Impact of the budget on the UK foodservice sector

We had already factored most of the measures announced by the Government in this week's budget into our previous forecasts for the next two years, but overall we are now slightly more bearish about prospects for the foodservice sector than we were before.

As a result of the budget, consumers are likely to have less money in their pockets to spend on eating out and are going to be more cautious about how they spend money they have got. The VAT rise, fall in transfer payments such as housing benefit and child allowances and continued uncertainty in the jobs market all mean that spending will be on hold for longer, so while we may have expected the market to improve towards the latter end of this year, it is unlikely to do so for a further 12-18 months.

For operators, margins will continue to be squeezed as inflation falls and, if they don't pass on the VAT rise in full, their profits will suffer. The reduction in capital allowances will also have a negative impact on profitability.

The steep reduction in public spending, down by 25% up to 2015, will mean that there could be more contracts up for grabs in the contract catering sector, although margins will remain extremely tight. However, less investment in schools, hospitals and government facilities mean fewer opportunities for contractors and could mean existing contracts come up for renegotiation more quickly.

A more detailed analysis of the announcements and their impact on the foodservice sector is given on the following pages. If you would like to discuss anything in this summary, contact:

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Summary

Measure	Headline	Impact on foodservice
Consumer's discretionary income	Down	Less money to spend on eating out
Transfer payments to the poor	Down	Less money to spend on eating out
Employment	Down	Fewer people to feed at work; more consumer uncertainty

Overall

Measure	Headline	Impact on foodservice
GDP	Slightly worse in the short term. Office for Budget Responsibility say: • 2010 +1.2% (vs 1.3% pre-budget • 2011 +2.3% (vs 2.6%) • 2015 +2.9% (vs 2.8%)	Less opportunity for growth
Household income	Down by average - £4,300 by 2014/15	Less money for consumers to spend
Unemployment	Slight increase in 2010 (to max 8.1 million), falling a bit in 2011 and down to 6.1 million in 2015	More people with less to spend and greater uncertainty about their prospects – negative impact on eating out
Inflation	+3% in 2010, declining in 2011, reaching 2% sometime in 2012	Operators and suppliers will have to cope with squeezed margins

Impact on customers

Measure	Headline	Impact on foodservice
VAT	Increase by 2.5% to 20% in January 2011	• Fewer £ in consumers' pockets – especially the poor who eat out in lower cost outlets – take aways etc • Cost of eating out will increase • Operators may absorb some of the increase – and will take the hit in their profits
Income tax	Some relief for low earners	Eating out spending not affected quite as much as before
Capital Gains Tax	Up from 18% to 28% for higher earners	May marginally reduce propensity to eat out
Public spending	Down by 25% up to 2015. Amounts to -£84 billion pa by 2014/15 (versus planned £52 billion by Labour)	Fewer employees to feed
	Reductions in transfer taxes (housing benefit, child allowances etc)	Less money available for consumers to spend on eating out (amongst other things) Note: See also impact on operators

Impact on customers (continued)

Measure	Headline	Impact on foodservice
	Public sector pay freeze	Less discretionary expenditure
Alcohol, tobacco taxes	No further increase in duties but VAT increase will add 6p to a pint of beer in a pub	Some further price pressures for either operators to absorb or for consumers to cope with

Impact on operators

Measure	Headline	Impact on foodservice
Corporation Tax	Reduced by -1% pa until 2014	Will help operators to save and/or invest
National insurance	Threshold increased by £21 (but employer's NI will increase as planned)	• Will help to minimise cost of employment which is nevertheless likely to increase • Continuing pressure to reduce headcount
Capital allowances	Will be reduced	• Currently, hotels and caters are the sector with the second highest reliance on capital allowances – currently capital allowances account for 48% of trading profit • Negative impact on profitability
Public spending	Down by 25% up to 2015. Amounts to -£84 billion pa by 2014/15 (versus planned £52 billion by Labour)	• Probably more outsourcing business for contractors • Less/no investment in new build schools, hospitals, government facilities – fewer catering opportunities • Squeeze on existing outsourcing deals – potential contract renegotiations