

According to the results of the April IEER business sentiment survey, the positive changes observed since April 2013 continued and strengthened: Hungarian entrepreneurs judged their business situation to be better than half a year ago, and business expectations also continued to improve. The 2015 spring survey data suggest that this is in line with European trends: in two key countries for the European economy, Germany and France, business expectations improved in the first quarter of 2015. For our questionnaire in April 2015 a total of 3 614 companies responded.

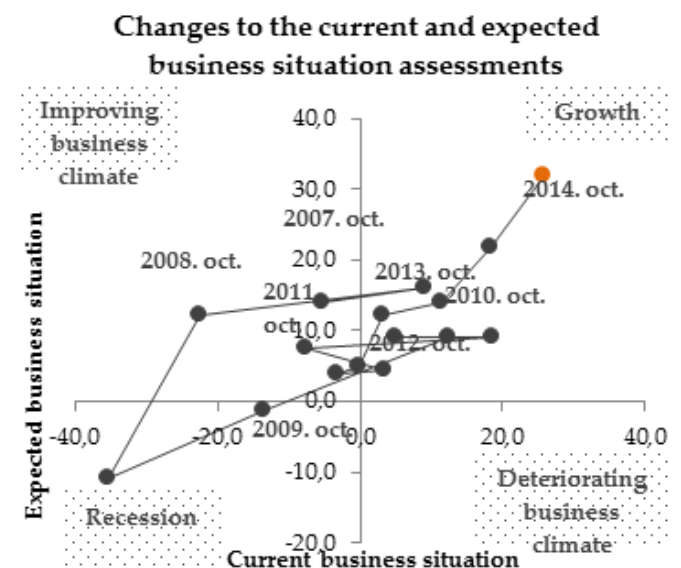
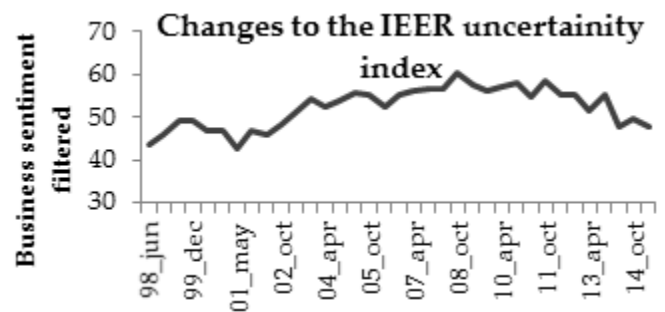
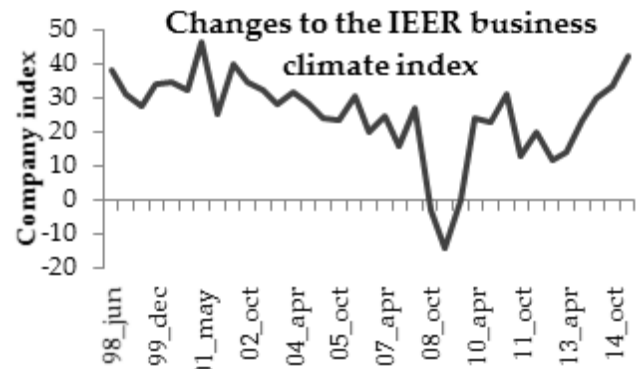
The value of the IEER business climate indicator rose from +34 points in October to +42 points in April 2015 which is the second highest reading since the surveys began in 1998. Meanwhile, the uncertainty index fell somewhat from its relatively high value (50 points) to 48 points. The latter suggests that compared to last October a uniform, positive assessment of trends has emerged among Hungarian enterprises.

According to the April data, companies view their current and future business situations in the first half of 2015 as a strengthening recovery. This is consistent with observations from last year as well. Taking into account both results, between October last year and April this year the outlook of Hungarian businesses have shifted more in the direction of "growth" and currently resides in this area.

The average capacity utilization of respondent companies was 78%, which is 3 percentage points lower than in October. Capacity utilization remains highest among industrial, large enterprises, as well as mostly foreign-owned and mainly exporting companies (81%, 85%, 86%, and 83% respectively), and is the lowest among construction and micro enterprises as well as producers for the domestic market only and purely Hungarian owned companies (76%, 64%, 76% and 75% respectively). In the past six months, following an increase of one point the balance index for sales reached the +16 point level.

The current business situation assessment indicator shows that it was exporting, large industrial firms which "pulled up" the index, presumably those that exported to Germany. Thus, it seems clear that the German economic recovery in the first half year 2015 had an effect on the Hungarian economy. Likewise, as with the current business situation, we see a positive impact by exporting, large, industrial companies on business expectations. Presumably in this case the expected economic effect of the recovery in the German economy can be also detected on the Hungarian economy.

Businesses in the next six months also expect an increase in labor demand (the index rose to +19 points), which is the highest value ever observed compared to previous surveys. Accordingly, in the next six months a strong expansion in the demand for labor is expected within the private sector.



Macroeconomic trends: A change of pace in sight. Quarterly forecast of Ifo, Insee, and Istat institutes

According to the quarterly forecast of Ifo, Insee, and Istat institutes, activity picked up by 0.3% in the Eurozone in Q4 2014, after moderately expanding in Q3 (+0.2%). The recovery in production is expected to continue. GDP is to slightly accelerate in Q1 2015 (+0.4%) and then continue to expand at the same rate over the following quarters. The driving forces of the upturn will be a significant pick up in net exports and a robust growth of private consumption over the forecast horizon, driven by weaker energy prices. Labour market conditions will continue improving, boosting marginally real disposable income and private consumption. Easing of credit conditions, improving prospects for internal demand and the need to replace an ageing capital stock will lead to a modest investment speedup in the first three quarters of 2015, from +0.2% in Q1 to +0.5% in Q3. Under the assumption that Brent oil price remains stable at 56 USD per barrel and the Euro/Dollar exchange rate fluctuates around 1.10, inflation is expected to fall to -0.3% in Q1 2015. This drop reflects diminishing pressures from global commodity prices and weaker energy prices, but also still low prospects for core inflation. Inflation is to be broadly stable in Q2 and Q3. This forecast assumes that an agreement between Greece and its creditors will preserve the Eurozone currency bloc stability but the outlook would otherwise be grimmer. On the positive side, the ECB's QE may have larger effect on investment growth than supposed in this forecast

Stable expansion in industrial production

Following the slowdown in economic activity in Q2 and Q3 2014, industrial production accelerated in the last quarter of 2014 (+0.4%).

Recent business surveys for the Eurozone depict a continuation of the current path. These surveys report slightly increasing output for all sectors but construction, where activity is to remain unchanged.

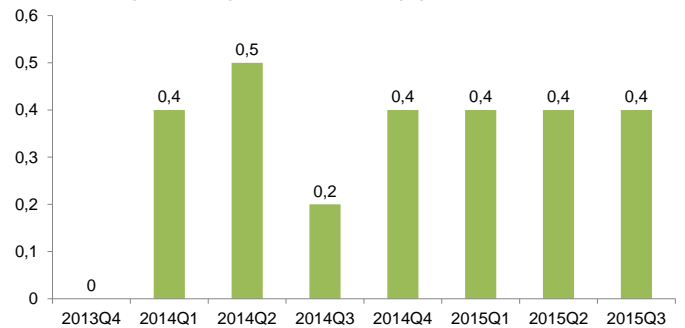
Industrial production is expected to expand at an equal pace in Q1 2015 and the following two quarters (+0.4% per quarter), on the back of brightening prospects for both external and internal demand.

Moderate upswing in GDP

Euro area GDP marginally picked up in the fourth quarter of 2014 (+0.3% after +0.2% in Q3), driven largely by robust, albeit low pace of, expansion in private consumption and net exports. Improvement in the foreign trade balance and faster growth in investment in several Eurozone economies also contributed to the rise in output. The unexpected strong acceleration in activity in Germany and a still vigorous growth in Spain were the main contributors to the Eurozone growth.

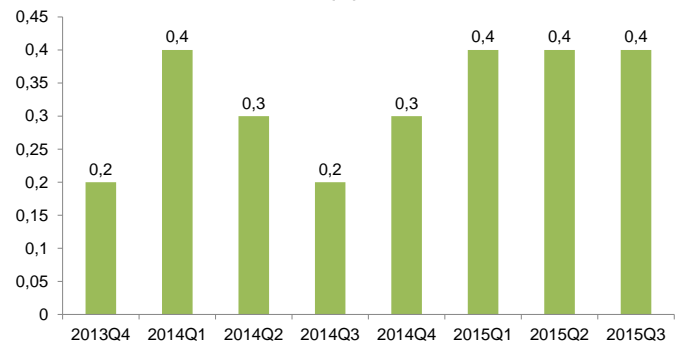
As suggested by the business and consumer surveys, economic activity is likely to slightly accelerate in the first quarter of 2015 (+0.4%), helped by the fall in oil prices and the depreciation of the Euro. The oil price in euros has dropped by over 37% since last June. This decline cheapens Eurozone energy imports and significantly improves the income of firms and households. Also, the decision of the

Forecasted increase in industrial production compared to previous quarter, Eurozone (%), 2013Q4-2015Q3



Forrás: Eurostat és Ifo-INSEE-ISAE-ISTAT előrejelzés

Forecasted GDP growth compared to previous quarter, Eurozone (%), 2013Q4-2015Q3



Forrás: Eurostat és Ifo-INSEE-ISAE-ISTAT előrejelzés

European Central Bank in January 2015 to further ease its monetary stance has led to sizable depreciation of the Euro in real effective terms, which in turn will improve the competitiveness of Eurozone exports.

GDP is forecasted to continue to grow at a constant pace over the first three quarters this year (+0.4%). With a moderate recovery ahead, labour market conditions are expected to continue healing over the forecast horizon. Employment is expected to grow at a low pace. Given the combination of nominal wage rises, notably in Germany, improving financing conditions in most countries, and the decrease in energy prices, households' real disposable income will rise and boost private consumption. The latter is expected to grow at a robust pace (+0.5%) in the first three quarters of 2015.

The need to renew production capacity after a marked phase of adjustment is expected to stimulate the recovery in equipment investment. In the construction sector, the drop in investment is projected to stop. Total investment is thus expected to moderately gain momentum over the forecast horizon (+0.2% in Q1 2015, +0.4% in Q2 and +0.5% in Q3).

Inflation inverting its trend

In Q4 2014, headline inflation continued to moderate to +0.2%, down from +0.4% in Q3. This reflects diminishing pressures from global commodity prices and the steep fall in oil prices since June, but also a still low level of core inflation.

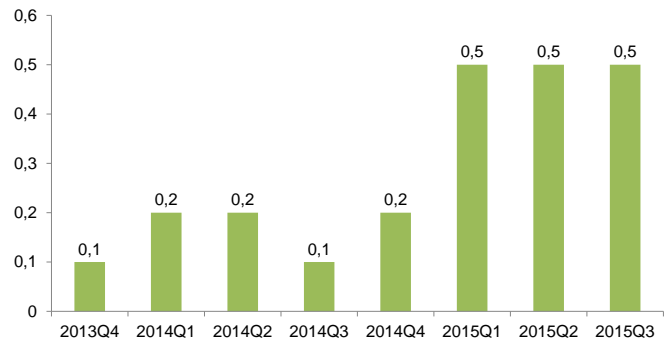
Given a moderate improvement in economic activity in the coming months and under the assumptions that oil price stabilizes at 56 USD per barrel for Brent and the Euro/Dollar fluctuates around 1.10, headline inflation is projected to bottom out at -0.3% in Q1 2015; prices are then expected to be broadly stable in Q2 (-0.1 %) and Q3 (+0.1%) .

Risks

On the upside lie a further depreciation of the Euro and a greater fall in oil price, which should additionally stimulate internal and external demand, as well as larger than expected real effects of the ECB's extended asset purchase programme. On the downside lie risks stemming from geopolitical uncertainty in the Middle East and Ukraine and the negotiation between Greece and its creditors, with the latter risk jeopardizing the stability of the Eurozone currency bloc.

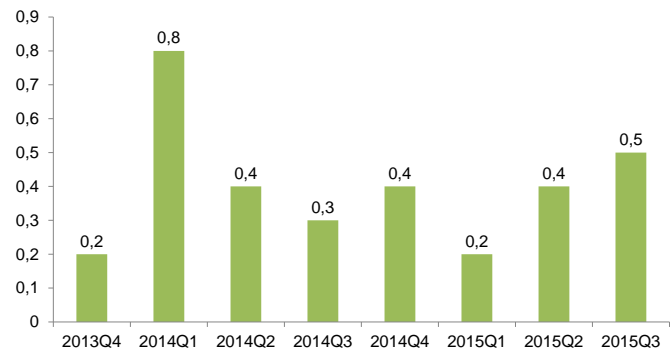
Source: Euro-zone Economic Outlook. April 8, 2015 (<https://www.cesifo-group.de/ifoHome/facts/Forecasts/Euro-zone-Economic-Outlook/Archive/2015/eo-20150408.html>)

Forecasted increase in consumption compared to previous quarter, Eurozone (%), 2013Q4-2015Q3



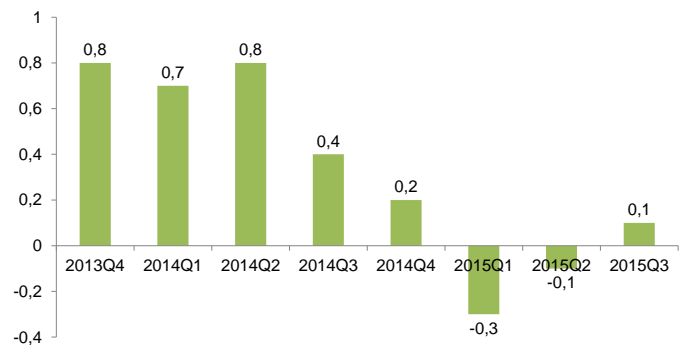
Forrás: Eurostat és Ifo-INSEE-ISAE-ISTAT előrejelzés

Forecasted increase in investment compared to previous quarter, Eurozone (%), 2013Q4-2015Q3



Forrás: Eurostat és Ifo-INSEE-ISAE-ISTAT előrejelzés

Inflation Forecast, Eurozone (%), 2013Q4-2015Q3

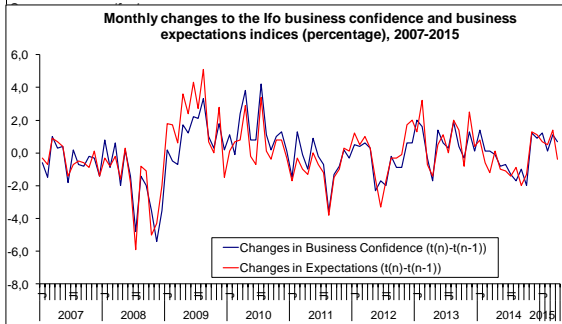
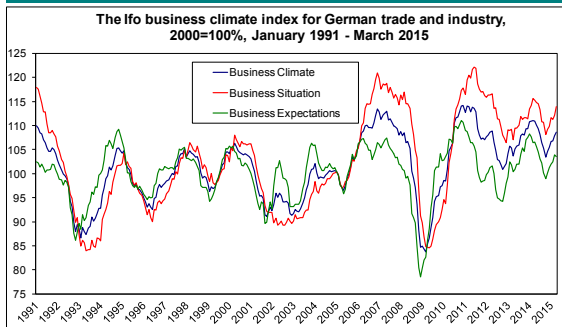


Forrás: Eurostat és Ifo-INSEE-ISAE-ISTAT előrejelzés

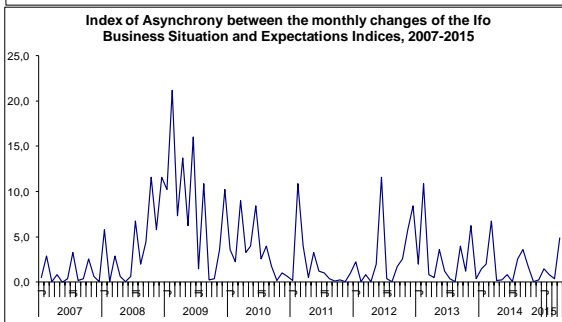
International trends

The Ifo Business Climate Index for industry and trade in Germany rose in April 2015 to 108.6 points from 107.9 points in March 2015. The business climate index has reached a turning point in November 2014. Assessments of the current business situation have increased by 1.8 points in April. Expectations with regard to the months ahead are less bright. The gap between the current business situation and the expected developments, as calculated by the IEER Index of Asynchrony, increased in April, so the business confidence index showed higher uncertainty than in the previous month. According to Ifo analysts, companies were more satisfied with their current business situation, but the majority was less optimistic about the business outlook than in the previous month. In sum, this year of the German economy continues to be favourable. (Source: Ifo, <http://www.cesifo-group.de>)

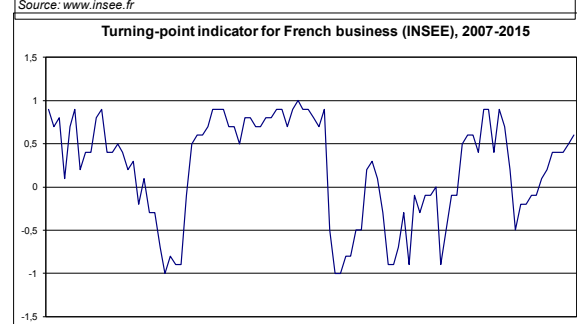
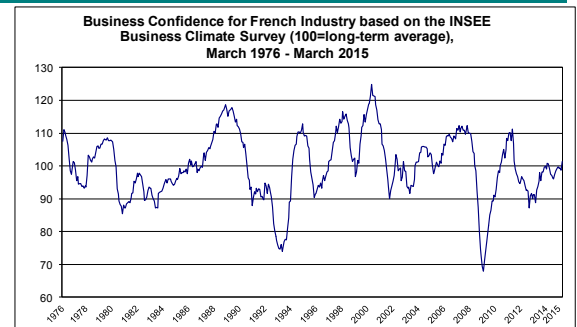
Results from the April survey by the French statistical office (INSEE) show that the business climate in industry in France has improved, the composite indicator which measures it has increased by two points compared to the previous month. The composite indicator has increased from 99 to 101 points, thus it exceeds its long-term average (100). The turning-point indicator has risen and is in the zone indicating a favourable short-term economic situation. The balance on opinions on past change in production has increased and it is close to its long term average. The balance of opinions on personal production expectations has decreased compared to the previous month but it is still above its long-term average. The balance of general production expectations, which represents business managers' opinion on French industry as a whole, has been continuously increasing since October. In April it has increased by 3 points compared to the previous month and exceeded its long-term average. (Source: INSEE, <http://www.insee.fr>)



Source: calculations based on data from <http://www.cesifo.de>



Source: calculations based on data from <http://www.cesifo.de>



Source: www.insee.fr

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