



**NBP**

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Narodowy Bank Polski

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# **NBP Quick Monitoring Survey**

**Economic climate in the enterprise sector**

**Summary**

Economic Analysis Department

Warsaw, 2019

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Following the robust performance of demand in 2019 Q2, its assessments for Q3, including monthly July and August data on industrial production and retail sales growth, point to possibly weaker this quarter results than in the previous period. Likewise, enterprises' forecasts of domestic demand in 2019 Q4 have decreased and are running close to their long-term average. The prospects of export growth show a downward trend, which is especially pronounced in the case of specialised exporters. As a result, while firms consider their general economic situation as good in 2019 Q3 – broadly similar to the first half of the year – their assessments vary across industries and classes, including an increasingly marked deterioration in the position of specialised exporters. On the other hand, enterprises' expectations for the coming 12 months are significantly weaker. In parallel, the synthetic indicator of future conditions shows that the cyclical position of the sector will gradually decline while still not falling far below the long-term average.

Following the declines seen in the previous two quarters, the financial result of the sector of non-financial enterprises increased markedly in 2019 Q2. Yet this was predominantly the effect of an improvement in profit from financial operations. At the same time, the financial result from the sale of products, goods and materials declined, which stemmed from factors such as the markedly accelerated growth in labour costs, external services and energy (the latter in relation to industries with a high share of those costs). In effect, despite the rising turnover profitability, the sales profitability fell, a phenomenon observed in most CEIDG categories. Yet the 12-month forecasts of profitability remain fairly optimistic notwithstanding the downward trend.

In 2019 Q2 investment activity in the whole economy continued at a relatively high pace, despite growing somewhat more slowly than in the previous period. Investment projects launched by foreign private companies remain the main driver of the increase in investment activity of the corporate sector.

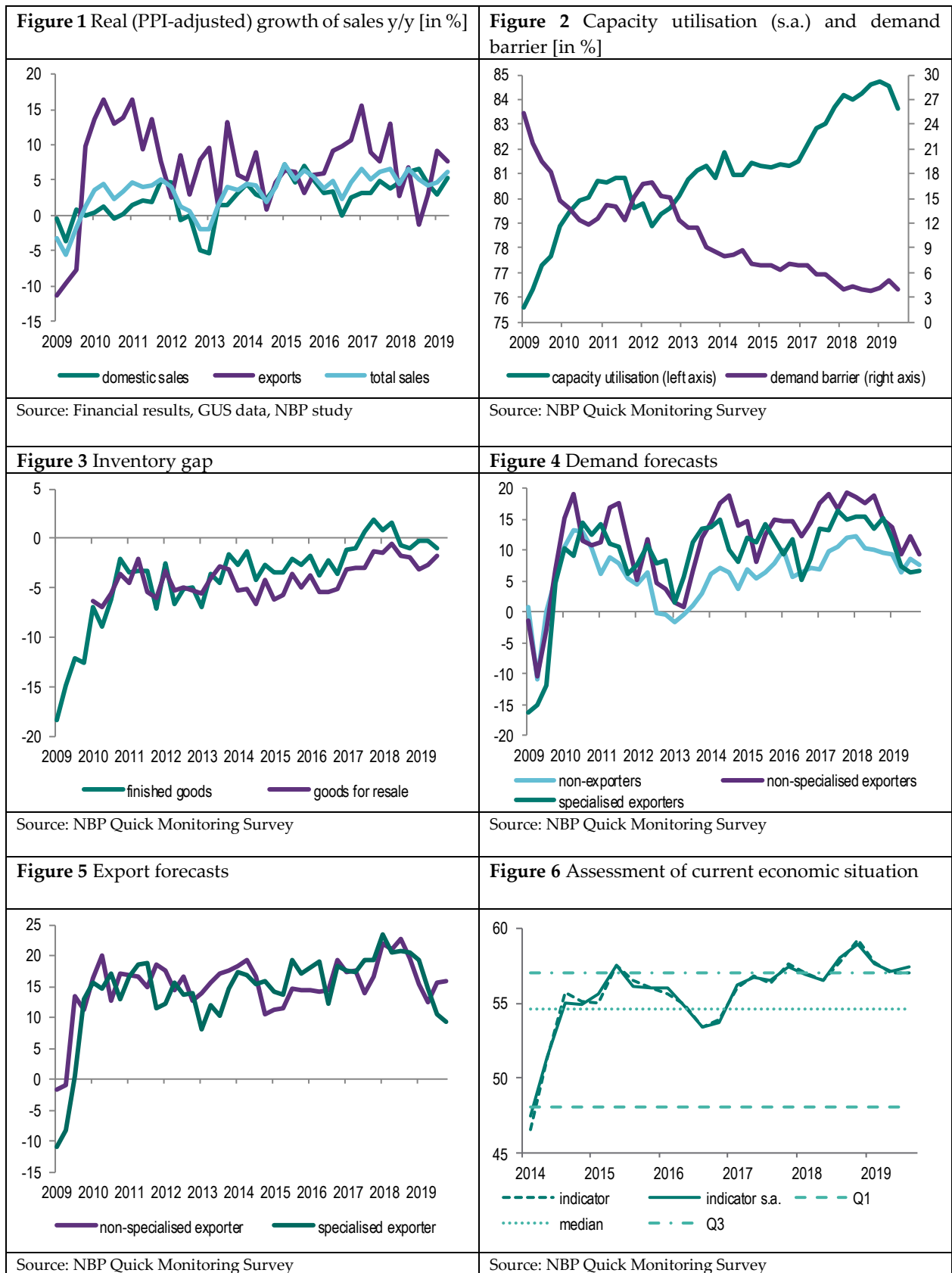
The structure of both the investment outlays and investors was conducive to the resilience observed so far of Polish companies to adverse impulses from the external environment – since investment expenditure grew robustly both in exporting companies and those operating in the domestic market. In contrast, non-specialised exporters revealed more vulnerable. Yet in light of the Quick Monitoring Survey findings, investment activity may be expected to decrease slightly in the second half of the year, as suggested, among others, by the marked decline in capacity utilisation and weaker demand forecasts. The expected scaling back of investment plans is particularly visible among exporters. However, an increase in investment activity of public sector companies, after a worse start of the year, may compensate for this.

In 2019 Q2, labour cost growth picked up markedly, mainly due to higher wage growth. Yet Quick Monitoring Survey data suggest a slight cooling off of the labour market, as the excess of labour demand over supply has been observed to subside somewhat. Among others, the vacancy indicator and the share of firms indicating labour shortages as a barrier to growth, while remaining high, have nevertheless fallen.

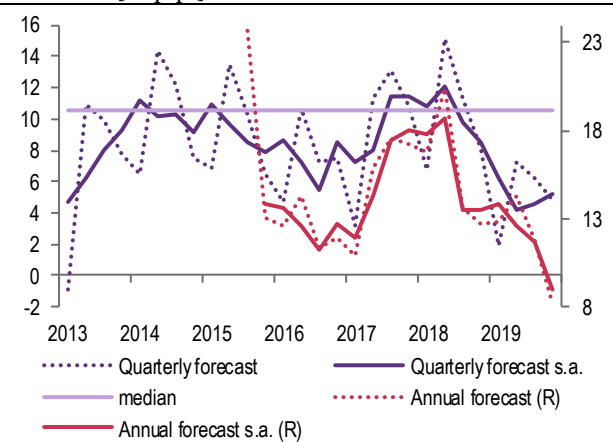
In line with firms' assessments, employees' pressure on wage increases is also gradually starting to ease off. Yet market expectations, and subsequent decisions of enterprises will be affected by the government's policy of increasing the minimum wage. Despite higher inflation than the past few years, companies are not signalling a threat of so-called second-round effects.

In 2019 Q2 gross producer prices grew moderately and more slowly than in the preceding quarter. Both monthly data for July and August 2019 and the results of the Quick Monitoring Survey suggest that in Q3 growth rate of price of sold production of industry will decrease further. On the other hand, the NBP Quick Monitoring Survey forecasts for 2019 Q4 indicate a slight acceleration in price of sold production of industry and intermediate consumption prices, mainly due to a rise in supplier costs. In turn, the forecast for the next 12 months indicate a slightly steeper rise in producer prices than expected in the previous quarter.

The liquidity situation of the company sector is sound. According to the Quick Monitoring Survey in 2019 Q3 the share of firms reporting an absence of liquidity problem rose again. Respondents' expectations in relation to Q4 are also stable. In the period under review, while remaining high, companies' declared ability to service bank debt deteriorated – both in the horizon of a quarter and a year. In 2019 Q4, fewer companies may be interested in obtaining a bank loan, and their availability may be slightly restricted.

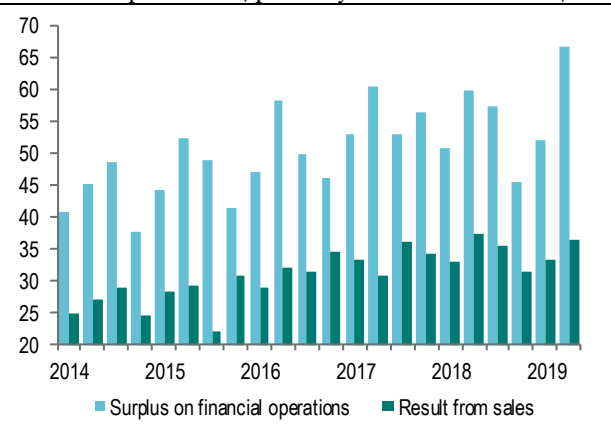


**Figure 7** Quarterly and annual forecast of the situation [in p.p.]



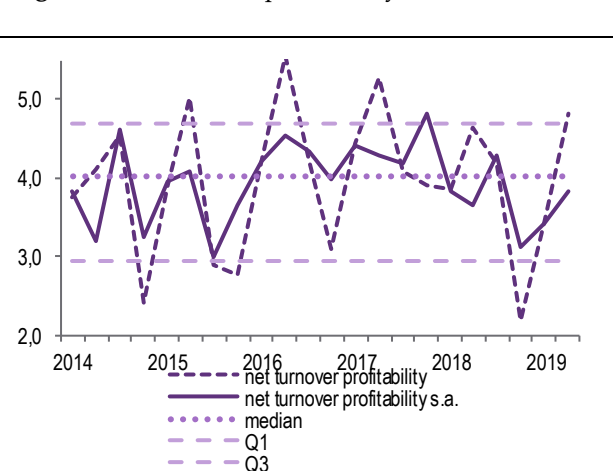
Source: NBP Quick Monitoring Survey

**Figure 8** Financial result from sales and surplus on financial operations (quarterly data, PLN billions)



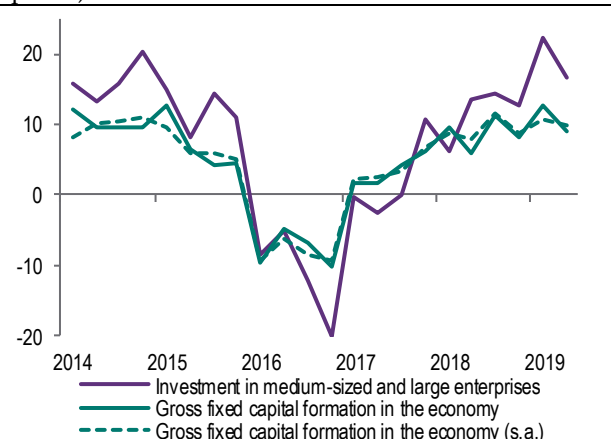
Source: Financial results, GUS data, NBP study

**Figure 9** Net turnover profitability



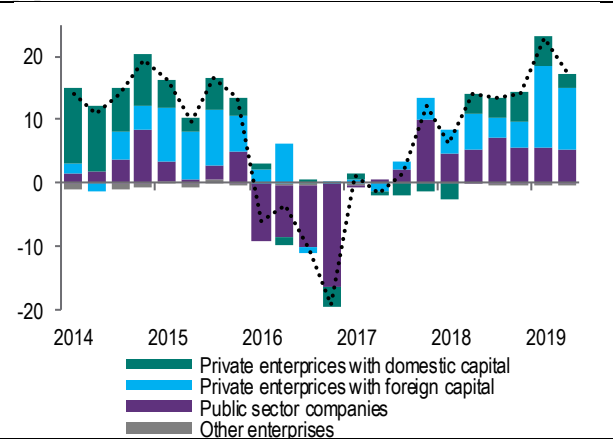
Source: NBP Quick Monitoring Survey

**Figure 10** Investment growth y/y (in %, constant prices)



Source: Financial results, GUS data, NBP study

**Figure 11** Contribution to investment growth y/y [in p.p.]



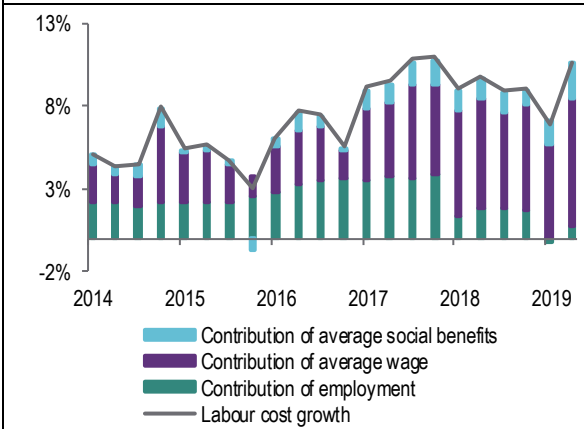
Source: Financial results, GUS data, NBP study

**Figure 12** Planned investment changes (balance)



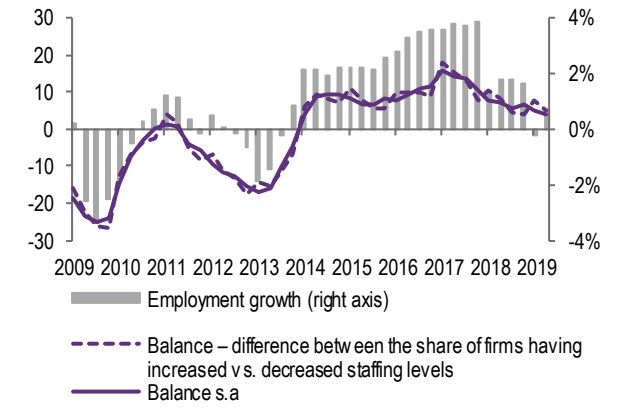
Source: NBP Quick Monitoring Survey

**Figure 13 Contributions to labour cost growth, y/y**



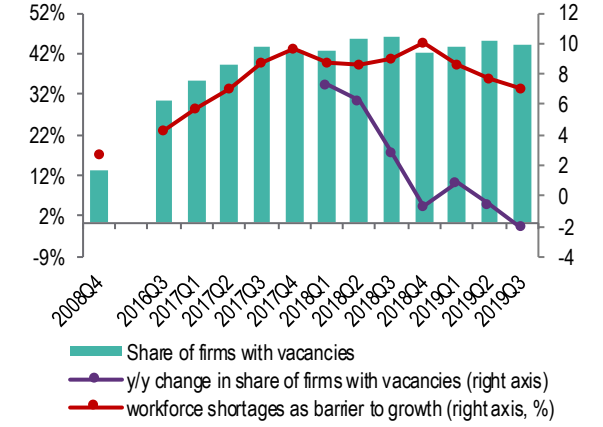
Source: financial results, GUS data, NBP study

**Figure 14 Employment index and employment growth y/y**



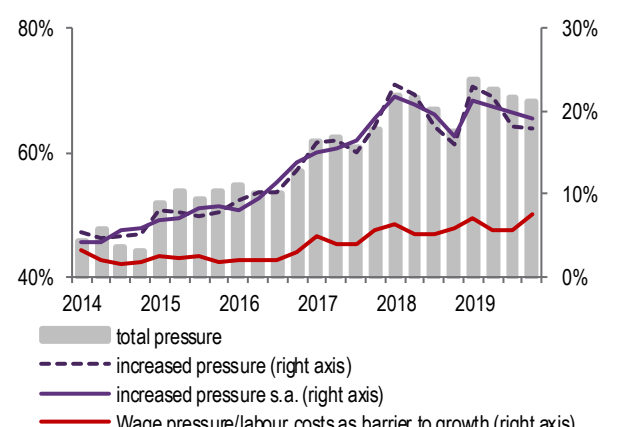
Source: financial results, GUS data, NBP study

**Figure 15 Percentage of firms reporting vacancies and barrier of workforce shortages (based on an open question about barriers to development) [in %]**



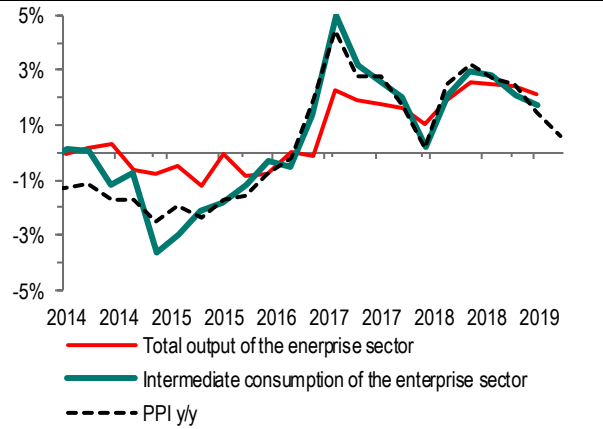
Source: NBP Quick Monitoring Survey

**Figure 16 Percentage of firms reporting wage pressure/high labour cost as a barrier to growth**



Source: NBP Quick Monitoring Survey

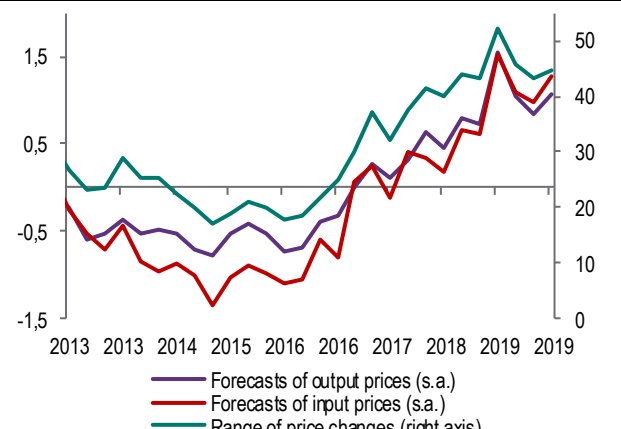
**Figure 17 Annual growth in gross output prices, intermediate and PPI**



Note: PPI data for 2019 Q3 based on July and August

Source: GUS, NBP study

**Figure 18 Expectations of higher prices of materials, commodities and own prices in the next quarter**



Source: Expectations of higher prices of materials, commodities and own prices

<p><b>Figure 19</b> Assessment of enterprises' liquidity</p>	<p><b>Figure 20</b> Index of debt servicing from profit compared to declared debt service</p>
<p>— cash liquidity ratio above 0.2 (s.a.) - lhs — share of enterprises without liquidity problem (SM NBP)</p>	<p>— share of enterprises timely repaying bank debt (rhs) — index of debt servicing coverage ratio from cash flow (s.a.) — index debt servicing coverage ratio from cash flow after deduction large one-off repayments (s.a.)</p>
<p>Source: NBP quick monitoring survey; financial results, GUS data, NBP study</p>	<p>Source: NBP quick monitoring survey; wyniki finansowe, GUS data, NBP study</p>
<p><b>Figure 21</b> Forecast indicators of demand for credit</p>	
<p>— balance of forecasted demand for credit (s.a.) - lhs — bank loan to non-financial corporate sector change (q / q, banking data) - s.a.</p>	
<p>Source: NBP quick monitoring survey, NBP monetary and financial statistics, NBP study</p>	

