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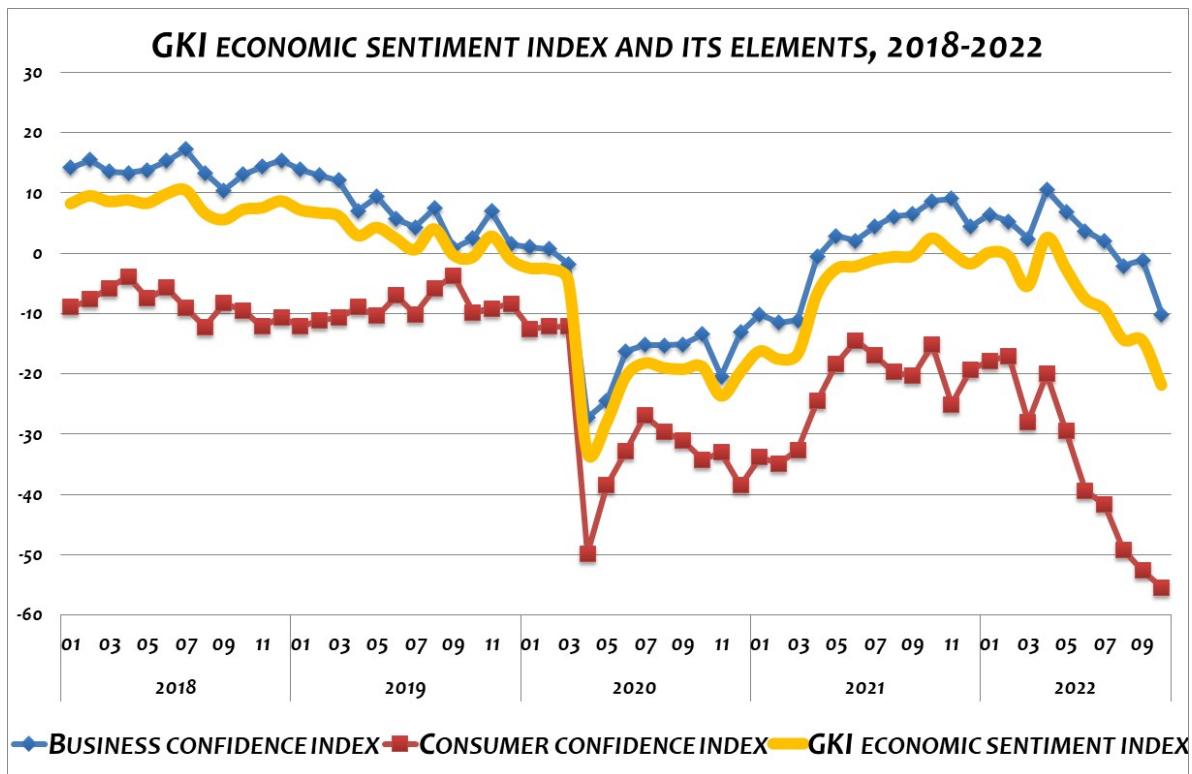
GKI'S BUSINESS CONFIDENCE INDEX FELL IN OCTOBER, AND THE LACK OF DEMAND WAS ALREADY A BIGGER PROBLEM THAN THE LABOUR SHORTAGE IN MANY PLACES

GKI's economic sentiment index has been falling for six months in October. While in previous months this was mainly due to a fall in the consumer confidence index, in October it was mainly due to a sharp drop in business expectations across all sectors. According to a survey conducted by GKI Economic Research Co. with the support of the EU, business expectations were similarly negative during the Covid period of early 2021. Consumers were now more pessimistic than they were in the Covid panic of spring 2020, and the index approached its lowest level since 2010. The role of demand shortages in hampering growth already slightly overtook that of labour shortages in industry and services.

In October, all sectors of the **business sphere** became significantly more pessimistic, with more companies in industry expecting deterioration than improvement. The **industrial** confidence index fell back to its March level in October. Compared to September, the assessment of incoming orders (including exports) deteriorated and that of inventories stagnated. The **construction** confidence index has been falling for the third month in a row, reaching a two-year low in October. The outlook for structural engineering was significantly worse than in September, whereas that for civil engineering improved slightly. The assessment of production in the previous quarter and that of orders also deteriorated. In October, expectations worsened to the greatest extent in **trade**, which was currently the most pessimistic sector. The assessment of sales positions and expected orders deteriorated considerably, and that of the level inventories also worsened slightly. The overall business outlook and expected turnover weakened in **services**. The assessment of the turnover in the preceding period also deteriorated.

In October, **willingness** of the business sector **to employ** continued to deteriorate, with more companies planning to cut than expand after a year and a half. The exception was industry, where the proportion of companies planning to increase employment increased slightly. Fear of unemployment continued to grow among households. Except for construction, the **drive to raise prices** intensified again after a standstill in September, with almost 70 per cent of companies in industry and trade gearing up for price increases. Consumers' inflationary expectations also increased further. The perception of the future situation of the **Hungarian economy** in the business sphere deteriorated dramatically again after a modest improvement in September, and pessimism is approaching the initial panic mood of the Covid crisis. Consumers were even more pessimistic.

The **GKI consumer confidence index** was last this low in October 2012. Households' assessment of their own financial situation continued to become increasingly negative. After five months of decline, this was now worse than at the start of the coronavirus crisis. Households' perception of their own ability to save for the future was weakening steadily at an almost monthly pace from a record high in February. Compared with September, households considered the current conditions of purchasing high-value durables to be significantly worse, while those for the next year were slightly worse.



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
	09	-1.1	-52.6	-14.5
	10	-10.1	-55.4	-21.9

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