Monthly Bulletin of Economic Trends

September 2022

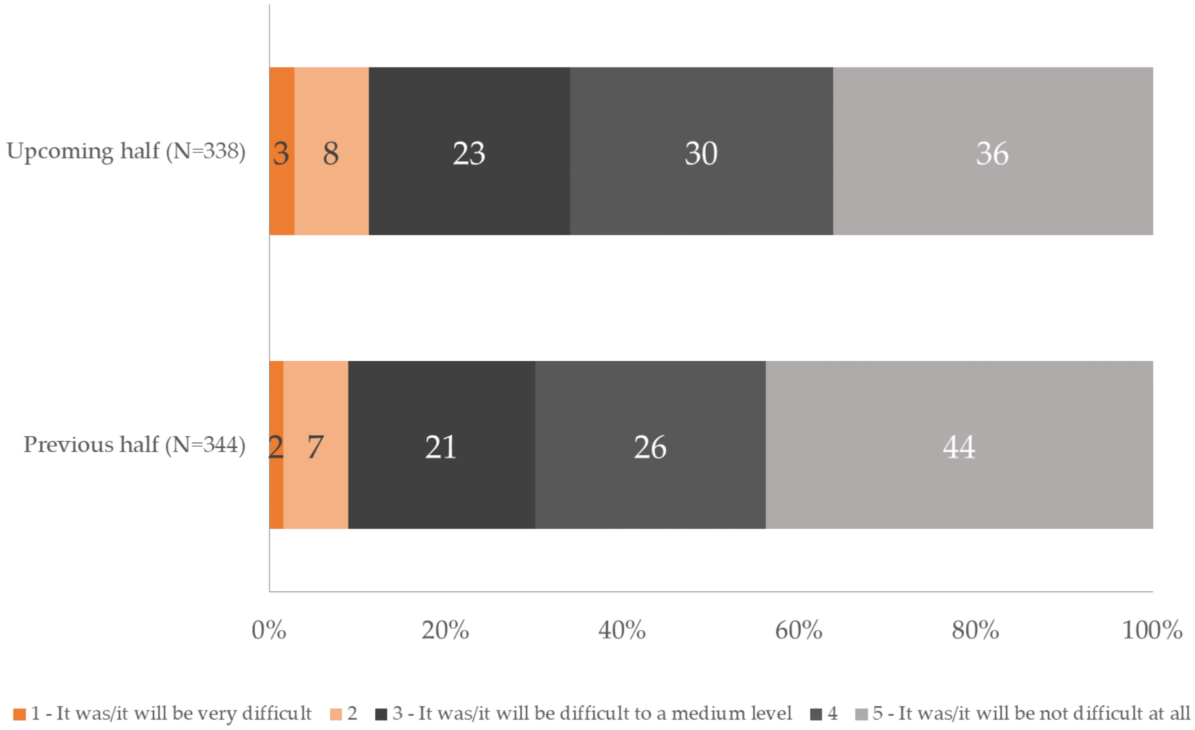
Financial difficulties of Hungarian companies in July 2022

As a part of its business climate survey, in July 2022 the HCCI Institute of Economic and Enterprise Research (IEER) asked 350 Hungarian companies with at least 20 employees about their financial situation, including their ability to meet financial obligations, their perceived financial difficulties, their amount of financial reserves and the likelihood of competitors in the same sector quitting the market.

In July 2022, 44% of CEOs said that it was not at all difficult for their businesses to meet financial obligations, while 56% experienced some difficulties. Businesses are not too optimistic about the next six months. Now fewer CEOs expect no difficulties at all (36 per cent) than in the previous six months and 64 per cent expect some degree of difficulty in meeting financial obligations in the course of the next six months.

Trading and manufacturing companies had the least difficulty meeting their financial obligations in the past six months, but the proportion of businesses in those two sectors that do not expect any difficulties for the upcoming half is lower. Service providers and construction companies also anticipate a more difficult six months in meeting their obligations than in the previous half year. The bigger the company, the proportion that expect no difficulty at all in meeting their financial obligations increases. However, the proportion of firms that expect no difficulty at all in meeting their financial obligations for the next six months is lower for all size categories than in the previous half year. The rate of companies experiencing difficulties in meeting their financial obligations is higher among fully domestic businesses than among (partially) foreign firms.

Figure 1. Assessment of the ability to meet financial obligations in July 2022



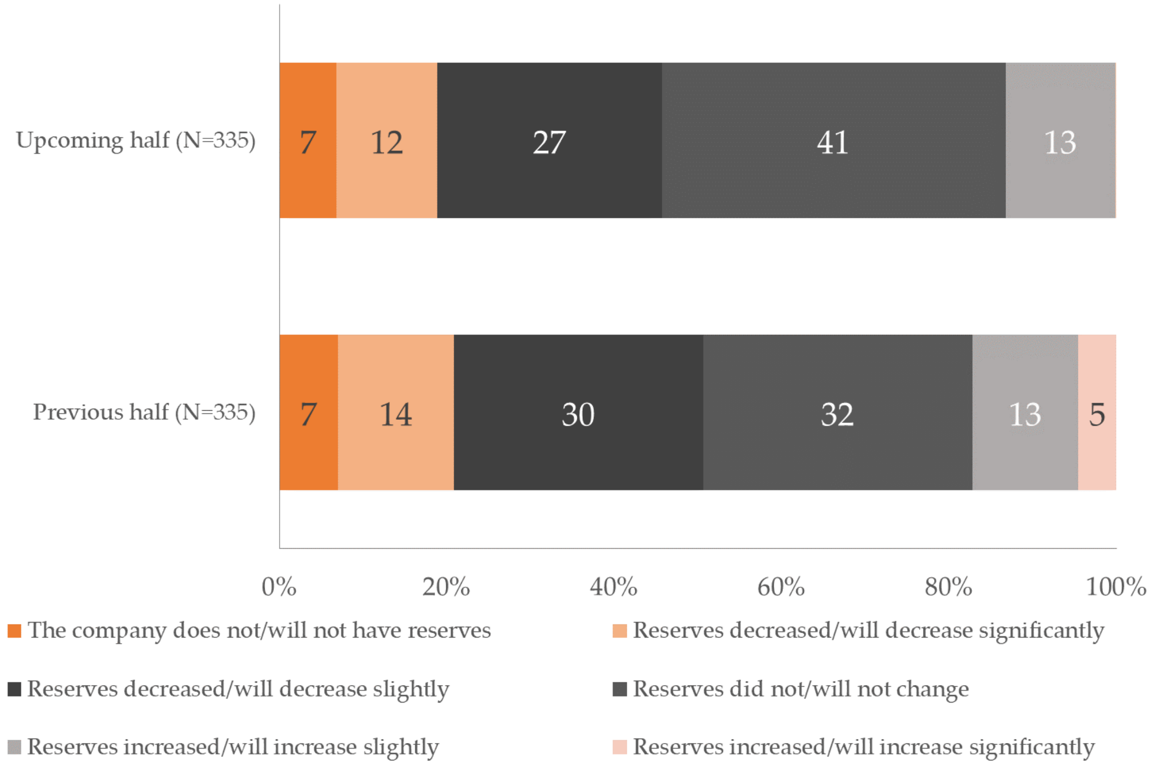
Source: IEER 2022

From businesses that faced some financial difficulties in the first half of 2022 we also asked for details on the type of the problems. **For most businesses, the biggest financial problems in the months before July 2022 were exchange rate losses, supplies/raw material costs and energy costs.** The top three most frequently cited difficulties for businesses facing financing problems across the board were exchange rate losses and the payment for supplies and raw materials. In addition to the two financing problems, paying taxes and contributions was also an issue for construction companies, while for service providers, traders and manufacturers paying for energy was in the top three most frequently mentioned financial difficulty, regardless of company size. For companies with fewer than 250 employees, the most common difficulty in recent months, apart from paying for energy, was paying for raw materials and supplies. Exchange rate loss was the top issue mentioned by 20-49 and 100-249. For 50-99 companies the third most burning financial issue was the payment for goods and services ordered. For 250+ firms, apart from energy costs, paying for goods and services and delivery were the most frequently cited problems in recent months.

The amount of financial reserves for the first half of 2022 was retrospectively assessed by managers as having been more favourable than what they expect for the upcoming half. The difference is largely due to a higher proportion of managers expecting financial reserves to stagnate in the next half compared to the last half. In the past six months, 32 percent of firms experienced no change in their reserves, while 41 percent expect no change for the next six months. In

the first half of 2022, 5 percent of firms saw a significant increase in their financial reserves, while for the next six months, managers expect almost no (0.3 percent) increase in reserves.

Figure 2. Assessment of the level of financial reserves in July 2022



Source: IEER 2022

For the previous six months, it is clear that trading companies were in the best position in terms of available financial reserves. 16% of traders reported a significant increase in the level of their financial reserves, while the proportion of companies in other sectors that were able to increase their reserves significantly was much lower. Expectations for the next six months are also more likely to show stagnation or a decrease in the level of financial reserves among service providers, trading and manufacturing companies. In construction, more companies are likely to see a small increase in their financial reserves in the next period compared to the previous half. No reserves in the last half year was most commonly found among 20-49 and 100-249 companies. It was mostly 20-49 and 250+ companies that reported decreasing reserves in the first half of 2022. The proportion of firms in all size categories (except for 100-249 companies) that expect their financial reserves to stagnate in the next six months increased compared to the previous half. Compared to the other size groups, 100-249 companies are the most negative in their expectations with regard to financial reserves in the next six months.

Prior to July 2022, just over half of CEOs said it was unlikely that their competitors would quit the market. In July 2022 this proportion fell significantly, with only 39% of CEOs saying it was unlikely that their competitors would quit. At the same time, the proportion

of those who think it is likely (up 6 percentage points in July compared to April 2022) or very likely (up 4 percentage points in July compared to April 2022) that competitors will quit the market over the period of the next six months increased. In July, 7 percent of CEOs said it was very likely and 13 percent said it was likely that their competitors would suspend their activities in the upcoming months. In services and construction, business leaders are divided on the likelihood of their competitors quitting the market. They are the least likely to expect their competitors to quit in a few months, but a high proportion of businesses in those two sectors think otherwise. The lowest proportion of CEOs that do not expect competitors to exit at all are heads of manufacturing and trading companies. By company size, 50-99 company CEOs are the most likely to expect their competitors to quit the market, while 20-49 company leaders are the least likely to do so. As for ownership structure, managers of minor and major exporters are more likely to expect their competitors to quit the market than managers of non-exporters.

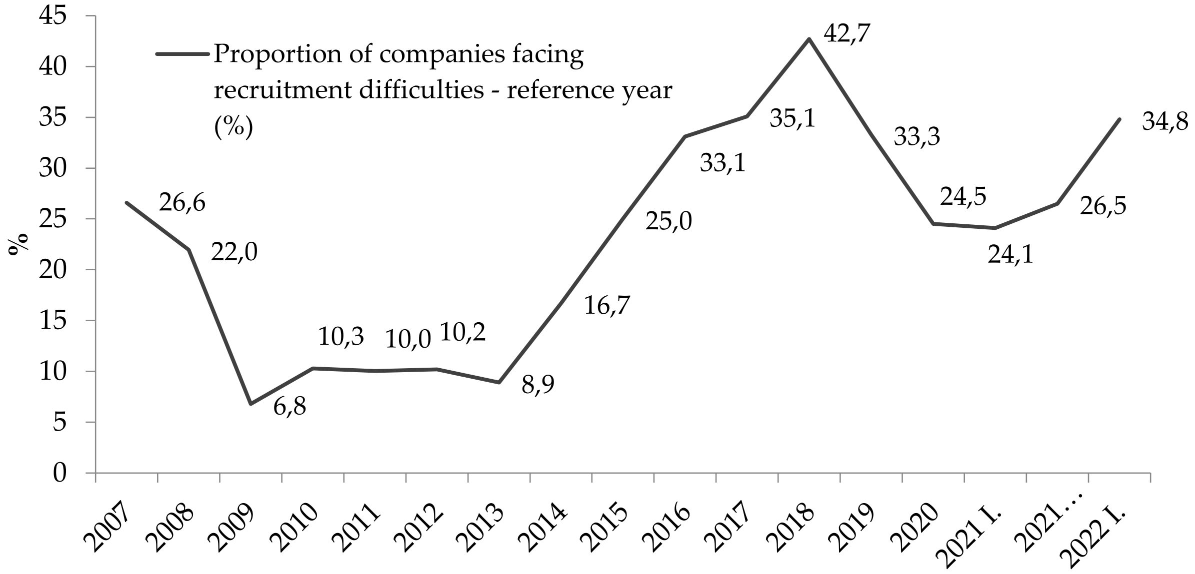
Recruitment difficulties experienced at Hungarian companies

In the current analysis made by the Institute of Economic and Enterprise Research (IEER), we examine the prevalence of recruitment difficulties, showing the changes in the proportion of companies experiencing recruitment difficulties in recent years, the tendencies of recruitment difficulties for each type of workforce, and the variation in the odds of facing recruitment difficulties in groups of companies defined by certain key characteristics. The data analysed are taken from the spring 2022 wave of our Short-Term Labour Market Forecast Survey, in which 5,600 firms in the competitive sector responded to questions on their labour management. The results can be considered representative of the combined distribution of full-time employees in the competitive sector by geographical location, economic sector and company size.

Recruitment difficulties in recent years

After a significant drop in 2009 - due to the economic crisis and redundancies - the proportion of companies perceiving recruitment difficulties remained virtually stagnant from 2010 to 2013. Between 2010 and 2012, 10% of firms reported problems in filling certain positions, compared to 9% in 2013. However, from 2014 onwards there was a significant increase - 17% of companies reported recruitment difficulties in 2014, a trend that continued in 2015 and 2016, in which period about a third of companies reported difficulties. In 2017, the proportion increased further, albeit to a lesser extent compared to the previous year (35%), and in 2018 there was a further significant increase: 43% of companies reported that they had permanent vacancies. This was followed by a significant decrease in the period of the coronavirus pandemic, with 33 percent of companies reporting recruitment difficulties in 2019 and 25 percent in 2020. Although the downward trend continued at a slower pace in the first months of 2021 (24%), it was reversed in the second half of the year (26%) and by the first half of 2022, the proportion of businesses reporting recruitment difficulties had almost reached 35%

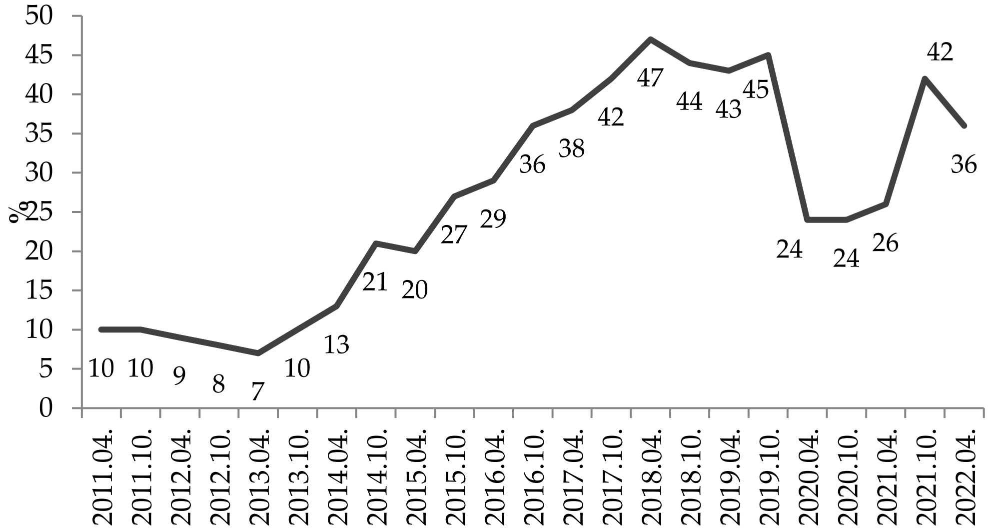
Figure 1: The proportion of companies experiencing recruitment difficulties



Source: ITM, IEER: Short-term Labour Market Forecast Survey for the year 2023 (spring)

The results of the IEER's Semiannual Business Climate Survey also show that the proportion of companies experiencing recruitment difficulties has increased significantly since 2014. According to the survey, the proportion of firms experiencing labour shortage or skilled labour shortage jumped from 13% to 21% in October 2014. The following six months saw stagnation (20 percent), but from October 2015 the proportion started to rise again, with 36 percent of firms reporting such a problem by October 2016. In April 2018, the rate was at a record high - 47 percent of firms reported recruitment difficulties. Then, up to the time of the coronavirus pandemic outbreak, the proportion of firms experiencing a shortage of staff or skilled workers ranged from 43 per cent to 45 per cent. As a result of the first and second waves of the pandemic in spring and autumn 2020 and the severe restrictions introduced to combat them, a much smaller proportion of firms reported labour shortage issues in April and October 2020 (24-24%), and even by April 2021 the proportion had increased only slightly (26%), although the restrictions introduced in the course of the third wave had already started to be gradually eased. By October 2021, as the fourth wave of the pandemic had not led to further restrictive measures, the proportion of firms reporting labour shortage issues had essentially returned to pre-crisis levels (42%), but by spring 2022 it had fallen by a few percentage points (36%).

Figure 2: The proportion of companies perceiving labour shortage/skilled labour shortage according to the results of IEER's Semi-Annual Business Climate Survey



Source: IEER Semi-annual Business Climat Survey

Recruitment difficulties by company features

Different business circles are not equally likely to encounter recruitment difficulties. Below we present a regression model by export activity, economic activity, company size, ownership structure and region to determine which characteristics increase the likelihood of such issues.

The effect of ownership structure does not significantly affect the probability of recruitment difficulties.

The probability of recruitment difficulties increases in line with the intensity of export activity (by 4 and 8 percentage points respectively).

The likelihood of a company experiencing recruitment difficulties increases with company size: 250+ companies are 31 percentage points more likely to experience recruitment difficulties than 10-19 companies. Compared to this latter group, 50-249 companies are 9 percentage points more likely to encounter recruitment issues, while there is no significant difference between the 20-49 and 10-19 categories.

The effect of the economic sector is relevant in other economic services, financial services, tourism/hospitality, trade and agriculture: compared to industry, the first three sectors are more likely to have recruitment difficulties (by 6, 25 and 17 percentage points respectively), while the latter two are less likely (by 7 and 12 percentage points respectively). Transport and logistics firms and construction companies face similar levels of recruitment issues as manufacturing firms, the difference is insignificant.

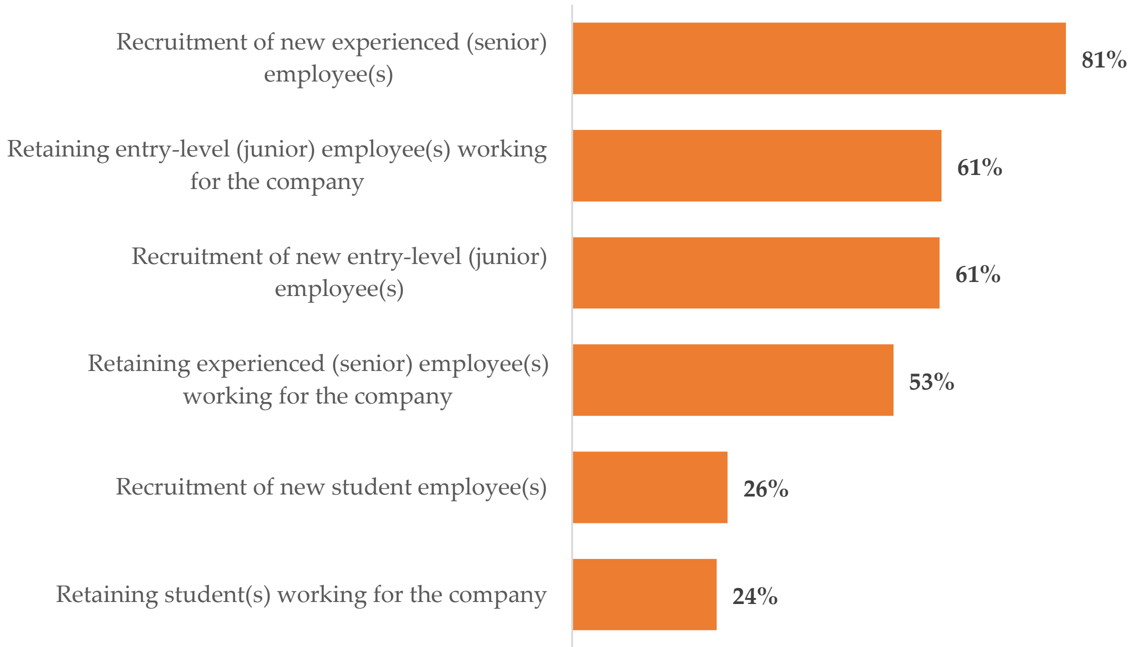
In comparison with the central region, the probability of recruitment difficulties is 9-24 percentage points higher in all other regions of the country.

Labour shortage with regard to types of workers, labour shortage expectations

At companies reporting recruitment difficulties, we examined the types of workers they have problems recruiting and retaining. The responses were weighted by the distribution of registered enterprises regarding size category, sector and region.

At companies reportedly having constant vacancies, the labour shortage is mainly due to difficulties in recruiting new, experienced (senior) workers (81 percent), but more than half of those firms also mentioned issues with recruiting and retaining junior workers (61-61 percent) and retaining senior workers (53 percent). Recruiting and retaining student workers (26 percent) and (24 percent) were cited as difficulties due to labour shortage by only a quarter of enterprises.

Figure 3: Difficulties due to labour shortage at companies with permanent vacancies



Source: ITM, IEER: Short-term Labour Market Forecast Survey for the year 2023 (spring) (N=826–1090)

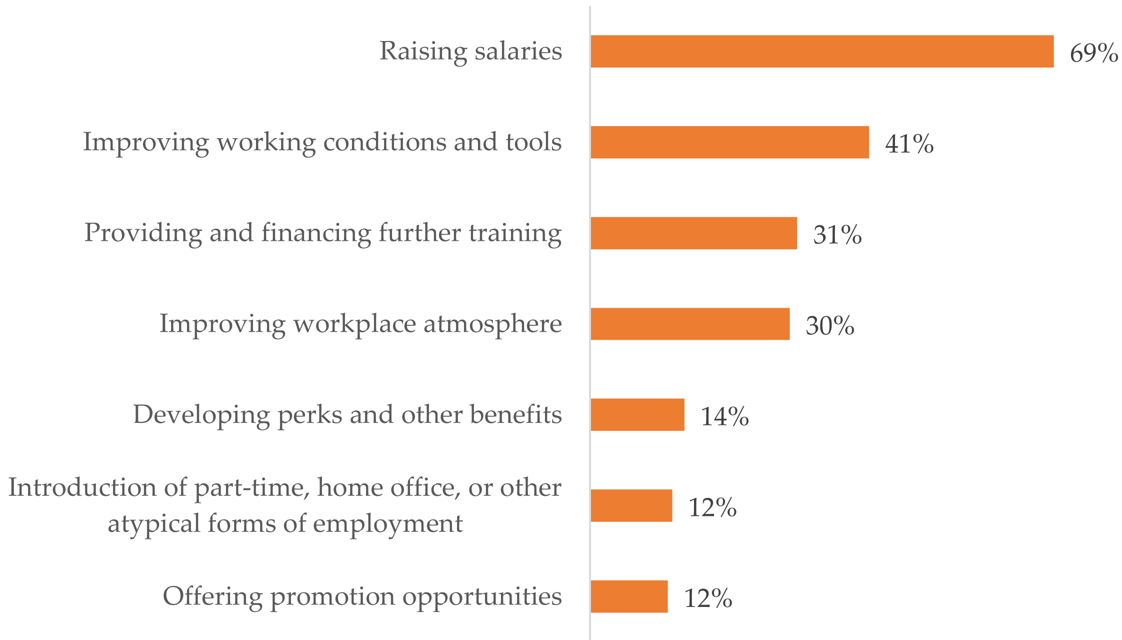
Retaining existing workforce, eliminating recruitment difficulties

At companies reporting recruitment difficulties we also explored the measures they take to retain existing staff and the tools they use to mitigate their experienced difficulties. In this sub-section we weighted the distribution of registered enterprises by size category, sector and region. The proportions reported in the graphs and tables are therefore representative with regard to the distribution of registered enterprises.

69% of companies experiencing recruitment difficulties reported that their most important means of retaining existing staff is to increase wages. Improving working conditions and tools (41%), providing and financing training for employees (31%) and improving the workplace atmosphere (30%) are also important. However, just over 10% of companies with recruitment issues said they would like to retain staff by additional fringe benefits, or by introducing atypical forms of employment or offering career opportunities.

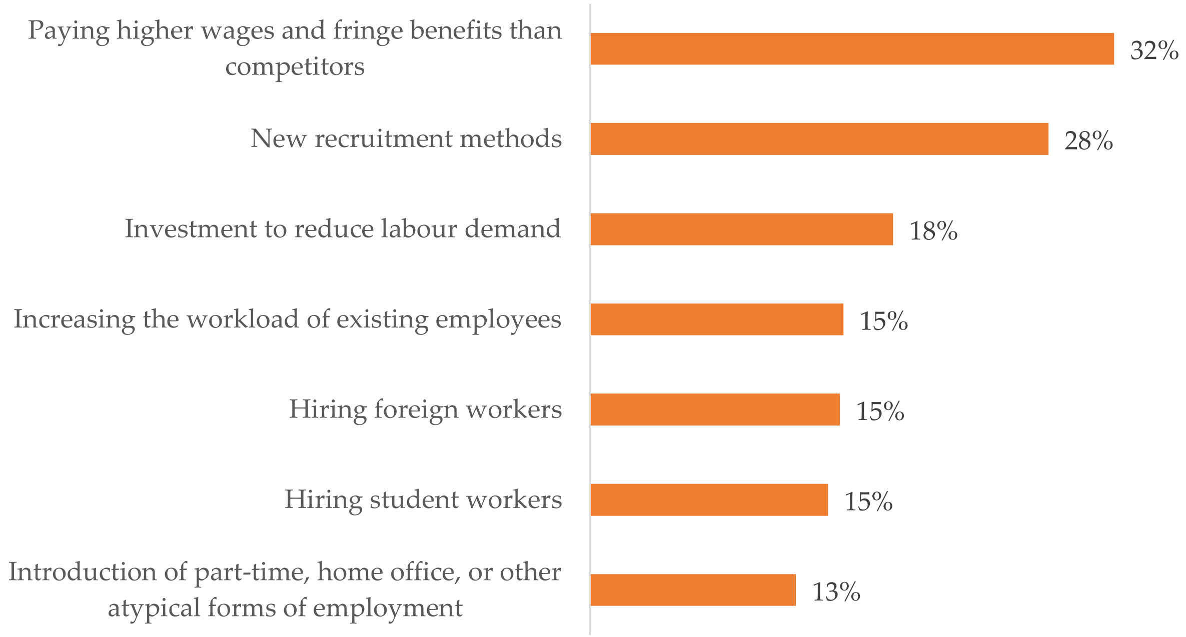
32% of businesses with recruitment difficulties reported that they offer higher wages than their competitors to address labour shortages, which is the most common measure listed. 28% use new recruitment methods, 18% invest to reduce labour demand, 15% increase the workload of existing employees, or employ foreign workers/students, and 13% seek to address labour shortage issues by introducing atypical forms of employment. These rates also suggest that enterprises are trying to respond to the labour shortage problems they face by other means than those listed above, or that they do not have the means and opportunities to address the problem at their level.

Figure 4: Measures to retain existing workers at companies facing recruitment difficulties



Source: ITM, IEER: Short-term Labour Market Forecast Survey for the year 2023 (spring) (N=1339–1342)

Figure 5: Measures to address labour shortage at companies facing recruitment difficulties



Source: ITM, IEER: Short-term Labour Market Forecast Survey for the year 2023 (spring) (N=1339–1341)

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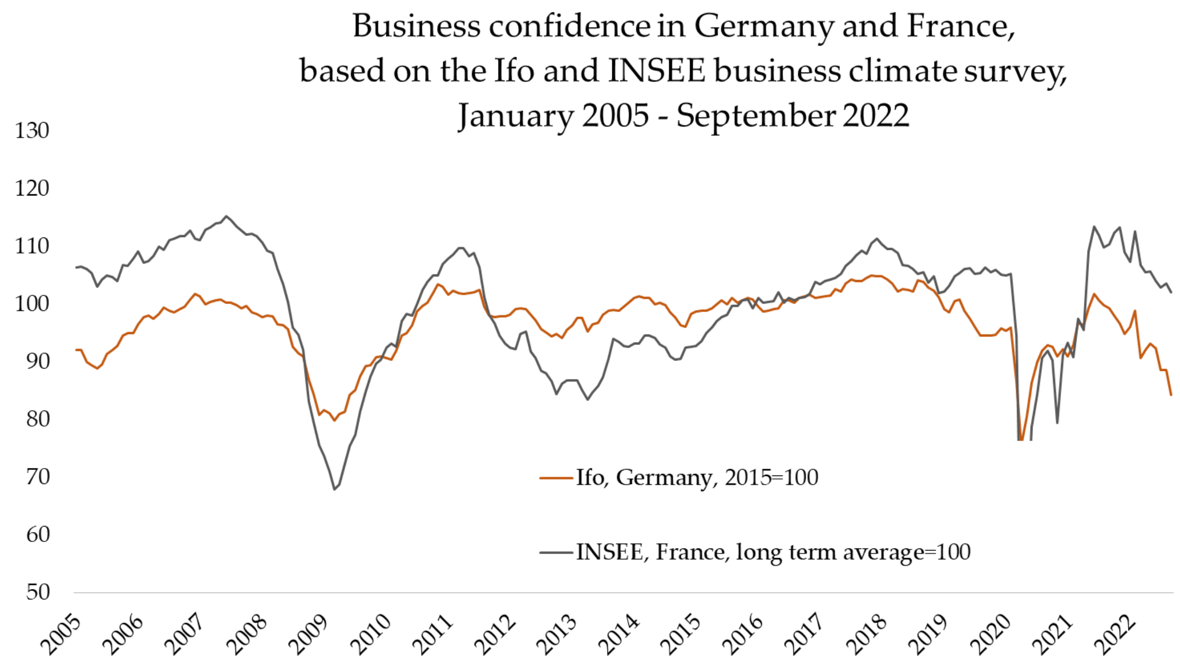
International trends

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	(September)	**5.5%**	5.5%	5.5%
	Manufacturing Purchasing Managers Index	(September)	**47.8**	48.3	49.1
	IFO Business Climate Index[1]	(September)	**84.3**	75.2	88.6
France	INSEE Business Climate Index[2]	(September)	**102.1**		103.5
USA	Unemployment Rate	(September)	**3.5%**	3.7%	3.7%
	CB Consumer Confidence Index	(September)	**108.0**	104.5	103.6
	Manufacturing Purchasing Managers Index	(September)	**52.0**	51.8	51.5
China	Manufacturing Purchasing Managers Index	(August)	**48.1**	49.5	49.4

[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 August. The manufacturing purchasing manager index (PMI) also decreased compared to the previous period and was below the expectations. The unemployment rate remained the same in Germany. The French INSEE business climate index decreased compared to last month. In the United States, the CB consumer confidence index increased significantly compared to the month prior, and it performed better than expected. The manufacturing PMI also increased compared to August in the USA. The unemployment rate improved compared to the previous month. The Chinese manufacturing PMI slightly decreased compared to August.



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

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