



Hindering factors to doing business as perceived by Hungarian enterprises

Based on the results of the last two Business Climate Surveys conducted by the HCCI Institute for Economic and Enterprise Research (IEER), this analysis focuses on the factors that hinder the business activity of Hungarian enterprises. The October 2021 survey, conducted before the outbreak of the Russo-Ukrainian war, involved 2 214 Hungarian CEOs. The survey of April 2022, conducted in the shadow of the Russo-Ukrainian war, collected the opinions of 2 227 CEOs. The sample of respondents can be considered representative in terms of contribution to GDP, region, and the number of employees. Due to weighting, the distributions calculated in the analysis do not reflect the basic distributions of the responding companies, but their distributions with regard to their economic weight.

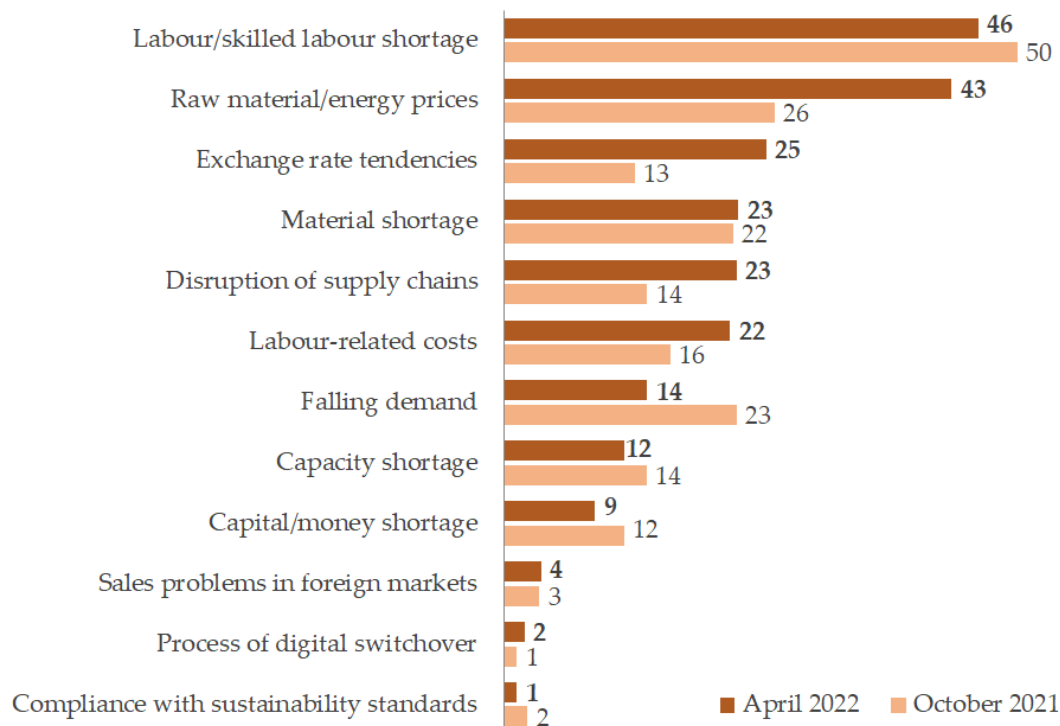
Factors hindering business in the previous half

When compared to the October 2021 survey, the proportion of businesses citing labour shortages as a barrier to doing business remained high (46%) in April 2022, while the proportion of businesses citing raw material and energy prices (43%), exchange rate tendencies (25%) and supply chain issues (23%) increased significantly. Material shortage remained a significant problem (23%) and the proportion of respondents citing labour costs as a hindering factor also increased (22%). At the same time, significantly fewer companies reported falling demand as an issue (14%).

Factors hindering business in the next half year

As far as expectations for the future are concerned, the proportion of managers afraid of future tendencies of raw material and energy prices increased significantly in April 2022 (54%) and the number of those citing labour and skilled labour shortages as a future issue (43%) remained high compared to the October 2021 survey. There was also a significant increase in the proportion of managers worrying about material shortage (31%), exchange rate (23%) and supply chain issues (21%), while falling demand was mentioned less frequently (17%). Labour-related costs were mentioned by about as many as in the previous round (22%).

Figure 1: Factors hindering Hungarian enterprises' business activity in the previous half (%)



Source: IEER 2021–2022

Note: Weighted data with regard to economic performance. $N_{2021.Oct.}=2198$, $N_{2022.Apr.}=2212$.

Figure 2: Factors hindering Hungarian enterprises' business activity in the next half year (%)



Source: IEER 2021–2022

Note: Weighted data with regard to economic performance. $N_{2021.Oct.}=2154$, $N_{2022.Apr.}=2150$.

Compared to the previous half, a significantly higher proportion of firms surveyed in April 2022 expect raw material/ energy prices and material shortages to become an issue in the upcoming six months. (11 and 9 percentage points difference, respectively)

10-49, 50-249, and 250+ companies predict that raw material and energy prices (56%, 56% and 63% respectively), as well as labour and skilled labour shortages (40%, 49% and 56% respectively), will become the most serious obstacles to doing business in the forthcoming six months, while micro-enterprises with 1-9 employees mention falling demand (30%) alongside increasing raw material and energy prices (33%) as their most burning issues for the next half.

Across all sectors, the price of raw materials and energy (40-65%) and labour/ skilled labour shortages (41-47%) are the two most important hindering factors to future business, with industrial and construction companies being the most concerned, followed by trading companies and service providers. Those factors are followed by material shortage (40%) and supply chain issues (26%) in the industrial sector, material shortage (43%) and exchange rate tendencies (25%) in the construction sector, exchange rate trends (36%), material shortage (32%) and disrupted supply chains (28%) in the trade sector, and labour costs (25%) and falling demand (21%) in the sector providing economic services.

Domestic and (partially) foreign-owned firms are the most concerned about raw material and energy prices (51% and 58%, respectively), labour and skilled labour shortages (41% and 51%, respectively) and material shortages (29% and 39%, respectively). For domestic

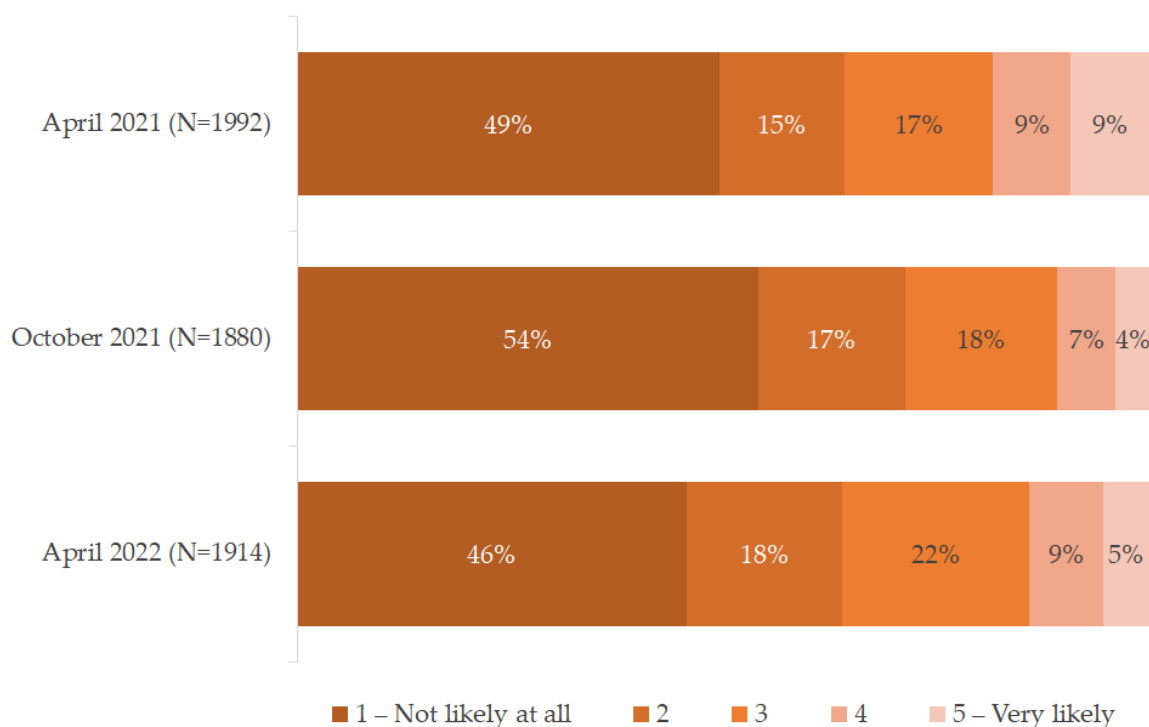
companies, the top factors are followed by labour costs (24%) and for companies of foreign ownership, the disruption of supply chains (33%).

Both non-exporting and exporting companies are sensitively affected in their future business activity by raw material and energy prices (45-62%) as well as by labour and skilled labour shortage (40-47%), although it should be noted that a considerably higher proportion of exporting firms are concerned by those issues. For non-exporters, material shortage (27%), exchange rate tendencies (23%), labour costs (21%) and falling demand shortages (21%) are more likely to be additional hindrance factors. Additional obstacles for minor exporters include exchange rate trends (35%), material shortage (28%), labour costs (25%) and supply chain disruptions (24%). For major exporters, material shortage (44%) and the disruption of supply chains (28%) will be additional obstacles.

Perceptions regarding competitors' suspending their activities or quitting the market

From April 2021 (49%) to October 2021 (54%), there had been a slight increase in the proportion of CEOs who did not consider their competitors' quitting the market at all likely in the six months following the survey, but by April 2022 the trend reversed and the proportion fell significantly (to 46%). On average, CEOs who did not rule out the possibility of competitors' quitting the market said that 18% of their competitors are likely to do so.

Figure 3: Hungarian companies’ perceptions regarding same-sector competitors’ suspending their activities or quitting the market in the upcoming half



Source: IEER 2021–2022

Note: Weighted data with regard to economic performance.

The bigger the company, the higher the proportion of CEOs who consider it more or very likely that their competitors will quit the market in the near future (0-10 companies: 18%, 10-49 companies: 17%, 50-249 companies: 13%, 250+ companies: 10%).

The proportion of CEOs of firms in the services sector was the highest (18%) to say that it was likely or very likely that their competitors would quit the market. That proportion is 15% in construction, 13% in industry and 9% in trade.

Non-exporters are the group that deem it the most likely that one of their competitors would quit the market. Almost a fifth (17%) of them said that the above scenario is likely or very likely. The figure is 12% with major exporters and 10% with minor exporters.

A higher proportion of fully domestic company CEOs now think that it is more likely or very likely that a competitor will quit the market (16%) than managers of (partially) foreign companies (9%)

Corporate responses to minimum wage and guaranteed minimum wage increases, wage expectations – 2022

In this analysis, the HCCI Institute for Economic and Enterprise Research (IEER) presents the reactions of Hungarian companies to the 2022 minimum wage increase and their future expectations regarding wages. The analysis is based on the data originating from IEER's April 2022 business climate survey, in which 2 227 CEOs were asked about their companies' business situation.¹

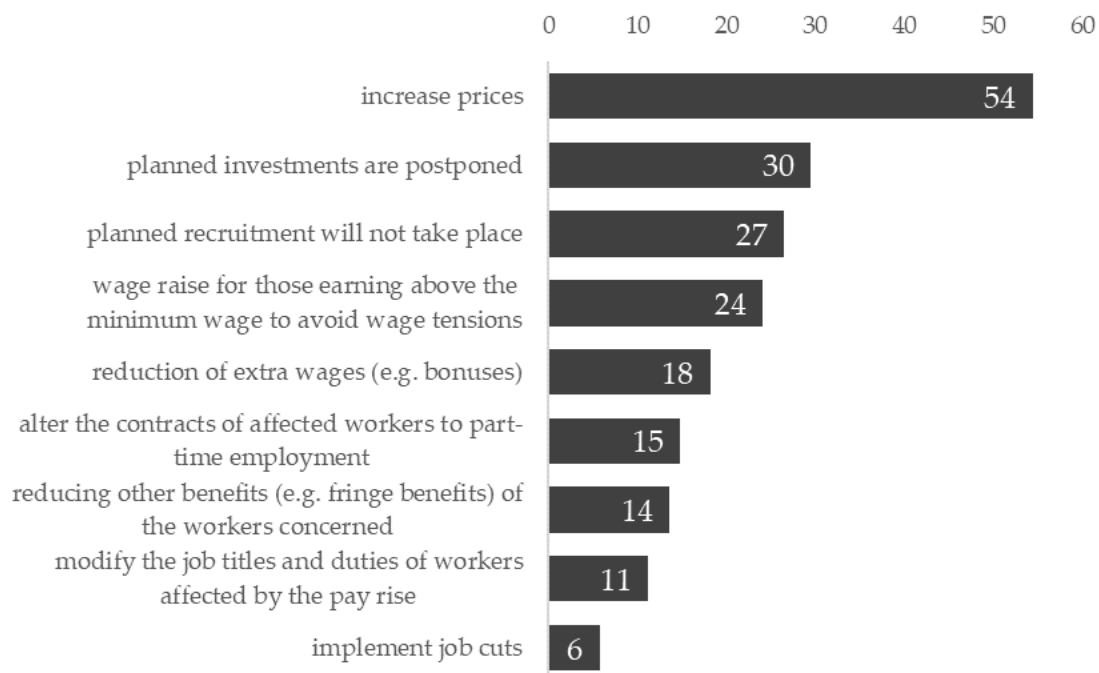
61% of domestic firms have dealt with the 2022 minimum wage- and guaranteed wage minimum increases by taking steps to change their business strategy: more than half have implemented price hikes (54%), while around a third have postponed planned investments (30%) or recruitment (27%). Around 21% of enterprises have undertaken changes in their employment schemes – a quarter (24%) have increased the wages of employees earning above the minimum wage to avoid wage tensions, while a smaller proportion have introduced part-time work (15%) or altered the job scopes of the workers concerned (11%). Only 6%

of firms made redundancies in response to mandatory wage increases. The proportion of companies that decided to reduce the fringe benefits or extra wages of the affected workers was 20%.

Apparently, the bigger the company, the less frequently each tool was used. A price hike was a typical response in all size categories, but smaller firms also tended to use all the instruments listed more frequently, while larger firms have mainly sought to avoid wage tensions by increasing the wages of those earning above the wage minimum.

¹ To analyse the response to the minimum wage increase the sample was weighted with regard to the number of registered enterprises, thus making the sample representative to reflect the distribution of registered enterprises by sector and company size. For wage changes, the sample of respondents was made representative in terms of their contribution to gross added value by region and the number of employees.

Figure 1: Percentage of enterprises for which the increase in the minimum wage or the guaranteed wage minimum has led to / will lead to the listed steps in 2022, percent, N=1746-1860



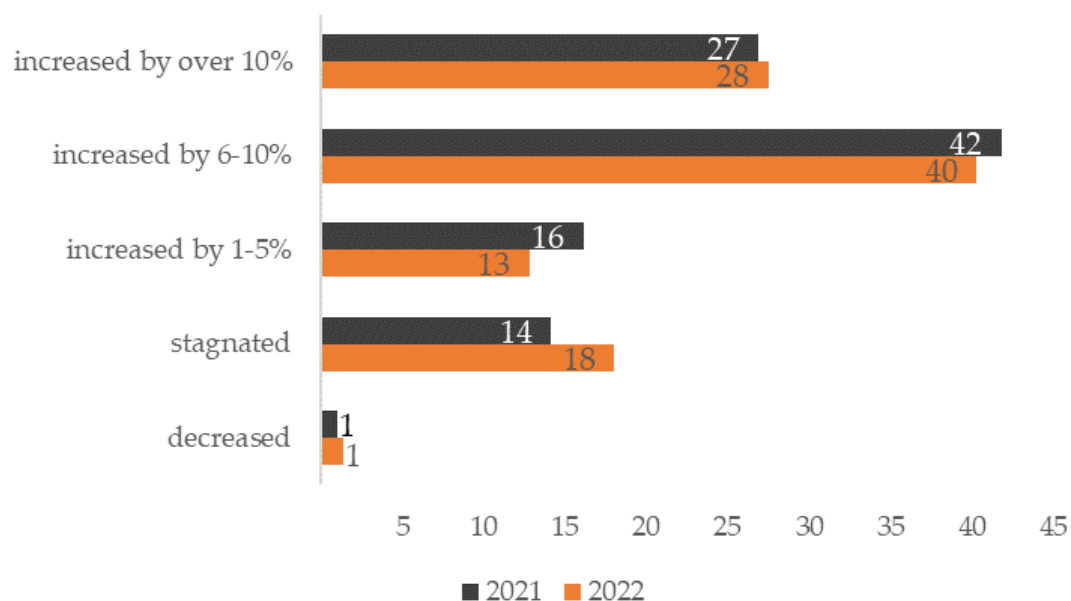
Source: IEER 2022

Note: Respondents could tick more than one answer.

As for sectors, industrial businesses and trading companies are the most likely to use the listed tools to raise wages. Thus, postponing planned recruitment and investments is quite common in these two sectors. In the trading sector the reduction of wages and fringe benefits and part-time employment is widely considered, while redundancies and increases in wages for those earning above the minimum wage is contemplated by industrial firms. The increased minimum wage has led to price hikes at 65% of industrial, construction and trading firms and at 49% of economic service providers.

Looking at wage changes, the vast majority (85%) of businesses implemented wage increases in 2021, with the majority of businesses having done so above the annual inflation rate. In 2022, 81% of firms stated that they would increase wages. 18% plan to leave wages unchanged and 1% intend to decrease them. While the proportion of companies planning to raise wages is lower in 2022, the expectations for the volume of the raise are also slightly lower than they were in 2021: 13% of firms plan with raises of 1-5%, 40% with 6-10% and 28% plan with raises over 10%.

Figure 2: Change in gross wages in 2021 and 2022, percent, N2021=1921, N2022=1699

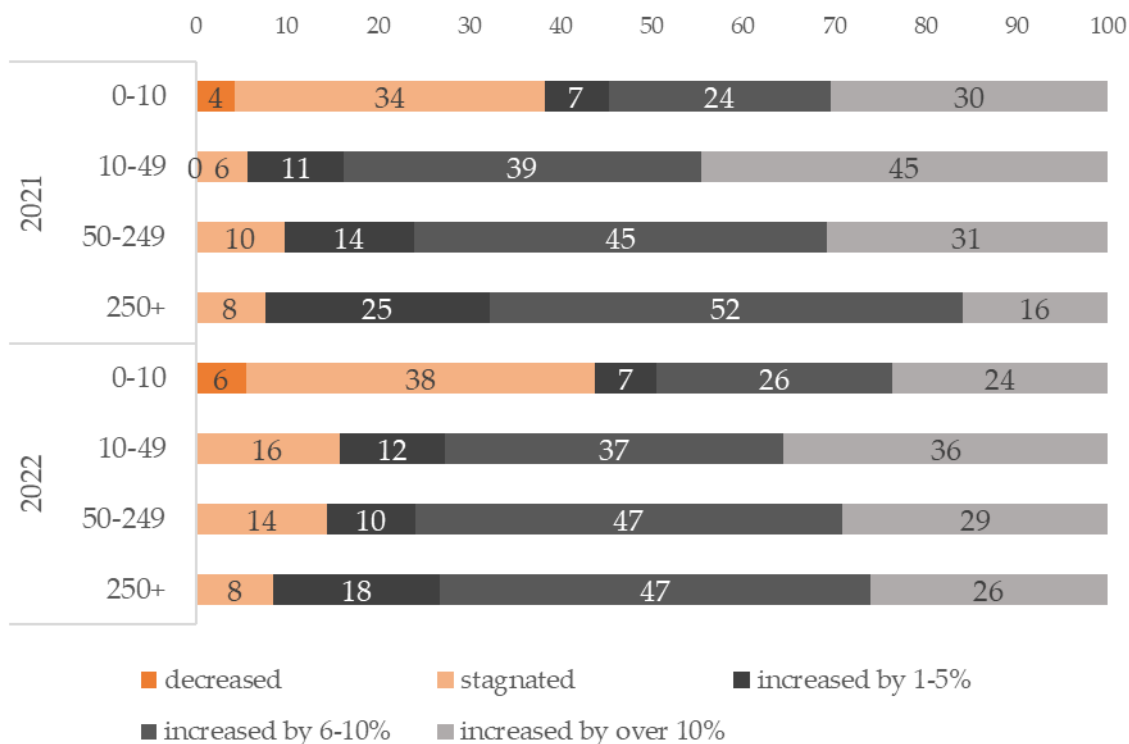


Source: IEER 2022

The bigger the company, the more likely it is to have increased wages in 2021 or to increase them in 2022. Wage cuts in 2021 occurred only at companies with fewer than 10 employees, the only group that also plans cuts in 2022. However, in all size categories - except for the 250+ group - the proportion of companies planning to leave wages unchanged this year is higher than it was in 2021.

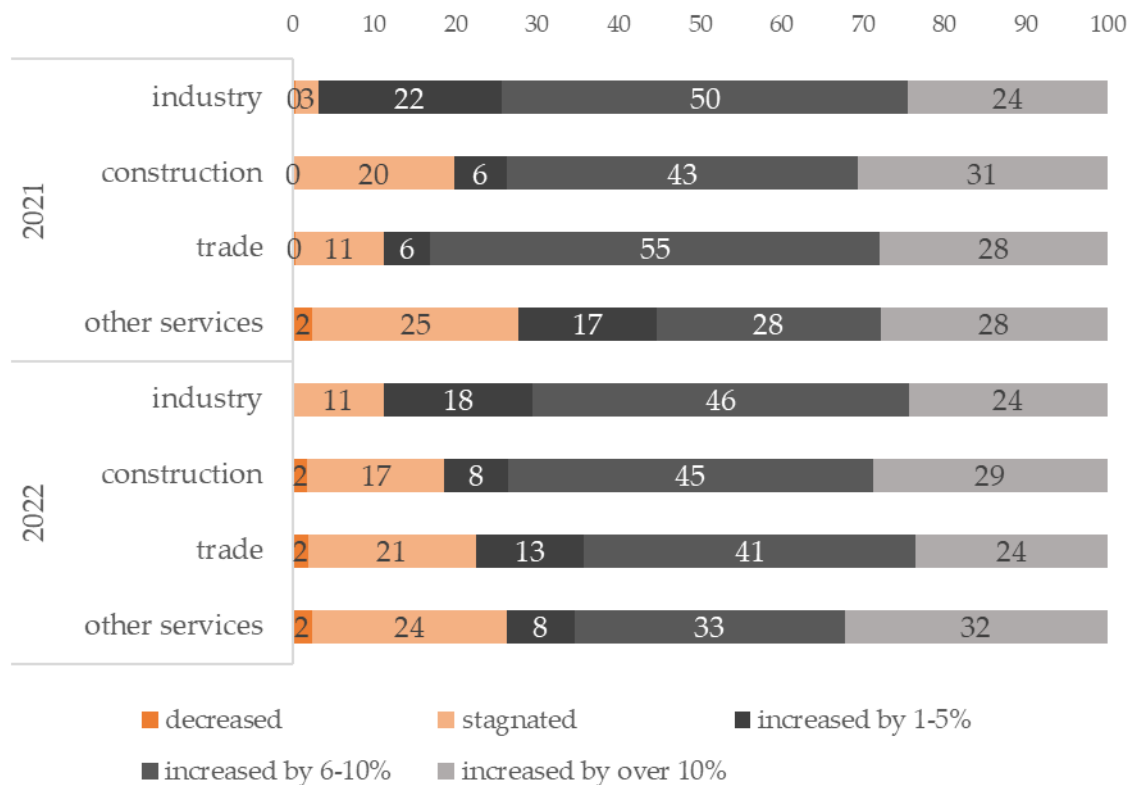
The proportion of companies implementing and planning a wage increase is lowest in services (74%) and highest in the industrial sector (89%). At the same time, service providers seem to be more optimistic now than they were last year, with a high proportion of them planning over 10% raises in 2022 (32%). 81% of construction companies and 78% of trading businesses will raise wages in 2022. The majority of those planning to increase wages in the sectors surveyed will raise salaries by 6-10% in 2022.

Figure 3: Change in gross wages in 2021 and 2022 by company size, percent, N₂₀₂₁=1921, N₂₀₂₂=1699



Source: IEER 2022

Figure 4: Change in gross wages in 2021 and 2022 by sector, percent, N₂₀₂₁=1920, N₂₀₂₂=1698



Source: IEER 2022

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	(July)	5.4%	5.4%	5.3%
Germany	Manufacturing Purchasing Managers Index	(July)	49.3	49.2	52.0
	IFO Business Climate Index ¹	(July)	88.6	80.3	92.2
France	INSEE Business Climate Index ²	(July)	102.9		104.0
	Unemployment Rate	(July)	3.5%	3.6%	3.6%
USA	CB Consumer Confidence Index	(July)	95.7	97.2	98.4
	Manufacturing Purchasing Managers Index	(July)	52.2	52.3	52.7
China	Manufacturing Purchasing Managers Index	(July)	49.0	50.4	50.2

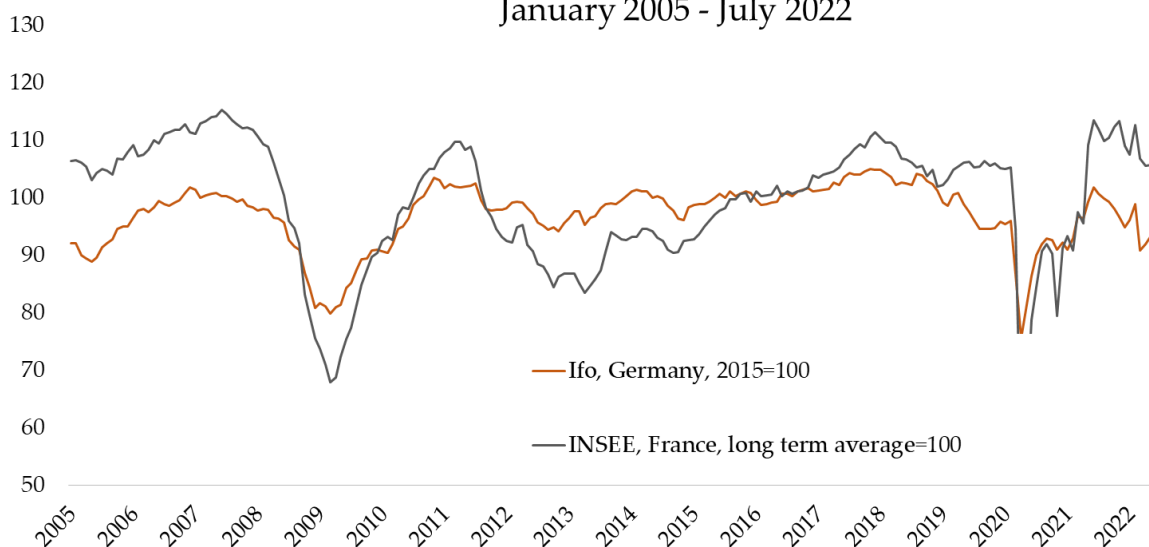
¹ <https://www.ifo.de/en/survey/ifo-business-climate-index>

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 June. The manufacturing purchasing manager index (PMI) also decreased compared to the previous period and was below the expectations. The unemployment rate has worsened in 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, and it performed worse than expected. The manufacturing PMI also decreased compared to June in the USA. The unemployment rate slightly improved compared to the previous month. The Chinese manufacturing PMI decreased compared to June.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - July 2022



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

Contact

Address: MKIK GVI
H-1065 Budapest, Lázár utca 10. 4/18.
Tel: (+36)1/235-05-84
E-mail: gvi@gvi.hu
Internet: <http://www.gvi.hu>

Prepared by:

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

Research manager:

Fruzsina Nábelek
Managing director, MKIK GVI

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