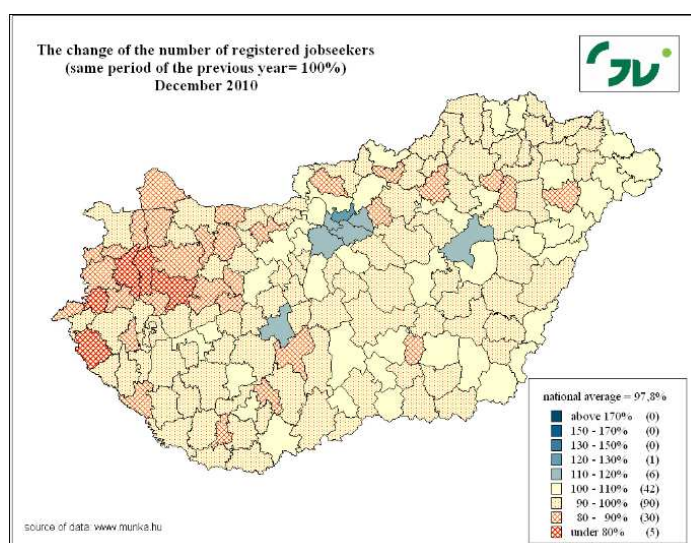


The “Geography of the Hungarian Economic Crisis” research programme of the Institute for Economic and Enterprise Research (HCCI IEER), had set the aim of analyzing the economic crisis from a regional point of view. Within this framework we have been providing detailed analyses on the changes of regional differences in the field of unemployment, layoffs and labour market quitting right from the beginning of the economic crisis.

According to the latest figures, the amelioration that had started on the labour market in the first half year continued in the second half of 2010, although the degree of the improvement was very low. From May 2010 the registry showed relatively fewer job-seekers every month than in the previous year. On the basis of the survey of Hungarian Central Statistical Office it can be stated that though the number of employed increased and the number of unemployed decreased in the second half of 2010, these changes still do not mean a real breakthrough.

The regions of the north-western segment of the country having a more favourable economic position remained the winners of the upturn. In the micro-regions concentrating the export-oriented processing industry, the former downturn turned to a dynamic improvement. On the contrary, in the more backward southern and eastern regions the tendencies of unemployment have taken again an unfavourable turn in the winter months. Signs of any positive change are not discernible in the suburbia of the capital either: the number and the rate of job seekers is still increasing, though the rate does not even reach half of the national average. It seems that the capital’s labour market gives a belated response to cyclical fluctuations in the boom period as well.

The latest data show that the positive processes that had started on the labour market in the previous half year continued in the second half of 2010, although the degree of the improvement was very low. Though, after a decrease of the absolute number of registered job seekers – being recorded between June and September 2010 – the number rose again in the recent months. This is rather due to the “normal” decrease of the labour demand usually perceived in the winter months. The changes arising from regional fluctuations can more or less be eliminated by comparing the monthly headcount figures to the numbers registered in the same period of the previous year. Based on this, it can be established that the registry showed relatively fewer job-seekers than a year earlier in every month beginning from May 2010. The improvement can also be observed in the time series of the Labour Survey of Hungarian Central Statistical Office, as labour market activity is increasing, the number of unemployed is decreasing, and the number of employed is growing, not only due to community work programmes, but also thanks to the recovery of the business sector. But even these changes do not still mean a real breakthrough. The unemployment rate in late 2010 was rather high (around 11%), and the National Employment Service (NFSZ) registered close to 600 thousand job seekers in December. These figures do not lag much behind the low of 1993. It must also be noted that in the first months of 2011 the number of registered job seekers has risen again rather significantly (almost by 100 thousand), but according to the NFSZ this is rather due to the delay in launching the communal work programmes.

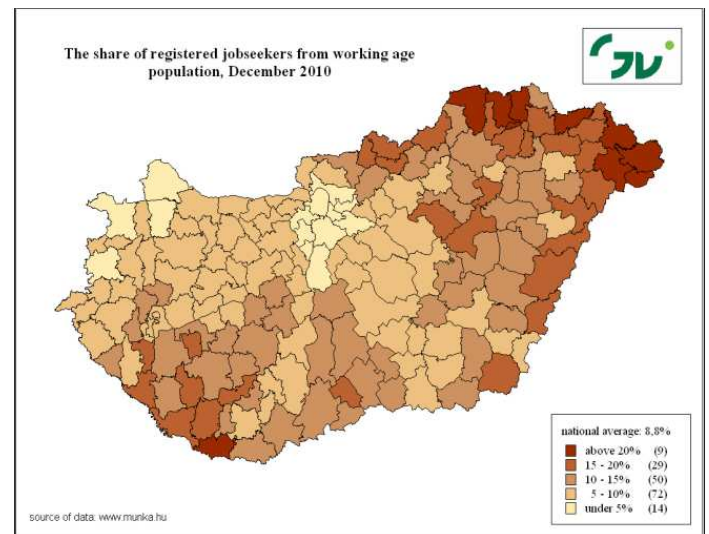
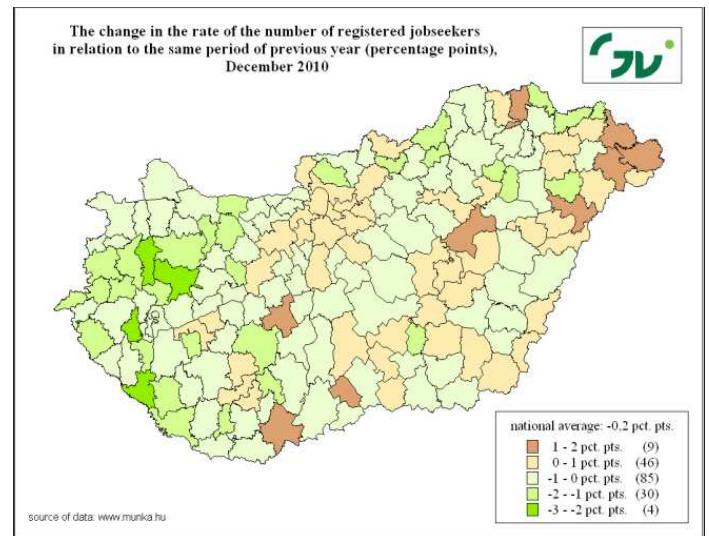


The national mean covers up considerable differences concerning the changes in the number of job seekers and in their rates, as it is illustrated by the maps attached. (In the absence of seasonally adjusted regional data, we compare with values of the preceding year, and the maps show changes taking place not only in the latest period, but also over the whole year, on micro-regional level.)

Regions of north western Hungary, having a more favourable position compared to the national average regarding the economic performance as well as the living standard of the population, have remained the winners of the upturn as well. In the micro-regions concentrating the export-oriented processing industry, and in those exposed to the labour market of the above, the relatively large former downturn has now been replaced by a period of dynamic boom.

Meanwhile, in the more backward southern and eastern parts of the country, where the improvement that had started in early 2010 could be explained with the incessant intensity of the communal work programmes, tendencies took a negative direction again during the winter months. Since the central coordination and financial resources were ceased, the rate of the registered job seekers again rised in the socially handicapped micro-regions of Cserehát, Szatmár and the Middle-Tisza. The improvement observed in the previous half year cannot be sustained, as it would require further considerable efforts and a persistent and consistent employment policy.

The suburbia of the capital, acting as the business center of the country due to its economic importance as well as its qualitative properties, is still not producing signs of a positive change, as the number and the rate of job seekers is still growing. On the other hand, the labour market of the capital remained relatively stable even at the very depth of the crisis, and the rate of job seekers within the working age population does not reach even half of the national average: it has hardly risen over 4%. It seems that the capital's labour market gives a belated response to cyclical fluctuations in the boom period as well. The recovery of exports cannot be felt in labour market of the region, while internal demand has not started to move upward.



Macro-economic trends: The US economy in the first quarter of 2011

The GDP of the USA has only risen by 1.8% in the first quarter of 2011, which is a 1.3% slowdown on the previous quarter. The downturn is due to the unfavourable weather conditions and the increase in oil prices. The latter trend primarily set back household consumption, accounting for 70% of US GDP.

The Fed did not change the prime rate in April, so the interest rate target band remained on a low level, in compliance with the expectations. Fed Chairman Ben Bernanke made an optimistic statement concerning the prospects of the American economy.

During April, the expansion in the processing industry in the Philadelphia region slowed down significantly. The Philadelphia Fed index plummeted much deeper than expected, to 18.5 points, from the 43.4 points measured in March. The index measuring general economic activity for the coming 6 months has decreased to 33.6 points, a low never seen since last September.

Standard and Poor's rating institute has worsened the USA's credit rating to negative first time in its history as – compared with other countries having AAA ratings – it has a very high public deficit and a growing indebtedness. The unsustainable American debt position is worrying investors, while IMF calculations show that the American government will have to carry out an immense restriction (11.3% of the GDP) in the following decade.

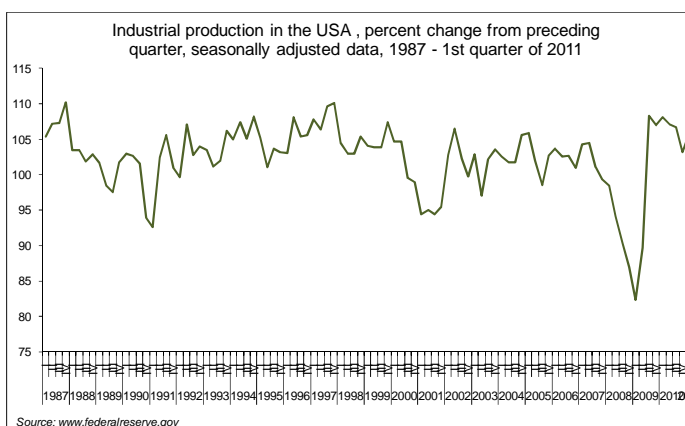
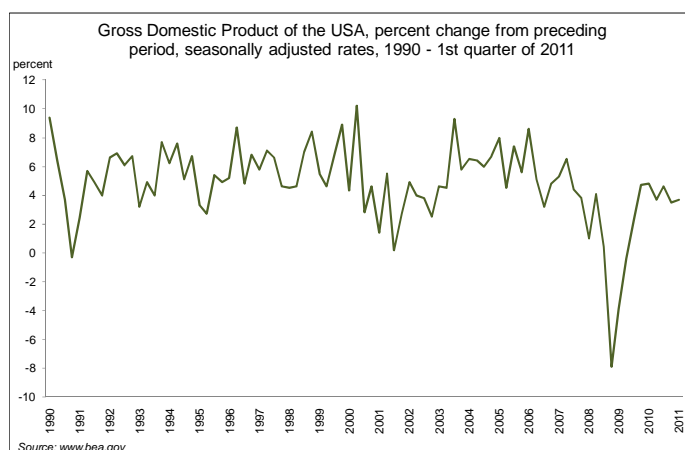
In the United States retail turnover rose less than expected (0.4%), but the ninth time in succession in March, which slightly falls short of analysts' 0.5% forecast.

Gross Domestic Product

The GDP of the USA only rose by 1.8% in the first quarter of 2011 in accordance with analysts' expectations. Compared with the fourth quarter of 2010 it means a 1.3% slowdown, which is partly due to the unfavourable weather conditions (heavy snow storms), partly to the increase in oil prices. The latter trend primarily set back household consumption, accounting for 70% of US GDP. From the aspect of growth, the government's restrictive measures and the decrease in the willingness to invest also had an unfavourable effect. In spite of the adverse first quarter data, the majority of analysts are confident that the increase in the rise of oil prices will halt for the rest of the year, and this might lead to faster growth. They are expecting recovery in the processing industry as well as on the labour market.

Prime rate

The Fed did not change its prime rate in April so in line with the expectations, the target band of interest rate remained at a very low level, between 0.0 and 0.25%. Ben Bernanke announced that he would hold a press conference four times a year following the decision on the interest rate. On the first press conference the Chairman of the Fed made an optimistic statement concerning the prospects of the American economy. In its statement on the prime rate decision the Fed pointed out they intend to keep the prime rate low in the long term. (It has been unchanged in the US since late 2008). According to the statement, the American economy has been modestly strengthening since the last interest rate decision, the conditions on the labour market



have been gradually improving, corporate investments are expanding, and households are increasing their spending. The residential real estate market is, however, still in an adverse position. Inflation has grown in the recent months due to higher energy prices, though long-term inflation expectations continue to be stable. As for this year's prospects the Fed is optimistic: on the basis of the statement the analyst crew of the Fed is expecting 3.1-3.3% improvement for 2011.

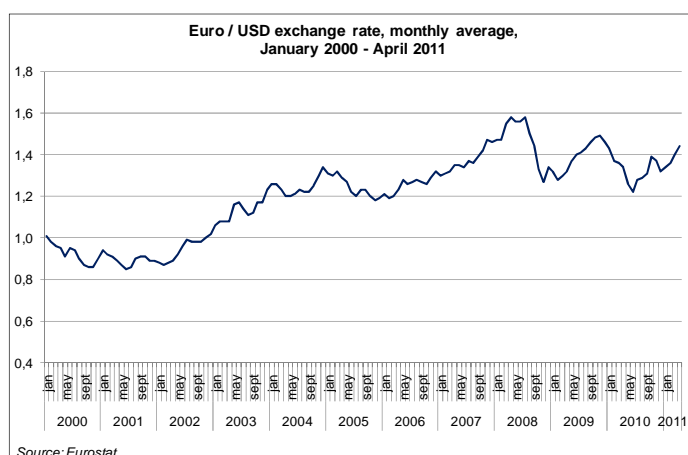
Philadelphia Fed Index

During April, the expansion in the processing industry in the Philadelphia region slowed down significantly. The Philadelphia Fed Index plummeted much deeper than expected, to 18.5 points, from the 43.4 points measured in March, which was the highest figure measured since January 1984. Expectations of analysts had been estimating a more moderate downturn, to around 35.5 points. The sub-index referring to orders has fallen by 6 points to 29.1 but it is still staying at a relatively high level. The employment sub-index has fallen by 6 points to 12.3, but even so, it has been in the positive zone for the eighth successive months. In the April survey 20% of the companies have reported an increase in the number of employees, while 8% have reported a decrease in staff numbers. More than twice as many (32%) companies have reported lengthened working weeks than shortened ones (14%). The sub-index of the working week has risen from 13.2 points to 17.7 points. The index measuring general economic activity for the coming six-month period has fallen by 29 points to 33.6, a low that has not seen since September 2010.

Credit rating

Standard and Poor's rating institute has worsened the USA's credit rating to negative, first time in its history as – comparing to other countries having AAA ratings – it has a very high public deficit and a growing indebtedness. The rating firm sees at least a one third chance that they will worsen the credit rating of the United States within two years time. Analysts do not find it likely that S&P should risk worsening the American credit rating, as it might lead to a new financial crisis.

The step taken by S&P, more precisely its timing, came as a surprise to the market: the currency-, the stock- and bond-markets responded to the news with sharp movements. The decision broke the weakening trend of the US dollar that had lasted for days, which can be thanked to the strengthening of risk avoidance, since as a result of such negative events, investors turn away from stocks, and, quite paradoxically, choose the dollar as a substitute. Morgan Stanley's economists published in a statement that the worsening of the American debt prospects was not a shock for the markets, regarding the continual worsening of the USA's fiscal position.

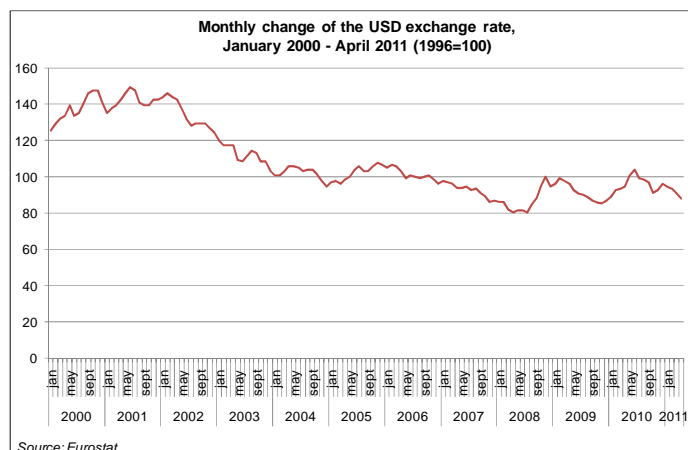


The unsustainable American debt position has been increasingly worrying investors since mid-April. IMF calculations show that the American government will have to carry out an immense restriction (11.3% of the GDP) in the following decade, much larger compared to the other developed countries, in order to reduce its debt rate to 60%.

Retail trade

Retail sales in the Unites States increased less than expected (0.4%) in March, but the ninth time in succession. It slightly falls short of analysts' 0.5% forecast but details of the report provide few reasons for optimism. During the last month it was the higher gas price that contributed to the growth in retail sales. Without petrol sales, retail turnover in March rose only by 0.1%, following a 0.9% growth of sales in February. Exclusive of the 1.7% fallback in automobile sales, there is a 0.8% expansion. This is a more moderate growth compared to the 1.1% figure in February, but it still slightly exceeded the 0.7% expectation of analysts. Compared with March last year, turnover of the shops has increased by 7.1%.

Source: portfolio.hu, profitline.hu, napi.hu, mfor.hu



International business trends

The Ifo Business Climate Index referring to the German industry and trade continued to fall in April, following a value of March that broke the nine-month-long rising tendency. The reason for this, similarly to last month, was exclusively the worsening of the expectations referring to the following half year. Aside from this, companies are more satisfied with their business situation than they were in the previous month. Ifo researchers find that the business situation of German companies continues to be excellent.

Findings of the April survey of the French Statistical Office (INSEE) suggest that in France the business cycle has stabilized. The business confidence index drawn up on the basis of corporate leaders' opinions has been staying on an unchanged level, higher than its long-term average. The index of economic turning point indicates an uncertain cyclical position. The index referring to general prospects remained high.

The economy of the European Union

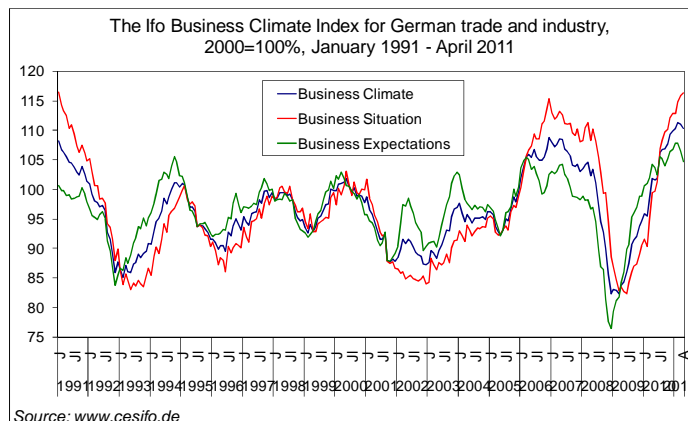
The Ifo Business Climate Index for German industry and trade fell in April, marking the second decline in succession. As in the previous month, the weakening is solely due to the firms' less positive expectations for the future course of their business. In contrast, the current business situation has improved again, according to the survey responses. Despite considerable risks at the international level, the situation of the firms in Germany remains excellent.

In manufacturing the business climate clouded over slightly, but remains very good. The firms are less optimistic regarding the business outlook than in March. With their current business situation, however, they are somewhat more satisfied. In export business the firms again see improved opportunities. The available technical capacities are being utilised to a greater extent than at the beginning of the year; the capacity utilisation rate is thus clearly above its long-term average. Firms plan to increase staff numbers somewhat more cautiously than in the past month.

In retailing and in wholesaling, the business climate has clouded over once again. In both distribution sectors, the business situation and the business expectations are more unfavourable than in the previous month.

The business climate has brightened again in the construction sector. The survey participants are clearly more satisfied with their present business situation. However, they are somewhat more cautious in assessing the business outlook than they were in March.

Source: Ifo (<http://www.cesifo-group.de>)



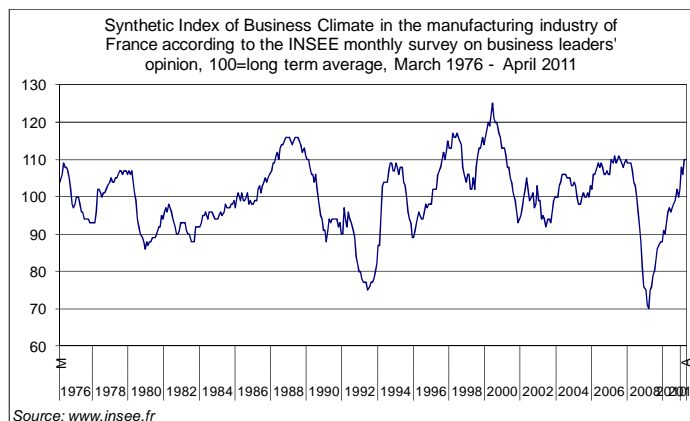
The April survey of the French Statistical Office (INSEE) suggests that according to the surveyed corporate leaders, the business cycle has stabilized in France: The business confidence index of INSEE has been staying on an unchanged level compared with March, above its long-term average.

The economic turning point indicator has fallen, which indicates a volatile cyclical position.

Leaders of industrial corporations find that their production has risen in the recent period, so the balance index of their opinions remains over its long-term average. According to CEOs' judgement, finished product inventories continue to remain on a low level. The surveyed CEOs declared that their export stock order has continued to grow, thus indicating – similarly to the domestic stock order – a high index value.

The economic boom in France is likely to slightly slow down in the coming months, though it will remain dynamic: corporate leaders' forecast referring to individual business prospects for the coming months has worsened in April, but even so it remained well over its long-term average. The index referring to general prospects, which reflects the summarized opinion of the respondents concerning industrial activity, has also remained high.

Source: INSEE (<http://www.insee.fr>)



Written by: Ágnes Makó (analyst, GVI)
E-mail: agnes.mako@gvi.hu

For publications, please refer to this paper as follows:

MKIK GVI: *Monthly Bulletin of Economic Trends*,
April/2011 Budapest
May 03 2011