

RETAIL: POLAND

RISK ASSESSMENT: MEDIUM

HIGHLIGHTS AND OUTLOOK

Poland is the largest market in the CEE region. With nearly 38 million inhabitants and private consumption taking the largest share of the country's GDP, it is attractive for retail companies. Especially since households have become wealthier. Growth in wages has continued over the last few years, exceeding an 7% annual rise in the first half of 2018. Unemployment has been gradually decreasing and it reached 3.7% in June 2018, i.e. much below the EU average of 6.9%. Unsurprisingly, household consumption is the main driving force of the economy and its growth reached nearly 5% on average in the last quarters. The trade creates almost 16% of the country's GDP and nearly 18% of value added.

The structure of the Polish retail market is diversified. In cities, towns and suburbs, the density of supermarkets and hypermarkets is relatively high. However, small stores are also present, both in cities and rural areas. Therefore, concluding the overall structure, small stores dominate with a share of nearly 44%, but the largest stores whose sales area exceeds 1000 m² take a second place with a share of almost 27%. As a result, the Polish retail market is penetrated by large foreign companies, like Tesco, Auchan, Carrefour, Kaufland as well as discount store chains, like Biedronka, Lidl, Netto, Aldi and also small stores which are often managed as franchising entities.

Higher consumer demand has been seen in various parts of the retail sector. The average growth rate of the retail sector in the first half of this year exceeded 7% annually with high increases seen especially in textiles, clothes and footwear, pharmaceuticals and cosmetics, furniture, TV and household appliances as well as vehicles. The positive impact of solid demand is dwarfed by difficulties perceived by players in the sector. It mostly includes increasing wages of employees and sizeable labour shortages. Higher operational costs have limited possibilities to be transferred to prices as clients are still price sensitive and can easily change their preferred stores due to price increases. Labour shortages and an introduced ban on trading on (so far selected) Sundays encourages retail companies to invest in the e-commerce part of their businesses. Due to significant resources needed for such investments, it is a further area of expansion restricted mostly to large retail companies.

Strengths

- The largest consumer market in the CEE region
- Solid growth dynamics expected
- Traditional actors expected to develop further high business potential e-commerce branches

Weaknesses

- High competition
- Limited room for increasing margins
- Employees' wage pressure and labour shortages

Key Players

- **Jeronimo Martins Polska S.A.**: owner of «Biedronka» stores
- **Eurocash S.A.**: active in wholesale and retail franchising format
- **Tesco Polska** : Polish entity of global retailer

Source: Coface CEE Top 500

Regional Risk Assessments: Retail

ASIA	LOW
CENTRAL & EAST. EUROPE	MEDIUM
LATIN AMERICA	MEDIUM
M. EAST & TURKEY	HIGH
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

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SECTOR ECONOMIC INSIGHTS

The retail sector is an important part of the Polish economy. In the last few years (2014-2017) the trade has created almost 16% of the country's GDP on average annually and nearly 18% of value added. According to the latest available data as of 2016, retail companies generated revenues reaching PLN 512.5 billion (EUR 117.4 billion). Compared to the prior year, the turnover of the retail sector increased by 6.3%. A higher pace of growth was recorded by entities selling non-food merchandise (+7.5%) than businesses selling food and beverages (+3.5%).

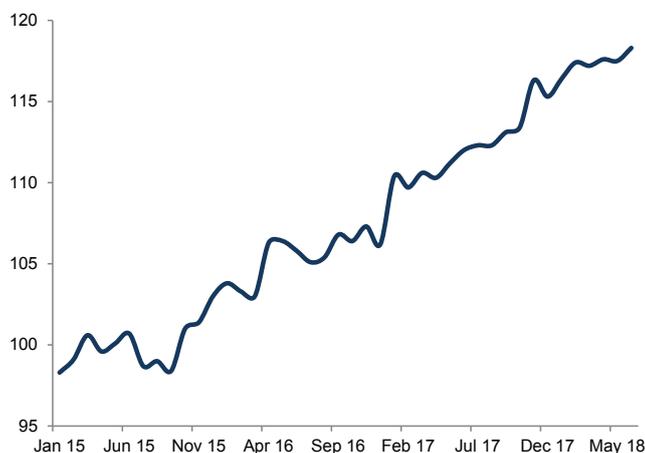
The number of stores exceeded 367,000 with the total sales area amounting to 37.1 million m². In the overall structure, small stores up to 99 m² dominate (a share of 43.9%), then the biggest stores over 1000 m² take second place (a share of 26.9%). The specialisation split shows that general stores are the most common (a 44% share), then grocery stores (22%) and clothes shops (10%). The retail sector is still mostly owned by Polish companies. Stores owned by foreign companies amounted to a 4.4% share of the total number of entities in 2016; however their share in total area reached 28% as it includes mostly larger stores.

The current economic environment is supportive of the retail sector in Poland. GDP growth accelerated to 4.6% in 2017 and it grew more than 5% in the first half of 2018. The main driving force of economic activity is household consumption which contributed to around 60% of GDP growth in the last quarters. Poland's healthy labour market – a 28-year low rate of unemployment, rising wages, and improving sentiment – is contributing to higher consumer demand for goods, both durable and non-durable. Indeed, the unemployment rate dropped to 3.7% in June 2018, i.e. much below the EU average of 6.9% whereas growth of wages has been accelerating each year reaching +7.3% YOY in the first half of 2018. Increasing wealth of households contributes more to spending than saving. Last year's retail sales have been gradually growing. In constant prices, they increased by 5.7% in 2016 and jumped by 7.3% in 2017. Growth was recorded in all categories however the most dynamic increases were noted by businesses selling textiles, clothes and footwear (+18.7% in 2017), pharmaceuticals and cosmetics (+12.8%), furniture, TV and household appliances (+9.8%) as well as vehicles (+8.4%). Although the first months of 2018 indicated an even higher pace of growth, retail sales are not likely to accelerate more. In the first half of this year retail sales dynamics reached

6.8% and an approximate similar level is anticipated to be recorded in the next few months. The situation of households remains good, however there is no room for further acceleration, especially since starting 1st March 2018 the Polish government introduced a ban on trading on Sundays (so far selected ones but to be gradually extended over the course of the next two years).

Although the situation on the Polish labour market is supportive for households' demand and it contributes to a higher trade turnover, the retail sector also suffers from negative consequences. Low unemployment triggers significant labour shortages which are reported by a rising number of companies as a barrier in their business operations. That additionally puts pressure on wages. Some relief has been brought by an inflow of foreign workers (mainly Ukrainians) but still the sector suffers from difficulties in fulfilling vacancies. Moreover, despite households having become wealthier, they are still price sensitive in their shopping decisions. Combined with high competition that is present in the sector, it makes rather limited growth of margins. Nevertheless, the financials of retail companies confirm that the latest period of accelerating private consumption has been supportive. The sales profitability rate increased from 1.1% in Q1 2017 to 2.0% in Q2 2018. In the same period, the gross turnover profitability rate increased from 0.8% to 1.3%. In general, larger companies benefit more using their bargaining power. They often cooperate directly with producers without a wholesalers' intermediary and can offer lower prices for final clients. Insolvencies and restructuring proceedings have been recorded mostly among small retail companies. The total number of such proceedings in the entire retail sector increased especially in 2017 when it jumped by 22%. In the first half of 2018 it has stabilized and increased at a slower pace, namely by 3.4% YOY. The latest Coface payment survey conducted among Polish companies showed that the retail sector experiences the lowest payment delays among all sectors in Poland. They averaged 19.3 days after the requested date of payment compared to 62.5 days as a cross-sectorial average. On the other hand, the retail sector recorded an increase in payment delays compared to a previous survey. Whereas they averaged 15 days at the end of 2016, they soared to 19.3 days at the end of 2017.

POLAND: RETAIL SALES (2015=100)



Source: Eurostat