Commentary

2026 Global Food Retail Outlook: Intense Competition for a Value-Hungry Consumer

Morningstar DBRS
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Key Highlights

- We expect pressures on consumer purchasing power to persist into 2026 but believe that grocers are more insulated from these pressures than most sectors considering the largely inelastic demand for groceries.
- We expect the broader sector trends in 2026 to have a neutral impact on the credit risk profiles of rated grocers
- We anticipate competition to remain intense, and missteps in operational performance could weigh on the credit risk profiles of individual grocers.

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Overview

While inflation has come down to target levels across most advanced economies, we anticipate that the compounded effects of multiple years of inflationary pressures and the associated macroeconomic challenges will continue to weigh on consumers' purchasing power in 2026. Furthermore, there is no shortage of downside risks going into 2026, including macroeconomic and geopolitical uncertainties such as the evolution of U.S. trade policy. Nonetheless, considering the largely inelastic demand for groceries, we view grocers as more insulated from these pressures than most sectors, although competition in the sector for a value-hungry consumer remains intense and meaningful missteps in operational performance are likely to weigh on the credit risk profiles of individual grocers.

Inelastic Product Offerings Should Keep the Aisles Clear of Credit Rating Changes

We do not foresee the broader sector trends in 2026 resulting in any credit rating actions on our portfolio of rated grocers; indeed, we view our rated grocers as largely well positioned to navigate this operating environment within the context of their current credit ratings. This expectation is supported by their relatively inelastic product offering and solid position within the current credit rating categories. We expect that any credit rating actions we take will largely be driven instead by the evolution of the credit risk profiles of individual grocers. To the downside, these drivers could include (1) more aggressive financial policies to fund acquisitions or shareholder returns leading to a weaker financial profile and/or (2) weaker-than-expected operating performance because of poor operational execution leading to a loss in market share and weaker earnings profile.

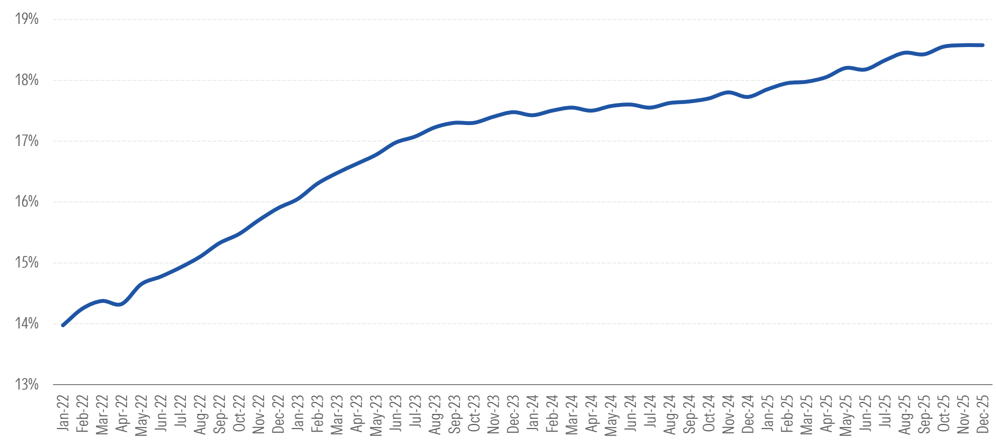
Limited Consumer Appetite Keeping Revenue Growth Patterns Steady

Consistent with our expectations, consumers continued to grapple with pressures on their purchasing power in 2025 (see our commentary *Global 2025 Food Retail Outlook: Some Consumer Behaviours Are Permanently Altered*). Consumers therefore tended to shop around in search of promotional discounts, showing a preference for private-label products over branded offerings and more affordable alternatives within the same category. Looking ahead, we anticipate that the compounded effects of multiple years of inflationary pressures and the associated macroeconomic challenges will continue to weigh on consumers' purchasing power in 2026. As such, we largely forecast steady growth trends with revenues growing in the low-single-digit range for grocers in our portfolio in 2026. We anticipate that this growth will primarily be the result of inflationary effects on prices, with volumes largely trending in line with population growth. That said, against the backdrop of an intensely competitive operating environment, and depending on individual grocers' operational execution, these expectations could deviate on a grocer-by-grocer basis.

Consumers Remain Hungry for Value

We expect consumers to continue to seek out value across both discount and conventional banner formats. Discount grocers, which are generally perceived to offer greater value and typically have higher private-label penetration, have benefited from the changes in consumer behavior towards value in recent years. In the UK, which has seen especially high and persistent levels of inflation, the discount grocers Aldi and Lidl grew their combined market share toward 19% at the end of 2025, up from roughly 14% at the end of 2021 as shown in Exhibit 1 (see our commentaries, *UK's Discount Grocers' Sales Growth Moderates, But Market Share Gains Entrenched* and *UK Food Retail Sector Cooks Up New Levels of Competition Amidst Simmering Inflation and Battered Consumer Sentiment*).

Exhibit 1 Aldi's and Lidl's Combined UK Market Share



Sources: Kantar and Morningstar DBRS. Market share calculated on a rolling four quarter period.

Given the extent and duration of the economic pressure on consumers, we are of the view that some consumer behaviors have been permanently altered in favor of value offerings, which we expect will be a structural benefit for discount grocers. That said, conventional grocers have not been sitting idle, and looking ahead to 2026, we expect conventional grocers to continue to take merchandising initiatives to restore lost market share, including investments in private-label and value-focused offerings.

EBITDA Margins a Frozen Dish

We project EBITDA margins for the sector to be affected by the push and pull of various opposing factors. As consumers felt the pinch of rising inflation over the last few years, they traded down to lower-margin frozen meals from higher-margin fresh-prepared meals and bought more items on sale, which has weighed on grocers' margins. This has been balanced, however, by other changes in consumer behavior, such as the switch toward higher-margin, private-label products. We anticipate many of these behaviors to persist into 2026 as consumers continue to seek value. That said, we expect a gradual improvement in economic conditions would result in a reversal of these patterns and the effects on margins. Changes in consumer behavior aside, we project that grocers will continue to experience operating-cost inflation, particularly around wages. However, after accounting for the benefits from operating-leverage gains and efficiency-improving initiatives, we forecast EBITDA margins for grocers in our portfolio to generally remain relatively flat in 2026.

Investment Calories Focus More on Value Offerings and Less on E-Commerce

We predict that grocers will focus their investments on value propositions to defend or grow market share in addition to operational excellence. As they relate to grocers' value propositions, we anticipate investments will focus on growing private-label portfolios, increasing discount banner footprints, and loyalty and rewards programs. Additionally, we expect grocers to focus on improving internal efficiency, including around sourcing and supply chain, investments in infrastructure, artificial intelligence, and overall merchandising initiatives. Online grocery growth has slowed in the post-pandemic environment, and we therefore expect this to be less of a capital allocation focus going forward, although grocers will have to continue to allocate sufficient strategic focus and investment towards online grocery shopping to defend their market share. That said, we expect grocers to approach this in a balanced manner that is protective of their returns on invested capital. For example, The Kroger Co.'s decision to close three automated fulfillment centers, using Ocado Group plc's fulfillment technology, serves as an example of an overinvestment.

Same Dish, Different Geographies

Our neutral outlook for 2026 is broadly aligned across geographies, with our portfolio of grocers operating primarily in the U.S., Canada, and Europe. Notwithstanding regional differences around the macroeconomic backdrop, considering the largely inelastic demand for groceries, we do not believe that such regional differences are meaningful enough to have a significantly different impact on the credit risk profiles of our portfolio of rated grocers.

That said, we do expect to see the effects of some differences. Food retailers in Canada, for example, are likely to see the negative effects on volumes from the government's changes to the country's immigration policy, which was previously a tailwind. While inflation has come down across most advanced economies, the U.S. and UK are still above target. In Europe, there is an outsized emphasis on the use of renewable energy and solar power in operations, as well as on reducing packaging and waste. This is in part driven by regulation and in part to mitigate increased operating costs, particularly related to energy. Furthermore, the European Union’s Unfair Trading Practices (UTP) directive aims to protect smaller suppliers from larger buyers (e.g., grocers), by restricting the length of payment terms from grocer to supplier among other initiatives, which could weigh on grocers' operating efficiency.

Lastly, we note that the competitive environment across all these markets remains intense. A further heightening of competition in any one market could meaningfully amplify the pressures on grocers' operating performance in that market.

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