GKI Economic Research Co.
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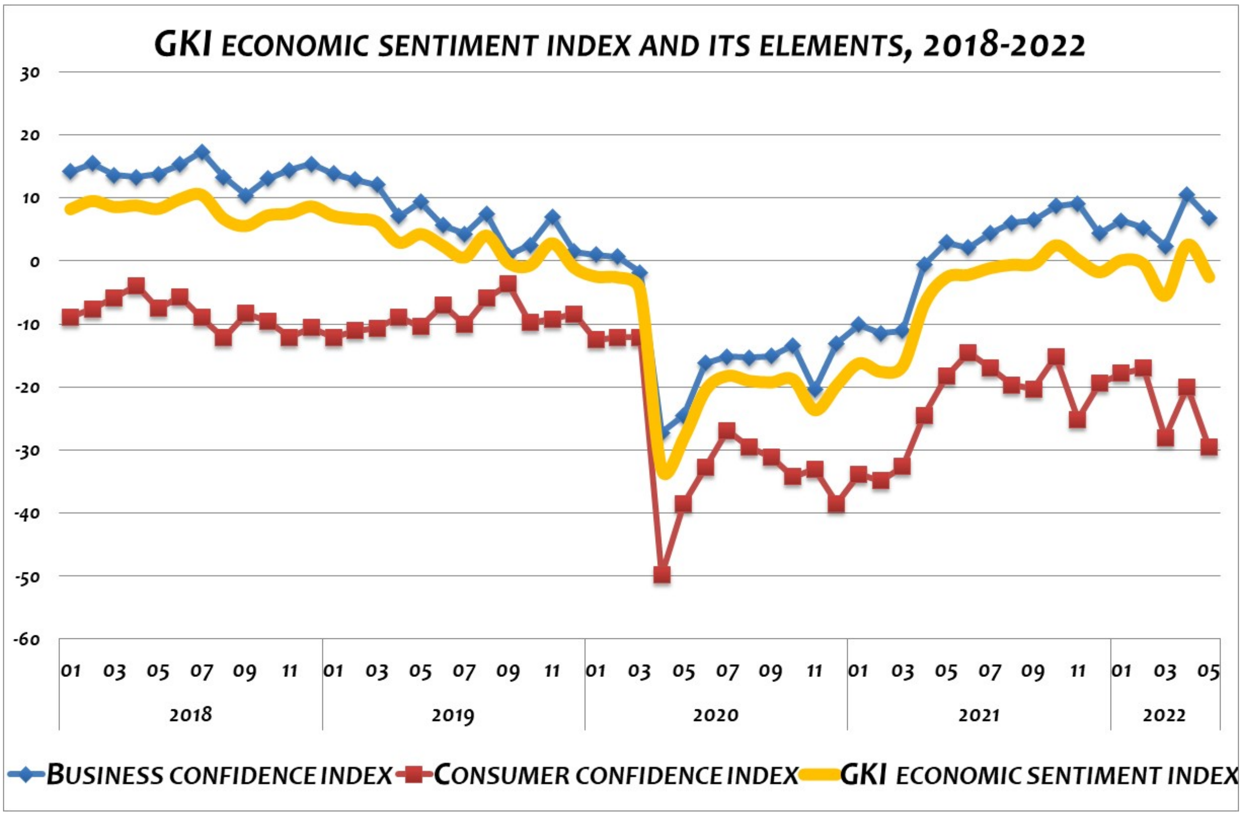
# AFTER A HUGE IMPROVEMENT IN APRIL, BUSINESS AND CONSUMER EXPECTATIONS DETERIORATED SIGNIFICANTLY IN MAY

**After improving by 8 points in April, the GKI economic sentiment index fell by 5 points in May. This is a very significant fluctuation, but the May figure is about the same as a year earlier. According to the empirical survey conducted by GKI Economic Research Co. (www.gki.hu) with the support of the EU, business expectations fell by around 5.5 points in May and consumer expectations by 9.5 points. This is a return to the otherwise upbeat view of recent months, after the over-optimism of April. An exception is the assessment of the future of the national economy, which was worse in the last ten years only at the beginning of the Covid pandemic and during the austerity of the Széll Kálmán plan.**

In the **business sphere**, confidence indices for all sectors except trade deteriorated to a greater or lesser extent. The **industrial** confidence index fell only slightly and overall remains optimistic. The evaluation of production prospects and inventories deteriorated. Although total orders were perceived to be higher, exports were perceived to be lower. Expectations of **construction** companies fell back to March levels. The opinion of structural engineering companies improved slightly, while that of the already more pessimistic civil engineering ones became more negative. The assessment of production in the preceding three-month period improved markedly, whereas that of orders deteriorated. The **trade** confidence index has risen for the third month in a row, by small steps. The assessment of sales positions improved significantly in May, whereas that of expected orders and inventories deteriorated. The **services** confidence index remained above its March level despite a huge fall in May. Sales expectations deteriorated a lot.

In May, **willingness of the business sphere to employ** fell in all sectors compared to the April peak, but it is in line with the high levels observed in previous months. In all sectors, there are noticeably more companies planning to expand than to contract: most in industry, least in trade. The fear from unemployment of households increased again significantly after a fall in April. Companies' **efforts to increase prices** are down marginally compared to April, but still much stronger than in March and they have not been equally strong in the last decade and a half. The slowdown in the drive to raise prices is most noticeable in industry, but half of the companies are still preparing for this. In trade, this proportion is more than three-quarters. Consumers' inflationary expectations rose again in May after their weakening in April. Since the outbreak of the Russian-Ukrainian war, both companies and households see **the future state of the Hungarian economy** as extremely pessimistic, and pessimism increased considerably in May.

Following a significant improvement in April, the **GKI consumer confidence index** deteriorated more sharply in May. Households assessed their financial situation much worse than in April. The assessment of their expected savings capacity has been gradually deteriorating month by month since the record in February. Households' assessment regarding the possibility of purchasing high-value durables also deteriorated.




## 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, 2018-2022

| Year | Month | Business confidence index | Consumer confidence index | GKI economic sentiment index |
|---|---|---|---|---|
| 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 |
| 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 |
| | 11 | 9.1 | -25.1 | 0.2 |
| | 12 | 4.4 | -19.4 | -1.8 |

| Year | Month | Business confidence index | Consumer confidence index | GKI economic sentiment index |
|---|---|---|---|---|
| 2022 | 01 | 6.4 | -17.8 | 0.1 |
| | 02 | 5.3 | -17.0 | -0.5 |
| | 03 | 2.4 | -28.0 | -5.5 |
| | 04 | 10.5 | -20.0 | 2.6 |
| | 05 | 6.9 | -29.5 | -2.6 |


**GKI ECONOMIC RESEARCH CO.**

1092 Budapest. Ráday u. 42-44.

Phone: +36 1 318 1271 E-mail: gki@gki.hu

*For more information:*

*Gábor Karsai (karsai.gabor@gki.hu);*

*Raymund Petz (petz.raymund@gki.hu)*