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NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2015 Q1 and forecasts for 2015 Q2

The report presents the assessment of enterprises surveyed by NBP in 2015 Q1 and forecasts for 2015 Q2. In March this year, 1567 entities selected across Poland participated in 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.

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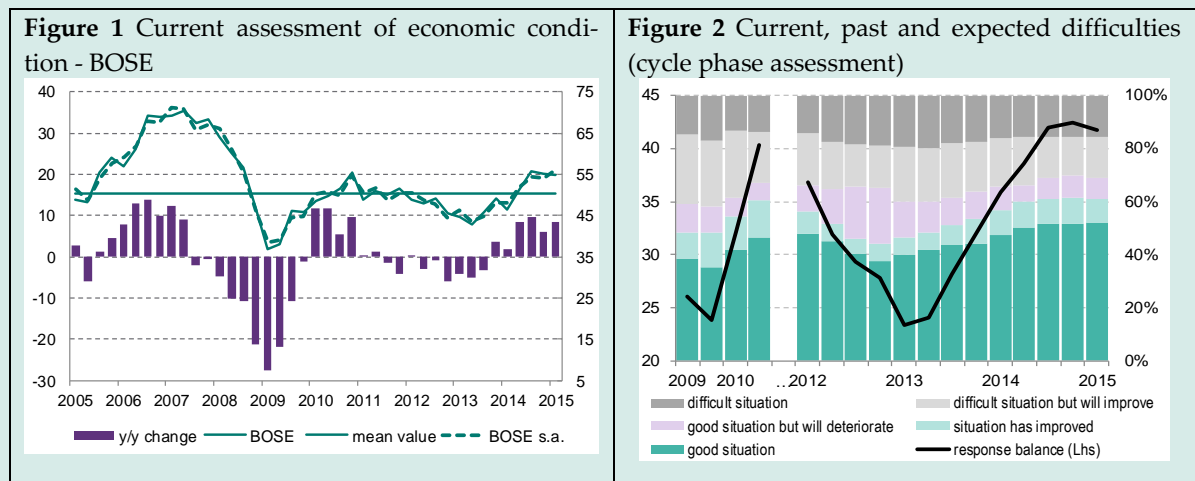
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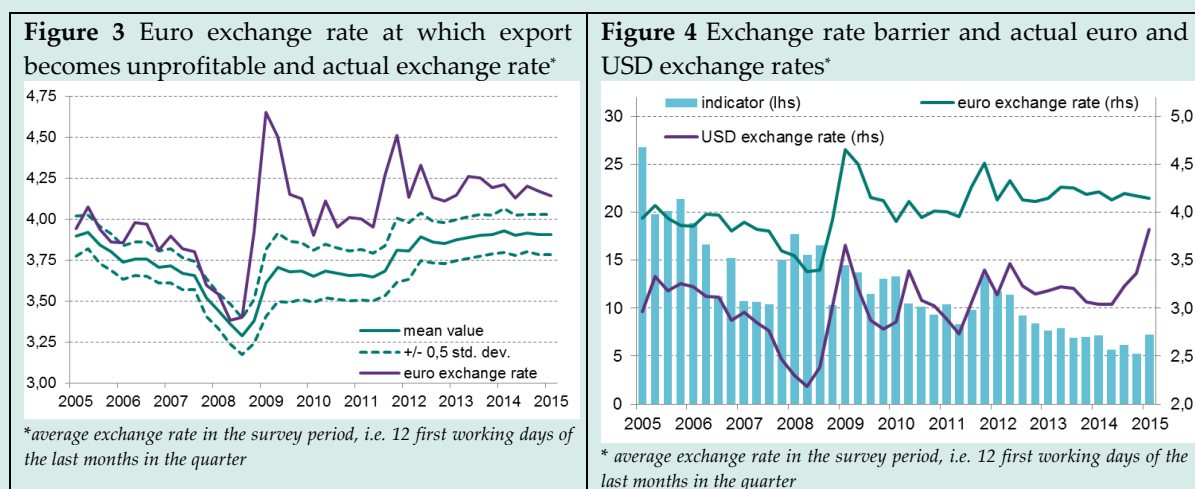
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Summary

The economic condition of the enterprise sector at the beginning of the year remained good and stable, although the expectations from three months ago suggested a more significant improvement. The failure of these forecasts to materialise could affect forecasts for 2015 Q2, most of which were revised downwards.



Moreover, new developments that affected the situation of enterprises took place in Q1. These were the appreciation of the zloty against the euro with a simultaneous weakening of the zloty against the dollar and a slowdown in the decline in commodity prices, mainly fuels, with still decreasing producer prices. These changes resulted in a negative impact on both export and domestic sales margins. On the other hand, a positive factor affecting the condition of companies was the decline in the NBP interest rates, which in the near future should translate into a decrease in the costs of servicing loans and an increase in the attractiveness of investment projects financed by credit loans.



The typical decline in economic activity for the first quarter was reflected in a decline in capacity

utilisation, which was also decreased by investment growth throughout 2014. Although finally the demand barrier did not increase and remained at a relatively low level, it was almost exclusively the result of its improvement in the construction industry. Better results in the construction industry were, in turn, related to the possibility to continue works due to good weather conditions. It seems that quite optimistic demand forecasts formulated for industries other than the construction industry failed to materialise, which had a negative impact on the forecasts for Q2. Demand, order and production forecasts were corrected downwards to levels from before 2015 Q1.

Figure 5 Average level of capacity utilisation and its changes y/y

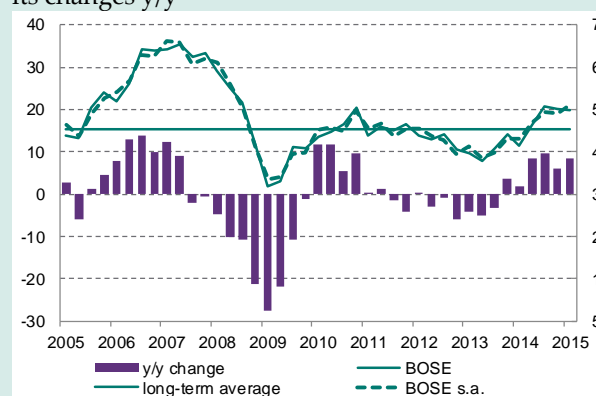
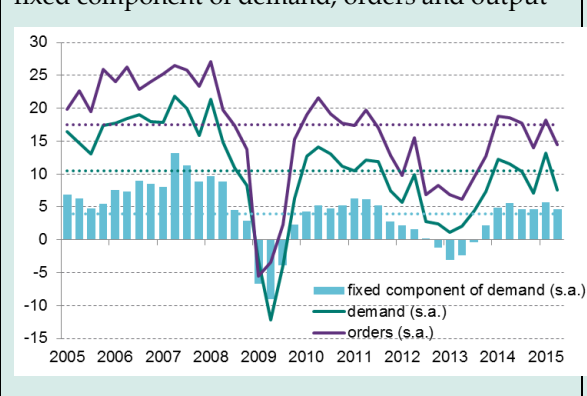


Figure 6 Forecast indicators: aggregate demand, fixed component of demand, orders and output



In the recent quarters, enterprises focused on export have assessed their situation with increasing optimism. The situation of companies trading on the Russian and Ukrainian markets also remained good, which was supported by diversified sales. In the near future, exporters should also be supported by the expected improvement in the situation of the euro area. However, despite these positive factors, export forecasts are at historically low levels, and enterprises expect them to be even smaller in Q2 than in Q1 in terms of foreign sales growth. It seems that after the outbreak of the financial crisis, and possibly also because of the prolonged conflict between Russia and Ukraine, enterprises are more cautious in formulating their expectations for the further development of sales on foreign markets. The aforementioned deterioration of export profitability could be an additional factor negatively affecting export forecasts. However, ongoing export profitability did not fundamentally change the situation of exporters - the break-even point for sales is far from the present level and exports continue to generate relatively high profits. .

Figure 7 Export contract, new export contract and export forecast indicators

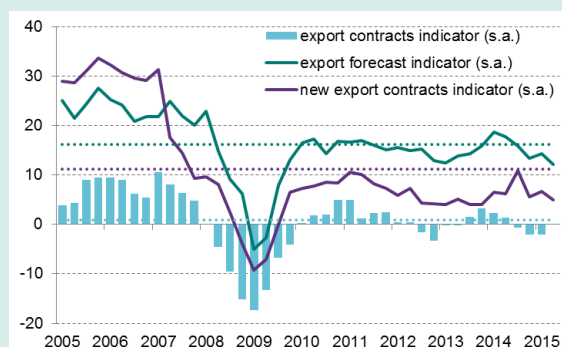
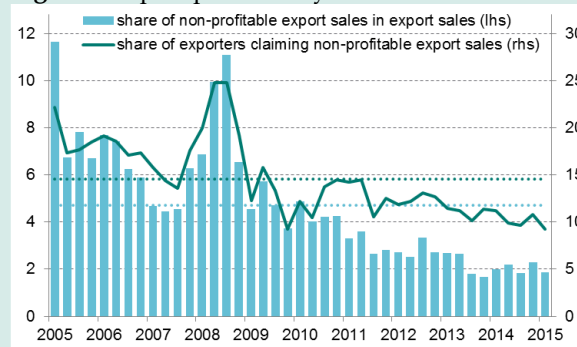


Figure 8 Export profitability



Worse output forecasts resulted in a slight downward revision of employment forecasts. However, the scale of the planned increase in the number of employees remained relatively large (well above the long-term average). In turn, the planned wage increases slightly took off, but remained below their historical average. The small scale of wage increases may be related both to the observed declines in consumer prices and continued low wage pressure.

Figure 9 Employment forecast indicator (balance of “increase” and “decline” responses; seasonally adjusted) and employment balance acc. to F01 (yearly changes of at least 1%)

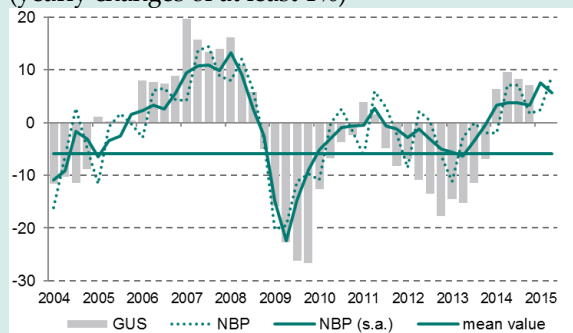
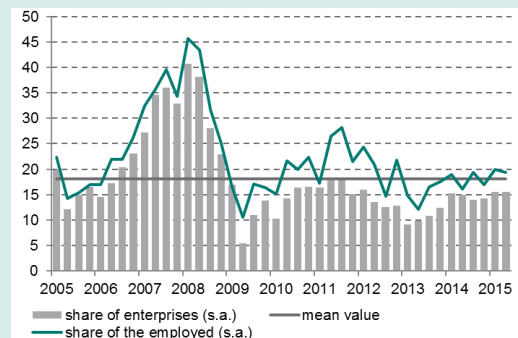


Figure 10 Share of enterprises planning wage increases and share of employees covered by the increases



Despite the deterioration in expectations, the percentage of newly planned investment projects significantly increased, but, at the same time, the level of funds that companies plan to spend on development activities remained unchanged. It is therefore difficult to assess at this stage whether this will eventually translate into increasing investment growth. Factor that may confirm the decline in investment spending is a decline in the number of projects financed with bank loans, i.e. large-scale projects for which own funds of enterprises are not sufficient. On the other hand, the level of investment activity can be positively affected by the still high investment activity of the largest enterprises. However, at the same time, in case of some investment indicators in this particular group slight deteriorations have been observed in recent quarters.

Figure 11 New investment indicator – share of enterprises planning to commence investment projects within the next quarter.

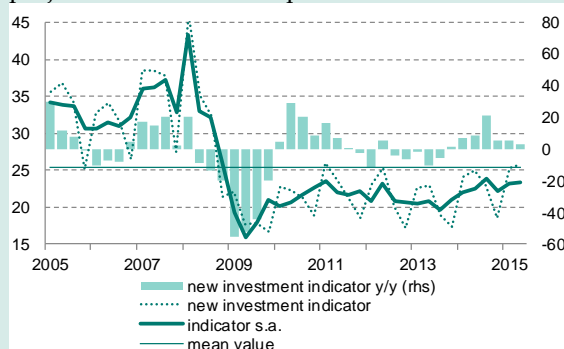
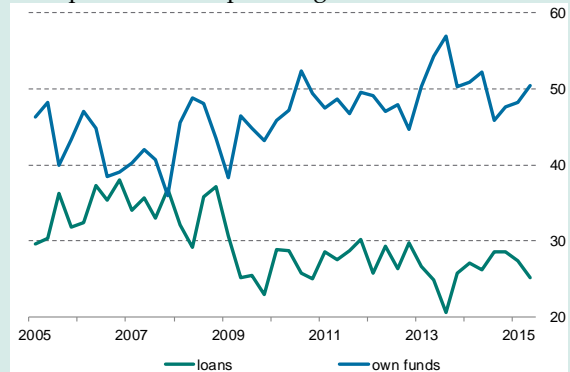


Figure 12 Comparison of new investment projects financed with own funds and bank loans. Group of investors planning new investments.



Slightly more enterprises intend to increase their bank indebtedness in 2015 Q2, which indicates increasing demand for financing current needs. The expected increase in demand for loans may also be the result of lower interest rates. Some companies that are in a worse condition may only now be able to afford a bank loan, while for others, financial leverage becomes profitable only at the current interest rates. Historically however, the scale of interest in applying for bank loans is still low but credit repayment rate and credit availability remain at a high level. The companies' ability to meet their trade commitments without default has improved, and this applied to both large enterprises and SMEs. As a result, liquidity ratios reached the level from before 2008.

Figure 13 Demand for loans¹

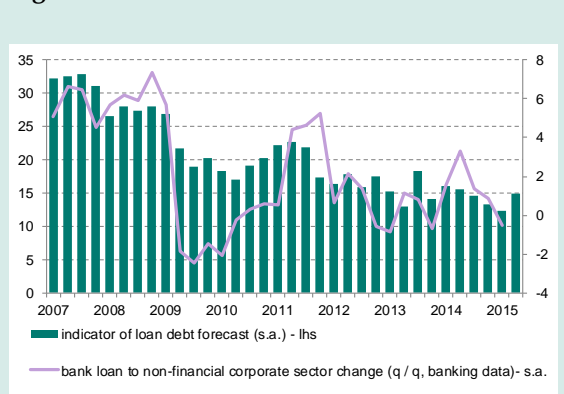
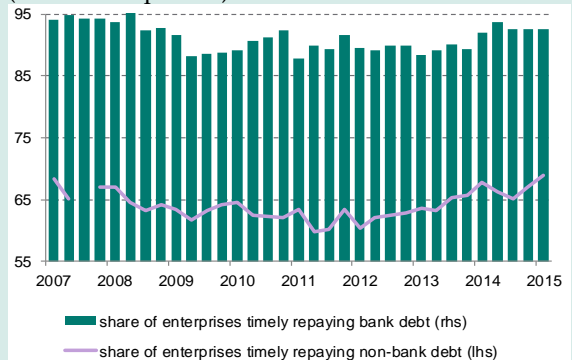


Figure 14 Bank loan and non-bank loan servicing (share of responses)



In Q1, more enterprises lowered the prices of their products and services than raised them, and this situation has continued since 2013. At the same time, the downward pressure on prices does not seem very strong - in Q1 approx. 14% of companies reduced prices, and most of such decisions were made in the food and chemical industry, as well as in transportation and construc-

¹ Quarterly change in aggregate loan for bank statistics data for 2015 Q1 was calculated based on data for January and February 2015.

tion companies. It should be noted that in some sectors of the economy such as power industry, water supply and wastewater treatment, but also in trade, enterprises more often tended to increase prices rather than lower them. The consequences of persistent deflation have not yet constituted a serious problem for enterprises - most of them still believe the price situation on the market is favourable, taking into account both the cost and revenue aspects of the observed changes. These opinions are also observed in sectors where the balance of price changes is negative, i.e. in construction, industrial processing and other services, including transport. Therefore, in spite of the persistent deflation no signs have been observed that companies have refrained from investing or purchasing commodities. Such reactions are only occasionally observed. Forecasts for Q2 suggest higher average price increases than in the previous quarter, reflecting both higher unit increases and a higher percentage of companies declaring their intention to raise prices (both measurements are seasonally adjusted). Also, there is increasing uncertainty regarding the anticipated direction of price changes of consumer goods and services in the future.

Figure 15 Price changes of products/services offered by enterprises (s.a.)

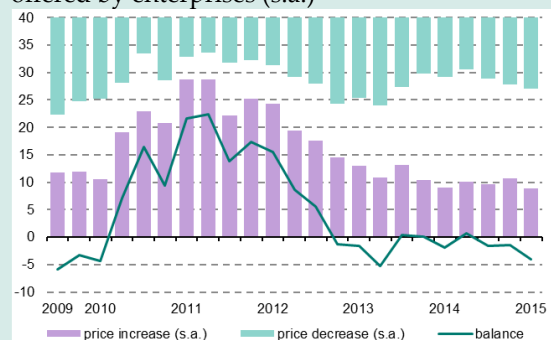


Figure 16 Quarterly forecast of price increases of products and services sold by enterprises

