Monthly Bulletin of Economic Trends

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Corporate responses to the raised minimum wage and guaranteed wage minimum. Expectations regarding sales revenues and selling prices

The present analysis made by HCIC's Institute of Economic and Enterprise Research (IEER) focuses on the business situation of Hungarian companies with regard to wages, sales revenues and changes in domestic and export prices. As for wages, raises implemented in 2021, plans to increase wages in 2022, and reactions to the central minimum wage raise in 2021 are also discussed. Concerning sales revenues, we had a look at this year's figures as well as expectations for 2022, and CEO's expectations concerning sales revenues flowing in from Hungary and from abroad. The analysis is based on IEER's October 2021 business climate survey involving 2214 CEO respondents.

Wages in 2021 and expectations for the next year

Two thirds of Hungarian companies reacted to the raised minimum wage with an altered business strategy: they put off planned investments, suspended recruitment schedules, and increased/will increase the price of their products. 27% of companies took/plan to take measures concerning employment ranging from layoffs and part-time rehiring of minimum wage employees to rearranging scopes and tasks. 21% of companies cut fringe benefits and variable pay as a response to the rising minimum wage. Of all the surveyed measures, increasing prices was the most popular with respondents: **over a half (54%) of businesses have increased their prices or plan to increase them to compensate for the losses incurred by the minimum wage raise. A job cut policy was the least commonly employed method, only 8% of companies resorted to that measure.**

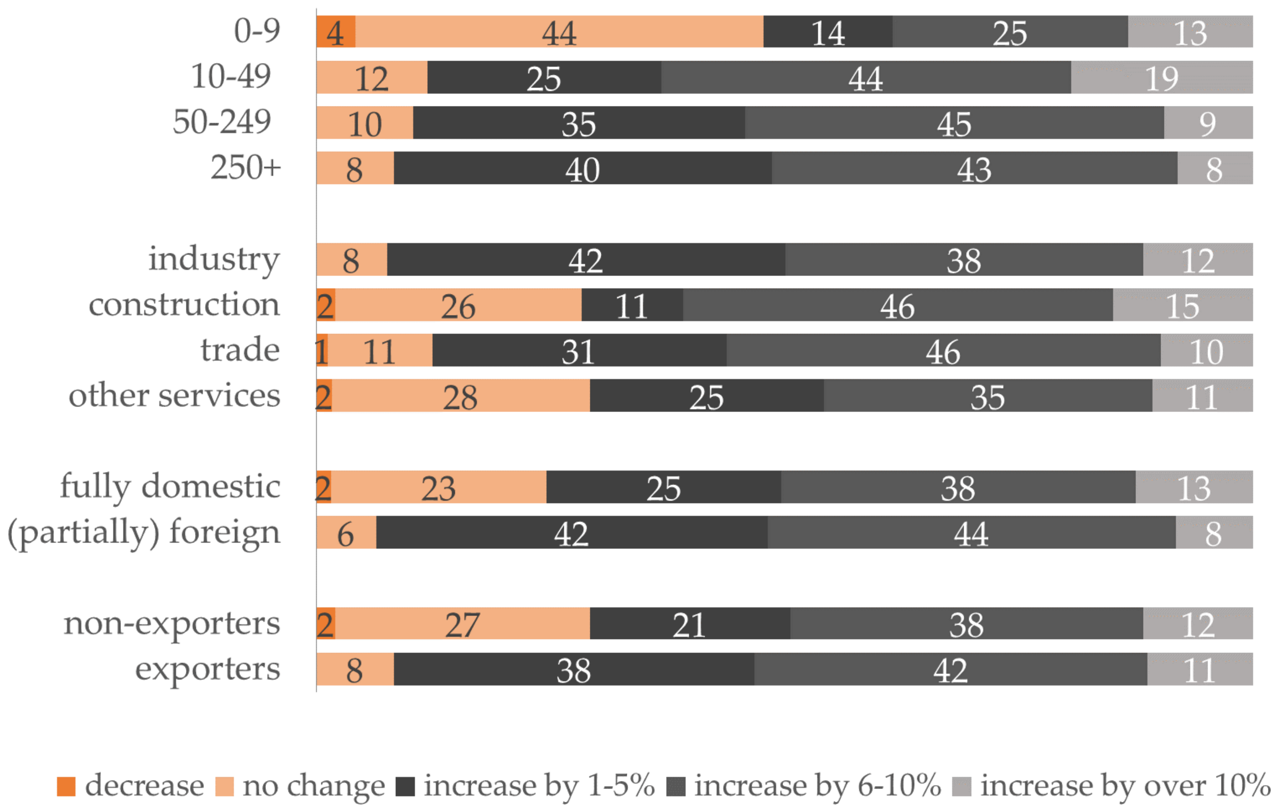
In 2021 the majority (76%) of companies raised salaries. 22% left wages unchanged and 2% decreased them. For **2022, a raise is planned by 81%, while 18% plans not to raise and 1% to cut salaries**.

Company size and the propensity to raise salaries in 2021 and 2022 were this time directly proportional. With regard to sectors, service providers were the least inclined and industrial companies the most inclined to raise wages. In 2021, 4% of service providers cut salaries, 37% left them unchanged, while 36% granted employees a raise exceeding the inflation rate.

However, 2022 expectations of companies offering other services can be considered more optimistic: 71% are planning to raise salaries. 25% calculate with a raise from 1% to 5%, 35% from 6% to 10%, and 11% above 10%. Only 8% of industrial companies were unable to raise salaries in 2021 (1% even reduced them), and 8% of such businesses expect unchanged wages for 2022. About a third (29%) of construction companies left wages unchanged in 2021, however, raises above 10% were the most common in that sector. 46% of construction companies expect to be able to raise salaries in 2022 by 6–10%.

83% of trading companies raised salaries in 2021. Most of them (40%) introduced a 6–10% raise. 88% plan to raise salaries in 2022, 46% of them at a similar rate than in 2021. Fully domestic companies were far more likely to cut or freeze salaries than (partially) foreign-owned businesses. 2% of companies of fully domestic ownership plan to cut salaries in 2022, 23% plan to leave them unchanged while 75% plan a raise. The vast majority of foreign-owned companies plan to raise salaries, most at a rate above inflation. Similarly, a greater proportion of exporters raised salaries in 2021 and plan to do so in 2022 than non-exporters.

Figure 1: Planned changes in gross wages for 2022, per cent, N=1760-1789



Source: *IEER, 2021*

Changes in sales revenues in 2021 and expectations

Over 50% of the companies surveyed reportedly had greater annual sales revenues in 2021 than the year before. One quarter had unchanged revenues compared to 2020, and for 15%, sales revenues decreased. **CEOs are generally optimistic about the future, expecting higher or stalled revenues (55% and 34% respectively), with only 11% forecasting a future drop in annual sales revenues.**

The bigger the company the more likely it was to experience an increased sales revenue in

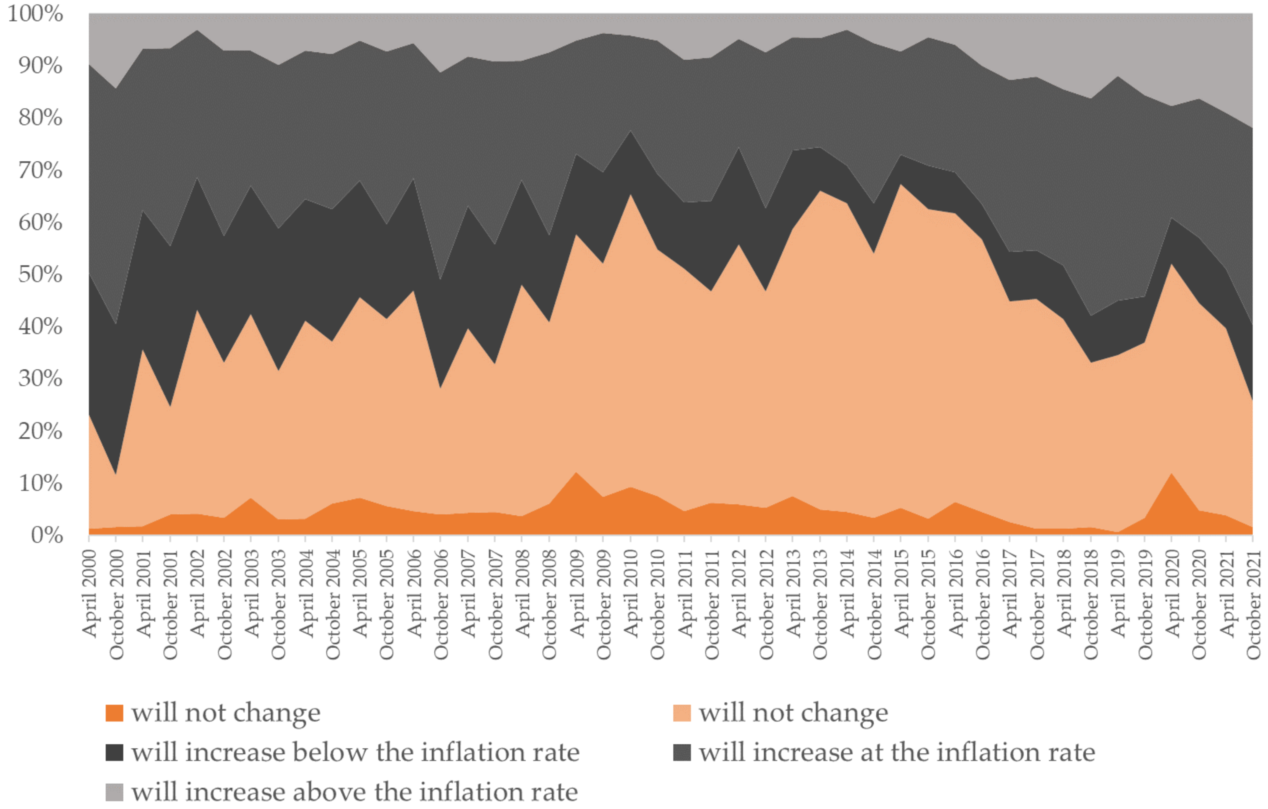
2021, and has similarly optimistic expectations for 2022. In 2021, the sales revenue of industrial companies grew at the greatest rate, followed by traders and service providers. The rate of companies with an increased sales revenue was lowest in the construction sector, however, almost 50% of construction companies reported unchanged revenues compared to the previous year. Expectations for 2022 are similar to those of this year across the board with regard to sectors. Concerning ownership structure, fully domestic companies' revenues and expectations are lower than those of companies of partial or full foreign ownership. As for exporting activities, realised revenues and revenue expectations are higher with exporters than with non-exporters.

Companies reporting an increase in their 2021 annual sales revenue realised a 23% growth rate on average, and **companies expecting increased revenues for 2022 calculate with a 15% growth rate on average**.

Domestic selling prices and expected changes in export prices for the upcoming half year

In October 2021, 74% of respondents expected their domestic sales revenue to increase in the upcoming six months, which was a rate 14 and 19 percentage points higher than in April 2021 and October 2020, respectively. **38% of CEOs expect their companies' sales revenue to grow at the rate of inflation. 22% hope that their domestic sales revenue will surpass the inflation rate, the highest proportion since records began. Expectations regarding export sales also broke the record at 49% of all exporters.**

Figure 2: Hungarian companies' expectations regarding domestic selling prices for the two quarters ahead, from April 2000 to October 2021, per cent, N=1084-3396



***Source**: IEER, 2021*

The effects of rising energy and fuel prices on Hungarian companies

Between 15 November and 29 November 2021 HCCI's IEER surveyed Hungarian companies about the effects of rising energy and fuel prices. The survey was conducted after the government decree maximising the retail price of fuel[1] had come into effect, but before the passing of the decree to expand electricity price maximation to micro-enterprises[2]. The survey was filled out by 1036 respondents. The effects higher energy and fuel prices had on product and service prices are summarised below.

As for our sample, with regard to company size 29% of our respondents are sole traders, 42% are 2-9 micro-enterprises, 17% are 10-49 companies, 9% are 50-249 companies and 4% are large employers of over 250 employees. As far as sectors are concerned, 39% of the sample deal in services, 17% in industry, 16% in construction, 13% in trade, 7% in tourism and hospitality, 6% in transport and logistics, and 3% in agriculture.

Respondents estimate that the production costs and cost prices of products/services are determined by energy costs (electricity and natural gas) and fuel prices to extents of 15 and 24 percent, respectively.

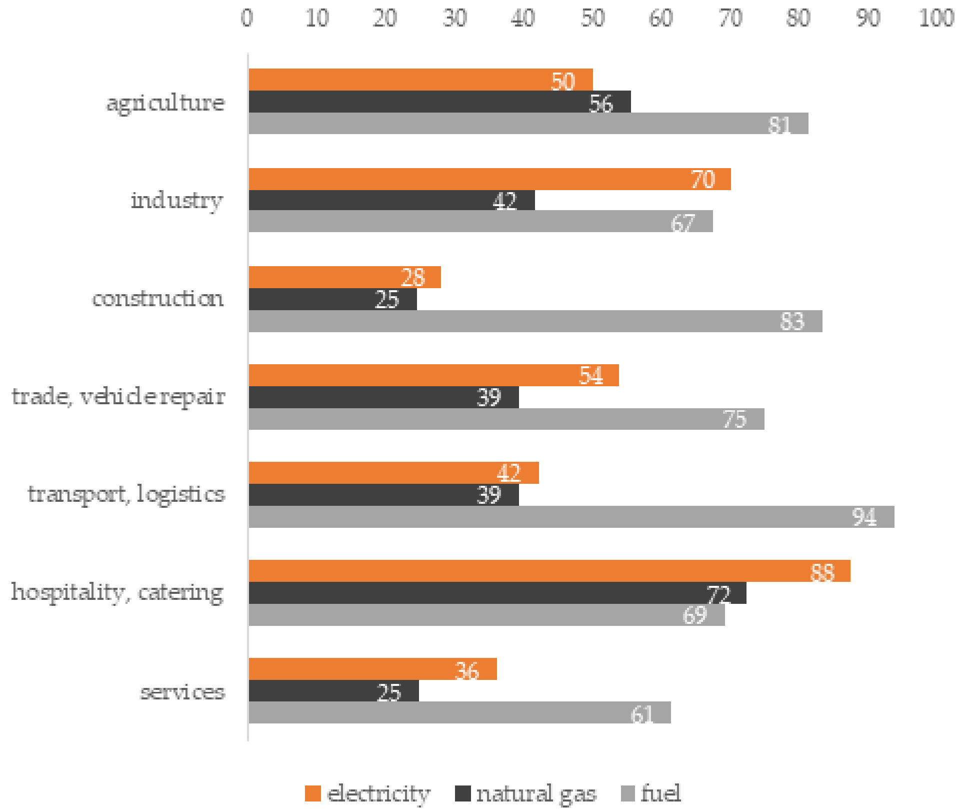
Higher fuel prices had a critical effect on 48% of the companies and a severe effect on 22%. The rising price of **natural gas and electricity had a critical or severe effect on 34% and 47%** of companies respectively. As for electricity and natural gas prices, the severity of their effect is directly proportional with company size. Conversely, fuel prices did not seem to have resulted in significant differences with regard to company size.

Rising electricity and gas prices affected tourism the most (88% and 72% respectively), while players in the construction industry were the least likely to report that their effect was serious. **Increased fuel prices** had the most severe effect on sectors where fuel costs amount to a significant proportion of the cost of the product or the service: **transport and logistics** (94%), **construction** (83%), **agriculture** (81%) and **trade** (75%).

[1] Govt. Decree No. 624/2021. XI. 11.

[2] Govt. Decree No. 670/2021. XII. 2.

Figure 1: Proportion of companies severely or critically affected by rising energy prices, by sector, percent, N=975-1015



Source: *HCCI IEER*

20% of businesses increased their prices in the past three months **to react on rising energy prices (electricity and natural gas)**. Sectors that stand out in this regard include agriculture (41%), tourism and hospitality (30%) and trade (29%).

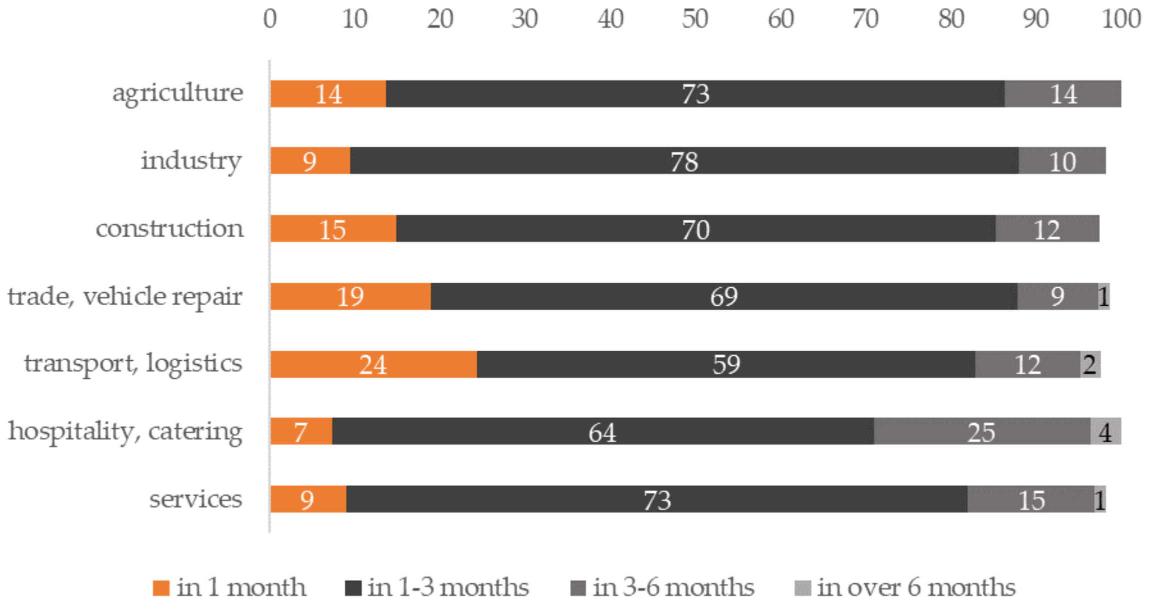
In the past three months, a higher-than-average proportion of agricultural companies (42%), construction companies (41%), trade companies (36%) and transport/logistics companies (32%) **decided to raise their prices due to higher fuel prices, which was also a decisive factor for a quarter of businesses across the board.**

Plans to increase prices

At the time the survey was made, **64% of businesses planned to raise their prices.** Three quarters of such companies had been keeping their prices unchanged for three months, whereas the remaining quarter had already raised prices in reaction to raising energy or fuel costs. Sectors in which planned price hikes are prevalent include tourism/hospitality (79% of companies), agriculture (76%) and construction (72%).

14% of businesses planning price hikes are calculating with a 1-5% increase, **40% of companies will raise their prices by 6 to 10%**, 21% think that an 11-15% would be reasonable, while 25% of companies say they would need to raise prices by over 15%. **71% intend to raise their prices in 1-3 months.** 12% will do the same in one month. 14% plan to go ahead in 3-6 months and only 1% will follow suit in over six months. In the most exposed sectors **the proportion of companies that plan to increase prices in a month is higher than the average – in transport and logistics it is 24%, in construction it is 15%, and in agriculture it is 14%.**

Figure 2: Companies' plans on when they intend to increase their prices, by sector, percent, N=645



***Source:** HCCI IEER*

The figure does not show the proportion of companies that were not sure when they would raise their prices. In each sector, the proportion of such companies is between 0 and 2 percent.

In their plans to increase prices, companies named rising raw material prices, labour costs and energy prices as the most decisive factors.

As for company size there are considerable differences as to which factors they deem the most decisive in the price hikes they plan. Sole traders usually blame fuel prices (64%) and material prices (61%), while for 2-9 micro-enterprises and 10-49 companies it is high material prices and labour costs that drive their prices higher. The price hikes planned by 250+ companies are prompted by higher energy and labour costs.

Rising raw material and labour costs was the main reason for plans to raise prices in industry, construction, trade, tourism and services, too. For 70 percent of companies in agriculture and hospitality, increased energy prices also played a crucial role. In transport and logistics, 93 of companies reported that high fuel prices were very important or critical in their pricing policies.

Figure 3: Factors determining price hikes, by company size, percent, N=645

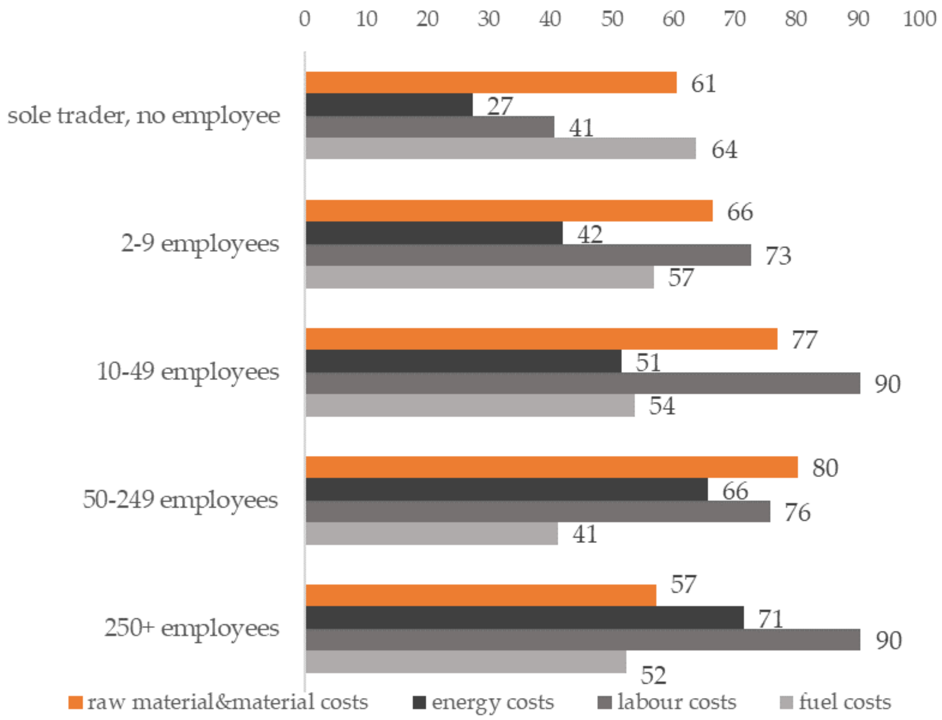
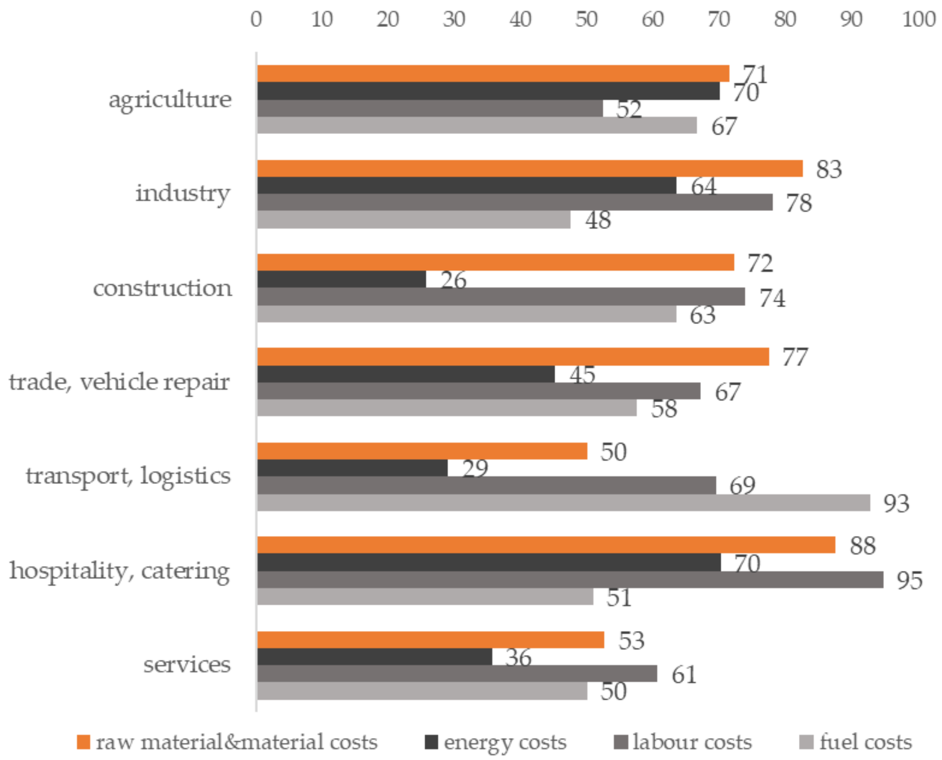


Figure 4: Factors determining price hikes, by sectors, percent, N=645



Source: *HCCI IEER*

The figure shows the proportion of companies that listed the factors as „most decisive" (4) and „absolutely decisive" (5) in their policy to raise prices.

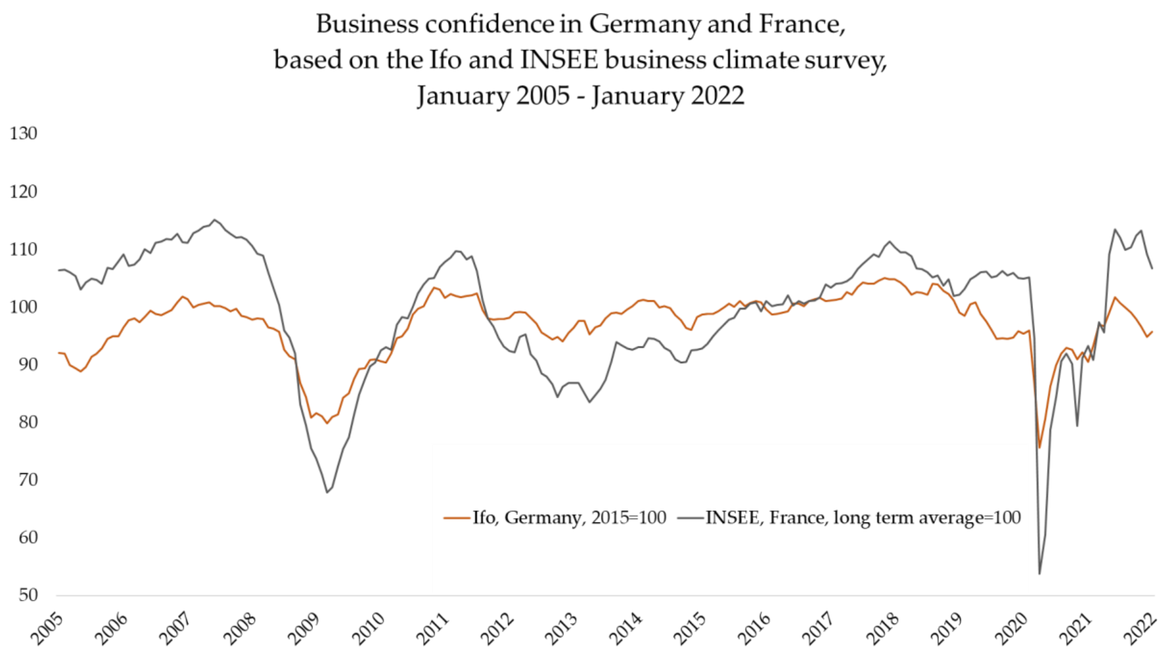
International trends

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	(January)	**5.1%**	5.2%	**5.2%**
	Manufacturing Purchasing Managers Index	(January)	**60.5**	57.0	57.4
	IFO Business Climate Index[1]	(January)	**95.7**	95.2	**94.8**
France	INSEE Business Climate Index[2]	(January)	**106.7**		**109.1**
USA	Unemployment Rate	(January)	**4.0%**	3.9%	**3.9%**
	CB Consumer Confidence Index	(January)	**113.8**	111.8	**115.2**
	Manufacturing Purchasing Managers Index	(January)	**55.0**	56.7	**57.7**
China	Manufacturing Purchasing Managers Index	(January)	**50.1**	50.0	**50.3**

[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 increased compared to December 2021. The manufacturing purchasing manager index (PMI) also increased compared to previous period. Unemployment rate slightly improved for Germany. The French INSEE business climate index decreased compared to last month. In the United States, the CB consumer confidence index decreased compared to the month prior, but it performed better than expected. The manufacturing PMI decreased compared to December in the USA. The unemployment rate slightly increased compared to last month. The Chinese manufacturing PMI decreased compared to previous period.



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

Contact

Address: MKIK GVI
H-1065 Budapest, Lázár street 10.
Tel: (+36)1/235-05-84
E-mail: *gvi@gvi.hu*
Internet: *http://www.gvi.hu*

Prepared by:

Katalin Tóth, analyst, MKIK GVI
Fruzsina Nábelek, Managing director, MKIK GVI

Research manager:

Fruzsina Nábelek
Managing director, MKIK GVI

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