


NBP

Narodowy Bank Polski

No. 03/17 July 2017

NBP Quick Monitoring Survey

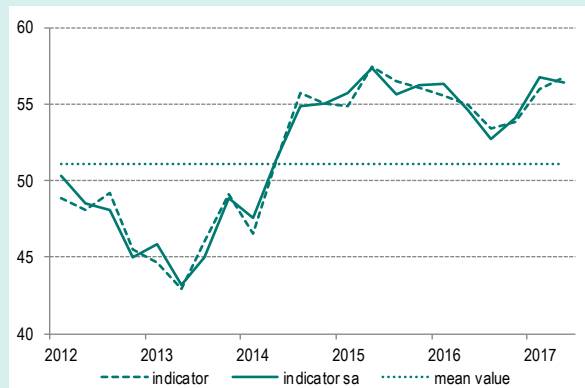
Economic climate in the enterprise sector

Summary

Economic Analysis Department

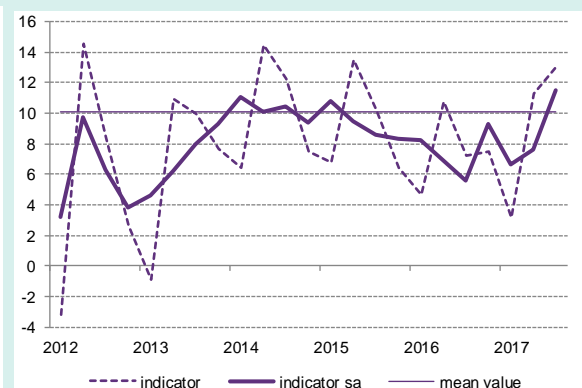
The condition of the enterprise sector continued to be strong and stable in 2017 Q2. At the same time, enterprises are presenting a significantly more optimistic - in comparison with the previous years - assessment of the situation in the country. Expectations of a further slight improvement of the economic climate in 2017 Q3 prevail.

Figure 1 Assessment of the economic situation



Source: NBP Quick Monitoring Survey

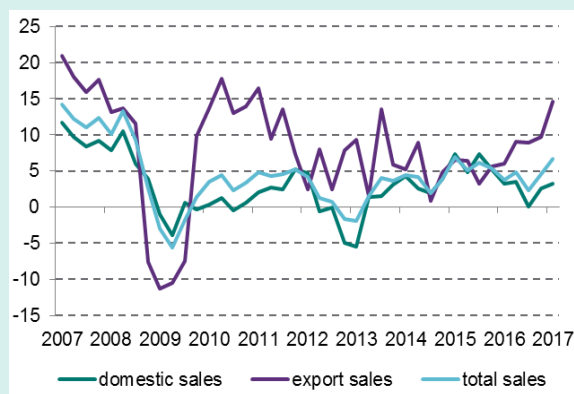
Figure 2 Quarterly forecasts of the economic situation



Source: NBP Quick Monitoring Survey

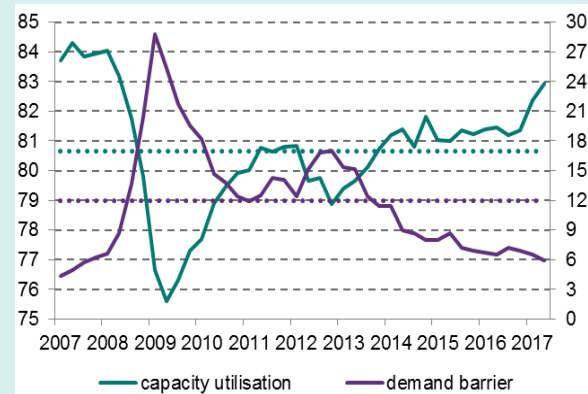
Sales conditions in 2017 Q2 continued to be assessed as very good. Enterprises recorded both an increase in capacity utilisation and a diminishing demand barrier. The improvement was noted by most of the surveyed industries and classes, both exporting ones and those exclusively focused on domestic sales. Levels of revenue from foreign sales continued to be supported by the robust business climate in the EU countries being largest recipients of Polish exports. The nominal value of domestic sales, in turn, is expanding on the back of rising producer prices, including those of commodities. Moreover, expectations about demand in 2017 Q3 continue to run high, suggesting a further rise in sales.

Figure 3 Real growth of sales revenue



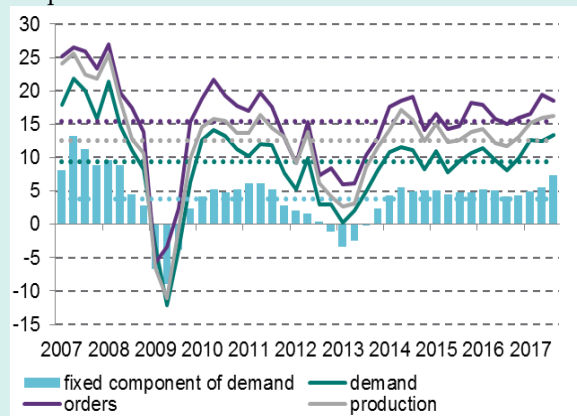
Source: Financial statements, GUS data, NBP material

Figure 4 Demand barrier and capacity utilisation rate



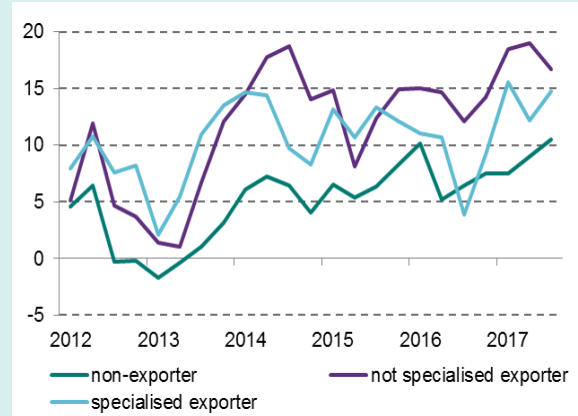
Source: NBP Quick Monitoring Survey

Figure 5 Forecast indicators: demand, orders and output



Source: NBP Quick Monitoring Survey

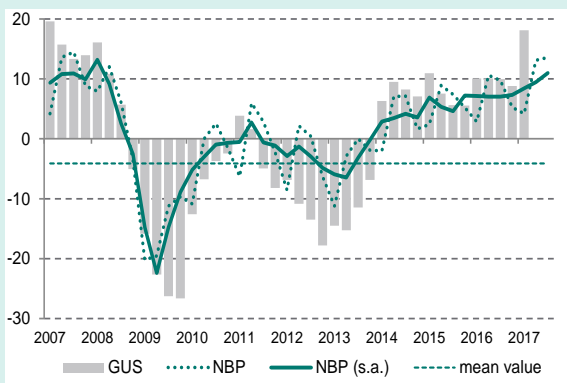
Figure 6 Demand forecasts by export class



Source: NBP Quick Monitoring Survey

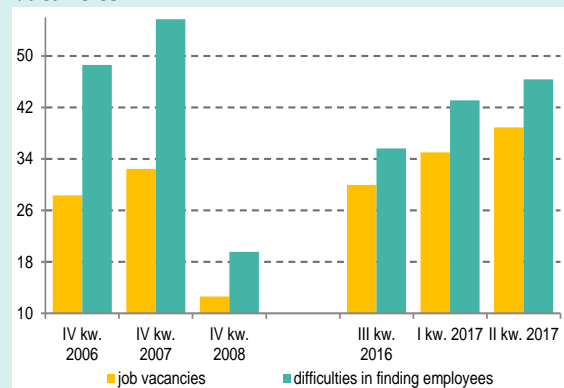
Employment levels in the enterprise sector may be expected to rise further in 2017 Q3. Plans to expand the employment level are currently as optimistic as in 2008, i.e. a period of the fastest employment growth since the systemic transformation. This lead to the problem of filling vacancies, although the scale of the problem is significantly smaller than 9 years ago. Furthermore, these obstacles are less significant than the currently most severe of the barriers, i.e. instability of legal regulations and the tax law.

Figure 7 Employment forecasts



Source: NBP Quick Monitoring and financial statements, GUS data, NBP material

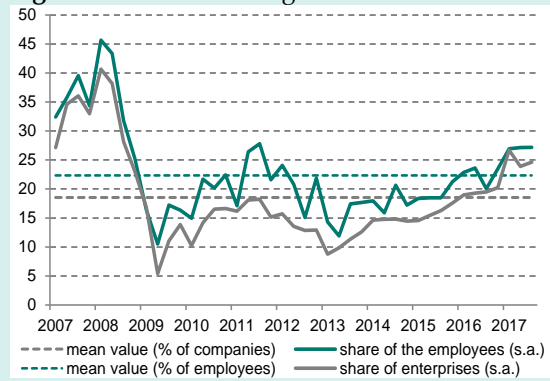
Figure 8 Difficulties in finding employees and job vacancies



Source: NBP Quick Monitoring Survey

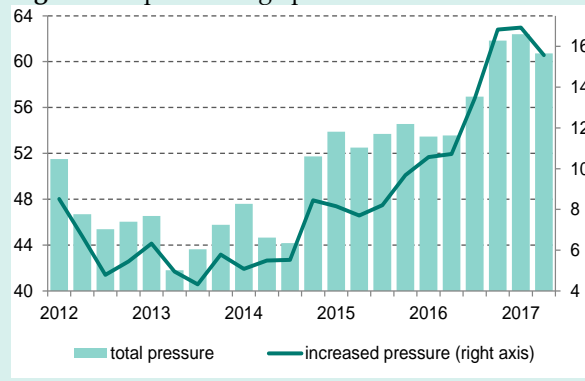
Despite the mounting difficulties in filling vacancies, no pressure to raise wages has been observed. Currently, only 15% of the surveyed firms observe an upward wage pressure. This figure is somewhat lower than 6 months ago, and markedly lower than in 2008. The weakening wage demands support stabilization of the rate of wage increases– in 2017 Q3, one-fifth of enterprises plan to increase wages. Pay demands may also not be rising due to migration flows and the additional income of households arising from the "Family 500+" programme. The latter reduces the "financial gap" experienced by persons in employment (this could be indicated by the NBP studies of threshold wages of unemployed persons).

Figure 9 Forecasts of wage increases



Source: NBP Quick Monitoring Survey

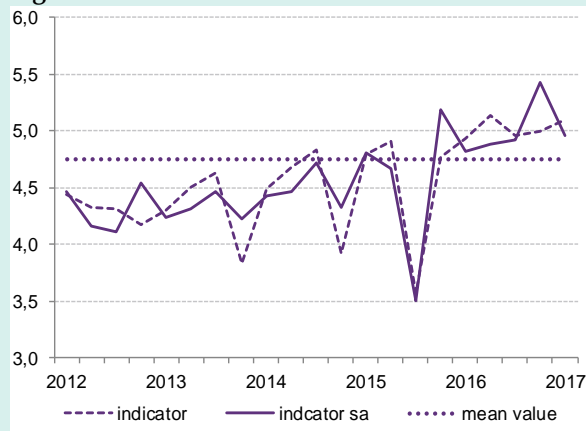
Figure 10 Upward wage pressure



Source: NBP Quick Monitoring Survey

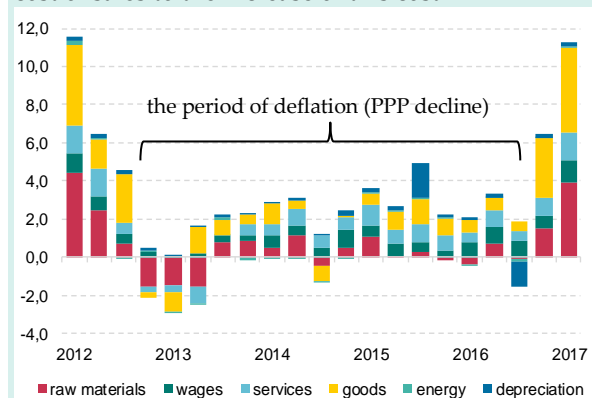
Despite rising revenue and profits, the profitability of a median company is falling. Rising producer prices, including those of commodities, coupled with increasing labour costs (amid a significantly slower productivity growth) are squeezing profit margins. Rising costs are affecting individual industries to a various extent, yet they are a common phenomenon. At the same time, efforts at improving profitability seem to fall short. Firms address these problems primarily by cutting costs, which may not prove very effective, given the rising costs of production factors and, in many cases, previous cost reductions. Another common solution is a reorganisation or improvement of the work process. Yet, few companies are planning measures requiring investment outlays, e.g. purchase of more efficient technologies or more modern machinery, raising company profitability. This is especially the case outside industry and in companies other than large corporations selling to foreign markets.

Figure 11 Return on sales ratio



Source: financial statements, GUS data, NBP material

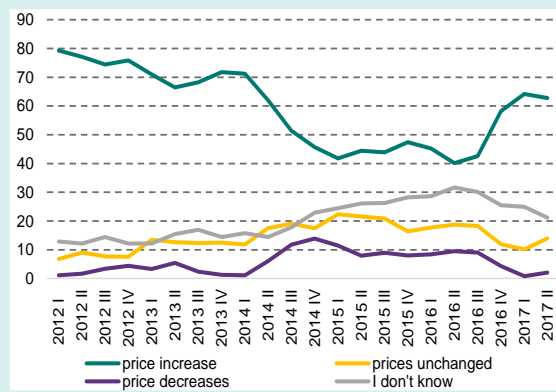
Figure 12 Contribution of main components of cost of sales to the increase of this cost



Source: financial statements, GUS data, NBP material

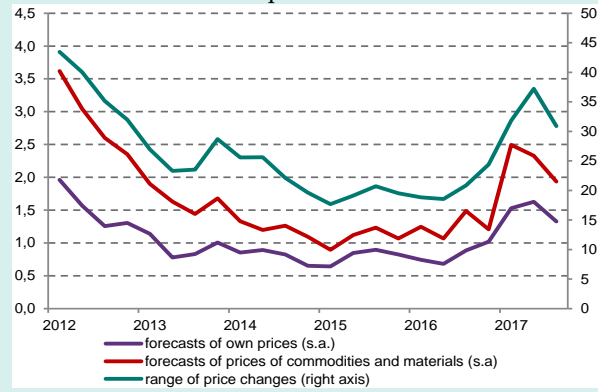
Inflation expectations are sinking; the percentage of firms planning to raise prices of offered goods and services is falling. All the analysed measures of current price changes and price forecasts for the next quarter and year suggest slower price growth, including both commodity prices and producer prices, as well as the forecast CPI.

Figure 13 CPI forecasts in annual terms



Source: NBP Quick Monitoring Survey

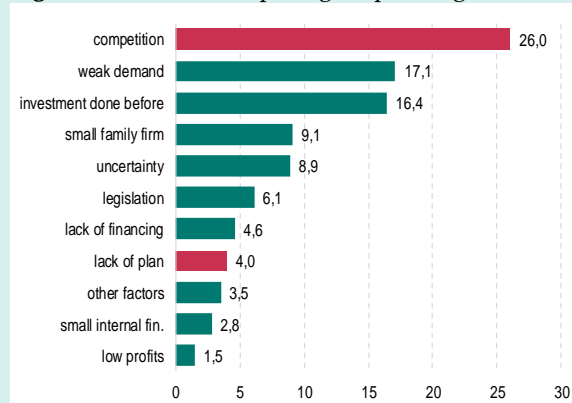
Figure 14 Expectations of higher prices of materials, commodities and own prices



Source: NBP Quick Monitoring Survey

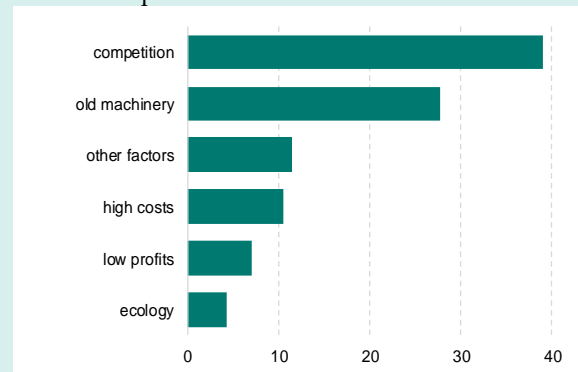
One of the factors hampering price growth is strong competition. In the opinion of enterprises, while competitors' actions are the most important incentive to introduce innovative solutions, or at least asset modernisation, they are simultaneously the key factor hampering growth. Some entrepreneurs do not participate in the competitive struggle, which may in turn be related to their weak economic standing, uncertainty or shortage of funds for investment. In contrast, enterprises do not quote the absence of ideas for future growth as an important reason why the firm might give up expansion. Thus, despite the good economic climate and the upbeat sales outlook, firms currently display much less interest in further growth than a year ago.

Figure 15 Factors hampering corporate growth



Source: NBP, AR data

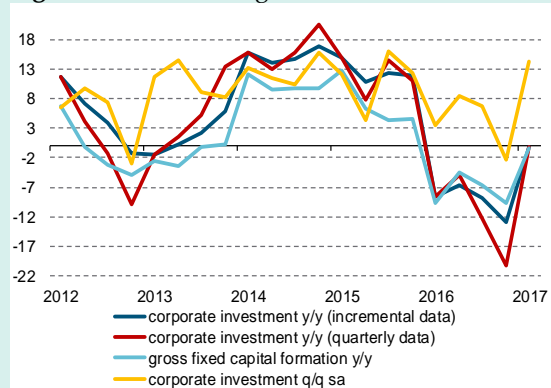
Figure 16 Factors determining the modernization of the enterprise



Source: NBP, AR data

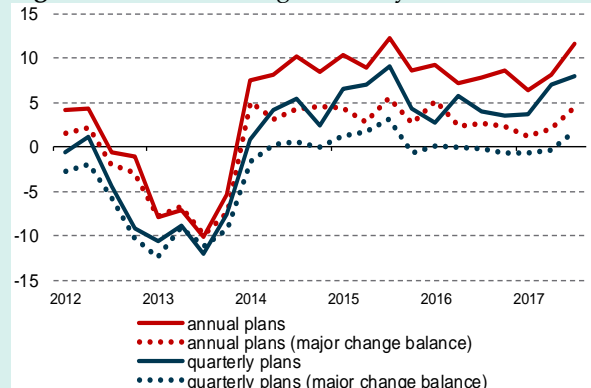
The beginning of the year saw an improvement and a slowdown in the decline of corporate sector investments. Investment activity growth was noted in quarter-on-quarter terms. The signs of recovery are particularly marked in the private and the SME sectors. The findings of the NBP Quick Monitoring Survey point to a gradual rise in corporate investment activity. Yet, this concerns the SME sector to a lesser extent, and is mainly observed in large and public sector enterprises. Investment demand is supported by favourable demand conditions and positive assessments of the ability to fund expansion activity. On the other hand a range of factors including the unfavourable legal and tax environment may hamper investment. Although investment lending is on a steady rise, this is an important source of investment financing for a limited part of the corporate sector only, and its concentration remains very high. Most firms finance their development primarily with their own funds. Also, despite robust growth, the scale of leasing remains insignificant compared to the value of investment projects launched.

Figure 17 Investment growth



Source: financial results, GUS data, NBP material

Figure 18 Planned change in outlays

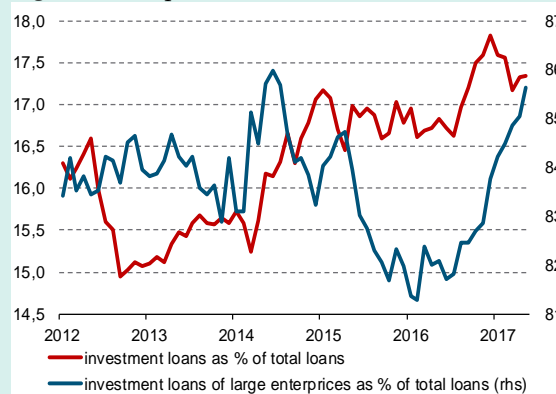


Planned change during the quarter in y-o-y terms and in the entire year y-o-y (balance f changes)

Source: NBP Quick Monitoring Survey

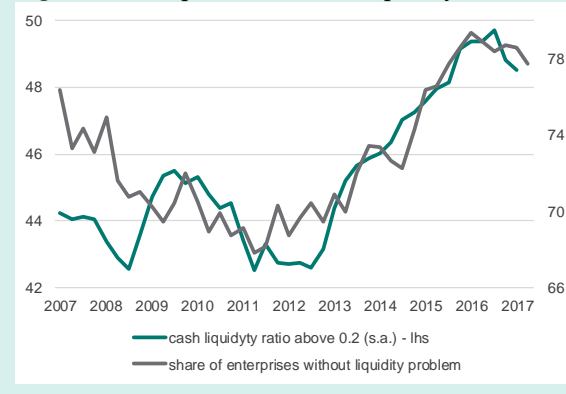
The liquidity position of the non-financial corporate sector remains strong, although the first signs of weakening have already appeared. In particular, liquidity is falling in firms which used to have large cash holdings. There is also a gradual decline in firms' capacity to settle trade payables; the share of trade credit in total liabilities is rising. Also, the percentage of firms that are not paid for completed work remains high. It should be mentioned that for the most enterprises experiencing non-payment for delivered goods or services, the share of overdue payments is low.

Figure 19 Corporate investment loans



Source: NBP banking statistics

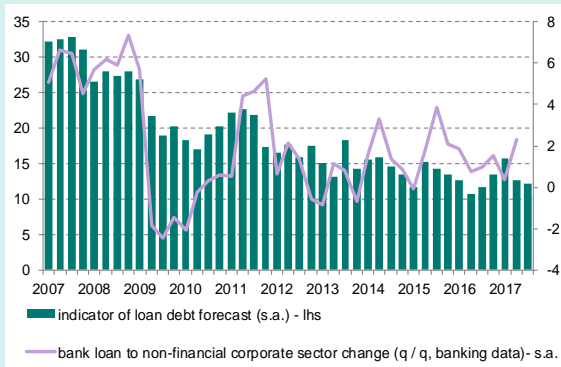
Figure 20 Enterprises' financial liquidity



Source: NBP Quick Monitoring Survey, financial results, GUS data, NBP material

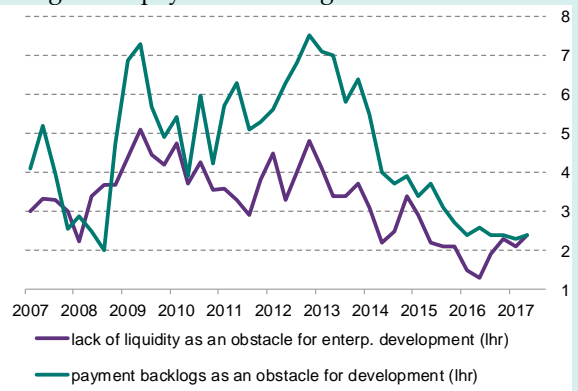
The condition of borrowers remains stable at very high levels. The ability to repay bank debt is assessed as very high, close to its maximum levels. Also the terms of credit extension (the availability and price of credit) are considered favourable. Despite this, firms' interest in increasing leverage remains invariably low. The growth in debt resulting from bank credit, however, is rising, which is due to a high concentration of credit in the corporate sector – the large borrowing needs of the largest firms.

Figure 21 Index of demand for credit forecasts



Source: Quick NBP Monitoring Survey, NBP Banking statistics

Figure 22 Percentage of firms reporting liquidity shortages and payment backlogs as barriers



Source: NBP Quick Monitoring Survey

Warsaw 2017