



Businesses predict price increases

Findings from the International Business Report survey conducted by Grant Thornton

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Introduction

Inflationary pressure in the Polish economy is on the rise. What does it mean to businesses?

In recent years, consumer price dynamics in Poland have hit record lows. The deflation observed in 2014-2016 may have passed, but despite economic recovery inflation remains near historic lows – throughout 2017 it ranged from 1.5 to 2.5 per cent, sinking as low as 1.3 per cent in March 2018.

There is some evidence, however, that inflationary pressure in Poland is on the rise and price dynamics may accelerate in the coming quarters. Such indications may, for instance, be gleaned from the Grant Thornton survey which we are proud to present. Its findings suggest that Polish entrepreneurs are increasingly thinking about raising the prices of their products and services.

Will inflation in Poland really go up? Learn more from our report.

We wish you a pleasant read.



Price increases in almost half of businesses

As much as 44 per cent of the businesses surveyed plan to increase the prices of their goods and services. This is the highest figure in the history of the study

Even though since the beginning of 2017 the Polish economy has been growing fast at more than 4 per cent a year, reaching a high of 5.1 per cent in the fourth quarter, it has had practically no effect on inflation. For the past year, price dynamics have rarely exceeded 2 per cent.

In the coming months, however, we may expect a surge in inflation. According to the Grant Thornton survey of medium-sized and large businesses, the percentage of enterprises planning to increase the prices of their products in the next 12 months has gone up in Q1 2018 to 44 per cent (this is the net figure, that is the percentage of businesses predicting prices will go up minus the percentage of those expecting them to go down), which is the highest figure in the 7-year history of the study. A year ago, it was only 8 per cent.

To date, our indicator reflecting the willingness of companies to increase prices has been quite well correlated with subsequent actual inflation levels (see the chart on the right). If this correlation were to hold true, it would point to quite a strong upswing in inflation over the course of 2018.

Chart 1: Percentage of medium-sized and large businesses in Poland planning to raise prices in the next 12 months minus the percentage of businesses expecting to reduce prices (purple line, Y axis on the left, percentage points) and quarterly inflation rate (blue line, Y axis on the right, YOY, percentage)

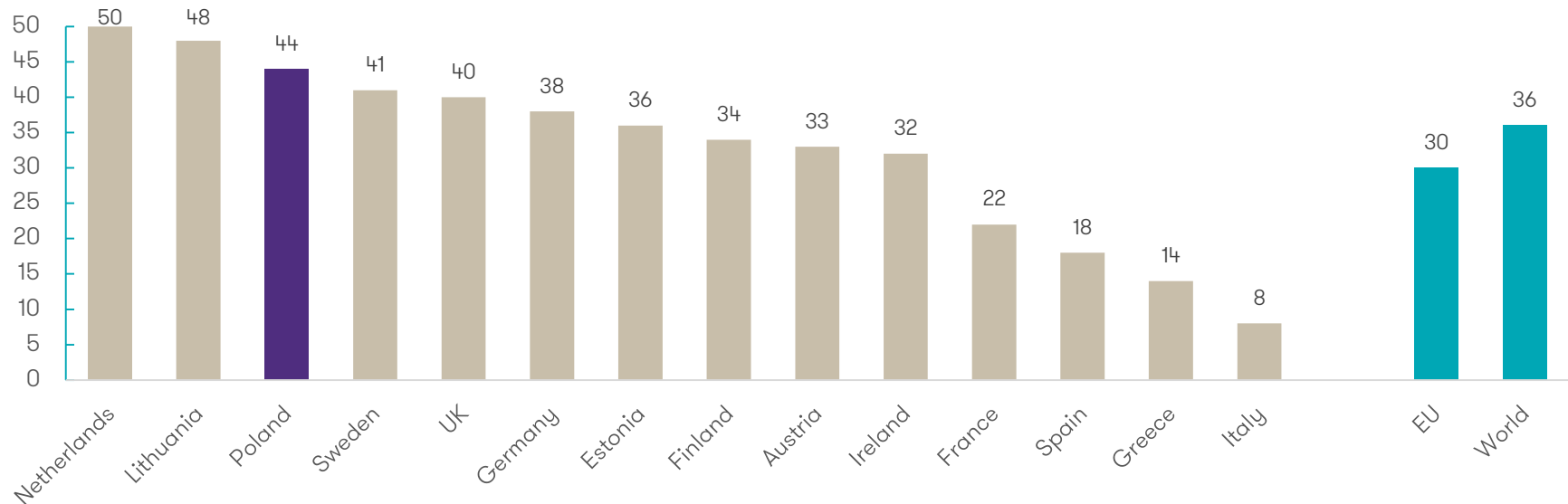


Among the EU Member States included in the survey, only businesses in the Netherlands and Lithuania are more willing to consider price increases than those in Poland

The strong growth in the percentage of businesses considering putting up the prices of their goods and services makes Poland one of the EU leaders in this regard. On average, among the EU countries included in the survey, price increases are currently predicted in 30 per cent of medium-sized and large businesses, and in some countries this figure does not even exceed 10 per

cent. Interestingly, last year the situation was quite the opposite, and there were only two countries (Greece and Italy) where businesses were less keen to increase prices than those in Poland. No other country reported such growth in terms of inflationary pressure over the past year as Poland.

Chart 2: Percentage of medium-sized and large businesses planning to raise prices in the next 12 months, minus the percentage of businesses expecting to reduce prices – data for Q1 2018 (percentage)



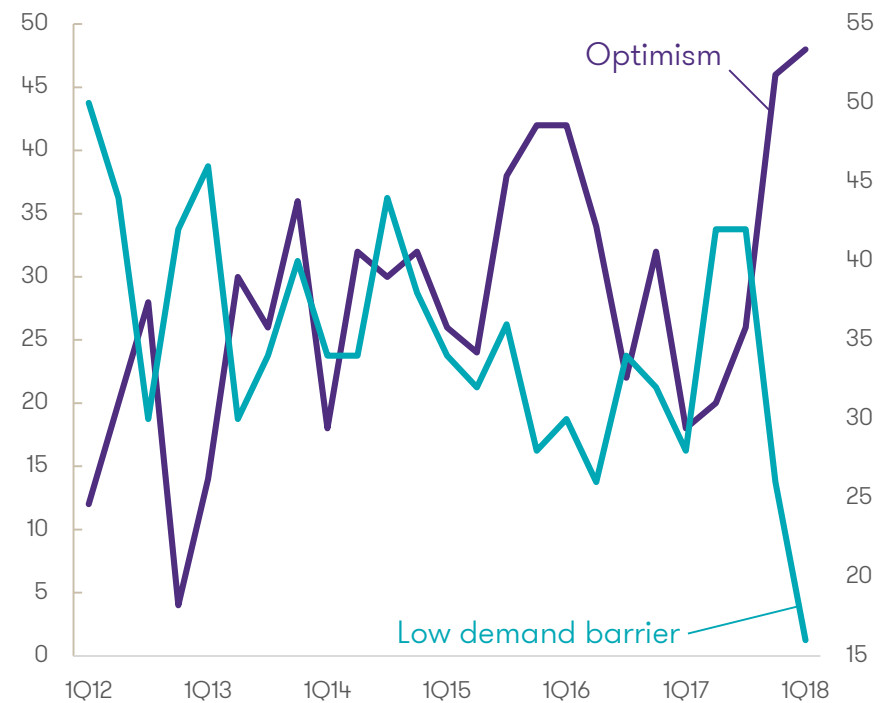
What is prompting Polish entrepreneurs to increase prices? Primarily growing demand and confidence in the future

It seems that the mounting upward price pressure is a result of two concurrent phenomena. On the one hand – our study suggests that entrepreneurs have been experiencing strong growth in demand in recent times. In Q1 2018, the percentage of businesses citing low demand as a barrier, dropped to just 16 per cent, which is the lowest level since at least 2010.

On the other hand, entrepreneurs are feeling increasingly secure looking out to the future. Grant Thornton's business optimism index (percentage of businesses which describe the economic outlook for the coming 12 months as "optimistic", minus the percentage of businesses regarding that outlook as "pessimistic") jumped in Q1 2018 to a record-breaking 48 per cent, the highest figure in the 7-year history of the survey.

It means that entrepreneurs in Poland on the one hand feel more room for increasing their prices than they have for years, and at the same time they are exceptionally confident that the favourable economic situation is here to stay and they will not have to bring prices back down.

Chart 3: Business optimism index* (purple line, Y axis on the left, percentage points) and the percentage of businesses citing low demand as a "strong" or "very strong" barrier to growth (blue line, Y axis on the right, percentage)



*Percentage of medium-sized and large businesses in Poland regarding the economic outlook for the next 12 months as optimistic, minus the percentage of businesses with a pessimistic outlook

Inflation about to rise



Mariusz Maik
Partner
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Opinions of the business community brought to light by the Grant Thornton study are also confirmed by the macroeconomic phenomena observed recently. Accelerated GDP growth in Poland and continuing upward trends in employment and remuneration in the majority of business sectors of our economy give rise to expectations of higher inflation. Factors such as the falling unemployment, influx of economic immigrants from beyond the Eastern border, long-term steady rise in remuneration supported by social programmes such as 500+ come together to create inflationary pressure so strong that in 2018 we are likely to observe the highest inflation rate in a long time.

This may be most readily observed in the prices of products and services where labour costs are relatively high, and the impact of international competition and imports limited. There has been no spike in the inflation rate yet, even though the situation has been around for several months or even a year, which is due to the fact that the impact of macroeconomic phenomena on prices is usually delayed by three to four quarters. Consequently, we can expect that the increase in labour costs, which took place in 2017, will finally be passed along to consumers in the first half of 2018, and prices may indeed rise.

We look forward to hearing from you

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