2. Environment in 2017

2.1. Poland

Macroeconomic Environment

Once again, the Polish economy achieved robust growth, which stood at 4.6% in 2017 (+2.9% in 2016). Domestic demand was the main growth driver, also sustained by the subsidies within the scope of the "Family 500 plus" programme, whereby families were attributed 500 zlotys per month and for each child (excluding the first child, in higher income families) as well as by the decrease in unemployment, combined with the substantial increases in salaries. Investment recovery, which can mainly be explained by the increase in funds from the European Union, was another contributing factor towards the country's economic growth.

The increase in demand for labour was partially accompanied by job offers. Unemployment reached historically low levels (+7.3%), with an increasingly large number of employers reporting difficulties in hiring the necessary personnel, which caused a rise in salaries.

In 2017, the zloty recorded an average annual exchange rate* of 4.2539 against the euro, which represents an appreciation of 2.5% compared to the 4.3627 recorded in 2016. The year-end foreign exchange position also appreciated against the euro (+5.3%), with a 4.1770 and 4.4103 rate for 2017 and 2016, respectively.

The annual growth of the CPI remained moderate at 2.0%, notwithstanding the increasing pressure on domestic demand and the growth, albeit slower, of import prices. On the other hand, the price of food products increased significantly (+4.2% vs. 0.8% in 2016), driven firstly by domestic factors (decrease in the offer of fruit due to adverse weather conditions during spring) and then by the increase in the price of some products worldwide, namely milk, butter and eggs.

The price of non-food goods and the stable growth in the price of services contributed towards basic inflation remaining low (+0.7%).

*Average annual exchange rate determined by weighting the turnover of the Group's companies operating in this currency.

Modern Food Retail

According to PMR Research, the Modern Food Retail market grew by 4.6% in 2017 (+4.2% in 2016), reaching in excess of 265 billion zlotys. This growth was prompted by the considerable increase in household disposable income, driven by the positive environment in the job market (an increase in employment and a significant growth in pay, supported by the substantial increase in the minimum wage) and by the partially delayed impact of the "Family 500 Plus" programme, launched by the Polish Government in mid-2016.

This programme had a significant impact on private consumption, which grew by almost 5% in real terms, and on the structure of household spending. Households allocated the additional income not only to better meeting their needs in terms of essential goods, but to the purchase of electrical appliances, tourism, cars and to buying and repairing their homes. Equally, there was an increase in spending on entertainment, and also an increase in savings.

The projected growth for the sale of non-food products is 1.5 to 2 times higher than the forecast growth of food-based products. As such, it is not surprising that retail chains have placed greater importance on non-food products.

The strong competition and the changes in consumption patterns and consumer behaviour resulted in the increasing popularity of smaller-sized stores situated closer to where consumers live or work. Convenience stores became a popular format, which is where openings were concentrated and where many chains tested or planned to test formats that are better adapted to the increased consumer's convenience needs.

In the Food Retail sector there was still room for consolidation, the number of independent stores having decreased, 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 continuing to have substantial representation.

The medium and long-term outlook is positive. Consumption should continue to rise alongside the increase in salaries, with a positive impact on Food Retail. However, for 2018, the main risk factor for the sector will be the ban on stores opening on Sundays. It is predicted that this restriction will start in March 2018, affecting two Sundays per month and that it will progressively be extended over the coming years, so that in 2020 it will only be permitted to open on seven Sundays in the year.

Health and Beauty Retail

According to PMR Research's projections, the Polish Health and Beauty market grew by 4.7% in 2017 (+5.7% in 2016), reaching 23 billion zlotys. 2018 should see the same growth dynamics and post a similar pace, the market being estimated to reach 24.1 billion zlotys.

The good economic situation recorded in Poland in 2017 had a very positive impact on the development of the health and beauty market. The fall in unemployment, the increase in the minimum wage and the "Family 500 plus" programme contributed towards a significant improvement in the Polish population's purchasing power, which was reflected in the growth of private consumption in the country.

On the other hand, there were other non-economic factors that were relevant for the evolution of the cosmetics market in Poland, which were related to changes in consumer behaviour and to the activities of several players.

Consumers are increasingly demanding in their search for novelties, natural products, local brands and specialized products (professional range and dermo cosmetic products). Great value is also placed on convenient shopping and store services. On the other hand, social networks and bloggers as influencers and opinion leaders are gaining more and more importance, especially among the younger generations. The ageing population has also changed consumer behaviour with regard to buying more specialized and anti-ageing products.

The market remained very competitive, both regarding price and promotions. Simultaneously, the Discount stores continued to develop their offer in the hygiene and personal care product category, namely cosmetics.

In terms of expansion, a significant number of openings continued to take place.

Over the next five years, PMR predicts that the Health and Beauty market will continue to grow at an average rate of more than 4%, the products (their specifications) and price remaining the critical factors when it comes to consumer choice.

2.2. Portugal

Macroeconomic Environment

In 2017, GDP increased by 2.7%, the largest growth since 2000, benefiting from an economic expansion cycle that extended to all the countries in the euro zone, home to Portugal's main commercial partners, as well as from the very favourable evolution of the tourism sector.

According to the latest information from Banco de Portugal (December 2017), this growth was the result of an increase in domestic demand of 2.7% (+1.6% in 2016), reflecting the positive contribution from private consumption (+2.2% vs. +2.1% in 2016) and the strong growth in investments (+8.3% vs. +1.6% in 2016). The increase in private consumption was essentially recorded in durable goods, while the boost in investments was in construction, machinery and equipment, and transport material.

Simultaneously, exports posted a significant growth of 7.7% (4.1% in 2016), with substantial gains in market share, where of particular note is the positive contribution from tourism and the automotive sector, boosted by the increase in its productive capacity. At the same time, imports picked up, growing 7.5% after a more modest growth in 2016 (+4.1%), influenced by the increase in the prices of energy, by mostly in the first half of 2017, and of other commodities in the second half of the year.

The level of consumer confidence continued to improve, as a result of a certain increase in actual disposable income, the progressive improvement in the job market and the continued favourable financing conditions.

Regarding the job market, employment evolved very favourably, with the unemployment rate dropping to 8.9% (+11.2% in 2016).

Inflation stood at 1.4%, considerably higher than the 0.6% in 2016, as a result of the rise in the price of imports and the slight increase in unit labour costs. Food prices increased by 1.5% (+0.5% in 2016).

In 2017, the deficit should have stood at around 1.2% of GDP (+2.0% in 2016), below the target of 1.5% set by the European Commission. This reduction is mostly due to the economic recovery, the fall in interest expenses and lower than budgeted public investment. Nevertheless, despite this reduction, in the medium term, there are risks of budgetary instability as a result of the increase in interest rates which, with Portugal's level of public debt, would mean a strong increase in annual interest expenses.

Modern Food Retail

In 2017, the Food Retail market recorded a positive evolution both in Specialized Establishments and in Non-Specialized ones, with a 4.1% growth in sales keeping broadly the same evolution as the previous year.

The competitive environment continued to be highly challenging, with intense levels of promotional activity, as was the case the previous years. The pace of expansion of new Food Retail stores was also maintained, in particular in the proximity formats, as well as the refurbishment of the existing store network.

In 2018, consumer behaviour should confirm the trend of the last few years, reinforcing their move towards convenient solutions that facilitate their daily routine and towards more conscious consumption with regard to the impact on their health and well-being. On the other hand, consumers will remain focused on rationalising their shopping, and so price/promotion will continue, therefore, to be a critical factor when choosing their favourite store.

Wholesale Market

During 2017, the turnover of the cash & carry operators in Portugal recorded a positive trend (+8.4%, according to TSR Nielsen – cash & carry Market), which was helped decisively by the dynamics in the HoReCa channel.

Growth in this channel naturally reflects the excellent performance of the tourism sector. According to INE (Portuguese National Statistics Institute), in the months from January to November 2017, the number of guests in hotels and other types of accommodation increased by 8.7%.

The network of wholesale stores remained stable, while of particular note is the opening of a new Recheio store in Vila Nova de Gaia.

It should also be noted that Garcias (a company specialized in selling wines and spirits) opened its 6th establishment in 2017.

Regarding Traditional Retail, we would highlight the (re)opening of 29 stores with the Amanhecer brand and the continuity of the opening of Meu Super stores, thereby reinforcing the proximity positioning of both chains operated by small retailers across the country.

It is predicted that the wholesale market will continue to perform well in 2018, with a positive impact from tourism.

2.3 Colombia

Macroeconomic Environment

In 2017, economic growth in Colombia softened compared to the previous year, with GDP posting an increase of 1.5%, the lowest since 2009. This evolution reflected the significant reduction in consumer confidence, largely explained by the adverse effect of the tax reform, which led to a sharp drop in consumption and in private investment.

The more accentuated than expected slowdown in economic growth caused a greater reduction in tax revenue than forecast by the Government, with significant impacts on the country's deficit, which meant that some of the planned structural public investments were postponed, such as investment in road infrastructures. Moreover, despite the very significant recovery of the coal price, the evolution of the oil price was lower than expected, with impacts on the trade balance and public deficit.

The external environment was also not the most favourable, with Latin America presenting very modest growth, combined with a backdrop of social tension.

The unemployment rate reflected the GDP growth slowdown, reaching 9.4% in 2017, 0.2 p.p. higher than in 2016 (+9.2% in 2016).

The average inflation recorded in 2017 stood at 4.3%, significantly below the 7.5% in 2016, but still higher than the Colombian Central Bank's target (+3.0%; ±1.0 p.p.). Even so, the lower inflation made it possible to reduce the reference interest rate by 275 basis points during the year (from 7.5% to 4.75%).

During 2017, the Colombian peso recorded an average appreciation against the euro of 1.3%.

An improvement to the Colombian economy is expected for 2018, supported by increased consumer confidence, as they should recover part of their purchasing power, due to the increase in VAT that already was incorporated in 2017 and, at the same time, due to lower inflation. In 2018, it is also anticipated that general elections will take place in March and presidential elections in May-June.

Modern Food Retail

The Colombian retail market showed timid growth in 2017, due to the negative influence of the tax reform, which had a strong impact on consumption and the confidence of Colombian households.

Food Retail in Colombia grew again versus 2016, however at a slower pace than in the previous year, with Traditional Retail and Independent Supermarkets recording a relatively stable evolution and Modern Organized Retail growing in comparison to the previous year.

The number of openings in 2017 was led by the Discount format, where over 500 stores opened. There were other types of formats opening up, although to a much lesser extent, and some closures mainly due to the integration in other retail companies.

The weight of the sales of the Discount stores in Modern Food Retail increased to 13%, according to the Nielson base analysis, benefiting from consumers being more price-oriented in an environment of lower economic growth. The pace of this format's expansion also contributed towards the evolution recorded.

In 2017, the Colombian Central Bank's reduction of the reference interest rate several times from 7.5% in 2016 to 4.75%, which made it possible to partially offset the slowdown in household consumption.

For 2018, we should continue to a see a significant growth in the Discount format, which should also gain presence in the proximity market.

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); *Planet Retail*; TNS; Nielsen and PMR Research.