



Results of the October 2018 IEER Quarterly Business Climate Survey

The Quarterly Business Climate Survey of IEER is based on the answers of 400 CEO respondents, now surveyed about their business situation and expectations. The Quarterly Business Climate Index and the Quarterly Uncertainty Index were calculated from the full sample of 300 small and medium-sized enterprises (20-249 employees) and 100 large enterprises (250+ employees). For small and medium-sized enterprises, the SME Outlook Business Climate Index and the SME Outlook Uncertainty Index were calculated.

According to October 2018 records, the level of business confidence in Hungary stayed unchanged compared to the previous quarter: the Quarterly Business Climate Index stagnates compared to the 42 points calculated in July. This score has been the highest since records of Quarterly Business Climate Index surveys began in 2010, not unlike the score measured in July (see figure 1). The Quarterly Uncertainty Index is currently at 30 points, which is 4 points up in comparison with the records taken in the previous quarter. This might mean that the perception of the business situation became less uniform among companies since July.

However, if business confidence is examined separately, the SME Outlook Business Climate Index has been climbing since the drop in July: from 34 points it is now up at 41 points. This has been the highest score in the history of our SME Outlook Business Climate Index, with records starting in 2005 (see figure 2). The SME Outlook Uncertainty Index, now at 36 points, increased by 6 points since July 2018, meaning that the opinion of small and medium-sized enterprises became less uniform.

Figure 1: Quarterly Business Climate Index, January 2010 – October 2018

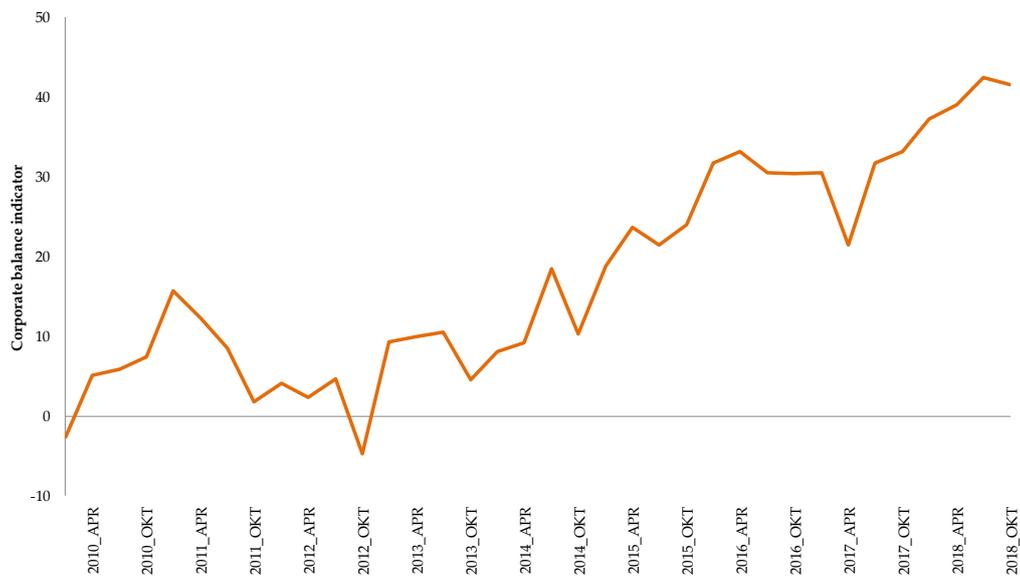
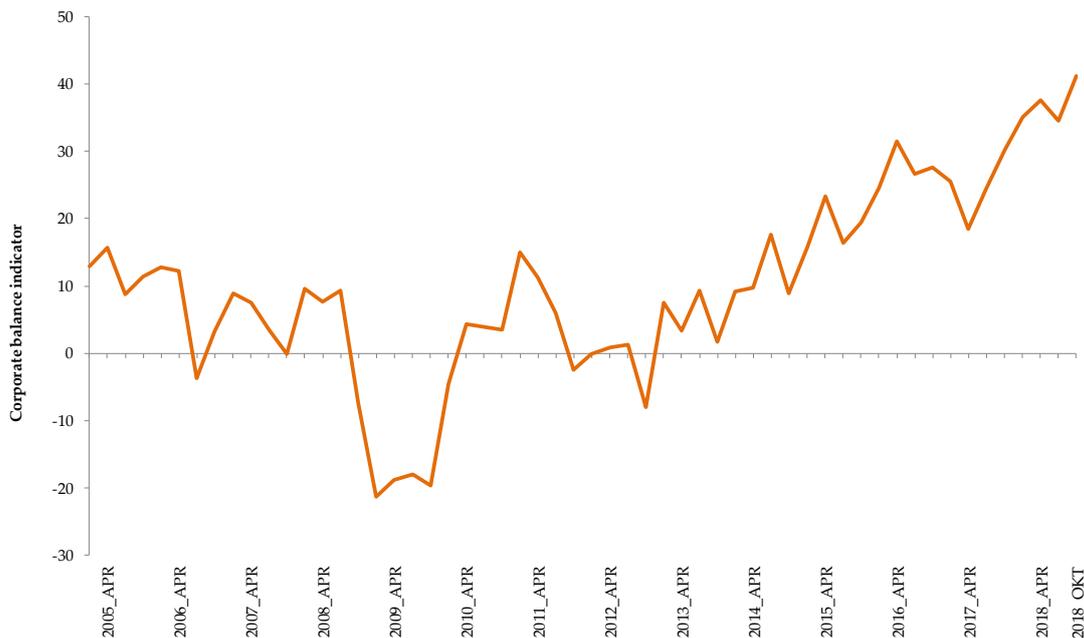


Figure 2: SME Outlook Business Climate Index, January 2005 – October 2018



Source: IEER 2018

Please note that the score in the figure is a balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

The IEER Business Climate Index by company features

The Quarterly Business Climate Index was the highest for construction companies (+51 points), while for companies in the processing industry and for trading companies it was +41 and +40 points, respectively. Companies offering business services scored only +36 points this time. Quarter-on-quarter results show that there

was a 6 points increase among construction companies whereas the scores achieved by companies offering business services and trading companies were 3 and 5 points lower, respectively. In the processing industry there seems to have been no changes since July.

Figure 3: Quarterly Business Climate Index by economic sector, January 2010 – October 2018



Source: IEER 2018

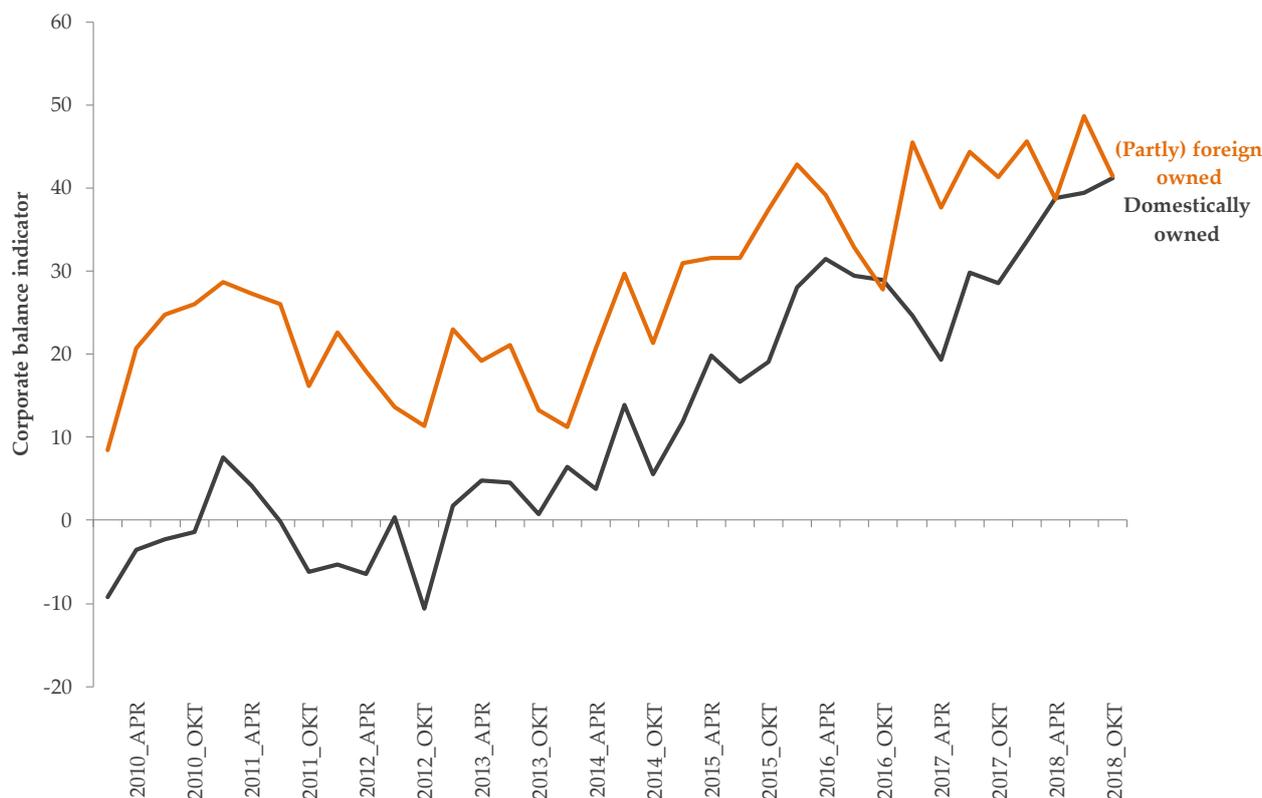
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MBET January 2019

According to the ownership structure, the Quarterly Business Climate Index is +41 points in case of domestically owned enterprises, and it is the same in case of (at least partly) foreign owned companies.

While the index rose 2 points quarter-on-quarter for domestically owned companies, it dropped 8 points for (partially) foreign owned businesses.

Figure 4: Quarterly Business Climate Index by ownership structure, January 2010 – October 2018



Source: IEER 2018

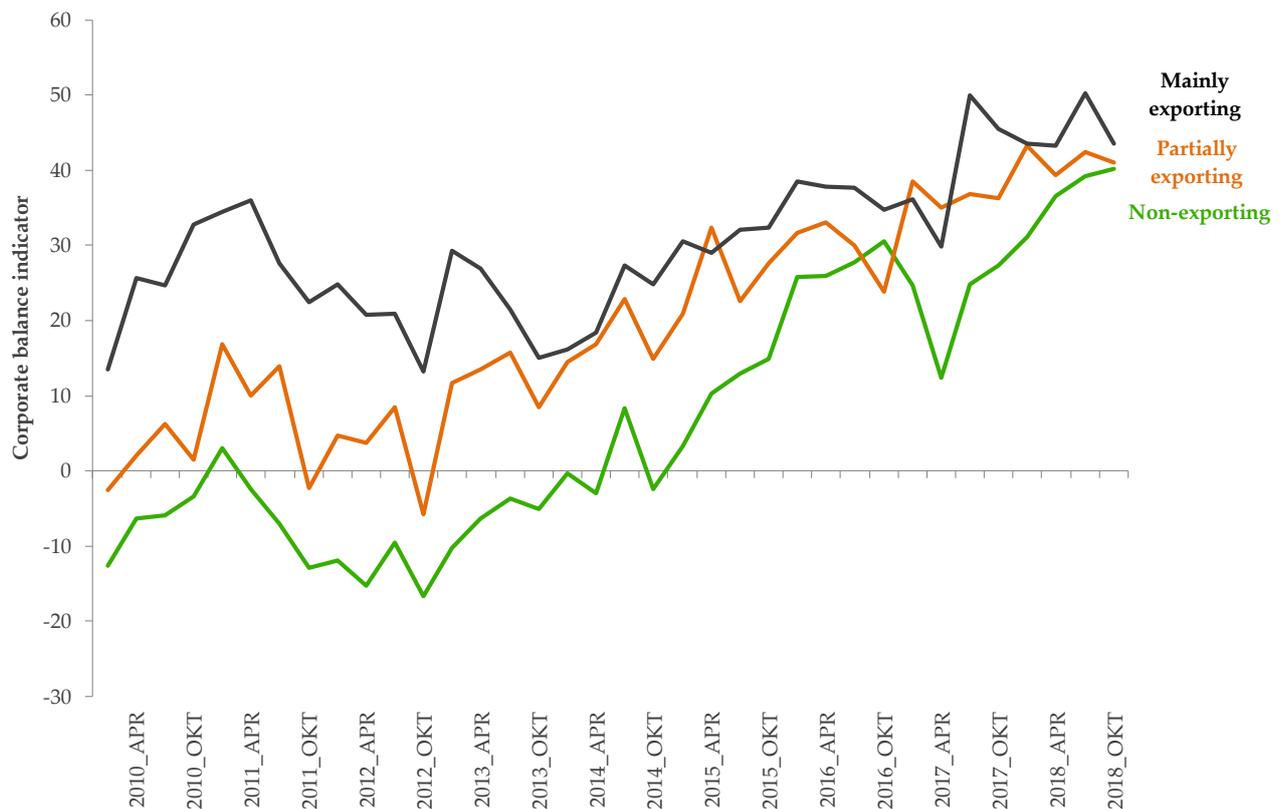
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MBET January 2019

With regard to export activity, the Quarterly Business Climate Index was the highest for mainly exporting companies (+44 points) followed by partially exporting (+41 points) and non-exporting

enterprises (+40 points). In comparison with the previous quarter, the index was 1 point higher for non-exporters while for partially exporters and mainly exporters it was 1 and 6 points lower, respectively.

Figure 5: Quarterly Business Climate Index by export activity, January 2010 – October 2018



Source: IEER 2018

Please note that the score in the figure is a balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

The components of the IEER Quarterly Business Climate Index

The Quarterly Business Climate Index has ten components such as:

- current/expected business situation;
- current/expected profitability;
- expected investment activity;
- current stock orders;
- production levels of the previous quarter/expected production levels for the next quarter;
- expected change in staff members;
- expected capacity utilisation.

As far as sub-indicators are concerned, CEOs are far more optimistic about their expected capacity utilisation, productivity and investment activity than in July 2018, whereas their expectations are considerably more negative regarding current stock orders, current business situation, current profitability, production in the previous quarter and their expectations about the future business situation are also much more pessimistic. With the exception of expected

changes in the number of employees, components suggest a more positive situation and a more optimistic outlook in comparison with those in the same period of the previous year. However, the sub-indicator regarding the expected change in staff members are 2 points lower than in October 2017.

According to data recorded in October, small and medium-sized enterprises assessed their situations more positively than large enterprises. Based on all indicators (except for expected investment activity and productivity in the previous quarter) enterprises employing fewer than 250 people see their business situation more positively. This can be put down to the fact that large enterprises' average score for several indicators (such as current and expected business situation, current and expected profitability, current stock orders) experienced a substantial quarter-on-quarter plunge.

Forecasts concerning the economic situation of the EU and Hungary

An overview of economic tendencies for 2019 is given below based on the latest forecasts. We shall summarise the economic forecasts made by the European Commission and some of the leading economic research institutes and credit rating agencies with their focus on the EU, the Eurozone, and Hungary.

The Hungarian economy is heavily influenced by the economies of the EU member states since they constitute the most important partner group in Hungary's foreign trade. Thus, it may be worthwhile to review the forecasts focusing on the European Union before proceeding on forecasts that regard Hungary. In the first part, various economic forecasts for the EU will be listed, which were compiled by the European Commission and a number of economic research institutes. Then, analyses published about Hungary will be presented.

Forecasts concerning the business situation of the European Union

According to the European Commission's forecast in autumn 2018¹, the economies of the European Union and the Eurozone will enter the sixth year of unintermittent development in 2018, however, growth will be less and less dynamic while economic outlook is threatened by growing uncertainty and more prominent risk factors in global economy. High consumption and decreasing unemployment are the two main sources of the EU's economic growth. Besides, financing conditions are still favourable to make new investments. Experts foresee economic growth in all EU member states, and the labour market situation will also improve in 2018. However, wages will only be rising slowly - though they see to be picking up some speed.

While GDP increased 2.4% in 2017, the European Commission's forecast predicts a GDP growth of 2.1% in 2018, which is slightly lower than the figure in their forecast published in spring (2.3%). In 2017, the GDP growth was 2.4% in the Eurozone, the fastest growth rate of the decade, which substantially

surpassed previous estimates (in spring 2017 analysts had been expecting 1.7%). The European Commission expects the economic boom to slow down in the economies of the current EU member states including countries of the Eurozone. The growth is estimated to reach 2.1% in 2018, 1.9% in 2019, and 1.8% and 1.7% in 2020, for the entire EU and the Eurozone respectively.

The labour market situation of the EU member states was further improved by consumption-based economic growth, increasing wages and structural reforms introduced in some countries. In 2018, the unemployment rate is expected to be, on average, 8.4% in the Eurozone, the lowest level since 2009. Expectations for Eurozone countries also include a continued decline in unemployment, to 7.9% in 2019 and 7.5% in 2020. The unemployment rate is expected to decrease further all throughout the Union, to 6.9% in 2018, 6.6% in 2019 and 6.3% in 2020. Because of labour shortage and a slower economic

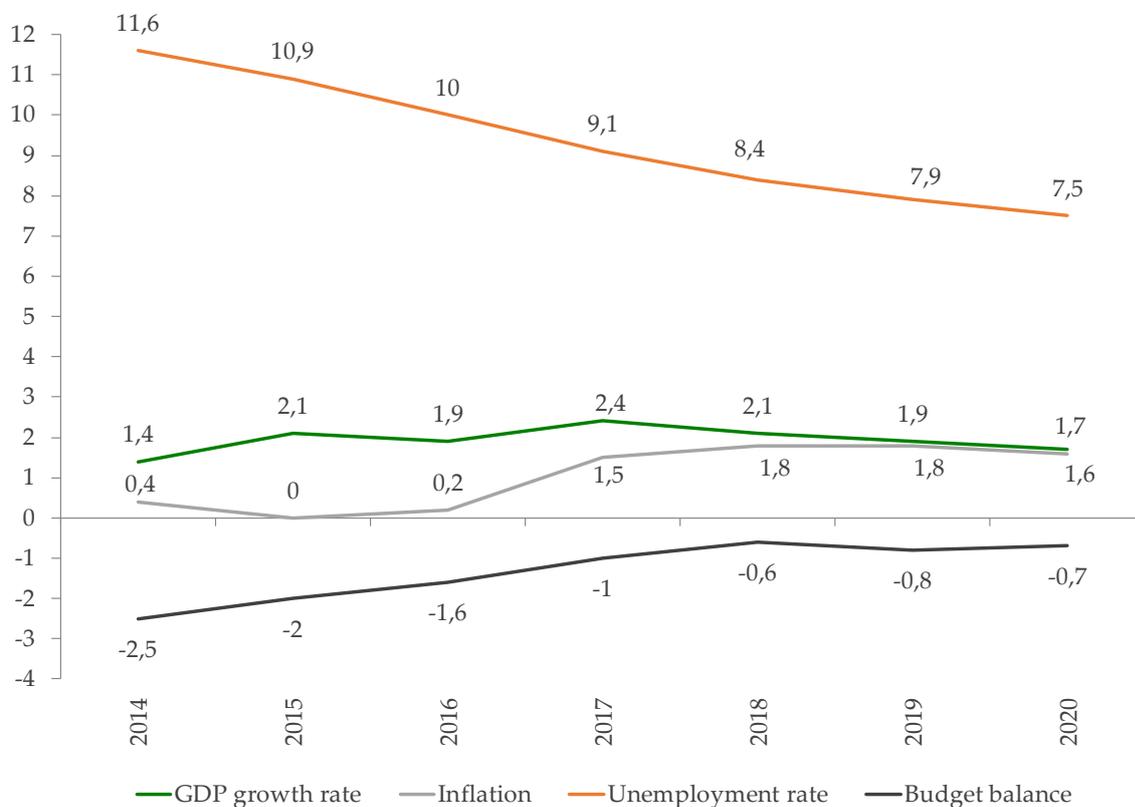
¹ Source: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2018-economic-forecast_en

growth, workplaces will be created at a slower rate.

In the third quarter, consumer prices in the Eurozone rose at a rate of somewhat over 2%, mostly as a result of rising fuel prices. Nevertheless, core inflation, which doesn't include energy and unprocessed food prices, stayed at a low level throughout the year in spite of rising wages. According to the forecast, a 1.8% inflation rate is expected in the Eurozone for 2018 and 2019, followed by a 1.6% rate in 2020.

The public deficit will continue to decrease in the Eurozone in 2018 due to falling interest expenditures, however, as a result of lenient fiscal policies, this tendency is expected to stop in 2019, for the first time since 2009. According to the forecast, public deficit in the Eurozone will amount to 0.6% of GDP in 2018. In 2019 and 2020 the rate is expected to be 0.8% and 0.7%, respectively. National debt in the proportion of the GDP is estimated to fall back from 88.9% in 2017 to 82.8% by 2020.

Figure 1: Forecasts by the European Commission regarding the Eurozone, 2014-2020, per cent



Source: https://ec.europa.eu/info/sites/info/files/economy-finance/ip089_en_0.pdf

The OECD also modified its former Eurozone growth rate estimate to a more modest figure.

In spring 2018², they forecast 2.2% for 2018 and 2.1% for 2019. The forecast in autumn³

² Source: https://www.oecd-ilibrary.org/euro-area/5j8qvjnd0bq6.pdf?itemId=%2Fcontent%2Fcomponent%2Feco_outlook-v2018-1-17-en&mimeType=pdf

³ Source: <http://www.oecd.org/eco/outlook/economic-forecast-summary-euro-area-oecd-economic-outlook.pdf>

estimates the economic growth to be only 1.9% (2018), 1.8% (2019), and 1.6% (2020) in the Eurozone, and highlights the positive impacts of increased investment, improved employment and growing internal demand (especially consumption), partly motivated by monetary policies. The report warns, however, that sustainable economic growth necessitates further institutional and structural reforms. Furthermore, governments should make it a priority to use this expansive period to improve the budgetary situation and decrease the national debt.

The International Monetary Fund (IMF) also expects a slowdown of economic growth in the Eurozone. According to their autumn forecast, the GDP growth of the Eurozone will drop from 2.4% in 2017 to 2.0% in 2018 and 1.9% in 2019. In spring, analysts of the IMF estimated 2.4% for 2018 and 2.0% for 2019.⁴

Forecasts concerning the economic situation in Hungary

The European Commission's autumn 2018 forecast⁸ expects the growth rate of the Hungarian economy to slow down - its primary cause is a halt of growth in investment, which is, in most part, due to the capacity limits of the construction industry. GDP growth in Hungary is estimated by the EC to be 4.3% in 2018, 3.4% in 2019 and 2.6% in

Conference Board forecasts⁵ that the Eurozone will reach a growth rate of 2% in 2018 and 1.9% in 2019.

Analysts of London-based company JP Morgan expect a Eurozone GDP growth of 1.5% for both 2018 and 2019.⁶

The business climate report of Kopint-Tárki Konjunktúrakutató Intézet Zrt. compiled in autumn 2018⁷ forecasts the abatement of eurozone conjuncture and a drop in economic growth rate. Investment activity will remain the main source of growth. According to a recent update, the institute made a downward adjustment - Eurozone GDP growth came to be estimated 2.0% for 2018 and 1.8% for 2019. EU-28 is expected to reach a 2% GDP growth rate in 2018 and 1.8% in 2019.

2020. Analysts of the EC expect a continued decrease in unemployment (3.6% in 2018 and 3.3% in 2019), and rising inflation (3.0% in 2018 and 3.3% in 2019). The European Commission is expecting a decrease in Hungary's budget deficit: According to their forecast, the deficit will be 2.4%, 1.9% and 1.8% for the years 2018, 2019 and 2020, respectively.

⁴ Source: <https://www.vg.hu/gazdasag/gazdasagi-hirek/imf-folytatodik-europaban-a-gazdasagi-novekedes-1191095/>

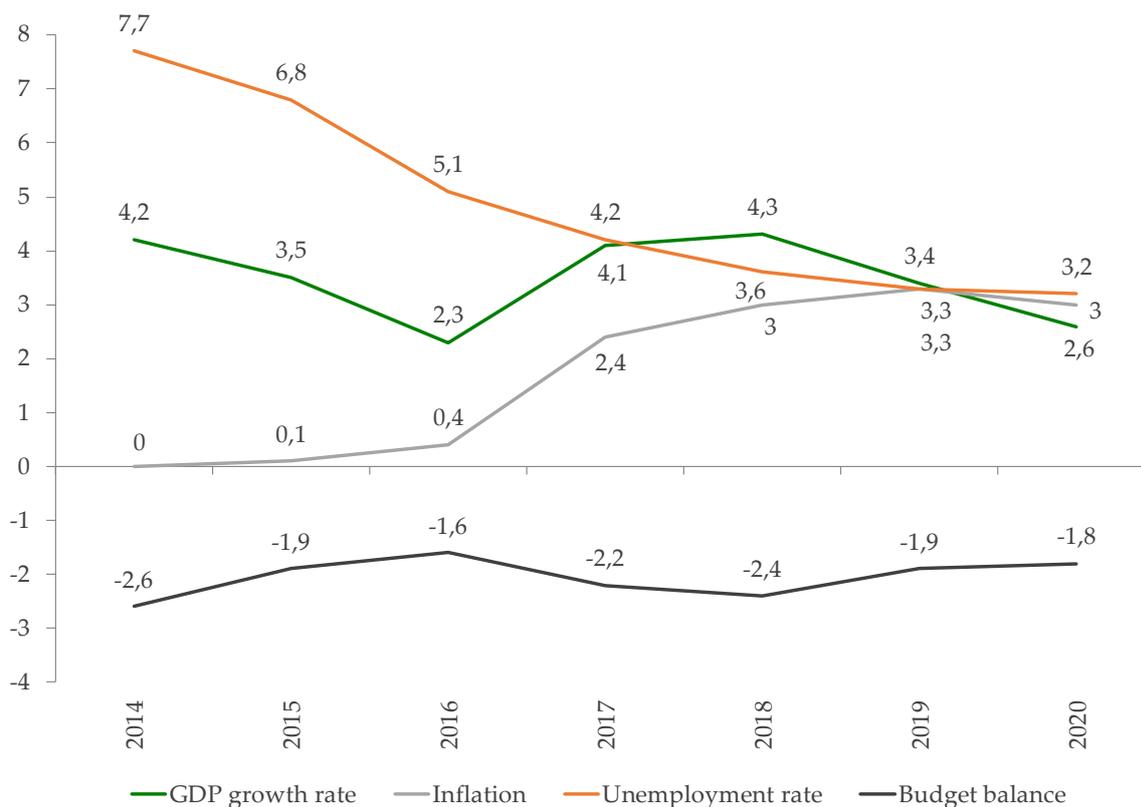
⁵ Source: <https://www.conference-board.org/data/globaloutlook/>

⁶ Source: <https://am.jpmorgan.com/gi/getdoc/1383581744857>

⁷ Source: *Konjunktúrajelentés. A világgazdaság és a magyar gazdaság helyzete és kilátásai 2018 őszén. 2018/3.* Budapest, Kopint-Tárki Konjunktúrakutató Intézet Zrt.

⁸ Source: https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_hu_en.pdf

Figure 2: Forecasts by the European Commission regarding Hungary, 2014-2020, per cent



Source: https://ec.europa.eu/info/sites/info/files/economy-finance/ip089_en_0.pdf

According to the forecast by OECD⁹, economic growth in Hungary will speed up to reach 4.6% in 2018, a combined result of a construction boom, increased business activity and an investment spree fuelled by a new cycle of EU structural fund payments. Furthermore, record-low levels of unemployment and rising real incomes will spur consumption, which is another important source of this projected development. OECD is expecting a GDP growth rate of 3.9% for 2019.

The IMF forecast¹⁰ expects a 4% GDP growth for 2018 followed by a 3.3% growth in 2019. This rate is higher than the forecast made in spring (expecting 3.8% growth for 2018) but it is still lower than the expectations of all the other institutes appearing in this overview.

The Conference Board's forecast predicts¹¹ that the growth rate of Hungarian GDP will be 4.4% in 2018 and 3.2% in 2019.

According to the Business Climate Index of Kopint-Tárki Konjunktúrakutató Intézet Zrt.¹² in autumn 2018, Hungarian economic growth

⁹ Source: <http://www.oecd.org/eco/outlook/economic-forecast-summary-hungary-oecd-economic-outlook.pdf>

¹⁰ Source: <https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018>

¹¹ Source: <https://www.conference-board.org/data/globaloutlook/>

¹² Source: *Konjunktúrajelentés. A világ gazdaság és a magyar gazdaság helyzete és kilátásai 2018 őszén.* 2018/3. Budapest, Kopint-Tárki Konjunktúrakutató Intézet Zrt.

will be 4.6% in 2018 and 3.6% in 2019. According to the forecast, the upward tendency of the industry will continue in 2018, however, the annual growth rate will be lower than previously expected. This can partly be put down to the stagnation of the automotive industry, the largest industrial sub-segment. After the spectacular rise in 2017, construction industry continued the trend in the first seven month of 2018, although at a slightly slower rate. For government investments, analysts forecast a 12-13% growth for 2018. Gross income growth may be more moderate in 2018 than in 2017, the institute forecasts an annual average of slightly over 8.5%. Kopint-Tárki expects a 3% inflation rate for 2018.

According to the forecast of GKI Gazdaságkutató Zrt.¹³, Hungarian GDP growth will be 4.2% in 2018 and only 3.2% in 2019. In 2018 and 2019, industrial production is expected to grow by 4 and 4.5 per cent, respectively. The forecast expects a 12% growth rate for businesses in 2018 and 5% in 2019.

According to the forecast of Pénzügykutató Zrt.¹⁴, Hungary will reach a record growth rate since the recession as a result of a favourable global business climate and hefty domestic fiscal and monetary incentives. Due to rising real incomes and employment, investments will see a surge in 2018 (by 15%), which will also spur consumption. GDP growth forecasts for 2018 and 2019 are 4.4 and 3.2 per cent, respectively. Analysts noted that despite the internal motivators of the Hungarian economy being stronger than before, there is still considerable dependence on EU subsidies. The forecast predicted that in 2018, on a yearly average, the number of people employed will be 4.47 million and the number of the unemployed 168,000. This means an unemployment rate of 3.6%. According to the forecast, employment in 2019 will continue to rise, though possibly at a more moderate rate. The tendency that it will be more difficult for businesses to find qualified workforce due to a rising labour shortage and plans to reduce the number of public employees are key factors in this forecast. The unemployment rate may drop to 3.4% in 2019.

¹³ Source: https://www.gki.hu/wp-content/uploads/2018/10/prognosis_181029.pdf

¹⁴ Source: https://penzugykutato.hu/sites/default/files/Penzugykutato_Prognosis_2018%20szep_Sajtotajekoztato.pdf

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	(Jan)	5.0%	5.0%	5.0%
Germany	Manufacturing Purchasing Managers Index	(Jan)	49.9	51.4	51.5
	IFO Business Climate Index ¹	(Jan)	99.1	100.7	101.0
France	INSEE Business Climate Index ²	(Jan)	102		102
	Unemployment Rate	(Jan)	4.0%	3.9%	3.9%
USA	CB Consumer Confidence Index	(Jan)	120.2	124.7	126.6
	Manufacturing Purchasing Managers Index	(Jan)	54.9	53.5	53.8
China	Manufacturing Purchasing Managers Index	(Jan)	49.5	49.3	49.4

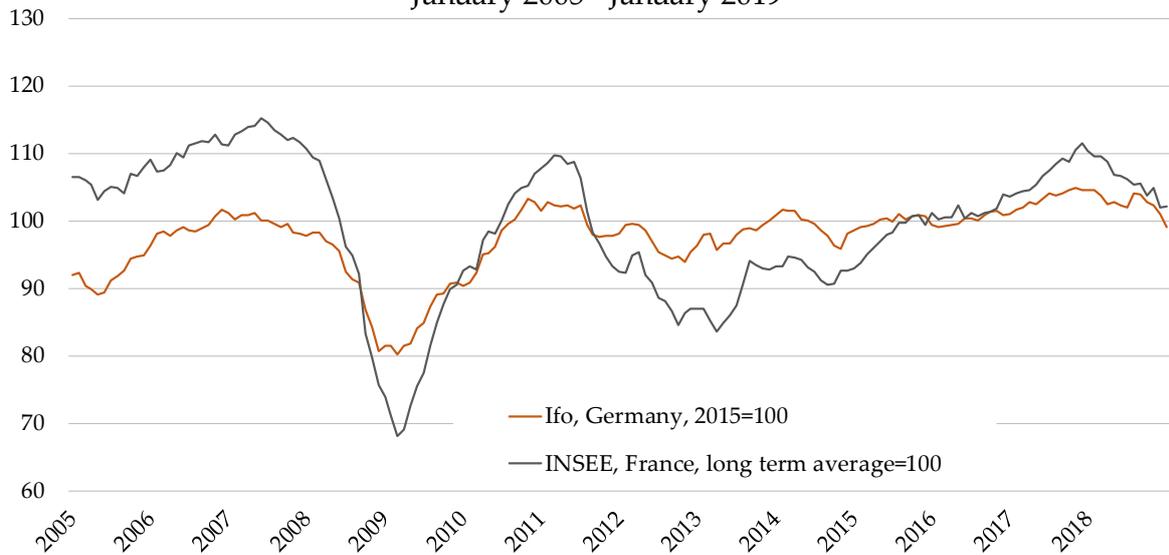
¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

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



Sources: www.cesifo.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, HCCI IEER
Eszter Vági, analyst, HCCI IEER

Research manager:

Ágnes Makó, PhD,
Managing director, HCCI IEER

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