



Businesses' perception of labour shortage

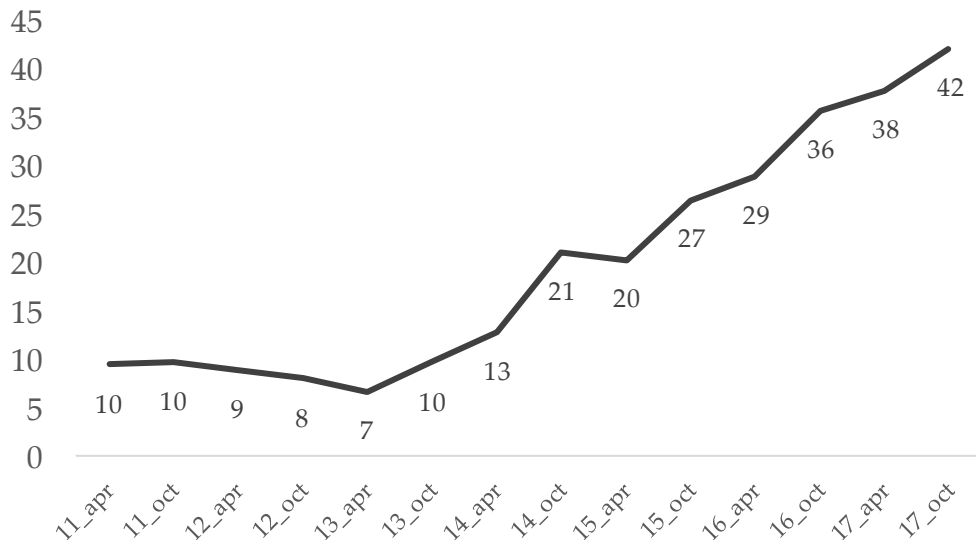
This analysis aims to present recent Hungarian trends in labour shortage, outlining which business circles and sectors suffered the most from difficulties in recruitment, based on corporate executives' opinions. The results rely on the findings of the October 2017 business climate analysis by the Institute for Economic and Enterprise Research, surveying 3064 executives of businesses.

Results show that the number of companies reporting difficulties in recruitment (labour shortage and skilled labour shortage) has steeply risen in recent years. Only about one out of ten companies experienced this issue between 2011 and 2013 and this figure climbed to one out of five by 2014-2015. The next two years saw a more dramatic rise: in 2017 42% of businesses reported this issue. (Considering weighted data, the figure is much higher: 55% of businesses was negatively affected by labour shortage and the lack of experts.)

The shortage of experts, and labour shortage in general, was mentioned as a negative factor in business by approximately ten per cent of surveyed companies between April 2011 and October 2013. By October 2014 this rate went up to 21%, i.e. one out of five companies listed the issue of labour shortage to the top three factors that had

affected business negatively. There was another significant jump in October 2015: 27% of companies reported shortage as a searing issue. This rate climbed on to 29% by April 2016 and to 36% by October the same year. By October 2017, the rate was as high as 42%.

Figure 1: Proportion of companies that mentioned labour shortage and the lack of experts as a hindering factor, per cent, April 2011 - October 2017 (unweighted results)



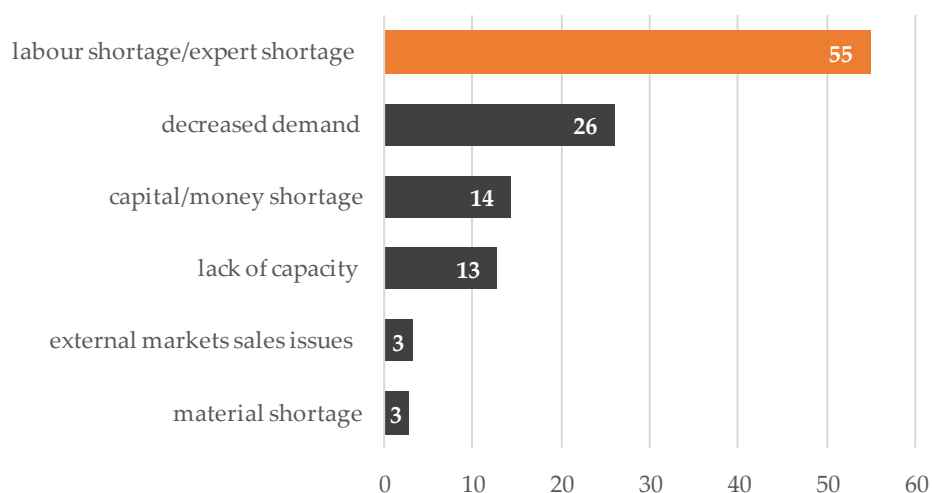
Source: IEER business climate surveys, 2011-2017, N=1823-3614

In our questionnaire, there were five other factors listed which could be chosen as issues negatively affecting business. Respondents were asked to choose not more than three factors.

The data weighted by regional distribution, the number of people employed and the estimated contribution to GDP show that **business activity of the**

majority (55%) of companies were hindered by the shortage of workforce and experts. A distant second factor is decreased demand (26%) which was reported far less often than labour shortage. Respondents also mentioned capital or money shortage (14%) and the lack of capacity (13%) as important issues.

Figure 2: Factors hindering the business activities of companies, N=3064, per cent, October 2017 (weighted results)



Source: IEER 2017

The analysis of company features shows that labour shortage and skilled labour shortage affected the most the companies that are predominantly exporters (64%), construction firms (63%), businesses that are predominantly (58%) or partially (61%) owned by foreign entities, Transdanubian companies (45%) and companies employing 10-49 people (66%).

Apart from the usual question ("Which factors have affected your company the most negatively in the past half year? Only up to three factors may be chosen"), a more general question about labour shortage was asked from executives: "Did your business face any difficulties resulting from labour shortage last year?" This question was answered by 2742 executives. Hereafter, unweighted data of answers to the above mentioned questions

will be analysed. 50.5% of surveyed executives (1384 in total) responded that they had indeed experienced difficulties originating from the issue of labour shortage in the previous year. **The issue was perceived the most by companies that are predominantly exporters (79%), industrial (70%) and construction firms (69%), businesses that are partially owned by foreigners (80%), Transdanubian companies (53%) and companies employing over 9 people (72%).**

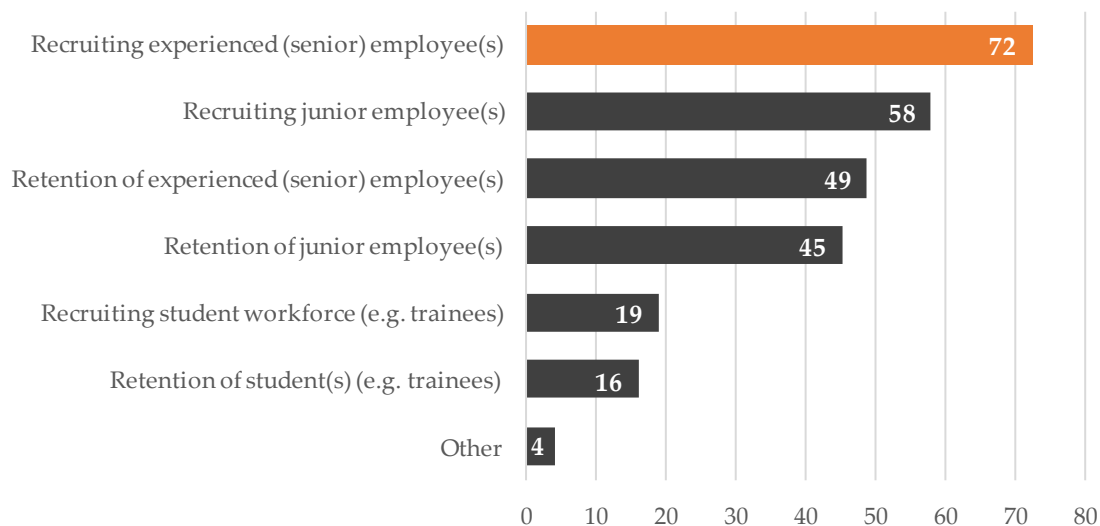
Out of the issues caused by labour shortage the most widely reported was the recruiting of experienced (senior) employees (72%). It was a real issue for 58% of the respondents to recruit junior employees, and 49% found it problematic to retain experienced

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(senior) employees. 45% of respondents also found it difficult to retain their junior employees. About one fifth (19%) found it a problem to recruit students (e.g.

trainees), and 16% had difficulties in retaining them. 4% of respondents chose another factor.

Figure 3: Distribution of respondents in terms of labour shortage-related issues affecting their business, N=1384, per cent, October 2017

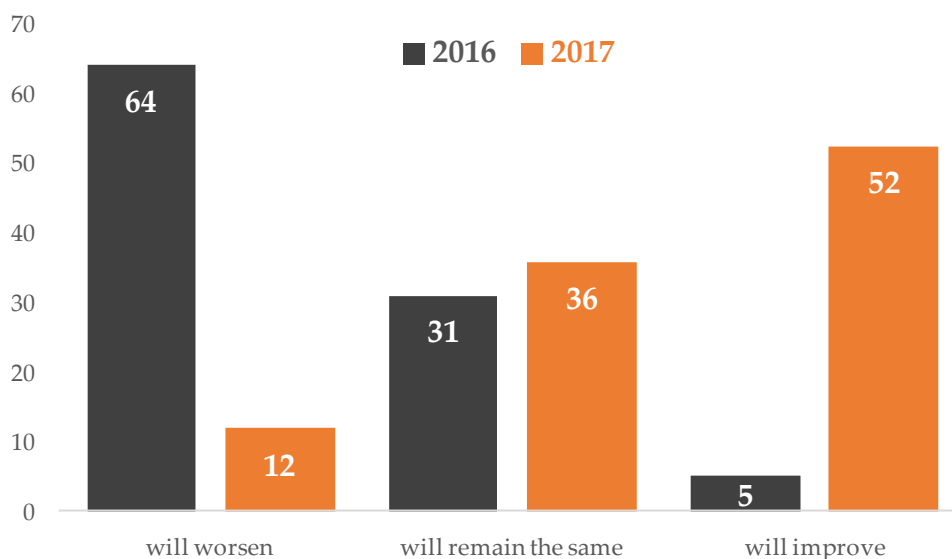


Source: IEER 2017

While in 2016 the vast majority (64%) of respondents had thought that labour shortage-related issues would become more severe in Hungary by the next year, in 2017 a mere 12% remained pessimistic. In 2016, only 5% of respondents

anticipated a relief in labour shortage. This number jumped to 52% in 2017. Compared to 2016 data, **respondents have become visibly more optimistic by late 2017 about future labour shortage tendencies.**

Figure 4: Respondents' opinions about Hungarian labour shortage tendencies for the upcoming year, N2016=2607, N2017=2798, per cent, October 2016, October 2017



Source: IEER 2017

The businesses were also asked about the number of vacancies as of 1 October 2017. 57% (1633 companies) did not have any vacancies, 40% (1141 companies) had 1-10 vacancies and only 3% (96 companies) had more than 10 vacancies. This means that only a small percentage of the surveyed companies struggled with serious labour shortage.

The number of vacancies in October 2017 at different types of companies is analysed below. By ownership structure we can see

that more than 10% of companies that are partially or predominately owned by foreign entities had at least 11 vacancies. Concerning export activity the results show that 16% of companies that mainly produce for export have at least 10 vacancies. Finally, according to company size, 10+ vacancies were found at 9% of companies employing 50-249 people, and at 24% of companies employing over 250 people.

Hungarian exports and imports steadily increase

There has been a stable growth in Hungary's imports and exports since 2009, a trend that can mainly be attributed to a strong EUR exchange rate. However, according to the latest Central Bank balance of payments report, the nominal upturn in the performance of imports and exports is accompanied by a tightened balance of trade, which can be put down to an EU subsidy-induced boost of imports. Expected EUR exchange rate trends may nonetheless influence domestic businesses' exports positively.

Hungarian exports and imports volume rate (as the percentage of GDP) have constantly risen since the economic slump in 2009 caused by the global crisis. According to the latest figures published by the Hungarian Central Statistical Office, the fourth quarter in 2017 brought 8.4% and 11% increase in EUR for exports and imports, respectively, compared to last quarter results of the previous year. The trade balance surplus was EUR 8.2 billion. Foreign trade was mainly done with member states of the European Union (exports 76%, imports 77%).¹ The growth of exports and imports compared to GDP is shown in Figure 1.

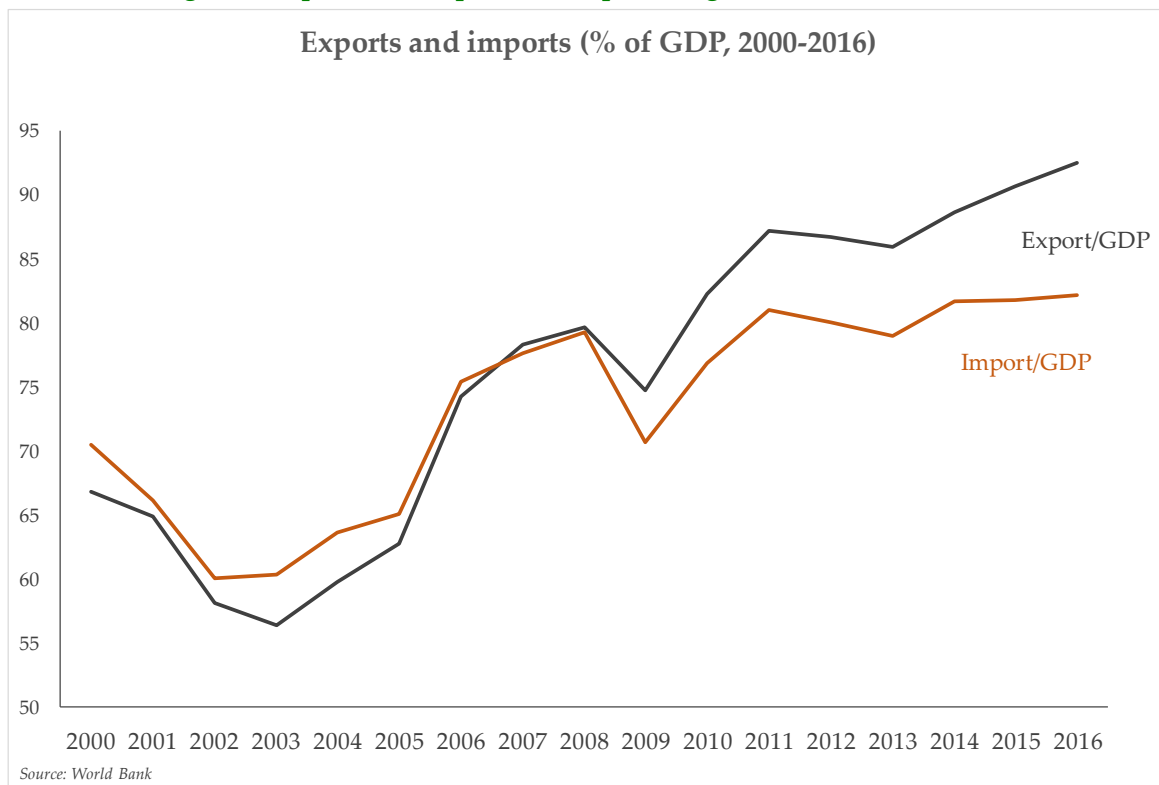
As for the balance of trade, however, there has been a slight downturn in Hungary. With the country beginning to spend EU transfers, weaker balance of trade figures can be put down to the dynamic growth of domestic consumption, which, matching the dynamic rise in exports, also bumps up imports. The lion share of Hungary's imports is generated by investments made by companies to increase their capacity.

The second biggest share comes from durables and semi-durables bought by consumers. However, Hungary's current account balance surplus still accounts for 3.9% of the GDP according to central bank estimates. Year-on-year real increase of imports and exports is shown in Figure 2.

¹ Source:

<https://www.ksh.hu/docs/hun/xftp/gyor/kue/kue1712.html>

Figure 1: Exports and imports as the percentage of the GDP (2000-2016)



The growth of exports is further helped by a relatively high HUF/EUR exchange rate. The correlation between annual export and the annual average exchange rate, calculated from the National Bank of Hungary central rate, is strong and positive. In other words, a weak HUF promotes increased exports (cf. Erdős, 2010²). On multiple occasions during 2017 the exchange rate of HUF stayed at low levels.³ HUF is still expected to weaken in international markets. Consequently, domestic exporters may calculate more HUFs for each euro's worth of product they sell, providing a strong incentive for domestic

companies to increase their export supplies. HUF/EUR exchange rate tendencies are shown in Figure 3.

It may therefore be concluded that a stable and high HUF/EUR rate could make it lucrative for domestic companies to increase their export supplies.

² Erdős Tibor (2010): HUF exchange rate, interest level and foreign currency-based indebtedness *Közgazdasági Szemle*, LVII. évf., 2010. október (pp. 847–867).

³ Source: <https://www.portfolio.hu/deviza-kotveny/deviza/idei-melypontra-szedult-a-forint.275985.html>

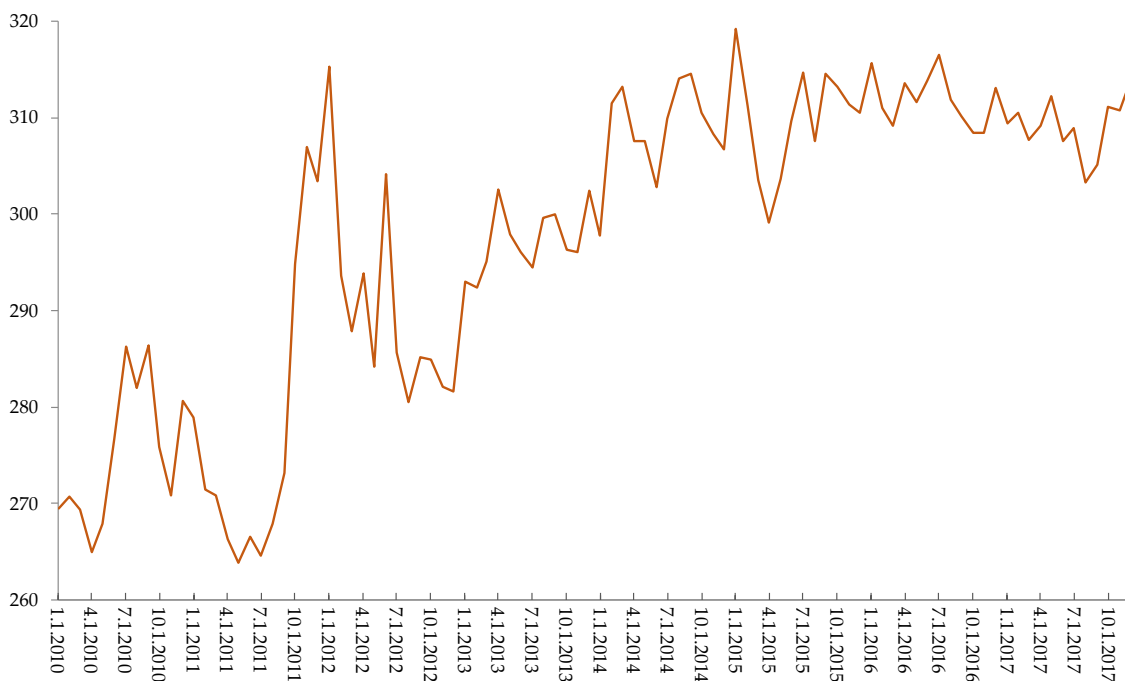
Figure 2: The real increase in the volume of exports and imports (2008-2017)



Source: National Bank of Hungary

Figure 3: HUF/EUR exchange rate (HUF, 2010-2018)

HUF/EUR exchange rate (HUF, Jan 2010 - Jan 2018)



Source: National Bank of Hungary

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	(Feb)	5.4%	5.4%	5.4%
Germany-	Manufacturing Purchasing Managers Index	(Feb)	60.6	60.3	60.3
	IFO Business Climate Index ¹	(Feb)	115.4	117.1	117.6
France	INSEE Business Climate Index ²	(Feb)	109		110
	Unemployment Rate	(Feb)	4.1%	4.1%	4.1%
USA	CB Consumer Confidence Index	(Feb)	130.8	126.2	124.3
	Manufacturing Purchasing Managers Index	(Feb)	55.3	55.9	55.9
China	Manufacturing Purchasing Managers Index	(Feb)	50.3	51.4	51.3

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

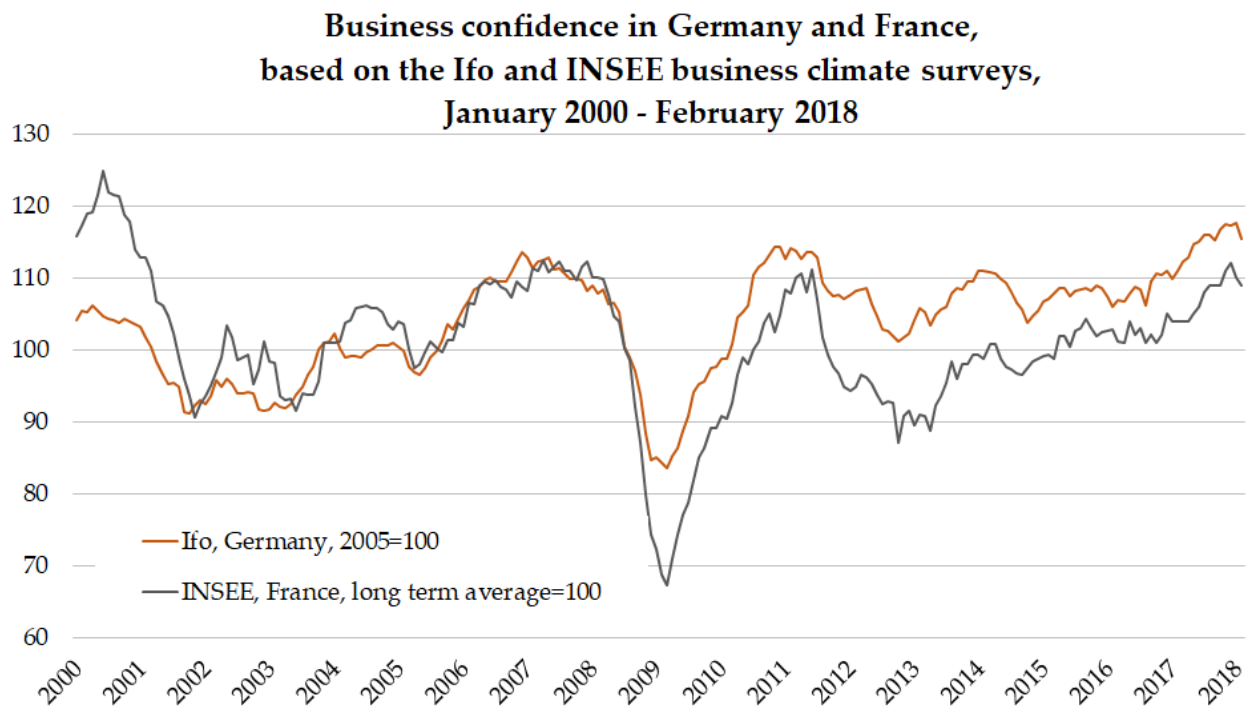
² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

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

The German economy's performance slightly descended in February. The level of unemployment remained the same since January. 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, declined to some extent in February.

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

Long-term changes in business confidence indices



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

Contact

Address: MKIK GVI
1034 Budapest, Bécsi út 120.
Tel: 235-05-84
Fax: 235-07-13
E-mail: gvi@gvi.hu
Internet: <http://www.gvi.hu>

Prepared by:

Vanda Kádár, intern, MKIK GVI
Rita Kovács-Szamosi, intern, MKIK GVI
Zsanna Nyírő, analyst, MKIK GVI
Emília Kompaktor

Research manager:

Ágnes Makó
Managing director, MKIK GVI

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