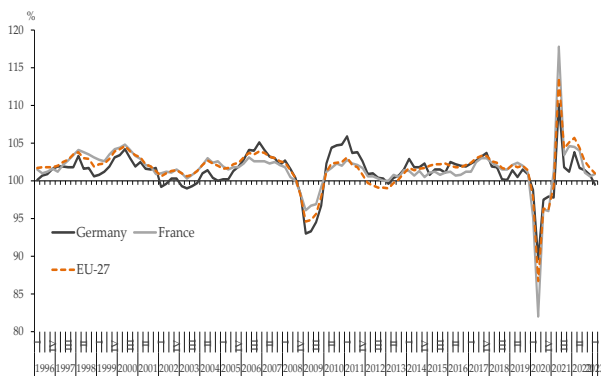
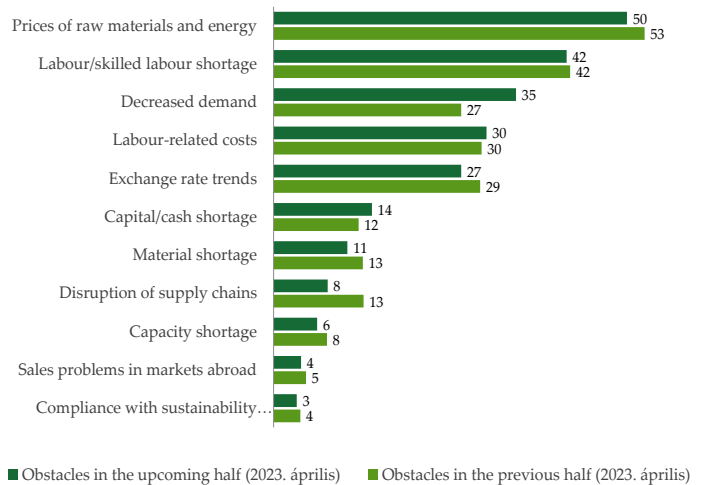


Monthly Bulletin of Economic Trends

Factors hindering business activity, 2019-2023

In this analysis we shall show how the problem map of firms was redrawn by the joint effects of the coronavirus pandemic, the Russo-Ukrainian war and the energy crisis, i.e. what business constraints they faced that can be attributed to those factors. The data originate from IEER's business surveys taken over ... [More](#)



Source: Eurostat

Gross Domestic Product (GDP) trends in Europe

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International trends

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FACTORS HINDERING BUSINESS ACTIVITY, 2019-2023

In this analysis we shall show how the problem map of firms was redrawn by the joint effects of the coronavirus pandemic, the Russo-Ukrainian war and the energy crisis, i.e. what business constraints they faced that can be attributed to those factors. The data originate from IEER's business surveys taken over the past 9 halves (April 2019 to April 2023), the most recent being the one conducted between 1 April and 30 April 2023 with the participation of 2,061 domestic businesses.

Rising labour costs, decreasing demand

In the spring of 2023, businesses continued to be directly affected by the energy crisis and rising prices, with 95% of domestic businesses having experienced at least one negative factor in the last six months. *Raw material and energy prices* (53%) were still clearly the most common obstacles to doing business, ahead of *labour and skilled labour shortages* (42%), but unlike in previous years, *labour-related costs* (30%) moved up to third place this time, likely due to increased wage demands as a result of persistently high inflation, while *exchange rate trends* (29%) slipped back to fourth place. It is worth noting that over a quarter of firms (27%) complained about *decreased demand* - the last time a higher rate cited this was in the midst of the coronavirus pandemic in the spring of 2021.

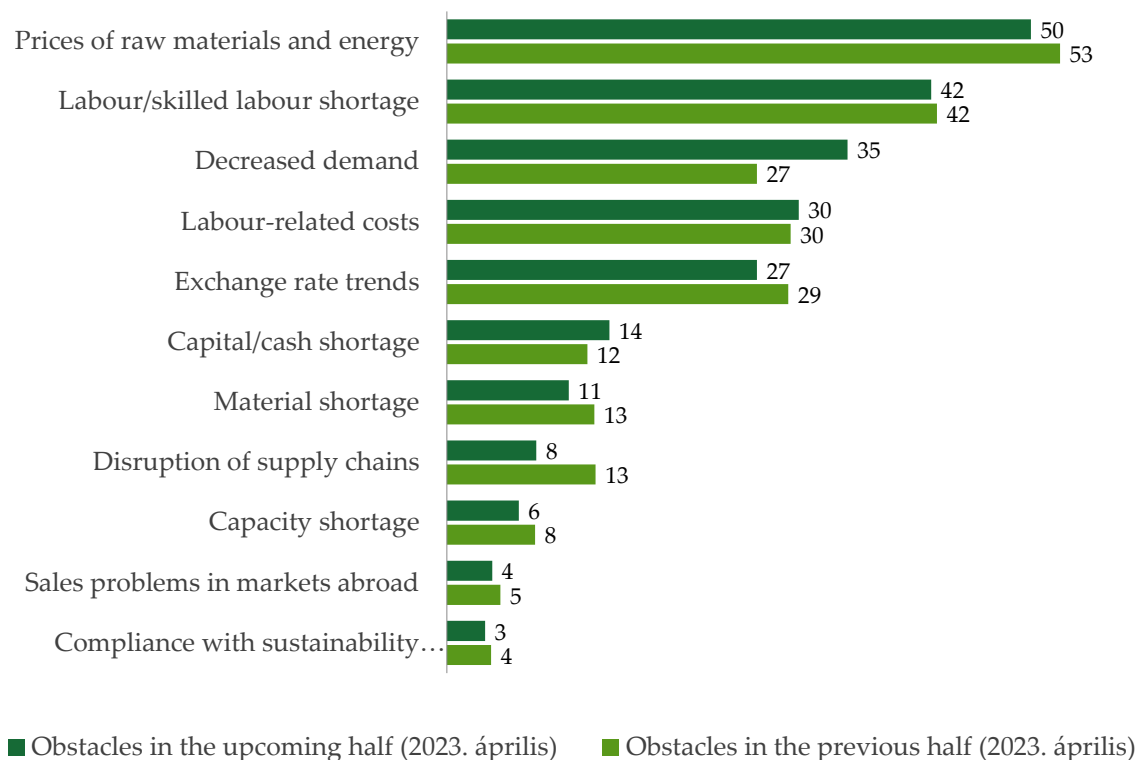
Businesses are slightly more optimistic about the future (i.e. their business prospects in the upcoming six months) than they were in autumn 2022. 96% of firms surveyed in April 2023 expect some difficulties in the six months ahead, that is

2 percentage points lower than in the previous six months. Compared to the October 2022 business climate survey results, the proportion of business leaders worried about *raw materials and energy prices* (50%) and *exchange rate trends* (27%) has fallen significantly, while there has been an increase in the proportion of business leaders concerned about *labour shortages* (42%), *decreased demand* (35%) and *labour-related costs* (30%).

For micro-enterprises with 1–9 employees, *decreased demand* is clearly the most frequently expected constraint (twelve percentage points ahead of *labour costs*), while for all other size categories (10–49, 50–249, 250+), *raw material and energy costs* continue to outweigh all other factors.

There are also clear differences between economic sectors. For industrial firms, *raw material and energy prices* are the most frequently reported obstacles, while in both construction and trade, *decreased demand* is the most common expected obstacle, while in the service sector it is clearly *labour shortage*.

Figure 1. Comparison of hindrances experienced in the half before April 2023 and the ones expected for the next half, percent



Source: IEER 2023

Note: Each respondent could mark up to three obstacles. $N_{prev. half}=2047$, $N_{next half}=1994$.

Factors hindering business activities between October 2019 and April 2023

Based on the results of IEER's semi-annual business climate surveys (2019-2023), it can be said that in the years preceding the outbreak of the coronavirus pandemic, *labour and skilled labour shortages* were the most frequent obstacles to business activities. However, during the pandemic, the proportion of firms reporting *labour and skilled labour shortages* as a barrier decreased significantly (from 60% to 32%), partly by virtue of restrictive economic measures, while the opposite trend was observed for demand shortages, with the proportion of

firms significantly increasing (from 20% to 48%) in each wave of the pandemic. Those two factors returned to their pre-crisis levels by October 2021 (51% and 23% respectively), with a sharp rise in the proportion of firms reporting *high raw material and energy prices* (from 14% to 28%) and *material shortages* (from 12% to 24%) as major constraints.

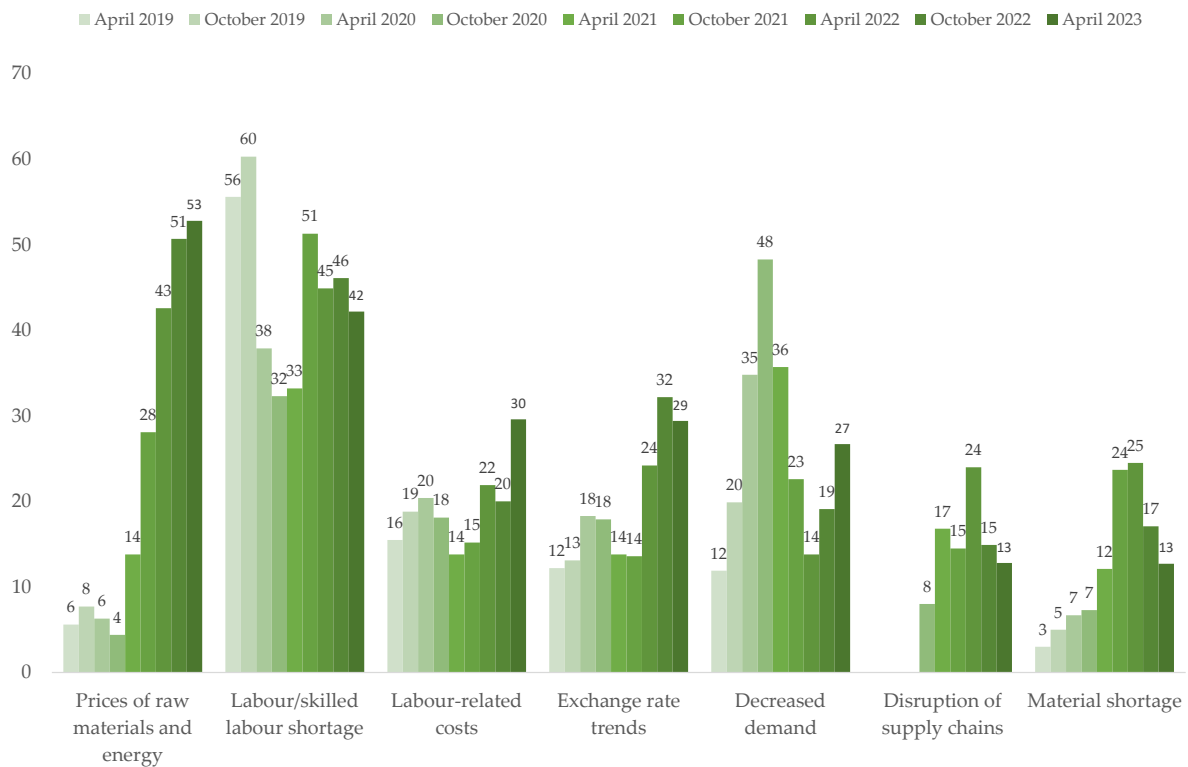
The outbreak of the Russo-Ukrainian war in February 2022 did, in some respects, profoundly rearrange the problem map for businesses. In April and October 2022, the proportion of firms reporting *labour shortages* remained high (45-46%), while in

autumn, a considerably higher number of firms reported *decreased demand* than six months earlier (19% vs. 14%). At the same time, over half of the firms cited the *price of raw materials and energy* as a problem (51%), and the proportion of firms that considered *exchange rate trends* as a barrier to their competitiveness also rose significantly (32%).

In the spring of 2023, the *cost of raw materials and energy* were clearly the most common

barriers to doing business, ahead of *labour and skilled labour shortages*, while *labour-related costs* moved up to third place on the business problem map. Those factors were closely followed by *exchange rate trends* and *decreased demand*, while *material shortages* and *supply chain disruptions* were much less likely to hamper firms' business activity in the spring of 2023 than a year earlier.

Figure 2. Factors hindering domestic enterprises' business activities between 2019 and 2023, percent



Source: IEER 2019–2023

Note: Each respondent could mark up to three factors. Supply chain disruption was added as an obstacle in October 2020.¹

¹ N_{2019.ápr.}=2812, N_{2019.okt.}=2261, N_{2020.ápr.}=2884, N_{2020.okt.}=3133, N_{2021.ápr.}=2779, N_{2021.okt.}=2198, N_{2022.ápr.}=2212, N_{2022.okt.}=2114, N_{2023.ápr.}=2047

GROSS DOMESTIC PRODUCT (GDP) TRENDS IN EUROPE²

The conjunctural state of the developed EU Member States provides a vantage point to estimate the demand for Hungarian exports in the near future. Hungary's main export market is the European Union, including Germany (in 2022, 25 percent of Hungarian exports went to Germany and 21 percent of imports came from Germany)³. The following paragraphs focus on the economic processes in Europe and the region in recent years, based on GDP trends.

German gross domestic product (GDP) recovered rapidly in the years after the 2008 global economic crisis, but growth slowed thereafter, almost stagnating in 2012 and 2013, and peaking at only 2.7% in 2017, the highest in the past decade. Even before the coronavirus pandemic the German economy grew by a mere 1.1 percent in 2019, and contracted by 3.7 percent in 2020. The economic shock caused by the coronavirus pandemic was followed by a rebound in 2021, leading to a growth of 2.6 percent for the year as a whole, which in 2022 fell back to 1.8 percent.

Similar to Germany, French GDP has been recovering since 2010, but at a much slower pace, only exceeding 2 percent once in 2017 (2.3 percent) in the past decade. In 2018 and 2019, French GDP growth was almost one percentage point above the German level, but the crisis in 2020 triggered a much more dramatic fall (-7.5 percent). The rebound was almost 18 percent in the second quarter of 2021, with the French economy growing by 6.4 percent that year. In 2022, economic

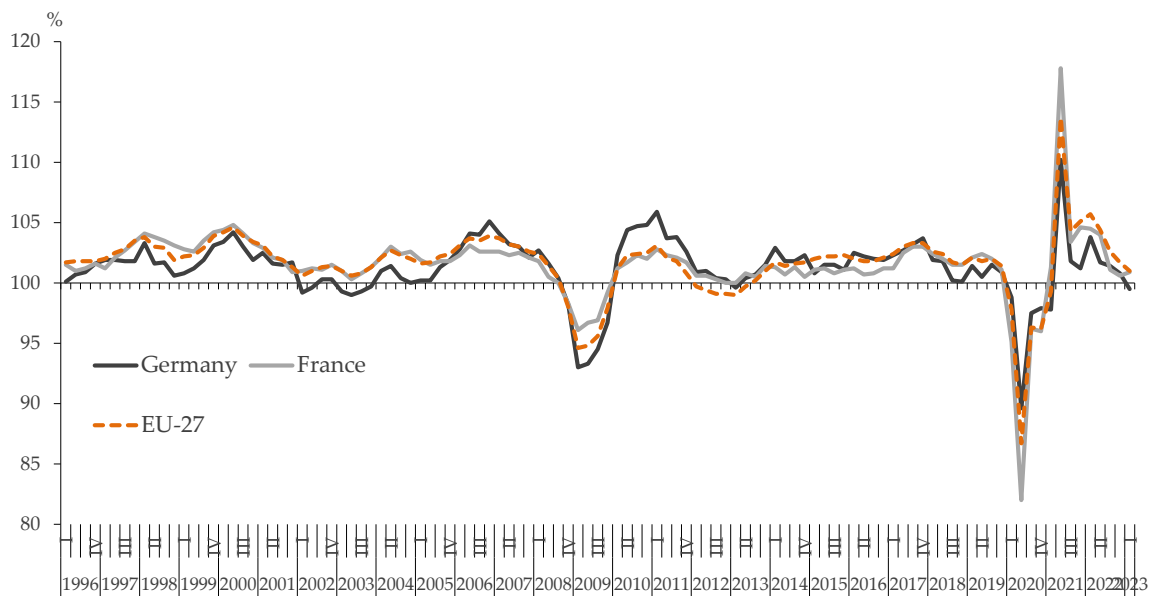
growth in France also slowed to 2.5 percent, with a growth rate of a meagre 0.9 percent in the first quarter of 2023.

If we look at the average change in gross domestic product in all the current (27) EU Member States, we see a significant decline in 2009 (-4.3 percent), followed by solid growth (2.2 percent and 1.9 percent), and then a contraction again in 2012 and 2013 (-0.7 percent and -0.1 percent respectively). Thereafter, the growth rate fluctuated between 1.6 percent and 2.8 percent between 2014 and 2019. As a result of the coronavirus pandemic the EU economy shrank by 5.6 percent in 2020 as a whole, exceeding the impact of the 2008 global economic crisis: in the second quarter, GDP in the EU-27 was 13.3 percent below the same period of the previous year. In 2021 there was an increase of 5.4 per cent (mainly due to a rebound of around 13.7 percent in the second quarter), but the EU average growth fell to 3.5 percent in 2022 and to 1 percent in the first quarter of 2023.

² https://ec.europa.eu/eurostat/databrowser/product/view/NAMO_10_GDP (Last downloaded: 2023.07.06.)

³ https://www.ksh.hu/stadat_files/kkr/hu/kkr0007.html (Last downloaded: 2023.07.06.)

Figure 1. Quarterly volume indices of Gross Domestic Product (GDP) in Germany, France and EU-27, percentage (same period of the previous year = 100%), Q1 1996–2023



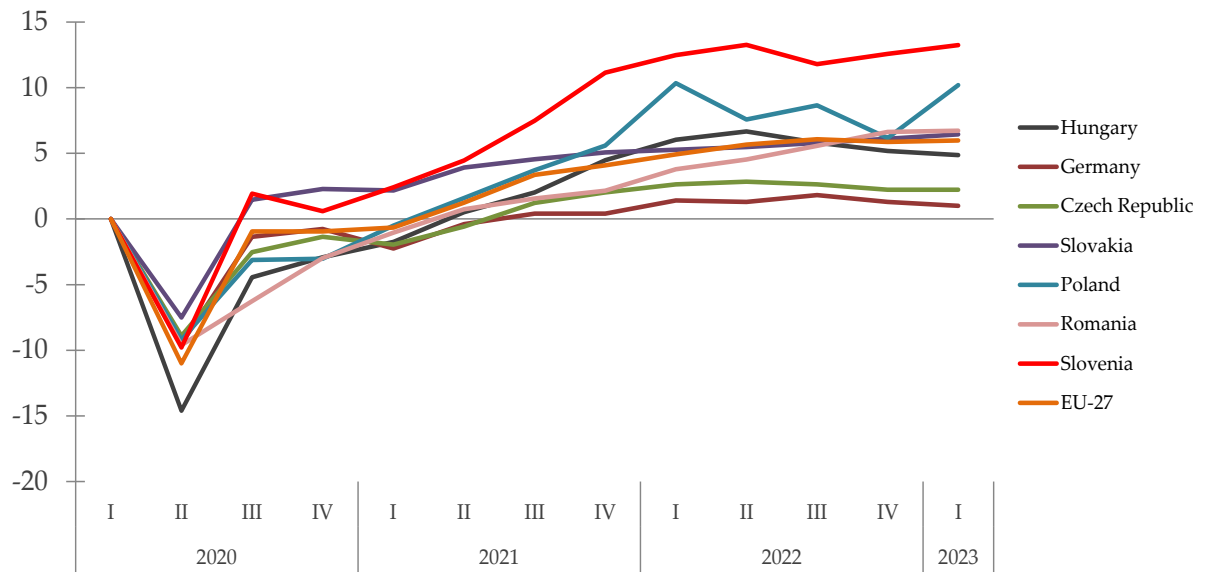
Source: Eurostat

The economic crisis that emerged in the first half of 2020 as a result of the coronavirus pandemic had a worse impact on Hungary than on the region, Germany, and the EU-27 average, resulting in a 15% drop in GDP in the second quarter compared to the first quarter. By the second half of 2021, GDP in the region and the EU-27 average had exceeded the GDP of all countries in Q1 2020. Slovenia in particular experienced a rapid rebound (11 percent).

In Hungary, GDP in the first quarter of 2023 was 5 percent higher than at the start of the economic crisis (Q1 2020), compared to 13 percent in Slovenia, 10 percent in Poland, 7 percent in Romania, 6 percent in Slovakia and 6 percent in the EU-27 average. Over this period, the GDP growth rates of Slovenia, Poland, Romania and Slovakia were therefore also higher than those of Hungary, and the EU-27 average was also slightly higher.

Figure 2. GDP change compared to the onset of the crisis in 2020 (Q1 2020=100%)

GDP-change (%)



Sources: IEER, KSH, Eurostat, Destatis

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)	5.6%	5.7%	5.7%
Germany	Manufacturing Purchasing Managers Index	(July)	38.8	38.8	40.6
	IFO Business Climate Index ¹	(July)	87.3	83.5	88.6
France	INSEE Business Climate Index ²	(July)	99.9		100.4
	Unemployment Rate	(July)	3.5%	3.6%	3.6%
USA	CB Consumer Confidence Index	(July)	117.0	111.8	110.1
	Manufacturing Purchasing Managers Index	(July)	49.0	49.0	46.3
China	Manufacturing Purchasing Managers Index	(July)	49.3	49.2	49.0

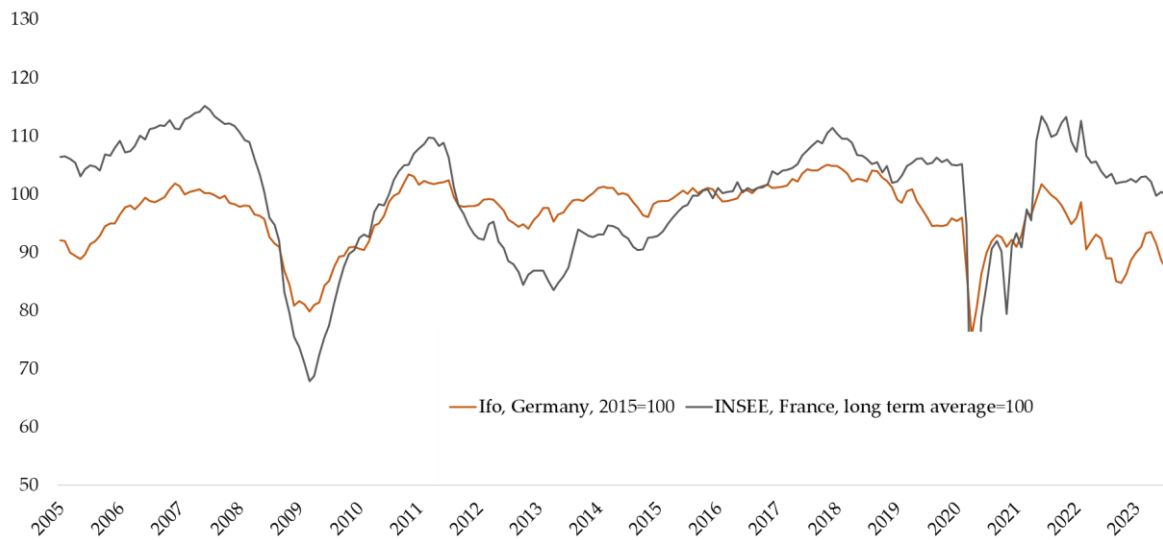
¹ <https://www.ifo.de/en/survey/ifo-business-climate-index>

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

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - July 2023



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

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