Monthly Bulletin of Economic Trends

August 2018

IEER quarterly business climate survey results, July 2018

The Quarterly Business Climate Index survey of IEER reveals the opinion of 400 managers on the situation and the outlook of their businesses. The basis used for calculating the Quarterly Business Climate Index and the Quarterly Uncertainty Index is a sample of 300 small and medium-sized enterprises (20-249 employees) and 100 large enterprises (employing 250 persons or more). Surveyed small and medium-sized enterprises were evaluated by using our SME Outlook Business Climate Index and SME Outlook Uncertainty Index.

According to our survey conducted in July 2018, the level of business confidence in Hungary was slightly higher quarter on quarter. The Quarterly Business Climate Index was up from 39 points in April to 42 points. The index has never been this high since our business climate records began in 2010 (see figure 1). The Quarterly Uncertainty Index was at 26 points, 2 points lower than the level of the previous quarter. Uncertainty Index values suggest that the business situation has been given a more consistent evaluation by domestic companies compared to the previous quarter.

If business confidence levels are examined in the small and medium-sized sector only, we can see that the upward trend since July 2017 is interrupted: the SME Outlook Business Climate Index has dropped from 38 points in April to 34 points (see figure 2). The SME Outlook Uncertainty Index is at 30 points, having decreased by four point since April 2018 - this value indicates that the opinion of small and medium-sized enterprises is more unified than in the previous quarter.

Figure 1. Quarterly Business Climate Index, 01. 2010. – 07. 2018.

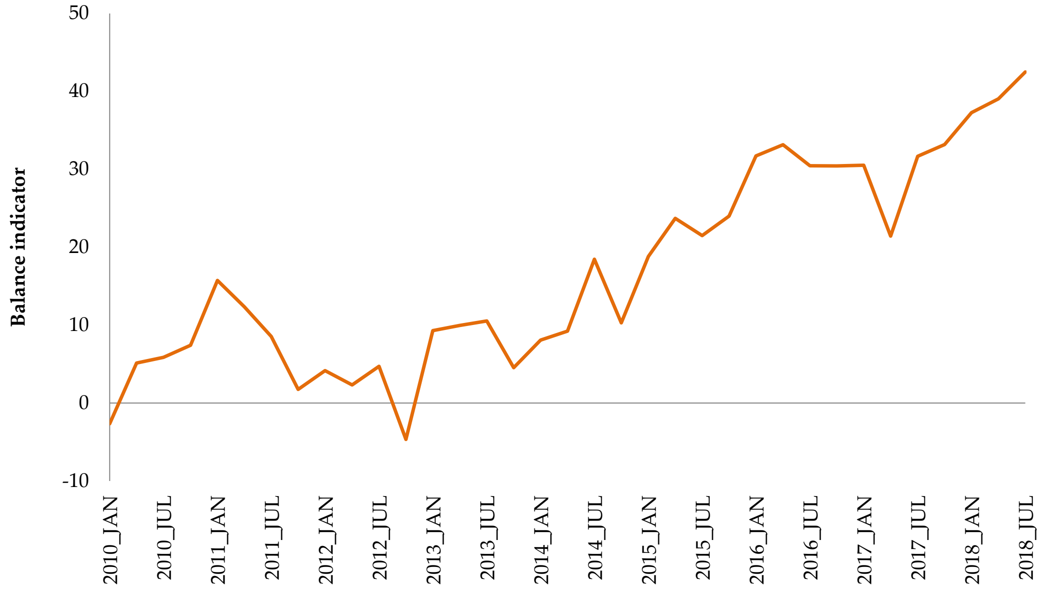
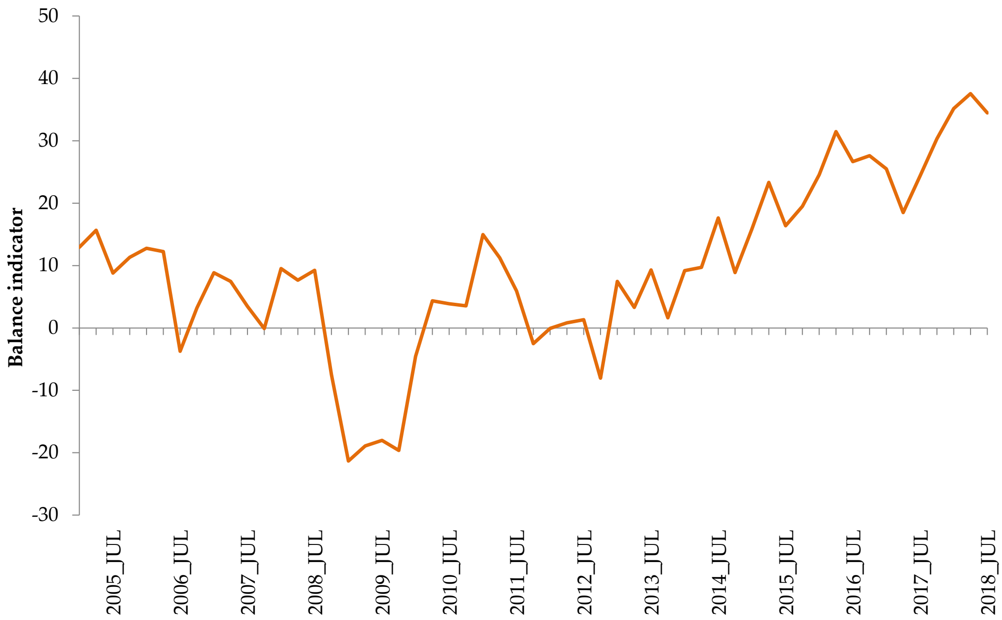


Figure 2. SME Outlook Business Climate Index, 01. 2005. – 07. 2018.

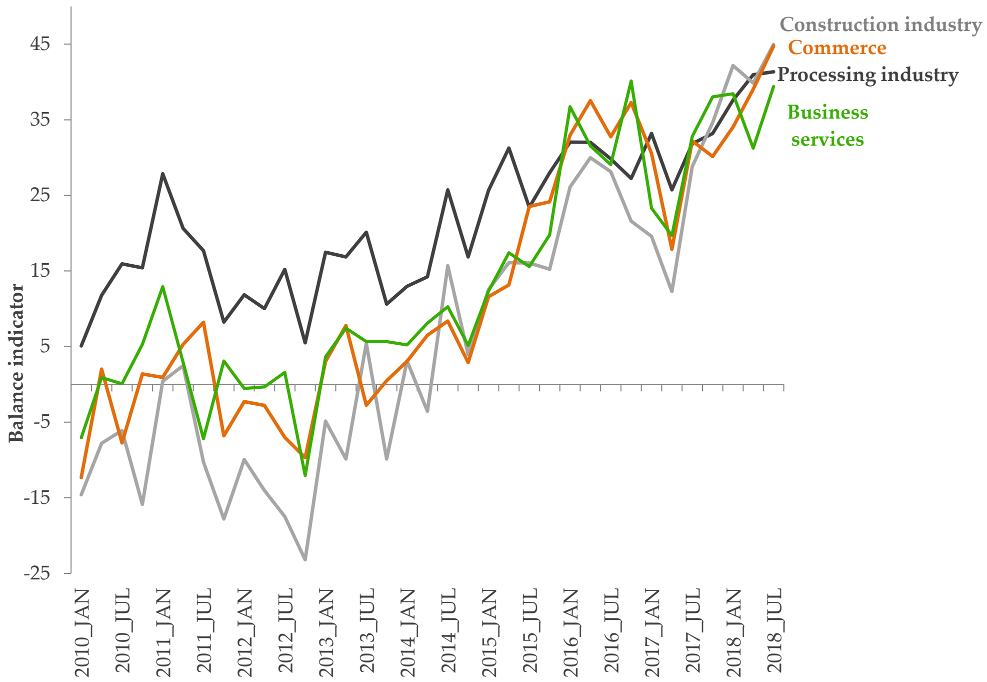


Source: IEER 2018

Note *that the score in the figure is an aggregated 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 Quarterly Business Climate Index was the highest for the construction industry (+45 points) and the commerce (+45 points). It was +41 points for processing industry companies, and +39 points for business services companies. Business services enterprises experienced an eight-point increase, the index of commercial companies increased 6 points, the enterprises of construction industry experienced a five-point rise whereas there is no change in case of companies in the processing industry compared to April.

Figure 3. Quarterly Business Climate Index by economic sector, 01. 2010. – 07. 2018.

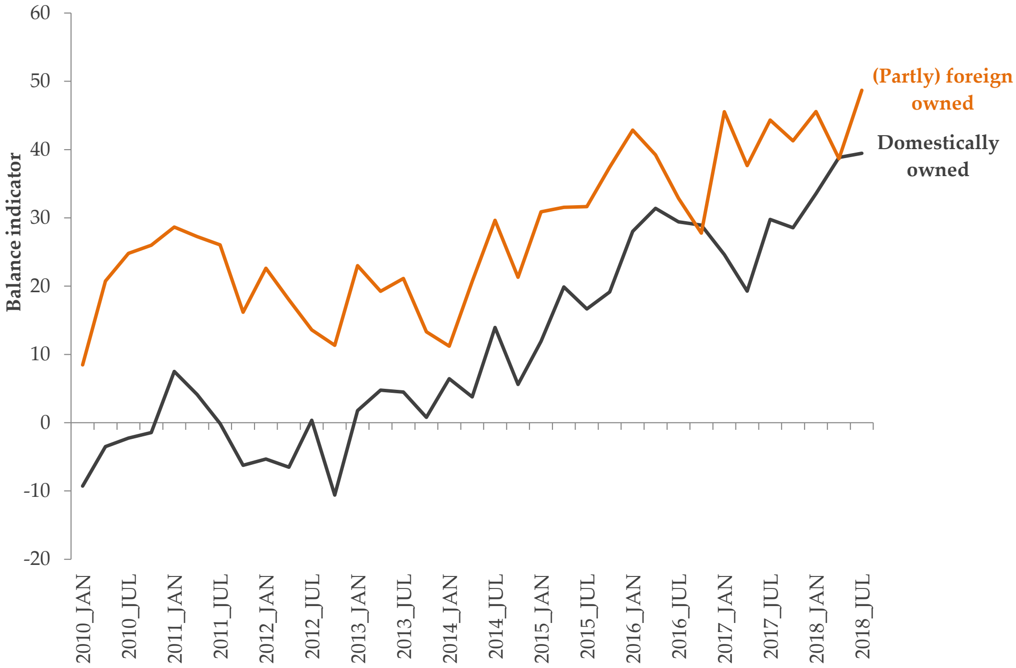


Source: IEER 2018

Note *that the score in the figure is an aggregated 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.*

According to the ownership structure, the Quarterly Business Climate Index is +39 points in case of domestically owned enterprises, while it is +49 points in case of (at least partly) foreign owned companies. The index of domestically owned enterprises has not changed compared to the previous quarter, and it has risen by 10 points for the (at least partly) foreign owned companies.

Figure 4. Quarterly Business Climate Index by ownership structure, 01. 2010. – 07. 2018.

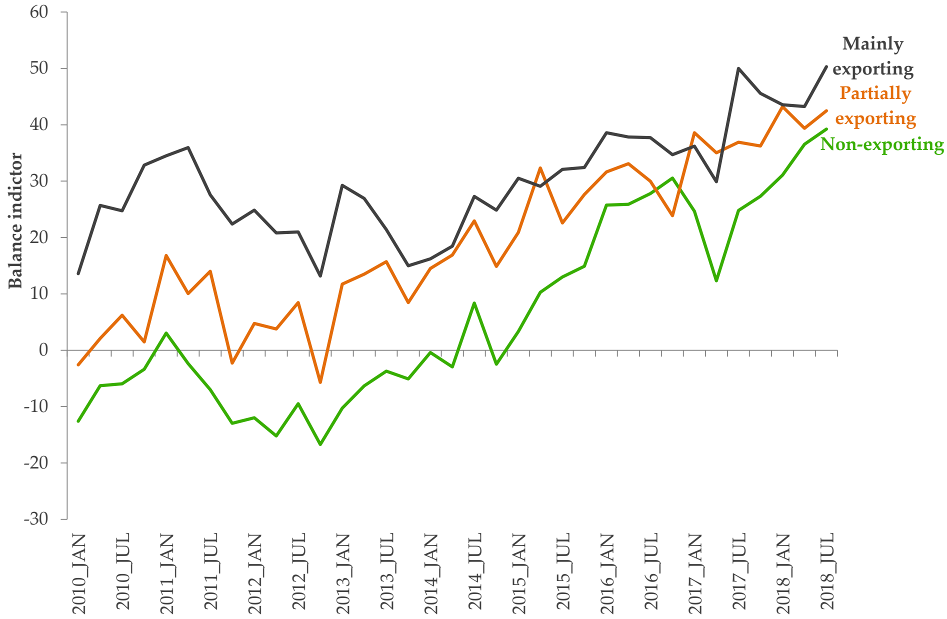


Source: IEER 2018

***Note** that the score in the figure is an aggregated 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 Quarterly Business Climate Index was highest for mainly exporting companies (+50 points). Partially exporting and non-exporting enterprises scored +42 and +39 points, respectively. In comparison with the previous quarter, non-exporting companies experienced a two-point increase, the index of partially exporting enterprises has risen by three points, and mainly exporting companies experienced a seven-point increase.

Figure 5. Quarterly Business Climate Index by export activity, 01. 2010 – 07. 2018.



Source: IEER 2018

***Note** that the score in the figure is an aggregated 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 Quarterly Business Climate Index contains ten indicators measuring

- 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 utilization.

Business leaders are much more optimistic about their current stock order, current profitability, production levels of the previous quarter, and expected business situation than in the previous quarter, while they are much more pessimistic about the expected production levels for the next quarter than in April 2018. All sub-indicators – but expected change in staff members and expected capacity utilization – are higher than in the same period last year.

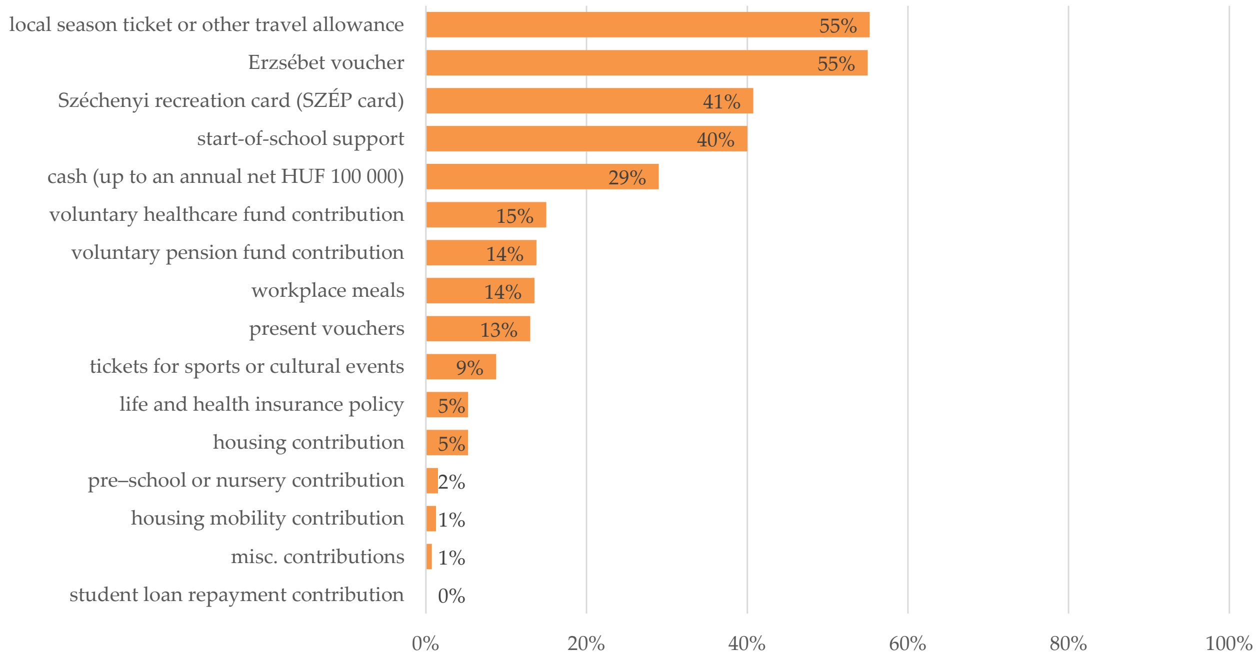
The application of fringe benefits among Hungarian companies

This analysis is based on the July 2018 wave of IEER's Quarterly Business Climate Survey, in which 400 CEOs were involved. The sample, the structure of which is the same each quarter, contains 300 small and medium-sized enterprises (20-249 employees) and 100 large enterprises (250+ employees). Economic output and sectors are both representative. The survey mainly concerns the business situation and short-term business expectations of enterprises. Also featured in this wave is the popularity of various types and forms of fringe benefits.

According to our findings, 88% of surveyed companies employing over 20 people offer their employees at least one type of fringe benefit, out of which, the two most popular were season tickets for public transport and Erzsébet vouchers. The application of fringe benefits correlated with company size and foreign ownership rate: medium-sized and large companies and (partly) foreign-owned companies were the most liable to provide fringe benefits. The economic sector and the business situation does not seem to have had any statistically significant influence on the use of fringe benefits.

88% of the surveyed companies provided at least one fringe benefit type to employees in 2018. As shown in figure 1, respondents most commonly gave local season tickets or other travel allowances (55%) and Erzsébet vouchers (55%) to employees as fringe benefits in 2018. Additionally, 41% of respondent CEOs gave SZÉP cards to employees, and 40% provided start-of-school support to their empoyees' children. Nearly a third of enterprises (29%) paid fringe benefits in cash. More than 10% of the surveyed companies offered health insurance and pension schemes as well as catering and gift vouchers to employees. The occurrence of other fringe benefit types was under 10%.

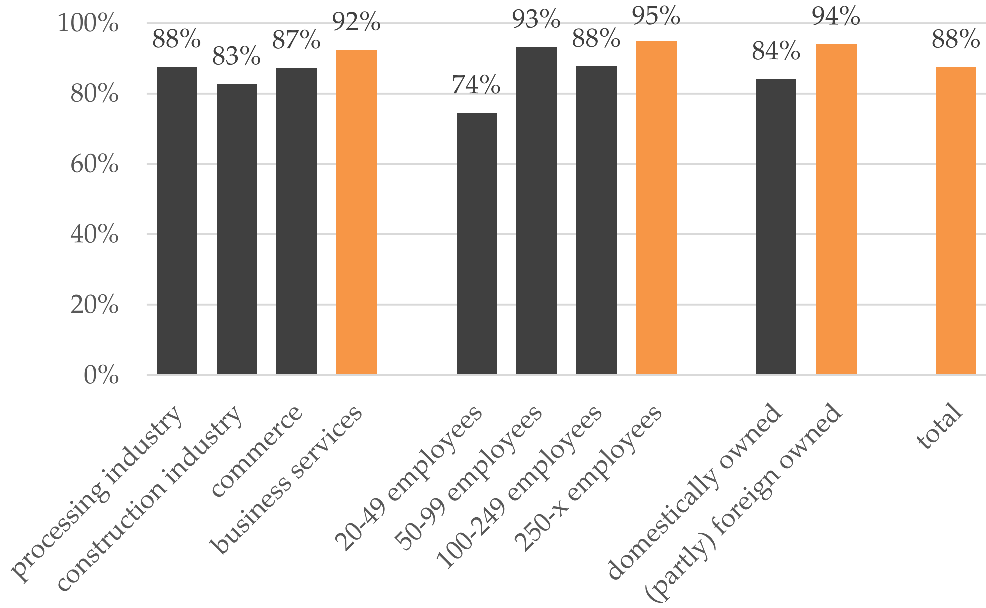
Figure 6. Fringe benefits offered by the companies in focus, 2018, per cent



Source: IEER 2018

Although there was no statistically significant difference between the use of fringe benefits made by the represented economic sectors, employees of companies offering business services seem to have received the most perks (92%). In contrast, company size and the ratio of foreign ownership were indeed in correlation with fringe benefit disbursement. It was mainly the medium-sized and large companies that were more generous: 74% of the surveyed businesses employing 20-49, 93% of businesses employing 50-99, 88% of businesses employing 100-249 and 95% of businesses employing 250+ gave employees some sort of fringe benefit. Perks were also in more widespread use among companies of (partial) foreign ownership. 94% of them provided fringe benefits to employees, while the same proportion was only 84% for domestic companies (cf. figure 7).

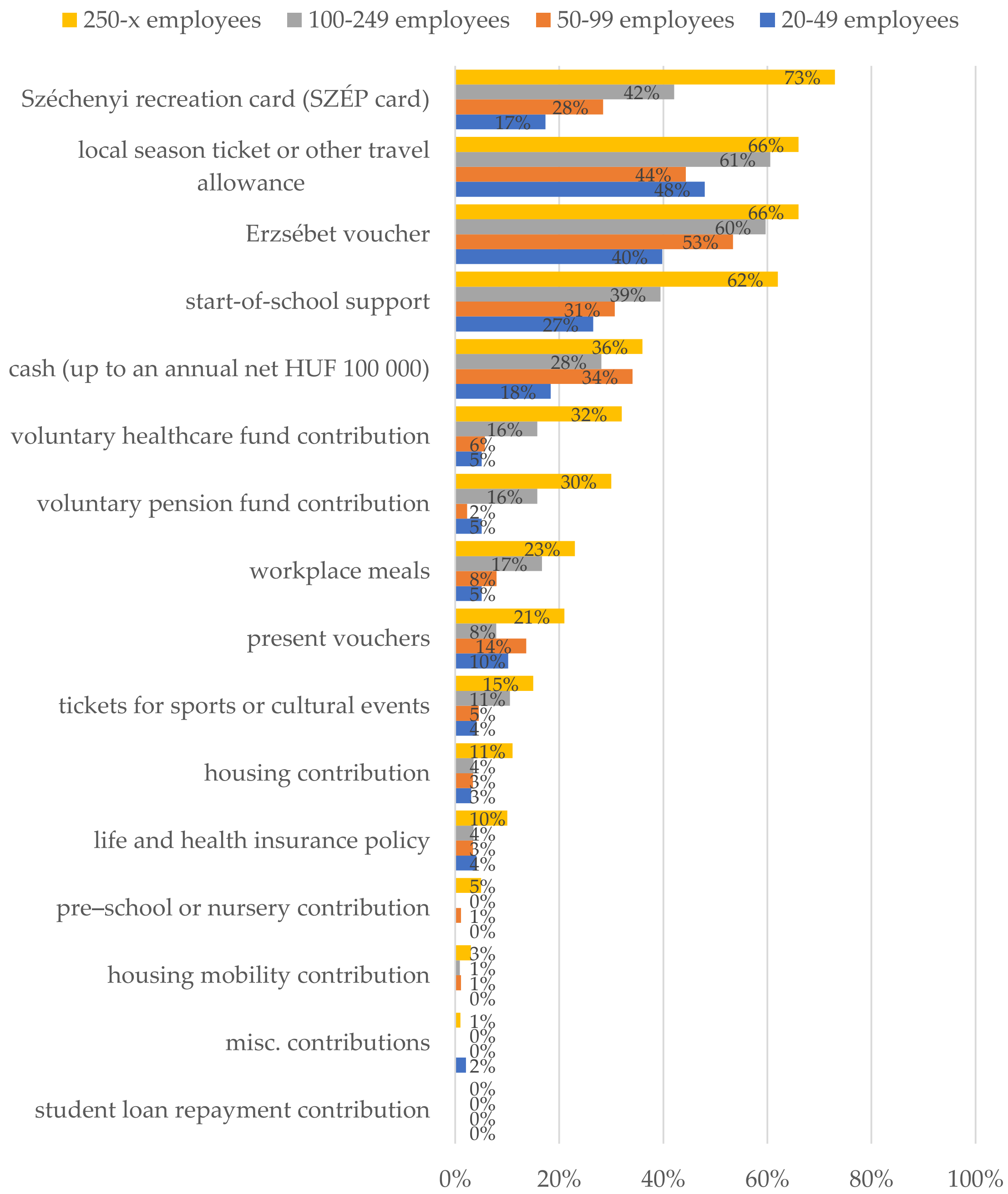
Figure 7. Fringe benefits offered by companies with regard to economic sector, company size and ownership structure, per cent



Source: IEER 2018

Our results (cf. figure 8) show that the most popular fringe benefit type among large companies was the SZÉP card, used by 73% of these employers in 2018. The second most popular fringe benefit type they chose was travel allowance, (usually in the form of season tickets for local public transport), and Erzsébet vouchers (66-66%). At companies employing fewer than 250 people, local season tickets and Erzsébet vouchers were the most widespread. Travel allowances were provided by 61% of companies with 100-249 employees, 44% of companies with 50-99 employees and 48% of companies with 20-49 employees, while Erzsébet vouchers were provided by 60%, 53% and 40%, respectively. These companies opted for SZÉP cards much more rarely. It is safe to diagnose that the recreation card is an option chiefly chosen by large companies. Besides, there is a significant difference between large companies and small and medium-sized enterprises considering their choice of start-of-school support, health insurance- and pension schemes. These benefits were provided by 62%, 32% and 30% of companies employing 250+ people. As for small and medium-sized enterprises, these options were far less widespread, offered by only 40%, 16% and 16% of businesses with a staff of 100-249. Among companies with 20-99 employees, these fringe benefits are even less popular, with health insurance- and pension schemes being the rarest.

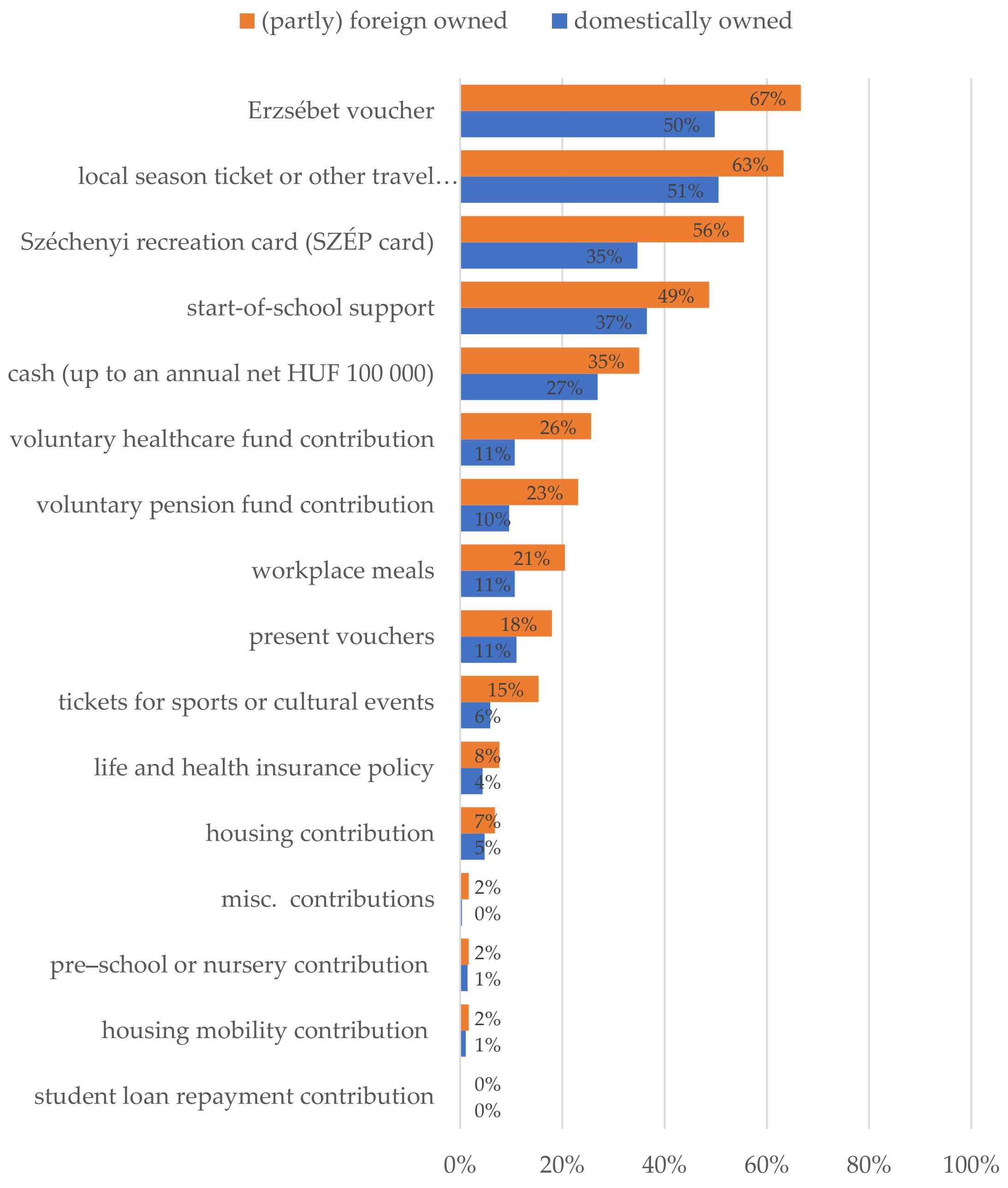
Figure 8. Types of fringe benefits offered by companies with regard to company size, per cent



Source: IEER 2018

As far as ownership structure is concerned, the sequence of the various types of perks was similar. For domestic and (partly) foreign companies, the two most popular perks chosen were Erzsébet vouchers (50% and 67%, respectively) and local season tickets/travel allowance (51% and 63%, respectively). With (partly) foreign-owned companies, SZÉP card is the third most popular (56%), ahead start-of-school support (49%), whereas companies of domestically owned, these rates are 37% for start-of-school support, and 35% for SZÉP card. We can see that (partly) foreign-owned companies provided all of the examined fringe benefit types more commonly.

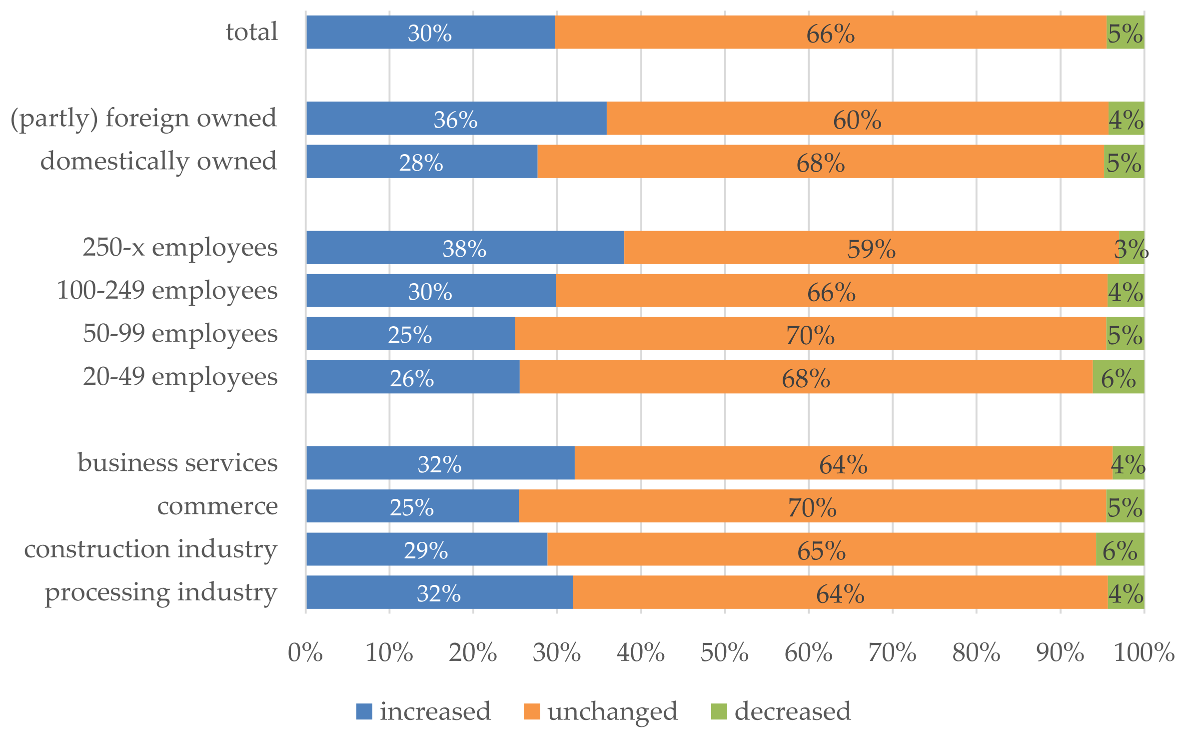
Figure 9. Types of fringe benefits offered by companies with regard to ownership structure, per cent



Source: IEER 2018

Shown in figure 10, at 66% of the companies the budget for fringe benefits has not changed in the previous year, while 30% of companies increased and 5% decreased their budgets. Among respondents, an increase of the fringe benefit budget was most commonly implemented by large, 250+ companies (38%), in contrast companies employing 20-49 workers (26%) and companies with a staff of 50-99 (25%). 36% of (partly) foreign owned companies and only 28% of domestic businesses increased their budgets, which is hardly surprising since foreign companies disburse fringe benefits more extensively than their domestic counterparts. Focusing on economic sectors, the rates of companies offering business services and those in the processing industry that increased their fringe benefit budgets were both 32%, however, construction companies also tended to increase perks (29%), while the rate of commercial companies was slightly lower at 26%.

Figure 10. Fringe benefit budget tendencies in the past year, with regard to ownership structure, company size and economic sector, per cent



Source: IEER 2018

International trends

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

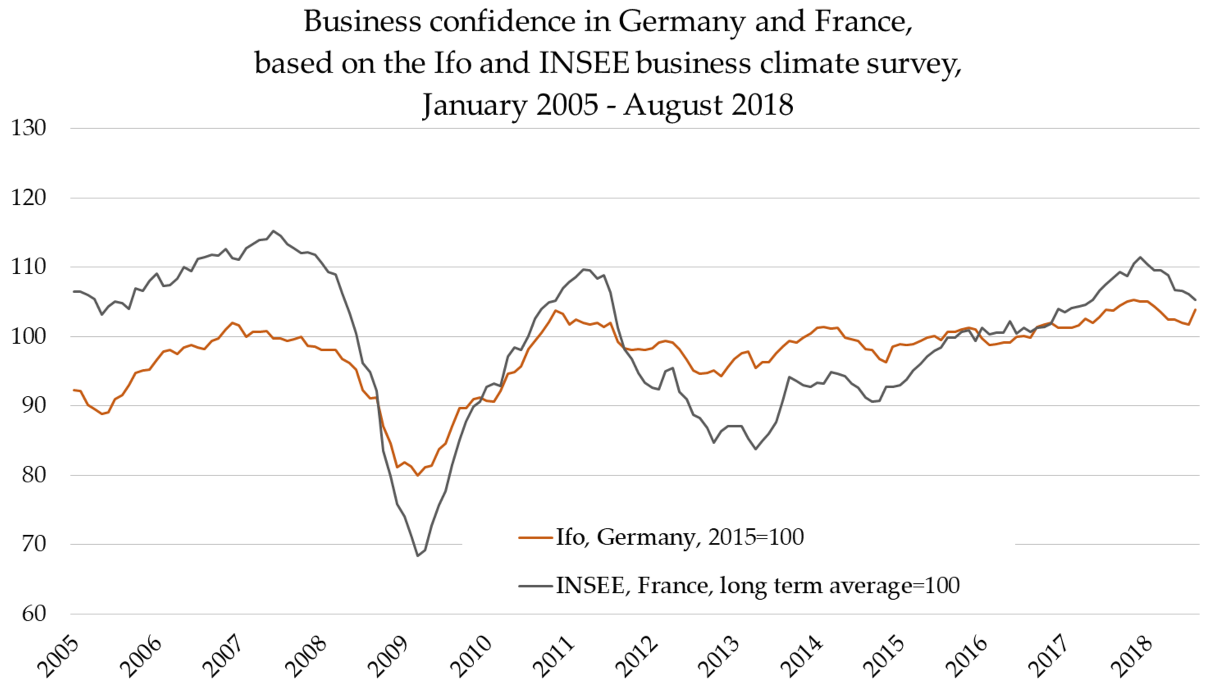
		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(Aug)	**5.2%**	**5.2%**	**5.2%**
	Manufacturing Purchasing Managers Index	(Aug)	**55.9**	**56.1**	**56.1**
	IFO Business Climate Index[1]	(Aug)	**103.8**	**101.9**	**101.7**
France	INSEE Business Climate Index[2]	(Aug)	**105**		**106**
USA	Unemployment Rate	(Aug)	**3.9%**	**3.8%**	**3.9%**
	CB Consumer Confidence Index	(Aug)	**133.4**	**126.7**	**127.9**
	Manufacturing Purchasing Managers Index	(Aug)	**54.7**	**54.5**	**54.5**
China	Manufacturing Purchasing Managers Index	(Aug)	**51.3**	**51.0**	**51.2**

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



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

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