Monthly Bulletin of Economic Trends

November-December 2020

Business situation improves, businesses uncertain and polarised –Results of IEER's half year Business Climate Survey in October 2020

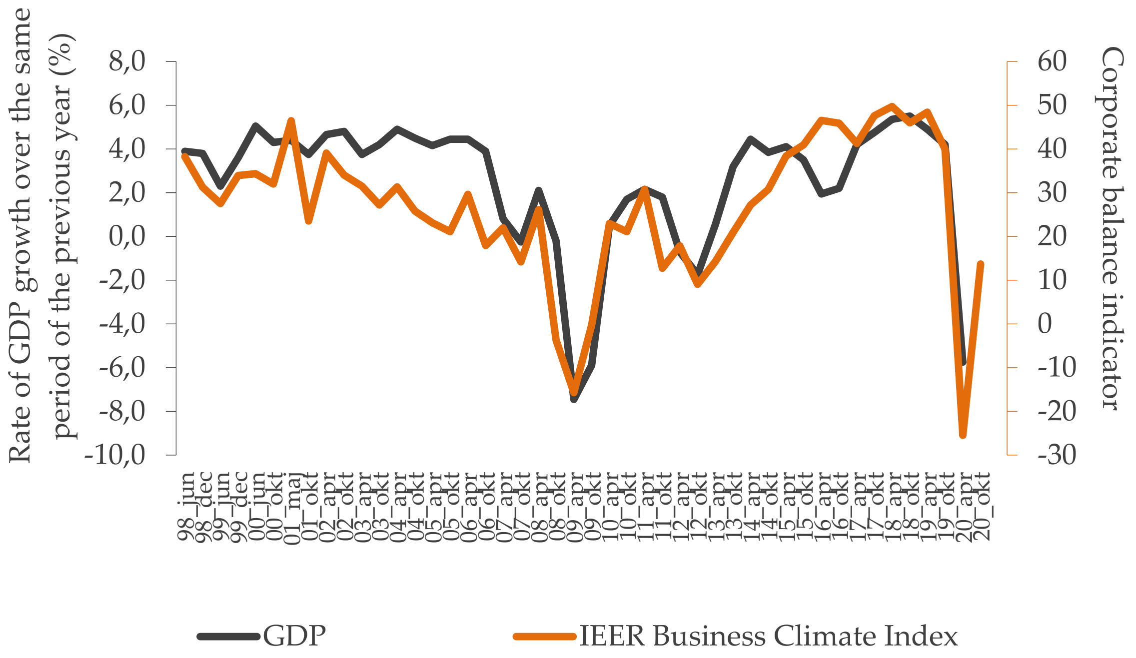
IEER's October Business Climate Index relies on the answers of 3142 CEO respondents. The survey had been conducted between 1 October and 31 October, before restrictions triggered by the second wave of COVID were introduced. The aim of IEER's survey was to map CEOs' actual short term expectations based on available information and their subjective judgement.

According to the results, the Business Climate Index was at +14 points in October 2020. The worst score since records began has been -25. Considering the fact that the all-time nadir was measured in April 2020, the 39-point jump was massive, however, the October result is still only at the same level as it was previously reached in October 2012 (+9).

Compared to the previous half, businesses tended to see the business climate with more optimism this time. Still, their expectations were uncertain and strongly heterogenous throughout all categories. All in all, expectations regarding the future business situation, investment and orders became far more optimistic over the current half. Expectations concerning future orders improved the most.

Over the half the Uncertainty Index remained stable, in October it was still at 60 points, meaning that Hungarian businesses still couldn't judge their situation unanimously. Their opinions were still as varied and polarised as in April.

Figure 1: GDP and the IEER Business Climate Index



	Apr. 2019	Oct. 2019	Apr. 2020	Oct. 2020
GDP	4.9	4.2	-5.8	
IEER Business Climate Index	48.4	39.9	-25.5	13.7

Source: HCSO, IEER 2020

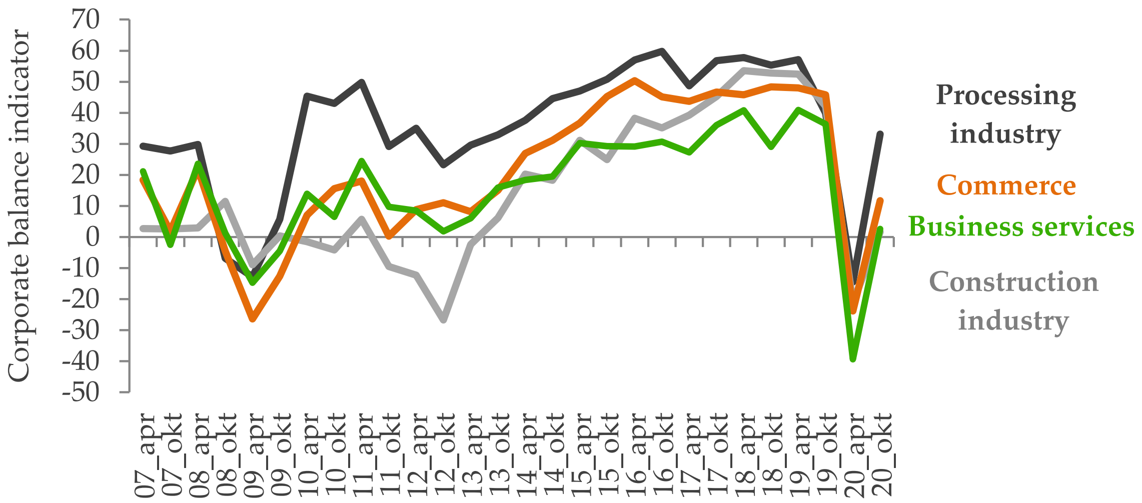
Notes: GDP data – seasonally and calendar-adjusted, balanced data reported six-month growth rates (the same period of the previous year = 0)

GDP: left axis IEER Business Climate Index: right axis

IEER Business Climate Index by company features

The Business Climate Index was the highest for processing companies (+33 points). Trading companies, businesses offering miscellaneous economic services and construction companies scored +12, +3 and +2 points respectively. The greatest leap forward compared to the previous half was made by industrial companies – it was a massive 48 point jump. Since April, service providers, trading companies and construction companies gained 42, 36 and 23 points respectively. (see figure 2)

Figure 2: The IEER Business Climate Index by economic sector



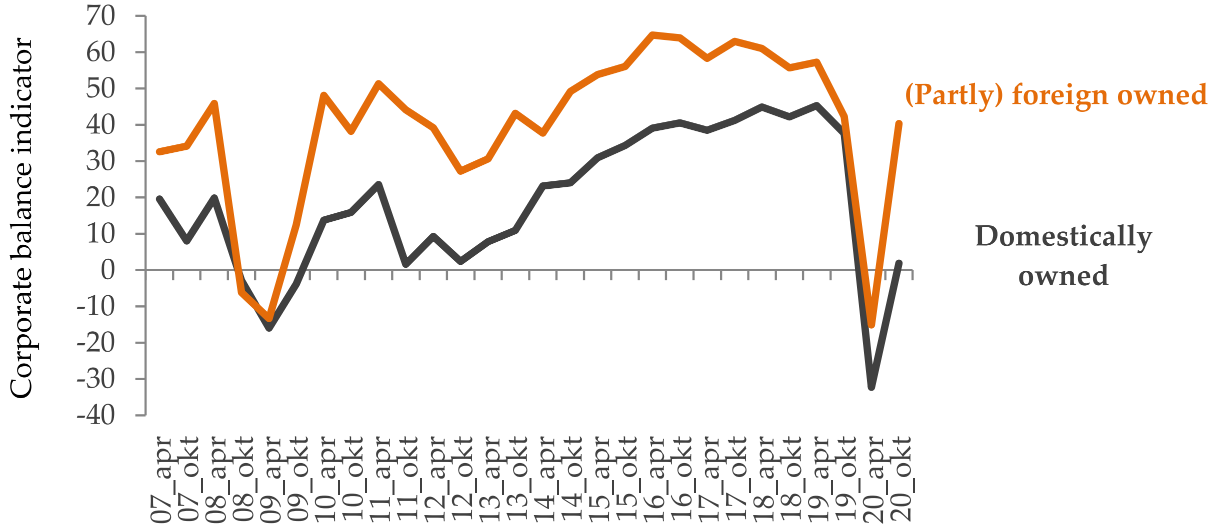
Source: IEER 2020

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.

Ownership structure made a considerable difference in this half: the Business Climate Index for companies of (partially) foreign ownership was +40 points while fully domestic companies only scored a meagre +2 points this time. The increase compared to figures of the previous half was 56 points for (partially) foreign companies and 34 points for fully domestic companies (see figure 3).

As far as exporting activity is concerned, the Business Climate Index was lower among non–exporters (-4 points) and minor exporters (+27 points) compared to major exporters (+35 points). Compared to the previous half, in the three categories the index was 58 points (minor exporters), 39 points (major exporters) and 33 points (non-exporters) higher this time (see figure 3).

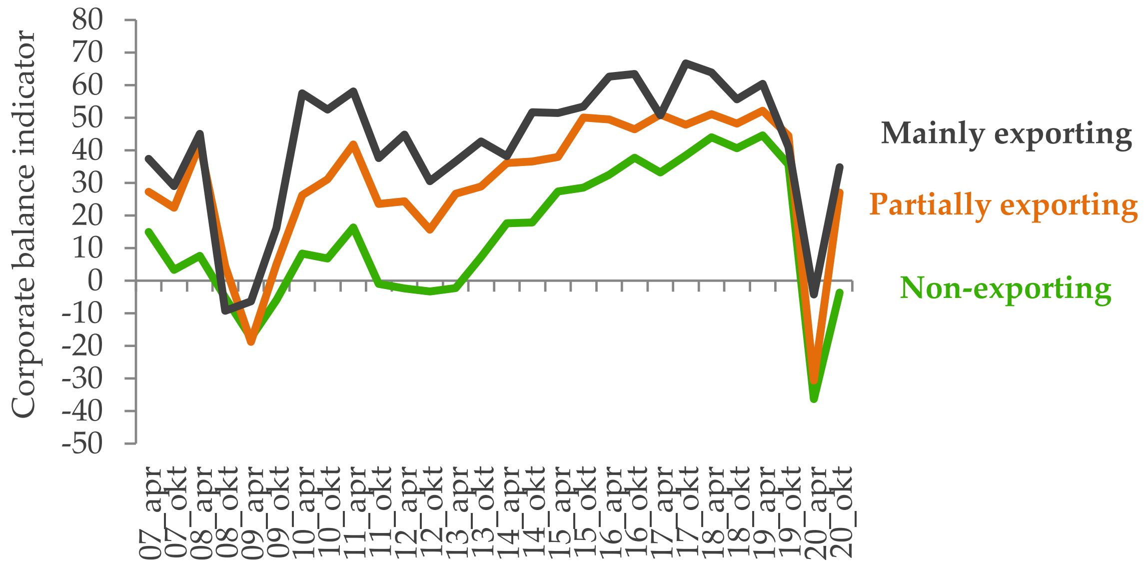
Figure 3: IEER Business Climate Index by ownership structure



Source: IEER 2020

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

Figure 4: IEER Business Climate Index by export activity

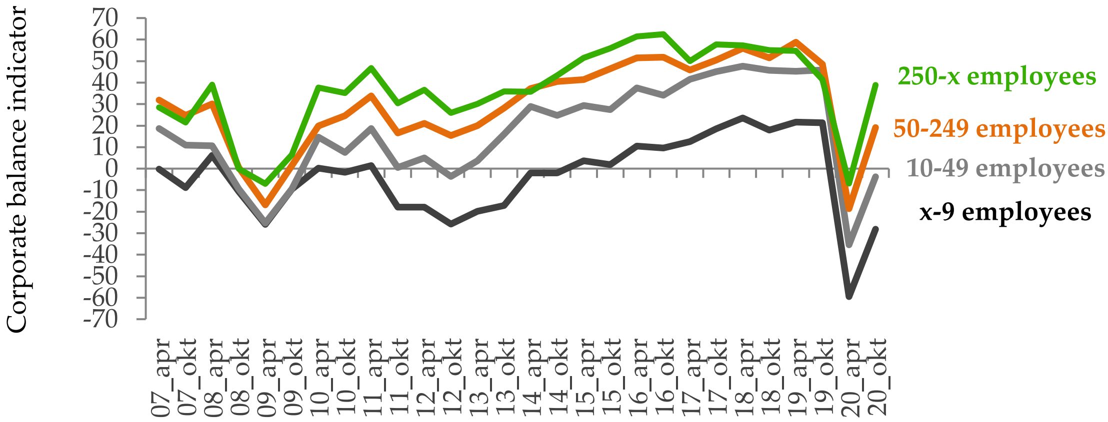


Source: IEER 2020

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.

Regardless of company size, the analysis showed that expectations improved considerably. Respective figures for company sizes were as follows: 0–9: -28 points, 10–49: -4 points, 50–249: +19 points, 250+: +39 points. The increase compared to the previous half was 46 points for 250+ companies, 38 points for 50–249 companies, 32 points for 10–49 companies and 31 points for 0–9 companies (see. figure 5).

Figure 5: IEER Business Climate Index by the number of employees



Source: IEER 2020

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.

In all surveyed categories, the Business Climate Index improved significantly since April 2020. It were mostly (partially) foreign companies, 250+ large players, major exporters and processing businesses that reported a much better overall business climate. The listed categories were also the ones which had improving expectations in the current half. With the exception of non-exporters and companies employing fewer than fifty workers, all categories expected the business situation to improve. Yet the figures still reflect a historic downturn of the climate index, and despite the improvement the October result is still only at the same level as it was previously in 2014 and earlier.

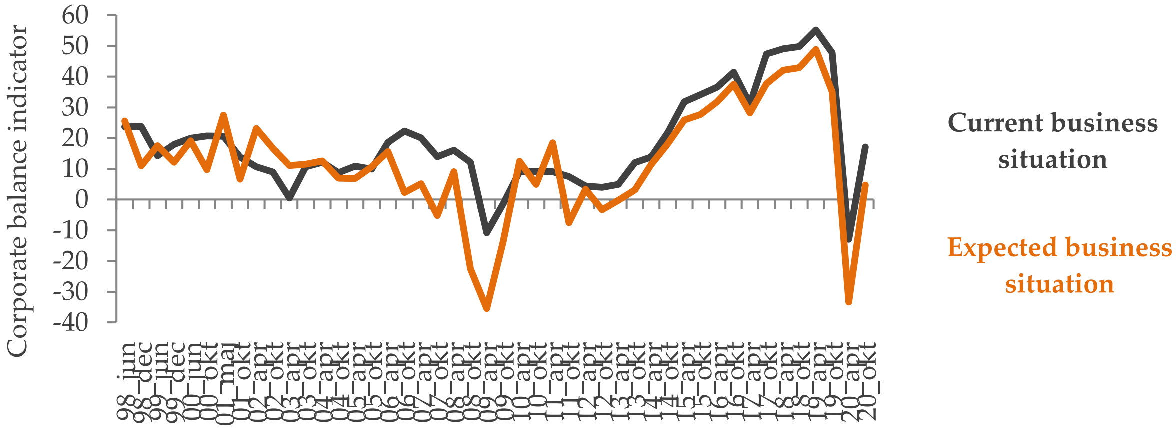
Components of the Business Climate Index and further indicators of business climate

IEER's Business Climate Index has four components, such as:

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

Businesses saw both their current and expected situations considerably more positively in October than in April. Since April 2020, present and expected business situation improved by 30 points and 38 points respectively, bringing the respective values up to +17 and +5 points (see figure 6).

Figure 6: The components of business climate – business situation



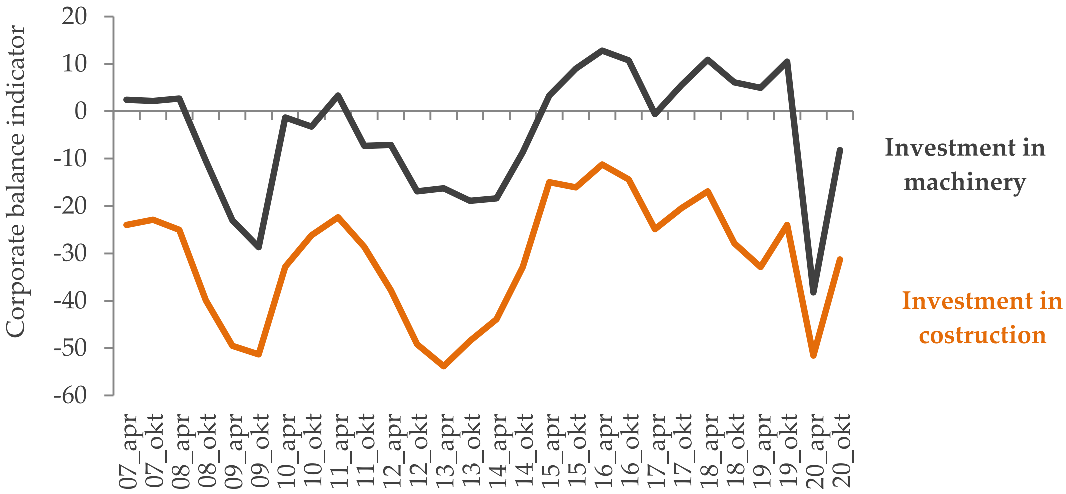
Source: IEER 2020

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 companies' judgement of the present situation shows that the COVID-19 pandemic induced economic crisis is still deep, however, its negative impact on Hungarian companies abated considerably. Companies producing to satisfy domestic consumption only, fully domestic businesses, small companies and service providers are visibly more exposed to the current effect of the recession.

Investment in machinery and construction scored -8 and -31 points, respectively. Both indicators showed a steady increase since April: investment in machinery is up 30 points and that in construction 20 points compared to the previous half. Construction investment was back at April 2019 levels (-33 points), while machine investment figures were close to those measured in October 2014 (-9 points) (see figure 7).

Figure 7: The components of business climate – investments

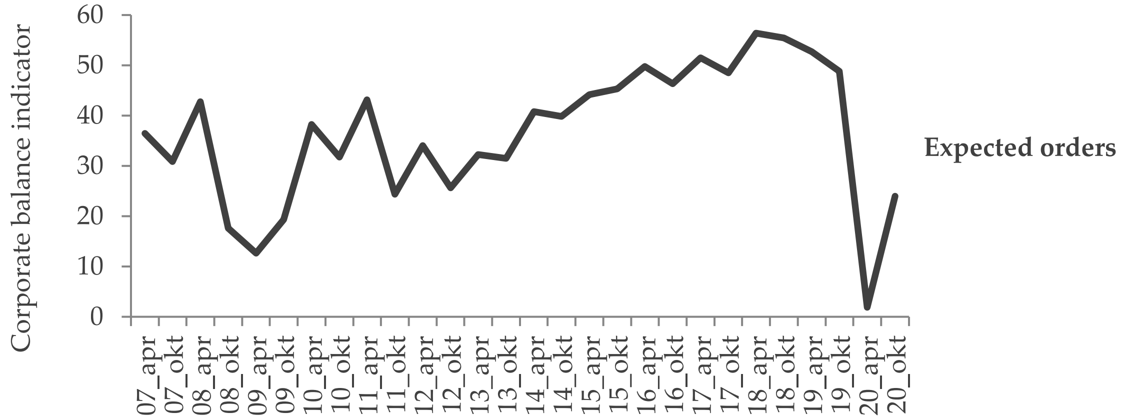


Source: IEER 2020

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. Here, the four-value scale of investment in construction and machinery was used (-100: none; -33: decreasing; 33: unchanged; 100: increasing).

Concerning future orders, expectations became significantly more optimistic. The sub–index was now up 22 points compared to April. At +24 points, the figure is virtually the same as the one in October 2012 (+25 points) (see figure 8).

Figure 8: The components of business climate – orders

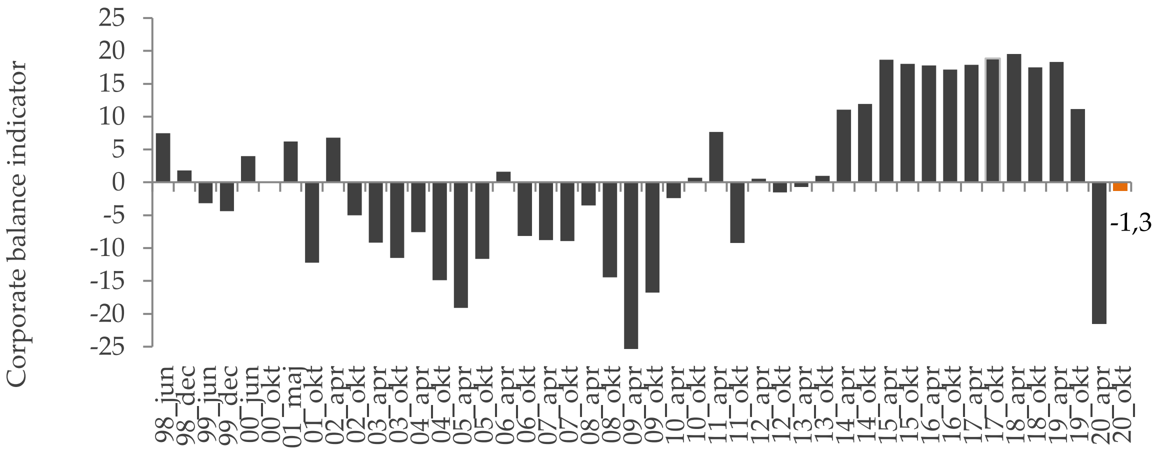


Source: IEER 2020

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. Here, the four-value scale of investment in construction and machinery was used (-100: none; -33: decreasing; 33: unchanged; 100: increasing).

In the upcoming half businesses may expect an increase in the demand for labour compared to the period between April and October 2020. However, a minimal oversupply is still to be expected in the labour market, reflected by the balance indicator (now at -1,3 points, that is 20 points higher than in April 2020). The index was now very close to where it had stood in October 2012 (-1,5 points) and April 2013 (-0,7 point). All in all, the surveyed categories are varied with regard to hiring and firing i.e. whether to expect a higher demand or an excessive supply of labour. According to recent data there will probably be an oversupply of labour in the SME sector. Non-exporters, domestic companies, trading companies, service providers and construction companies will also be affected by excessive labour supply, while hirings are expected at large companies, exporters, (partially) foreign companies and businesses in the processing industry. (see figure 9.)

Figure 9: Expected demand for employees



Source: IEER 2020

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.*

2020 GDP forecasts for the EU, the Eurozone, and Hungary

As Hungary's most important economic partners are EU countries, the Hungarian economy is greatly influenced by the economies of EU member states. For this reason it seems reasonable to start this article by presenting the economic forecasts concerning the 27 member states of the European Union, compiled by the European Commission and various economic research institutes. Forecasts about Hungary will be discussed in detail afterwards. The chart below lists the economic prognoses used for this paper.

GDP forecasts

Forecaster	Geographic region
European Commission	EU-27, Eurozone, Hungary
OECD	Eurozone, Hungary
IMF	Eurozone, Hungary
JP Morgan	Eurozone
MNB	Hungary
Kopint-Tárki	EU-27, Eurozone, Hungary
GKI	Hungary
Financial Research	Hungary

GDP forecasts for the EU and the Eurozone

According to the forecast published on November 5 by the **European Commission**,[1] the seven year long period of constant growth in the EU and the Eurozone was interrupted by the immense impact of COVID19, which also had a devastating effect on the global economy. Preventive lockdowns shocked the European economy in the first half of the year, and although the third quarter brought an upturn, the new wave in autumn unleashed serious shockwaves again. The forecast noted that the pandemic made predictions of growth extremely uncertain and risky – within the union, substantial differences may arise that correlate with the number of cases, the severity of preventive healthcare measures, economic structures and relief policies, resulting in various economic outcomes.

All factors considered, experts say that in 2020 every member state's economy shrunk to various extents, figures ranging between 2.2 per cent (Lithuania) and 14.4 per cent (Spain). According to the forecast of the European Commission, the annual EU growth of 1.5 per cent in 2019 will be followed by a drop of 7.4 per cent this year, which reiterates their forecast made in spring, while the Eurozone will see an even more serious, 7.8 per cent drop. The EC's predictions for 2021 are more optimistic – they forecast a 4.1 per cent growth rate for all EU member states and 4.2 per cent for the Eurozone. However, their present forecast is more pessimistic than their spring scenario, calculating a respective growth rate of 6.1 and 6.3 per cent.

[1] https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en (last download: 2020.12.04.)

OECD forecast a dramatic[2], 11.5 per cent GDP drop for 2020 in their June double-hit scenario, calculating with a second wave, which is already upon Europe. The organisation believes that a supportive monetary and fiscal policy will need to be upheld by the end of 2021, adding that a second wave would expose national fiscal policies and the single monetary policy to a possible overload. In this respect, the temporary extensions to the role of the Europian Stability Mechanism and the promotion of subsidising shorter working hours were positive initial steps according to the OECD. It also welcomed the EU proposal in spring about a great European reconstruction plan, financed by a joint issue of bonds, which would aid the countries most severely hit by the pandemic. Still, OECD forecasts a slower growth than the EC – one of 3.5 per cent.

The **International Monetary Fund** forecasts a 8.3 per cent and a 7.6 per cent fall for the Eurozone and for the EU, respectively, with the recession abating in 2021 and 2022 – respective growth rate figures are 5/5.2 per cent (2021) and 3.1/3.3 per cent (2022).[3]

Analysts of the London-based firm **JP Morgan** expect a Eurozone GDP growth of 1.2 per cent for 2020 and one of 1.3 per cent for 2021. They explain their extraordinarily optimistic prognosis with the fact that the present crisis is not down to endogenous factors, that is why they expect the economy to bounce back quickly. It is to be noted though that they published their forecast in early September, before the second wave reached Europe.[4]

Hungarian business climate analysts **Kopint-Tárki Institute for Economic Research Co.** published their report for autumn 2020 in early October[5] in which they predict a 9-10 per cent drop in 2020 and a 5-6 per cent growth in 2021 for the Eurozone, For the countries of EU-27 the prognosis is a 8-9 per cent drop in 2020 and a growth of around 5 per cent in 2021, noting that great risks lurking in the future may bring about downward tendencies.

GDP forecasts for Hungary

The autumn forecast published by the **European Commission** on November 5[6] forecasts that the bounce in the third quarter will stall by the end of the year due to a strong second wave of the coronavirus pandemic. Their GDP forecast for 2020 is an estimated -6.4 per cent, then in 2021 they predict an upturn owing to stimulus packages. By then, they claim, the case numbers will have dropped and some restrictions will have been lifted. As a result, GDP growth is expected to be 4 per cent in 2021 and 4.5 per cent in 2022.

OECD calculated with a second wave of the pandemic and took it into account in their forecast prepared in the summer[7]. According to their forecast, Hungary is in for a 10 per cent drop in 2020, and the growth in 2021 will be a moderate 1.5 per cent. The forecast also formulates a proposal that besides an active labour market policy it would also be

[2] https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-1_0d1d1e2e-en (last download: 2020.12.04.)

[3] https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/EURO/EU (last download : 2020.12.04.)

[4] https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/portfolio-insights/ltcma/ltcma-full-report.pdf (last download : 2020.12.04.)

[5] https://www.kopint-tarki.hu/konjunkturajelentes/ (last download : 2020.12.04.)

[6] https://ec.europa.eu/hungary/news/20201105_gazdasagi_elorejelzes_osz_hu (last download 2020.12.04.)

[7] https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-1_0d1d1e2e-en (last download 2020.12.04.)

beneficial to lengthen the eligibility period of unemployment benefits to help new jobseekers and to boost demand.

According to the forecast prepared by the **International Monetary Fund**[8] Hungarian GDP will fall by 6.1 per cent in 2020, followed by 3.9 per cent and 4 per cent growth rates in 2021 and 2022, respectively.

The inflation report published in September by the **National Bank of Hungary (MNB)** includes a forecast[9] claiming that Hungarian GDP will decrease by 5.1-6.8 per cent in 2020, while in 2021 a growth rate of 4.4-6.8 per cent is expected. Economic output will reach pre-crisis levels at the turn of 2021/2022.

The business climate report by **Kopint-Tárki Institute for Economic Research Co.** published on October 7[10] states that expectations for this year are determined by the dramatic recession at the beginning of the pandemic (GDP dropped by 13.6 per cent in the second quarter); the abatement of the pandemic followed by a relatively quick economic bounce in the summer, and the explosion of case numbers later in autumn. For the full year, Kopint-Tárki expects Hungarian GDP to decrease by 5.8 per cent, with slightly lower consumption and a more serious fall in investments. For 2021, a 3.5 per cent growth rate is expected.

GKI Economic Research Co. published its forecast in late September,[11] according to which Hungarian GDP will fall by 7 per cent this year, but a worse scenario is also possible depending on the severity of the second wave. However, in the second quarter of 2021 there might be a 4.5 per cent growth, although uncertainty is strong, and 2019 levels will only have been reached by 2022. GKI's analysis claims that the pandemic brought a double shock – a shock in demand and a shock in supply. This double shock affects national economies at rates depending on economic structures, country-specific factors and the ways the pandemic is addressed, but still, 2019 levels will only return in 2022 in most of the countries.

Financial Research Plc. published their prognosis in September[12] with two scenarios. While the optimistic scenario calculates with an increasing demand in the investment market and forecasts a GDP drop rate of 4-5 per cent, their pessimistic scenario expects decreasing salaries in 30-40 per cent of Hungarian families made worse by a lengthy pandemic period, and predicts a 7-8 per cent drop. In the latter case, the lower base will enable the Hungarian GDP to grow by 3-4 per cent in 2021, but in real value it won't reach 2019 levels.

---

8 https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/HUN (last download 2020.12.04.)

9 https://www.mnb.hu/kiadvanyok/jelentesek/inflacios-jelentes/2020-09-24-inflacios-jelentes-2020-szeptember (last download 2020.12.04.)

10 https://www.kopint-tarki.hu/wp-content/uploads/2020/10/Konjunkturajelentes_2020_3-1.pdf (last download 2020.12.04.)

11 https://www.gki.hu/wp-content/uploads/2020/09/GKI-sajtoanyag-200930.pdf (last download 2020.12.04.)

12 https://www.penzugykutato.hu/sites/default/files/Penzugykutato_Prognozis_2020szept_Sajtotajekoztato.pdf (last download 2020.12.04.)

International trends

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

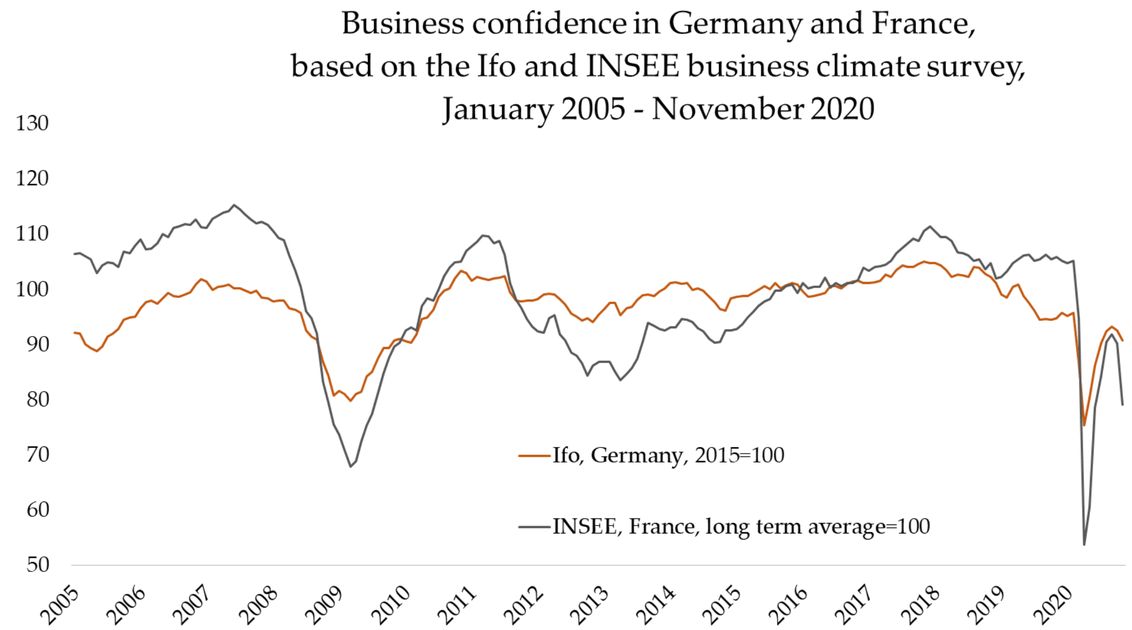
		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(November)	**6.1%**	6.3%	**6.2%**
	Manufacturing Purchasing Managers Index	(November)	**57.9**	56.5	**58.2**
	IFO Business Climate Index[1]	(November)	**90.7**	91.5	**92.5**
France	INSEE Business Climate Index[2]	(November)	**79.1**		**90.2**
USA	Unemployment Rate	(November)	**6.7%**	6.8%	**6.9%**
	CB Consumer Confidence Index	(November)	**96.1**	98.0	**101.4**
	Manufacturing Purchasing Managers Index	(November)	**56.7**	53.0	**53.4**
China	Manufacturing Purchasing Managers Index	(November)	**52.1**	51.5	**51.4**

[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 IFO business climate index decreased, compared to last month. The manufacturing purchasing manager index (PMI) has demonstrated also a decrease, and it performed worse than expected. Unemployment rate improved slightly for Germany. The French INSEE business climate index decreased significantly compared to last month. In the United States, the CB consumer confidence index demonstrated a decrease compared to the month prior, and it performed worse than expected. The manufacturing PMI increased compared to previous month in the USA. The unemployment rate has slightly decreased compared to last month. The Chinese manufacturing PMI increased compared to previous period.



Sources: www.ifo.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
Dániel Bacsák analyst, MKIK GVI
Katalin Horváth analyst, MKIK GVI

Research manager:
Fruzsina Nábelek
Managing director, MKIK GVI

In case of publication please cite as follows:
HCCI-IEER: Monthly Economic Bulletin,
December 2020, Budapest,
2020-12-17