

NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2015 Q4 and forecasts for 2016 Q1.

The report presents the assessment of enterprises surveyed by NBP in 2015 Q4 and forecasts for Q1 of the current year. In December 2015, 1760 entities selected across Poland participated in the NBP Quick Monitoring Survey. They included non-financial enterprises representing all sections of the NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the public and private sectors, SMEs and large companies.

Zofia Jankiewicz
Piotr Popowski
Łukasz Postek
Katarzyna Puchalska
Agnieszka Sawicka
Izabela Tymoczko

Summary

The economic condition of the enterprise sector in 2015 Q4 remained good, with signs of stabilisation. In contrast, forecasts for Q1 of this year are of a mixed nature – on the one hand, respondents expect growth in demand, still planning to increase employment and wages; however, on the other hand, they do not expect the situation to improve. Increased uncertainty regarding future macroeconomic conditions, associated, inter alia, with the future changes in fiscal policy announced by the government, could have negatively affected sentiment in the surveyed group. These concerns also translated into investment plans.

Figure 1 Current assessment of economic condition – BOSE as compared to changes in net turnover profitability (according to the F-01 data)

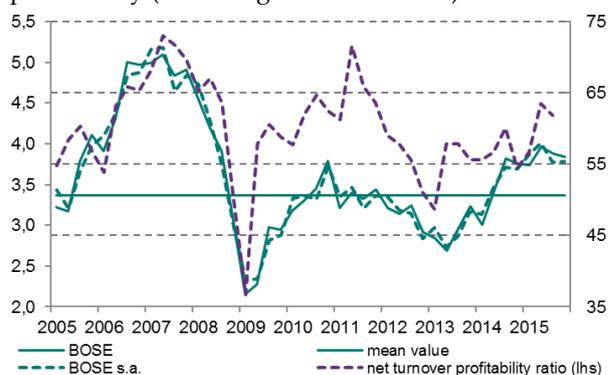
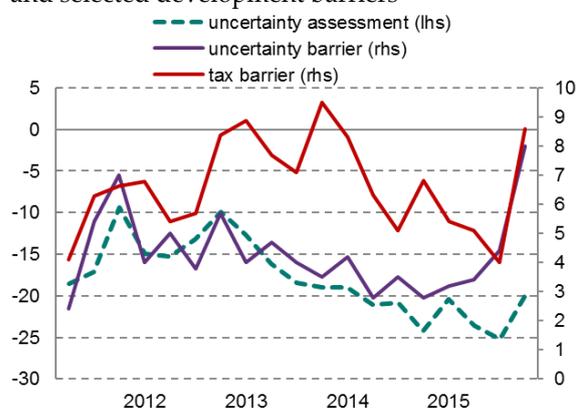


Figure 2 Assessments of uncertainty (balance) and selected development barriers



Sales conditions in the enterprise sector remain good, with the prospect of further improvement in 2016 Q1. A relatively low demand barrier and a relatively high (although slightly lower than in the previous quarter) level of capacity utilisation continued. At the same time, stocks of goods in trade and industry increased, which may indicate that in December sales levels fell slightly below expectations. However, forecasts of demand and new orders for 2016 Q1 have clearly improved, also among exporters. Consequently, production plans show a more optimistic outlook. Therefore, there is confidence in the maintenance of favourable demand conditions also in the future, which may be associated with the announced fiscal expansion, which will have a positive impact on consumer demand.

Problems related to finding a customer for products offered are currently less severe than problems arising from the increasing market competition. The reason is that the struggle to keep customers is associated with the necessity to reduce prices. In the surveyed sample the range of cuts in prices in 2015 Q4 amounted to 13%, thus, it covered a slightly bigger group of entities than in 2015 Q3 (although it is not the highest share in the history of the survey). Whereas companies are also the beneficiaries of deflation owing to lower purchase costs of commodities and intermediate products, opinions concerning the impact of the decline in producer prices have changed over the year to explicitly more

negative. It is worth stressing that such a change in the assessments was also noted for transport undertakings as major beneficiaries of reduction in fuel prices, which presented a very positive approach to the effects of deflation a year ago. However, due to the fact that transport companies ultimately informed of the recovery in their economic condition in 2015 Q4, assessments of those effects seem to reflect “aversion” to reducing prices for their own services rather than being a symptom of real problems of this group.

Figure 3 Demand barrier

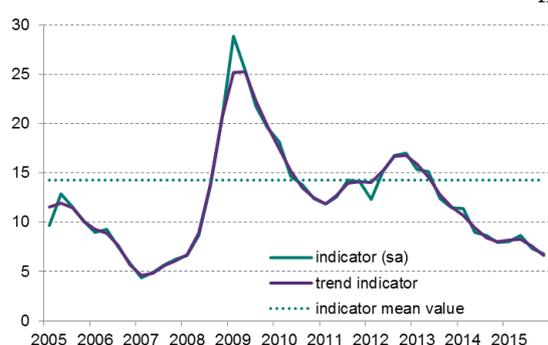
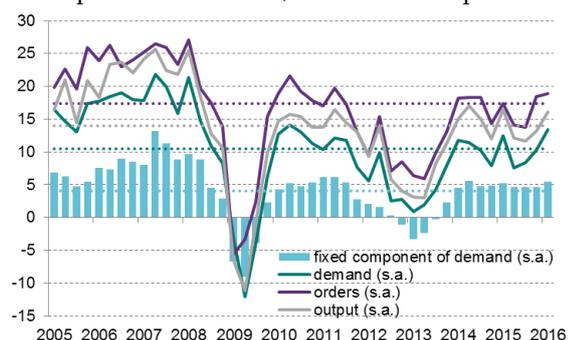


Figure 4 Forecast indicators: aggregate demand, fixed component of demand, orders and output



Forecasts of prices for 2016 Q1 still do not indicate a clear rebound of PPI inflation – surveyed enterprises expect that deflation will remain at a level similar to 2015 Q4. At the same time, a slight growth in consumer prices is anticipated, however, there is growing uncertainty related to the developments in prices in the future.

Figure 5 Price changes of products/services offered by enterprises

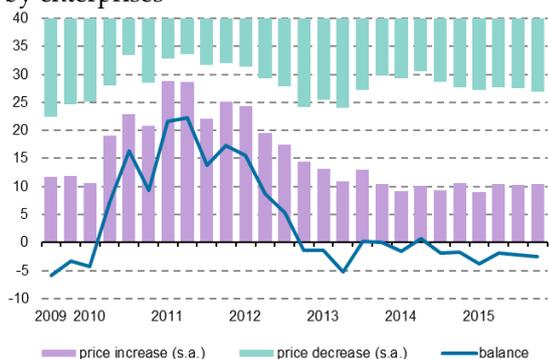


Figure 6 Impact of the decline in producer prices on the economic situation of companies



The expected recovery of demand supports the continued growth in employment. The scale of the planned increase in the number of jobs in 2016 Q1 remained at a level recorded in the previous quarter, clearly above its average value. Mainly manufacturing companies, particularly those offering investment goods, and exporters will search for new employees. The service sector also plans to continue the dynamic growth in employment, although a clear decline in forecast optimism has been observed in the trade sector, perhaps due to the aforementioned concerns related to changes in taxes.

Figure 7 Forecasts of annual changes in the CPI

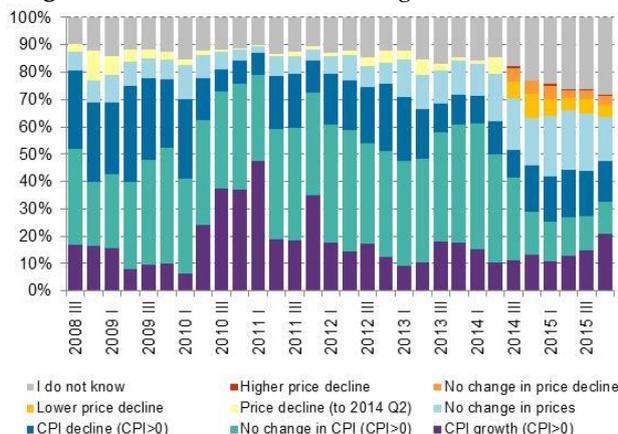
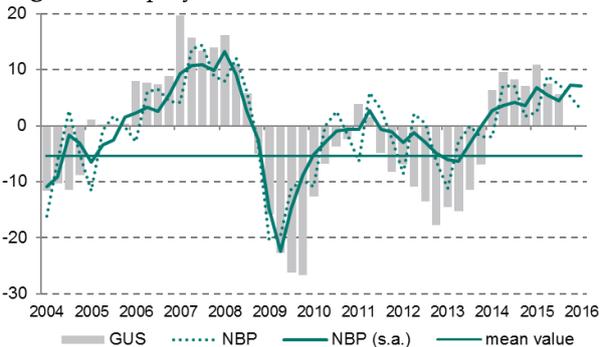


Figure 8 Employment forecast indicator



The growth in employment continuously observed since the end of 2013 creates increasing problems related to finding employees for newly created jobs. Those difficulties have already turned into a development barrier, which are accompanied by increasing (although still weak) pressure on wage raise. As a result of those developments, further growth in wages should be expected in 2016 Q1. In accordance with the declarations, only 41% of companies will not change the salaries of their employees within the nearest two years and such decisions (in management’s opinion) rarely arise from the high level of wages or from recent wage increases. In many cases the absence of plans to increase wages may be associated with the low pressure of employees for a wage rise or may be a consequence of the poor economic standing of the company. However, it should be stressed that wage increases planned for 2016 Q1 will still be relatively limited in terms of their value.

Figure 9 Wage increases in a quarterly perspective

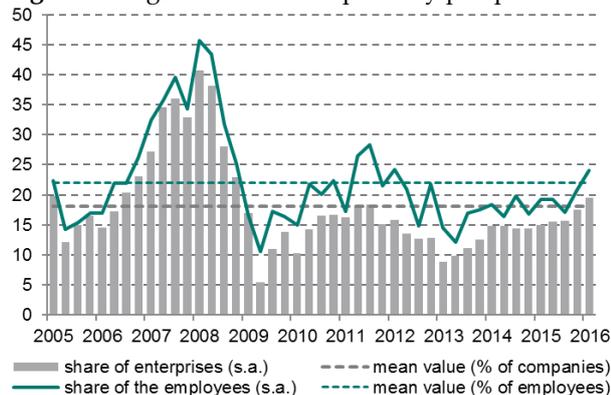
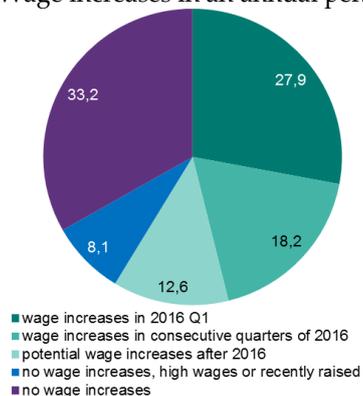


Figure 10 Wage increases in an annual perspective



The uncertainty related to the shape of fiscal policy has also adversely affected enterprises’ investment plans. The announcements of more frequent abandoning of projects which have already been launched are particularly worrying. Earlier, such phenomena appeared upon the outbreak of crisis or emergence of recession. At present, the situation of companies is good and nothing indicates its deterioration in the nearest time. However, some investment projects may be postponed and potentially they may be launched in the more distant future. This is indicated by, on the one hand, the stable level

of declared expenditure for development goals for the whole of 2016, with a clearly lower percentage of new projects planned for the 1st quarter of the year. The decline in the share of companies planning new investment was particularly visible in the group of the largest enterprises as well as in the trade sector, i.e. in sectors where uncertainty in forward-looking assessments is currently elevated.

Figure 11 Share of enterprises planning to commence new investment

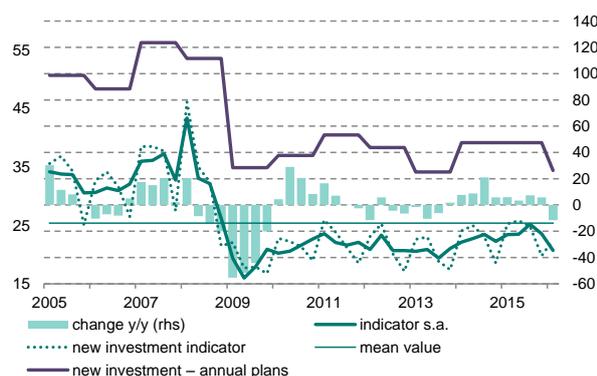
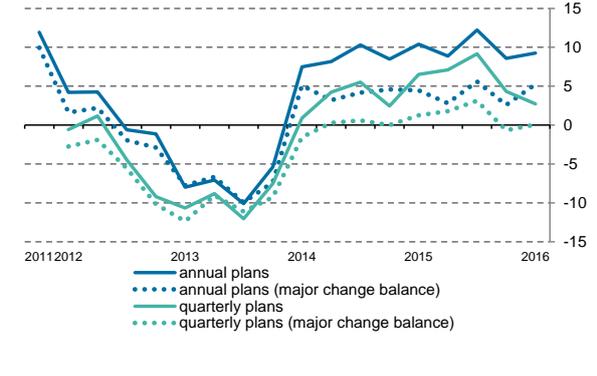


Figure 12 Planned change in the level of capital expenditure



Companies' interest in bank loans remains moderate. The majority of investment projects planned for 2016 Q1 will be financed from sources other than bank loans, including own funds as the continually most commonly preferred source. It is worth highlighting that other external sources of financing, such as loans from subsidiaries (including foreign parent companies), or operating or financial leasing, do not represent a competitive, but rather complementary source of finance to the bank loans. The recent data suggest that enterprises using the aforementioned financing instruments also use bank financing more frequently than other companies. Financing from the capital market is even less important for the average company (particularly for a small enterprise), and only few per cent of companies, mainly the largest enterprises, raises funds from this source. Therefore, bank loan is mainly replaced by companies' own funds.

Figure 13 Financial liquidity of enterprises

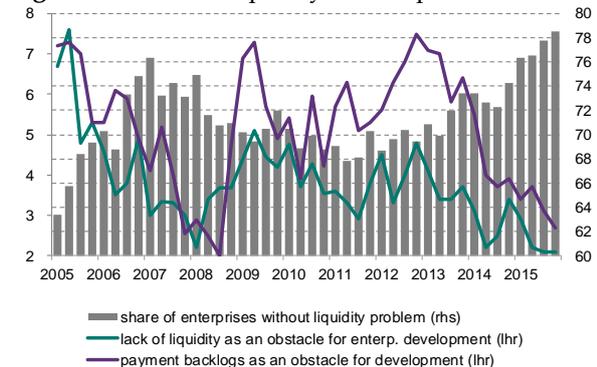
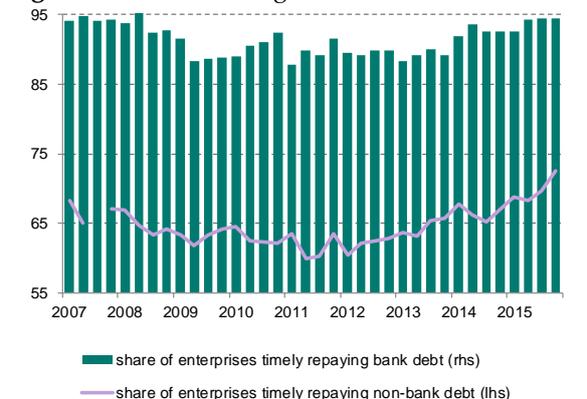


Figure 14 Loan servicing



Until November 2015, the growth of funds collected by enterprises on bank accounts continued to be represented by a two-digit value, whereas at the end of the year, the surveyed companies informed of an improvement in their liquidity and capacity to repay trade liabilities. Thus, in companies which cash holding was substantially high, low cost of credit could not have acted as a sufficient incentive to apply for new bank loans, unless their investment plans were very ambitious. The reason is that, as before, enterprises intending to invest on a large scale, e.g. to develop their productive capability, usually apply for a bank loan. However, the number of such companies is still relatively limited. The majority of planned investment activities is aimed at replacement or renovation of fixed assets or, alternatively, modernisation of the production process.