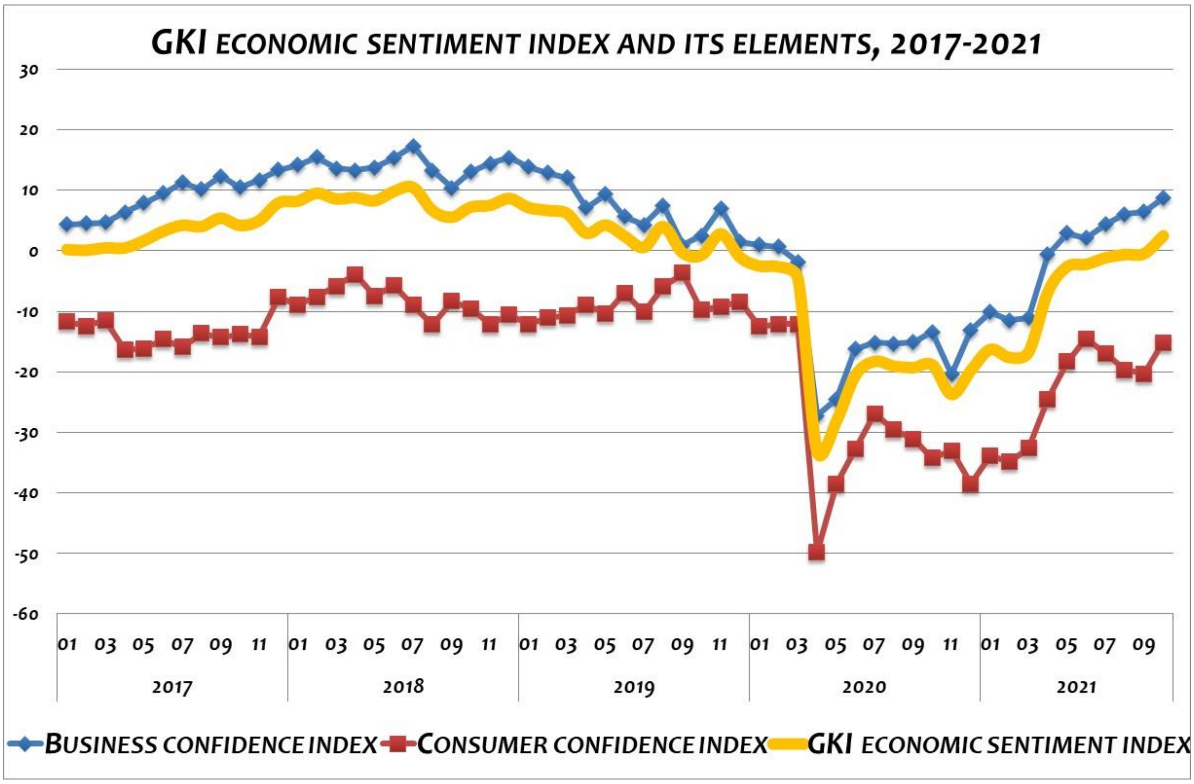
GKI's ECONOMIC SENTIMENT INDEX ROSE TO A TWO-YEAR HIGH IN OCTOBER

In October, after four months of near stagnation, GKI's economic sentiment index picked up momentum and reached a two-year high. According to a survey conducted by GKI with the support of the EU, business expectations were last so favourable in May 2019, and consumer expectations rose back to their June level after a three-month decline.

Within the **business** sphere, all sectors except construction became more optimistic to a greater or lesser extent in October. In October, the **industrial** confidence index eliminated its September decline and rose to a two-and-a-half year high. The assessment of incoming orders improved, including export orders, and that of production expectations also got better. Only the assessment of inventories deteriorated. After a significant improvement in September, the outlook for construction companies deteriorated slightly in October, broadly in line with the last "month of peace" before the pandemic, in February last year. In October, the outlook for civil engineering companies continued to improve, whereas the outlook for the previously more optimistic structural engineering companies deteriorated somewhat. Although the assessment of production in the preceding three-month period continued to improve, that of orders declined slightly. Labour shortages are the main constraint to growth in the construction sector. Shortages of materials and capacity are a major problem for structural engineering companies and a lack of demand for civil engineering ones. After September, the **trade** confidence index increased slightly in October, and it is slightly more favourable than before the pandemic. In particular, the assessment of the stock of orders improved. The **services** confidence index improved again in October. The assessment of the state of business and the sales outlook improved. The main obstacle to growth is the lack of demand.

Overall, **employment** propensity has not changed, it has strengthened the most in the most optimistic sector in this respect: in industry. There are still noticeably more companies planning to expand than to reduce their workforce in all sectors, least of all in trade. The main obstacle to increasing production in industry and construction is the absence of labour. The fear of unemployment of households strengthened slightly. The **upward pressure on prices** eased in industry and services, but increased in trade and construction. Inflationary expectations, too, intensified among consumers. The assessment of the **Hungarian economy's prospects** worsened in October, especially in construction and trade. Consumer pessimism, however, eased back to June levels.

After three months of decline, the **GKI consumer confidence index** rose significantly in October, close to its June level. Compared to September, the opinion of households on their own financial situation and the possibility of purchasing high-value consumer goods improved considerably. The last time when the previous one was more favourable than it is now was at the end of 2019. For the sixth month in a row, households have been feeling increasingly positive about their own future savings potential.



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
	08	6.1	-19.7	-0.6
	09	6.5	-20.3	-0.5
	10	8.7	-15.2	2.5

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