

NBP

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NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2016 Q3 and forecasts for 2016 Q4

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Summary

In 2016 Q3, the condition of the enterprise sector can still be considered as good, nevertheless there were (weak as yet) signs of its deterioration. In 2016 Q4, the economic situation may yet improve (at least temporarily), but longer-term forecasts are characterized by little and dwindling optimism.

Figure 1 Current assessment of economic condition BOSE

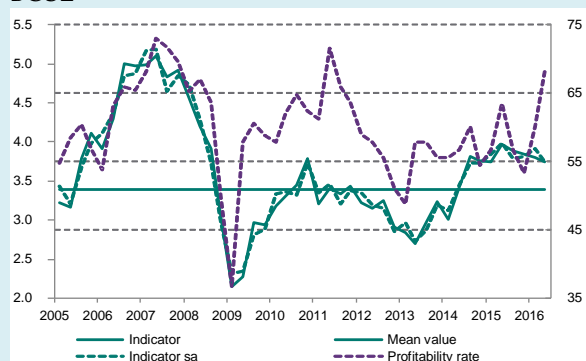


Figure 2 Annual forecasts of the economic situation and development plans for the next 2-3 years



Demand assessments in 2016 Q3, as measured by the capacity utilization and the demand barrier, declined but remained at relatively good levels. Deteriorating sales conditions were reported by the construction industry and companies offering capital goods, which is consistent with the decline in investment outlays in the economy observed since the beginning of the year. On the other hand, improvement can be observed in enterprises operating in the segment of consumer goods and services, as well as trade, which can be tied with the increased income of households benefitting both from rising wages and employment, as well as the government-subsidized Family 500+ program. The majority of industries and classes analysed, including construction, expect demand to grow in the last quarter of 2016. Exporters' expectations are particularly optimistic.

Figure 3 Demand barrier

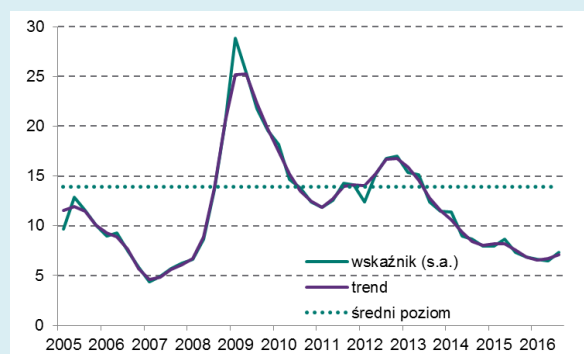
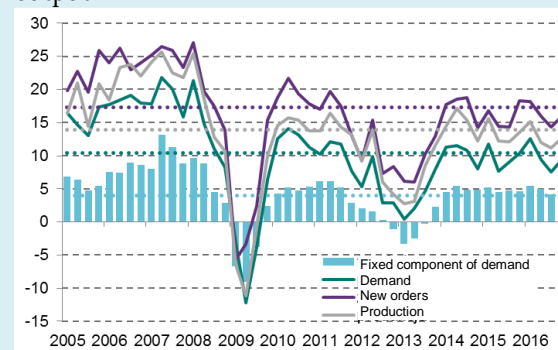


Figure 4 Forecast indicators: demand, orders and output



Developments in the labour market can still be assessed very positively. In 2016 Q4, employment growth should remain at a good level, close to its 2016 Q3 values. Similarly, the percentage of companies that plan to increase wages within a quarter continues to be high. Although wages are more frequently increased as a result of the growing pressure from employees demanding higher remuneration, the pay rise decisions

are primarily linked with the good condition of a company or the realistic prospects of its improvement. The demand for labour force, which has not decreased over the last three years, results in the growing number of vacancies. Unoccupied posts are presently reported by almost every third respondent, and more than every third enterprise encounters difficulties in finding employees. Positive signs from the labour market additionally confirm that the condition of enterprises is good, and they are coherent with expected sales growth.

Figure 5 Employment forecast indicator

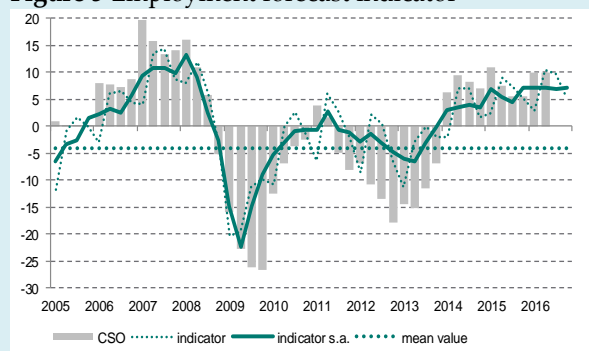
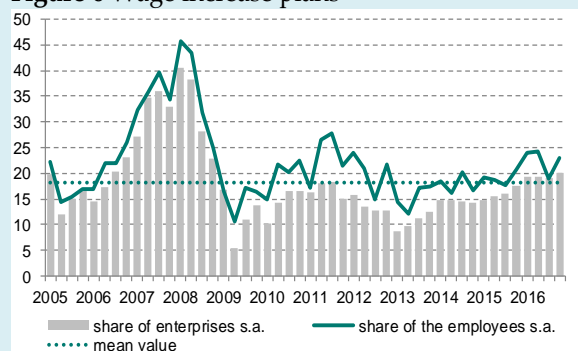


Figure 6 Wage increase plans



The responses of the survey-participating enterprises do not indicate that investment activity can recover to the 2015 levels. While investment outlays continue to grow in the group of companies with foreign capital, and in in terms of sections – in manufacturing and some service industries, and forecasts for Q4 even suggest further improvement, however there are no signs that development expenditures may rise in the divisions whose falling investment accounted to the largest extent for the decline in investment in the whole economy (in the public sector, and among sections – power industry and water supply). Despite this, construction companies’ expectations point to a pick-up in investment demand. However, the data imply that a rise in investment activity in private enterprises may offset lower outlays of public sector companies.

Figure 7 Wage pressure

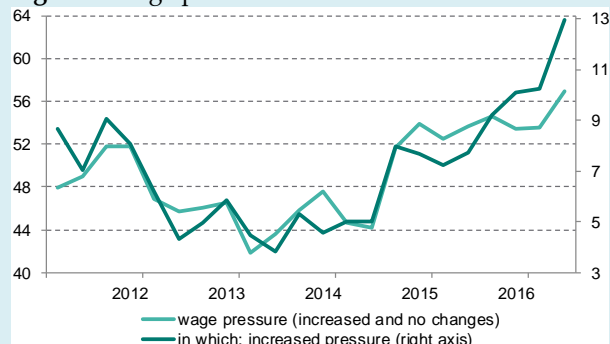
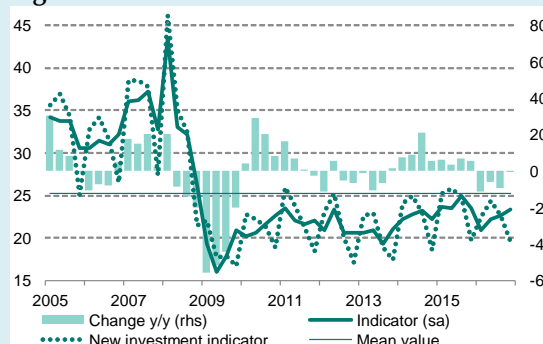


Figure 8 New investment indicator



Enterprises’ interest in funding their operations with bank loans remains low. Among companies planning to invest in 2016 Q4, slightly more than every fourth investor, i.e. less than 6% of the sample, plans to increase bank lending. Similarly, a small number of companies may apply for loans to finance current operations or for other purpose loans. Therefore, the percentage of companies that rely solely on own funds remains high. Also, reasons behind the decisions to use own funds to finance their operations remain unchanged – the majority of companies do not need additional funding, what’s more – only in the case of

8% of enterprises one can speak about the funding gap, i.e. the deficit of funds a company needs for its operations, mainly for expansion.

Figure 9 Planned change in investment outlays

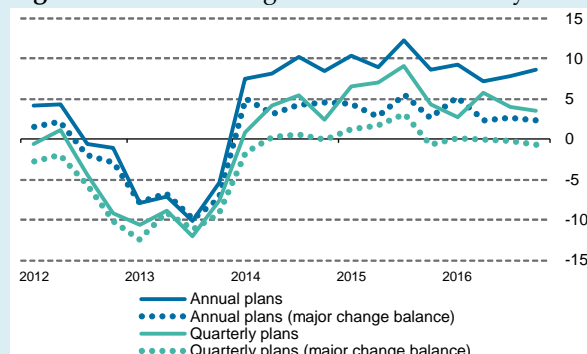
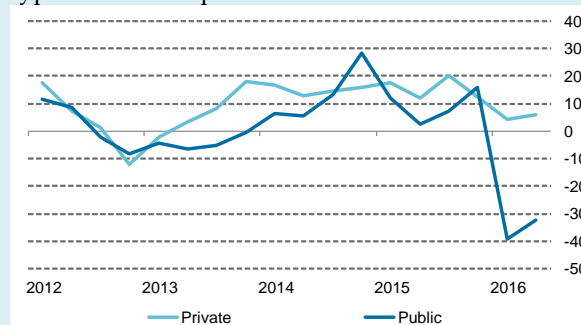


Figure 10 Investment growth of enterprises, by type of ownership



Enterprises' assessment of their liquidity position and the capacity to settle business obligations in a timely manner, while - being at historically high levels - still have to be considered strong, is characterized by a slight downward trend. On the other hand, the bank loan repayment performance of enterprises remains unchanged and high. The cost of credit remains, in nominal terms, at a very low level, and its availability - high.

Figure 11 Financial liquidity of enterprises

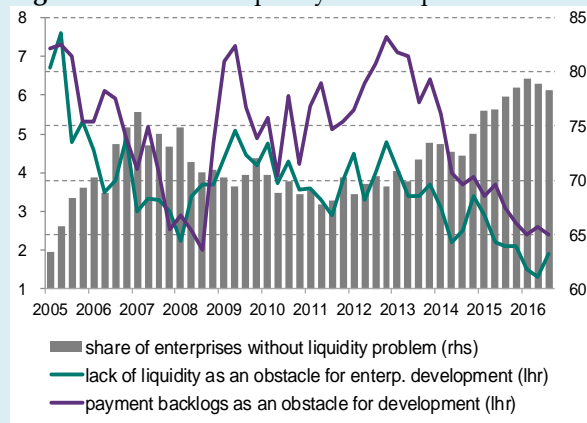
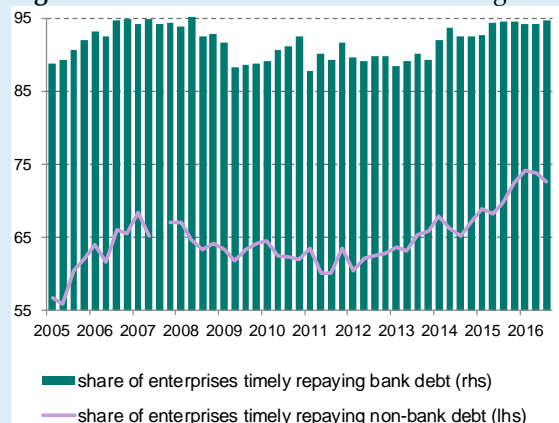


Figure 12 Bank and non-bank debt servicing



For the second quarter in a row, more enterprises raised prices than reduced them. It is difficult to say now whether we face a reversal of the price trend and can expect deflation to recede. On the one hand, this is indicated by the forecasts for 2016 Q4, according to which price growth will pick up somewhat, the condition of companies will improve and wages will continue to grow, thus pushing up business costs. On the other hand, sharper price growth is not reflected in the forecasts of commodities and materials which have so far been the major factor of change. Moreover, enterprises show subdued optimism about the longer-term outlook, which may imply that the improvement announced for 2016 Q4 may be short-lived and the economic situation will deteriorate in 2017. This, in turn, may discourage companies from continuing price increases. But also, from the point of view of the survey-responding entrepreneurs the severity of deflation is still not too high - the majority of the responding companies consider a decline of

producer prices as neutral from the point of view of their economic standing. Even among companies which have reduced prices recently as many as 60% do not assess deflation negatively.

Figure 13 Actual price changes of products/services offered by enterprises

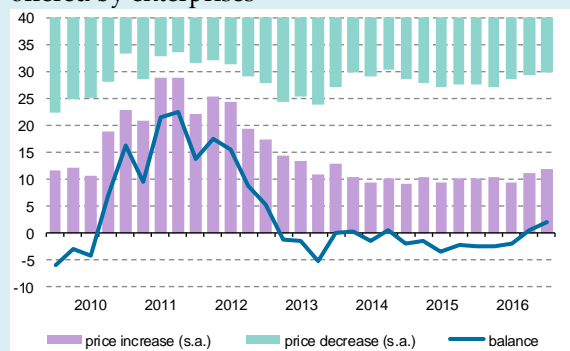
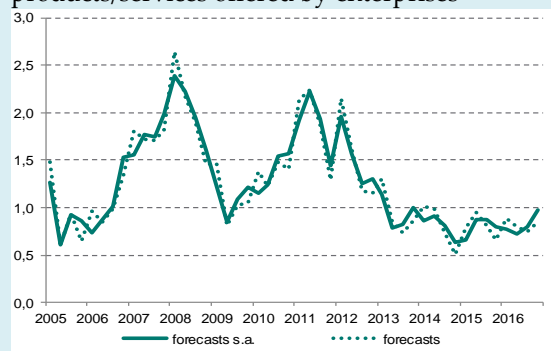


Figure 14 Quarterly growth forecasts for prices of products/services offered by enterprises



Warsaw, 2016