

Market overview

In this section we address the dynamics of the UK grocery market and how it has changed during the year to provide context for our strategy and performance.

UK grocery retail market

For our financial year, the grocery market was worth £97bn, an increase of 5.6%. The top four supermarkets combined accounted for 79% of the market*.

Nielsen Retailer Services

Commodity prices

Although commodity prices were easing off at the start of 2009, during the year prices increased significantly for a number of basic commodities.

Commodity price increases caused food price inflation across all food groups.

Wheat

The price of wheat more than doubled, reaching record highs in early 2008.

Wheat prices eased off during the remainder of the year as stock levels recovered from the shortage caused by bad weather in the key worldwide wheat growing areas.

World stock levels have now returned to the level of supply seen in recent years. This continues to put downward pressures on wheat prices.

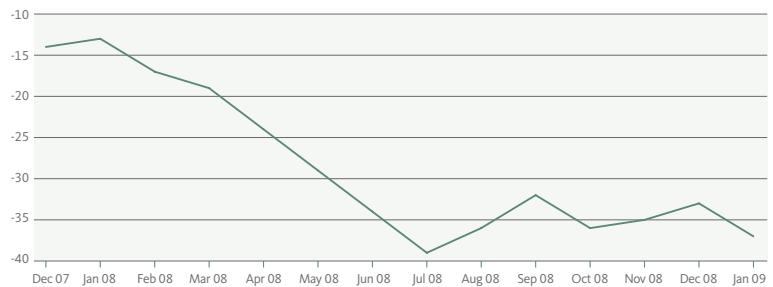
Sources: FAO

Consumer confidence

UK consumer confidence is at the lowest ever recorded. It is four points lower now than in March 1990, which was just ahead of the last recession and at an historic low.

Consumer confidence

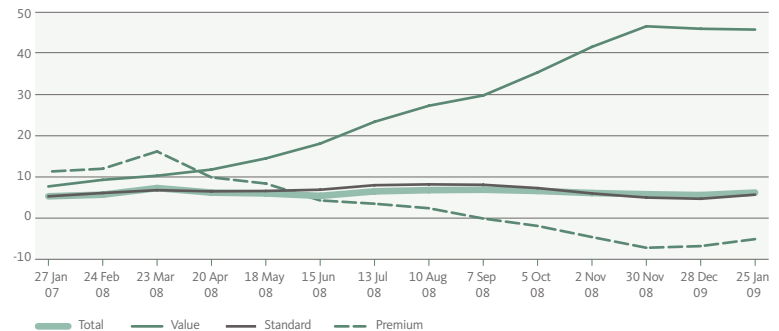
Source: GfK NOP



Consumers are switching retailers in search of cheaper prices and value, and switching brands from premium and organic to standard and value ranges. The combination of lower consumer confidence, rising food and fuel prices and the deterioration of the economy had the result that, by May 2008, there was real evidence of a change in consumer behaviour.

Consumer shopping trends

Source: TNS



Consumers are eating out less and are generally looking for cheaper forms of entertainment, to a large extent based in the home. Cook at home ranges have seen strong sales growth as customers are dining out at home.

12.8%* of household spend is on groceries, third only to housing and transport.

49p* out of every £1 in retail spending is on groceries.

* Institute of Grocery Distribution

Consumer trends

Despite the current economic environment, consumers are still interested in where their food comes from. Health, quality and provenance remain important factors in food choice.

6.5%[†]

increase in purchases of fruit and vegetables in recent years, believed to be as a result of the 5-a-day government initiative to increase the public's intake of fresh produce.

[†] Defra Family food survey 2007, published in 2008

Regulatory change

The government reduced the rate of Value Added Tax to 15% with effect from 1 December 2008 in order to help boost retail sales during the current economic downturn. It is due to increase to the previous rate of 17.5% on 1 January 2010. This rate change has a relatively small impact as a large proportion of food sales are zero rated.

Our market position

Although the market environment remains difficult for the consumer, we continue to provide value and a unique fresh offer with great service. The success of our strategy shows we have the capability to manage the business during this difficult time, as reflected in our increase in market share year-on-year. The purchase of a number of Co-op stores, 22 of which are in the South, will further increase our market share in our three southern regions.

Total Morrison market share %



Source: TNS

Our market share by region

