

Labour shortage at Hungarian companies: perception and reactions

In this month's analysis we shall examine the rate at which domestic companies faced problems caused by labour shortage in autumn 2018 and in January 2019, with special highlight on the types of companies that were primarily affected by this issue. The measures companies take to keep existing employees in place and to keep labour shortage in hand will also be presented in detail, including the employment of foreign citizens.

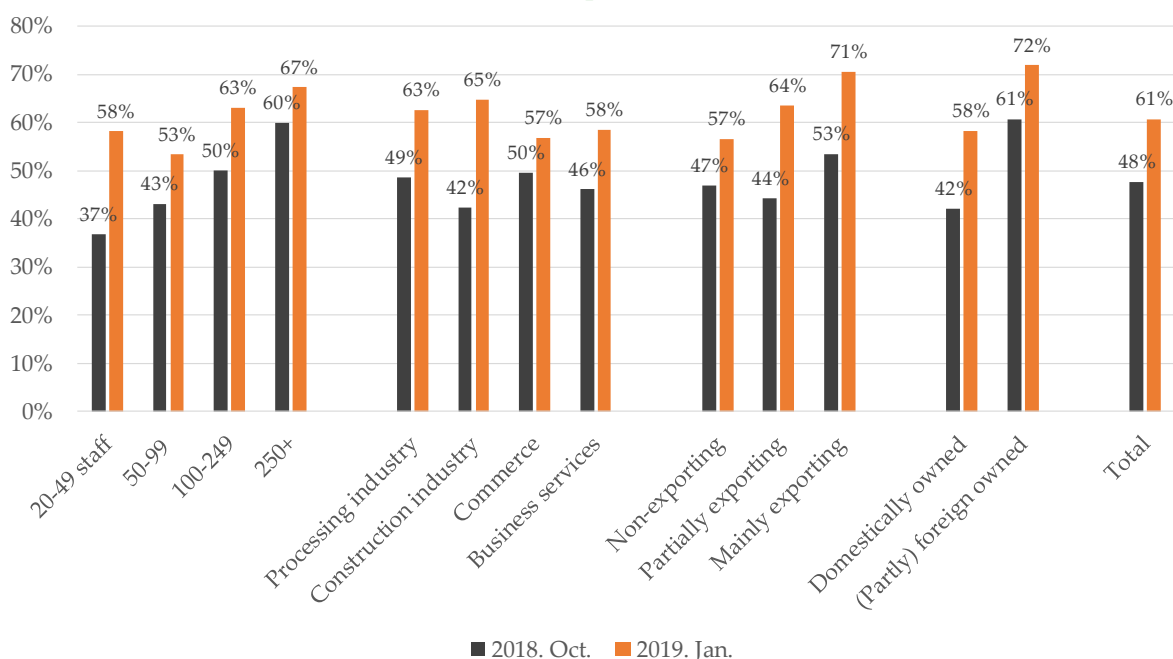
Data of the Quarterly Business Climate Survey from October 2018 and January 2019 recorded by IEER (Institute of Economic and Enterprise Research) were used to make this analysis. On both occasions, 400 CEOs were asked about their companies' business situation and economic expectations. In the course of the same two waves, labour shortage rates, prevention measures and remedies were also surveyed. The full sample consisted of 300 SMEs (20-249 employees) and 100 large companies (250+ employees) in both cases.

How labour shortage is perceived

In October 2018, almost a half of our respondents (48%) faced problems in the year preceding the survey that could be traced back to labour shortage. In January 2019 this

rate jumped to close to two thirds (61%). Labour shortage was felt the most intensively at companies that are major exporters or that are of a (partially) foreign ownership.

Figure 1: Rate of companies that experienced problems due to labour shortage in the previous year, N2018=400, N2019=398; per cent; 2018.10., 2019.01.

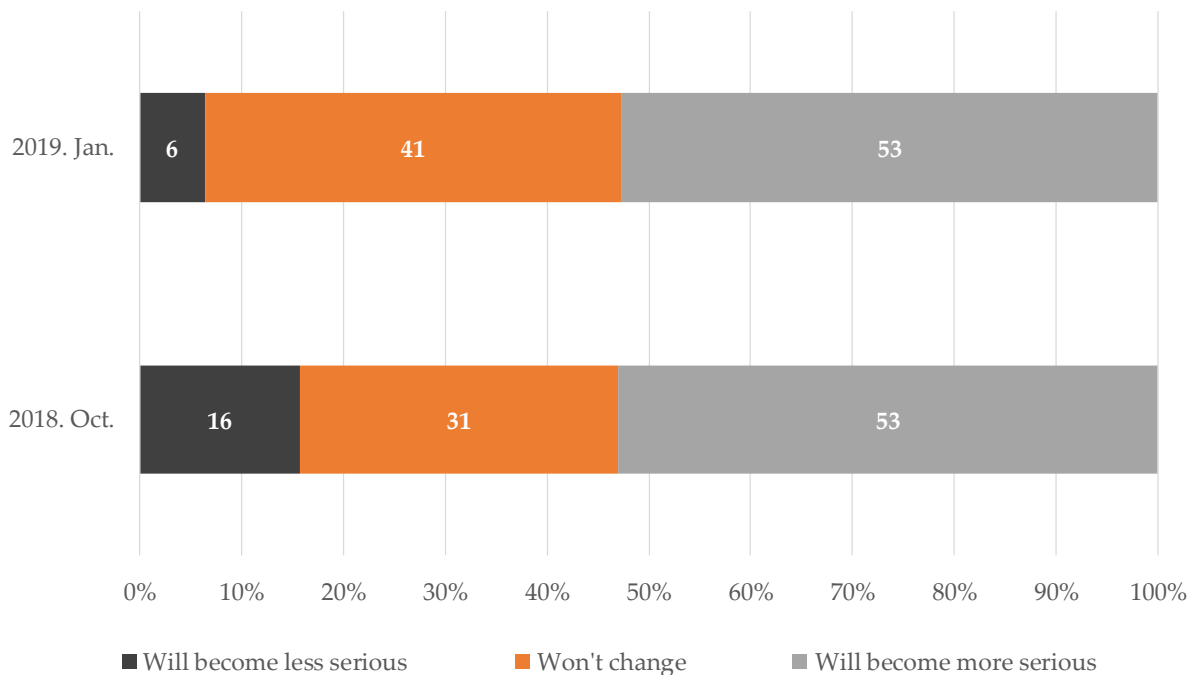


Source: IEER 2019

In both waves the issue was surveyed, over a half of our respondents (53%) expected labour shortage to become more acute in Hungary in the forthcoming one year. 31% (October 2018) and 41% (January 2019) of the respondents felt

that these problems wouldn't change in a year, and only 16% (October 2018) and 6% (January 2019) expected the issue to become less severe.

Figure 2: Respondents' expectations about labour shortage-related problems in Hungary for next year, N2018=400, N2019=393; per cent; 2018.10., 2019.01.



Source: IEER 2019.

Future expectations of labour shortage are the same regardless of company size, economic sector, export activity and ownership structure. By examining the measures targeting to keep existing workforce in each business category we found that companies

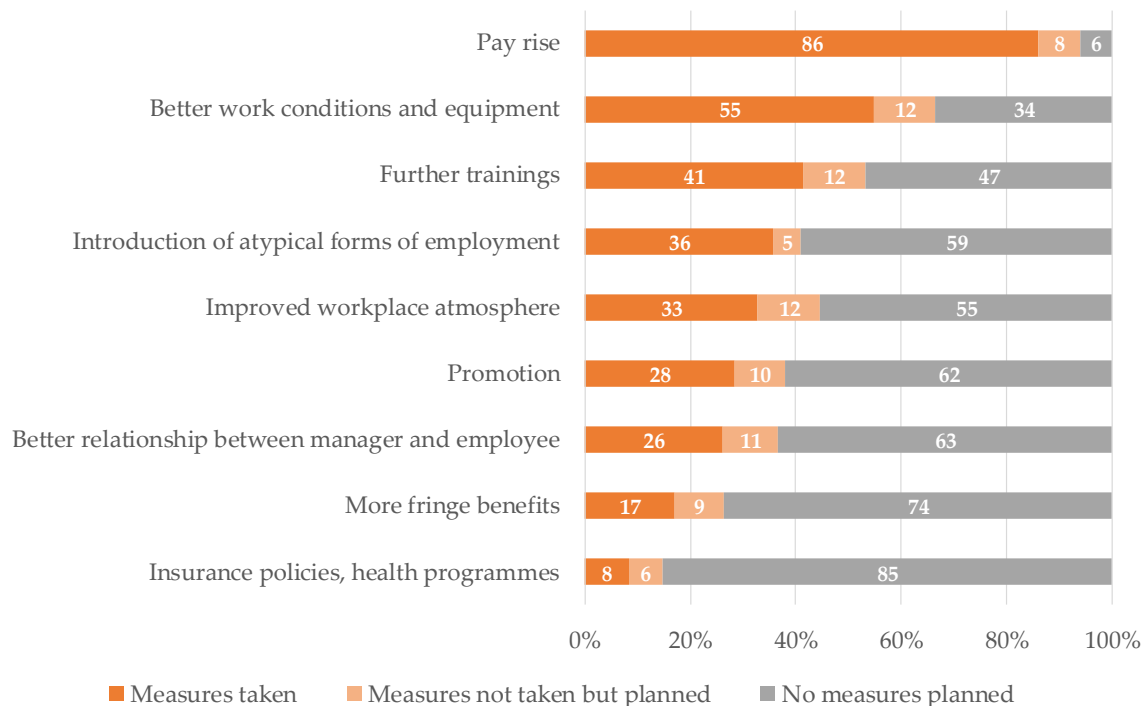
that were more seriously affected by labour shortage problems were also more likely to take preventive and remedying measures. Naturally, the budgets of these companies can and will set limits to the implementation of such measures.

Measures targeting to keep existing staff

The overwhelming majority of businesses have already taken measures in order to retain their employees. 86% increased wages and 55% developed work conditions and equipment to boost their appeal to their existing workers. 41% of businesses sent their employees to further trainings, while 36% introduced atypical employment forms so that

employees would stay. The least active companies on this department were in the 20-49 staff range that were non-exporters and fully domestic. The most intent on keeping their staff were 250+, partially foreign-owned major exporters active in industry or business services.

Figure 3: Measures taken or about to be taken to preserve staff, N=394–397, per cent, 2019.01.



Source: IEER 2019

Remedying labour shortage

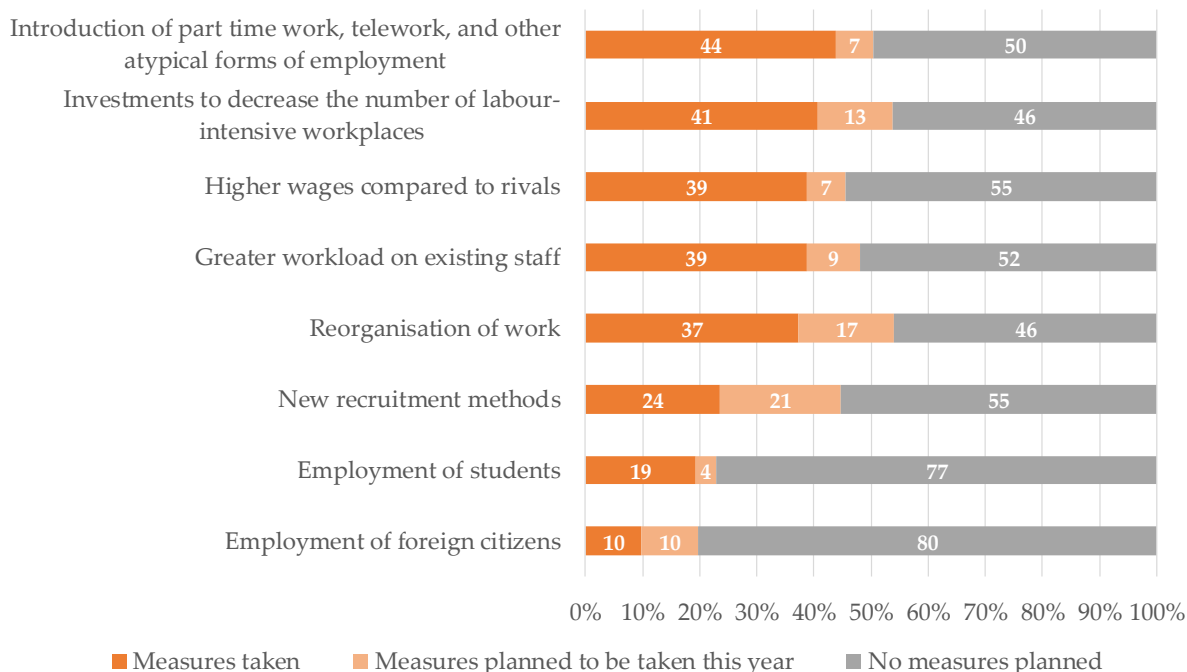
According to our records, labour shortage-induced problems are combatted most frequently by introducing atypical employment forms (44%), by making investments to keep labour-intensive workplaces at bay (41%), by paying more to employees than rivaling companies (39%) and by increasing workload on existing labour force (39%).

Taking a look at future plans reveals that about one in five companies (21%) short of labour would employ new recruiting methods, 17% would reorganise work, 13%

would invest to mitigate labour shortage-related problems, and about one in ten companies plans to hire foreign citizens.

Businesses in the 20–49 staff range and construction companies were the most reluctant to take the measures examined. The more a company exports the more likely it is to take measures - this is the pattern our survey revealed. It can also be seen that companies of (partially) foreign ownership were usually more willing to take steps to remedy the issues caused by labour shortage than their domestic competitors.

Figure 4: Measures taken or about to be taken to remedy labour shortage, N=242, per cent, 2019.01.



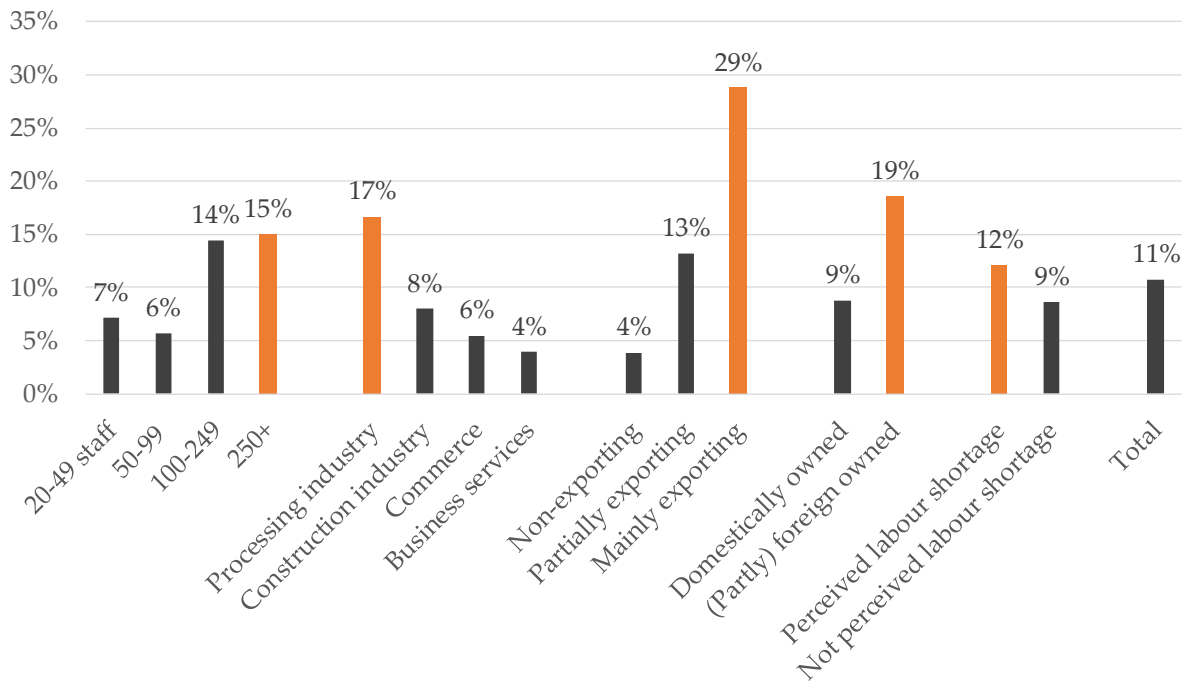
Source: IEER 2019

Employment of foreign citizens

In total, 11% of the surveyed companies (42 businesses) had foreign employees in January 2019. 15% of large (250+) companies, 17% of businesses in the processing industry, 29% of major exporters and 19% of (partially) foreign-

owned companies employed foreign citizens. Figures were slightly higher for companies that experienced labour shortage problems than for those that did not (12% vs. 9%).

Figure 5: Foreign citizens employed by businesses, N=382–390, per cent, 2019.01.



Source: IEER 2019

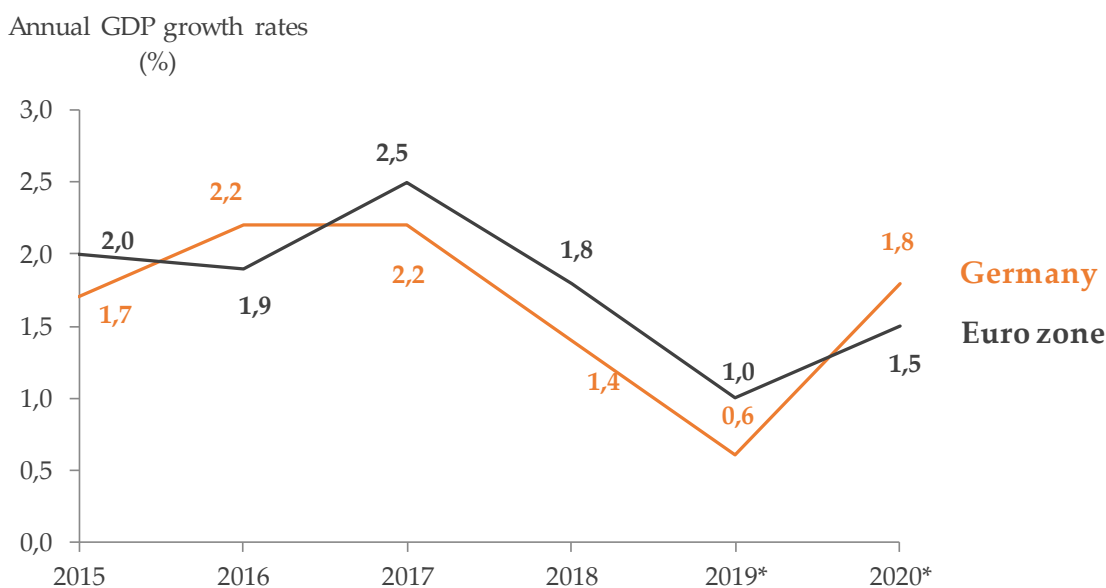
Features of the domestic and the international macroeconomic environment

The following article presents domestic and international features of the macroeconomic environment by analysing the GDP growth of Germany and that of the Eurozone and by showing the quarterly changes in GDP and the tendencies of Hungary's industrial production.

The economic performance of Germany greatly affects the business climate of Hungarian companies. According to the business forecast of the Munich-based institute Ifo, 2019 GDP growth rate will be

0.6% for Germany and 1% for the Eurozone. In 2020, growth rates of 1.8% and 1.5% are expected for Germany and the Eurozone respectively (see Figure 6).

Figure 6: GDP growth in Germany and in the Eurozone



Source: CESifo 2019

Note: The years marked with an asterisk are estimates by Ifo

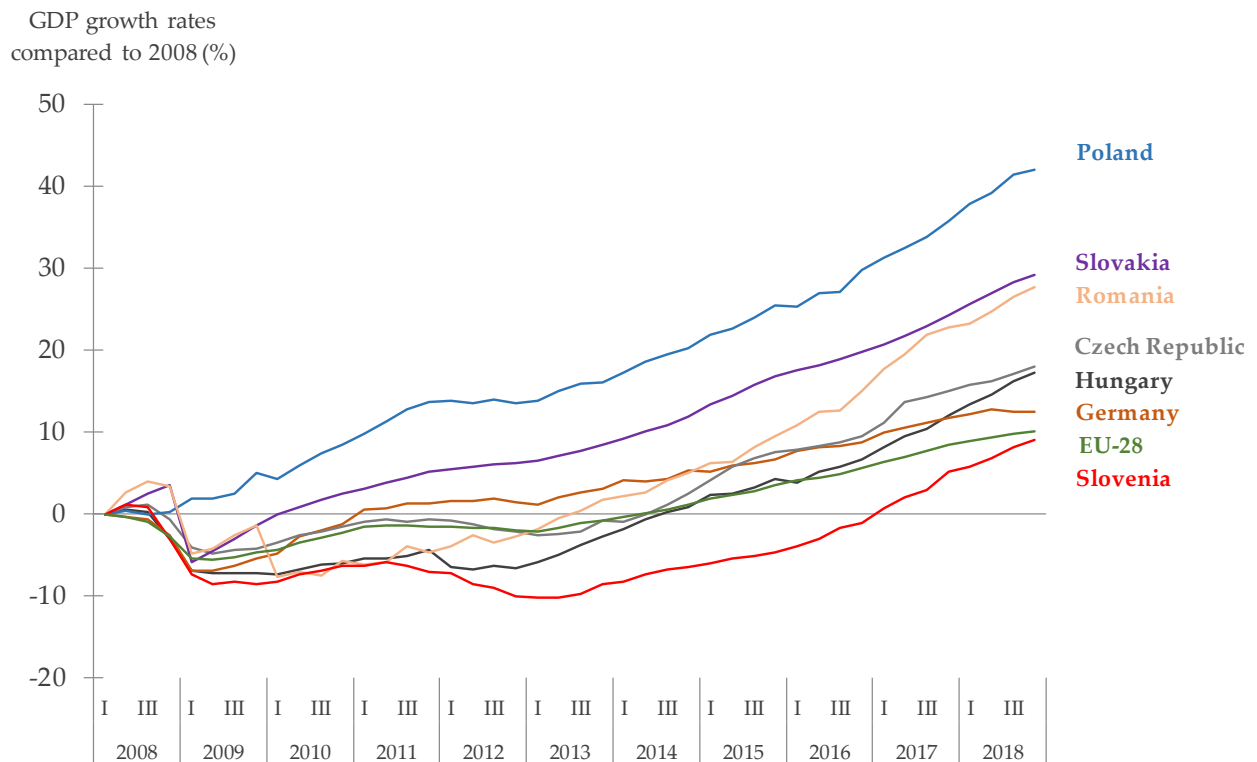
The data in this figure can be downloaded – click on the link below:

<https://www.cesifo-group.de/ifoHome/facts/Forecasts/Ifo-Economic-Forecast/Archiv/ifo-Prognose-14-03-2019.html>

The data of Hungary on its way out of the crisis show that this country reached pre-crisis GDP levels much later than Slovakia, the Czech Republic, Romania, and Germany (see Figure 7). Another important observation one can make by looking at the chart is that in the fourth quarter of 2018 Hungary's GDP was

still only 17% higher than in the first quarter of 2008, when the crisis began, whereas it was 42% higher in Poland, 29% higher in Slovakia and 28% higher in Romania. In this ten-year period, Polish, Slovakian and Romanian GDP growth rates were all higher than the Hungarian GDP growth rate.

Figure 7: Amidst crisis years - quarterly GDP growth rates since the beginning of the crisis, (2008 q1 – 2018 q4)

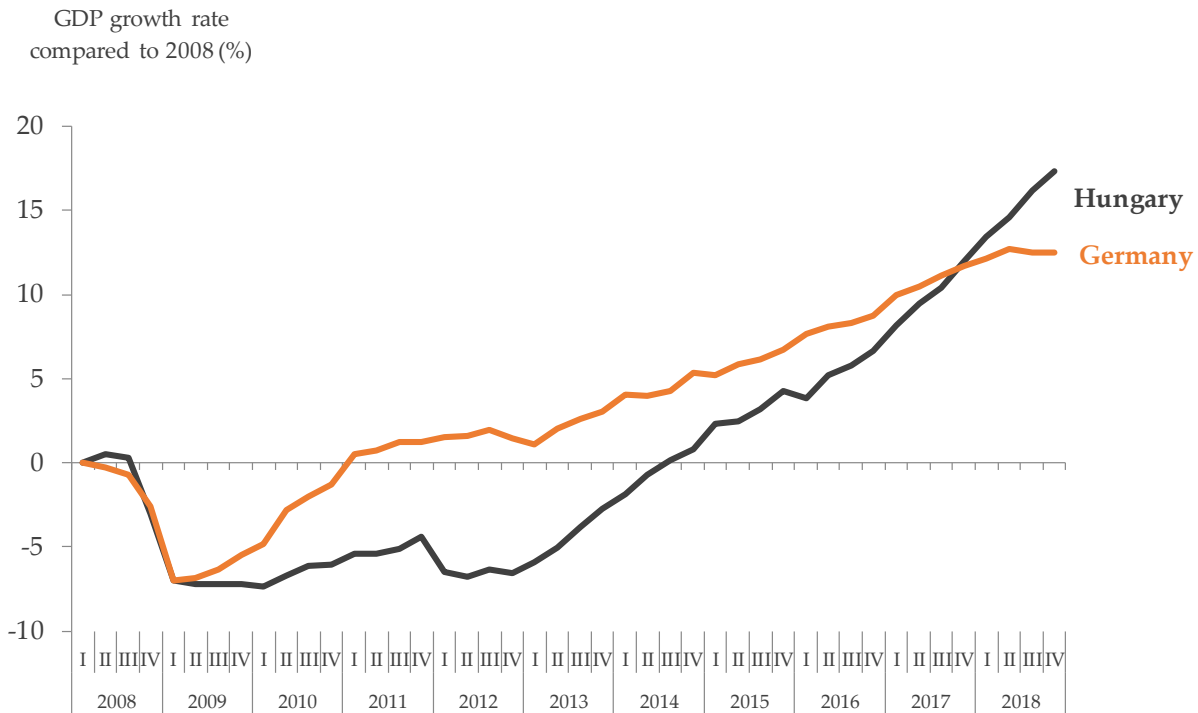


Source: IEER, own calculation based on KSH, Eurostat and Destatis data

The Hungarian economy came out of the crisis slowly: while Germany reached pre-crisis GDP levels in the first quarter of 2011, Hungary only succeeded to follow suit in the third quarter of 2014. It was indeed a promising sign that the GDP growth

difference between Germany and Hungary vanished between the first quarter of 2016 and the fourth quarter of 2017. Now, according to 2018 data, the GDP growth rate surpassed the German growth rate and the gap keeps widening (see Figure 8).

Figure 8: Germany and Hungary after the crisis, 2008–2018



Source: IEER, own calculation based on KSH, Eurostat and Destatis data

Source: IEER 2019

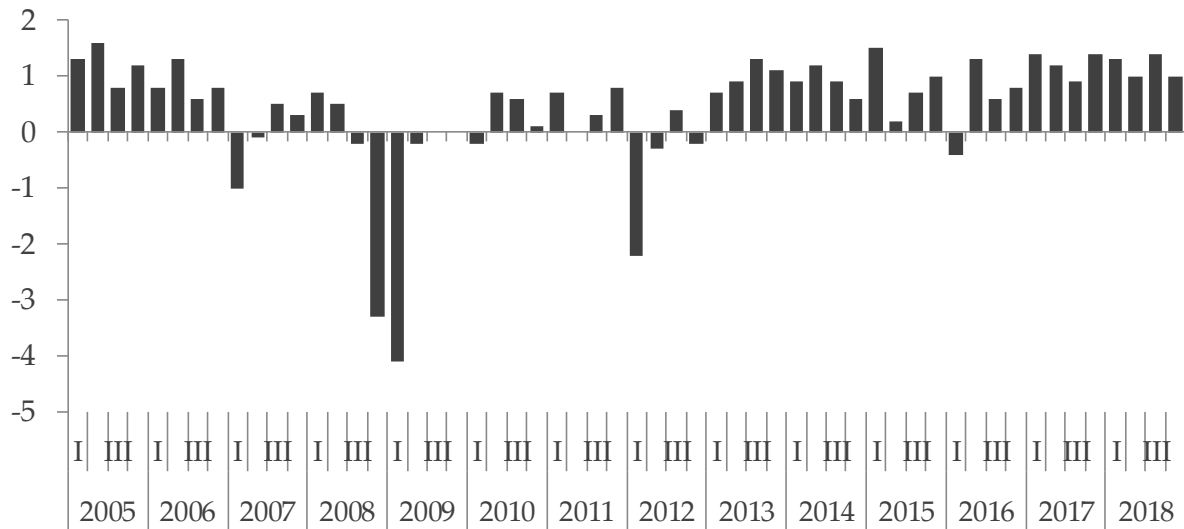
Note: The charts show cumulative GDP growth rates relative to the GDP figures of the first quarter of 2008.

The second wave of the global economic crisis reached Hungary in 2012 (see Figure 9), and a negative GDP growth turned positive again in 2013.

The volume of industrial production grew by 1% in February 2019, surpassing the same period of the previous year by 5.9% (See Figures 10 and 11).

Figure 9: GDP volume index, 2005–2018, quarterly data, index is balanced and adjusted for seasons and calendar effect

GDP growth rate compared to the previous quarter (%)



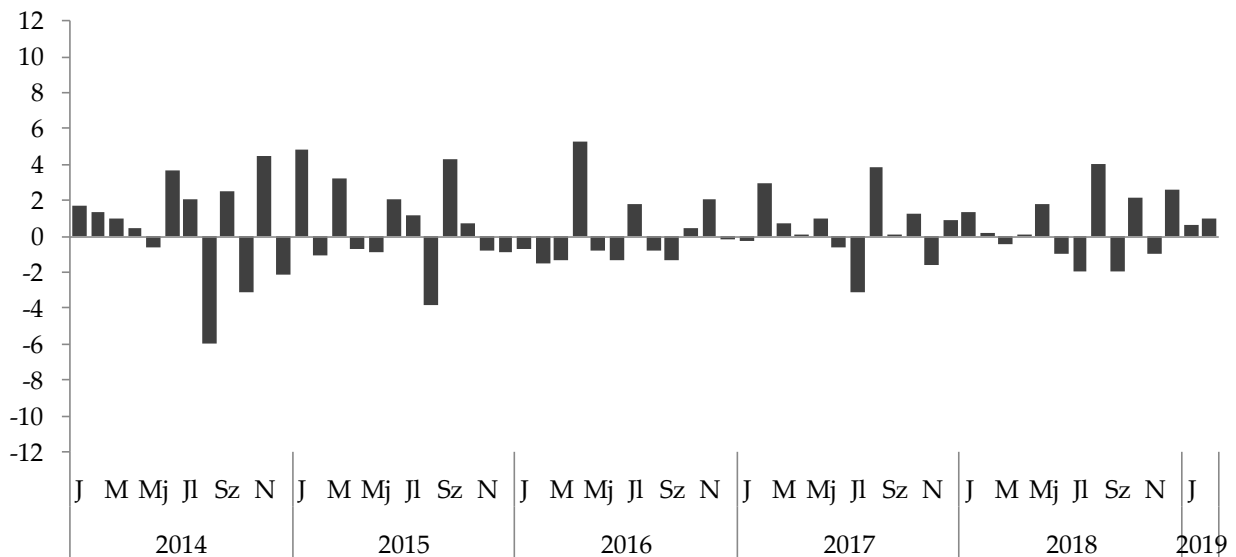
Source: KSH 2019

Note: The data in this figure can be downloaded – click on the link below:

https://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qpt001.html

Figure 10: Volume index of industrial production, (previous month = 0,0%), 2014–2019, monthly data, index adjusted for seasons and workdays

Industrial production volume index growth rate compared to the previous month (%)



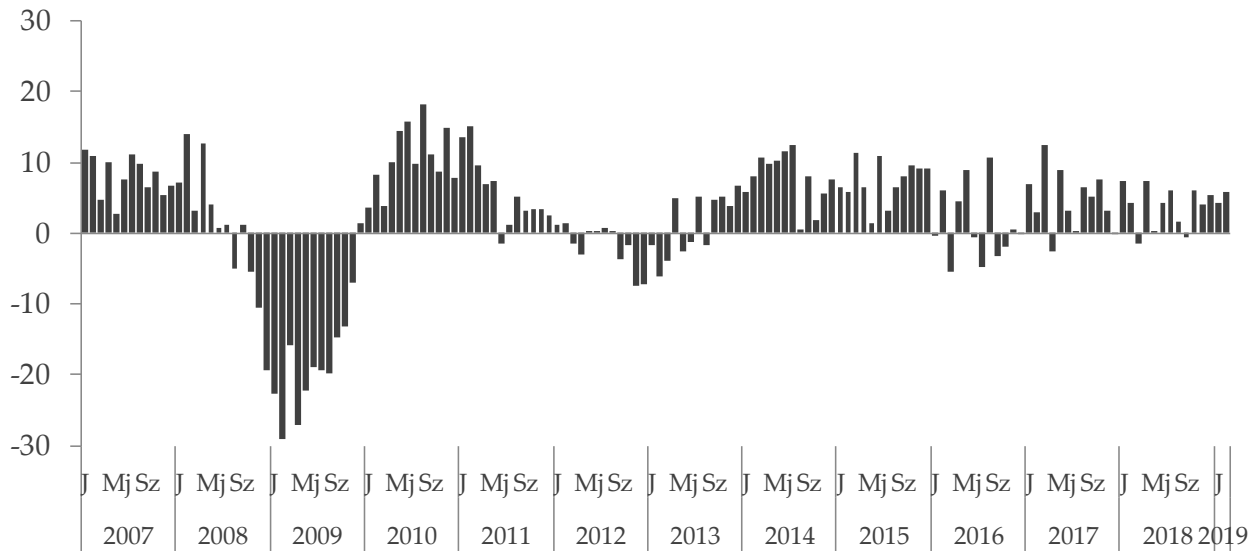
Source: KSH 2019

Note: The data in this figure can be downloaded – click on the link below:

http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_oia029.html

Figure 11: Volume index of industrial production, (same period of the previous month = 0,0%), 2007–2019, monthly data

Industrial production volume index growth rate compared to the same period of the previous year



Source: KSH 2019

Note: The data in this figure can be downloaded – click on the link below:

http://www.ksh.hu/docs/hun/xstadat/xstadat_evokozile_oia002.html

International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Jun)	5.0%	5.0%	5.0%
Germany	Manufacturing Purchasing Managers Index	(Jun)	45.4	44.6	44.3
	IFO Business Climate Index ¹	(Jun)	97.4	97.4	97.9
France	INSEE Business Climate Index ²	(Jun)	106		106
	Unemployment Rate	(Jun)	3.7%	3.6%	3.6%
USA	CB Consumer Confidence Index	(Jun)	121.5	131.1	131.3
	Manufacturing Purchasing Managers Index	(Jun)	50.1	50.5	50.5
China	Manufacturing Purchasing Managers Index	(Jun)	49.4	49.5	49.4

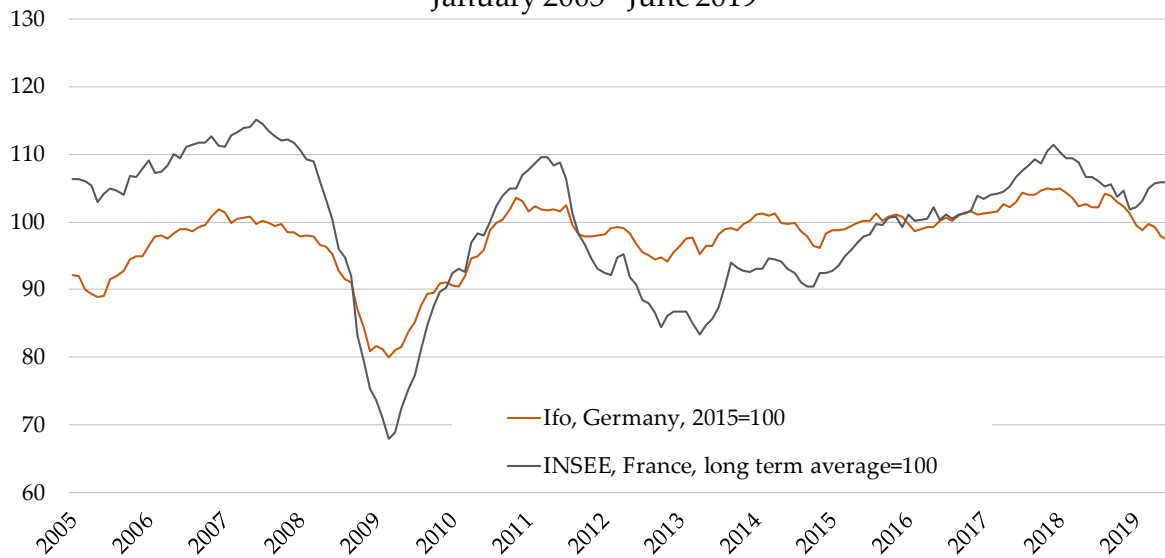
¹ <https://www.ifo.de/en/umfragen/time-series>

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

The rest of the data source: <http://worldeconomiccalendar.com>

In Germany, the unemployment rate stagnated at the same level as in May and performed as expected in June. The manufacturing purchasing manager index (PMI) slightly increased and was higher than expected. The IFO business climate index decreased compared to last month and performed as expected. The French INSEE business climate index stagnates at the same level as in May. In the United States, the unemployment rate slightly increased and performed worse than expected. The CB consumer confidence index decreased compared to last month and was below the expectations. The manufacturing PMI slightly decreased and performed worse than expected. The Chinese manufacturing PMI stagnates at the same level as in last month and was slightly below the expectations in June.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - June 2019



Sources: www.ifo.de, www.insee.fr

Contact

Address: MKIK GVI

1054 Budapest, Szabadság tér 7.

Tel: 235-05-84

E-mail: gvi@gvi.hu

Internet: <http://www.gvi.hu>

Prepared by:

Ágoston Horváth, analyst, IEER

Eszter Vági, analyst, IEER

Research manager:

Ágnes Makó, PhD

Managing director, IEER

In case of publication please cite as follows:

HCCI IEER: Monthly Bulletin of Economic Trends,

June 2019, Budapest,

2019-07-12