

Outlook for the manufacturing sector

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In the four months to April, sales were 9.8% higher year on year

Production growth slowed temporarily in March, but there was no reason for anxiety, the more so as the April results indicated a return to the growth path.

After weak results in March, industrial sales rose by 14.9% year on year in April. In the electricity, gas and water supply sector sales were higher by 6.9%, in the manufacturing sector they were up by 15.7% and in the mining and quarrying sector up by 8.8%. On a seasonally adjusted basis, the increase in industrial sales reached 11.9% in April. In the four months to April, sales were 9.8% higher year on year.

In January-April 2008 the fastest growth in sales was noted by enterprises producing mainly investment goods (by around 21%) and consumer durables (17%). Sales of energy-related goods, supplies and consumer non-durables rose respectively by 8%, 6% and 4%.

Labour productivity in the industrial sector measured by sales per employee was by 6.1% higher than in January-April 2007, with employment higher by 3.5% and the average gross monthly wage up by 11.2%. In 2006 labour productivity rose by around 10% and in 2007 by 6%. Statistics for January-April 2008 suggest that the rate of growth in labour productivity weakened, but April results were strong and contributed to an improvement in productivity compared to the previous three months. It is disquieting, however, that wage growth outpaces growth in productivity as this may make Polish companies less competitive and reduce their profitability.

In January-April, industrial sales across all industries were higher than in the 1st quarter. The highest increases (of 20-30%) were recorded by industries based on relatively advanced technologies, like producers of medical and precision instruments, radio, television and telecommunications equipment, machines, motor vehicles and transport equipment.

In the 1st quarter the net financial result in the industrial sector was higher than last year while net return and the cost index deteriorated. The strongest improvement was recorded by oil processing companies, manufacturers of

construction materials and furniture, and energy companies. Manufacturers of metals, foodstuffs, rubber and plastic products recorded weaker results.

In May 2008 the outlook for the manufacturing sector was slightly less optimistic than in April 2008 and April 2007. The outlook on current demand and production was better than in April, but the outlook for the next months was less optimistic. Projections indicate that businesses may face greater financial difficulties.

In May 2008, some 30% of the surveyed manufacturers reported an improvement and 10% a deterioration in business conditions. Manufacturers signalled a slower rise in foreign orders. Production for the domestic market was expanding, but new orders and production were expected to slow in the next three months. Stocks of finished products stayed at a satisfactory level. In May manufacturers had a little more difficulty meeting their current financial obligations because of delays in collecting receivables. Managers signalled an improvement in their companies' financial situation and a smaller increase in employment than a month before. Prices were expected to grow at a slower rate.

In May 2008 entrepreneurs operating in all manufacturing sectors, except for producers of clothes, fur products and textile products, assessed the business climate optimistically. Producers of paper products, construction materials, chemicals, machines and electrical equipment were the most optimistic. The business climate did not change in sectors manufacturing transport equipment, rubber and plastic products, motor vehicles, metal products, or in the publishing and printing industry.