

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

## Economic climate in the enterprise sector in 2012 Q3 and forecasts for 2012 Q4

October 2012  
Synthesis

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The report is based on the results of the NBP Quick Monitoring conducted in September 2012 on a sample of 1316 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.

An additional source of information is constituted by the results of the NBP Annual Survey, carried out in April-May 2012 on the sample of 1151 non-financial entities as well as the results of a survey commissioned by the NBP and conducted in June-July 2012 by an outside agency on the quota-random sample of 1143 entities. Results of the survey have been presented in boxes.

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Reports can be found on the NBP website:

[http://www.nbp.pl/home.aspx?c=/ascx/koniunktura\\_prezentacja.ascx](http://www.nbp.pl/home.aspx?c=/ascx/koniunktura_prezentacja.ascx)

In view of the findings of the NBP's Quick Monitoring, NBP Annual Survey and public statistics, the following conclusions may be formulated concerning the economic climate:

In 2012 Q3, the condition of the surveyed enterprises remained similar as in the past three years. Good assessments were supported by a slight improvement in timely repayment of debts. At the same time, pessimistic expectations increased and short-term forecasts deteriorated for another consecutive quarter, in particular concerning the observed and expected difficulties in finding customers willing to purchase the offered products and services. As a result of the anticipated deterioration in the economic climate, enterprises limited their expansion plans.

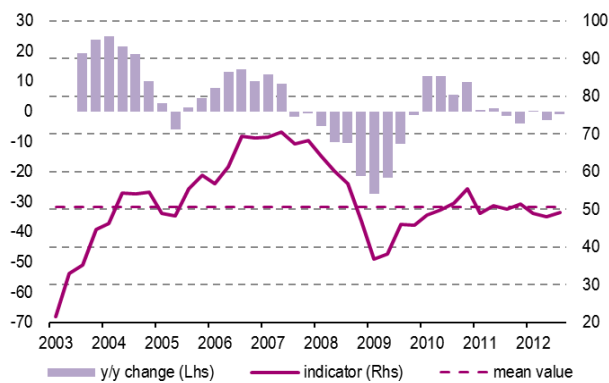


Figure 1 Assessments of current economic condition

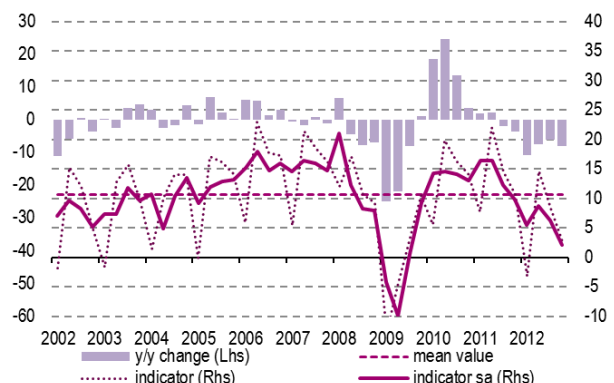


Figure 2 Enterprises' forecasts of economic condition

Due to a high concentration of economic developments observed there, the situation in the group of very large enterprises merits particular attention. For several quarters now, their flagging sales, cash and profitability indicators may have given rise to worry. This is compounded by concerns about a possible further deterioration in business conditions over the next few months. And even though the situation of the largest companies continues to be better - in many respects, including in particular profitability or liquidity - than that of smaller firms, amidst lack of signs of economic recovery, those companies may opt for a "wait and see" strategy, which will have a negative impact on the position of the entire enterprise sector.

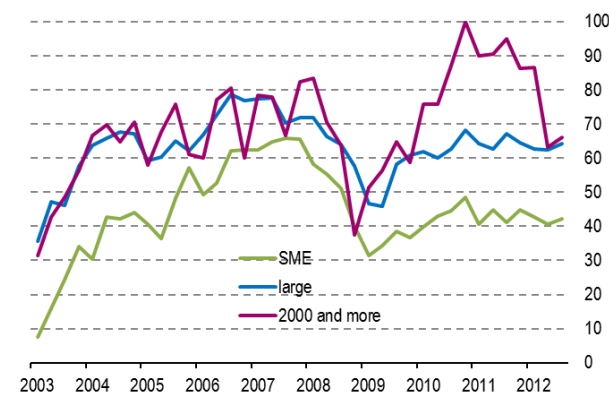


Figure 3 Assessments of current economic condition by large enterprises and the SME sector

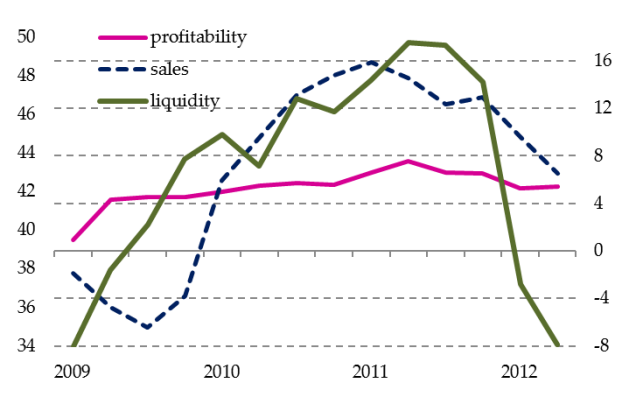


Figure 4 Liquidity, profitability and sales growth in the group of companies with at least 2000 workers

For another successive quarter, the number of enterprises struggling with demand shortage ("demand barrier"), or expecting to experience it in the near future, increased. The strongest concerns in this area have so far been voiced by construction companies; yet in 2012 Q3 there was a marked rise in the number of problems posted by manufacturers of durable consumer goods, or by the above mentioned group of the largest entities. Unfavourable shifts in demand have already been reflected in falling (albeit only slightly) capacity utilisation.

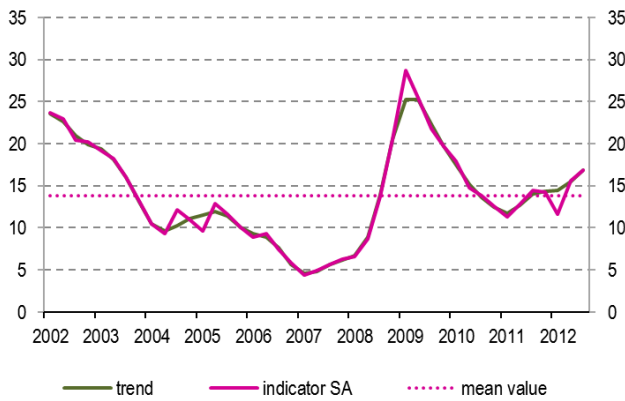


Figure 5 Demand barrier

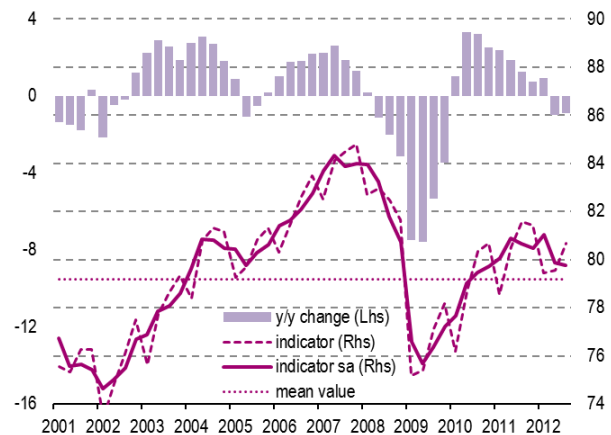


Figure 6 Average level of capacity utilization

Orders and output forecasts for 2012 Q4 have also deteriorated, rendering the percentage of businesses with plans to curb output only marginally lower than the share of firms planning to expand output (by 5 p.p.) Declining levels of output forecasts were observed both among exporters and firms selling exclusively in the domestic market. In the latter group, the decline resulted from the prevalence of businesses planning to cut production, whereas in the exporter group the result was positive. Despite their more upbeat production forecasts and a markedly better position - including a relatively higher profitability of foreign sales - exporters anticipated problems more often than companies operating locally. This may be put down to the uncertainty prevailing in the global markets, including in the euro area.

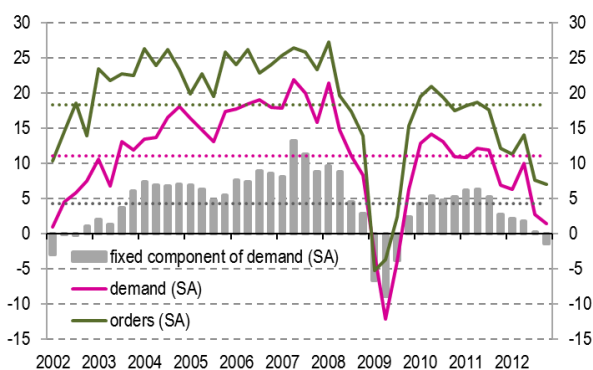


Figure 7 Demand and new orders forecasts

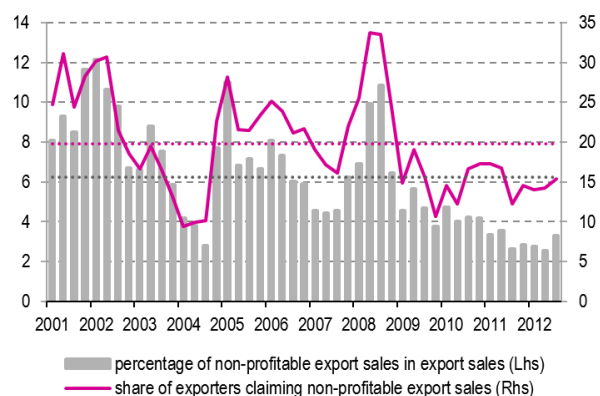


Figure 8 Export profitability

The already observed or expected decline in demand may prompt businesses to exercise more caution in changing employment levels. In 2012 Q4, slightly more enterprises (16%) plan to dismiss employees than take on new ones (9%), which means a bleaker outlook in comparison with the previous quarter, as well as the corresponding period of the previous year. Even in enterprises enjoying a good or very good situation (amidst a clear positive correlation between

changes in workforce levels and the situation of the enterprise), expected deterioration or heightened uncertainty frequently triggers decisions about workforce reductions. Protracted uncertainty and persistently downbeat forecasts, even amidst lack of changes in the actual situation, may have a strongly negative impact upon the labour market. The employment index is currently running at levels only slightly above its long-term average.

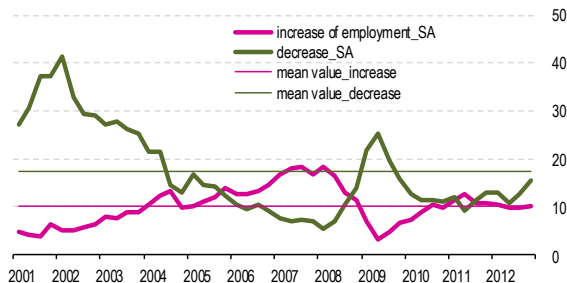


Figure 9 Employment forecasts

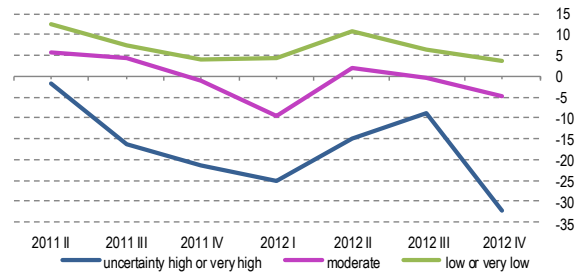


Figure 10 Employment forecast index and assessment of uncertainty about future economic situation

Employee pressure on wage increases remains low and shows no signs of rising. This, coupled with plans to reduce headcount, is reflected in businesses' remuneration policy. In 2012 Q4, the percentage of companies raising wages will, in similarity to the previous quarter, be relatively low, and the scale of the planned rises moderate - the majority of respondents declare wage increases of no more than 5%.

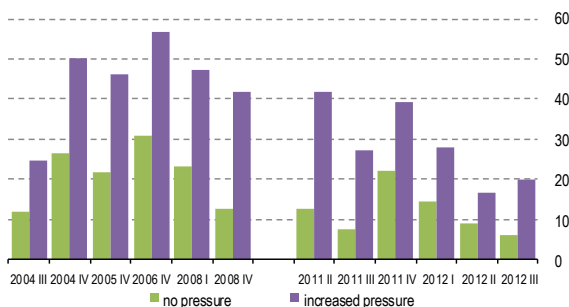


Figure 11 Wage pressure and planned wage increases

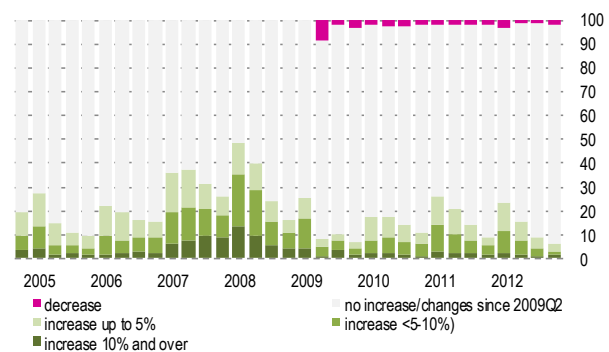


Figure 12 Distribution of planned wage changes

In line with their declarations concerning the fourth quarter of 2012, enterprises' investment activity will continue at low levels, due to both low share of commenced investment projects and a decline in the overall planned capital expenditure. Weaker outlook was announced by, among others, the largest companies in the sample, although this group continue to invest much more than other businesses. There should be no investment decline in the energy sector (while the number of planned projects is smaller, the amounts earmarked for business development purposes should be rising) or in the public sector. There is also a gradual increase in the percentage of businesses willing to discontinue projects already launched, which may be caused by a higher incidence of unfavourable and impossible to foresee developments forcing enterprises to revise their plans. One such development is weaker corporate financial performance observed since the beginning of this year. Lower profits may also account for a declining, as of the beginning of this year, degree of self-financing in businesses. It is also worth noting that a large portion of investment projects launched by enterprises in previous

periods is soon due for completion (as scheduled), which, given the scarcity of new investment, may dampen corporate investment growth in the subsequent periods.

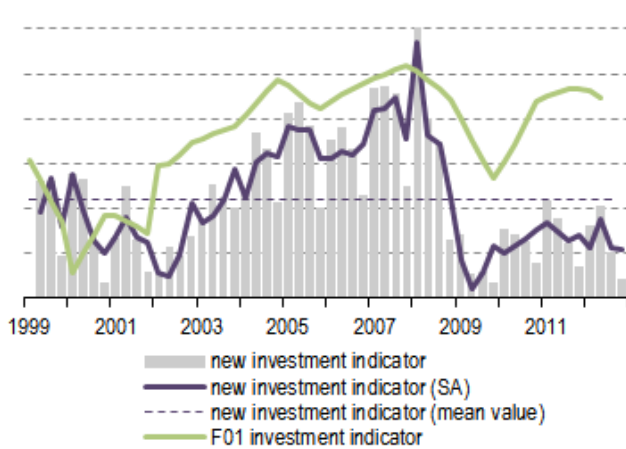


Figure 13 Investment forecasts



Figure 14 Continuation of commenced investments

According to enterprises' declarations, their liquidity position in 2012 Q3 improved; in parallel, there was a boost in corporate ability to settle bank and trade debt obligations as they fall due. Improvement in these indicators was not hampered by a relatively sharp rise in overdue receivables relative to total receivables. However, if problems of this kind mount, it may eventually undermine enterprises' position.

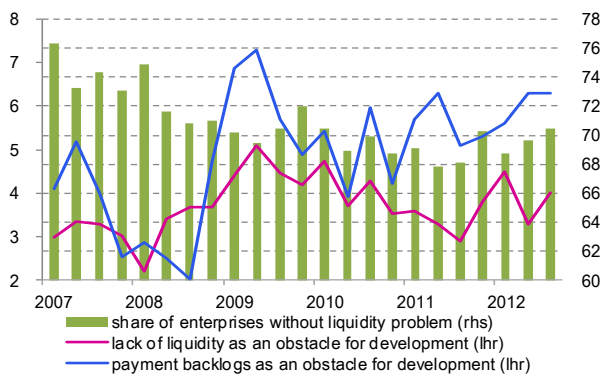


Figure 15 Financial liquidity

	no overdues	up to 10%	more than 10%
overdue receivables from domestic customers	17,5	47,3	35,3
overdue receivables from foreign customers	57,4	30,2	12,3
total overdue receivables	20,9	79,1	
overdue liabilities to domestic partners	48,9	31,4	19,7
overdue liabilities to foreign partners	73,8	18,2	8,0
total overdue liabilities	49,6	50,4	

Table 1 Overdue trade settlements (in%) in the third quarter of 2012 (share of enterprises)

According to enterprises' survey responses, access to bank credit became more restricted in 2012 Q3. Over the last three months, the percentage of rejected loan applications has risen from 14.4% to 19.2%, amidst the total number of applications being slightly lower. Problems in obtaining bank financing increased in particular with respect to the construction sector, where the percentage of firms seeking a bank loan was considerably higher than in the other classes of firms (and amounted to 35%), while the percentage of rejected applications stood at 43%.

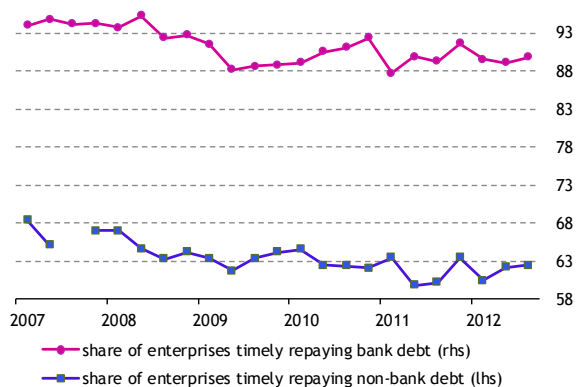


Figure 16 Bank and non-bank debt service

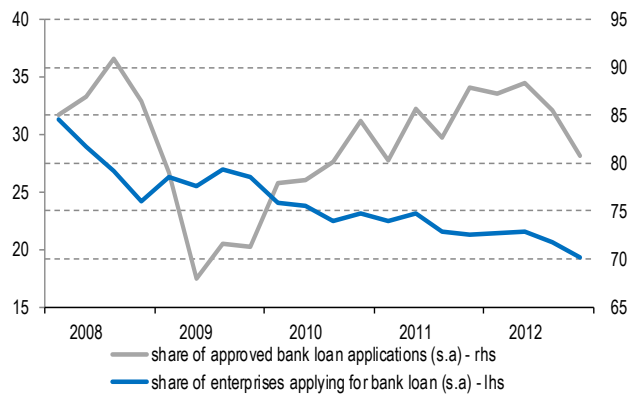


Figure 17 The share of enterprises applying for credit and the share of approved loan applications

The share of enterprises reporting the intention to raise prices decreased for a second consecutive quarter, while the share of businesses willing to reduce them increased. Businesses declare that prices will continue to slow down, owing to, among other things, a slower rise in the prices of commodities and raw materials - including imported ones.



Figure 18 Price changes of products/services offered by the companies

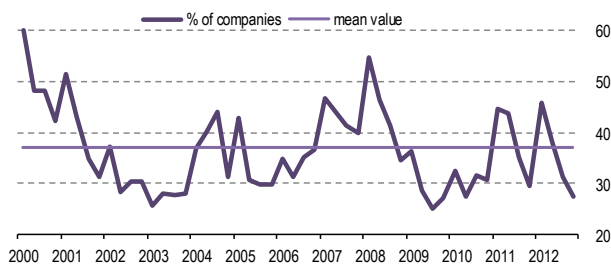


Figure 19 The share of companies anticipating an increase in both prices of raw materials and prices of their own

**Table 2 Barriers to growth<sup>1</sup>**

Frequency of problems reported in the quarter:	No problems	Low demand	Increase in the prices of commodities and raw materials	Exchange rates, including fluctuations	Payment bottlenecks, liquidity problems	Strong and growing competition	Recession, unemployment, industry-wide problems
Minimum and maximum values in the history of the survey	6.2/34.7	4.3 \ 30.0	2.7 \ 17.5	8.3 \ 26.8	4.9 \ 20.2	5.4 \ 21.2	0.9 \ 21.6
2010 Q1	23.5	19.3	7.6	13.3	9.2	9.0	4.7
2010 Q2	34.7	13.5	7.6	10.4	6.1	6.8	2.8
2010 Q3	30.6	13.5	9.2	10.1	8.8	6.1	2.8
2010 Q4	25.5	12.9	8.7	9.4	7.0	7.0	2.1
2011 Q1	25.5	12.7	15.0	10.4	8.4	6.0	2.4
2011 Q2	23.3	11.3	13.9	8.3	8.3	6.0	1.5
2012 Q3	29.0	14.2	11.2	9.8	6.8	6.8	3.2
2011 Q4	22.3	14.6	12.5	13.3	7.8	5.7	4.4
2012 Q1.	26.8	12.9	12.4	11.8	8.8	6.7	4.4
2012 Q2	24.5	14.1	11.1	11.4	8.4	7.0	5.3
2012 Q3	23.2	16.8	10.1	9.3	9.2	6.5	6.2

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<sup>1</sup> 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).