

Snap | 7 July 2021

HUNGARY

Hungary: Industry is back in business

After a disappointing April, industry was able to bounce back in May despite the supply side bottlenecks. Car manufacturing is leading the way, but other sectors are expanding too



Workers on an assembly line at an Audi factory in Hungary

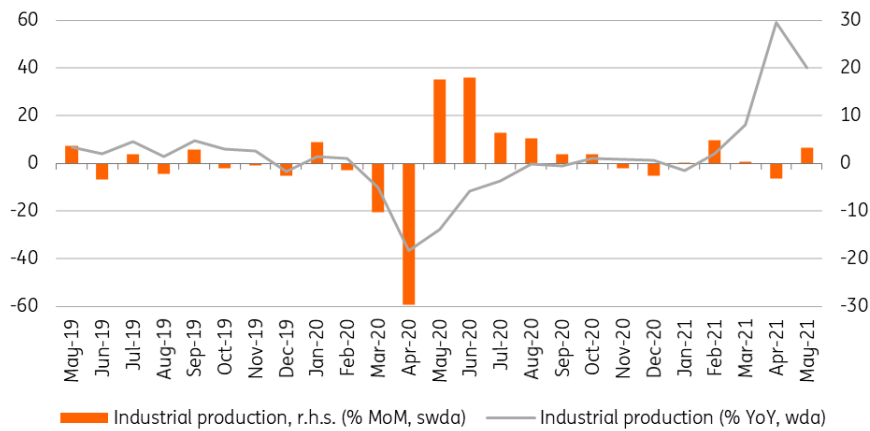
40.2% **Industrial production (YoY, wda)**

ING forecast 40.4% / Previous 59.2%

As expected

Unlike the May retail sales data, industry was able to meet high expectations. The 3.4% month-on-month increase in industrial production roughly matched market estimates. What is more important here is that with this strong May performance, industry is back in an upward trajectory.

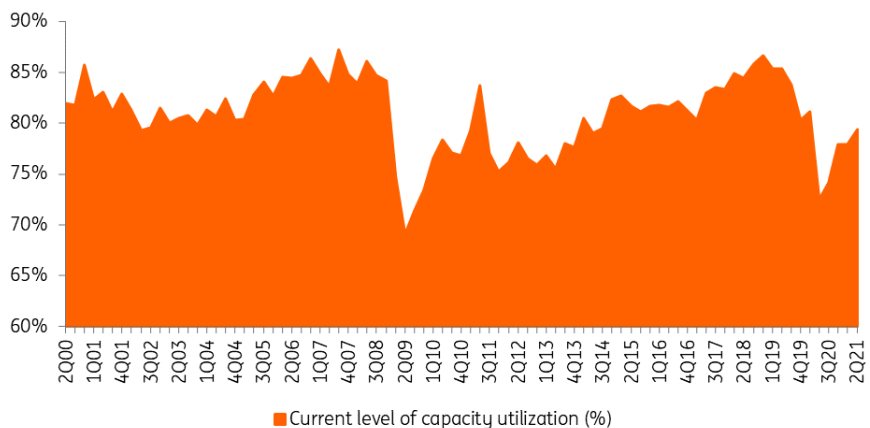
Performance of Hungarian industry



Source: HCSO, ING

Obviously, the year-on-year reading looks much more compelling with its 39% growth rate. However, this is more a reflection of how deep the crisis was a year ago, as manufacturers scaled back or entirely closed their production lines due to the pandemic. So this year looks much better than 2020, however other types of challenges have arisen with supply side bottlenecks increasing backlogs. In this respect, May's performance looks even better as car manufacturing, which has suffered from a scarcity of semiconductors, was able to ramp up production. With this in mind, it's worth noting that capacity utilisation moved higher in 2Q21 to 79.4%, the highest in the last five quarters.

Capacity utilisation in Hungarian manufacturing



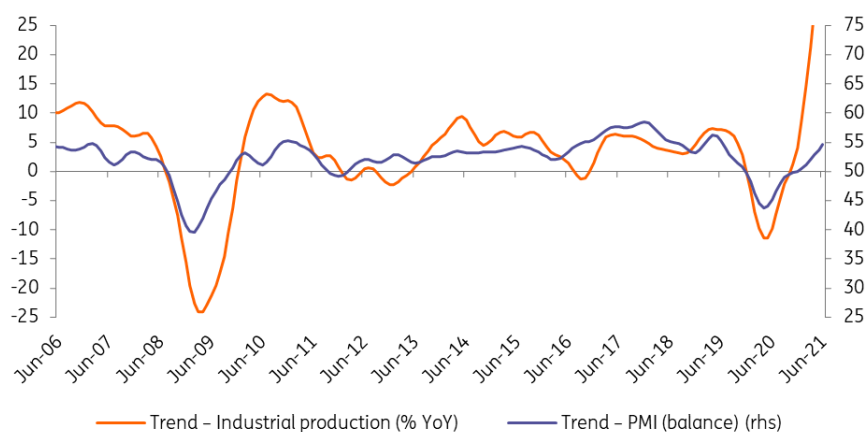
Source: Eurostat, ING

According to the Statistical Office, the manufacture of transport equipment (representing the largest weight in local industry) increased a lot in May. The manufacture of computer, electronic and optical products and the manufacture of food products, beverages and tobacco

rose at a rate below the elevated industrial average. This shows a well-rounded growth profile for industry.

Over the coming months, year-on-year indices will slowly normalise as the base itself rises. However, we continue to put emphasis on the monthly growth numbers. Based on these, we expect sustained but rather moderate growth until the problems with supply chains and difficulties in sourcing raw and intermediate products are resolved. In the meantime, growing global demand is expected to further expand order books, but due to the scarcity of inputs (whether it is about materials or labour), we can expect longer delivery times. This is well represented in the manufacturing PMI data, which shows an improving trend despite challenges.

Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

All this means a great deal of uncertainty for market players over the near future. But given that industrial output was almost 18% higher in the first five months of 2021 than a year earlier, we see double-digit growth in Hungarian industry for this year as a whole.

Author

Peter Virovacz

Chief 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.