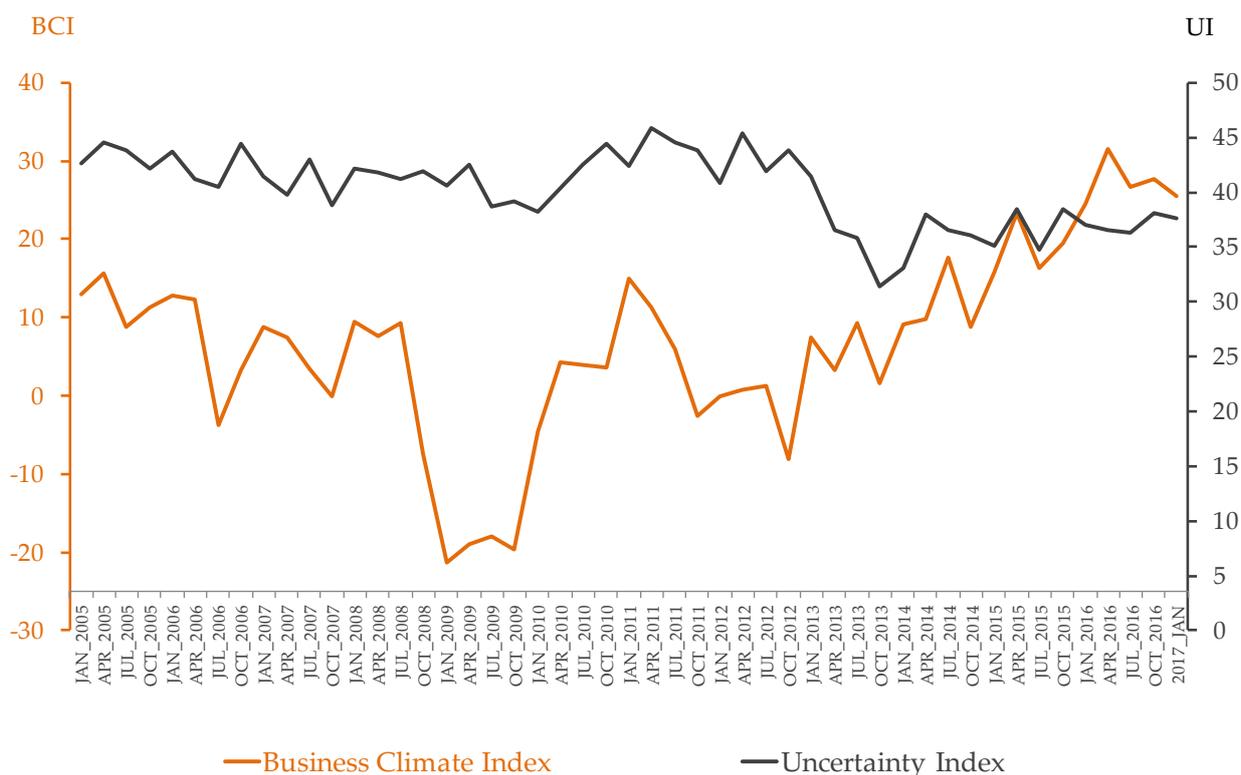




### Results of the IEER SME Outlook Survey January 2017

The results of the latest IEER SME Outlook business climate survey reveal that the business confidence slightly decreased compared to the previous quarter: the Business Climate Index fell from 28 to 25 points. The value of the index was 25 points in January 2016. The Uncertainty Index is at a current level of 38 points, which is the same as in the previous quarter. The value of the Uncertainty Index indicates that the current trend is not uniform within the private sector, and that it will continue to be confined to one part of the economy and will not be felt by all small and medium sized companies. In sum, we can assess that the Business Climate Index after the peak (33 points) in April 2016 dropped to 27 points in July 2016 and it was 28 points in October 2016, now a decrease (25 points) occurred again.

**Figure 1: Quarterly developments in the SME Outlook Business Climate Index and in the SME Outlook Uncertainty Index, 2006-2016**



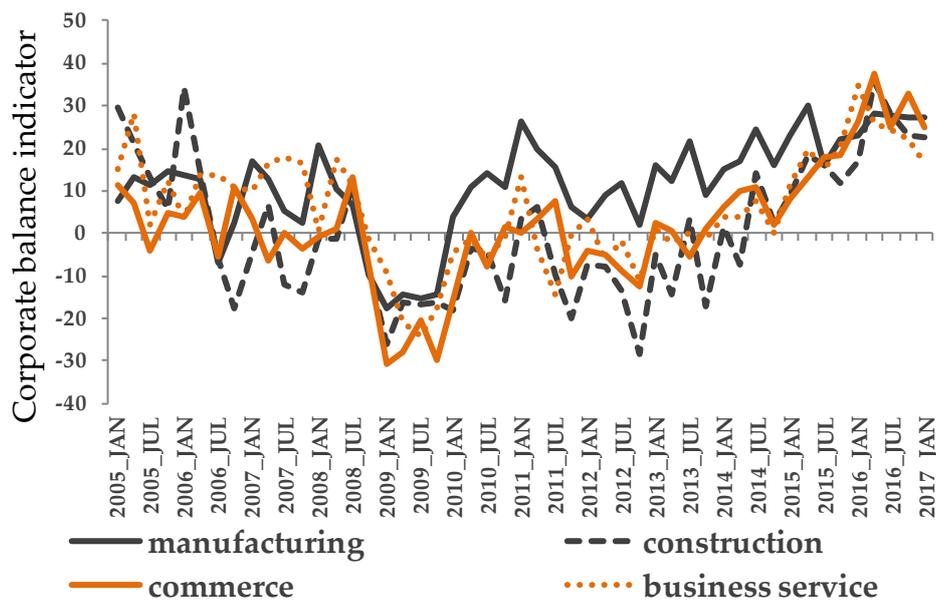
Source: IEER 2017

## The Business Climate Index according to the characteristics of the SMEs

According to economic sectors we can observe that the companies of processing industry (28 points) are more optimistic than the companies of commerce (25 points) and building industry (23 points). The Business

Climate Index of the business service sector is significantly lower than the other categories' value: only 17 points.

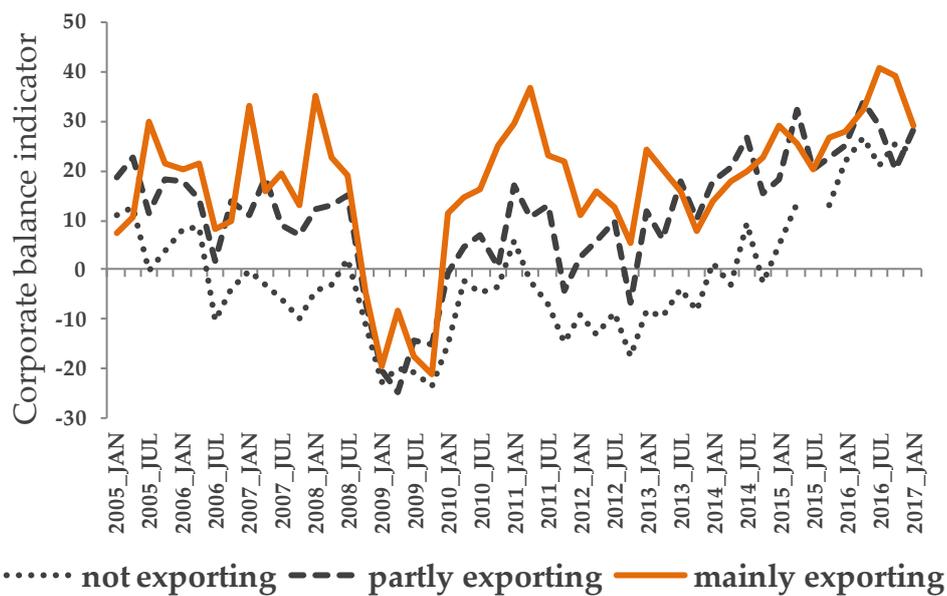
**Figure 2: Quarterly developments in the SME Outlook Business Climate Index according to economic sectors, 2006-2016**



Source: IEER 2017

By export activity we can conclude that the Business Climate Index of the partly (28 points) and mainly (29 points) exporting SMEs is almost the same. The businesses producing exclusively for the domestic market (24 points) fall short compared to the other two categories.

Figure 3: Quarterly developments in the SME Outlook Business Climate Index according to export activity, 2006-2016

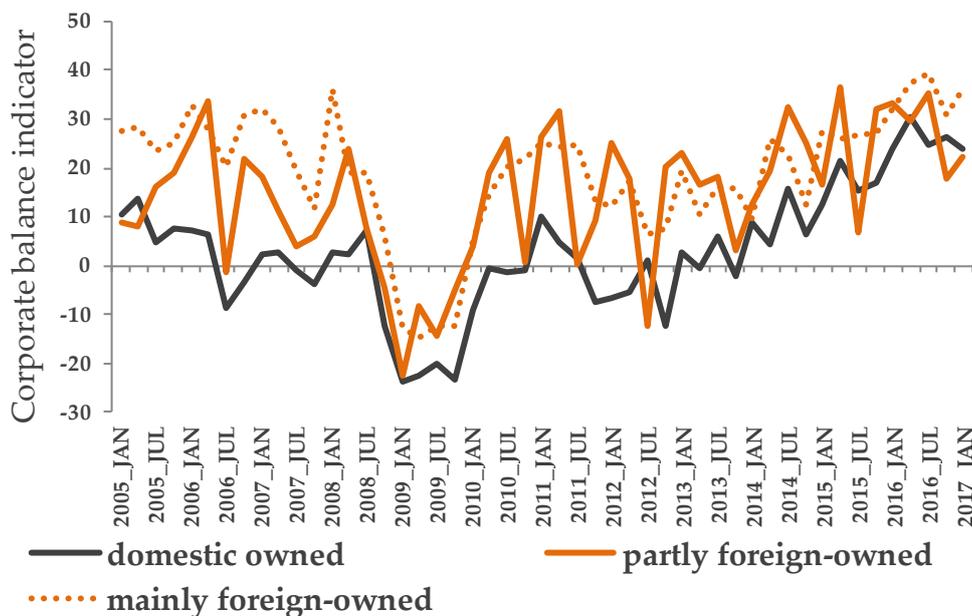


Source: IEER 2017

According to the ownership structure, there is no significant difference in the Business Climate Index between the Hungarian owned enterprises (24 points) and partly

foreign-owned businesses (22 points), however, the indicator is very high at exclusively foreign-owned enterprises (36 points) compared to the other two categories.

Figure 4: Quarterly developments in the SME Outlook Business Climate Index according to ownership structure, 2006-2016



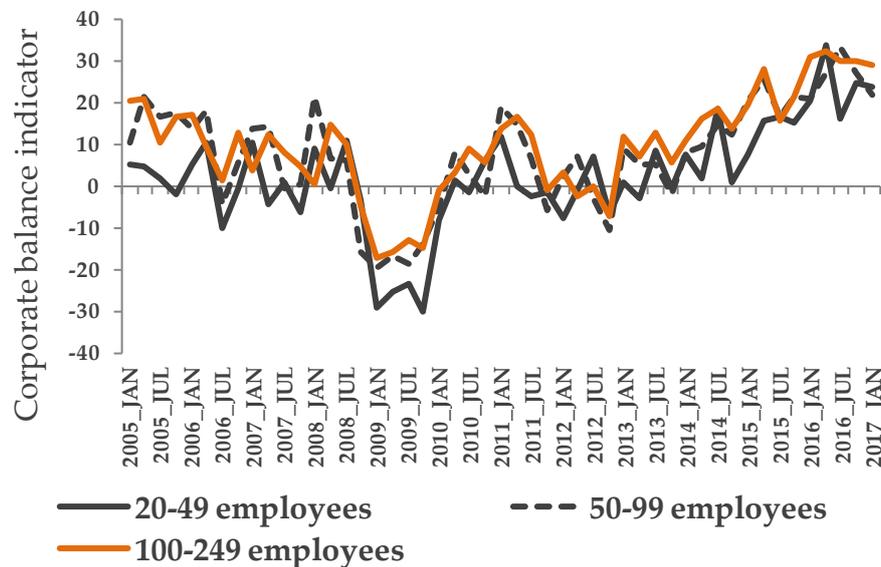
Source: IEER 2017

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Regarding the size of companies, we can observe that the expectations of the largest Businesses (29 points) is the most favourable,

there is no remarkable difference between the companies with 20-49 employees (24 points) and firms with 50-99 employees (22 points).

**Figure 5: Quarterly developments in the SME Outlook Business Climate Index according to company size, 2006-2016**



Source: IEER 2017

In sum, the favourable business climate is mostly perceived by the foreign-owned, exporting businesses in the processing industry with 100-249 employees.

## The risks and possible effects of a U.S.–Chinese trade war

In the following summary it will be shortly analyzed how the Trump presidency could change the U.S.–Chinese relationship, as well as the chances and possible effects of an economic trade war between the two countries.

According to articles of the Economist the development of a U.S.-China trade war will depend on whether Trump complies with the rules of the World Trade Organization (WTO). A trade war would have a serious impact on the global economy. The clear losers would be importers and consumers of Chinese-made products. The possible winners could be American apparel and electronics manufacturers, firms in Vietnam and Mexico and European aircraft manufacturers.

In January, the Economist analyzed<sup>1</sup> how a Trump presidency could change the U.S.–Chinese relationship, as well as the chances and possible effects of an economic trade war between the two countries.

Trump strongly attacked China's economic policy in his campaign, blaming Beijing for the difficult situation of American factory workers. But how will this appear in actual policymaking?

Since then, the new U.S. president has completely turned his back on Barack Obama's international economic policy. While Obama wanted to control China's economic activity through the Trans-Pacific Partnership, the Trump administration immediately withdrew from the negotiations.

The development of a U.S.-China trade war will depend on whether Trump complies

with the rules of the World Trade Organization (WTO). If Trump introduces a blanket tariff on Chinese products, he will go against these rules (such as the most-favoured-nation principle, predictability and lowering barriers of trade).<sup>2</sup> In the absence of a mutual understanding, China may also ignore international economic agreements. The traditional tactics in international trade can also easily lead to chaos. Litigation in the World Trade Organization's courts could overload the institution and highlight the shortcomings of the rules. Limited tariffs on the Chinese products may provoke retaliation similarly to 2009, when China turned to South America instead of the U.S. for imports.

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<sup>1</sup> Source: America, China and the risk of a trade war (<http://www.economist.com/news/finance-and-economics/21715656-trade-tensions-will-mount-destructive-trade-war-can-still-be>); Winners and losers in a China-America trade war (<http://www.economist.com/news/finance-and-economics/21715659-trade-war-would-be-catastrophe-not-everybody-winners-and-losers>)

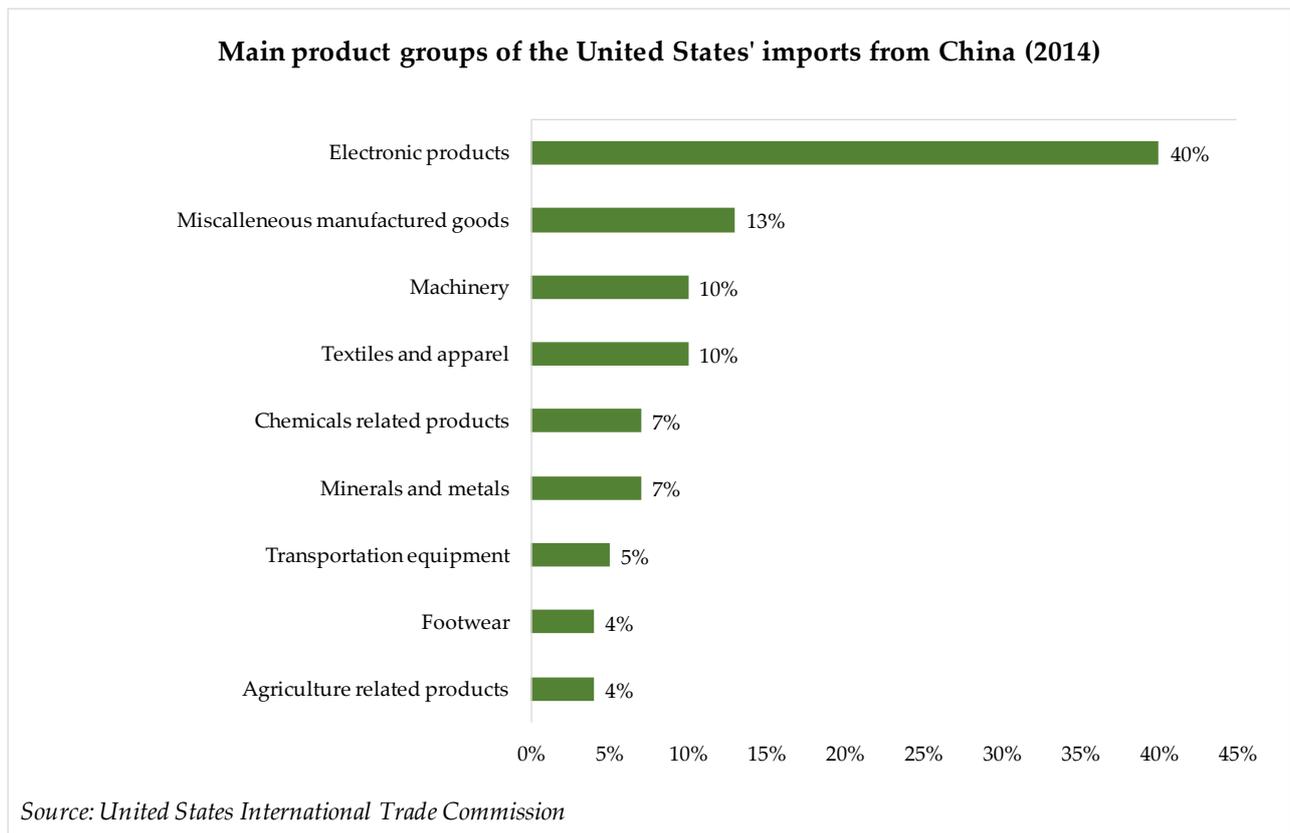
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<sup>2</sup> Source: WTO, „Understanding the WTO - principles of the trading system” ([https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact2\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm))

What would be the consequences of a trade war? It would have a serious impact on the global economy, affecting both consumers and businesses. The clear losers would be importers and consumers of Chinese-made

products, such as electronics and apparel (see Figure 1), as tariffs would expectedly reduce profits of sellers and rise prices paid by consumers.

Figure 1: Main product groups of the United States' imports from China (2014)



Although China would be damaged by a trade war, it would not be worse off than the United States. In the last years the role of exports in the economy has decreased, and Chinese companies are less dependent on U.S. consumers than vice versa. As Figure 2 shows, foreign trade is gradually taking up a smaller proportion of the economy – note that this is a relatively new trend.

A trade war would also have winners. As a result of reduced competition with Chinese producers, American apparel and electronics manufacturers would be able to raise their prices. Furthermore, Vietnam and Mexico, who are competing with China, may also benefit in the American market. Demand for European aircrafts may also grow as they can substitute aircrafts made by the United States.

Figure 2: Openness indicator of the USA and China



## International trends

Development of production, consumption and employment in certain globally significant economies, compared with expectations and values of the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Feb)	<b>5.9%</b>	5.9%	5.9%
Germany	Manufacturing Purchasing Managers Index	(Feb)	<b>56.8</b>	57.0	57.0
	IFO Business Climate Index <sup>1</sup>	(Feb)	<b>111.0</b>	109.6	109.9
France	INSEE Business Climate Index <sup>2</sup>	(Feb)	<b>104</b>		104
	ISM Manufacturing Employment	(Feb)	<b>54.2</b>	55.9	56.1
USA	CB Consumer Confidence Index	(Feb)	<b>114.8</b>	111.0	111.6
	Manufacturing Purchasing Managers Index	(Feb)	<b>54.2</b>	54.4	54.3
China	Manufacturing Purchasing Managers Index	(Feb)	<b>51.6</b>	51.1	51.3

<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

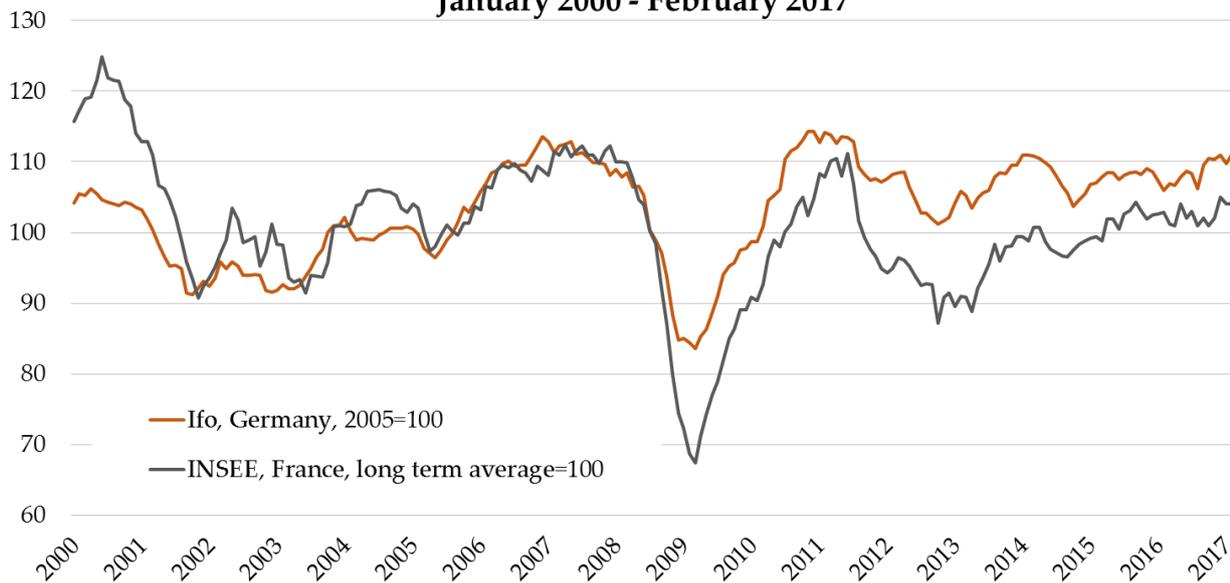
<sup>2</sup><http://www.insee.fr/en/themes/indicateur.asp?id=105>

Source of the remaining data: <http://worldeconomiccalendar.com>

The performance of the German economy stagnated in February, after a slight decrease in the previous month. The manufacturing purchasing manager index (PMI) has decreased; however, the IFO business climate index increased more than expected. The unemployment rate remained the same as in the previous month and as it was expected. The French INSEE business climate index stagnated in February. In the United States the CB consumer confidence index rose more than expected, however the manufacturing employment decreased slightly. At the same time the manufacturing PMI performed slightly worse than expected. The Chinese manufacturing PMI continues to rise since the end of last year.

Long-term changes in business confidence indices

**Business confidence in Germany and France,  
based on the Ifo and INSEE business climate surveys,  
January 2000 - February 2017**



Source: [www.cesifo.de](http://www.cesifo.de), [www.insee.fr](http://www.insee.fr)

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**Contact**

Address: MKIK GVI

H-1034 Budapest, Bécsi út 120.

Tel: 235-05-84

Fax: 235-07-13

Email: [gvi@gvi.hu](mailto:gvi@gvi.hu)

Web: <http://www.gvi.hu>

Prepared by:

Zsanna Nyíró, analyst, MKIK GVI

Ágnes Makó, senior researcher, MKIK GVI

Fruzsina Nábelek, analyst, MKIK GVI

Tamás Börcsök, intern, MKIK GVI

Emília Kompaktor

Research director:

István János Tóth, research fellow, MTA KRTK KTI,

Managing director, MKIK GVI

e-mail: [toth.istvanjanos@rtk.mta.hu](mailto:toth.istvanjanos@rtk.mta.hu)

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