



Results of HCCI-IEER's quarterly business cycle survey, January, 2018

The quarterly corporate business cycle survey of MKIK GVI is based on the opinions of 400 chief executives about the current state and outlook of their businesses. From the companies surveyed, 300 small and medium-sized enterprises (with 20-249 employees) were selected to calculate the Comprehensive SME Business Cycle Index and the Comprehensive SME Uncertainty Index. For the greater sample of 400, including large enterprises employing over 249 people, a Quarterly Business Cycle Index and a Quarterly Uncertainty Index were calculated.

According to the survey conducted in January 2018, business confidence in Hungary significantly exceeds confidence measures of the previous quarter: the Quarterly Business Cycle Index is up on 37 points after 35 in October. This has been the highest score since the quarterly business cycle research began in 2010. The second highest score (33 points) was measured in the

previous quarter and in April 2016 (cf. figure 1.)

If we only regard the level of business confidence among small and medium-sized enterprises, there has also been an upturn: Comprehensive SME Business Cycle Index increased from 34 points in October to 38, the highest score to date (cf. figure 2).

Figure 1: Quarterly business cycle index 01.2010 - 01.2018

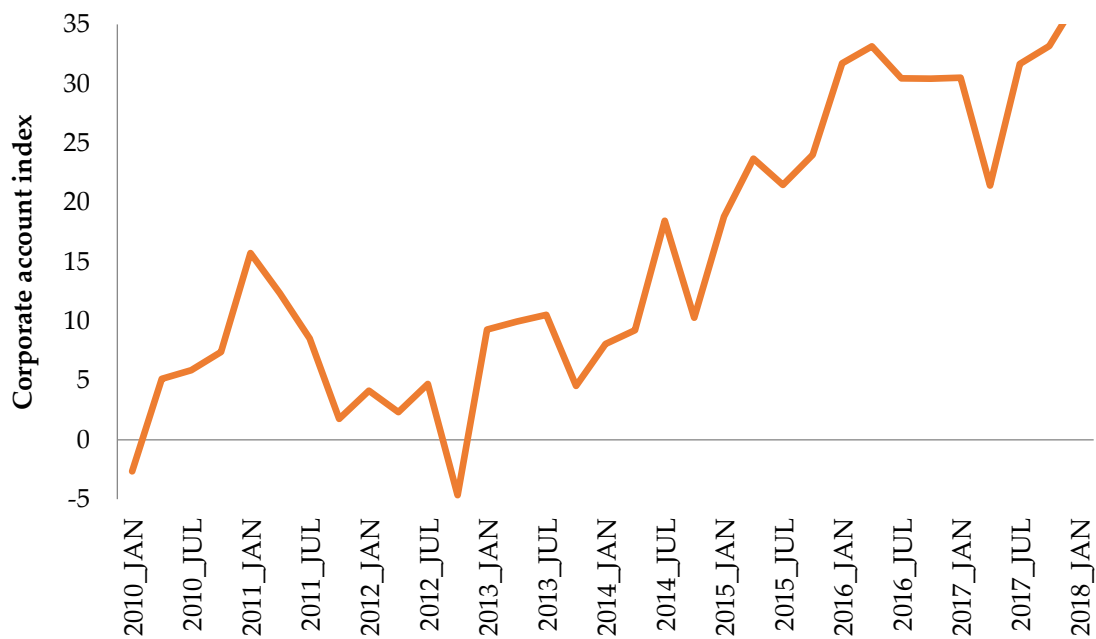
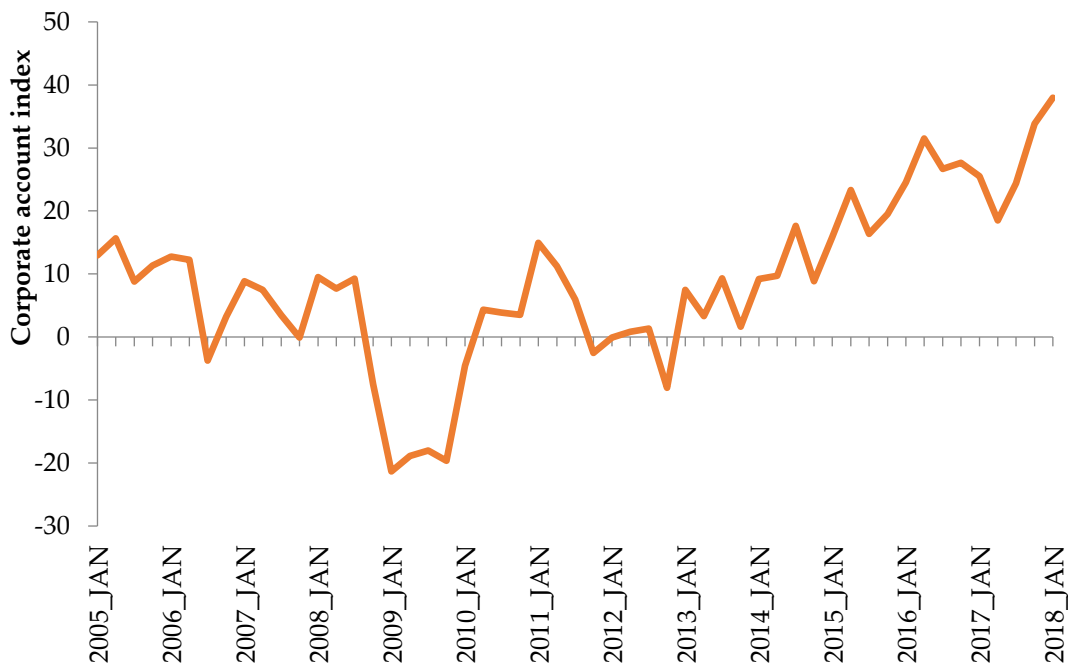


Figure 2: The Comprehensive SME Business Cycle Index, 01.2010 - 01.2018.



| | April 2017 | July 2017 | October 2017 | January 2018 |
|---|------------|-----------|--------------|--------------|
| Quarterly Business Cycle Index | 21 | 32 | 33 | 37 |
| Comprehensive SME Business Cycle Index | 18 | 24 | 34 | 38 |

Source: GVI 2018

The Quarterly Uncertainty Index is at 32 points, which is the same as the result for the previous quarter. The index value suggests that the uniformity of domestic businesses' situation assessment has not changed in comparison with the results of the previous quarter (cf. figure 3).

The Comprehensive SME Uncertainty Index has risen from 32 (October 2017) to 33 points by January 2018, which means that the opinion of small and medium-sized enterprises has become less uniform compared to the previous quarter (cf. figure 4).

Figure 3: Quarterly Uncertainty Index, 01.2010 - 01.2018.

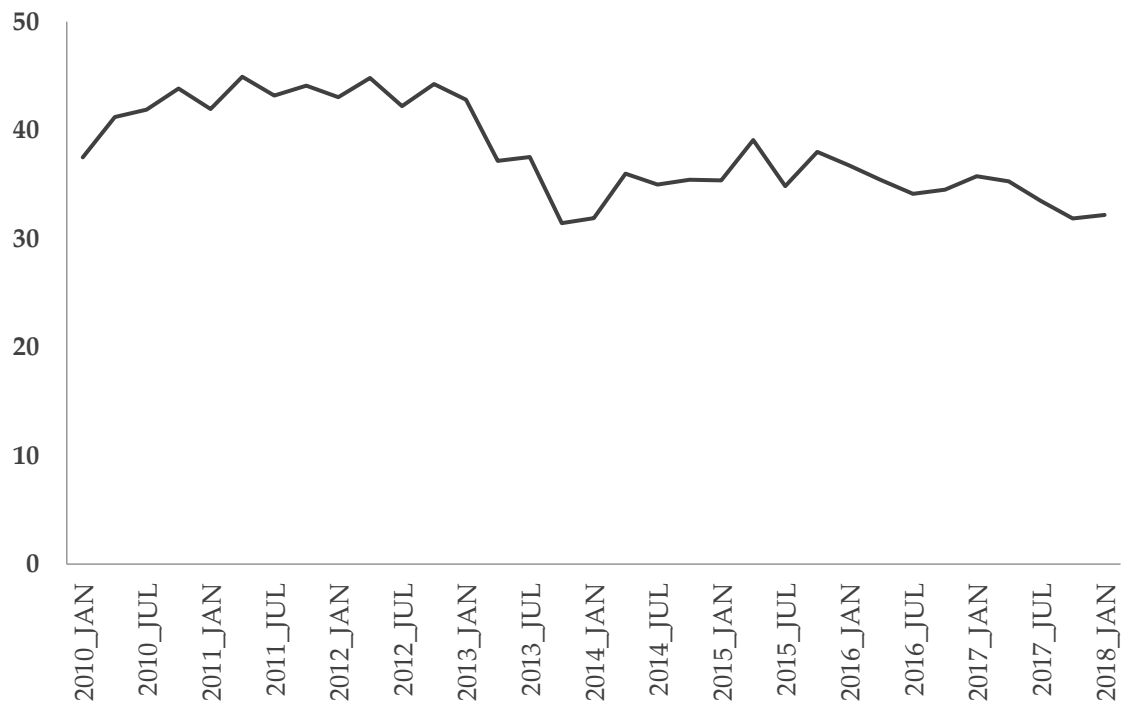
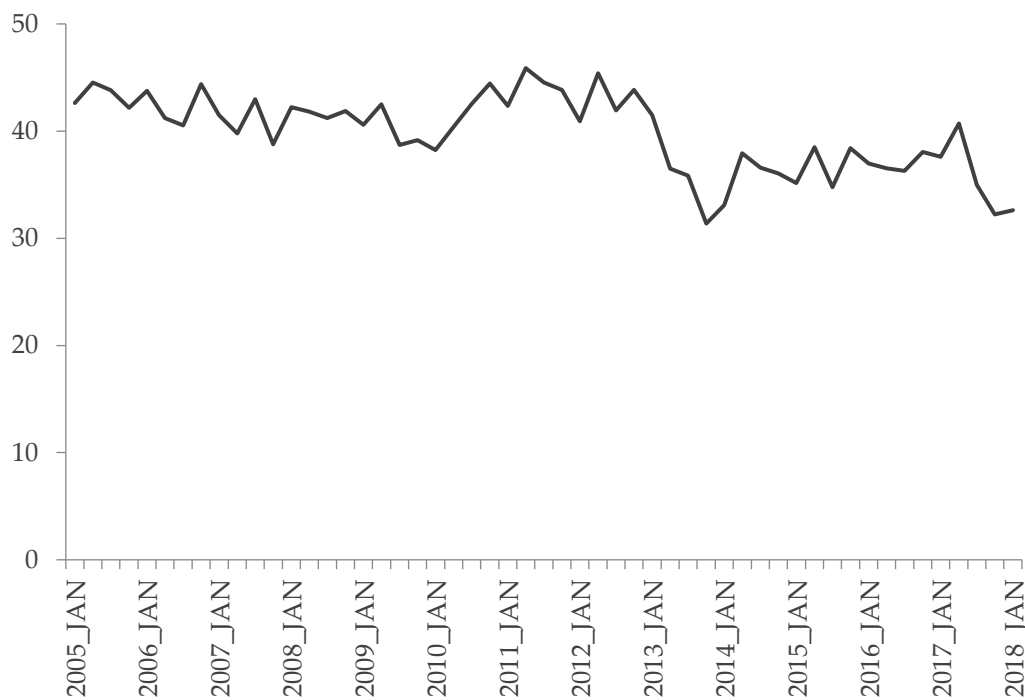


Figure 4: SME Uncertainty Index, 01.2010 - 01.2018.



| | April 2017 | July 2017 | October 2017 | January 2018 |
|--|------------|-----------|--------------|--------------|
| Quarterly Uncertainty Index | 35 | 33 | 32 | 32 |
| SME Uncertainty Index, 01.2010 - 01.2018. | 41 | 35 | 32 | 33 |

Source: GVI 2018

Components of the Quarterly Business Cycle Index

Calculating the GVI Quarterly Business Cycle Index involved ten sub-indicators which considered businesses' future expectations as well as their assessment of the actual situation.

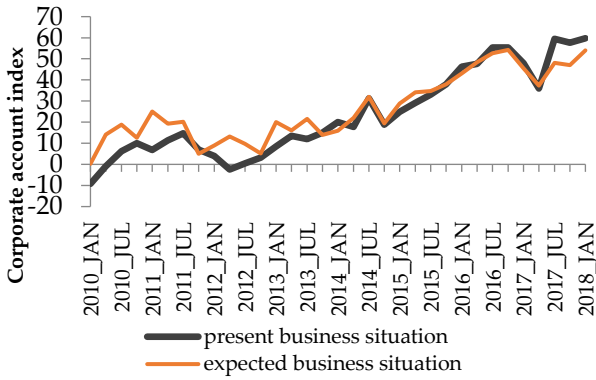
Businesses' expectations concerning investment activity, business situation and production levels are much more optimistic than in the previous quarter.

Actual situation assessment in terms of unfilled orders and productivity has improved since October 2017. Other sub-

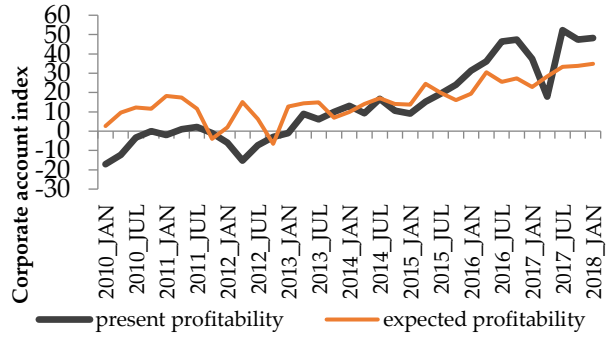
indicators have not displayed considerable change since the previous quarter.

Figure 5: Indicators of business climate

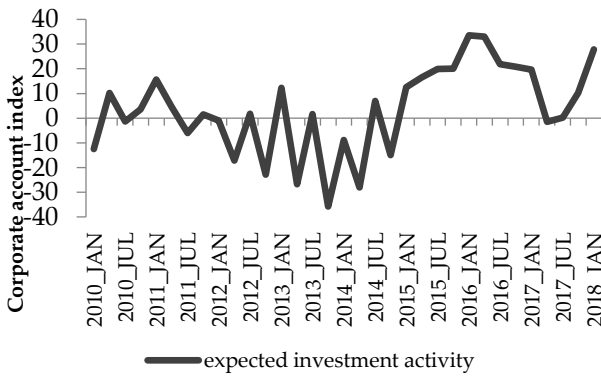
Business, current state and expectations



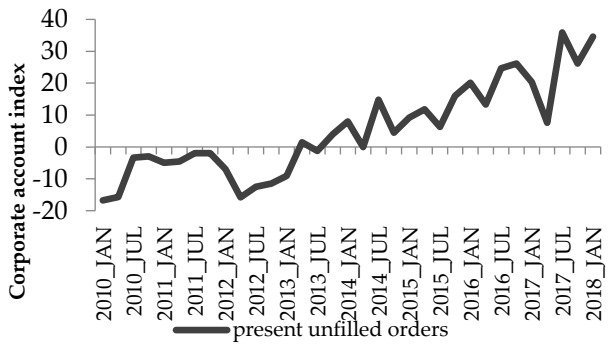
Profitability, current state and expectations



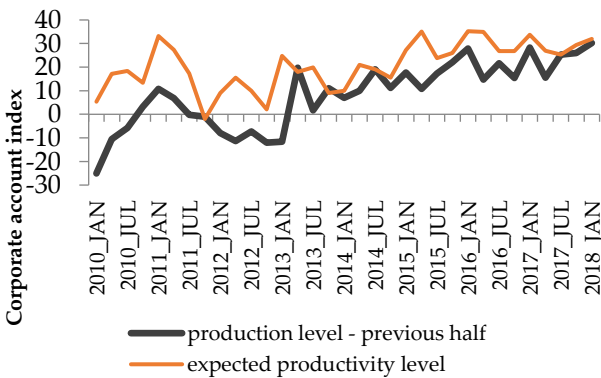
Investment expectations



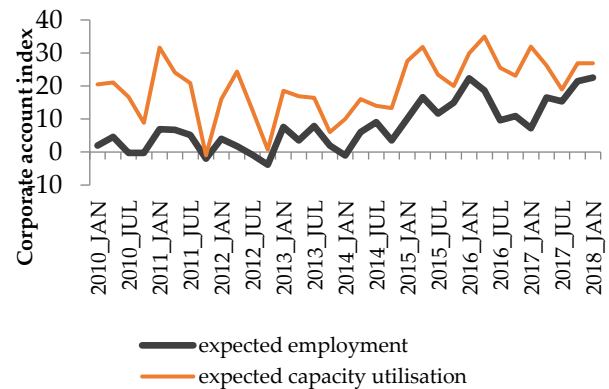
Unfilled orders, current state



Current and expected production levels



Expected changes in employment and capacity utilisation



Source: GVI 2018

New import tariffs in the United States

In March the president of the United States announced imposing traffics on steel and aluminium import. The expressed purpose was reducing Chinese export as well as protecting the American steel industry, nevertheless such measure would affect allies of the US, for instance the European Union. Affected countries are planning retaliations which could lead to a trade war.

On 1st March Donald Trump announced that the United States would impose 25 percent tariffs on imported steel and 10 percent tariffs on aluminium. Anti-dumping and countervailing duties are not unprecedented in the US, however, the legal rationale is and this measure might lead to a possible trade war.

Trump would reduce the trade imbalance between the US and China, however, Wang Yi, foreign minister of China, noted that protectionist measures would only risk hurting the global economy, and a possible trade war will only be harmful for everyone. Li Cui, economist of CCB International said that the new tariffs will have a small impact on China as the export of steel and aluminium accounts only for 3 percent of China's total exports. The United State is not a key market for China regarding the transfer of steel, what might have a more significant effect is the new tariff on aluminium as 15 percent of the country's export goes to the US.

The issue of new tariffs would affect Canada and Mexico more seriously as 88 percent of the Canadian and 73 percent of the Mexican steel export is sold in the States. Both

countries are planning retaliation in case they fall under the new tariffs.¹

The European Union, which sells the most steel to the US, is considering launching a formal debate in the World Trade Organization about this issue and also made a list of major American export commodities, including cranberries, Harley-Davidson motorcycles and bourbon. Imposing 25 percent of import tariff on these products would sum up to €2.8bn (\$3.5bn). According to WTO rules the EU is entitled to retaliate for losses due to the new tariffs. Trump answered that he would impose tariffs on European cars as a response.

Steel industry is strategically important for the European Union, which contributes to economical and employment growth. Furthermore the US is considered as key market, accounting for most European steel exports outside the EU.² An import tariff of 25 percent would reduce export to the American market, which would have a negative impact on a number of plants and

¹ The Economist: The looming global trade war.

Source:

<https://www.economist.com/news/briefing/21738392-america-setting-dangerous-new-precedents-it-tries-curb-imports-looming-global-trade>

² Geopolitical Futures: Why the US Can't Afford a Trade War With the EU. Source:

<https://geopoliticalfutures.com/us-cant-afford-trade-war-eu/>

workers. A broader trade war risks European exporters being shut out of other markets as well in case the escalation raises protectionism globally.³

The United States' and the EU's economy are highly dependent upon each other: in 2016 18,7 percent of all US export went to the European Union and 20,8 percent of all EU export went to the States. Trade is important for investments too: the United States' share in total investment in the EU is 40 percent while the EU accounts for 60 percent of total investment in the US, which means both are the biggest foreign investors in each other's economy. Import tariffs impede not only the global trade but investments as well as companies operating in foreign countries relies on import too.

Article XXI of the WTO allows countries to raise any tariffs „it considers necessary for the protection of its essential security interests” even if there is no evidence of dumping or being subsidized. This article provides opportunity to protect industries that are important for national security, however, this is a powerful measure, thus it is rarely invoked.

Secure market access and freedom from trade discrimination has contributed greatly to the rise of global trade. Based on an analysis of Economist Intelligence Unit⁴ it would be

³ EUobserver: Trade war feared as EU to retaliate on US steel. Source:

<https://euobserver.com/economic/141176>

⁴ Growth Crossings: Unintended consequences: The impact of trade wars on consumer markets. Source:

<http://growthcrossings.economist.com/article/unintended-consequences-impact-trade-wars-consumer-markets/>

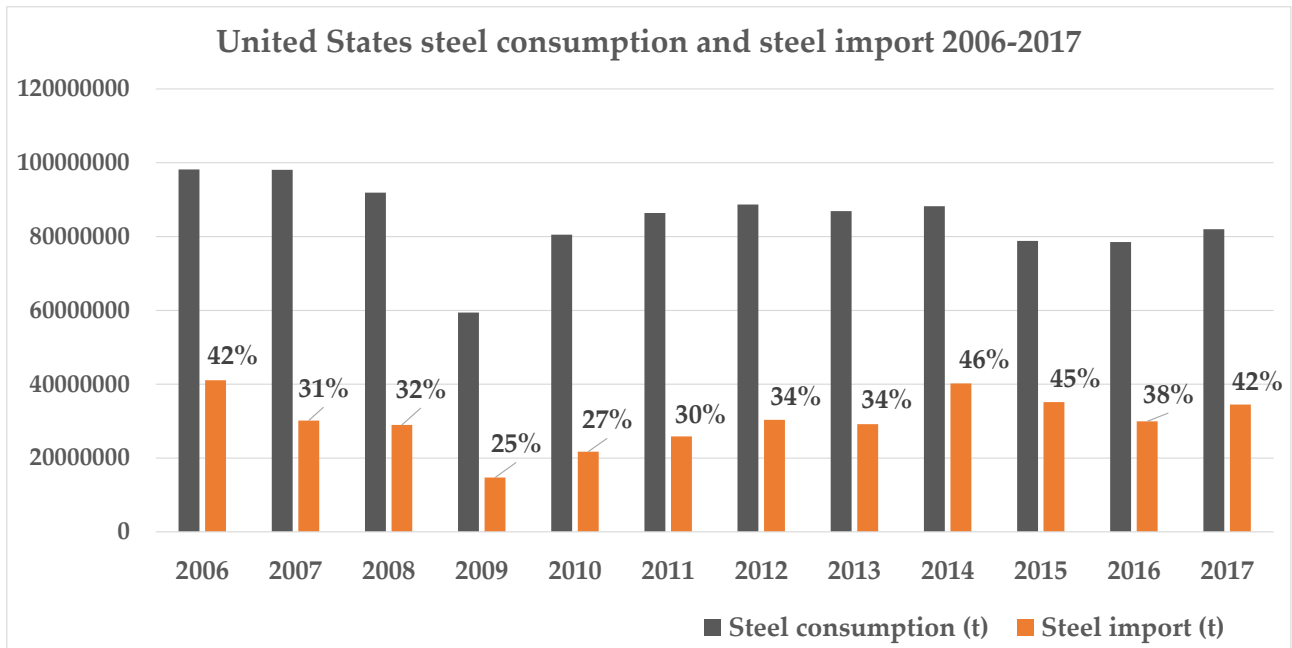
American consumers who would suffer the most from a possible trade war as the price of Chinese products would rise strongly. That would mean an inflation of 1,5 percent higher in the US consumer price in 2018 than the baseline forecast and private consumption growth would be below than expected as well. In contrast effect on Chinese consumers would be moderate as aside from some luxury brands the US is not a key import market of the country and China can find substitute sources of supply for the affected products more easily. American companies operating in China might be negatively affected as well as Mexican producers and consumers and suppliers in other Asian countries too. Alex Capri, a senior fellow at the National University of Singapore Business School says the supply chains of American companies are integrated at a high level that there are very few participants who wouldn't feel the consequences of a trade war.

Protectionist import tariffs in the United States are not without precedent: under the Bush Administration in 2002 the import tariff of steel increased to 30 percent, which caused a 40 percent growth in the price of products made with steel and costed 200,000 job cuts. The tariffs were removed after 20 months. Steel tariffs raised to 24 percent would have decreased steel import by a third in 2017, which would have created 33,000 metal-making jobs on the short term but cut 179,000 metal-dependent ones on the long run. In total these numbers are not that significant as the number of workplaces increased by two million during the last year only. What poses a bigger threat is the possibility of escalation of the current

situation and a potential trade war. There is a global oversupply and a massive Chinese dumping of steel and aluminium, however, as said by former Commerce Secretary Penny Pritzker, this step would confront only the allies of the US, rather than China.⁵ She says that the solution, rather than protectionist measures, is to be found in funding more job-driven programs and expanding portable benefits.

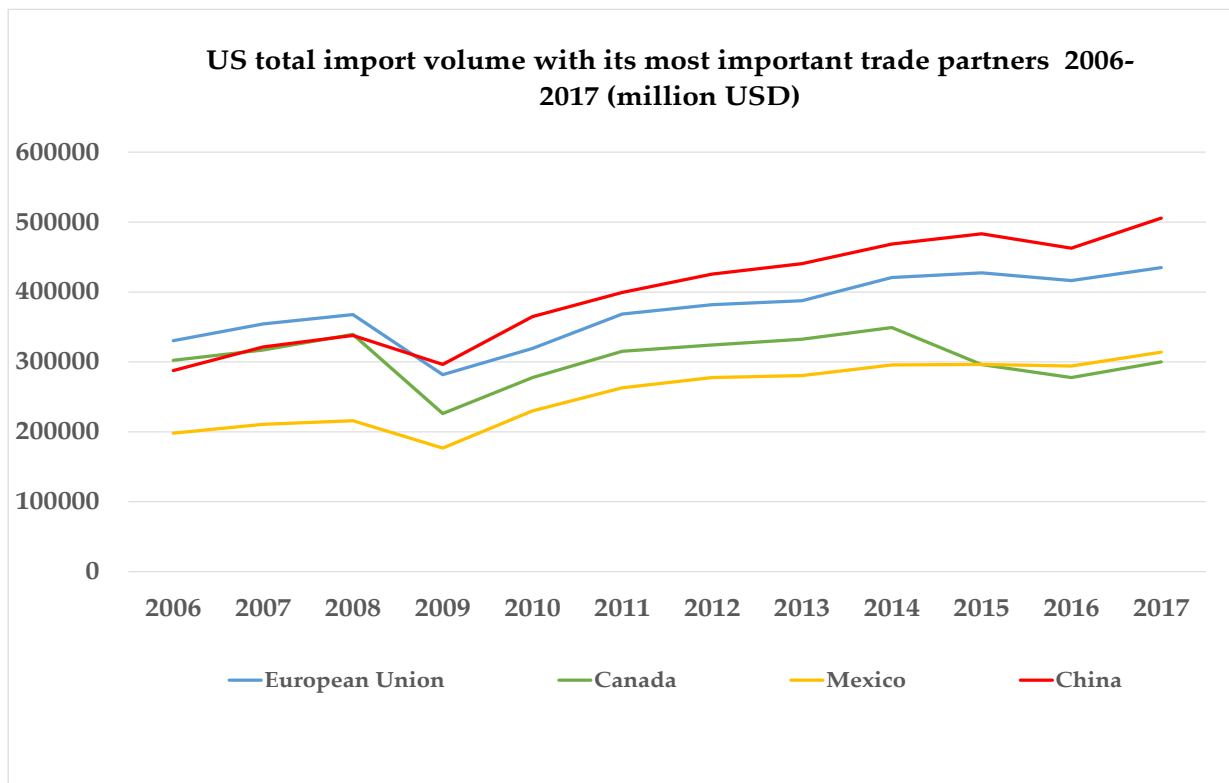
⁵ CNBC: Rather than start a trade war, let's help more Americans adapt and thrive, says former Commerce Secretary Penny Pritzker. Source: <https://www.cnbc.com/2018/03/08/rather-than-start-a-trade-war-lets-help-more-americans-adapt-commentary.html>

Figure 1: US steel consumption and steel import, 2006-2017



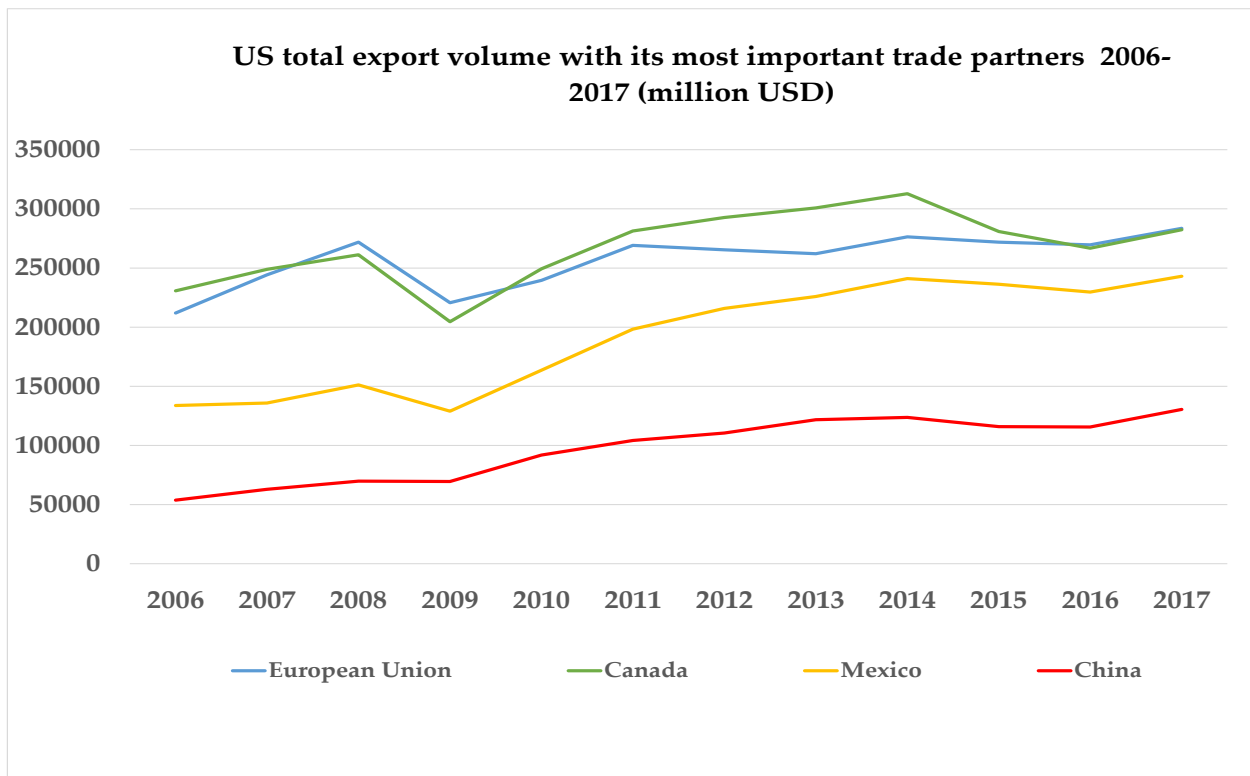
Source: www.statista.com, www.census.gov

Figure 2: US total import volume with its most important trade partners, 2006-2017 (million USD)



Source: www.statista.com, www.census.gov

Figure 3: US total export volume with its most important trade partners, 2006-2017 (million USD)



Source: www.statista.com, www.census.gov

International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

| | | Period in review | Actual data | Expectations | Previous period |
|---------|---|------------------|--------------|--------------|-----------------|
| | Unemployment Rate | (Mar) | 5.4% | 5.5% | 5.5% |
| Germany | Manufacturing Purchasing Managers Index | (Mar) | 61.1 | 61.2 | 61.2 |
| | IFO Business Climate Index ¹ | (Mar) | 117.6 | 109.4 | 117.2 |
| France | INSEE Business Climate Index ² | (Mar) | 110 | | 112 |
| | Unemployment Rate | (Mar) | 4.1% | 4.0% | 4.1% |
| USA | CB Consumer Confidence Index | (Mar) | 125.4 | 123.1 | 123.1 |
| | Manufacturing Purchasing Managers Index | (Mar) | 55.5 | 55.5 | 55.5 |
| China | Manufacturing Purchasing Managers Index | (Mar) | 51.3 | 51.5 | 51.6 |

¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

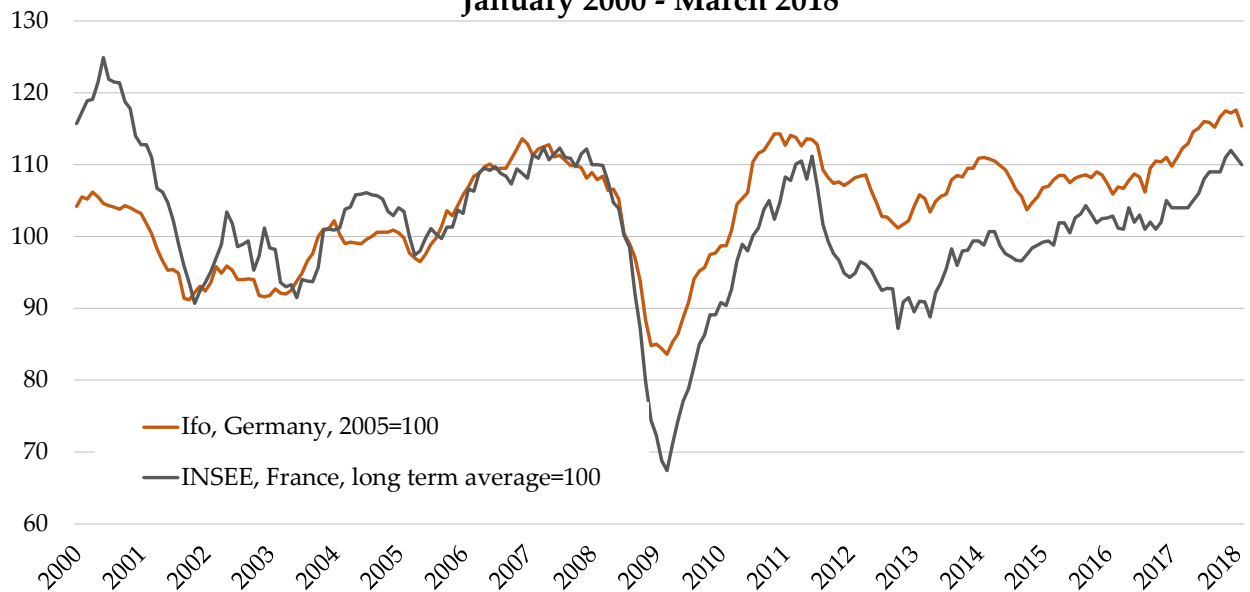
Source of the remaining data: <http://worldeconomiccalendar.com>

The German economy's performance slightly descended again in March. The level of unemployment decreased since February. The manufacturing purchasing manager index (PMI) decreased marginally compared to the last month. The IFO business climate index, after having been at a record level in January, have declined again, as expected, since February.

The French INSEE business climate index has decreased again this month. In the United States the CB consumer confidence index was a little lower than in the previous month despite the expectations of a slight increase. The manufacturing PMI was kind of higher compared to the previous months. The unemployment rate has remained unchanged since last month. The Chinese manufacturing PMI after a decrease in February increased above the expectations in this month.

Long-term changes in business confidence indices

**Business confidence in Germany and France,
based on the Ifo and INSEE business climate surveys,
January 2000 - March 2018**



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

Contact

Address: MKIK GVI
H-1054 Budapest, Szabadság tér 7.
Tel: 235-05-84
E-mail: gvi@gvi.hu
Internet: <http://www.gvi.hu>

Prepared by:

Vanda Kádár, intern, HCCI-IEER
Zsanna Nyíró, analyst, HCCI IEER
Emília Kompaktor

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