

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

Economic climate in the enterprise sector in 2010 Q3 and forecasts for 2010 Q4

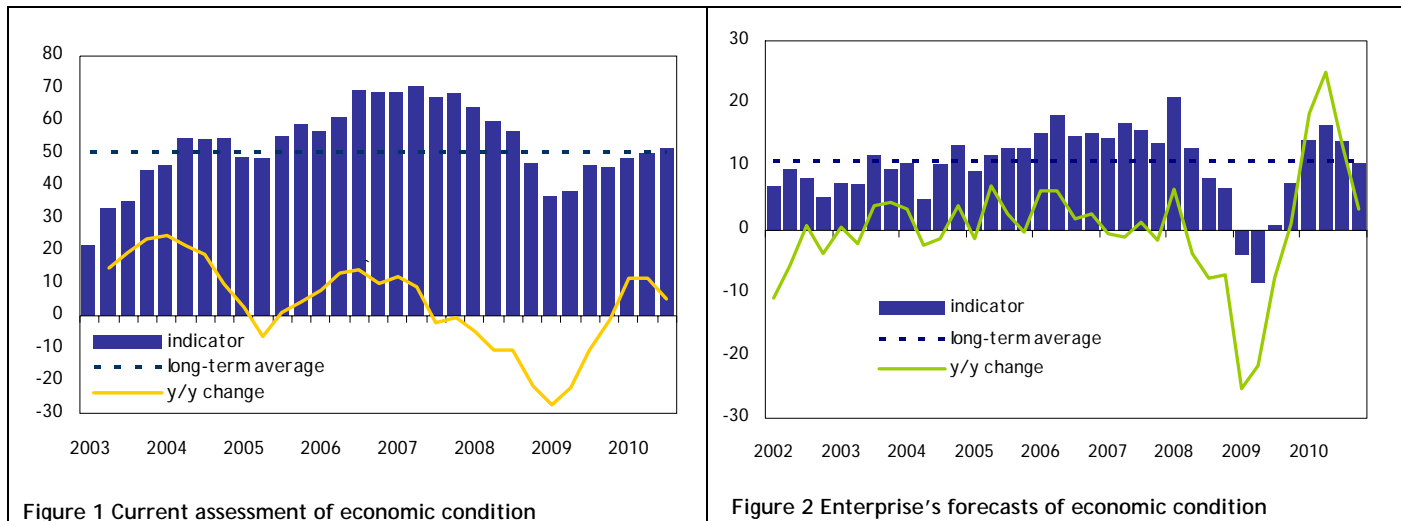
October 2010
synthesis

The report is based on the results of NBP Quick Monitoring carried out in September 2010 on a sample of 1006 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.

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

In Q3 enterprises announced further slight improvement in their economic situation driven by the increasing level of production capacity utilization and the fall in stocks of finished goods in industry. Also, the capacity to settle obligations, particularly bank loans, remained at a high level.

At the same time, it was the second quarter in a row when optimism over quarterly forecasts decreased. A change for the worse was reported in relation to the forecasted situation, demand, orders, output, export and employment. In comparison with these the new planned investments forecasts seem promising, although the scale of the improvement does not suggest a significant investment revival.



1. In Q3 the assessment of current demand for products and services remained positive. The percentage of companies struggling with low or falling demand was below the long-term average, significantly exceeding, however, the minimum reported during the economic boom in 2007. Enterprises reported another consecutive quarter of increased level of production capacity utilization and a fall in stocks of finished goods in industry. However, the respondents are slowly losing optimism with regard to the possibility of further increase in the demand for their products and services which negatively influences the plans of increasing output. It was the second quarter in a row during which the indices of these forecasts decreased; consequently, they are now below their long-term averages.

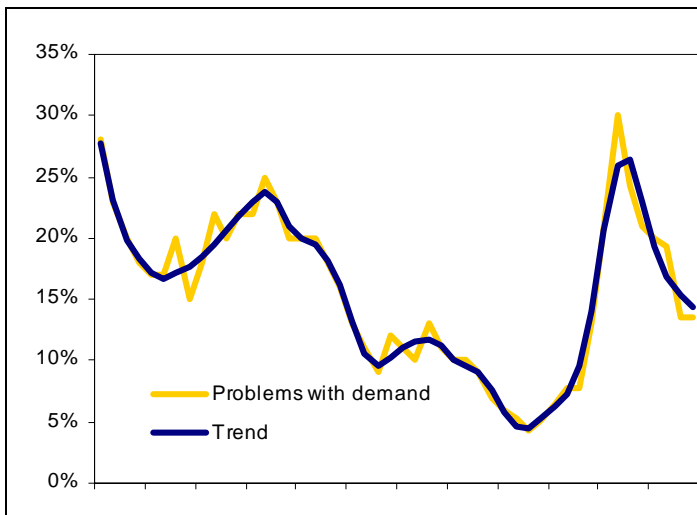


Figure 3 Low demand as a development barrier

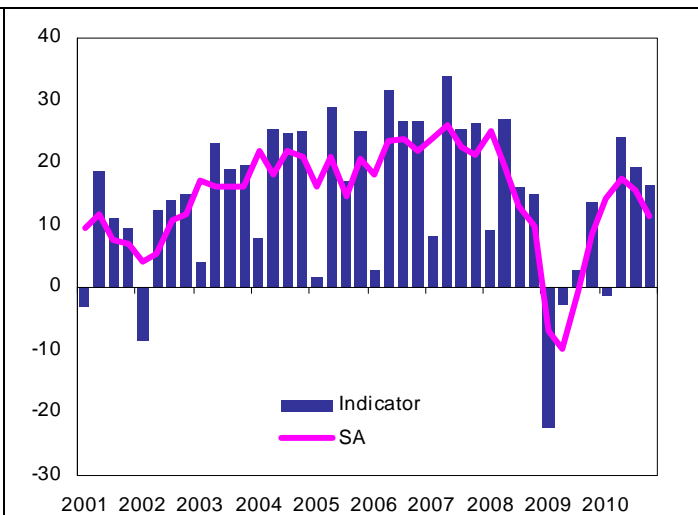


Figure 4 Output forecasts index

2. Exporters expect the growth rate of export sales to slow down. A decline in optimism in this group was reported despite the improving economic climate in Germany (i.e. the largest market for Polish exports). The assessment and forecast indices are clearly below their long-term averages.

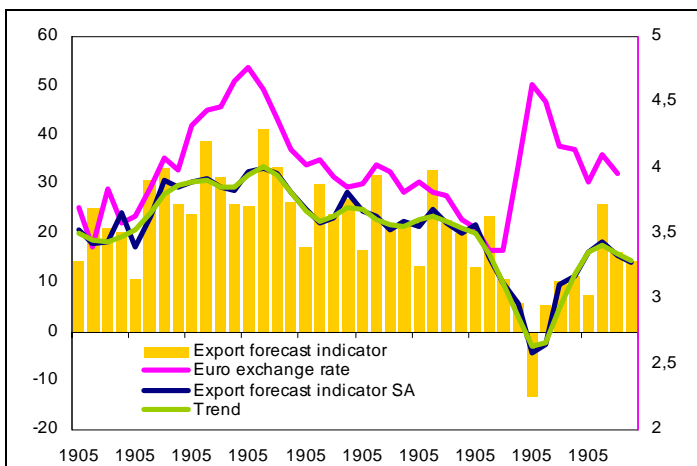


Figure 5 Export forecasts index

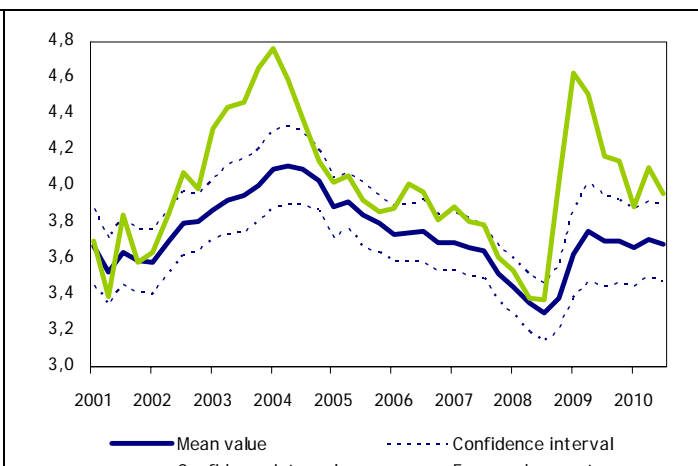


Figure 6 Euro exchange rate at which export is no longer profitable

3. Despite a slight decline, the profitability of export sales is still viewed favourably, both with regard to exports settled in euros and in dollars.
4. Following the decline in optimism over demand forecasts, enterprises plan to increase employment less often. After four quarters of growth the employment forecast index slowed down and more reductions than increases in the number of staff may be expected towards the end of the year. At this point, it is difficult to assess whether this is an adjustment or a sign of the reversal of the upward trend observed last year, since a further growth in production capacity utilization might become an impulse encouraging enterprises to increase the number of employees.

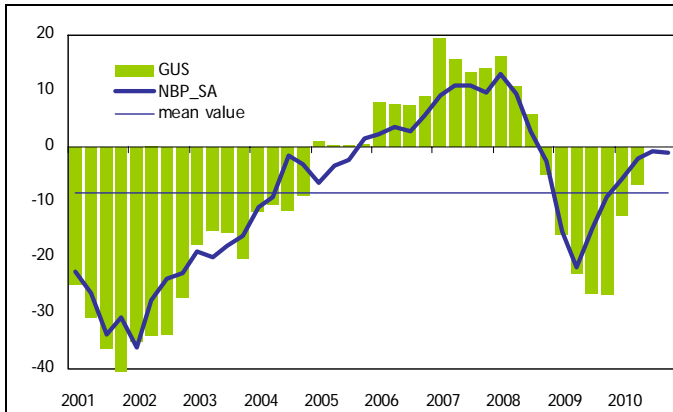


Figure 7 Employment forecasts index

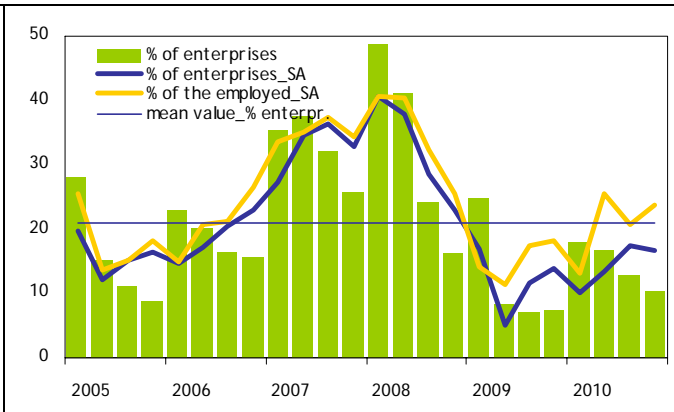


Figure 8 Plans to raise wages

5. The scale of planned wage increases remains low. Even though the percentage of companies which intend to raise wages is clearly higher than in 2009, it still remains below its long-term average.
6. A further slight increase in the percentage of new planned investments was observed. The employment-weighted index recorded a stronger uplift which is a consequence of the fact that smaller enterprises still have excess production capacity while large companies utilize their production potential to a much greater extent, hence the need to expand the potential. Many enterprises still declare they are refraining from commencing investments and are waiting for stronger signals of economic climate improvement. On the other hand, most companies whose investment projects are in progress will continue them. Withdrawal from completing the commenced projects is currently a rare phenomenon, which constitutes an additional confirmation of the good financial standing of the real sector.

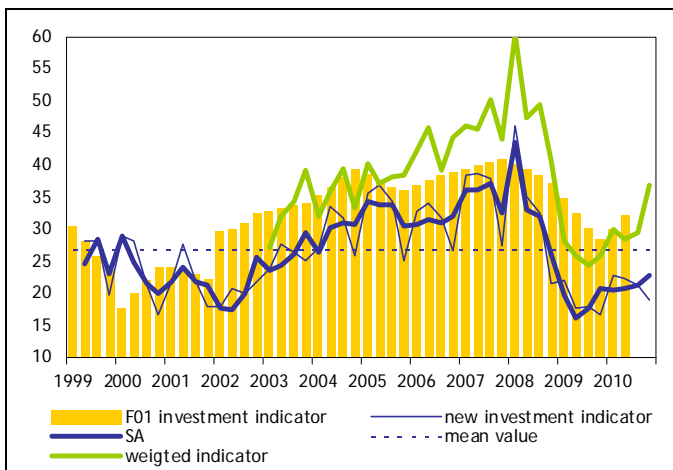


Figure 9 New investment forecasts

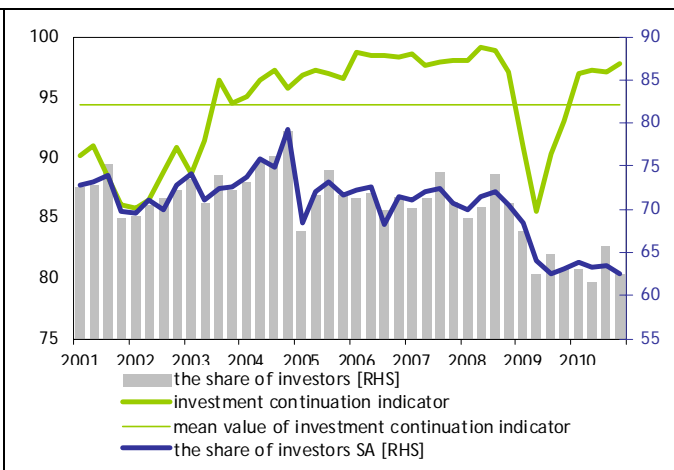
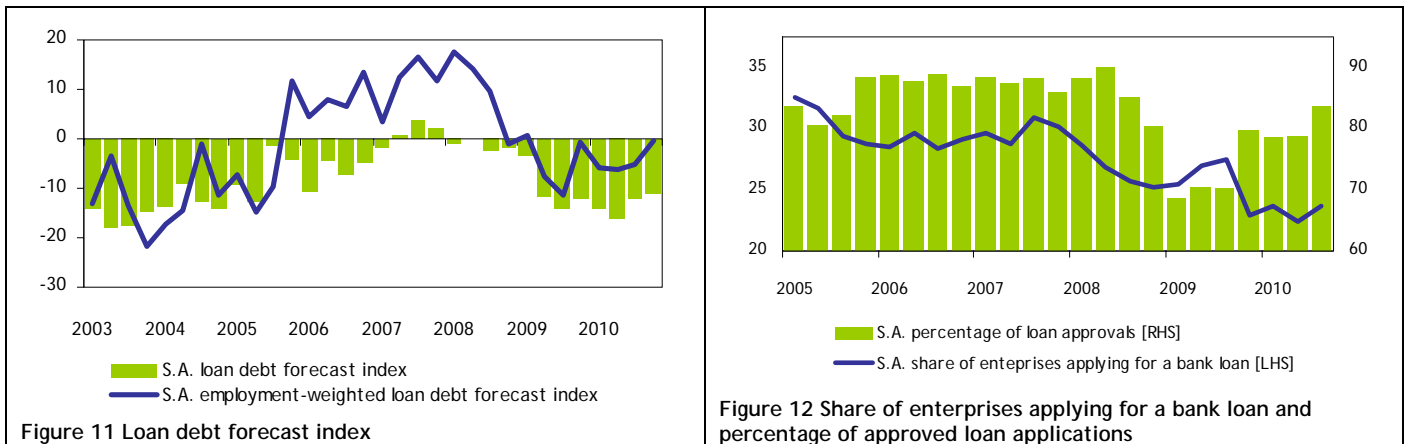


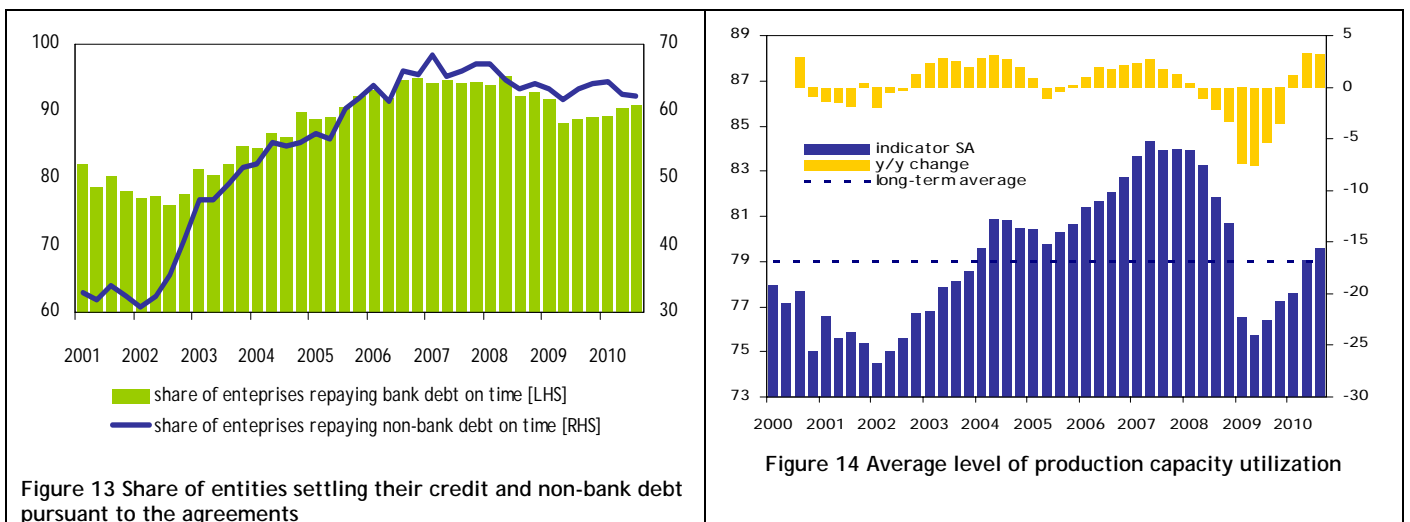
Figure 10 Continuation of investments

7. Credit availability improved significantly. Interest in this type of financing increased but still remains relatively low. The SME sector still declares a low demand for credit. However, large enterprises which invest relatively more, intend to increase

their credit obligations more often. Despite the uplift of the demand for credit, own assets still remain the main source of financing investment activities.



8. The capacity to settle liabilities, especially to repay bank loans, remains at a high level. As in the previous quarter, the percentage of enterprises which settle their liabilities on time increased. Enterprises signalled, however, a slight increase in difficulties in debt collection.¹ The difficulties materialised particularly in the group of construction and transport companies but had no impact on the assessment of liquidity situation, which remained at a high level². The ability to settle trade payables traditionally remains much lower than the ability to repay credit but may still be considered good.



9. The third quarter of 2010 was yet another period when the percentage of enterprises which raised the prices for own products and services increased. However, this did not affect the margins which declined slightly in comparison with the previous

¹ As F-01/I-01 data of the Main Statistics Office show, the (y/y) dynamics of liabilities arising from goods and services increased significantly in Q2 of this year – from 0.6% in Q1 to 8.5% in Q2.

² As the data of the Main Statistical Office show, the liquidity ratio I in Q2 of this year declined in comparison with Q1, however, it remained on the historically high level and amounted to 37.5%, i.e. clearly above the reference point of 20%.

quarter, possibly as a result of a simultaneous increase in costs. The expectations of enterprises concerning the increase in consumer prices in Q4 increased significantly. Yet, the respondents do not anticipate an increase in commodities and raw materials prices faster in Q4 than in Q3; neither do they plan greater price increases for their products and services.

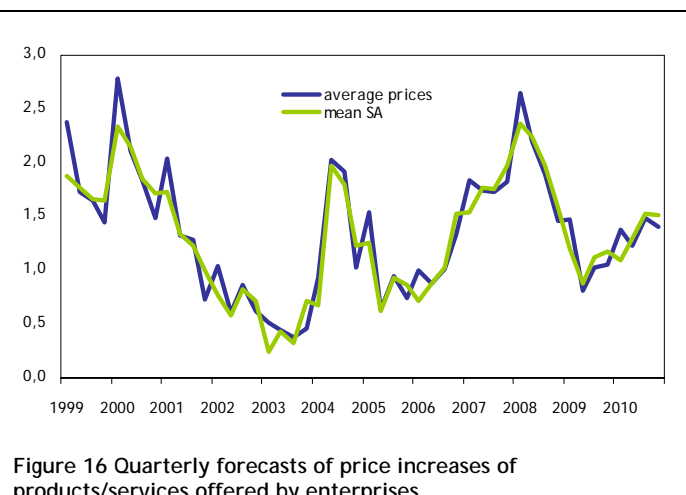
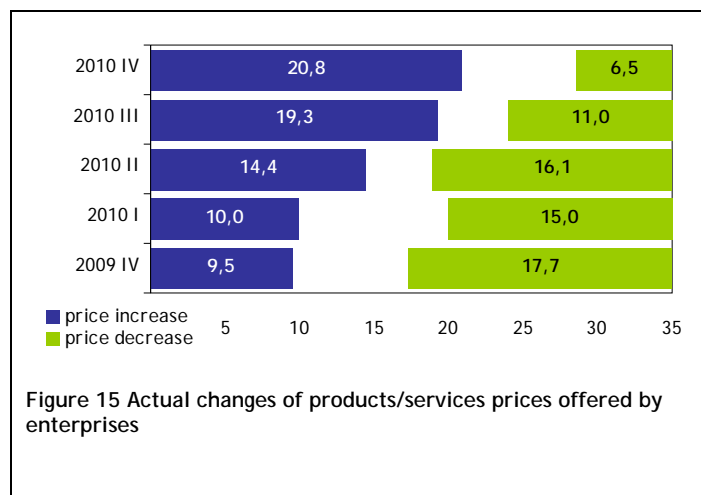


Table 1 Growth Barriers³ (the moments when the indices display the maximum value in the whole history of the study have been singled out in the table)

frequency of problems reported during the quarter:	low demand	foreign exchange rates, including fluctuations	increase in prices of commodities and raw materials	payment bottlenecks, liquidity problems	unclear legal regulations, changes in legal regulations	strong and growing competition	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	4.9 \ 21.2	4.2 \ 17.2	5.4 \ 21.2	1.0 \ 21.6
2008 Q1	7.8	17.7	14.7	4.9	6.1	6.7	1.1
2008 Q2	7.8	15.5	17.5	5.7	5.0	5.7	2.5
2008 Q3	13.1	16.6	16.9	5.1	4.3	7.8	4.5
2008 Q4	20.8	10.3	7.2	7.2	4.5	6.2	12.9
2009 Q1	30.0	14.4	10.0	9.4	4.9	7.3	11.5
2009 Q2	24.3	13.7	6.9	10.4	4.7	5.8	10.9
2009 Q3	21.3	11.5	7.6	8.6	5.0	8.5	6.1
2009 Q4	20.0	13.0	6.9	7.6	5.4	9.3	6.9
2010 Q1	19.3	13.3	7.6	9.2	4.2	9.0	4.7
2010 Q2	13.5	10.4	7.6	6.1	4.3	6.8	2.8
2010 Q3	13.5	10.1	9.2	8.8	7.9	6.1	2.8

³ Growth barrier indices have been determined based on the share of enterprises which report the occurrence of a particular type of problem in the number of all enterprises taking part in the survey (including companies that did not answer the question about development barriers).