

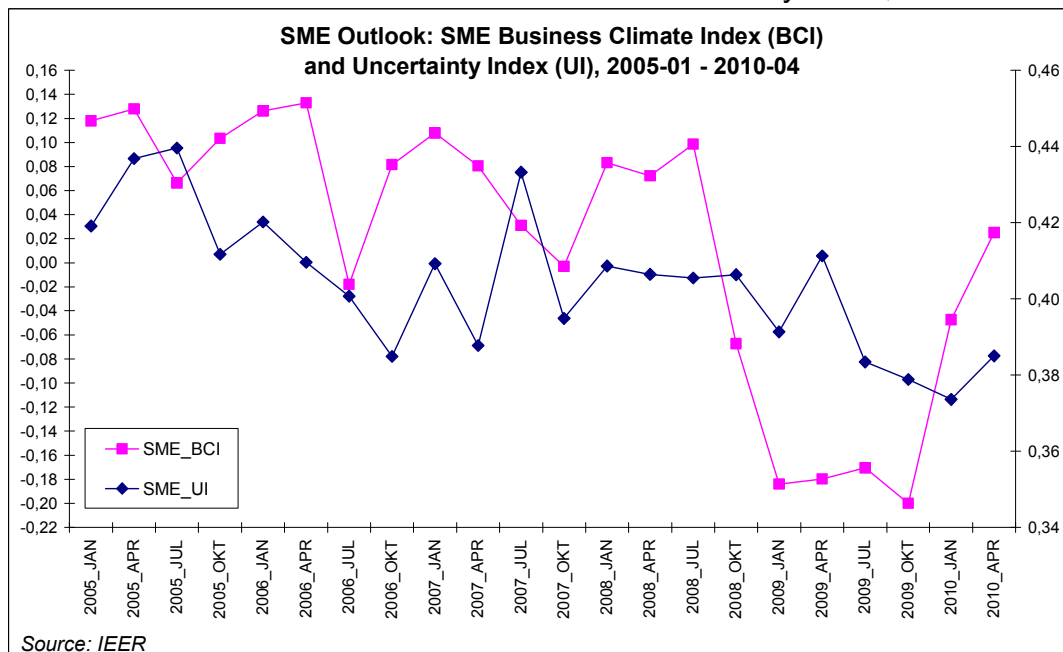


SME Outlook – Apr / 2010: Small and medium enterprises' business climate

Figyelő, HCCI IEER and Volksbank Ltd. launched a common research project in January 2005, to explore the business situation and short-term prospects of small and medium-sized enterprises and to assess the economic and institutional factors and influences affecting the business situation of this group of companies. Within the research we conducted questionnaire surveys of 300 companies operating in the processing industry, the building industry and services every quarter of the year. The small and medium-sized companies chosen for the sample represent the economic performance and the sectorial distribution of the whole SME sector.

During the April 2010 survey, CEOs of 290 companies responded to the questions asked by the interviewers over the telephone. 68% of the responding companies were fully owned by Hungarians, while 12% of them were partly and 21% fully owned by foreigners. 39% of the companies sell only to domestic buyers, while 22% sell most of their output abroad.

SME Outlook: Business Climate Index and Uncertainty Index, 2005-2010



Left side of the scale: SME Business Climate Index, Right side: SME Uncertainty Index
Source: IEER

The latest estimations suggest that the decrease of Hungarian GDP continued to slow in the first quarter of 2010. In the first quarter the volume of GDP fell by .8% year on year and compared to the previous quarter there was a .9% rise in GDP.

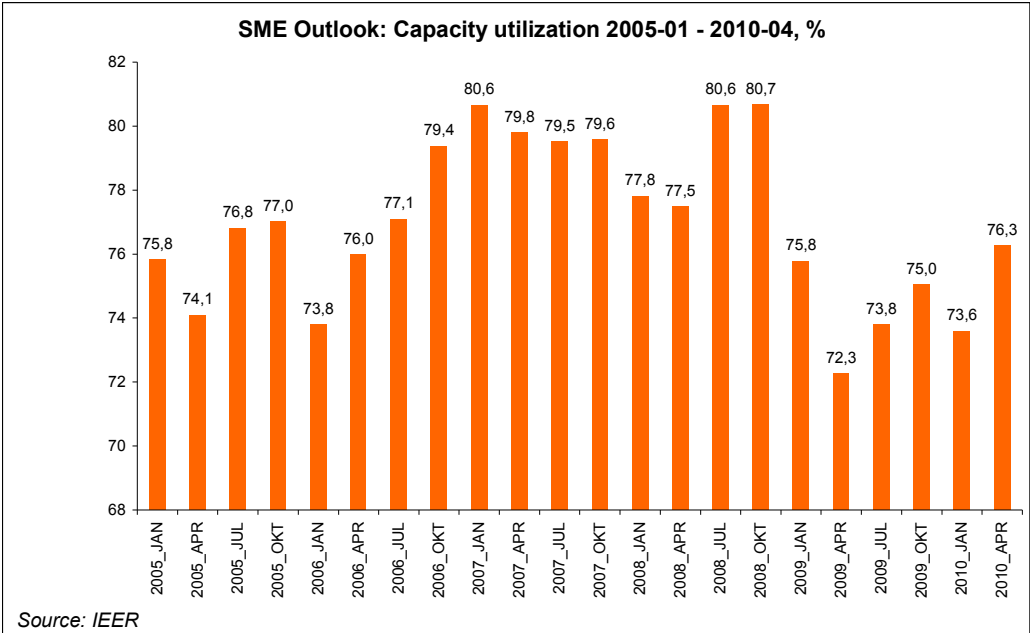
These signs may indicate that the Hungarian economy, though it is still characterized by a decrease, might soon begin to grow.

The macro-economic situation, turned more favourable, is also reflected in the cycle indexes of the SMEs: in the first quarter of 2010 every cycle index kept growing, which means that after the positive turnaround of the last half year, the business situation of small and medium-sized enterprises still seems to improve. Besides the favourable judgment of the current situation, the short-term expectations of the companies have also changed positively, the values of each index have increased, with the exception of expectations concerning staff size. In consequence of all these, the value of the SME cycle index kept on rising in April 2010, and now it considerably exceeds the values of October 2008, ie., the level preceding the international financial and economic crisis. As for the expectations, the heterogeneity of companies' opinions has risen on the previous quarter, the Uncertainty Index increased to .39.

Following last quarter's decrease of the average level of capacity utilization, the first three months of 2010 saw an increase, and currently the index shows 76% (see Figure 2).

Capacity utilization has grown in every staff-size category as well as in every group according to rates of export. According to the rate of foreign stakes, the capacity utilization of companies fully owned by Hungarians and those partly in foreign hands has grown, and that of firms owned exclusively by foreigners has slightly declined. Every economic sector has shown an increase in average capacity utilization, the highest degree could be observed with companies of the building industry (this group produced a drastic slowdown in the last quarter of 2010).

Figure 2: Capacity Utilization in SME sector, (%), Jan 2005. – Apr 2010



The stock of orders index indicates that the demand for the products and services of the SMEs has shown a slight improvement on the previous quarter, but even so, the companies' stock of orders is still rather low: 11% of the enterprises reported a high stock of orders, and 30% a low one (while in the previous quarter the rates were 10% and 31%).

Following the negative record of last October, the production index has also increased in the past two quarters – the highest increase of all cycle indexes. In April, only 35% of the companies reported a decline in production, while 20% reported growth, which was an 11% decrease and a 5% increase on the previous quarter's rates.

It is obvious from the companies' reports that the improvement of the previous quarter in terms of business situation continued in the first three quarters of 2010. 20% of the enterprises reported good business situation, 21% bad situations (the former was 3% increase, the latter 6% decrease on the fourth quarter of 2009).

SMEs business expectations continue to be characterized by optimism: responding companies, similarly to the previous quarter, predict improvement both in business situation and in production volumes. 24% of the enterprises expect good business situations, which is 6% higher than in January. The findings show that companies' business expectations referring to the following half year improved in every staff-size category, in firms with small and medium staff the improvement was larger, with large firms (100-249 staff) it was smaller. According to the rates of export within total sales, similarly to the last quarter, it can be stated that the index of the expected business situation has risen in every category, the most optimistic being companies mainly producing for exports. Business expectations also improved in every economic sector in the first quarter of 2010. The index of the building industry has climbed back after the last half year's slowdown, so in April it could be said that the average business expectations of each economic sector are on about the same level, in the lower segment of the positive domain.

Just like in terms of business situations, companies also expect a significant growth concerning production volumes. 33% of enterprises are expecting an increase in production outputs, which is 12% higher than data referring to the fourth quarter of 2009. Growth can also be observed in every 'export rates within total sales' category. The highest improvement in expectations was shown by firms producing for domestic markets, the lowest by export-oriented companies, thus the average values of the three categories got closer to each other, but even so, companies mostly exporting have more favourable expectations regarding their production volumes. Analysing data according to staff size (ie. company size) we can also find that expectations concerning production volume have improved in all three categories. The most marked increase could be observed with the smallest companies, which led to the rare situation that the expectations of small companies (20-49 staff) exceed the corresponding data of those of larger (100-249 staff) firms (see Figure 18). According to the rate of foreign stake within registered capital, the improvement started in October 2009 continued. The most optimistic expectations characterize companies partly in foreign hands, while the least optimistic are firms fully owned by Hungarians. Expectations concerning production levels by different economic sectors show a similar picture as expectations concerning business situation: most of the companies asked expect an increase in production levels in every economic sector, and

companies in the building industry made up for their lags in the previous quarter. Companies in the processing industry proved to be the most optimistic in the first months of 2010 as well.

Companies continue to be optimistic as to increasing their capacity utilization, but the rapid rise of the last quarter was followed in April only by a very slight positive change. 29.3% of enterprises expect a rise in their capital utilization index (compare 28.6% in January), and 7.7% of firms predict a slowdown, which means 1% decrease in the last quarter.

The index indicating staff positions has shown a slight worsening in the first three months of 2010. Findings show a decrease in the demand for labour during the past quarter: 13% of enterprises are planning taking on staff, while 10% are planning layoffs (in the previous quarter the corresponding figures were 12% and 8%).

In investment activity a revival can be expected for the following months. 22% of companies are not planning to invest in April 2010, 12% are planning cut-backs (15% in January), and 19% would like to increase their investment activity (14% in the previous quarter). It was in this quarter that the rate of companies reporting that the volume of their investments will remain the same was the highest in the history of this survey (47%).

Small and medium-sized enterprises are planning to slightly raise their prices during the following half year (see Figure 26). 3% of the firms want to raise domestic purchasing prices more than the expected inflation (in the last quarter it was less than 1%), while 19% want to raise in compliance with the estimated inflation rate. On the contrary, 53% of the companies are not planning to change their rates, while 17% are going to raise them to a lower-than-inflation extent in the following half year. 8% of the companies are planning to cut their prices in the following six months.