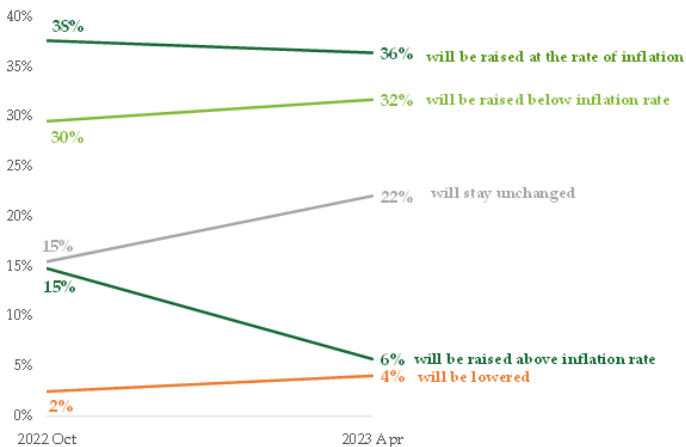


Monthly Bulletin of Economic Trends

Significantly improving business situation, uncertain expectations ...

The IEER Business Climate Indicator rose from +4 points in October to +24 points. Essentially, the indicator crawled back to the value prior to the outbreak of the coronavirus pandemic by October 2021 (October 2019: +40 points, October 2021: +39 points) from its historic low of -25 points in April 2020, the lowest since...

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Expected changes in selling prices

For two decades, a constant feature of IEER's biannual business survey has been to gauge the expectations of domestic entrepreneurs on the development of domestic and foreign sales prices.

Same as in October 2022 (82%) the vast majority of respondents expected domestic prices to rise again in April 2023 (74%).

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International trends

In Germany, the IFO business climate index decreased compared to April. The manufacturing purchasing manager index (PMI) also decreased compared to the previous period, but performed slightly better than expected. [More](#)

**SIGNIFICANTLY IMPROVING BUSINESS SITUATION, UNCERTAIN EXPECTATIONS.
RESULTS OF THE BUSINESS CLIMATE SURVEY OF IEER OF APRIL 2023**

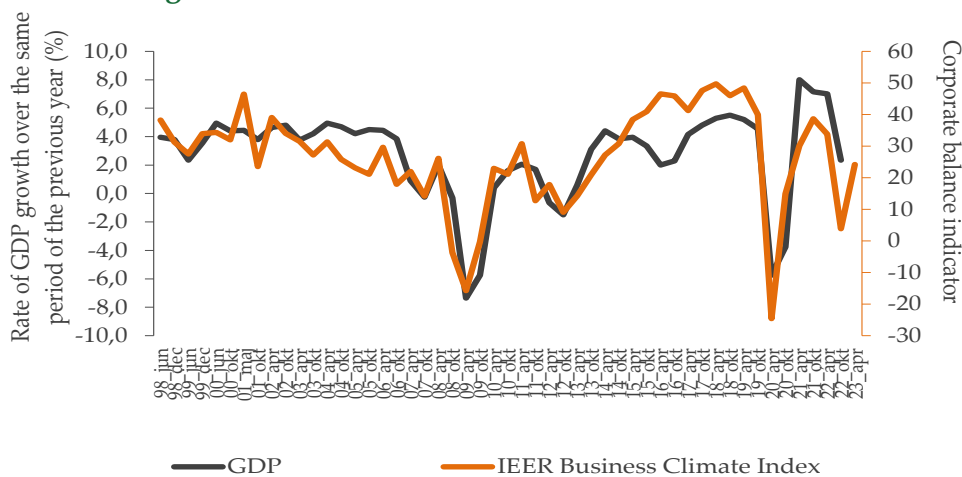
The April Business Climate Survey of IEER is based on the answers of 2,061 CEO respondents. The data was collected in the period between 1 and 30 April. The aim of the business climate survey was to map the current short-term business expectations of business leaders, based on their subjective assessment of the situation and the information available to them at the time of the survey.

The IEER Business Climate Indicator rose from +4 points in October to +24 points. Essentially, the indicator crawled back to the value prior to the outbreak of the coronavirus pandemic by October 2021 (October 2019: +40 points, October 2021: +39 points) from its historic low of -25 points in April 2020, the lowest since records began in 1998. This recovery took one and a half years, then in the second half of 2022 there was a significant decline once again, more or less counterbalanced by a

rise in spring 2023. Sentiment in all segments of the economy improved substantially by spring 2023, but it remains below the levels recorded a year ago in April 2022 and in October 2019, the last survey before the outbreak of COVID19.

The uncertainty indicator fell compared to October 2022 and is currently at 54 points. This suggests that the situation assessment of Hungarian enterprises is still highly polarised, with significant differences with regard to company parameters.

Figure 1. GDP and the IEER Business Climate Index



	Apr. 2021	Oct. 2021	Apr. 2022	Oct. 2022	Apr. 2023
GDP	8.0	7.2	7.0	2.4	
IEER Business Climate Index	30.1	38.7	33.8	3.9	24.2

Source: HCSO, IEER 2023

Note: GDP data – semiannual growth rates adjusted for season and calendar effect, calculated from balanced data, same period of the previous year = 0

GDP: left axis, IEER Business Climate Indicator: right-hand axis

Businesses assess the business climate significantly more favourably than in the previous half, but their expectations remain highly divided with respect to company features. Overall, forecasts for the future business situation, expected orders and investments also became significantly more optimistic over the past six months.

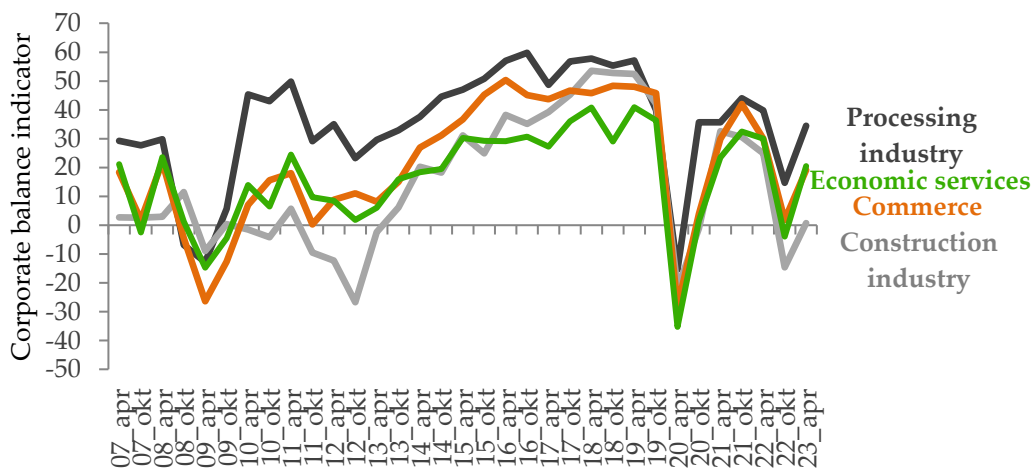
IEER Business Climate Index by company features

The Business Climate Index is highest for manufacturing (+34 points), +21 points for services, +19 points for trade and +1 point for construction. The most significant shift compared to the previous half occurred

with service providers, where the index rose by 24 points compared to October. Manufacturing shows a 20 point increase compared to October, while trade firms are up 17 points and construction 15 points.

Looking at firms according to their ownership structures, we can see that the Business Climate Index is significantly higher for (partially) foreign-owned firms (+40 points) compared to fully domestic firms (+17 points). Compared to the previous half, the Business Climate Index rose by 16 points for (partially) foreign-owned firms and by 24 points for fully domestic companies.

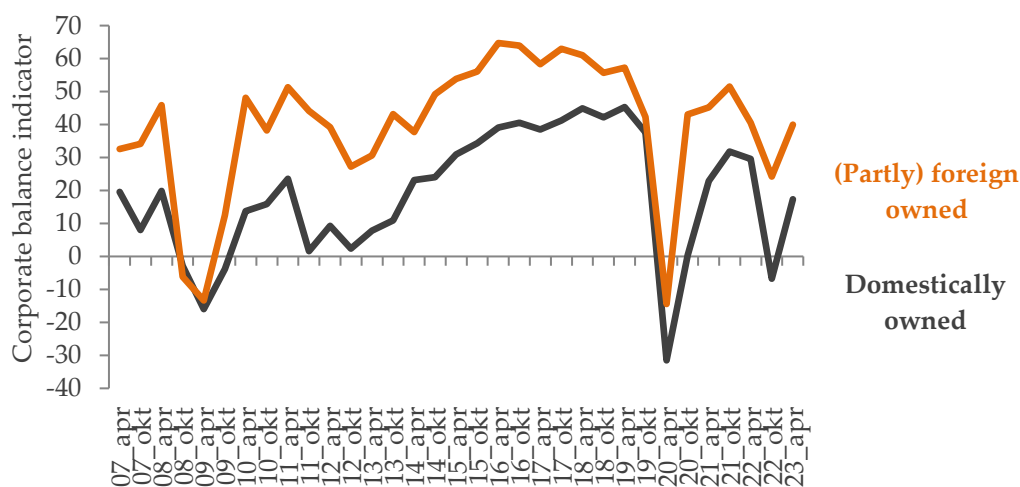
Figure 2. The IEER Business Climate Index by economic sector



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

Figure 3. The IEER Business Climate Index by ownership structure



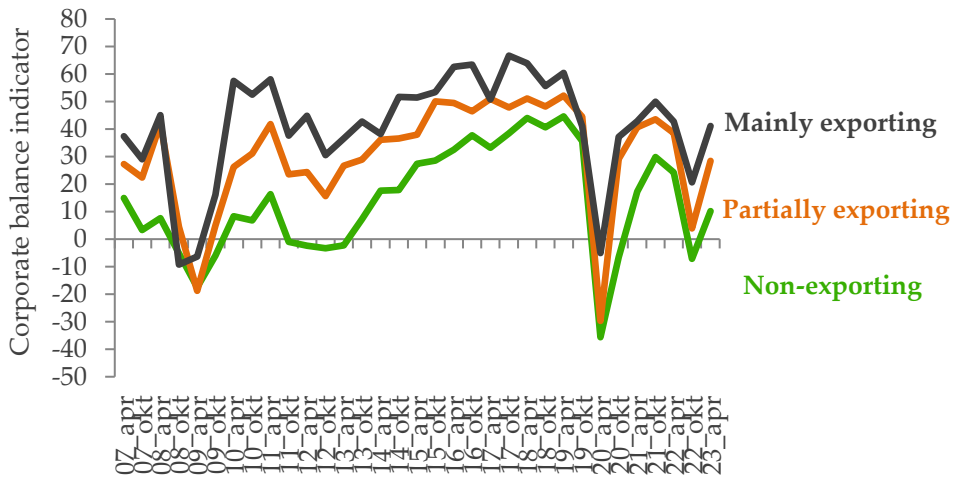
Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

By exporting activity, the Business Climate Index is lower for non-exporters (+10 points) than for minor exporters (+28 points) and major exporters (+41 points). The indicator increased by 25 points for minor exporters, 20 points for major exporters and 17 points for non-exporters compared to the previous half. The analysis by company size shows that companies' expectations have improved significantly in all size categories. The Business Climate

Index scored -11 points for firms with fewer than 10 employees, +11 points for 10-49 companies, +30 points for 50-249 companies and +43 points for the largest firms with over 250 employees. Over the last six months, the Business Climate Index increased by 30 points in the 10-49 category, by 25 points in the 50-249 category, by 18 points in the 250+ category and by 15 points in the 0-9 category compared to October.

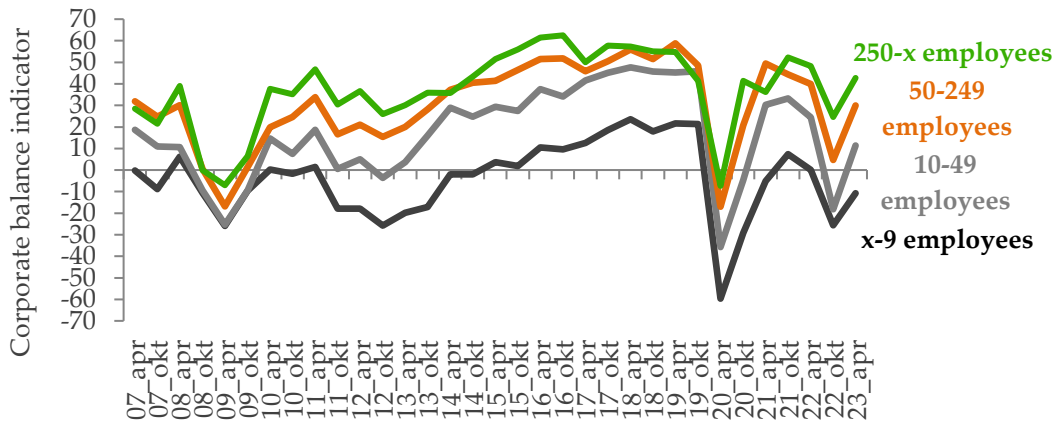
Figure 4. The IEER Business Climate Index by exporting activity



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

Figure 5. The IEER Business Climate Index by company size



Source: IEER 2023

Note: The values shown in the graph are balance indicators on a scale of 100. In all cases, the balance indicator is the difference between the proportion of companies with a positive and negative perception of their business situation. Thus, the indicator can take values between -100 and +100, -100 if all firms are negative and +100 if all firms are positive.

The significant improvement in the perception of the business climate, after a historic decline last autumn, is a general positive tendency across all business segments surveyed, but the assessment of the current situation still varies widely by company parameters. In the current environment, the most favourable business climate is expected for large companies, predominantly exporting companies, firms of (partial) foreign ownership and industrial companies. In contrast, the Business Climate Index is negative for micro-enterprises with fewer than 10 employees, indicating recessionary expectations in this segment. In addition, the Business Climate Index is significantly below average in the construction sector, among non-exporters and small enterprises

with 10-49 employees and among fully domestic companies.

After bottoming out in October 2022, sentiment in all segments of the economy improved substantially spring 2023, but business sentiment remains below the levels recorded a year ago in April 2022 and in October 2019, the last survey before the outbreak of the coronavirus pandemic. Exceptions include major exporters and large corporations, where the current Business Climate Index is close to or at the level seen in October 2019, but below the April 2022 level. Prior to the current wave of data collection, the last time firms provided a similar assessment of their outlook, apart from the first and second waves of the coronavirus pandemic, was in 2013 and 2014.

EXPECTED CHANGES IN SELLING PRICES

The present analysis examines the expectations companies have about future prices. Our analysis is based on the latest results of the semi-annual business climate survey conducted by HCCI's Institute for Economic and Enterprise Research (HCCI IEER). The purpose of the business survey is to map the current short-term business expectations of business leaders, based on the information available to them at the time of the survey and their subjective assessment of the situation. In the survey, which was conducted between 1 and 30 April 2023, a total of 2 061 Hungarian company CEOs were asked about the expected development of domestic sales prices and export prices.

For two decades, a constant feature of IEER's biannual business survey has been to gauge the expectations of domestic entrepreneurs on the development of domestic and foreign sales prices. Therefore, price developments are also analysed on a time-series basis, taking 2005 as a starting point, as this provides an opportunity to compare the impact of the coronavirus pandemic with the typical trends of the 2008 global economic crisis.

Company responses are weighted according to their contribution to GDP by sector and by the number of employees, so the sample of responding firms can be considered representative in this respect. As a consequence of the weighting, the distributions calculated in the analysis do not reflect the basic distribution of responding firms, as they give a greater weight to the responses of firms with a larger economic output and a lesser weight to the responses of firms with a smaller economic output. In the analysis, unweighted item numbers are used.

Expected development of domestic sales prices and export prices in the next six months

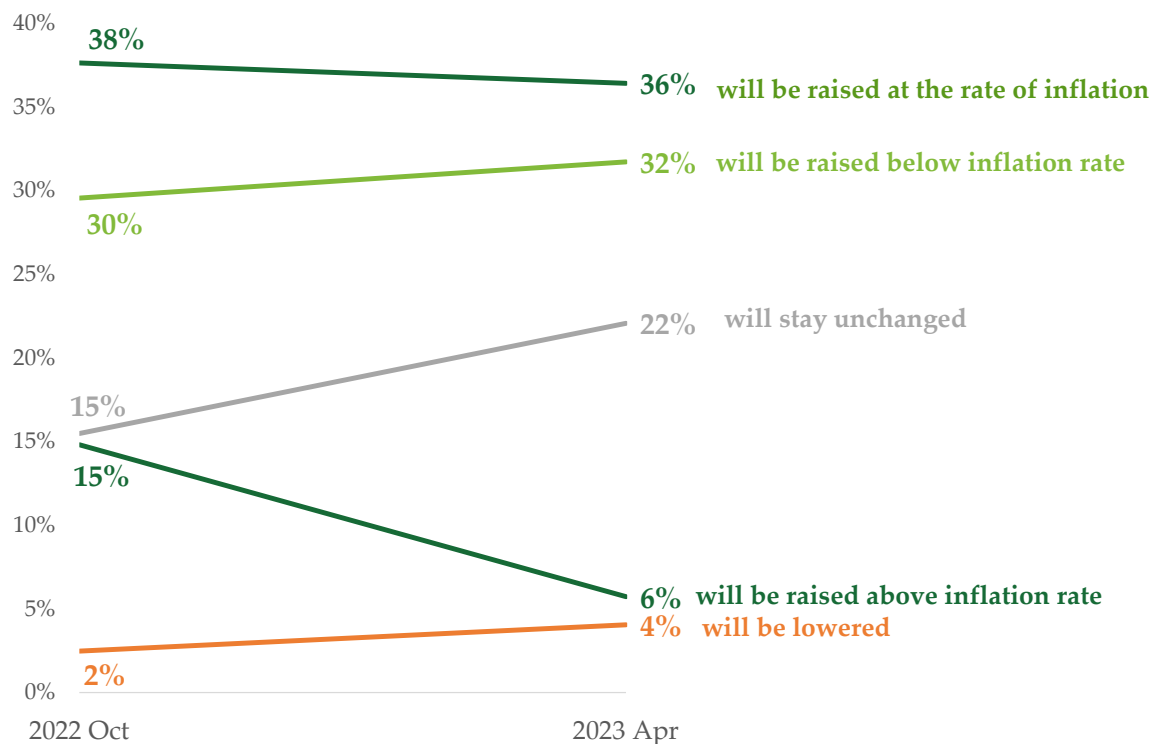
The vast majority of respondents expected domestic prices to rise in October 2022 (82%) and again in April 2023 (74%). Nearly a third of respondents (Oct 2022: 30%, Apr 2023: 32%) still expected their prices to increase at a rate below the level of inflation. Since 2005, this proportion was at its highest level in April this year. In October last year, 38% of respondents expected prices to rise at the same rate as inflation, which percentage slipped slightly to 36%. However, the proportion expecting prices to rise above the level of inflation fell from 15 percent to 6 percent compared to the previous half, one of the lowest rates since records began.

In October 2022, 15 percent of respondents expected domestic prices to stagnate in the upcoming six months, the proportion rising to 22 percent by April this year. Since records began in 2005, October 2022 was the month with the lowest number of respondents expecting prices to remain unchanged. The current 22 percent has been the second lowest since 2005.

In October 2022, only 2 percent of businesses reportedly expected their domestic sales prices to fall in the next six months, rising to 4 percent by April this

year. Only once in the past few years, in April 2020, did a significantly higher proportion of respondents - 12 percent - expect that their prices would fall.

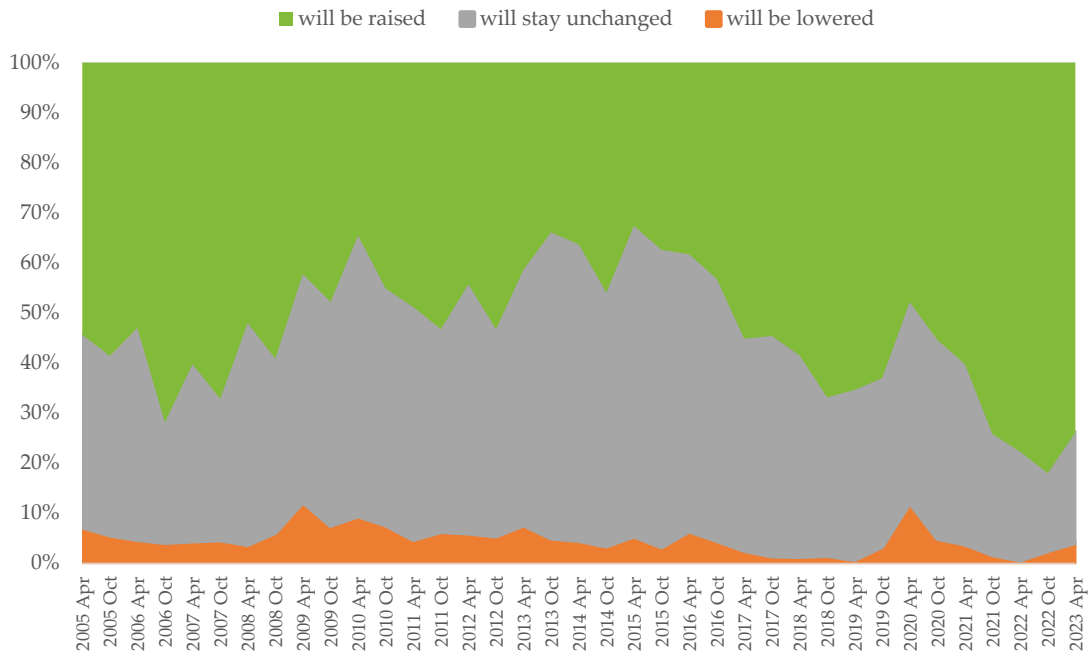
Figure 1. Hungarian companies' domestic sales prices forecast for the next six months between October 2022 and April 2023, N=1839-1944, Percent



Source: IEER 2022–2023

Note: Data weighted by the economic performance of enterprises.

Figure 2. Hungarian companies’ domestic sales prices forecast for the next six months between April 2005 and April 2023, N=1084-3396, Percent



Source: IEER 2005–2023

Note: Data weighted by the economic performance of enterprises.

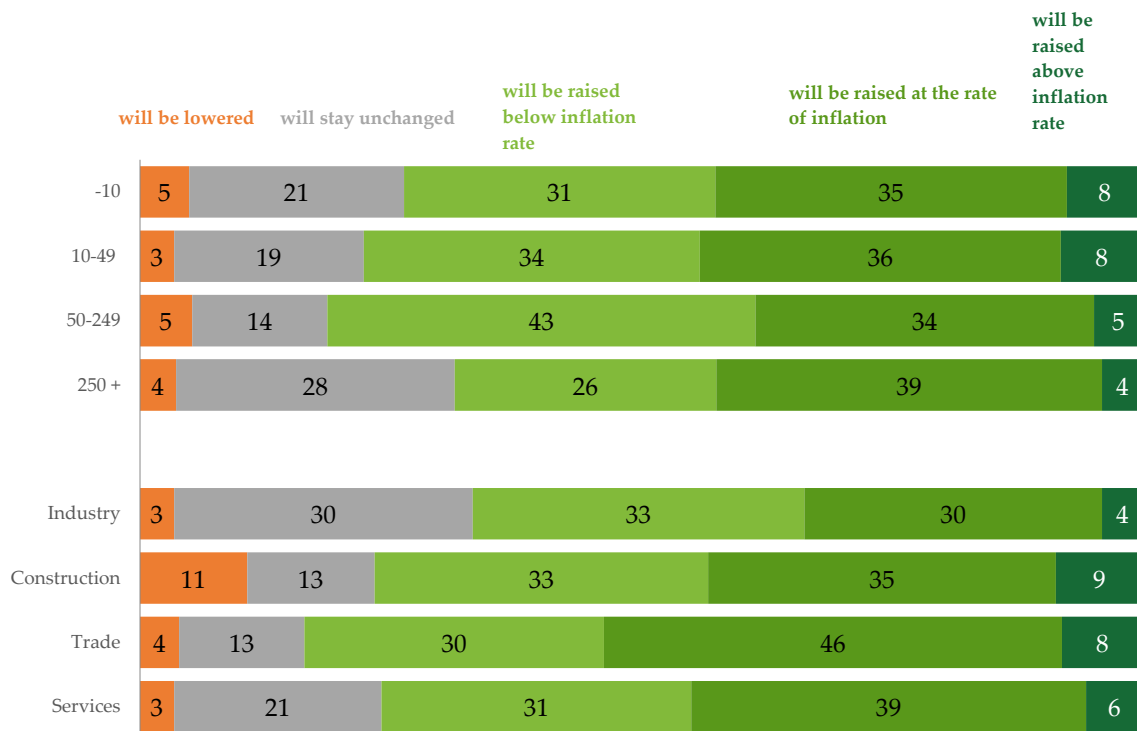
Domestic sales prices by sector and company size

We also examined the April 2023 data with regard to company size and sector. 10-49 and 50-249 companies are the most likely to expect sales prices to rise (78-81%), while the smallest (74%) and largest (69%) companies are slightly less likely to increase prices. Two thirds of industrial companies (67%), over three quarters of service providers (76%), construction firms (77%) and traders (84%) expect that their prices will rise.

Export sales prices

As part of the business climate survey, we also regularly enquire exporting firms about their export pricing plans. The proportion of firms that expect their export prices to fall in the next six months rose from 5 percent in October 2022 to 8 percent in April 2023, while the proportion of those who expect no price change in the next six months increased from 32 percent in the previous half to 54 percent in the current half. At the same time, the number of respondents expecting an increase fell significantly in April this year, from 63 percent to 39 percent. Thus, the steady upward trend of those expecting export prices to rise was broken in April 2023.

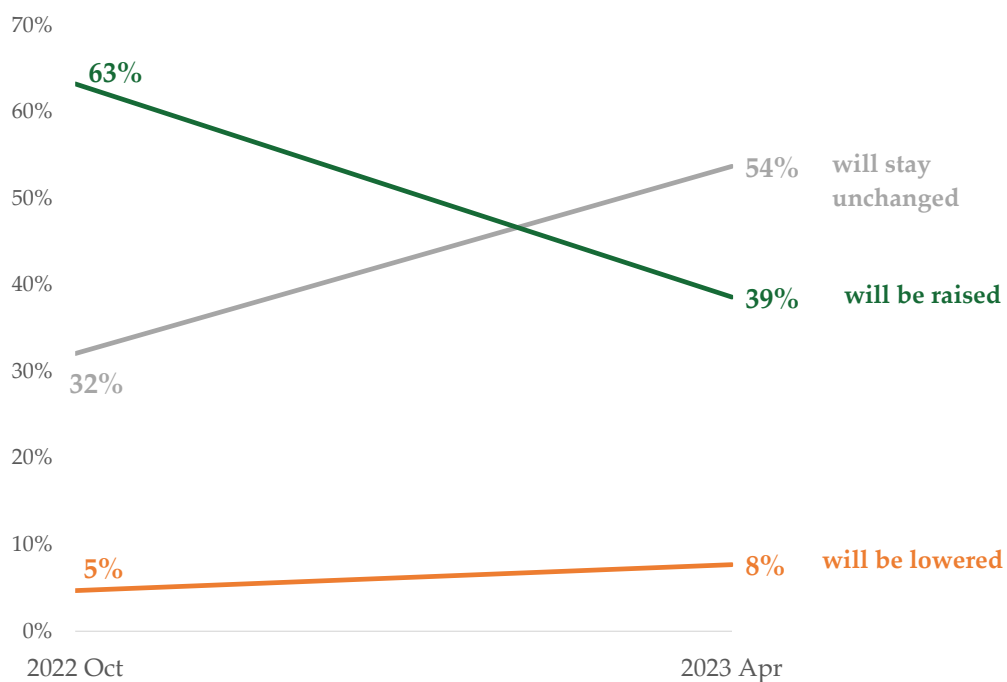
Figure 3. Hungarian companies' domestic sales prices forecast for the next six months, April 2023, by company size and sector, N=1839, Percent



Source: IEER 2023

Note: Data weighted by the economic performance of enterprises.

Figure 4. Composition of total public expenditure on education as a percentage of total government expenditure, 2019, (percentage)



Source: IEER 2023

Note: Data weighted by the economic performance of enterprises.

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	(May)	5.6%	5.6%	5.6%
Germany	Manufacturing Purchasing Managers Index	(May)	43.2	42.9	44.5
	IFO Business Climate Index ¹	(May)	91.7	88.6	93.4
France	INSEE Business Climate Index ²	(May)	100.0		102.2
	Unemployment Rate	(May)	3.7%	3.5%	3.5%
USA	CB Consumer Confidence Index	(May)	102.3	99.0	103.7
	Manufacturing Purchasing Managers Index	(May)	48.4	48.5	50.2
China	Manufacturing Purchasing Managers Index	(May)	48.8	51.4	49.2

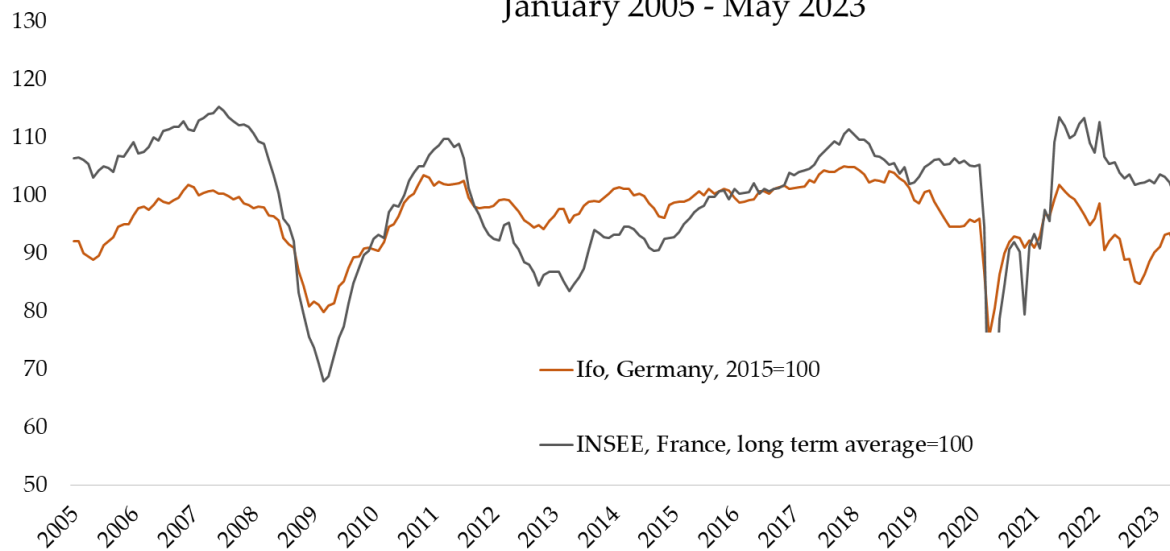
¹ <https://www.ifo.de/en/survey/ifo-business-climate-index>

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

The rest of the data source: <https://www.bloomberg.com/markets/economic-calendar>

In Germany, the IFO business climate index decreased compared to April. The manufacturing purchasing manager index (PMI) also decreased compared to the previous period, but performed slightly better than expected. The unemployment rate remained the same in Germany compared to the last month. The French INSEE business climate index continued to decrease in May. In the United States, the CB consumer confidence index decreased compared to the month prior. The manufacturing PMI also decreased compared to April in the USA. The unemployment rate became worse in the USA compared to the month prior. The Chinese manufacturing PMI decreased compared to the previous month.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - May 2023



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

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