

## United Kingdom

Euromonitor reports that the United Kingdom (U.K.) economy slowed down in 2022 due to weaker private consumption, as well as disrupted business activity due to strikes and labor shortages. Elevated inflationary pressure caused concerns about the cost of living and led to increased government expenditure and public debt. These economic challenges have persisted through to 2023, resulting in an economic recession for the U.K.

- Following real growth of 4.3% in 2022, U.K.'s economy expanded at an average annual gross domestic product (GDP) real rate of only 0.1% in 2023 and growth of 0.4% for 2024.
- Inflation in the U.K. is forecast to slow down to 7.3% in 2023 from 9.1% in 2022.
- While the U.K.'s merchandise exports increased by 15.2% and imports rose by 18.5% during 2022, the country remained a net importer of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 17.8% of GDP.
- The public debt-to-GDP ratio in the U.K. fell to 88.3% in 2022, standing above the regional average of 85.1%.

Focus Economics reports that the run-up to and aftermath of Brexit in 2020 has been marked by significant domestic political uncertainty and tensions with the EU, which have depressed investment in recent years. Moreover, leaving the EU has resulted in a permanent increase in trade barriers with the EU, which has led to weaker investment and exports than the status quo of EU membership. The government has attempted to pivot towards the Asia-Pacific, most notably by applying to join the CPTPP trade pact, although this will not compensate for lost trade with Europe. The United Kingdom-U.S. Free Trade Agreement (UKUSFTA) is a proposed free trade agreement between these two nations. Negotiations began in 2020, but progress has been slow.

USDA's Office of Agricultural Affairs, (OAA), in London, hereinafter referred to as FAS Post London, reports that the U.K. has a population of 67.1 million. It is a leading trading power and financial center and the third-largest economy in Europe. Agriculture is intensive, highly mechanized, and efficient by European standards, but accounts for less than 1% of the gross domestic product (GDP). While U.K. agriculture produces about 58% of the country's food needs with less than 2% of the labor force, the U.K. is heavily reliant on imports to meet the varied demands of U.K. consumers, who expect year-round availability of all food products.

The U.K. is very receptive to goods and services from the U.S. Demand for U.S. consumer-oriented food products continues to differentiate the U.K. from many of its European neighbors. With its over US\$3 trillion (purchasing power parity PPP) GDP in 2023, the U.K. is the U.S.' largest European market and fifth largest in the world for all goods. Demand for U.S. consumer-oriented food products continues to differentiate the U.K. from many of its European neighbors.

The U.K. is a top market for the export of U.S. processed foods, ranking second in Europe and ninth nationally in 2023 at US\$821.2 million, down 16% from 2022. That equates to a loss of US\$155.7 million which adds to the U.S. trade deficit in food and agricultural products.

Top processed food exports to the U.K. in 2023 included:

- Alcoholic Beverages – down 19%.
- Food Preparations and Ingredients – down 17%.
- Chocolate and Confectionery – even.
- Snack Foods – up 2%.
- Processed Vegetables and Pulses – down 9%.
- Non-Alcoholic Beverages – up 4%.
- Condiments, Sauces, Jams and Jellies – up 1%.

### **Market Opportunities and Key Issues for U.S. Exporters of Processed Food in the U.K.**

#### **Market Opportunities:**

- Market dominated by a few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. products can be widely distributed.
- There are many specialty importers, capable in importing from the U.S.
- The U.S. has an opportunity to promote products that focus on the environment, sustainability, and health.
- The country is English speaking and therefore an easier gateway into the rest of Europe for U.S. exporters.
- The U.S. is a popular destination for U.K. tourists. Familiarity with U.S. products is widespread.

#### **Key Issues:**

- Supermarket chains demand significant volume, and their concentration can make market access difficult initially. Trial listings must give results in a short time or product will be de-listed.
- The U.K. has well-established brands for mainstream products, so brand-building costs are substantial.
- Trade barriers imposed on certain U.S. products including meat and poultry. U.S. agriculture has regular negative portrayal in the U.K. media.
- A free trade agreement between the U.K. and the EU means EU competitors do not pay import duties on goods to the U.K. U.S. exporters are subject to 0-25% import duty, depending on the product.
- Popularity of specialty products from EU countries is high, such as French cheeses, Spanish citrus, and Italian pasta.

#### **Retail Sector Highlights:**

According to Euromonitor, retail sales in the packaged food market in the U.K. were estimated to reach US\$103.2 billion in 2023. That represents a growth rate of 20.9% or nearly US\$17.8 billion since 2019. The U.K. is now the sixth largest package food market in the world and the second largest in all of Europe. By the year 2028, the retail sales in the packaged food market in the U.K. is expected to reach US\$125.7 billion, a growth rate of 17.3% or US\$18.5 billion from 2024.

High growth categories in the forecast include:

- Sweet Spreads
- Edible Oils
- Rice, pasta, and noodles
- Savory Snacks
- Sweet Biscuits, Snack Bars, and Fruit Snacks
- Ready Meals
- Frozen Cakes, Sweet Pies, and Tarts
- Processed Meat, Seafood and Alternatives to Meat

FAS Post London reports that in April 2023, the U.K. had its second highest food inflation rate for 45 years, standing at 19.1%. As a result, the way in which consumers shop has changed, including shopping less often and spending more on private label products. The biggest change is the shakeup of the “big four” supermarkets, which has dominated the U.K. grocery market for years. In September 2022, Aldi, a discounter showed unprecedented growth entering the top four, pushing Morrison’s to number five.

In June 2022, the Institute of Grocery Distribution (IGD) valued the U.K. retail grocery market at US\$269 billion (£217 billion) and predicted an increase of 11.3% to US\$298 billion (£241 billion) by 2027. Discounters are expected to be the fastest growing channel between 2022 and 2027, with sales predicted to increase by 23.9% as consumers economize and look for both quality and value.

The food retail sector is saturated, highly consolidated, and competitive. The top four retailers together account for 65% of the market, with Aldi overtaking Morrison’s in 2022. Independent stores face strong competition from brick-and-mortar grocery stores and online retailers. Online sales should increase to become the second fastest growing channel post-2024, as rapid grocery deliveries are increasingly popular. U.K. consumers are willing to try foods from other countries but expect quality products at a competitive price.

Now Kantar’s latest statistics show that five supermarket chains dominate U.K. food retailing, accounting for 74.5% of the market. The discounters Aldi and Lidl have a combined market share of 17.3% with this growing year-on-year. Tesco is the market leader, with 27.4% market share, followed by Sainsbury’s with 15.2%, Asda with 13.6%, Aldi with 9.7% and Morrison’s has 8.6%. Other U.K. supermarket chains include Lidl, The Cooperative, Waitrose, Iceland, and Marks and Spencer.

In addition to the above retail avenues, department store “food halls” and delicatessens present opportunities for listings of U.S. products. Some London-based department stores, including Harvey Nichols and Selfridges, have expanded to other major U.K. cities like Birmingham, Manchester, and Leeds. Other notable department stores stocking U.S. products are Fortnum and Mason and Harrods. Key London delicatessens for U.S. products include Partridges in Kensington and Panzers in St. John’s Wood. Finally, Whole Foods Market has one flagship store and six smaller stores, and Costco has 29 U.K. stores. These stores are great advocates for U.S. products and sell a wide range. They offer U.S. companies a good starting point when breaking into the U.K. market.

The U.K. has one of the most advanced private label markets in the world and is seen as a flagship market for private label development. The U.K.’s major supermarket chains dominate the private label market. According to Kantar, in 2022, sales of private label products set a new record, increasing by 14.1% and now accounts for 54.7% of grocery sales, and 62.6% by volume. The reasons for this are squeezed incomes caused by the cost-of-living crisis, record high food inflation, with households forced to make savings wherever possible. Originally, private label goods were a copy of a branded product, but today they are innovative and marketed as a premium or high-quality brand. They give retailers the opportunity to diversify their product ranges and develop new revenue streams.

According to Kantar, in 2022, sales of supermarket private label products accounted for over 54% of grocery sales, up from 45% in 2005. As food prices increased at their fastest rate in 45 years, it was one-way shoppers found to reduce costs. Supermarkets have expanded their private label ranges offering different price points, including “saver” and “specialty” options. In 2014, in-store deals accounted for 40% of grocery spending, in 2023, they account for 25% of spending, as these types of offers decrease in line with the government’s healthier eating plan. Instead, shoppers are signing up to supermarket loyalty schemes to access discounts. The government is working on plans for a voluntary price cap on essential items such as bread and milk; however, the proposal has been criticized by retailers.

The EU is the main competitor for U.S. consumer-oriented food. According to the Office of National Statistics, the EU supplies 23% of food consumed in the U.K. EU food exporters have relatively low transportation costs and fast delivery times. Their products do not face import duties, nor do they face major ingredient or labeling changes. Africa is the largest non-EU supplier to the U.K., with 5% of all U.K. food and drink imports, followed by North America, and Asia both with 4% each. The three largest imported commodity groups by value were fruit and vegetables, meat, and beverages.

### **Best Product Prospects:**

FAS Post London reports that products in the market that have good sales potential include Processed Products: health food, mainstream grocery, and snack foods. Dried and Processed Fruit: cranberries, dried cherries, prunes, raisins, and wild berries. Nuts: almonds, peanuts, pecans, pistachios, and walnuts. Fish and Seafood: cod, pollack, salmon, and other fish products. Fresh Fruit and Vegetables: apples, grapefruit, sweet

potatoes, and table grapes. Meat: hormone-free beef and pork products. Drinks: craft beer, spirits, wine, and low-alcohol products. Food Ingredients and Wood pellets and other waste/residues for renewable fuels.

### **Foodservice Sector Highlights:**

FAS Post London reports that following the end of the pandemic, the hospitality sector in the U.K. continued to face several challenges including a cost-of-living crisis and soaring inflation rates. U.K. hospitality businesses have shown themselves to be creative and resourceful. The hotel, restaurant and institutional (HRI) sector in the U.K. includes world-class restaurants, pubs, and nightclubs. This sector is at the heart of rebuilding the U.K.'s major city centers and high streets as people return to the office. Health, sustainability, and technology are important trends to watch in the sector.

Due to the pandemic, sales for 2021 are not an accurate reflection of the industry. The 2022 figures almost returned to pre-pandemic rates, as the industry continues to recover. According to U.K. foodservice specialist Peter Backman, in 2022, total U.K. foodservice food and drink sales amounted to US\$57.2 billion, a 9.4% drop from 2019 pre-pandemic levels when the market achieved US\$63.1 billion in sales. The industry is consumer-oriented with significant investments in research and development. This helps the development of new food and beverage products, keeping the sector up to date and exciting.

Since the departure of the U.K. from the EU, the foodservice industry has had to compete with other industries as well as other European countries to keep its labor force. Most of the labor force within the foodservice industry comes from other countries. With the changes to labor laws in full effect, many Europeans returned to their home countries or to other European countries to seek employment. This has led to a labor shortage within the foodservice sector. Higher salaries, more sociable hours and restaurant sustainability all have an impact on what location working people will choose to work.

Thousands of European Union (EU) citizens worked in the U.K. hospitality market, but as a result of Brexit and COVID-19 they have returned to the EU. At the beginning of 2021, U.K. restaurants and casual dining firms recorded 30,000 job losses over the course of the COVID-19 pandemic.

### **Best Product Prospects:**

FAS Post London reports that the best product prospects for U.S. exporters of foodservice products in the market that have good sales potential: Processed Products: snack foods, sauces, dips, salsas, etc.; Dried and Processed Fruit: cranberries, dried cherries, prunes, raisins, berries; Nuts: almonds, peanuts, pecans, pistachios, walnuts; Fish and Seafood: cod, pollack, salmon, scallops, and other fish products; Fresh Fruit and Vegetables: apples, grapefruit, pears, sweet potatoes, table grapes; Meat: hormone-free beef and pork products; Drinks: craft beer, spirits, and wine.

### **Food Processing Sector Highlights:**

According to the latest Food and Drink Federation Factsheet, the food and drink sector is the single largest employer in the U.K. manufacturing sector. In 2022, around 456,000

people across the U.K. were employed in jobs associated with food and drink manufacturing, an increase of 3.4% from 2020. The food and drink manufacturing sector's output are valued at US\$36 billion with an annual turnover of US\$134 billion, up 8% and 14.4%, respectively.

FAS Post London reports that the U.K. has a large, well-developed food processing industry, requiring a wide range of ingredients, from low-value, highly processed food to high-value, lightly processed ingredients. This provides many opportunities for U.S. exporters, including wellness and health products. Innovation and re-formulation drive new product development and demand for healthier ingredients. The U.K. is currently experiencing a cost-of-living crisis with food and drink prices increasing by almost 17% in 2022 and inflation at a 40-year high.

Prices across all product categories have risen rapidly with inflation, resulting in increased prices, smaller pack sizes, and manufacturers sourcing cheaper ingredients. Current trends include innovation, sustainable packaging, food with health benefits, and plant-based products. The U.K. climate limits growing seasons and products that can be grown, resulting in the U.K. importing 42% of food products to meet consumer demand.

The U.S. has historically performed better in sectors where it is able to provide high-quality products not readily available in northern Europe, such as fruits and nuts. There is a considerable level of production already, in addition to trade-protectionist measures on meat, poultry, and dairy industries in the EU. It is therefore more difficult to supply ingredients to these sectors. It may be possible, however, for U.S. producers to supply other ingredients to the U.K. dairy sector that have not been derived from animal products, e.g., cranberries in cheese.

The U.S. is the second-largest foreign supplier of agricultural, food and fish products to the U.K., with China as the largest. Depending on the product category, competition is high from Iceland and China (fish), Canada (dry beans, wheat, corn), South Africa (citrus, apples, and grapes), Chile (apples, grapes), Argentina (soybean meal, corn, and red meat products), Brazil (soybeans, sugar cane, red meat products) and Turkey (dried fruit).

**Best Product Prospects:**

FAS Post London reports that products present in the market, which have good sales potential, include wheat products, rice dry beans, legumes dried fruit and nuts specialty seeds e.g., flaxseed, linseed, poppy natural colors, flavors, additives for processed food and drink manufacturing gums and resins fresh fruit and vegetables not grown in U.K., organic, or available outside of U.K. season preserved fruit and vegetables, juices and fruit concentrates, essential oils soybeans, distillers dried grains (animal feed).