PANORAMA

December 2015

Poland Retail Sector – Household spending is supporting the economy but challenges remain

COFACE ECONOMIC PUBLICATIONS

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Despite the current global economic turbulence and the slowdown in the biggest emerging markets, the Central and Eastern European region is performing well. Among this group of countries, Poland's economy is continuing to deliver solid growth rates. Our growth forecasts for the Polish economy, of 3.5% for 2015 and 3.4% for 2016, assume strong contribution from domestic demand, with private consumption as the main driving force for growth. Previous quarters have already shown good dynamics in retail sales. This is due to the improvements in the Polish labour market, with falling unemployment and rising wages, along with the positive impact of imported deflation on consumers' purchasing power. With these factors, combined with the highest level of consumer sentiment in the last seven years, the outlook is positive for the retail sector. Nevertheless, the increased level of consumer spending remains below its potential, as households are apportioning some of their income to rebuilding savings, due to the difficulties experienced in previous years.

Retail companies were able to increase their turnover, thanks to rebounding household demand, while retail insolvencies decreased by 33% y/y in the first three quarters of 2015. Nevertheless, their profits remained constrained due to low margins, intense competition and a one and a half year period of deflation. This deflation has been beneficial for households but has made it more difficult for retailers to generate growth in turnover who, in many cases, suffered from their earlier stock replenishments (i.e. at higher prices). Although the macroeconomic environment will be beneficial for domestic trade, several challenges remain – with new ones on the horizon. Intense competition will lead to further acquisitions in the sector. Large entities (mainly foreign companies), will become even bigger and diversify into new retail areas and formats.

Moreover, a new tax will be introduced, aimed at the largest retailers. The new tax measures will affect many retail entities, both foreign and domestic, who are likely to transfer a majority of the burden onto consumers. The largest retailers are likely to remain the most attractive, as they are able to offer lower prices to customers than the smaller chains. Our Panorama focuses on the demand side of the macroeconomic environment (which strongly determines the business performance of the retail sector), as well as on grocery stores, as they constitute the bulk of Poland's retail sector (83% according to total sector revenues). Grocery stores will be the most affected by the new tax levy.

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