

Short-term Labor Market Forecast – 2016

Summary

The survey

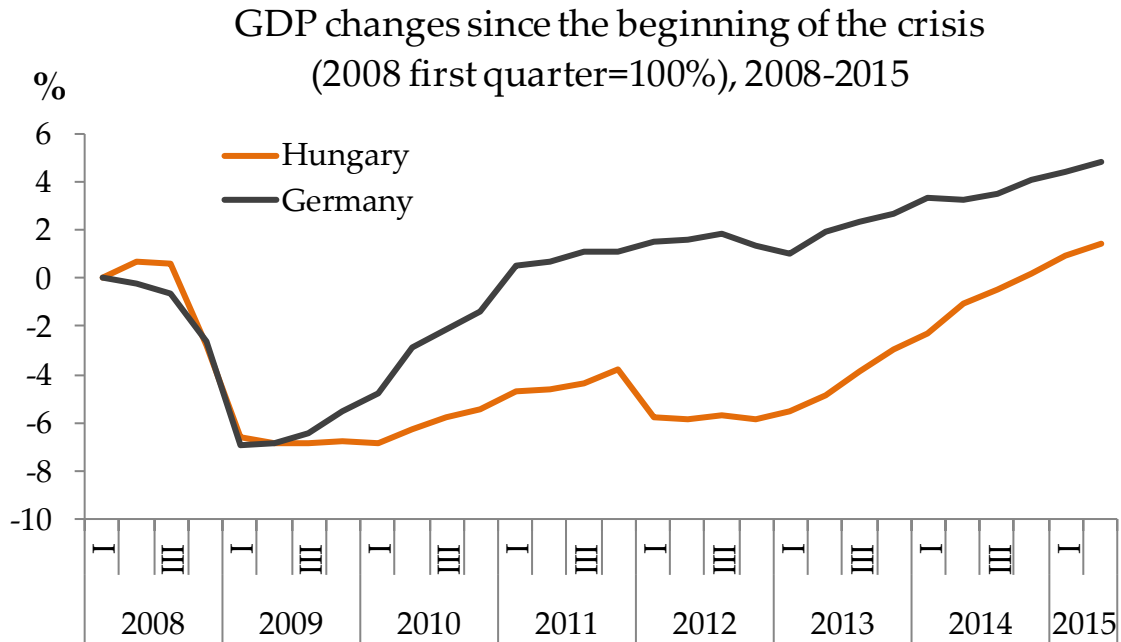
The latest survey for the annual “Short-term Labor Market Forecast” research project of the Ministry of National Economics and HCCI Institute for Economic and Enterprise Research (IEER) took place in September-October 2015. During the survey county government offices and IEER staff interviewed 7,112 company managers about their current and expected need for labor. The results can be considered representative by the companies’ geographical location and economic sector, and within this by employee numbers. In the following the results of this research are presented compared to other relevant data sources and estimates.

Business situation

In 2014 the pace of economic growth strengthened: in the first quarter it was 3.5 percent, in the second quarter 3.6 percent, and in the third quarter the economy accelerated to 3.1 percent compared to the corresponding period of 2013. The first six months of 2015 also brought a similar result: gross domestic product expanded 3.5 percent in the first quarter and 2.7 percent in the second quarter.

The impact of the economic crisis can be best depicted if we compare quarterly changes in GDP to the start of the crisis. Figure V1 compares the effect of the crisis on the Hungarian and German economies in this way. It can be clearly observed on the chart that the recovery from the crisis was much slower in the case of the Hungarian economy than in Germany, which is the number one export market for the Hungarian economy. On the one hand, the Hungarian crisis was deeper than in Germany and, on the other, the recovery started later than in Germany. While the decline was almost entirely at the same speed and intensity for the two economies, after the turning point in the first quarter of 2009 the German economy recovered much faster and was more invigorated than the Hungarian economy. From the second half of 2010 the pace of the recovery to pre-crisis levels of the two economies became increasingly divergent. The German economy had returned to pre-crisis levels in early 2011 and has continued to grow steadily, but the Hungarian economy became stuck in a prolonged recession and only reached pre-crisis levels in the second quarter of 2015. Although the engine of Hungarian industrial growth remains industrial exports including exports to Germany, Hungarian companies were unable to fully exploit the German recovery, i.e., the growth in the demand for imports.

Figure V1: Changes in GDP compared to the beginning of the crisis, quarterly

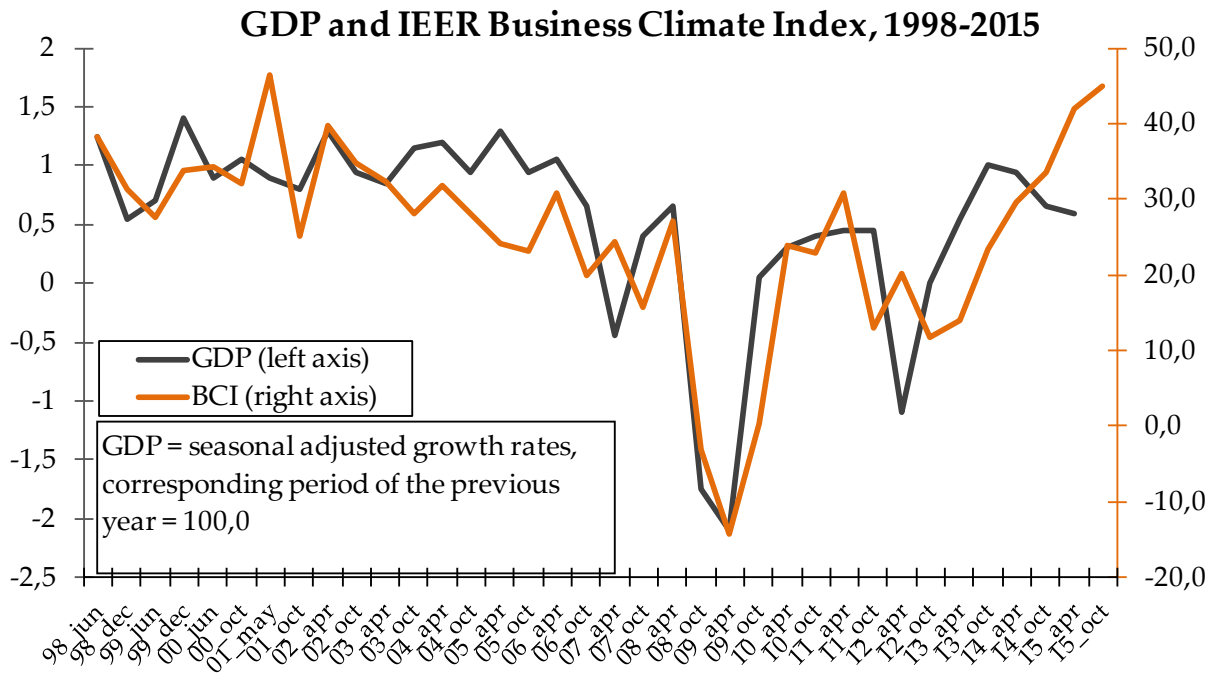


Source: HCSO, Destatis

The results of the IEER business climate survey in October 2015 envisaged a further improvement in the business climate. The business expectations of Hungarian companies have become more optimistic after the previous year's improvement, which creates a favorable business climate compared to the previous half-year. The IEER Business Climate Index increased to +45 points in October 2015 from +42 points (April 2015), which is the second highest recording since the start of the survey in 1998 (see Figure V2). The value of the Uncertainty Index is likewise high, at a 47-point level. The latter suggests that the differences in business situation assessments narrowed just slightly compared to April, thus views towards the trends of the second half of 2015 are uncharacteristically uniform.



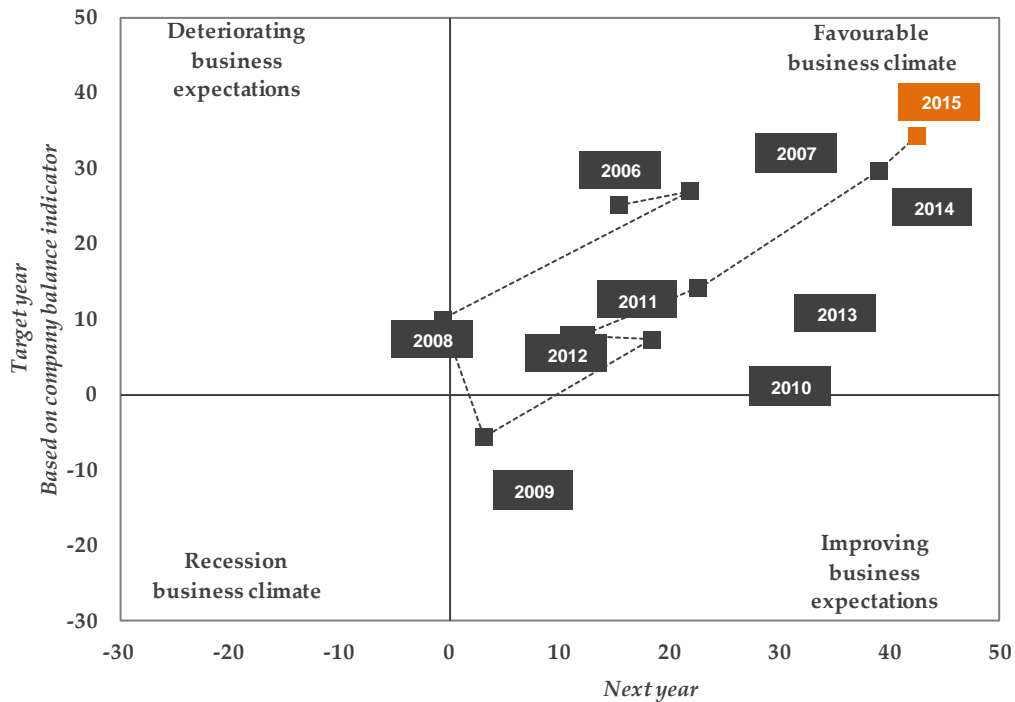
Figure V2: GDP and IEER Business Climate Index, 1998-2015



Source: IEER

According to the short-term labor market forecast for 2016, following last year's positive shift the subjective business situation assessment of companies improved further. The overall business situation balance indicator expressed a value of 35 points – that is, those companies that feel positive about their business situation are 35 percentage points in the majority compared with those who are negative. For 2016 business expectations are more optimistic than at any time in recent years – expressed by the future business situation index at 42 points. This optimism is a reflection of the expectations of those in services, tourism and hospitality, financial services and trade as well as foreign-owned and export oriented companies.

Figure V3: Subjective assessments of the current and future general business situation



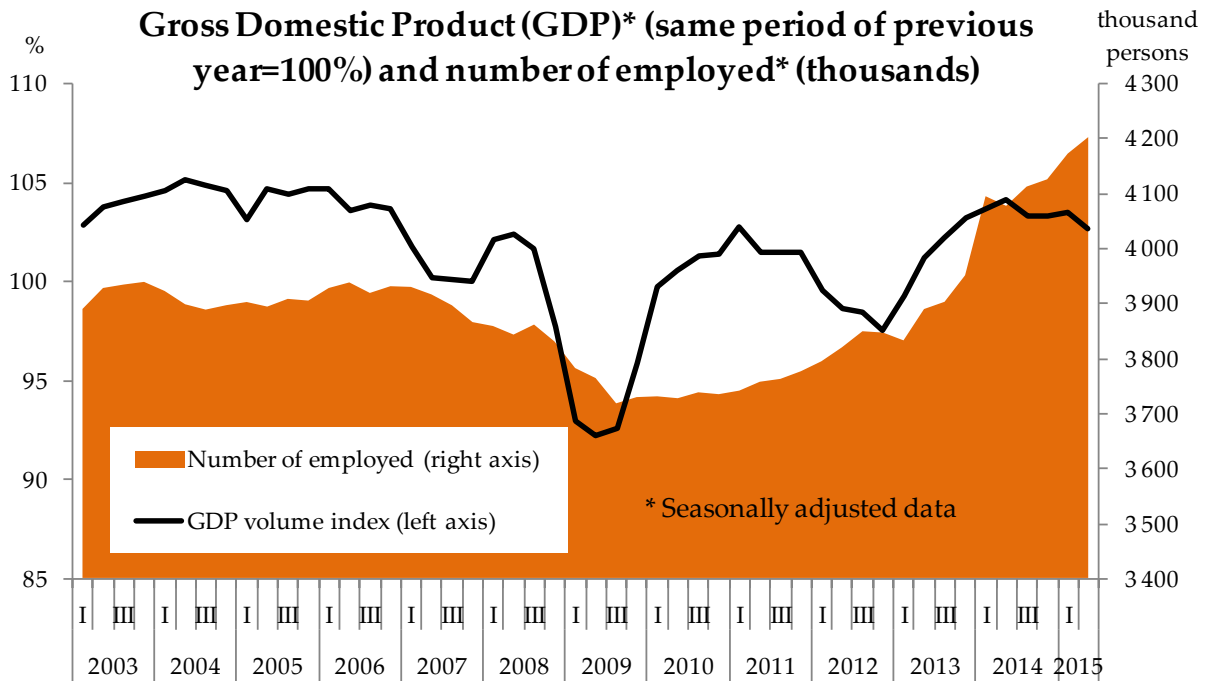
Source: Ministry of National Economy, IEER 2006-2015

Changes in employee numbers in the private sector

The number of employed increased in the first half of 2010, but this positive trend was broken and a slight decline took its place. In 2011 GDP growth started to slow down while the number of employed increased slightly. In 2012 the economy sank back into recession; GDP declined steadily throughout the year, yet there was a sharp increase in the number of employed back to pre-crisis levels as a result of a rapid increase in the number of public service workers. Since the second quarter of 2013 GDP began to rise and employment -- also due to the increase in the number of public service workers -- continued to rise. The continuation of this trend in 2014 is also well observed. In the first quarter of the year there was a sharp increase in the number of employed, and after a temporary, slight decline, in the second quarter of 2015 it rose steadily. Meanwhile, GDP increased at a slower, but steady pace.



Figure V4: Gross domestic product (GDP) index and the number of employed (thousands) within the population aged 15-64, 2003 – 2015

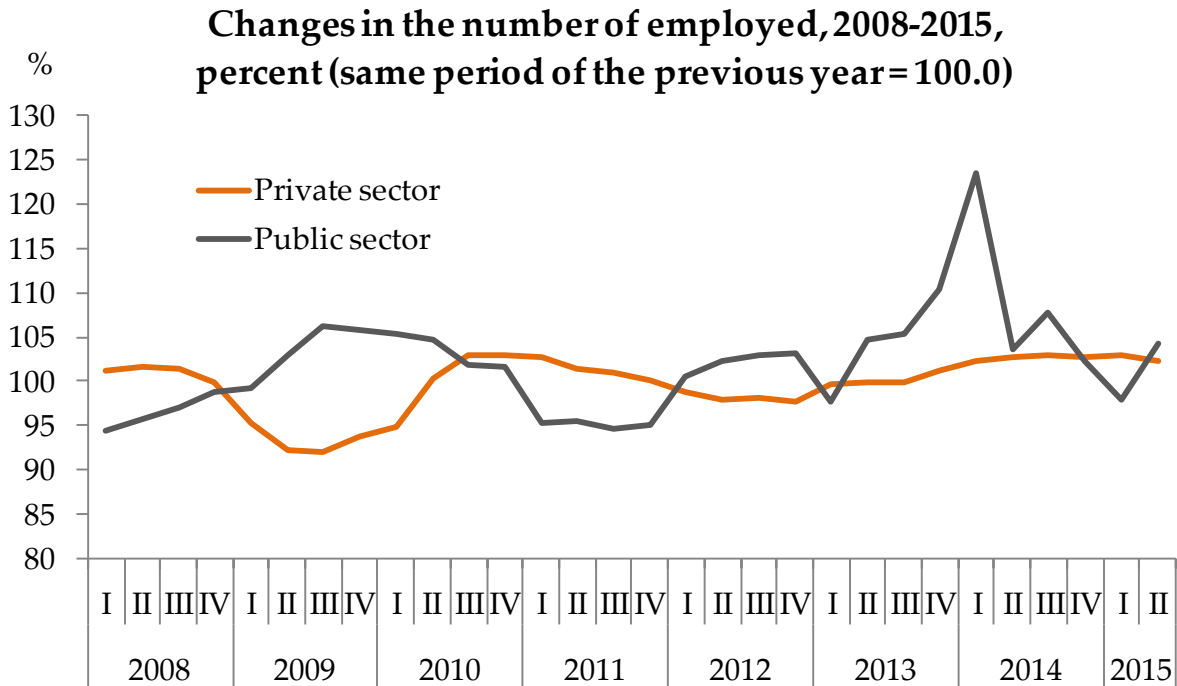


Source: HCSO

The number of employed in the private sector, after a very slight increase in 2008, significantly dropped around 5-8 percent each quarter throughout 2009 due to the economic crisis. In 2010 the rate of decline began to slow down, and in the second half of the year we experienced growth of around 3 percent in the number of employed in the private sector. In 2011 the growth rate steadily weakened and at the end of the year the data showed stagnation. In 2012 a 1-2 percent drop was experienced each quarter in the number of those employed in the private sector. In 2013 the negative trend continued slightly for the first three quarters, with a less than 1 percent decline in the number of those employed in the private sector, but in the fourth quarter a 1.1 percent growth occurred. Through 2014 there was a 2 to 3 percent increase in the number of employed. This trend continued in the first half of 2015: the number of employed increased by 3.0 percent in the first quarter and by 2.4 percent in the second quarter.



Figure V5: Changes in the number of employed, 2008-2015, percent (same period of the previous year: 100.0)

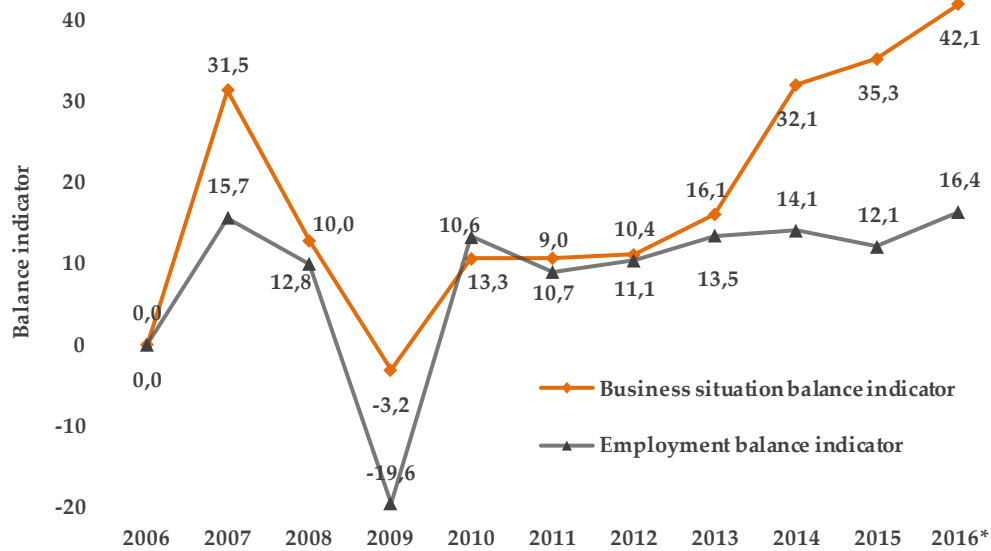


Source: HCSO

According to this year's short-term labor market forecast, in 2015 the number of companies that increased their employee numbers was 12 percentage points higher than those that reduced -- the corresponding figure in 2014 was 14 percentage points. The balance indicator for 2016 shows 16 points, i.e. there is a 16 percentage points majority of companies planning to hire over those planning to fire. The improving trends on employment, however, prove to be less strong than in the case of the current business situation.



Figure V6: Changes in the business situation and employment indicators



Index: The values shown in the figure are projected on a scale of 100. In each case the difference between the proportion of positive and negative assessments are shown. Thus, the index can have values of between -100 and +100. At -100 it means all firms are negative and + 100 is where each company takes a positive view of the situation

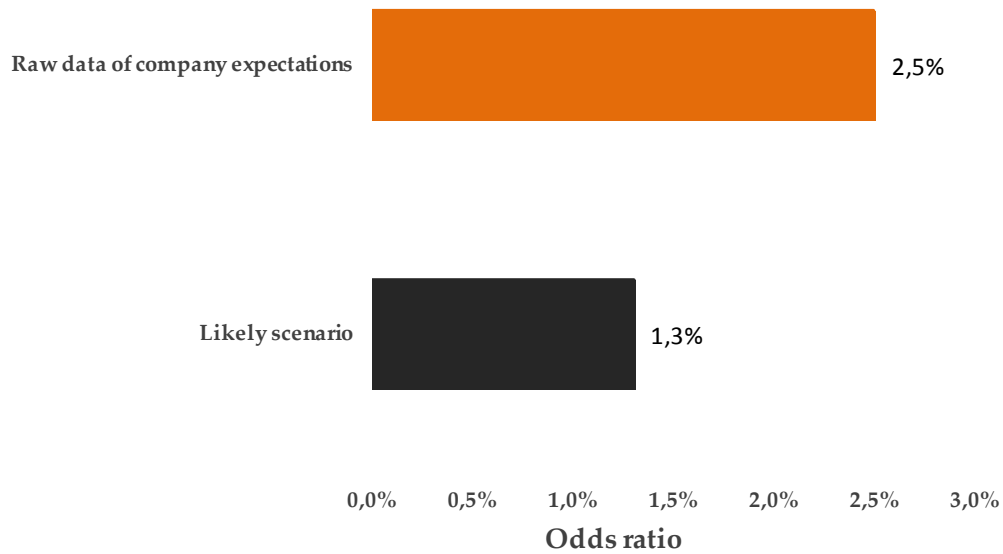
* 2016 values are based on company expectations

Source: Ministry of National Economy, IEER 2006-2016

According to the raw data of the survey, on the basis of the generally overly optimistic responses, companies expect a 2.5 percentage point increase in employment, against which -- according to IEER calculations -- a 1.3 percentage point increase is more likely. A likely scenario is a decrease in the number of employed in the construction industry by 2.9 percentage points, in the industry by 4.7 percentage points and in the agriculture by 1.7 percentage points. In contrast, for other sectors of the economy it is likely to increase, especially for trade, which forecasts a 5.6 percentage point increase. It is important to emphasize that raw data show the most favorable expectations in the trade sector. According to the likely scenario a 2.7 percentage point increase can be expected for the exporting companies in 2016.



Figure V7: Changes in employment as expected in 2015



Source: Ministry of National Economy, IEER (n=2008)
Base: companies with more than 10 employees

Overall, the private sector is optimistic about the year 2016 and the improvement of expectations for the business environment is likely to indicate growth in private sector employment.