Hungary: Four-year high GDP growth, but is the glass half empty?

A four-year high GDP growth rate is a huge positive surprise, but there's a slow drop-off quarter-on-quarter so we could well have seen the best this year

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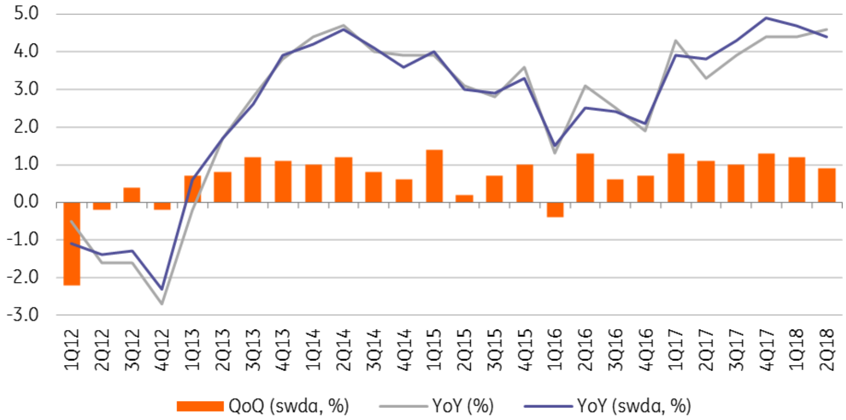
Hungarian GDP increased by 4.6% year-on-year (YoY) in 2Q18 according to the preliminary release of the Hungarian Central Statistical Office (HCSO). This counts as a significant upside surprise, despite the fact that market expectations were widely diverse (3.6%-4.8% YoY according to Bloomberg). The four-year high YoY rate of economic expansion shows an acceleration compared to 1Q18, which was rather against the odds based on the high-frequency data such as retail sales and industry.

The data is preliminary and the HCSO will publish the details in early September, so we don't know exactly what were the main drivers behind the robust growth. However, HCSO highlighted that "most branches of the national economy contributed to the growth, market-based services to the greatest degree". The latter shouldn't come as a surprise. In our view, the positive contribution of agriculture could be one of the big factors here. On the other hand, gross value-added of industry could increase more as the production data suggested because of high wage growth which elevated the share of value added in the total output. On the expenditure side, we expect consumption to be one of the main drivers, supported by a strong labour market. The surprise here may stem from net exports and its possible positive contribution to GDP growth.

Despite all those positives, we'd like to highlight that the seasonally and calendar adjusted YoY data shows a deceleration, and the quarter-on-quarter readings suggest a drop-off. If it continues, we may have seen the best performance of the year already when it comes to raw YoY readings. Nevertheless, we may see further upside surprises and we can see the government's 4.3% GDP forecast fulfilled in 2018 as a whole. We see it realistic too in the light of the current data.

Is the glass half empty or half full?

The raw data for Hungarian GDP growth jumped to a four-year high, but the adjusted indicators are showing a clear deceleration



Source: HCSO

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