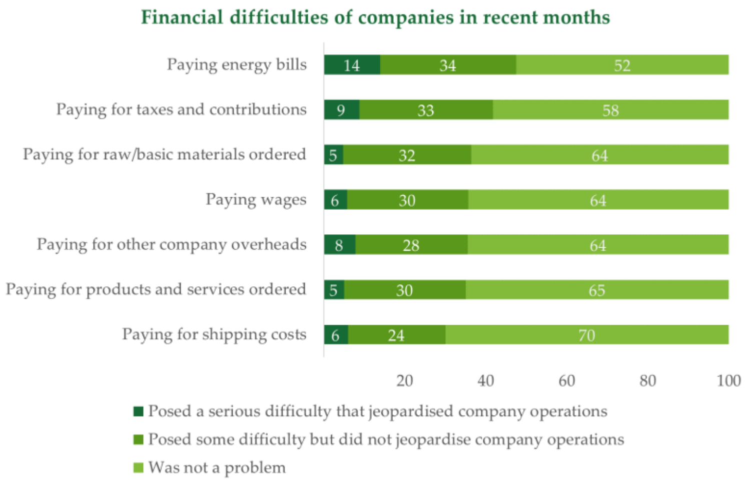
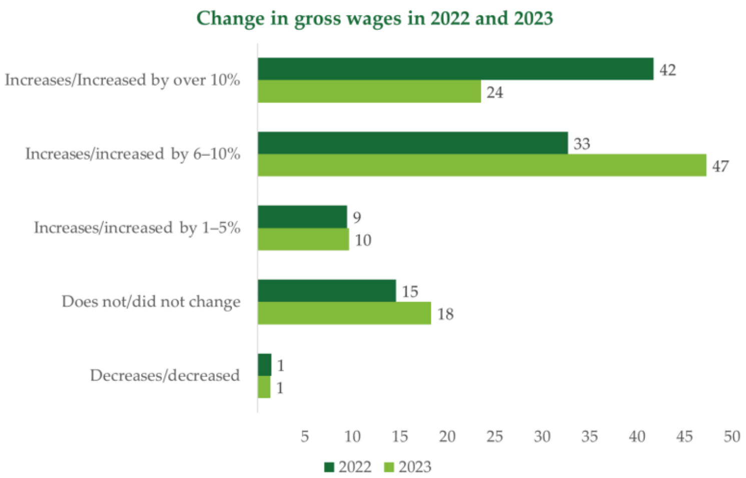
Monthly Bulletin of Economic Trends

Financial difficulties for businesses…

Our analysis examines the financial situation of firms based on the October 2022 IEER Business Climate Survey. For most companies, the payment of energy bills was the biggest financial problem in the recent months. Most companies do not consider a complete shutdown of their firm likely in the in the upcoming six months… More





Changes in prices and wages (2022–2023)

Based on the October 2022 IEER Business Climate Survey 82% of companies expect their domestic sales prices to increase in the upcoming six months.
For 2023 81% of Hungarian firms plan to increase wages, most of them at a lower rate than the current level of inflation. ….More

International trends

The German IFO business climate index increased in January. The manufacturing purchasing manager index (PMI) also increased slightly while the unemployment rate stayed at the same level as in the previous month. The French business climate index decreased compared to last month. …More

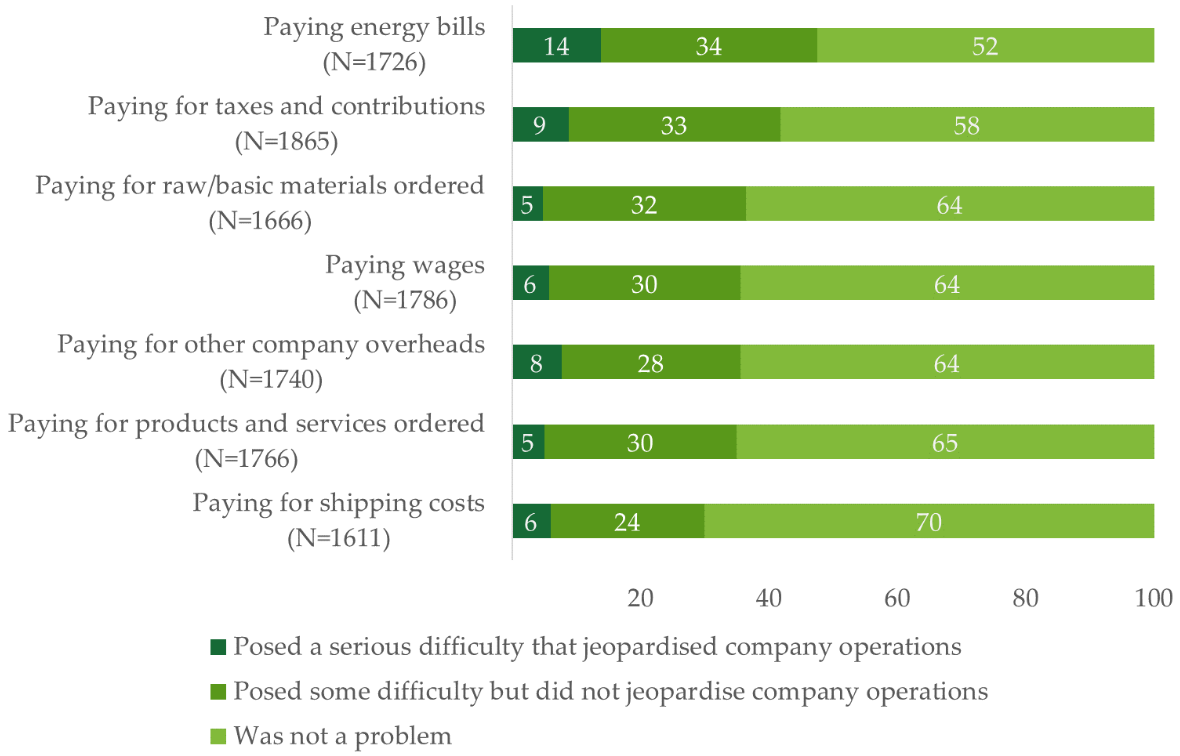
FINANCIAL DIFFICULTIES FOR BUSINESSES, EXPECTATIONS REGARDING CAPACITY CUTS AND SHUTDOWNS AMIDST THE ENERGY CRISIS

In our analysis we look at the perception of the financial situation of firms from the viewpoint of their financial difficulties, business activity constraints and expectations of their same-sector competitors quitting the market. The data used in the analysis originate from the latest semi-annual business climate survey of HCCI's Institute for Economic and Enterprise Research (IEER). The October 2022 survey involved 2 135 Hungarian CEOs in total.

Financial troubles of the past six months

For most companies, the payment of energy bills was the biggest financial problem in the months before October 2022: 14% of companies had a significant difficulty in paying for energy to an extent that it threatened their business activity, while for another 35% the same problem posed some difficulty without threatening operations. The second most frequently cited financial difficulty was paying taxes and contributions, with 8 per cent of firms reporting that it had caused a substantial difficulty that threatened company operations and 34 per cent reporting a difficulty of lesser severity. The third most frequently cited difficulty was paying for raw materials and supplies ordered, with 5 percent of companies reporting considerable difficulty and 32 percent a minor difficulty.

Financial difficulties of companies in recent months, percent



Source: IEER 2022
Note: Data weighted by the distribution of registered enterprises by size and sector

Smaller companies were more affected by various financial difficulties than large companies. The four sectors surveyed - industry, construction, trade and services - were affected to a similar extent. All of the financial liabilities examined were less likely to cause substantial or slighter difficulties for major exporters and firms that are partially or fully foreign-owned than for firms that are fully domestic and producing for the domestic market.

Expectations regarding capacity cuts and shutdowns

In spite of the difficulties in obtaining the energy, raw materials and products needed for their business, the majority of CEOs do not consider a complete shutdown of their firm likely at all in the upcoming six months (67% and 69% respectively). In both cases, firms consider a reduction in capacity utilisation more likely than a complete shutdown. At the same time, around a third of firms do not consider it likely that they will be forced to reduce capacity utilisation due to rising energy prices (29% do not consider it likely at all) or raw material prices (37%). A reduction in capacity utilisation due to energy prices is considered very likely by 15 percent of the firms surveyed, while only 3 percent consider a complete shutdown to be very likely. The corresponding figures for difficulties in sourcing raw materials and products are 8 and 2 percent respectively. Overall, it can be said that the managers surveyed consider a reduction in capacity utilisation or a complete shutdown due to difficulties in sourcing raw materials and products to be less likely than a capacity reduction or a complete shutdown due to rising energy prices or difficulties in sourcing energy.

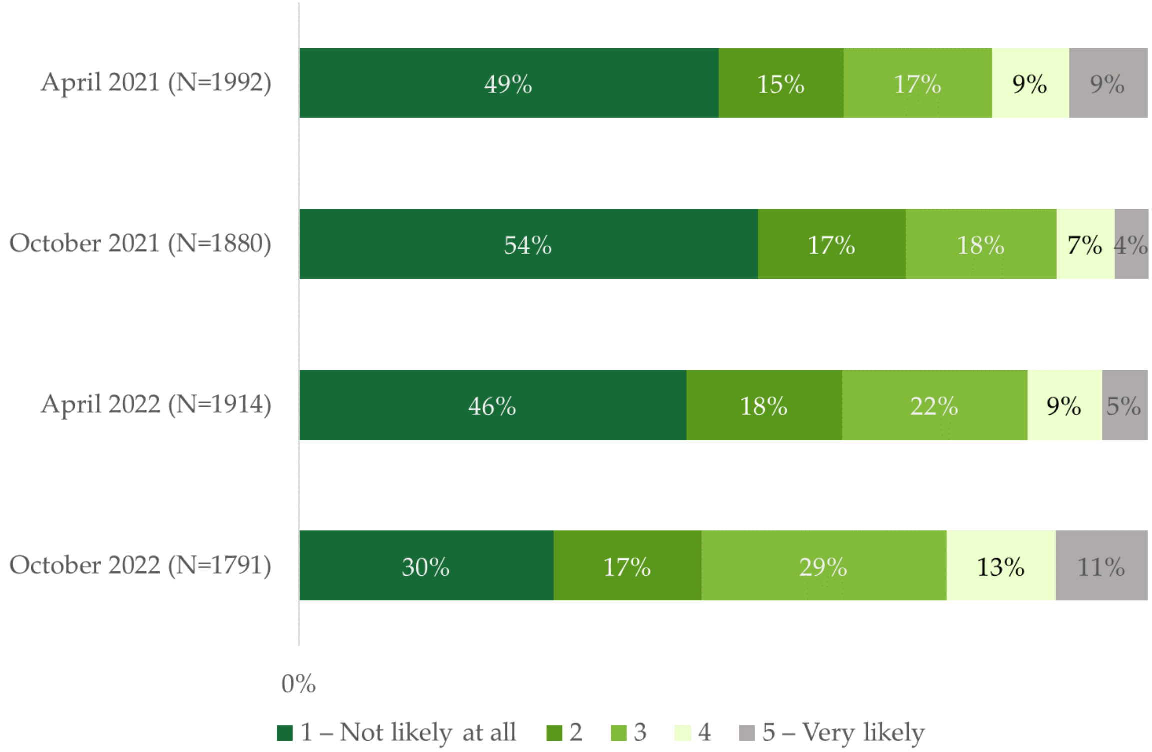
The bigger the company, the lower the probability of capacity utilisation reductions or complete shutdowns due to energy price developments and difficulties in sourcing energy, raw materials and products.

Reductions in capacity utilisation due to energy prices are most likely at industrial, non-exporting and fully domestic firms, while construction companies, minor exporters and (partially) foreign-owned firms are less prone. A complete shutdown is most likely in the services sector and among non-exporters, while with trading companies and minor exporters the propensity is lower.

A reduction in capacity utilisation due to difficulties in sourcing raw materials and products is also the most probable for industrial and non-exporting firms, while it is less likely to occur to service providers and minor exporters. A complete shutdown is most likely to happen to construction firms and non-exporters, and least likely for traders and minor exporters.

The survey also asked respondents to indicate (on a scale of 1 to 5) how much they expect their competitors in the same sector, engaged in similar activities, to suspend their operations or quit the market in the next six months. 30% of the CEOs surveyed consider it highly unlikely, but according to 11%, the probability is high. Overall, while the proportion of managers expecting a competitor to suspend its activities or quit the market decreased slightly between April 2021 and October 2021, the proportion increased again from April 2021 to April 2022, and rose further in October 2022. The medium value (3), which also reflects uncertainty, was also more frequently chosen in October 2022 than in April 2022 (there was a difference of 7 percentage points).

Hungarian companies' perceptions for the upcoming six months regarding same-sector competitors' suspension of activities or quitting the market



Source: IEER 2022

Note: Data weighted by the economic performance of enterprises.

As company size increases, the proportion of managers who expect their competitors to exit the market in the near future decreases. The highest proportion (29%) was in the services sector where CEOs were the most likely to say that they would probably or most probably see their competitors quit the market. The same proportion is 25% in construction and 23% in retail. The proportion is the lowest in industry, but 19% of industrial businesses still consider it likely or very likely that their competitors will quit the market. Non-exporters and fully domestic companies are significantly more likely to expect a competitor to quit the market in the upcoming six months than exporters and partially/fully foreign-owned firms.

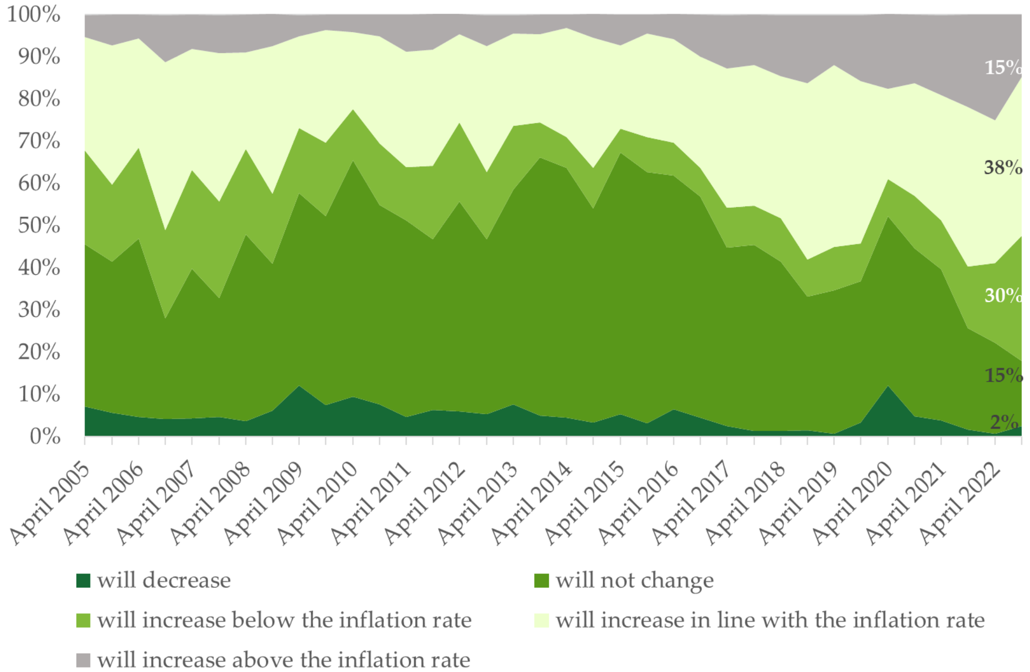
CHANGES IN WAGES AND PRICES (2022–2023)

As part of the semi-annual business climate survey conducted by the Institute of Economic and Enterprise Research (IEER), in October 2022 a total of 2135 managers of Hungarian enterprises reported on the expected development of domestic sales prices and export prices, as well as on past and future changes in gross wages.

Expected development of domestic sales prices and export prices in the upcoming six months

82% of respondents expect their domestic sales prices to increase in the upcoming six months, 4 percentage points more than in April 2022. **At no time since 2005 have such a high proportion of businesses expected price hikes.** The largest group of companies - 38 percent - forecast price hikes in line with the inflation rate. 10-49 companies and 50-249 companies are the size groups most common to expect sales prices to rise, while construction and trade are the two sectors that feels so. It is also important to note that the proportion of firms in the distributive trades sector that expect price hikes above the rate of inflation is particularly high. **63% of exporters expected their export prices to increase, the highest rate since 2005.**

Forecasts made by Hungarian companies regarding their domestic sales prices six months in advance, between April 2005 and October 2022, percent



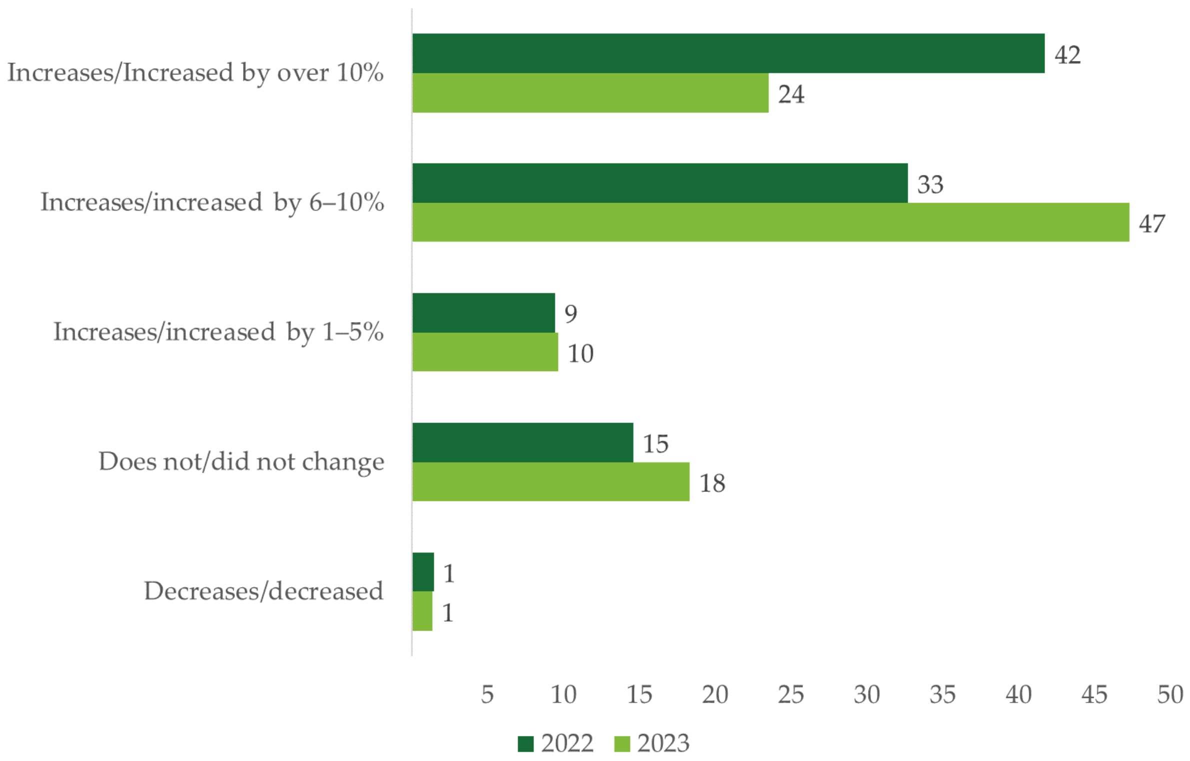
Source: IEER 2005–2022

Note: Data weighted by the economic performance of enterprises.

Change in gross wages in 2022 and 2023

In 2022, the majority of businesses (84%) increased wages. The average rate of raises was above 10% for 42% of businesses, 6-10% for a third and 1-5% for 9% of the sample. **For 2023, 81% of firms reported that they would increase wages**, 18% did not plan to change wages and 1% planned wage cuts. **While the proportion of firms planning to increase wages is lower in 2023, corporate expectations for the magnitude of wage increases are also lower than those implemented in 2022**, with 10% of firms planning raises of 1-5%, 47% putting forward raises between 6 and 10%, and 24% planning a wage increase of over 10%. All in all, compared to 2022, the proportion of companies planning raises between 6-10% increased significantly, while those planning wage increases above 10% saw a considerable decline.

Change in gross wages in 2022 and 2023, percent (N_{2022}=1843, N_{2023}=1399)



Source: IEER 2022

Note: Data weighted by the economic performance of enterprises

The bigger the company, the more likely they raised wages in 2022 or will raise them in 2023. Wage cuts in 2022 occurred only at firms with fewer than 10 employees (6% of them did so), while 5% of firms with fewer than 10 employees and 1% of 50-249 companies plan wage cuts in 2023. Across all size categories, more companies plan to leave wages unchanged in 2023 than in 2022.

Across the board of various economic sectors, the proportion of firms implementing or planning to implement wage increases is the lowest in services (73% and 75% respectively) and construction (76% and 74%), and the highest in manufacturing (94% and 85% respectively). Compared to the wage raises in 2022, service is the only sector in which firms are more optimistic about their future wage increase plans, their proportion rising by 2 percentage points year over year. The proportion of companies planning to increase wages fell in all remaining sectors: by 2 percentage points for construction firms, 5 percentage points for service firms and 9 percentage points for industrial firms. 75 percent of service firms, 74 percent of construction firms, 82 percent of trade firms and 85 percent of industrial firms plan to raise wages in 2023. The majority of those planning wage increases in the sectors surveyed plan to increase wages by 6-10%.

A higher proportion of exporters implemented wage increases in 2022 (90%) or plan doing so in 2023 (91%) than firms producing only for the domestic market (78% of firms gave raises in 2022, and only 69% plan to do so in 2023).

By ownership structure, in 2022 a significantly higher proportion of fully domestic companies cut (2%) or froze (16%) wages than (partially) foreign-owned firms (0% and 11% respectively). In 2023, 78% of fully domestic companies plan to increase wages, compared to 88% of their foreign-owned peers.

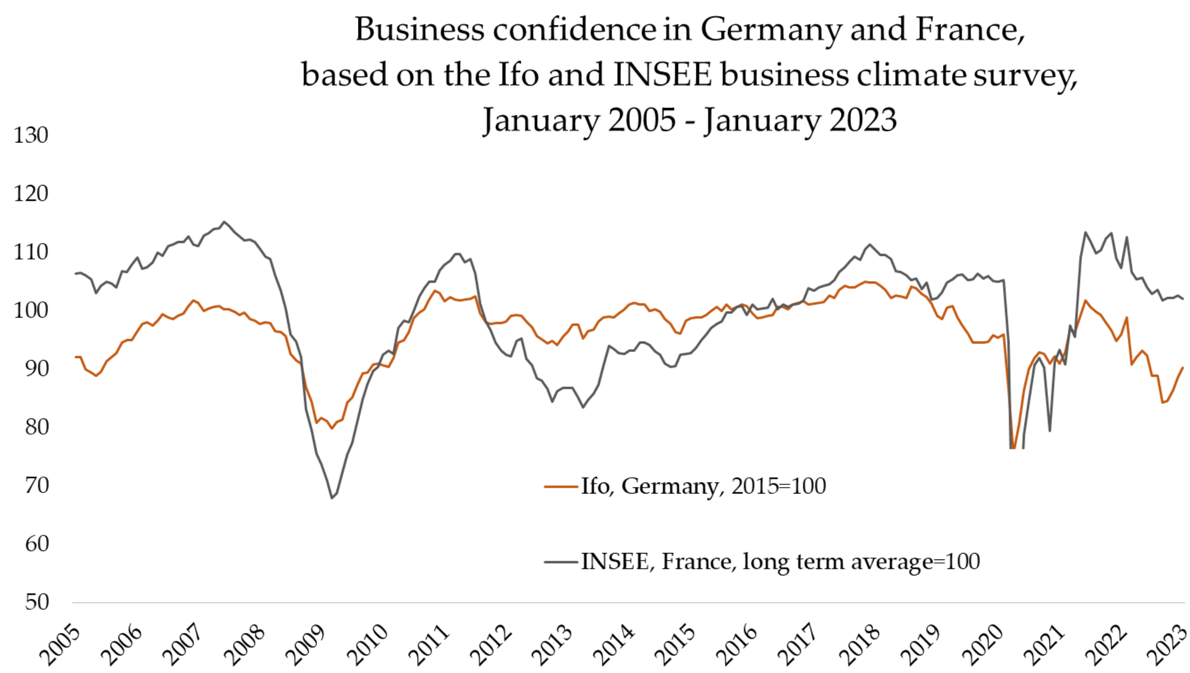
INTERNATIONAL TRENDS

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)	**5.5%**	5.5%	5.5%
	Manufacturing Purchasing Managers Index	(January)	**47.3**	47.0	47.1
	IFO Business Climate Index[1]	(January)	**90.2**	86.4	88.6
France	INSEE Business Climate Index[2]	(January)	**102.1**		102.6
USA	Unemployment Rate	(January)	**3.4%**	3.6%	3.5%
	CB Consumer Confidence Index	(January)	**107.1**	109.0	109.0
	Manufacturing Purchasing Managers Index	(January)	**46.9**	46.8	46.8
China	Manufacturing Purchasing Managers Index	(January)	**50.1**	49.8	47.0

[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. The manufacturing purchasing manager index (PMI) also increased slightly compared to the previous period and performed better than expected. 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 decreased compared to the month prior. The manufacturing PMI increased compared to December in the USA. The unemployment rate improved in the USA. The Chinese manufacturing PMI increased compared to the previous month.



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

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