

Hungary: Shocking details in 2Q GDP

The Statistical Office left the advance GDP growth estimate unchanged at -13.6% year-on-year in 2Q20. The best part? The worst is finally behind us



-13.6%

2Q20 GDP growth (YoY)

Consensus -13.6% / Previous 2.2%

As expected

Services surprise on the production side

The second estimate by the Hungarian Central Statistical Office (HCSO) remained unchanged at -13.6% YoY. The second quarter performance was affected across the board by the unprecedented lockdown measures due to Covid-19.

On the production side, services caused a significant upside surprise. The value added of services dropped by *just* 12.2% YoY despite the lockdown and curfew measures in April–May. The reopening in June helped to make up for a lot of the damage made earlier in the quarter. The highest falls (27.1% and 24.6%) were in arts, entertainment and other services and transportation and storage,

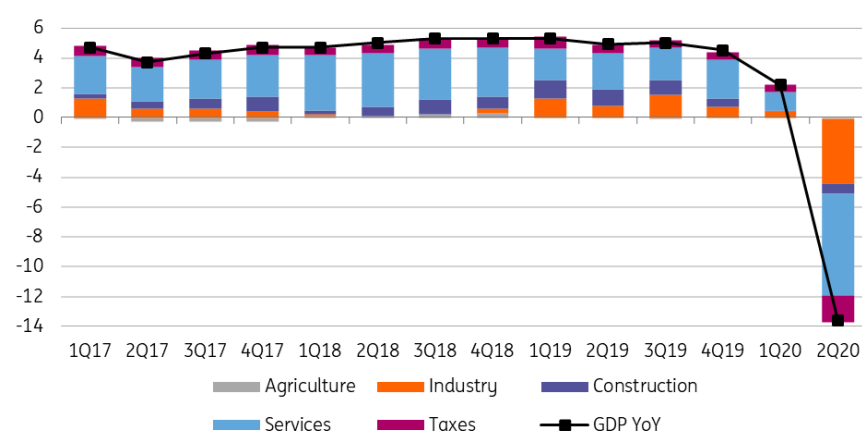
respectively. The value added of wholesale and retail trade and accommodation and food service activities also suffered a big hit, unsurprisingly. Services as a whole held back GDP growth by 6.8 percentage points due to its significant share in the economy.

The details of the report show that industry was the most exposed sector to the Covid crisis. Value added plummeted by 20.1% YoY, mainly on the back of the shutdown of factories and borders, impacting international trade. Only the pharma industry was able to grow in the second quarter. The value added of construction fell by 13.2% YoY, but it is rather a mix of two effects. The first is Covid, while the second is the high base combined with a decreasing number of infrastructure and industrial projects. The performance of agriculture lessened by 2.1% YoY, partially due to bad weather.

Industry and services are showing strong rebound potential

All in all, the details show that services survived the storm quite well and the rebound potential is strong. Industry will show a strong mechanical rebound due to the restart of production. Only construction and agriculture are expected to show moderate improvement, as some of the problems are structural and not related to Covid.

Contributions to GDP growth – production side (% YoY)



Source: HCSO, ING

Net exports were the main issue on the expenditure side

Taking into consideration the expenditure side, the main driver behind the historic collapse in GDP was the external performance. The external balance of goods and services resulted in a 7.7ppt drag on economic activity in 2Q20. With no products to be exported, closed borders and tourism going from hero to zero, it hardly comes as a surprise. However, we expected a slightly more balanced structure of collapse on the expenditure side.

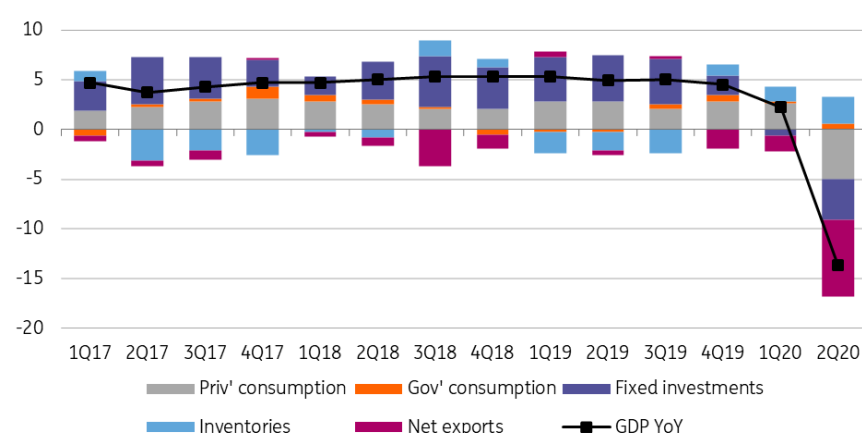
This surprise comes from a relatively strong performance of actual final consumption of households. This dropped by only 8.6% YoY, the lone main category without a double-digit negative performance. It seems that pent-up demand was strong enough in June to boost consumption, which is another positive sign for the third quarter. Actual final consumption of

government grew by 5.8% on a yearly basis as it ramped up spending on Covid defence.

Inventories also helped to mute the fall in GDP growth by 2.7ppt. This is a result of the Covid-19 preparations earlier in the quarter and lack of demand later in the quarter. Such a jump in inventories used to mean that a drop was in the making in coming quarters, shaving off significant percentage-points from GDP growth.

Last but not least, gross fixed capital formation decreased on a yearly basis for the second quarter in a row. This time it shaved off 4.1ppt from economic activity. So, the downward trend continues mainly as a result of the high base effect, large infrastructure projects mostly coming to an end and delayed corporate investments due to Covid-19. This also means that the coronavirus was only part of the problem along with structural issues, which will remain with us going forward.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

The main question remains durability

The Hungarian economy was in a recession in the first half of 2020. Finally, we know not just the extent of the collapse but the main drivers behind it. The best part of all of this? The worst is finally behind us and we can now focus on the recovery.

Industry and services seem to be strong enough to show a major technical/mechanical rebound. On the other hand, part of the pent-up demand has already shown up in the second quarter, giving less firepower to the second half of 2020. The level of orders in industry was up 0.1% in the first half of 2020 compared to the same period of the previous year. The main challenge here is a second wave of Covid and the impact on supply chains of a rolling sequence of limited lockdowns.

Construction is still facing a major order gap: the volume of the June end-of-month stock of contracts at construction enterprises was 19.2% lower than a year ago. The latest labour market developments are encouraging, albeit the government's Covid-related furlough measures will have only a temporary impact. By the end of this year, the labour market could be hit by second-round effects of the first wave of Covid.

We maintain our call for a 5.5% drop in GDP in 2020

Against this backdrop, there is too much noise and uncertainty around economic activity in the second half of 2020. But one thing seems to be sure: after the worst collapse in history in 2Q, Hungary is heading for the strongest (mechanical) rebound ever in 3Q. After that, the durability of the recovery is questionable based on the aforementioned factors. As for now, we maintain our forecast of a 5.5% drop in GDP in 2020 followed by a 4.9% rebound in 2021.

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