

No. 03/16 lipiec 2016

NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2016 Q2 and forecasts for 2016 Q3.

The report presents the assessment of enterprises surveyed by NBP in 2016 Q2 and forecasts for Q3 of the current year. In June 2016, 1868 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.

Summary

The assessment of the economic condition of the enterprise sector in 2016 Q2 remained good, despite a slight decline in optimism among respondents. However, the majority of forecasts, particularly short-term, were significantly revised downwards, which means that companies are expecting a deterioration in the economic situation in the coming months. At the same time, since in the long-term perspective (2-3 years) more development-oriented activities are planned than would be suggested by the forecasts formulated a year ago, there are grounds to believe that this phenomenon will be temporary. The deployment of funds from the new EU financial framework will have a significant impact on expanding manufacturing capacity and thus boost the recovery.

Figure 1 Current assessment of economic condition - BOSE as compared to changes in profitability

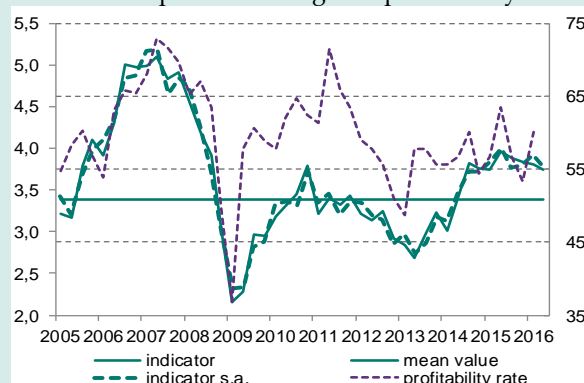
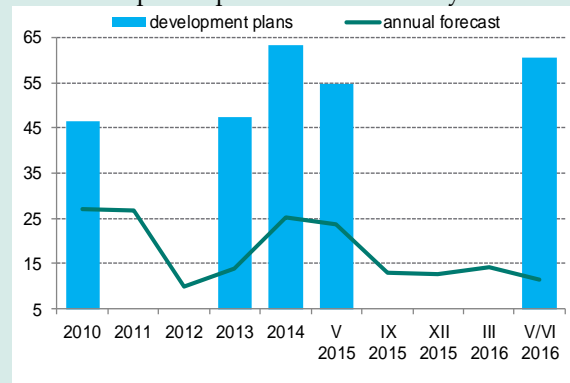


Figure 2 Annual forecast of the economic situation and development plans in the next 2-3 years



The outlook for demand is ambiguous and depends on the horizon of expectations. For example, current sales conditions are perceived as more favourable than in the previous quarter – in 2016 Q2 the demand barrier decreased and capacity utilisation increased. On the other hand, short- and medium-term forecasts (for 2016 Q3 and in a one-year horizon) indicate lower demand for products offered by companies, also among foreign customers. Yet, longer-term expectations (a 2-3 years' horizon) indicate that enterprises are counting on an improvement in sales conditions.

Overcoming the demand barrier is crucial for the survival and development of a company. Other barriers, even if they are associated with increased costs and cause difficulties, are easier to overcome with good management and access to sources of finance. Neither the cost nor access to finance has been a serious problem for many quarters, despite the fact that the introduction of the bank tax caused an increase in bank charges and is viewed very negatively by the enterprise sector. Similarly, the planned imposition of a retail tax, although it raises the concerns of enterprises (and not only in the retail sector), should not radically change the conditions for the functioning of companies. The potential increase in costs arising from the new levies will be partly

Figure 3 Demand barrier

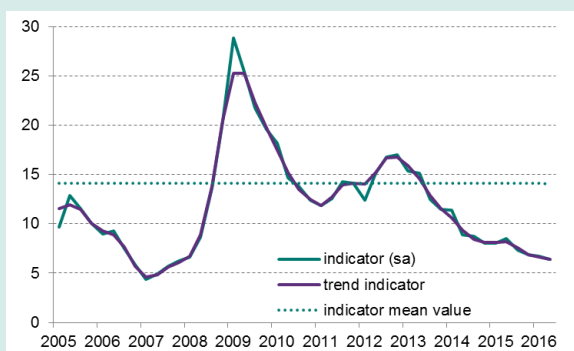
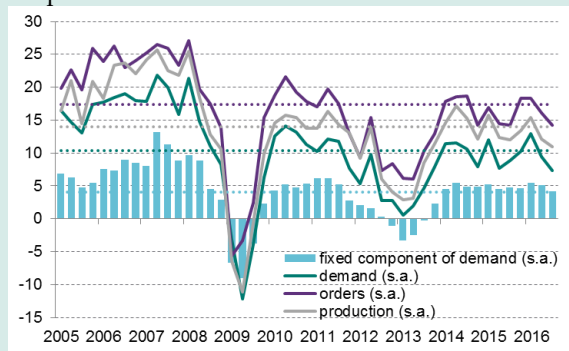


Figure 4 Forecast indicators: demand, orders and output



passed on to the client in the form of higher prices. Where strong competition does not allow price increases, the suppliers and partners will bear the costs, or they will be charged to company profits (which have recently been satisfactory). Therefore, despite increased uncertainty, enterprises should cope with the new legal environment – at the moment there are no signs of real threats to their functioning.

Figure 5 Most frequently mentioned barriers to development

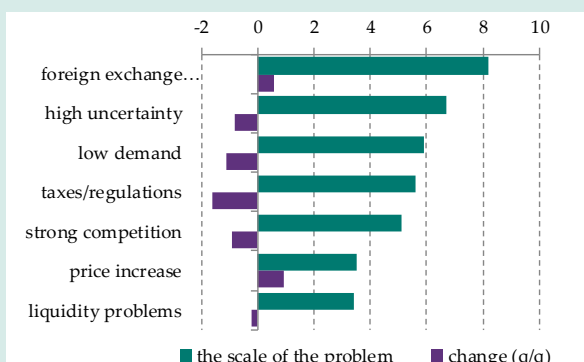
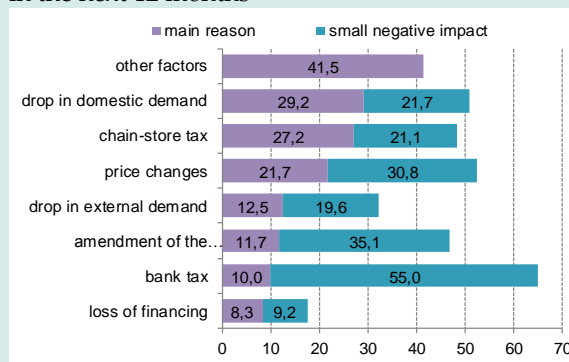


Figure 6 Factors responsible for the change in the situation of companies forecasting a deterioration in the next 12 months



The maintenance of employment forecasts at a high level is yet another symptom of the good condition of the corporate sector and also reflects the still optimistic sales outlook. Currently, 15% of companies have plans to further increase the number of posts, and this figure was higher only in 2007-2008. The majority of sectors of the economy expect to increase employment.

The transformation of the labour market into an employee's market translates into the wages forecast. The percentage of companies expecting an increase in wages in 2016 Q3 is still rather high compared to the last 7 years, although as in the case of employment, it is significantly lower than in 2007-2008. Currently, it is smaller companies that are planning wage increases more often; therefore, the increases involve a smaller share of employed people than was observed in the previous quarter. Moreover average wage increases in the SME sector will be higher than in larger enterprises.

Figure 7 Employment forecast indicator

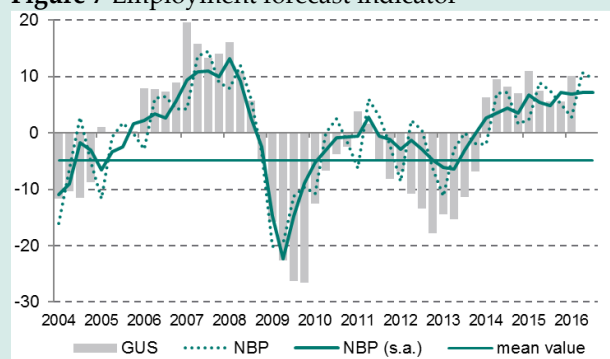
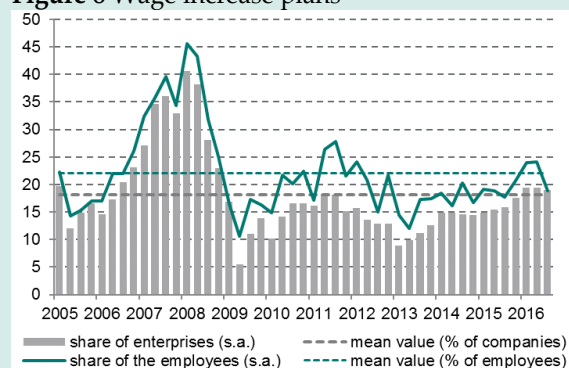


Figure 8 Wage increase plans



Enterprises' investment plans remain more subdued than in 2014-2015, while indicators are stabilising after earlier falls. Public sector companies have experienced significant falls in investment activity, while indicators for private companies remain at historic highs. Moreover, companies intend to develop in a slightly longer-term and on a somewhat larger scale than assumed in the plans formulated in 2015. The implementation of these plans should result in a recovery of investment and an improvement in the economic situation in the course of 2-3 years. Not only companies from the private sector, but also enterprises from the public sector formulated plans for expansion in the long term. The realisation of these plans may be conditional on the availability of EU assistance funds – entities with public capital have recently been resorting to them much more often than private enterprises. According to companies (especially construction companies), another development limitation is posed by unstable situation in Poland and in the world, particularly with respect to legislative changes which have a direct impact on the situation and profits of enterprises.

Figure 9 New investment indicator

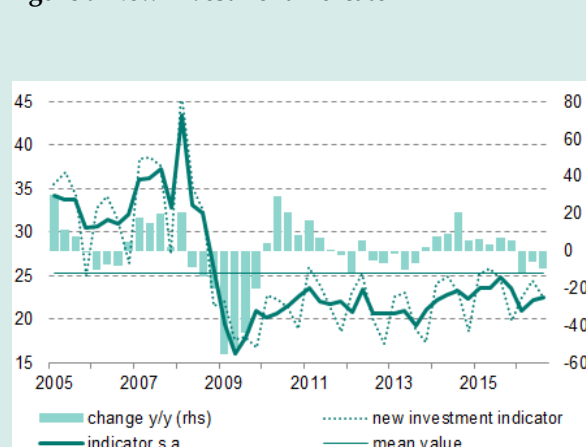
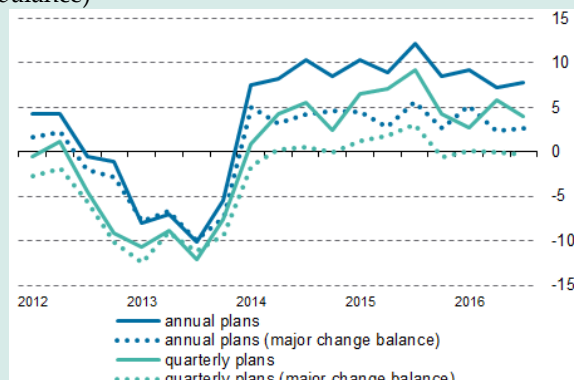


Figure 10 Planned changes in investment outlays within a quarter and in the current year, y/y (change balance)



Companies' interest in bank loans remains low, despite their high availability and historically low prices. The percentage of investment projects financed by bank loans is currently one of the lowest since studies began. However, the situation is different in the case of large enterprises, where demand for credit is still rather high, which has a decisive influence on the aggregate level of debt of the whole corporate sector. It should be stressed that companies that do not finance investment projects with bank loans most often rely on their own funds, while borrowers also

reach for other external forms of financing, including leasing and factoring.

Figure 11 Development plans for the next 2-3 years formulated in 2015 and 2016

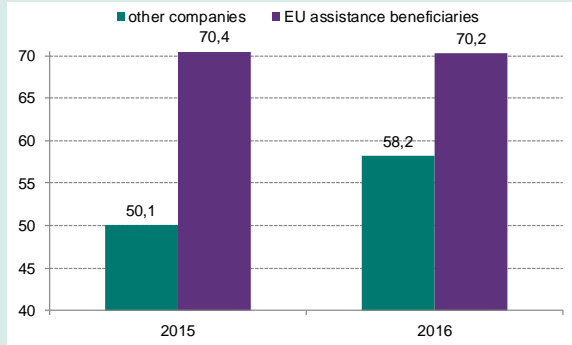
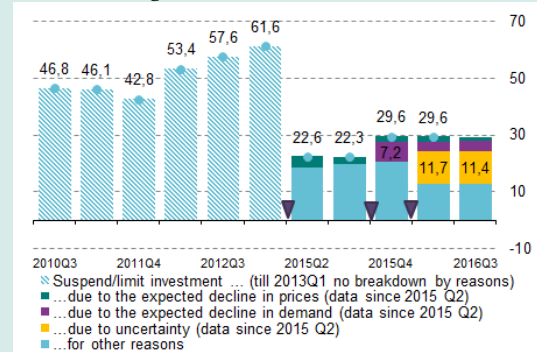


Figure 12 Share of enterprises suspending implementation of significant investment



Enterprises continue to assess positively their ability to repay loan and business obligations, while payment backlogs have not been a serious problem for many quarters. The good liquidity situation of enterprises is a reflection of their sound condition and perhaps also the result of greater maturity in trade relations (although this could be conditioned by the growing accumulation of financial resources).

Figure 13 Percentage of submitted and accepted loan applications

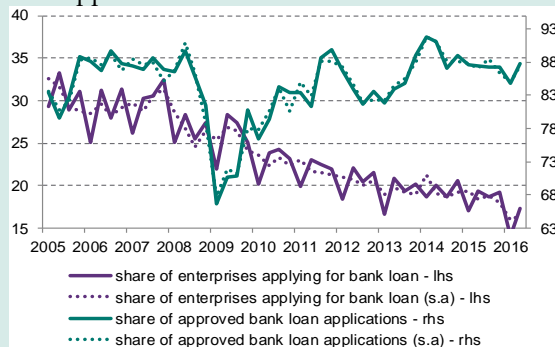


Figure 14 Median interest rates on zloty denominated loans to enterprises

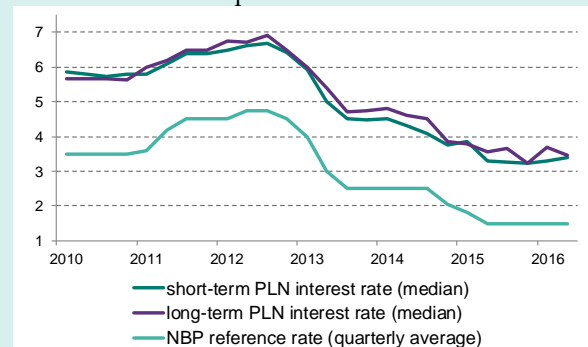


Figure 15 Financial liquidity of enterprises

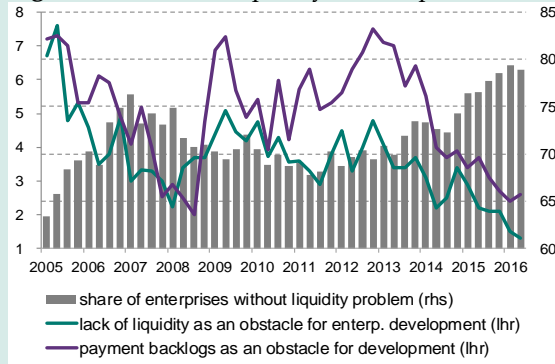
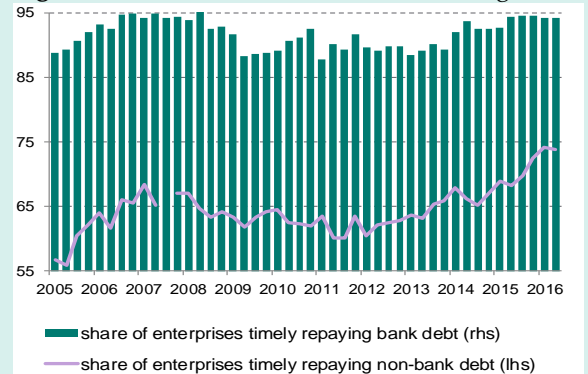


Figure 16 Bank and non-bank debt servicing



After almost 4 years of falling producer prices in industry, enterprises' plans suggest the possibility of a reversal of this trend. In 2016 Q2, for the first time in 2 years the percentage of companies raising prices was slightly higher than the share of enterprises reducing prices, and the quarterly forecast of own price changes for 2016 Q3 increased somewhat (increase in the index for the second quarter in a row). However, this change does not appear to be related with long-term persistence of deflation or its negative impact, since the majority of companies (78%) still believe a fall in PPI prices to be neutral from the point of view of their condition, and very few – only 14% of enterprises – feel the negative effects of deflation (these assessments find their justification in the slow growth of cost of the purchase of raw materials). However, the increase in the prices of raw materials and supply goods, which is expected by respondents, may trigger the decision to raise prices. The wish to pass on the new levies and fees to end customers could also contribute to the price rise.

Figure 17 Actual price changes of products/services offered by enterprises

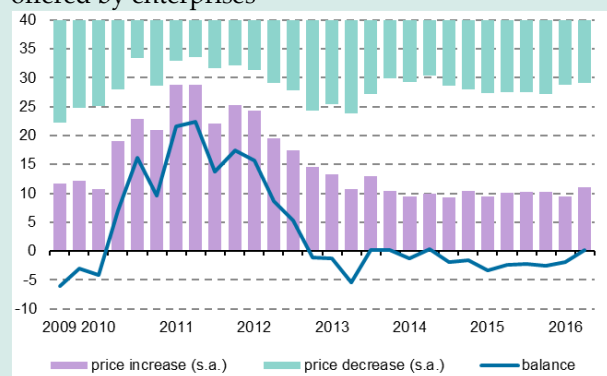


Figure 18 Impact of the decline in producer prices on the economic situation of companies

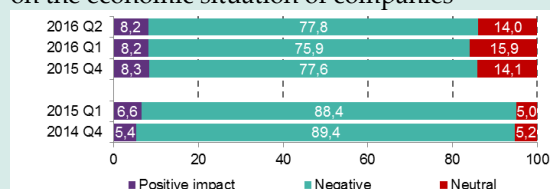


Figure 19 Quarterly growth forecasts for prices of goods and services sold by enterprises

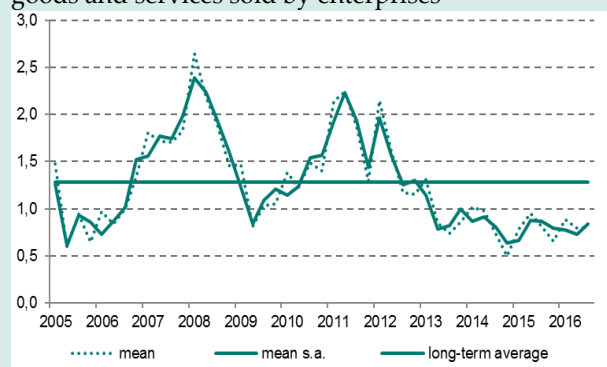


Figure 20 Quarterly growth forecasts of commodity prices

