

## Hungary: Economic activity is not unbreakable

Hungary's advance GDP estimate for the second quarter remained unchanged from an earlier estimate, at 4.9% year-on-year. But the details tell us that Hungary is not immune to the global woes



Shoppers in Budapest

# 4.9%

2Q19 GDP growth (YoY)

Consensus 4.9% / Previous 5.3%

As expected

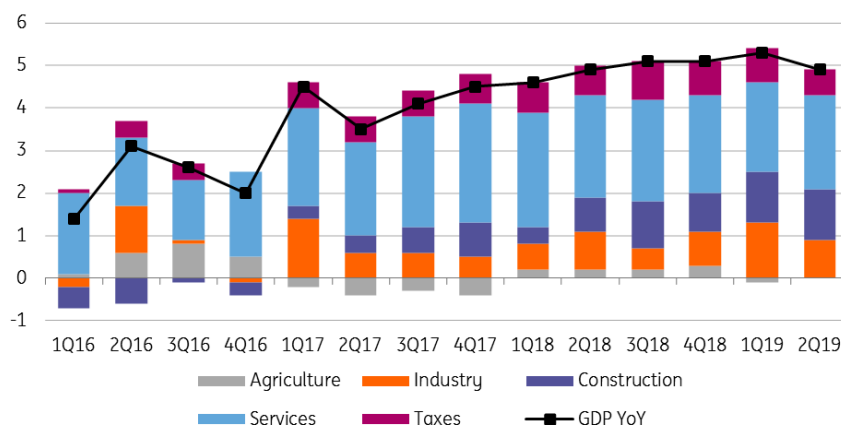
### Services lead the way on the production side

2Q GDP remained unchanged at 4.9% YoY. On the one hand, this is a mild slowdown from the first quarter. On the other hand, it's still a robust figure, with Hungary outperforming all of its peers in the European Union in 2Q19.

On the production side, the value added of services increased at a slightly higher pace (4.2% YoY) in the second quarter, causing a mild upside surprise. In line with the acceleration, services

provided a slightly higher contribution to GDP growth in 2Q (2.2 percentage points), strengthening its position as the strongest contributor to growth. Value added in industry went up by 3.8% YoY, a significant slowdown as expected, reflecting external uncertainties. Construction was expected to remain a star performer in 2Q19 and did not disappoint. Its 28% YoY increase translated into a 1.2ppt contribution. The balance of taxes and subsidies remained in positive territory due to a strong increase in government revenue from economic activity and the retreat of the shadow economy. The only sector without a positive contribution was agriculture due to adverse weather in 2Q.

## Contributions to GDP growth – production side (% YoY)

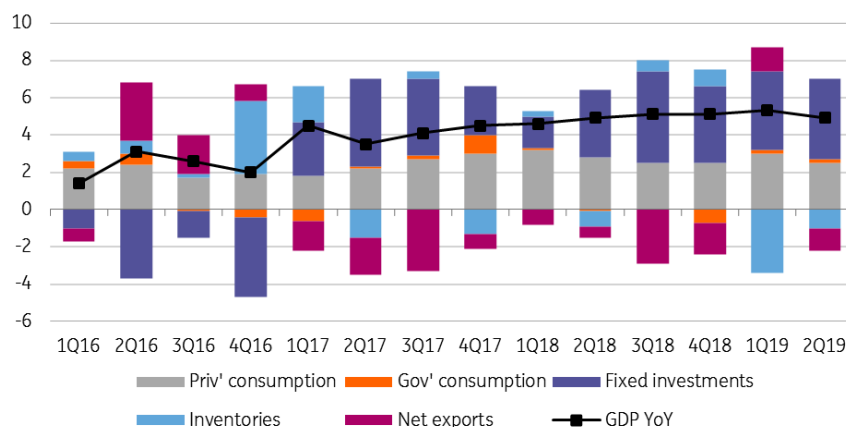


Source: HCSO, ING

## Investment activity soars on the expenditure side

On the expenditure side, the main driver behind GDP growth remained actual final consumption and gross capital formation, which added 6.1ppt to economic activity. It is a significant increase from one quarter ago, where the contribution was 4.0ppt, but that was affected by a huge drop in inventories. This time, inventories decreased on a much smaller scale, shaving off only 1ppt from GDP growth. It was an important element as the other factors showed deceleration. Actual final consumption of households rose by 4.3% YoY, 0.5ppt lower than in the first quarter. Gross fixed capital formation increased by 16.4% YoY, lower than the 23.4% YoY measured in 1Q19. Overall, some technical factors helped maintain the strong growth rate, but underlying factors are pointing towards a non-negligible slowdown. Speaking of which, the performance of net exports was not immune to the trade woes. Despite lower import growth due to weakening domestic demand, export activity stumbled, translating into a 1.2ppt drag on GDP growth.

## Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

## The short-term outlook is still good

Soft indicators on the business and consumer side are still pointing towards optimism, although the latest data is clearly hinting that clouds are gathering and a further slowdown is inevitable. Export activity might regain some strength on new capacity in manufacturing as the stock of orders is still increasing, but trade woes are keeping the future in limbo. Technical factors in inventories might help in 3Q19, as well as a higher number of working days, but neither will save the day in the last quarter. The slide in confidence indicators might translate into lower labour demand and investment activity on the business side and a lower propensity to consume among households, especially by the year-end. Against this backdrop, we see 4.8% YoY GDP growth in 3Q and a significant deceleration to 3.9% YoY in 4Q. This would translate into 4.7% YoY economic activity in 2019 as a whole, 0.2ppt higher than our previous forecast mainly due to the better-than-expected performance in the first half of the year.

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