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Poland Retail Panorama: Household spending is supporting the economy but challenges remain

The Polish retail sector benefits from increasing household consumption and rising consumer sentiment. As a result retailers have been able to generate higher turnover, but an intense competition and deflation period imposed reduced margins and low profits. Businesses will still take the opportunity of good demand perspectives however challenges are going to remain. They include a further consolidation process, adjusting to changing consumers' preferences and their price sensitiveness as well as forthcoming new tax burden.

Poland is expected to record solid growth levels, namely of 3.5% this year and 3.4% in 2016. The economy currently benefits from good perspectives on the labour market, with an unemployment rate at its lowest level since 7 years and solid growth in wages. The latter is further enhanced, in real terms, by deflation which has been present in Poland since the middle of 2014. These factors, combined with consumer sentiment reaching its best levels since 2008, translate into higher consumer spending. Indeed, companies have been experiencing higher demand, confirmed by solid dynamics of retail sales including both daily necessities as well as durable goods.

While deflation has been beneficial for consumers, retail companies are suffering from the ongoing period of negative price changes. Poland's retailers, which mainly consist of grocery stores, have found the economic environment challenging, with stock replenishments subject to further price drops. Although the increased consumer spending has supported internal trade, households are committing part of their incomes to rebuilding savings, rather than spending it all on consumption. In a context of higher demand but strong competition and low margins, retailers have been able to increase their turnover but, in many cases, profits have been lower than expectations and targets. In order to be more effective, companies have looked for opportunities to increase profits – by cutting costs, increasing sales of premium products with sizable margins and conducting various marketing campaigns. Retailers have also been facing the changing preferences of Polish consumers. While they continue to be price sensitive, as in the past, they now take into account more criteria in their shopping decisions – such as product ingredients and store proximity. The combined criteria of price, location and addressing consumers' needs have contributed to the increased popularity of discount stores in recent years.

“Retail trade benefits from good prospects of consumer demand which, however, will not eliminate challenges for the sector including the intense competition and implementation of new levy for retailers. Foreign chains will remain dominant taking an advantage of their large-scale bargaining position and offering the most attractive prices for consumers even despite being charged by the new tax”, explained Grzegorz Sielewicz, Coface Economist in Poland.

Coface anticipates that the macroeconomic environment for the retail sector remains supportive with further improvements in the labour market leading to solid consumer spending. As a positive point for retailers, deflation will be exiting the Polish economy. Headline deflation will return to positive territory in late 2015 and will gradually increase during the course of 2016. The retail market will still be characterised by several challenges:

- Fighting for higher market share in the midst of intense competition will continue to have a negative effect on retailers' margins.
- Some entities, especially smaller, less effective ones, will be the subject of further acquisitions.
- Foreign chains who wish to increase their market presence will expand more with smaller formats, such as convenience stores. The latter will offer even more attractive formats for businesses, as they will not be affected by the proposed tax for bigger retailers that the new Polish government is likely to introduce soon.
- The levy, which will concern the largest foreign and domestic retail companies, will probably be transferred onto customers, impacting their purchasing power. Nevertheless, although there will be fluctuations within the Polish retail market, the largest chains will be still able to draw consumers attention with the most attractive prices.
- Last but not least retailers, including grocery stores, will further expand the online part of their businesses – both as means of avoiding the new tax and to meet the growing preferences of consumers for internet shopping.

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