Hungary: Exports help maintain strong growth

The Statistical Office left the advance GDP growth estimate unchanged at 5% year-on-year in 3Q19, helped by industry and thus net exports

Workers on an assembly line at an Audi factory in Hungary

5.0%

GDP growth (YoY)

Consensus 5.0% / Previous 4.9%

As expected

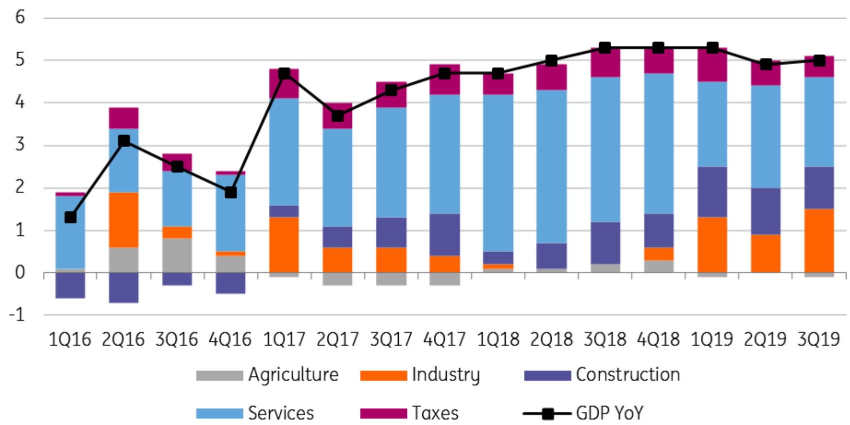
More balanced growth in the production side

The first estimate by Hungary's Central Statistical Office (HCSO) remained unchanged at 5.0% year-on-year. This is a mild slowdown compared to some 2018 figures but is still a robust growth rate in every respect.

On the production side, the value added of services increased at one of the slowest rates (3.9% YoY) since 2016, causing a mild downside surprise in 3Q19. In line with this move, services contributed slightly less to GDP growth in 3Q (2.1 percentage points), but remained the main contributor. Value added in industry went up by 7.6% YoY, a pace not seen since 2015. This was more than enough to counterbalance the slowdown in services and was the main factor behind the surprisingly strong GDP growth. Newly completed investments entering the production phase helped the sector's performance.

Construction was expected to remain a strong contributor in 3Q19. The 18.1% YoY increase however is significantly lower than in the previous quarters due to the high base and the completion of big-ticket infrastructure investments. Construction helped GDP growth by one percentage point. The balance of taxes and subsidies remained in positive territory (0.5ppt) due to the strong increase in government's revenue due to economic activity and the retreat of the shadow economy. The only sector with a negative contribution in 3Q was agriculture.

Contributions to GDP growth – production side (% YoY)



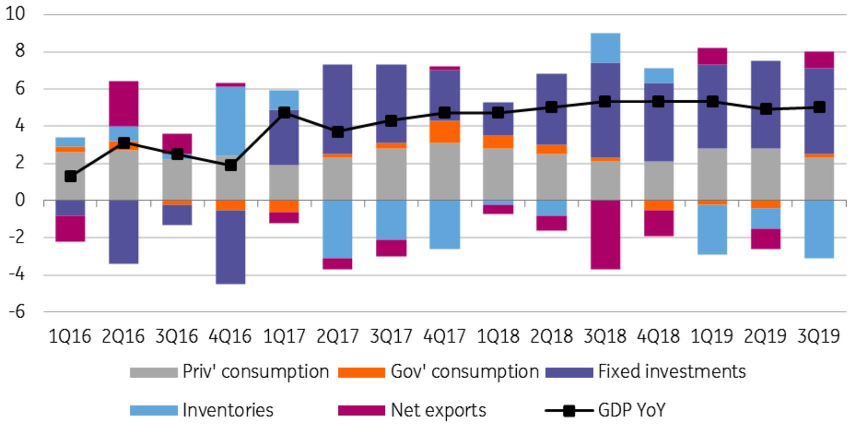
Source: HCSO, ING

Net export to support growth on the expenditure side

On the expenditure side, the main driver behind GDP growth remained domestic use (actual final consumption and gross capital formation), which added 4.1ppt to economic activity. This is a significant drop from a quarter ago but is mainly due to the decrease measured in inventories. Inventories shaved off 3.1ppt from GDP growth. This could be related to the completion of investment projects, which cleared the inventory related lines. Actual final consumption of households rose by 4.2% YoY, 0.5ppt lower than in the second quarter.

Gross fixed capital formation increased by 16.1% YoY, lower from the 17.8% YoY measured in 2Q19. The still-strong growth rate, despite some slowdown from base effects, is favourable for the short-term and long-term growth outlook. The recently announced and/or started projects (mainly funded via foreign direct investments) will support this performance further. When previous projects were finished and entered into the production phase (mainly in car-related and electronics sectors), this helped boost export activity, despite the global trade issues. Against this backdrop, exports increased by 8.3% YoY (the highest since 1Q17), pushing the growth contribution of net exports to 0.9ppt in 3Q19.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

We maintain our optimism for the future

Soft indicators on the business and consumer side still point towards tepid optimism, albeit the latest data are clearly pointing towards a remarkable slowdown in 4Q19. Export activities – as we saw in 3Q19 – will help net exports for the rest of the year. But as the stock of orders is decreasing significantly (6% YoY), this should show up in production and sales data sooner or later. The slide in confidence indicators might translate into lower labour demand and investment activity on the business side locally, but foreign direct investment will remain a big part of the story. The low interest rate environment and weaker forint, along with the willingness by the government to spend (in the form of tax cuts) will support the labour market and domestic demand.

Against this backdrop, we see 4.1% YoY GDP growth in Q4, a marked slowdown mainly due to investments/construction. This would translate into 4.8% YoY economic activity in 2019 as a whole. Regarding 2020, we now have the most optimistic call on the market, with a forecast of 3.8% GDP growth for the year. Because of the looming fiscal package and possible double-digit minimum wage increase, this forecast is subject to upside risks.

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