

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

Economic climate in the enterprise sector in 2011 Q4 and forecasts for 2012 Q1

January 2012
Synthesis

The report is based on the results of the NBP Quick Monitoring carried out in December 2011 on a sample of 1236 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 findings of the NBP's Quick Monitoring and public statistics data, the following conclusions on the economic climate may be formulated:

In spite of mounting uncertainty, enterprises uphold a positive assessment of their own current position. Their expectations, however, are increasingly marked with pessimism. Enterprises' forecasts are being heavily influenced by the turmoil in the euro area and the anticipated economic slow-down. Bleaker future outlook is being reflected in cuts to investment plans.

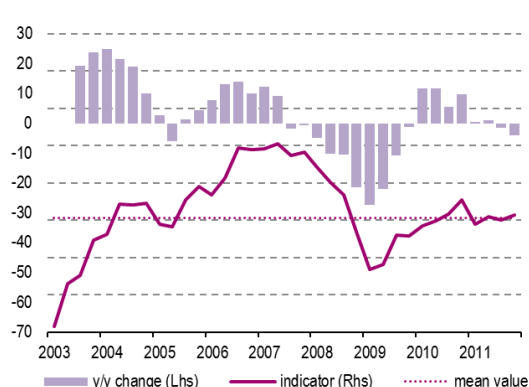


Figure 1 Current assessment of economic condition

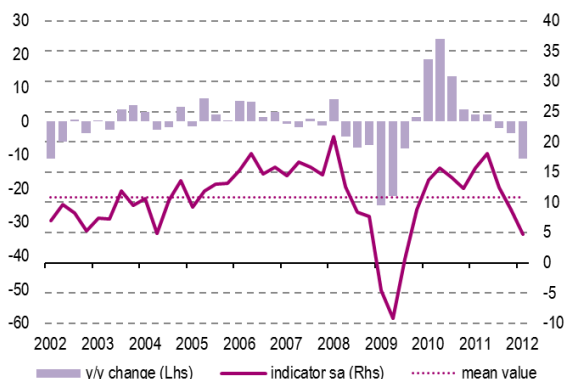


Figure 2 Enterprises' forecasts of economic condition

- As throughout the entire previous year, in 2011 Q4 the economic standing of enterprises continued to be good. At the same time, more and more firms were running up against internal and external problems; there was growing uncertainty concerning the future course of the business cycle and the trends in macroeconomic conditions. This caused the percentage of firms expecting the situation to deteriorate to gradually rise. And although the anticipated deterioration has not materialised as yet and the situation seems stable, weak sentiment and surging risk of operations are scarcely conducive to making decisions relating to business development. Aggravating forecasts are observed across the substantial majority of the classes under review, while the current situation continues to be markedly diversified across industries and some of the enterprise groupings.

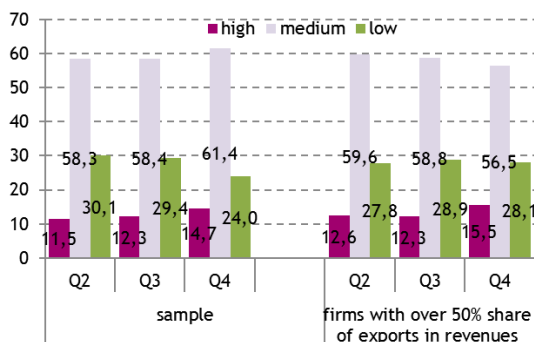


Figure 3 Uncertainty assessment in the whole sample and in the group of exporters

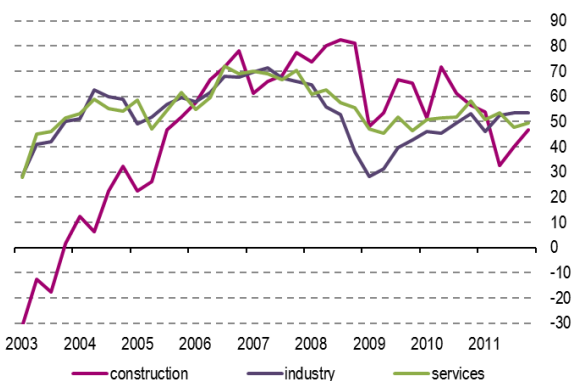


Figure 4 Current assessment of economic condition in industry, construction and services

- Symptoms of sentiment deteriorating in the enterprise sector include declining - for the third consecutive quarter - forecasts of demand and new orders. In contrast to economic situation forecasts, expectations of weaker demand are beginning to materialise - in the course of last six months, the demand barrier has resurfaced as

the top-ranking obstacle to growth, although in the course of last quarter of previous year the index has not risen. Furthermore, in 2011 Q4 a slight decline in production capacity utilisation as well as a rise in the percentage of firms reporting excess inventories of finished goods was observed. Following the deterioration in the demand forecast index, the output forecast index is also falling off; it is declining, however, at a slower rate than the demand and order forecasts. This may suggest conservative policy the companies under review are undertaking.

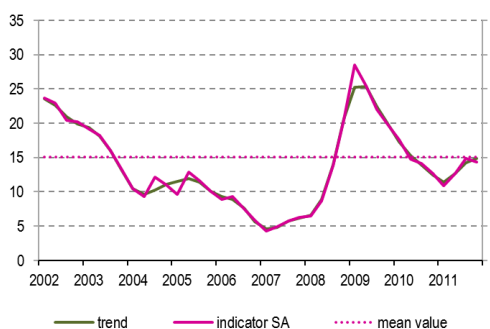


Figure 5 Demand barrier indicator

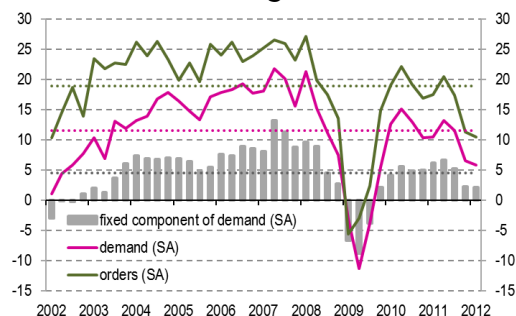


Figure 6 Forecast indices: total demand, fixed component of demand and new orders

- The forecasts of new export contracts have declined further and are running at low levels. In spite of that, exports growth may remain relatively high owing to favourable - as seen from the exporter perspective - zloty exchange rate vis-a-vis other currencies and the benefit of the previously established sales channels. High profitability of exports enables exporters to realise high profits and increase their sales margins. At the same time, because of close links between exports and imports, the weak zloty has negative repercussion on importers by inflating the cost of the significant part of required commodities and materials. Interestingly, in spite of the weak zloty, importers perceive their situation as good. In the group of importers that are also exporters, higher costs of purchasing from abroad are offset by higher receipts from foreign sales. Importers' comfortable position may also mean that rising costs are being passed through to prices (this is particularly true of retailing). It is also worth stressing that the problems resulting from the depreciating exchange rate (financial losses) do not only affect importers, but also companies relying on domestic suppliers. This is probably consequence of increasing value of foreign credits in terms of national currency.

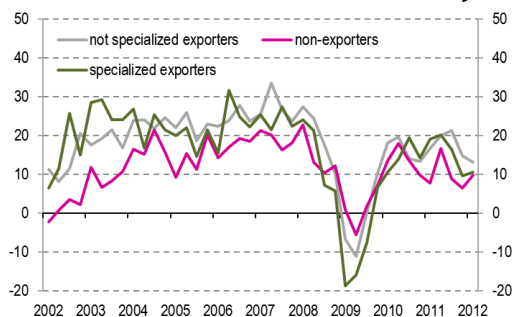


Figure 7 Production forecast indices (SA)

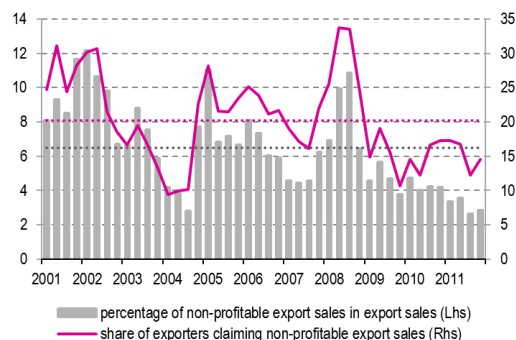


Figure 8 Non-profitable export

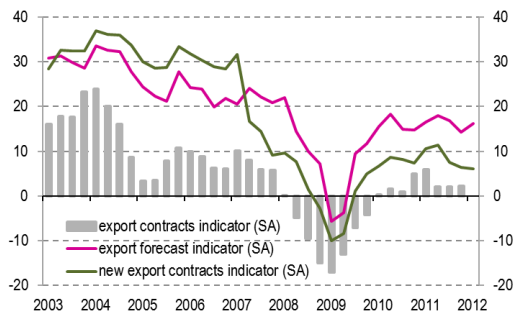


Figure 9 Export indices

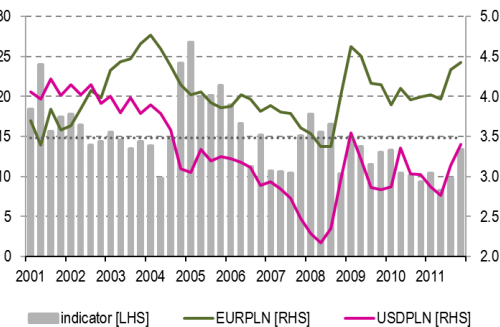


Figure 10 Exchange rate barrier indicator and EURPLN and USDPLN rates

4. In 2012 Q1, employment and wage trends observed in the previous quarter may be expected to continue (when seasonally adjusted). This means only slight changes in these categories in the nearest future. Thus, most of the announced wage increases will not exceed 5% i.e. they will not exceed inflation rate. The large companies will raise wages more frequently. Wage growth will be restrained by the SME sector, where the percentage of enterprises increasing wages has been flat at a low level for the last year and a half. The relatively slower wage growth is starting to generate employee pressure to wage rises. The pressure has been fuelled, by rising consumer prices but mitigated by the expected economic slowdown. According to the declarations of the companies surveyed, the increase in the disability pension contribution should not have a significant impact on the level of employment and wages. Almost 70% of the respondents will absorb the impact of the rises, without wages or employment revisions. 14% of the enterprises plan to reduce their employees' basic salary or other salary components. Such measures are most frequently taken by small and medium enterprises, or ones with a poor economic standing.

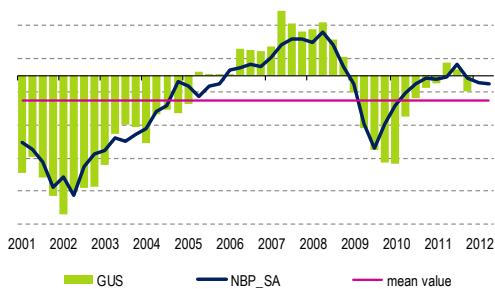


Figure 11 Employment forecast (NBP SA) and real changes (GUS)

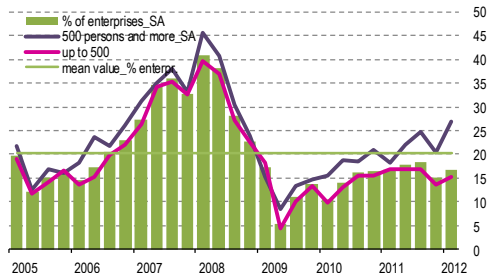


Figure 12 Share of enterprises planning wage increases

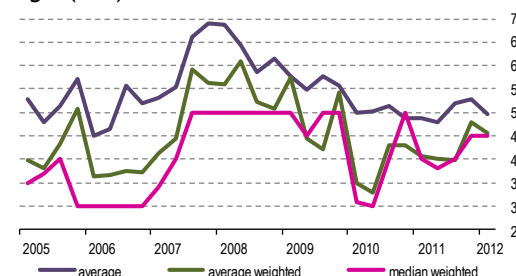


Figure 13 Average and median of wage increases (in group of enterprises planning wage increases)

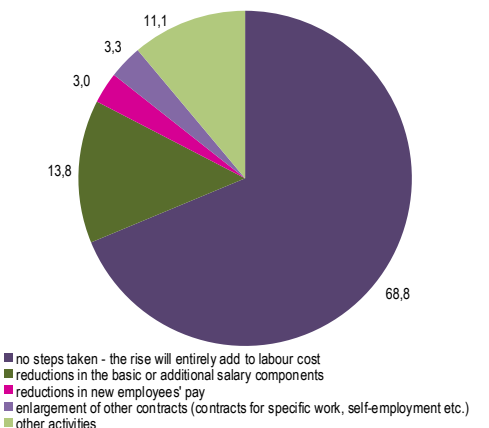


Figure 14 Response to increase in the disability pension contribution

5. Weaker forecasts, especially concerning demand combined with rising uncertainty regarding the reversal in the business climate have translated into lower investment activity. Investment forecasts for both 2012 Q1 and the entire 2012 are less optimistic than in the corresponding period of the previous year. At the same time, the percentage of firms planning to earmark larger amounts than a year before to investment is falling. Most newly planned investments will be ones in replacement assets, while the interest in investment aimed at expanding production capacity will remain limited. A positive phenomenon is only a relatively slight deterioration in investment forecasts amid large enterprises, with a non-decreasing investment plans in capacity utilization. High concentration of investment in the large enterprise group warrants a more optimistic assessment of the scale of investment spending in the subsequent periods.

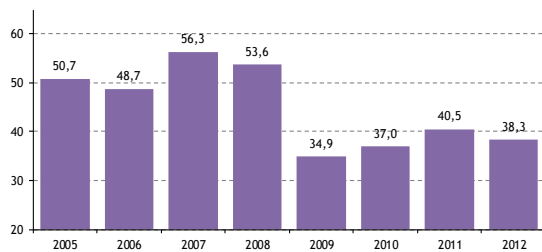


Figure 15 Plans to commence serious investment projects within a year

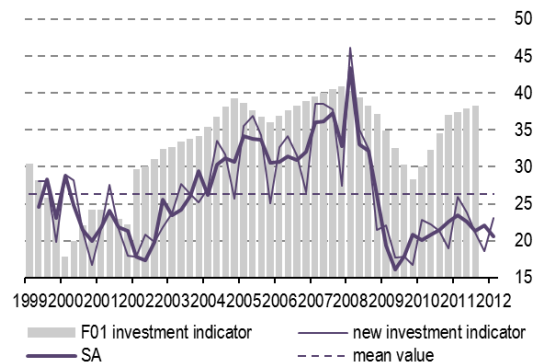


Figure 16 New investment indicators

6. Enterprises' interest in increasing bank indebtedness continues to decline. This concerns in particular the SME sector, where the percentage of firms reducing debt owed to banks has reached its historical high. At the same time, in spite of a certain fall, the percentage of borrowers who do not report any problems in obtaining a bank loan remains relatively high (however, this refers to the small number of firms which apply for such a loan). The decline in credit demand results from both slower investment activity and the persistently high percentage of firms financing their investment from own funds (at present, almost half of the projects are financed in this manner), which is possible thanks to both the ample funds accumulated in bank accounts and the small scale of investment outlays. Enterprises are using bank credit mainly to finance working capital and inventories.

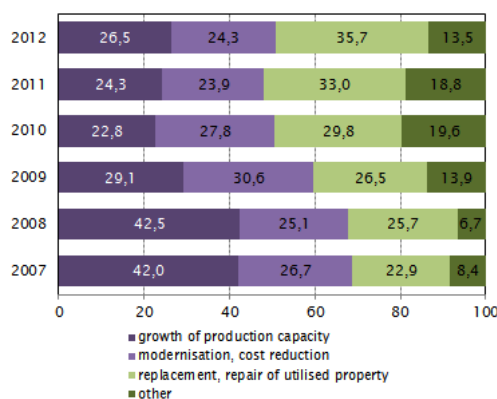


Figure 17 Main goal of new investment

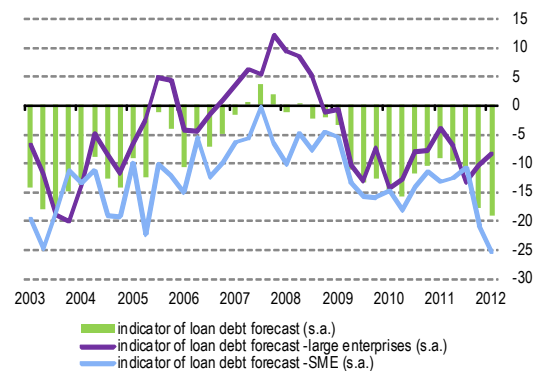


Figure 18 Bank debt forecast index

7. In 2011 Q4, the ability to pay off debts due to banks and the timeliness of trade payables settlement improved. Consequently, the firms surveyed had a better assessment of their general liquidity. Liquidity improvement was also observed in construction, although this section continues to consider its payment ability as low, in particular in terms of the timeliness of trade payable settlement. Stronger payment ability was one of the key components of a positive assessment of economic condition in the enterprise sector. The problem of payment bottlenecks is no longer mentioned as a key barrier to growth, but rather than large corporations this affects the SME sector, which assessed the problem as more significant. The median of overdue receivables accounts for 17.3% of total receivables amongst small and medium enterprises as against 13.5% in the large enterprise group.

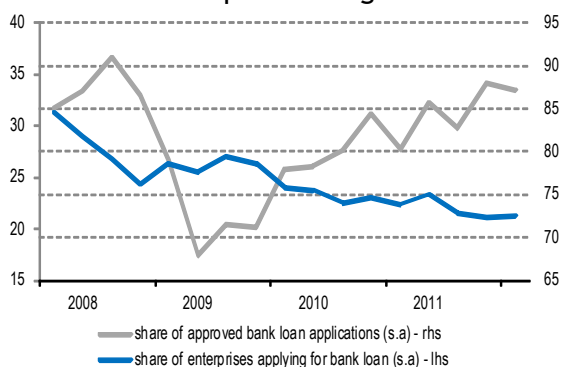


Figure 19 Availability of bank credit to enterprise sector

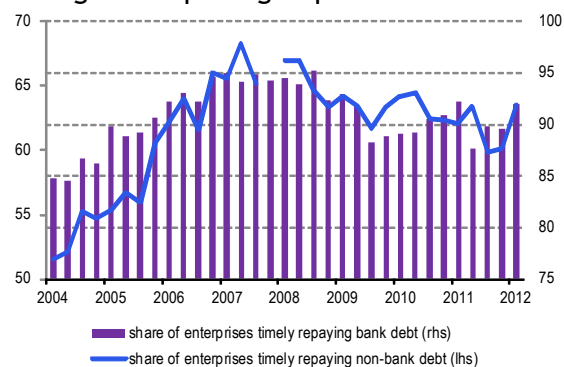


Figure 20 Share of enterprises settling their credit and non-bank debt according to the payment schedule

8. Enterprises also expect a further high price growth. Increased inflation expectations are visible both with respect to consumer prices and prices of commodities and semi-products used in manufacturing. Following the rising prices of supply goods, respondents also plan to raise their own prices more often. In the last quarters, prices have been fuelled by high purchase costs of imported goods and products, which partially resulted from the exchange rate effect.

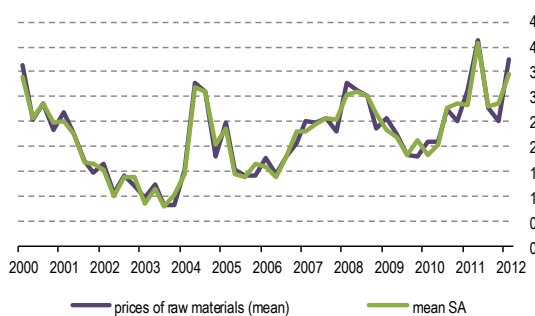


Figure 21 Quarterly forecasts of price increases of raw materials

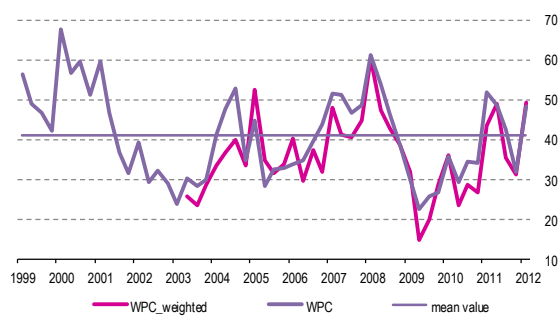


Figure 22 Index of prices forecasts WPC

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