

# ***Development of Hungarian Food Industry in 2000-2011***



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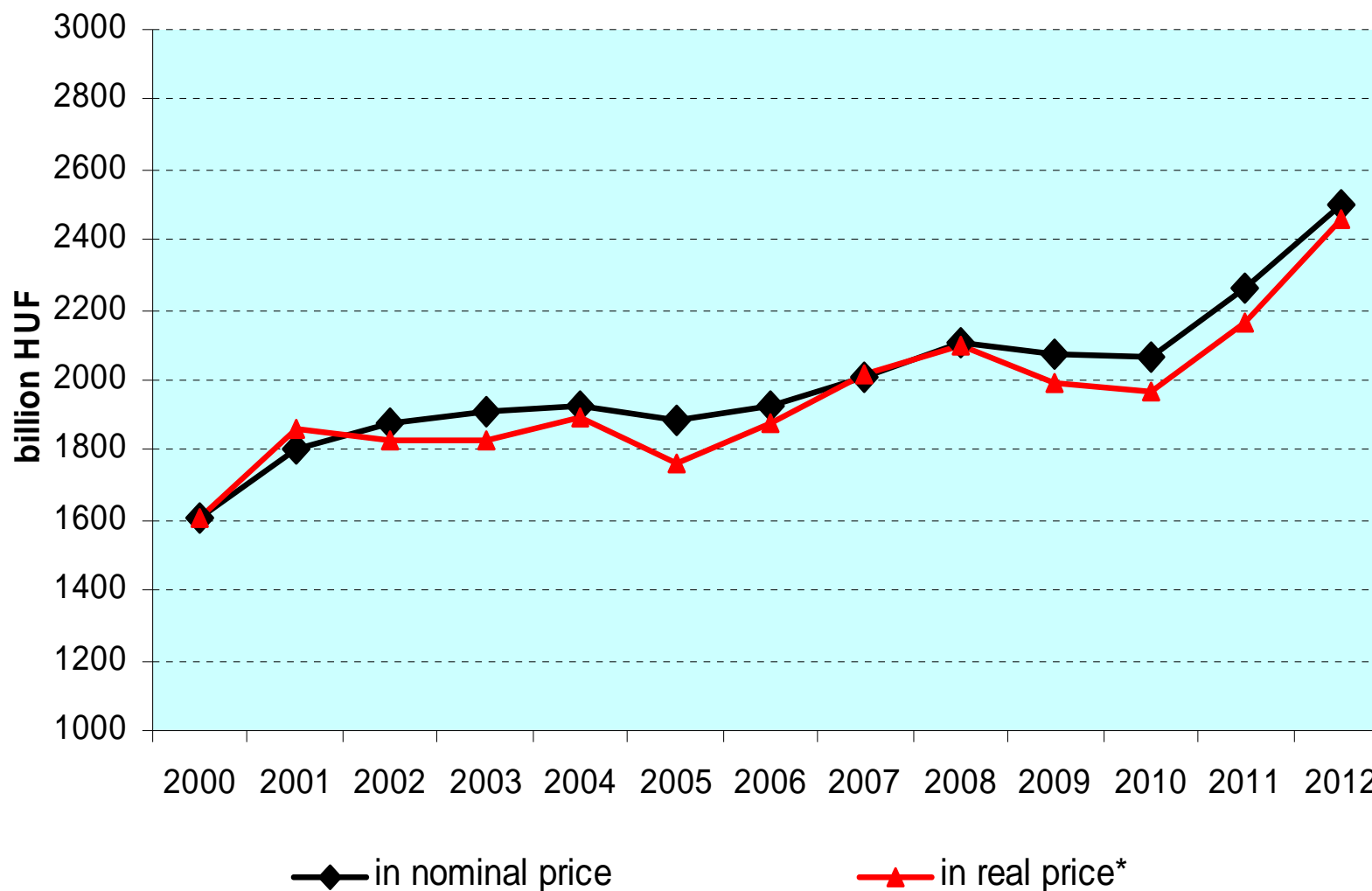
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## ***1. Developement of Hungarian food industry***

- The food industry grew both in 2011 and 2012, reversing the downward trend seen in the preceding years. Volumes rose by 3-4%. High prices contributed to a double digit increase in the production value in both years.
- Turnover in the sector increased by 10% and 11% in 2011 and 2012, after a slight decline during 2009-2010. The positive development in the food industry was driven by exports that increased by 18% both in 2011 and 2012. Meanwhile, domestic demand expanded only 5-7%. The rate of export value increased to 57% from 27% of domestic sales between 2000 and 2011.

# *1. Developement of Hungarian food industry*

## **The development of net turnover in the food sector (2000-2012)**



# ***1. Developement of Hungarian food industry***

- The nominal production value of the food industry increased by an average of 3.8% per annum during 2000-2012. In contrast, the production value in real terms shrank by 1.9% per year.
- The consumer prices doubled and significantly exceeded the growth of nominal production value. This disguised the poor performance of the food industry: while output in value terms jumped 57%, the production volume plunged 28%.
- Household consumption expenditure on food products rose continuously but with a slowing rate in 2000-2011. Expenditures on food products saw an overall 81% expansion at current price level.
- There were great changes in food consumption habits. Meat, eggs, sugar, coffee and wine consumption fell 20%. The consumption of alcohol and tobacco products rose gradually until 2007, but as the result of falling purchasing power and rising excise taxes the sale of these products turned into a downward trend.

# 1. *Developement of Hungarian food industry*

## Household consumption expenditure on food products (2000-2011)

(billion HUF)

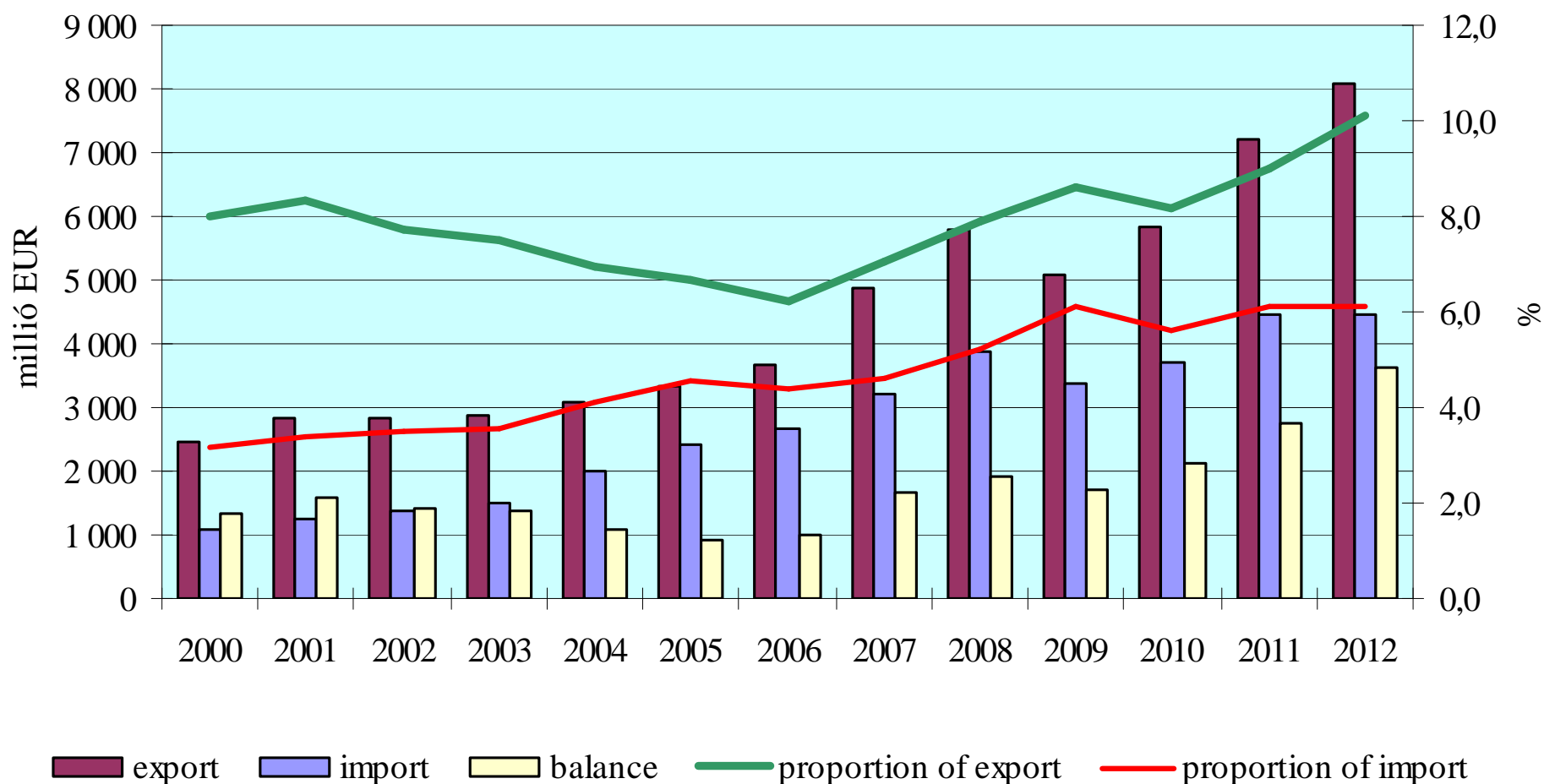
Specification	2000	2003	2007	2011	Growth (percent) per year			
					2000-2003	2004-2007	2008-2011	2000-2011
					in current prices			
Food and non-alcoholic beverages	1 420	1 882	2 349	2 572	9.8	7.7	3.1	5.5
Alcoholic beverages and tobacco	600	856	1 159	971	12.6	10.6	-5.7	4.5
Total	2 020	2 738	3 508	3 543	10.7	8.6	0.3	5.2
	In prices for 2000							
Food and non-alcoholic beverages	1 420	1 482	1 645	1 891	1.4	3.5	4.8	2.6
Alcoholic beverages and tobacco	600	444	347	281	-9.5	-7.9	-6.8	-6.7
Total	2 020	2 109	2 340	2 691	1.4	3.5	4.8	2.6

# ***1. Developement of Hungarian food industry***

- In 2000 the export of the food industry was 8%, the import was 3.5% of the total exports/imports of the economy. After the EU accession the share of export shrank and import rose. Foreign trade in food industry had always a surplus, however the balance worsened in the years after the EU accession. Since 2007 the trade surplus has recovered, in particular in 2011-2012.
- The growth rate of raw material export - particularly cereals and oilseeds - significantly exceeded the growth rate of processed products. In 2000-2012, the share of raw material rose 10 percentage points to 40%.
- In the agri-food import, raw materials had a 20-25% share over the twelve years to 2012. The proportion of semi-processed products fell, while finished products rose in the same period.

# 1. *Developement of Hungarian food industry*

## Development of foreign trade in the products of food industry (2000-2012)





## ***2. Structure of Hungarian food industry***

- In food industry the enterprises are typically small and micro enterprises.
- Between 2000 and 2011 the number of micro enterprises doubled, while the number of large firms decreased to its half.
- There is a similar tendency in employment. In 2000 3.8 percent of employees worked in micro-enterprises, in 2011 already more than 8 percent. Contrarily in 2000 large firms employed 55 percent of workers in the sector, and in 2011 only 36 percent.
- Determining the dual structure of the sector: micro and small enterprises with extremely low output, and the dominant large companies are simultaneously present.

## 2. Structure of Hungarian food industry

### Business structure of food industry according to the number of employed persons

Number of enterprises	2000	2003	2007	2011
Micro (up to 9)	1 797	2 257	2 971	3 605
Small (10-19)	860	917	998	1 030
Medium (50-249)	300	347	328	300
Large (over 249)	116	118	74	60
Avarage employment	2000	2003	2007	2011
Micro (up to 9)	4 544	5 252	6 651	7 435
Small (10-19)	18 801	19 410	21 769	21 963
Medium (50-249)	30 811	33 171	32 165	29 680
Large (over 249)	66 483	65 754	39 724	32 678
Revenues (EUR million)	2000	2003	2007	2011
Micro (up to 9)	201,18	278,76	361,95	380,55
Small (10-19)	590,32	710,83	1 239,39	1 246,75
Medium (50-249)	1 462,22	1 886,13	2 770,08	2 837,72
Large (over 249)	4 761,46	6 788,70	5 705,15	5 069,91

Source: Calculations in Department of Food chain analysis (AKI), based on data from NAV.

## ***2. Structure of Hungarian food industry***

- The total share capital in food industry declined significantly – the value of 2000 by 40 percent to 2011.
- The presence of foreign capital is dominant, mostly in big companies. Its significance was growing. 73 percent of total share capital of large companies originated from foreign countries in 2000, and 82 percent in 2011.
- In the micro- and small enterprises share capital typically provided by domestic private persons, in medium enterprises by domestic companies.
- After the EU accession, significant share capital extraction occurred. The main reasons for this is the change of regulation and market relations.

## 2. Structure of Hungarian food industry

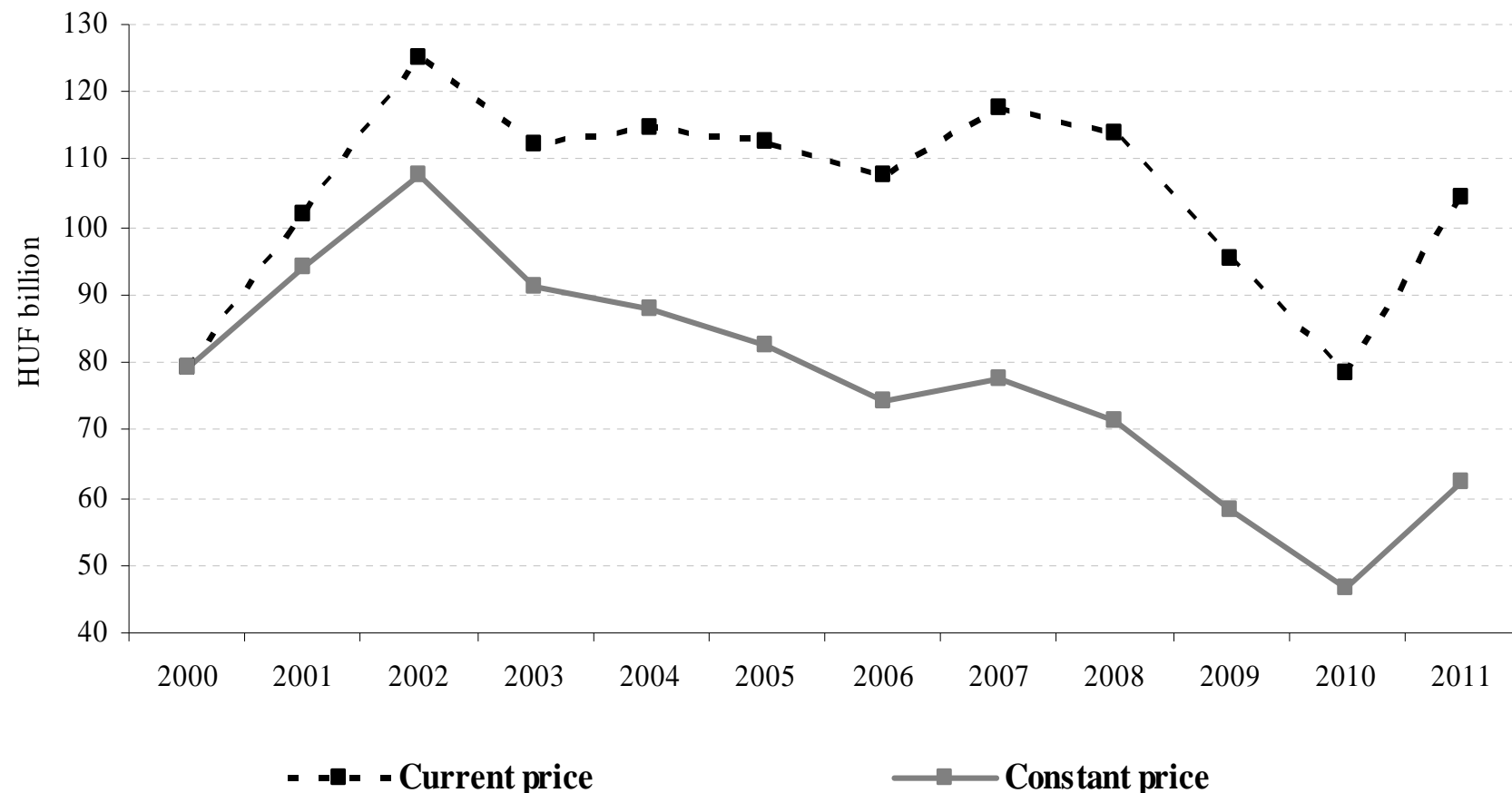
### The size and composition of share capital by firm size

Megnevezés	Year	Share capital	<i>From this: foreigner</i>	<i>From this: inland company</i>	<i>From this: inland individual</i>
		EUR million	EUR million	EUR million	EUR million
Micro (up to 9)	2000	78,13	23,40	13,97	35,10
	2003	72,84	17,54	16,02	36,99
	2007	178,41	23,29	104,20	49,73
	2011	71,35	8,04	22,82	39,85
Small (10-19)	2000	85,68	26,42	16,98	35,86
	2003	96,48	28,98	19,45	41,95
	2007	164,99	64,34	45,39	53,68
	2011	128,24	41,46	40,82	45,00
Medium (50-249)	2000	194,38	56,24	72,47	45,29
	2003	186,86	53,01	68,64	51,86
	2007	243,93	75,39	74,60	76,18
	2011	204,74	70,07	74,57	45,96
Large (over 249)	2000	1 134,97	828,49	238,17	36,99
	2003	1 360,26	988,45	307,36	37,75
	2007	595,22	433,39	126,70	20,52
	2011	415,26	341,98	59,78	12,86
TOTAL	2000	1 493,17	934,55	341,59	153,24
	2003	1 716,05	1 087,98	411,09	168,55
	2007	1 182,55	596,80	350,90	200,12
	2011	783,27	428,44	195,10	143,67

Source: Calculations in Department of Food chain analysis (AKI), based on data from NAV.

### ***3. Investments of Hungarian food industry***

- 47 percent increase on nominal value, 13 percent decrease on real value
- four periods: rose until 2002, fell back and stagnated 2003-2009, declined 2008-2010, rose again 2010-
- changes relate with movement of foreign capital (2002), EU accession (2004), global financial and economic crisis (2008)



Source: Calculations based on National Tax and Customs Administration of Hungary (NTCA) data

### ***3. Investments of Hungarian food industry***

- The volume of gross fixed assets nearly doubled between 2000 and 2011, net value increased by only 61 per cent.
- Net value of fixed assets in 2000 was about two-thirds of the gross value, in 2011 it slightly exceed 50 per cent.

<b>Denomination</b>	<b>2000</b>	<b>2003</b>	<b>2008</b>	<b>2011</b>
Gross value (HUF million) Including (%):	664.5	927.0	1204.3	1281.7
Buildings	35.1	37.5	37.5	40.8
Machines, equipment and tools of production	64.9	48.2	47.5	47.2
Other machines, equipment and vehicles	0.0	14.3	15.0	11.9
Net value (HUF million) Including (%):	411.1	555.4	675.9	663.1
Buildings	49.2	53.7	55.4	56.7
Machines, equipment and tools of production	50.8	36.6	36.6	36.5
Other machines, equipment and vehicles	0.0	9.7	8.0	6.8

Source: Calculations based on NTCA data.

#### ***4. Labour productivity in the Hungarian food industry***

- The labour productivity (output value per employee) was on the rise between 2000-2011. The nominal rate of productivity per employee doubled. This is a 7% annual increase.
- On real terms the improvement was only 3,7 percent for the period, and decreased in many branches.
- The gap in productivity has widened among branches. The most labour productive sectors recorded the highest gains and the labour intensive sectors registered the lowest growth in productivity rates in 2000-2011.

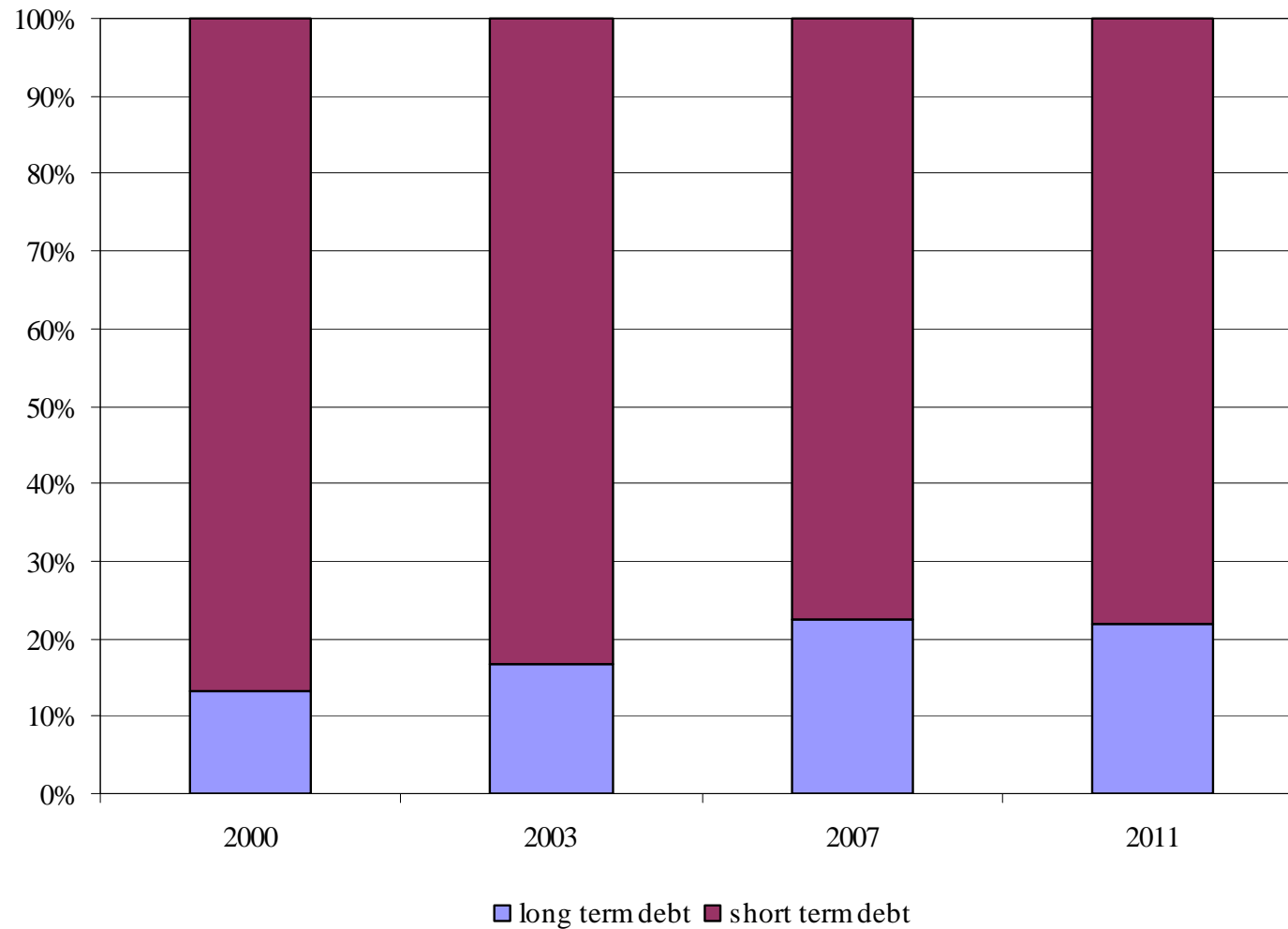
## ***5. Economic-financial situation in food industry***

- The sector's decline is reflected in the decline of operating profit.
- In the sector the rate of obligations is very high, their value is growing, in 2011 it has exceeded 60 percent.
- Equity ratio shows a nearly stagnant value (increasing values would be good).
- The after-tax profits fell significantly – in some branches it became negative. The equity capital fell between 2003 and 2007, and also the value of ROE.
- The sector just around the minimum required value of liquidity ratio.
- The proportion of current assets and the current liabilities isn't favourable. The problem is the high rate of short-term debts.



## 5. *Economic-financial situation in food industry*

### Change of composition of obligations in the food industry



Source: Calculations in Department of Food chain analysis (AKI), based on data from NAV.

## ***5. Economic-financial situation in food industry***

### **Financial results of enterprises in the food industry**

	<b>2000</b>	<b>2003</b>	<b>2007</b>	<b>2011</b>
Results of operating activities in EUR million	340,4	376,7	199,9	287,5
Result after-tax in EUR million	239,0	270,5	70,4	90,8
<i>Rate of equity to total asset (%)</i>	<i>39,4</i>	<i>41,4</i>	<i>40,1</i>	<i>40,7</i>
ROE	0,10	0,09	0,03	0,04
Rate of liquidity	1,25	1,21	1,23	1,13
Debt ratio	50,14	53,01	58,38	60,53

Source: Calculations in Department of Food chain analysis (AKI), based on data from NAV.

## ***6. Conclusions***

Hungarian food industry can be described between 2000 and 2011:

- Disinvestment of foreign capital
- Indebtedness
- Loss of markets
- Deconcentration of food companies
- Declining production
- Declining profitability

Remarkable drop in capital of food industry

- Stopped foreign capital investments before EU accession
- Domestic sources could not substitute foreign capital

EU accession affected food industry unfavourably:

- supports fell back dramatically
- cheaper import products squeezed out domestic items

Food industry gradually get into a two-side grip (raw material producers and domestic consumers).

- prices of agricultural products have risen significantly in the last years, which the food industry could not validate in the output prices
- due the economic-financial crisis the purchasing power of domestic consumers decreased significantly

**Dziękuję za uwagę!**