

Monthly Economic Bulletin

January 2016



The labor market situation of public workers

In the autumn of 2015 IEER conducted a survey for its short-term labor market research, and within this framework we asked the companies contacted on issues related to public workers. Most companies have not been in contact with public works labourers or public works programs. Most of those that have, evaluated the impact on their business situation negatively. More claim that they would employ former public workers than those who actually did in 2015, which may indicate an improper functioning of the labor market.

The survey

Between September 4 and October 16, 2015 an empirical study assessing the labor market decisions and short-term economic outlook of private sector businesses took place once again as a joint effort of the Ministry for National Economy and the HCCI Institute for Economic and Enterprise Research (IEER). In this context, we sought out 7,112 companies with a questionnaire.

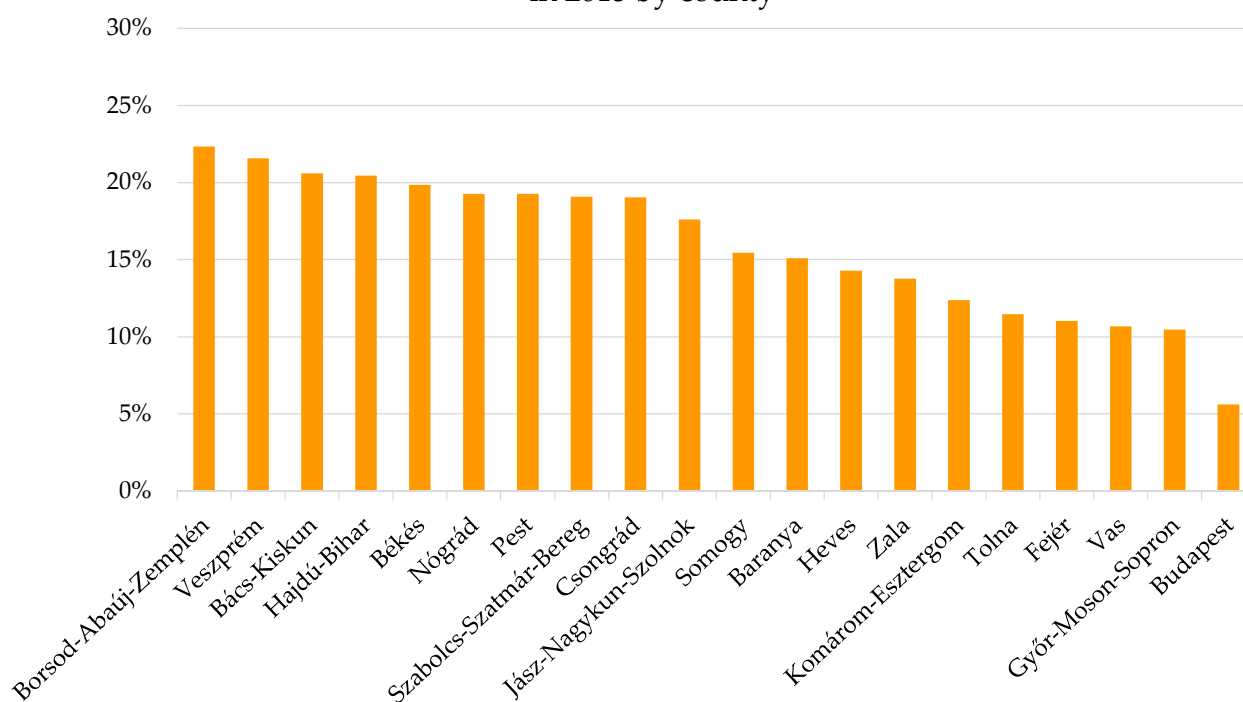
The survey also contained questions about public works. These concerned whether a given company in 2015 employed or planned to employ someone who was previously employed as a public works labourer and whether the public employment programs have had any effect on the company's business situation.

The data

Only 15% of respondents claimed to have employed former public work labourers in 2015 with the vast majority (85%) giving a negative answer. Most of the former public workers were employed as simple forestry, hunting and fishing labourers or simple industrial labourers.

Broken down by sector, it's striking that a higher rate (25%) of agricultural firms employed former public workers than the overall average. A regional breakdown shows a low (6%) ratio for Budapest, and one slightly higher than the average (22%) for Borsod-Abaúj-Zemplén county.

Ratio of companies employing former public employment labourers in 2015 by county



Source: IEER

A total of 53% of respondents claimed they would hire a former public works labourer, 27% responded that they would only do so if they received some sort of a concession, and 20% said they would never employ former public workers.

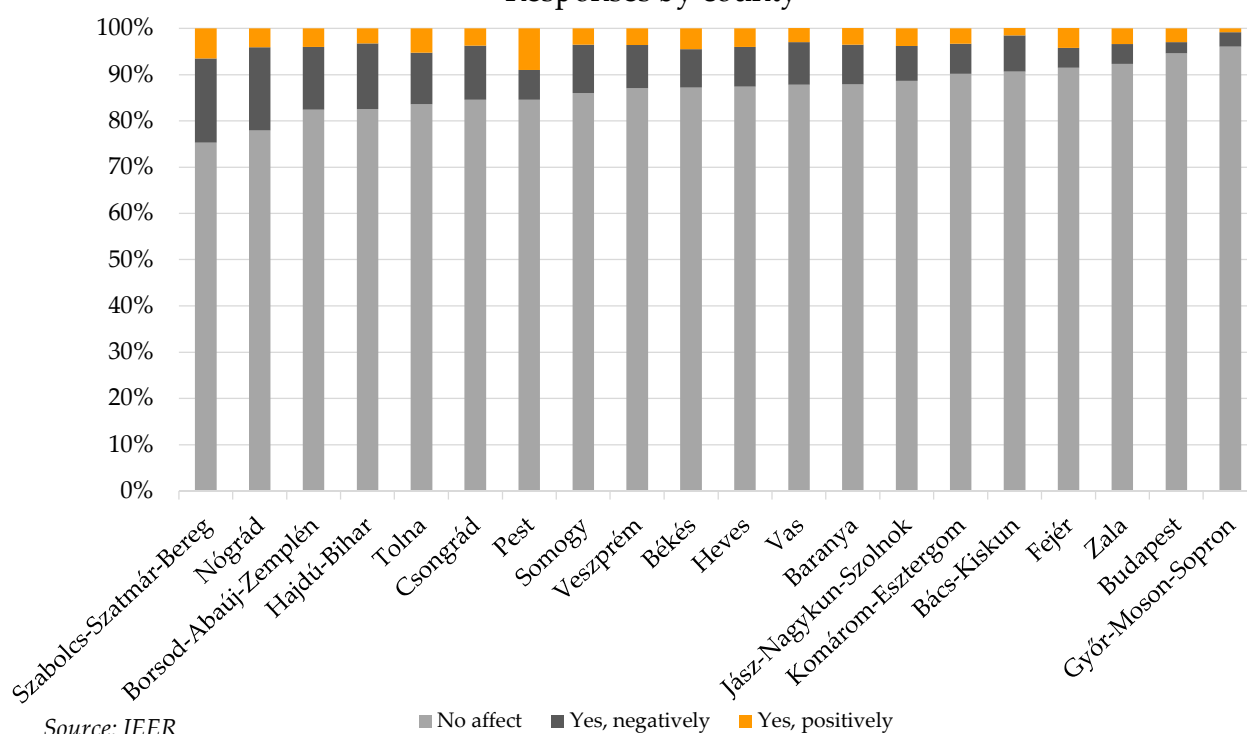
Companies from the hospitality and industrial sectors were the most inclined to employ former public workers, while the ones from construction and retail were the most negative about this question (24% each). The rate of those who would not employ former public works labourers was much lower in Békés and Szabolcs-Szatmár-Bereg counties (8% and 10% respectively) than the overall average.

The vast majority (88%) of companies with a valid response believe that their business

situation was not affected by public employment programs. 8% stated that the public works programs had a negative impact, and only 4% see a positive impact on their company. Of those that indicated a positive or negative effect, 60% claimed that they could not find adequate members of staff because of the suction effect of public employment while 30% stated that hiring former public workers had an impact on their company. A total of 24% of the respondents found that public employment raises competition for their business, and 16% of them indicated that in order to retain the best employees they had to raise wages. Most of the other answers referred to the increase in effective demand as well as the destructive effect of public works programs on competition.

Do public employment programs affect your business situation?

Responses by county



Agricultural companies were the most upbeat of the total sample when considering the question: 9% felt that public employment programs had a positive impact on their business situation. Those active in industry proportionally had the highest negative response: 12% of them indicated that public works programs were harmful to them. The most neutral sectors were trade and transportation-warehousing, in both cases 92% of the respondents claimed that public employment programs did not have an effect on their firms.

Findings

Based on the data we can say that most companies operating in the private sector were not influenced by public employment programs (they did not employ former public workers and they do not believe that the public works programs have influenced their business situation). As the number and proportion of

By regional breakdown, respondents that felt public employment programs had a negative impact on their companies spiked for Nógrád and Szabolcs-Szatmár-Bereg counties at 18% each. Szabolcs-Szatmár-Bereg county, however, also has the second largest proportion (7%) of those who have highlighted a positive effect as well. The latter is highest in Pest county (9%).

public employment workers is related to regional location (going along a north-east to south-west axis both decrease), we assumed that this will also be displayed in our data. However, this is only partially true, and is rather so towards the extremes.

In terms of sectors, agricultural and industrial companies had the most contact with public workers and public works programs. For the former it was more positive, for the latter it was more negative.

Of all respondents, 80% did not rule out the idea of employing former public workers, but only 15% made this a reality. However, 75% of those who employed former public workers in 2015

claimed that in case of a new recruitment they would hire former public employment workers even without concessions – which probably means they had a good experience when working with former public workers. On that basis, it seems likely that it is not only the apparent lack of skills of public labourers which is a barrier to finding employment, but also that the labor market is not functioning properly.

Double crisis in Brazil

A serious decline is expected in Latin America's largest economy in 2015 and 2016 as well. The prime rate is among the highest in the world, there is double-digit inflation, and the government's deficit to GDP ratio increased fivefold in the past five years. The problems are due not only to the unfavorable global economic situation but also the spendthrift economic policy of the previous government. The solution is hindered by the fragmentation of legislation and by a high-level political crisis unfolding in the wake of the Petrobras scandal.

Country marching towards a crisis

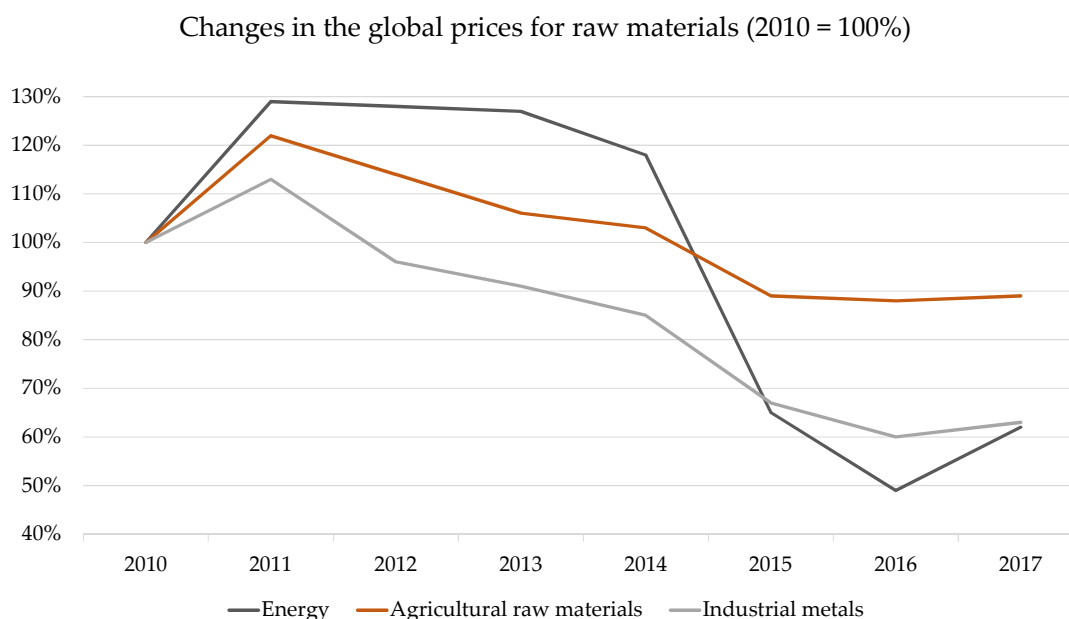
After stagnating in 2014, Brazil's economy in 2015 is projected to have shrunk 3.7% and a downturn of 2.5% is expected for this year. In addition to a prime rate of 14.25%, inflation was more than 10% in 2015. This is likely to decline in 2016, but not because of economic stability, but because of a drop in consumption. The state budget deficit reached 10% of the GDP, Brazil's public debt to GDP

ratio stands at 70%. The unemployment rate increased to 8% last year. These figures all show that Brazil is approaching a serious crisis. In the second half of 2015, the country lost investment-grade rating from Standard & Poor's and Fitch. Meanwhile, the costs of the 2016 Summer Olympics place a large burden on the Brazilian economy.

Background

One reason for the situation in Brazil is the unfavorable world economic situation. Global commodity prices are in free-fall: the World Bank's three commodity price indices (energy, industrial metals and agricultural raw materials) decreased by 45% on average since 2011. Brazil's economy is heavily export-oriented, and raw materials make up 46% of exports, so this price drop slows down growth

significantly. Serious problems are also caused by the economic downturn in China, because China is Brazil's most important foreign trade partner. Trade between them increased from \$ 2 billion to \$ 83 billion between 2000 and 2013 and in the current situation nearly a fifth of Brazilian exports go to China. As a result, the decline in Chinese demand makes the Brazilian economy vulnerable.



Source: World Bank

Another reason for the troubles is the overspending by President Dilma Rousseff's previous government. While the retirement age is very low (50 years for women, 55 years for men), significant pension increases have been implemented: 12% of the Brazilian GDP

The way out of trouble

In addition to the above, Brazil is facing a political crisis, which makes finding a solution even more difficult. Petrobras, a state-controlled oil giant has been undergoing corruption investigations since the end of 2014. The case has serious economic effects (a curb in the company's investments could cause a 2% drop in GDP), but the political consequences are even more severe. The strings have led to the highest political circles and indirectly affect President Rousseff. As a consequence the government has become virtually paralyzed and social unrest is growing.

goes to pensions. In addition, unproductive tax benefits have been introduced for many industries, which resulted in a significant decrease in tax revenues. The general government deficit increased from 2% to 10% between 2010 and 2015.

Meanwhile, the president and her party attempts to handle the situation by repaying debts of billions of dollars to public banks and financial institutions. According to the idea this money would then come out as loans to the markets and in turn would sustain consumption and prevent the business sector from shrinking. However, the lending expansion is hindered by the continuous rise in the prime rate, which is needed in order to curb inflation. Instead of creating a semblance of stability the government's steps have created concern as they resemble the irresponsible spending by the previous government cycle. To implement austerity

measures, however, which is considered by many as a real solution, the support of the deeply divided Congress is required, not to mention the fact that the ruling Labour Party

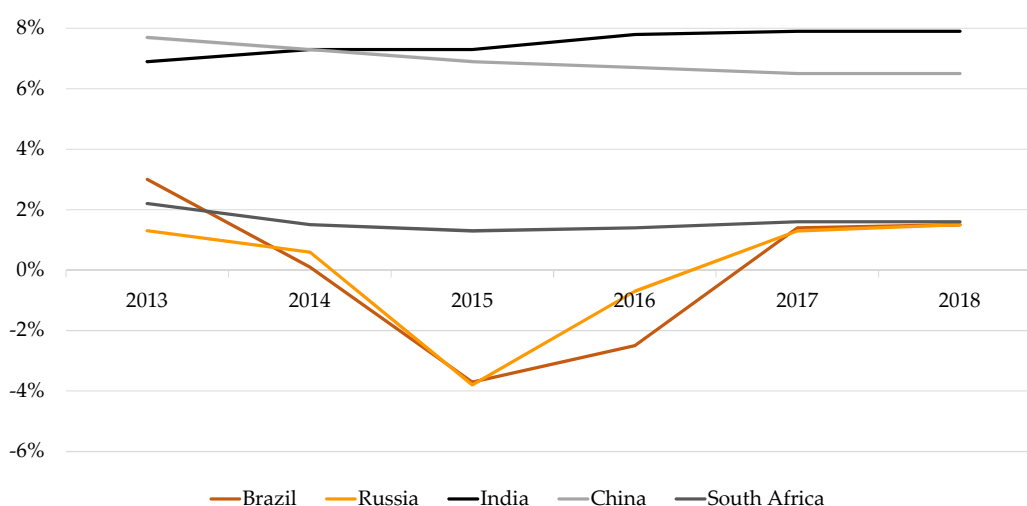
Not only is Brazil affected

The rest of the major emerging economies among the BRICS countries also shows signs of crisis. The World Bank predicts that the Russian economy will shrink in 2016 just like Brazil's. For China and South Africa slowing growth has been forecasted, while a significant acceleration is expected only in India. The weakness of the above-listed

also rejects such an idea. Therefore, forecasts regarding Brazil are very pessimistic, although bankruptcy is not likely.

countries may also have a noticeable impact on developed economies. The World Bank, however, has not ruled out the scenario that the economic slowdown of the BRICS countries will coincide with problems on global capital markets – this could cause about a one percent slowdown of the global economy.

Real GDP growth forecasts for the BRICS countries



Source: World Bank

Sources:

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International trends

The development of production, consumption and employment in certain major international economies, compared with expectations and the previous period.

| | | Vonatkozási időszak | Tényadat | Várakozások | Előző időszak |
|---------|--|---------------------|----------|-------------|---------------|
| Germany | Unemployment Change (thousand persons) | (Nov) | -13 | -5 | -7 |
| | Manufacturing Purchasing Manager's Index | (Dec) | 53 | 53 | 52.9 |
| | Ifo Business Climate Index ¹ | (Jan) | 107,3 | | 108,7 |
| France | INSEE Business Climate Index ² | (Jan) | 102 | | 101 |
| USA | Nonfarm Employment Change (thousand persons) | (Nov) | 211 | 200 | 298 |
| | Core Retail Sales, monthly change | (Nov) | 0.20% | 0.30% | 0.10% |
| | Philadelphia Fed Manufacturing Index | (Dec) | -5.9 | 1.5 | 1.9 |
| China | Industrial Production, yearly change | (Nov) | 6.20% | 5.60% | 5.60% |

¹ <http://www.cesifo-group.de/ifoHome.html>

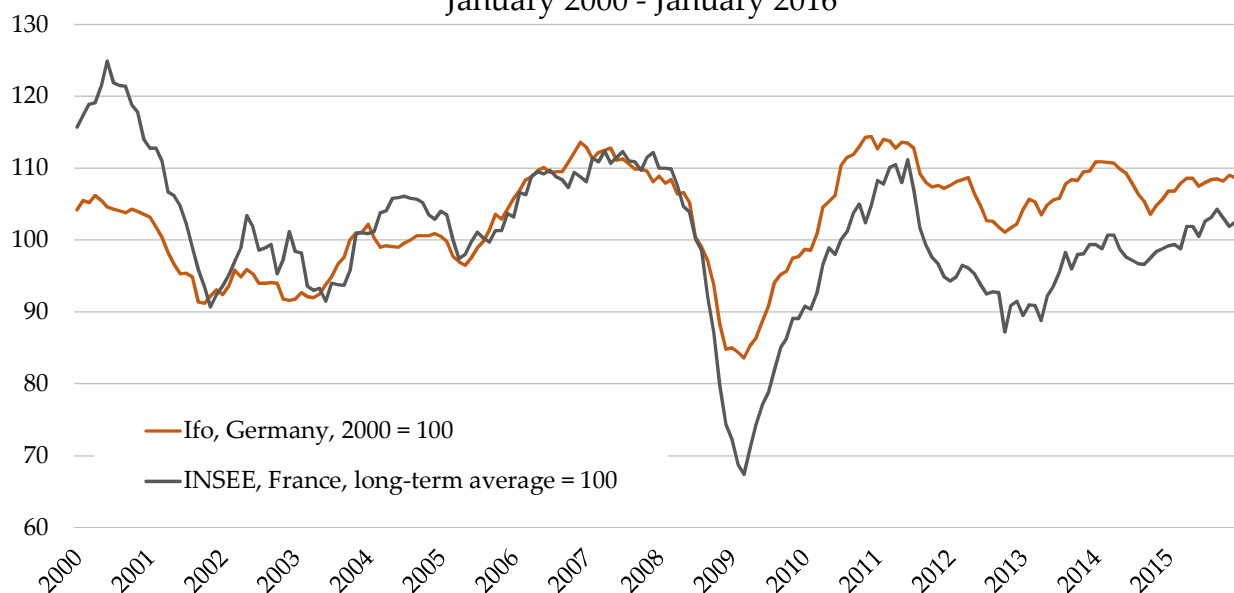
² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

Source of the remaining data: <http://worldeconomiccalendar.com>

Compared to forecasts a higher-than-projected decrease occurred in the number of German unemployed in November. However, the Ifo business confidence index fell in January. The US labor market is also doing well: the number of employed increased even more than expected. The Philadelphia Fed production index fell in December, however, well short of both the November level and all expectations. Chinese production volume increased more than expected compared to November 2014.

Long-term changes in the business confidence indices

Business confidence in Germany and France
based on the Ifo and the INSEE business climate studies,
January 2000 - January 2016



Source: www.cesifo.de, www.insee.fr

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