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

Economic climate in the enterprise sector in 2012 Q4 and forecasts for 2013 Q1

January 2013
Synthesis

*The report is based on the results of the NBP Quick Monitoring conducted in December 2012 on a sample of **1277 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 line with the expectations of the respondents expressed the previous edition of the survey, the condition of enterprises deteriorated in 2012 Q4 and the current assessment condition indicator fell markedly, to a level below its long-term average. Enterprises expect a slight improvement in the situation in the first three months of the year, but do not yet equate it with a significant recovery. According to the surveyed enterprises, the return to the growth path will take place in the second half of the year at the earliest or even after 2013. Low investment activity declared by enterprises and their plans for workforce downsizing (if limited), accompanied by slower wage growth also add to the picture of the economic downturn persisting into the first half of 2013. The shrinking number of expansion and development plans among the surveyed enterprises may delay the recovery even further. Similarly, the rather pessimistic forecasts of external demand fail to provide any sign of a sizeable improvement at the beginning of the year.

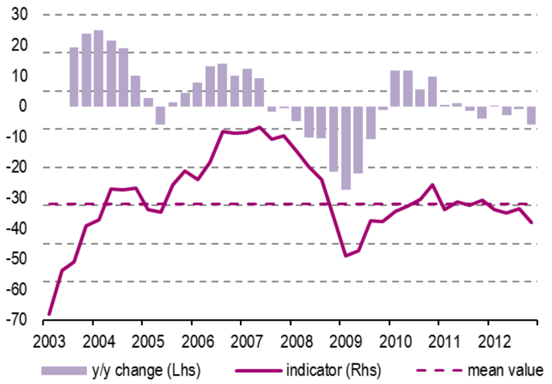

Figure 1 Current assessment of economic condition

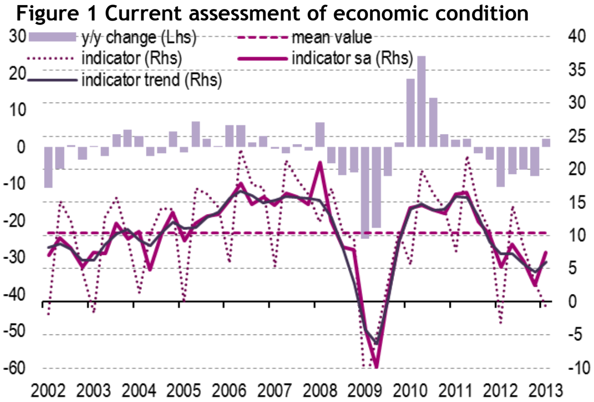

Figure 2 Enterprises' forecasts of economic condition

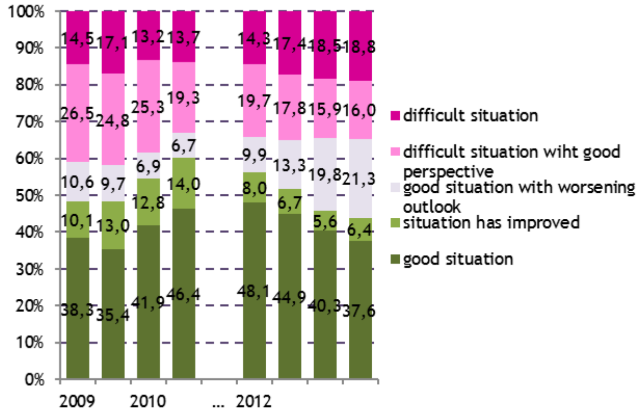

Figure 3 Current, past and expected difficulties

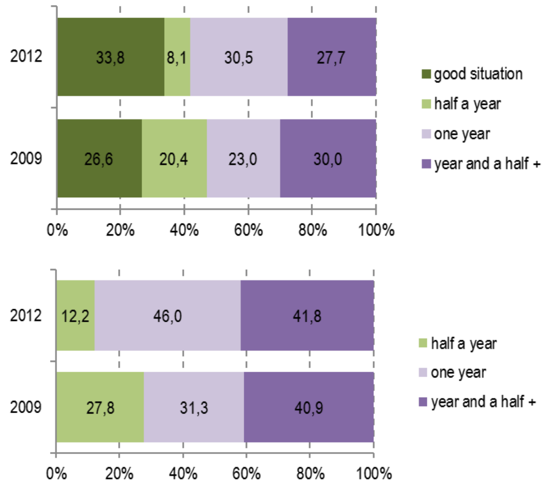

Figure 4 Expected date for the economic recovery

For another successive quarter, the number of enterprises struggling with the demand barrier, or expecting to experience it in the near future, increased. The strongest concerns in this regard have once again been voiced by construction companies, but there has been a marked rise in the difficulties reported by the majority of sectors and groups. Unfavourable changes in demand have translated into a further decline in capacity utilisation.

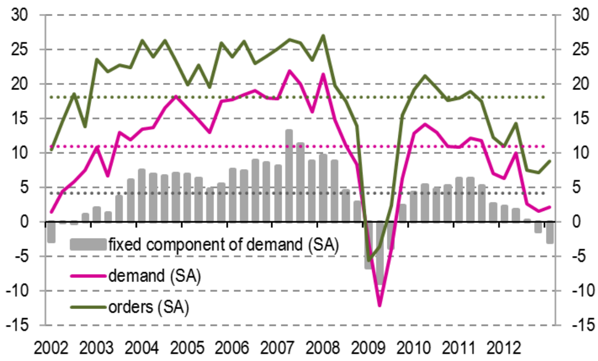

Figure 5 Demand and new orders forecasts

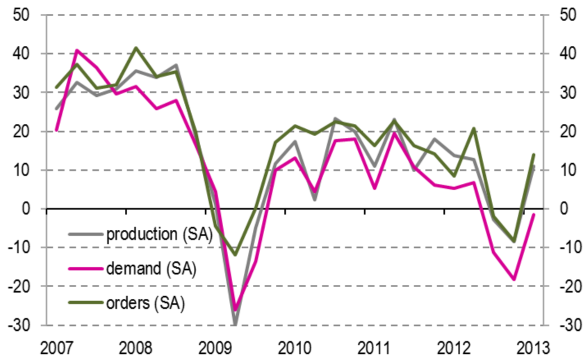

Figure 6 Demand, new orders and production forecasts in Construction section

After two quarters of marked decline, the demand, new orders and output forecasts for 2013 Q1 (corrected for seasonal fluctuations) improved slightly in comparison with the previous quarter, yet remained at low, both compared to the previous year and their long-term average values. A further decline in the permanent component of demand, which suggests that the improvement is only temporary, curbs the optimism stemming from the increase in the indicators. Significantly more optimistic demand and output forecasts (versus previous, very low levels) can be observed in particular in the construction sector, where the outlook for the first quarter of 2013 is considerably better than in the previous quarter. However, in many of the analysed segments, including specialised exporters, demand and output forecasts have proved to be worse than three months before.

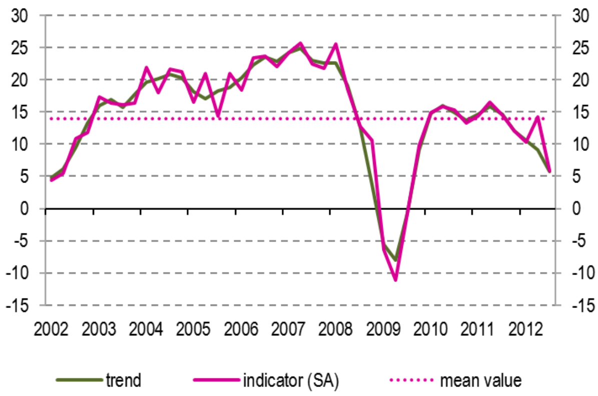

Figure 7 Production forecasts

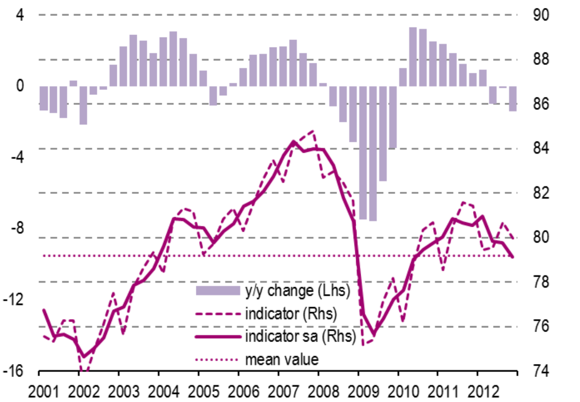

Figure 8 Average level of capacity utilization

The situation of exporters has deteriorated due to both lower growth in sales on foreign markets and declining margins. Mounting difficulties in finding customers have translated into frequent own price reductions. There was also a higher incidence of price reductions among the enterprises selling exclusively on the domestic market, where consequently the margins declined as well. Exporters have remained in a better shape than the enterprises selling their products domestically, but the existing differences have been narrowing and the forecasts of exporters for the coming months are more pessimistic than those of non-exporters, with export indices remaining low and non-increasing.

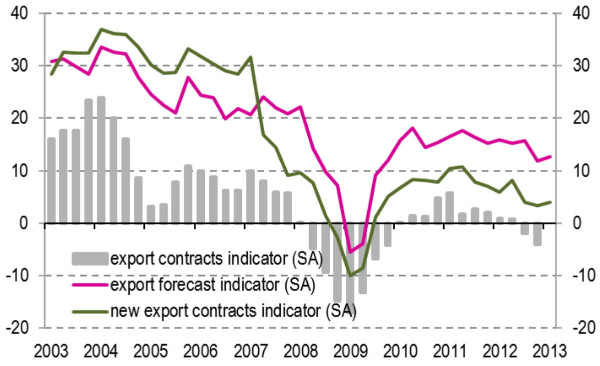

Figure 9 Export indices

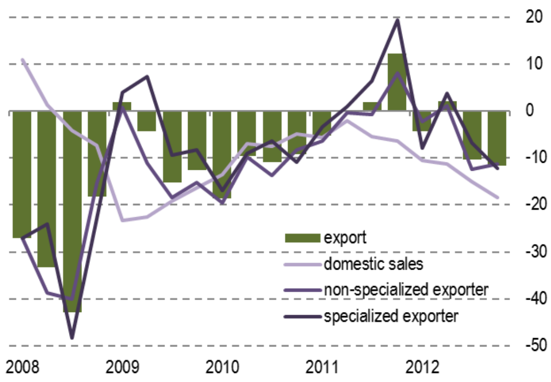

Figure 10 Profit margins

In the last quarters, the percentage of enterprises reducing their prices has been on the rise, while the number of enterprises increasing the prices has been falling. At the end of 2012, price reductions were only slightly more frequent than price increases. Price reductions were most often recorded in the construction sector and were slightly less frequent amongst service providers (except for retail and wholesale trade) and the manufacturing sector. Following a marked decline in inflation and declines in the prices of commodities in international markets, mounting and high prices became a slightly less acute problem and were less often listed among the barriers to growth. Declarations of surveyed enterprises suggest a further deceleration in price growth in the first quarter, following the expected slower growth in prices of commodities and raw materials used in production. Price decreases are declared in particular by construction companies.

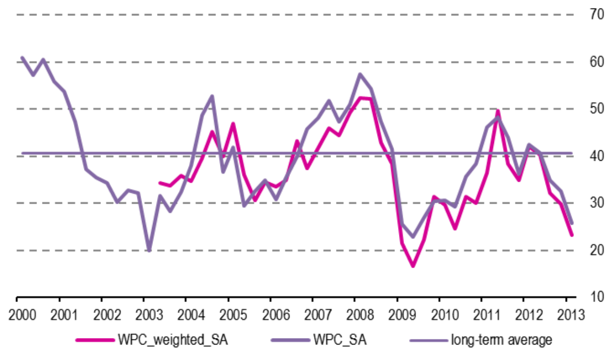

Figure 11 Index of price products and services forecasts

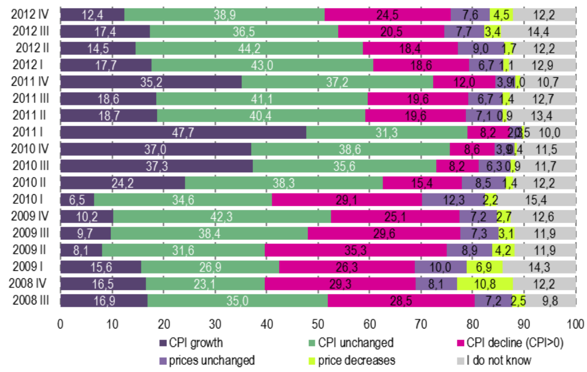

Figure 12 CPI forecasts

Enterprises' development plans signal a further decrease in investment outlays, with companies planning to spend less on fixed assets in 2013 than in the previous year. This is related i.a. to the fact that the majority of investment projects scheduled for this year consists in replacement of already existing assets, which usually requires less capital than an expansion of the company or use of better and more advanced technologies. Furthermore, the number of enterprises delaying the launch of new projects due to high uncertainty of operations is still on the rise. The percentage of enterprises discontinuing already commenced projects or deciding to reduce their scale is also increasing. Construction companies declare further significant reductions of outlays. Public sector enterprises, the largest employers (2000+) and processing companies offering energy products plan to continue their large-scale investment projects.

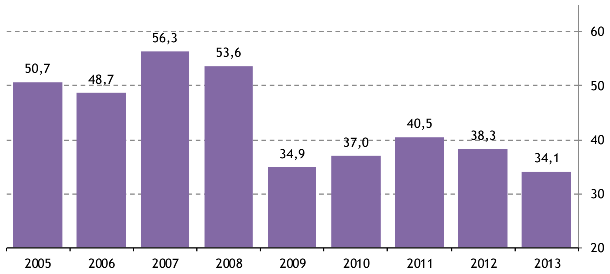

Figure 13 The share of enterprises planning to commence serious investment projects within a year

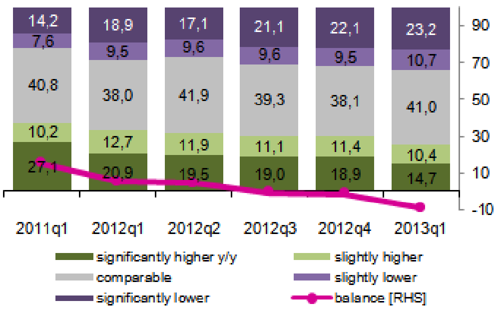

Figure 14 Yearly planned investment outlays (subsequent forecasts on current year)

Planowana zmiana wielkości nakładów ogółem na cały bieżący rok (dynamika roczna)

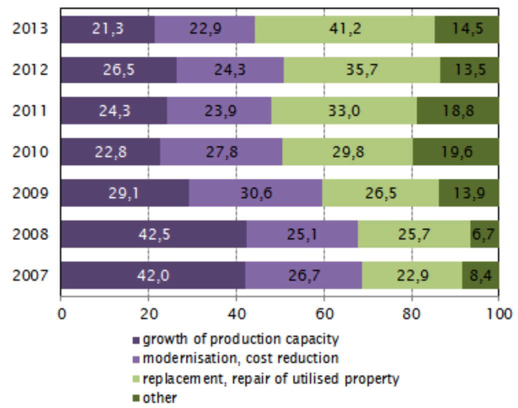

Figure 15 Main goal of new investment

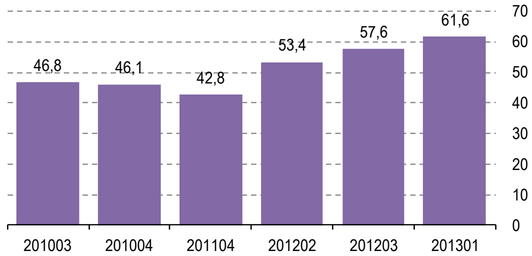

Figure 16 The share of enterprises postponing investment projects

The employment forecast indicator for the first quarter of the year increased slightly compared to the previous quarter and remains somewhat above its long-term average. As three months earlier, more enterprises (14.7%) continue to plan to dismiss employees than to hire new ones (9.8%). Construction companies declare layoffs most frequently; industrial companies and some service providers plan reductions on a lesser scale. A (small-scale) increase in employment is planned by trade and transport enterprises. Forecasts have improved also among the largest entities, but here this means smaller employment reductions.

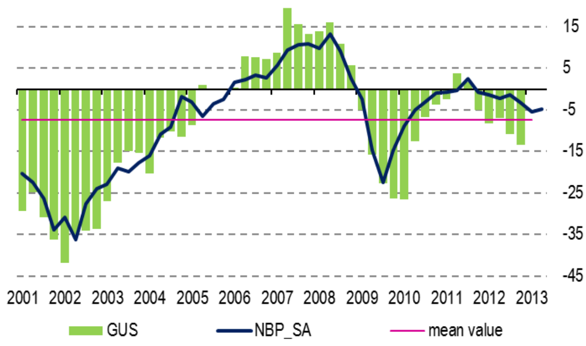

Figure 17 Employment forecasts

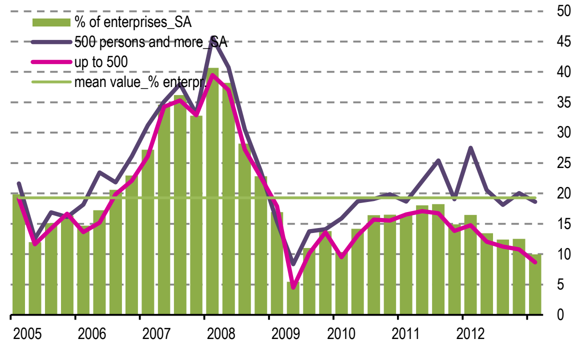

Figure 18 The share of enterprises planning wage increases and the share of employees to receive higher wages

The percentage of enterprises planning wage increases had fallen for another consecutive quarter and stood at the lowest level since 2009, with 17% of the enterprises intending to raise wages in the first quarter of 2013. The average wage increase in this group will amount to 4.5%. Wage increases are declared most often by industrial enterprises and least often by construction companies. It should be noted that despite growing problems, enterprises still decide to cut down wages relatively seldom, with 4.3% of businesses planning to decrease wages in 2013 Q1. Among the construction companies this percentage will be significantly higher and will amount to 11.9%.

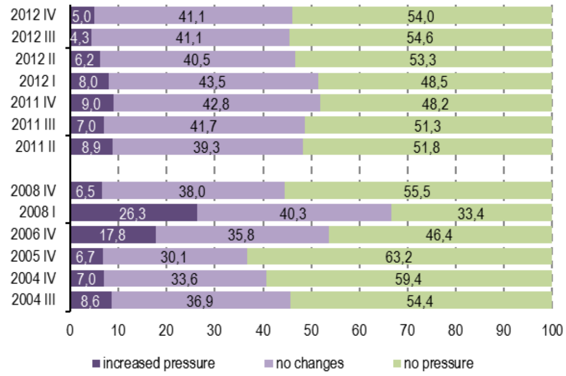

Figure 19 Wage pressure

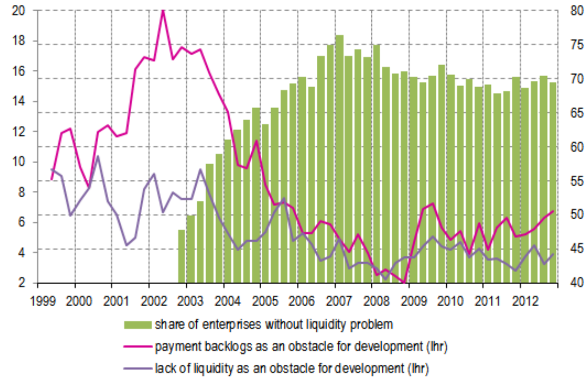

Figure 20 Financial liquidity

Enterprises increasingly often report difficulties in recovering payments due from their contractors. However, thus far, assessments of the liquidity position and the ability to settle bank and - to a lesser extent - trade debt obligations have posted a very mild – and stretched over time - decline. Yet, these assessments remain at relatively stable and historically sound levels, with the level of bank loan repayment still considered to be high.

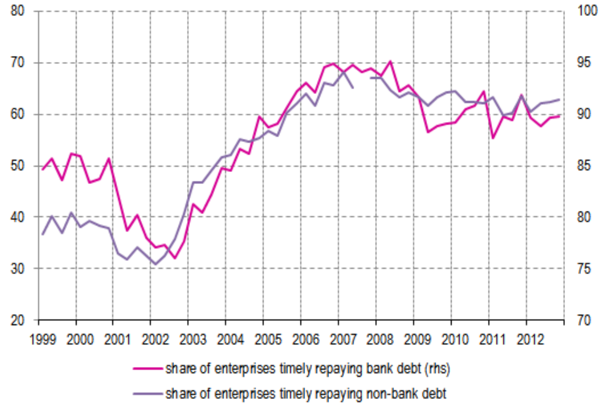

Figure 21 Bank and non-bank debt service

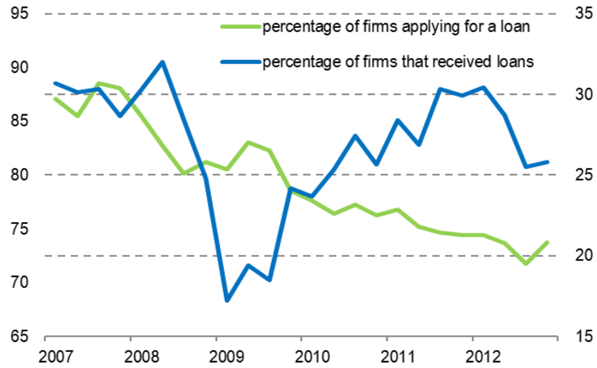

Figure 22 Availability of credit

Demand for credit and the percentage of borrowers remain low, and new funds are mainly required to finance current operations. Availability of bank credit has remained unchanged over the last three months; it was lower than in the corresponding period of the previous year. Nevertheless, problems in obtaining bank financing were listed more often among barriers to growth, which means that some enterprises may not have even tried to apply for a loan. In some cases enterprises complain about problems with access to credit although they have managed to obtain it.

In 2012 Q4 the price of credit declined slightly and the majority of respondents expected it to fall further at the beginning of 2013.

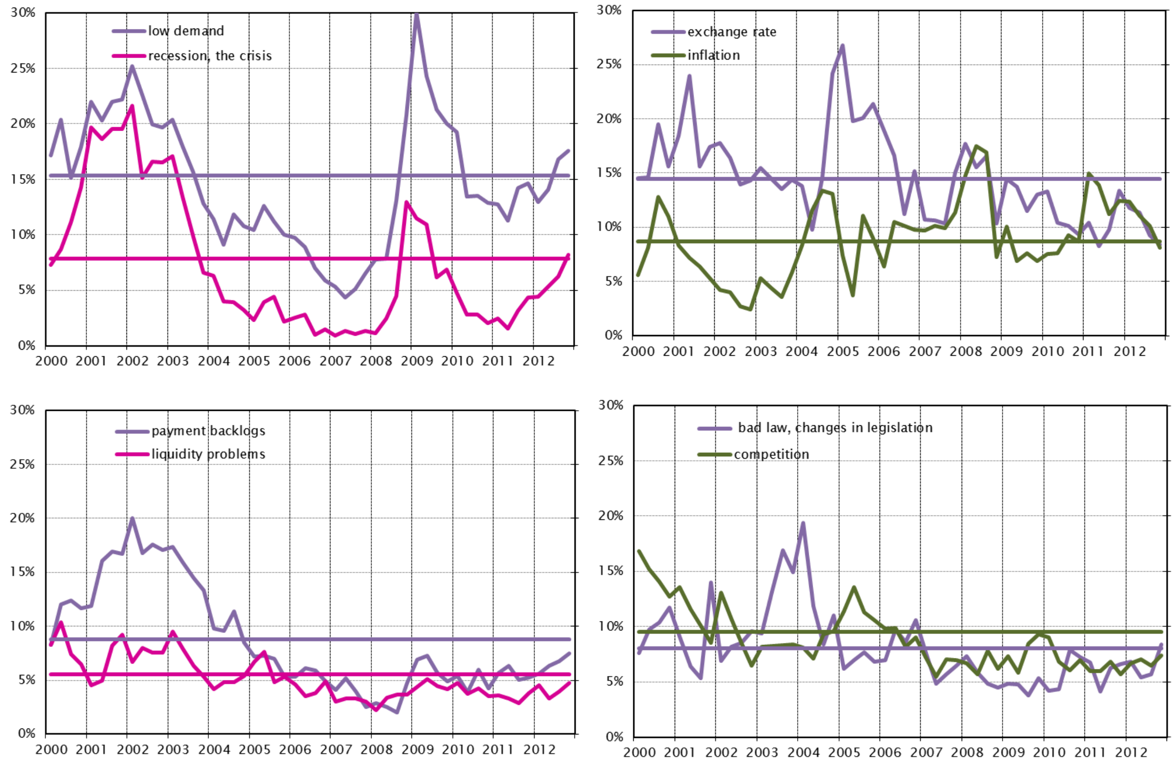

Figure 23 Barriers to growth