



### Business responses to rising energy prices - steps taken to cut expenditures

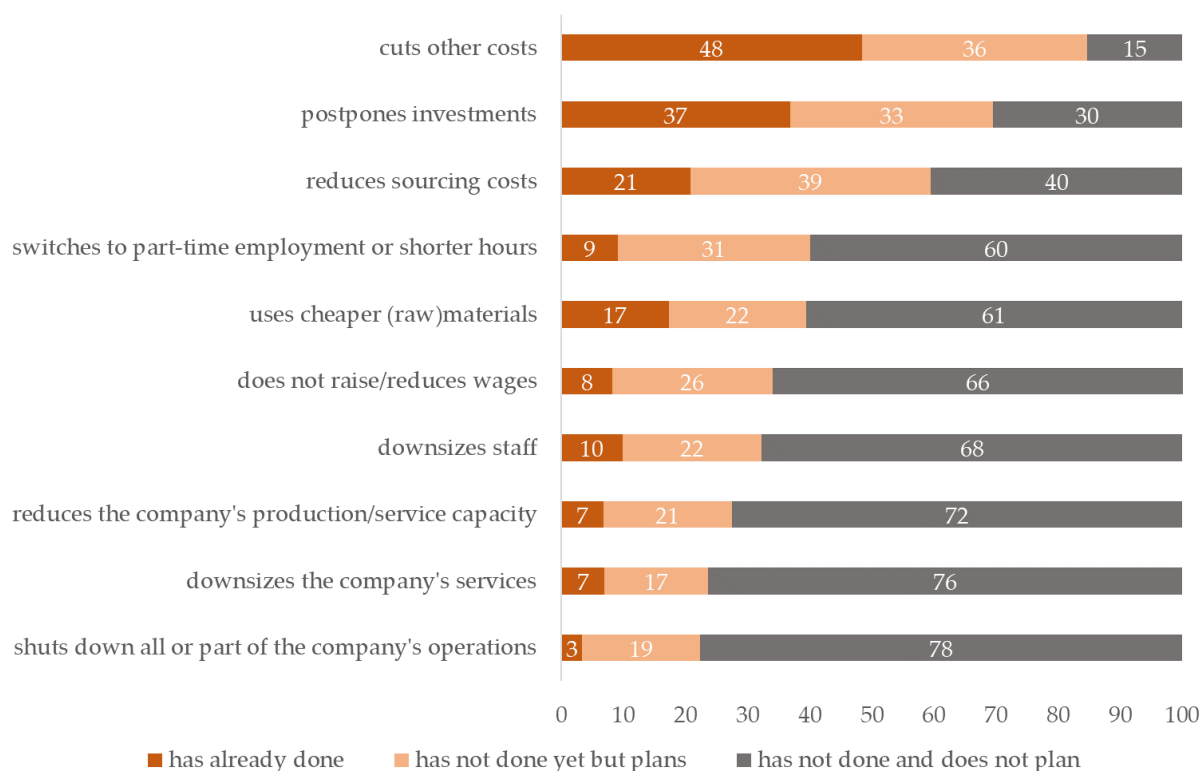
The survey of the HCCI IEER on the impact of energy price hikes was conducted between 26 September and 5 October 2022. As part of that survey, 1,378 Hungarian businesses responded to questions on their experiences and reactions to rising prices. Our analysis below presents the steps taken by businesses to cut expenditures and save energy.

#### Cost-cutting measures in company operations

By the time the survey was completed, over a half (56%) of businesses had already taken some action to reduce costs in their operations to combat rising energy prices. Almost a half of companies tried to reduce other costs, 37% postponed planned investments, and around one in five attempted to reduce their sourcing costs or use cheaper substitutes. One in ten respondents decided to downsize their workforce. Less than 10 percent of companies reduced working hours or introduced part-time work, postponed wage raises or cut services or production capacity. 3% of businesses reported that they had closed down all or part of their operations as a result of rising prices.

Two thirds of our respondents plan to cut at least one operational cost in the next six months. A further 39% of companies would cut their sourcing prices, 36% would reduce other costs and 33% would postpone investments. A relatively large proportion of firms plan to take steps regarding their workforce if necessary, by introducing part-time working (31%), by not increasing or reducing wages (22%) or by downsizing (22%). Relatively few have so far taken any action on altering the operation of their business, but around one in five companies plan to do so in the next six months: 21% plan to reduce production capacity, 17% plan to cut back on services, and 19% expect to shut down in the next six months.

**Figure 1: Has your company introduced or plans to introduce the following cost-cutting measures in the next six months in response to the impact of rising energy prices (percentage, N=1055-1125)**



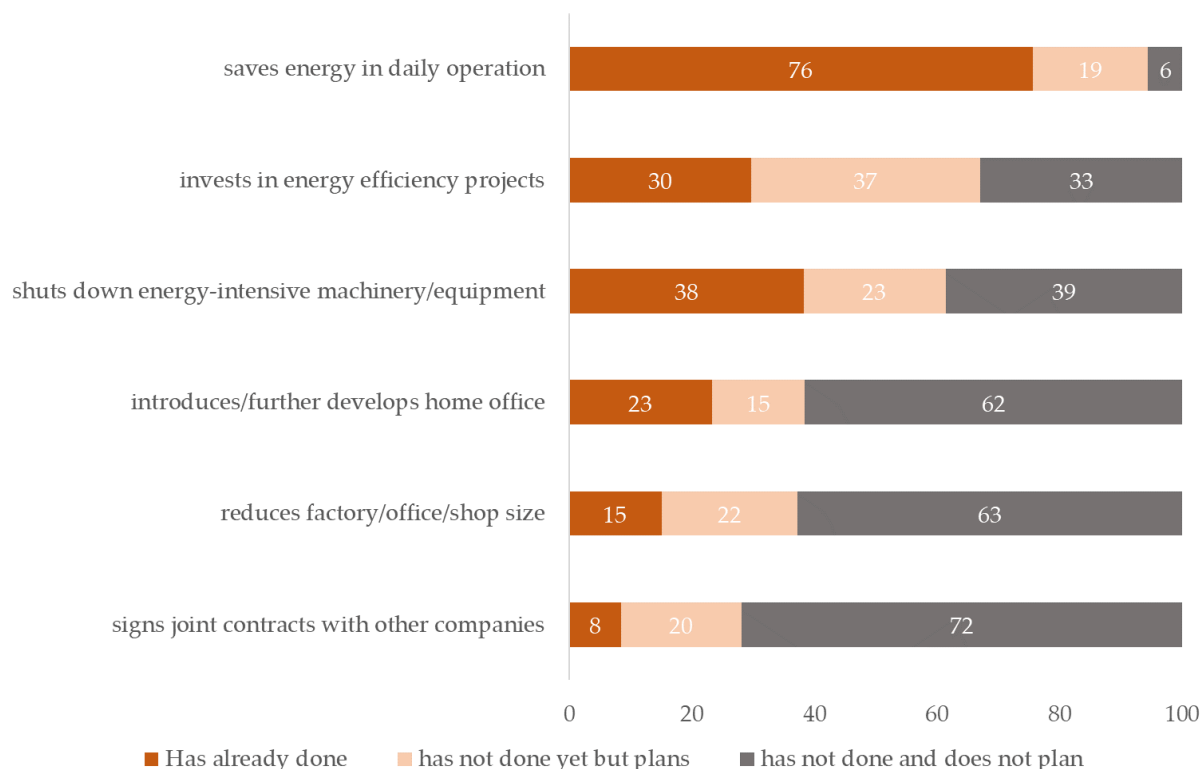
Source: HCCI IEEER

A particularly high proportion of firms in the accommodation and catering sector have made (20%) or plan to make (47%) redundancies. In addition to tourism, the highest proportion of firms in industry (27%) and trade (23%) have considered downsizing in the next six months. Capacity reduction, service cutbacks and closures are also the most likely to be introduced by firms in tourism if necessary, and it is also the sector with the highest proportion of companies that have already been forced to take such measures.

In logistics (13%), tourism (11%), trade (10%) and other services (10%), firms

postponed raising or reduced wages/benefits at a higher than average rate in response to the rise in energy prices. The highest proportion of firms in tourism (52%), trade (25%), industry (25%) and other services (24%) are planning to reduce wages/benefits if necessary. Part-time or shorter working hours are most likely to be introduced by respondents in tourism (18%), other economic services (12%) and other sectors (13%), while the highest proportion of respondents in tourism (52%), agriculture (36%), industry (35%) and trade (34%) plan to to take that step in the next six months.

**Figure 2: Has your company introduced or, in the next six months, plans to introduce the following measures to increase energy efficiency in response to the impact of rising energy prices (percentage, N=968-1197)**



Source: HCCI IEER

### Measures to reduce energy consumption

Measures and plans to reduce energy consumption are common ways of cutting expenditures. 76% of firms reported that they were trying to save energy in their day-to-day operations to tackle rising prices. Around a fifth of businesses have not yet introduced those types of measures in their operations, but plan to do so in the next six months. 38% of firms have decided to turn off energy-intensive machinery and equipment, and a further 23% plan to do so in the next period. 30% of firms made small or large investments towards energy efficiency, with 37% planning. 23% of firms have introduced or increased the proportion of home office hours (15% plan

to do so) and 15% are trying to save by reducing the size of their plant, office or shop. This last measure, if necessary, is planned to be implemented by a further 22% of businesses over the next six months.

Across the sectors the proportion of firms that try to save energy in their daily operations is particularly high in tourism (88%), agriculture (83%) and trade (77%). However, in all sectors except construction, the proportion of respondents who already save energy or plan to do so in the near future is above 90%.

The majority of industrial and logistics companies (37 and 37% resp.) made energy

efficiency investments, a step most agricultural firms also plan to take. Companies specialising in tourism (60%) and trade (48%) were the most likely to reduce costs by discontinuing the use of energy-intensive machinery and equipment. In tourism (22%), and transport/storage (20%), companies were also the most likely to reduce the size of their shops, plants and offices. Home office was introduced by the highest proportion

of firms providing other business services (41%) and companies in that sector are also the most likely to plan to take that measure in the future. Firms in the transport and storage sector were the most likely to have increased their use of renewable energy sources, and the highest proportion of firms in industry (50%) plan to tackle the issue of rising energy prices in the same way.

## GDP trends compared to the 2008 and 2020 crises, by region

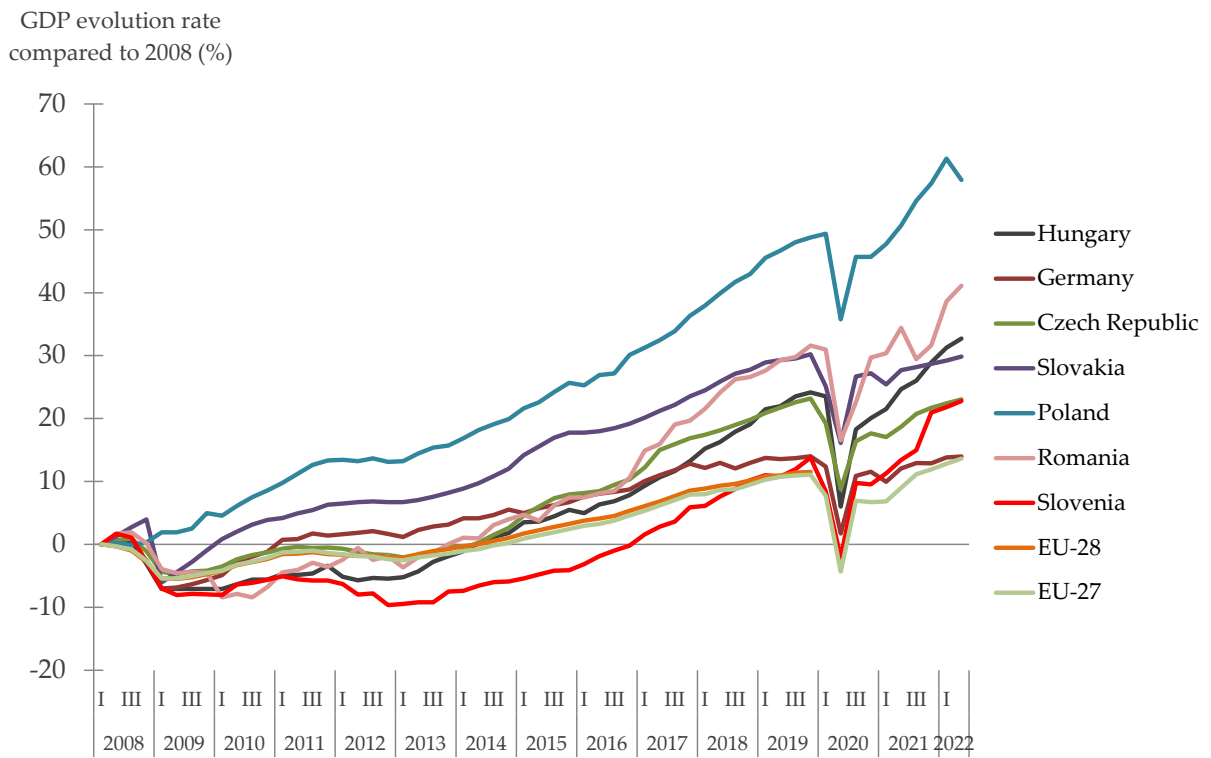
The following short analysis compares the impact of the 2008 world financial crisis and the coronavirus epidemic in 2020 on the economy of Hungary and of other countries in the region. The quarterly change in GDP since the start of the crisis is used as an indicator in comparison to the previous quarters.

The data on the recovery of the Hungarian economy from the 2008 crisis show that Hungary's GDP reached its pre-crisis level much later than in Poland, Slovakia, Germany and Romania (see Figure 1). The data also lead to another important observation: even though the Hungarian economy was particularly hard hit by the economic crisis in the first half of 2020 (caused by the coronavirus pandemic) it was followed by one of the fastest growth rates in the region in 2021, alongside Slovenia and Poland. However, while in the second quarter of 2022 GDP in Hungary was 33% higher than before the global crisis (Q1 2008), the figure was 58% in Poland and 41% in Romania. During this period, the GDP growth rates of both Poland and Romania were higher than those of Hungary, and in the first half of 2020 those economies suffered a smaller contraction. Compared to Germany the Hungarian economy recovered from the 2008 crisis in a much slower pace: while the German GDP growth reached its previous level by Q1 of 2011 the Hungarian economy only recovered by 2014 Q3. The difference between the GDP growth rate of Hungary

and Germany however, disappeared by 2017 and by 2018 the Hungarian growth rate was above the German.

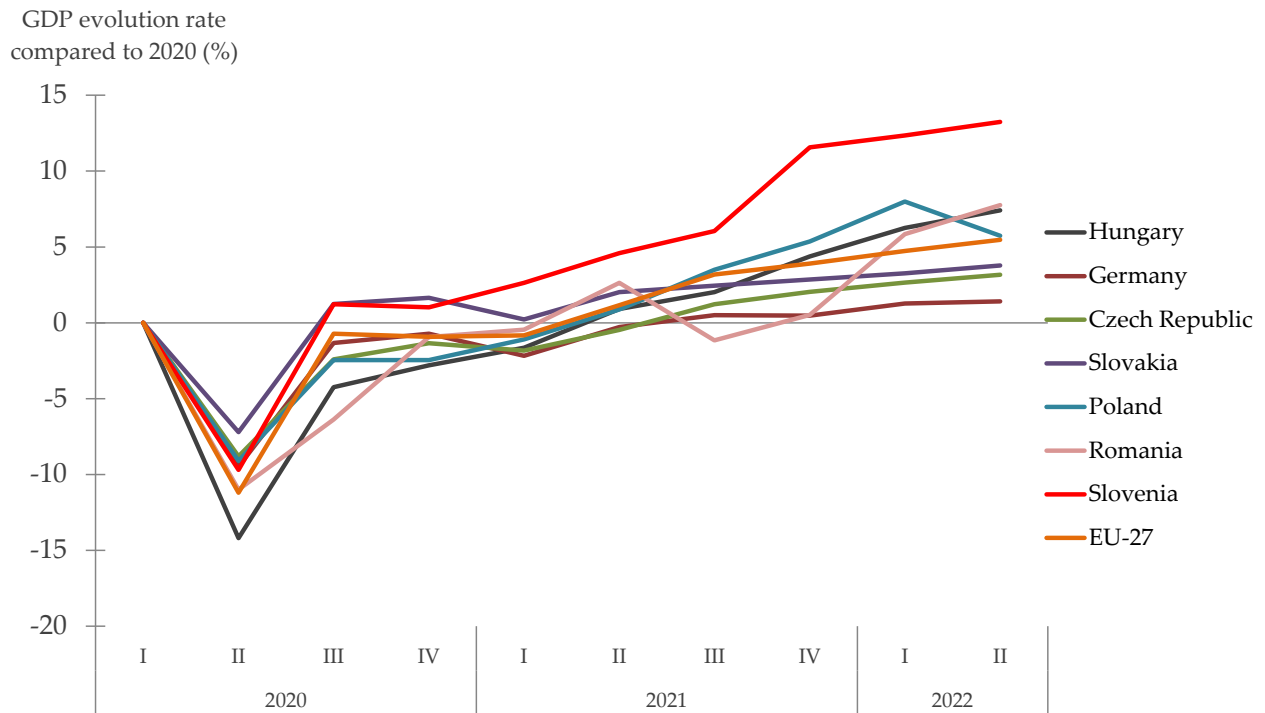
The economic crisis that emerged in the first half of 2020 as a result of the coronavirus pandemic affected Hungary more severely than other countries in the region, or Germany and the EU-27 average, with a 14% quarter-on-quarter drop in GDP in the second quarter. By the end of 2021, the GDP of all countries in the region and the EU-27 average had exceeded the GDP of the first half of 2020. By the end of the fourth quarter of 2021, GDP in Hungary - in line with the EU average - was 4% higher compared to that at the onset of the economic crisis (Q1 2020) stemming from the coronavirus pandemic. Compared to Germany in the first half of 2022 the crisis due to the coronavirus pandemic affected the Hungarian economy more severely that resulted in a decrease of the difference of the growth rate between the two countries. After the lowest point of the crisis, in the second half of 2022 the growth rate of the Hungarian economy was once again ahead of Germany.

**Figure 1: At what stage are we in the Great Recession? Comparison in the Central-Eastern European Region (2008 q1 - 2022 q2)**



Source: IEER, calculation based on KSH, Eurostat and Destatis data

**Figure 2: At what stage are we in the Coronavirus Epidemic? Comparison in the Central-Eastern European Region (2020 q1 - 2022 q2)**



Source: IEER, calculation based on KSH, Eurostat and Destatis data

## 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	(October)	<b>5.5%</b>	5.5%	5.5%
Germany	Manufacturing Purchasing Managers Index	(October)	<b>45.1</b>	45.7	<b>47.8</b>
	IFO Business Climate Index <sup>1</sup>	(October)	<b>84.3</b>	75.6	<b>84.4</b>
France	INSEE Business Climate Index <sup>2</sup>	(October)	<b>101.9</b>		<b>101.8</b>
	Unemployment Rate	(October)	<b>3.7%</b>	3.6%	<b>3.5%</b>
USA	CB Consumer Confidence Index	(October)	<b>102.5</b>	106.5	<b>107.8</b>
	Manufacturing Purchasing Managers Index	(October)	<b>50.4</b>	49.9	<b>52.0</b>
China	Manufacturing Purchasing Managers Index	(October)	<b>49.2</b>	50.0	<b>50.1</b>

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

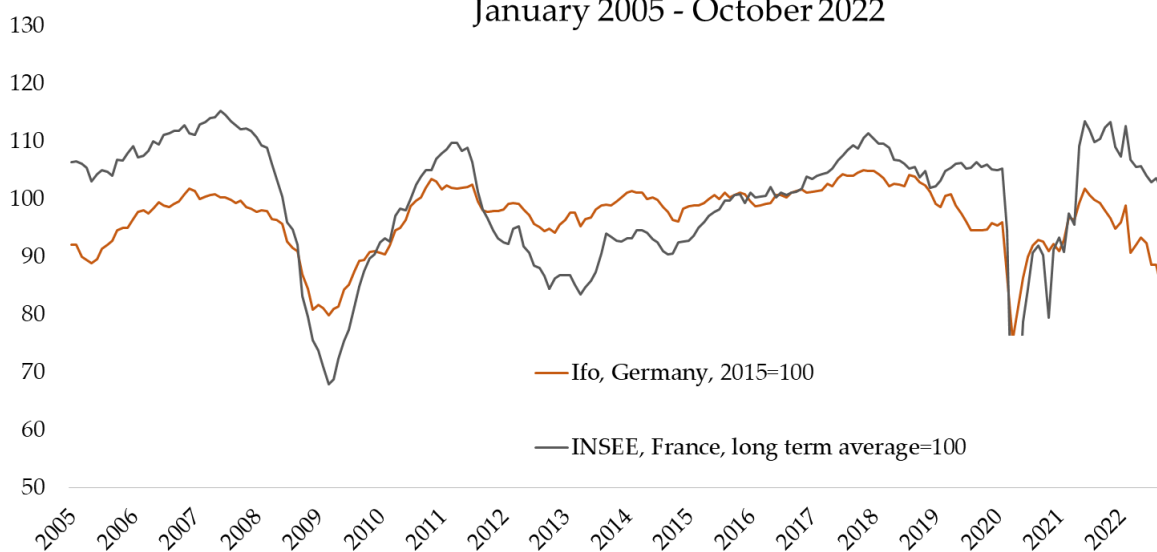
<sup>2</sup> <http://www.insee.fr/en/themes/indicateur.asp?id=105>

The rest of the data source: <https://www.bloomberg.com/markets/economic-calendar>

In Germany, the IFO business climate index slightly decreased compared to September. The manufacturing purchasing manager index (PMI) 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 slightly increased compared to last month. In the United States, the CB consumer confidence index decreased significantly compared to the month prior, and it performed worse than expected. The manufacturing PMI also decreased compared to September in the USA. The unemployment rate worsened compared to the previous month. The Chinese manufacturing PMI decreased compared to September.



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



Sources: [www.ifo.de](http://www.ifo.de), [www.insee.fr](http://www.insee.fr)

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