



Business situation improves, expectations vary greatly – Results of the Business Climate Survey of HCIC IEER of April 2021

The April Business Climate Survey of HCIC IEER is based on the answers of 2790 CEO respondents. The survey was conducted between 1st April and 30th April amid the gradual loosening of COVID19 third wave restrictions. The aim of IEER's survey was to map CEOs' current short-term expectations that relied on subjective judgement and information available at the time of the survey.

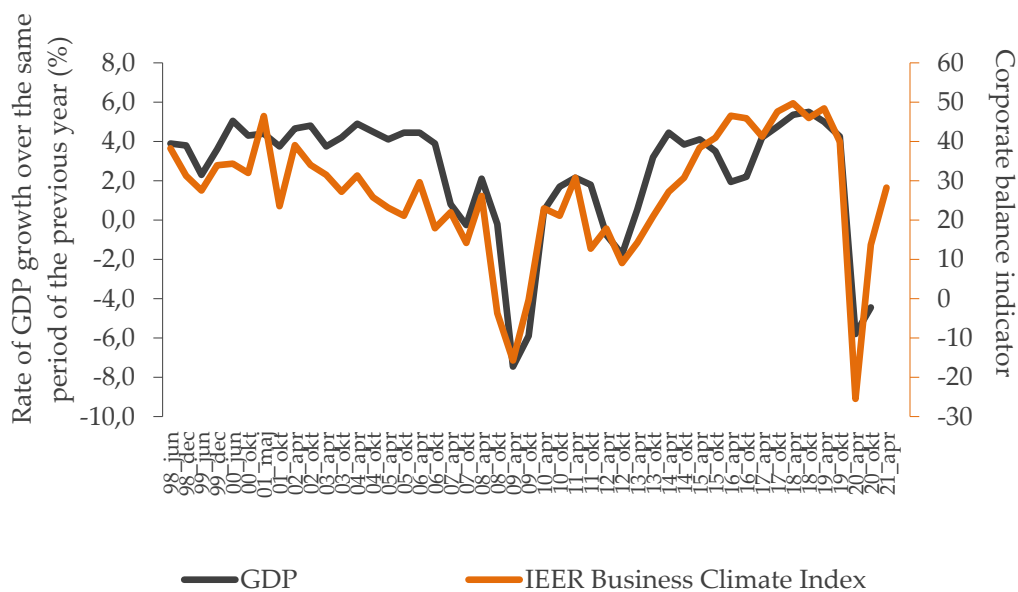
According to the results the Business Climate Index was at +28 points in April 2021, meaning that the April 2020 record low of -25 points (the lowermost score since records began in 1998) jumped 53 points over a period of one year. However, the current score value has been still the lowest since April 2014 (+27 points) and before April 2020.

Compared to the previous half, companies see the business climate much more favourably now, however, expectations vary across the board. In general, expectations concerning the

future business situation, investments and orders have become much more optimistic over the past six months. Order expectations have seen the greatest improvement.

The Uncertainty Index fell compared to April and October 2020, it is currently at 54 points, suggesting that Hungarian companies have become more uniform in their assessment of the business situation. However, assessments still vary greatly across corporate categories, resulting in vast differences.

Figure 1: GDP and the IEER Business Climate Index



	Oct. 2019	Apr. 2020	Oct. 2020	Apr. 2021
GDP	4.3	-5.8	-4.4	
IEER Business Climate Index	39.9	-25.5	13.7	28.2

Source: HCSO, IEER 2021

Notes: GDP data – seasonally and calendar-adjusted, balanced data reported six-month growth rates (the same period of the previous year = 0)

GDP: left axis

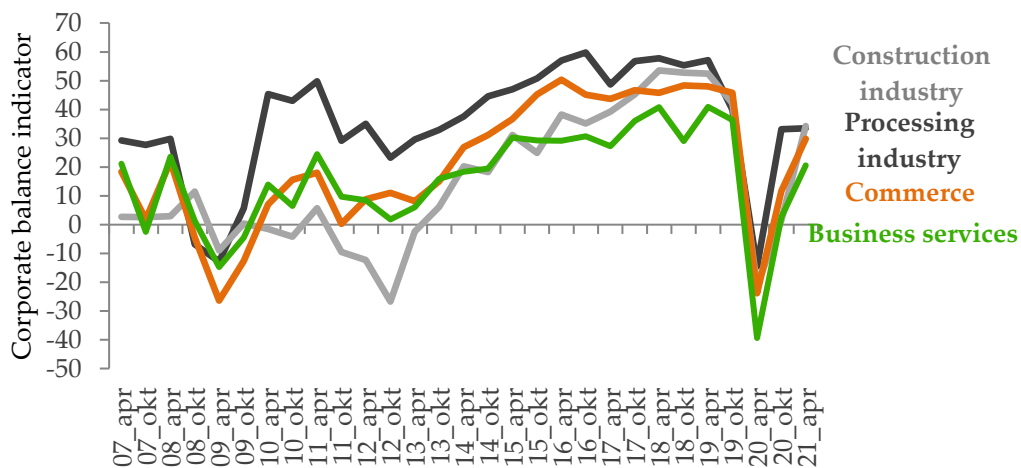
IEER Business Climate Index: right axis

The IEER Business Climate Index by company features

The Business Climate Index was the highest in the construction sector (+34 points), followed by processing (+33 points), trade (+30 points) and service (+21 points). The most significant change compared to the previous half occurred to construction companies, having experienced a 33 points increase since October. Trade and service companies gained 18 points while processing companies stagnated.

Turning to ownership structure we find that companies of (partial) foreign ownership had higher Business Climate Index scores (+44 points) than fully domestic companies (+21 points). In comparison with the previous half, the Business Climate Index is 4 points higher among (partially) foreign companies and 19 points higher among fully domestic ones.

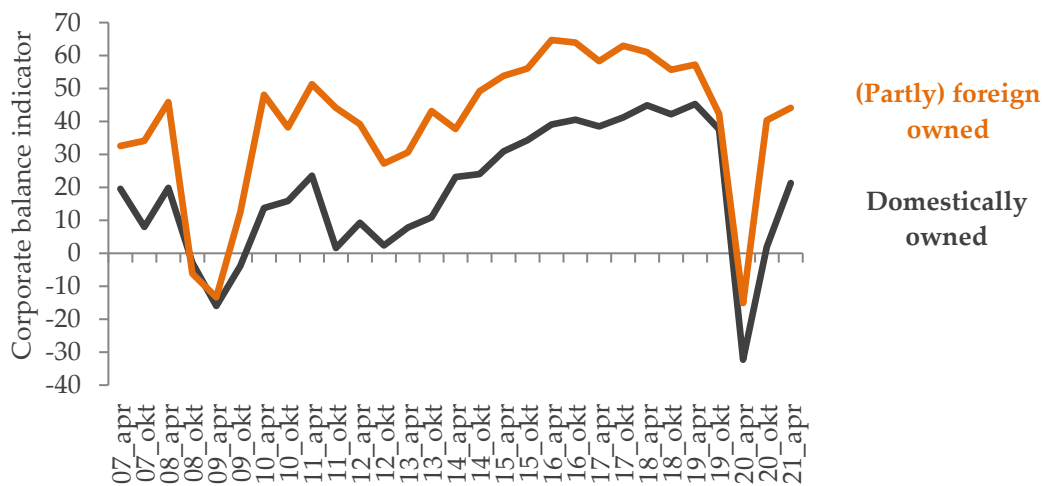
Figure 2: The IEER Business Climate Index by economic sector



Source: IEER 2021

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.

Figure 3: IEER Business Climate Index by ownership structure



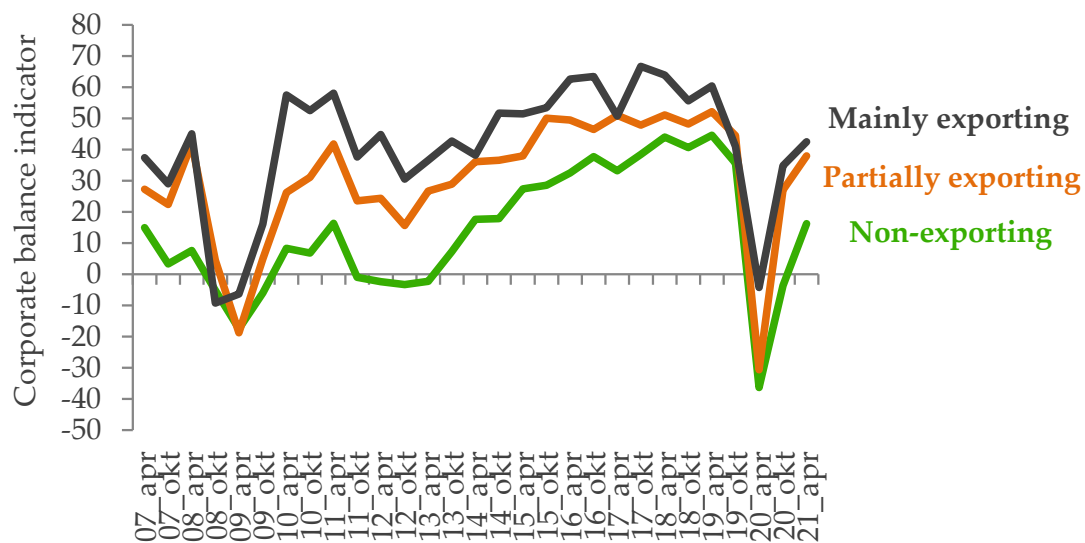
Source: IEER 2021

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According to exporting activity, we find major exporters at +42 points, minor exporters at +38 points and non-exporters at +16 points. Non-exporters gained 20 points compared to the previous half, minor exporters gained 11 points and major exporters increased 8 points. Examining expectations by company size, the analysis shows that companies are overall much more optimistic, with the exception of

big companies. The Business Climate Index is -6 points for 1-9 companies, +29 points for 10-49 companies, +47 points in the 50-249 range and +36 points among 250+ companies. The largest companies lost 3 points over the past six months, while other players gained. Half-on-half, the index is 28, 33 and 22 points higher in ranges of 50-249, 10-49 and 1-10, respectively.

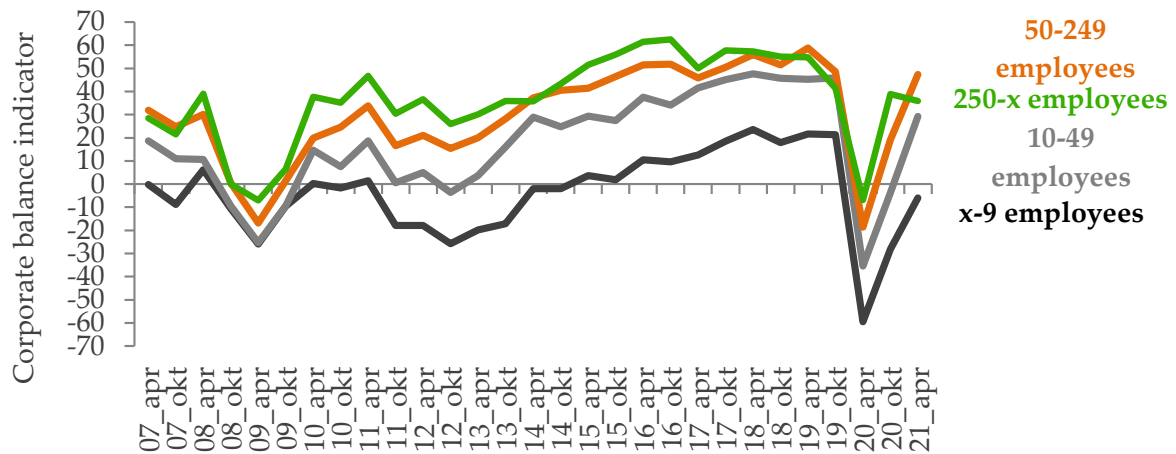
Figure 4: IEER Business Climate Index by export activity



Source: IEER 2021

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.

Figure 5: IEER Business Climate Index by the number of employees



Source: IEER 2021

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Improving business climate is mainly exemplified by companies of (partial) foreign ownership, 50-249 companies, major exporters and construction companies. In October 2020 those segments had typically reported a considerable improvement in positions and expectations compared to April 2020, however, this time their improvement was less marked than that of non-exporters, domestic companies, and 1-50 companies that became much more optimistic over the previous half. Yet it is worthwhile to note that 1-10 small- and microenterprises still expect

recession in spite of a considerable improvement perceived.

Compared to April 2020 the Business Climate Index rose considerably in all surveyed categories, however, most companies in most categories still lag way behind pre-COVID levels of 2018-2019, with the exception of major exporters and (partially) foreign-owned businesses whose Business Climate Index was slightly higher in April 2021 than in October 2019, the last survey period before the pandemic..

Economic effects of COVID19 on Hungarian businesses by April 2021 – crisis management and changes in revenue

The analysis carried out by HCIC's Institute of Economic and Enterprise Research (IEER) focuses on the economic effects of the coronavirus pandemic with regard to companies' crisis management measures and changes in revenue. The data presented in this analysis originate from three Business Climate Surveys taken by IEER over the past three halves involving 2891, 3142 and 2790 CEO respondents respectively. The three survey periods concurred with the first, second and third waves of the coronavirus pandemic in Hungary. The most recent survey was taken between April 1st and April 30th, at the time of a gradual withdrawal of third wave restrictions.

The effect of the pandemic on the operation of businesses

By April 2021, 19% of CEOs did not experience any negative effects of COVID19, while at least one negative factor was mentioned by 81% – a significantly lower rate than the 92% measured in October 2020 and 93% in April 2020. Respondents still mentioned the same negative effects the most frequently: decreased demand (34%) and the operation and activities of the business cannot be undertaken as teleworking (32%), however, both negative factors became much less significant in comparison with the previous two survey periods.

Looking at companies with regard to size, sector, exporting activity and ownership

structure it is apparent that staff shortage, decreased exports and parent companies' placing fewer orders primarily hit 50+ companies, industrial companies, major exporters and (partially) foreign-owned businesses, while issues such as decreased demand, home office, prohibited events/shorter work arrangements and complete shutdown had the most negative effect on 1-50 companies, trade and service businesses, non-exporters and fully domestic companies. Yet 34% of construction companies reportedly experienced no negative effects whatsoever.

Figure 1: The negative effects of the coronavirus pandemic on the operations of Hungarian enterprises, N_{April 2021}=2621, N_{October 2020}=3142, N_{April 2020}=2881



Source: IEER 2020–2021

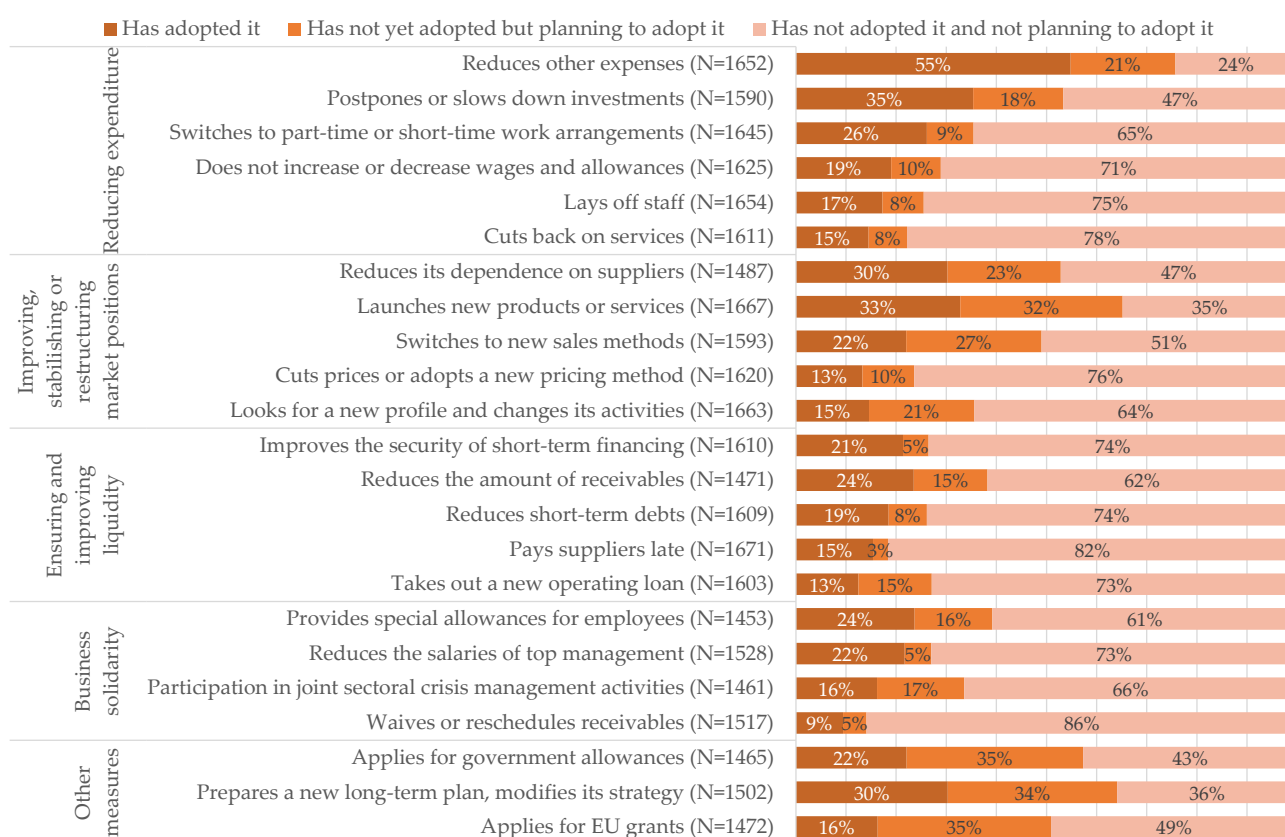
Crisis management tools – company reactions on the economic effects of COVID19

Reducing expenditures as a crisis management strategy still stands out, however, in April 2021 the runner-up was stabilisation, improvement and alteration of market positions, unlike in the previous survey period.

The five most common crisis management tools already utilised include **cutting other**

expenses (55%), postponing and slowing down investments (35%), launching new products and services (33%), reducing dependence on suppliers (30%), and preparing long-term plans and modifying strategies (30%).

Figure 2: Adoption of crisis management measures by Hungarian businesses to deal with the economic effects of the coronavirus pandemic

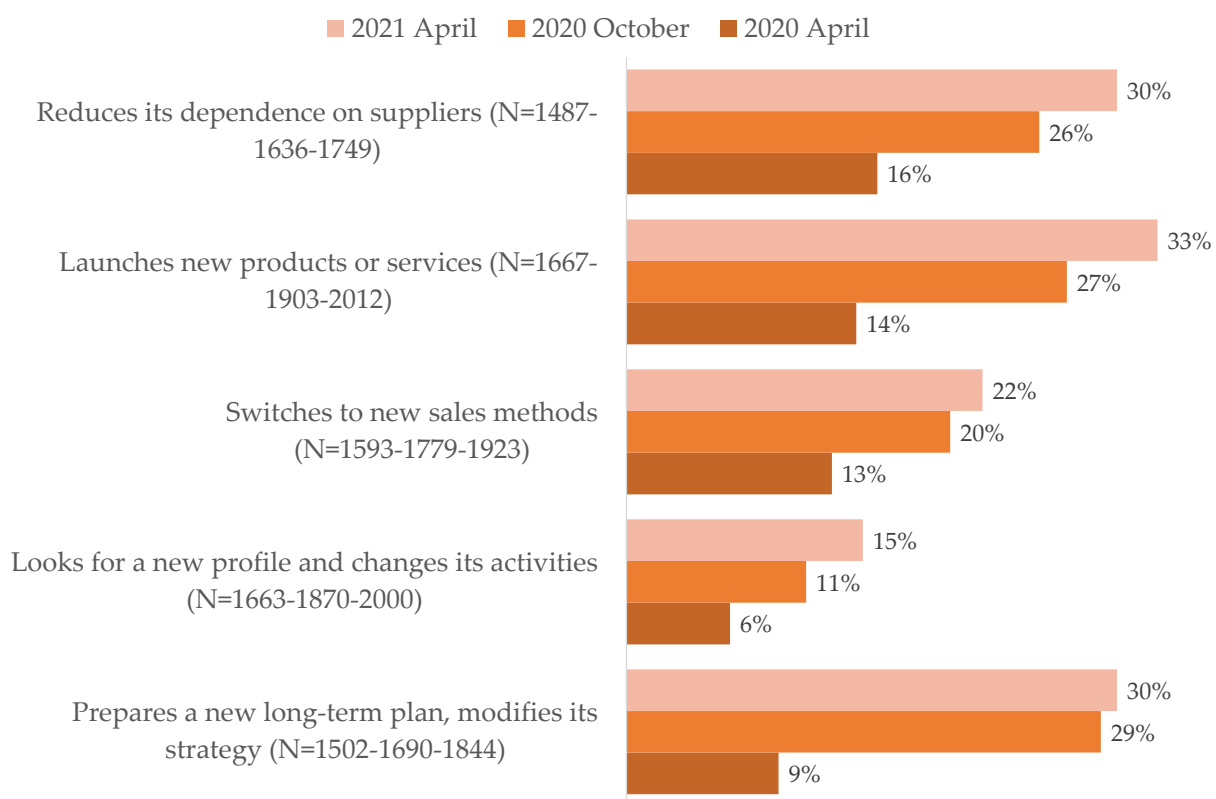


Source: IEER 2020–2021

Crisis management measures aiming to modify market positions (reducing dependence on suppliers, launching new products and services, switching to new sales methods, looking for new profiles) have gained more emphasis over time, indicating that

companies now rely more on long-term strategies to adapt to a changed market environment instead of relying on methods that yielded quick results and were aimed at putting out fires (typically employed in the onset period of the pandemic).

Figure 3: Adoption of crisis management measures aiming to modify market positions and long-term strategy by Hungarian businesses to deal with the economic effects of the coronavirus pandemic



Source: IEER 2020–2021

Revenue expectations

About 50% of the surveyed companies reported that their revenues in 2020 had been lower than in the year before. Slightly less than one fifth of the businesses attained revenues that were about the same and over one third had bigger revenues in 2020 than in 2019. Companies whose annual revenues decreased compared to 2019 experienced a 29% decrease on average.

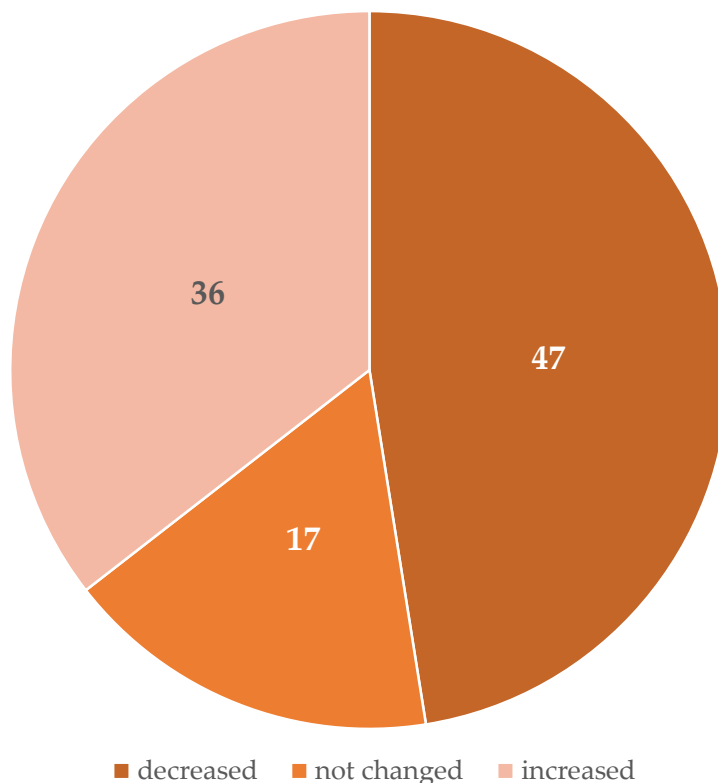
Businesses that were the most liable to report decreasing revenues in 2020 compared to 2019 include companies with an annual revenue of less than HUF 100M, companies with 1-9 employees, industrial companies, businesses of (partial) foreign ownership, and major exporters.

The recession did not necessarily hit the most exposed businesses the hardest. If the extent of

revenue drop is examined in the circle of companies that reported a drop in revenues we found that **smaller companies, domestic businesses and non exporters were harder hit than others** compared to 2019. An **above average decline was reported by companies with 1-9 employees (43% on average), service providers (36% on average), non-exporters (35% on average), and companies with a revenue below HUF 50M (43% on average).**

Entrepreneurs are generally optimistic about the year 2021, **46 per cent of them expect that their annual revenue in 2021 will be higher than in 2020.** Companies that anticipate revenue growth expect a 17% growth rate on average.

Figure 4: Evolving of the revenue in 2020 compared to 2019, per cent (N=2458)



Source: IEER 2021

Table 1: The measure of the revenue drop in 2020 compared to 2019, between the companies whose revenue decreased, mean of per cents

	Number of cases (N)	Mean
Total sample	995	29
x-9 employees	560	43
10-49 employees	237	27
50-249 employees	145	23
250-x employees	53*	22
Industry	239	22
Construction industry	88*	27
Commerce	174	28
Business services	488	36
Domestically owned	878	31
(Partly) foreign owned	94*	23
Non-exporting	694	35
Partially exporting	141	19
Mostly exporting	126	23
Lower than 50 million HUF revenue	442	43
51-100 million HUF revenue	88*	36
101-200 million HUF revenue	75*	32
201-500 million HUF revenue	111	25
501 million-1 billion HUF revenue	76*	24
1-2 billion HUF revenue	45**	28
2-5 billion HUF revenue	69*	24
Higher than 5 billion HUF revenue	65*	21

Source: IEER 2021

Note: *The number of cases is lower than 100 in the cell; ** The number of cases is lower than 50 in the cell

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	(May)	6.0%	6.0	6.0%
Germany	Manufacturing Purchasing Managers Index	(May)	64.4		66.4
	IFO Business Climate Index ¹	(May)	99.2	102.9	96.6
France	INSEE Business Climate Index ²	(May)	108.0		95.7
	Unemployment Rate	(May)	5.8%	5.9%	6.1%
USA	CB Consumer Confidence Index	(May)	117.2	119.2	117.5
	Manufacturing Purchasing Managers Index	(May)	62.1		60.5
China	Manufacturing Purchasing Managers Index	(May)	51.0	51.1	51.1

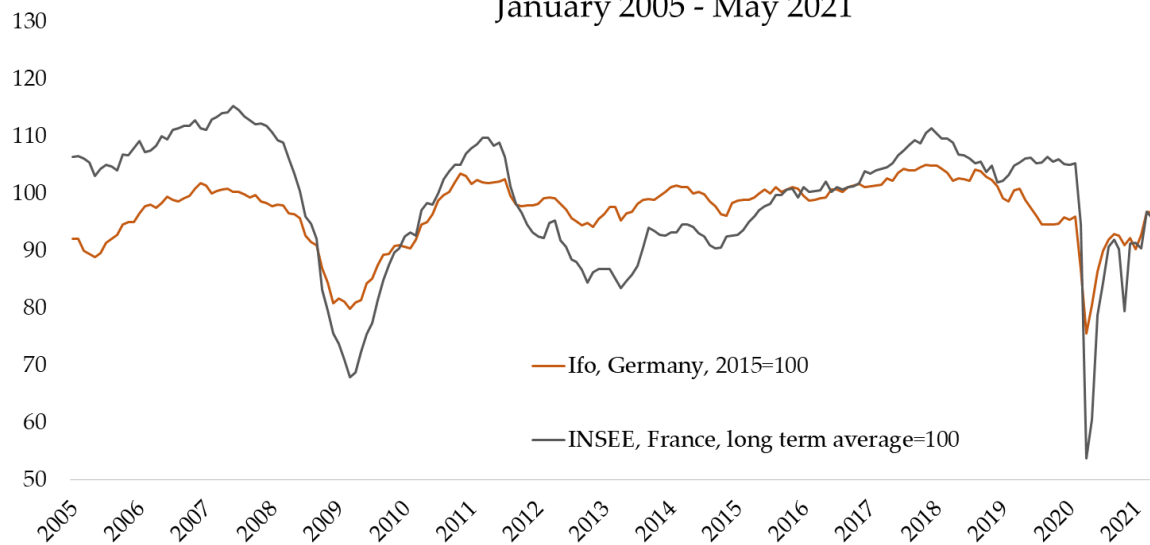
¹<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

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

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

In Germany, the IFO business climate index increased compared to April. The manufacturing purchasing manager index (PMI) decreased compared to previous period. Unemployment rate remained the same for Germany. The French INSEE business climate index increased significantly compared to last month. In the United States, the CB consumer confidence index decrease slightly compared to the month prior, and it performed worse than expected. The manufacturing PMI increased compared to April in the USA. The unemployment rate improved compared to last month. The Chinese manufacturing PMI decreased compared to previous period.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - May 2021



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

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