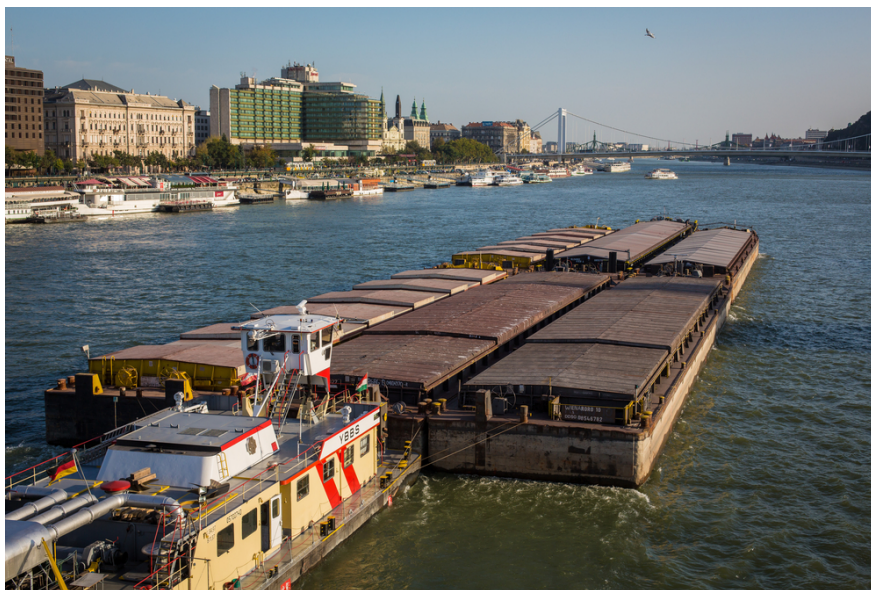


Hungary: Industry disappoints once again

Industrial production posted another weak performance at the end of the first quarter. The significant working-day effect suggests capacity constraints



1.9%

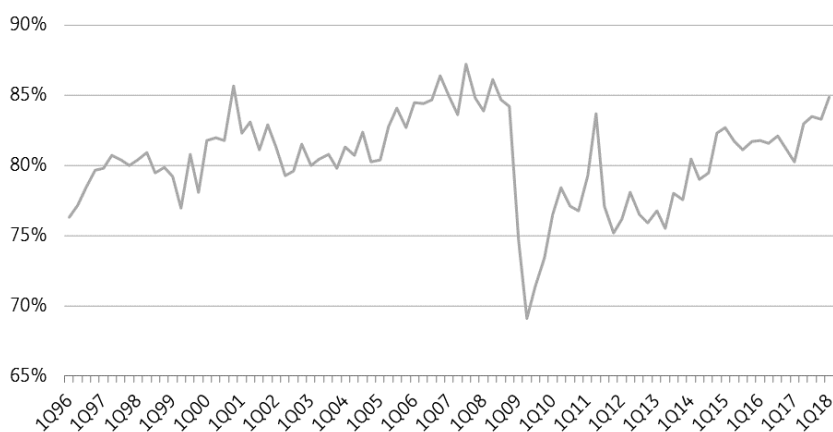
Industrial production (YoY wda)

Consensus (3.0%) / Previous (4.1%)

Worse than expected

Industrial production – based on working-day adjusted data – rose by 1.9% YoY in March, posting a negative surprise to the market and even to the pessimistic expectations. When we consider the raw data, industrial output declined by 2.4% YoY due to last year's high base. The significant difference between the raw and the adjusted data is due to the fact that there were two fewer working days in March 2018 than in March 2017. It also suggests that companies are facing capacity constraints, producing with a high capacity utilisation (84.9% in 1Q18, the highest level since 2008).

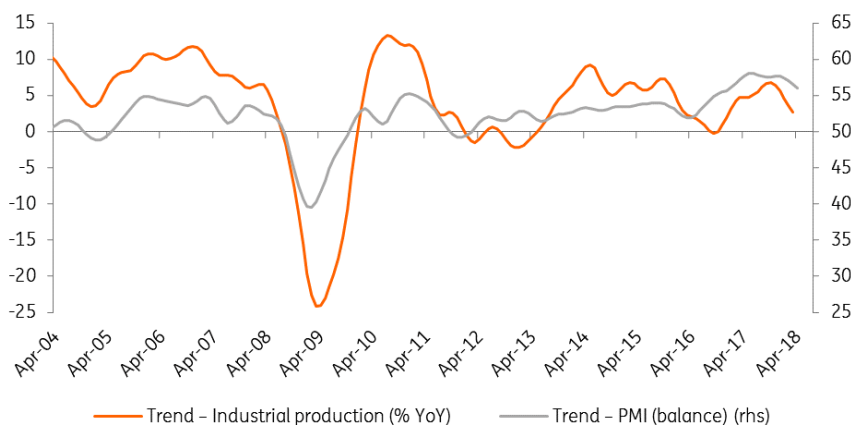
Capacity utilisation reaches a 10-year high level



Source: Eurostat

In the details, the Hungarian Central Statistical Office (HCSO) commented on the data, which can give us a clue as to what caused the higher-than-expected slowdown in March. First of all, machinery output showed a significant contraction after outperforming a year ago, but other industries also posted weak performances. The only silver lining was the energy sector due to the colder weather.

Both PMI and industrial output shows a trend-like drop



Source: HCSO, ING

The big picture

Despite the rather weak industrial performance in the first quarter, which was more-or-less expected, the retail sector surprised on the upside, and thus the risks are rather skewed on the upside when it comes to our 3.8% YoY GDP forecast for 1Q18.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.