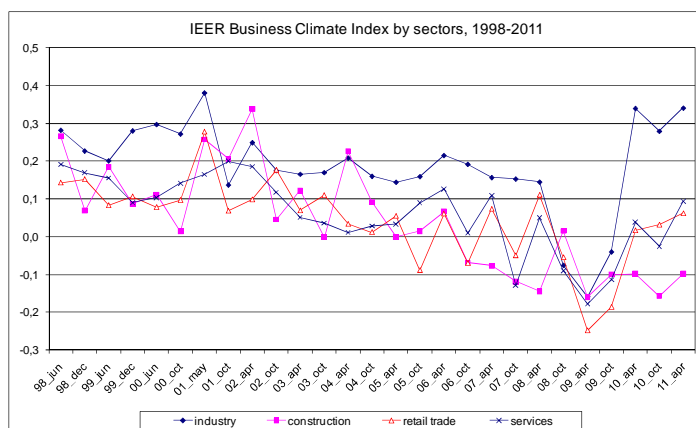
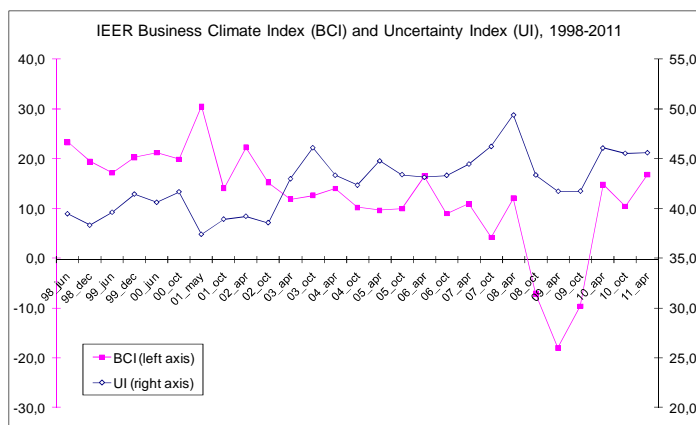


It was the 27th occasion in April 2011 when the Institute for Economic and Enterprise Research (HCCI IEER) carried out its business climate survey. This is being realized in April and October each year by contacting more than 14.000 companies in cooperation with the regional Chambers. In Hungary this is considered to be the most extensive business climate survey involving the highest number of companies. It is also a part of the European business climate survey fulfilled by Eurochambers covering 14 million ventures. From among the companies contacted 1803 CEOs have filled out our questionnaires – our research results are based on their responses.

According to our April 2011 database the amelioration of business climate has been further continuing on since October 2009. The IEER Business Climate Index /BCI/ showed an improvement in comparison with the past six months: from the October +10,4 value a change to +16,8 points could be observed. The value of the IEER Uncertainty Index has not changed compared to the outcome of our October research: it is still rather high being at the level of 45,5 points. Consequently as per our results the improvement of business climate has been steadily developing in the Hungarian enterprise sector although the uncertainty factor related to the expectations and to the judgement of business situation can still be considered as significant. On long-term bases – in view of the April data of the previous years – this year's outcome indicates improvement as well. However, the fact that the level of our business climate index recently reached is still inferior to that of the period 1998 – 2002 is to be taken into account. Within the Hungarian economy the recovery process from the crisis is still on but is rather slow in respect of the economic events of the last three years.

Thus the database recorded in April shows that the IEER Business Climate Index has increased and can be found in the positive domain. The machinery investments and the rise in the expected labour force demand also reflect that the Hungarian business sector has recovered from the nadir of this crisis. Short term expectations, however, point to the fact that the rather strong uncertainty factor will further accompany the improvement and, besides, the amelioration of business climate will remain typical. Recovery will be much slower compared with the speed of the recession that has reached the Hungarian economy.

Several partial indicators prove the impact of the economic crisis especially sectors that are exposed to the effects at a great extent, eg. construction. In this year April since the beginning of our research (1998) the capacity utilization fell back to the lowest level (63.5%), the sales volume indicator decreased from -32 points to -39 points and the business situation indicator has also declined (-25,6). During this period the level of construction investments has hardly advanced above -20 points within the whole enterprise sector, while the present profitability index has fallen back to even a lower -40,5 points level from the previous very low value (-32,7). Consequently the low and still negative value (-4,1) of the construction labour force demand seems to be obvious and is manifested in the indulgent demand of unskilled labour. This also contributes indirectly to conserving the relatively firm state of unemployment. These data well demonstrate how deeply the Hungarian construction is effected by the crisis and also give the reasons why the signs of the recovery can hardly be seen yet. The business climate index of the construction sector is still in the negative domain (-9,8) meaning although a slight



improvement (-15,7) compared with the past half year's data.

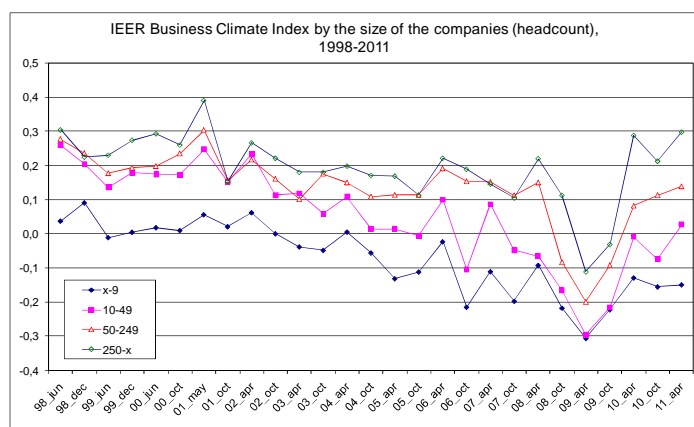
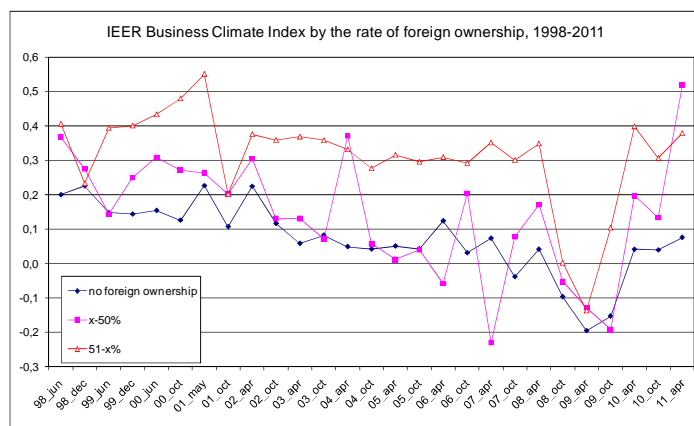
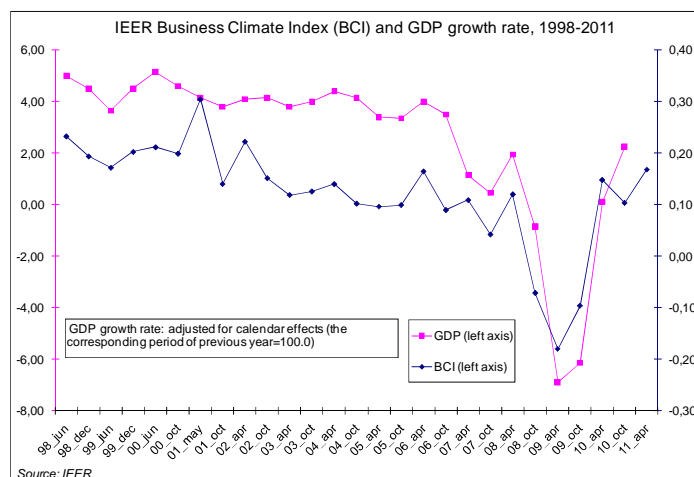
Based on the parallel drawn between the present and future business situation indicators, the outlook is very promising for the Hungarian enterprises compared with the 2009 April recessive period. Business situation in April 2011 can further on be characterised by an upward trend, that is: according to the research results there are more and more unambiguous signs referring to the recovery of the economy as a whole. Several factors, however, draw attention to many uncertainty factors that may slow down the recovery process.

The value of the IEER Uncertainty Index has not changed compared with the results of the October survey. It is still on a rather high 45,5 point level which means that many enterprises in the Hungarian economy do not count on the amelioration of their business perspectives, respectively rather expect the deterioration of their business situation. This means that within the business sector judgement of the improving tendencies and their interpretation as long lasting trends are still not clear or identical.

The value of the IEER Business Climate Index has increased among enterprises both in Hungarian and foreign ownership. An improvement can be observed at all forms of enterprise groups except for the micro-size enterprises (with max. 9 employees). The Business Climate Index value has increased at large size firms from 22 to 30 points, at medium size firms from 11 to 14 points, while at small firms (employees' number ranges from 10 to 49) this positive change shows a -7 points to +3 points upgrade. As for the micro-size companies, the BCI has not changed and the value keeps to remain in the negative domain at a -15 points level.

Examining companies by their volume of exports activity we can see that since the start of the crisis a 57 points rate of improvement could be observed at those mainly exporting. BCI value with companies producing exclusively for the Hungarian market has advanced only by 21 points. The recovery process could be characterised so far by the fact that if the exports activity is very intensive, the company can overcome the shock more easily.

Among the economic sectors it is still the industry that holds the highest BCI value (+34 points). The sector of construction – as mentioned before – continues to be in critical situation (-10 points), however, an improvement of 5 points can also be observed. Regarding the retail trading firms, their index value has now reached the positive domain (+3 points) by an increase of 9 points. As for the services sector, we could experience therein the most positive change (12 points), thus by April 2011 the index has covered a positive value of +9 points.



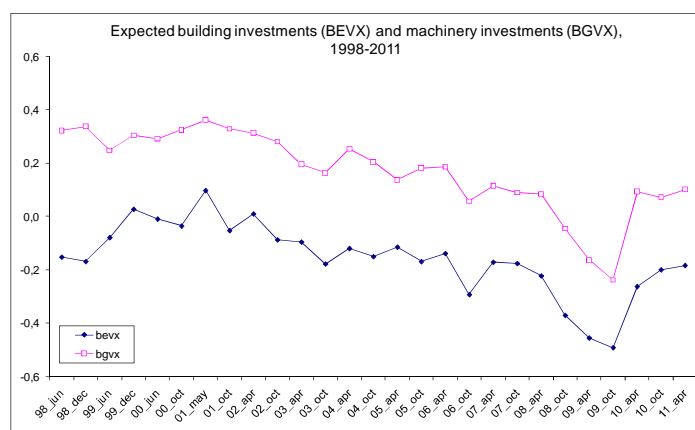
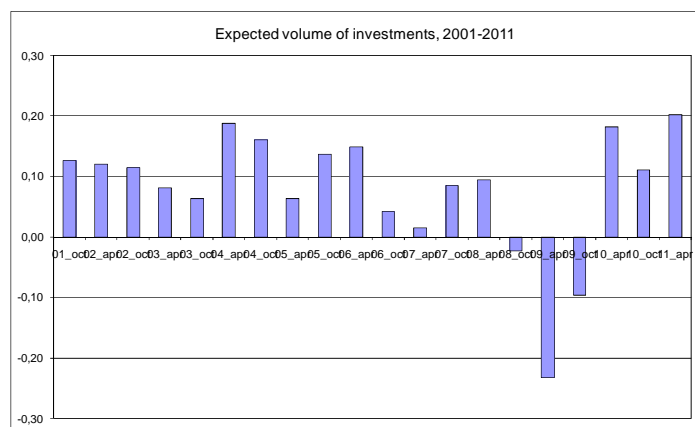
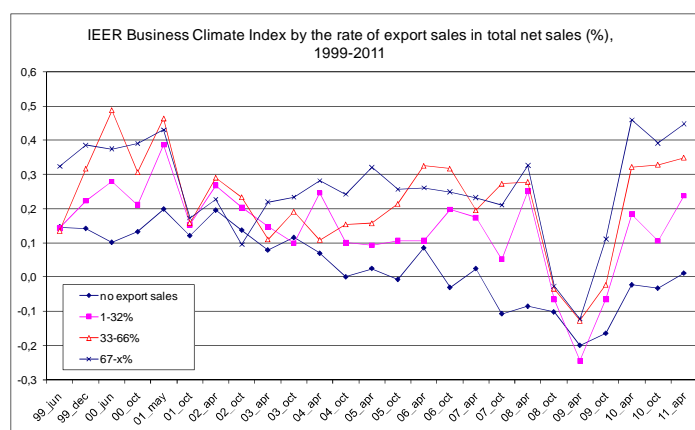
Since October to a certain degree the expected labour force demand has been increasing in the business sector which forecasts a small development of employment for the first half year of 2011. In April the companies count on the growth of order-book. These expectations are in line with the possible increase of the domestic demand on one hand, but on the other the realization of them mainly depend on the short-term development of the European, more precisely of the German business cycle.

In the past half year the level of capacity utilization increased by merely one percentage point (from 76% to 77%) and this continues to be less than that of the level before the crisis. Capacity utilization of the decisively exporting companies has further increased (above 85%). Companies supplying both inland and foreign markets show a considerable growth (from 76% to 83%), while other firms fluctuate between 73% and 77%.

Investments

It is of good omen that the growth has stopped of companies indicating a decline in machinery investment activity. Nevertheless, a significant alteration in the development of machinery investments cannot be expected during the next half year. Although the relevant index has already reached the level before the crisis, it still does not approach the values experienced at the 1998-2002 boom. Since last year October the index referring to the expected level of building investments has also increased, however, it is still in the negative zone. The companies seem to be waiting for their opportunity and typically they don't dare to launch any developments. In respect of 50% of the firms the investment activity has not changed, 33% count on a growth, while 17% expect a further decrease. A small rate of investment activity can be observed mainly at firms in foreign ownership, while apart of these there are 35-40% more companies that plan the activation of investments activity rather than holding it back. The rate of Hungarian firms holding back the investment activity is 7 percentage point higher than that of those activating it.

In the next half year the growth of investment activity can be expected in the field of both machinery and building investments – only in respect of those companies that are involved in some kind of investment activity. The reason of this is that the rate of companies intending to increase their volume of investments has grown to 35% by April 2011 from 30% determined in October 2010, while the rate of companies counting on decline fell back from 19% to 15%. Concerning the investments as a whole, the highest rate of non-investing firms can be found among the micro- and small size companies (54% and 40%), while among the medium and big firms this rate is much lower (17% and 5%).



Labour force demand

Data collected in April show that within the business sector in 2011 a further light increase is expectable regarding labour force demand. Balance index relevant to the difference between the hiring and layoff incidence rates has risen to +9% from the previous +1,5% in the following breakdown: 17% of the firms plan layoff, 58% do not plan to change staff number and 26% plan hiring. (Half a year ago these rates were consecutively 18%, 63% and 19%).

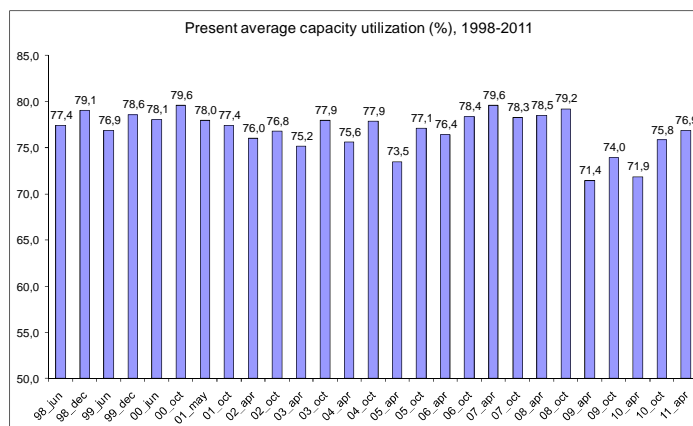
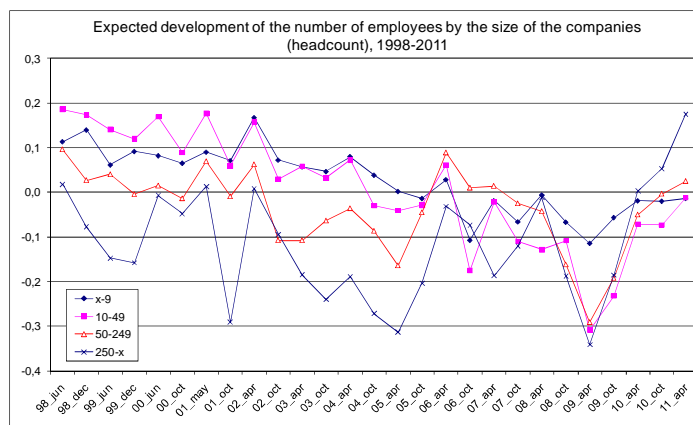
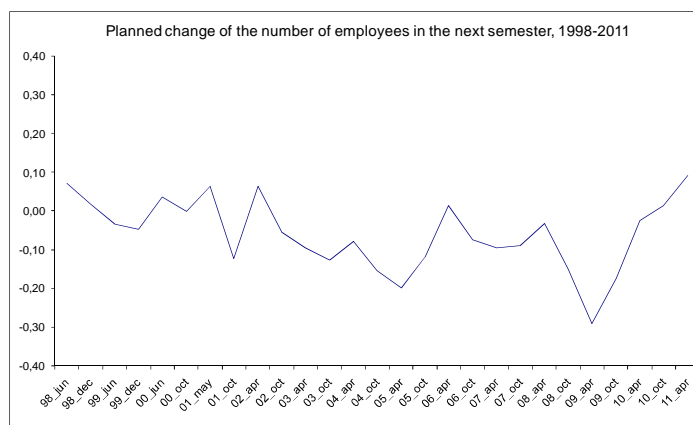
Increasing the number of employed still continues to be rather representative with the industrial companies (42%) while in the construction sector this rate is rather low (16%). 20% of the companies in the construction sector plan further dismissals, while this rate amounts to only 9% within the sector of industrial firms. Mostly big companies, furthermore those exporting and those being in purely foreign ownership plan an increase in workforce. In the past half year especially latter can be characterised by an increase in manpower demand, since in October 2010 the rate of companies planning a staff increase was 54% and in April it was 58%.

Among the companies of different sizes, those with a personnel of more than 250 are the ones that are exclusively representative in terms of workforce increase. This group of companies tends to be the engine of the increasing manpower demand in the business sector while the medium, small and micro companies are still featured by a stagnating, or respectively by a decreasing demand.

Turnover, capacity utilization

Since October the average level of capacity utilization has moved upward on a small scale and has reached 77% which still cannot be regarded as a significantly high value. The degree of capacity utilization continues to be the highest in the industry, at companies in foreign property and in those exporting. The lowest value refer to the construction sector, to the micro size companies, to the ones producing for the Hungarian market and to those being in Hungarian property.

In the past half year, since October 2009, the trend of improvement that could be observed in the development of the total net sales has significantly decreased while for the first time since the crisis the index has fallen in the positive domain (+1%). This also means that the index in question has reached an improvement of 33 percentage point during one year, while the rate of firms in command of a growing sales volume has exceeded that of those enduring the continuing decrease (34.8% and 34%). Consequently, the data of the past year demonstrate a significant amelioration of this component that has an important role in the business situation of the enterprises. This improving trend, however, was much stronger between April and October 2010 than during the period having been surveyed since October.



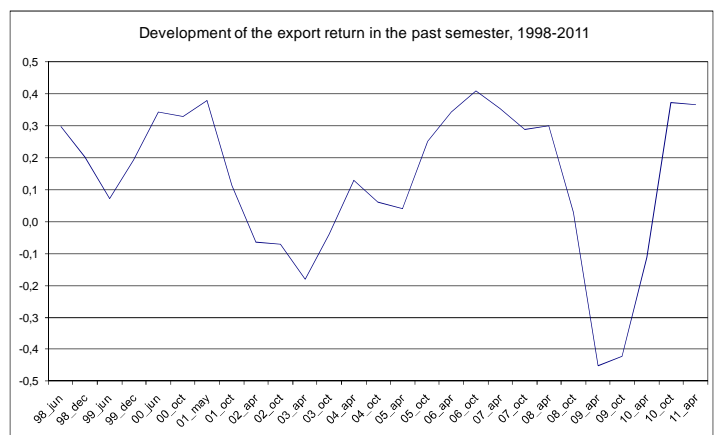
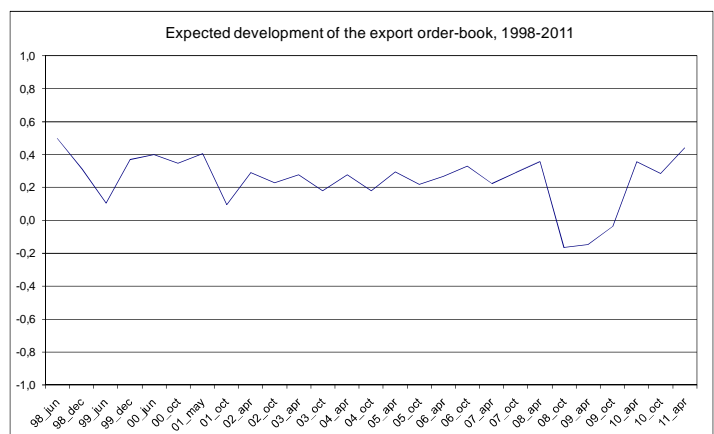
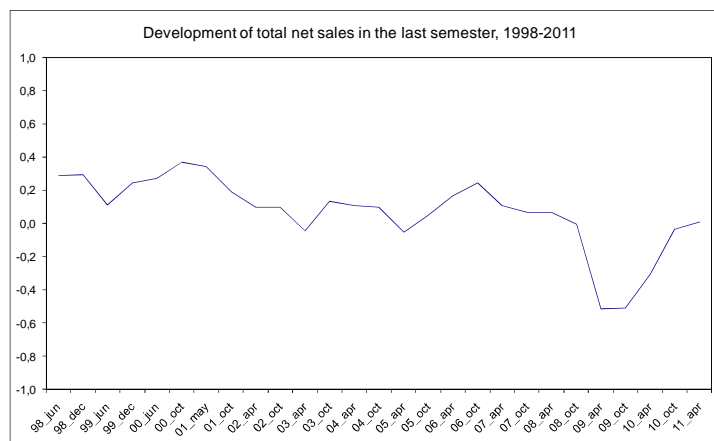
The volume of sales increased at 56% at the industrial companies and only 20% reported a decrease while in the construction sector it was just the opposite (17% and 57%). 63% of the companies in foreign property accounted of a growth and only 16% of a decrease while 26% of the companies in full Hungarian property reported on an increase and 39% of them reported on a decrease. The exporting companies could raise their turnover in the highest proportion (72%) and only 13% of them gave mentioned a decrease. As far as the firms supplying exclusively for the domestic market are concerned 18% could raise their turnover, 44% reported on a decrease during the past half year. This indicates that positive tendencies in the development of business situation relate only to the growth of sales among the exporting and foreign companies. This also means that the prospects of the Hungarian economy in terms of the GDP growth rate will further on depend very much from the processes going on in the foreign markets and from the expected development of export demand. The domestic market plays a fairly low profile role in determining the business outlook and the majority of the companies producing merely for the home market will have to count on a decreasing demand in the near future as well.

In the past half year the increase of the number of companies reporting on the rise of export sales has stopped: whilst in October of last year 57% of the companies accounted of an increase in the volume of exports, it was only 55% of them that could raise their export activity during the past half year. Therefore, following a 72 percentage point (!) improvement – being represented in the previous year – the balance index of the export sales has not changed in the past 6 months. We still do not know whether this means a temporary decline, or it reflects a long-term decrease in the exports demand.

Among the industrial companies the proportion of those accounting of increasing exports volume has fallen back (from 66.5% to 64.4%) and the situation is the same in the services sector: here we can see a drop from 34% to 28%. The lowest rates in the increase of exports volume can be seen among the micro size companies and those producing mainly for the domestic market (20% and 35% of the firms).

10% of the companies in majority foreign ownership account of further decrease in exports, while 67% indicate a growth, which is, however, far too low compared to the last year's October value (83%). Although the Hungarian companies' situation has improved but still has remained the worst: 27% of them reported on export volume decrease and 46% indicated a raise. Half a year ago 33% and 42% marked the same tendencies.

The break in the previously improving trend clearly shows that there are uncertainty factors accompanying the expected development of export sales. In our October 2010 Bulletin we already outlined that "in the next half year the



extraordinary strong trends can hardly be maintained” and the data having been disclosed since then confirm this assumption. In this regard the changes that occur in the German business cycle are especially crucial.

It is a question under discussion whether the deterioration observed by Ifo in the German companies' prospects is a one-time standstill which can also be bound to the temporary effects of the disaster that happened in Japan, or it is the beginning of a slacking off period which will be characterised by an expectable decrease of imports demand.

Macro-economic trends: The German economy in the first quarter of 2011

The GDP of Germany has risen by 1.5% in the first quarter of 2011 compared to the last quarter of 2010. This high rate of growth has surprised even the experts. The engine of the increase is driven by the traditionally intensive export activity, further by the domestic consumption and by the growth of the corporate investments. Germany has a great impact on the Hungarian economy's development being its most important export market, however, for the time being the Hungarian export activity could not make much use of the German boom following the crisis. While both countries were affected by the economic crisis at the same extent and degree, after the turning point the German economy could regain its strength sooner than the Hungarian one. From the beginning of the second half year 2010 the rhythm of getting back to the level that existed before the crisis became more and more divergent.

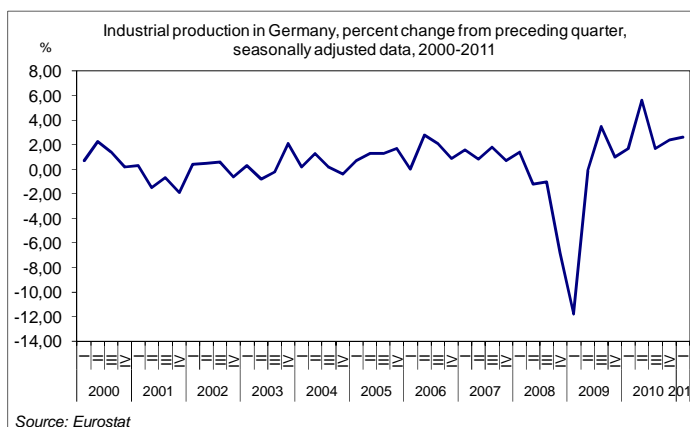
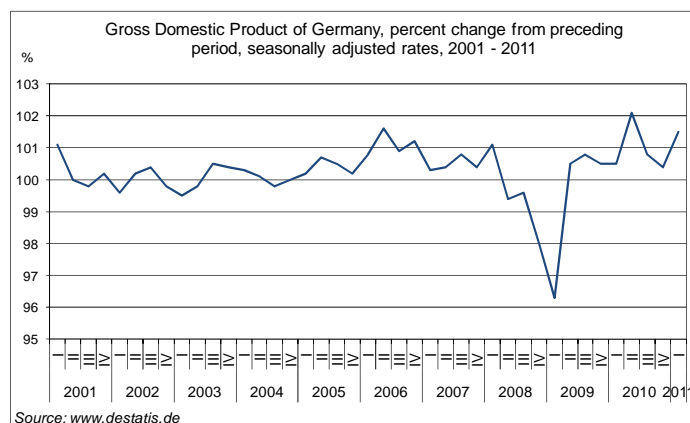
The upswing of the EU economy keeps on strengthening during 2011: according to the EU forecast the GDP in this year augments by 1.75% and by 2% in 2012. The better prospects of the global economy and the general improvement of the EU business climate support this forecast. The inflation rate, however, increases quicker reflecting the raise of the raw material prices and the economic outlook of the member states further differ from each other.

Gross Domestic Product

The high growth rate of the German GDP in the first quarter of 2011 caused surprise even for the experts. The German Federal Statistical Office has confirmed its previous forecasts according to which the GDP rose by 1.5% between January and March 2011 compared to the last quarter of 2010. EU analysts' expectations covered only a 0.9% rise. (In the fourth quarter of 2010 the GDP increased by 0.4% compared with the antecedent quarter). Besides the traditionally strong export, the engine of the growth is the domestic consumption and the increase of corporate investments. The consumption of households has increased by 1.1%. The companies' investments covering machinery and equipment were 3.9% higher than in the last quarter of the precedent year and the export volume rose by 3.1%. Experts foresee that in this year the economic growth may surpass 3% again – after last year's 3.6% growth rate to which there has not been a precedent since the union of the two parts of Germany.

Forecasts

The German Institute for Economic Research (DIW) has significantly modified upward the forecasts on this year's German economic growth. According to the Institute's May analysis in 2011 the German GDP may increase by 3.5% nearly by an extent that is in conformity with the last record year's results. At the end of last year DIW forecasts disclosed a mere 2.25% increase for 2011. According to the Institute the export develops in such a dynamic way that has never be seen before. Thanks to the growing utilization of capacities the investments have also gained energy. 46% of the factories, i.e. more than 2000 CEOs plan to raise the



number of their machinery in this year and about the same refers to increasing the personnel number.

According to the EU Committee's economic forecast issued on 13 May for period 2011-2012 in course of the recovery from the deep financial crisis the growth of the EU economy shall be more moderate in comparison with the previous boom. By the gradual strengthening of the domestic demand, however, the growth shall become more and more self-supportive. The average year-to-year increase of the GDP rate is expected to rise in this year from the level of 1.5% in the Eurozone and 1.75% in the EU and reach 2% in both regions. The 2011 data are somewhat higher than that expected in last autumn's forecasts. It is possible that the European Central Bank shall be forced to raise the interest rate again in July due to the rapid economic boom of France and Germany being beyond expectations and due to the increasing inflation caused by the raw material prices.

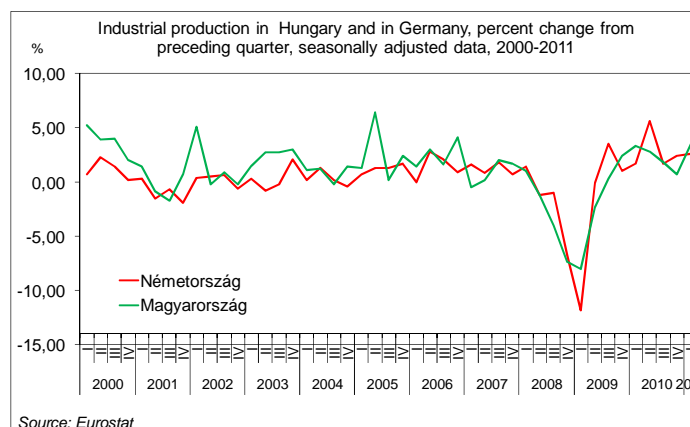
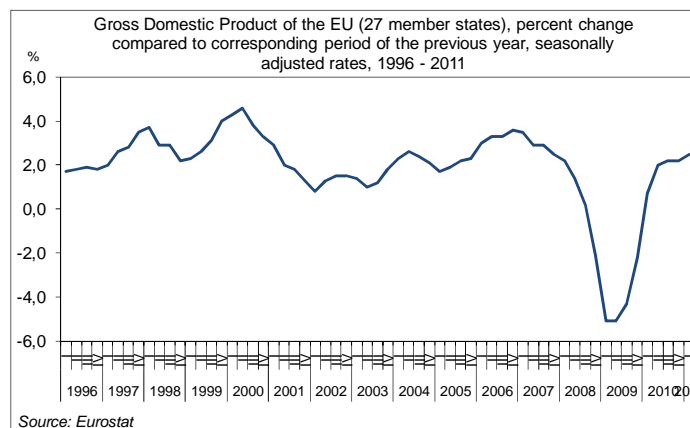
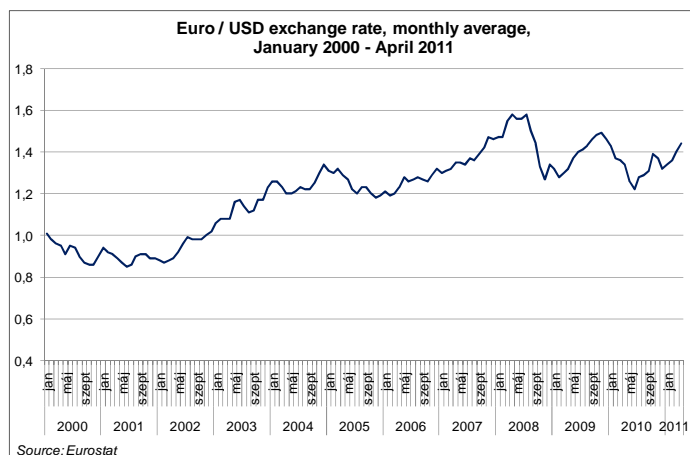
Regarding the development in all member states, the summarized view shows significant differences. In some of them, but mostly in Germany and in smaller export-orientated countries the economic activity steadily grew, while in others, mainly on the peripheries a lag could be observed. The rhythm of the growth will continue to be expectedly different in regions within the EU.

Examining Hungary the forecast counts with a higher growth in GDP than the average: for 2011 2.7% and for 2012 a 2.6% rate of growth can be expected.

Impact on the Hungarian economy

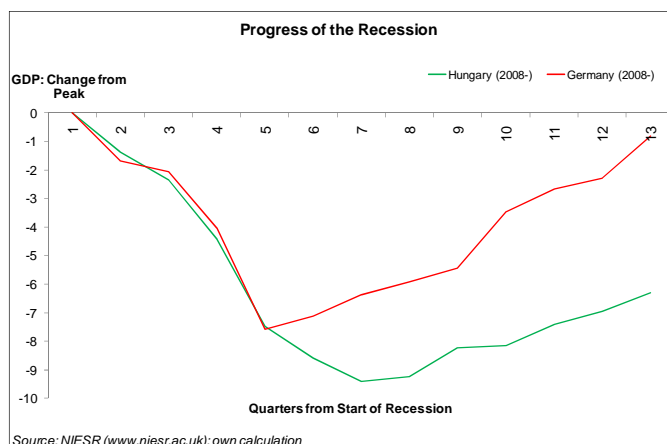
Germany – as the most important export market of the Hungarian economy – have significant influence on the growing rate of the Hungarian economy. The slowness of the recovery from the crisis much more characterizes the Hungarian economy as the German one. On the one hand, the Hungarian economic crisis was deeper than the German crisis, on the other hand the recovery from the crisis has begun later in Hungary than in Germany. While the economic fall reached the two countries nearly at the same pace and the same rate, after the turning point the German economy has recovered faster and in a higher degree than the Hungarian. Moreover, from the beginning of the second quarter of 2010 the pace of returning to the level before the crisis diverges more and more in the two economies. Albeit the engine of the Hungarian industrial growth is henceforward the industrial export, and within this the export directed to Germany, it seems that in the last year the Hungarian companies couldn't exploit the German prosperity, the growing of demand – especially the import demand – wholly and completely.

Based on preliminary data, the volume of the Hungarian industrial production has increased by 9.2% in March 2011 compared to the same period of the previous year. In spite of this the index of industrial production – adjusted with seasonal and calendar effects – has decreased by 3.6% in



March compared to the former month. The production pause in the Japan industry caused by the earthquake and tsunami that hit Japan, further the disaster of Fukushima nuclear power plant has to be added to this tendency. This events impact the Hungarian economy as well – even if indirectly – from the second quarter of 2011.

Data on the Hungarian economy's 2011 first quarter production and the findings of IEER corporate business climate survey draw the attention to strengthening of uncertainty accompanying the positive trends. In the short run a further increase of the imports demand of the German economy cannot be expected. Moreover, according to the latest May data of Ifo the deterioration of business expectations on part of the German enterprises has been forecasted, which is not a good omen for the Hungarian exporters either.



International business trends

The Ifo Business Climate Index referring to the German industry and trade remained stable in May, after a slight decrease in the two preceding surveys. The present business situation – staying on a high level in the past few months – has again been given a better assessment, but the six-month business outlook is once more less optimistic. In spite of this, Ifo researchers find that the business situation of German companies continues to be very good.

Findings of the May survey of the French Statistical Office (INSEE) suggest that in France the business cycle has moderately worsened. The business confidence index drawn up on the basis of corporate leaders' opinions has declined by two points, but still remains higher above its long-term average. The index of economic turning point indicates an unfavourable cyclical position. The index referring to general prospects has also decreased.

Germany – Ifo

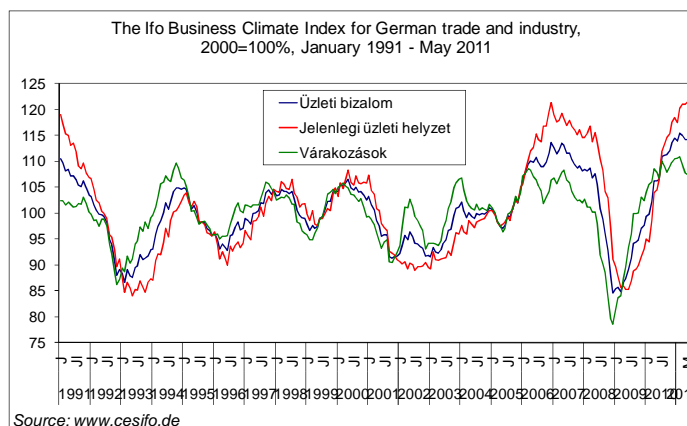
The Business Climate Index for German industry and trade of the Munich-based Ifo Institute for Economic Research remains stable in May, after a slight cooling in the two preceding surveys. The previously good business situation has again been given a better assessment. The six-month business outlook is once more somewhat dampened but remains positive. The business cycle traffic lights still signal "green".

In manufacturing the business climate index has fallen slightly for the third time in succession. As in the previous month, the decline is the result of the firms' somewhat less optimistic business expectations. The industrial firms still assess the current business situation as very good. They also continue to see great opportunities from export business. Firms plan to clearly increase staff levels although not at the pace of the past month.

In retailing the business climate index has risen markedly. The business situation of the retailers has clearly improved. With regard to business in the coming half year, the firms are more confident than in the previous month. In contrast, the business situation in wholesaling has again clouded somewhat. The wholesalers have assessed their business situation as no longer as favourable as before. Their business expectations, however, are slightly more positive than in April.

In the construction sector, the business climate is largely unchanged. The firms have assessed both their current business as well as the business outlook just as favourably as in April.

Source: Ifo (<http://www.cesifo-group.de>)



France – INSEE

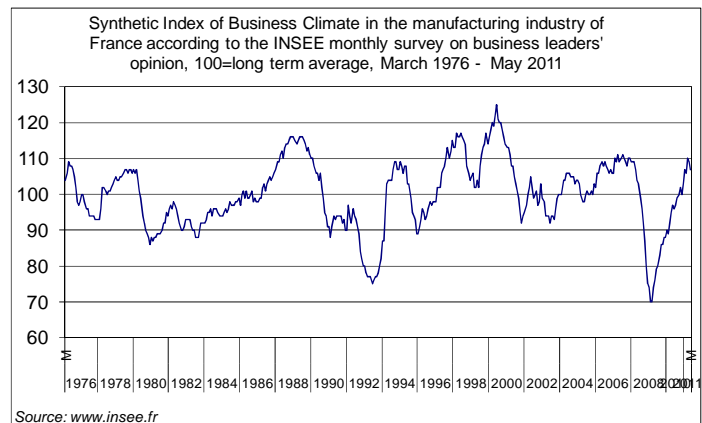
The May survey of the French Statistical Office (INSEE) suggests that according to the surveyed corporate leaders, the business cycle has declined moderately in France: the business confidence index of INSEE has decreased by two points but it is staying above its long-term average.

The economic turning point indicator has fallen again, thus it is residing in the zone indicating an unfavourable cyclical position.

Leaders of industrial corporations find that their production has fallen in the recent period, but the balance index of their opinions remains over its long-term average. According to CEOs' judgement, finished product inventories continue to remain on a low level. The surveyed CEOs declared that their total stock order has decreased somewhat, but the relating indicator still shows a high value. The export stock order continues to be on a high level.

The economic boom in France is likely to slow down in the coming months: corporate leaders' forecast referring to individual business prospects for the coming months has again worsened in May, but even so it remained over its long-term average. The index referring to general prospects, which reflects the summarized opinion of the respondents concerning industrial activity, has also decreased.

Source: INSEE (<http://www.insee.fr>)



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For publications, please refer to this paper as follows:

MKIK GVI: *Monthly Bulletin of Economic Trends*,
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June 06 2011