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SECTOR OVERVIEW · MARKET INTELLIGENCE BRIEFING

Consumer Markets Outlook 2026

Growth, Margins, Opportunities & Leadership Agenda

> *A concise briefing on consumer markets — a global frame with an Australia focus. Covers category growth, margin pressure, opportunities, segment challenges, and the CEO/board agenda. Prepared June 2026. Current Australian data is anchored to the March quarter 2026 national accounts and 2026 retail releases; growth forecasts by Deloitte; structural and category context draws on McKinsey and Euromonitor work.*

1. Executive Summary

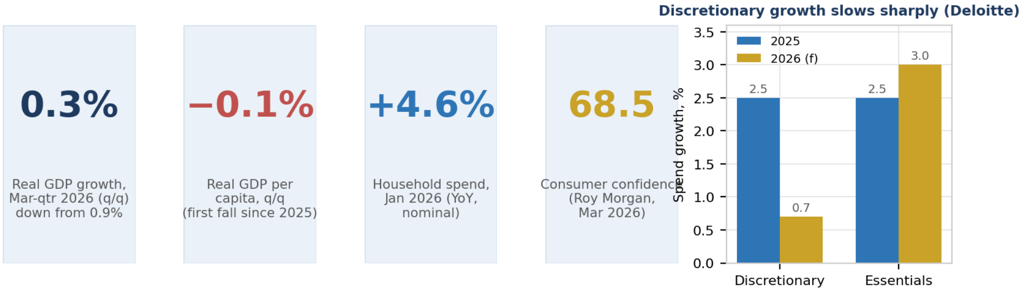
Healthy on the surface, slowing underneath, selective throughout. Australian retail is still growing nominally, but the March quarter 2026 national accounts show the economy decelerating — quarterly real GDP growth fell to 0.3% (from 0.9%) and real output per person contracted. Growth that quarter came from data-centre capex. Deloitte expects discretionary spending growth to slow from 2.5% to 0.7% through 2026; essentials growth holds up.

0.3%	−0.1%	+4.6%	68.5
Real GDP growth, Mar-qtr 2026 (q/q), down from 0.9%	Real GDP per capita, q/q (first fall since 2025)	Household spend, Jan 2026 (YoY, nominal)	Consumer confidence (Roy Morgan, Mar 2026)

Dashboard 1 — Australian macro & spending snapshot. Sources: ABS March-qtr 2026 national accounts; Roy Morgan; Deloitte Access Economics retail forecasts (2026).

- **Growth by category:** Cafés/dining lead (+7.2% YoY to Mar 2026), clothing/footwear +6.3%, vs food retail +3.7% — the services-over-goods rotation is intact but now meeting a discretionary slowdown.
- **Margins:** Squeezed by labour (4.75% award rise), fulfilment, energy and imported-input costs. Globally, F&B CPG volume growth is now under 1%/yr and sector shareholder returns have fallen ~7% since 2023 while the S&P 500 rose ~9% (McKinsey, Apr 2026).
- **Opportunities:** Private label across value and premium (A$46bn in Australia, +4.8% YoY); retail media and data; AI-led productivity worth 200–300bps to fund reinvestment; functional/health ‘trade-up’; portfolio focus and M&A.
- **Challenges:** Slowing macro and a per-capita squeeze; embedded value-seeking (~75% of Australians identify as bargain hunters); supermarket pricing regulation (from 1 July 2026); GLP-1 demand effects; AI shopping intermediaries reshaping discovery.
- **Leadership agenda:** CEOs have moved from expansion to execution, productivity and AI. McKinsey frames the response as a dual agenda — reshape the portfolio toward growth pockets (Agenda 1) and out-execute on product, brand and productivity (Agenda 2).

Bottom line: With the macro tailwind gone and the consumer trading carefully, 2026 rewards portfolio focus and execution over price-led volume.



Australian macro & spending indicators — from the source dashboards.

2. Australian Macro Backdrop

The March quarter 2026 national accounts mark a turning point. Annual real GDP growth held at 2.5% (above the RBA's ~2% potential), but the quarterly pace stepped down from 0.9% to 0.3% — the slowest since March 2025 — and real GDP per capita fell 0.1%. Household consumption contributed only modestly and was skewed to essentials, funded by a lower savings rate; the quarter's growth was carried by business investment in machinery and equipment (+16.6% q/q), powered by data-centre capex.

- **Policy & geopolitics tightening:** the data reflects the first month of the Middle East conflict and the first two of three consecutive 25bp RBA hikes; higher fuel prices and rates are the transmission into discretionary spend.
- **Productivity is the soft spot:** GDP per hour fell 0.6% over the quarter (+0.3% YoY); the Fair Work Commission set a 4.75% modern-award wage rise, adding to retail labour cost.
- **Spending holding, momentum easing:** household spending was ~A$79bn in Jan 2026 (+4.6% YoY) but Roy Morgan confidence sits at 68.5 (Mar 2026) with only ~15% feeling better off than a year ago. Deloitte sees discretionary growth slowing to 0.7% in 2026, with downside risk if the conflict amplifies.

Implication: the macro tailwind retailers leaned on has faded; per-capita consumption is contracting and savings buffers are being drawn down — a setup that typically precedes a discretionary slowdown, expected to be most visible in the December 2026 half.

3. Global Context

The consumer-goods growth model has structurally weakened: underlying industry growth is running at roughly half its 2000s rate, and food & beverage volume growth is now constrained to under 1% a year. Since 2023, total shareholder returns for the world's largest F&B CPG companies have fallen by about 7% even as the S&P 500 rose about 9%.

McKinsey's April 2026 State of Food & Beverage (15,169-consumer survey, 10 markets, Dec 2025) identifies two forces — affordability pressure and demand for higher-benefit products — driving spend away from incumbent brands. 61% of consumers say price matters more than two years ago; cost and perceived value are the top two reasons shoppers abandon a brand. Healthiness is the fastest-rising purchase factor (now top-3 for 57%).

Four spending shifts (McKinsey)

- **Trade down to private label.** Globally 28% buy more private label than two years ago. In Australia, private-label sales reached A$46bn (+4.8% YoY, Circana); ~95% of Australians are open to it; Gen Z's private-label wallet share (~18.4%) is set to overtake Boomers, with ~30% of Gen Z private-label spend now premium-tier (Numerator).
- **Trade up to functional disruptors.** ~two-thirds globally would pay 10%+ for a healthier snack. Disruptors win on function, private label wins on price.
- **Pay for convenience — dining & delivery.** US 'food away from home' reached ~58% of F&B spend. In Australia, foodservice now exceeds pre-pandemic share of discretionary spend.
- **Cook from scratch.** Consumers prepare ~half their meals from scratch; millennials are increasing fastest. There is a tailwind for staples and ingredients, a headwind for centre-of-store packaged food.

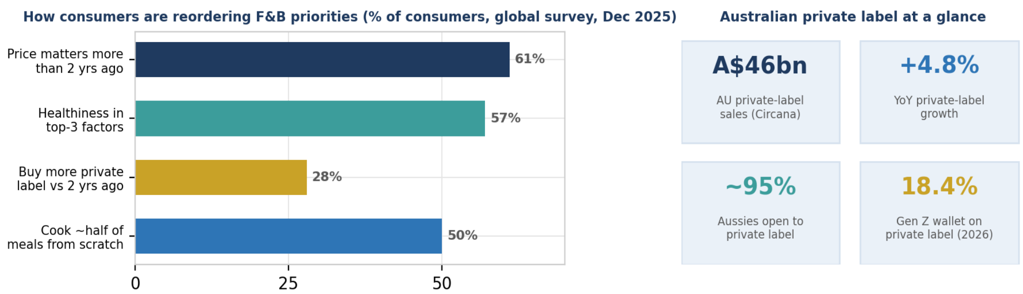
4. Margin Pressures & Segment Impacts

Costs are rising (labour, fulfilment, last-mile, energy, imported inputs — plus avian-flu and freight disruption noted by IBISWorld) while pricing power thins. **Gross margins remain below pre-pandemic levels and prior productivity programmes have plateaued.**

Segment	Margin pressure	Impact
Supermarkets	Absorbing cost on essentials; fuel; anti-gouging rules from 1 Jul 2026	Coles/Woolworths protecting margin via private-label expansion, tighter sourcing, supply-chain investment.
Discretionary / fashion	Soft demand + promotional intensity + import costs	Margin sacrificed to move volume; first and hardest hit by a confidence shock.
FMCG / CPG brands	Volume <1%/yr; retailers control data & shelf; ‘stuck in the middle’	Lose to private label on price and to disruptors on function; SKU rationalisation and price-pack redesign needed.
E-commerce / pure-play	Last-mile & fulfilment cost; free-delivery expectations	Profit hinges on fulfilment efficiency and retail-media income, not GMV.

The trap: a decade of ‘making it up on cost’ has left little slack. McKinsey’s answer is to use AI-led productivity (200–300bps of P&L) as the funding source for portfolio reshaping and product renovation — not as a drip-feed to quarterly earnings.

5. Key Opportunities & Challenges



Dashboard 3 — Reordered priorities and the Australian private-label opportunity. Sources: McKinsey State of F&B survey (Dec 2025); Circana; Numerator (2025–26).

Where the opportunity is

- **Private label, both ends.** Tiered ‘private brand’ strategies (entry/core/premium).
- **Win on product.** Restore product superiority across function, format, texture, and flavour. Gain pricing advantage with productivity as a CEO priority.
- **AI to fund the ambition.** Explore AI across product development, marketing, procurement, finance and supply chain to deliver productivity gains.

Segment Challenges

Segment	Biggest challenge
Supermarkets	Regulatory & trust risk — anti-gouging law (ACCC penalties up to $10m) and price transparency now structural.
Discretionary retail	Demand fragility — per-capita consumption already contracting; a fuel/rate shock hits here first.
FMCG / CPG	‘Stuck in the middle’ — plus loss of consumer ownership to retailer data and GLP-1 demand erosion.
E-commerce	Fulfilment economics and AI intermediaries that may disintermediate the brand/retailer relationship.
Smaller / independents	Cannot win on price — must differentiate on quality, range, local engagement and niche.

7. CEO & Board Agenda

What CEOs & Boards are doing

- **From expansion to execution.** Operational discipline and controllability over aggressive expansion.
- **Margin resilience & capital allocation** — reallocating to growth pockets, not chasing volume.
- **AI from pilots to core.** A top investment priority, deployed transparently with sound governance.
- **Portfolio & M&A discipline** — divest non-core, secure growth brands before valuations re-rate.

Levers: (1) a price-pack and private-label review; (2) AI productivity diagnostic with a reinvestment ring-fence; (3) a portfolio review against defined growth pockets; (4) a regulatory-readiness check.

Sources & currency

Current AU macro — March-qtr 2026 national accounts (ABS). AU retail/category — ABS & Australian Retail Council household spending (to Mar 2026), Deloitte Access Economics, IBISWorld, Circana, Numerator, Rabobank/Mi3, retailmosaic (2026). Structural F&B — McKinsey, "State of Food & Beverage" (Apr 2026; 15,169-consumer survey, Dec 2025; figures largely US/global). Earlier structural/category context — McKinsey "Rescuing the decade" (Jun 2024) and Euromonitor (2025). Pre-2026 and non-AU third-party figures are attributed and dated; they inform structure, not current Australian levels.