

National Bank of Poland
Economic Institute
Bureau of Enterprises, Households and Markets

Economic climate in the enterprise sector in 2011 Q3 and forecasts for 2011 Q4

October 2011

Synthesis

The report is based on the results of the NBP Quick Monitoring carried out in September 2011 on a sample of 1227 non-financial entities representing all sections of NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the public and non-public sectors, SMEs and large entities.

In view of the results of the NBP Quick Monitoring and public statistics, the following conclusions on the economic climate may be formulated:

The partial results of the survey of the current economic conditions remained relatively sound in 2011 Q3. According to the results of the survey, serious concern developed about the possible deterioration of economic conditions in the future. The expectations continued to deteriorate for the second consecutive quarter, most specifically with respect to demand and output. As a result, fewer companies will decide to increase their production capacity. They are less prone to increase prices amidst falling inflationary expectations, though the rate of this fall is lower than in the preceding quarter.

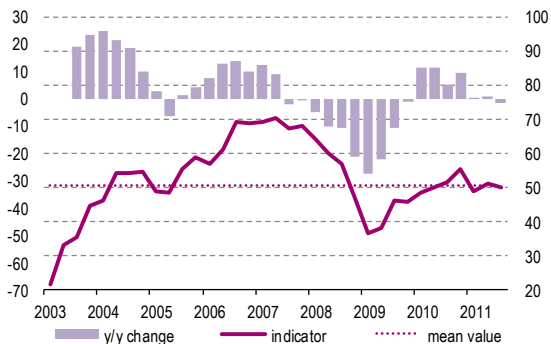


Figure 1 Current assessment of economic condition

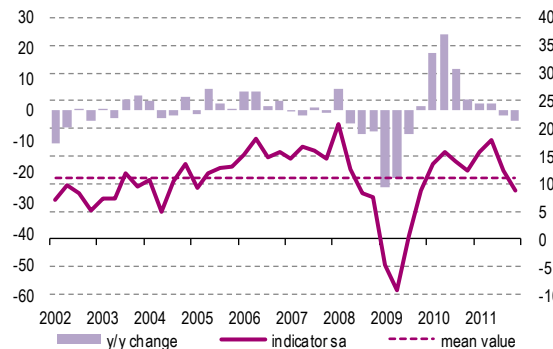


Figure 2 Enterprises' forecasts of economic condition

1. The situation in the enterprise sector has remained good. Most of the groups under review have showed no significant change in their conditions over the last few quarters. Although the assessments deteriorated slightly in the sample in 2011 Q3, no permanent downward trend has developed in any of the classes or branches, so far. Meanwhile, in some classifications the condition of enterprises has remained highly diversified.

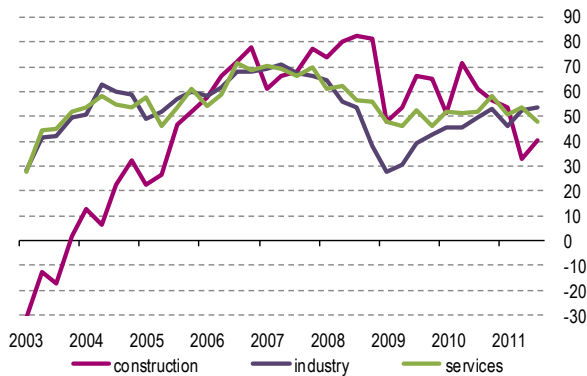


Figure 3 Current assessment of economic condition in industry, construction and services

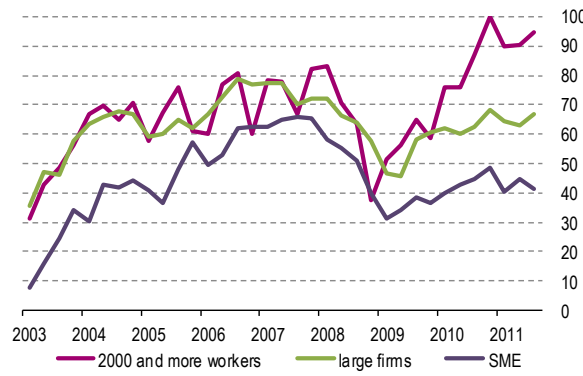


Figure 4 Current assessment of economic condition in employment size classes

2. After easing of the demand barrier for over 2 years, enterprises point to a slight intensification of these problems in 2011 Q3. Meanwhile, production capacity utilization ebbed down marginally. For the second consecutive quarter expectations about demand and new orders became less optimistic. Most specifically, a notable decline occurred in the share of enterprises anticipating a permanent revival of demand. This translated into deterioration of output forecasts for Q4. It is worth mentioning that all the indicators measuring sales outlook deteriorated, yet they remained positive and more enterprises in the group are going to continue to increase their production rather than to moderate it.

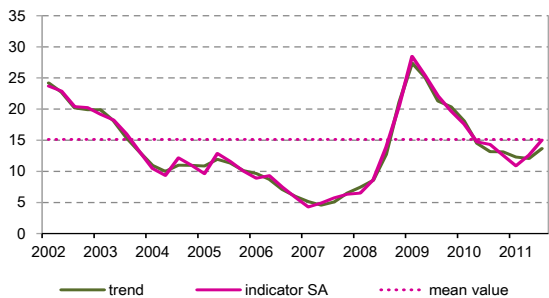


Figure 5 Demand barrier indicator

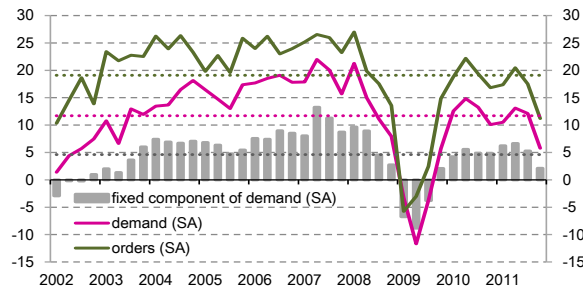


Figure 6 Forecast indices: total demand, fixed component of demand and new orders

3. Both the domestic-market oriented enterprises and exporters indicate mounting difficulties with finding customers. Exporters, especially with a large share of exports in their revenue are still most profitable. Enterprises selling only for the domestic market generate much lower profits. Notwithstanding the different yields in both of those groups, the percentage of exporters in the sample trended markedly downwards for another consecutive quarter. This tendency may be indicative of worsening economic conditions in the markets of Poland’s major foreign trading partners. Exports forecasts for Q4 indicate a slump in the growth rate of exports.



Figure 7 Production forecast indices

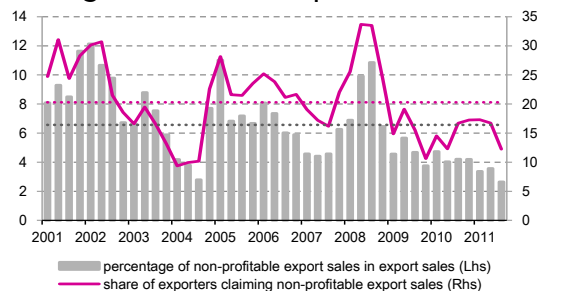


Figure 8 Non-profitable export

4. In the wake of a deteriorating demand outlook, optimism concerning the developments anticipated for Q4 waned further. Those apprehensions materialised across most of the classes under review, except specialised exporters and construction enterprises. It is worth noticing that the construction industry recovered, even though the sales margins markedly decreased for the third consecutive year, and the ability to pay debts of this group deteriorated.

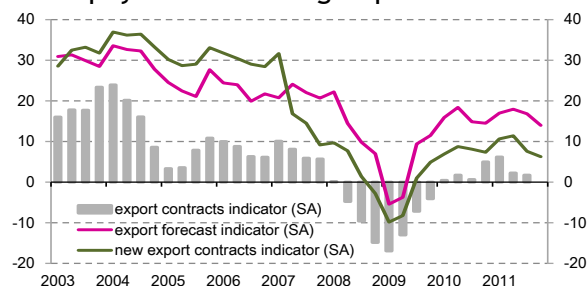


Figure 9 Export indices

5. A waning optimism of the sales forecasts, amidst the prevailing uncertainty about domestic economic conditions adversely impacted the demand for labour. The employment forecast index declined to adopt small negative values, which means that the headcount reduction plans were observed more frequently than decisions to increase employment. It appears that the decline in this index does not exclusively stem from the problems to find markets for products or from a weaker financial

situation of enterprises. In some cases the worse employment forecasts may stem from the persistence of the unstable market conditions. It is revealing that numerous enterprises procrastinate with increasing employment - the decision is still pending in 55% of the sample. Decisions about employment reductions are also subject to postponement, but a group of companies which decide so is less sizeable - it constitutes 33% of the sample.

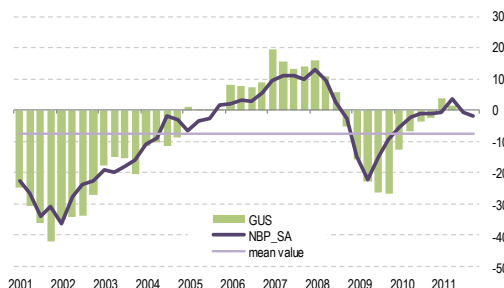


Figure 10 Employment forecast (NBP SA) and real changes (GUS)

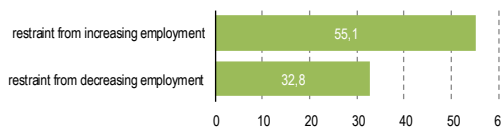


Figure 11 Restraint from employment changes

6. Following a reduction in the demand for labour, fewer respondents plan to increase wages for their employees. Meanwhile, the average planned wage hike edged up. This increase concentrated in large enterprises.

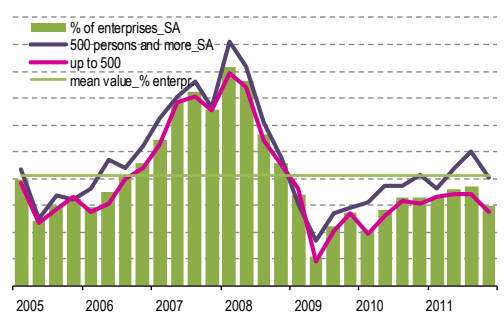


Figure 12 Share of enterprises planning wage increases



Figure 13 Average and median of wage increases (in group of enterprises planning wage increases)

7. Following a weak performance in Q3 the percentage of planned new investments should rise in Q4, yet the scale of improvement will be moderate, and the planned investment activity should remain at the level of the first half of 2011. An uncertain macroeconomic outlook continuously affects the number of investments in progress and numerous enterprises continue to postpone investment-related expenses. This policy is being pursued more often by small enterprises. At the same time, situations in which enterprises decide not to conclude projects currently underway are few. This is another confirmation of a sustained good condition of the corporate sector.

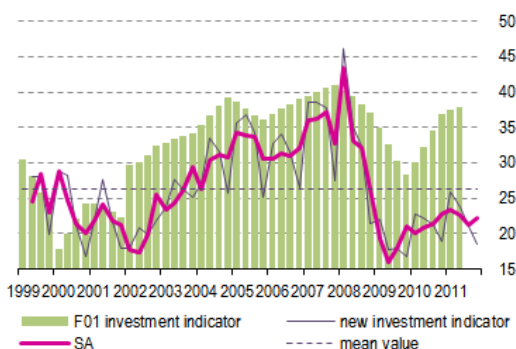


Figure 14 New investment indicator

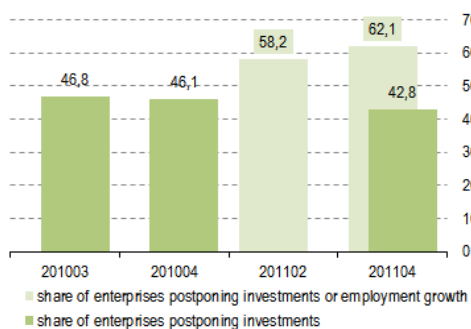


Figure 15 Share of enterprises postponing investments

8. The willingness of respondents to contract new bank credits is continuously waning. At present it approaches its historical minimum. As demand for loans wanes, it becomes easier to obtain it. A small number of rejected credit applications is not only an effect of more liberal lending policies of the banks, it is also to a large extent related to a small number of enterprises which request additional financing, and relatively sound conditions of the applicants. A strong decline in the demand for loans is registered, i.a. in the SME sector, i.e. in the area where the number of enterprises which postpone investments is the highest.

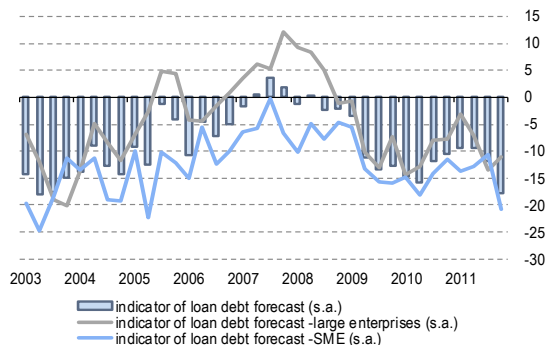


Figure 16. Bank debt forecast index

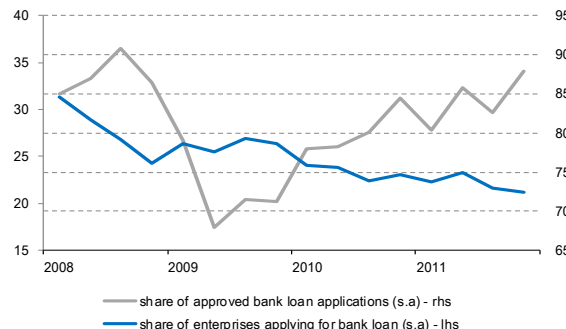


Figure 17. Share of enterprises applying for bank debt and percentage of approved loan applications

9. The ability to timely repay bank loans remains good. The respondents assessed the ability to settle trade payables as markedly worse. Over the last 3 years, a steady decline has been registered in this area. The balance sheet position of enterprises in the sample remained diversified, considerable differences can be seen in particular between large enterprises and the SME sector as well as in the sectoral breakdown. The above-mentioned construction enterprises declare the most serious problems with the timely repayment of liabilities among the NACE classification. On the other hand, payment bottlenecks have not been mentioned in any section as a pivotal growth barrier.

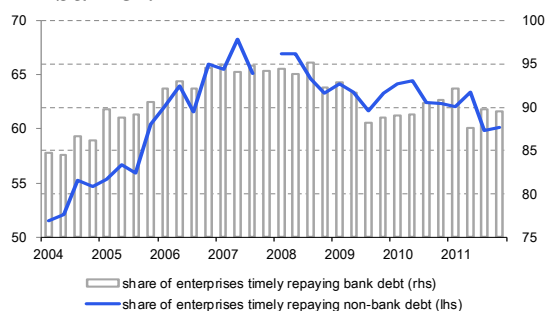


Figure 18. Share of entities settling their credit and non-bank debt pursuant to the agreements

10. Respondents' inflation forecasts for Q4 have remained broadly unchanged compared to Q3. By contrast expectations of an increase in the prices of raw materials and intermediate goods ebbed down slightly. The most considerable decline affected the forecast own prices - the percentage of respondents which planned to increase own prices declined considerably as compared to the preceding quarter, and it was also slightly lower than a year before.

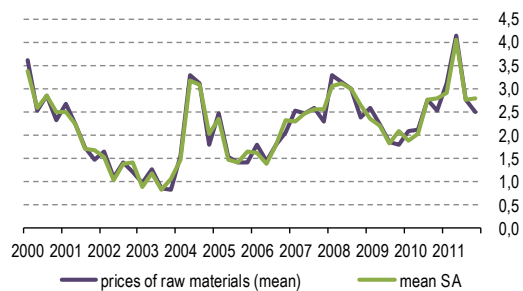


Figure 19 Quarterly forecasts of price increases of goods and services sold by enterprises

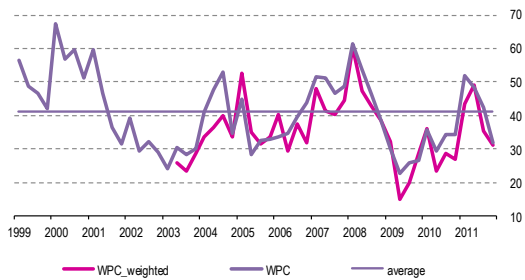


Figure 20 Index of prices forecasts WPC

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