



## *Positive economic indicators in Hungary*

### **Improving consumer and business expectations**

Following slight deterioration in the previous two months, **business expectations have improved and the consumer confidence index was also higher in September 2014.** As a whole, in the ninth month of the year, **the seasonally adjusted GKI-Erste economic sentiment index edged up from -2.3 points from -4.3 points in August.**

The economic sentiment index is determined in line with the EU's methodology, and it takes into account – in addition to the business sphere -- expectations of households and the industrial, trade, construction and services sectors. The 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 from the industrial, trade, construction and services sectors given to questions concerning the state of business and expectations of turnover and employment. These data are seasonally adjusted 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).

In light of the results of the survey covering September 2014, within the business sphere **expectations were more upbeat in all but the construction sector.** The business confidence index thus reached 3.6 points, up by 1.4 points compared to August. **This indicates that the number of optimistic companies continued to exceed that of pessimists.**

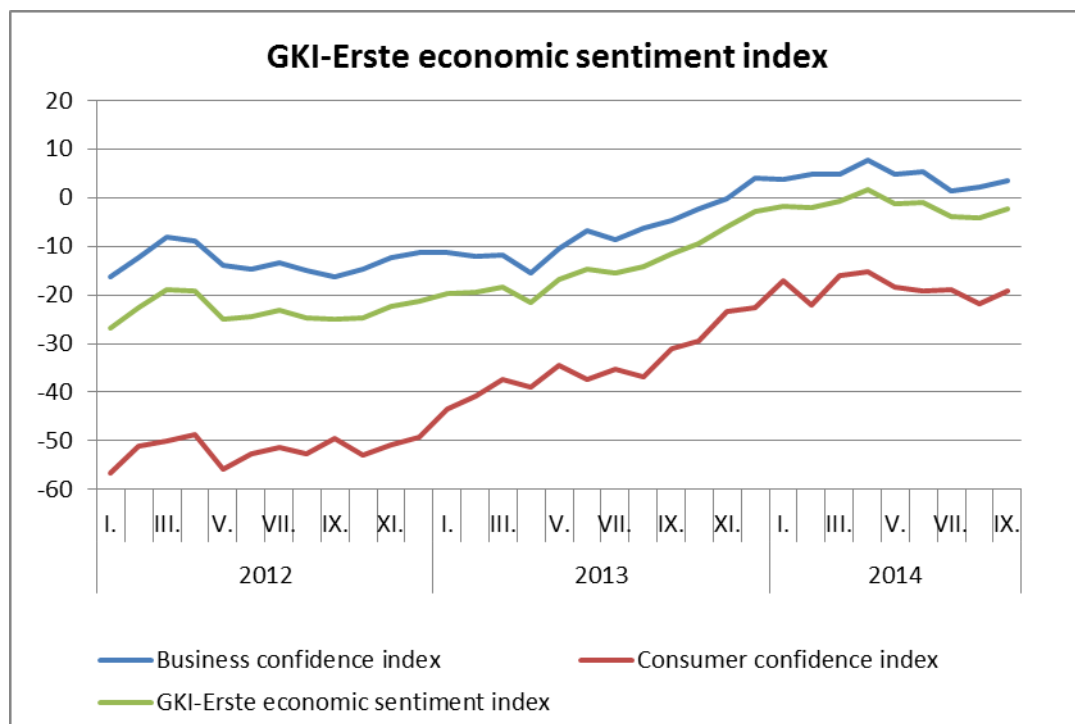
**The industrial confidence index shows an increase for the second month, following a three-month period of declines, and thus it is nearing levels last seen at the beginning of the summer.** Expectations regarding output in the prior period as well as the stock of export orders deteriorated, but respondents were more optimistic about the coming output period and the total stock of orders. The **construction sector confidence index** showed in the ninth month of the year deterioration within the margin of error. The perception of output of the previous three months was significantly more upbeat, but expectations regarding the stock of orders remained unchanged. As far as the trade confidence index is concerned, it edged closed to



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the record high seen in January, as the indicator improved in September following an increase also in August. Although opinions on sales position turned sour, respondents were more optimistic with regard to future orders and inventory levels. **In case of services companies, the improvement concerning expectations of general business conditions lifted the indicator in September**, but turnover expectations were also better than in the previous month.

**The intentions of employment improved in the construction sector**, they were slightly worse in the industrial sector, while they remained unchanged among construction and services companies. In addition to the drop in unemployment concerns of households, **the assessment of Hungarian economic outlook was more hopeful among households and in each economic sector with the exception of the industry.**



*Source: GKI*

The consumer confidence index is calculated on the basis of households' responses to questions on expectations regarding their financial situation and the country's economic and employment outlook as well as their saving capacity.

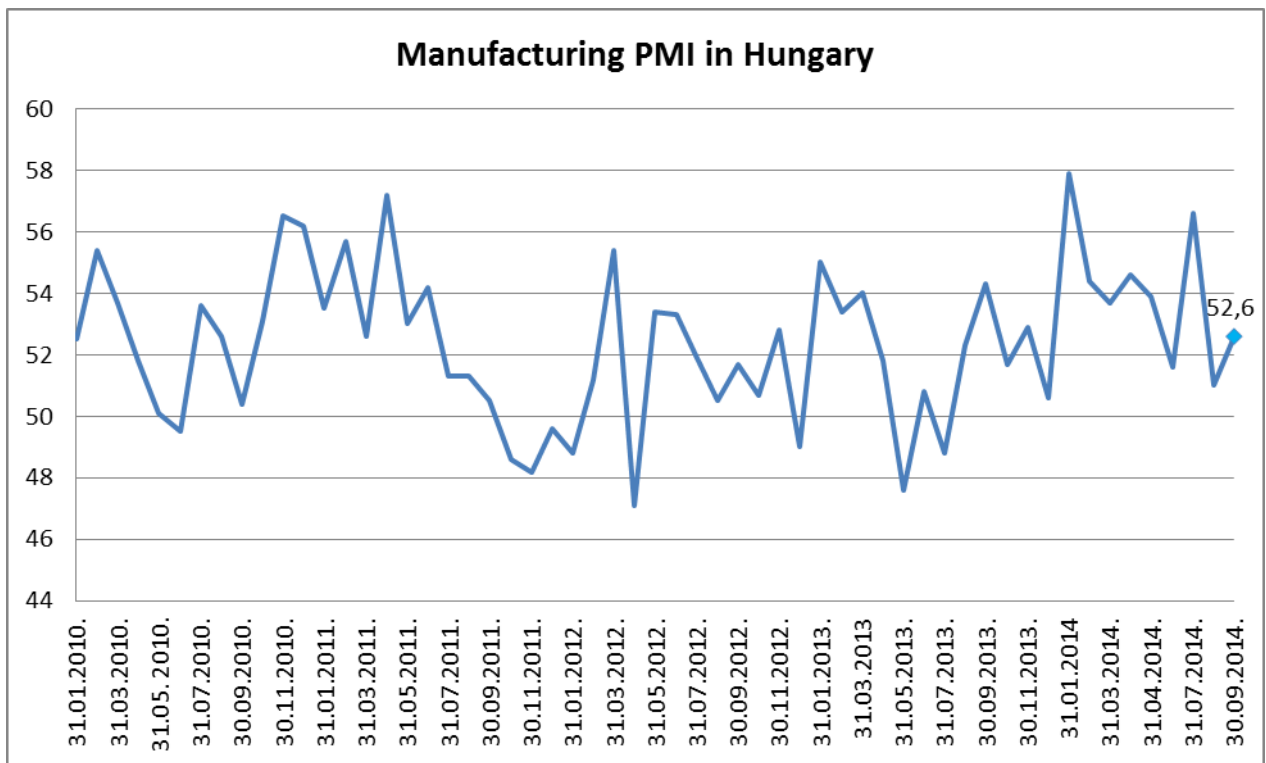


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The consumer confidence index had been dropping from an April high until August, but in September it showed -19.1 points, constituting an improvement of 2.8 points compared to the previous month. Consumers perceived their financial situation and saving capacity in the next one year to be better than one month before. They also regarded it more likely to purchase big-ticket durable consumer goods within the next twelve months.

**Manufacturing PMI shows expansion in Hungary**

The seasonally adjusted Purchasing Manager Index (PMI) increased to 52.6 points in September 2014, according to the report of the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM). This figure is 1.6 percentage points above the level recorded in August 2014, when this indicator was at 51 points. This signals that the majority of manufacturing enterprises was more upbeat about their activities in comparison to August. The indicator has been showing steady manufacturing sector growth for more than one year, since August 2013, as Hungarian PMI has been above the 50-point mark ever since.



Source: Reuters



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**The study is conducted in accordance with the method of the United States' Institute for Supply Management (ISM);** it is based on a monthly survey of executive managers in charge of purchasing at manufacturing enterprises. Respondents are asked to compare current business activity to that of the former month (by picking “better”, “worse” or “unchanged”) with regard to five fields: new orders, production volume, supplier deliveries, inventories and employment. For all these fields sub indices are calculated by summing up the percentage of respondents that reported better conditions and half of the percentage of respondents that reported unchanged conditions. The final PMI figure is a weighted average of the five individual indices. In light of international experiences, the study conducted among executive officers **can accurately predict economic expansion or contraction, as most of the time enterprises first respond to market environment changes by altering purchases.** A PMI above 50 points signals a sector's expansion, while the index below that level indicates recession.

The almost 100 Hungarian manufacturing enterprises, which participated in the survey, reported that processes were more favourable than one month before. The **reading of 52.6 points in September** was above both the average of the month of September in the past three years (52.2 points) and the long-term September average (51.8 points). Furthermore, **it is the second best September figure since 2008.** The **output volume index** was higher compared to August and following one negative monthly output figure the indicator has been signalling increasing production volume. **The current figure is above-average, as over the past eighteen years only five September readings were better than this.**

**The new orders index showed modest growth:** the stock of new orders was higher; however, supplier deliveries were longer in comparison to August. Following a drop last month, **growth in inventories also picked up: this September's reading is above-average in light of data from the past eighteen years and it is the seventh best September figure.** This sub index signalled expansion eight times in 2012 and altogether nine times in 2013, while it was above 50 points six times this year. The **employment index** was positive almost always since January 2014: it was only in May that the favourable trend was reversed. The **stock of inventories purchased index** was also up compared to the previous month and it was the ninth increase this year. The September reading exceeded the three-year average and it is the sixth best September



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figure ever. The level of **finished goods** was higher in September resulting in an above-average reading and the third best figure of the ninth month of the year since 1995. In addition, **foreign trade indices** showed signs of improvement: the import index was higher and the export index was also up in comparison to August with a stable 50+ figure.