Monthly Bulletin of Economic Trends

July 2021

Economic effects of COVID19 on Hungarian companies by April 2021 – hindering factors, capacity utilisation, wages and selling prices

This analysis compiled by HCIC Institute of Economic and Enterprise Research (IEER) focuses on the economic effects of COVID19 on the Hungarian economy, more specifically this time on factors hindering business, capacity utilisation, wages, and domestic/export selling prices. Data for this analysis were taken from IEER's four business climate surveys, conducted in the previous four halves, with the participation of 2 268, 2 891, 3 142 and 2 790 respondents, respectively. The three most recent of the four surveys were taken amid the first, second and third waves of the pandemic. **The latest survey was conducted from 1 April to 30 April**, at the time of gradual loosening of third wave restrictions.

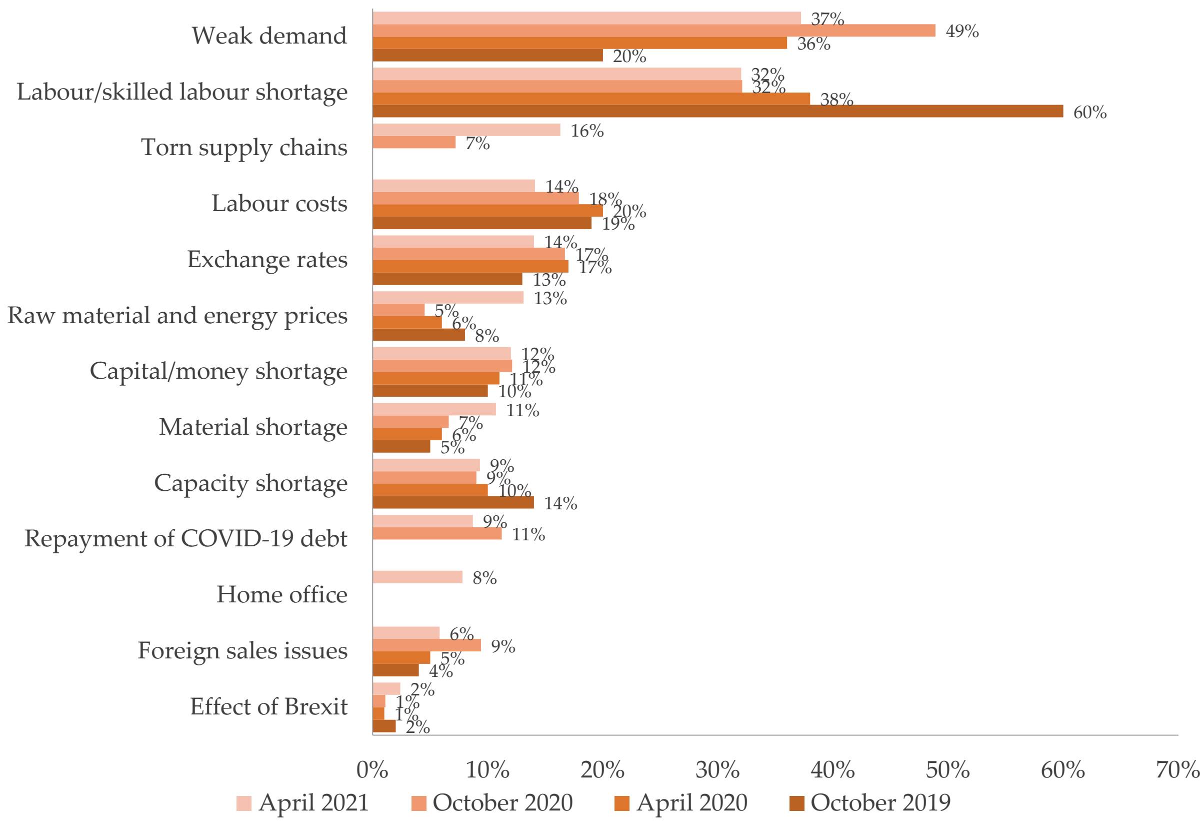
Factors hindering business activity

Before the onset of the coronavirus pandemic the most widespread factor hindering business was undoubtedly the shortage of labour and skilled labour. However, this changed in April 2020: the first restrictions led to reduced working hours and redundancies in many sectors. Closely related to this problem, **decreased demand came close in frequency to labour shortage at the time of the first wave in April 2020 (36 per cent), and surpassed it by October (49 per cent).** Although in April 2021 decreased demand started to lose ground (37 per cent) it still remained at the top of the list of hindering factors, especially for 1-9 small enterprises (48 per cent).

It is remarkable that **torn supply chains** affected 16 per cent of businesses, which rate is 9 percentage points higher than in October 2020,[1] becoming the third most widespread hindering factor, causing problems especially in trade (28 per cent) and in the processing industry (25 per cent). There is an other factor that compares, the **price of raw materials and energy,** presenting a similarly staggering 8 percentage point increase (13 per cent of respondents chose it). Related **material shortage** has become a frequently mentioned hindering factor, too (11 per cent).

1 Torn supply chains and repayment of COVID19 debt was taken up as a hindering factor in October 2020. Homeworking became a hindering factor in April 2021.

Figure 1: Factors hindering the business activity of domestic companies in the previous half, $N_{2019.okt.}$=2261, $N_{2020.ápr.}$=2884, $N_{2020.okt.}$=3133, $N_{2021.ápr.}$=2779



Source: IEER 2019-2021

Changes in average capacity utilisation

According to the retrospective reminiscence of entrepreneurs, capacity utilisation before the coronavirus pandemic was 77 per cent in the first quarter of 2020, which rate dropped to 66 per cent later that spring. Thereafter, at the time of the economic bounce following lifted restrictions average capacity utilisation rose to 72 per cent, and further to 73 per cent by the end of the year, in spite of the second wave. **Companies reported 70 per cent in the first quarter of 2021 and on 1 April too** – and although this rate is 4 percentage points higher than that reported in spring 2020, it is still 7 percentage points lower than the pre-crisis figure.

Looking at capacity utilisation figures of April 2021 one can see that in terms of company size and sector strikingly different results were produced. **1–9 small enterprises, although their base had been low to start with, had a great fall in the second quarter of 2020. After a considerable bounce in the third quarter, the third quarter and the first quarter of 2021 brought an other deep dive for small enterprises.** At the other end of the spectrum, 250+ big companies were able to increase their capacity utilisation all throughout the second half of 2020, dropping back slightly in 2021. **Industrial companies and construction businesses operate at pre-crisis capacity utilisation levels, while the capacity utilisation levels of trading companies, and especially service providers were very much down** on 1 April.

Chart 1: Capacity utilisation between the first quarter in 2020 and April 2021, per cent

	2020 first quarter	2020 second quarter	2020 third quarter	2020 fourth quarter	2021 first quarter	1 April 2021
N	2081	2082	2089	2101	2120	2661
Average	**77**	**66**	**72**	**73**	**70**	**70**
Median	80	75	80	80	80	80
Deviation	24	29	25	27	28	29
<10%*	4%	5%	5%	6%	8%	9%

**Capacity utilisation not exceeding 10 per cent*
Source: IEER 2020-2021

Chart 2: Capacity utilisation compared to the COVID19 onset level and the pre-COVID level, by company size and sector, per cent, N=2075

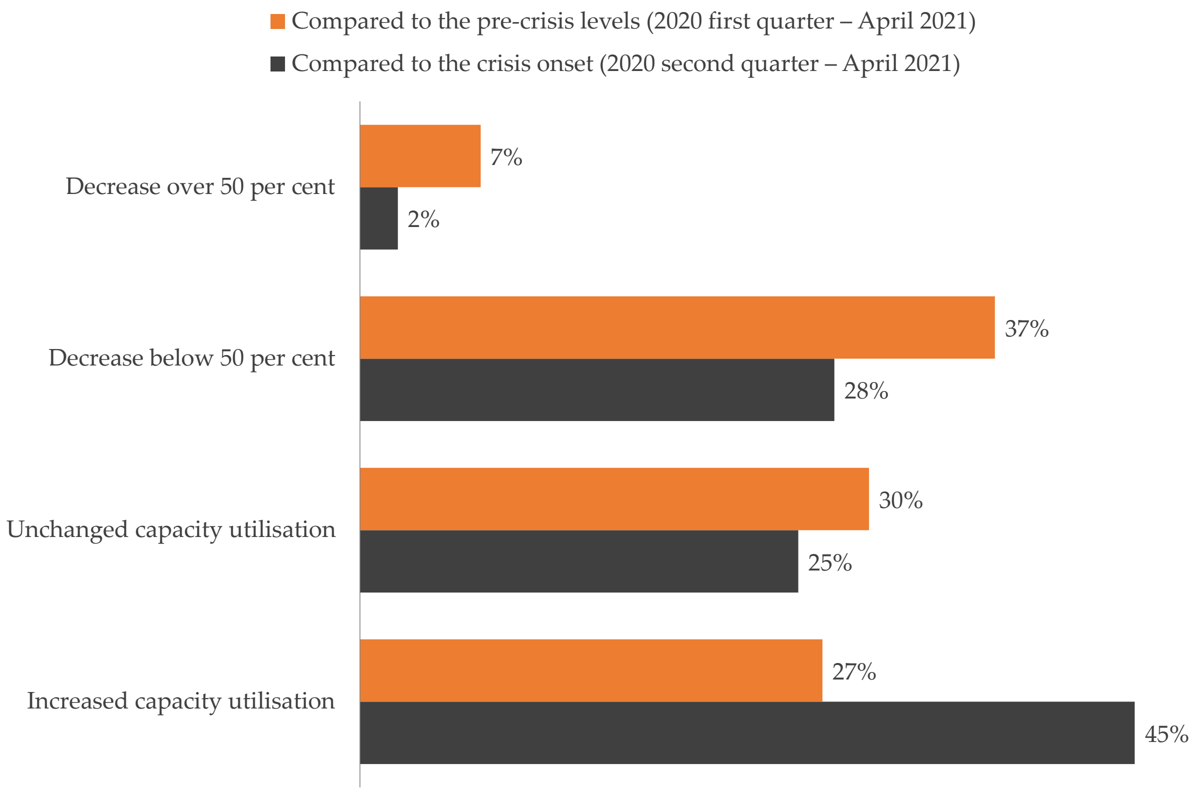
	Compared to the crisis onset (2020 second quarter – April 2021)	Compared to pre-crisis levels (2020 first quarter – April 2021)
1-9	-1%	-12%
10-49	0%	-9%
50-249	8%	-2%
250	10%	-2%
Industry	12%	-1%
Construction	0%	2%
Trade	1%	-8%
Other services	3%	-11%

Source: IEER 2021

The rate of companies with a capacity utilisation below 10 per cent – the ones that virtually suspended their activities – **has been constantly on the rise in the past one and a half years: before the crisis their rate had been 4 per cent, by the end of the year 2020 it increased to 6 per cent, ending up at 9 per cent by April 2021.** Looking at company sizes and sectors it clearly shows that a capacity utilisation below 10 per cent most commonly plagued 1-9 companies (24 per cent) and providers of other services (19 per cent).

Based on estimated average capacity utilisation data, **almost a third of companies were worse off in April 2021** – i. e. at the time of newly introduced third-wave restrictions – than they had been during the first wave in spring 2020. **However, over a half of them (57 per cent) have reached or even surpassed their pre-crisis levels,** which shows that companies are strongly polarised considering their exposure to the fight against the pandemic.

Figure 2: Average capacity utilisation of domestic companies compared to pre-crisis and crisis onset levels, 2021 April, per cent, $N_{2020.\ első\ negyedév\ –\ 2021.\ április}=2075$, $N_{2020.\ második\ negyedév\ –\ 2021.\ április}=2076$

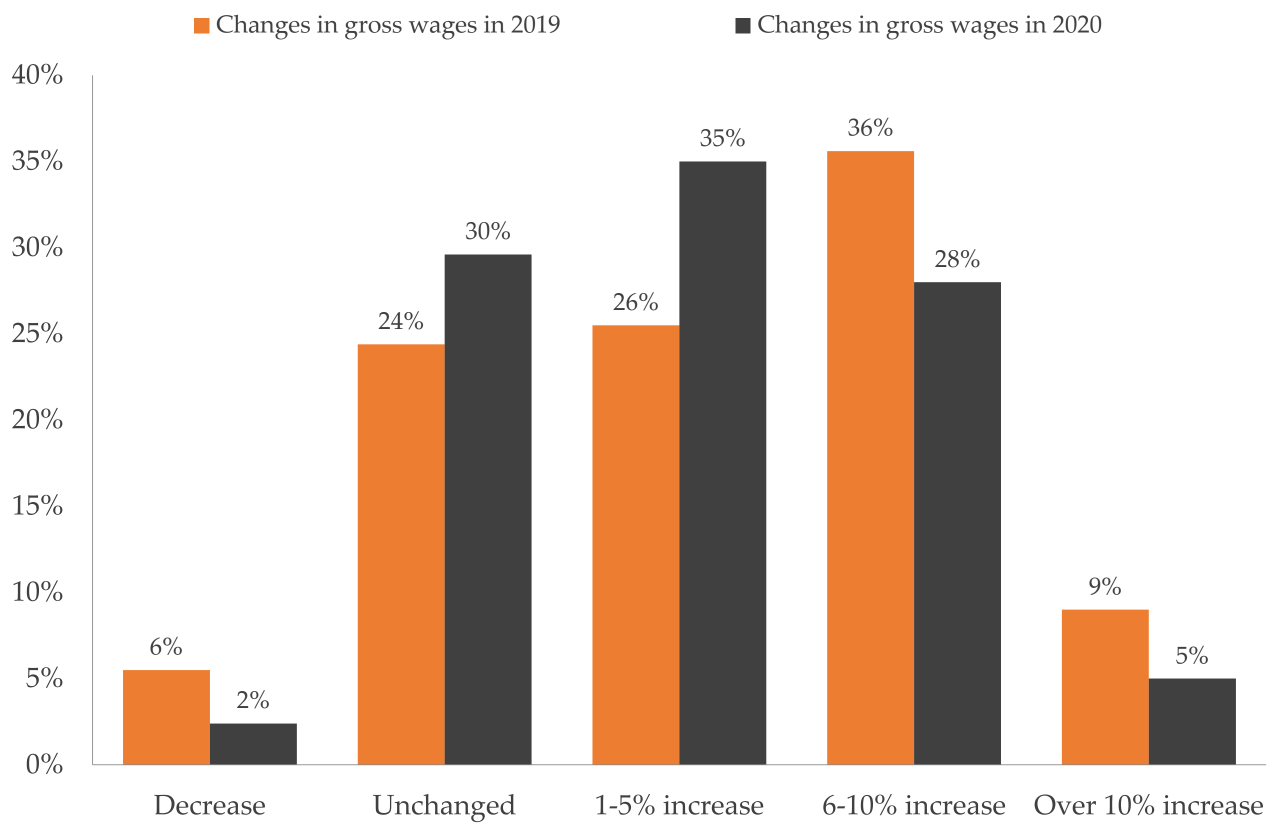


Source: IEER 2021

Expected changes in gross wages and domestic selling prices in 2021

This year, companies plan to increase gross wages (68 per cent) at a similar rate as in 2020 (71 per cent), however, the pay rise this year is expected to be lower: 35 per cent of companies are only considering a rise to keep up with the inflation rate (1-5 per cent rise), and only 33 per cent plans a rise over 5 per cent, considerably less than the 45 per cent last year. In 2020, 6 per cent of companies reduced wages. This year, according to expectations in April, only 2 per cent of companies will cut salaries.

Figure 3: Gross wages in 2020 and 2021, per cent, N_{2020}=2626, N_{2021}=2467



Source: IEER 2021

In April 2021, 4 per cent of respondents thought that domestic selling prices would fall in the upcoming half. Their rate was 12 per cent one year before, a proportion equivalent to that in 2008 at the onset of the global economic crisis. **60 per cent of respondents expected prices to rise,** that is 5 percentage points more than in October 2020.

Forecasts concerning the economic state of the EU and the Eurozone

The Hungarian economy is greatly affected by the economies of all the other member states, given that those countries are the most important foreign trade partners of Hungary. Below we shall summarise the predictions concerning the European economy (EU27, Eurozone) as forecast by the European Commission and other economic research organisations.

Table 1: economic forecasts in this chapter

Forecaster	Geographic region	Reference indicators
European Commission	EU-27, Eurozone, Hungary	GDP, unemployment, inflation, national debt, public deficit
OECD	Eurozone, Hungary	GDP, unemployment
IMF	EU-27, Eurozone, Hungary	GDP
Kopint-Tárki	EU-27, Eurozone, Hungary	GDP, unemployment, government deficit
GKI	Hungary	GDP, unemployment, government deficit
Pénzügykutató	Hungary	GDP

The most recent forecasts for this year all report a high level of uncertainty since it is still impossible to see how the pandemic will shape the summer, not to mention the rest of the year. In comparison with the forecasts made last summer and autumn predictions are now less divergent, with the forecasters all agreeing that from 2021 onwards economies will be back on an upward trajectory.

According to the economic forecast of the **European Commission** issued in summer 2021,[2] the unintermittent growth of the EU and the Eurozone between 2013 and 2019 was cut off by the coronavirus pandemic, causing a profound crisis in the EU and globally. The European economy suffered a historic blow in the first half of the year, mostly because of the restrictions to keep the virus at bay, and in spite of an upturn in the third quarter there were major problems again during the second wave in autumn, causing a renewed recession in the continent. The recession abated by the end of 2020 to below the level experienced at the time of the outbreak – by then, companies and households managed to adapt to the limitations set by the pandemic, usually receiving generous government subsidies to tackle the

2 https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/summer-2021-economic-forecast_en (2021-07-12)

economic challenge. The forecast highlighted that the economic upturn in the first half of 2021 was better than expected, and the improved healthcare situation enabled governments to lift restrictions sooner, which mostly benefited the service sector. Taking all these factors into consideration the forecast of the European Commission is more optimistic than the one they issued in spring.

The economic growth in 2021 will basically be fuelled by stronger consumption and investment, however, member states will also be assisted greatly by the Recovery and Resilience Facility. According to the forecast of the European Commission, the GDP of EU27 decreased by 6 per cent in 2020, a better result than expected last autumn (-7.4 per cent), and the 6.5 per cent negetive growth of the Eurozone was also better than expected (-7.8 per cent). The Commission anticipates an economic upturn to gain speed in 2021 in both the Eurozone (expected GDP growth: 4.8 per cent) and EU27 (growth predicted at 4.8 per cent, lowest in Finland at 2.7 and highest in Romania at 7.4 per cent). Although this expectation is considerably worse than the optimistic scenario drawn up in spring 2020 (6.1-6.3 per cent), it would still mean a stronger growth than expected in autumn 2020 (3.3-4.2 per cent) and spring 2021 (4.2-4.3 per cent). Stronger demand and limited capacities on the supply side as well as rising energy and raw material prices will undoubtedly push up inflation calculated from the harmonised index of consumer prices – the annual inflation rate may well increase from 0.7 per cent in 2020 to 2.2 per cent in 2021, but will probably drop back to 1.6 per cent in 2022.

The previous two reports issued by the Commission both highlighted the existence of multiple uncertainty factors: the level of immunity against new virus variants, the rate of vaccination in the populace, the extent to which the EU can benefit from a more favourable external (global) environment, whether government policies combatting economic effects of the virus will continue, the reaction of companies and households to a changed economic environment, to what extent savings accumulated by higher income households during the lockdowns will boost demand, and what long-term economic effects and long-term scars will remain after the previous one and a half crisis years.

Table 2: Uncertainty factors of the economic outlook

Negative factors	Positive factors
New wave of the pandemic, weak immunity against new virus variants	Slowdown of the pandemic, strong immunity against new virus variants
Slowdown of vaccination programmes	Acceleration of vaccination programmes
Overestimation of households' expected willingness to spend	Underestimation of households' expected willingness to spend
Untimely discontinuation or mitigation of government subsidy programmes	Continuation of government and EU subsidy programmes
The effects of company „fears” on the labour market and the financial sector	Stronger than expected global economic growth (especially in the USA)

Source: European Commission 2021 spring and autumn forecasts

In spring 2021, the European Commission forecast predicted3 that the policies initiated by member states and EU-level initiatives together helped to mitigate the adverse effect the pandemic had on labour markets. According to the forecast EU unemployment levels will still be on the rise: from 7.1 per cent in 2020 to 7.6 per cent in 2021, going back to 7 per cent in 2022. The Eurozone is predicted to perform worse by 0.7-0.8 percentage points. It is important to note though that the positive trends before the pandemic outbreak have a counterbalance effect resulting in unemployment figures staying above the 2012-2016 EU average level of 10.4 per cent. The Commission's spring forecast includes a statement that attributes an essential role in the mitigation of COVID19 economic effects to discretional government subsidies to companies and households, which on the other hand resulted in higher debt rates in the member states in 2020, jumping from 0.5 per cent to 6.9 per cent. Public deficit might reach 7.5 per cent of GDP by the end of this year, but it is expected to go back down to 3.7 per cent in 2022.

In June last year, **OECD** forecast an 11.5 per cent drop for the Eurozone in the case of a second wave, which proved to be an estimate too pessimistic – even a third wave was not enough for that result. Anyway, the Eurozone still lagged behind OECD nations and the global average (by -4.8 and -3.5 per cent, respectively). As a matter of fact, the global economy suffered the greatest recession since the second world war. However, the forecast OECD issued in May4 anticipates a GDP growth

3 https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2351 (2021-07-12)

4 https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2021/issue-1_edfbca02-en (2021-06-16)

rate of 4.3 per cent for the Eurozone, much in line with the EC forecast, calculating with growing consumption, generous government subsidies and a strong demand from outside the Eurozone, especially from the US. Nonetheless, the unemployment rate of 7.9 in 2020 may still rise to 8.2 per cent in 2021, and level out later. According to the OECD, countries should boost national investments, support decarbonisation and digitalisation, while collectively they should create a new single monetary policy and use permanent, single fiscal tools.

The International Monetary Fund (IMF) calculated a growth of 4.4 per cent in both the Eurozone and EU 27, which rate is 0.8 percentage point below their forecast made last year. The organisation presumes that by 2022 the growth rate will slow down to 3.8-3.9 per cent.[5]

The business climate forecast published by **Kopint-Tárki Konjunktúrakutató Intézet Zrt.** in July 2021 predicts GDP6 to grow by 5 per cent in the Eurozone and by 4.9 per cent in EU27, provided that the loosening of restrictions will continue to be implemented throughout the rest of the year, without any dire consequences, and new mutations of the virus will not make further restrictions necessary.

Table 3: GDP forecasts for the EU27 and the Eurozone, 2021

Forecaster t	**EU 27**	Eurozone
European Commission	4,8%	4,5%
OECD	--	4,3%
IMF	4,4%	4,4%
Kopint-Tárki	4,9%	5%

5 https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/EURO/EU (2021-07-12)

6 https://kopint-tarki.hu/wp-content/uploads/2021/07/2021_konjunkturajelentes_2.pdf (2021-06-16)

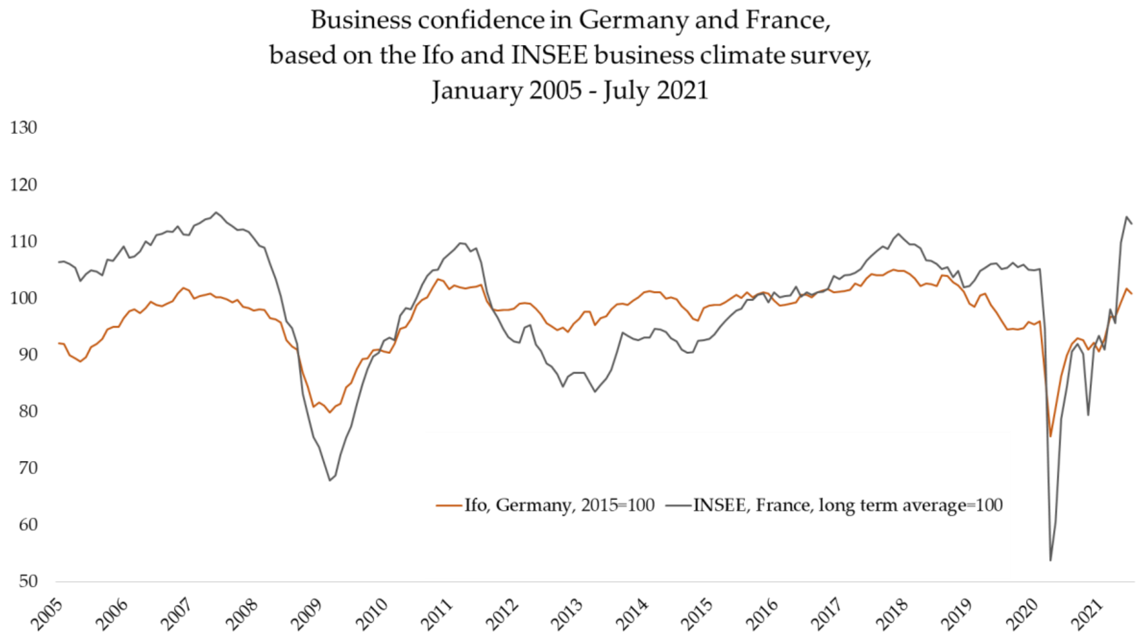
International trends

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	(July)	**5.7%**	5.8%	5.9%
	Manufacturing Purchasing Managers Index	(July)	**65.9**	65.6	65.1
	IFO Business Climate Index[1]	(July)	**100.8**	101.2	101.7
France	INSEE Business Climate Index[2]	(July)	**113.2**		114.4
USA	Unemployment Rate	(July)	**5.4%**	5.7%	5.9%
	CB Consumer Confidence Index	(July)	**129.1**	123.9	128.9
	Manufacturing Purchasing Managers Index	(July)	**63.4**	63.1	62.1
China	Manufacturing Purchasing Managers Index	(July)	**50.4**	50.8	50.9

[1] https://www.ifo.de/en/survey/ifo-business-climate-index
[2] http://www.insee.fr/en/themes/indicateur.asp?id=105
The rest of the data source: https://www.bloomberg.com/markets/economic-calendar

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



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

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