

2. 2016 Environment

2.1. Poland

Macroeconomic Environment

In 2016, the Polish economy maintained a positive performance, but the growth in GDP slowed down compared to the previous year, standing at 2.8% according to the Polish Statistical Office (GUS) (+3.9% in 2015). Domestic demand remained the main GDP growth driver, supported by the gradual improvement in the job market, confidence of households and the distribution of subsidies under the “*Family 500 plus*” programme. On the other hand, and mainly due to the reduction in European Union flows, the growth in GDP was conditioned by the fall in investment.

Employment continued to grow, with the number of the working population remaining stable, resulting in further declines in the unemployment rate which decreased by 1.5 p.p. compared to 2015, standing at 9.0%, the lowest level in the last 25 years. The decrease in unemployment, in turn, supported the growth in wages (the average wage rose by 4.1% in 2016).

In 2016, the zloty recorded against the euro a devaluation of 4.1%. The year-end foreign exchange position also showed a deterioration against the euro (-3.3%), with a 4.4103 and 4.2639 rate for 2016 and 2015, respectively.

The evolution of prices in the economy stood at -0.6%, slightly up from -0.9% in 2015 and the food inflation was 0.8% (-1.7% in 2015).

Although it has given clear signs of increase in recent months, inflation remained low throughout the year, in a context of lower economic growth and a drop in the prices of commodities, particularly in energy.

Modern Food Retail

According to PMR Research, the Modern Food Retail market grew by 4.2% in 2016 (+2.6% in 2015), exceeding 254 billion zlotys, having benefited from a set of economic measures to boost consumption, in particular the “*Family 500 plus*” programme, which gives families an amount of 500 zlotys per month for each child (excluding the first child).

Another topic that deserved attention during the year was the retail tax that eventually earned the opposition of the EU, and its entry into force was delayed. It should also be noted that, in 2016, reference was often made to the creation of a law to prohibit the opening of Modern Retail stores on Sundays, although this had not been made public/concluded during the period.

As was the case in 2015, disposable household income continued to show a solid growth. Nevertheless, the Polish consumer has remained very sensitive to the price factor and with a very rational behaviour when purchasing. Price, along with the increased importance of convenience, were the key elements in the purchasing decision process.

In this context, in 2016, there was an increase in the importance of promotional activity, which was intensified, more focused on increasing the volumes sold rather

than on specific products, with the main market players launching various campaigns, offering consumers better benefits to those who made higher value purchases, in order to increase the average basket with discounts and special prizes. Promotional activity was also undertaken as a real marketing tool, with the media giving wide coverage to the promotional actions.

In the Food Retail sector there was still a move towards consolidation, with the number of independent stores being reduced, in line with the trend of previous years. The market remained highly competitive, with the major organised retail chains leading the growth, but also with chains of small local stores and supermarkets having quite substantial representation.

For 2017, it is expected that the increase in income will continue to benefit the Food Retail sector, although penalised by some shift of consumption to the HoReCa channel. On the other hand, there will be a larger number of consumers placing value on convenience. E-commerce should also post growths, with many of the leading operators considering launching online stores. Overall, the outlook for the market is positive, which is directly related to the projections for the economy as a whole, although still with some uncertainty about the introduction of the retail tax and the prohibition of opening on Sundays.

Health and Beauty Retail

According to the projections of PMR Research, the Polish Health and Beauty market grew by 4.2% in 2016, to 22.1 billion zlotys, reflecting the significant growth in consumption seen during the year, particularly in the second half, which was decisively helped by the "Family 500 plus" programme which generated an additional consumption stimulus, also having a positive impact on this market segment.

The biggest sales stimulus was the promotions, with retailers intensifying promotional activities to attract consumers.

On the other hand, consumers are increasingly demanding regarding the offer available in the stores, looking for products with effective results, such as professional range products that can be used at home.

Natural cosmetic products represent an increasingly strong trend and there was also an increase in the popularity of local and craft brands. Convenience when purchasing is also increasingly valued, such as the ability to shop in stores with beauty products and cosmetics, which have also pharmaceutical products.

Loyalty programmes continued to be key in the Health and Beauty retail business: about 41% of the Polish population are members of a loyalty programme, despite the 6 p.p. decrease compared to 2015.

There was a significant increase in the opening of new stores, particularly relevant in the larger chains. Shopping centres and arcades continue to be the most attractive places, although we are starting to see an increase in openings in smaller cities.

Discount stores, which in recent years have expanded the offer of both manufacturer brand and Private Brand cosmetics, rose one place to third among the most popular locations to buy these products, the leader being the drugstores followed by the hypermarkets.

In the cosmetics market, the market share of the Discount stores rose significantly in the last years, driven mainly by Biedronka's growth, followed by Lidl.

For the future, the Health and Beauty market should continue to record significant growth, benefiting from the Polish consumers' better economic situation and the organic growth of the large retailers.

Consumers' attention to the price of products will continue to be a critical aspect when purchasing. However, a greater appreciation of the quality and effectiveness of the product is also predicted.

2.2. Portugal

Macroeconomic Environment

In 2016, Portugal maintained the path to moderate recovery of its economic activity, recorded in the last two years.

The economic growth was 1.4%, below the previous year's growth (+1.6%), reflecting the irregular performance registered throughout the year. The moderate growth seen in the first half of 2016 reflected the slowdown that began in the second half of 2015 as a result of a lower contribution from domestic demand and exports.

The second half was characterised by an acceleration of the economic activity, supported by an increase in exports and a growth, although slight, in domestic demand, which led to acceleration in private consumption and a lower drop in investment.

According to the European Commission's Winter Report (February 2017) 2016 closed with a slowdown in the domestic demand growth of 1.3% (+2.5% in 2015), reflecting the lower contribution from investments, conditioned by the sharp drop in public investment. The main contribution to the positive evolution of domestic demand came from private consumption growth of 2.1% (+2.6% in 2015), the consumption of durable goods being particularly relevant, due to the increase in disposable income, the decreased unemployment rate and maintenance of consumer confidence.

Exports posted a more moderate growth of 3.9% (+6.1% in 2015). This reflects the negative contribution from the exports of fuels, whose imported content is quite significant and also, but to a lesser extent, the reduction in the exports of services, excluding tourism. In contrast, it was recorded a slowdown in the growth of imports of 3.9%, after a very significant growth in 2015 (+8.2%).

With regard to the job market there was a reduction in the unemployment rate (+11.1%, well below the +12.6% recorded in 2015) and an increase in total employment.

With regard to inflation, it stood at 0.6%, slightly above the 0.5% in 2015, reflecting a smaller decline in the prices of energy and non-energy industrial products and a slight acceleration in the prices of services, particularly in more dynamic sectors such as tourism. Food prices grew by only 0.5%, while in 2015 the increase was 1%; this slowdown is mainly due to the prices of manufactured goods.

In 2016, the deficit stood at around 2.0% of GDP (4.4% in 2015), meeting the target set by the European Commission. Nevertheless, despite this reduction Portugal will still be facing risks of budgetary sustainability, in the mid-term.

Modern Food Retail

In 2016, the Portuguese economy underwent a positive evolution, particularly with regard to private consumption, reflecting a set of favourable factors.

Along with the increase in actual disposable income, there was a decrease in the unemployment rate, which helps to explain the increase in consumer confidence, maintaining the recovery trend seen in 2015, recording higher values when compared to the last few years. These factors have of course contributed to an increase in the consumption of Portuguese households, which was extended to the food area.

After a recent past showing a decrease or moderate growth in sales, Food Retail performed more dynamically, with a more favourable sales growth than that recorded in 2015, having increased by 4.2% in 2016, according to the National Statistics Institute.

However, the competitive environment remained very intense throughout the year. In addition to the strong promotional aspect, there was also an accelerated pace of opening new food retail stores, as well as remodelling existing stores.

Regarding purchases in the food, hygiene and cleaning categories, there was simultaneously an increase in the purchasing frequency and in the average basket.

Factors such as proximity, price and promotion continued to be critical for consumers to choose their shopping location throughout the year. As was already the case in 2016, it is expected that in 2017 these aspects will continue to be relevant, combined with an increased consumer awareness about the importance of healthy eating and the growing importance of convenience in the purchasing decisions.

Wholesale Market

In 2016, the turnover of the Cash & Carry operators recorded a positive trend (3.7%, according to TSR Nielsen – Cash & Carry Market), mainly as a result of the dynamics seen in the HoReCa channel.

In terms of the opening of Cash & Carry stores, of particular note are the opening of the *Recheio* store in Sines and the *Poupança* store in Setúbal.

In Traditional Retail, it should be noted the openings of 54 new Amanhecer stores and around 80 from other market players (mainly *Meu Super* stores), reinforcing the positioning of the proximity retail chains scattered over a wide area of the country.

For 2017 a continued good performance in the tourism, hospitality and restaurants sectors is predicted, as well as the revival of Traditional Retail.

2.3 Colombia

Macroeconomic Environment

In 2016, the growth of the Colombian economy slowed down more than estimated as a result of an unfavourable external environment and some internal constraints having a significant effect on the economic activity, especially the lower global growth, the reduction in the production and price of oil and a slower implementation of the country's road infrastructure plan. In addition, there was an increased uncertainty in the economic agents caused by issues concerning the tax reform, the peace process and the elections in the United States.

The more modest GDP growth (2.0%) was also a reflection of the low dynamics in farming and mining, and also of the significant impact of the strikes that took place in the transport sector.

This GDP growth was the lowest level since 2009, when the economy registered an annual growth of 1.7%, with both private consumption and public and private investments decreasing significantly. The slowdown in domestic demand was also reflected in the reduction of imports.

The reduction in oil and coal prices worsened the trade balance, significantly impacting the public deficit, which exceeded international economic standards (about 5.0% in 2016).

Average inflation in 2016 was 7.5% compared to 5.0% in 2015, remaining well above the objective of the Colombian Central Bank (+3.0% with a variation of ± 1.0 p.p.). The main inflationary pressures were recorded in the tradeable food, goods and services categories, resulting from the *El Niño* weather phenomenon, the strikes in the transport sector and the strong devaluation of the Colombian peso.

The accelerated inflation led the Central Bank to increase the reference interest rate by 175 basis points during the year (from 5.75% to 7.5%).

On the other hand, the Colombian peso registered a significant devaluation during the year, which averaged 11.2% against the euro.

The unemployment rate also reflected the modest economic growth, contrary to the downward trend of the last six years and averaged 9.2% in 2016, 0.3 p.p. more than in 2015.

In this context, the consumer confidence index deteriorated significantly, having remained negative throughout the year, and considerably lower than in previous years, although it started a recovery trend as from April 2016.

Modern Food Retail

It is estimated that Food Retail in Colombia has a value of 65.5 billion dollars, with organised retail holding a market share of approximately 20%. According to data from Nielsen, Food Retail sales increased by 7.4% in 2016. Traditional Retail grew by 7.3%, Modern Retail by 7.1% and independent supermarkets grew 10.9%. During the year, there was more store openings in Modern Retail, with a total of 547 new stores opened compared to 233 openings in 2015. The Discount format had the highest

number of openings in organised retail, with 337 new stores, which represents 62% of the total number of stores opened.

The rapid expansion of the Discount format in Colombia led to additional dynamics in the Modern Retail market, increasing its penetration in 2016.

The economic environment in the country presented in this chapter led to Colombian consumers changing their consumption habits, as they moved their purchases to cheaper brands.

With regard to the categories, of particular note is that the sales of alcoholic drinks and beauty products did not undergo any sales losses resulting from lower economic growth. However food and non-alcoholic beverages were the most affected categories.

The latest trends and which should continue to be seen in the retail market are related to the increasing importance attributed to price and product innovation as a stimulus to sales growth. Regarding products, it is worth highlighting the need to align developments that are in line with new consumer habits, more focused on low prices and convenience.

In terms of format, it is expected that the Cash & Carry, Discount and Convenience Stores will continue to increase its penetration.

Sources:

Eurostat; Bank of Portugal Economic Bulletins; Portuguese Ministry of Finance; Portuguese National Statistics Institute (INE); National Bank of Poland Economic Bulletins; *Central Statistical Office (GUS)*; Banco de la República (Colombian Central Bank); Colombia National Administrative Department of Statistics (DANE); *Business Monitor International (BMI)*; BBVA; *Planet Retail*; Deloitte; TNS; Nielsen and PMR Research.