26 August 2024

Economic Comment

Collapse in investment of large companies

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In 2Q2024, non-financial companies employing 50 or more people recorded a 4.5% y/y decline in revenues and a 3.3% y/y decline in costs, which was a slower drop than in the previous quarter (-6.2% y/y and -4.5% y/y respectively. Net financial result was 19% lower than a year earlier, following a 39.9% y/y decline in 1Q2024. Gross sales profitability was 5.6% in 2Q alone and 4.6% for the four-quarter cumulative result, the lowest since 4Q2020. The decline in profitability is consistent with a slowing economy and lower inflation, which leaves less room for upward price adjustments. Overall, however, corporate profitability has slipped only slightly below the long-term average (around 5%), so one cannot speak of an exceptionally difficult situation for Polish companies. In our view, the improvement in the domestic economy and the rise in inflation will give some room for margin improvement in the coming quarters, although the process may be slow, especially in manufacturing, mainly due to the weak economic activity abroad.

Worse financial results took their toll on investment plans of large companies. Investment outlays in firms employing 50 or more people fell by 8.1% y/y in real terms in 2Q24, compared with -2.2% y/y in 1Q. After a strong 2023, we did not expect a significant positive contribution of investment to economic growth in 2024. The very weak performance of corporate investment in 2Q poses a risk to our forecast of a slight increase in total investment this year, although an improvement in public investment should mitigate this risk, in our view. In the following quarters, we assume a gradual recovery in investments based on the utilisation of EU funds..

Corporate profits deteriorate more, yet the situation is not terrible

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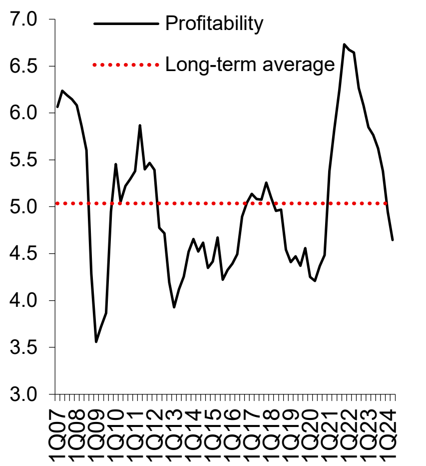
The decrease in costs was mainly possible due to lower expenditure on materials and energy, although expenditure on wages, third-party services and insurance worked in the opposite direction. The share of labour costs in total costs climbed to 16.5%, the second highest in the last ten years (with the record figure recorded in the pandemic 2Q2020). The increasing weight of the wage bill in costs implies greater upward pressure on prices in services and, in our view, argues for services inflation to remain elevated in the coming quarters.

Net financial result was 19.0% lower than a year earlier, following a 39.9% y/y decline in 1Q2024. Gross sales profitability was at 5.6% in 2Q alone and 4.6% for the four-quarter cumulative result, the lowest since 4Q2020. The decline in profitability is consistent with a slowing economy and lower inflation, which leaves less room for upward price adjustments. Overall, however, corporate profitability has slipped only slightly below the long-term average (around 5%), so one cannot speak of a difficult situation for Polish companies.

The strongest declines in profitability were registered in mining, especially hard coal, in the production of machinery and equipment, wood products, and in construction (strongest in building construction), accommodation and catering, and transport. Improvements were recorded, however, in water intake, treatment and supply, chemical and beverage production.

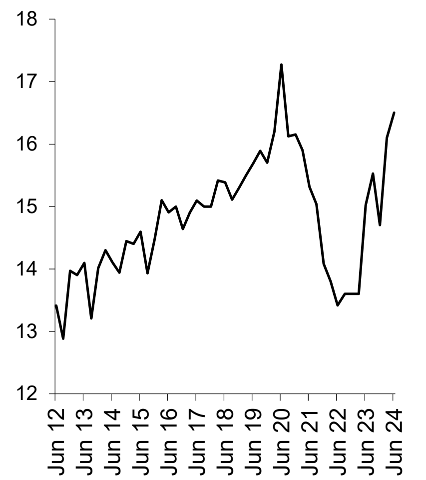
In our view, the improvement in the domestic economy and the rise in inflation will give some room for margin improvement in the coming quarters, although the process may be slow, especially in manufacturing, mainly due to the weak economic activity abroad.

Gross sales profitability, 4-quarter average, %



Source: GUS, Santander

Wage bill as % of total costs



Source: GUS, Santander

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Collapse of investment outlays in large companies

Worse financial results took their toll on investment plans of large companies. Investment outlays in firms employing 50 or more people fell by 8.1% y/y in real terms in 2Q24, compared with -2.2% y/y in 1Q.

Investment growth was again under strong negative pressure of outlays on buildings and structures (-11.4% y/y, previously -14.2% y/y), but the components responsible for the acceleration of the fall in 2Q were machinery and equipment (outlays fell by 6.1% y/y in real terms in 2Q, while still growing by 2.8% y/y in 1Q) and means of transport (outlays down by 5.8% y/y in 2Q against +8.7% y/y in 1Q).

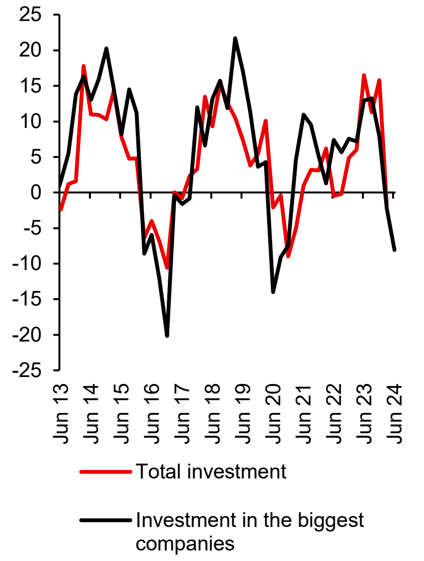
In nominal terms, investment by firms employing 50 or more people fell by 7.6% y/y in 2Q, compared with -1.6% y/y in 1Q. This deterioration was driven mostly by outlays in manufacturing (-9.9% y/y, previously -2.0% y/y), transport and storage (-31.4% y/y, vs. -20.4% y/y in 1Q), with a slight improvement in trade (+4.3% y/y in 2Q vs. -2.9% y/y previously).

Investment behaviour is affected by the absorption cycle of EU funds. Among the sectors of the economy which usually utilise EU funding the most, the growth rate of investment outlays deteriorated in 2Q to -17.1% y/y from -11.3% y/y in 1Q, while the remaining sectors recorded a 3.3% y/y decline in outlays after a 2.1% y/y increase in 1Q.

On 29 August, data on the breakdown of GDP growth in 2Q will be released, which according to the stats office's preliminary estimate was 3.2% y/y, in line with our estimate. The data on investment outlays of large companies suggest that total investment may have performed worse than we had assumed (improving to +0.5% y/y in 2Q from -1.8% y/y in 1Q), while other components performed better.

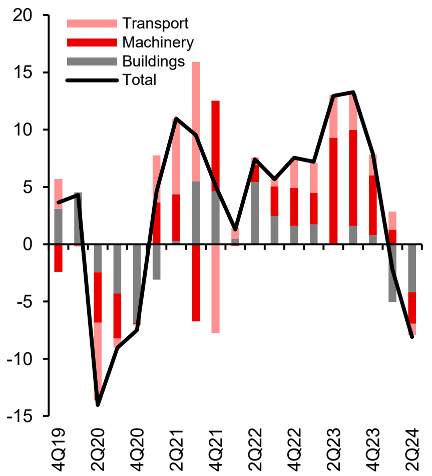
After a strong 2023, we did not expect a significant positive contribution of investment to economic growth in 2024. The very weak performance of corporate investment in 2Q poses a risk to our forecast of a slight increase in total investment this year, although an improvement in public investment should mitigate this risk, in our view. In the following quarters, we assume a gradual recovery in investments based on the utilisation of EU funds.

Investment in big companies vs total investment, % y/y



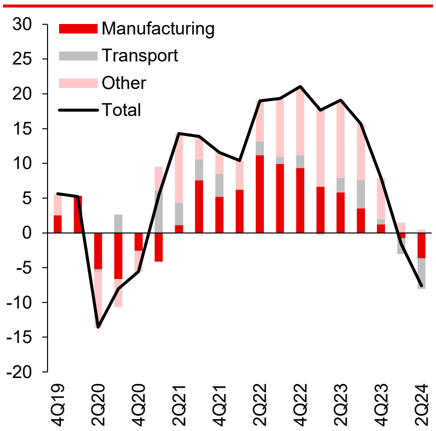
Source: GUS, Santander

Investment outlays of companies employing 50+ persons, real, %y/y



Source: GUS, Santander

Investment outlays of companies employing 50+ persons, nominal, %y/y



Source: GUS, Santander

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