


NBP

Narodowy Bank Polski

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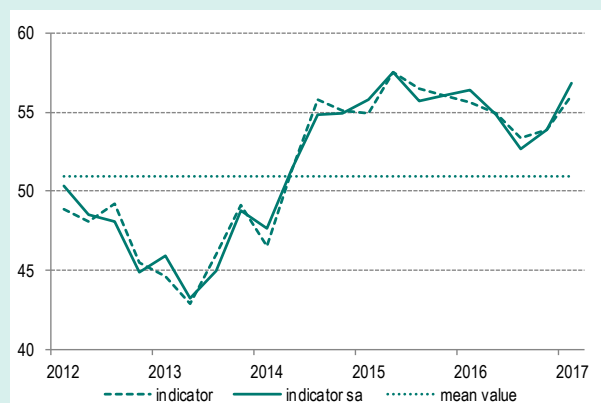
NBP Quick Monitoring Survey

Economic climate in the enterprise sector

Summary

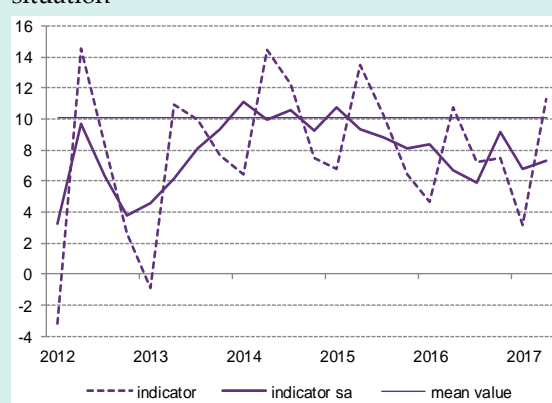
At the beginning of 2017 the condition of the enterprise sector improved and the assessment of the current economic situation markedly exceeded its long-term average. Enterprise sector sales growth was driven by growing income of households. Enterprises expect these favourable trends to continue in the subsequent quarter, however the improving sentiment has failed to translate into investment so far. Growth rate in the enterprise sector remains moderate. Increasing production costs reduce productivity growth and profitability levels.

Figure 1 Assessment of the economic situation



Source: NBP Quick Monitoring Survey

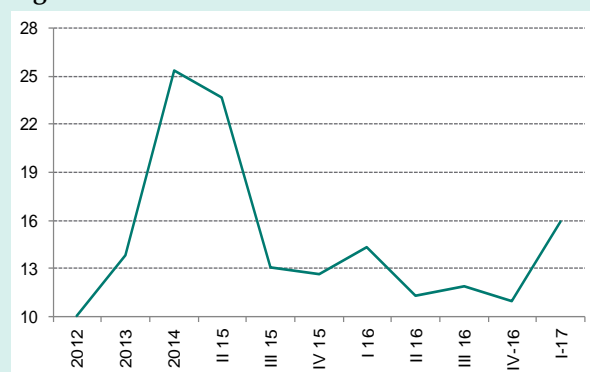
Figure 2 Quarterly forecasts of the economic situation



Source: NBP Quick Monitoring Survey

Already at the end of 2016 demand conditions strengthened and these positive trends continued also in 2017 Q1. Should the current forecasts of enterprises come true, demand should also increase in 2017 Q2. Expectations markedly improved both in the group of producers oriented to the domestic market as well as among exporters. Favourable demand conditions should prompt enterprises to invest to increase their capacity. However, at present companies think of raising prices (provided this is possible bearing in mind competitive constraints) rather than expanding their business. The continued strong growth in capacity utilization suggests such actions may be taken in the near future.

Figure 3 Annual forecasts of the economic situation



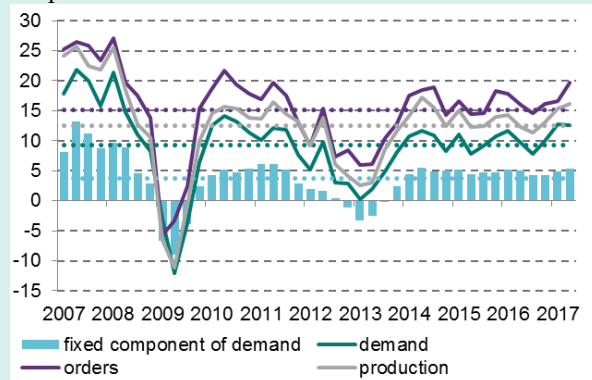
Source: NBP Quick Monitoring Survey

Figure 4 Capacity utilization rate



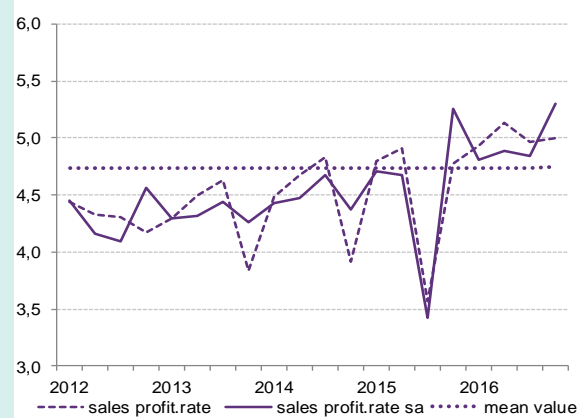
Source: NBP Quick Monitoring Survey

Figure 5 Forecast indicators: demand, orders and output



Source: NBP Quick Monitoring Survey

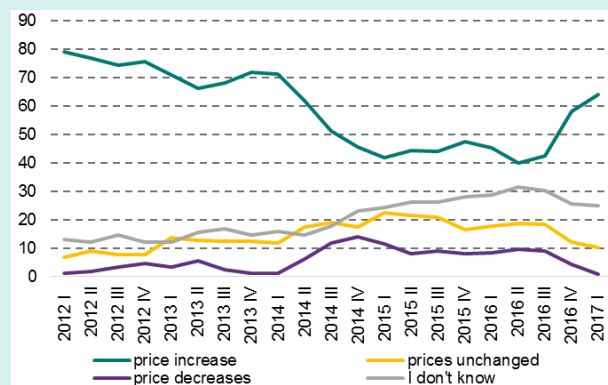
Figure 6 Sales profitability rate



Source: F-01/I-01 data by GUS, NBP material

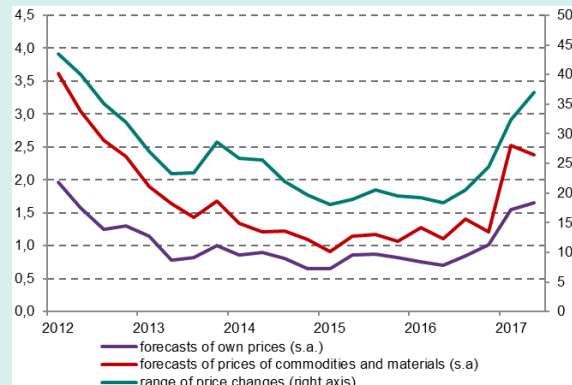
In 2016 Q4 profits of the entire corporate sector rose, which was mainly the statistical base effect. Like the profitability of an average company, the number of profitable companies also slightly decreased. Growing production prices, in particular, commodity prices and rising labour costs dragged down corporate profits. Yet, the profitability of the corporate sector may be assessed as sound, especially in the exporters' group, where despite a slight decline in sales profitability, it still outpaces the performance of domestic-oriented firms. Many branches, also trade business, reported declining profitability. Also labour productivity remained low, especially in smaller, domestic market oriented enterprises.

Figure 7 CPI forecasts in annual terms



Source: NBP Quick Monitoring Survey

Figure 8 Expectations of higher prices of materials and commodities



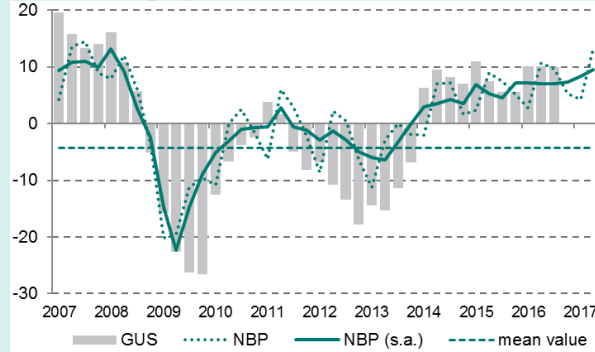
Source: NBP Quick Monitoring Survey

For another consecutive quarter the number of enterprises planning price increases has been on the rise. Inflation expectations are getting well-anchored. While in 2017 Q2 commodity price growth is forecast to halt, given the persistently rising prognosis of prices of finished products, the previously observed trends are likely to reverse and price growth is likely to be driven by other factors than commodity prices (e.g. wage costs). The recent period has seen a decline in the prices of products offered for sale as compared with commodity prices paid by enterprises. Prices of commodities and energy have a negative impact on the performance and profitability of the enterprise sector. The year 2016 saw a reversal in deflationary trends in the international commodity markets which caused the growth in prices of supplies, which has now started to outpace the growth in prices of production of finished goods. As a consequence, the relative price of supplies as compared with the price of finished products offered for sale has started to rise. Thus, the developments in relative prices ceased to support the economic situation in the enterprise sector.

At the beginning of 2017 employment growth increased and it is still likely to pick up in 2017 Q2 as indicated by both plans of enterprises and the expected rise in demand and output. On the other hand, the

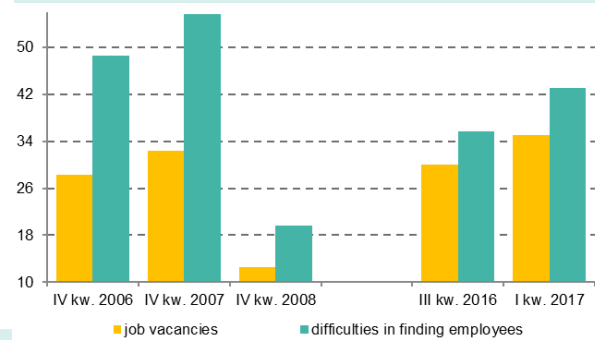
growth rate of labour costs seems to be halting slightly, which is accompanied by lower upward wage pressures. Moreover, companies still have difficulties in finding employees. Due to low labour productivity dynamics and declining profitability it may be assumed that many enterprises have already run out of reserves for further wage increases.

Figure 9 Employment forecasts



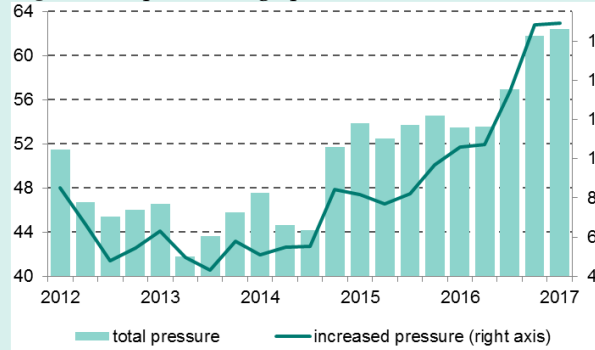
Source: NBP Quick Monitoring Survey and GUS F-01/I-01

Figure 10 Difficulties in finding employees and job vacancies



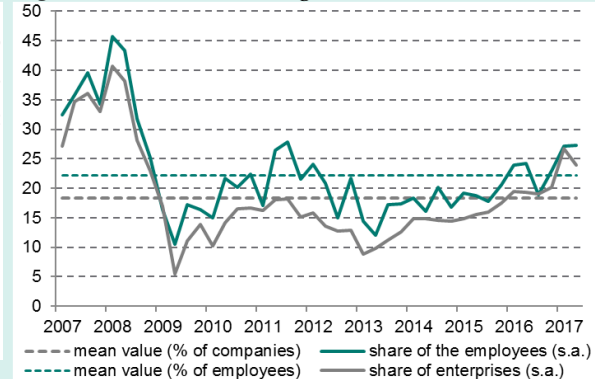
Source: NBP Quick Monitoring Survey

Figure 11 Upward wage pressure



Source: NBP Quick Monitoring Survey

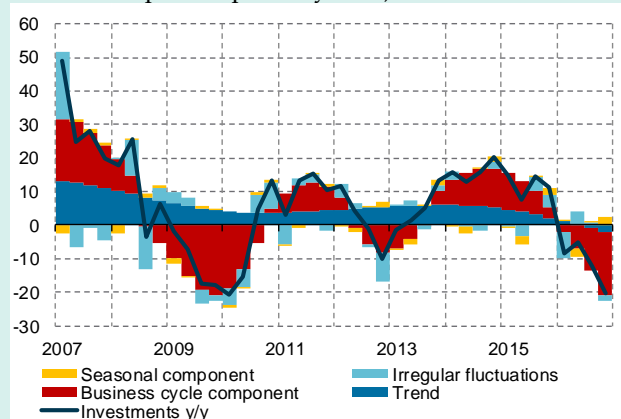
Figure 12 Forecasts of wage increases



Source: NBP Quick Monitoring Survey

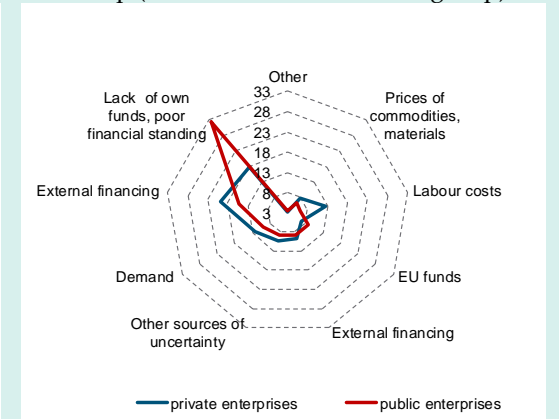
At the end of 2016 investment outlays continued to markedly decline. This was mainly related to business cycle fluctuations with increasingly weaker support of the long-term trend. The statistical base effect had a considerable bearing (strong expenditure growth at the end of 2015). Enterprises made cuts in all categories of investment expenditures with the most significant reductions in the expenditure on motor vehicles (which was mainly due to considerable purchases of motor vehicles a year before). According to the forecasts for 2017 Q2, the investor sentiment is going to improve only slightly following a marked rebound in investment activity in public enterprises and still very cautious development plans of private companies. In the case of companies in a good financial position the absence of investment is explained with uncertainty; yet, a certain improvement is seen as this barrier has weakened in the last quarter. In the case of companies in a worse financial position, investment is curbed by the absence of funds for development and high investment costs.

Figure 13 Periodical analysis of investment growth (in %, constant prices, quarterly data)



Source: F-01/I-01 data by GUS, NBP material (HP filter)

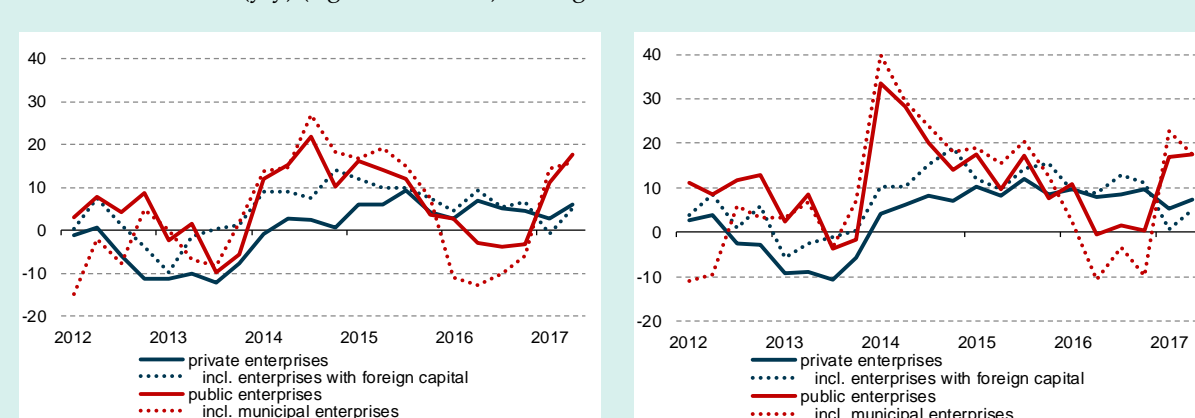
Figure 14 Barriers to investment by sectors of ownership (in % of indications in the group).



Source: NBP Quick Monitoring Survey

The sector's liquidity continues at a high, sound level. The observed declines in liquidity indicators reflect chiefly changes in the situation of a small group of the largest enterprises. Yet, there are signs of growing payment bottlenecks.

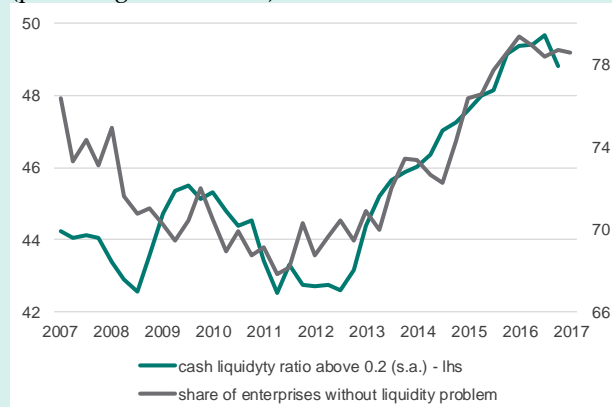
Figure 15 Planned changes in the volume of total expenditure in quarterly terms (q/q) (left-hand scale) and in annual terms (y/y) (right-hand scale). Changes.



Source: NBP Quick Monitoring Survey

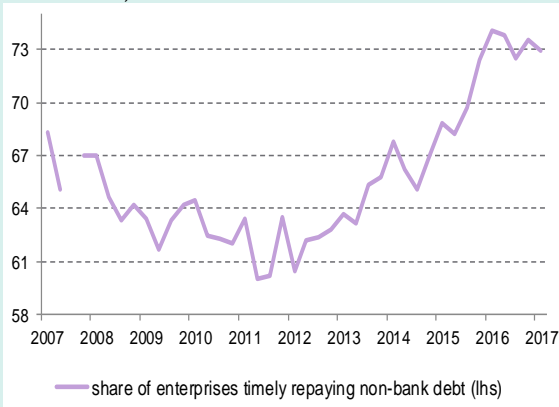
Source: NBP Quick Monitoring Survey

Figure 16 Financial liquidity of enterprises (percentage of answers)



Source: NBP Quick Monitoring Survey, F-01/I-01 data by GUS

Figure 17 Payment of trade liabilities (percentage of answers)



Source: NBP Quick Monitoring Survey



Warsaw 2017