



# **Improving Business Conditions, Uncertain Outlook**

**Results of the IEER SME Outlook – July 2013**

*– Summary in English –*

**Budapest, August 2013**

The Institute for Economic and Enterprise Research operated by the Hungarian Chamber of Commerce and Industry (IEER or GVI in Hungarian) is a non-profit economic research institute indulging in applied research in several subfields of economics. Our mission is to provide empirically and theoretically substantiated knowledge and analysis of the economic and social processes that influence the actual situation and perspectives of Hungarian economy and Hungarian companies.

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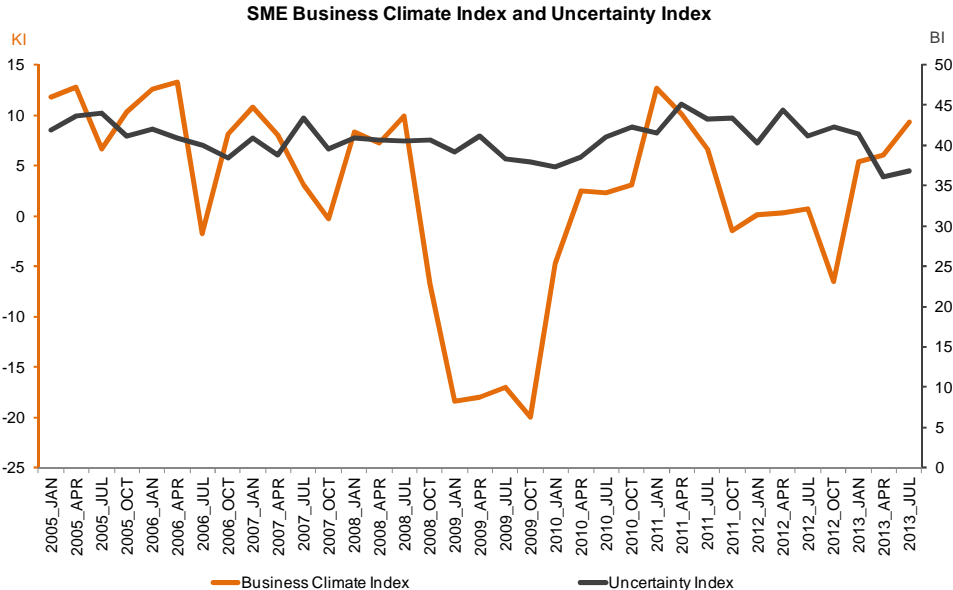
# Improving Business Conditions, Uncertain Outlook: Results of the IEER SME Outlook – July 2013

Within the framework of the SME Outlook research, since January 2005 the HCCI Institute for Economic and Enterprise Research (IEER) conducts a quarterly analysis of the situation of small and medium sized enterprises, their short-term prospects, as well as the economic and institutional factors affecting this business group. For this project a total of 300 companies operating within the fields of manufacturing, construction and services is surveyed and the data is analyzed in every quarter. The structure of the sample remains the same from quarter to quarter, with the companies surveyed representing the economic performance and sector distribution of small and medium sized enterprises in Hungary.

Indicators pertaining to the current situation of small and medium sized enterprises were mixed and somewhat negative for the second quarter of 2013. Compared to the previous quarter, only the business situation indicator increased for all current situation indicators. By contrast, future expectations indicate optimism, because apart from stagnation in employment numbers, all other forward-looking indicators increased; this was particularly evident in the sharp increase in anticipated investment activity.

## Business Climate Index and Uncertainty Index

Indicators pertaining to the current situation of small and medium sized enterprises were mixed and somewhat negative for the second quarter of 2013. Compared to the previous quarter, only the business situation indicator increased for all current situation indicators. By contrast, future expectations indicate optimism, because apart from stagnation in employment numbers, all other forward-looking indicators increased; this was particularly evident in the sharp increase in anticipated investment activity.



The overall result of these divergent effects was that it allowed for the increase in the SME Business Climate Index to continue from the end of last year into the second quarter of 2013.

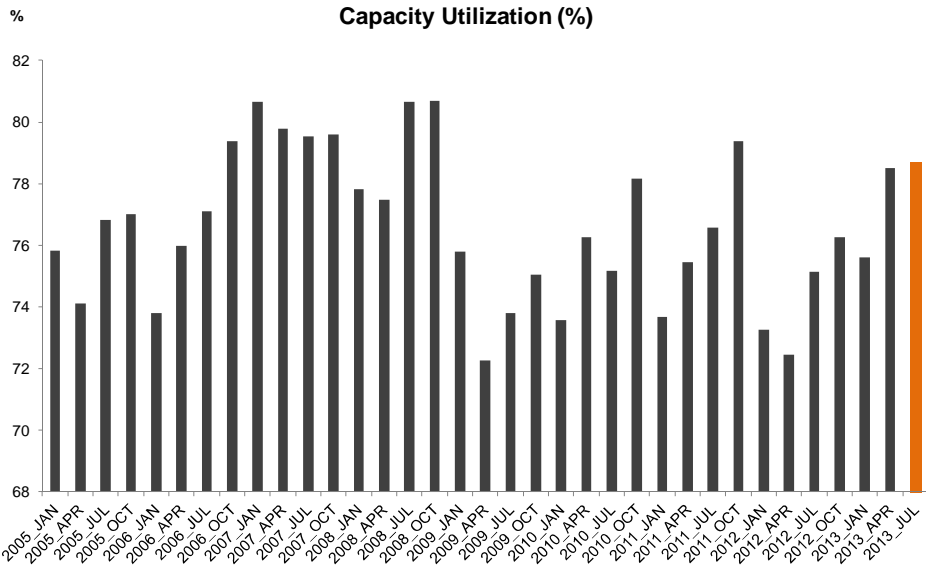
In addition, the Uncertainty Index increased slightly compared with the previous three months, that is, an increase began in the diversity of opinions among SMEs in their assessment of their current and future business situation.

Taking into consideration company size, export activity and ownership structure, it can be established that the business sentiment index declined only among medium-sized and predominantly export-oriented firms, while for all other business groups an increase can be observed compared to the previous quarter.

**Capacity utilization**

The average level of capacity utilization remained unchanged compared to the previous three months: the indicator currently stands at 78.7%, which is a 0.2 percentage point increase compared to the first quarter of 2013, and 3.5 percentage points higher than a year earlier.

The index is still the highest for export-oriented firms, those with foreign ownership, companies with large employee numbers, and service sector businesses. However when compared to the previous quarter, the average level of capacity utilization grew only for those with purely domestic ownership or companies in the construction sector.



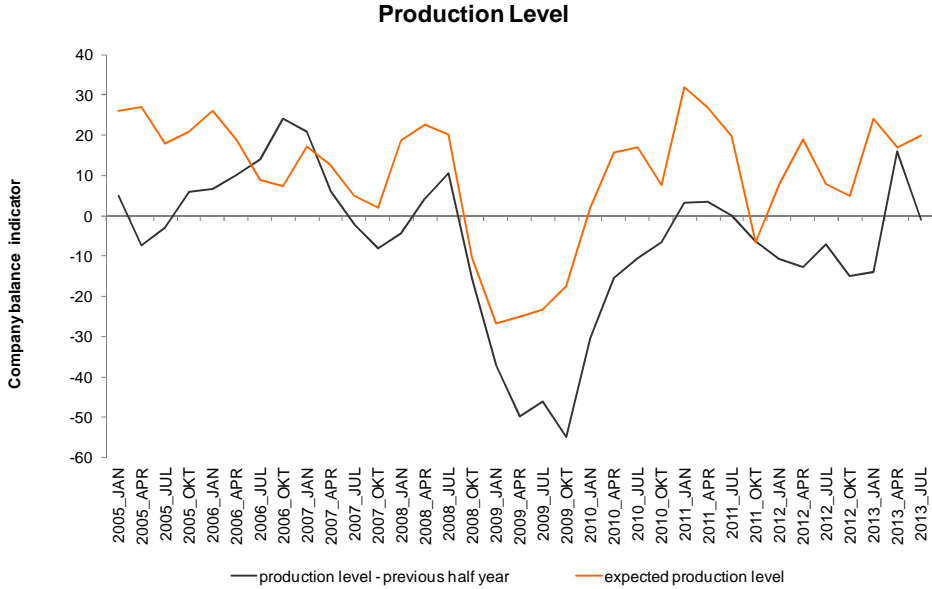
**Stock Orders**

The demand for goods and services of the SMEs fell slightly compared to the previous quarter: 25% of businesses reported a low level of orders and 21% a high level of orders (both numbers were 9 percentage points lower in the previous three months).

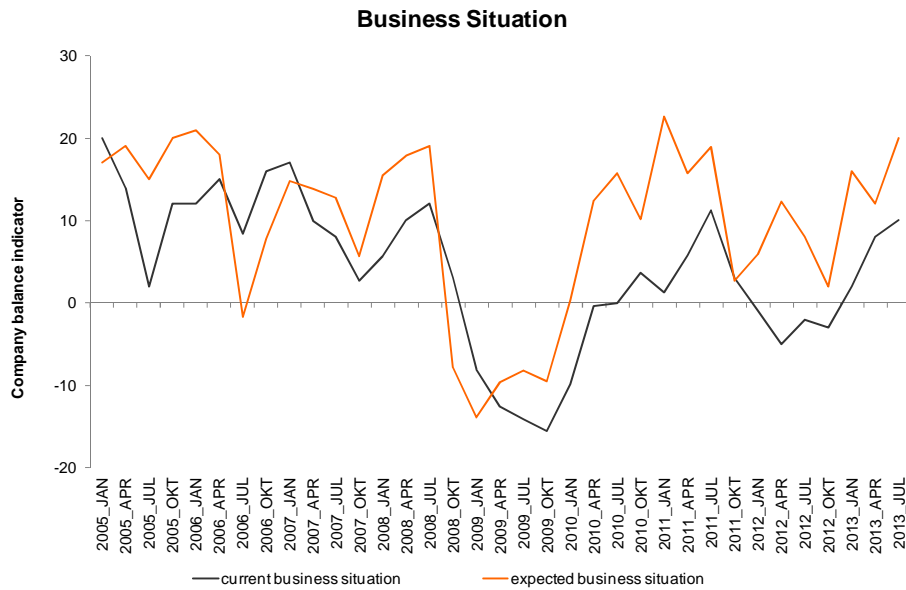
It can be said in terms of export activity that the stock orders for products and services fell in the group of export-oriented firms last quarter. An increase in the stock orders index can be detected only at firms producing exclusively for the domestic market.

### Production level and business situation

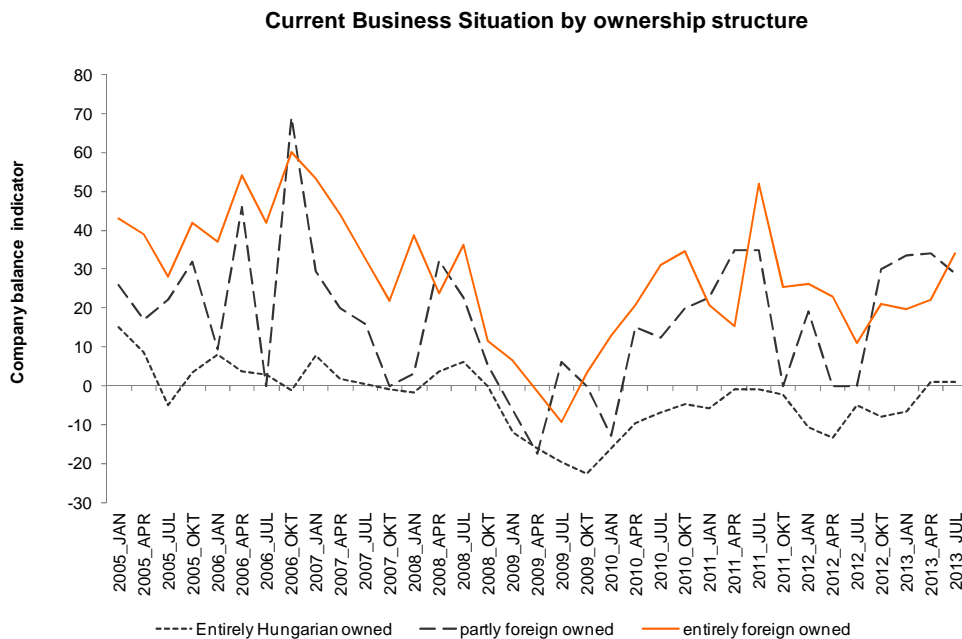
The production level indicator showed a significant decline over the past three months. This is due to the fact that the proportion of firms which recorded an increase in production levels rose to only 24% compared to the April 2013 level of 22%, while 25% of companies reported a decline in the level of production for the last half-year, which is a drastic increase of 6% compared to April, so that the overall index significantly deteriorated.



The analysis by export activity and company size shows that the production level indicator declined for all three groups. In terms of ownership background it can be said that the indicator fell for all three groups and purely foreign-owned companies continued to have the highest value. A similar situation exists for economic sectors as well, as the indicator declined for all sectors in the last three months. The greatest rate of decline was experienced by companies in the area of retail, due to an increase from 1% to 29% of firms reporting falling production over the last three months. In addition, among firms engaged in services the proportion of businesses reporting a reduction in production was 28%, but compared to the previous quarter, the result is an increase of only 20 percentage points.



Based on company reports, in contrast to production levels – and other components of the business climate index as well – a mild positive change has taken place in the business situation in the last quarter. Compared to the previous survey results the proportion of those reporting a poor business situation rose by 2 percentage points to 18%, the rate of firms with a good business situation rose 3 percentage points to 28%, while 54% of companies reported a satisfying business situation compared to 59% in the previous quarter. This increase prevailed in all corporate groups – by ownership, export activity, sector and size – with the exception of partly foreign-owned firms and companies in the retail and services sectors.

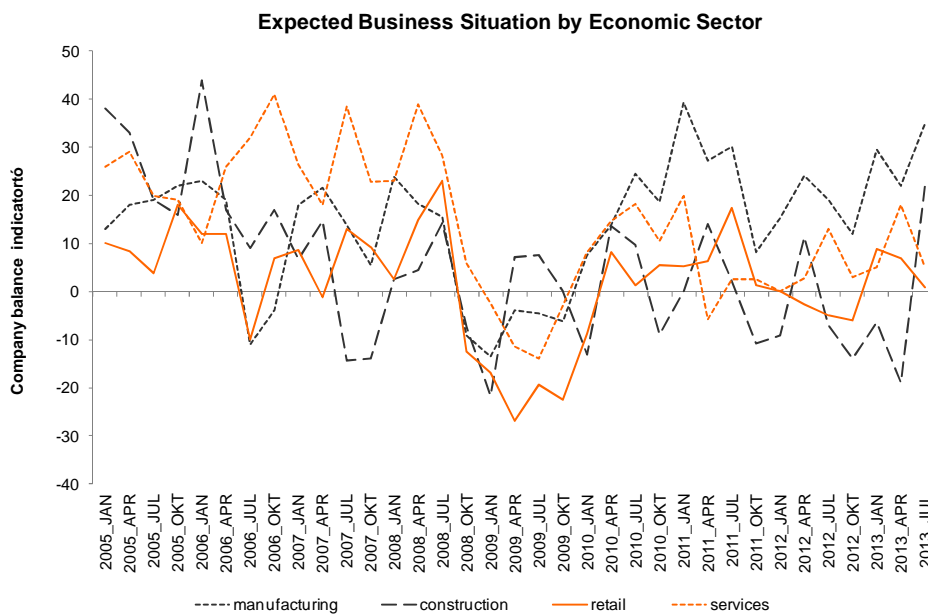


The highest values of the index were observed for purely foreign-owned firms (34), those with a large number of employees (17), those in manufacturing (28) and at mainly exporting companies (30).

## Business Expectations

The expected business situation indicator rose again in July 2013 following a decline in the previous quarter. Thirty percent of companies expect a good business situation (this is 7 percentage points higher than what was recorded in April) and only 10% expect a bad business situation, which is 2 percentage points lower than the value of the previous quarter.

In terms of categories related to employee numbers and the export activity of companies, it can be established that the expected business situation index increased with regard to all company categories and remains highest for predominantly exporting firms. As for the ownership structure of companies, a uniform positive trend is also apparent.



In the areas of retail and services we cannot detect improvement in the expected business situation, while for manufacturing and construction companies different levels of progress could be observed. Manufacturing firms continue to have the most optimistic expectations (35), while the greatest improvement was experienced in the construction industry: the index value of companies in this field increased from -19 to 22 in July 2013.

As we could see in the case of business situation, CEOs are more optimistic regarding the expected production levels for the next half year as well: 27% of companies have confidence in the growth of production levels, which is an increase of 7 percentage points compared with April, while 6% expect a reduction which is 4 percentage points higher than the figure from the previous quarter.

This increase, however, can't be considered general, so much so that expected production levels improved only in the case of entirely Hungarian owned firms, those with 20-49 employees, and partially exporting businesses as well as manufacturing and construction companies.

Along with business situation and production levels, companies also project an improvement with respect to capacity utilization compared to the previous quarter, but in this case the index only increased by 1 point compared with April 2013, from 16 to 17, reverting to its value of the final quarter of 2012.

Overall, 21% of companies expect an increase in the rate of capital utilization, which is a 3 percentage point increase, while 4% of companies predict a decline in their capacity utilization rate, which is a relative increase of 2 percentage points over the past three months.