



26 JULY 2021

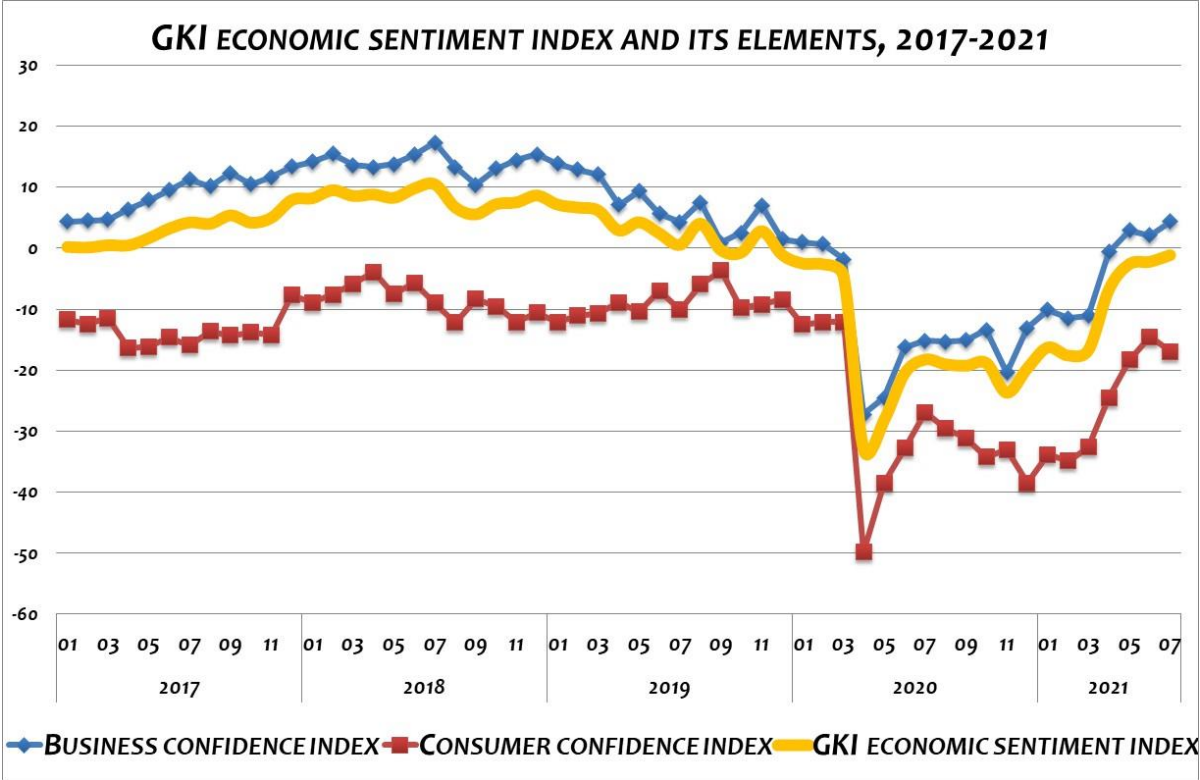
## IMPROVING BUSINESS AND DETERIORATING CONSUMER EXPECTATIONS IN JULY

After half a year of steady growth, the GKI economic sentiment index reached its year-end 2019 level in July. However, after an unprecedented rise in April, there has been little improvement in recent months. According to a survey conducted by GKI Economic Research Co. with the support of the EU, business expectations rebounded after a slowdown in June, while consumer expectations worsened slightly, although they remained above their May level.

In the **business** sphere, expectations improved in all sectors in July except construction. **Industrial** companies were the most optimistic, with an improvement in the assessment of production prospects, order books and stocks, and only a slight deterioration in the perception of recent production and export orders. According to the respondents, labour shortage is the main obstacle to the expansion of production. After two months of stagnation, the outlook for **construction** companies deteriorated markedly in July, falling to a four-month low. The assessment of production and order books for the preceding quarter was less favourable. For the construction industry, the main constraint to growth became the shortage of materials and capacity. The **trade** confidence index is slowly moving upwards, exceeding its pre-pandemic level for the third month. The evaluation of sales positions and order books improved, whereas that of stocks deteriorated slightly. After stagnating in the previous month, the **services** confidence index rose again in July. The evaluation of the general business climate improved, whereas sales expectations weakened slightly.

The business sector's **propensity to hire** has been slowly but steadily deteriorating since the spectacular improvement in April, but still more companies in all sectors were preparing to expand rather than reduce their workforce. In July, the deterioration was essentially the result of a significant drop in optimism among construction companies, while the employment outlook for industrial and service companies remained essentially unchanged. In this respect, industrial companies are the most optimistic and commercial ones the least upbeat. After four months of improvement, the fear of unemployment of households rose again in June and July. **Intentions to raise prices** intensified in all sectors with the exception of trade. However, the intention to raise prices is still the strongest in trade, and most of these companies are preparing to lift prices. The proportion is almost the same in construction. At the same time, after a significant increase in May, consumer inflation expectations continued to decline slightly in July after June. The overall assessment of the future of the Hungarian economy remained unchanged in the business sector. However, within this sector it deteriorated significantly in industry, while it improved considerably in trade. The opinion of households became noticeably less favourable.

Although the **GKI consumer confidence index** decreased slightly in July after four months of increase, it remained close to its pre-crisis level. Households assessed their financial situation as slightly worse than in the previous month, though they reached their pre-crisis levels. In addition, households considered their ability to save slightly improving.



**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, 2017-2021

Year	Month	Business confidence index	Consumer confidence index	GKI economic sentiment index
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
	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
	09	-15.1	-31.1	-19.3
	10	-13.4	-34.2	-18.8
	11	-20.4	-33.0	-23.7
	12	-13.1	-38.5	-19.7

Year	Month	Business confidence index	Consumer confidence index	GKI economic sentiment index
2021	01	-10.1	-33.8	-16.3
	02	-11.5	-34.9	-17.6
	03	-11.1	-32.6	-16.7
	04	-0.6	-24.5	-6.8
	05	2.9	-18.3	-2.6
	06	2.1	-14.5	-2.2
	07	4.4	-16.9	-1.1

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