



NBP

Narodowy Bank Polski

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NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2016 Q4 and forecasts for 2017 Q1

Summary

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The economic condition of the enterprise sector in 2016 Q4 improved slightly in line with the previous forecasts. The improvement was related to sales growth supported by continued positive trends in the labour market and the disbursement of funds under the Family 500 Plus scheme. Despite higher demand, which according to respondents should also continue in 2017 Q1 (seasonally adjusted data), respondents formulated more pessimistic expectations regarding changes in their own situation in the whole of 2017. The rise in pessimism may be the result of developmental barriers reported by enterprises: heightened uncertainty related to price and zloty exchange rate fluctuations, as well as difficulties in prediction consequences of the announced legislative changes.

Figure 1 Assessments of the economic situation

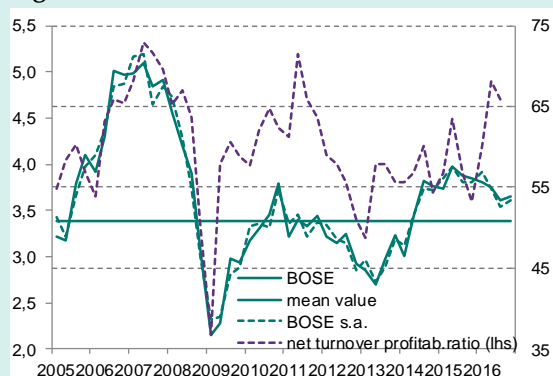


Figure 2 Annual forecasts of the economic situation



Estimates of the size of future demand in the light of gloomier forecasts of the economic situation are somewhat ambiguous. Both the low demand barrier and further upward revision of the quarterly forecast of demand and production suggest continued growth trends. However, at the same time the capacity utilisation rate dropped and forecasts of new orders remained below their long-term average. Moreover, some of the optimism in the forecasts may result from the favourable situation of exports driven by the depreciation of the zloty; on the other hand, the increase in foreign sales income may be observed in nominal terms only, boosting profits, but not necessarily output.

Figure 3 Development barriers

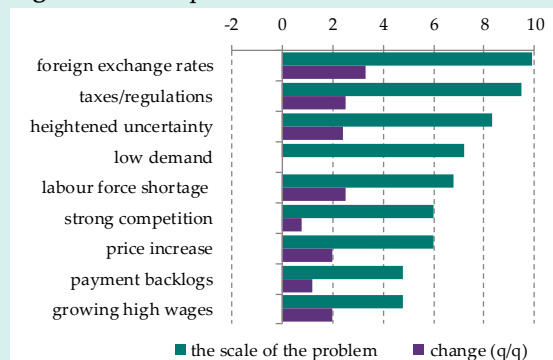
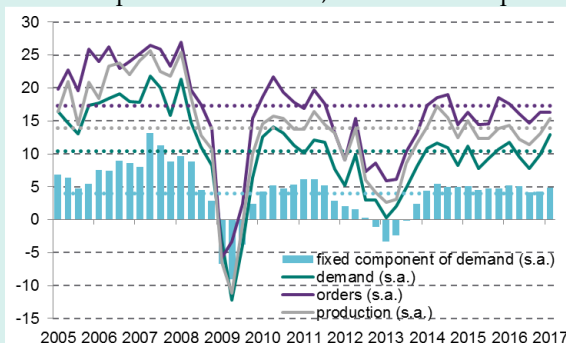


Figure 4 Forecast indicators: aggregate demand, fixed component of demand, orders and output



The favourable situation of enterprises should continue to foster job creation. For several quarters, the employment forecast indicator has been relatively stable and runs significantly above its long-term average. In 2017 Q1 (the period usually marked by low propensity to increase the number of jobs), there are clearly more companies declaring their intention to increase employment than companies planning to reduce employment. In the face of growing uncertainty and less optimistic forecasts, the persistence of favourable employment forecasts indicates a strong need for development.

Figure 5 Employment forecast indicator

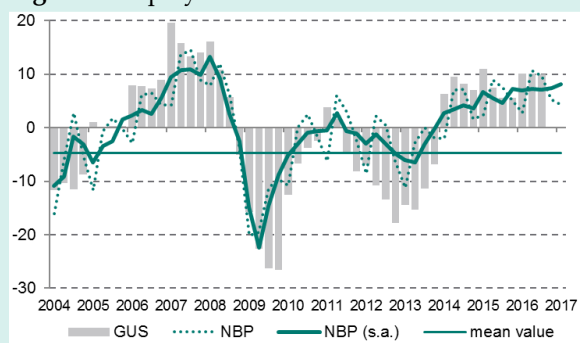
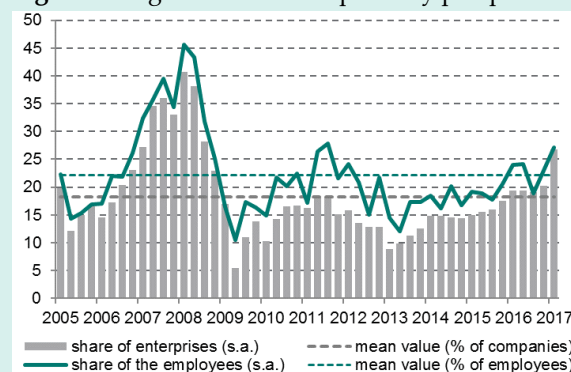


Figure 6 Wage increases in a quarterly perspective



Wage forecasts are more optimistic. Due to the increased bargaining power of employees (as a result of persistently strong demand for labour accompanied by falling unemployment), the growing upward wage pressure, but also because of the increase in the minimum wage, there should be a marked increase in the number of companies raising wages. Currently 36% of companies announce such intentions in 2017 Q1 and this percentage is markedly higher than that observed in the previous quarters. However, the size of the average wage rise remains small, although here too a slight increase can be seen compared to previous quarters.

Figure 7 Planned change in the level of capital expenditure – annual plans

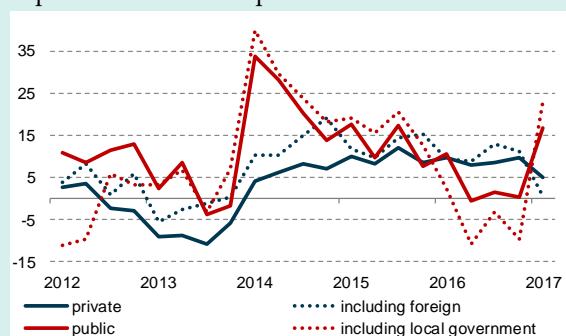
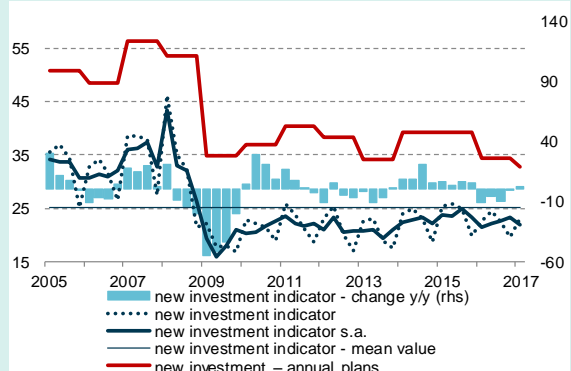


Figure 8 Share of enterprises planning to commence new investment



In light of the recent survey results, it is difficult to forecast investment activity. On the one hand, the private sector, and in particular enterprises with foreign capital, are planning to further reduce investments, among others due to the heightened uncertainty. On the other hand, a marked increase in the number of new investments is expected in the public sector. Due to the length of the tender procedures, the impact of this phenomenon on the level of fixed capital expenditure may make itself felt later than in

2017 Q1. In the whole of 2017 investment activity of the public sector should, however, significantly increase. It is worth noting that public enterprises relatively rarely indicate problems with access to EU funding as a reason for lack of investment¹. These firms intend to implement the majority of projects using their own capital. Moreover, the private sector also expects an increase in investment growth, although (as previously mentioned) companies from this sector are formulating their investment plans very cautiously. It should be stressed that the construction sector is also optimistic about future changes in investment demand, which additionally indicates the likelihood of the launch of large investment projects in infrastructure in the near future.

Figure 9 Funding of new investments

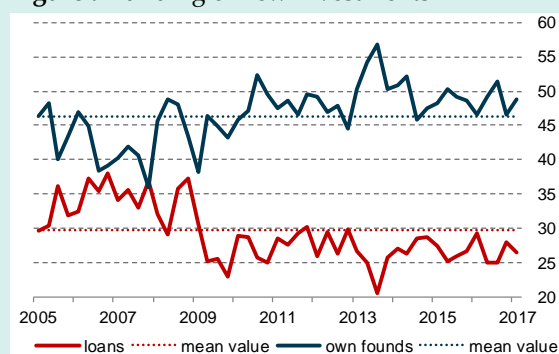
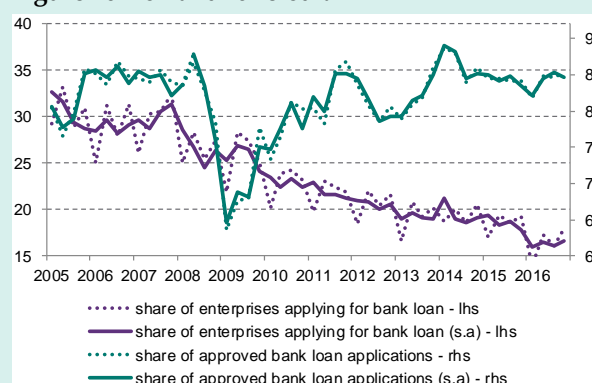


Figure 10 Demand for credit



For many quarters demand for credit has remained weak, and its price and availability have stood at a historically favourable level. However, in the recent period the downward trend in demand has been halted, and both large firms and the SME sector companies are reporting increased demand for additional financing.

Figure 11 Loan servicing

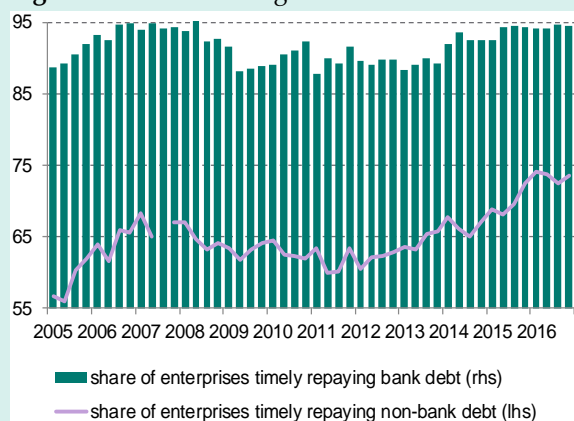
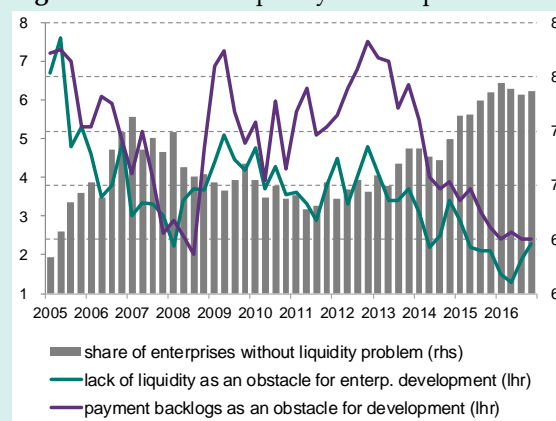


Figure 12 Financial liquidity of enterprises



The enterprise sector still enjoys a good liquidity situation. For several years enterprises have had no problems with repaying their credit liabilities and trade payables. This is supported by rising sales and profits as well as growth in accumulated financial assets. At the same time, enterprises are becoming less

¹. Yet, a large part of subsidized investment is implemented outside the corporate sector. In such a situation, investment is seen in the form of orders and income of contractors, especially operating in the construction sector.

reliant on external financing. However, at the end of 2016 two disturbing phenomena were observed, i.e. quite a marked increase in the percentage of firms reporting difficulties in recovering receivables and a growing number of enterprises indicating suppliers' pressure for immediate payment, along with expectations and pressure from customers to extend payment deadlines. However, this problem has not impacted on the assessment of liquidity.

Figure 13 Price changes

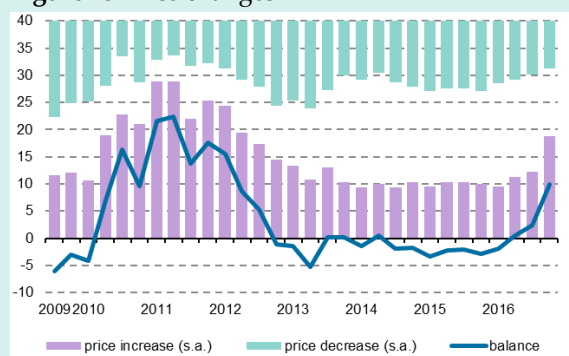
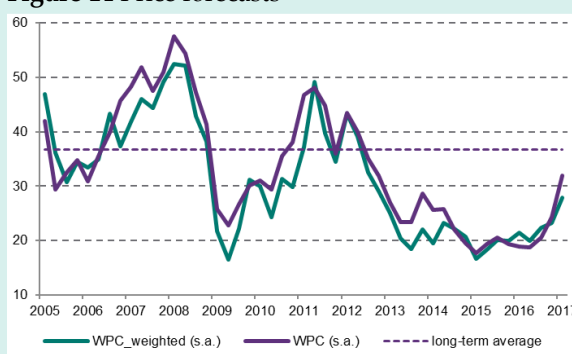


Figure 14 Price forecasts



The surveyed enterprises anticipate a marked increase in prices. In 2017 Q1 all the analysed measures of inflation forecasts have increased. Moreover, already in 2016 Q4 there was an increase in the percentage of enterprises which raised their own prices. Enterprises pointed to higher commodity prices (rarely associated with fuel price increases) and fluctuations in the zloty exchange rate as the main factors behind the upward revision in price forecasts. At the same time, there was an increase in the number of respondents who considered a rise in inflation to be an obstacle for development. Enterprises which, despite the rise in producer prices, are themselves forced to lower prices (their number is diminishing in the sample), attribute it to strong competition and insufficient demand.

Warsaw, 2017