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GKI'S ECONOMIC SENTIMENT INDEX HAS BEEN FALLING FOR MORE THAN HALF A YEAR

The business confidence index fell slightly further in November after a big drop in October. Consumer sentiment, on the other hand, improved slightly, although it remained gloomier than its terrible pessimism of September. 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 still more pessimistic than they were in the Covid panic of spring 2020. The good news, however, is that the business sector's willingness to employ slightly strengthened, its intentions to raise prices weakened, while consumers' fear of unemployment and inflationary expectations also changed in a favourable direction.

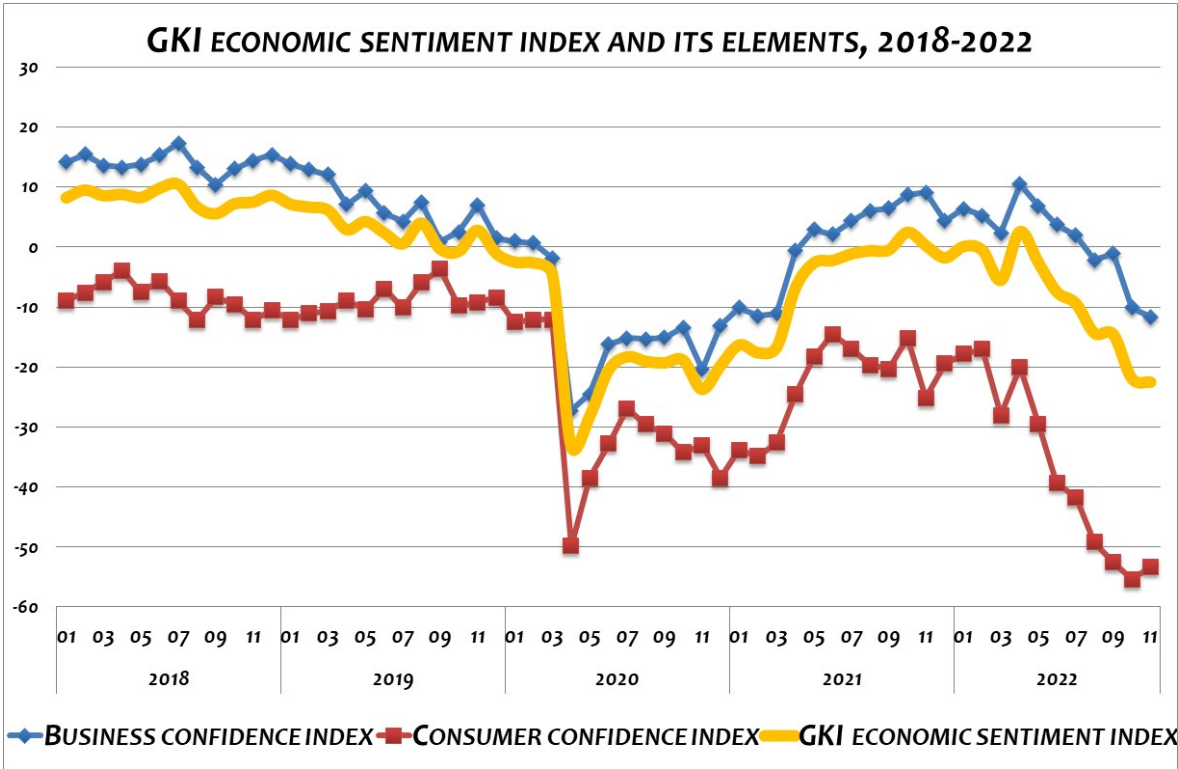
In November, in the **business sphere**, mainly the industrial confidence index, but also the construction confidence index decreased, while expectations in services and trade improved. The latter can be seen as a correction of the large deterioration in October. The business confidence index entered the negative range four months ago, that is, there were more pessimistic companies than optimistic ones. The index continued to decline ever since.

Industrial expectations have been deteriorating since April, and currently correspond to the situation at the end of 2020. In November, the evaluation of the production of the preceding period, of total orders, in particular exports, and of inventories became less favourable. **Construction** business sentiment deteriorated for the fourth month in a row in November, reaching a 26-month low. The outlook for civil engineering companies worsened considerably, whereas the outlook for structural engineering companies, who were relatively less pessimistic recently, improved within the statistical margin of error. The assessment of production in the previous quarter and that of orders also deteriorated. The **trade** confidence index corrected somewhat in November, after a sharp fall in October. Although commercial companies considered their sales position to be worse than in October, they considered the expected trend of orders to be more favourable and that of inventories to be slightly more favourable. The **services** confidence index also corrected slightly in November. Although the evaluation of the turnover in the previous period and overall business sentiment worsened, sales expectations improved.

In November, the deterioration in the business sector's **willingness to hire** stopped, but there were still slightly more companies planning to reduce their workforce than to expand. Except for industry, where the deterioration was significant, employment prospects improved. The fear from unemployment of households eased slightly after six months of strengthening. In November, **intentions to increase prices** became more moderate in all sectors, most notably in industry and least in trade. However, most of the companies were still preparing for price increases, almost two-thirds of them in trade. Consumers' inflationary expectations also eased. The assessment of the future state of the **Hungarian economy** improved significantly in all sectors and among consumers, but remained very pessimistic, not reaching the September level.

The GKI **consumer** confidence index improved slightly in November, after a very significant six-month decline, but still fell short of its October level. Households felt their own financial situation better than in October, but still much worse than at the start of the coronavirus crisis. Perceptions of their own ability to save for the future weakened steadily at an almost steady rate since the record in February, and this

continued in November. Households considered the conditions of purchasing high-value durables were worse, whereas those for the next year were better than in October.



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
	11	-11.6	-53.4	-22.5

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