

# **Favourable business climate, continued optimistic expectations - IEER Business Climate Survey findings of October 2018**

*– Summary in English –*

**Budapest, November 2018**

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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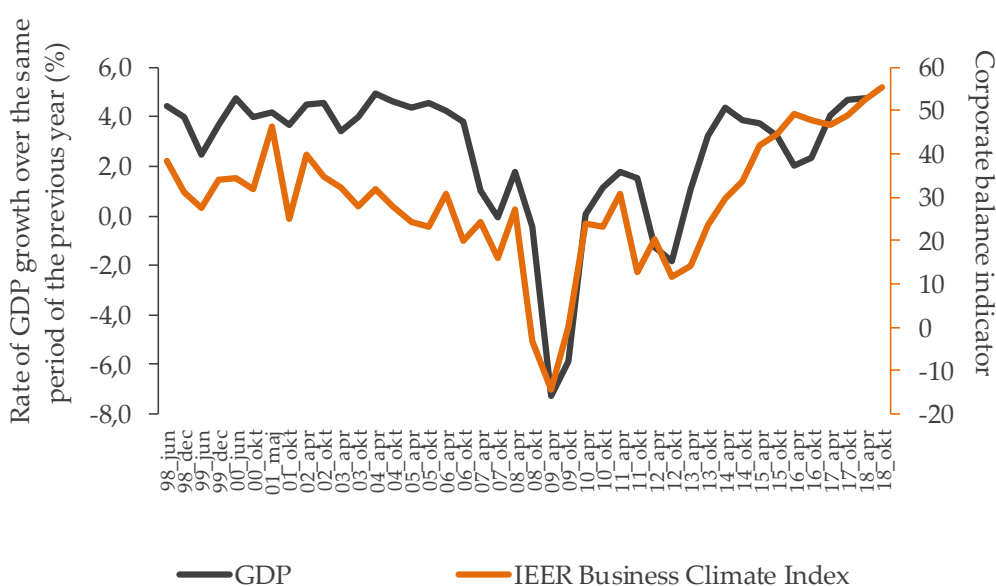
Author: Ágoston Horváth, analyst, IEER

Head of research:   Ágnes Makó, PhD  
managing director, IEER  
e-mail: [agnes.mako@gvi.hu](mailto:agnes.mako@gvi.hu)

Office: H-1054 Budapest, Szabadság tér 7.  
Phone: (+36-1) 235-05-84  
E-mail: [gvi@gvi.hu](mailto:gvi@gvi.hu)  
Web: <http://www.gvi.hu>

The latest Business Climate Survey of IEER is based on the answers of 2830 CEO respondents. According to the results, Business Climate Index was at 55 points as of October 2018, which has been the highest since records began in 1998. Trends that had started to improve in the previous half continued. Business climate is still regarded by companies as being very favourable, which can mainly be put down to the fact that expectations about investments in construction and machinery became significantly more optimistic in the previous half year. Uncertainty Index, currently at 37 points, is down two points compared to April 2018 results, meaning that the situation assessment of Hungarian businesses have become more homogeneous in the past two quarters.

Figure 1 GDP and IEER Business Climate Index, June 1998 - October 2018



GDP	4,1	4,7	4,8	
IEER Business Climate Index	46,8	49,0	52,6	55,5

Source: Central Statistical Office, IEER 2018

Note: GDP figures show half-year growth trends, having been adjusted for season and calendar effect. Figures are thus levelled out. Year-on-year = 0

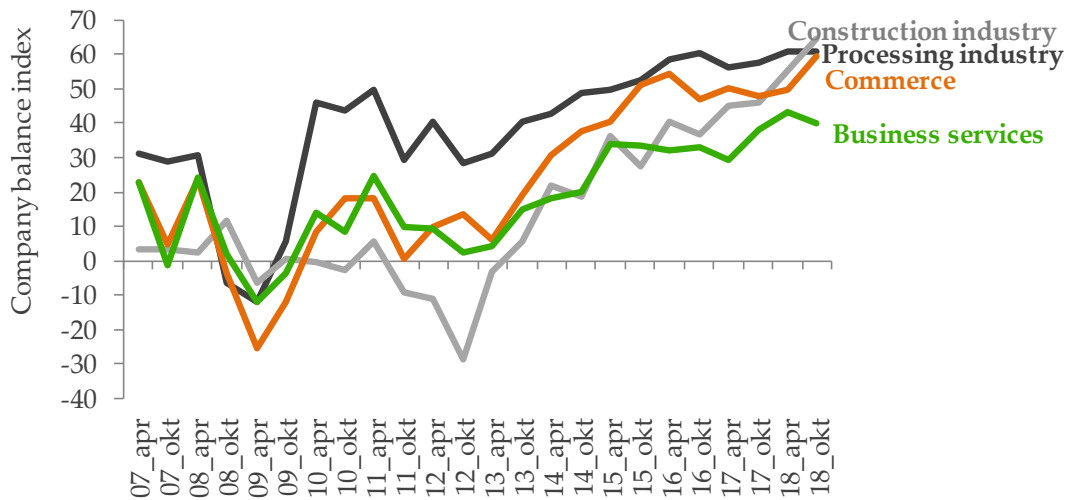
GDP: left axis

IEER Business Climate Index: right axis

## IEER Business Climate Index by company features

The Business Climate Index was the highest for construction companies (+65 points), followed by industrial firms and companies specialising in commerce (61 and 60 points, respectively). Companies offering business services are a distant fourth (40 points). Half-on-half figures show that only construction and commercial companies saw a significant increase – compared to April, their indicator jumped 10 points.

**Figure 2 IEER Business Climate Index by economic sector, April 2007 - October 2018**

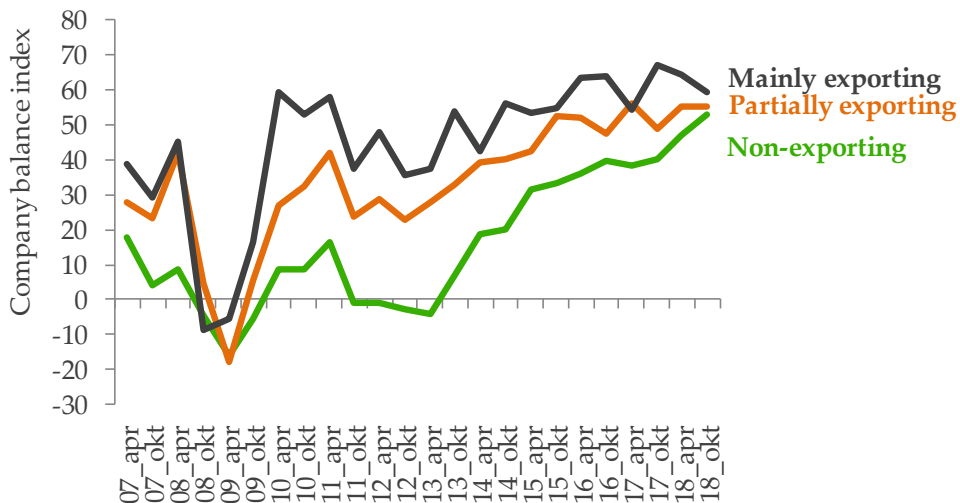


Source: IEER 2018

Note that the score in the figure is a balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

Looking at exports one can see that major exporters got the highest Business Climate Index for this half (+59 points), followed by partially exporters and non-exporters (+55 and +53 points, respectively). While the index went up 6 points for non-exporters and stagnated for partially exporters, it went down 5 points for major exporters compared to the previous half.

**Figure 3 IEER Business Climate Index by export activity, April 2007 - October 2018**



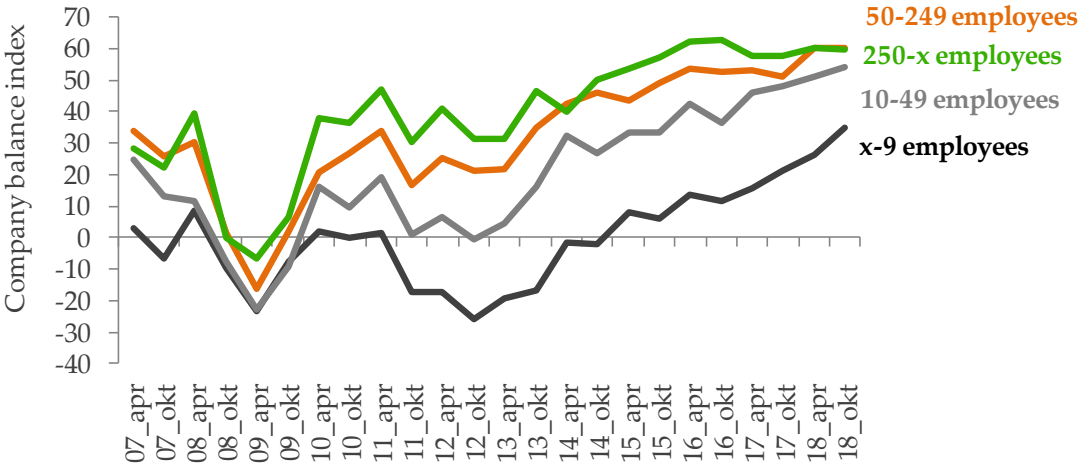
Source: IEER 2018

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Analysis with regard to company size shows that larger companies have better expectations. While the Business Climate Index was +35 points for companies with fewer than 9 employees, it was +54 points for 10-49 companies, and +60 points for both 50-249 and 250+ companies. There has only been a significant change (a 9 point increase half-on-half) at companies with fewer than 9 employees.

**Figure 4 IEER Business Climate Index by the number of employees, April 2007 - October 2018**

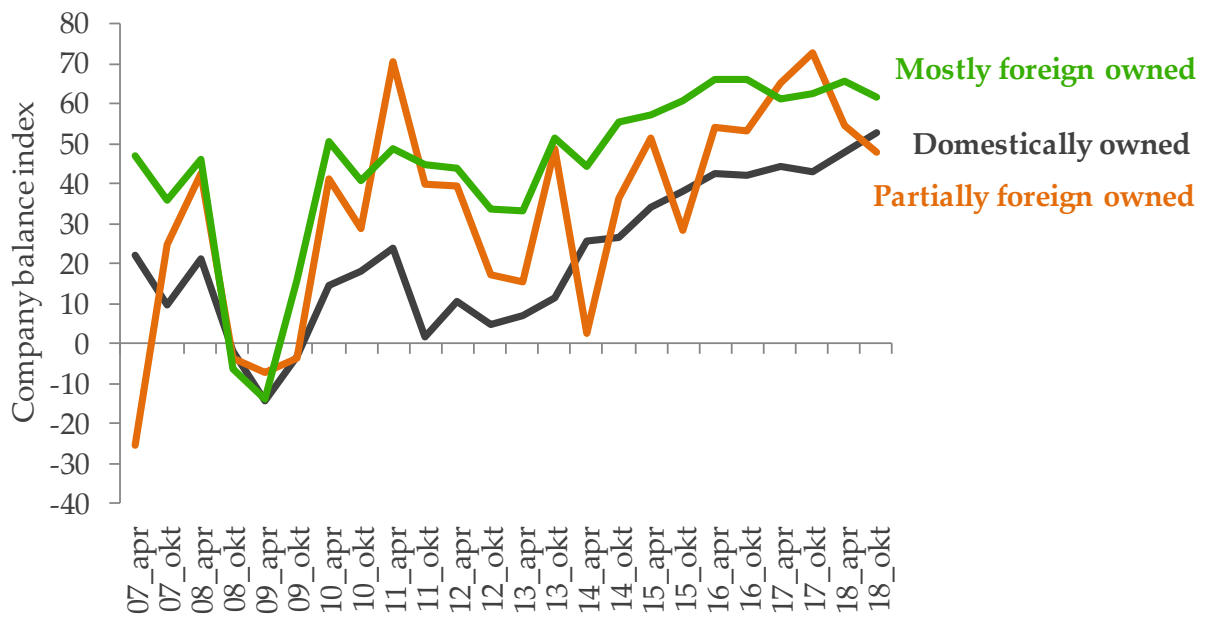


Source: IEER 2018

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Focusing on ownership structure, the Business Climate Index was the highest for mostly foreign owned companies (+62 points). Domestically owned companies and especially partially foreign owned companies lag behind considerably (at +53 points and +48 points, respectively). Partially foreign owned companies slipped down another 6 points half-on-half. Compared to April results, businesses of a mostly foreign ownership experienced a 4 point drop in their Business Climate Index, while the Business Climate Index of domestic companies increased by 5 points.

**Figure 5 IEER Business Climate Index by ownership structure, April 2007 - October 2018**



Source: IEER 2018

Note that the score in the figure is a balance indicator projected on a scale of 100. In all cases, the balance indicator shows the difference between the rate of companies providing positive and negative situation reports. The indicator therefore spans a scale from -100 to +100. -100 indicates that all of the surveyed companies assessed their situations to have been negative, while +100 indicates that all of the surveyed companies assessed their situations to have been positive.

## The components of the Business Climate Index and further indicators of business climate

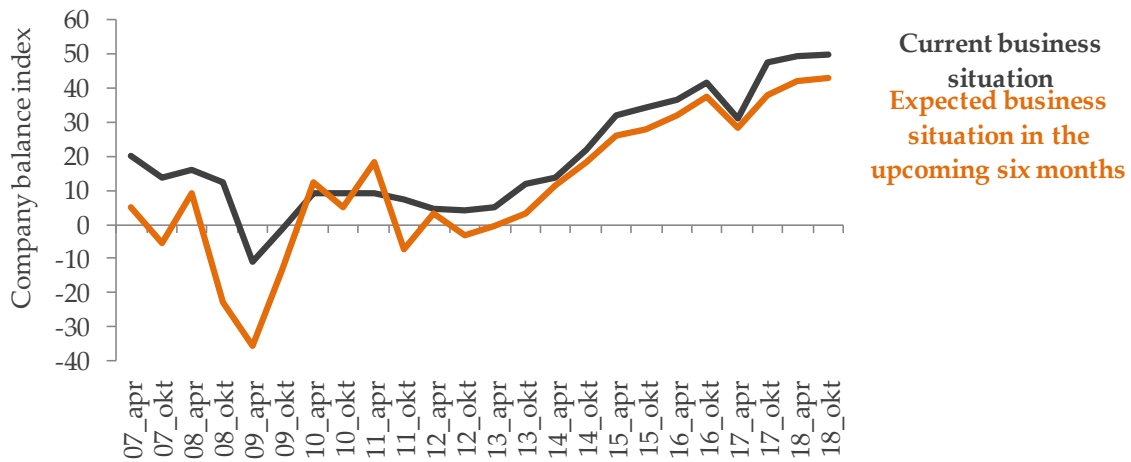
IEER Business Climate Index has four components:

- expected business situation in the upcoming six months;
- expected orders for the upcoming six months;
- expected investment in machinery for the upcoming six months;
- expected investment in construction for the upcoming six months.

As far as the sub-indicators are concerned, companies in general are quite optimistic about the business situation, future outlook, current profitability rates and investment trends. However, future profitability and expected orders are seen more negatively than in April 2018.

In October, both the current and the expected business climate were seen by companies to have been more positive than in the previous half, though only minimally. The two sub-indicators both improved by 1 point half-on-half. Current business situation is now at 50 points and expected business situation is at 43.

**Figure 6 The components of business climate - business situation**

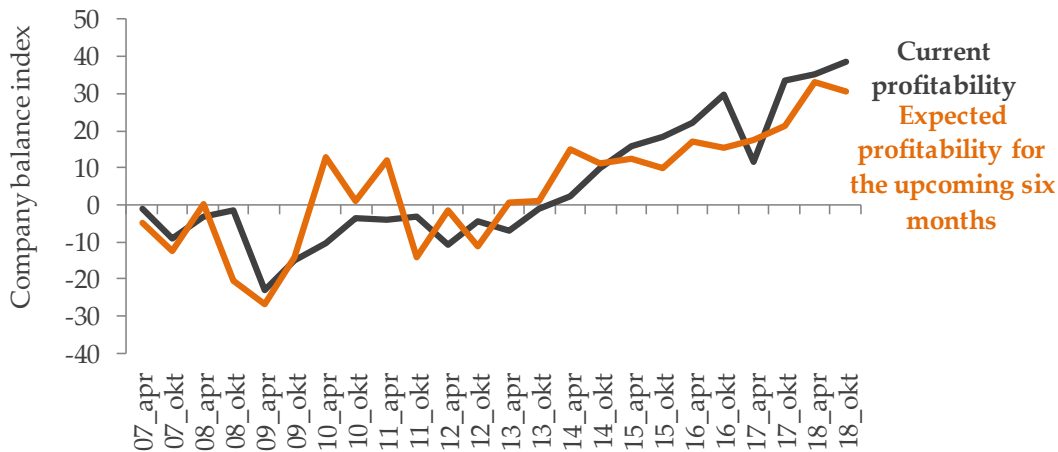


Source: IEER 2018

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Compared to April, current profitability also improved somewhat, up at 38 points from 35, while expected profitability dropped by 2 points, now at 31.

**Figure 7 The components of business climate - profitability**

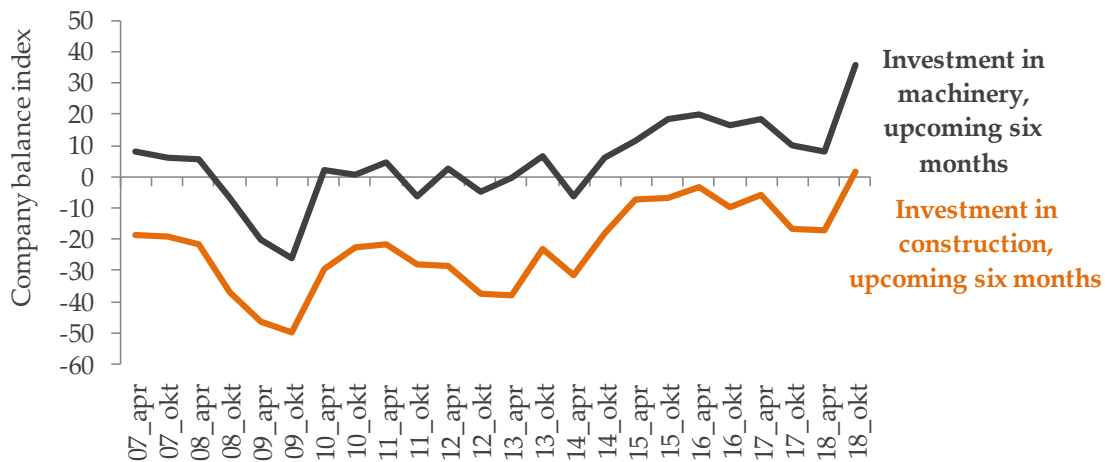


Source: IEER 2018

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The expected volume of investment in machinery got 36 points, and investment in construction scored 2. Both indicators have changed a lot since April: the expected volume of investment in machinery jumped by 28 points and that in construction scored 19 points more than six months before.

**Figure 8 The components of business climate - investments**

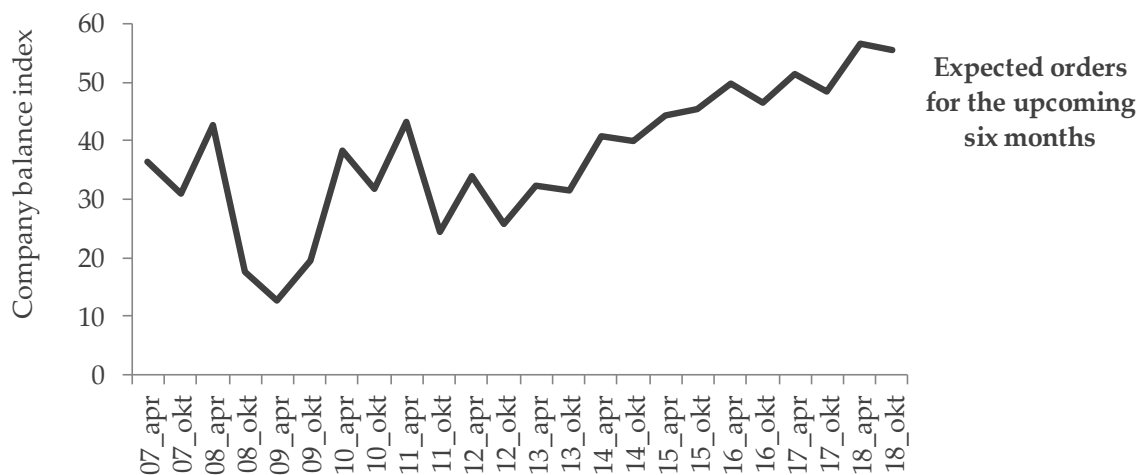


Source: IEER 2018

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As for incoming orders for the next period, companies are somewhat more pessimistic: compared to the previous half the indicator is down one point, its value in October is at 55 points.

**Figure 9 The components of business climate - unfilled orders**



Source: IEER 2018

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