

National Bank of Poland
Economic Institute
Bureau of Enterprises, Households and Markets

Economic climate in the enterprise sector in 2010 Q2 and forecasts for 2010 Q3

July 2010
synthesis

The report is based on the results of NBP Quick Monitoring carried out in March 2010 on a sample of 1032 non-financial entities representing all sections of the NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the public and non-public sectors, SMEs and large entities.

An additional source of information in this issue of the report are the findings of the NBP Annual Survey (AR NBP) conducted between the second half of April and the end of May 2010 on a sample of 838 non-financial entities. The Annual Survey has been conducted by the NBP incessantly since 1995. Its results are presented mainly in the form of boxes.

In view of the results of NBP Quick Monitoring and public statistics data, the following conclusions on economic climate may be formulated.

In 2010 Q2 enterprises reported an improvement in their situation, which was mainly driven by a marked increase in demand. In the opinion of enterprises, no equally strong demand growth should be expected in Q3. The sector continues to report a weak investment activity. Uncertainty about the expected changes in economic conditions persuades many enterprises to postpone their investment plans, even though there are no significant barriers in the financing of investment projects, especially from own funds. Certain weak signs of an investment revival have so far been only observed in selected groups of enterprises.

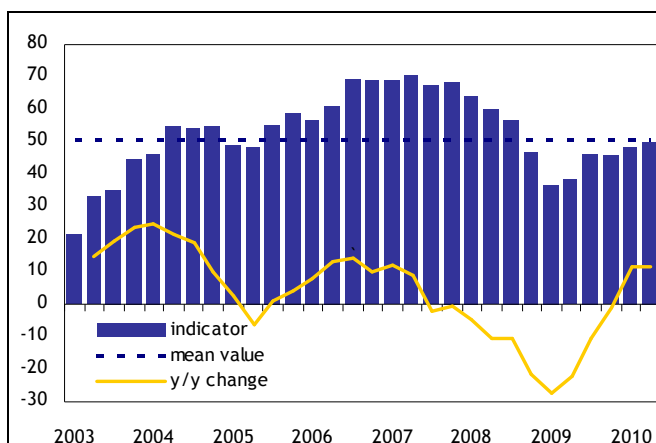


Figure 1 Current assessments of economic condition

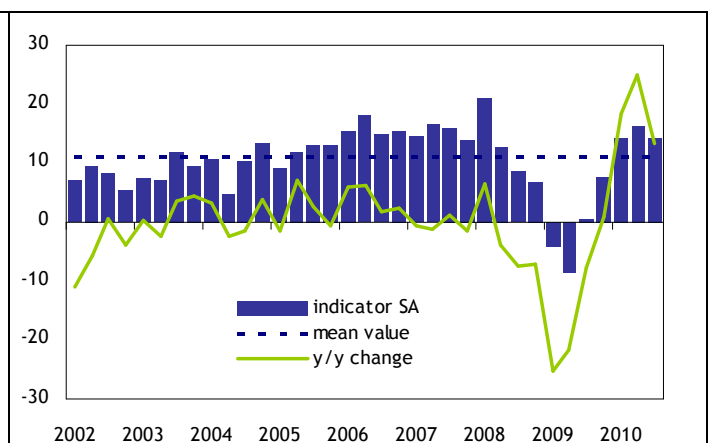


Figure 2 Enterprises' forecasts of economic condition

1. In Q2 enterprises reported diminished problems with finding customers for their products and recorded an improvement in production capacity utilisation. The scale of growth was also significant and reduction in the demand barrier was observed in the majority of sectors and classes, including in the group of exporters and enterprises selling their products in the domestic market only. However, the demand barrier remained the biggest problem of the enterprise sector, and the level of production capacity utilisation - especially as compared to other EU countries - still seems to be relatively low.
2. In Q3 enterprises expect the demand revival to slow down and so the output growth may be expected to prove slightly lower than that recorded in Q2. This may be connected with concerns about the consequences of the flood - every fourth enterprise in the sample anticipates this factor to cause a decline in sales. At the same time, enterprises do not expect any considerable acceleration in the improvement of the domestic conditions. Although the present situation is assessed as relatively good, only a fifth of enterprises expect it to improve further over the next 12 months.

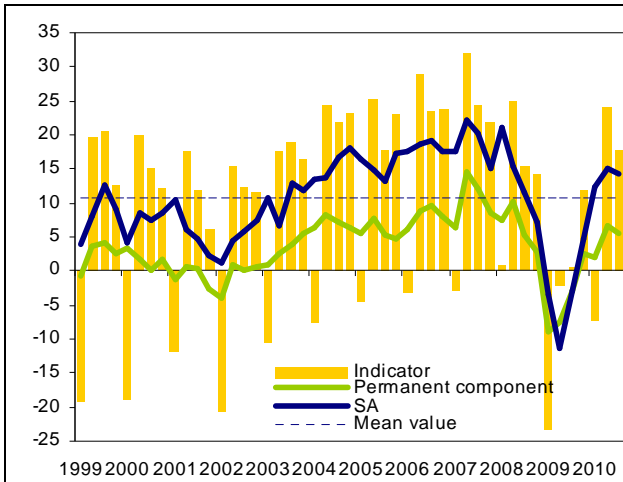


Figure 3 Demand forecast index

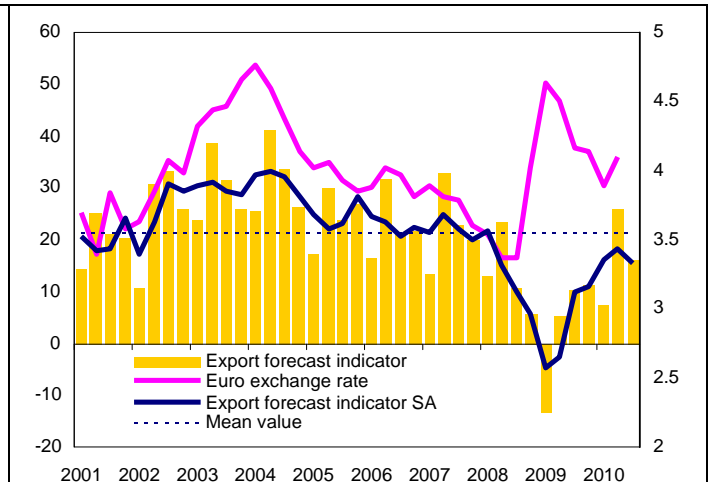


Figure 4 Export forecast index

3. There has been an improvement in export sales profitability. Even so, exporters still expect the demand growth to slow down. Export forecasts have deteriorated in quarter-on-quarter terms and remain clearly below the long-term average, despite some improvement in the economic situation in Germany, i.e. the largest foreign market for Polish exports. Enterprises assess the condition of their foreign trading partners to be relatively good and expect its further improvement. The decline in optimism of export forecasts may be attributed to concerns about the sustainability of the economic recovery in Poland’s major trading partners and uncertainty about the exchange rate stability.
4. Following the growth in production capacity utilisation, enterprises intend to increase their workforce levels. Improvement in employment plans has been continuously observed for over a year now. However, it should be emphasised that the change index balance remains close to zero, which means that the number of the employed will be growing slowly.

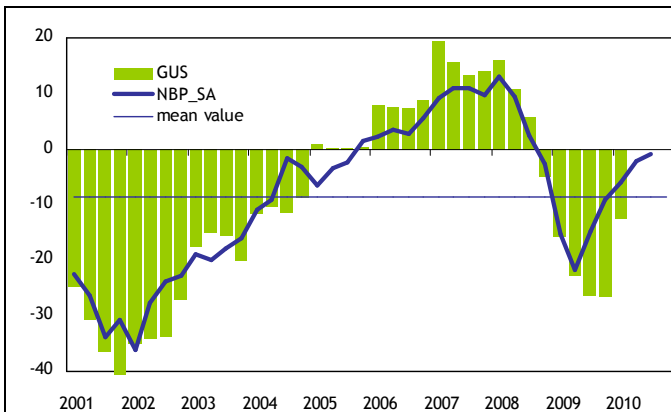


Figure 5 Employment forecast index

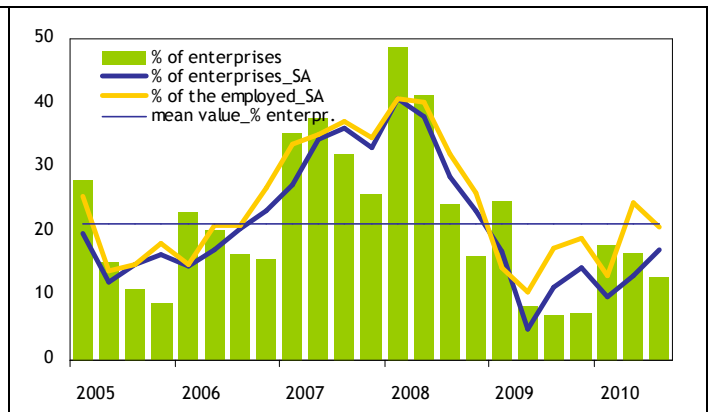
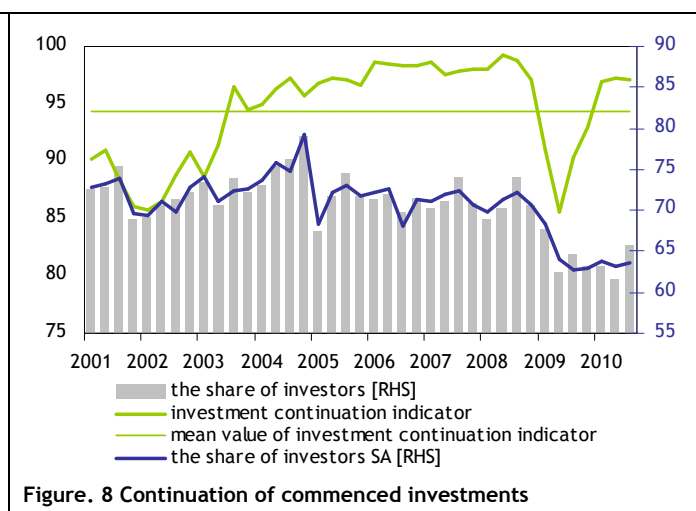
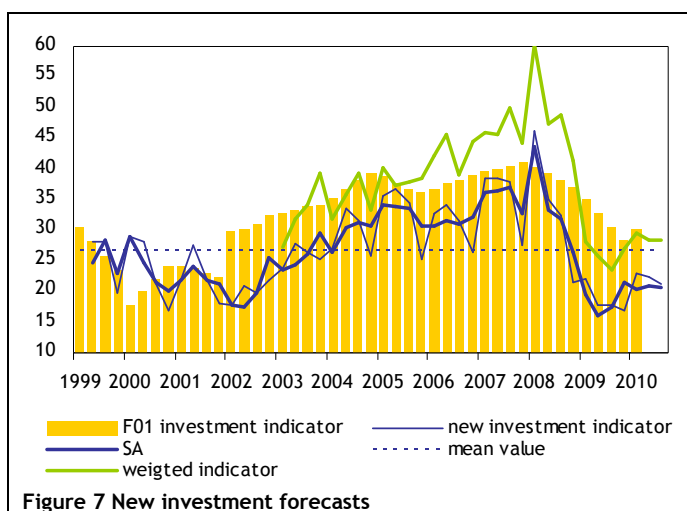


Figure 6 Plans to raise wages

5. During the period marked by intensified effects of the crisis, the rate of unemployment increased to a smaller extent than in the previous phase of economic slump. Wage increases will remain insignificant and lower than it was suggested by the plans for Q2, however, among others due to problems with finding specialists in certain professions and a good financial condition of the sector, enterprises are more willing to meet the demands of their employees.
6. Enterprises continue to negatively assess the investment climate. However, first symptoms of recovery can already be observed. Investment growth is most probable in large enterprises and in the group of exporters. Those signals have been weak so far and their effect on investment in Q3 may prove slight. Increased investment activity should be supported by the sustained growth in the level of production capacity utilisation and the continuation of own financial assets at a high level, allowing enterprises to finance their investment projects themselves. Apart from the demand barrier, enterprises do not see any greater obstacles to undertaking new ventures.



7. The interest in incurring bank loans has remained low. Among the reasons that could be named for this low demand for bank financing are still low investments, high level of own assets and a weak credit availability. Most respondents believe that their level of loan debt is optimal and so there are no clear grounds for the bank debt to rise. The share of companies intending to incur new loans in Q3 has picked up slightly in quarter-on-quarter terms but in the context of back data this is still a relatively small group of companies. It should be emphasised that bank loans are still less often incurred by enterprises in a good condition, and the share of investors financing their projects with own funds is growing. This situation may reverse in case enterprises begin to invest on a larger scale and their own funds prove insufficient to implement big developmental projects.

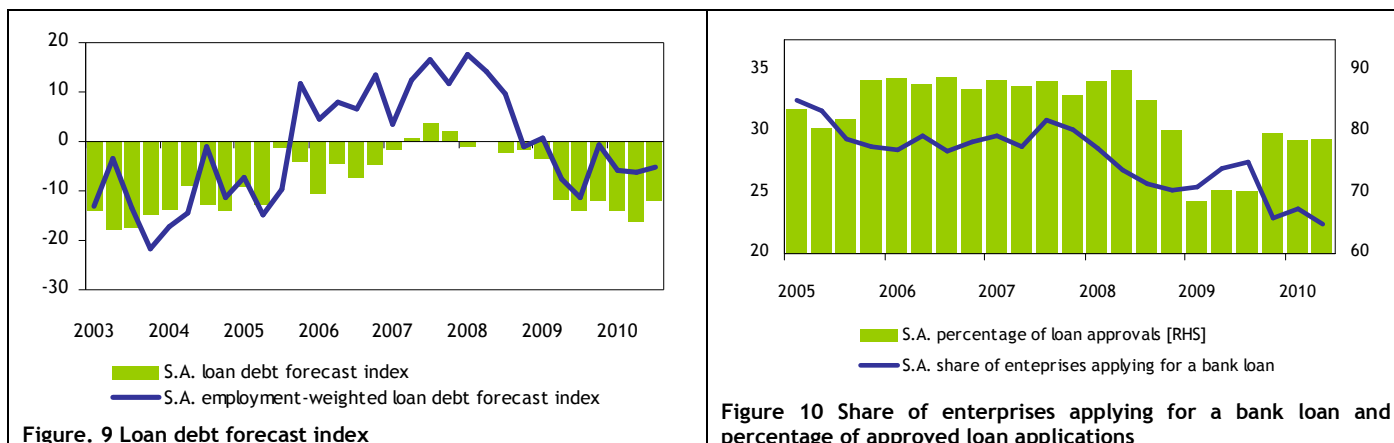


Figure 10 Share of enterprises applying for a bank loan and percentage of approved loan applications

8. The liquidity situation of the enterprise sector was still relatively good in Q2, even though it deteriorated slightly and the observed improvement in loan debt servicing was largely achieved at the expense of non-bank debt servicing. Even though serious payment bottlenecks are reported by 13% of enterprises, only half of entities in this group see this problem as an important barrier to growth. The occurrence of payment bottleneck does not necessarily mean financial liquidity problems for the enterprise. Some companies experiencing bottlenecks in their environment nevertheless duly pay their own obligations.

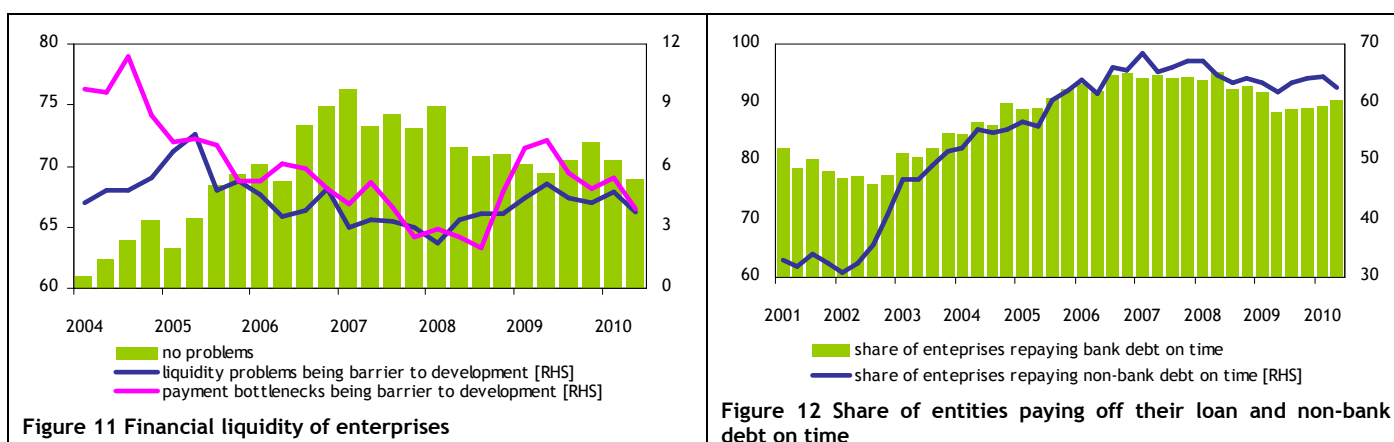


Figure 12 Share of entities paying off their loan and non-bank debt on time

9. The percentage of enterprises forecasting commodity price growth and raising the prices of their own products is increasing. Inflation expectations have been markedly increased. A small proportion of product prices is, in the opinion of the respondents, the effect of the flood, which may have a stronger impact on commodity price growth and negatively affect profits of enterprises.

10. A significant improvement has been observed in profit margins in both domestic and foreign sales. It mainly resulted from the introduced price increases. Enterprises still try to cut their costs, yet this more often applies to weaker companies and does not

have any greater impact on profit margins. Cost reductions are introduced less and less frequently, too.

11. The assessment of the economic situation in the analysed sample has remained varied. It should be borne in mind that the crisis first affected exporters, manufacturing, trade and transport, then hit construction with some delay, and finally reached services. In the period when service companies were only entering the slowdown, the situation in manufacturing in general, and exporters in particular, started to improve. The latest data have revealed a slight deceleration of the improvement rate in manufacturing, a clear rebound in construction and some worsening, most probably transitory, in services. Manufacturing, despite earlier improvement, remains in a weak condition. At the moment, the best situation is observed in power production and supply and in construction. In both cases, we can talk about a good situation both as compared to other industries and in historical terms.

Table 1 Growth Barriers

frequency of problems reported during the quarter:	low demand	foreign exchange rates, including fluctuations	increase in prices of commodities and raw materials	strong and growing competition	payment bottlenecks, liquidity problems	unclear legal regulations, changes in legal regulations	uncertainty in the assessment of future changes in economic climate	bad economic conditions, crisis
minimum and maximum value in history of quick monitoring survey studies	4.3 \ 30.0	8.6 \ 26.8	2.7 \ 17.5	5.4 \ 21.2	4.9 \ 21.2	4.2 \ 17.2	0 \ 5.7	1.0 \ 21.6
2008 Q1	7.8	17.7	14.7	6.7	4.9	6.1	no data	1.1
2008 Q2	7.8	15.5	17.5	5.7	5.7	5.0	no data	2.5
2008 Q3	13.1	16.6	16.9	7.8	5.1	4.3	no data	4.5
2008 Q4	20.8	10.3	7.2	6.2	7.2	4.5	no data	12.9
2009 Q1	30.0	14.4	10.0	7.3	9.4	4.9	no data	11.5
2009 Q2	24.3	13.7	6.9	5.8	10.4	4.7	5.0	10.9
2009 Q3	21.3	11.5	7.6	8.5	8.6	5.0	4.2	6.1
2009 Q4	20.0	13.0	6.9	9.3	7.6	5.4	3.0	6.9
2010 Q1	19.3	13.3	7.6	9.0	9.2	4.2	2.8	4.7
2010 Q2	13.5	10.4	7.6	6.8	6.1	4.3	3.0	2.8