Monthly Bulletin of Economic Trends

February 2021

The results of IEER's Quarterly Business Climate Survey, January 2021

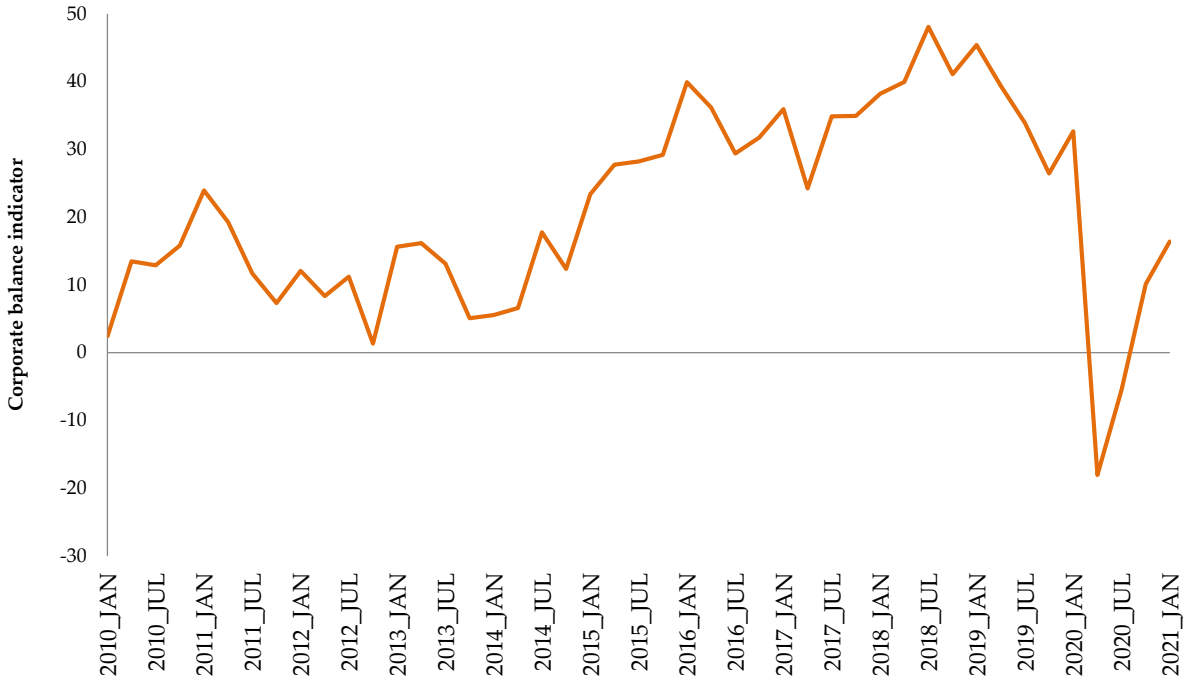
The Quarterly Business Climate Survey taken by the Institute for Economic and Enterprise Research (IEER) is based on the answers of 349 CEO respondents about their business situation and expectations.

According to the results of the survey conducted in January 2021, the level of business trust has improved since the low in spring 2020. After the October score of +10 points the Business Climate Index jumped in 2021 January to +16 points (see Figure 1). Since records began in 2010, the indicator had only been negative in April and July 2020; in October the index slipped back to positive, increasing – although at a slower rate – all throughout the rest of the year to January 2021. It's also important to note that before the low in April 2020, similar figures to those of January were only measured in 2014 and before.

Our results of April 2020 were greatly influenced by first impressions of the COVID-19 pandemic and the ensuing economic lockdown, while July and October figures reflected the relaunch of the economy when the lockdown was lifted. January 2021 data thus also reflect the restrictions introduced during the second wave. The target of the survey was to map CEOs' current short-term expectations based on their subjective judgement and information available at the time the survey was conducted.

The Quarterly Uncertainty Index is currently standing at 43 points, two points higher than the value measured in the previous two quarters. This suggests that the judgement of companies in Hungary is more homogenous after the salient level (52 points) of uncertainty in April 2020, however, the uncertainty triggered by the pandemic is still traceable in CEOs' answers, to a slightly more pronounced extent.

Figure 1: The Quarterly Business Climate Index, 2010. 01–2021. 01.



Source: IEER 2021

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 is the highest among construction companies (+22 points), followed by companies in the processing industry (+20 points) and trade (+18 points), while it is the lowest among providers of business services (+8 points). Quarter on quarter, the indicator was 17 points higher in the construction business, 9 points and 8 points higher in trading and processing, respectively, while it stagnated in the industry of service providers.

Figure 2: Quarterly Business Climate Index in economic sectors, 2010. 01–2021. 01.

Source: IEER 2021

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The Quarterly Business Climate index has ten components such as:

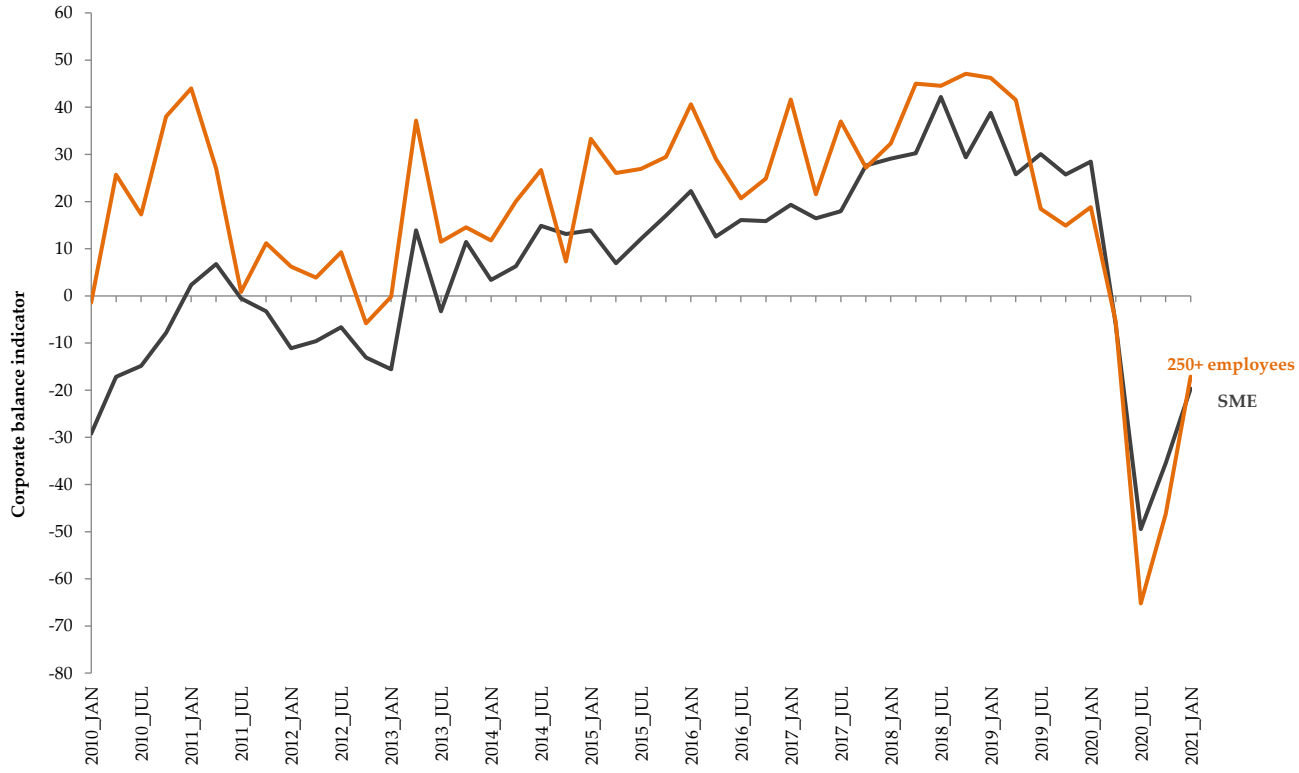
- current/expected business situation;
- current/expected profitability;
- expected investment activity;
- current unfilled orders;
- previous half/expected production levels;
- expected change in the number of employees;
- expected capacity utilisation.

The sub-indicators sign that CEOs are more optimistic about nearly everything, except for current unfilled orders and expected investments, than they were in October 2020. Quarter on quarter figures show that the greatest improvement occured with the indicators that concern past-half and future-half production levels. However, compared to the same period of the previous year, all indicators show that companies see their situation in a more negative light (with the exception of expected employee numbers, which is now up 5 points compared to January 2020). Partly owing to the economic impact of the coronavirus pandemic, the sub-indicator concerning the production level of

the previous half was the one that suffered the worst plunge year–on–year.

In January 2021 all indicators – save expected capacity utilisation – show that big companies are more optimistic about their situation than SMEs. The most significant difference (19 points) arises in the assessment of current orders. 250+ companies generally scored much better – by at least ten points – for almost all the rest of the indicators, too, compared to SMEs, except for past-half production levels and expected capacity utilisation. All in all, since April 2020 most indicators of large companies and SMEs have improved significantly. Past-half productivity was the only indicator that stayed low in both categories, partly because the restrictive measures in autumn and winter had serious economic effects and consequences. Compared to October indicators have improved for small and medium sized enterprises since the low in April, except for current orders, present business situation, current profitability and expected investments. As far as large companies are concerned, indicators are now all higher than in October with the exception of current unfilled orders, investments and future productivity.

Figure 3: Production in the previous half, by company size, 2010. 01–2021. 01.



Source: IEER 2021

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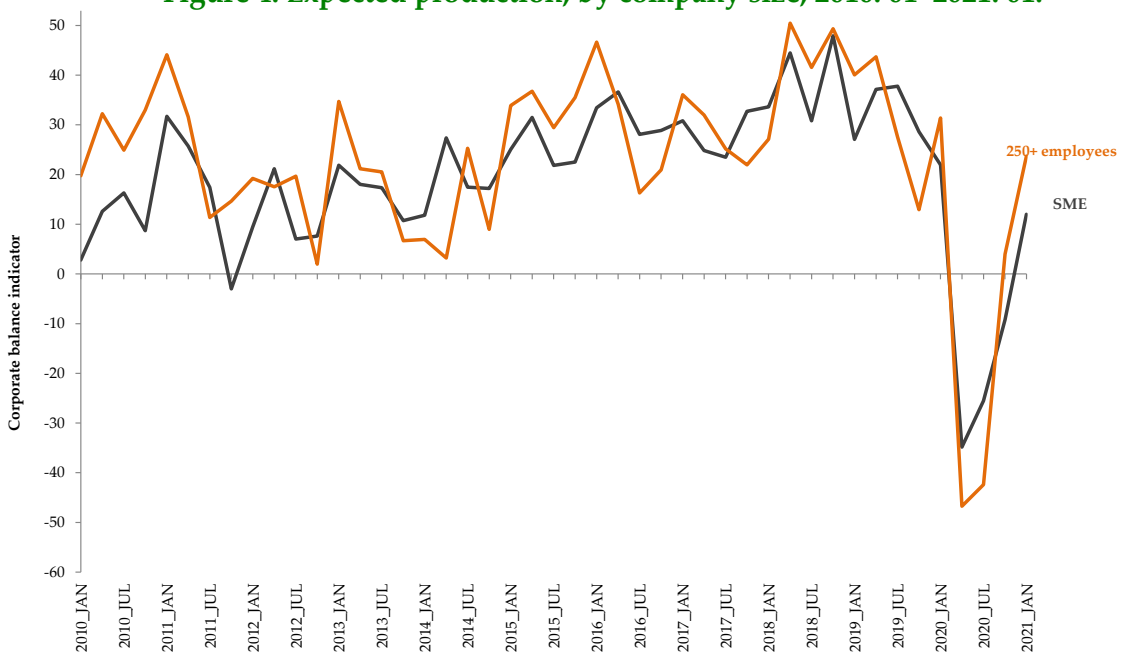
Figure 4: Expected production, by company size, 2010. 01–2021. 01.



Source: IEER 2021

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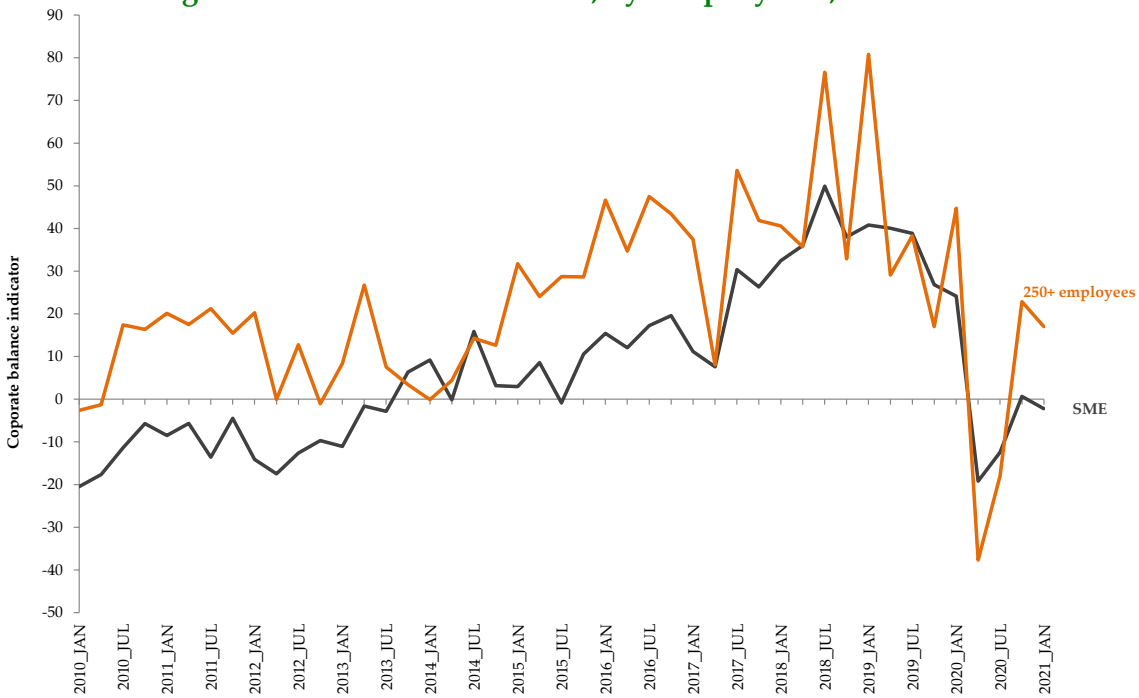
Figure 5: Current unfilled orders, by company size, 2010. 01–2021. 01.



Source: IEER 2021

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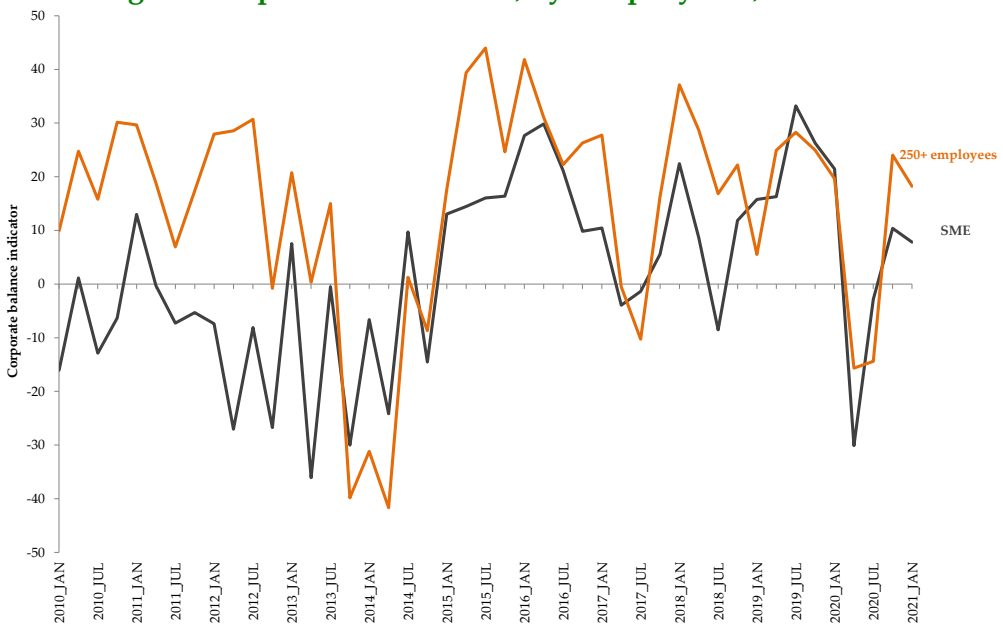
Figure 6: Expected investments, by company size, 2010. 01–2021. 01.



Source: IEER 2021

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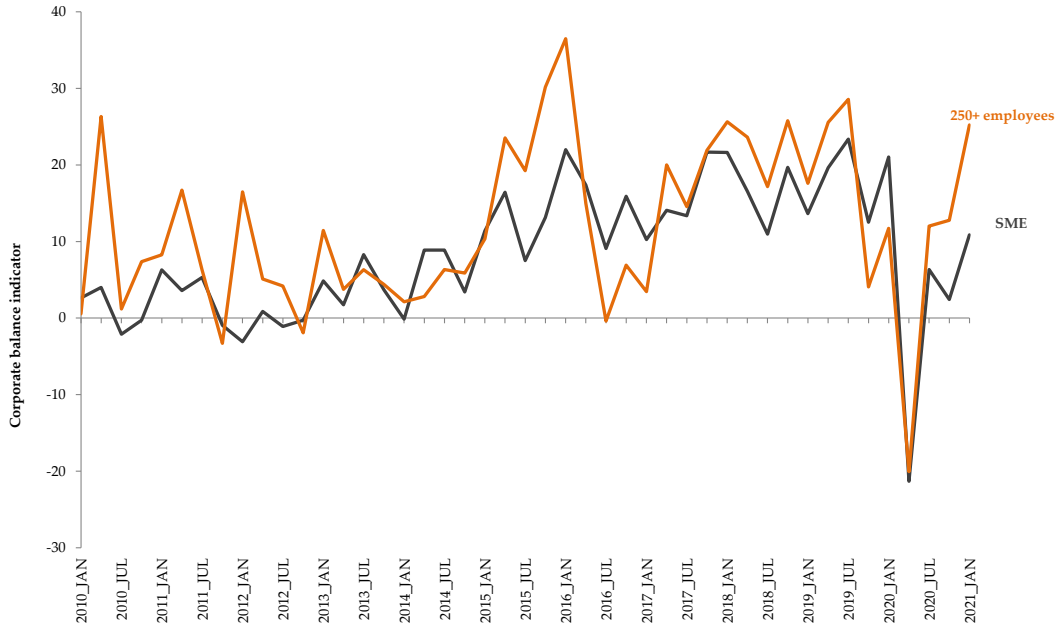
Figure 7: Expected change in the number of employees, by company size, 2010. 01–2021. 01.



Source: IEER 2021

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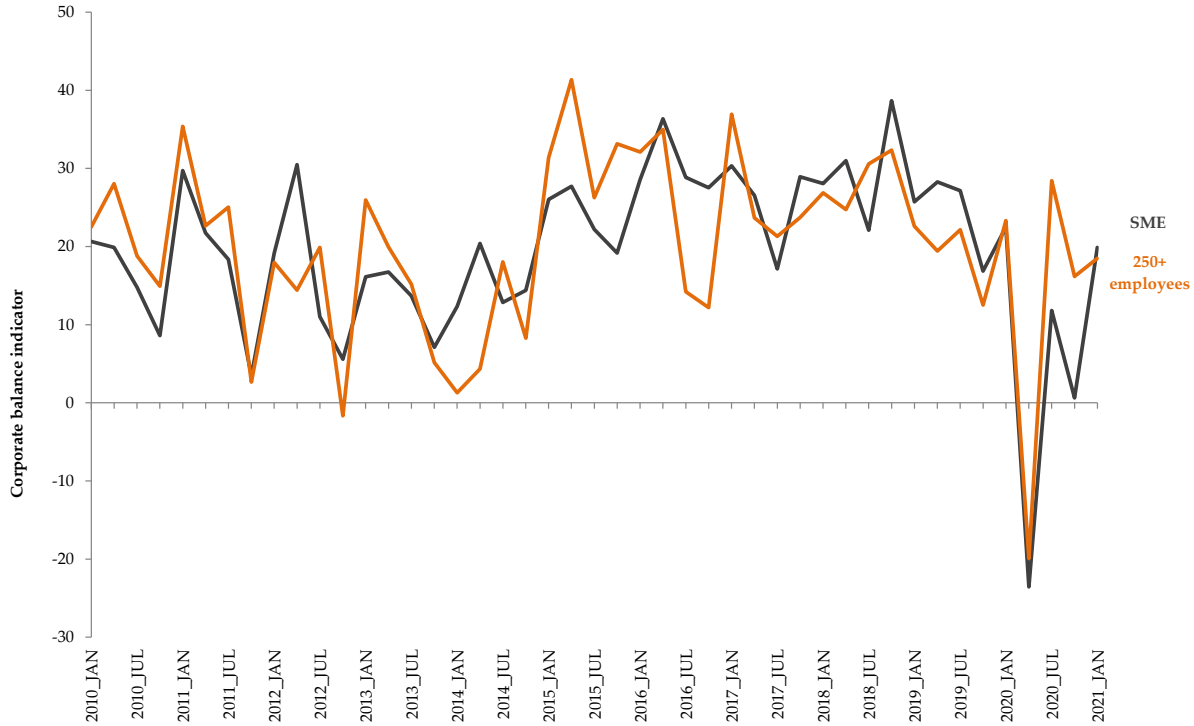
Figure 8: Expected capacity utilisation, by company size, 2010. 01–2021. 01.



Source: IEER 2021

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Economic effects of the coronavirus pandemic on Hungarian businesses until October 2020 – capacity utilisation, crisis management tools, wages and sale prices

The Institute of Economic and Enterprise Research of HCIC analysed the economic impact of the coronavirus pandemic on Hungarian companies' capacity utilisation, crisis management measures, wages and sale prices. The sale prices on the domestic and foreign markets were taken from IEER's database of business climate surveys of the previous 32 half years (2005–2020), the other parts rely on the business climate survey taken in October 2020 based on the answers of 3142 CEO respondents.
The survey was conducted between 1 and 31 October, before the second wave lockdown was implemented. Our results were thus greatly influenced by the abatement of the first wave and optimistic expectations, also appearing in IEER's business climate index.1 The objective of IEER's business climate survey was to map CEO's current short–term business expectations relying on available information and subjective judgement at the time the survey was taken.

Average capacity utilisation, at 81% before 20 March 2020 when the national lockdown was announced, dropped by 20 percentage points to 61%. When the lockdown was lifted after the first wave was over, average capacity utilisation first rose to 73%, then to 75% by October.

Table 1: Capacity utilisation, from 1 January 2020 to October 2020, per cent

	January 1 – March 20	March 20 – May 20	May 20 – September 20	October
N	2531	2583	2587	2999
Average	81	61	73	75
Median	90	70	80	80
Deviation	25	30	26	27
<10%*	3	8	3	4

**Capacity utilisation at or below 10%*

Source: IEER 2020

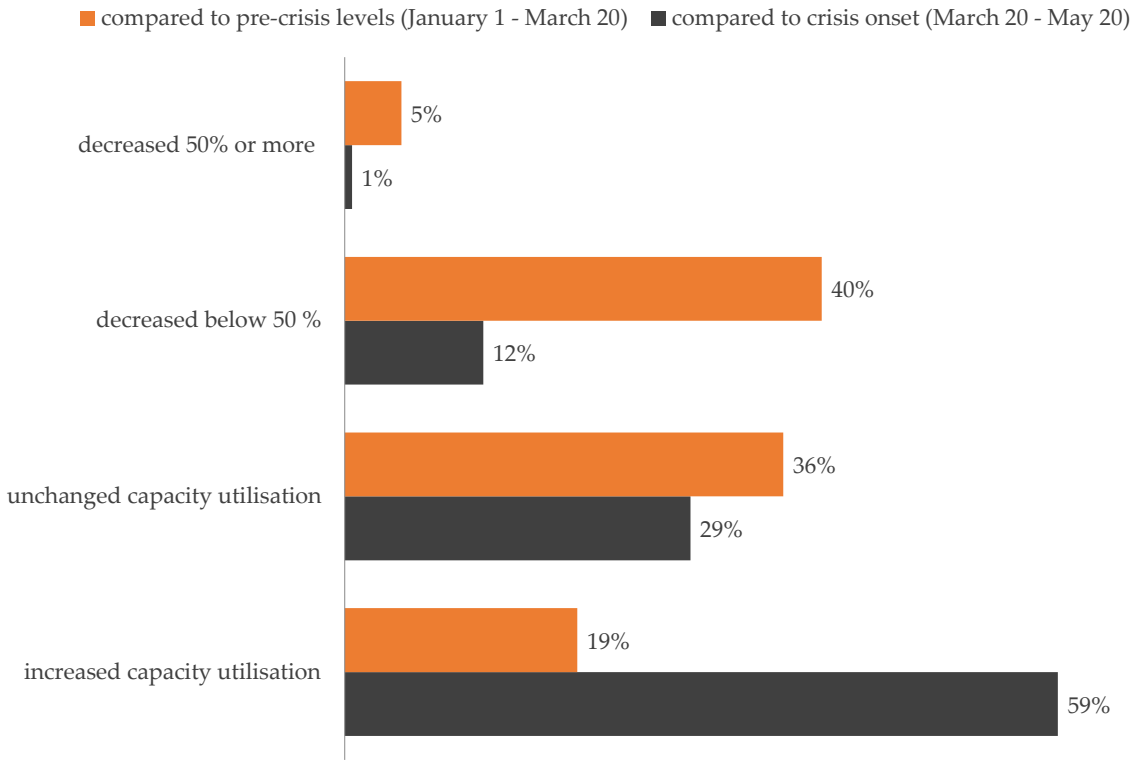
By October, pre–crisis levels of capacity utilisation were reached or surpassed by 55% of companies, while 40% experienced a drop of up to 50 percentage points. 5% of companies had to endure an even greater fall. **Tendencies regarding the number of employees reveal that a drop in capacity utilisation is helped by an increase in numbers.** In the case of small, 1–9 companies there was a further drop of 23 percentage points in spite of the fact that the

[1] Javuló üzleti helyzet, bizonytalan, polarizált várakozások – Az MKIK GVI 2020. októberi vállalati konjunktúrafelvételének eredményei. https://gvi.hu/kutatas/623/

basis had been quite low (69%) to start with, and the rate calculated in October (56%) was still well under pre–crisis figures. As for sectors, **miscellaneous economic service providers suffered the most,** their capacity utilisation dropping back last spring by 24 percentage points, followed by traders (20 percentage points), industrial companies (18 percentage points), and construction companies (8 percentage points).

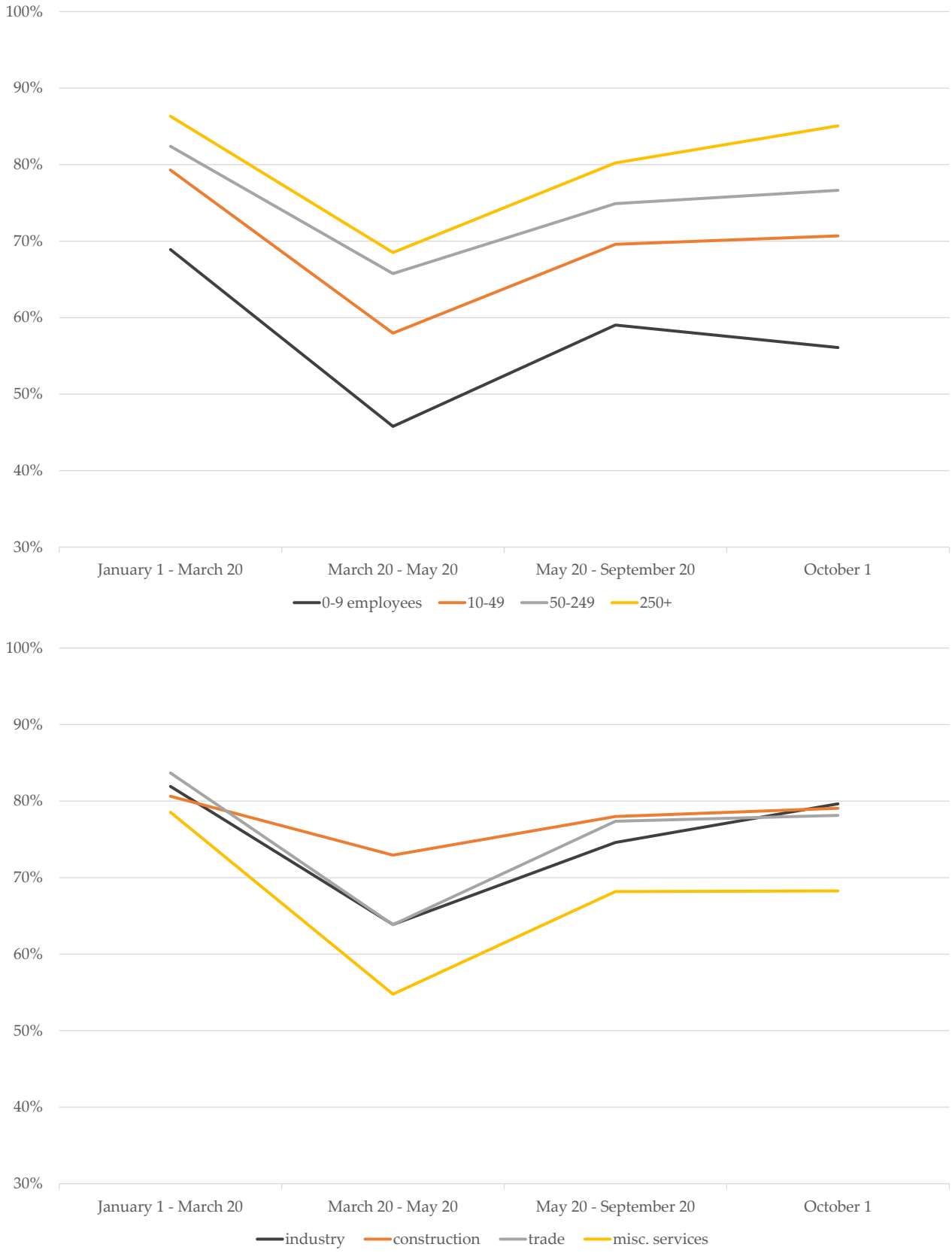
Capacity utilisation levels tell us that in October (i.e. before the implementation of second wave restrictions) a significant proportion of companies were in a better situation than during the first wave in spring, although they stayed below pre–crisis levels.

Figure 1: Average capacity utilisation of Hungarian businesses compared to pre–crisis and crisis onset levels, until October 2020, per cent, NJanuary 1. – October=2506, NMarch 20. – October=2554



Source: IEER 2020

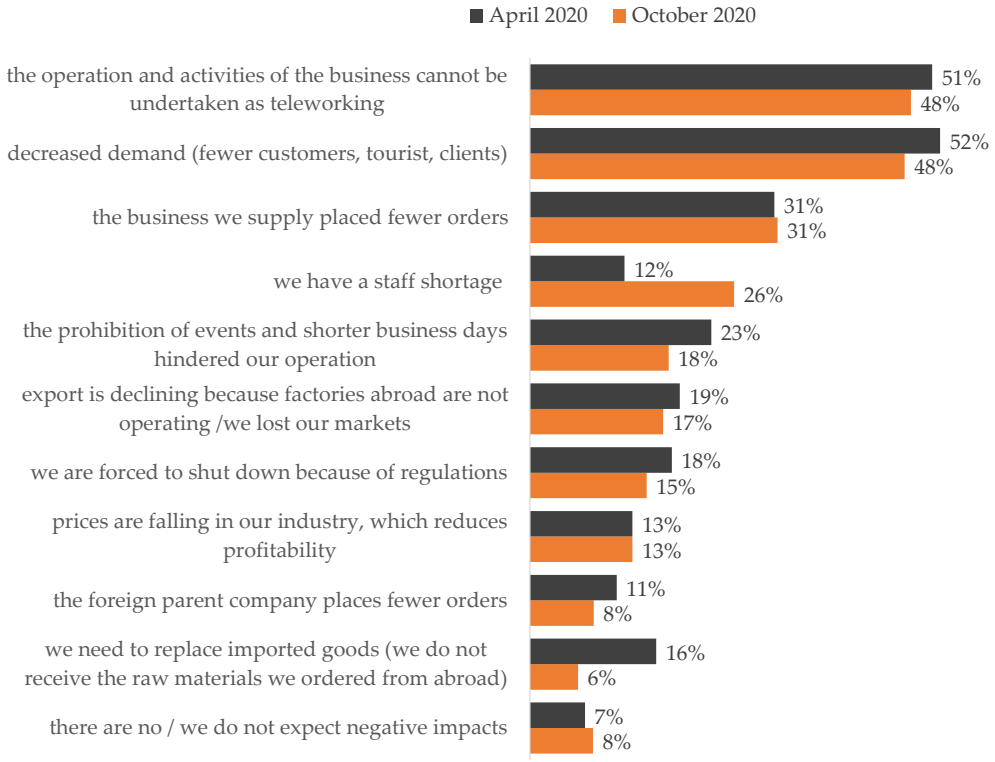
Figure 2: Capacity utilisation from 1 January 2020 to October 2020, company size and industry, per cent



Source: IEER 2020

When asked about the negative effects of the pandemic, **more than half of the CEOs reported decreased demand (48%) or that their activities cannot be undertaken as teleworking (48%), and every third respondent reported that the clients they supplied placed fewer orders (31%).** It is important to note that while labour shortage had been a problem for only 12% of respondents back in spring, this time one in four CEOs (26%) mentioned it as a negative effect. About one fifth of respondents (18%) mentioned the prohibition of events and decreasing exports (17%), however, import replacement was seen as a negative effect by fewer CEOs (6%) than back in April.

Figure 3: Negative effects of COVID19 on Hungarian businesses, October 2020, N=2625

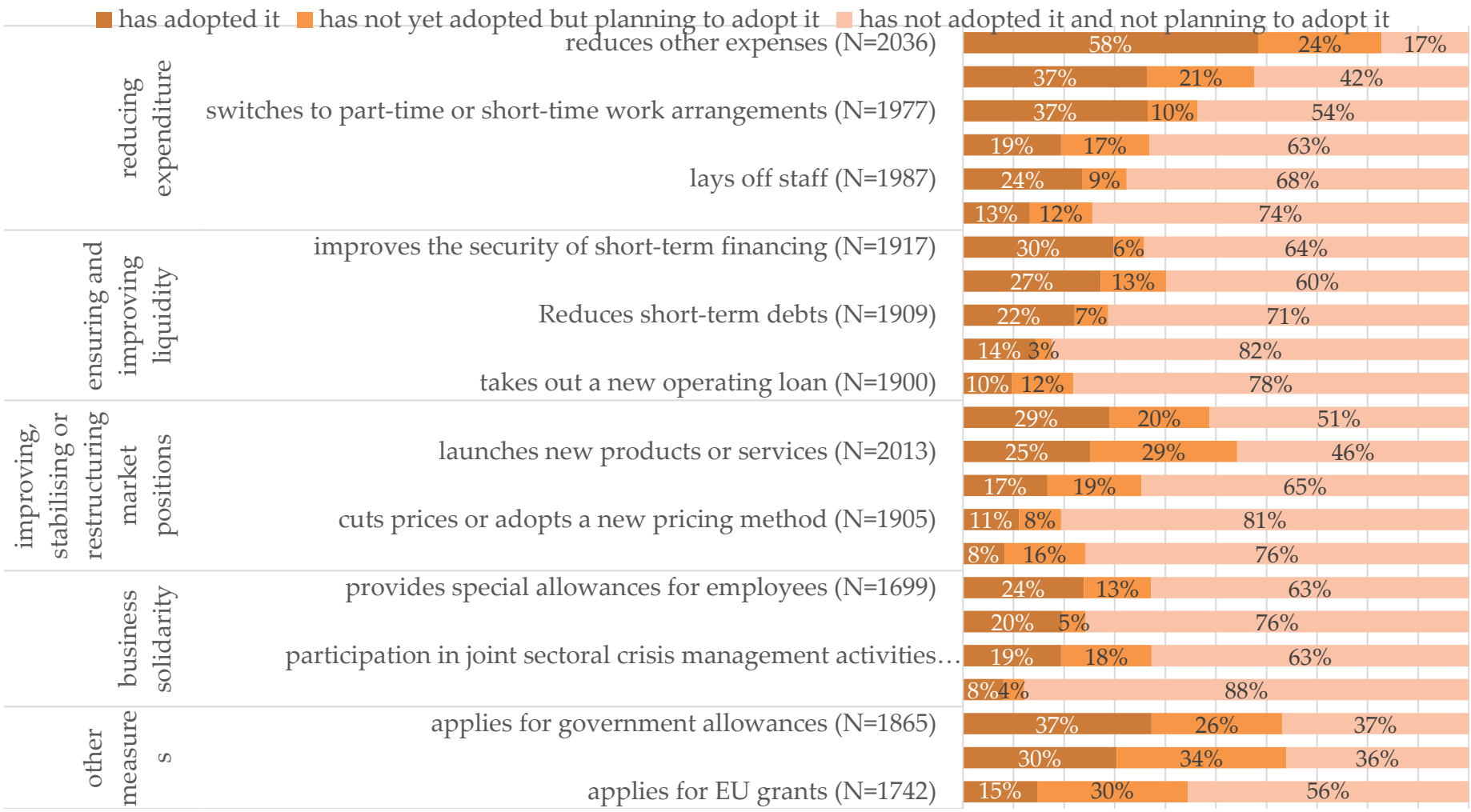


Source: IEER 2020

Crisis management strategies employed by companies include reducing expenditures, and (in the order of popularity): improving liquidity, improving, stabilising and restructuring market positions, and business solidarity. The order suggests that companies generally preferred measures expected to bring quick results.

The five most widespread measures that enterprises had already applied include reducing other expenses (58%), postponing and slowing down investments (37%), introducing part-time or short-time work arrangements (37%), applying for government allowances (37%), improving the security of short-term financing by, for example, prolonging bank loans or making use of the loan repayment moratorium (30), and, finally, preparing a new long-term plan and modifying strategies (30%). Out of these, accepting government support and making long–term plans were not among the most commonly used crisis management strategies in April, however, a great number of companies were planning to use them.

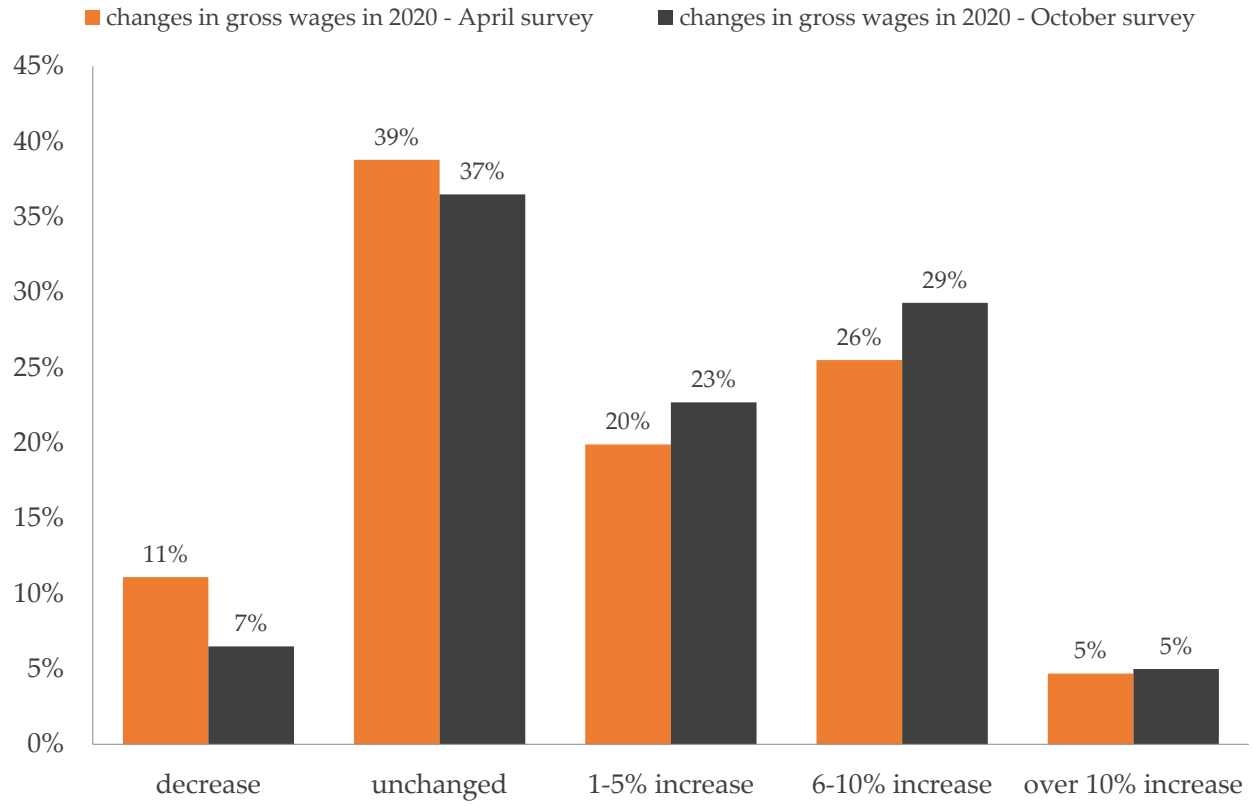
Figure 4: Crisis management tools to counter negative effects of COVID19, October 2020



Source: IEER 2020

Companies were somewhat more optimistic about raising wages than they had been in April (57% vs. 51%)**, moreover, the rate at which salaries would rise also became a more popular plan:** 23% of companies are now planning a 1–5% pay rise, which more or less follows the inflation rate, and 29% at companies are planning a rise of 6–10%; in both groups there has been a 3 percentage point increase (from 20% and 23% in April, respectively). Only 7% of companies cut wages (in spring the rate had been 11%), however, **freezing wages is still popular** (37%)

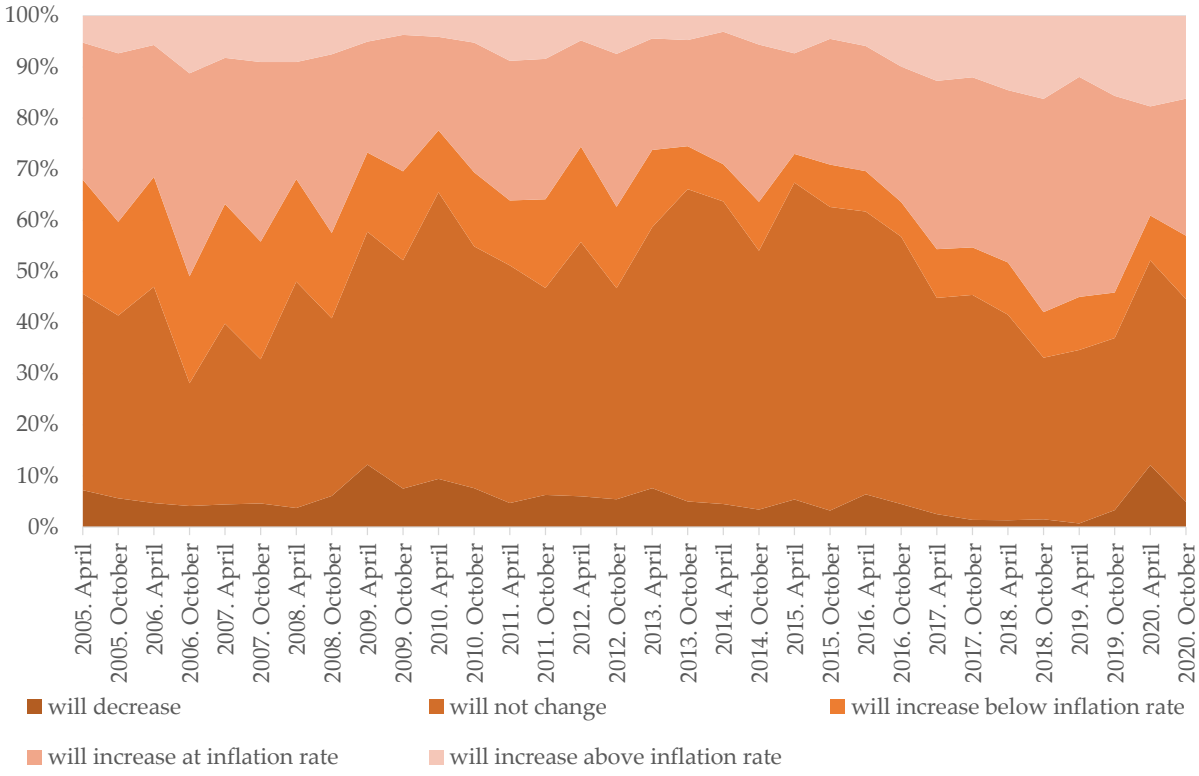
Figure 5: Gross wages, 2020, per cent, $N_{April\ 2020}$ =2606, $N_{October\ 2020}$=2579



Source: IEER 2020

In October 2020 5% of respondents expected domestic sale prices to fall in the upcoming half – that rate in April had been 12%. Expectations were similar to those after the outbreak of the global crisis in 2008. Besides, 55% of respondents expected prices to rise – that's 7 percentage more than in April.

Figure 6: Expected domestic sale prices in the upcoming half year, from April 2005 to October 2020, per cent



2005. April: N=1753, 2005. October: N=1196, 2006. April: N=1311, 2006. October: N=1251, 2007. April: N=1374, 2007. October: N=1184, 2008. April: N=1084, 2008. October: N=1379, 2009. April: N=1368, 2009. October: N=1315, 2010. April: N=1582, 2010. October: N=1788, 2011. April: N=1743, 2011. October: N=1853, 2012. April: N=2464, 2012. October: N=3082, 2013. April: N=3383, 2013. October: N=3396, 2014. April: N=2518, 2014. October: N=2751, 2015. April: N=3246, 2015. October: N=3268, 2016. April: N=2884, 2016. October: N=2620, 2017. April: N=3028, 2017. October: N=2825, 2018. April: N=3011, 2018. October: N=2644, 2019. April: N=2651, 2019. October: N=2083, 2020. April: N=2457, 2020. October: N=2864

Source: IEER 2020

International trends

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

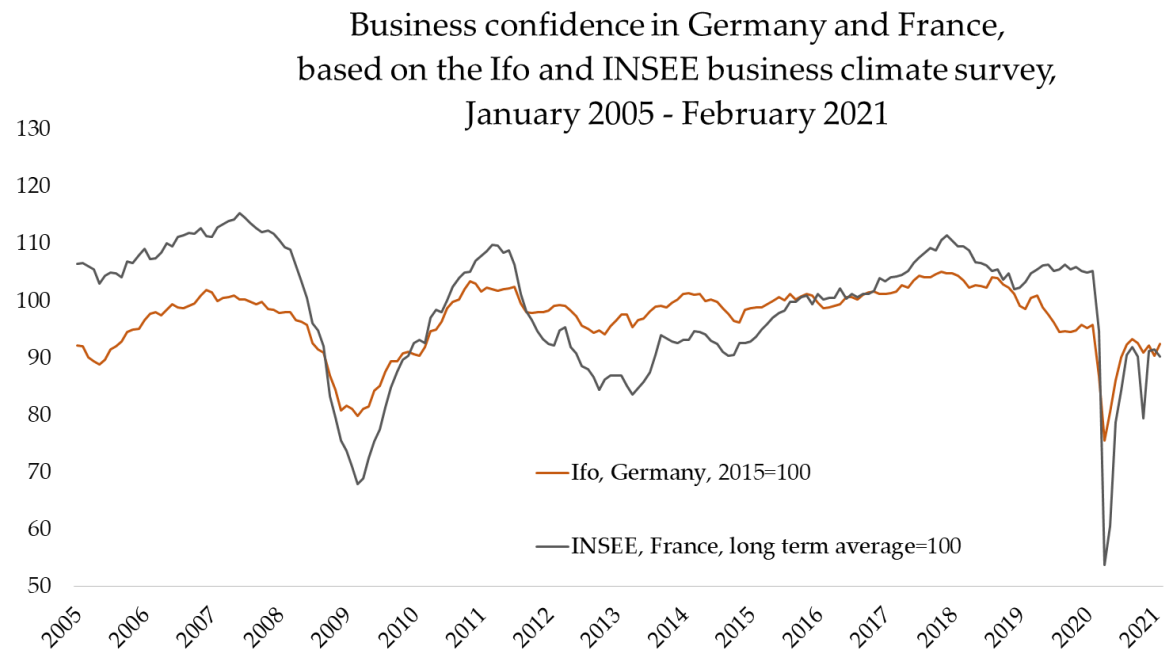
		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(February)	**6.0%**	6.0%	**6.0%**
	Manufacturing Purchasing Managers Index	(February)	**60.7**	60.6	**57.1**
	IFO Business Climate Index[1]	(February)	**92.4**	94.2	**90.3**
France	INSEE Business Climate Index[2]	(February)	**90.2**		**91.4**
USA	Unemployment Rate	(February)	**6.2%**	6.3%	**6.3%**
	CB Consumer Confidence Index	(February)	**91.3**	90.0	**88.9**
	Manufacturing Purchasing Managers Index	(February)	**58.6**	58.5	**59.2**
China	Manufacturing Purchasing Managers Index	(February)	**50.6**	51.1	**51.3**

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



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

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