

May 29, 2013 15:30

## Improving business situation, uncertain prospects - SME Perspectives – April 2013

The Business Climate and Uncertainty Indices and their components

Indicators pertaining to the current situation of small and medium enterprises (SMEs) showed a consistent picture in the first quarter of 2013. Compared to the previous quarter, the current situation indicators all increased slightly. Expectations for next year don't reflect this optimism, however; particularly evident is the sharp decline in expected investment activity (see Figure 1).

The overall effect of these contradictory results has led the SME Business Climate Index to idle after experiencing a strong rise during the previous survey; although the value is still rising, it's at a much slower rate than in the previous quarter (see Figure 2). The Uncertainty Index declined somewhat; in other words, a decline can be seen in the diversity of opinions of SME assessments toward their current and expected business situations (see Figure 3).

Taking into consideration company size, export activity and ownership structure, what was uncharacteristically observed was that business sentiment worsened for those groups which usually have better results (i.e., large foreign-owned, exporting firms).

Capacity utilization

Following stagnation in the average level of capacity utilization from the previous quarter, an increase was once again observed in the first quarter of 2013, thus the current share stands at 78.5% (see Figure 4). The capital utilization index is still highest among large, export-oriented and foreign owned firms and companies in the financial services sector.

Stock Orders

The demand for SME's goods and services increased slightly compared to the previous quarter: 16% of businesses reported a low level of orders and 12% a high level (in the previous quarter the corresponding rates were 29% and 17% respectively).

In terms of the export activity of companies it can be said that in the last three months it was among predominantly exporting firms that the level of orders for goods and services was negatively impacted, while for the other two groups the rate improved, which is a reversal of trends compared to the previous quarter.

#### Production Level

The production level indicator showed a marked improvement over the past three months. The proportion of companies with an increase in production level rose to 22% compared to 20% in January 2013, while a decline in the level of production over the past half-year was reported by only 6% of businesses, which is a sharp decline compared to 34% in January, leaving the balance of the overall index significantly improved.

#### Current and expected business situation

As for the business situation, based on the reports submitted by firms a positive change took place compared to the previous quarter. In contrast to the previous survey results, those firms with a negative assessment of their business situation was six percentage points lower at 16%, while those with a positive assessment was 1 percentage point higher at 25%, while 59% of enterprises reported a satisfactory business situation compared to 54 % in the previous quarter. This increase was prevalent for all company groups – ownership structure, export activity, economic sector, and company size.

The highest values for the index were observed among firms that were partly foreign-owned (34), those with a large number of employees (17) and those in the manufacturing sector (17) as well as predominantly export-oriented companies (30).

The expected business situation index slightly decreased in April 2013 after strong growth in the previous quarter. Overall, 23% of companies expect a good business situation (which is 4 percentage points lower than what was recorded in January) and 12% are expecting a negative business situation, which is the same amount as in the previous quarter.

#### Expected production levels

As with the business situation, company managers were more pessimistic than what was observed in the previous quarter in their assessment of production levels for the next six months: 20% of companies were confident in growing levels of production, a 14 percentage point drop compared to January, and 2% of them expect a decline (this figure was 10 % in the previous quarter).

#### Expected capacity utilization

Along with the expected business situation and expected level of production, companies project an unfavourable trend for capacity utilization compared to the previous quarter, but in this case the index declined by only 1 point compared to January 2013, from 17 to 16.

Overall, 18% of companies expect an increase in the capital utilization index, which is a drop of 7 percentage points, while 2% of companies predicted a decrease in the capacity utilization rate, which is a 6 percentage point decline over the last three months.

## Planned Employee Numbers

There were also negative observations as to the plans for employee numbers by small and medium-sized enterprises compared to the previous quarter: During the next six months, 8% of companies plan to recruit more workers (in the previous six months this rate was 18%) while 5% planned redundancies, which is 6 percentage points lower than in the previous quarter.

## Expected investment activity

Investment activity is expected to show a negative picture: 56% of companies surveyed do not plan to invest at all, while in January this rate was only 24%. In the case of 23% of businesses investment activity will remain unchanged for the next six months (in January the share of such firms was 42%), meanwhile compared to the previous quarter those firms which plan to reduce their investment activity was at 6 percentage points from 5% previously, and the number of those planning to increase their investment activity declined to 7 percentage points from 16%. This sharp decline in investment activity can be observed in all company categories regardless of export activity, company size, ownership structure, and economic sector.

## Credit

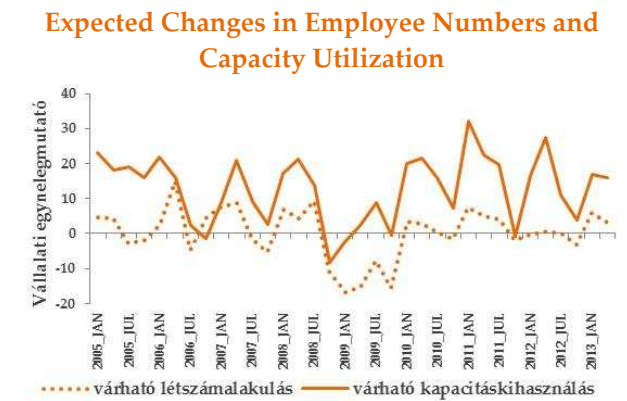
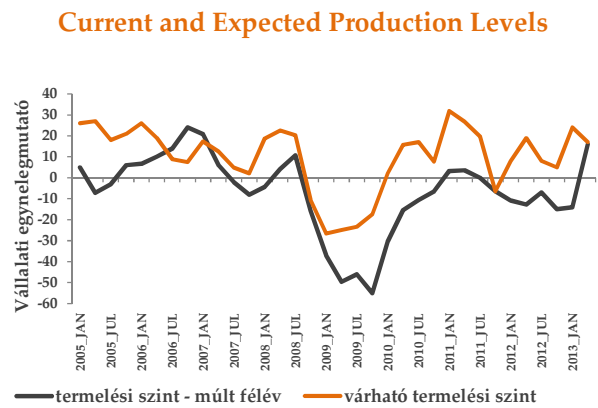
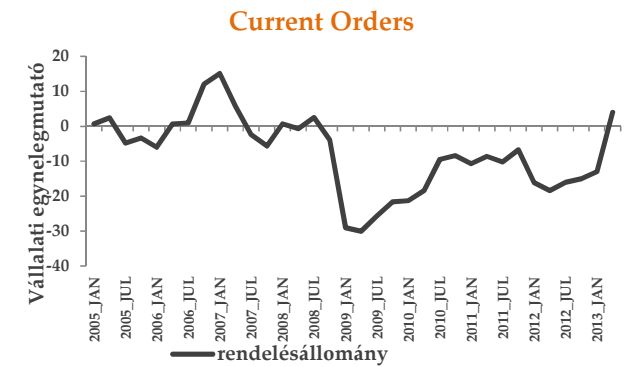
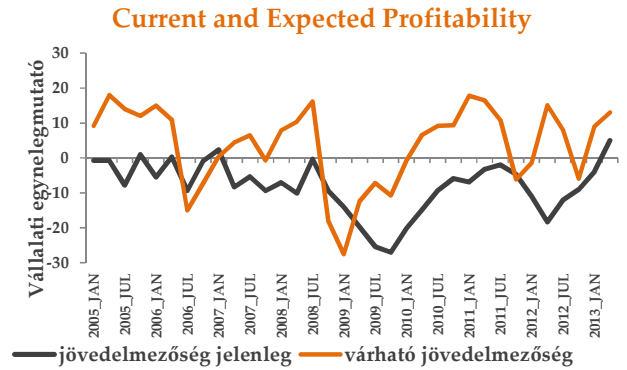
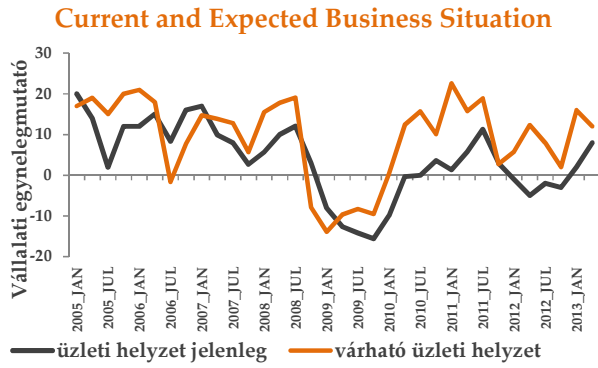
In April 2013, 62% of the small and medium-sized enterprises surveyed had a bank loan. Over the past three years, the proportion of firms with a bank loan has steadily decreased. In April 2013 this was 5 percentage points less compared to the value recorded in April 2012.

There was little difference in the borrowing habits among firms according to export activity, but it was greater according to ownership structure: 69% of domestically-owned businesses have bank loans, while the rate among entirely foreign-owned firms was 37%, and those with a mixed ownership was at 59%. For companies that produce only for the domestic market, 61% have a bank loan while among those with exports as a minority share of overall turnover this rate is 66%; for those that produce mainly for export, this value was 58%.

As for economic sectors, those operating in the construction industry (83%) and financial services (73%) have the highest proportion of indebted companies.

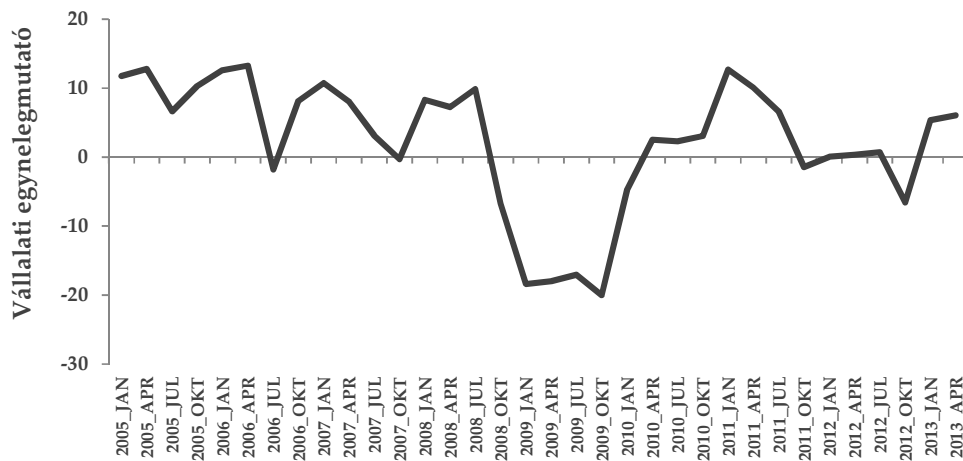
Given the type of loan, it can be stated that companies are more likely to be indebted in HUF – this has been a growing tendency since 2009. Since April 2012 the number of companies with a Swiss franc based loan declined by 4 percentage points to only 1% of the total share of loans, while the proportion of businesses indebted in Euro dropped 12 percentage points to 25%.

## 1. Components of the SME Business Climate Index, January 2005 – April 2013.



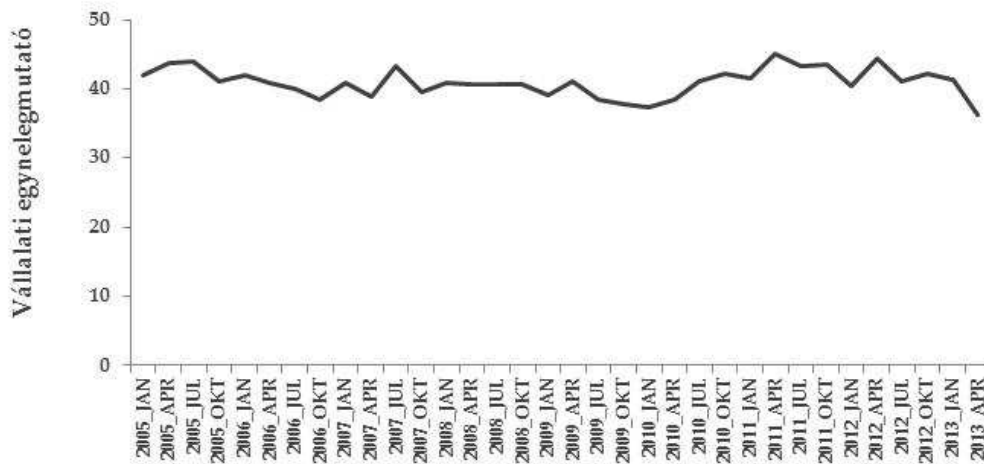
Source: GVI 2013

## 2. SME Business Climate Index



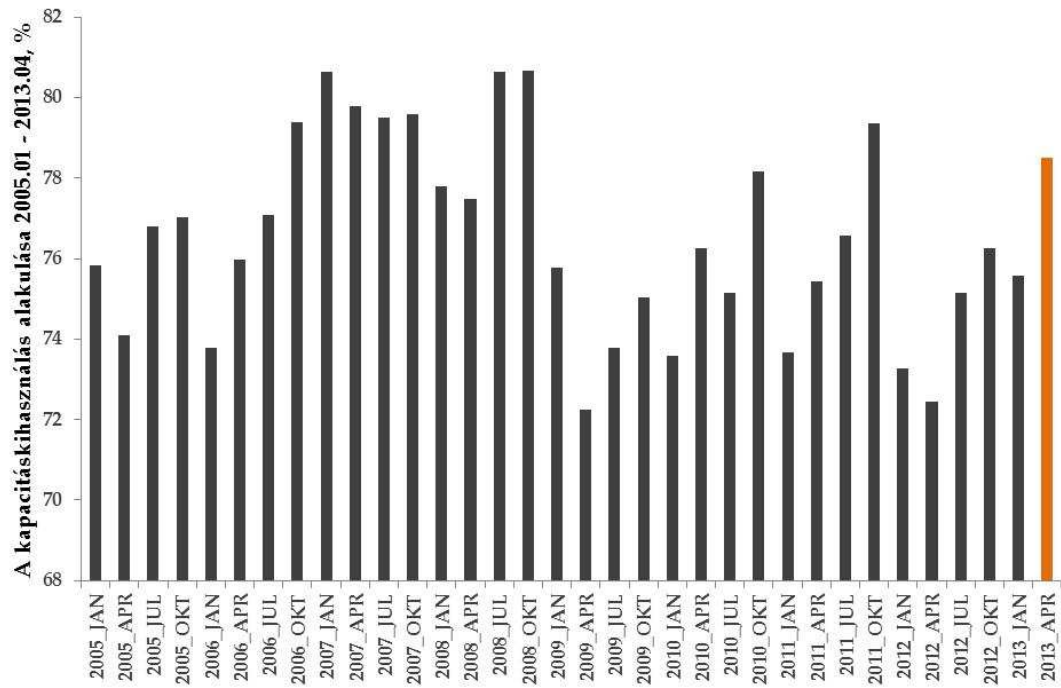
Source: GVI 2013

## 3. SME Uncertainty Index



Source: GVI 2013

4. Average capacity utilization in the SME sector, %, Jan. 2005 – Apr. 2013.



Source: GVI 2013