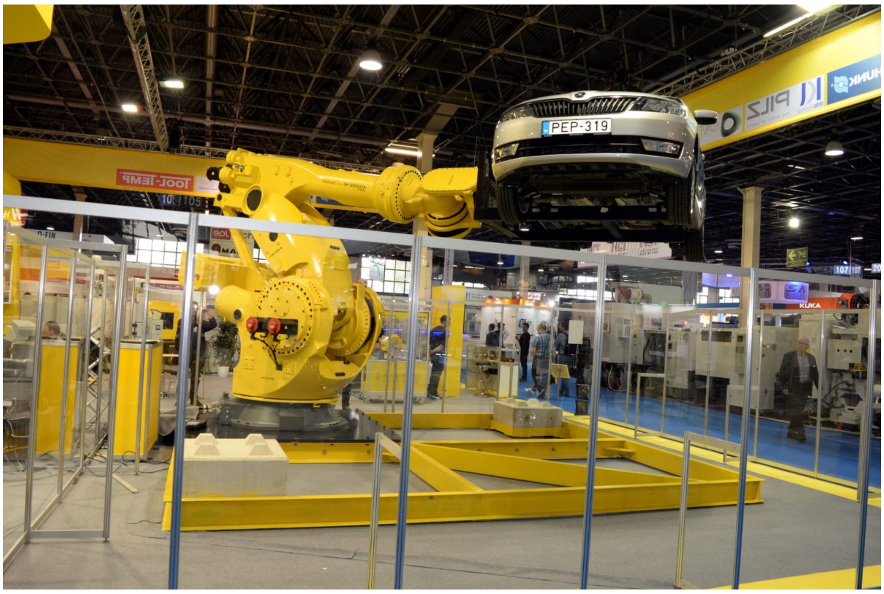
Hungary GDP back at pre-crisis levels

The Statistical Office kept to its 2.7% quarter-on-quarter GDP growth number for the second quarter. With this, GDP is already back at pre-crisis levels and we look for a record-breaking performance in 2021



An industrial robot machine in action at an exhibition in Hungary

2.7%

As expected

GDP growth (QoQ, swda)

First estimation: 2.7%

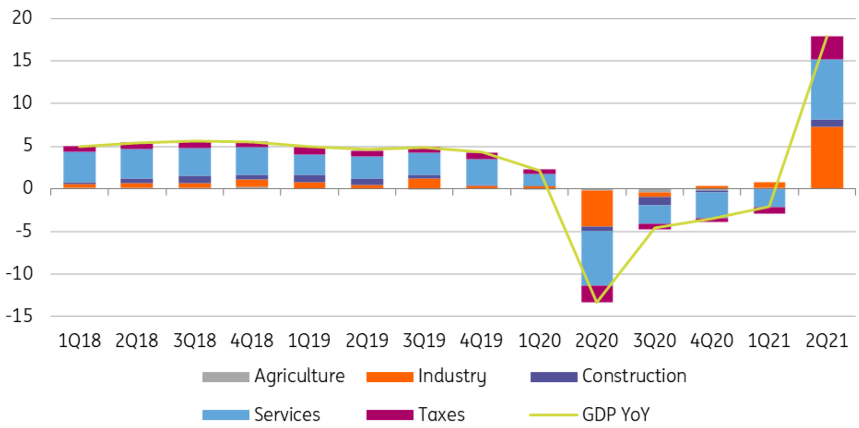
The crisis looks to be behind us at the macro level

After the significant positive surprise in the first quarter, the second quarter also provided something to cheer about. The 2.7% QoQ GDP growth number remained unchanged as the Hungarian Central Statistical Office reviewed its first estimation and shared the details behind the strong performance. On a macro level, this means that GDP has already reached pre-crisis levels.

On the production side, two sectors were clearly responsible for the strong activity. The first of these is industry, which was able to adapt to supply-side difficulties. Looking at value- added, industry grew by 2.8% QoQ, mainly driven by car manufacturing. The other big contributor was services, which hardly comes as a surprise. Compared to the first quarter of 2021, services value-added rose by 1.8% QoQ, fuelled by the gradual re-opening which started in April.

Although construction was also able to record a strong performance with its 3.6% QoQ growth, due to its smaller share in the economy, its contribution to GDP growth was behind that of the big guns (industry and services). We also note that construction has already started to show some sings of being affected by equipment, material and labour shortages. Despite the supply-side constraints, construction was able to keep up its good performance, like industry.

Contributions to GDP growth – production (% YoY)

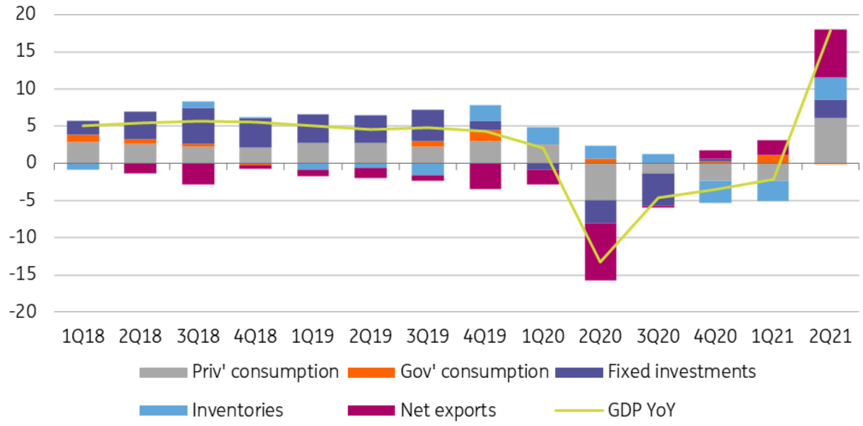


Source: HCSO, ING

On the expenditure side, the quarter-on-quarter growth profile mimics the above-mentioned widespread economic growth. Household consumption rose by 1.7% QoQ, as reopening offered the opportunity to spend money on services. As Covid-related direct spending need eased with the end of the third wave, government consumption retreated, recording a 2.3% QoQ drop. Gross fixed capital formation increased by 3.2% on a quarterly basis. This was mainly fuelled by investment in equipment as service providers, construction companies and retailers tried to keep pace with flourishing aggregate demand.

Companies also tried to increase inventories, preparing for the boom, which probably gave a temporary boost to economic activity during the second quarter. This could become crucial as we now face a more stringent and probably lengthened supply-side bottleneck in manufacturing. The growth in industrial production wasn't reflected in export activity, which dropped by 0.8% QoQ. Imports, however, were boosted by consumption, investments and inventories and grew by 1.1% QoQ. Net exports remained a positive contributor.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

What's next?

The growth profile of the first half of 2021 tells a story of a resilient and surprisingly flexible economy. However, we need to keep in mind, that reopening was just a one-time booster and, while aggregate demand will increase further, its impact will be much more muted than in the second quarter.

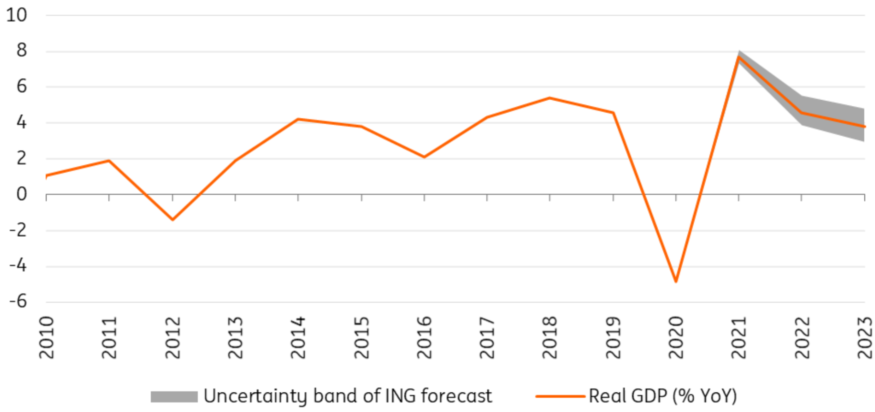
Services to remain the main contributor to GDP growth

When it comes to services, with the summer being in full swing during the third quarter, we see local tourism booming, but we would still miss the flurry of tourist outside of our country. This could translate into a sound, if slightly weaker, services performance. When it comes to industry and construction, input shortages will have a much stronger impact during the second half of the year. Especially during the third quarter as we now see some car makers closing production for a week or two due to parts shortages. That said, it should have a negative impact on investments in equipment, on consumption and on export activity.

If Hungary could avoid the negative economic impact of a fourth Covid-19 wave, we could see GDP growth above 8% in 2021

All things considered, we see services being the main source of growth during 3Q21, with other major sectors remaining positive contributors. This could translate into 1.0-1.5% QoQ GDP growth during the third quarter. With a high proportion of vaccinated adults in Hungary, we don't expect a full lockdown to return during a fourth wave. With that, the economy could end up with record-high GDP growth for the full year. In our updated baseline scenario, we forecast 7.7% YoY economic growth in 2021, with an uncertainty band of +/– 0.4ppt. This implies an upward revision to our already-upbeat GDP forecast.

ING's real GDP forecast – Hungary



Source: HCSO, ING

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