Monthly Bulletin of Economic Trends

November-December 2021

Improving business situation, optimistic but uncertain expectations
Results of the Business Climate Survey of HCIC IEER of October 2021

HCIC IEER's Business Climate Survey taken in October is based on the answers of 2214 CEO respondents. The survey was conducted between the 1st and the 31st of October, when pandemic restrictions introduced in the first three waves were no longer in effect. 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.

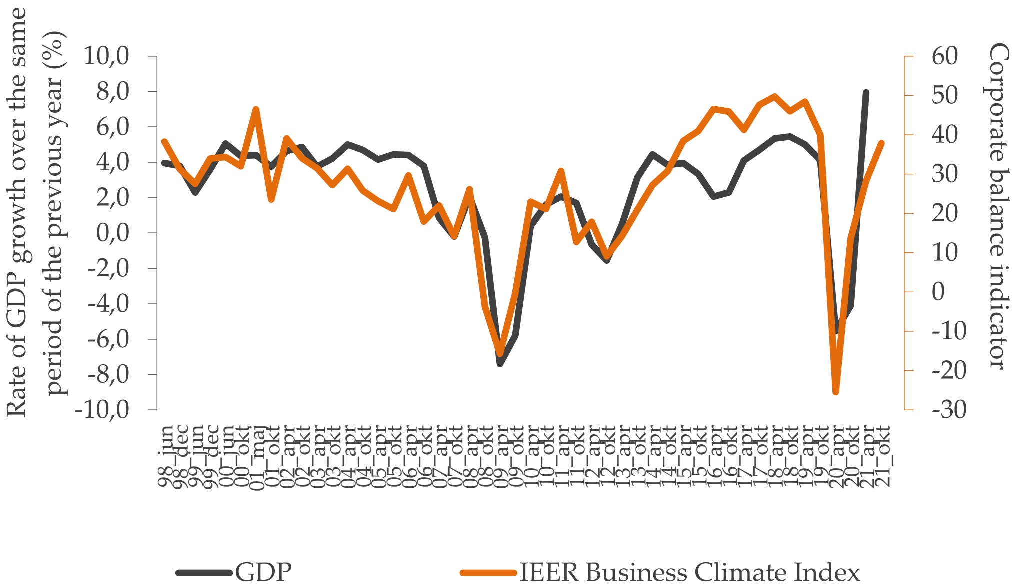
According to the results, the October 2021 Business Climate Index is at +38 points, meaning that the index managed to climb back to pre-crisis levels, from the April 2020 all-time record low of -25 to almost +40, measured in October 2019, the last survey before the pandemic.

The Uncertainty Index has decreased since April 2021, now at 52 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.

IEER Business Climate Index by company features

The Business Climate Index is currently the highest in trade (+45 points), followed by the processing industry (+42 points), the construction industry (+40 points) and the economic services (+30 points). The greatest leap compared to the previous half occurred in the trade sector, where the index jumped 16 points. The increase since April was +10 points in the economic services, +9 points in the industry and +5 points in the construction industry.

Figure 1.: GDP and IEER Business Climate Index



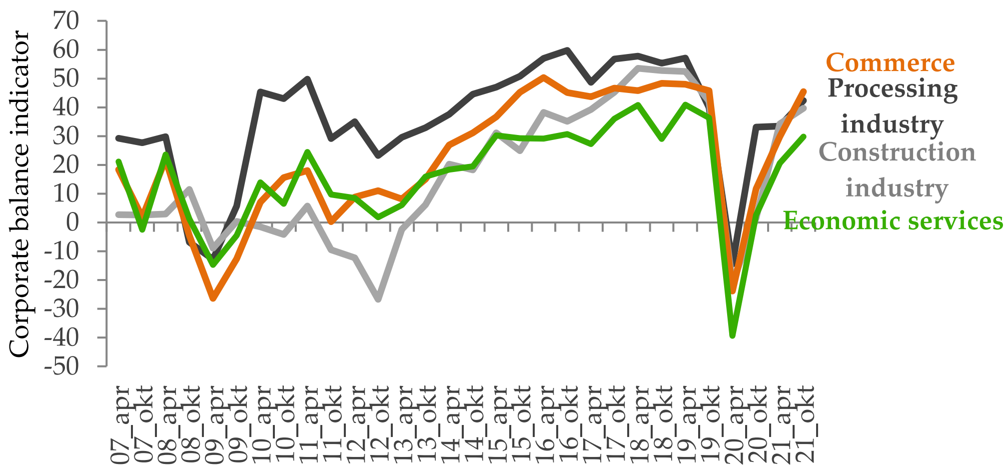
	Oct. 2019	Apr. 2020	Oct. 2020	Apr. 2021	Oct. 2021
GDP	4.1	-5.6	-4.1	7.9	
IEER Business Climate Index	39.9	-25.5	13.7	28.2	37.8

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

Figure 2.: IEER Business Climate Index by economic sector



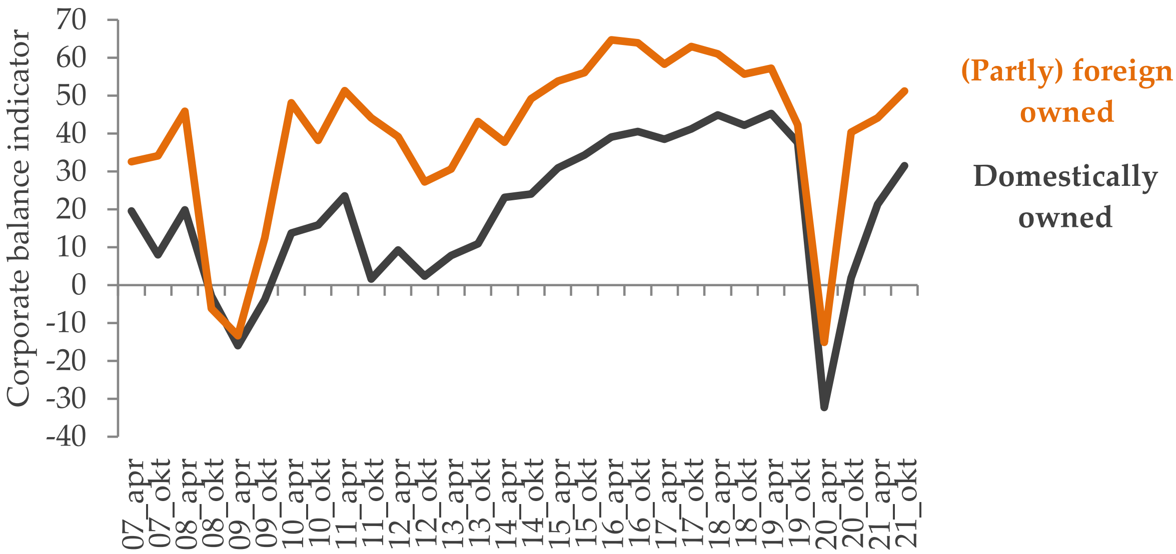
Source: IEER 2021

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.*

Considering the ownership structure one may see that the Business Climate Index is higher with companies of (partial) foreign ownership (+51 points) compared to fully domestic companies (+32 points). In comparison with the previous half, the Business Climate Index increased by 7 points for (partially) foreign companies and by 10 points for fully domestic companies.

According to exporting activity, non-exporters had a lower Business Climate Index (+30 points) than the minor exporters (+44 points) and the major exporters (+50 points). Growth compared to the previous half was 14 points for the non-exporters, 7 points for the major exporters and 6 points for the minor exporters.

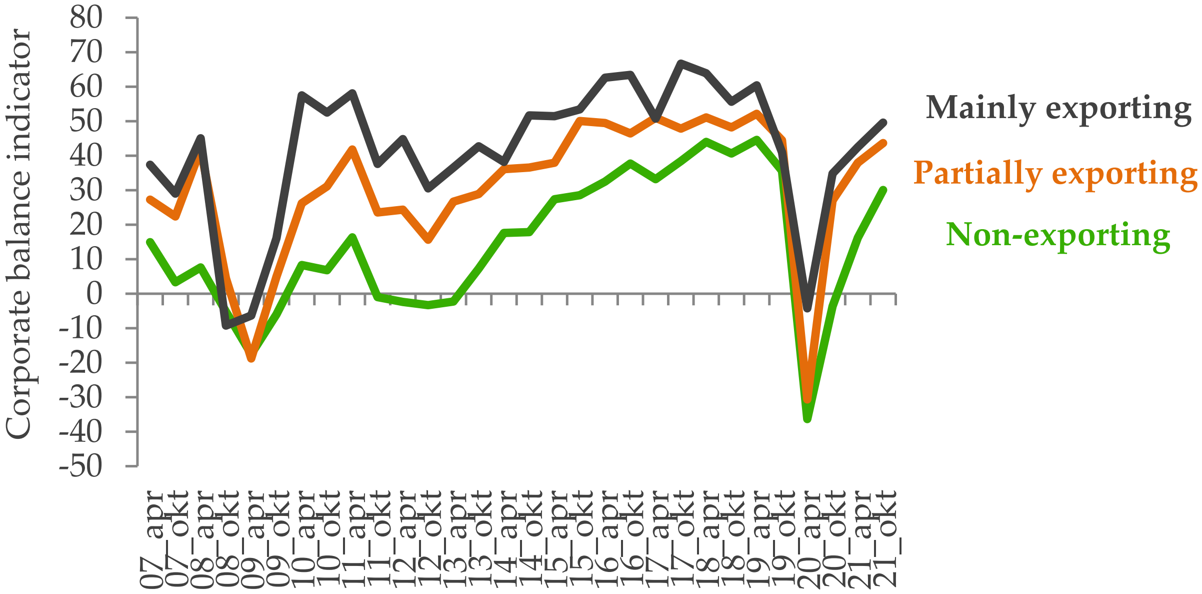
Figure 3.: IEER Business Climate Index by ownership structure



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 4: IEER Business Climate Index by export activity



Source: IEER 2021

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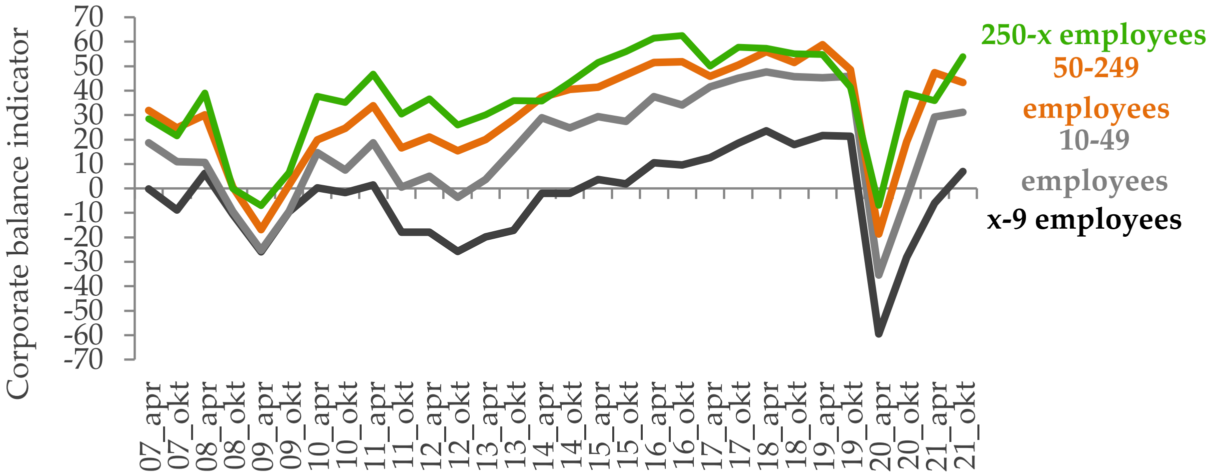
Analysis by the company size shows that expectations improved across the board with the exception of the companies with 50-249 employees. Respective indices of business climate for the companies with 0-9, 10-49, 50-249 and 250+ employees were +7, +31, +43 and +54 points. Companies with 50–249 employees lost 4 points compared to the previous half, while companies with +250, 0-9 and 10-49 employees gained 18, 13 and 2 points, respectively.

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



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.*

An improved business climate was mostly reported by large companies, trading companies, non-exporters and 0-9 microenterprises. After the general recession triggered by the first wave of the coronavirus pandemic had abated, the recovery of business expectations for the categories mentioned above started in the first half of 2021 and continued in the second. The recovery of export-oriented, (partially) foreign owned, larger companies commenced as early as in the second half of 2020, continuing into 2021, although at a more modest rate. No expectations of a new recession can be detected now, however, in the SME category (10-249 companies) tendencies of vigorous improvement – still perceived in other segments of the economy – are not present.

In most of the company categories the Business Climate Index approaches pre-COVID levels of 2018-2019, with the exception of major exporters, (partially) foreign-owned businesses and large companies whose Business Climate Index was slightly higher in October 2021 than in October 2019, the last survey period before the pandemic.

Compared to data taken before the coronavirus pandemic in 2018-2019, in most categories the business climate index is now lower, but is gradually coming closer to pre-crisis levels. Exceptions are major exporters, industrial companies, businesses of (partial) foreign ownership and large companies: their October 2021 business climate index is higher than that of October 2019, the last quarter before the pandemic.

Economic forecasts concerning the European Union and the Eurozone

The Hungarian economy is profoundly affected by the economies of other EU countries, since they are Hungary's most important trade partners, so we summarised the forecasts regarding European economies (EU27, Eurozone) made by the European Commission and other economic research institutes.

Table 1: Economic forecasts presented in the analysis

Forecasting organisation	Geographic area	Quoted indicators
European Commission	EU-27, Eurozone	GDP, unemployment, inflation, national debt, public deficit
OECD	Eurozone,	GDP, unemployment
IMF	EU-27, Eurozone	GDP
Kopint-Tárki	EU-27, Eurozone	GDP, unemployment, public deficit

The latest forecasts for this year are less divergent than those published in spring and in the summer. All of the organisations agree that economies will return to positive growth in 2021. However, most forecasters mention the future path of the pandemic (especially the emergence of new variants), high inflation and rising energy prices as risk factors.

Between 2013 and 2019 the European Union had been experiencing a period of unintermittent growth, which was hit heavily by the coronavirus pandemic in 2020. The European economy suffered a historical recession as a consequence of restrictions implemented to curb the pandemic, and although the economy showed signs of recovery in the third quarter (summer 2020) the second wave in autumn was again seriously disruptive, turning the economy of the continent back to recession.

In late 2020 and early 2021 the rate of recession was lower than at the time of the pandemic outbreak: by that time businesses and households managed to adapt to COVID restrictions, and governments subsidised them heavily so that they could manage economic challenges. The autumn 2021 forecast of the European Commission1 highlighted that the economic upturn in the first half of 2021 went beyond expectations and continued uninterrupted into the summer, thus the economic performance of the EU practically reached pre-crisis levels by the third quarter.

1 https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2021-economic-forecast_en (last downloaded: 2021.11.11.)

However, in the second half of 2021 the tendency that the supply side could not keep up with quantitative and qualitative fluctuations in global supply resulted in raw material shortages in a number of industries, while soaring energy prices (especially the price of natural gas and electricity) is also expected to hinder growth in the short run. Meanwhile, intensifying labour shortage and fourth wave restrictions produce further obstacles to development.

All factors considered the Commission supposes that economic growth will restart in 2021 in both the EU27 group (by 5%, lowest in Germany by 2.7% and highest in Ireland by 14.6%) and in the Eurozone (by 5%). The growth rates will be much lower than that of last spring's best case scenario (6.1%-6.3% resp.), but higher than expected in autumn 2020 (3.3%-4.2% resp.), spring 2021 (4.2%-4.3% resp.) and summer 2021 (4.8%-4.8% resp.).

Higher demand and limited capacity affect supply, resulting in elevated energy- and raw material prices, and shortages in certain industries, which in turn push up inflation based on harmonised indeces of consumer prices (HICP) – possibly to 2.6% by the end of the year from 0.7% in 2020, which will probably be followed by a stagnation period in 2022 at 2.5% inflation, slipping back to 1.6% in 2023. So the Commission's inflation expectations are now 0.4 percentage point higher than in their summer forecast for 2021 and 0.9 percentage point higher for 2022.

According to the forecast of the European Commission, the policies implemented by member states together with EU initiatives helped to muffle the impact of the pandemic on labour markets – now there is a labour shortage again in certain sectors. The forecast expects the EU unemployment rate to stagnate this year, keeping to the 2020 level of 7.1%. Next year it may go down to 6.7%, whereas unemployment in the Eurozone rate is expected to be 0.8 percentage point worse. It is important to add, however, that the positive trend in the years before the pandemic still keeps the unemployment rate above the average EU level of 9.9% measured between 2013 and 2017.

According to the Commission, discretional government subsidies handed down to businesses and households played an essential role in relieving the adverse economic effects of the pandemic, however, they greatly increased the total public deficit-to-GDP of the member states, from 0.5% in 2019 to 6.9%. With high subsidies granted to businesses and households that rate will only decrease to 6.6% of GDP in 2021, however, an economic upturn may push it further down to 3.6% in 2022 and 2.3% in 2023. The national debt is expected to total at 92.1% of GDP this year (after 91.8% in 2020), and the debt will only decrease at a moderate rate in the two years ahead according to the forecast, reaching 90% in 2022 and 89.1% in 2023.

However, the Commission's report points out that COVID-19 has not been defeated yet although its effect on the economy weakened considerably, still, economic growth – both global and that of the EU – strongly depends on the pandemic. New waves can bring about reimposed restrictions, especially in member states where vaccination rates are low.

OECD told in its forecast last June that in case of a second wave GDP would drop by by 11.5% in the Eurozone in 2020, which proved to be too pessimistic (the actual drop was 6.5% in spite of a second and a third wave). However, the figures were still lower than those of G20, OECD and the global average (-3.1%, -4.7% and -3.4% respectively), the latter presenting the greatest decline since the second world war.

The forecast the organisation published in December2 predicts a growth rate of 5.2% in the Eurozone this year and 4.3% for 2022 – these new rates are 0.1 and 0.3 percentage points lower than those published in their September forecast. According to the OECD, growth will be driven by an increase in household consumption and investment financed by recovery funds. At the same time OECD also modified its Eurozone inflation forecast figures from 2.1% to 2.4%.

The International Monetary Fund (IMF) calculates with a 5% growth rate in the Eurozone and a 5.1% growth rate in the EU for 2021, which are 0.6-0.7 percentage points higher than those appearing in their summer forecast. The organisation expects lower growth rates of about 4.3-4.4% in 2022.3

The GDP forecast from the 2021 business climate survey conducted by Kopint-Tárki Konjunktúrakutató Intézet Zrt.4 expects a GDP growth rate of over 5% both for the EU27 and the Eurozone, adding that there are significant external and internal risks pointing downwards.

Table 2: Forecasts regarding the 2021 GDP of EU27 and the Eurozone

Forecasting organisation	**EU 27**	Eurozone
European Commission	5%	5%
OECD	--	5,2%
IMF	5,1%	5%
Kopint-Tárki	>5%	>5%

2 https://www.oecd-ilibrary.org/sites/490d4832-en/index.html?itemId=/content/publication/490d4832-en (last downloaded: 2021.11.29.)

3 https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/EURO/EU (last downloaded: 2021.11.23.)

4 https://kopint-tarki.hu/wp-content/uploads/2021/10/Konjunkturajelentes_2021_3.pdf (last downloaded: 2021.11.23.)

Capacity utilisation, COVID-related hardships, economic perceptions – October 2021

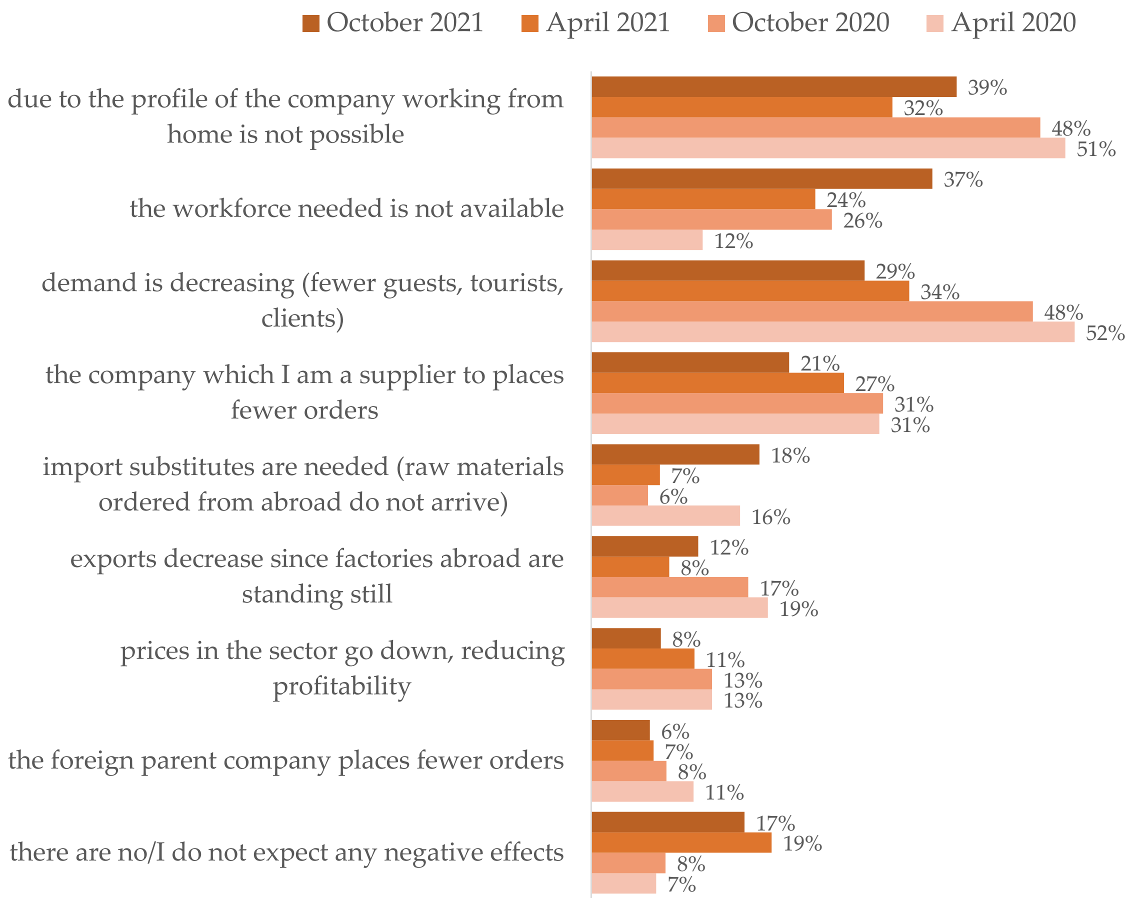
The analysis made by HCIC's Institute for Economic and Enterprise Research (IEER) focuses on the economic effects of the coronavirus pandemic on Hungarian businesses, with concern to the various aspects of the actual economic situation as perceived by CEOs. The data for this analysis were taken from the latest IEER business climate survey conducted with the participation of 2214 CEO respondents between 1 and 31 October, when the fourth wave of the pandemic was on the rise, but restrictions introduced for the first three waves were no longer in effect.

In October 2021 respondents reported 81% capacity utilisation on average, which is virtually the same rate as that before COVID restrictions came into effect (1st quarter 2020: 82%), and a 4 percentage point increase compared to the first quarter of 2021, when restrictions were reintroduced to protect the populace from the third wave.

Almost one third (31%) of the companies told us in October 2021. that they experienced an improved capacity utilisation than they had at the onset of the crisis (thus their situation kept improving) and a further 43% reported no change in their capacity utilisation levels. 26% complained about a decreased capacity utilisation compared to the crisis onset (their situation deteriorated), with an overwhelming majority disclosing a decrease of less than 50 percentage points (23%).

17% of CEOs experienced no adverse impacts of the pandemic at all in October 2021, while at least one negative effect was felt by 83%. This latter rate is significantly lower than those in October 2020 and April 2020 (92% and 93% respectively). The most frequently mentioned adverse effect concerns the impossibility to switch to home office (39%) followed by shortage of adequate workforce (37%) and weakening demand (29%). Furthermore, the rate of companies (18%) that had to resort to import substitutes due to a shortage of raw materials abroad increased considerably.

Figure 1: Adverse effects of the coronavirus pandemic on Hungarian businesses, October 2021, April 2021, October 2020 and April 2020, $N_{October2021}$ =2050, $N_{April2021}$=2621, $N_{October2020}$=3142, $N_{April2020}$=2881

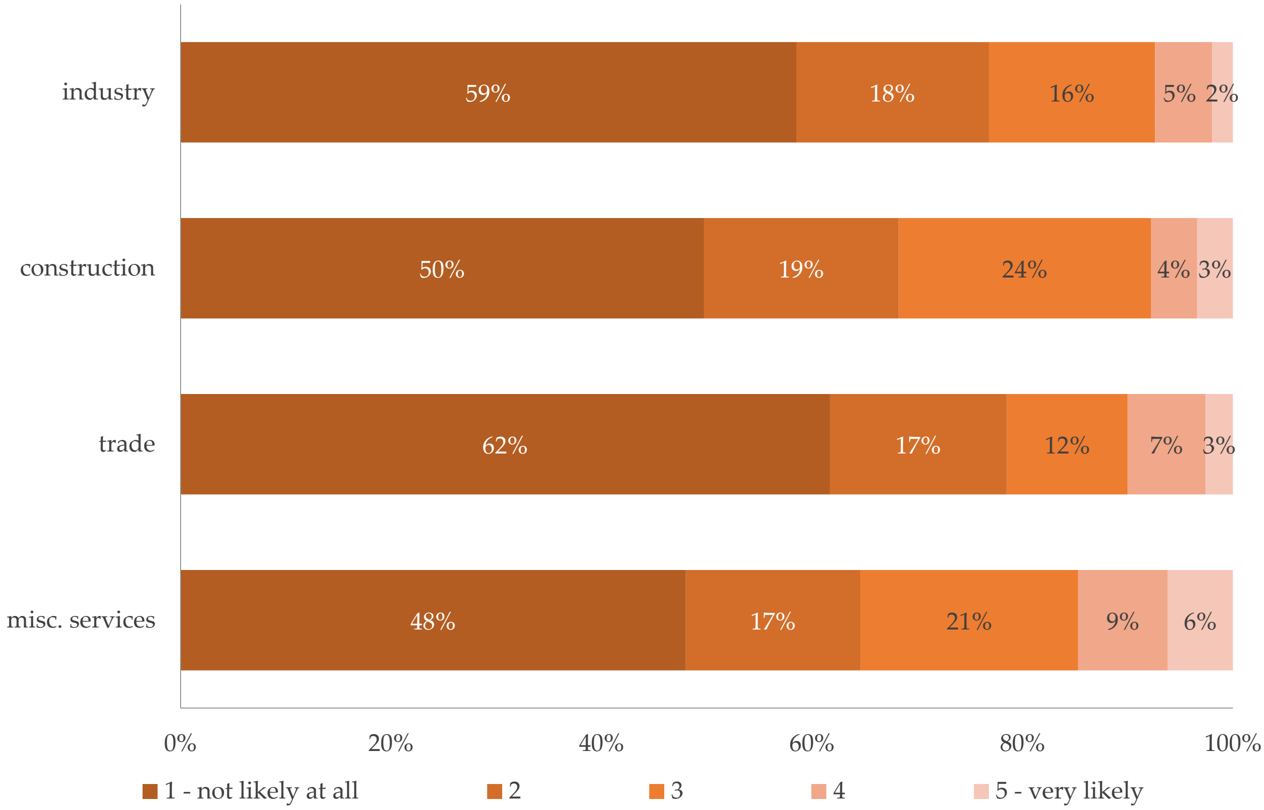


Source: IEER 2021

In October 2021 over a half (54%) of our CEO respondents deemed the event that their rivals would soon quit the market highly unlikely. Only 4% thought that some of their rivals were highly likely to leave the market. CEOs of service providing businesses were the most prone to expect their rivals to quit (15%), followed by heads of trading companies (10%), construction (7%) and industrial (7%) companies. On average, 16% of rivals are expected to quit the market.

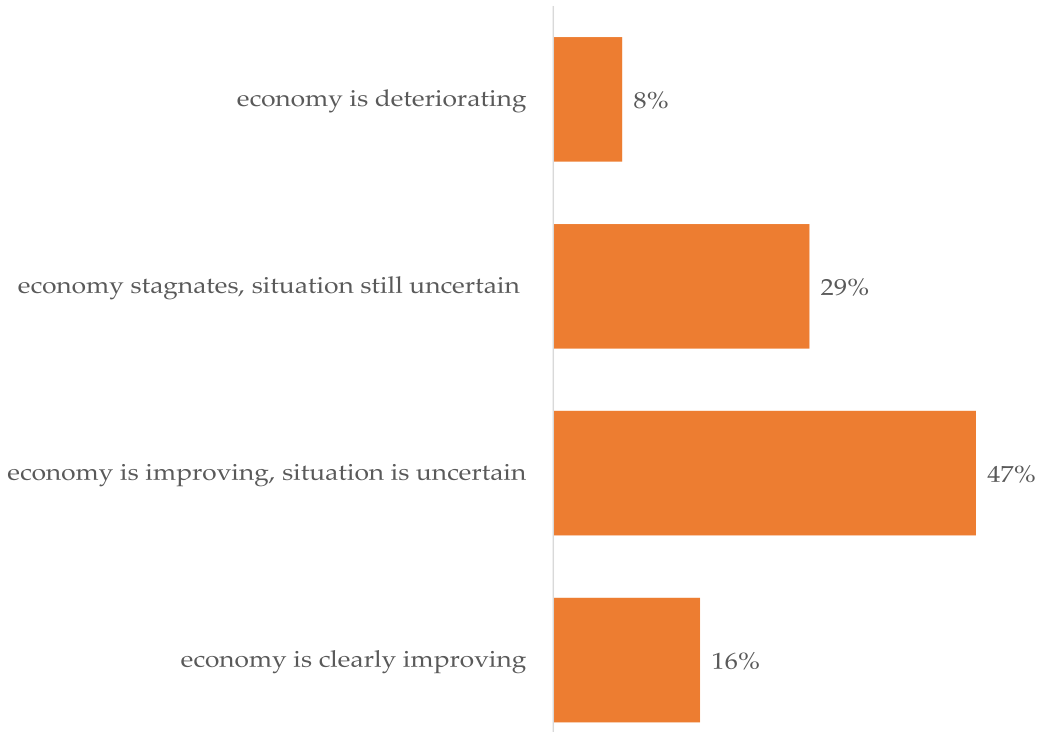
For the question „how do you see the Hungarian economy since the abatement of the third wave in May 2021", 8% answered that the situation had deteriorated, 29% felt stagnation, 47% saw improving but uncertain tendencies and 16% believed that the Hungarian economy had clearly been improving.

Figure 2: Expectations for same-sector rivals to suspend their activity and/or quit the market, N=1880



Source: IEER 2021

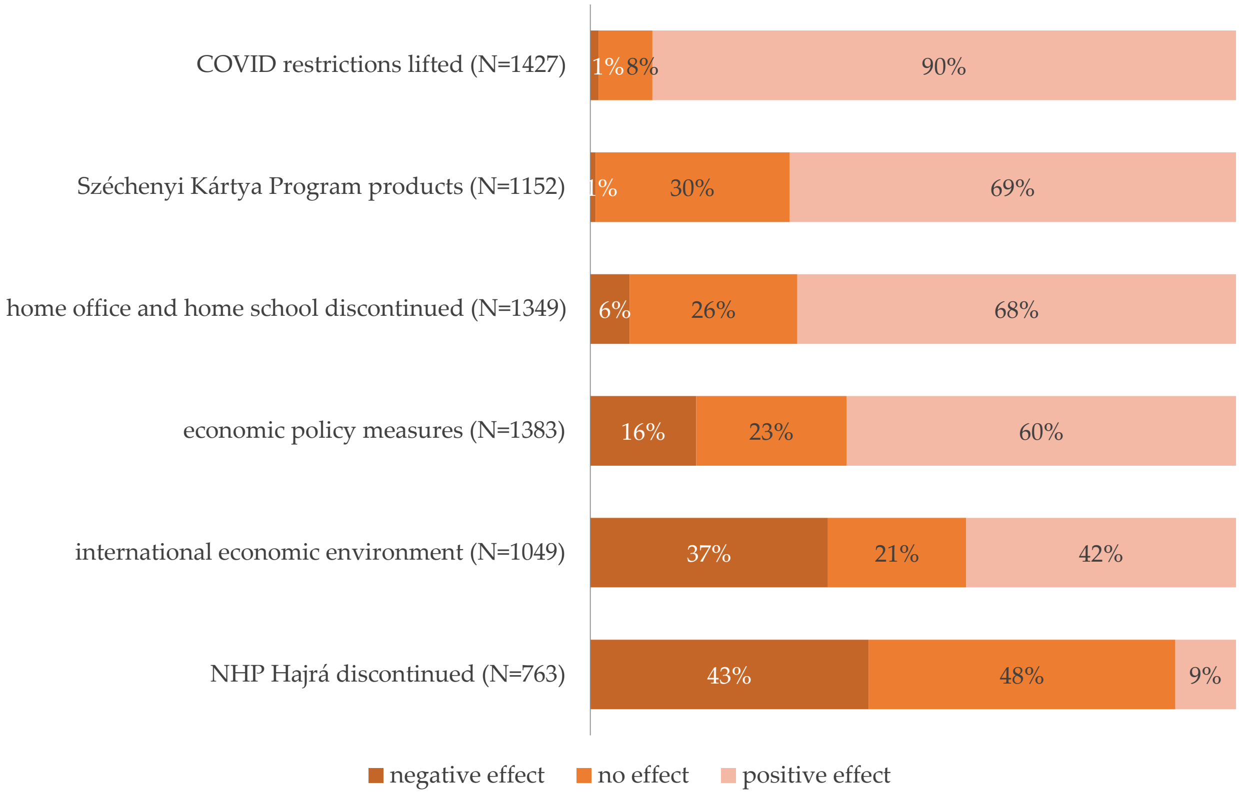
Figure 3: The Hungarian economy in the period after May 2021 according to Hungarian companies, N=1632



Source: IEER 2021

As for the reception of lifted restrictions, the overwhelming majority of companies welcomed it (90%). Over two thirds (69%) of businesses also received well the introduction of products in the Széchenyi Kártya Program. 68% welcomed the discontinuation of home office at workplaces at schools, and 60% highlighted the positive effects of economic policy measures. The international economic environment was perceived as negative by almost as many as those perceiving it as positive (37% vs. 42%), while the discontinuation of NHP Hajrá was clearly not received well (43% negative vs. 9% positive).

Figure 4: Factors influencing the Hungarian economic environment as perceived by companies, N=763-1427

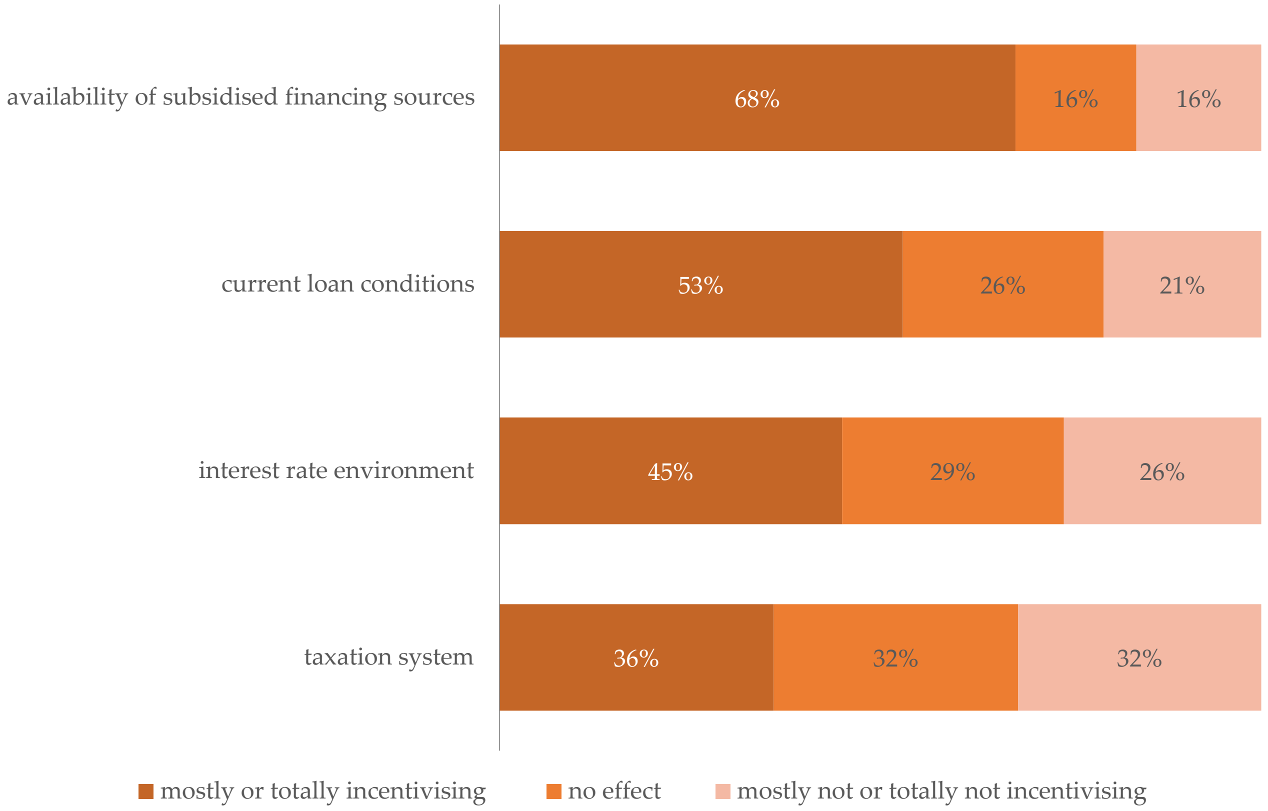


Source: IEER 2021

Concerning the hardships expected to emerge in 2022, 47% of CEOs are afraid of crumbling supply chains. Other issues of concern were curfew restrictions (expected by 36%), changing consumption habits (36%), travel restrictions (33%), home office (21%) and defaulting on loans (13%).

We were also interested how the implementation of new investments is influenced by the taxation system, the interest rate environment, the loan conditions and the availability of subsidised financing sources. About two thirds (68%) of our respondents found subsidised financing sources mostly or fully incentivising. The satisfaction rate was 53% with concern to current loan conditions, whereas 45% was satisfied with the interest rate environment and 36% with the taxation system. Respondents were the most critical with the taxation system – many found it to little or no extent incentivising.

Figure 5: Elements of the Hungarian business environment on new investments, N=1193-1262



Source: IEER 2021

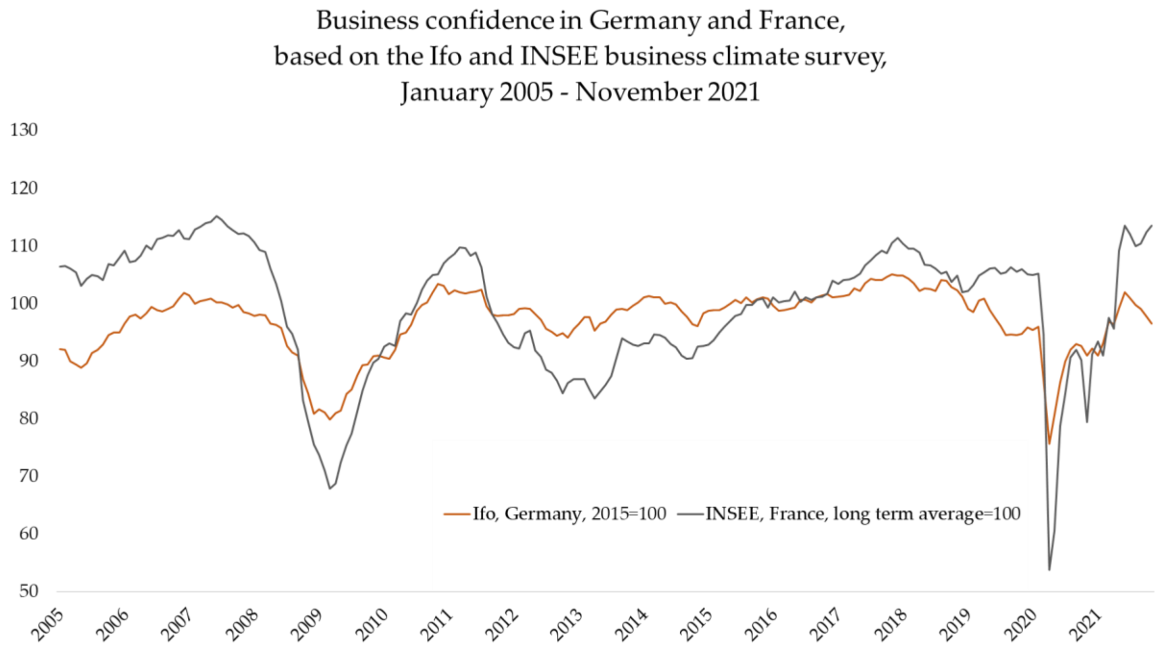
International trends

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	(November)	**5.3%**	5.3%	**5.4%**
	Manufacturing Purchasing Managers Index	(November)	**57.4**	57.6	**57.6**
	IFO Business Climate Index[1]	(November)	**96.5**	94.2	**97.7**
France	INSEE Business Climate Index[2]	(October)	**113.5**		**112.4**
USA	Unemployment Rate	(November)	**4.2%**	4.5%	**4.6%**
	CB Consumer Confidence Index	(November)	**109.5**	111.0	**111.6**
	Manufacturing Purchasing Managers Index	(November)	**59.1**	59.0	**58.4**
China	Manufacturing Purchasing Managers Index	(November)	**50.1**	49.6	**49.2**

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



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

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