

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

Economic climate in the enterprise sector in 2011 Q2 and forecasts for 2011 Q3

July 2011
Synthesis

The report is based on the results of the NBP Quick Monitoring carried out in June 2011 on a sample of 1124 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.

The results of the Annual Survey, conducted in the period from the second half of April to the first half of May 2011, on a sample of 1101 non-financial entities, are an additional source of information. The results of this survey are presented mainly in the form of boxes.

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

The results of the survey conducted in the second half of 2011 give an unclear picture of the direction of changes in the economic situation of the corporate sector. On the one hand, the condition of companies improved; yet, at the same time, some of the analysed indicators, especially of prognostic nature, started to stabilize, which may be indicative of a stifling of economic growth.

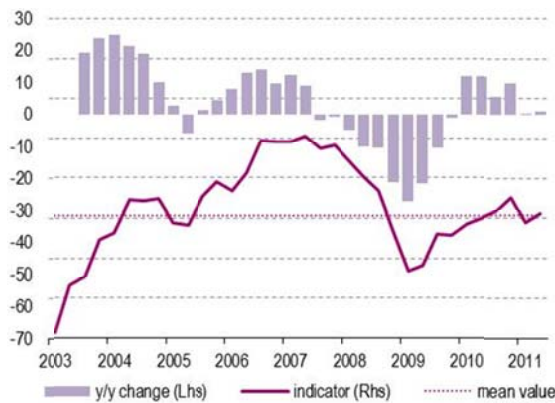


Figure 1 Current assessment of economic condition

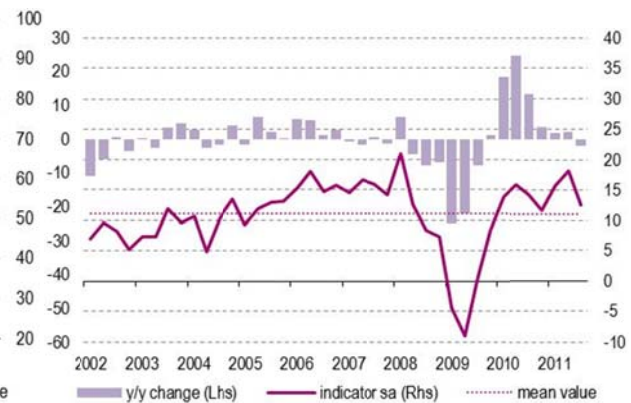


Figure 2 Enterprises' forecasts of economic condition

1. In Q2 respondents assessed their situation as slightly better than in Q1, which was supported by higher margins, lower demand barrier and increased production capacity utilization. At the same time, assessments of the general economic situation in the domestic market aggravated. Enterprises also fear that over the coming year economic situation may further deteriorate. Pessimism in the assessments and forecasts in the majority of industries and classes grew and was most pronounced among enterprises which evaluated their economic situation as worse or only slightly better than a year before.

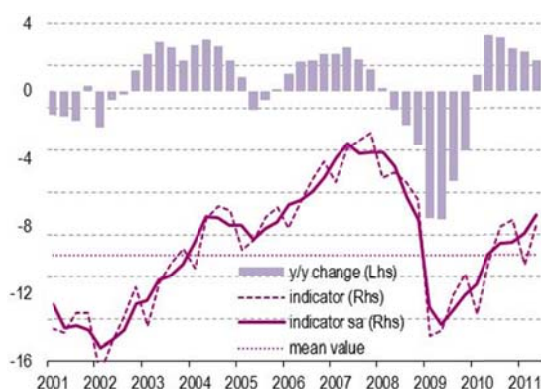


Figure 3 Average level of production capacity utilization



Figure 4 Demand barrier indicator

2. Enterprises gave a less optimistic assessment of changes in their own economic condition in the coming quarter. This was concurrent with a decline in optimism in the expectations about both domestic and external demand. Indicators of demand and output forecasts stabilize slightly over their long-term average, which suggests that output should grow at a good, albeit, not growing level.

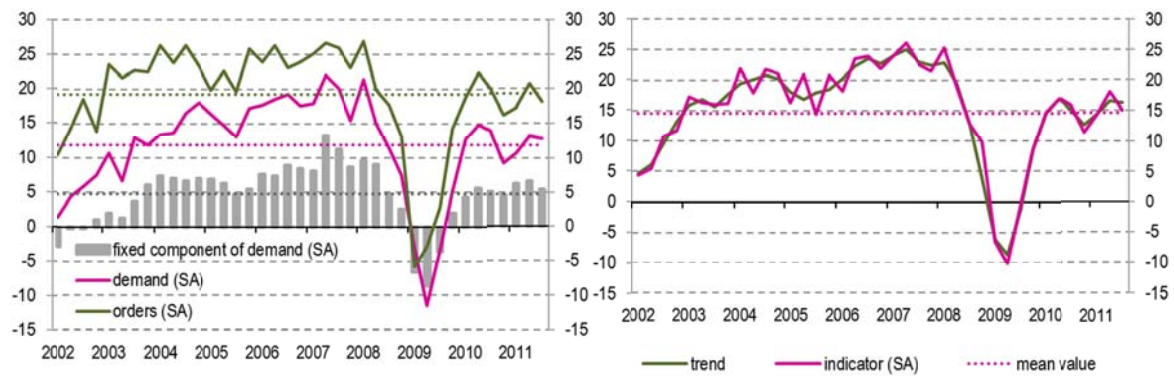


Figure 5 Forecast indices: total demand, fixed component of demand and orders Figure 6 Production forecast index

3. The past few quarters brought a decline in the percentage of exporters and a small increase in a number of concluded export contracts. At the same time a dynamic growth in the value of exports was registered. Also forecasts for Q3 are indicative of a relatively high, yet not growing, level of foreign sales, amidst markedly lower and falling number of newly concluded contracts. Thus, growth in sales is generated rather on the already concluded contract with regular customers, which results in growing concentration of exports.

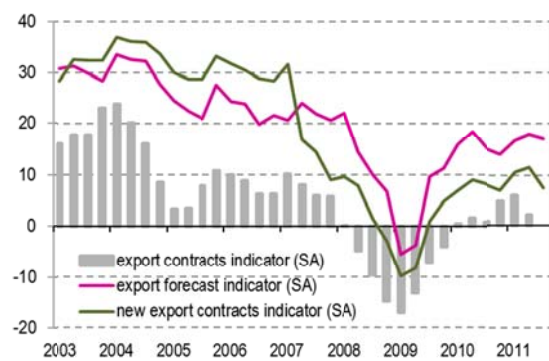


Figure 7 Export indices

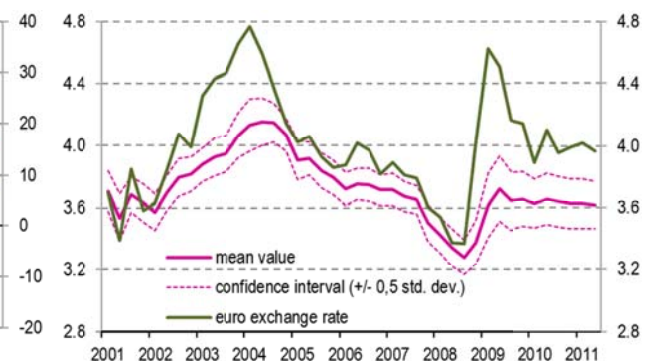


Figure 8 Exchange rate of the euro at which exports are no longer profitable

4. Inflation expectations weakened considerably, yet, persisted at a heightened level. The biggest problem reported by the surveyed enterprises included high prices of commodities and components, yet, following the decline in inflation expectations, the scale of this problem also diminished. As a result, fewer enterprises announced plans to implement price increases in 2011 Q3.

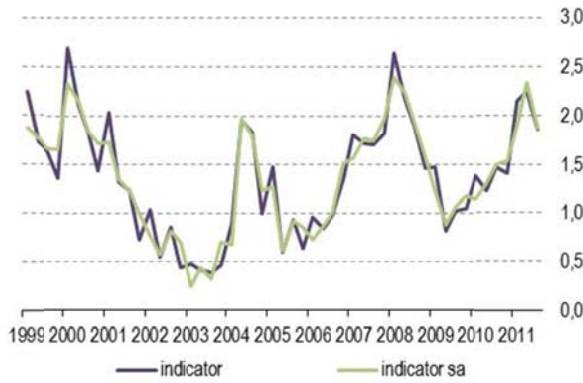


Figure 9 Quarterly forecasts of price increases of goods and services sold by enterprises

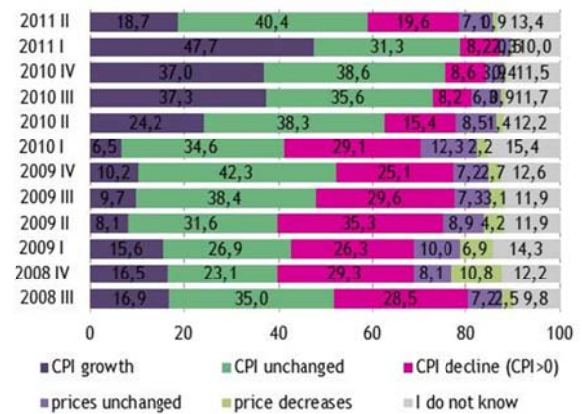


Figure 10 Annual forecasts of changes in the CPI index as compared to the previous quarter

5. A rise in inflation put an upward pressure on wage demands. As compared to historical data, the scale of wage pressure continues to be moderate, albeit higher than in 2008. The planned wage increases in Q3 will in consequence be higher than in Q2, yet the scale of increases will remain below its long-term average. Enterprises indicate a possibility of wage increases in a slightly longer-term horizon.

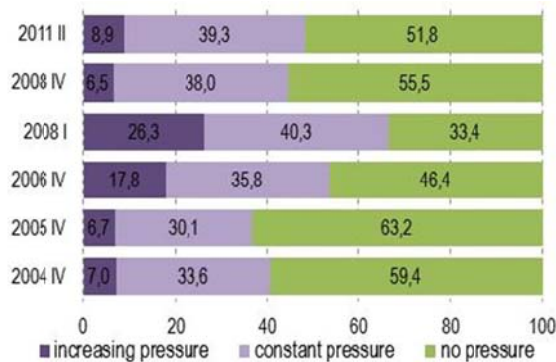


Figure 11 Pressure on wage growth

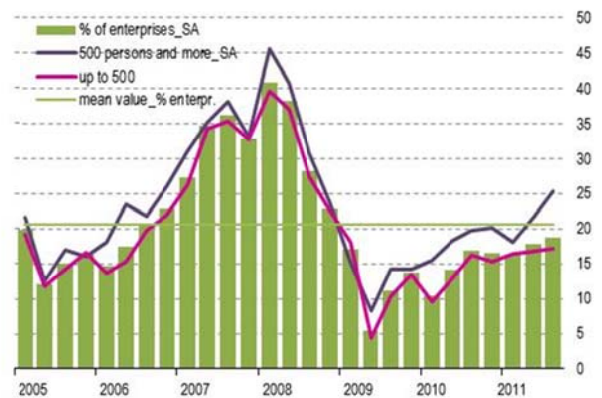


Figure 12 Share of enterprises planning wage increases

6. The absence of clear signs of improvement in the economic situation and higher labour costs could have contributed to a certain decline in enterprises' demand for new employees. The employment forecast index dropped to its Q1 level, yet, remains above its long-term average.

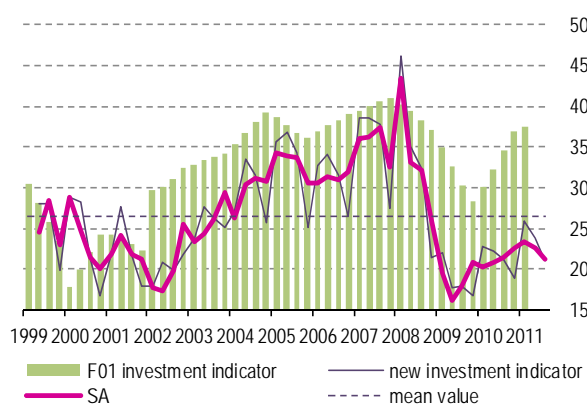


Figure 1 New investment indicator

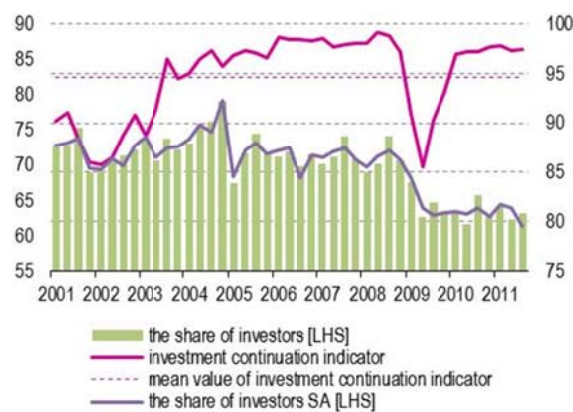


Figure 2 Continuation of investments

7. Despite growing production capacity utilization, the number of enterprises intending to embark on new investment projects in Q3 dropped as compared to the previous quarter. Also among large enterprises, namely in the group of companies which made the largest investments in the past few quarters, the percentage of businesses planning development projects declined. On the other hand, the scale of actual modernization needs is considerably bigger than suggested by the number of investment projects currently underway. Almost half of the surveyed enterprises either incur investment outlays which are not sufficient enough, or, despite their needs, postpone this type of expenditure.

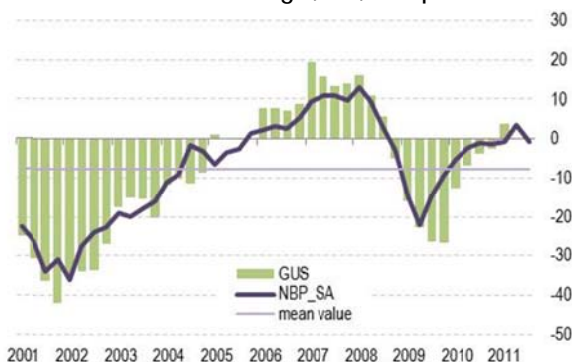


Figure 15 Employment forecast (NBP SA) and real changes (GUS)

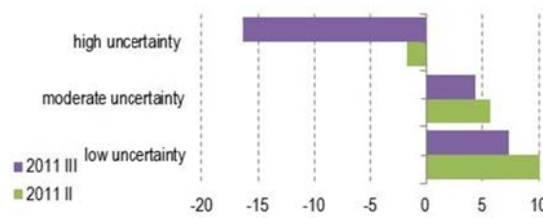


Figure 16 Employment forecast index vs. uncertainty

8. Apart from the current and anticipated situation, the uncertainty about further activity of the company and its environment is a factor likely to affect investment decisions and changes in a company's employment levels. In Q2 enterprises assessed their uncertainty as moderate, albeit slightly lower than in Q1. Companies which face low uncertainty embark on investment to a significantly larger scale than other entities. The situation is similar in the case of planned changes in employment - low uncertainty encourages an increase in employment, whereas high uncertainty leads to decisions about staff redundancies. Yet, reduced uncertainty and improved assessments of the situation in Q2 proved insufficient to boost development plans for Q3.

9. The ability to timely settle trade payables, and, in consequence, the general assessment of liquidity, deteriorated. The percentage of companies declaring problems with receivables recovery or which do not receive timely payments

from their contractors is significant - such problems are faced by the overwhelming majority of companies in the sample. At the same time, the scale of unpaid, including lost receivables is relatively low and the percentage of borrowers timely repaying their bank debt is high (amidst persistently low percentage of companies resorting to bank loans).

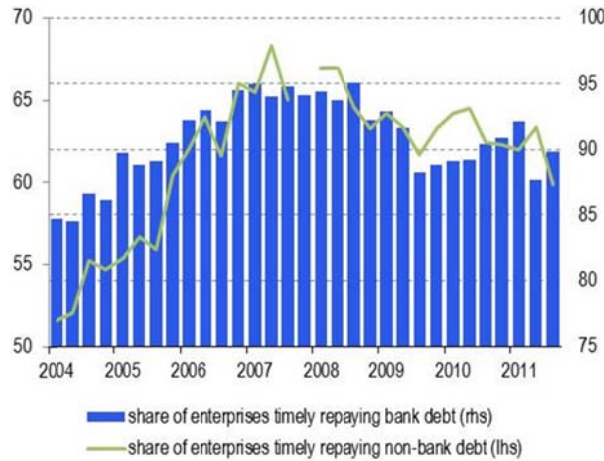


Figure 17 Service of bank and non-bank loan debt

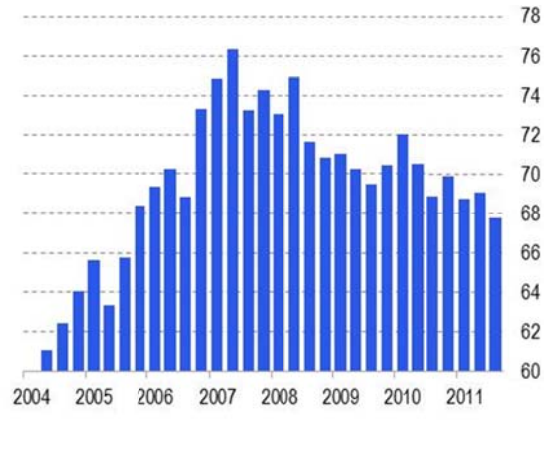


Figure 18 Financial liquidity of enterprises

10. The situation in the corporate sector remained highly diversified. Deterioration in the current condition was reported, inter alia, by the construction sector. The situation of the largest entities as well as that of the energy and mining industry, namely groups which registered a marked increase in margins and maintain high production capacity utilization, is very good. As regards the expectations about Q3 the decline in optimism was registered in the majority of industries and classes, thus also by industries and classes which assess their condition as good.



Figure 19 Current assessment of economic condition in construction, industry and services



Figure 20 Current assessment of economic condition vs. size of enterprises

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	Strong and growing competition	Unclear legal regulations, changes in legal regulations
Minimum and maximum value in the history of quick monitoring survey	2.7 \ 17.5	4.3 \ 30.0	8.3 \ 26.8	4.9 \ 21.2	5.4 \ 21.2	4.2 \ 17.2
2009 Q1	10.0	30.0	14.4	9.4	7.3	4.9
2009 Q2	6.9	24.3	13.7	10.4	5.8	4.7
2009 Q3	7.6	21.3	11.5	8.6	8.5	5.0
2009 Q4	6.9	20.0	13.0	7.6	9.3	5.4
2010 Q1	7.6	19.3	13.3	9.2	9.0	4.2
2010 Q2	7.6	13.5	10.4	6.1	6.8	4.3
2010 Q3	9.2	13.5	10.1	8.8	6.1	7.9
2010 Q4	8.7	12.9	9.4	7.0	7.0	6.8
2011 Q1	15.0	12.7	10.4	8.4	6.0	6.8
2011 Q2	13.9	11.3	8.3	8.3	6.0	5.6

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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).