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Sent: 21 May 2026 06:36

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Subject: Inflation Update May 2026

Good morning, I hope you are well.

I am writing to share updated information regarding current inflation.

While some of this may have already been discussed during recent budgetary reviews, the ongoing volatility and continued impact of inflation make it important to highlight this information separately.

Given the current economic climate, we believe it is essential to ensure full visibility and understanding so that any potential implications can be considered proactively.

Please take a moment to review the details provided. If you have any questions or would like to discuss further, do not hesitate to get in touch.

Thank you for your time and attention.

SAM SMITH
OPERATIONS MANAGER (he/him)

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MIDDLE EAST – SUPPLY CHAIN IMPACT: MAY

Overview

- Middle East escalation is raising cost and supply risk, lifting food inflation expectations.
- Strait of Hormuz: rerouting continues to extend transit times and keep freight costs elevated.
- Inflation expectations are moving faster than prices, increasing caution and slowing decisions.
- Baseline outlook is c.+3.8–4.8% food inflation (uncomfortable but manageable) with risk of +8% in H2 2026.

Key implications

- The UK supply chain is currently in the 'eye of the storm' absorbing and delaying the pass-through of international shocks.
- We can see this evidenced in the latest UK food and non-alcoholic beverage result in which prices rose by 3.0% in the 12 months to April, dropping from 3.7% in March. This helped the headline Consumer Prices Index (CPI) ease to 2.8%, marking a period of cooling supermarket and grocery price inflation albeit, we're seeing signs of this now ending in real-time from June.
- UK suppliers cannot indefinitely absorb a 74.5% surge in crude oil prices alongside uniformly rising global food indices.
- As of May we have started to receive notifications of price increases arrive, directly linked to macrocosmics. Non-food (disposable, consumables) appear to be the first categories hit where we are more reliant on Far East imports
- We have established contract structures in place to control price increase and have certain key items where we have forward bought however, this only offers so much protection.
- Overall, cost will begin to rise – to what extend remains unclear based on any acceleration or deceleration of the conflict and movement of goods through the Strait of Hormuz.

MIDDLE EAST – SUPPLY CHAIN RESPONSE: MAY

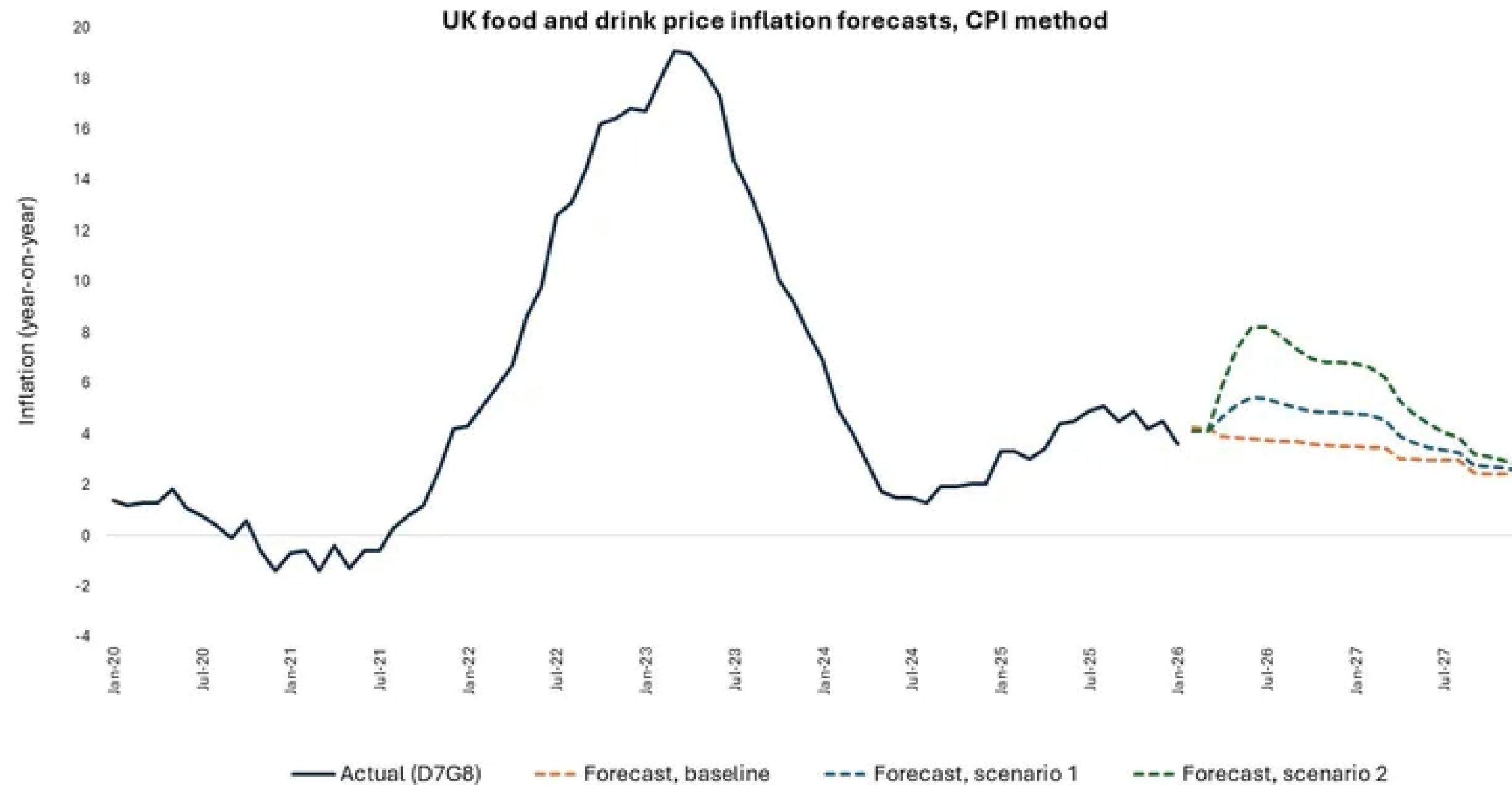
The conflict isn't changing the rulebook - it's raising the temperature. The procurement team are combining disciplined evidence-based pricing negotiations, with high-trust relationships with strategic suppliers. The team are also reviewing how we can leverage the current domestic softness to lock in long-term contracts where possible, before the reality of the geopolitical energy shock inevitably breaks through to the UK border.

Contingency

Our UK-centric sourcing strategy limits, although does not fully mitigate, our exposure.

- Our agile and diversified supply chain provides optionality across categories, regions and products, supporting continuity of supply.
- Given the scale and depth of our relationships, we would be prioritised by key strategic partners such as Bidfood and Bunzl.
- Our data capability is stronger than ever, enabling rapid assessment of impact and timely decision making.
- The team is proactively reviewing supplier financial resilience, now an emerging risk. Recent supplier failures highlight ongoing pressure from elevated input costs.

UK INFLATION FORECAST 2026/27



Source: ONS, IGD Research, March 2026

Spike risk: current modeling projects a short-term spike however, the outlook remains highly uncertain, and the balance of risks has shifted clearly upwards, reinforcing the vulnerability of the food system.

2026 Inflation Forecast Headlines

- **Baseline Scenario** (assuming no conflict escalation): 3.8% av.
- **Middle Scenario** (moderate energy shock): 4.8% av.
- **Worst-Case Scenario:** Potentially over 8% by H2 26, averaging around 6.4% across 26

Key Drivers

- Ongoing Middle East conflict affecting energy and logistics
- UK government policy changes and labor shortages
- Extreme weather events linked to climate change causing global supply chain disruption.

Key Implications

- **Food prices:** UK food prices projected to 'rise by 50% since start of cost-of-living crisis' according to research from the thinktank Energy and Climate Intelligence Unit (ECIU)
- **Consumer impact:** 30–33% of shoppers are expected to cut back on spending
- **Budget pressure:** Households may face an additional £150+ in annual grocery bills under higher inflation scenarios
- **Retail landscape:** Persistent inflation means retailers must focus on value and supply chain resilience.

THANK YOU



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