

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

Economic climate in the enterprise sector in 2012 Q1 and forecasts for 2012 Q2

April 2012
Synthesis

The report is based on the results of the NBP Quick Monitoring conducted in March 2012 on a sample of 1267 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, the following conclusions may be formulated concerning the economic climate:

After three quarters of subsequent downward revisions of forecasts amidst mounting uncertainty about the future, 2012 Q2 expectations suggest a slight improvement in the situation of the enterprise sector. At the same time, in 2012 Q1, similarly to the last two years, enterprises upheld a positive assessment of their current condition. At present, it is difficult to determine whether the increasingly optimistic expectations signal a reversal in the hitherto observed trends, in which case an economic recovery is to be expected in the subsequent months, or whether this is merely a restatement of the excessively pessimistic expectations voiced in the previous quarters.

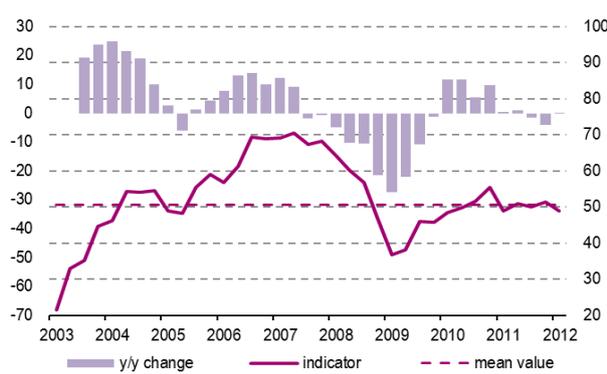


Figure 1 Current assessment of economic condition

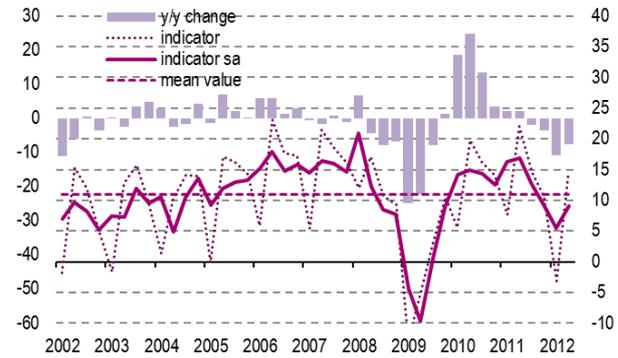


Figure 2 Enterprises' forecasts of economic condition

1. Although in the previous surveys enterprises anticipated a necessity to curb output growth, 2012 Q1 saw a rise in capacity utilization (in seasonally adjusted terms), an improvement in inventory matching and a lower demand barrier. Improved current demand translated into increasingly optimistic expectations about the coming quarter. Although most enterprises were prudent in their outlook, describing the anticipated rise in demand as a seasonal variation, more optimistic expectations translated into a higher number of enterprises intending to expand production in 2012 Q2. Improvement was noted in the majority of analysed industries and classes.



Figure 1 Demand barrier indicator

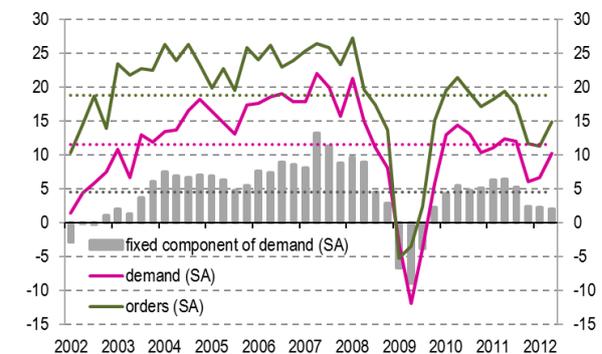


Figure 2 Forecast indices: total demand, fixed component of demand and new orders

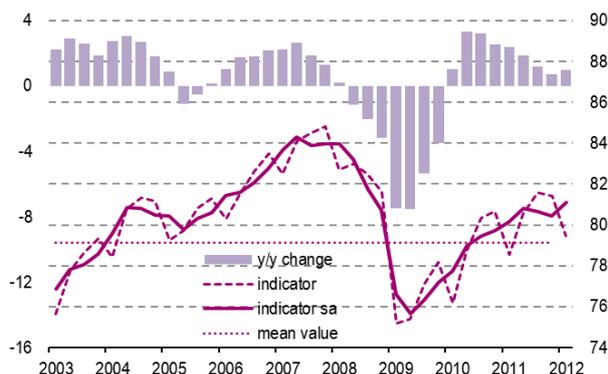


Figure 3 Capacity utilization

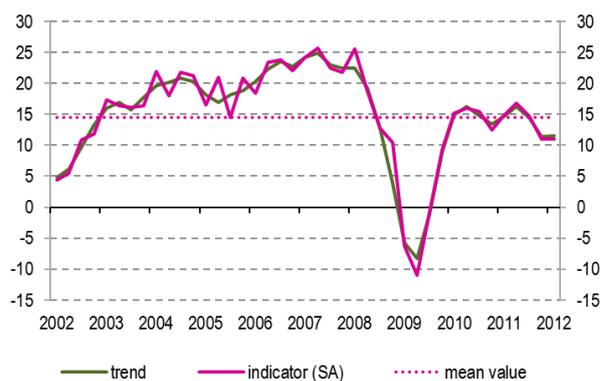


Figure 3 Production forecast indices

2. The 2012 Q2 export forecasts have remained stable and moderately optimistic. The percentage of enterprises reporting foreign sales has continued to diminish, in tandem with a falling share of importers. No major changes have been seen in the share of exports in total sales, which means that increased export revenues (resulting, among other things, from zloty exchange rate ensuring high profitability) point to growing export intensity in enterprises which continue their presence in foreign markets.

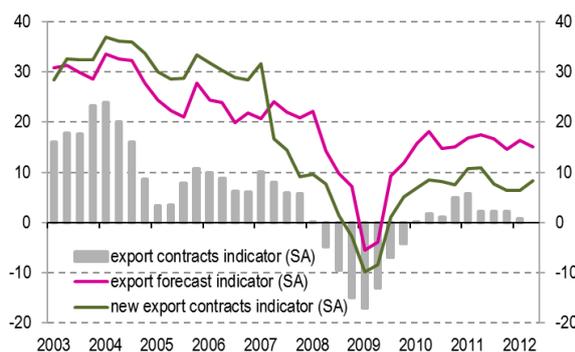


Figure 4 Index of export agreements and new export agreements and export forecast index

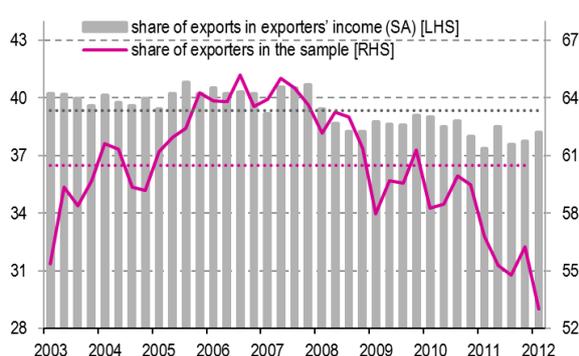


Figure 5 The share of exporters in the sample and average share of exports in exporters' income

3. In 2012 Q1, the exchange rate of the zloty appreciated, resulting in lower export profitability. Yet, it continues to stand at a level ensuring satisfactory profits to exporters - the group of firms declaring export sales below profitability threshold did not increase. Zloty strengthening led to a marked decline in export margins. The decrease was noted in both trade and manufacturing. Margins were also seen to decline on sales of products and services in the domestic market. It should be emphasised that margins fell despite a further marked price increase recorded in 2012 Q1. Thus, price increases failed to offset the observed growth in expenses; in the case of exporters - lower income from foreign sales was the result of zloty appreciation.

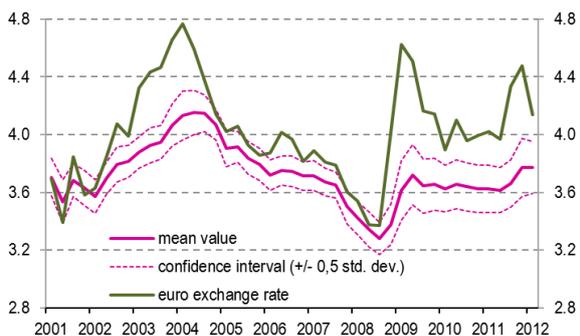


Figure 6 The level of the euro exchange rate at which exports ceases to be profitable and the real euro exchange rate.

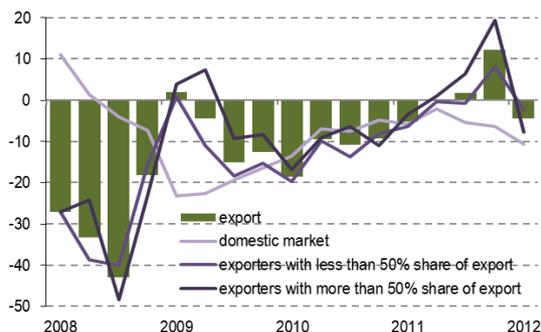


Figure 7 Changes in margins on domestic and foreign sales

4. In 2012 Q2, fewer enterprises intend to raise prices, and the scale of price increases will also be lower. This is the result of a downward revision in the anticipated growth of commodity and raw materials prices. The surveyed enterprises also expect lower CPI inflation. Enterprises in most analysed industries and classes expected smaller scale of price increases.



Figure 8 Forecasts of changes in goods and services prices



Figure 9 Forecasts of annual changes in the CPI index in relation to inflation in the previous quarter.

5. The observed and expected demand growth translated into a slight upward revision in employment forecasts. The private enterprises sector, the SMEs sector as well as the trade and export sector are the main sectors planning to increase employment. Similarly to the previous quarters, employment plans are connected not only with growing demand for products and services offered by the surveyed companies and the resulting plans to boost production, but also with the new investment projects envisaged. Uncertainty about the future continues to have negative impact on demand for labour.

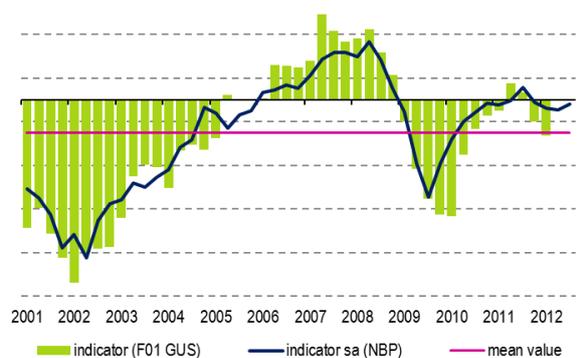


Figure 10 Employment forecast index

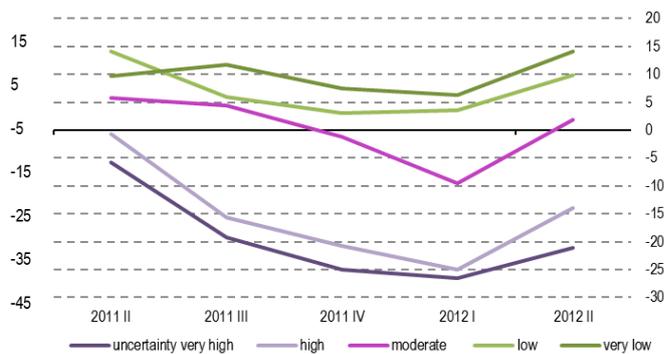


Figure 11 Employment forecast index and assessment of uncertainty about future economic situation

6. Despite rising employment, the number of enterprises planning wage increases as well as the average scheduled wage increase are on the decline. This may be due to modest employee pressure on wage growth which, in turn, can be traced back to the absence of clear signs of business recovery. Wage growth may also be hindered by the increase in the disability pension contribution. A marked decline in the number of companies raising employee wages is observed in construction, i.e. in the group of companies reporting particularly high uncertainty about their future activity.

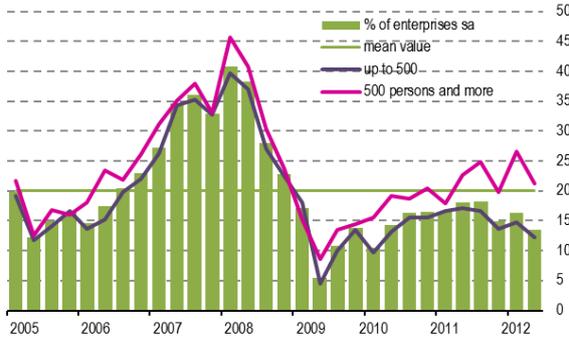


Figure 12 The share of enterprises planning wage increases and the share of employees to receive higher wages.

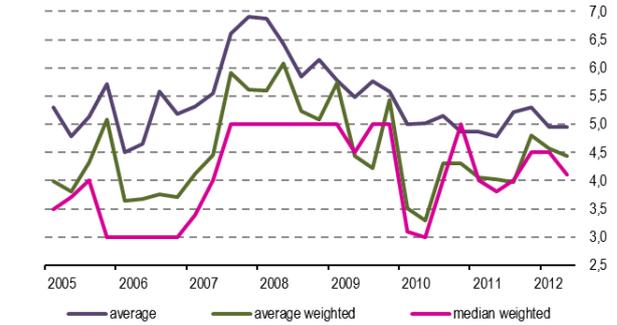


Figure 13 Average and median of planned wage increases

7. Growing optimism in demand assessments and forecasts translated into higher investment activity. However according to the surveyed enterprises, investment activity will remain low and growth may be expected in the number of newly commenced investment projects rather than in the expenditure on particular investments. Higher investment activity is reported by both large companies and SMEs, with the rebound less robust in the former than in the latter, whose starting point is still very low. Yet, overall investment levels in large enterprises continue to exceed substantially those reported by SMEs. Despite the recovery, investment needs of the enterprise sector will largely remain unmet, which is evidenced by the high and growing number of companies postponing development projects.

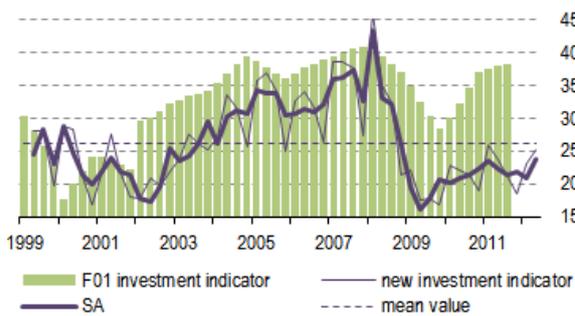


Figure 14 New investment indicator - the share of enterprises planning to embark on new investment projects over the quarter, and the employment weighted index. The share of enterprises reporting increased expenditure on fixed capital formation in real terms in F01 GUS forms (accruing expenditure, moving average)

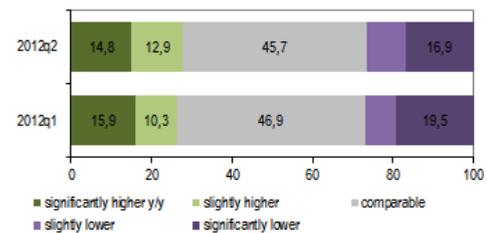


Figure 15 Scheduled expenditure in the coming quarter

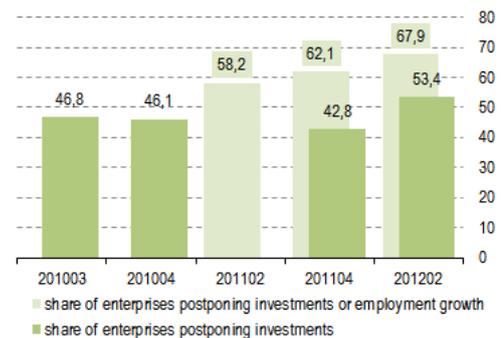


Figure 16 The share of enterprises postponing investment projects

8. The surveyed enterprises reported growing credit demand. Demand for bank funding remained close to its historically low level, especially in the SME sector. Loans will continue to be used primarily to finance current expenditure. At the same time, further improvement has been seen in the availability of bank credit as measured with the percentage of approved loan application. Considerable growth in the number of enterprises planning to expand borrowing was mainly seen in construction.

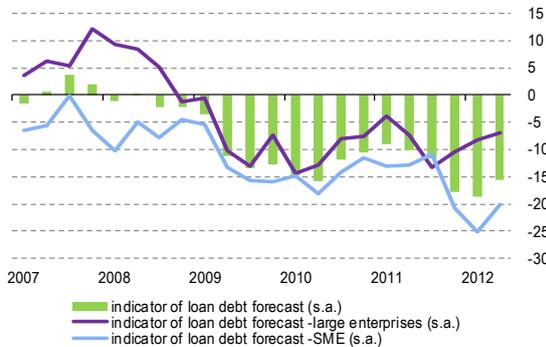


Figure 17 Forecasts of changes in bank debt in the whole sample and in enterprises of two size categories

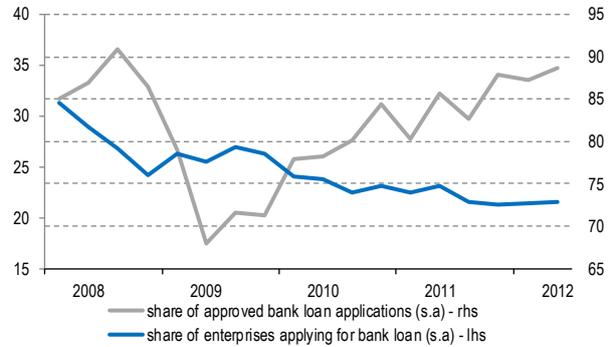


Figure 18 The share of enterprises applying for credit and the share of approved loan applications.

9. The enterprise sector registered growing liquidity problems. The ability to service both bank and trade debt deteriorated. As a result, the number of enterprises citing payment bottlenecks as a barrier to growth increased on three months ago. Liquidity problems worsened in the majority of the analysed industries and classes, except for construction, where the situation, albeit markedly poorer than in other industries, showed a slight improvement. Despite those unfavourable changes, the overall assessment of liquidity in the real economy remains optimistic. It should be mentioned that the share of overdue receivables and liabilities in total receivables and liabilities across the sample did not increase during the quarter.

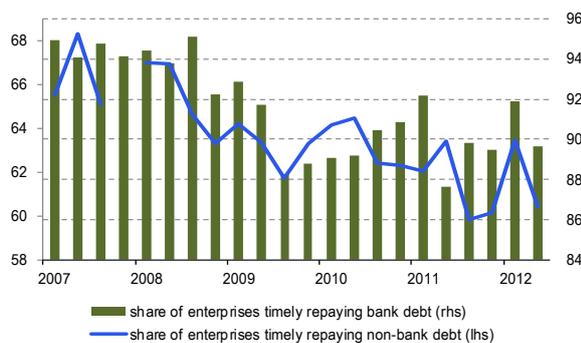


Figure 19 Bank and non-bank debt service

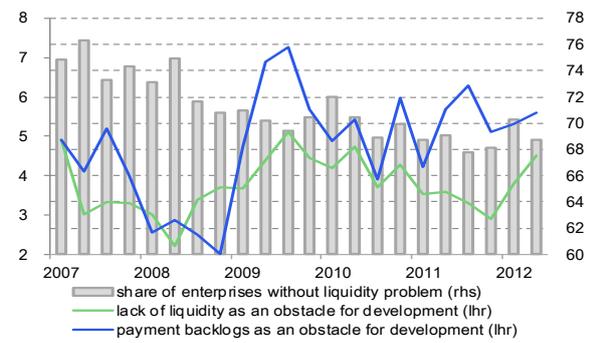


Figure 20 Financial liquidity of enterprises

Table 1 Barriers to growth¹ (points at which the indices reach the peak value in the survey history have been highlighted in the table).

| Frequency of problems reported during the quarter: | No problems | Low demand | Increase in the prices of commodities and raw materials | Foreign exchange rates, including fluctuations | Payment bottlenecks, liquidity problems | Legal regulations, taxes | Strong and growing competition |
|---|-------------|------------|---|--|---|--------------------------|--------------------------------|
| Minimum and maximum value in the history of quick monitoring survey | 6.2/34.7 | 4.3 \ 30.0 | 2.7 \ 17.5 | 8.3 \ 26.8 | 4.9 \ 21.2 | 4.2/14.0 | 5.4 \ 21.2 |
| 2010 Q1 | 23.5 | 19.3 | 7.6 | 13.3 | 9.2 | 4.2 | 9.0 |
| 2010 Q2 | 34.7 | 13.5 | 7.6 | 10.4 | 6.1 | 4.3 | 6.8 |
| 2010 Q3 | 30.6 | 13.5 | 9.2 | 10.1 | 8.8 | 7.9 | 6.1 |
| 2010 Q4 | 25.5 | 12.9 | 8.7 | 9.4 | 7.0 | 7.0 | 7.0 |
| 2011 Q1 | 25.5 | 12.7 | 15.0 | 10.4 | 8.4 | 6.8 | 6.0 |
| 2011 Q2 | 23.3 | 11.3 | 13.9 | 8.3 | 8.3 | 5.6 | 6.0 |
| 2011 Q3 | 29.0 | 14.2 | 11.2 | 9.8 | 6.8 | 6.3 | 6.8 |
| 2011 Q4 | 22.3 | 14.6 | 12.5 | 13.3 | 7.8 | 6.5 | 5.7 |
| 2012 Q1 | 26.8 | 12.9 | 12.4 | 11.8 | 8.8 | 6.9 | 6.7 |

¹ Indices of barriers to growth have been determined on the basis of the share of enterprises reporting a particular type of problem in the total number of surveyed enterprises (including companies which did not answer the question about development barriers).