Monthly Bulletin of Economic Trends

January 2017

Main results of IEER's Short-Term Labour Market Outlook for 2017

The following summary comprises the latest results gained from the largest representative survey series on the Hungarian labour market. During the study 6835 company leaders' answers on employment, on the company's business situation, and on the company's future expectations were registered and analysed. The history of the survey series targeting short-term expectations of the labour market goes back to the years following the regime change of 1989-90 in Hungary. The latest survey in this research program took place between September 7 and October 14, 2016 as the ninth occasion of the collaboration between the Hungarian Ministry for National Economy and the Institute for Economic and Enterprise Research (IEER) to forecast the short-term economic prospects of the private sector, and to review corporations' labour market decisions in an empirical study.

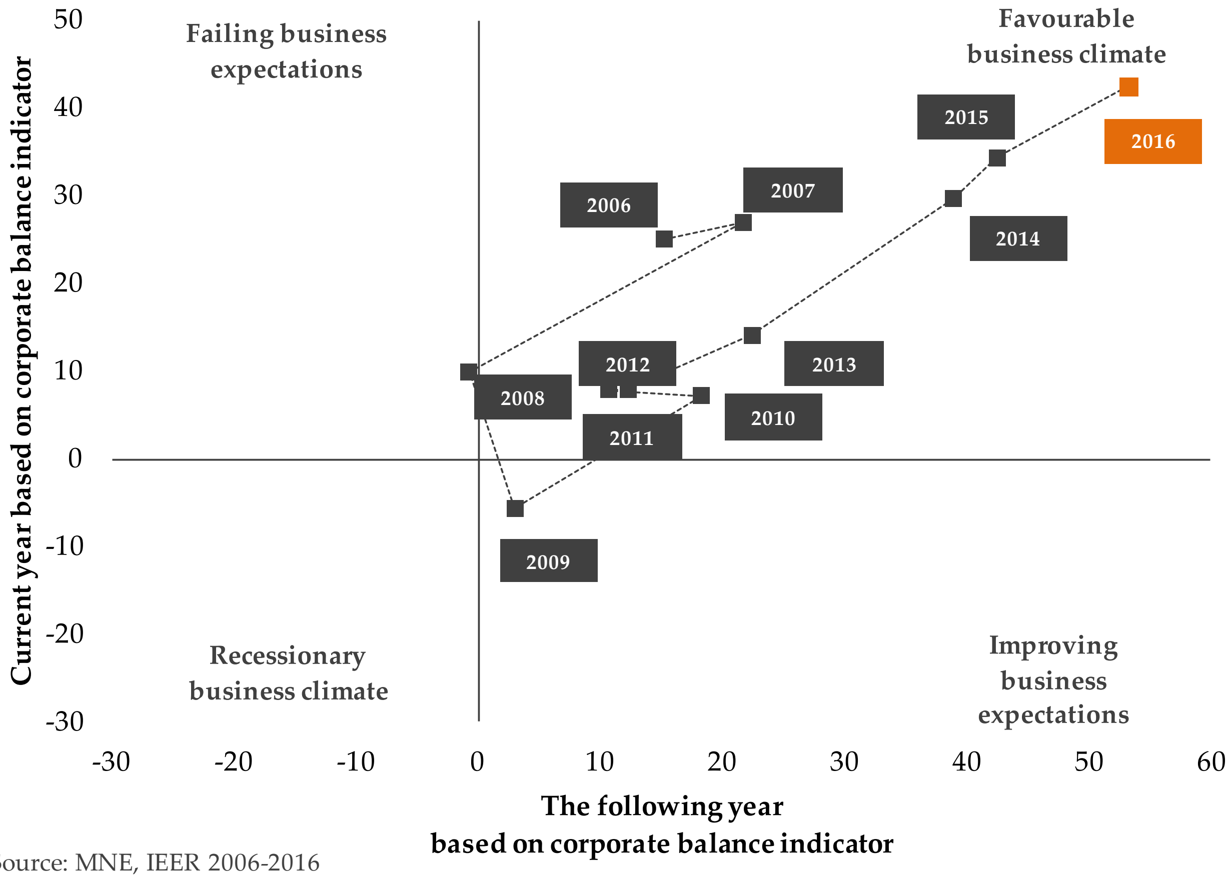
The survey

During the survey co-workers from county governmental offices and from the IEER Institute questioned altogether 6835 company leaders about their current and expected labour force demand. The results can be considered to be representative by the companies' geographical location, economic sectors and size (headcount).

Business situation

According to the short-term labour market outlook for 2017 the subjective corporate business situation assessment has further improved after the positive shift that happened last year. The value of the general business situation balance indicator is 44 points – that is those who consider their business situation fairly favourable constitute the majority with 44% compared to those who think their business situation is not favourable. Business expectations for 2017 are more optimistic than any time in the previous years. The value of the future business situation balance indicator is 54 points. The optimism originates in the expectations of companies in the economic services, in the tourism and hospitality industry, in the financial sector, in retail, and of companies with foreign ownership and with export activities.

Figure 1: Subjective assessment of the current and expected general business situation, 2006-2016



Source: MNE, IEER 2006-2016

Change in the headcount in the private sector

According to this year's Short-Term Labour Market Outlook in 2016 the number of those companies that increased their headcount was 21 percentage points higher than that of those companies that reduced their headcount. This rate was 20 percentage points in 2015. For the year 2017 the corporate balance indicator is at 32 points, which means that companies planning to increase their headcount form a majority with 32 percentage points compared to those companies that plan headcount decrease. It should be noted that the improving trends concerning employment does not prove to be as strong as the trend that can be observed in connection with the improving business situation.

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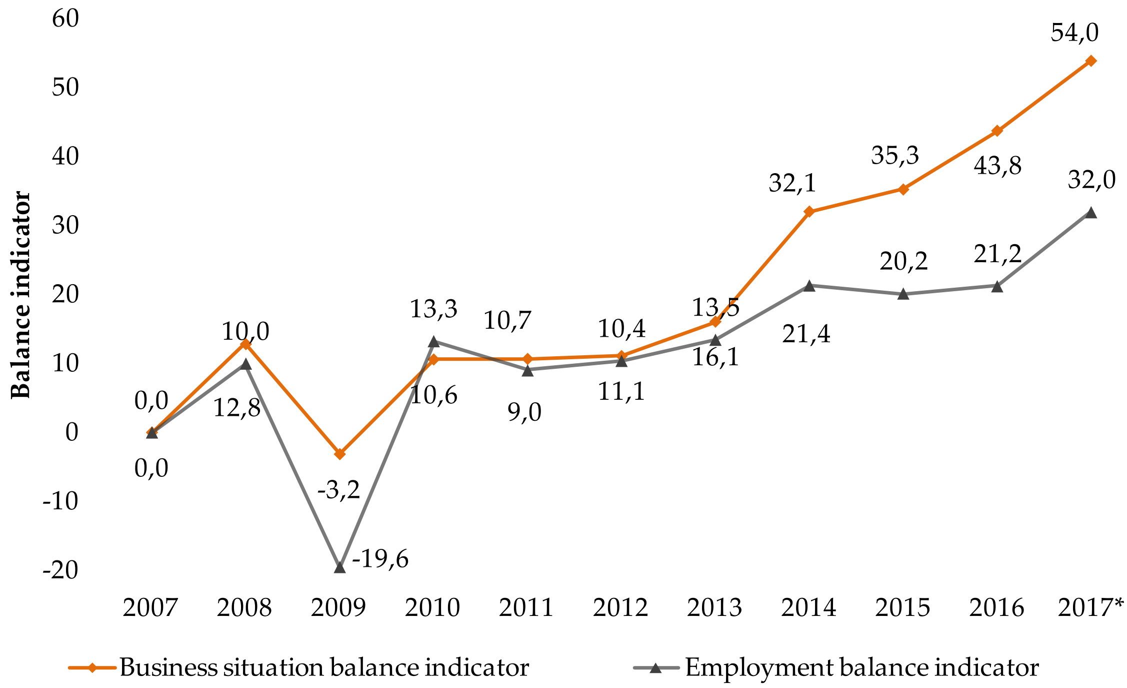
Figure 2: Balance indicators of business situation and employment, 2007-2017



Balance indicator: the values are indicators on a hundred-point scale. The balance indicators are in each case the difference between the rates of companies giving a positive or a negative situation assessment. Thus, the indicator can have a value between -100 and +100. -100 if all the companies have a negative view on the situation, and +100 if all the companies have a positive view on the situation.
The 2017 values are based on corporate expectations.
Source: MNE, IEER 2007-2016

According to the raw data of the survey if the companies' plans and intentions are to be summed up, then there is a 2.2 percentage point increase in employment for 2017. To have a realistic estimate for employment, it is important to consider what the actual labour force demand was compared to the corporate planned demand among the surveyed companies in the past. Making the estimation model adaptive with such an impact correction then only a 0.1% increase in employment or a stagnation is likely for 2017. According to the corrected estimation in retail a 6.1%, in construction a 3.1% and in agriculture a 4.2% decline in employment can be expected. But in the field of economic services a 3.7% and in the case of industrial companies a 1% increase is prognosticated. It is important to highlight that raw company expectations are the most favourable in case of industrial companies, and apart from the agricultural sector in all the other sectors the raw company expectations imply a headcount increase. According to the corrected forecast for 2017 among companies with relevant export activities a 1.5% employment increase is to be expected.

Economic Forecasts for 2017

The Hungarian economy is strongly affected by the economy of other EU countries, thus it is very important to look at the economic forecasts of the EU while analysing Hungarian data. The summary below first shows the prognosis of the EU and the Eurozone by the European Commission and institutes for economic research, then the prognosis about Hungary. In 2016 and 2017, the EU and the Eurozone will experience positive effects of global economic prosperity, according to economic researchers. Brexit does not seem to have had a negative short-term impact on either the economic outlook or the reactions of the economic actors. Hungarian economic growth was driven by private consumption in 2016, which partially offset the dramatic relapse of investments. The European Commission estimates the Hungarian GDP to grow by 2.1% in 2016, which may increase by 2.5% in 2017. Kopint-Tárki's business climate report forecasts that the 2016 Hungarian economic growth of 2.2% will likely be followed by a 3.2% increase in 2017.

Economic Forecasts for the European Union

According to the European Commission's 2016 winter economic forecast[1], favourable conditions will continue to support the economic growth of the EU and the Eurozone, boosting export and private consumption. These conditions include changes in oil prices, Euro exchange rates and financing costs. Economic growth in the last several years was strong enough to significantly lower unemployment while economic and political uncertainty hinders investments in some member states, but an increase in investments is necessary to stabilize the boom.

In 2015, GDP grew by 1.6%. In 2016, it is expected to grow slightly faster by 1.7% (1.9% in the entire EU), which is somewhat slower than the rate forecast in earlier predictions.

Experts expect that the positive effects of the economic boom will be seen in Eurozone economies in 2016 and 2017. The structural reforms of the states will amend growth data. The expected boom of consumption and investments, as well as the easing of the financial conditions in 2017, will make it likely that the Eurozone will see a 1.9% increase, while the economy of the EU rises by 2%.

Moderate economic growth improved the labor market in the Eurozone, and the rate of employment growth slightly speeded up as well, thus it already was 1.1% in 2015. Researchers expect a similar rate of growth in 2017, thanks to the increase in economic activity, rising business confidence, and higher accumulation of capital. Both the more flexible labor market and the slight wage increase helped the growth of employment. The unemployment rate is expected to continue to decrease but at a lower rate than in the last year. According to the forecast, unemployment is expected to decline in the Eurozone from 11% in 2015 to 10.5% in 2016

[1] Source: http://ec.europa.eu/economy_finance/eu/forecasts/2016_winter/overview_en.pdf

(9% in the EU) and to 10.2% in 2017 (8.7% in the EU). This decline will be seen in most member states and especially in those who fulfil labor market reforms (Spain, Portugal, Cyprus and Ireland).

In the Eurozone inflation will increase over the forecast horizon from the 2015 0%, in 2016 to 0.5% and in 2017 it will reach 1.5%. (The same data for the EU: 0.5% and 1.6%)

The decrease of the general government deficit continues, but the rate of the decline is expected to be slightly lower than before. According to the forecast the general government deficit was 2.2% of the GDP in 2015 in the Eurozone, this will decrease to 1.9% in 2016 and to 1.6% by 2017 (the same data in the EU is 2.2% and 1.8%), while the deficit-to-GDP ratio will be 91.3% in 2017.

The OECD worsened its forecast for growth in the Eurozone. In 2016 summer[2] they predicted a 1.7% increase for 2016 and 1.8% for 2017. In the autumn forecast[3] they not only predicted merely 1.5% (2016) and 1.4% (2017) growth for the Eurozone economy, but also drew attention to the dangers of deceleration of the global economy.

The IMF expects 1.6% growth by 2016 and 1.4% by 2017 in the Eurozone.[4]

According to the Conference Board's forecast[5] the Eurozone will reach 1.5% growth in 2016 and 1.4% in 2017.

JP Morgan's specialists expect 1.5% GDP growth in 2016 and 1.25% in 2017 in the Eurozone.[6]

Kopint-Tárki Institute for Economic Research revised slightly upwards its growth forecast in winter[7] since the autumn forecast[8]. Brexit does not seem to have had a negative short-term impact on either the economic outlook or the reactions of the economic actors. Based on available information the institute expects a 1.7% GDP growth by 2016 (they predicted 1.6% in autumn), which may decline to 1.3% (1.2% in the autumn forecast) in 2017. Kopint-Tárki expects a 1.8% growth by 2016 (1.7% in autumn) and they have corrected their previous expectation of 1.3% for 2017 to 1.4%.

[2] Source: http://www.oecd.org/eco/outlook/Pages%20from%20OECD-Economic-Outlook-June-2016-summary-of-projections-2.pdf

[3] Source: http://www.oecd.org/economy/oecd-warns-weak-trade-and-financial-distortions-damage-global-growth-prospects.htm

[4] Source: https://www.imf.org/external/pubs/ft/weo/2016/update/02/pdf/0716.pdf

[5] Source: https://www.conference-board.org/data/globaloutlook/

[6] Source: https://am.jpmorgan.com/gi/getdoc/1383387336117

[7] Source: http://www.kopint-tarki.hu/wp-content/uploads/2016/12/Konjunkt%C3%BArajelent%C3%A9s_sajt%C3%B3t%C3%A1j%C3%A9kozt at%C3%B3_2016.4.pdf

[8] Source: http://www.kopint-tarki.hu/wp-content/uploads/2016/09/Konjunkt%C3%BArajelent%C3%A9s-sajt%C3%B3anyag-2016.3-1.pdf

Economic Forecasts for Hungary

According to the European Commission's autumn forecast[9] the economic growth of Hungary is led by private consumption, thanks to the personal income tax reduction. The Commission estimates a 2016 GDP increase of 2.1%, which may grow to 2.5% during 2017. The forecast expects unemployment to continue to decrease and inflation to grow slightly (by 1.7% in 2016). The general government budget deficit is estimated to be 2% in 2016, which is an overachievement of the official target.

According to the OECD's forecast[10] Hungary's economic growth may slow down in 2016 (1.6%) because of the beginning of the new cycle of the EU structural funds, but acceleration is expected in 2017 (3.1%). Private consumption will steadily increase, according to the forecast, and employment will continue to expand, thanks to the public works program.

According to the IMF's most recent regional analysis[11] the gross domestic product will grow by 2% in 2016, which may accelerate to 2.5% in 2017. Hungary's GDP growth rate is below the average of Central East Europe (2.8% in 2016, 3% in 2017), and it is the lowest growth rate among other countries of this region.

In September 2016, the credit-rating agency Standard & Poor's upgraded Hungary, which lifted the country back into investment grade. The agency justified the decision primarily by Hungary's improved fiscal and external vulnerability outlook and growth prospect. They expect a 2% increase between 2016 and 2019, but stress that the government-debt ratio and the gross external financing requirement need to be reduced.[12] In November, the credit-rating agency Moody's also lifted Hungary back into investment grade category, so the country moved up from its poor rating at all three major credit-rating agencies.[13] This is a result of three main factors: the declining debt ratio, structural steps, which help to reach the 2-2.5% growth in the next few years, and a significant decrease in external vulnerability.

According to the Conference Board's forecast[14] the GDP growth rate in Hungary will be 1.7% in 2016 and 1.5% in 2017.

According to the Pénzügykutató Research Institute's forecast[15] 2016 will be characterized by contradictory trends. The

[9] Source: http://ec.europa.eu/economy_finance/eu/forecasts/2016_winter/hu_en.pdf

[10] Source: http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-outlook-volume-2016-issue-1/hungary_eco_outlook-v2016-1-21-en#page1

[11] Source: http://www.imf.org/external/pubs/ft/reo/2016/eur/eng/pdf/rei1116.pdf

[12] Source: http://www.portfolio.hu/gazdasag/felminositette_az_sp_magyarorszagot.237484.html

[13] Source: http://www.portfolio.hu/gazdasag/mostantol_senki_nem_foghatja_ra_magyarorszagra_hogy_bovli_lenne.239691.html

[14] Source: https://www.conference-board.org/data/globaloutlook/

[15] Source: http://penzugykutato.hu/sites/default/files/Penzugykutato_Prognozis_2016%20okt_Sajtotaj.pdf

dramatic relapse of investments has been partially offset by the rise of private consumption, so we can expect an economic growth of more than 2%. Balance indicators are favourable: foreign trade and balance of payments surplus significantly increased, budget deficit and government debt ratio decreased, and inflation remained low. Thus, according to the forecast, GDP may increase by 2.2% in 2016 and by 3% in 2017. Furthermore, researchers indicated that the dependency from EU financial sources may cause serious problems for Hungary.

The Quarterly Economic Report[16] of the Kopint-Tárki Institute for Economic Research adjusted its growth forecast, with a prognosis that the 2.2% growth of 2016 will be followed by 3.2% in 2017 (2.7% in the autumn forecast[17]). The industrial growth rate fell below 1% in the third quarter and the institute expects a 4% growth rate over the course of the year. The dramatic relapse of investments (in the third quarter 57% in the financial sector and 8% in the total economy) is largely a temporary effect of the EU sources phasing out, so the institute forecasts a drastic decrease (around 10%) for 2016. The foreign trade balance surplus has significantly increased, and researchers predict that in 2016 the annual export surplus will be probably more than 9 billion forints. They expect a 1-1.5% government budget deficit and a 2.4% deficit for 2017. Public debt is expected to continue to decline and is forecasted to be 74.3% in 2016 and 73.5% in 2017.

GKI Economic Research forecasts[18] the Hungarian GDP growth to be 2% in 2016 and 2.7% in 2017. They expect the industrial production to grow by 2% in 2016 and by 3.5% in 2017. According to the forecast, investments have relapsed by 10% in 2016 but a 5% expansion can be expected in 2017.

[16] Source: http://www.kopint-tarki.hu/wp-content/uploads/2016/12/Konjunkt%C3%BArajelent%C3%A9s_sajt%C3%B3t%C3%A1j%C3%A9kozt at%C3%B3_2016.4.pdf

[17] Source: http://www.kopint-tarki.hu/wp-content/uploads/2016/09/Konjunkt%C3%BArajelent%C3%A9s-sajt%C3%B3anyag-2016.3-1.pdf

[18] Source: http://www.gki.hu/language/hu/2016/05/29/lassulo-novekedes-gyorsulo-fogyasztas/

International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(Jan)	**5.9%**	**6.0%**	**6.0%**
	Manufacturing Purchasing Managers Index	(Jan)	**56.5**	**55.4**	**55.6**
	IFO Business Climate Index[1]	(Jan)	**109.8**	**111.3**	**111.0**
France	INSEE Business Climate Index[2]	(Jan)	**104**		**105**
USA	Unemployment Rate	(Jan)	**4.8%**	**4.7%**	**4.7%**
	CB Consumer Confidence Index	(Jan)	**111.8**	**113.0**	**113.3**
	Manufacturing Purchasing Managers Index	(Jan)	**55.1**	**54.5**	**54.3**
China	Manufacturing Purchasing Managers Index	(Jan)	**51.3**	**51.2**	**51.4**

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

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

Source of the remaining data: http://worldeconomiccalendar.com

The performance of the German economy decreased slightly in January, after an increase in the previous month. The manufacturing purchasing manager index (PMI) has increased; however, the IFO business climate index decreased more than expected. The unemployment rate decreased slightly, contrary to expectations. The French INSEE business climate index fell by one point in January. In the United States the CB consumer confidence index declined less than expected, and the unemployment rate increased slightly. At the same time the manufacturing PMI performed better than projected in January. The Chinese manufacturing PMI has continued to decrease since the end of last year.

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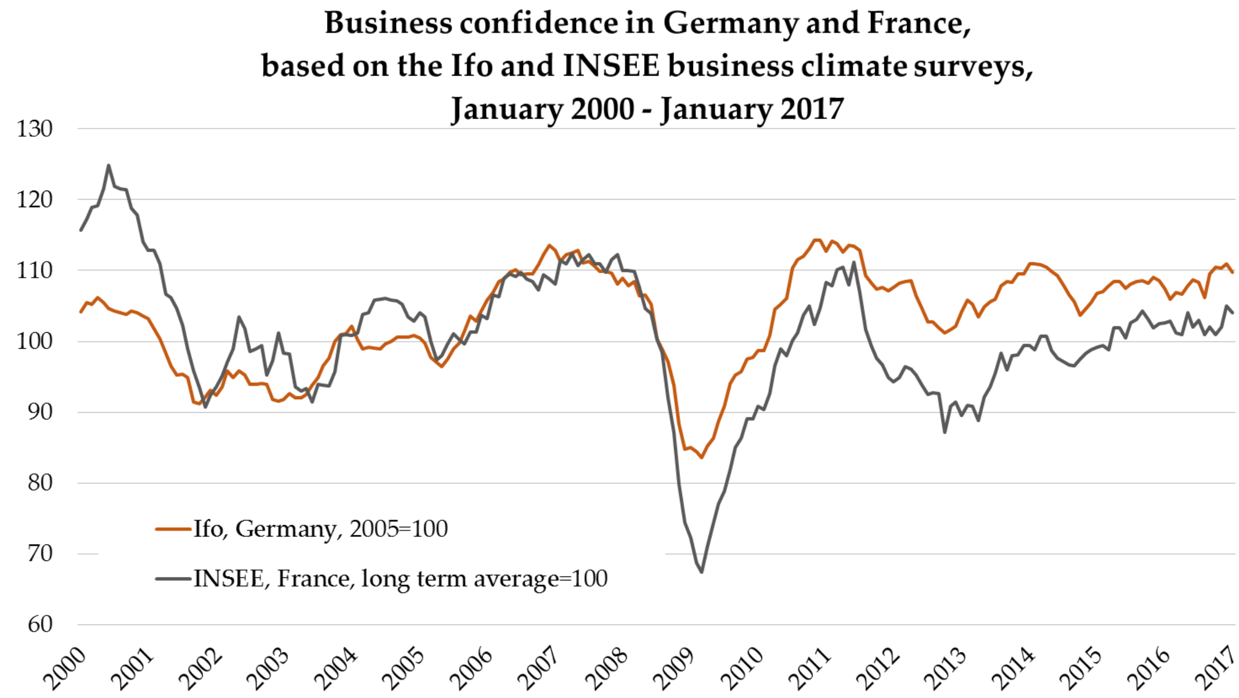
Long-term changes in business confidence indices



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

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