

Favourable business climate, unchanged expectations – results of the October 2016 IEER Business Climate Survey

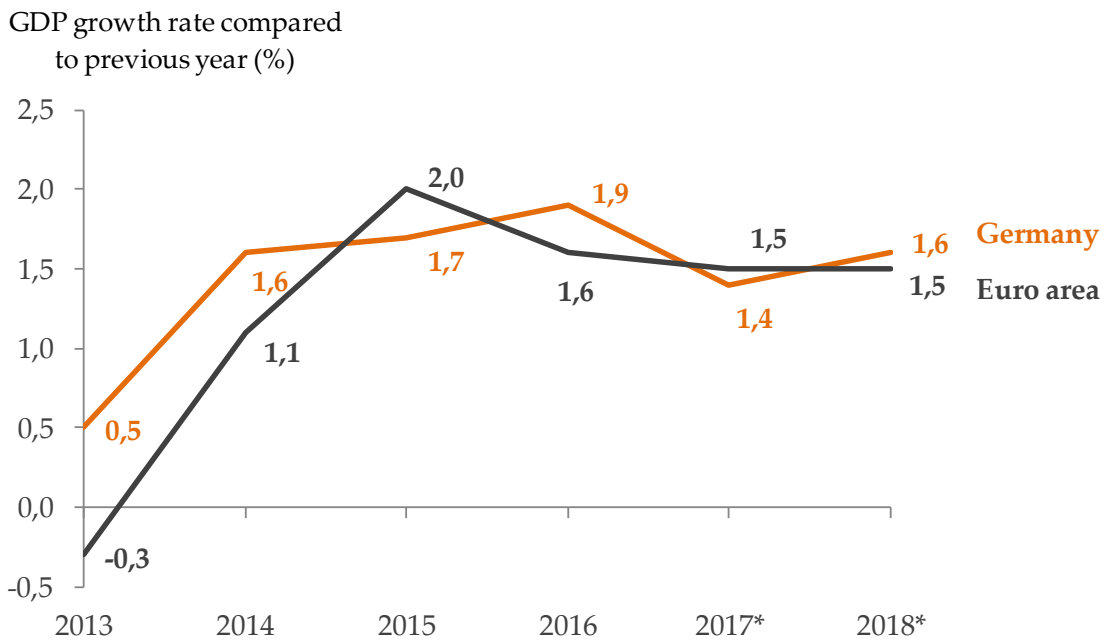
The 38th wave of the IEER Business Climate Survey was conducted in October 2016. This is the largest business climate survey in Hungary with regard to the number of participating companies. This year 3185 managers responded to the questionnaire on their business climate and short-term business expectations. The surveyed companies are representative to the Hungarian business sector in terms of economic performance, region and sector distribution. This analysis summarizes the results of the October 2016 survey. According to the new results of the IEER Business Climate Survey the IEER Business Climate Index decreased to +48 points in October 2016 from +49 points in April 2016, which is the second highest value in the history of the survey. Companies are still very positive about their current business climate, however, it seems that the continuing upward trend since October 2012 is broken. This is due to the fact that the expectations on investments (especially construction and machinery investments), profitability and stock orders are slightly more pessimistic than in the previous period. The value of the Uncertainty Index has increased by one point (October 2016: 48 points) compared to April 2016. This refers to the fact that the difference between the evaluations of the enterprises has not changed compared to the previous period.

International economic context

The economic performance of Germany has a significant impact on the business climate of Hungarian firms, as Germany is a prominent economic partner of Hungary, and it is a dominant economy of the European Union. According to the forecasts of the German Ifo institute on the development of the German GDP, the growth of real gross domestic product can be expected (the 1.7% GDP growth in 2015 can be followed by a 1.9% growth in 2016).

In contrast, Ifo expects the decline of economic growth in the Euro area: they predict that the economic growth of 2.0% in 2015 will be 1.6% in 2016. According to the forecasts, economic decline can be expected in Germany in 2017: the economic growth will be only 1.4%, however, they predict an increase in 2018, that time they expect the GDP to grow by 1.6%. Ifo predicts a slight decline of the GDP: the expected growth is 1.5% in 2017, and it will stagnate in 2018.

Figure 1: GDP growth in Germany and in the euro area



Source: CESifo 2016

* Estimations of Ifo

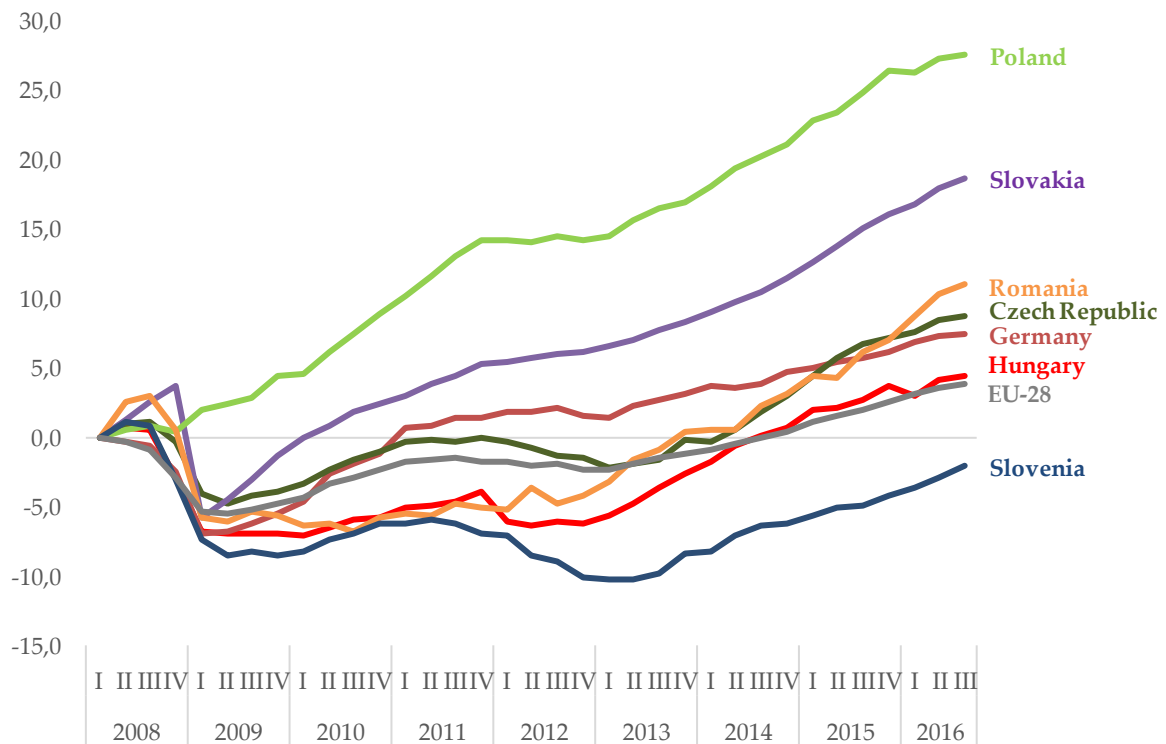
Data is available here:

<https://www.cesifo-group.de/ifoHome/facts/Forecasts/Gemeinschaftsdiagnose/Archiv/GD-20160929.html>

Domestic economic context

The data on the recovery of the Hungarian economy demonstrates that Hungary achieved the pre-crisis level of GDP later than Poland, Slovakia, the Czech Republic, Romania, and Germany (see Figure 2). Another important observation that can be read from the figure is that while the GDP of Hungary is higher by 3.3% than the level before the crisis, this percentage is 26.7% in the case of Poland, 15.4% in Slovakia, and 6.7% in Romania. During this period, the Polish, the Slovakian, the Czech and the Romanian economic growth rate was higher than the Hungarian rate.

Figure 2: Where are we in the crisis? GDP growth compared to the beginning of the crisis (2008 q1 - 2016 q3)



Business Climate Index and Uncertainty Index

The IEER Business Climate Index dropped from 49 points of April to 48 points in October. This is the second highest value in the history of the research. The Uncertainty Index increased by one point, thus it stands at 48 points. This refers to the fact that the difference between the evaluations of enterprises has not changed compared to the previous period.

The value of the Business Climate Index has decreased compared to its April value in case of the construction industry and commerce, and it has increased in manufacturing and other economic services. The highest fall (8 points) happened at companies operating in the field of commerce (47 points). The decline was 4 points in case of construction companies (37 points). The growth was 2 points in case of manufacturing (61 points) and it was one point at other economic services (33 points). According to the ownership structure, we can assess that there is no significant change compared to the previous period. The value of the Business Climate Index stagnated compared to the previous period in case of the Hungarian-owned enterprises (42 points) and in case of the exclusively foreign-owned enterprises (66 points), while there was a slight decline (by one point) at partly foreign-owned businesses (53 points).

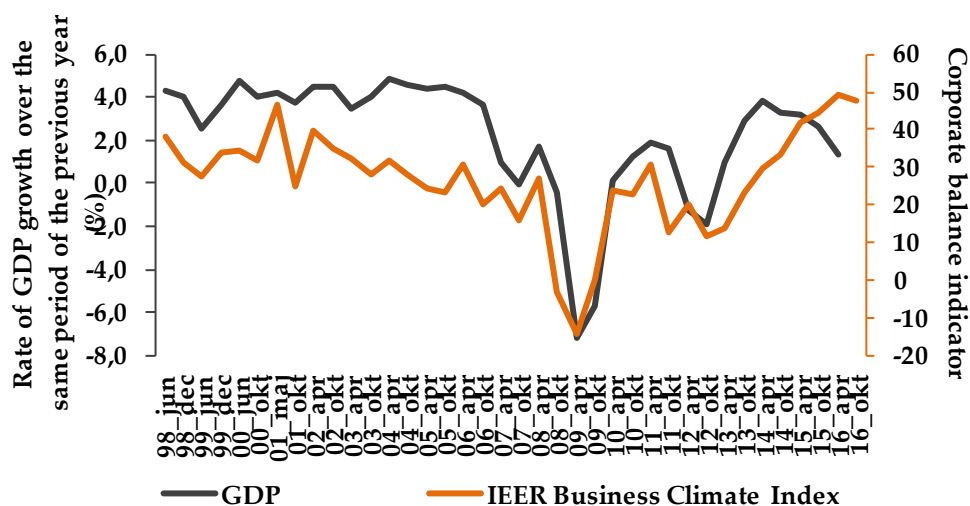
The exporting companies are more optimistic (the value of the indicator is 64 points in case of the mainly exporting companies, and it is 47 points at partly exporting companies) than the

businesses producing exclusively for the domestic market (in their case the value of the indicator is 47 points).

Regarding the size of companies, we can observe that the expectations of larger businesses is more favourable than the smaller ones: the value of the Business Climate Indicator is 12 points at businesses with less than 9 employees, while it is 36 points in case of companies with 10-49 employees, it is 52 points for the firms with 50-249 employees, and it is 63 points for the businesses with more than 250 employees.

That is, the favourable business climate is mostly perceived by the foreign-owned, exporting businesses with more than 250 employees – their expectations are the most favourable.

Figure 3: GDP and the IEER Business Climate Index



Source: IEER 2016

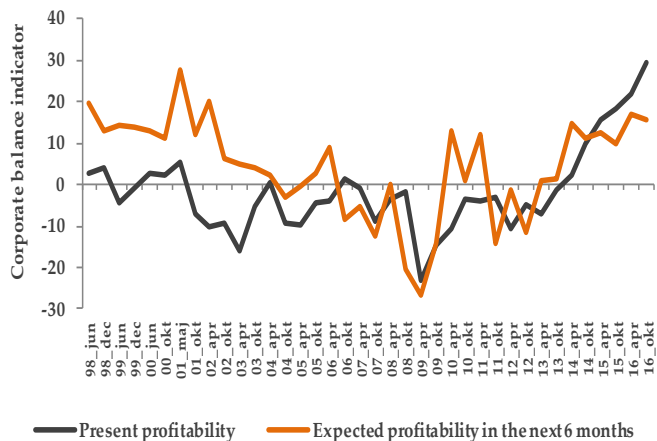
The IEER Business Climate Index consists of four components. Furthermore, we measured some other important indicators of business climate (e.g. labour force demand, production level). Both the current and the expected business situation are perceived more favourable than in the previous period. The indicator of current profitability has increased compared to the results of April 2016. However, the expectations of the firms are more pessimistic than in the previous period (the only exception is the indicator of expected business situation). The expected profitability fell by 2 points compared to April 2016. The expected volume of construction investments has dropped by 6 points compared to the previous period. The expected volume of machinery investments has continued to grow since April 2014, it has been 46 points in April 2016, and now it fell to 41 points. The indicator of expected stock orders has increased since October 2014, it has achieved its peak (83 points) in April 2016, and it decreased to 79 points in October 2016.

Figure 4: Components of the Business Climate Index

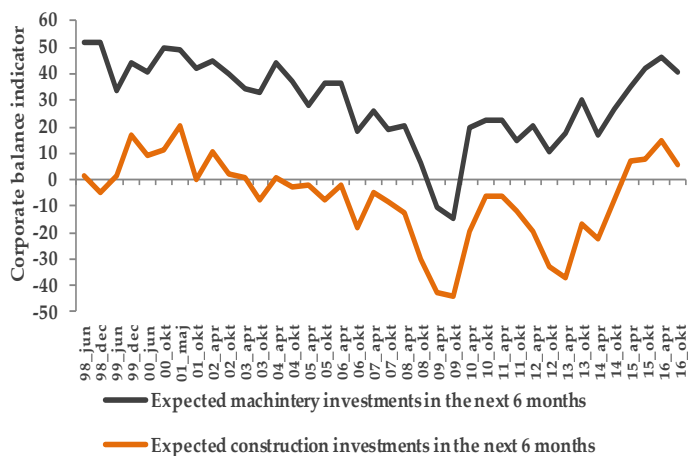
Business situation



Profitability



Investm



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Stock orders

