



NBP

Narodowy Bank Polski

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NBP Quick Monitoring Survey

**Economic climate in the enterprise sector
Summary**

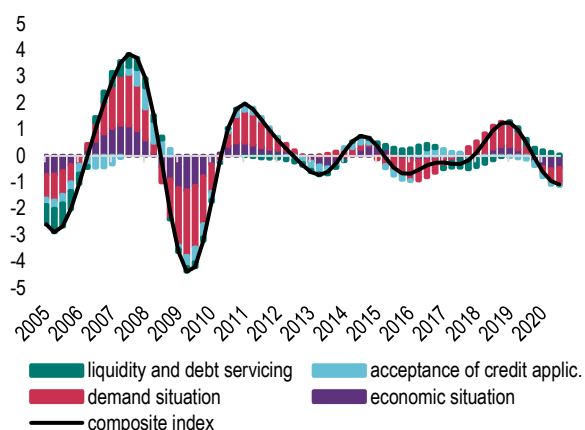
Economic Analysis Department

Warsaw, 2020

The current situation of the non-financial enterprise sector may be assessed as rather good, particularly taking into account the scale of the shock triggered by the COVID-19 pandemic, although it varies between classes of companies. Despite a significant fall in revenues, profitability of the sector improved in 2020 Q2, and liquidity was running at a safe level. So far, enterprises have managed to avoid a negative scenario on the labour market. Also, the situation in 2020 Q3 is positively assessed by companies as similar to the pre-pandemic period, despite being worse than a year ago. An improvement in the expectations of enterprises is also observed, particularly in the horizon of a year. However, some of the good results of the sector are the result of the favourable impact of factors of an unsystematic nature, including aid obtained under the anti-crisis shield. The sector continues to operate amid heightened uncertainty, which has a negative impact on, among others, its investment plans. The surveyed enterprises indicate that their economic condition is highly sensitive to the further course of the pandemic. Since the survey ended on 18 September 2020, the opinions expressed by the enterprises at that time could not take into account the current scale of the epidemic, and consequently, it should be expected that the current situation of the sector may be worse in certain areas.

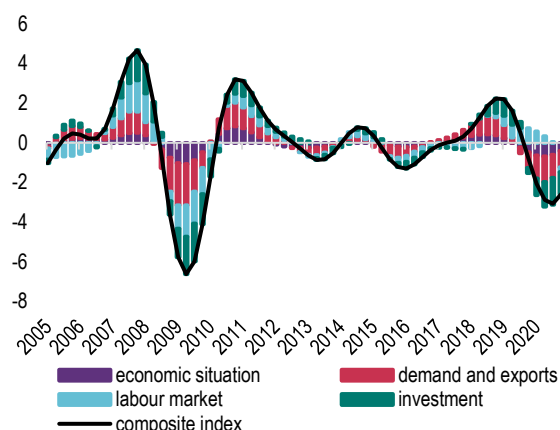
The synthetic¹ indicator of the situation of enterprises probably reached a low point at the end of Q2 and beginning of Q3, assuming the lowest value for approx. 10 years. At the same time, this deterioration is shallower than that observed in 2009-2010. The improved assessment of the economic condition of firms and the demand situation in 2020 Q3 had the greatest impact on curbing the further falls in the indicator of the current economic situation. So far, the coronavirus pandemic and the lockdown of the Polish economy in 2020 Q2 can therefore be seen as the source of short-term fluctuations for the enterprise sector, which amplify the natural course of the business cycle.

Figure 1 Synthetic indicator of the current situation



Source: NBP Quick Monitoring Survey

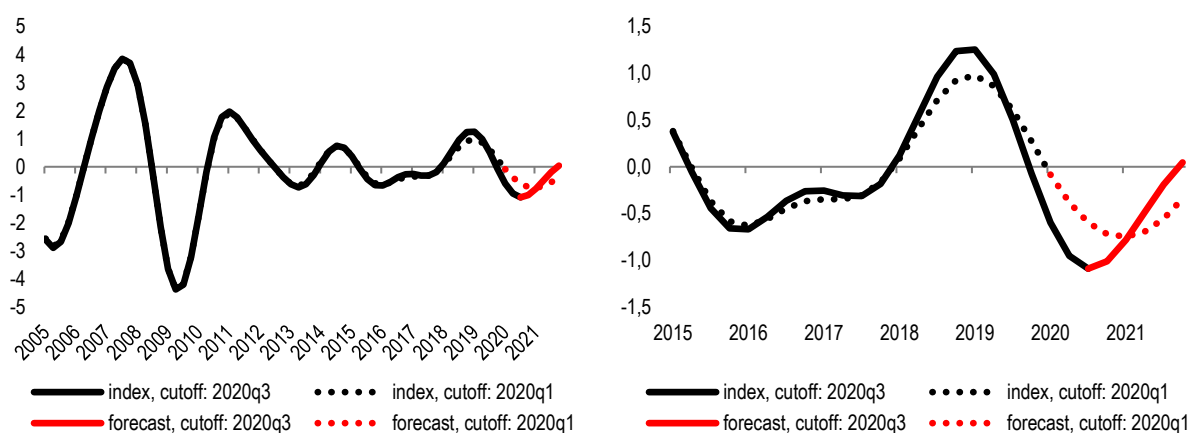
Figure 2 Synthetic indicator of the future situation



Source: NBP Quick Monitoring Survey

¹A more detailed description of the indicator is included in the report *NBP Quick Monitoring*, No 03/19: https://www.nbp.pl/publikacje/koniunktura/raport_3_kw_2019.pdf.

Figure 3 Forecast of the synthetic indicator of the current situation* - in the period 2005-2021 (left panel) and in close-up in the period 2015-2021 (right panel)

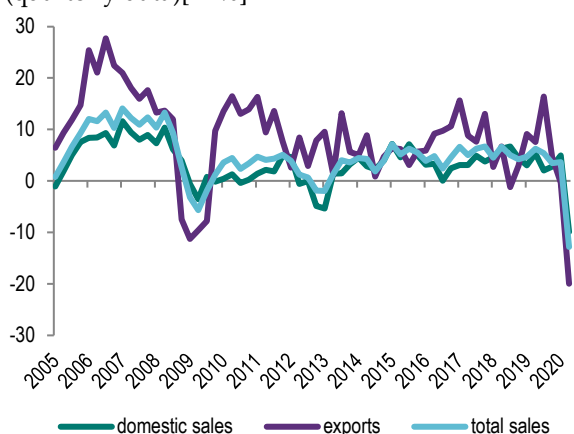


* The dotted line represents the index or forecast based on data up to and including 2020 Q1. The solid line marks the index or forecast based on data up to 2020 Q2.

Source: NBP Quick Monitoring Survey Source: NBP Quick Monitoring Survey

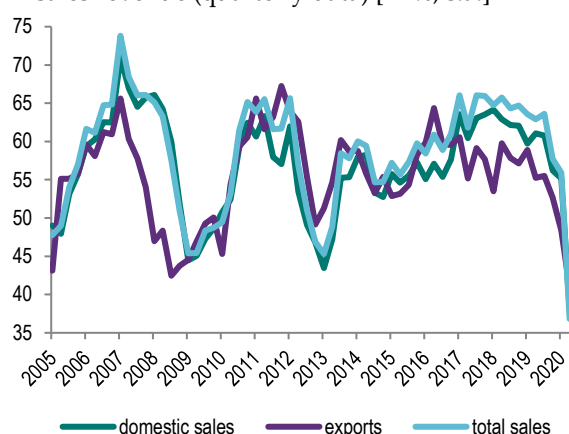
The scale of the sales plummet of the non-financial enterprise sector was the sharpest and the deepest in the history of this survey, and more serious than at the end of 2008 and beginning of 2009. Of the 75 NACE sections analysed, 57 of them suffered a fall in domestic sales y/y, and in the case of foreign sales, 50 of the 75 NACE sections were affected. However, in such circumstances, approx. 38% of enterprises managed to increase domestic sales revenues, and approx. 41% of exporters - foreign sales revenues.

Figure 4 Real (PPI-adjusted) growth of sales revenue (quarterly data)[in %]



Source: financial results, GUS data, NBP study

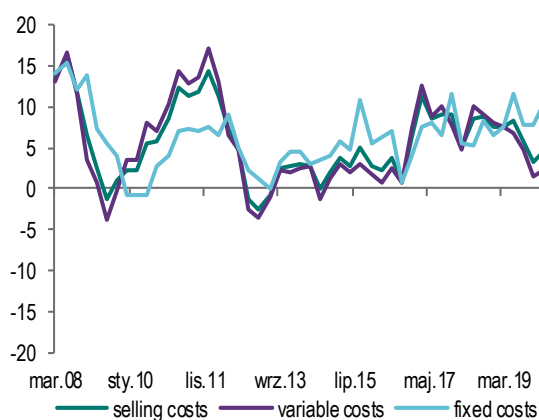
Figure 5 Percentage of firms observing y/y increase in sales revenue (quarterly data) [in %, s.a.]



Source: financial results, GUS data, NBP study

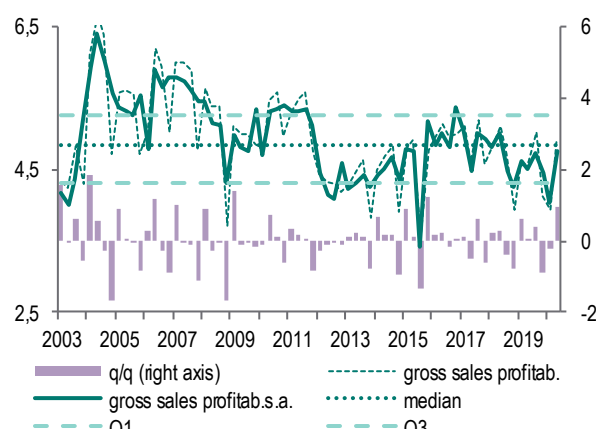
However, owing to the sharp reduction in costs, in 2020 Q2 the financial situation of enterprises improved compared to the previous period. This was the result, among others, of the decline in commodity prices and labour costs. Consequently, the profitability of companies rose compared to the corresponding period of 2019, and remained at a rather good historical level. The respondents declared a further growth in profitability in 2020 Q3.

Figure 6 Growth of fixed costs and variable costs (y/y, quarterly data)



Source: financial results, GUS data, NBP study

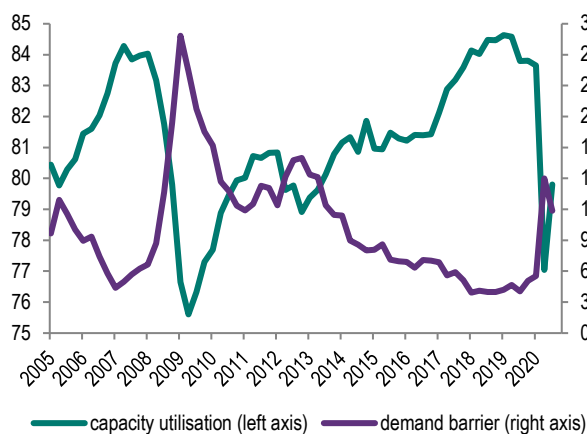
Figure 7 Sales profitability ratio



Source: financial results, GUS data, NBP study

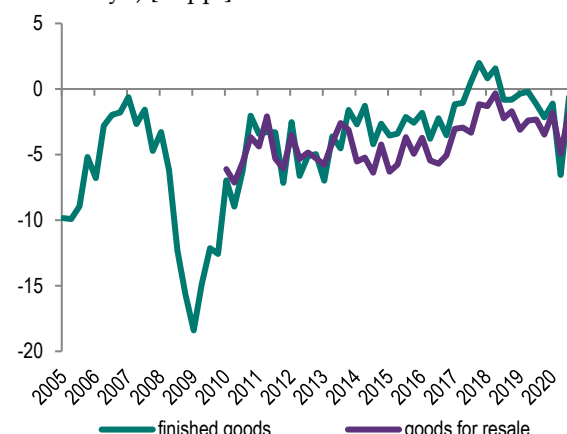
Despite the fall in economic activity, the available data do not indicate serious difficulties related to disrupted supply chains. The percentage of enterprises mentioning the limited availability of raw materials as a barrier to the company's development was below 1%. In light of the cross-sectional analysis, slightly more severe problems with insufficient stocks of finished goods are limited to producers of durable consumer goods.

Figure 8 Capacity utilisation (s.a.) and demand barrier (s.a.) [in %]



Source: NBP Quick Monitoring Survey

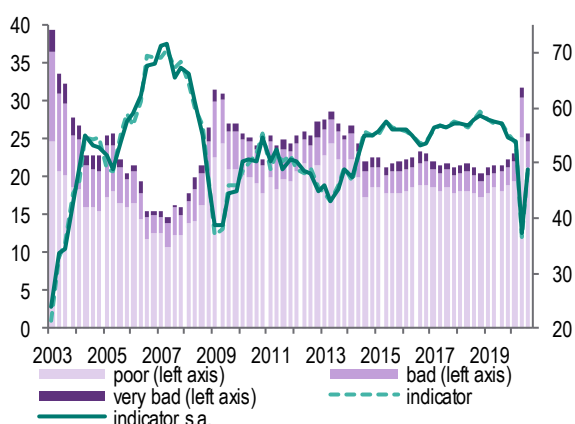
Figure 9 Inventory shortage indicator (s.a., balance of responses: "too little inventory" - "too much inventory") [in pp.]



Source: NBP Quick Monitoring Survey

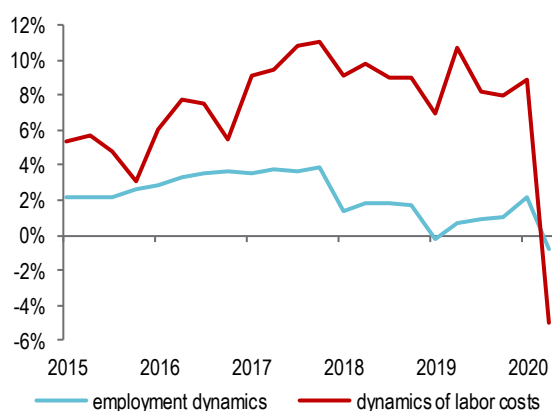
Forecasts of the situation are also improving –somewhat more so in the longer term than in 2020 Q4. This trend applies to most of the analysed sections and classes. As a result, employment and wage forecasts have also improved, while the level of the indicators remains sound against historical data. This is accompanied by a slight increase in wage pressure. Moreover, significantly increased uncertainty (only slightly lower than in 2020 Q2) and fears about the economic consequences of the introduction of new pandemic restrictions persist in the sample.

Figure 10 Assessment of current economic situation (balance, in pp.) and the percentage of enterprises in a poor, bad and very bad condition (in %)



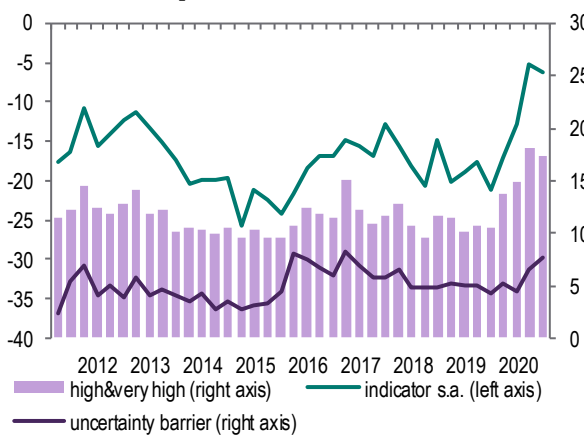
Source: NBP Quick Monitoring Survey

Figure 11 Growth in employment and labour costs (y/y)



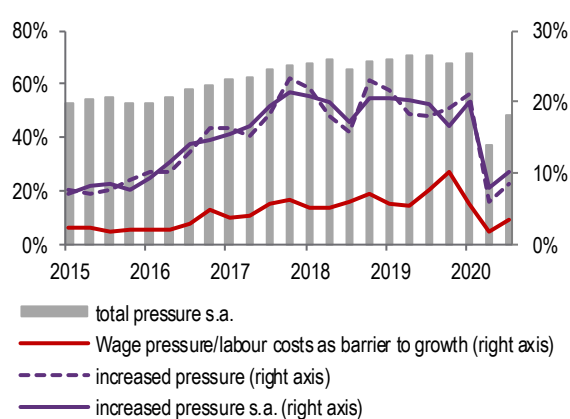
Source: NBP Quick Monitoring Survey

Figure 12 Assessment of uncertainty – balance index (in pp, an increase in the index means an increase in uncertainty) and the percentage of companies considering uncertainty as very high and high and the percentage of companies considering uncertainty as a barrier to development (in%)



Source: NBP Quick Monitoring Survey

Figure 13 Percentage of firms experiencing wage pressure; percentage of firms reporting wage pressure/high labour costs as a barrier to growth



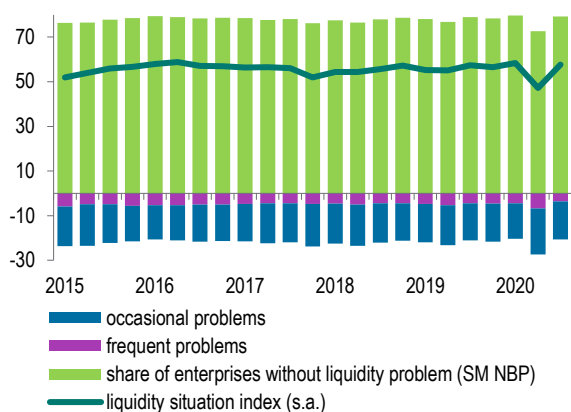
Source: NBP Quick Monitoring Survey

Due to an improvement in the efficiency of firms and aid provided by the so-called anti-crisis shield, the declared liquidity of the enterprise sector was once again high in 2020 Q3, returning to the level observed before the critical second quarter of this year. The assessment of the liquidity situation improved in most classes. The declarations of enterprises regarding the forecast of the liquidity situation over the horizon of a year also indicate the stabilisation of this good situation.

Despite the good current liquidity situation, only a few companies indicate that they have the financial resources allowing them to make additional expenditure on development. Most frequently, surveyed companies state that the level of financial reserves is low or very low. At the same time, in 2020 Q3 the percentage of enterprises which applied for bank loans declined slightly, with an increase in the percentage of accepted applications – almost 82% of firms received a positive loan decision. At the same time, two out

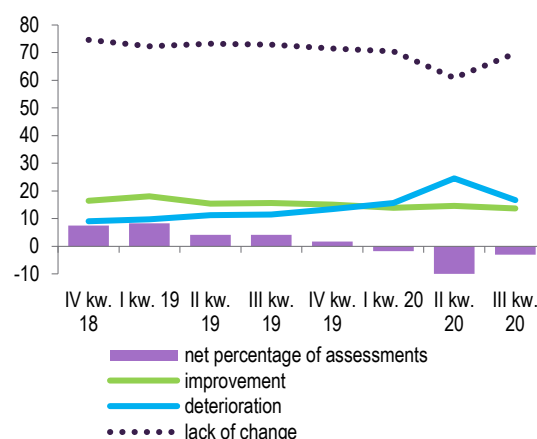
of three respondents assessed the current policy of the banks as favourable or neutral, while the most common reason of loan application rejection was factors independent of the enterprise, resulting, among others, from the persistence of high uncertainty which makes an assessment of credit risk difficult.

Figure 14 Assessments of enterprises' liquidity (balance) against the percentage of firms according to the assessment of the liquidity situation (in %)



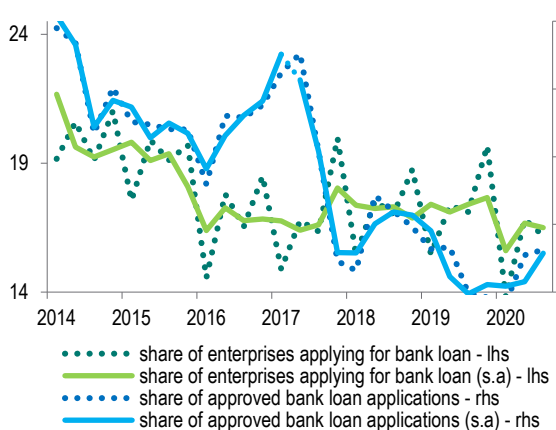
Source: NBP Quick Monitoring Survey;

Figure 15 Forecast of enterprises' liquidity situation for the next 12 months [percentage of replies]



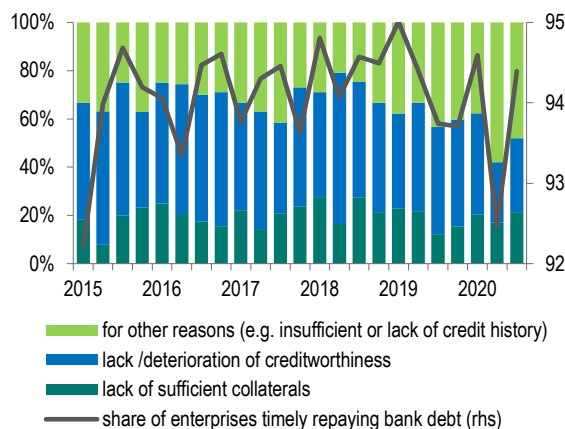
Source: NBP Quick Monitoring Survey

Figure 16 Percentage of filed and approved loan applications



Source: NBP Quick Monitoring Survey;

Figure 17 Declared debt service against the structure of reasons for refusing applications [percentage of replies]



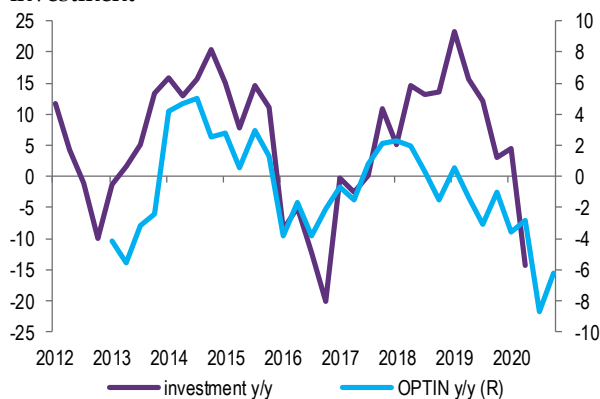
Source: NBP Quick Monitoring Survey

In 2020 Q2 there was a very sharp and widespread fall in corporate investment (of 13.3% y/y in real terms). For the first time in history investment expenditure in Q2 declined so strongly also compared to Q1. The overlapping of the shock triggered by COVID-19 with a gradual decline in corporate investment activity, which was decreasing for several quarters due to the expiration of the current cycle, contributed to the scale of the reduction in investment activity.

According to the NBP Quick Monitoring Survey, investment optimism increased q/q; however, it only slightly compensated for the earlier falls. As a result, the forecasts of investment activity remained low. In particular, the forecasts regarding the planned changes in the scale of outlays for this year are still

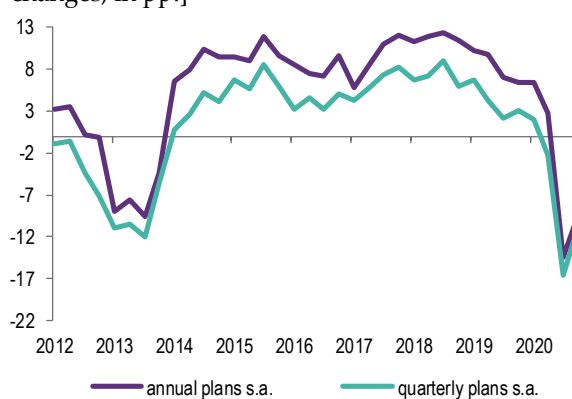
unfavourable and highly negative. Also, the outlook for the return of investment activity to the growth path is rather distant and burdened by high uncertainty.

Figure 18 OPTIN s.a. and growth of SPN investment



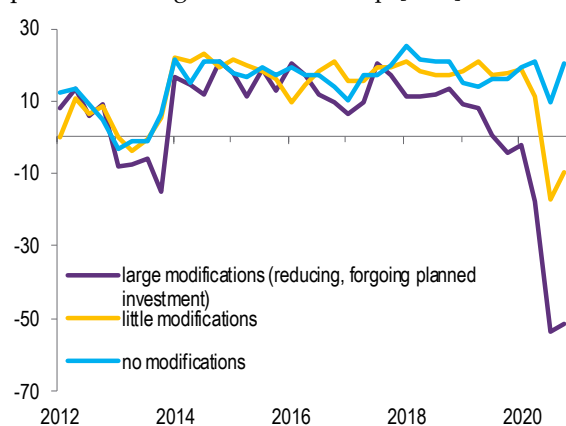
Source: NBP Quick Monitoring Survey; financial results, GUS data, NBP study

Figure 19 Planned change in outlays [balance of changes, in pp.]



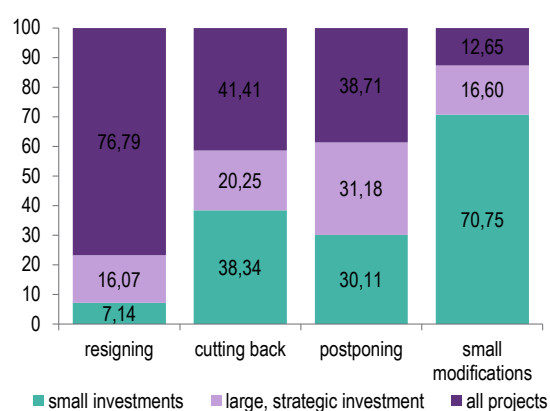
Source: NBP Quick Monitoring Survey

Figure 20 Planned change in outlays in a given year (balance of plans) and modification of investment plans according to SM NBP 2020q4 [in %]



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Figure 21 Type of change in investment plans and significance of limited outlays for firms [in %]

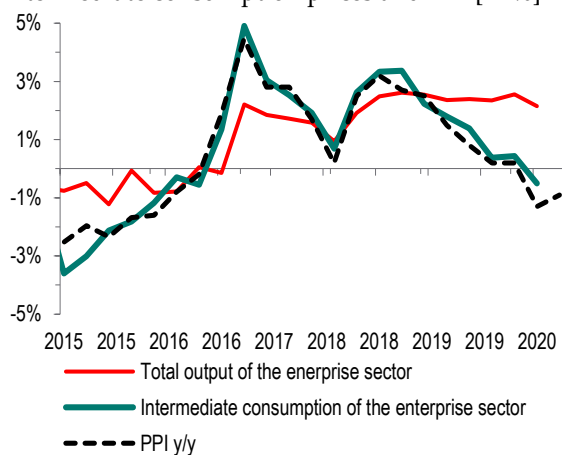


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In 2020 Q2, global producer prices in the enterprise sector rose moderately at 2.1% y/y, although this was 0.5 p.p. slower than in the first quarter. The fall in prices in industry due to developments of global commodity prices contributed to the decline in growth of producer prices in the enterprise sector. Positive tendencies in the relative prices of output compared to input prices in 2020 Q2 boosted the profitability of the enterprise sector.

Data on industrial producer prices in July and August indicate that growth in input prices of the enterprise sector in 2020 Q3 remain low, despite rising slightly. In 2020 Q4 a slight slowdown is expected in producer price growth of the enterprises surveyed in the NBP Quick Monitoring. Relatively few companies also expect an increase in producer prices over the horizon of 12 months.

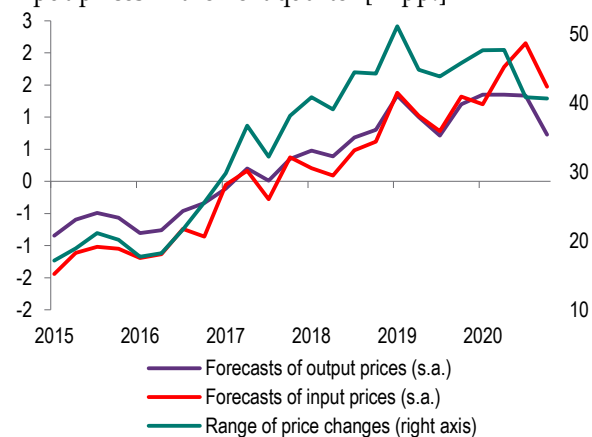
Figure 22 Annual growth in gross output prices, intermediate consumption prices and PPI [in %]



Note: PPI data for 2020 Q3 based on July and August

Source: financial results, GUS data, NBP study

Figure 23 Expectations of changes in output and input prices in the next quarter [in pp.]



Source: financial results, GUS data, NBP study

Technical notes:

1. The study is based on two data sources: the NBP Quick Monitoring Survey as well as Reports on income, costs, financial results and investment outlays on fixed assets (hereinafter referred to as GUS Reports).
2. NBP Quick Monitoring Surveys have been conducted without interruption since the end of 1997. The latest survey took place in September 2020. 2,682 entities selected from all over the country participated in the survey, representing: all the NACE sections apart from agriculture, forestry and fisheries; both ownership sectors; the SME sector and large entities. The micro enterprise sector is under-represented.
3. Enterprises are obliged to submit the GUS Reports at the end of each quarter. The reporting obligation applies to enterprises employing more than 49 persons as at the end of the preceding year. The number of enterprises covered by the survey as at the end of June 2020 was 17,119. The following are subject to the reporting obligation: all NACE sections apart from the financial sector and agriculture, forestry and fisheries.
4. The full version of the report in Polish is available on the NBP website: http://www.nbp.pl/home.aspx?c=/ascx/koniunktura_prezentacja.ascx

