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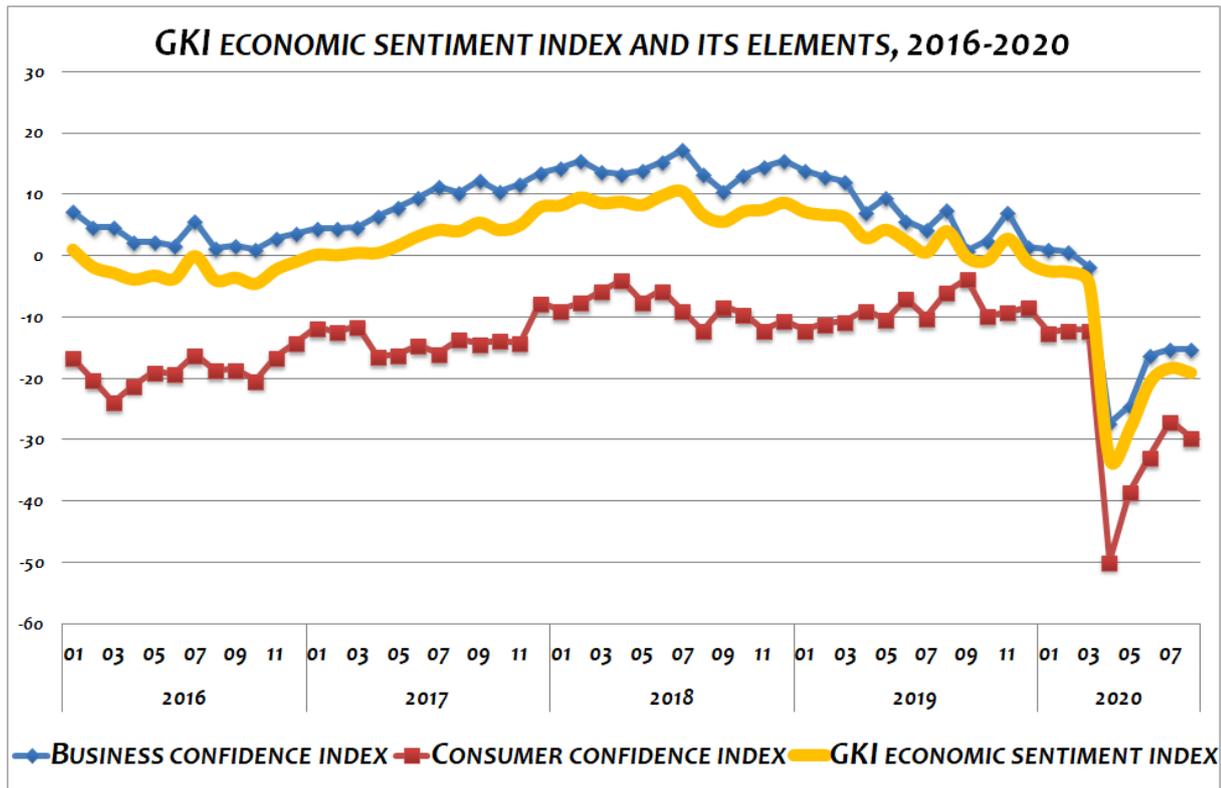
THE RISE IN GKI'S ECONOMIC SENTIMENT INDEX STOPPED IN AUGUST

Only half of the April decline in GKI's economic sentiment index resulting from the panic caused by the pandemic has been eliminated during the past four months. Moreover, according to the empirical survey conducted by GKI (www.gki.hu) with the support of the EU, consumer expectations even deteriorated slightly and business expectations remained unchanged.

In the **business sector**, expectations of industrial and commercial companies improved slightly, whereas those of construction and service companies deteriorated, though typically also within the statistical margin of error. The levels of the confidence indices of sectors are very close to each other. The **industrial** confidence index stagnated in August. Compared to July, the assessment of production and incoming orders (including export orders) of the last period deteriorated markedly, whereas the outlook for production improved and that of inventories stagnated. As in July, **construction** expectations did not change in August. This time, the outlook for structural engineering deteriorated slightly; however, the outlook for the previously more pessimistic civil engineering improved somewhat. The assessment of production in the preceding quarter and that of orders remained essentially unchanged over the previous month. Although the **trade** confidence index has been rising steadily since April, it grew only marginally in July and August. At the same time, it eliminated only 60 per cent of its April decline. The assessment of sales positions picked up significantly in August, whereas that of orders turned worse. The improvement in the **services** confidence index since its nadir in April stopped in August. This was mainly due to the deterioration of sales expectations as the assessment of the general business climate even slightly improved compared to the previous month.

The **willingness of the business sector to employ** decreased in August to its level in June. Improvement has been recorded only in construction, and there were more companies planning to reduce their staff than those intending to increase them. The situation is worst in industry, best in trade and services. After three months of improvement, the fear of unemployment of households also deteriorated, though only within the statistical margin of error. Intentions to raise prices strengthened slightly in trade and services, and they remained essentially unchanged in industry and construction. The inflationary expectations of consumers have eased. The assessment of the **Hungarian economy's prospects** deteriorated very significantly in the business sector in August (even more markedly than its sharp improvement in July). The least deterioration was registered in industry, which was already quite pessimistic. The opinion of households, however, improved significantly in August, eliminating 70 per cent of its April fall in four months.

After its fall in June, the **GKI consumer confidence index** was rising at a slowing pace for three months, then declined slightly in August. Households' assessment of their own financial situation eliminated two-thirds of its fall in April by July, and then deteriorated in August by almost the same extent as its rise in July.



EXPLANATION TO THE METHODOLOGY:

In line with the methodology used by the EU, GKI surveys the expectations of industry, trade, construction, services and households in the calculation of its business confidence index. GKI economic sentiment index is the weighted average of the consumer confidence index and the business confidence index.

The business confidence index is calculated from the responses of enterprises in industry, trade, construction and services given to questions concerning the state of business and expectations of turnover and employment. (As far as services are concerned, similarly to the practice of the EU, companies of the financial and public sectors have not been included in the surveys yet.) GKI publishes seasonally adjusted data by using appropriate mathematical methods to filter out the discrepancies caused by seasonal effects (e.g., differences in weather conditions between winter and summer, increased demand before Christmas, lower output because of summer vacations).

The consumer confidence index is calculated from responses given to questions concerning the expected financial position of households, the expected economic and unemployment situation of the country, and the prospects for saving.

GKI ECONOMIC SENTIMENT INDEX AND ITS ELEMENTS, 2016-2020

| Year | Month | Business confidence index | Consumer confidence index | GKI economic sentiment index |
|------|-------|---------------------------|---------------------------|------------------------------|
| 2016 | 01 | 7.2 | -16.6 | 1.0 |
| | 02 | 4.6 | -20.2 | -1.8 |
| | 03 | 4.6 | -23.8 | -2.8 |
| | 04 | 2.2 | -21.1 | -3.9 |
| | 05 | 2.3 | -18.9 | -3.2 |
| | 06 | 1.7 | -19.2 | -3.7 |
| | 07 | 5.6 | -16.1 | 0.0 |
| | 08 | 1.2 | -18.6 | -3.9 |
| | 09 | 1.7 | -18.5 | -3.6 |
| | 10 | 1.0 | -20.3 | -4.5 |
| | 11 | 2.8 | -16.5 | -2.2 |
| | 12 | 3.7 | -14.1 | -0.9 |
| 2017 | 01 | 4.4 | -11.7 | 0.2 |
| | 02 | 4.5 | -12.4 | 0.1 |
| | 03 | 4.7 | -11.5 | 0.5 |
| | 04 | 6.4 | -16.4 | 0.5 |
| | 05 | 7.9 | -16.1 | 1.7 |
| | 06 | 9.5 | -14.6 | 3.2 |
| | 07 | 11.3 | -15.9 | 4.2 |
| | 08 | 10.2 | -13.6 | 4.0 |
| | 09 | 12.3 | -14.3 | 5.4 |
| | 10 | 10.5 | -13.8 | 4.2 |
| | 11 | 11.7 | -14.2 | 5.0 |
| | 12 | 13.4 | -7.7 | 7.9 |
| 2018 | 01 | 14.2 | -8.9 | 8.2 |
| | 02 | 15.5 | -7.6 | 9.5 |
| | 03 | 13.6 | -5.8 | 8.6 |
| | 04 | 13.3 | -3.9 | 8.8 |
| | 05 | 13.8 | -7.5 | 8.3 |
| | 06 | 15.3 | -5.7 | 9.8 |
| | 07 | 17.3 | -9.0 | 10.5 |
| | 08 | 13.3 | -12.2 | 6.7 |
| | 09 | 10.4 | -8.3 | 5.5 |
| | 10 | 13.1 | -9.5 | 7.2 |
| | 11 | 14.4 | -12.1 | 7.5 |
| | 12 | 15.4 | -10.6 | 8.6 |
| 2019 | 01 | 13.9 | -12.1 | 7.1 |
| | 02 | 12.9 | -11.1 | 6.7 |
| | 03 | 12.1 | -10.7 | 6.2 |
| | 04 | 7.1 | -8.9 | 2.9 |
| | 05 | 9.4 | -10.4 | 4.3 |
| | 06 | 5.7 | -7.0 | 2.4 |
| | 07 | 4.3 | -10.1 | 0.6 |
| | 08 | 7.5 | -5.9 | 4.0 |
| | 09 | 0.9 | -3.7 | -0.3 |
| | 10 | 2.5 | -9.8 | -0.7 |
| | 11 | 7.0 | -9.2 | 2.8 |
| | 12 | 1.5 | -8.4 | -1.1 |
| 2020 | 01 | 1.0 | -12.5 | -2.5 |

| Year | Month | Business confidence index | Consumer confidence index | GKI economic sentiment index |
|------|-------|---------------------------|---------------------------|------------------------------|
| | 02 | 0.7 | -12.1 | -2.6 |
| | 03 | -1.8 | -12.1 | -4.5 |
| | 04 | -27.2 | -49.8 | -33.1 |
| | 05 | -24.5 | -38.5 | -28.1 |
| | 06 | -16.2 | -32.8 | -20.5 |
| | 07 | -15.2 | -26.9 | -18.2 |
| | 08 | -15.3 | -29.6 | -19.0 |

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