



**NBP**

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Narodowy Bank Polski

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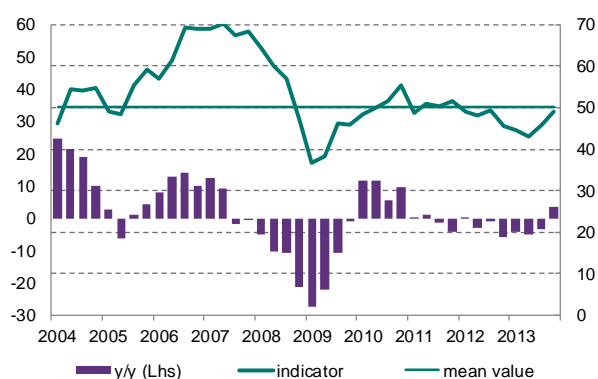
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# **NBP Quick Monitoring Synthesis**

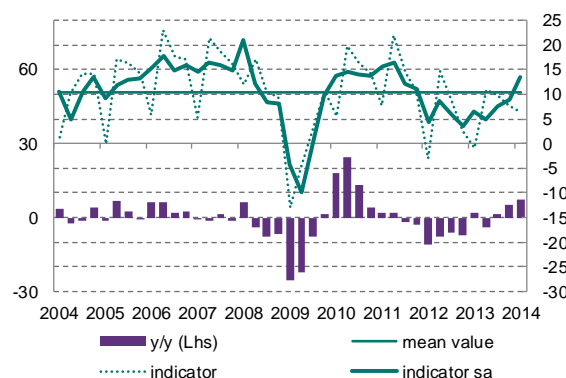
**Economic climate in the enterprise sector in 2013 Q4 and forecasts for 2014 Q1.**

At the end of 2013, signs of improving economic climate in the enterprise sector became even more evident. Conditions strengthened across most industries and classes and in nearly all of the analysed areas - including developments in demand, which are crucial to enterprises.. The respondents expect the positive trends to continue into 2014 Q1, possibly on a broader scale. However, the expected changes may still be not so significant. Enterprises which have not seen the signs of improvement by now, expect it to appear by the end of 2014.

**Figure 1** Current assessment of economic condition

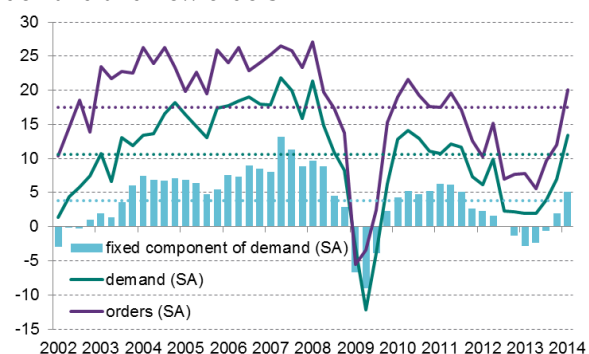


**Figure 2** Enterprises' forecasts of economic condition

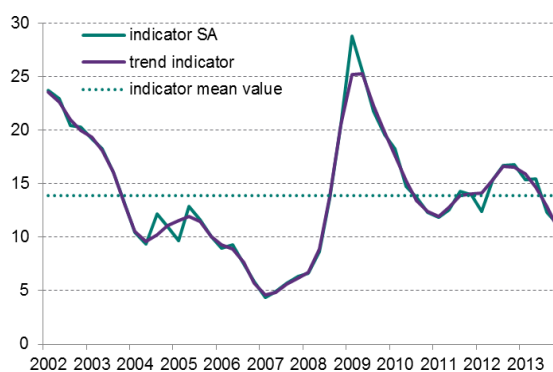


In 2013 Q4 finding the market for the products offered by the respondents posed less of a problem than in the previous quarter. There was a further slight increase in capacity utilisation, a decrease in the excessive inventory in manufacturing and weaker demand barriers. Expectations for 2014 Q1 are even more optimistic. Such a strong rebound in forecasts for new orders, demand and production has not been reported since 2010. Optimism of the expectations has risen in most of the surveyed industries and classes, including the construction sector.

**Figure 3** Forecasts for aggregate demand, fixed demand and new orders



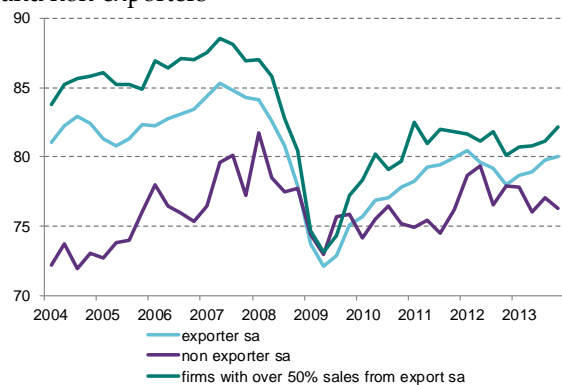
**Figure 4** Demand barriers



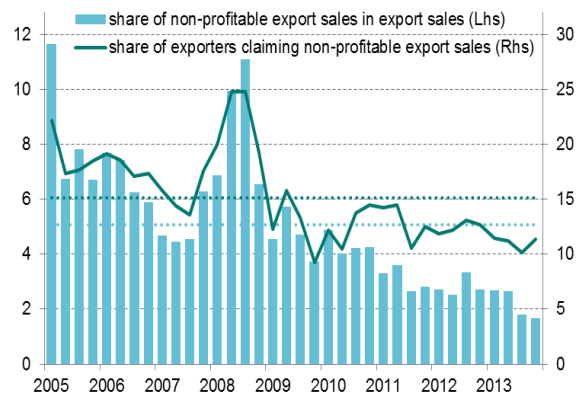
Sales profitability in the enterprise sector is slowly rising. Although companies which improve profitability continue to prevail only in the group of exporters, positive upward trends are also visible among the enterprises operating exclusively on the domestic market. In the case of ex-

porters, the increase in sales profitability results from cost optimisation rather than changes in the exchange rate, although the level of the exchange rate continue to positively affects the situation in the group. This is reflected in performance, especially of companies with a large share of revenues from export, whose assessment of their own condition are much better than companies selling products on the internal market.

**Figure 5** Average capacity utilization in the industrial processing sector, broken down by exporters and non-exporters

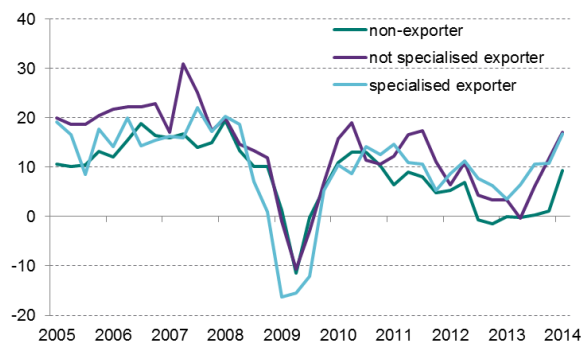


**Figure 6** Export profitability

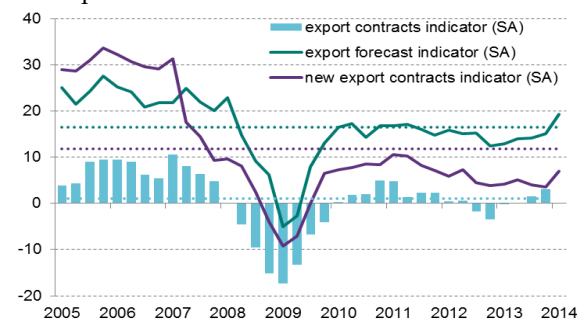


Forecast and assessments of the level of export activity had increased while remaining relatively low, especially in terms of the predicted number of new export contracts. Exporters' cautious expectations are not fully consistent with their responses to the question about the number of foreign markets to which they had supplied products in the last two years. Almost 42 % exporters have increased the number of their export market, moreover half of them have acquired more than one new market, which testifies to a rather robust growth of Polish export activity. However, it may be too early for the sales to new export markets to render satisfactory results - or else the search for new markets may not mean a marked increase in the number of customers, hence the low value of the indicator.

**Figure 7** Demand forecast by export class



**Figure 8** Export contracts and new export contracts, and export forecast

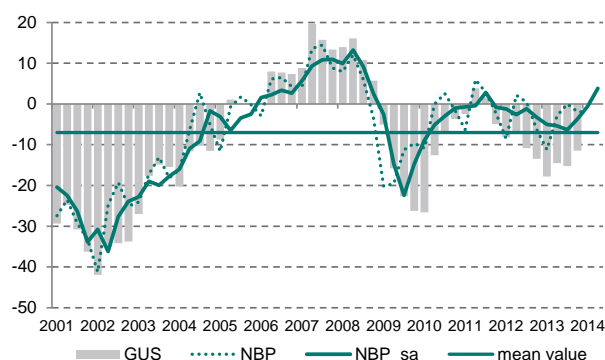


Net employment forecast after seasonal adjustment improved markedly. The beginning of the year, when enterprises usually lay off staff as a result of a drop in sales typical of this season, this

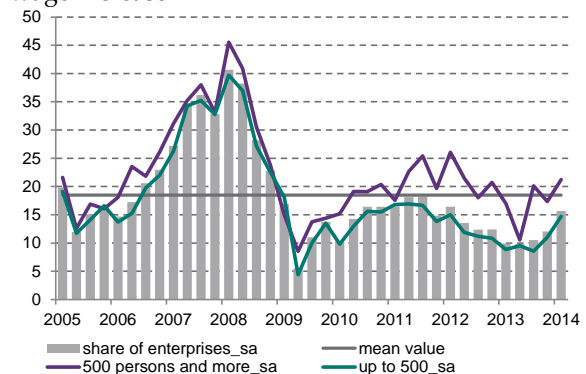
time brought no changes in the share of companies planning to reduce or expand the workforce, which resulted in a marked rebound in the seasonally adjusted indicator. Employment should increase mainly in trade.

No major developments in the wage level should be expected. A slight increase in the share of enterprises planning wage increases has been observed. At the same time the average level of the wage increase has bottomed out since 2005. This results not only from the persistently slow economic growth but also from very weak wage pressure. At the end of the year, still only few respondents witnessed staff pressure on wage growth - notwithstanding a certain increase in their number. In the enterprise assessments, the low scale and scope of wage increases have caused steady faster growth of labour productivity than wages over the last 5 years.

**Figure 9** Employment forecast against F-01/I-01 reports

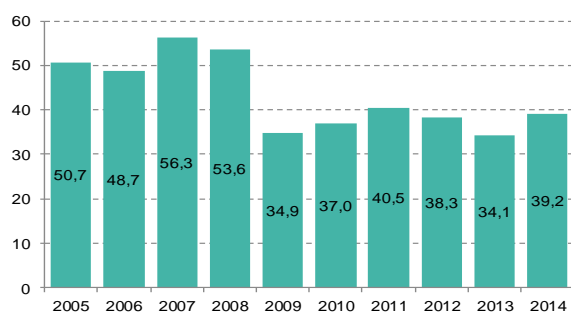


**Figure 10** Share of enterprises planning wage increase and the share of employees covered by wage increase

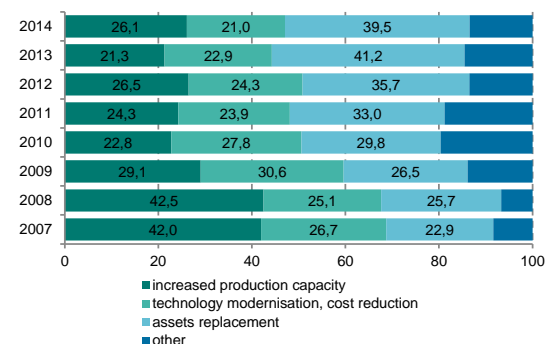


In 2014 a further increase in investment outlays may be expected. The analysis of annual plans suggests that it will be due to higher value of the individual projects rather than an increase in new project launches. This scenario is supported by the rising number of projects aimed at expanding production capacity, and by heightened investment activity reported by the largest entities in the sample.

**Figure 11** The share of enterprises planning to commence investment project within a year

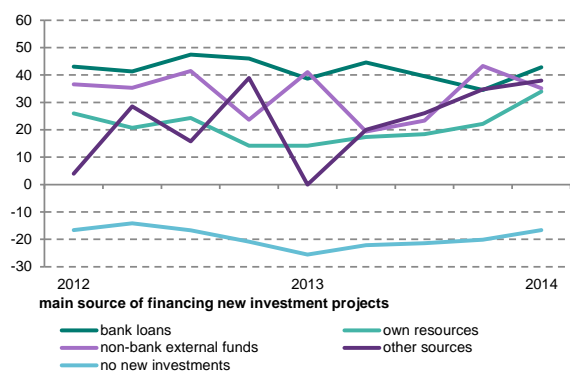


**Figure 12** Main goal of new investment

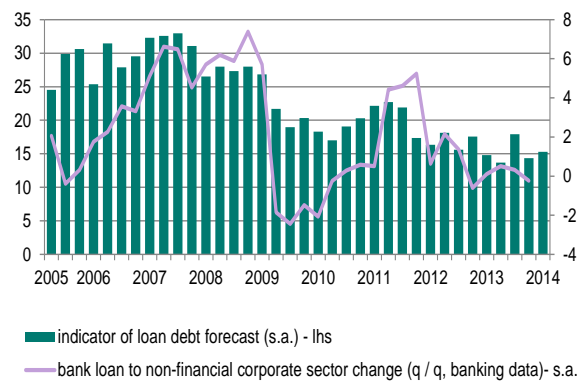


Despite the lending rate hovering low, a relatively high and rising availability of credit and expected boost in investment, respondents are still reluctant to incur new bank debts. In 2014 Q1 the number of self-financed investments will be nearly twice as high as those financed with bank loan. Although the indicator of debt forecast has increased slightly, it has not brought a reversal of the downward trend, and the increase was mainly due to a decline in the share of companies planning to completely or significantly reduce their bank indebtedness.

**Figure 13** Investment forecasts and their source of funding

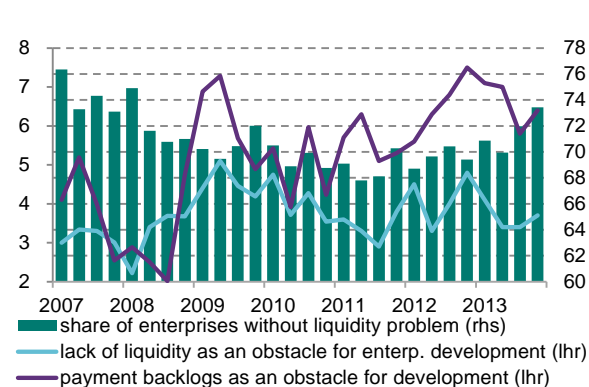


**Figure 14** Demand for credit

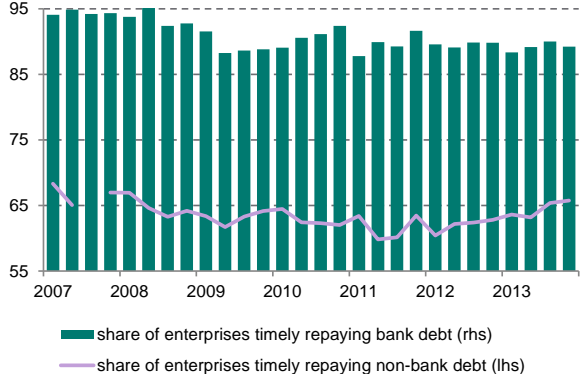


Liquidity in the enterprise sector continues to be good, and the relevant indicator is on the increase; yet the problem of payment backlogs is still a major growth barrier. Despite this, capacity to repay debts owed to suppliers has improved in the entire sample. In 2013 Q4 construction companies struggled with particular difficulties, as the incidence of late payments was the largest in this sector, and its capacity for timely repayment of bank debt had deteriorated (amidst a higher share of borrowers).

**Figure 15** Share of liquid enterprises



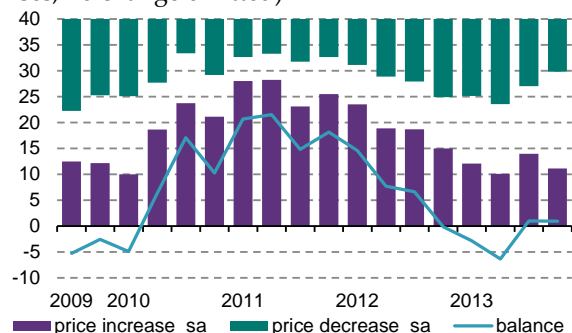
**Figure 16** Credit and non-bank debt service (response rate)



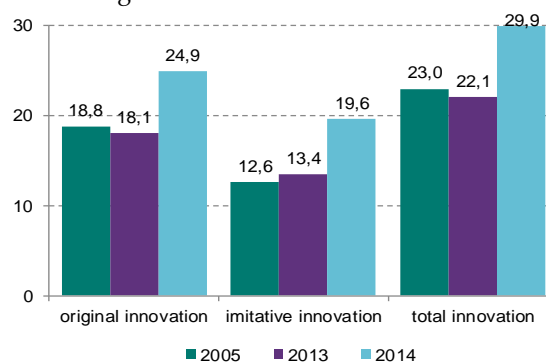
In 2014 Q1 enterprises do not expect any acceleration in either consumer inflation or growth in the prices of materials used in manufacturing. Consequently, fewer companies than in the previ-

ous quarter plan to raise their own prices. Extensive labour cost optimization is conducive to low pressure on the price growth. It seems that the cost reductions have been permanently etched into the business strategy of the Polish enterprise sector - currently more than half of the companies declare such measures. It should be noted that costs are being reduced not only by those companies which are forced to do it due to the difficult financial situation but also by companies which are in a very good condition. This has its own consequences. On the one hand, lower costs will improve the competitiveness of companies, but on the other, modest wage rises, the search for the cheapest suppliers and constraints on capital expenditures have a negative impact on the pace of economic recovery.

**Figure 17** Actual changes in the prices of products/services offered by the companies (% of enterprises, no change omitted)



**Figure 18** Share of enterprises in the entire sample introducing innovations



In 2013 few enterprises decided to introduce innovation – this type of activity applied to fewer companies than in the previous analysed period (new innovative solutions or products were more frequently implemented only by exporters and large manufacturing companies). Innovation activity plans for 2014 are slightly more optimistic – about 30% of surveyed enterprises, compared to 22% in 2013, intend to introduce innovations in this year.

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