

Hungary: Industry hits capacity constraints

Industrial production disappointed again in April. Manufacturers can't substantially increase their production as capacity utilisation is close to record highs



Source: Shutterstock

2.9%

Industrial production (YoY, wda)

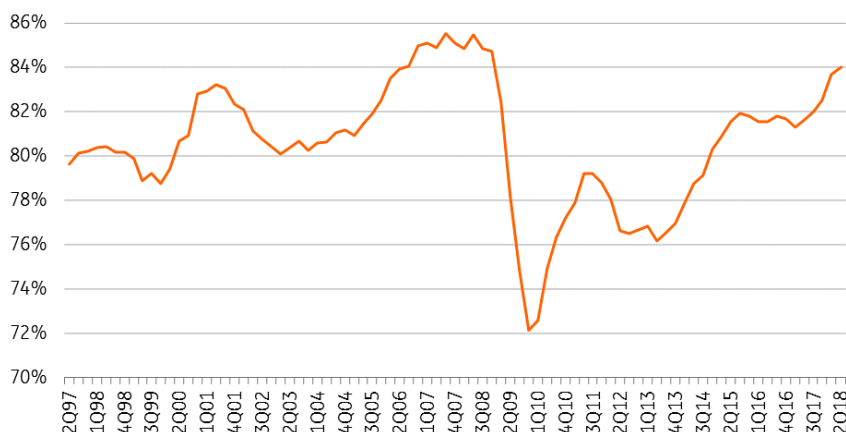
Consensus (3.8%) / Previous (1.9%)

Worse than expected

Level of capacity utilisation is close to historical peak

Industrial production – based on working-day adjusted data – rose by only 2.9% year on year in April, another disappointment following retail data in 2Q18. When we consider the raw data, industrial output showed a remarkable 7.8% YoY increase because there were two more work days in this period. The significant difference between the raw and the adjusted data suggests that the level of capacity utilisation is high. According to the Eurostat measure, the level of capacity utilisation is around 85%, very close to its historical peak.

Current level of capacity utilisation (4-quarter moving average)

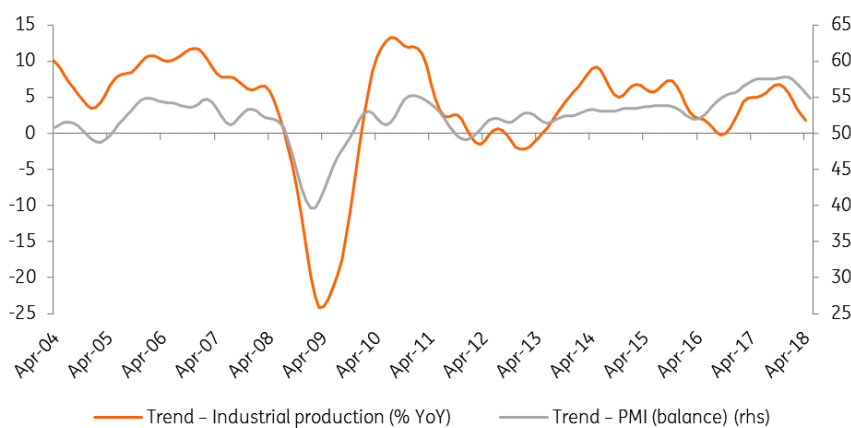


Source: Eurostat

Volume of production is plateauing

Taking into consideration the first four months of 2018, we saw some month-by-month volatility in the growth rates, but the volume of industrial production is roughly the same (108-109% of the monthly average of 2015). It seems that companies are hitting capacity constraints and unable to elevate production levels. We are still waiting for new capacities to show up, which might happen in 2H18. Soft indicators like business confidence and PMIs are showing further a deceleration, thus capacity constraints are clearly restraining industrial performance.

Trends of manufacturing PMI and industrial production



Source: Bloomberg, ING

Another sign of limitation in production

According to the statistical office, output in the manufacturing sector was up in all segments. In our view, this means that recent weakness is not due to a unique reason in a specific sector but rather shows a comprehensive and general problem, supporting our view on the limitations in production.

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.