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GKI'S ECONOMIC SENTIMENT INDEX FELL SHARPLY IN AUGUST

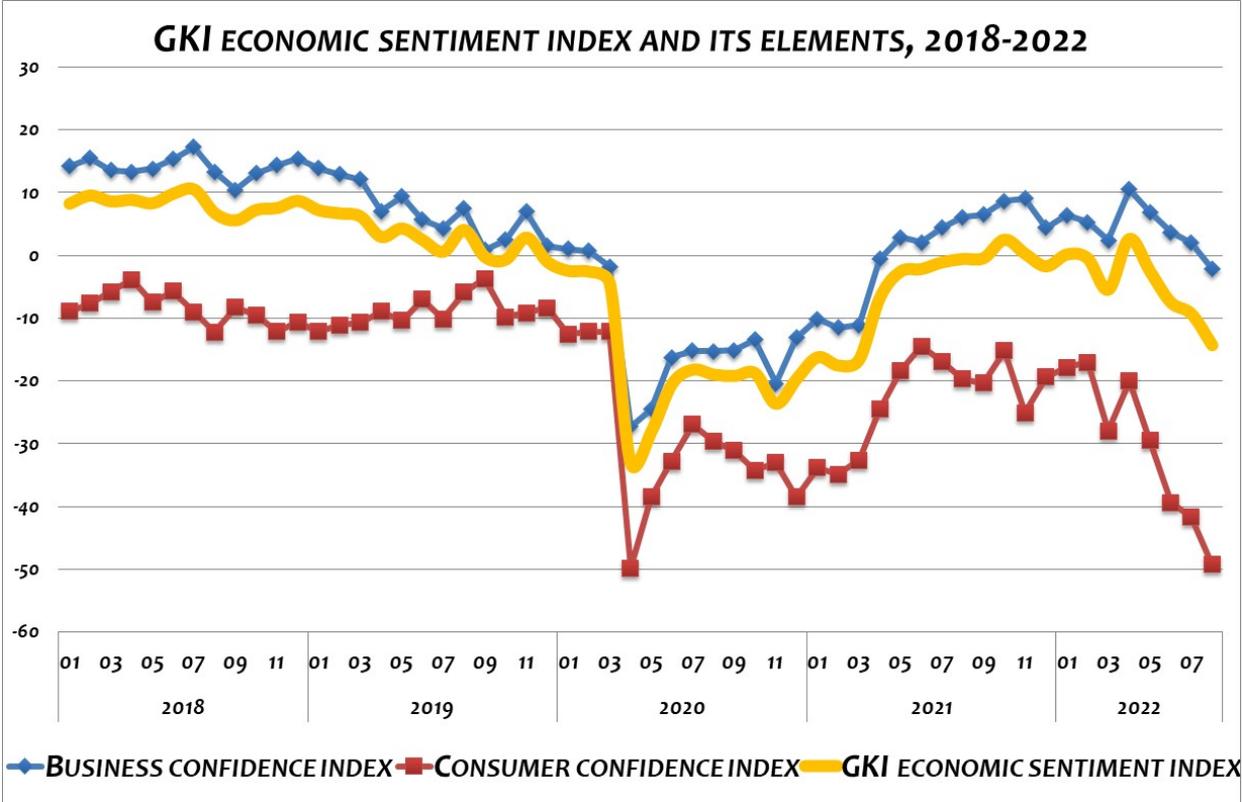
August marks the fourth month of steady deterioration in business and consumer expectations. According to the empirical survey conducted by GKI Economics Research Co. with the support of the EU, business expectations fell by around 13 points since April this year, while consumer expectations dropped by nearly 30 points, and the latter also fell most sharply in August. The business confidence index was last at a similar low in spring 2021 and the consumer one in spring 2020, during the panic caused by the Covid pandemic restrictions. (For the first time in August, consumers' opinions may have reflected the impact of the announcement of overhead increases.)

All sectors played a role in the fall in the **business confidence index** in August, least of all industry, where the fall in July was significant. In almost all sectors, there are now more pessimistic companies than optimistic ones, and in industry the two proportions are almost identical. The assessment of recent production and production expectations in **industry** deteriorated compared to the previous month, whereas there was an improvement in the stock of orders (including exports) and inventories. The **construction** confidence index deteriorated markedly to a three-month low. In August, the outlook for structural engineering companies hardly changed, whereas that for the already pessimistic civil engineering companies became considerably worse. The assessment of production and order books in construction for the preceding quarter deteriorated. The **trade** confidence index fell more in August than it increased in July, with a worsening in particular of the assessment of sales positions and expected orders. After improving in July, the **services** confidence index also fell in August, with a worsening in the overall business climate and in the perception of sales in the preceding and subsequent periods.

In August, after a break in July, the deterioration of the business sector's **propensity to employ** since April continued, with only industry and services now having more companies planning to expand their workforce than to reduce it. The fear from unemployment of households has also continued to intensify since April. In August, **efforts** of industrial companies **to increase prices** gained new impetus, and only the retail sector experienced a minimal easing. However, more than 70 per cent of the companies in this sector plan to increase their prices anyway, and this rate was also approached by the construction industry in August. Inflationary expectations of consumers continued to strengthen after a slowdown in July. Both companies and households saw **the future state of the Hungarian economy** as increasingly dramatic. In this respect, only the first few months of the Covid crisis and the first few months of the global economic crisis were more pessimistic than the current one.

The **GKI consumer confidence index** took a nosedive. Households perceived their own financial situation to be significantly worse than in the previous month, and their ability to

save to have been steadily deteriorating since the all-time record high in February. Households considered the conditions of purchasing high-value durables to be unchanged, whereas those for the next year were perceived significantly deteriorating compared to 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, 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
	06	3.7	-39.4	-7.5
	07	2.0	-41.7	-9.4
	08	-2.1	-49.2	-14.3

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