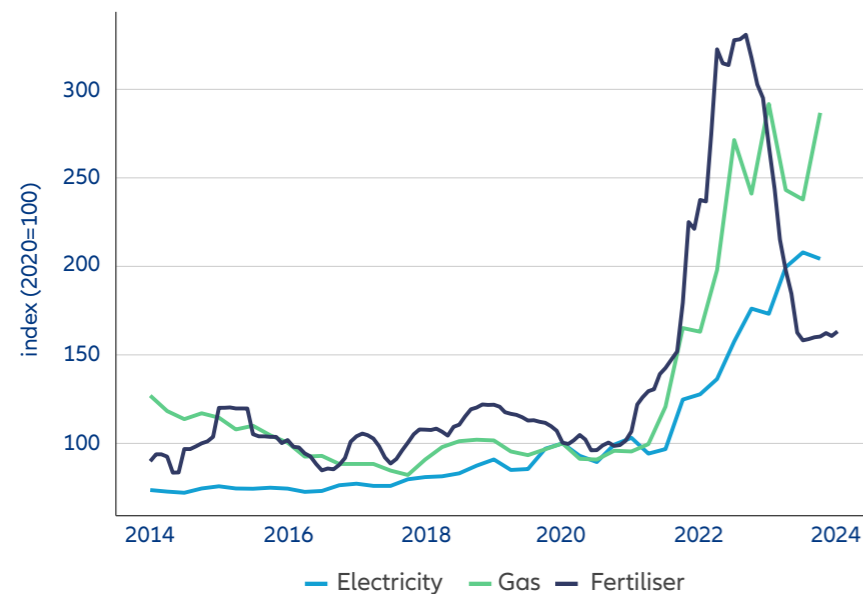
According to agricultural statistics, approximately 60% of the UK's domestic consumption is produced locally, with 70% of the agricultural area being utilised<sup>1</sup>. 36% of this is used for crops, with cereals being the predominant harvest, accounting for 71%. However, unpredictable weather conditions and climate change are likely to negatively impact this year's production due to soil deterioration.

Fertilisers and energy are crucial inputs for food production, and the UK relies on the global supply chain for these resources. The prices of these inputs are interconnected, with some fertilisers dependent on gas for production. The resulting increased prices have driven up costs for food producers in recent years, placing pressure on the viability of businesses. To mitigate the impact of chemical fertiliser prices there is increased change in farming practices, such as the use of cover crops and rotational cropping. Whilst non-domestic electricity prices in the UK remain high compared to the rest of the world, gas prices are relatively low compared to the EU.

As the internal production of goods is insufficient to provide a wide variety of products, the UK rely on imported goods. However, the process of importing goods has become more complex due to new regulations, including the implementation of cross-border checks for various products imported from the EU. This is leading to significant delays and additional input costs for businesses. Despite this, food inflation has eased to 1.7% in May, aligning with the overall inflation rate, which fell to 2% (CPI) in the 12 months to May 2024<sup>2</sup>. This decrease in food prices has influenced consumer shopping behaviours, with value becoming a key consideration leading to changes in retailer loyalties.

The increase in food prices in the UK has prompted shifts in consumer preferences and behaviours. Individuals are now more conscious of the products they consume, purchasing quantities and waste reduction. Additionally, consumers are actively seeking discounts, promotions, and loyalty programs offered by supermarkets which is leading to heightened price competition amongst retailers. Online distribution has also experienced growth, particularly post-COVID, with a positive trend continuing especially among younger generations. It's anticipated that more businesses will transition some of their activities to the online environment in response to this trend.

Figure 1: Energy and fertiliser prices



Source: <https://www.gov.uk/government/publications/uk-food-security-index-2024/uk-food-security-index-2024#indicator-4-agricultural-total-factor-productivity>

<sup>1</sup>Agricultural Land Use in United Kingdom at 1 June 2023 - GOV.UK (www.gov.uk)

<sup>2</sup>Consumer price inflation, UK - Office for National Statistics

In the coming period, we expect a favourable outlook in this industry, which could lead to decreased expenses for businesses if the trends observed earlier in the year persist. We anticipate a steady food price inflation, which is likely to ease some of the challenges faced by businesses in the sector and create opportunities for further expansion. The projected food inflation for 2024/2025 stands at approximately 2.2% seems encouraging; nevertheless, global uncertainties are inherent.



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