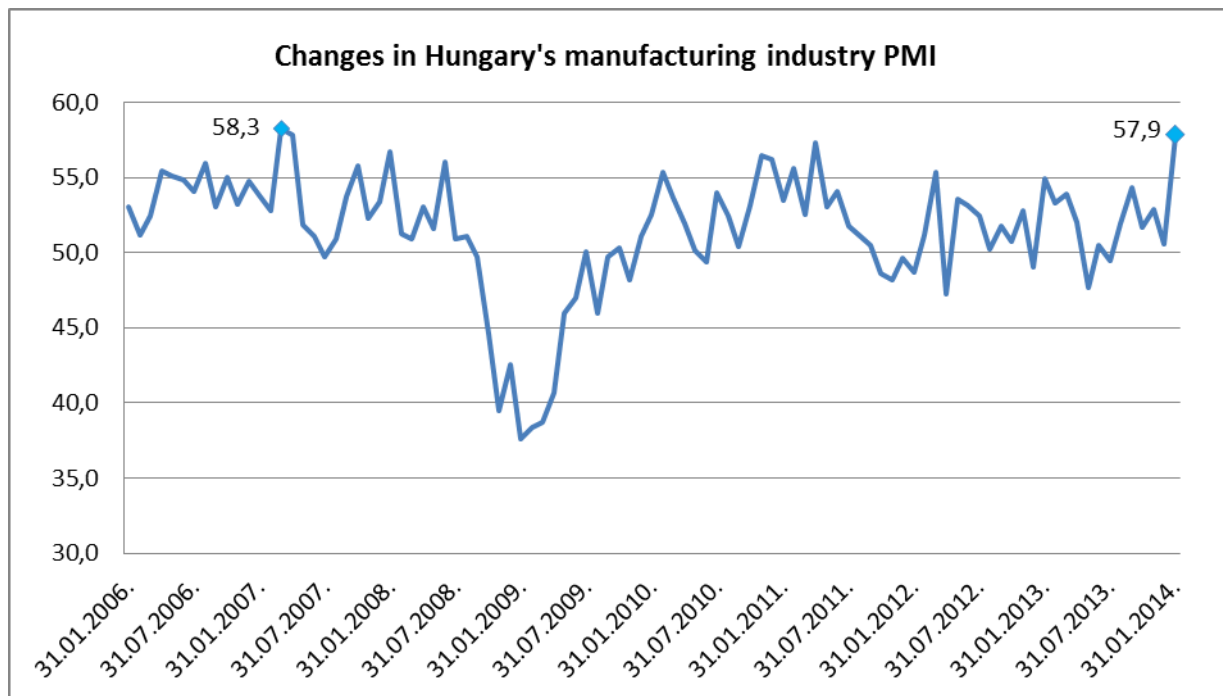




## Favourable indices of the Hungarian economy

The seasonally adjusted Purchasing Manager Index (PMI) for January 2014 increased to **57.9 points**, according to the press release of the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM). **This figure is 7.4 percentage points higher than the level registered in December 2013, forecasting a marked improvement of the outlook for manufacturing sector companies.** In the second quarter of 2013, the index did not show any firm trend, however, since August last year the indicator has been signalling steady manufacturing industry expansion and **the current figure is the best in almost seven years.**



*Source: Reuters*

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.



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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 **reliably 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 sector companies which participated in the survey have reported of much more auspicious processes than back in December 2013. **The reading of 57.9 points for January is an outstanding figure: it is well above the long-term average of 51.7 points for the month of January of previous years as well as higher than the average of 52.4 points recorded over the past three years.**

**The PMI components – except for the input price index – increased compared to December 2013.** The **output index** soared in comparison to December and following decreasing output for one month the indicator shows that production volume has been on the rise for three months. **The 60.5 points of the sub index is remarkably high even from a long-term perspective, as the January indicator surpassed this level only twice over the past seventeen years.**

**The new orders index also signalled marked growth: the reading of 60.3 points is the third highest figure in January since 1995;** consequently, the stock of purchases was considerably above the average of the past three years. After a one-month dip, **quantity of purchases** has also rebounded: **in light of data of the past fourteen years, the figure registered in the first month of this year is the fourth best for January since 1995.** In 2013, the sub index signalled expansion altogether ten times. The **employment component**, following a downturn in December, revived posting the second highest January figure recorded since 2008. The level of **finished goods** was also well above the figure seen in December; with regard to indicators in January, this one is above average and the second best since 1995. In addition, **foreign trade indicators** have also improved: exports and imports were up in comparison to the end of last year.



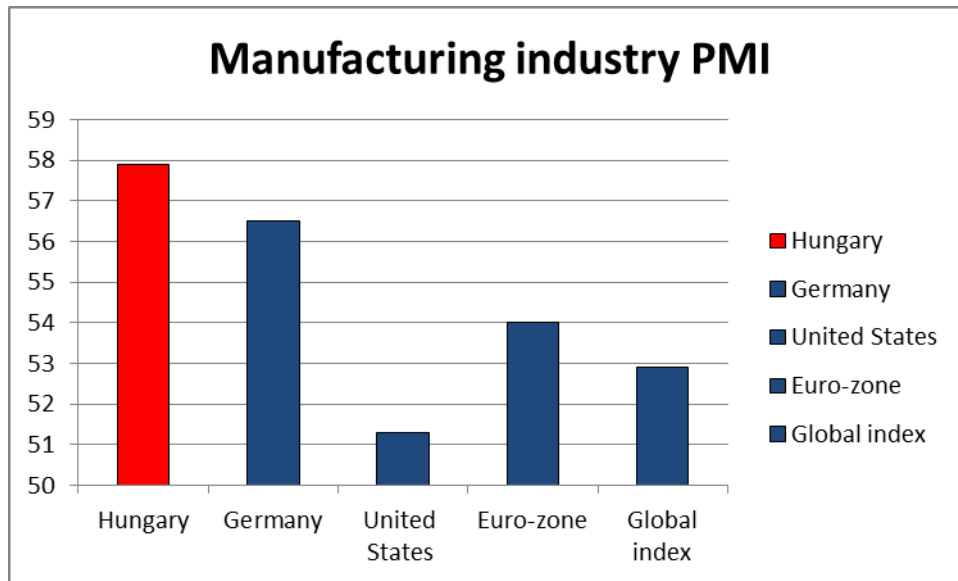
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**From a regional perspective, the Hungarian manufacturing industry PMI figure of 57.9 points is better than that of the Czech Republic and Poland.** HSBC and Markit Institution jointly publish a Purchasing Managers Index calculated by a method similar to Hungary's for Poland and the Czech Republic from among the Visegrád countries. At the beginning of this year, **PMI for the Czech Republic registered growth with 55.9 points, up by 1.2 percentage points compared to the level of December.** In Poland, manufacturing sector PMI increased from 53.2 points in December to 55.4 points in January.

**Figures of the Hungarian Purchasing Managers Index for January can be considered to be extremely positive, not only from a regional perspective, but also in relation to Europe or the entire world.** The manufacturing industry of the euro-zone performed excellently in January as the index reached an almost three-year high of 54 points: output, new orders and exports have all increased. **The German PMI pushed the figure significantly higher,** as in the first month of this year it hit the highest level since April 2011 with 56.5 points. The new orders component was a determining factor behind this achievement, and the manufacturing sector has been fuelling employment in Germany which has lately had one of the lowest unemployment rates in Europe. **As a telling sign of the performance of the Hungarian manufacturing sector, Hungary's index was higher than the euro-zone average as well as the German figure, which is the best one within the observed group.** In the United States of America, the manufacturing PMI published by ISM was 51.3 points in January, and thus above the 50-point threshold marking contraction and expansion for the eighth consecutive months. In the opinion of analysts, the lacklustre performance was the result of inauspicious weather conditions across the ocean. **J. P. Morgan's global manufacturing industry PMI was 52.9 points in January,** after hitting a two-and-a-half-year high of 53 points in December. In light of the composite index, in the initial eight months of last year the PMIs of Great Britain and Japan were the leading drivers of the global index, as in the Land of the Rising Sun the index reached an eight-year peak. Germany, as mentioned above, was also among high performers, while some developing countries – such as BRIC countries or Indonesia – were the laggards.



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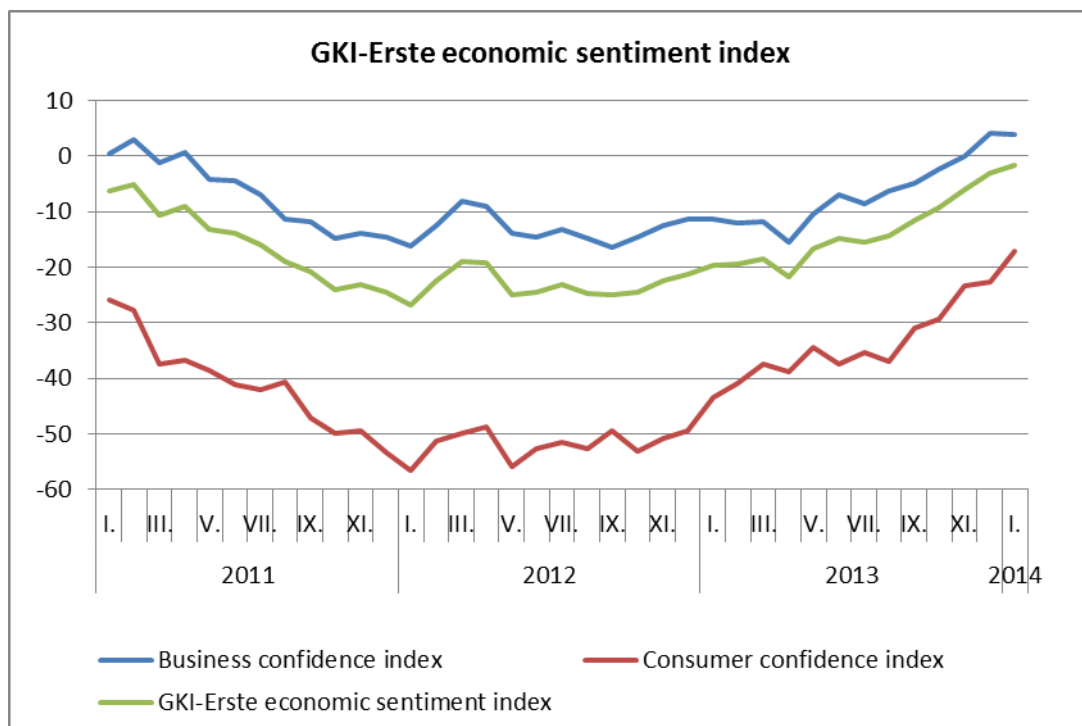


*Source: HSBC, J.P. Morgan, Ministry for National Economy (NGM)*

In light of the latest data, in January 2014 the seasonally adjusted economic sentiment index of GKI-Erste continued to improve. According to the GKI survey, **the economic sentiment index increased to -1.7 points in the first month of this year, a new record after the -2.9 points recorded in December.** The December reading was already a record of more than ten years: the last time when a better indicator was recorded, -1.3 points, was in October 2002. **This positive piece of data fits well into the upward trend resulting from an improving overall index and its components, which has been in place since the initial months of 2013 and October 2012.**



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*Source: Hungarian economic Research Institute (GKI)*

On the basis of survey results for January 2014, within the business sector – with the exception of the industry – expectations have improved in each division, especially at trading and service provider companies. **The business sentiment index showed 3.8 points, only slightly below the reading of 4 points recorded in December and a thirteen-year high.** The proportion of optimistic enterprises as a whole was again larger than that for pessimists. As another positive development, the intention for hiring has been stronger in every sector and the fear of households from unemployment is at a level unseen for almost twelve years. The perceptions regarding the outlook of the Hungarian economy have improved among consumers, within the construction and retail sectors – responses from the latter have never been so promising.

**The survey showed that following a sharp increase the consumer confidence index was - 17.2 points, the most buoyant figure in eight years.** The perception of households concerning their savings potential over the coming year was more optimistic than in the last month of 2013.