Hungary: GDP data shows incomplete recovery

The Statistical Office made a minor change to GDP growth, revising the record to 11.4% quarter-on-quarter. But all that glitters is not gold

Source: Shutterstock

-4.6%

3Q20 GDP growth (YoY)

Previous -13.6%

Industry is the standout on the production side

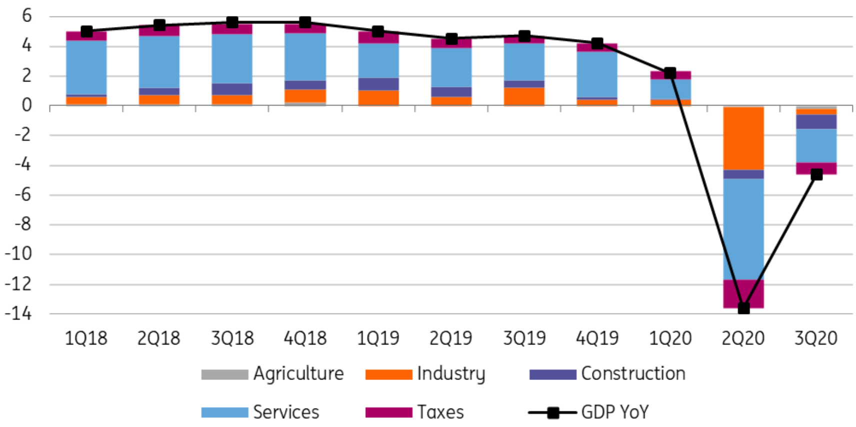
The first GDP estimate was changed incrementally by the Hungarian Central Statistical Office (HCSO), making the record high quarter-on-quarter growth even better. The 11.4% quarterly data however kept the year-on-year reading unchanged at -4.6%. The third quarter of 2020 is a perfect example of an incomplete recovery.

On the production side, industry was the standout. The value added of the sector increased by 24.2% QoQ as economies reopened and the demand for manufactured products rose again. With that significant rebound, industrial production remains only 2.4% below the performance from a year ago. It was mainly car manufacturing and electronics that led the way out of the crisis.

The value added of services increased by 10% QoQ as the reopening freed up service providers from the lockdown measures and consumers were keen to spend. Even with this rebound, the job is not done: services were down by 4% YoY in 3Q20. However, checking the details we find four subsectors where the performance was positive in year-on-year terms. The financial and insurance sector was fuelled by rising lending activity, while the healthcare and IT sectors also outperformed due to Covid and the digital transformation of the economy. However, the nearly 2% YoY expansion in wholesale and retail trade is certainly surprising, but the rebuild of inventories probably played a major role here.

Besides agriculture, construction was the other sector where the year-on-year performance was worse in the third quarter compared to the second quarter. In addition to the coronavirus crisis, construction is facing the negative impact of its downward trajectory in the business cycle.

Contributions to GDP growth – production side (% YoY)



Source: HCSO, ING

Net export supports the expenditure side

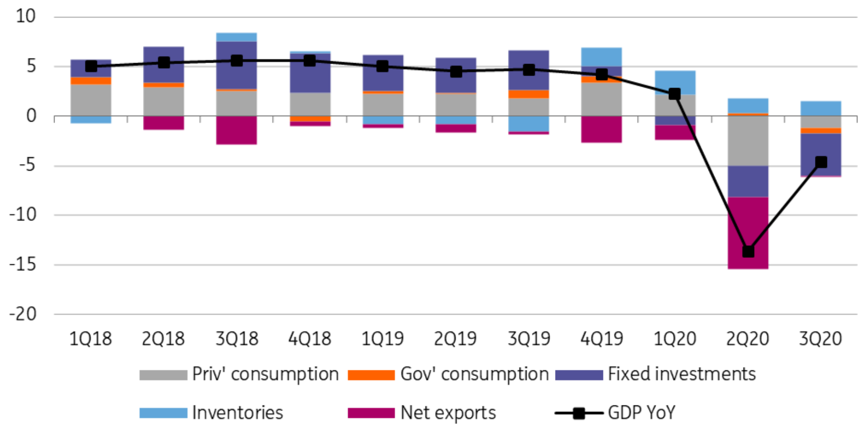
On the expenditure side, the main driver behind the historic rebound in GDP was the external performance. The external balance of goods and services provided only a 0.1 percentage point drag in economic activity in 3Q20. This sound performance was driven by the trade in goods, as tourism faced several constraints. The export of goods increased by 32.1% QoQ, while services rose by 14.3% QoQ. This means that the former showed a 2.7% YoY increase, managing a full rebound in just one quarter. When it comes to services exports, the yearly performance is still down by 29.2%.

Actual final consumption of households is down by 2.2% YoY, supported by social transfers. We see this as quite a strong rebound considering that Hungary was still missing a significant proportion of non-resident consumer spending via tourism. Actual final government spending shows a decline in 3Q20 as the majority of the Covid-spending was concentrated in the previous quarter.

Inventories also helped to mute the fall in GDP growth, by 1.5ppt. This could be a result of preparations for the second wave and a lot of manufacturers producing stock.

Gross fixed capital formation continued its freefall, showing a 13.7% YoY decrease, the third negative quarter in a row. This shaved off 4.3ppt from economic activity, an all-time negative result. The downward trend is due to the high base effect combined with structural challenges. Infrastructure developments are finished by and large, while a lack of corporate investment in the pipeline is also having a negative impact, with residential property projects put on hold.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

Near-term outlook is gloomy

As we said, the recovery is incomplete, and we can't see a continuation of the process in the fourth quarter. We expect the economy to take a step backward because of the new containment measures rolled out in November and probably partially remaining with us in December. This means we expect a worsening of consumption and a continued downward trend in investment activity. However, as the manufacturing PMI is in expansion territory and the level of orders is 6.9% higher than a year ago, net exports could counterbalance a lot of the negatives. In all, we expect the Hungarian economy to contract by 2.5% QoQ in the fourth quarter, resulting in a 5.8% YoY recession in 2020 as a whole.

Moving into 2021, the main question remains how long it will take to get the vaccine approved and rolled out. As our base case, we expect the final reopening process to start in 2Q21, getting back to normal through that quarter. Because of a weak first quarter and a negative carry-over effect, GDP growth in 2021 could be around 3.6% YoY. The labour market impact of the second wave and likely small wage growth will take its toll on consumption, but investment activity should rebound, with net exports showing volatility through the year. We see the economy getting back to its pre-crisis level by mid-2022, as we see the economy expanding by 4.8% YoY in that year.

Although this means that the crisis will be behind us on a macro level, some sectors will feel the negative effect much longer than others. A recovery in healthcare and IT services will be quick, as well as in manufacturing. However, in hospitality and tourism, the road to full recovery might take 3-5 years. This means that on a macro level we will face a 'W'-shaped recovery, but when we take into account the various sectoral impacts of the crisis, we should really talk about a 'K'-shaped recovery.

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