

Main economic trends

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Debate on the 2010 budget bill began in Poland in September. It was preceded by the adoption of amendments to the 2009 budget law and the release by the Central Statistical Office (GUS) of the GDP growth estimate for the second quarter of 2009. Poland is the only EU-27 country to register a positive GDP growth in the second quarter.

In August 2009 industrial sales stopped declining, the construction and assembly output increased as did retail sales.

According to estimates made by the Ministry of Finance, CPI inflation was slightly lower in September than in August.

An important advantage of the Polish economy is that it has managed so far to avoid a rise in foreign trade and balance of payments pressures. Although Polish exports dropped sharply, the drop in imports was even larger. As a result, Poland's trade and balance of payments deficits were lower in the first and second quarters of this year than in the same quarters of last year.

Unfavourable trends continue on the labour market: employment is on the decrease, wages are growing at a slower pace than before and the seasonally adjusted unemployment rate is on the rise.

Our optimism about the Polish economy should be moderate because prospects for the global economy and the global financial market are uncertain. As the anti-crisis programmes carried out in the United States, the European Union and in other regions involve medium-term and long-term risks, they have to be curtailed. Although the measures taken have helped to reduce recession, the level of uncertainty about medium-term and long-term projections is still high.

GUS: Drops in industrial production and transport slow.

Central Statistical Office (GUS): In August, a second month in a row, some sectors of the economy performed better than in the first half-year. Retail sales increased again year on year and a considerable increase was noted in the construction and assembly output. Falls in industrial production and transport slowed. As consumer prices continued to rise and nominal wage growth slowed,

the purchasing power of average gross wages in the corporate sector dropped year on year. On the labour market employment in the corporate sector decreased slightly but the unemployment rate did not change compared with the previous month (...)

In September, for the first time since October last year, the outlook for the manufacturing sector was positive. This was largely due to optimistic forecasts for order books and production while assessments of the current situation were still negative. The overall outlook for the retail sector is also positive but assessments about retailers' current and future sales and financial situation are pessimistic. The sentiment of construction companies is still negative as a result of unfavourable predictions and current assessments concerning order books, production and financial situation. (GUS, "Report on the Country's Socio-Economic Situation," September 22, 2009, p. 3; www.stat.gov.pl)

NBP: The acceleration of retail sales and a rise in most outlook indices signal an improvement in the economic situation.

National Bank of Poland (NBP), Monetary Policy Council (RPP): According to preliminary estimates by GUS, Poland's GDP rose in the second quarter by 1.1% y/y, that is more than expected. The GDP growth in the second quarter of 2009 was mainly due to a positive contribution of net exports, with a simultaneous drop in domestic demand as consumption slowed further while investment and inventories decreased. Monthly data for the third quarter of 2009, including data on industrial production, construction and assembly output and retail sales, as well as most outlook indices signal a further improvement in economic activity. The situation on the labour market is still unfavourable: employment in the corporate sector is falling and the seasonally adjusted unemployment rate is on the rise, which is coupled with a slowdown in nominal and real wage growth. A reduction in lending activity, especially in the corporate sector, has an adverse impact on economic growth. ("Minutes of the Monetary Policy Council Meeting," September 30, 2009; p. 1; www.nbp.pl)

In August 2009 industrial sales dropped by only 0.2%, much less than in previous months. The industrial sector is overcoming problems and may start entering a growth path.

August was the first month this year to see no drop in industrial production. Growth in producer prices slowed further and employment decreased. In August industrial sales were at the level of a year before: the decrease of 0.2% may be a result of statistical error. In the manufacturing sector, production was higher by

0.6% y/y while the drop in the energy sector reached 2.0% and in mining 13.3%. In the eight months to the end of August industrial sales were lower by 6.5% y/y. Businesses producing mainly investment goods, supplies and energy-related goods recorded decreases in sales by 11.7%, 10.4% and 10.1% respectively. Sales of consumer durables and non-durables increased by 7.5% and 3.8% respectively. All these indices were better than in July.

In January-August 2009 labour productivity in the industrial sector measured by sales per employee was by 1.6% lower year on year, with employment down by 5.0% and the average gross monthly wage up by 4.6%.

In the eight months to August 2009 all major segments of the manufacturing industry saw a decline compared to a year before. However, output was higher in eight segments of the manufacturing sector – production of computers, electronic and optical products (13.3%), pharmaceuticals (12.5%), electrical equipment (6.5%), printing and information carriers (6.7%), and transport equipment (4.4%), production of beverages (8.0%), production of food (2.6%) and paper products (1.3%).

In August good results were also recorded by the timber industry (an increase of 11%), plastics (4.3%), tobacco (4.1%) and building materials, which to a large extent helped to offset decreases recorded in previous months. But producers of metals, clothes, leather and textile products, and motor vehicles again recorded a sharp decrease in sales.

In September 2009 the overall outlook for the manufacturing sector was better than in August, but worse than in any September in the past six years. 21% of the surveyed businesses signalled an improvement in business conditions and 19% expected a deterioration.

In September expectations for books of orders and production in the next months were still optimistic but the assessment of the current situation was negative. Stocks of finished products were too high but diminished slightly. Payments from customers were collected without delays and difficulty in meeting financial obligations diminished. Plans for job cuts did not change. Prices of finished products may be reduced.

The situation of businesses differed depending on their size. The outlook of small and medium-sized businesses was pessimistic but large companies signalled optimism. The outlook also differed depending on the sector. In September, just like in August, managers in most manufacturing sectors were pessimistic. The worst assessments came from producers of clothes, metals, transport equipment,

machines and devices, textiles and wood products and companies in the printing sector. In these sectors, outlook indices were negative but better than in August.

Producers of pharmaceuticals, paper products, foodstuffs, tobacco products, plastic products, furniture, chemicals and electrical equipment had a positive outlook.

In August construction output was higher by 11% y/y. August was the second month in a row to record such a good result. In the eight months to the end of August construction output was higher by 3.9% y/y.

August was the second month in a row to see acceleration in construction growth. In August construction output was higher by 11% compared to a year before, which may mark the beginning of favourable changes in the sector. August saw a sharp increase in road building and other infrastructure projects.

A crisis in construction had seemed imminent but there is every indication now that it will not come. The optimistic projections for the second half of the year are increasingly likely to come true. The July results had already indicated that the sector is very likely to avoid recession. Now, after the figures for August were released, one may say for sure that the crisis will not spread to construction and that growth in infrastructure projects will offset the poor performance of the hotel, retail and specialist construction sectors.

Construction prices were by 0.7% lower than in August 2008. Builders kept wage growth at a level lower than inflation. In August employment rose by over 5% as builders were preparing for the expected rise in new orders. Capacity utilisation in the construction sector amounted to 78%, which indicates that builders are able to start new projects.

It should be noted that, after a weak first quarter, the financial situation in the construction sector improved significantly in the next months. In the second quarter the net profitability rate was 4.2% and profit figures were over two times higher than in January-March 2009.

Despite good results, builders are only moderately optimistic. In September 2009 the outlook for construction was negative, at a level similar to that registered in August.

In September 17% of the surveyed companies reported an improvement in business conditions, against 18% in August, and 22% reported a deterioration compared to 26% a month before. Only 5.2% of the surveyed companies said there were no constraints on their activity against 5.1% in August. Competition

from other companies was the most serious barrier – it was indicated by 62% of the surveyed companies – followed by labour costs (53%). Compared with September last year, the importance of the barrier created by insufficient demand and difficulty getting a loan increased respectively from 20% to 45% and from 7% to 15%. The importance of the barrier created by a shortage of skilled labour diminished from 50% to 20%. In September, like in August, 13% of the surveyed companies assessed their production capacity as too high to meet the orders expected in the next three months. A further drop in construction prices should be expected.

There were marked differences in the situation of companies depending on their size. In small, micro and medium-sized businesses, the outlook was negative. Large companies were more optimistic than in August and expected a rise in order books and production.

August 2009 was the second month in a row to see a rise in retail sales, which went up by 3.1% y/y. The increase in sales was recorded in most product groups, except for sales of motor vehicles, and liquid and gaseous fuels.

In the eight months to the end of August 2009 sales recorded by retailers employing more than nine people rose by 1.9% compared with the very high level a year before. Sales in two groups of products with the highest share in total retail sales – motor vehicles, motorcycles and parts, and liquid, gaseous and solid fuels – were significantly smaller than a year before – by 9.8% and 8.8% respectively. Sales of clothes and footwear were higher by 23.5% y/y, sales of pharmaceuticals, cosmetics and orthopaedic equipment were up by 14.3%, sales of press and books were up by 6.8%, sales of furniture, radio and television equipment and household appliances were up by 3.1%, and sales of food, beverages and tobacco products were up by 5.8% y/y. In August 2009 wholesale sales (in current prices) by companies employing more than nine people were lower by 5.4% y/y.

In August 2009 transport companies employing more than nine people recorded a decrease in sales in constant prices of 5.6% y/y; in the eight months to August sales were down by 5.7%. The sharpest drops were recorded in rail and air transport and in warehousing and services for transport. An increase was recorded in road and pipeline transport.

In September 2009 the overall outlook for the retail sector was positive, though slightly worse than a month before, with 18% of the surveyed retailers signalling an improvement and 18% a deterioration in business

conditions.

The assessment of the current economic situation is still positive, though more cautious than in August. Small and medium-sized retailers are pessimistic about current and future sales while assessments from large retailers are more optimistic. The financial situation of retailers is still regarded as negative. Stocks of goods continued to be excessive so the amount of goods ordered from suppliers may be reduced only to a slightly smaller extent than had been predicted a month before. The retailers signalled a rise in current and future prices.

Of the surveyed retailers, 5.4% said there were no barriers to their operations. The main barriers were market competition (signalled by 66% of the surveyed retailers), high labour costs (56%) and high fiscal burdens (50%). Compared with September last year, the importance of the barriers created by insufficient demand, difficulties in settling accounts with business partners, difficulties in getting a loan and high interest on loans increased the most – respectively from 34% to 44%, from 13% to 22%, from 6% to 12% and from 12% to 17%. In individual sectors of the retail industry, assessments were generally positive, with the highest outlook index in the textiles, clothes and footwear sectors (up by 10 pct. points) and in the household appliance sector (up by 6 pct. points).

In September 2009 service companies differed greatly in their assessments of business conditions. Those operating in the financial and insurance sector were the most optimistic, though the outlook was worse than in any September in the past four years. The most pessimistic were companies operating in the transport and warehousing sector. The importance of individual barriers to business operations did not change, with most companies complaining of insufficient demand. A shortage of well-qualified staff is a much less important barrier at the moment.

In September the outlook of businesses offering accommodation and restaurant services was positive and at a slightly higher level than in August. 20% of the surveyed businesses reported an improvement and 17% a deterioration in business conditions. Predictions for sales were positive, despite the expected slight decrease in current and future demand. Managers assessed their companies' financial situation as good. Prices of services were expected to rise slightly in the next months. A reduction in employment was also expected. In September 9.3% of the surveyed businesses reported no barriers to their operations compared to 7.3% a month before. Labour costs were the most important barrier - indicated by 68% of those surveyed. The barrier created by insufficient demand increased the most from last year – from 43% to 47%. The i

importance of the barrier created by a shortage of qualified personnel and competition from domestic companies decreased respectively from 39% to 22% and from 56% to 44%.

In September the outlook in the information and communications sector was positive, with 21% of businesses reporting an improvement and 10% a deterioration in business conditions. The surveyed businesses recorded a smaller drop in demand than in August and a slight increase in sales. Despite that, their financial situation was still unfavourable. In the next months, demand and sales are expected to rise while the decrease in employment will be slight. In September 10.1% of the surveyed companies reported no barriers to their operations. Labour costs and competition from domestic companies were indicated as the greatest barriers – respectively by 52% and 40% of those surveyed. The barrier created by insufficient demand increased the most from last year – from 13% to 34%. The importance of the barrier created by a shortage of qualified personnel decreased from 25% to 13%.

Companies providing financial and insurance services said that their situation was good in September, just like in August. 33% of them reported an improvement and 7% said their situation deteriorated. Managers signalled a slower increase in demand and sales than in August but expected that demand and sales will rise considerably in the next months. The companies' financial situation is still good. Prices were expected to rise and job cuts were planned at a level similar to that previously projected. In September 2.3% of the surveyed companies reported no barriers to their operations. Competition from domestic companies was the greatest barrier – indicated by 79% of those surveyed. The importance of the barriers created by fiscal burdens and unclear and inconsistent regulations increased the most from last year – respectively from 16% to 25% and from 37% to 45%. The importance of the barriers created by a shortage of qualified personnel and competition from foreign companies diminished respectively from 25% to 15% and from 55% to 46%.

In September the outlook in the transport and warehousing sector was negative, with 15% of the transport companies surveyed reporting an improvement and 22% a deterioration in business conditions. Assessments of current and future demand, sales and financial situation were still negative. Current and future prices were expected to drop and job cuts will be larger than previously predicted. In September 10.3% of companies reported no barriers to their operations. Insufficient demand, indicated by 53% of those surveyed, was the greatest barrier. The importance of this barrier increased the most from last year. Another barrier was competition from domestic companies – indicated by 51% of those s

urveyed. The barriers created by a shortage of qualified employees and labour costs diminished the most – respectively from 32% to 13% and from 61% to 48%.

In September 2009, as in the previous months, there was a further improvement in consumer confidence in Poland.

September was the sixth month in a row to see an improvement in consumer confidence. The reading of the current index, which describes current trends in individual consumption, increased to -19.2 points. Compared to March, when it had been at the lowest level this year, the index improved by 11.1 points. The forward-looking index, which describes trends in individual consumption expected in the next months, rose to -27.9 points. It improved by 14.3 points from March, when it had been at the lowest level, but was still lower than at the end of 2008.

The favourable changes in the consumer confidence indices noted in the past several months covered almost all of the basic factors which have an impact on changes in household consumption. In the past six months there was a major improvement in the outlook on the country's general economic situation in the past 12 months, and the outlook on the households' financial situation and the country's general economic situation and unemployment in the next 12 months. The outlook on the households' current potential to buy improved considerably from March to July but deteriorated slightly again in August and September. The outlook on the households' financial situation in the past 12 months and on their potential to save in the next 12 months is improving slightly and at a slow pace. The level and directions of change in the consumer confidence indices indicate that unfavourable trends in household consumption may be gradually reversed.