



Results of the January 2019 IEER Quarterly Business Climate Survey

The Quarterly Business Climate Survey of IEER is based on the survey of 400 CEO respondents about their business situation and expectations. The Quarterly Business Climate Index and the Quarterly Uncertainty Index were calculated from the full sample of 300 small and medium-sized enterprises (20-249 employees) and 100 large companies (250+ employees). For small and medium-sized enterprises, an SME Outlook Business Climate Index and an SME Outlook Uncertainty Index were calculated.

According to the records taken in January 2019 the level of business confidence in Hungary dropped back slightly compared to the zenith measured in July and October 2018: the Quarterly Business Climate Index slid from 42 points to 41. This score has been the second highest since records of Quarterly Business Climate Surveys began in 2010 (see figure 1).

If business confidence is examined separately in the SME sector, one can see that after the peak in October the Business Climate Index dropped back to the level measured in July, that is, 34 points from 41 points measured in October (see figure 2).

Figure 1: Quarterly Business Climate Index, January 2010 – January 2019

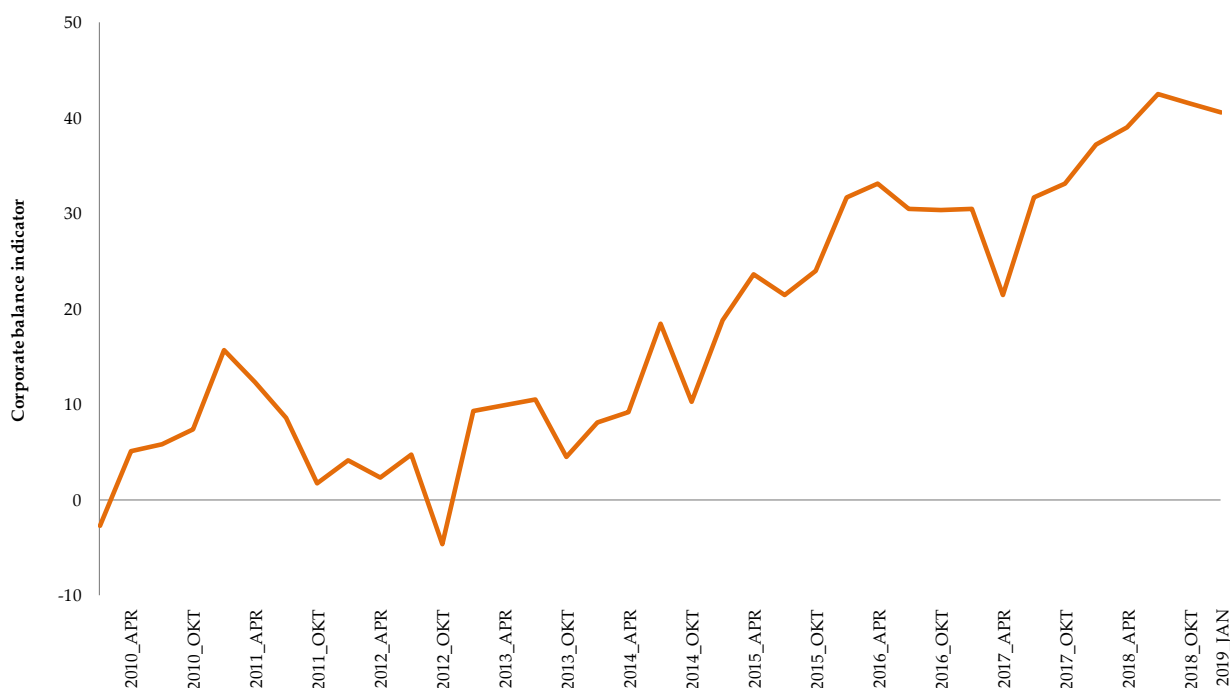
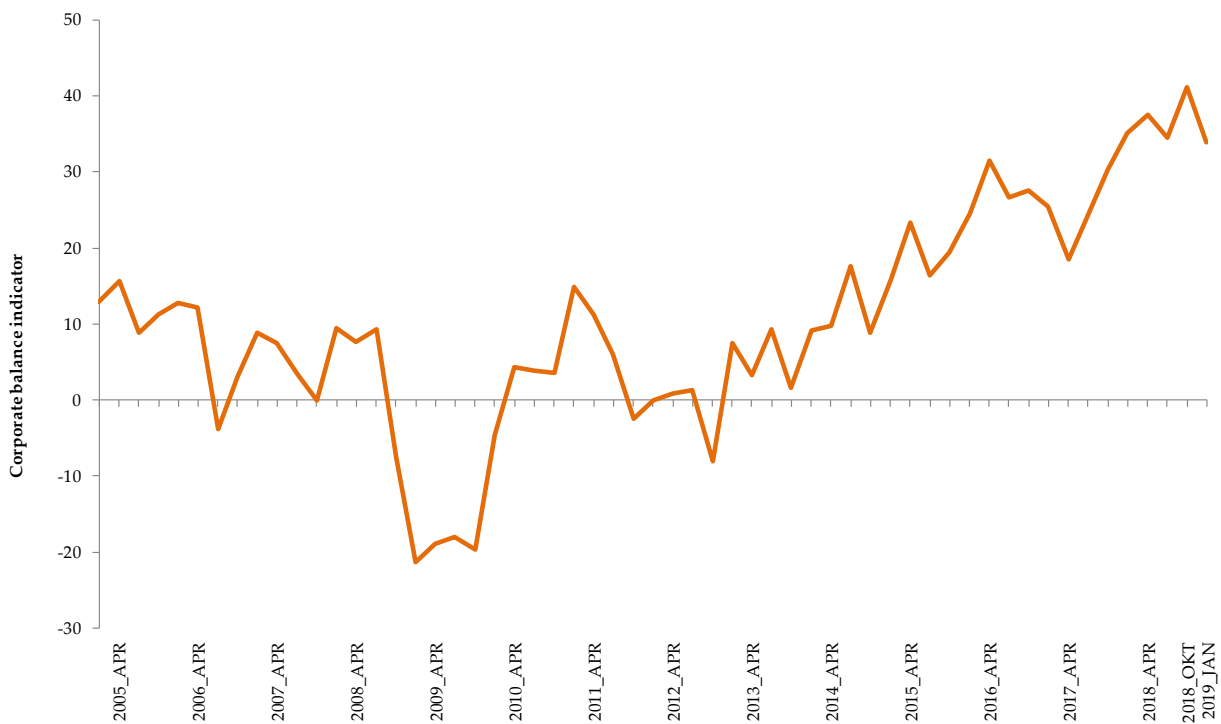


Figure 2: SME Outlook Business Climate Index, January 2005 – January 2019



Source: IEER 2019

Please 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 Quarterly Business Climate Index was the highest for construction companies (+42 points), while for trading companies and for companies in the processing industry it was +41 points. Companies offering business

services got the lowest score at +36 points. Construction companies experienced a 9 points decline quarter-on-quarter. In other sectors there was no change since October.

Figure 3: Quarterly Business Climate Index by economic sectors, January 2010 – January 2019



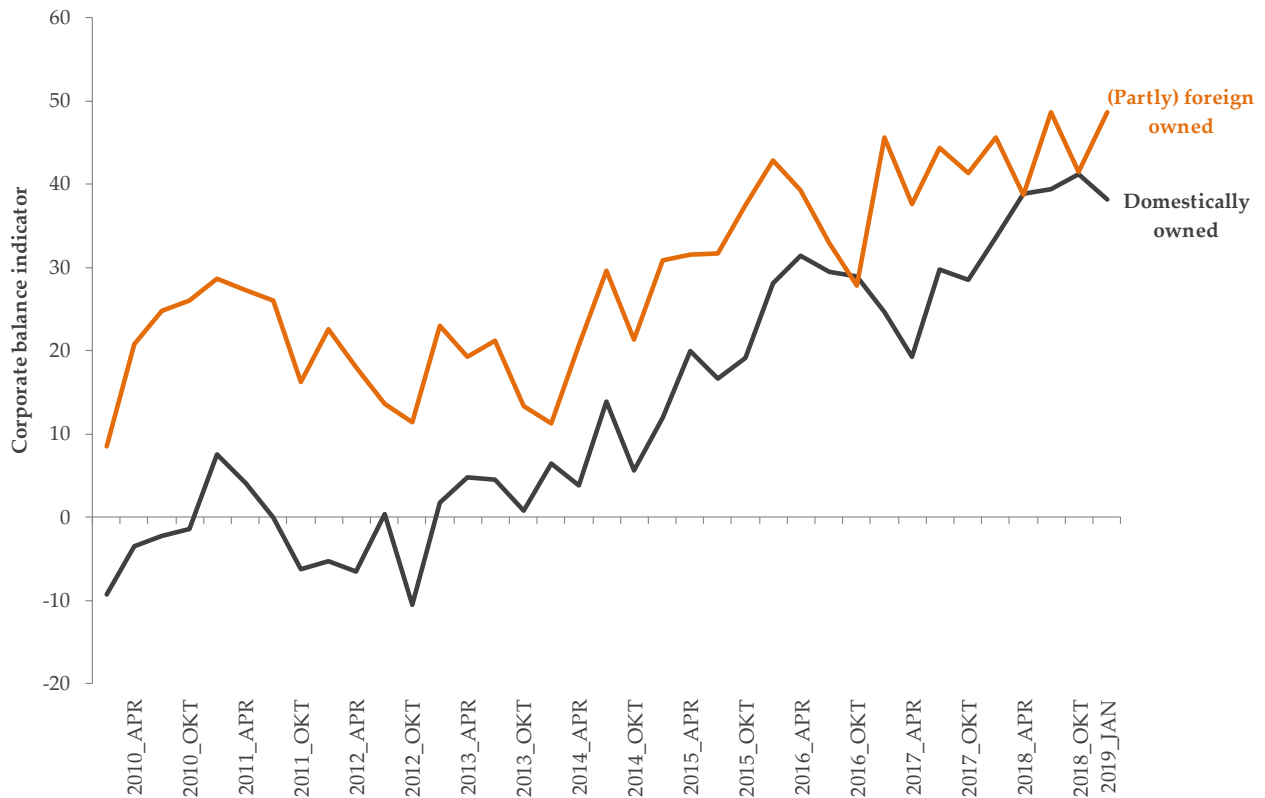
Source: IEER 2019

Please 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.

Examining companies by ownership structure reveals that the Quarterly Business Climate Index is +38 points for domestically owned companies and +49 points for (partly) foreign

owned enterprises. While domestically owned companies lost 3 points quarter-on-quarter, (partly) foreign owned enterprises showed a 7 points increase for this indicator.

Figure 4: Quarterly Business Climate Index by ownership structure, January 2010 – January 2019



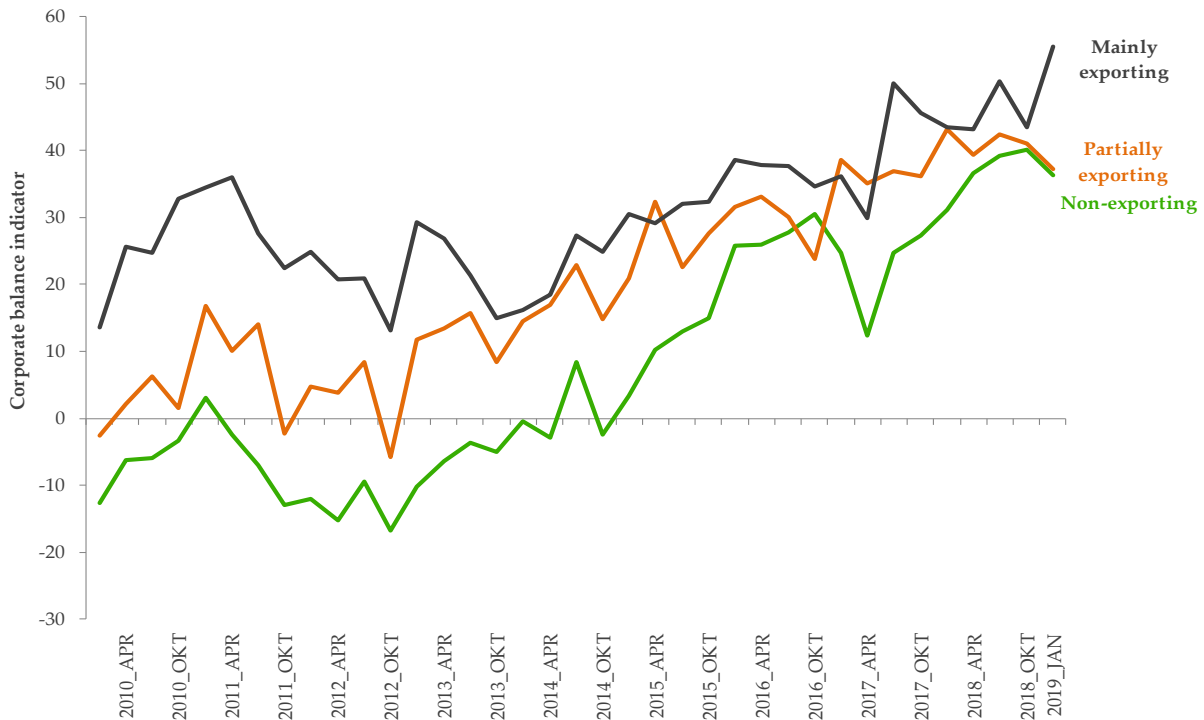
Source: IEER 2019

Please note that Please 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.

With regard to exports, the value of the Quarterly Business Climate Index was the highest for mainly exporting companies (+56 points), while it was +37 points for partially exporting and +36 for non-exporting

enterprises. Compared to the previous quarter, non-exporting and partially exporting companies lost 4 points each, whereas the same indicator increased by 12 points among mainly exporting enterprises.

Figure 5: Quarterly Business Climate Index by export activity, January 2010 – January 2019



Source: IEER 2019

Please 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 Quarterly Business Climate Index has ten components such as:

- current/expected business situation;
- current/expected profitability;
- expected investment activity;
- current stock orders;
- production levels of the previous half-year/expected production levels;
- expected change in staff members;
- expected capacity utilisation.

As far as sub-indicators are concerned, CEOs were far more optimistic about their current stock orders, expected business situation and production levels of the previous half, whereas their expectations regarding expected production levels, expected profitability and expected capacity utilisation are considerably more pessimistic than in October 2018. Year-on-year outlook regarding investments, expected numbers of employees, expected production levels, and

expected capacity utilisation was more negative, however, concerning the rest of the components companies have more optimistic expectations than in January 2018.

According to data recorded in January, large companies assessed their situations more positively than small and medium sized enterprises. With the exception of expected investment activity, all other indicators suggest that the 250+ group sees their business situation more positively. This can be put down to the fact that large companies' average score for several indicators (such as current and expected business situation, current profitability, current stock orders) experienced a substantial quarter-on-quarter surge, while small and medium-sized enterprises fell back considerably judging by their indicators such as expected profitability, expected production levels and expected capacity utilisation rates.

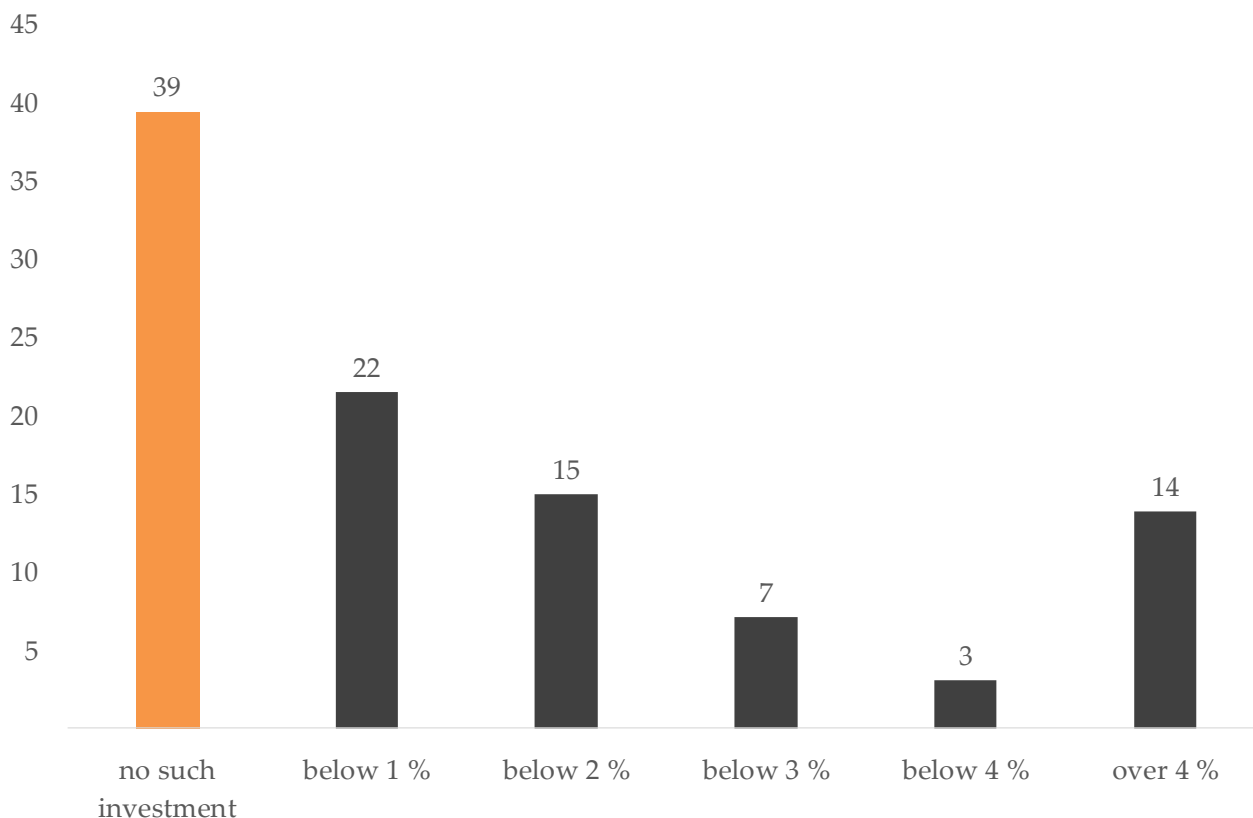
Innovation and automation at Hungarian companies

In this analysis we shall focus on the attitude of Hungarian businesses towards technologies linked to innovation and automation. The data were taken by IEER and the Hungarian Ministry of Finances within the framework of their joint research titled "short term labour market forecast" in 2018, surveying 6781 companies about innovation and automation. Concerning the surveyed private sector companies' geographical location, overall sector distribution and size, the findings rely on a representative sample.

In the past 3 years, some 40 per cent of businesses registered in Hungary have made no investment in innovation whatsoever. 37 per cent of those companies that did make such investments only invested a maximum of

2 per cent of their revenues. 10 per cent of the companies spent between 2 and 4 per cent of their revenues on innovation while 14 per cent claimed to have invested over 4 per cent in the past three years (see figure 6).

Figure 6: Investments in innovation: revenue spent on innovation in the past three years, per cent, N=3743



Source: PROGNÓZIS_2018, IEER – Ministry of Finances

The proportion of such companies that did not spend on innovation in the past 3 years is highest in the SME sector. 56 per cent of companies staffed below ten have not spent on innovation in recent years. This rate is 46 per cent for 10-49 companies, 47 per cent for 20-49 companies, 36 per cent for 50-250

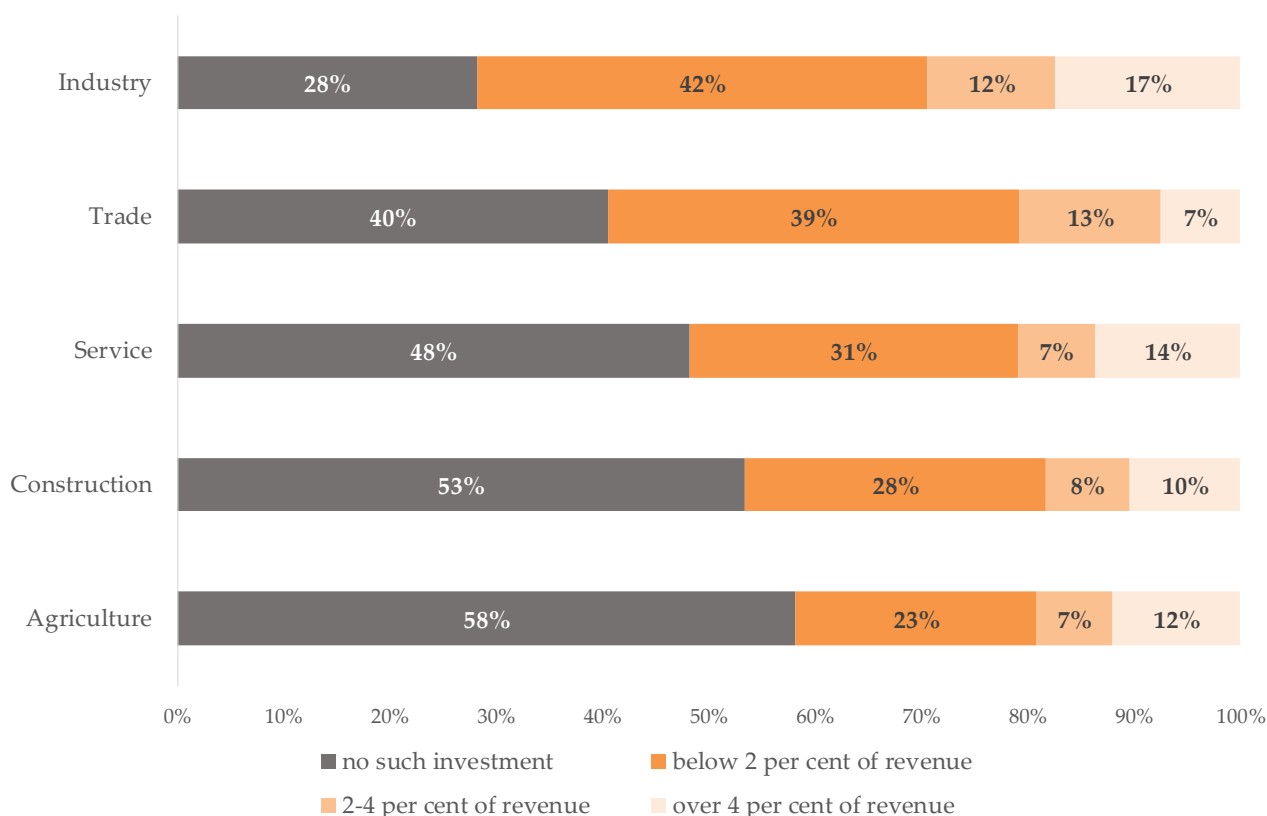
companies, and only 26 per cent for 250+ companies. In the last two categories, the proportion of companies that invested at least 2 per cent of their revenues in innovation is the highest.

The introduction of innovative technologies in the past three years was more generally

implemented by fully or partially foreign-owned companies than by fully domestic ones, with 43 per cent of fully domestic companies and only a quarter of foreign-owned companies not investing in innovations at all. There is a much higher proportion of foreign-owned companies, too, that turned back over 4 per cent of their revenue to implement innovations (19 per cent; fully domestic companies: 13 per cent).

Innovations were mainly introduced by industrial companies in the past three years. There, 72 per cent of companies spent some of their revenues on that purpose. Respectively, 60 per cent and 52 per cent of companies in the trading and service sectors invested in innovation, while the majority of construction and agricultural companies did not (see figure 7).

Figure 7: Investment in innovation: revenue spent on innovation in the past three years in the major economic sectors, per cent, N=3743



Source: PROGNÓZIS_2018, IEER – Ministry of Finances

About half of the companies that introduced innovation in the past three years launched new products or new services. 46 per cent uses a new technology in production or service provision. One quarter of respondents introduced new marketing and sales

techniques, and 22 per cent introduced an innovation in company management methods. 21 per cent of the surveyed companies introduced new logistic or shipping methods, while 6 per cent innovated in miscellaneous areas.

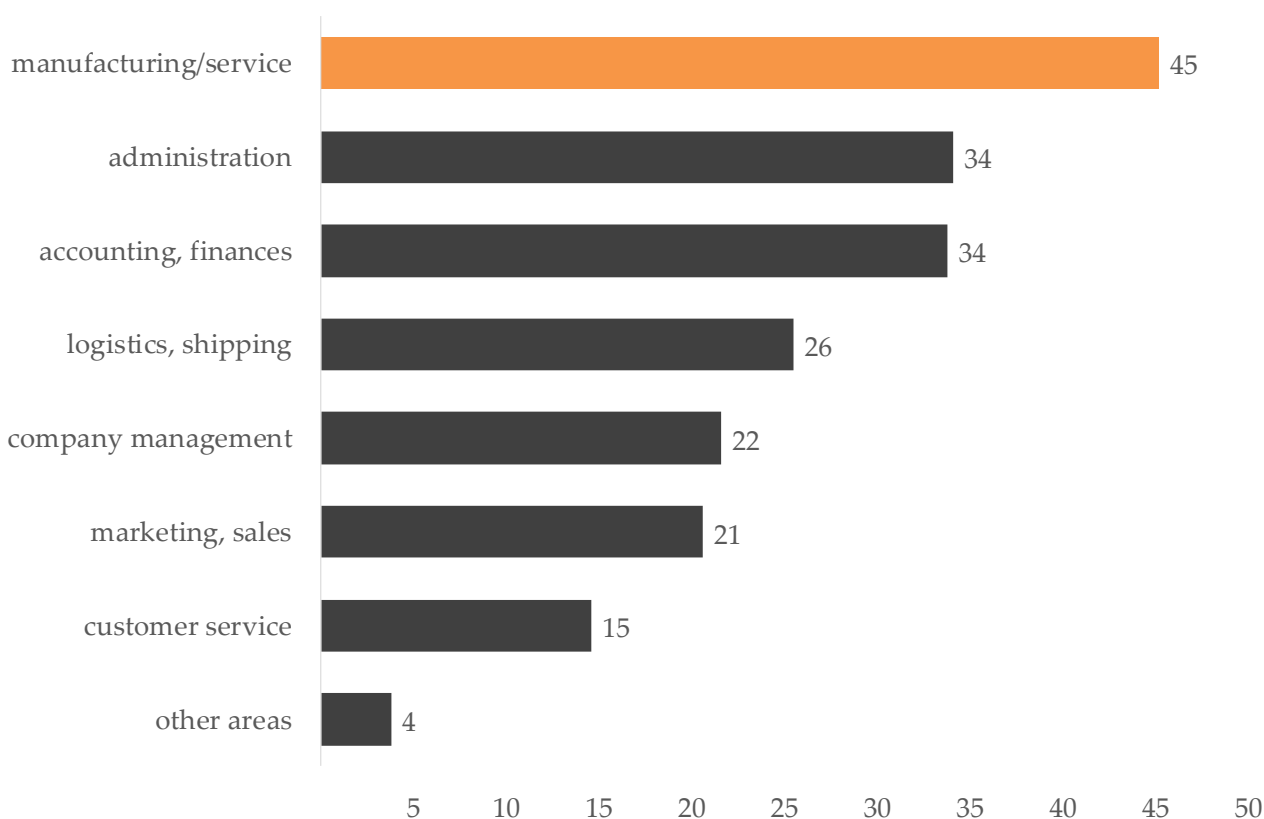
Plans regarding automation

The company leaders were also asked if they had developed in the fields of automation and digitalisation in the past 3 years. 66 per cent of respondents stated to have implemented such development. Not unlike spendings on innovation, investments in automation and digitalisation were also more characteristic of foreign-owned 250+ industrial companies that are major exporters. More than 8 per cent of the companies in this category reportedly engaged in digitalising development in the past three years, whereas smaller companies remained below average with respect to automation and digitalisation. 61 per cent of fully domestic companies and 57 per cent of non-exporters introduced, to some extent, automation and digitalisation. Industrial companies are not alone with high automation rates: the proportion of automating companies in the trade sector is

also high: 60 per cent. In agriculture, construction and services, this proportion is around 52 per cent.

Like the introduction of innovations, the introduction of automation and digitalisation is also motivated by improved future production result expectations. Almost 45 per cent of companies introduced automation and digitalisation in processes of manufacturing or service providing. 34 per cent had digitalisation introduced into administration, and another 34 per cent digitalised tasks in accounting and finances. At 26 per cent of the companies, tasks in logistics and shipment were automated. 22 per cent developed company management, while 21 per cent developed marketing and sales processes by automation. 15 per cent of businesses specialising in customer service introduced automation and digitalisation technologies in recent years (see figure 8).

Figure 8: Development of automation: areas automated or digitalised in the past three years, per cent, 1270≤N≤5244



Source: PROGNÓZIS_2018, IEER – Ministry of Finances

Note: Respondents could choose more than one answer.

About half of the companies (47 per cent) plans to implement automation or digitalisation technologies in the forthcoming three years. 85 per cent of the companies that plan to implement automation target to develop production and service provision, 60 per cent target administration, while accounting, company management and logistics are targeted by 50 per cent each. However, about 32 per cent of the businesses surveyed did without any development in automation and digitalisation in the past three years, and they do not plan any such development in the forthcoming three years either.

According to the majority of these companies' CEOs, such development was not necessary.

40 per cent gave this reason for not having implemented or planned any development of this sort. 26 per cent of respondents could not tell the reason of not implementing - or having implemented - such development. 14 per cent of companies mentioned a lack of funds, and 10 per cent were of the opinion that the costs of digitalisation and automation were too high. Fewer than one in twenty CEOs remarked that they could by no means have introduced innovative technologies at their companies. They claimed that such development would have been too complicated, or it would have necessitated to hire experts.

International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Mar)	4.9%	4.9%	5.0%
Germany	Manufacturing Purchasing Managers Index	(Mar)	44.1	44.7	44.7
	IFO Business Climate Index ¹	(Mar)	99.6	98.7	98.7
France	INSEE Business Climate Index ²	(Mar)	104		103
	Unemployment Rate	(Mar)	3.8%	3.8%	3.8%
USA	CB Consumer Confidence Index	(Mar)	124.1	132.0	131.4
	Manufacturing Purchasing Managers Index	(Mar)	52.4	52.5	52.5
China	Manufacturing Purchasing Managers Index	(Mar)	50.5	49.5	49.2

¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

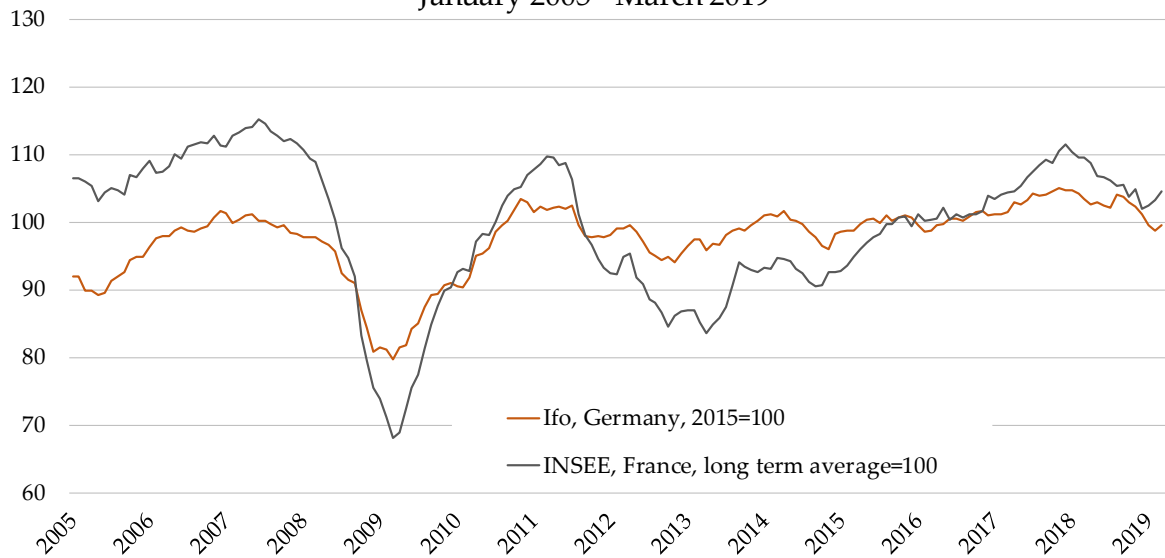
The rest of the data source: <http://worldeconomiccalendar.com>

In Germany, the unemployment rate slightly decreased and performed as expected in March.

The manufacturing purchasing manager index (PMI) decreased and was lower than expected.

The IFO business climate index increased and was higher than expected. The French INSEE business climate index slightly improved compared to February. In the United States, the CB consumer confidence index decreased compared to last month and was below the expectations. The manufacturing PMI slightly decreased and performed worse than expected in March. The unemployment rate stagnates at the same level as in February and performed as expected. The Chinese manufacturing PMI slightly increased and was above the expectations in March.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - March 2019



Sources: www.cesifo.de, www.insee.fr

Contact

Address: MKIK GVI
1054 Budapest, Szabadság tér 7.
Tel: 235-05-84
E-mail: gvi@gvi.hu
Internet: <http://www.gvi.hu>

Prepared by:

Ágoston Horváth, analyst, MKIK GVI
Fruzsina Nábelek, analyst, MKIK GVI
Eszter Vági, analyst, MKIK GVI

Research manager:

Ágnes Makó, PhD
Managing director, MKIK GVI

In case of publication please cite as follows:
HCCI-IEER: Monthly Economic Bulletin,
March 2019, Budapest,

2019-04-10