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NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2014 Q3 and forecasts for 2014 Q4

*The report is based on the results of the **NBP Quick Monitoring Survey** conducted in **September 2014** on a sample of **1460** non-financial enterprises representing all sections of the NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the public and private sectors, SMEs and large companies. Data were additionally sourced from the results of the **NBP Annual Survey** conducted in **April – May 2014** on a sample of **1107** non-financial enterprises.*

Despite increasingly numerous signs of economic slowdown, the escalation of the Ukrainian crisis and more pessimistic forecasts of the surveyed companies, the situation in 2014 Q3 continued to improve. Even though the ban on exports to Russia took a toll on the condition of respondents, strongly relying on Russia-bound exports, enterprises for which Russia was only one of many markets, report no signs of downturn yet.

Figure 1 Current assessment of economic condition

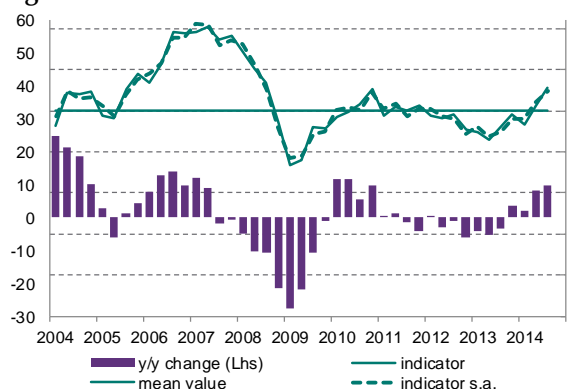
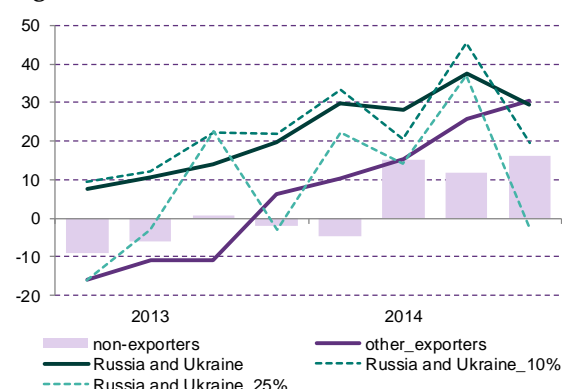


Figure 2 Forecasts of economic situation



The recent quarter brought first, in over a year, signs of a lack of improvement in demand. Demand barrier and problems with the build-up of stock surplus have got slightly more pronounced whereas capacity utilization declined. Yet, the last phenomenon could have been, at least partially, driven by a rise in potential output as a result of the relatively high investment outlays reported previously.

Figure 3 Average level of capacity utilization and its changes y/y

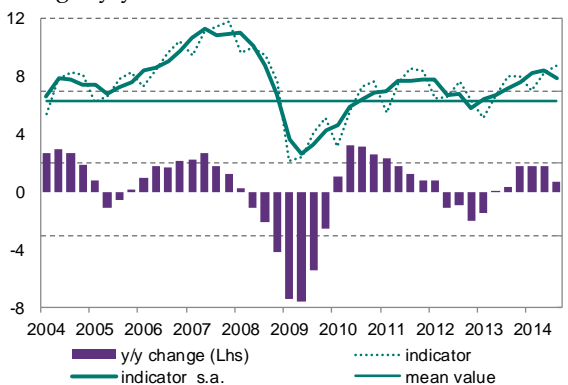
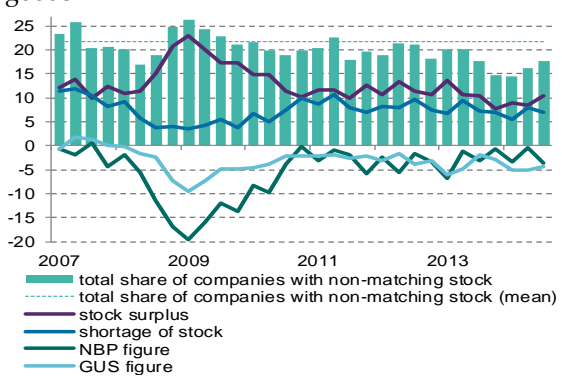


Figure 4 Assessment of the stock level of finished goods



The new orders and demand forecasts were sharply revised downwards. However, in many cases, these declines are considered as being of a temporary or seasonal nature, which may suggest that there is a possibility of returning to a recovery phase in the near future. Yet, they may also be indicative of the wishful thinking attitude of companies disappointed with a short recovery phase. Strong declines in leading indicators were mainly posted in the group of companies en-

gaged in goods export to Russia or Ukraine. As optimistic expectations of demand were tempered, production forecasts were also revised downwards. Therefore, enterprises limit the potential stock build-up, fearing it may not be possible to sell their production, should the drop in demand be a long-lived phenomenon.

Figure 5 Forecasts: aggregate demand, fixed demand and orders

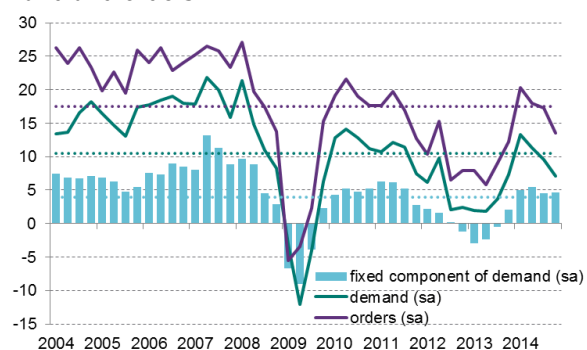
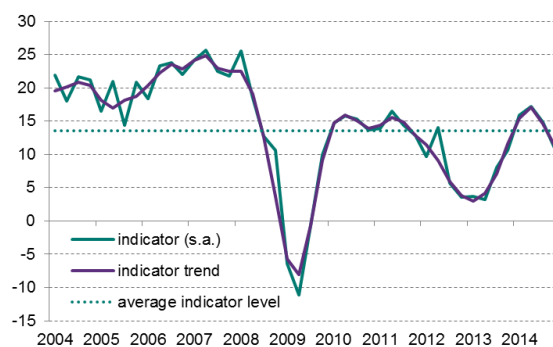


Figure 6 Output forecasts



Employment forecasts for 2014 Q4 were slightly revised downwards. The downward revision was, however, significantly weaker than in the case of demand and production. In the analysed sample, companies planning to increase employment still slightly outnumber those planning to reduce employment. The fact that those forecasts have remained optimistic may result from delayed response of employment to changes in production. The results of the survey in this respect may also be somewhat affected by a high degree of capacity utilization. Finally, the fact that employment has remained at the same level or even increased may reflect the above-mentioned attitude of respondents expecting decline in demand to be of temporary nature.

Figure 7 Employment forecasts

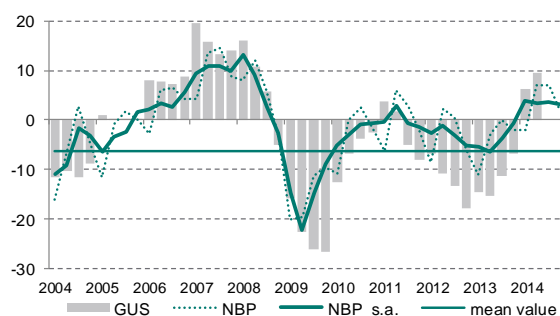
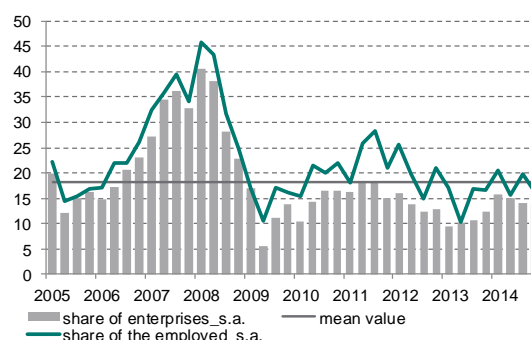


Figure 8 Share of enterprises planning wage increases



The scale of wage increases in 2014 Q4 will continue to be low – the vast majority (91%) of companies are not planning any major changes in this respect. Wage increases are held down by negative CPI and low upward pressure on wages. Enterprises face only minor financial problems as

the sector is in a fairly good condition. Relatively more important are expectations of demand and uncertainty about future changes in economic conditions.

Figure 9 Share of enterprises planning to commence investment projects

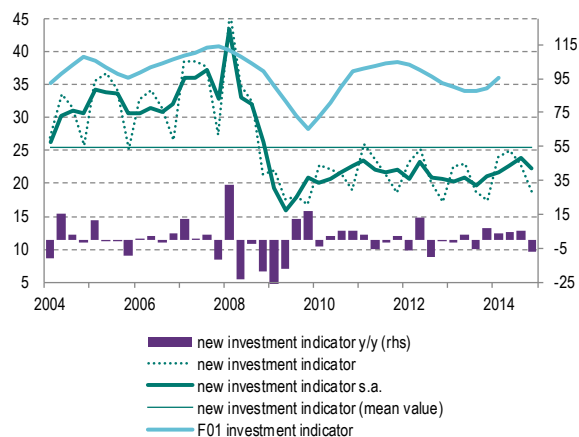
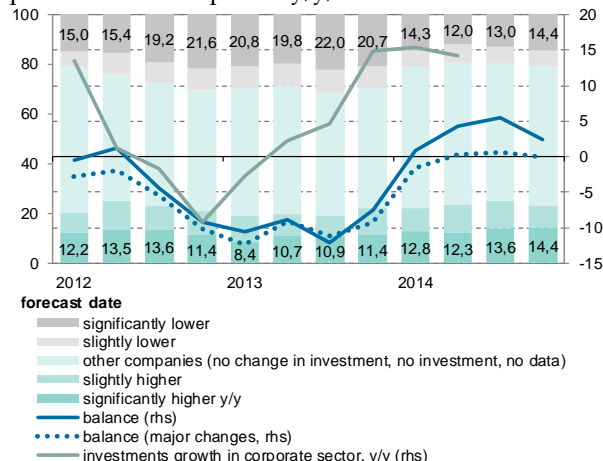


Figure 10 Planned change in the total value of expenditure over a quarter y/y/



The corporate sector is expected to see a decline in investment activity. Fewer new investment projects accompanied with weaker growth in investments in 2014 Q4 have been reflected in the results generated in the majority of the analyzed sectors and classes. Yet, this is not a sudden development and there is no direct correlation between lower investment growth and the Ukrainian crisis. As before, more investments are planned by exporters and large enterprises (thus also companies having links with the Russian and the Ukrainian markets) than by the SME sector, or companies selling for the domestic market only.

Figure 11 Financial liquidity

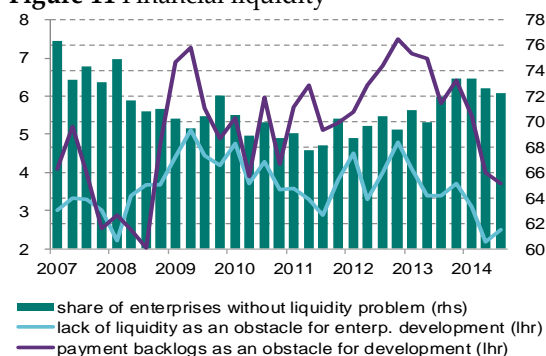
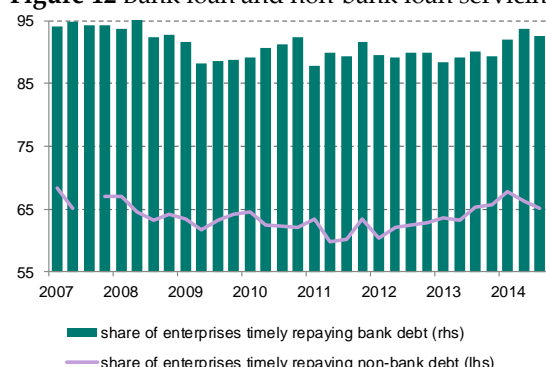


Figure 12 Bank loan and non-bank loan servicing



Liquidity deteriorated and the ability to service both commercial and bank debt lowered. The deterioration was mainly seen in services and small enterprises. Nevertheless, the level of both indicators remained high. At the same time the share of companies with overdue receivables increased which means that payment backlogs problem got more serious.

Figure 13 Demand for loans

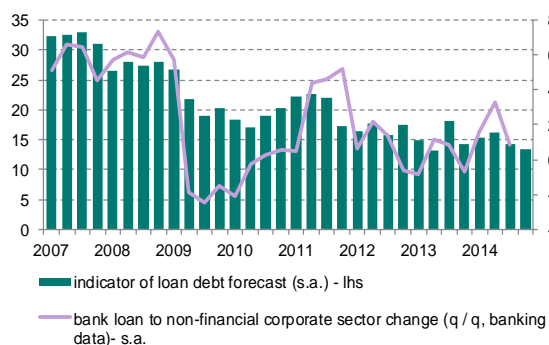
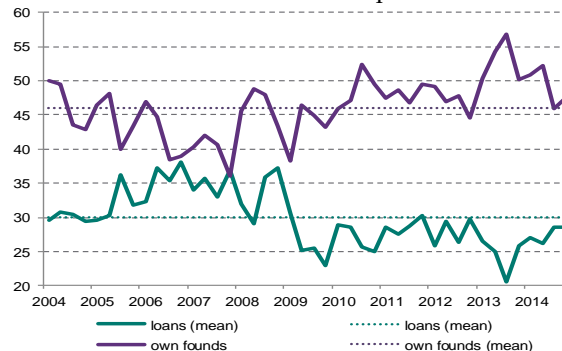


Figure 14 New investment projects financed with own funds and bank loans - comparison



Interest in bank financing remains low. Despite the observed dynamic growth in borrowing for investment purposes (as shown by bank statistics), also among investors, debt reductions are now more frequent than plans to increase borrowing – most new investment projects will continue to be financed with own funds or non-bank third party funds, for example, leasing. Restrained borrowing results from the fact that enterprises have sufficient funds to finance their current needs, their conservative and cautious financial policy, uncertainty as to the direction of future changes in the business climate, or relatively small value investments. In contrast, the price of credit, potential lack of creditworthiness or sufficient collateral have now significantly lesser impact on demand for additional bank loans.

Figure 15 Price changes of products/services offered by enterprises

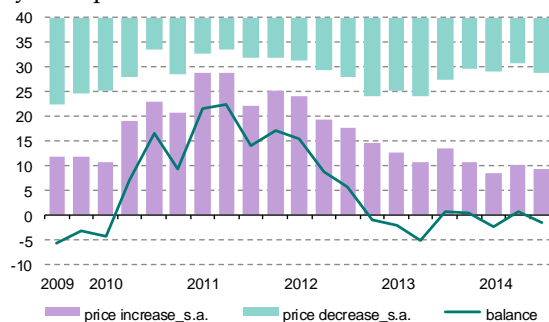
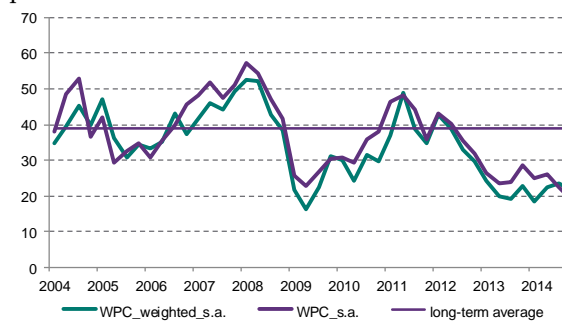


Figure 16 Forecasts of changes in goods and services prices



The corporate sector has seen deepening deflation. While in 2014 Q2 construction was the only sector to declare more frequent price reductions than price increases, in Q3 a similar situation was also observed in manufacturing, trade and other services. According to the Q4 forecasts, PPI index growth rate is likely to further decline. It is accompanied by expectations of a downward trend in prices of raw materials used for production. Along with a downward revision of these

forecasts, also CPI inflation is expected to decline. Downward pressure on prices was reported by approximately half of the surveyed enterprises. The most common consequences of this downward pressure involve: renegotiation of prices with suppliers (secondary effects), decline in margins and cuts in costs. Although not in every case enterprises consent to reduce prices and certain transactions fail to close, this rarely leads to a decline in capacity utilization and sales reductions.

Figure 17 Did the enterprise abandon any sales transactions due to low price offered by potential buyer/buyers?

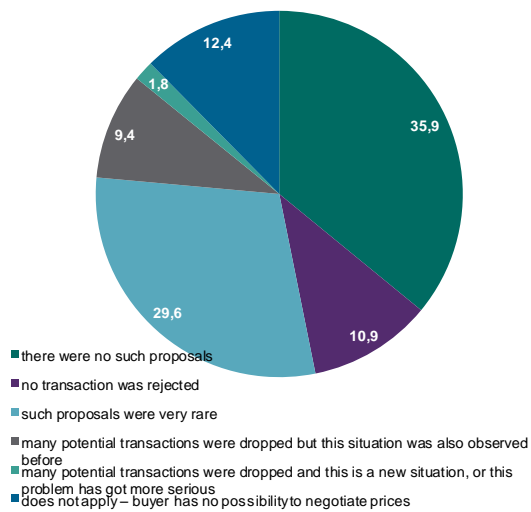


Figure 18 Effects of downward pressure on prices

