

August 2. 2004.

Modest increase in wages - dynamic growth in retail trade

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, investments will rise dynamically while real earnings will increase minimally this year. The rate of inflation has already reached its zenith.

For the past 9 months, industrial production has been increasing by around 10% y-o-y. This is due solely to the stunning rise of exports. In the first five months, the volume of exports grew by 9.4%, while domestic sales decreased by 1.2%. Exports of electric machines and appliances increased by 30%, while that of vehicles expanded by 15%. In May, new export orders increased by 20%, while new domestic orders went up by 10% compared to May 2003. It shows that the flourishing exports means increasing demand for certain domestic producers as well. In all probability, expansion in this field will go on, as investments to manufacturing rose by 30% in the first quarter.

In May, the spectacular (more than 10%) increase in the production of the construction sector stopped and its output was barely higher than in the corresponding period of last year, even if we adjust the data with the number of working days. The stock of orders has however increased considerably.

Retail trade turnover grew by 6.8% in both May and in the first 5 months of 2004. In the year to May, turnover of food and food type trade rose by 3%, but in May it rose only by 1.7%. The fastest growth (18%) was recorded in the sales of furniture and household goods (which also includes construction materials). After the modest increase in the first months of 2004, sales of motor vehicles soured in April (up 30% y-o-y) and the growth lasted in May, too (27%). Retail trade turnover including the sales of motor vehicles and fuels grew by 7.8% in the first 5 months, which is much faster than the modest increase (0,4%) in real earnings. Gross earnings rose by 10.2% in the business sector and by 6.1% in the government sector year-on-year. Employment increased by 0.8%, but it went down in the government sector.

In April, as a result of the tactical purchases prior to the EU accession, imports grew faster than exports. Data from May (available at the moment only in forints) show however, that again exports expanded much faster than imports.

The growth rate of inflation will slow down in the coming months. Since the beginning of the year, the forint has strengthened by 5%. In the second half of the year, depending on the rate-cut of the central bank, interest rates will probably slowly decrease.

Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2004

	2002. actual	2003. actual	January-May 2004.	2004. forecast
1. Volume of GDP (%)	103.3	102.9	104.2 ^{a)}	103.7
2. Industrial production (constant prices, %)	102.6	106.4	109.8	110
3. Investment in the national economy (constant prices, %)	105.8	103.1	118.9 ^{a)}	107
4. Construction (constant prices, %)	120.1	100.7	111.2	105
5. Retail trade (constant prices, %)	108.6	108.8	106.8	103
6. Exports (current prices in euro, %)	107.4	104.1	113.1 ^{b)}	110
7. Imports (current prices in euro, %)	106.4	105.8	113.7 ^{b)}	110
8. Trade deficit (EUR, billion)	3.4	4.3	1.7 ^{b)}	4.6
9. Current account deficit (according to new methodology; EUR, billion)	4.9	6.5	2.8 ^{b)}	6.5
10. Average exchange rate of the euro (in HUF)	242.9	253.5	256 ^{c)}	253
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1580	1054	1040 ^{c)}	1200
12. Index of average gross earnings	118.3	112.0	108.6	109
13. Consumer price index	105.3	104.7	107.1 ^{c)}	106.7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	105.7	107.5 ^{c)}	106-106.5
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	5.8 ^{d)}	5.9

a) Q1

b) January-April

c) January-June

d) Average of March-May 2004

Source of actual data: Central Statistical Office, Ministry of Economy and Transportation, National Bank of Hungary, Ministry of Finance