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GKI'S ECONOMIC SENTIMENT INDEX DECLINED FURTHER IN JULY, THOUGH AT A SLOWER RATE

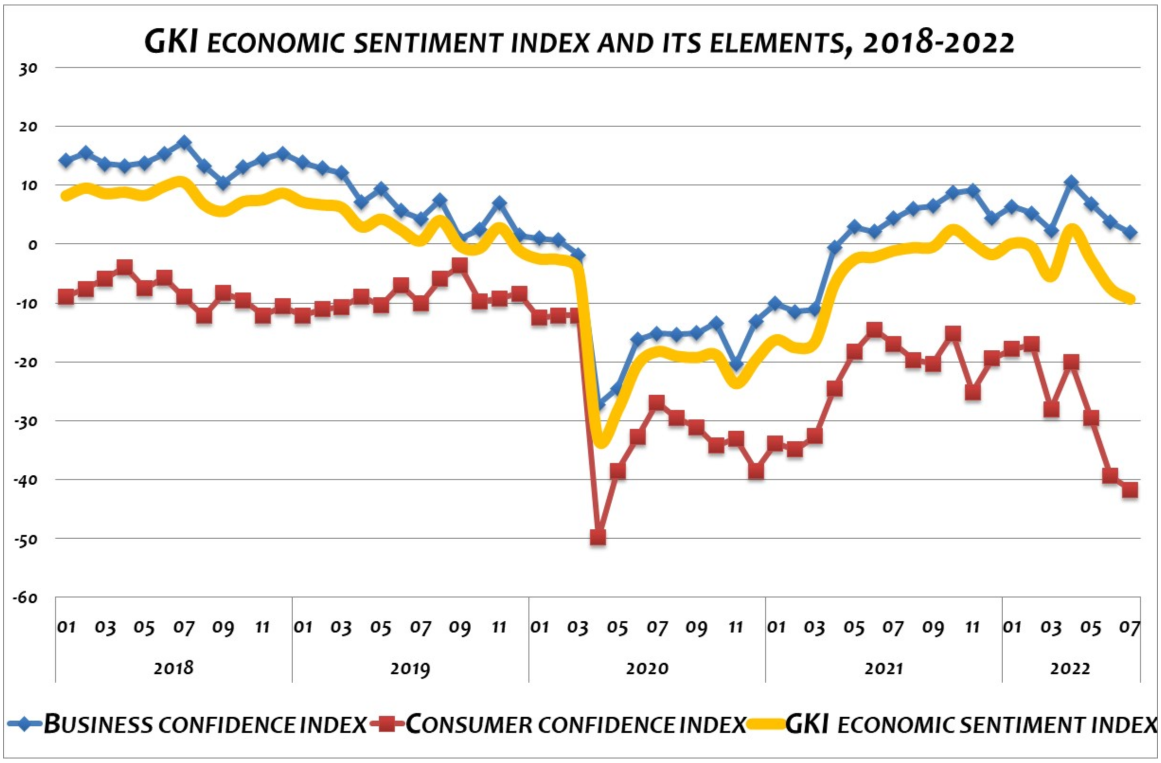
GKI's economic sentiment index fell in July to its more than one-year low, the lowest since March last year. According to the empirical survey conducted by GKI Economics Research Co. with the support of the EU, business expectations fell by around 8 points since April this year, while consumer expectations dropped by more than 20 points, and pessimism among companies and households increased by a similar amount in July. (The household survey was carried out before the announcement of the 'overhead increase'.) Overall, companies' efforts to raise prices remained unchanged, while the assessment of the Hungarian economy continued to deteriorate.

The decline in the **business confidence index** in July was solely due to a marked deterioration in industrial expectations. Expectations in other sectors improved compared to June, although none of them reached their May levels. The **industrial** confidence index fell in July to its level recorded in April last year. The assessment of the production of the preceding and next periods, the stock of orders (including exports) and inventories deteriorated as well. After two months of deterioration, sentiment among **construction** companies corrected positively in July. Although the outlook for structural engineering continued to deteriorate, that for civil engineering improved noticeably. However, this sub-sector remained the most pessimistic. Although satisfaction with the order book improved markedly, satisfaction with the previous three months' production increased only less. Although the **trade** confidence index increased slightly compared to June, it is still not much higher than during the Covid pandemic. Commercial companies considered their order stocks to be more favourable than in June, and they also saw their sales positions as better, while their inventories were slightly less favourable. The assessment of the state of business and the sales outlook among **services** improved, but that of the turnover of the previous quarter deteriorated.

In July, the slight deterioration of the business sector's **propensity to employ** since April stopped, and except for construction, there were more companies planning to expand their workforce than to reduce it. Labour shortages remain the main obstacle to the expansion of companies' activities. At the same time, the fear of unemployment of households has increased since April, albeit to a lesser extent. Companies' **efforts to raise prices** remained unchanged in July, with most of them preparing to increase prices, except for services. Price increases were mainly planned by commercial and construction companies, with the latter's efforts intensifying in July. Inflationary expectations of households weakened slightly after several months of strengthening. Since the outbreak of the Russian-Ukrainian war, both companies and households saw **the future state of the Hungarian**

economy as increasingly dramatic month by month. Deteriorating financial indicators and the government's efforts to improve the balance may have contributed to this.

GKI's consumer confidence index continued to decline at a slower rate in July, after a significant deterioration in May and June, and fell to its lowest level in three years. For three months now, households have been perceiving their own financial situation, their ability to save and to buy high-value durables to be deteriorating as well.



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
	01	6.4	-17.8	0.1
	02	5.3	-17.0	-0.5
	03	2.4	-28.0	-5.5
2022	04	10.5	-20.0	2.6
	05	6.9	-29.5	-2.6
	06	3.7	-39.4	-7.5
	07	2.0	-41.7	-9.4

GKI Gazdaságkutató Zrt.

1092 Budapest, Váci utca 84. fszt. 2.
Telefon: 06-30-014-7848 E-mail: gki@gki.hu

További információk:
Karsai Gábor (karsai.gabor@gki.hu);
Petz Raymund (petz.raymund@gki.hu)