

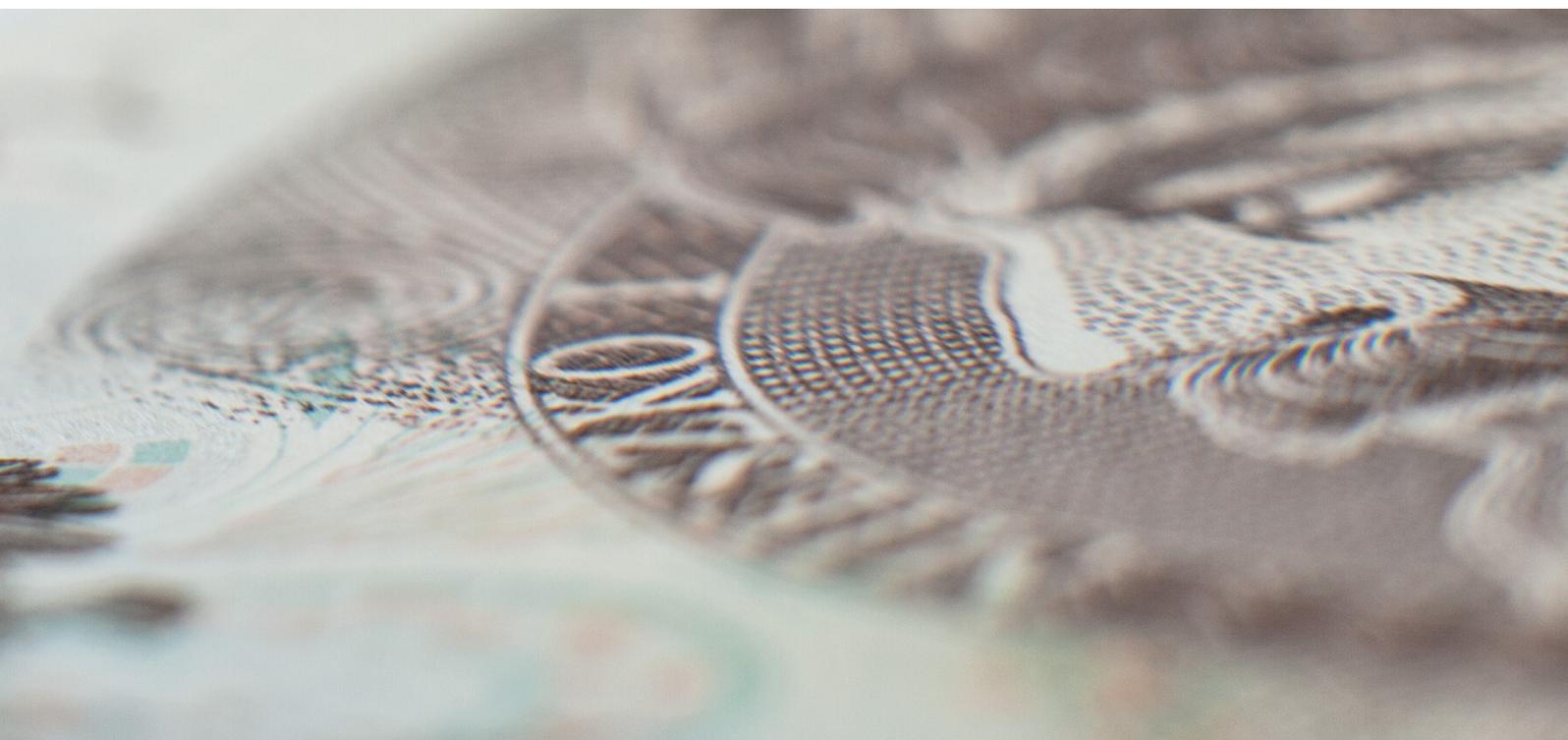


NARODOWY
BANK POLSKI

No 02/22 (April 2022)

NBP Quick Monitoring Survey

Economic climate in the enterprise sector
Summary



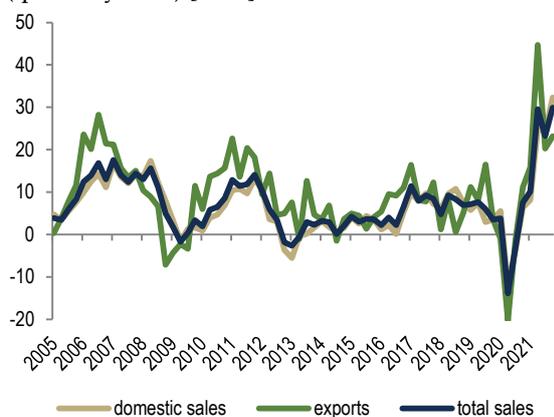
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Economic climate in the enterprise sector Summary

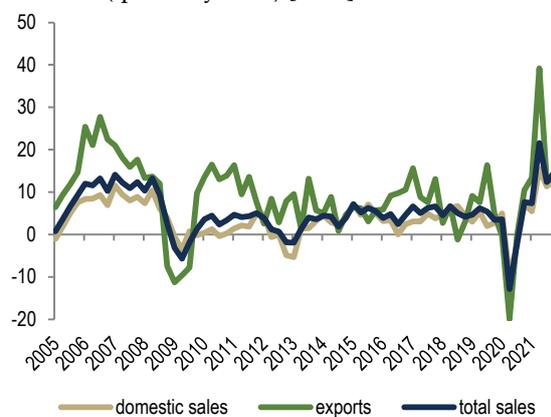
In 2021 Q4, the economic condition of the non-financial enterprise sector (NFC) was very good. The levels of revenue from domestic and foreign sales – both in nominal and real terms – exceeded not only the figures recorded before the outbreak of the pandemic, but also those set by long-term trends. Although the main cost components, especially expenditure on raw materials and commodities, continued to grow very rapidly in this period, the sector's aggregate financial result increased strongly, reaching record highs. As a consequence, return on sales also increased, exceeding the third quartile of the distribution. Data from the F-01 GUS forms also show a favourable liquidity situation of the NFCs, including high cash liquidity in most of the sectors analysed. The capacity for financing investment was also positively assessed, due to, among others, the record-high corporate profitability. Although a decline was recorded in the growth of investment outlays of large and medium-sized enterprises in 2021 Q4, on the back of weaker activity of the largest investors, companies already implementing investment projects stepped up their development activities. At the same time, the surveyed population saw a rise in the number of new entities undertaking such projects.

Figure 1 Nominal y/y growth in sales revenues (quarterly data) [in %]



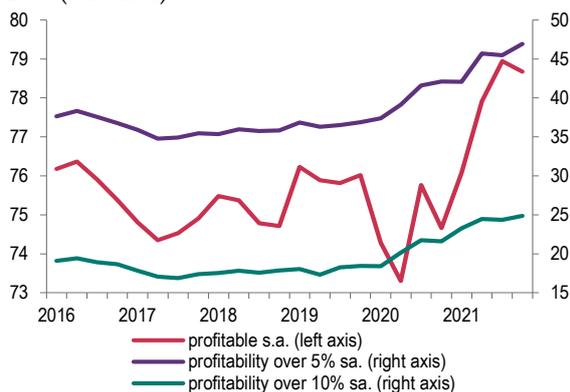
Source: Financial statements, GUS data, NBP study

Figure 2 Real (PPI-adjusted) y/y growth in sales revenue (quarterly data) [in %]



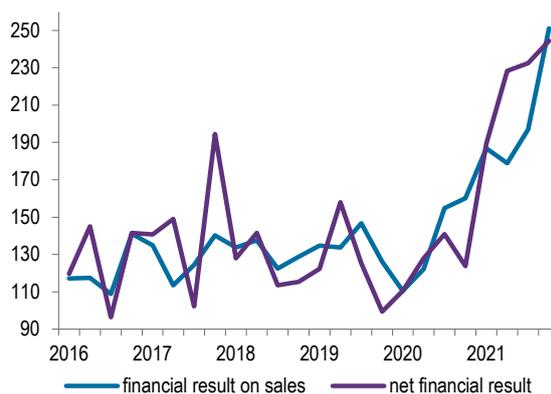
Source: Financial statements, GUS data, NBP study

Figure 3 Percentage of profitable companies and companies with profitability ratio over 5% and 10% (s.a. data)



Source: Financial statements, GUS data, NBP study

Figure 4 Financial result on sales and net financial result (quarterly data, in PLN billion)

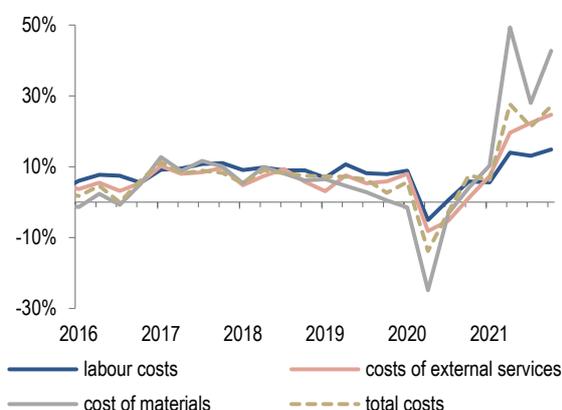


Source: Financial statements, GUS data, NBP study

On the other hand, negative developments observed in the last quarter of 2021 included a steep increase in costs, including labour costs. In particular, average wage growth reached a level close to its historic peak, with record-high sectoral diversification. The y/y employment growth was also positive for the third consecutive quarter, while the number of employees (s.a.) exceeded its pre-pandemic levels. However, labour productivity rose faster than average wages, and due to the very sharp increase in the cost of raw materials

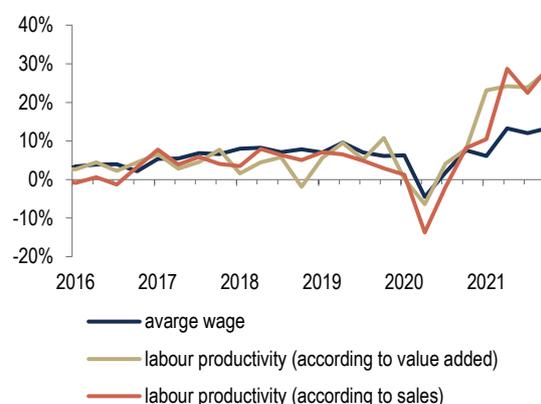
and commodities, 2021 Q4 was another quarter when the share of labour costs in operating expenses decreased. The reason for the marked acceleration in global output prices recorded in this quarter was therefore primarily the increase in the cost of raw materials and commodities.

Figure 5 Growth in labour costs y/y against growth in total costs and other selected cost categories [%]



Source: Financial statements, GUS data, NBP study

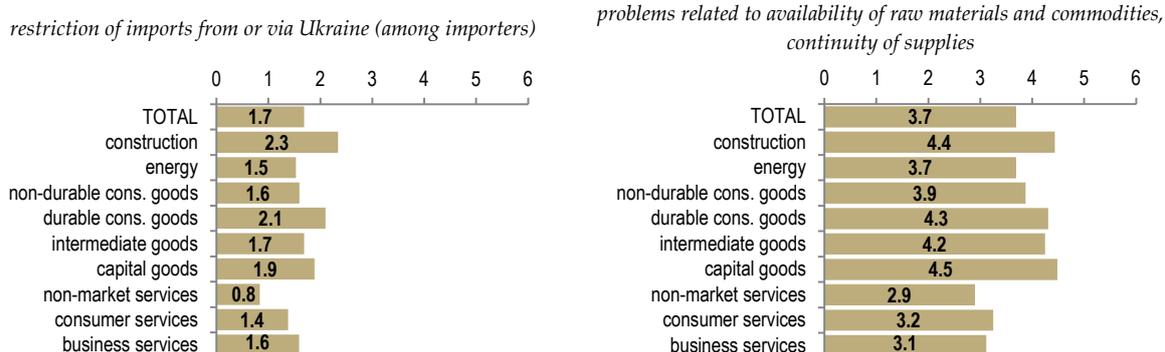
Figure 6 Growth in labour productivity y/y against growth in average wage y/y [%]



Source: Financial statements, GUS data, NBP study

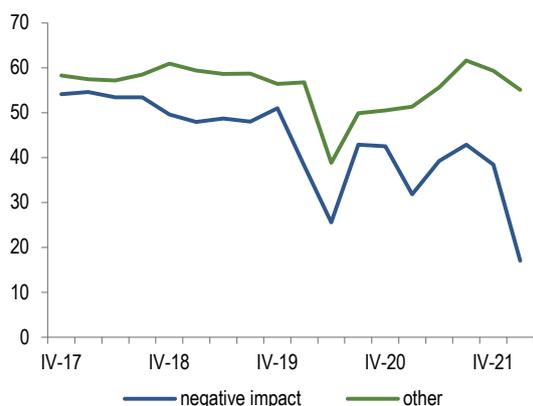
The war in Ukraine resulted in a very sharp and deep deterioration in many indicators of the future economic conditions based on the NBP Quick Monitoring surveys of business sentiment – both for Q2 of this year and the next 12 months, as well as some of the retrospective assessments of Q1. As many as two-thirds of the entrepreneurs surveyed have already experienced the effects of this conflict, with one-fifth reporting evidently negative consequences. In light of the March NBP Quick Monitoring, assessments of the situation in the corporate sector had already deteriorated markedly in Q1 of this year and were worse than a year earlier. However, the scale of this decline was smaller than the slump seen in the lockdown period in 2020. However, the deterioration in these assessments in Q1 of this year occurred in most sections and classes analysed.

Figure 7 Average assessment of the impact (current and/or future) of the war in Ukraine from the company's perspective on a scale from 0 (not important) to 6 (very important).



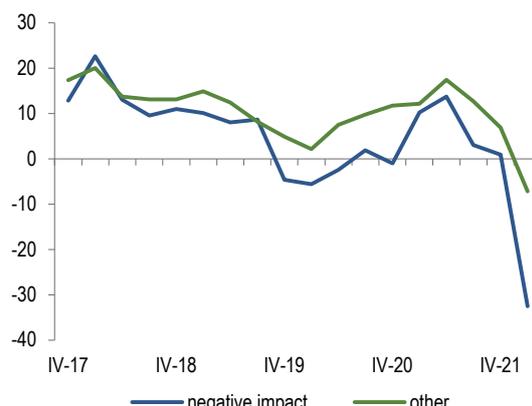
Source: NBP Quick Monitoring Survey

Figure 8 Assessments of the current situation in companies negatively affected by the war and in the remaining group of companies



Source: NBP Quick Monitoring Survey

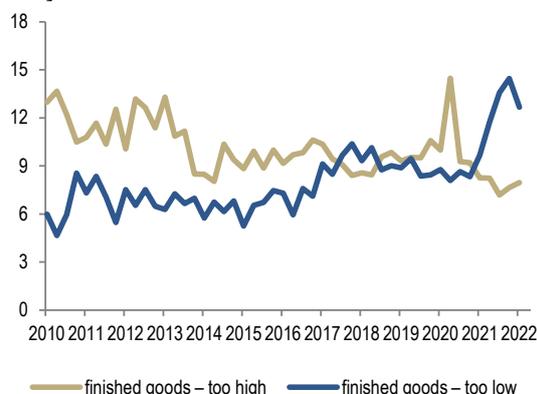
Figure 9 Annual forecasts of economic climate in companies negatively affected by the war and in the remaining group of companies



Source: NBP Quick Monitoring Survey

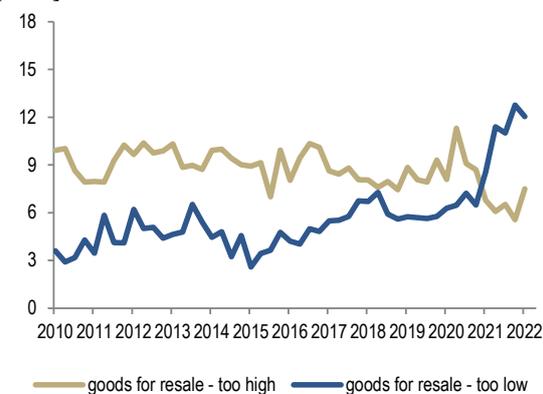
The problem of excessively low inventories and supply chain disruptions continued in Q1 of this year. Although there were some signs of improvement in relation to inventories of finished goods, the war is likely to contribute to a marked increase in inventory and supply problems; particularly among producers of investment goods and in the construction industry.

Figure 10 Percentage of companies declaring mismatches in inventories of finished goods (s.a.) [in %]



Source: NBP Quick Monitoring Survey

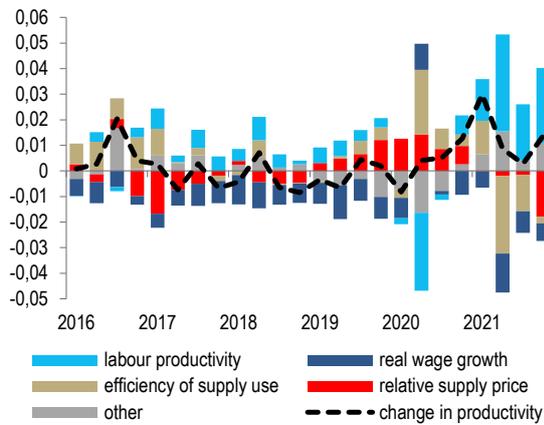
Figure 11 Percentage of companies declaring mismatches in inventories of goods for resale (s.a.) [in %]



Source: NBP Quick Monitoring Survey

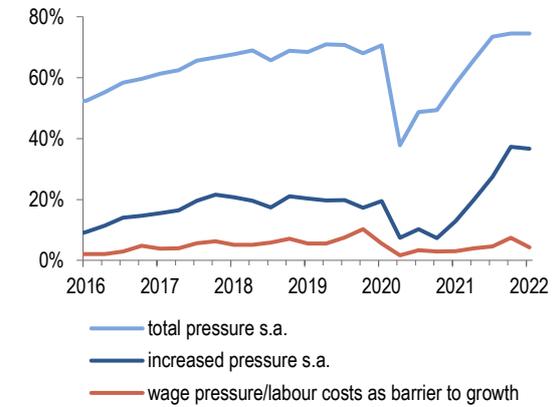
Producer price data for January and February 2022 indicate further accelerated producer price growth in 2022 Q1, in tandem with the price pressure index, which has reached its historic highs. At the same time, early signs of a potential barrier to pass-through of cost increases into production prices have strengthened, with a further decline in the price of output relative to supplies. The growth of wage pressure was also observed to lose momentum in Q1, although it was still very high.

Figure 12 Impact of changes in factor efficiency and relative price changes on annualised changes in operating profitability



Source: Financial statements, GUS data, NBP study

Figure 13 Percentage of companies experiencing wage pressure; percentage of companies declaring wage pressure/high labour costs as a barrier to growth [%]

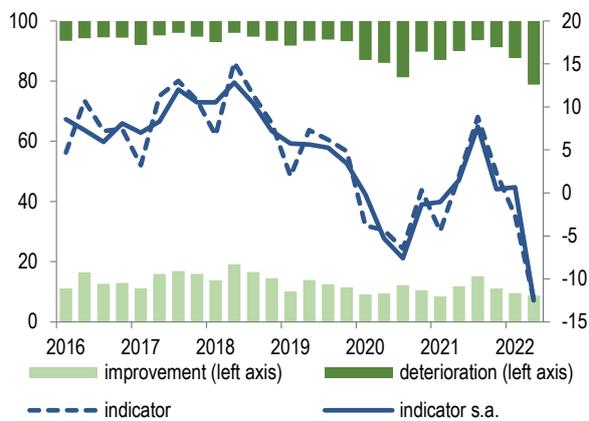


Source: NBP Quick Monitoring Survey

The outlook for the economic situation in Q2 and the following 12 months is markedly pessimistic and one of the bleakest on record. In light of the synthetic indicator of the future situation and the model forecasts, economic activity will continue to deteriorate in 2022, reaching near-neutral levels by the end of 2023. In particular, sharp declines have been recorded in forecasts of domestic and external demand; especially in quarterly terms. Although forecasts of demand and exports suggest a stagnation in domestic and foreign sales in quarterly terms and a slight increase in annual terms, these results should be interpreted with caution, given the very high assessments of economic uncertainty formulated by respondents.

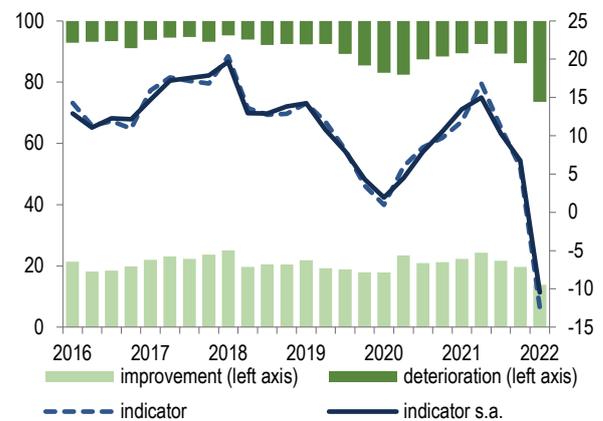
These forecasts were strongly affected by the war in Ukraine – companies that are already experiencing its negative effects expressed much more pessimistic expectations than other companies. Actual results will therefore undoubtedly be strongly influenced by the persistence and depth of the conflict; especially the threat of escalation.

Figure 14 Quarterly outlook forecasts (balance, in pp) and percentage of companies expecting improvement and deterioration of the situation (in %)



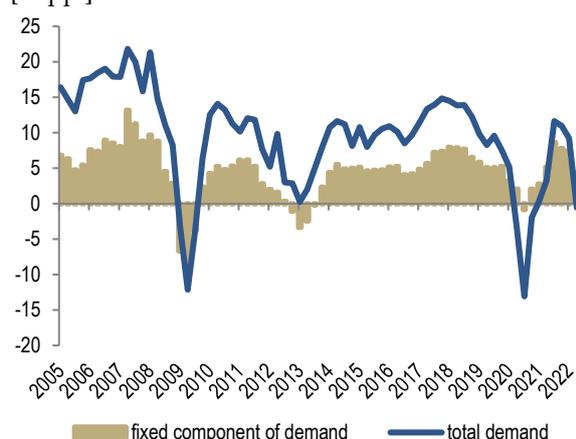
Source: NBP Quick Monitoring Survey

Figure 15 Annual forecasts of the situation (balance, in pp) and percentage of companies expecting improvement vs. deterioration of the situation (in %)



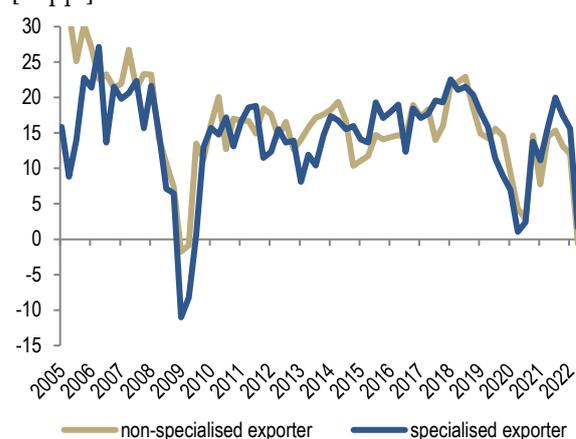
Source: NBP Quick Monitoring Survey

Figure 16 Quarterly demand forecast indicator (s.a.) [in pp.]



Source: NBP Quick Monitoring Survey

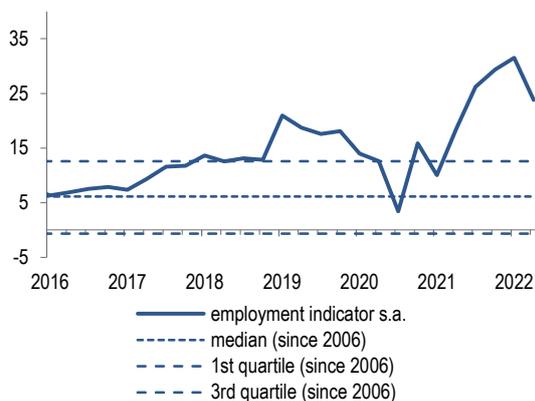
Figure 17 Quarterly export outlook indicator (s.a.) [in pp.]



Source: NBP Quick Monitoring Survey

In 2022 Q2 and in the coming months, companies expect a further decline in demand for labour. The strongest q/q decline in the employment indicator is observed in construction; however, a significant outlook slump is also seen in transport and manufacturing. The 12-month employment outlook follows suit – a decline has been recorded compared to the previous reading, but the share of companies planning to increase employment is still relatively high. In addition, it is worth emphasizing that companies in some sectors report that the problem of the outflow of workers to Ukraine is far less important than other potential consequences of the war.

Figure 18 Employment indicator – difference between the percentage of companies expecting an increase and a decrease in employment – quarterly forecasts [pp.]



Source: Source: NBP Quick Monitoring Survey

Figure 19 Share of companies expecting average wage growth in the next quarter s.a. [%]



Source: Source: NBP Quick Monitoring Survey

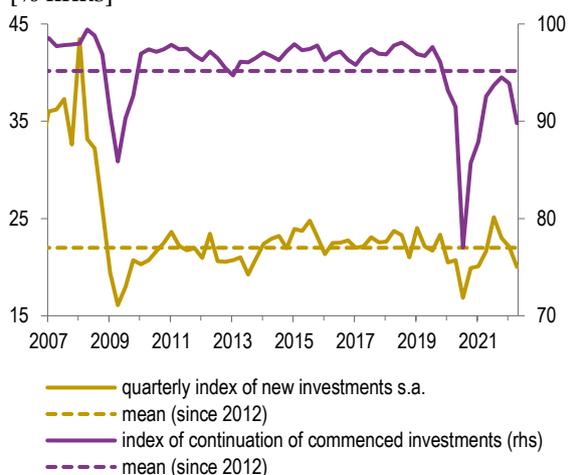
Enterprises anticipate weaker investment activity – both in the current quarter and in the 12-month horizon. However, the extent of the decline is moderate. According to the declared plans for Q2 of this year, the response of foreign-owned companies to the current crisis is also markedly weaker than that of domestic private companies. It should be noted, however, that under the conditions of the war in Ukraine, the investment policy of enterprises may be subject to particular uncertainty.

Figure 20 OPTIN s.a. [share of companies with positive investment activity outlook, in %]



Source: NBP Quick Monitoring Survey

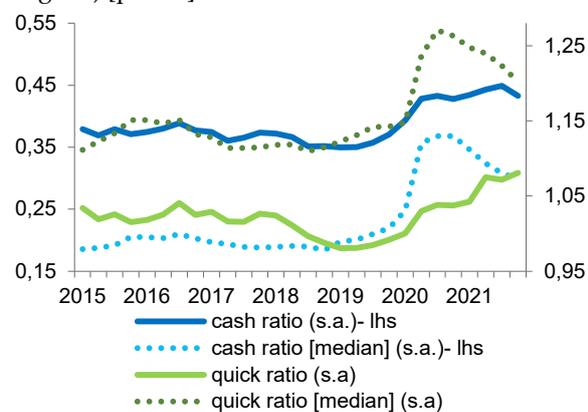
Figure 21 Quarterly index of new investments and continued previously commenced investments [% firms]



Source: NBP Quick Monitoring Survey

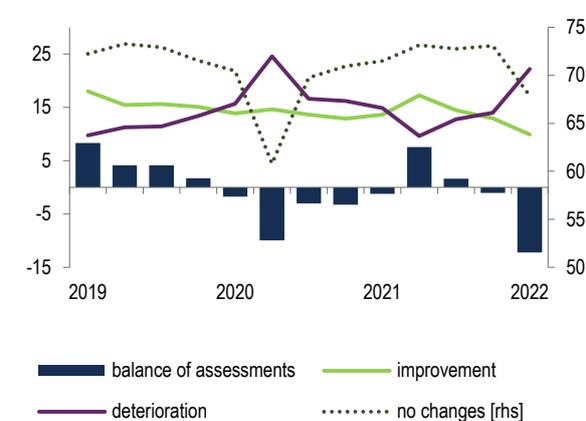
The projected liquidity situation, suggesting some tightening of investors' budget constraint, may also be one of the sources of this uncertainty. The balance of its forecasts over a 12-month horizon followed a downward trend and was clearly negative. The very high current level of liquidity, however, means that the situation does not imply a loss of liquidity, although, the forecast for servicing credit obligations has also deteriorated, among others.

Figure 22 Quick ratio (1st degree) and cash ratio (2nd degree) [points]



Source: Financial statements, GUS data, NBP study

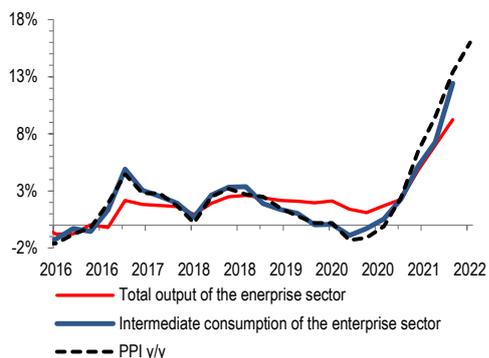
Figure 23 Forecasts of enterprises' liquidity situation [balance of assessments]



Source: NBP Quick Monitoring Survey

A further marked acceleration in output prices of companies surveyed in the NBP Quick Monitoring Survey is expected in Q2. Higher price forecasts for the products offered result mainly from a further growth in procurement prices – due to the very strong increase in the prices of commodities and raw materials on the global market. According to the firms surveyed, the high growth of producer prices will also continue in the longer term (at least over the next 12 months).

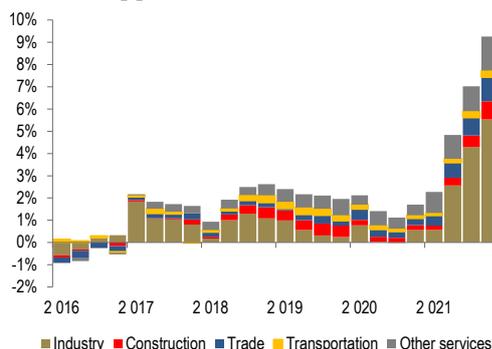
Figure 24 Annual growth in global output prices, intermediate consumption and PPI [in %]



Note: PPI data for 2022 Q1 2022 based on January and February

Source: Financial statements, GUS data, NBP study

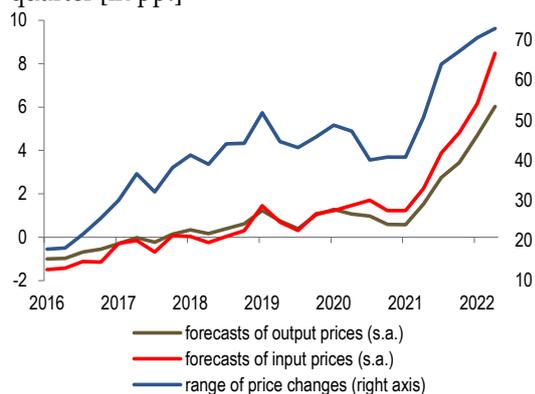
Figure 25 Impact of price changes in sections on the growth in global output prices in the enterprise sector [in pp]



Source: Financial statements, GUS data, NBP study

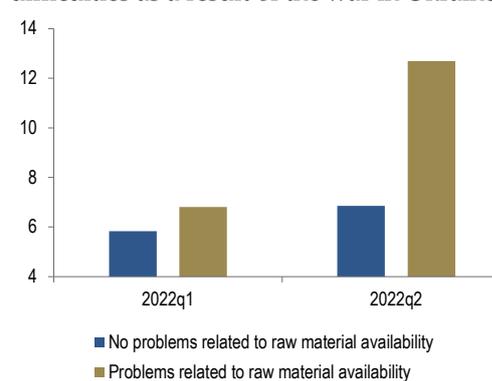
The rise in inflation expectations recorded in March 2022 (NBP Quick Monitoring) is mainly a consequence of the war in Ukraine. Entities that have experienced considerable impact of the armed conflict on their economic condition express significantly higher expectations regarding the developments in both prices of supplies and products offered as well as consumer prices (CPI inflation).

Figure 26 Expectations of change in own prices and prices of raw materials and commodities in the next quarter [in pp.]



Source: NBP Quick Monitoring Survey

Figure 27 Indicator of expectations regarding prices of raw materials and commodities [in pp] vs. supply difficulties as a result of the war in Ukraine



Source: NBP Quick Monitoring Survey

Technical notes:

1. The study is based on two data sources: the NBP Quick Monitoring Survey and 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 March 2022. 2,661 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 December 2021 was 17,611. The following are subject to the reporting obligation: all NACE sections apart from the financial sector and agriculture, forestry and fisheries.

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

www.nbp.pl

