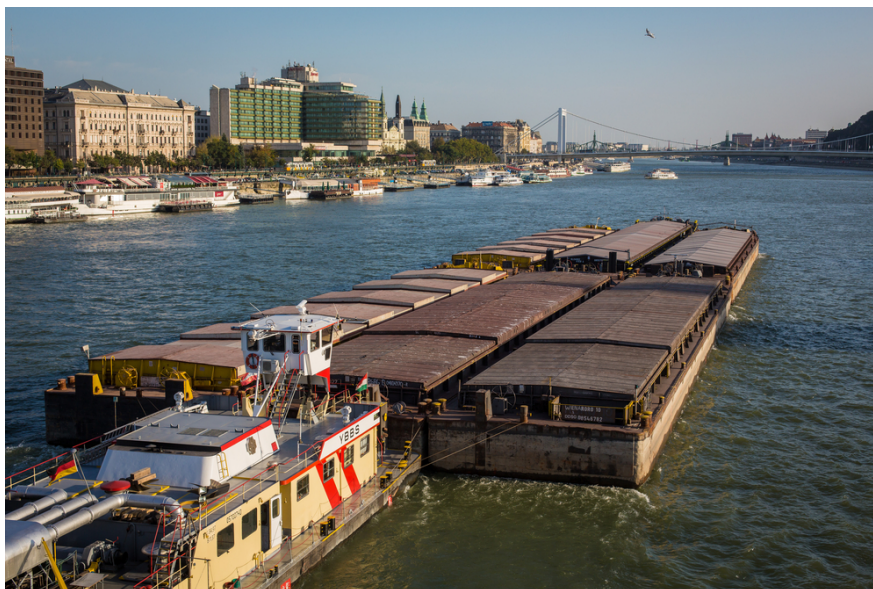


Hungary: Industry follows the German lead

Industrial production brought a positive surprise in May. While the car industry still suffers from capacity constraints, food and electronics boosted growth



3.8%

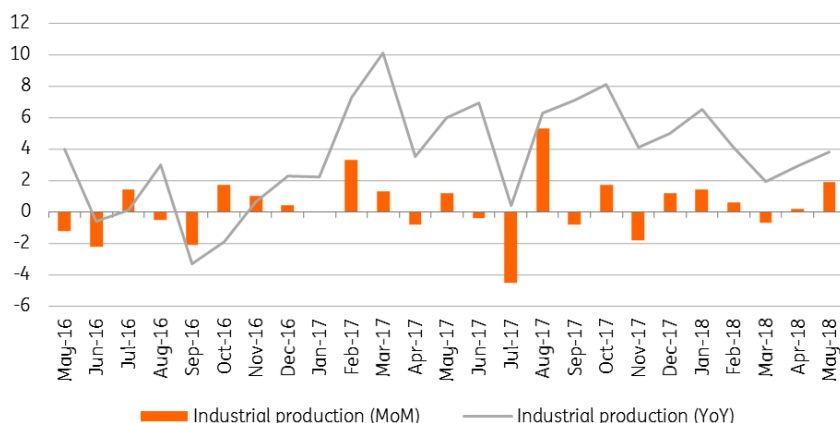
Industrial production (YoY, wda)

Consensus (2.1%) / Previous (2.9%)

Better than expected

Industrial production – based on working-day adjusted data – increased by 3.8% year-on-year in May, well above market expectations. In month-on-month terms, the data was the strongest so far this year. But despite the better-than-expected reading, the trend is still one of deceleration.

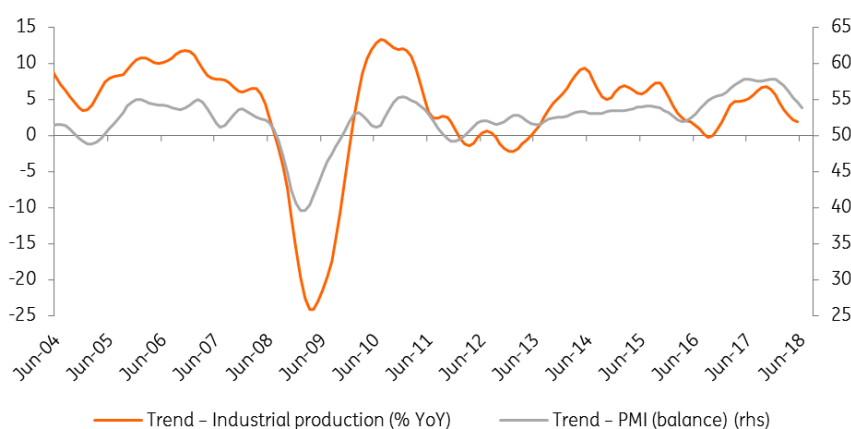
Hungarian industrial production (%)



Source: HCSO

Hungary's statistics office highlighted in its employee's comment the significant contribution of the food and electronics industry. Car manufacturing, which has the highest weight in Hungary's industry as a whole, was not even mentioned among the expansionary subsections. A possible explanation could be that companies hit capacity constraints, in our view.

Trends of manufacturing PMI and industrial production



Source: Bloomberg, ING

Regarding the rest of 2018, we are still optimistic. If areas such as food and electronics continue their significant growth, and that's accompanied by an uptick in car production (if the industry is able to overcome capacity constraints) in 2H18, we could see GDP growth come in above 4% YoY once again. This optimistic outlook is strengthened by the recent favourable German readings: industrial new orders, production and soft indicators all surprised on the upside. It's all welcome news for the Hungarian economy.

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