

30 JANUARY 2023

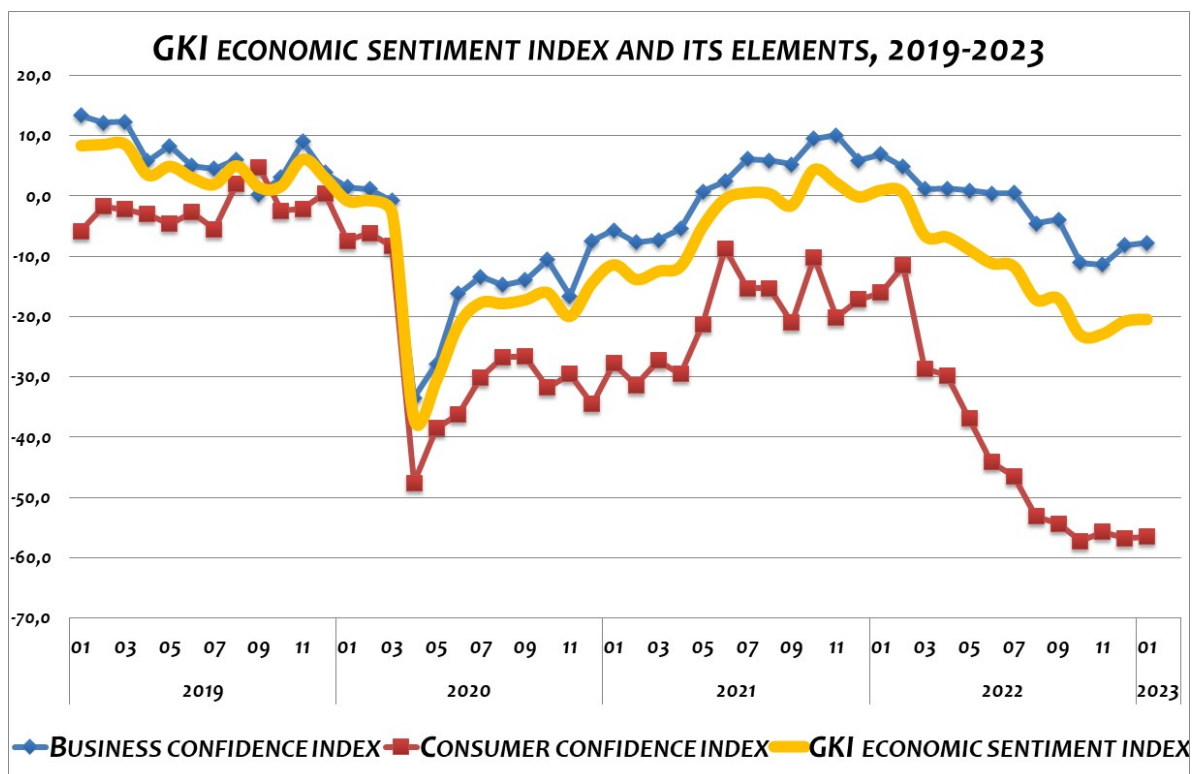
GKI'S ECONOMIC SENTIMENT INDEX MAY BE PAST ITS LOWEST POINT

In January, GKI's economic sentiment index rose marginally, but for the third month in a row. According to the empirical survey conducted by GKI Economic Research Co. with the support of the EU, the overall improvement in the consumer confidence index during this quarter is still within the statistical margin of error and remains below the panic levels seen at the onset of the Covid pandemic. The rise in the business confidence index is slightly more noticeable, at a level broadly similar to two years ago. Both companies and households were much more optimistic about the outlook for the Hungarian economy than in December. Their inflationary expectations fell, while their perception of the employment situation worsened. (From January 2023 onwards, GKI carries out the seasonal adjustment according to the EU methodology with a new program, which slightly modified the historical data.)

Within the **business** sphere, all sectors except industry became more optimistic to a greater or lesser extent in January. In **industry**, the assessment of order books and inventory levels worsened, while that of recent production and production prospects improved. Companies also saw their export orders as more favourable. The **construction** confidence index rose by 4 points in January, reaching its four-month high. The prospects of companies both in structural and civil engineering improved. Although the assessment of production in the preceding three-month period remained unchanged, that of orders improved noticeably. The **trade** confidence index also hit a four-month high in January. The assessment of sales positions improved most of all, but that of expected orders and inventory levels was also seen as better by respondents. The **services** confidence index essentially stagnated in January. Overall business sentiment was unchanged, with expectations for turnover up and the previous month's turnover and headcount down.

In January, the **propensity to employ** fell overall, including in industry and services, but picked up slightly in trade and construction. Thus, there are still slightly more companies planning to downsize than to expand. Labour shortages are once again the main obstacle to expanding production in industry, second in construction and third in services. Fear of unemployment by households intensified slightly. The intentions of the business sector to **raise prices** slowed down significantly in January, and only in trade were more than half of the companies preparing to raise prices. The inflationary expectations of consumers eased slightly. The assessment of the future state of the **Hungarian economy** became much more optimistic in January than in previous months, especially among companies, but also among households.

The GKI **consumer confidence index** barely changed in the last quarter, following a significant deterioration in May-October, and remained essentially stagnant in January. Compared to the previous month, households felt that **their own expected financial situation** was slightly worse, while their perception of their ability to save for the future remained unchanged. Households considered the current possibility of purchasing high-value durables declining, whereas their expectations for the next 12 months were improving.



EXPLANATION TO THE METHODOLOGY:

In line with the methodology used by the European Commission, GKI surveys the expectations of industry, trade, construction, services (the latter, as in the EU, excludes financial and public services) and households in the calculation of its business confidence index. GKI's economic sentiment index is the weighted average of the consumer confidence index and the business confidence index.

The business confidence index is the arithmetic average of the industrial, trade, construction and services confidence indices. The industrial confidence index is derived from the responses to questions on business perceptions of order books and inventories, and on production expectations. The construction confidence index is the average of the perception of order books and employment expectations. The trade confidence index is the average of business and inventory level perceptions and turnover expectations. The services confidence index is the average of business confidence, turnover and employment expectations. GKI publishes seasonally adjusted data by using appropriate mathematical method (the Tramo Seats method) 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, 2019-2023

| Year | Month | Business confidence | Consumer confidence index | GKI economic sentiment index |
|------|-------|---------------------|---------------------------|------------------------------|
| 2019 | 01 | 13.4 | -5.9 | 8.4 |
| | 02 | 12.2 | -1.7 | 8.6 |
| | 03 | 12.3 | -2.2 | 8.6 |
| | 04 | 5.8 | -3.0 | 3.5 |
| | 05 | 8.3 | -4.7 | 4.9 |
| | 06 | 5.0 | -2.7 | 3.0 |
| | 07 | 4.6 | -5.5 | 1.9 |
| | 08 | 6.1 | 2.1 | 5.0 |
| | 09 | 0.3 | 4.7 | 1.5 |
| | 10 | 3.0 | -2.4 | 1.6 |
| | 11 | 9.1 | -2.1 | 6.1 |
| | 12 | 3.9 | 0.4 | 3.0 |
| 2020 | 01 | 1.5 | -7.4 | -0.8 |
| | 02 | 1.2 | -6.2 | -0.7 |
| | 03 | -0.8 | -8.3 | -2.7 |
| | 04 | -33.5 | -47.6 | -37.2 |
| | 05 | -27.8 | -38.5 | -30.6 |
| | 06 | -16.2 | -36.2 | -21.4 |
| | 07 | -13.4 | -30.1 | -17.7 |
| | 08 | -14.7 | -26.7 | -17.9 |
| | 09 | -13.9 | -26.6 | -17.2 |
| | 10 | -10.5 | -31.8 | -16.0 |
| | 11 | -16.6 | -29.5 | -20.0 |
| | 12 | -7.4 | -34.5 | -14.5 |
| 2021 | 01 | -5.6 | -27.8 | -11.4 |
| | 02 | -7.7 | -31.4 | -13.9 |
| | 03 | -7.3 | -27.3 | -12.5 |
| | 04 | -5.4 | -29.5 | -11.7 |
| | 05 | 0.7 | -21.3 | -5.0 |
| | 06 | 2.4 | -8.7 | -0.5 |
| | 07 | 6.1 | -15.3 | 0.5 |
| | 08 | 5.9 | -15.3 | 0.4 |
| | 09 | 5.3 | -21.0 | -1.6 |
| | 10 | 9.5 | -10.2 | 4.4 |
| | 11 | 10.0 | -20.1 | 2.2 |
| | 12 | 5.9 | -17.2 | -0.1 |
| 2022 | 01 | 6.9 | -16.0 | 0.9 |
| | 02 | 4.8 | -11.5 | 0.6 |
| | 03 | 1.1 | -28.6 | -6.6 |
| | 04 | 1.3 | -29.7 | -6.8 |
| | 05 | 0.9 | -36.9 | -8.9 |
| | 06 | 0.4 | -44.2 | -11.2 |
| | 07 | 0.6 | -46.5 | -11.7 |
| | 08 | -4.5 | -53.2 | -17.2 |
| | 09 | -3.9 | -54.4 | -17.0 |
| | 10 | -11.1 | -57.3 | -23.1 |
| | 11 | -11.4 | -55.7 | -22.9 |
| | 12 | -8.2 | -56.7 | -20.8 |
| 2023 | 01 | -7.8 | -56.6 | -20.5 |

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