

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

Economic climate in the enterprise sector in 2011 Q1 and forecasts for 2011 Q2

April 2011
Synthesis

The report is based on the results of the NBP Quick Monitoring carried out in March 2011 on a sample of 1107 non-financial entities representing all sections of 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 the NBP Quick Monitoring and public statistics data, the following conclusions on the economic climate may be formulated.

In 2011 Q1 companies have assessed their economic situation as worse than three months earlier. Deterioration may, however, be short-lived. Indeed, in 2011 Q2 respondents expect their condition to improve, also demand and the number of orders are expected to increase further. The expected improvement in the business climate is also suggested by a marked increase in the percentage of companies planning to enlarge employment. Worsening assessment of economic situation may be associated with the already observed as well as anticipated considerable increase in prices, particularly of commodities and raw materials.

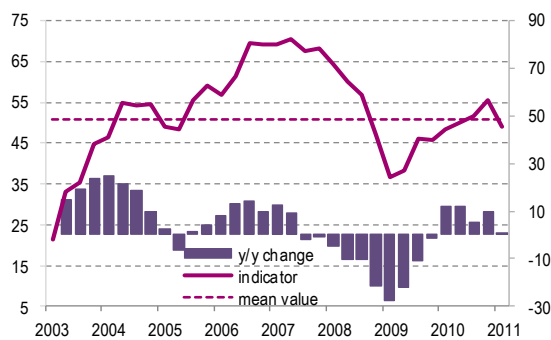


Figure 1 Current assessment of economic condition

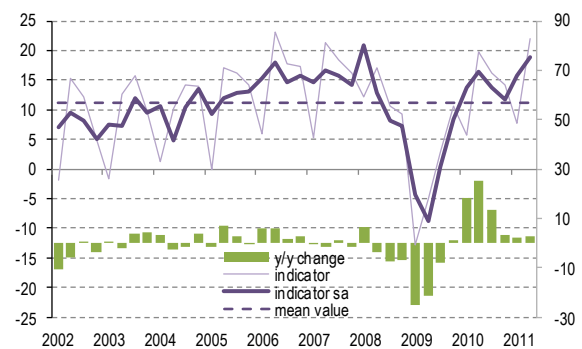


Figure 2 Enterprises' forecasts of economic condition

1. Assessments of the situation of the enterprise sector in the first quarter were less optimistic than in the previous quarter. According to the respondents the key source of problems at the moment are the rapidly rising prices, especially commodity prices. Sharply rising significance of cost barriers could have driven the reported deterioration in assessments. Heightened uncertainty about the direction and scale of changes in the economic situation caused by turmoil in the global markets could be a factor undermining optimism. Deterioration in the economic situation was observed in the majority of analyzed sectors and classes. At the same time, however, enterprises showed increased, as compared to the previous quarter, optimism about the situation expected in 2011 Q2; simultaneously situation demand forecasts have improved in the majority of the sections.

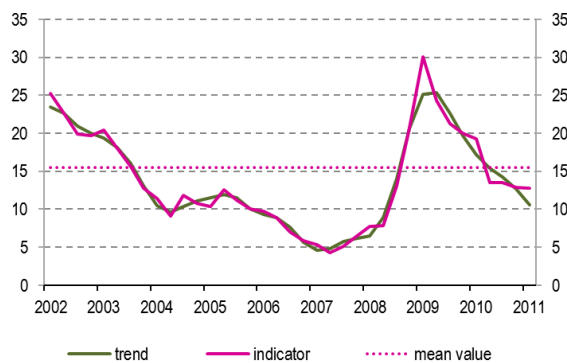


Figure 3 Demand barrier indicator

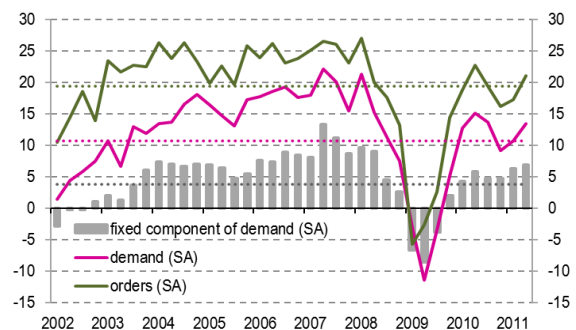


Figure 4 Forecast indices: total demand, fixed component of demand and orders

2. Inflation expectations of enterprises are growing. Respondents forecast a further rise in CPI inflation in Q2. It is anticipated that this period will bring a stronger increase in the prices of

commodities and raw materials used in manufacturing. As a result, the respondents are planning higher increases in the prices of their products and services. It should be noted that higher growth of final prices is the result of higher one-off increases, amidst not growing percentage of enterprises boosting their prices. The largest price increases are planned in trading, whereas a slight increase in the price growth rate is suggested by forecasts of manufacturing. Declining price growth trend is likely to continue in construction. Exporters announce higher price increases than enterprises selling their products on the domestic market only.

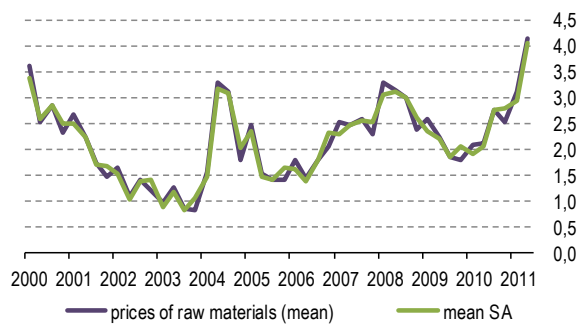


Figure 5 Quarterly forecasts of growth in the prices of commodities and raw materials used by enterprises

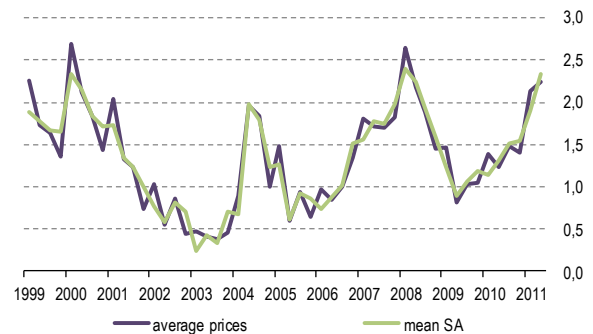


Figure 6 Quarterly forecasts of growth in the prices of goods and services sold by enterprises

3. Further improvement was observed in demand. The percentage of companies facing problems with finding customers for their products and services declined for another quarter. At the same time, an intensification was reported in production capacity utilization (in seasonally adjusted terms). The Q2 forecasts suggest a further improvement. Consequently, a larger percentage of companies anticipate recovery in demand; also the number of orders is expected to rise. As a result, the share of enterprises planning to expand the scale of production is growing. After two years of low optimism in forecasts also construction has recorded a more significant improvement in expectations, in particular growth in the indices of new orders and production forecasts.

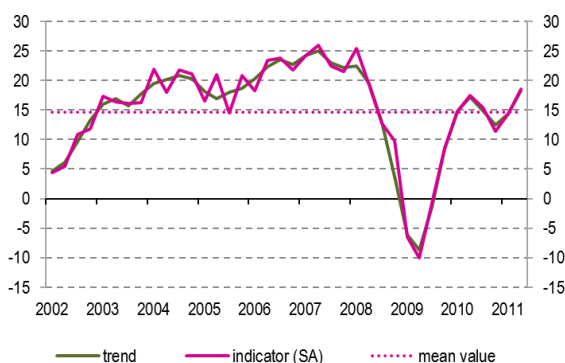


Figure 7 Production forecast index

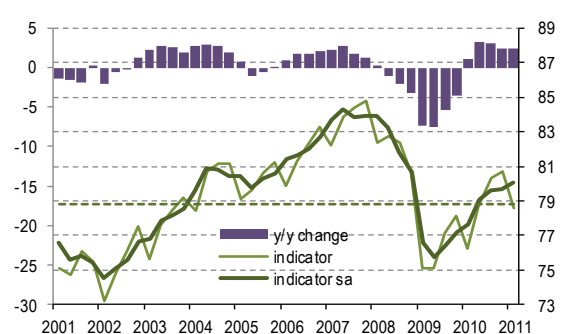


Figure 8 Average level of production capacity utilization

4. The second quarter may be expected to bring a further increase in exports. Production capacity utilization in the group of specialized exporters improved for another consecutive quarter and now differs more and more markedly from the scale of production capacity utilization in other enterprises growing at a considerably slower pace. The euro exchange rate continuing to run well above the threshold of profitability of exports settled in euro also

helps to ameliorate the situation of exporters. This situation trigger a growing differences between the constantly improving condition of exporters and those enterprises that being in relatively worst position, offer their products and services in the domestic market only. It should also be noted that the favourable outlook for exports and their high profitability is not being translated into growing percentage of exporters.

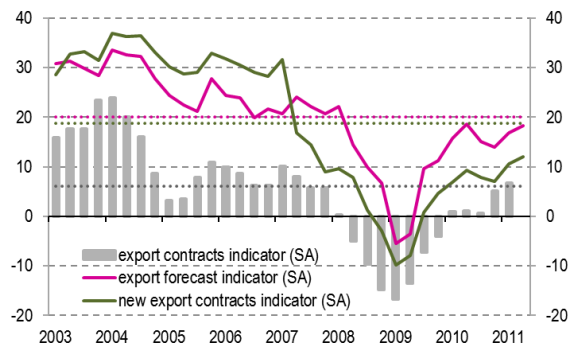


Figure 9 Export forecast index

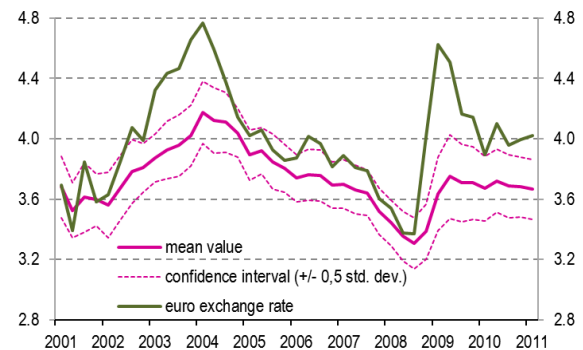


Figure 10 Exchange rate of the euro at which exports are no longer profitable

5. The second quarter may be expected to bring a rise in employment. After three quarters of stabilization, the scale of improvement in this area is relatively large. Improvement in forecasts was noted in the majority of the classes and sectors. The particularly strong employment growth is anticipated in foreign capital companies, while further decline is expected in public sector enterprises.
6. Although the companies intend to take on new employees (which was, in the previous periods, accompanied by frequent wage increases), plans for Q2 do not anticipate stronger wage growth than the one observed in the past four quarters. Both the percentage of companies intending to increase wages as well as the average of wage increases remained relatively low. The situation, however, varied across the classes, especially in terms of enterprise size. As regards large enterprises, the percentage of businesses planning wage increases went slightly up, whereas the share of such enterprises in the SME sector declined.

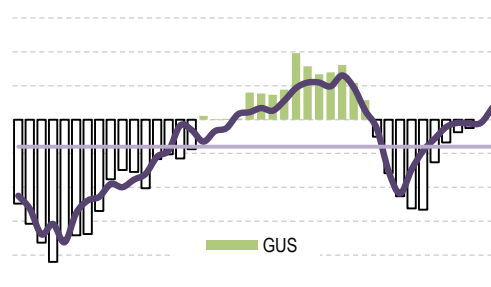


Figure 11 Employment forecast index

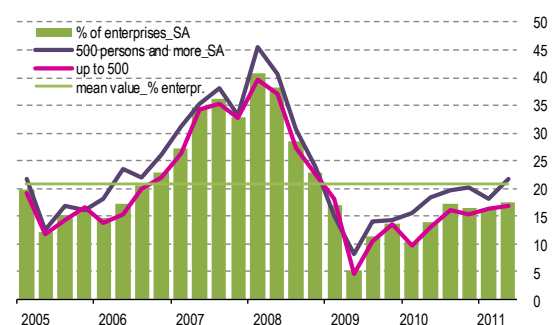


Figure 12 Share of enterprises planning wage increases

7. The largest enterprises report growing investment activity. Investment intensity in this group is now high, well above its long-term average. However, smaller companies continue to show little interest in embarking on new investment projects. Significantly lower level of production capacity utilization in the group of smaller companies may be partially explained by lower investment intensity. Many companies in the sample, especially from the SME

sector, still postpone embarking on new investment, expecting a more sustainable economic recovery.

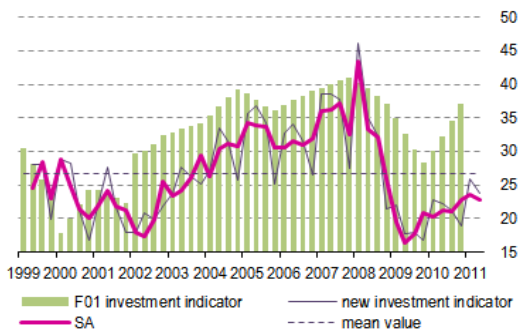


Figure 13 New investment indicator

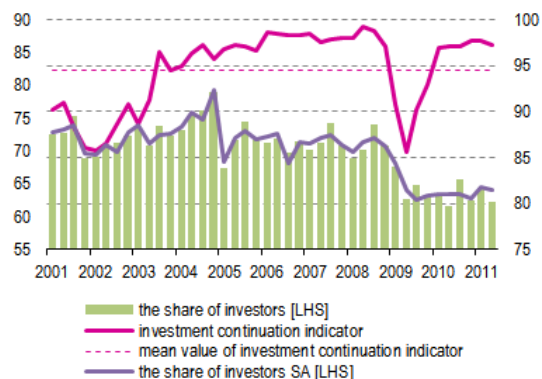


Figure 14 Continuation of investments

8. Interest in bank debt utilization has remained low, at same time the share of loan applications approved by banks is growing. The relatively low investment activity and the high cash balances still allow many companies to ensure self-financing, particularly as far as smaller projects are concerned.

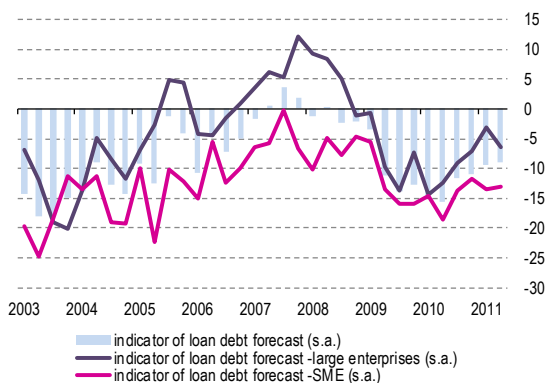


Figure 15 Loan debt forecast indicator

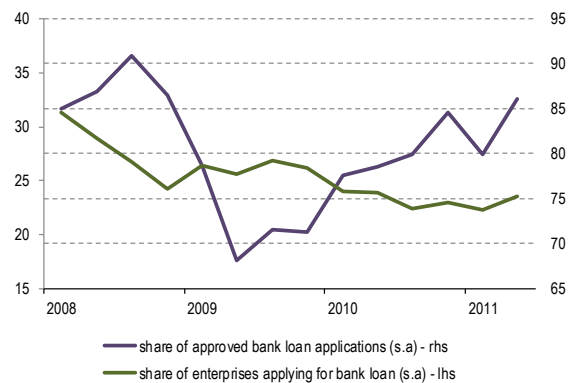


Figure 16 Share of enterprises applying for a bank loan

9. Liquidity of the enterprise sector remains good. In Q1 the timeliness of repayment of trade liabilities has slightly improved. At the same time, the ability to repay bank loans has worsened, although problems with the settlement of bank loan debt have been reported by a relatively small group of companies. These difficulties are predominantly faced by smaller businesses.

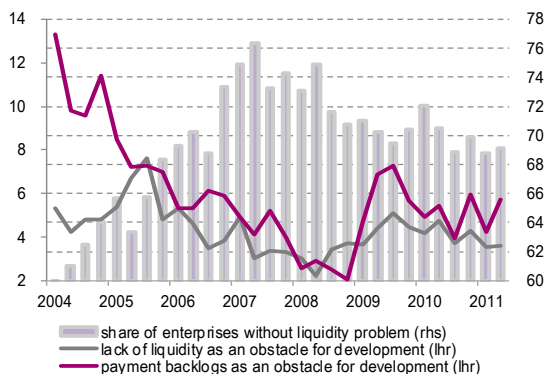


Figure 17 Financial liquidity of enterprises

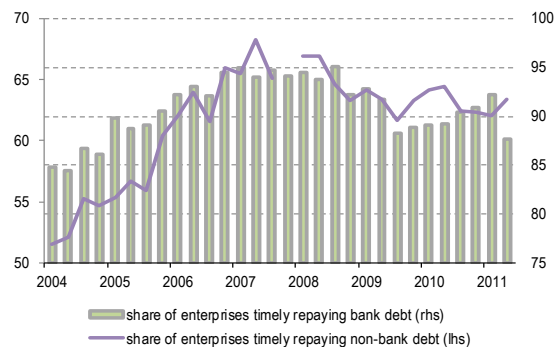


Figure 18 Service of bank and non-bank loan debt

10. In Q1 the most commonly cited source of difficulty was the already mentioned strong growth in prices and / or operating costs. The barrier of low demand, previously mentioned at the top of the problem list, eased slightly. Among growth barriers, respondents also mentioned: adverse or unstable exchange rate of the zloty and payment backlogs.

Table 1 Growth barriers¹ (moments at which the indices display the maximum value in the history of the survey have been highlighted in the table)

Frequency of problems reported during the quarter:	Increase in the prices of commodities and raw materials	Low demand	Foreign exchange rates, including fluctuations	Payment bottlenecks, liquidity problems	Unclear legal regulations, changes in legal regulations	Strong and growing competition	Uncertainty
Minimum and maximum value in the history of quick monitoring survey	2.7 \ 17.5	4.3 \ 30.0	8.6 \ 26.8	4.9 \ 21.2	4.2 \ 17.2	5.4 \ 21.2	No data \ 5.0
2008 Q1	14.7	7.8	17.7	4.9	6.1	6.7	no data
2008 Q2	17.5	7.8	15.0	5.7	5.0	5.7	no data
2008 Q3	16.9	13.1	16.6	5.1	4.3	7.8	no data
2008 Q4	7.2	20.8	10.3	7.2	4.5	6.2	no data
2009 Q1	10.0	30.0	14.4	9.4	4.9	7.3	no data
2009 Q2	6.9	24.3	13.7	10.4	4.7	5.8	5,0
2009 Q3	7.6	21.3	11.5	8.6	5.0	8.5	4,2
2009 Q4	6.9	20.0	13.0	7.6	5.4	9.3	3,0
2010 Q1	7.6	19.3	13.3	9.2	4.2	9.0	2,8
2010 Q2	7.6	13.5	10.4	6.1	4.3	6.8	3,0
2010 Q3	9.2	13.5	10.1	8.8	7.9	6.1	2,4
2010 Q4	8.7	12.9	9.4	7.0	6.8	7.0	2,6
2011 Q1	15.0	12.7	10.4	8.4	6.8	6.0	3,7

PREPARED BY:

Z. JANKIEWICZ
P. POPOWSKI
Ł. POSTEK
K. PUCHALSKA - TEAM LEADER
A. SAWICKA
I. TYMOCZKO

ACCEPTED BY:

M. GRADZEWICZ
J. JAKUBIK

¹ Growth barrier indices have been determined on the basis of the share of enterprises which report the occurrence of a particular type of problem in the total number of enterprises participating in the survey (including companies that did not answer the question about development barriers).