Less optimistic Expectations: A Passing Halt or the Overture of a weaker expansion?

Results of the Business Survey of RIEE HCCI Carried Out Among Companies in October 2004.

The HCCI Research Institute of Economics and Enterprises approached, through regional chambers, close to 12000 firms to analyse the development in the 2nd half of 2004 of Hungarian companies in October 2004. 1541 returned a completed questionnaire out of the firms approached and the survey is based on these responses.

Data received during the survey (GVI's Business Climate Index and its elements) clearly indicate a continued slow down in the growth rate of Hungarian economy and this suggests the probability that this decline is likely to continue in the 3rd and 4th quarters of 2004. Having said that the slow down compares to the GDP's 4% growth rate in the 2nd quarter, i.e. 3.6-3.9% growth rates are highly probable to be expected in the last two quarters of 2004. Consequently, Hungary's growth rate is expected to continue to be beyond the EU average, however it will fall short of the average of East-Central European countries exceeding 5%.

The value of the GVI BCI is the highest in industry and business services, as well as in the construction industry, whereas its lowest is measured in commerce, tourism and delivery. The only improvement can be observed in the area of business services and delivery. The single major difference among firms can be measured with respect to the type of ownership: expectations of firms the majority of which belongs to foreign owners are much more favourable than those of the rest, although expectations generally tend to decline at each type of firms. Expectations of large firms appear to be the most favourable and those of micro companies appear to be the worst, with the overall BCI's value having deteriorated in each group of companies.

GVI's BCI and Business Uncertainty Indicator (BUI)

The BCI has somewhat deteriorated compared to its value half year ago. At the same time, that of the Business Uncertainty Indicator (BUI) has fallen. This means that there is a more solid approach to the assessment of this slowdown in growth rates than the expectations were concerning the low-end turning point and the accelerating growth rate of the economy as indicated by our earlier surveys of October 2003 and April 2004. On the one hand all the measures constituting the BCI have shifted downwards in comparison to their April value, on the other hand certain groups of firms hold the same opinion with respect to growth rate decline. Deterioration can be registered in all element of BCI. Firms have restrained their investment activities and their opinion concerning their current and future income levels is worse. Headcount improvement intentions have become more cautious: whereas earlier more or less the same number of firms expected to downsize and, respectively, increase their headcount, 31% expect to downsize and, respectively 15% expect to increase the number of employees in October 2004, whereas 54% of the firms do not expect any change.

Business situation and profitability

The decline of the BCI is accompanied by a more negative assessment companies hold with respect to their business situation. Whereas the assessment of their status is rather more positive: 16% of the firms consider their business situation as poor, 59% are satisfied with it and 25% perceive it to be good. The same trend is expected to prevail with respect to the future: expectations continued to decline with respect to the expected business situation, with the expectations of 22% of the firms pointing to a decline, 51% to the same business situation and 27% to an improvement.

Small businesses (between 10-49 employees) continue to hold the worst opinion of their current and future business situation. The most favourable opinion is held by medium enterprises and firms employing over 250 people. Profitability expectations have mainly improved at large firms.

The assessment of profitability is somewhat worse than it was half year ago and the share of negative opinions exceeds that of positive ones: 28% of company managers consider it to be poor, 54% satisfactory and 18% see their profitability as good. With respect to future profitability the result is similar: 26% of the firms expect it to deteriorate, 52% expect the situation remains the same and 22% expect an improvement. These results undoubtedly can be associated with two macro-economic factors: on the one hand the relatively high level of the National Bank's interest rate hampers firms in getting adjusted to the growth in demand, and the forint being strong also weighs heavily down on firms. This latter impact affects not only exporting firms, but their suppliers also, which mainly deliver their goods to domestic markets.

The prevailing profitability is considered to be worst at micro-businesses (less than 10 employees), and best at large firms. Leaders of small firms have provided the least favourable responses to the question of future profitability, whereas the most favourable ones have been provided by large firms.

Foreign owned firms assess the situation more favourably than Hungarian owned ones along each survey indicator.

Domestic and Export Sales, Stock of Orders

According to survey results the volume of sales increased at 40% of the firms in the past half year, the sales income of their 30% has not changed and 31% is the share of firms having reported declining sales volumes, which is 2-3 pc points lower than it was in the past half year. 41% of the firms did not export, close to 20% of them reduced, 23 % of them improved their export revenues compared to the same half-year of the previous year, whereas 17% of them reported steady export revenues. With respect to stock of orders firms generally expect positive tendencies. This expectation is stronger in the area of export than in domestic sales. In the former case 18% of the firms expect a decline, 49% of them expect a steady and 33% of them expect an increasing stock of orders. In the latter case the above ratios are in order: 17%, 48% and 35%.

Export sales improved more powerfully in the West and Central Trans-Danubia, with industry achieving the highest growth rate. Domestic sales of West Trans-Danubian

and North Hungarian firms increased the most, as well as in the areas of financial and human services.
The total stock of orders is expected to increase most at foreign owned, mainly exporting firms as well as firms providing financial services. Export stock of orders is expected to increase at large firms and medium sized firms manufacturing goods mainly for exports, as well as those supplying business services. Expectations better than average are held by West Trans-Danubian firms and firms operating in the Southern part of the Great Plane. The level of the expected stock of order in sum is expected to slightly increase in the coming half year in the view of the leaders of firms, however this growth will lag behind the level expected half year ago.

Employment, capacity utilization

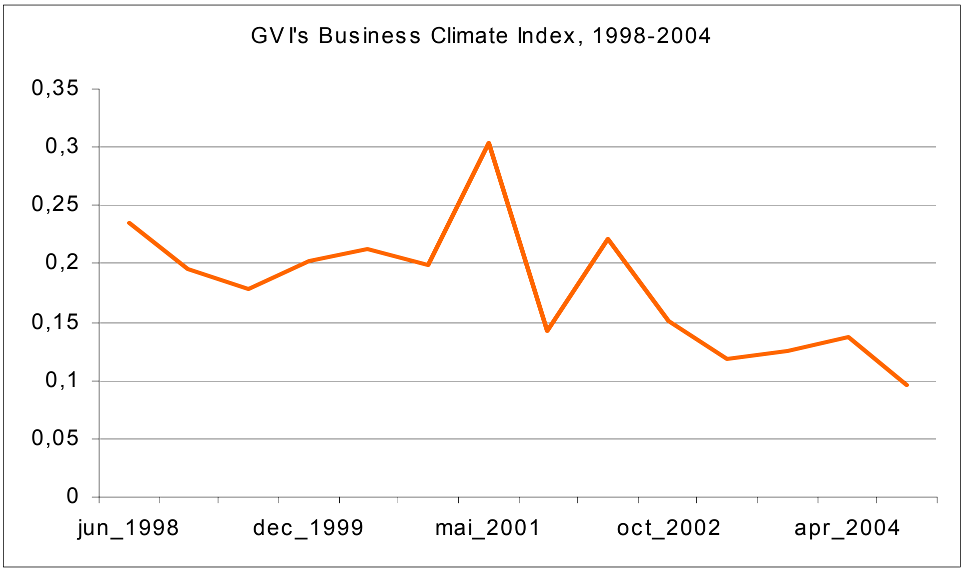
The intentions of firms to increase their headcount have also taken an unfavourable turn: whereas half year ago approximately the same number of firms expected to increase and, respectively, decrease their headcount, in October 2004 31% of them expect to downsize and only 15% of them intend to increase the number of employees, with 54% not expecting any change.
A higher number of firms in foreign ownership expect to increase their headcount than Hungarian owned ones (28% and, respectively, 12%), whereas firms expecting to downsize constitute a higher proportion among firms with a minority foreign ownership. The ratio of firms expecting to downsize increases with the size of firms: 8.5% of micro-firm, 18% of firms employing 10-49 people, 27% of firms employing 50-249 people and 43% of firms employing over 250 employees are contemplating downsizing. The average capacity utilisation of firms is 77.4%, which is well beyond values of half year ago and indicate an increasing trend in the long run. Expected capacity utilisation however indicates a declining trend, albeit the expected capacity utilisation in the 4th quarter of 2004 is higher than it was last year.

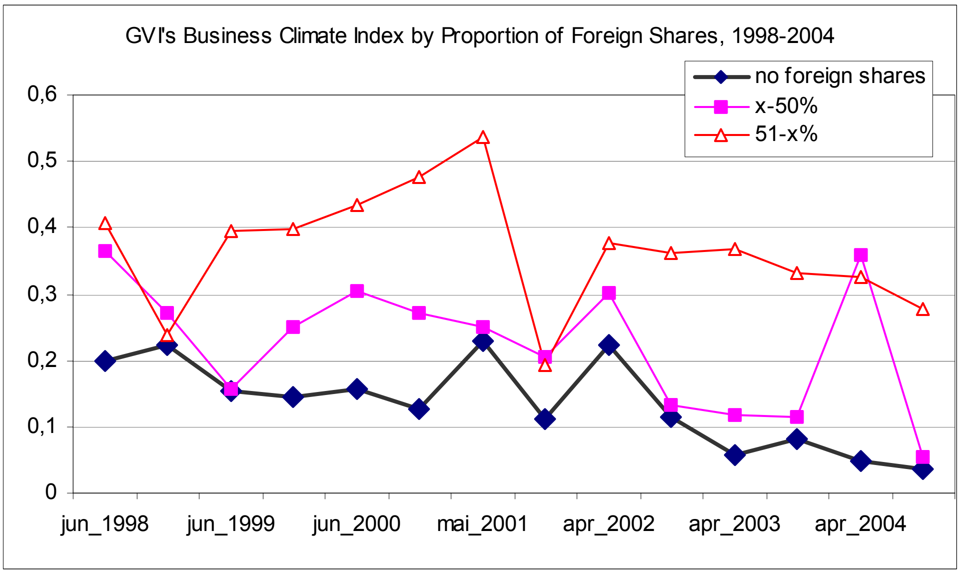
Investments

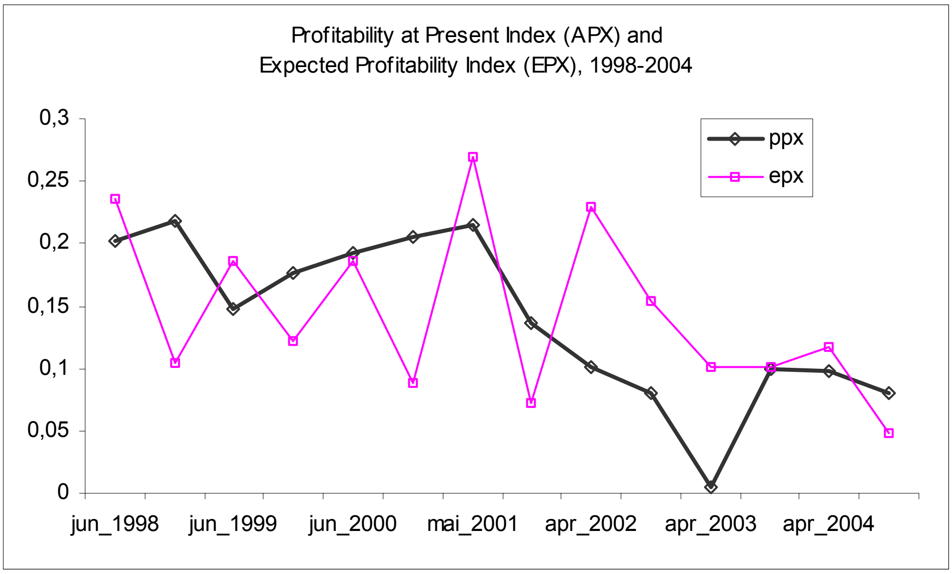
The decline in the boom indicator also characterises the expected trend in investment activities: the 2nd half of the year is not likely to see a repetition of the outstanding 13.5 rate seen in the 1st half year. Still, the rate in the 2nd half-year of 2004 is expected to be higher than it was in the 2nd half of the previous year (5%). The growth in investment volumes is more typical of tourism and delivery firms, whereas industrial companies were the least to mention it. The expected growth in investment is mostly propelled from the background by foreign capital in the 2nd half of 2004 also: investment activity is likely to grow at 54% of firms with a majority foreign ownership against the 34% of purely Hungarian owned firms.

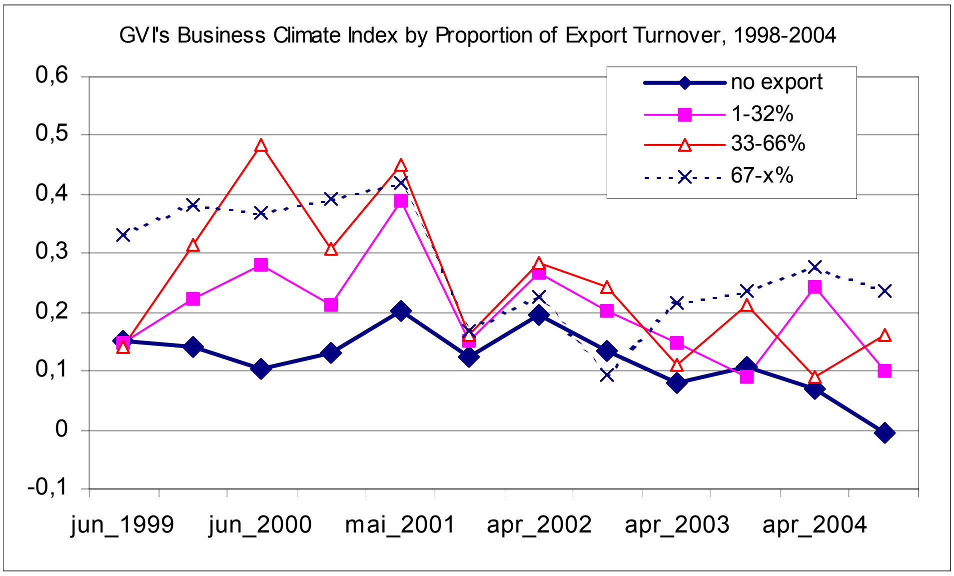
Figures

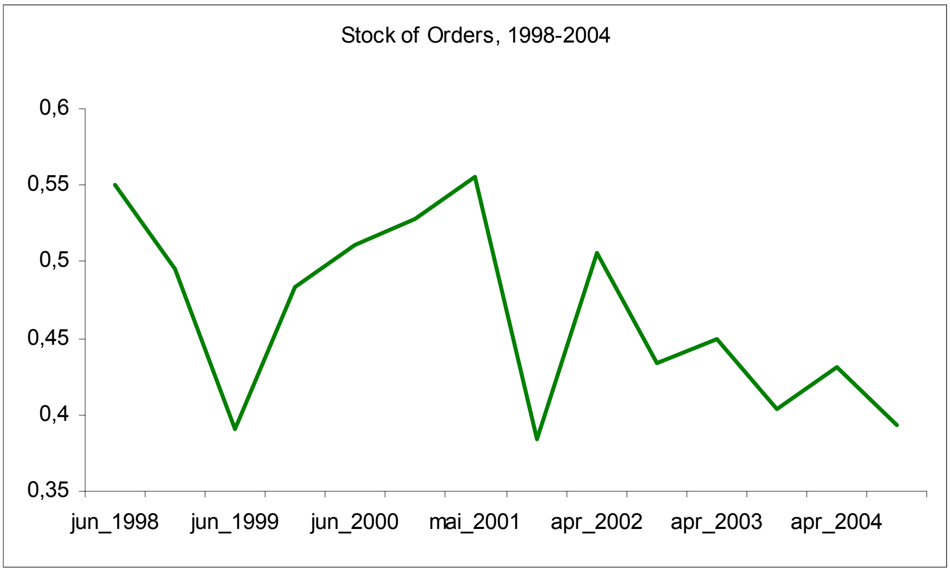
The values of the figures can vary between –1 and +1. –1 means that every responding firm indicated a decline and inferior situation, +1 means that every firm experiences improvement and a favourable situation.
Weighting = with weights construed in consideration of the assessed contribution of firms pooled according to their headcount to GDP

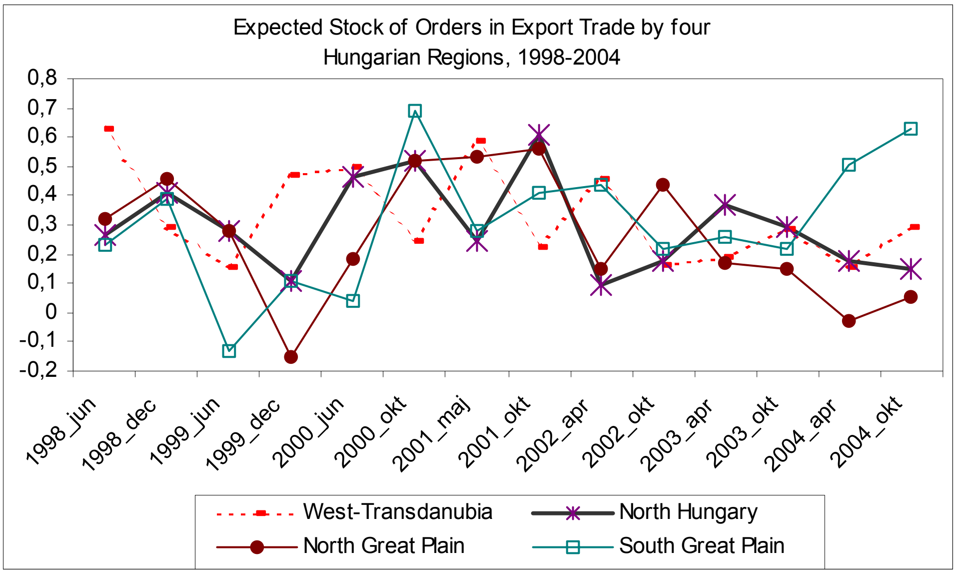


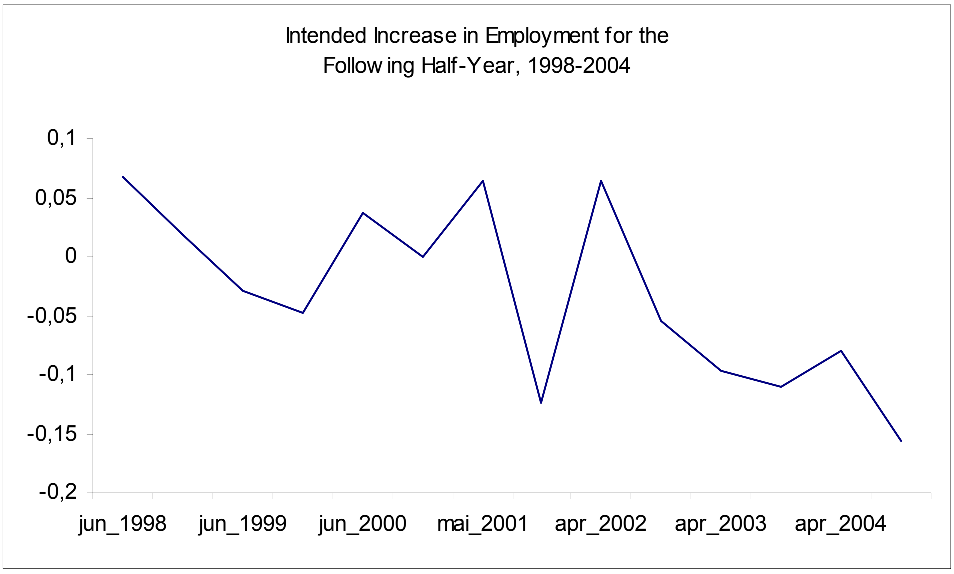


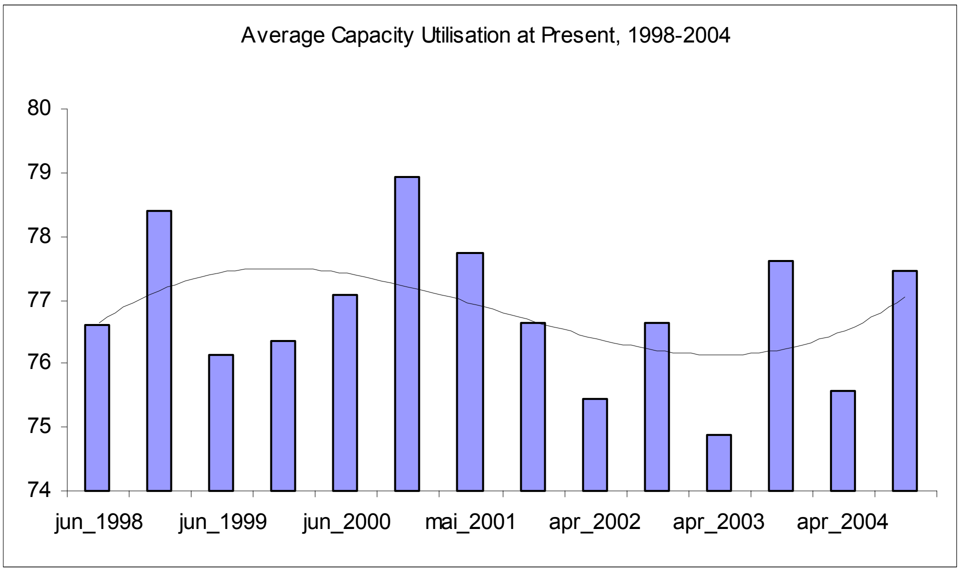

Profitability at Present Index (APX) and
Expected Profitability Index (EPX), 1998-2004
0,3
0,25
0,2
0,15
0,1
0,05
0
jun_1998
jun_1999
jun_2000
mai_2001
apr_2002
apr_2003
apr_2004
ppx
epx

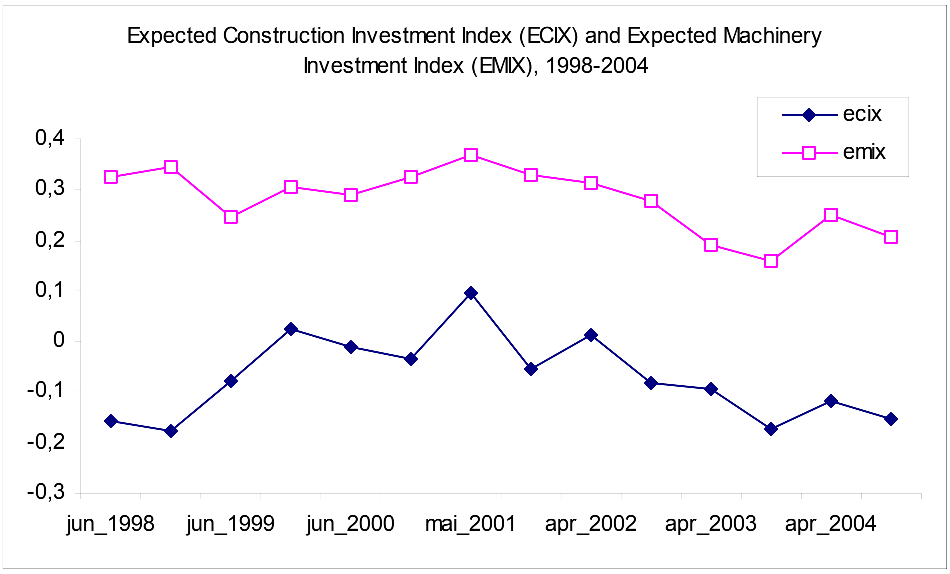

GVI's Business Climate Index by Proportion of Export Turnover, 1998-2004
0,6
0,5
0,4
0,3
0,2
0,1
0
-0,1
jun_1999
jun_2000
mai_2001
apr_2002
apr_2003
apr_2004
no export
1-32%
33-66%
67-x%


Stock of Orders, 1998-2004
0,6
0,55
0,5
0,45
0,4
0,35
jun_1998
jun_1999
jun_2000
mai_2001
apr_2002
apr_2003
apr_2004


Expected Stock of Orders in Export Trade by four Hungarian Regions, 1998-2004
0,8
0,7
0,6
0,5
0,4
0,3
0,2
0,1
0
-0,1
-0,2
1998_jun
1998_dec
1999_jun
1999_dec
2000_jun
2000_okt
2001_maj
2001_okt
2002_apr
2002_okt
2003_apr
2003_okt
2004_apr
2004_okt
West-Transdanubia
North Hungary
North Great Plain
South Great Plain


Intended Increase in Employment for the Following Half-Year, 1998-2004
0,1
0,05
0
-0,05
-0,1
-0,15
-0,2
jun_1998
jun_1999
jun_2000
mai_2001
apr_2002
apr_2003
apr_2004


Average Capacity Utilisation at Present, 1998-2004
80
79
78
77
76
75
74
jun_1998
jun_1999
jun_2000
mai_2001
apr_2002
apr_2003
apr_2004


Expected Construction Investment Index (ECIX) and Expected Machinery Investment Index (EMIX), 1998-2004
ecix
emix
0,4
0,3
0,2
0,1
0
-0,1
-0,2
-0,3
jun_1998
jun_1999
jun_2000
mai_2001
apr_2002
apr_2003
apr_2004