

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

Economic climate in the enterprise sector in 2012 Q2 and forecasts for 2012 Q3

July 2012

Synthesis

The report is based on the results of the NBP Quick Monitoring conducted in March 2012 on a sample of 1185 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.

An additional source of information is constituted by the results of the NBP Annual Survey, carried out in April-May 2012 on the sample of 1151 non-financial entities.

In view of the findings of the NBP's Quick Monitoring, NBP Annual Survey and public statistics, the following conclusions may be formulated concerning the economic climate:

Similarly as in the previous quarter, in 2012 Q2 the condition of the surveyed enterprises remained good. Stabilization of assessments may also be established for the domestic economic climate although the enterprises surveyed still consider it to be markedly worse than their assessment of their own condition.

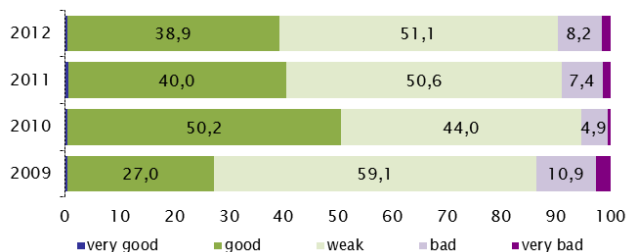


Figure 1 Current assessment of domestic economic condition

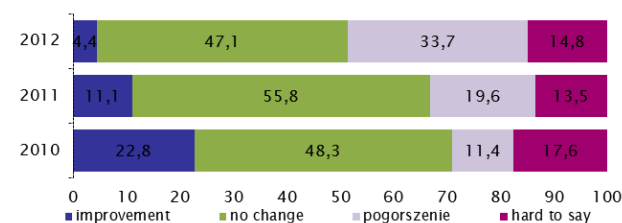


Figure 2 Forecasts of domestic economic developments in the coming 12 months

Following an upward revision of forecasts for 2012 Q2, expectations for the following quarter, in particular those concerning demand, deteriorated markedly. Even less optimism was shown by surveyed enterprises in the assessment of the expected changes in the domestic economic climate in the coming 12 months, with an expected gradual decline in growth rather than abrupt changes of a crisis-like magnitude. Worse sentiments of entrepreneurs translated into a drop in investment activity and limited plans of increasing employment.

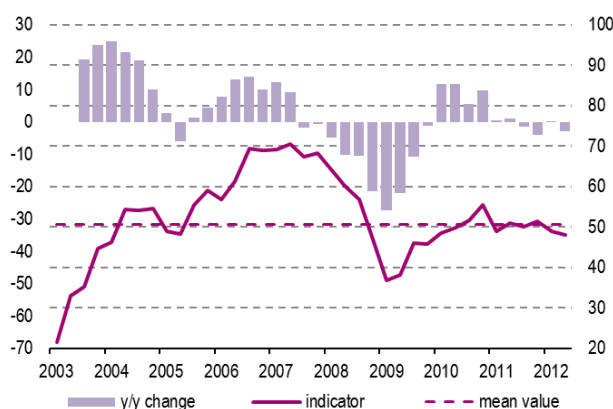


Figure 3 Enterprises' forecasts of economic condition

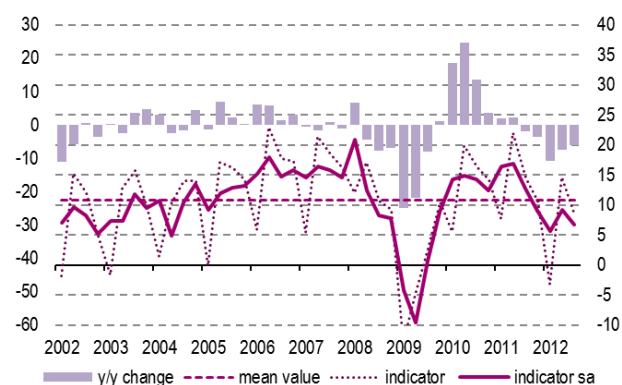
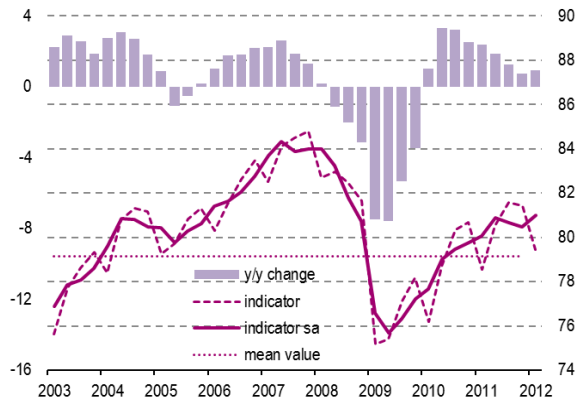
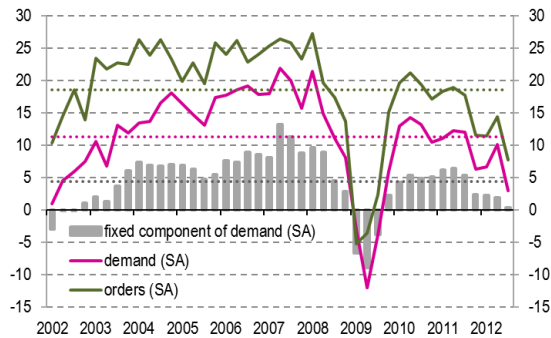


Figure 4 Indicator of the current assessment of economic condition

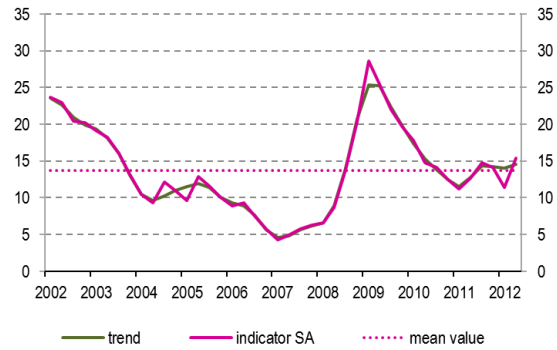
1. 2012 Q2 saw a slight drop in capacity utilization, higher demand barrier and a rise in the surplus of inventories inadequacy indicator, particularly in trade. Furthermore, forecasts for 2012 Q3 suggest the possibility of further and larger in scale deterioration of sales outlook. Nearly all indicators of expectations in this area declined significantly - the optimism of demand forecasts declined, as did that of new orders, production and new exports agreements. Only the export forecast index remained unchanged. This may be due both to the increase in sales to existing foreign business partners and to the expected rise in revenues resulting from the zloty exchange rate against foreign currencies, which was favourable from the point of view of exporters.



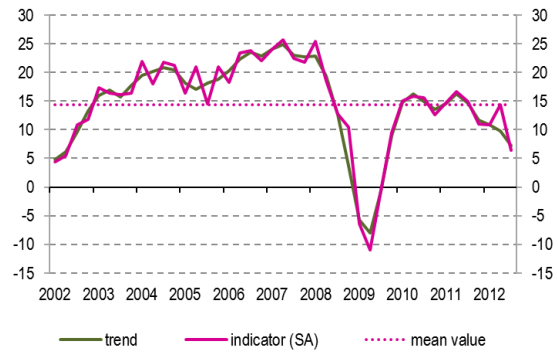
Rys. 5 Average level of capacity utilization



Rys. 7 Forecasts: total demand and orders



Rys. 6 Demand barrier



Rys. 8 Production forecasts

2. The depreciation of the zloty observed in 2012 Q2 constituted one of the factors allowing exporters to achieve higher than in 2012 Q1 profitability of foreign sales and consequently higher margins on these sales. In part thanks to this improvement, the assessment of the situation in the group of exporting companies improved. It is, however, worth noting that together with the increasing fluctuation of the zloty exchange rate, the threshold value ensuring the profitability of exports also increased. This phenomenon may stem from a smaller pressure on reducing costs in these enterprises, which in turn is made possible by the exchange rate favourable to this group. On the other hand, in the group of exporters who purchase raw materials and imported goods, amidst low recourse to natural hedging, there is a higher risk of not achieving profitability at a lower exchange rate and large fluctuations.

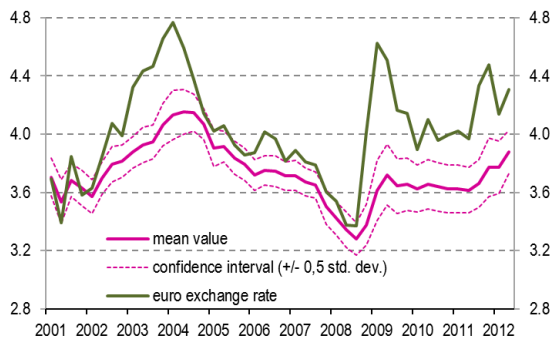


Figure 9 The level of the euro exchange rate at which exports ceases to be profitable

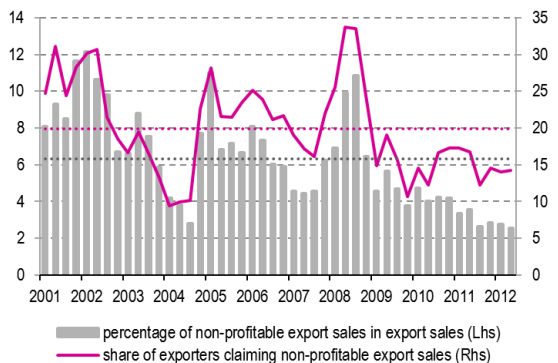


Figure 10 Exports profitability

3. Margins in domestic sales are still trending slightly down. The decline in domestic margins is reported most frequently by construction companies. Enterprises from this group operate in the environment of strong market competition much more often than enterprises from other sectors.

The surveyed enterprises report that problems with the achievement of satisfactory results emerge in particular when contracts are obtained via public tender. The criticism is levelled not only at the consequences of the application of the Public Procurement Act, but also at the attitude of enterprises participating in tenders, and in particular their recourse to dumping prices. The situation in the group of construction enterprises deteriorated in 2012 Q2. The construction sector started to contract in 2011, following a six-year period of significant increase in the number of construction companies (by 100 thousand according to REGON /*Polish Business Registry*/). A more adverse situation and poorer outlook for growth are clearly reflected in the planning of construction enterprises.

4. A weaker sales outlook affects negatively enterprises' interest in increasing employment. The employment forecast indicator continues well above its long-term average, mainly on account of a relatively small share of companies forced to reduce the number of employees. Yet, it is clear that a large number of surveyed enterprises defers increasing the number of full-time jobs, which can be explained largely by the uncertainty concerning changes of economic climate in the future. Significant adjustments in employment are envisaged, in particular by the construction sector, where the dominant intention is its reduction. In the majority of other categories, only slight changes can be expected.

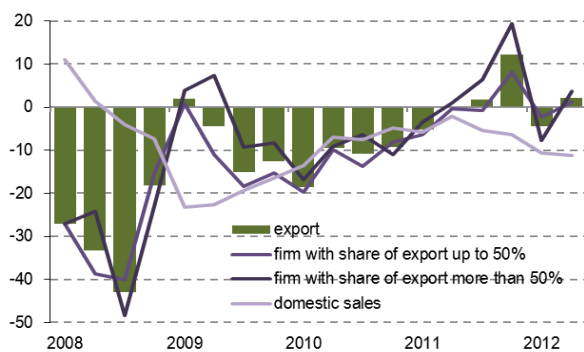


Figure 11 Changes in margins on domestic and foreign sales

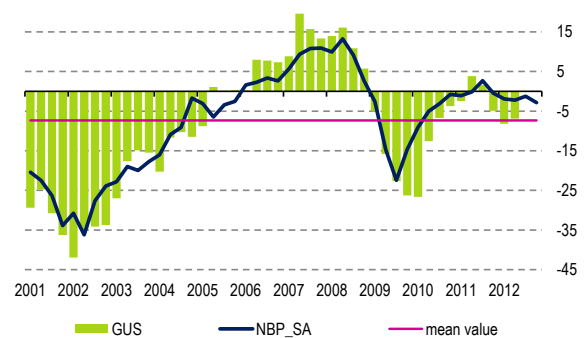


Figure 12 Employment forecasts

5. Following poorer employment outlook the share of companies planning wage increases is on the decline. Large increases (over 10%) in particular are taking place very rarely. The average wage growth among enterprises intending to increase wages in 2012 Q3 will be close to the inflation level. Despite relatively high inflation observed in the recent quarters, the surveyed enterprises have not registered increased employee pressure on wage growth. In the few enterprises where such a pressure has been noticed, the willingness to raise wages is three times higher than among the enterprises where the employees are not demanding higher wages.

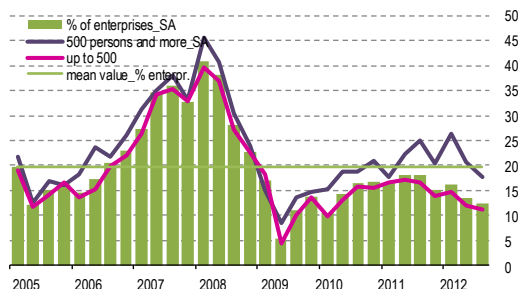


Figure 13 The share of enterprises planning wage increases and the share of employees to receive higher wages



Figure 14 Average and median of planned wage increases

6. The declining optimism of demand forecasts, due to, among others, the effect of the Euro 2012 football championship, reflected negatively on the investment activity of the enterprise sector. Lower investment has been announced by both the SME sector and large companies, excluding, however, the largest units in the sample. The largest companies are still planning to

invest on a much larger scale and much more frequently than all the remaining groups of enterprises. One of the factors behind higher activity of these enterprises is their better situation, although in recent quarters also this group has shown some symptoms of the deteriorating economic climate. Higher level of investment among the largest enterprises is also determined by larger assets requiring higher outlays on their maintenance and replacement. Sector specifics is important too, in particular a larger share of companies from the energy sector, where the dependence on economic climate change at present is lower, due to investment in the reduction of greenhouse gas emissions, imposed on these enterprises by EU climate policy. Taking into consideration high concentration of investment in the economy, the plans of the biggest enterprises may slow down the decline of investment growth in the enterprise sector as a whole. As far as the whole sample is concerned, there are still few companies which want to abandon commenced investment projects, yet there is a growing share of enterprises postponing the start of projects which are significant for their future operation. Factors limiting investment activity include the economic downturn and related uncertainty of the situation of potential investors. Construction is the sector where such companies are particularly abundant.

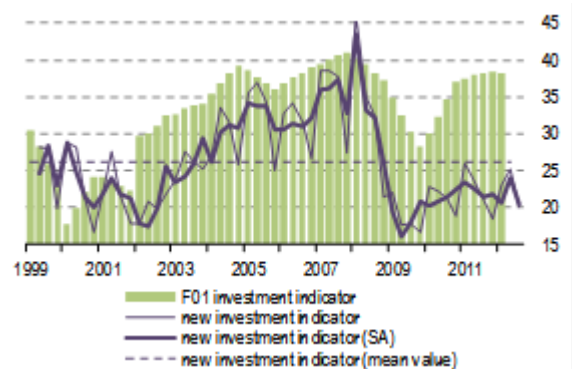


Figure 15 Investment forecasts

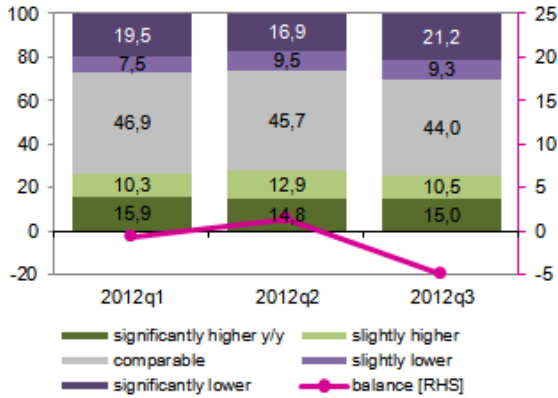


Figure 16 Planned investment outlays

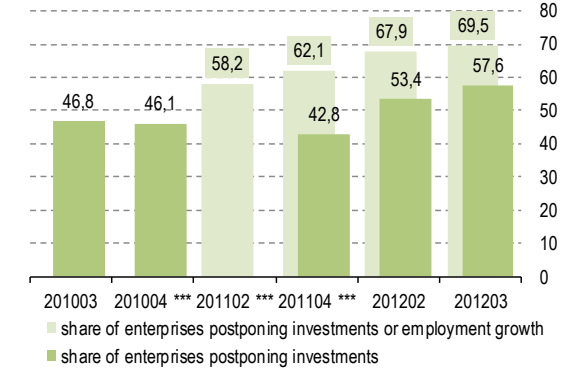


Figure 17 The share of enterprises postponing investment projects

7. The expectations of expansion of borrowing in the enterprise sector remains low. Reasons for this phenomenon include financing investment with own funds in preference to credit and a generally low investment activity. Another factor is a decline in the availability of bank credit in 2012 Q2, as measured with the share of rejected loan applications. Sustained high borrowing needs are reported by construction enterprises, yet taking into consideration the sinking liquidity and profitability indicators in this sector, as well as the pessimistic sales outlook, it can be expected that some of these plans will not materialize, due, among others, to difficulties in obtaining credit.

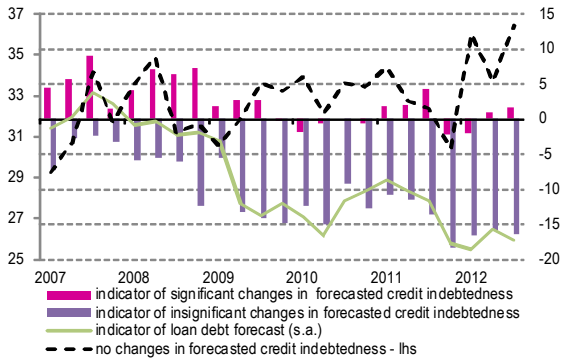


Figure 18 Credit indebtedness forecasts

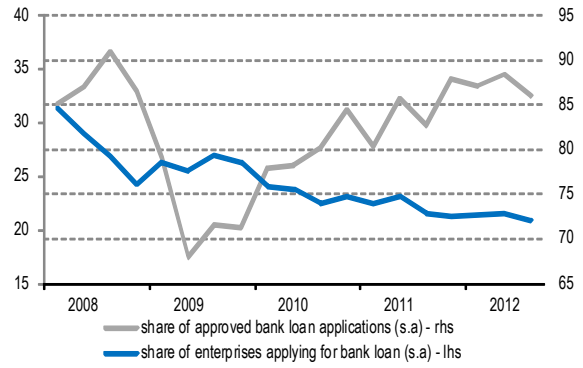


Figure 19 The share of enterprises applying for credit in 2012 Q2 and the share of approved loan applications

8. Liquidity and ability to service trade obligations in a timely manner improved slightly in 2012 Q2. This improvement was noted also in the construction sector but its liquidity situation is still estimated to be very poor. At the same time, in the course of the quarter the share of enterprises servicing their debt towards banks in a timely manner declined slightly.

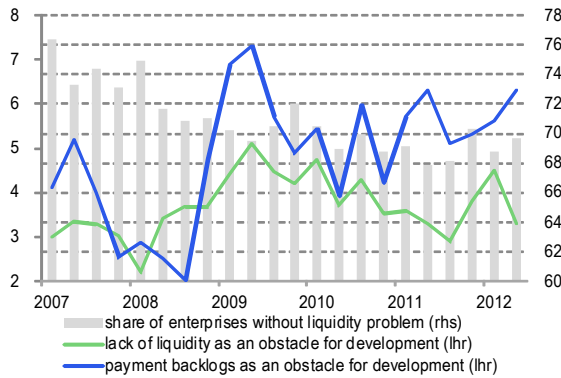


Figure 20 Financial liquidity



Figure 21 Bank and non-bank debt service

9. Inflation expectations of enterprises decreased for the second consecutive quarter. The declines affected all segments of inflation, i.e. CPI forecasts, forecasts of prices of raw materials and materials used in production, as well as final prices established by the surveyed enterprises. Lower inflation expectations were noted in most analysed industries and classes.

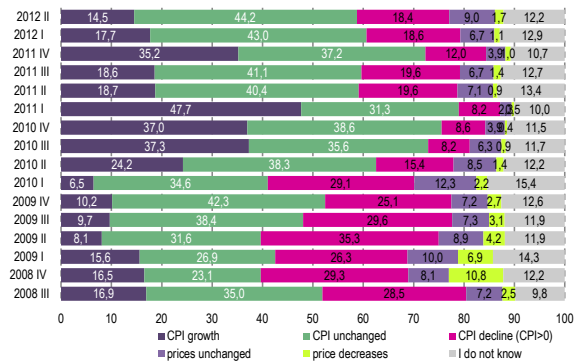


Figure 22 CPI forecasts

Table 1 Barriers to growth¹

Frequency of problems reported during the quarter:	No problems	Low demand	Foreign exchange rates, including fluctuations	Increase in the prices of commodities and raw materials	Payment bottlenecks, liquidity problems	Strong and growing competition	Recession, unemployment, industry-wide problems
Minimum and maximum value in the history of quick monitoring survey	6.2/34.7	4.3 \ 30.0	8.3 \ 26.8	2.7 \ 17.5	4.9 \ 20.2	5.4 \ 21.2	0.9 \ 21.6
2010 Q1	23.5	19.3	13.3	7.6	9.2	9.0	4.7
2010 Q2	34.7	13.5	10.4	7.6	6.1	6.8	2.8
2010 Q3	30.6	13.5	10.1	9.2	8.8	6.1	2.8
2010 Q4	25.5	12.9	9.4	8.7	7.0	7.0	2.1
2011 Q1	25.5	12.7	10.4	15.0	8.4	6.0	2.4
2011 Q2	23.3	11.3	8.3	13.9	8.3	6.0	1.5
2011 Q3	29.0	14.2	9.8	11.2	6.8	6.8	3.2
2011 Q4	22.3	14.6	13.3	12.5	7.8	5.7	4.4
2012 Q1	26.8	12.9	11.8	12.4	8.8	6.7	4.4
2012 Q2	24.5	14.1	11.4	11.1	8.4	7.0	5.3

¹ Indices of barriers to growth have been determined on the basis of the share of enterprises reporting a particular type of problem in the total number of surveyed enterprises (including companies which did not answer the question about development barriers).