

No. 01/15 January 2015

NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2014 Q4 and forecasts for 2015 Q1

The report presents the assessment of enterprises surveyed by NBP in 2014 Q4 and forecasts for 2015 Q1. In December last year, 1521 entities selected across Poland participated the NBP Quick Monitoring Survey. They included 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.

Zofia Jankiewicz

Łukasz Postek

Piotr Popowski

Katarzyna Puchalska

Agnieszka Sawicka

Izabela Tymoczko

Summary

The economic condition of the enterprise sector in 2014 Q4 remained good and stable. The contributing factors included a relatively good economic climate on the domestic market, with favourable developments in raw material prices, including a decline in fuel prices enhance the situation. Better perspectives in sales translated into expectations of further improvement of the situation in 2015 Q1.

Figure 1 Current assessment of economic condition

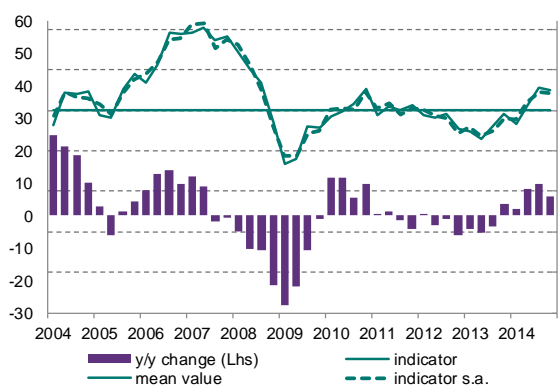
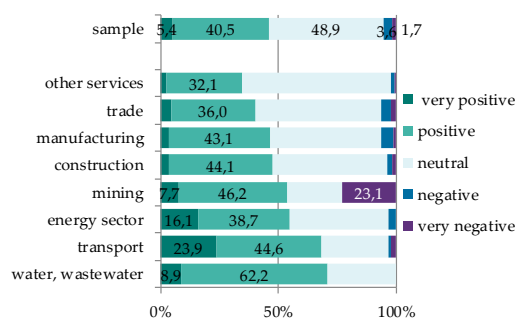


Figure 2 Impact of PPI index decline, including fuel, on condition of enterprises - data for 2014 Q4



Following the downward trend in forecasts of new orders and production observed since the beginning of 2014 and the decline in sales growth in the second half of 2014, both current assessment of demand and expectations for the following quarter slightly improved at the end of the year. This phenomenon was noted despite a relatively poor economic situation in the euro area countries and the embargo on food imports maintained by Russia. Many factors could have contributed to the improvement, including: acquisition of new markets, launching new sales channels (which made it possible to continue exports to Russia), adjustment of too pessimistic forecasts formulated in the period when enterprises expected that the effects of the Russian-Ukrainian conflict would have a more significant impact on their condition, or the recovery on the domestic market, supported by a falling unemployment rate and growth in wages.

Figure 3 Forecasts of economic condition of enterprises (q/q)

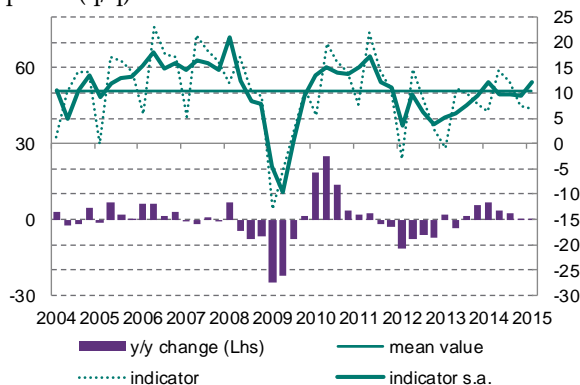
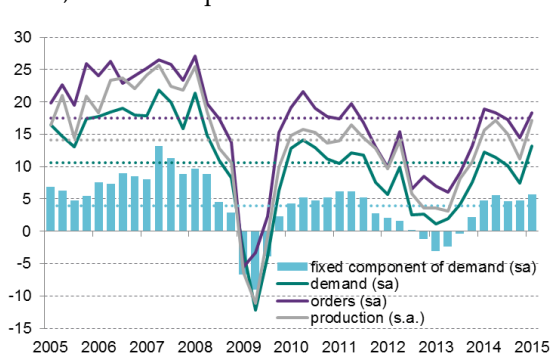


Figure 4 Forecasts: aggregate demand, fixed demand, orders and production



A better sales outlook has resulted in plans to increase employment. This time, forecasts for Q1, which usually demonstrate a seasonal decline (prevalence of companies which lay off employees), showed a slight advantage of companies intending to increase the number of employees, which resulted in a marked growth of the seasonally adjusted employment forecasts indicator. Plans of creating new jobs are declared by service companies, including in particular trade, as well as by industry (mainly manufacturing) and construction. A strong growth in the number of such plans was noticed particularly, in companies with foreign capital.

Figure 5 Employment forecasts

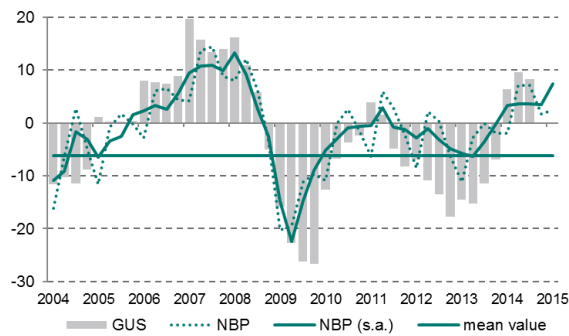
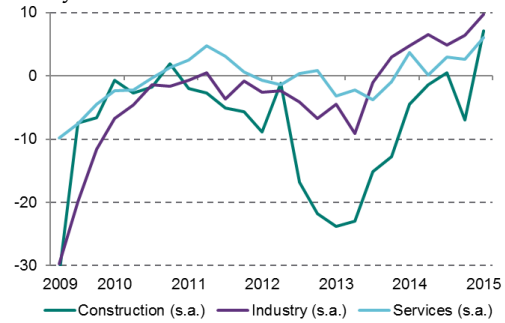


Figure 6 Employment forecasts in construction, industry and services



Following the planned increase in the number of full-time jobs, enterprises also intend to increase wages more frequently. However, improvement in sentiment is visible only in the service sector, including transport and trade. At the same time, the scale of wage increases will not be much larger than observed in the previous quarters (the percentage of companies planning to increase wages rose insignificantly), and the average wage increase will be lower than a quarter or a year earlier. Those plans are accompanied by a slight growth in wage pressure. This growth occurs in the context of a declining CPI, which may serve as an argument for employers unwilling to submit to the pressure. On the other hand, the enterprise sector, benefiting from the decline in commodity prices, currently reaches higher profitability, which may improve the attitude of companies' management towards wage negotiations. Similarly, the expected employment growth may also create a better climate for wage negotiations.

Figure 7 Wage forecasts

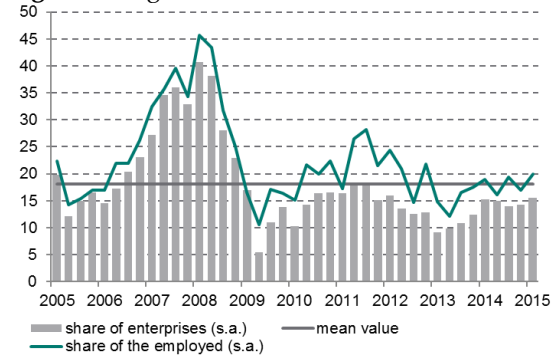


Figure 8 Wage forecasts and wage pressure



Good sentiment of enterprises, including a decrease in the uncertainty concerning companies' business environment, translated into their investment plans. This does not yet mean a significant growth in the number of new projects, including, in particular, projects aimed at the development of the production capacity of companies. Nevertheless, enterprises plan to allocate higher amounts for investments than in the corresponding period of the previous year. The majority of such expenditure will be spent on renovation or replacement of machinery.

Figure 9 Planned change in the total value of expenditure over a quarter y/y and in the total current year y/y (balance of changes)

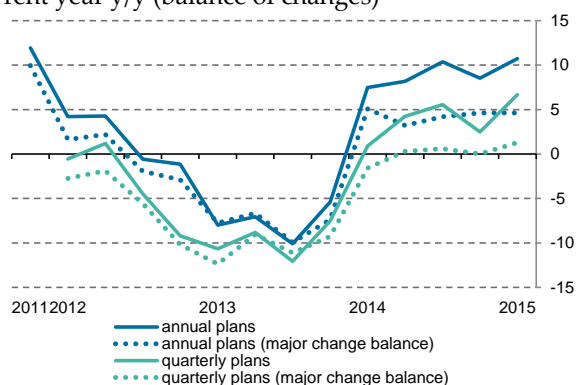
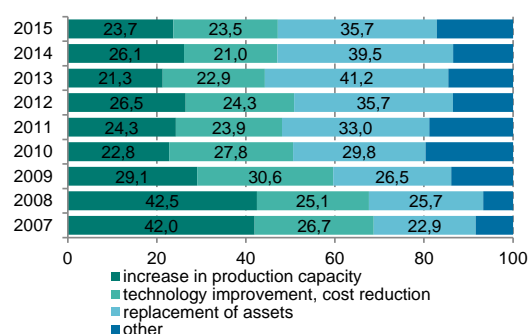


Figure 10 Main goal of new investment projects planned in a given year



In 2014 Q4 a slight improvement of liquidity was observed. It enabled enterprises to increase the timeliness of servicing commercial liabilities and improve servicing of bank loans. Values of the aforementioned indicators have remained at a sound level for several quarters, currently they range only slightly below the value of 2007.

Figure 11 Financial liquidity of enterprises (percentage of responses)

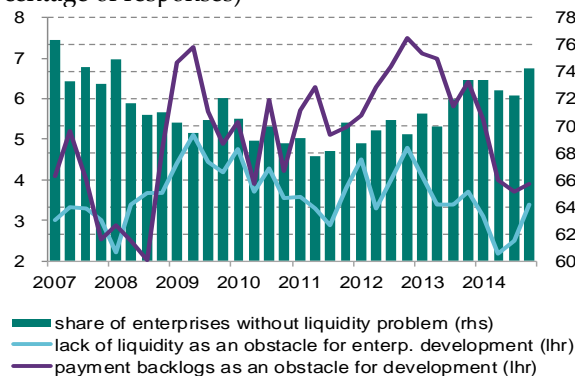
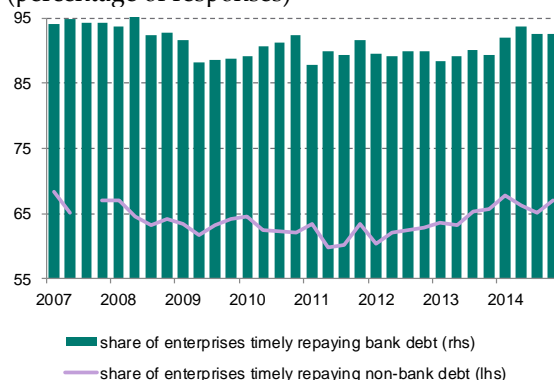


Figure 12 Bank loan and non-bank loan servicing (percentage of responses)



Despite the growth in investment activity, interest in loans (including operating loans) remains low. It is still associated with sufficient own funds of enterprises to finance their current needs, cautious approach in decision making, as well as a relatively small scale of projects requiring additional financing. The terms of obtaining a loan also remain favourable. The situation of borrowers is currently the most promising since 1989, due to better credit accessibility and sector repayment abilities, i.e. the lowest price of credit since the beginning of the transformation pro-

cess and a relatively high availability of credit (for creditworthy companies). Although some companies representing the construction sector and the SME sector continue to report problems related to fund raising, and in case of approval of their loan applications - they pay explicitly more for a loan than companies from other sectors or large entities, yet some improvement has also been observed here in the recent period.

Figure 13 Demand for loans and access to loans

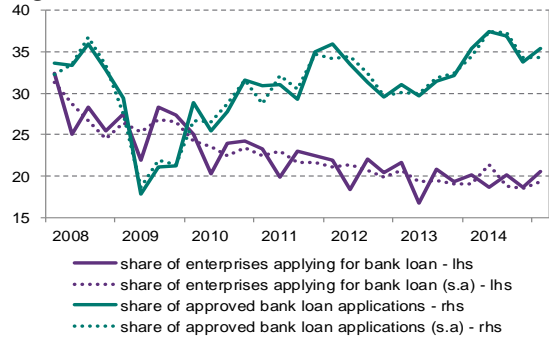
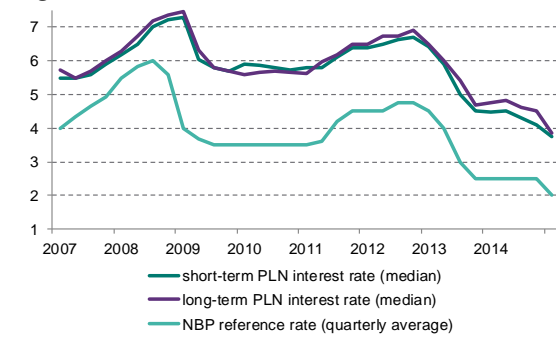


Figure 14 Interest rate of loans in PLN



In the enterprise sector, there are no signals of inflation growth. On top of the PPI index decline observed already for two years, in the second half of 2014 also fuel prices took a downward trend. It fosters a decrease in cost growth in companies and enables a number of enterprises to keep margins without the need to raise prices. However, so far it has been difficult to conclude whether the scale of price decreases - most notably in the transport sector, which benefits the most from fuel price drops - may deepen further. Historical data show a lack of positive correlation between the developments in fuel prices and transport prices. Moreover, transport is characterised by price calculation mechanisms that are slightly different than in other sectors. In transport, the price is usually imposed by the company's key clients, or it is driven by the main market players, whereas in the entire survey sample, the most frequently applied price calculation method is the one based on unit costs increased by a margin. If the so far insignificant pressure on price decrease, faced by the transport sector, is additionally taken into account, no explicit price drops in transport services should be expected in 2015 Q1.

Figure 15 Price changes of products/services offered by enterprises

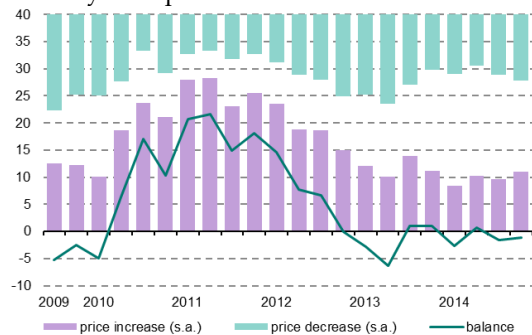


Figure 16 Changes in margin on domestic and foreign sales

