

Hungary: Industry hit hard by coronavirus

One month of standstill in industry has erased almost three years of production gains. We hope that this was the low-point, with factories reopening through April



-10.0%

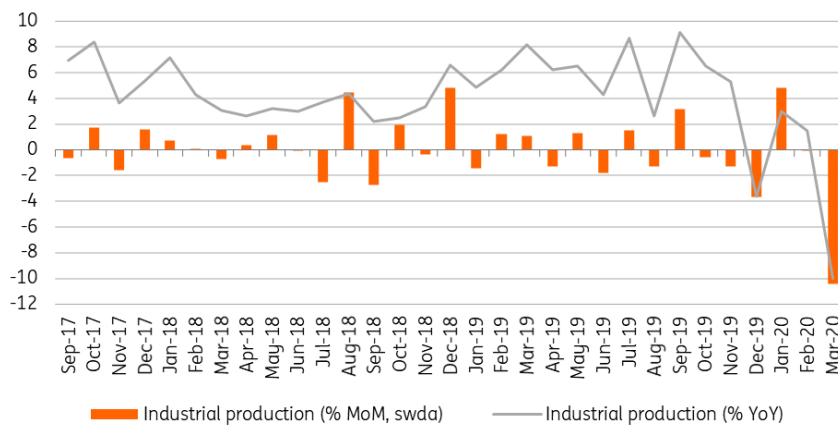
Industrial production (YoY)

Consensus -7.4% / Previous 1.5%

Worse than expected

In a way the current crisis is like 2008-2009. Industrial production dropped by 10.4% on a monthly basis in March, translating into a 10% year-on-year contraction. It was the start of the Great Recession when industry last posted such a huge drop. But it can also feel like the summer of 2017. The level of industrial production in March 2020 dropped to a level last measured in mid-2017 - one month of freefall erasing almost three years of industrial production gains. The contraction was even bigger than the expectations of the most pessimistic local forecasts.

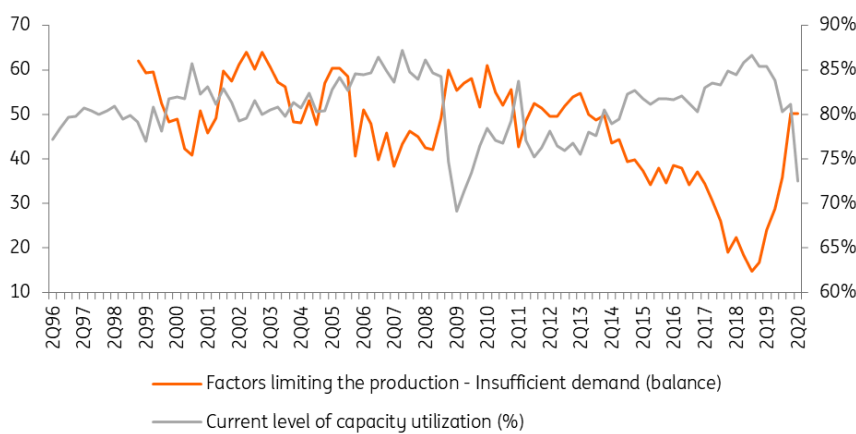
Performance of Hungarian industry



Source: HCSO

Despite this being only a first reading without any details by subsector, the Hungarian Central Statistical Office offered some insights. The only sector to see an acceleration was in the food industry. Electronics was also able to show moderate growth, while the automobile industry fell sharply with echoes of the German story, with car production dropping by 30%.

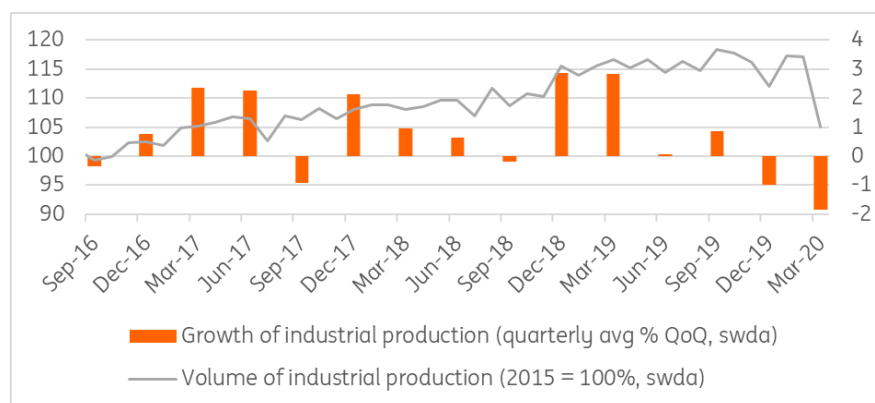
Capacity utilization and factors limiting the production



Source: Eurostat, ING

March was very weak, yes, but it is not the end of the world. From the second half of April, a lot of manufacturers (mainly car makers and related suppliers) signalled that they have been reopening factories. So hopefully the April data will show some improvement. We expect capacity utilisation to rebound in coming months, with the lack of demand providing a ceiling to that. Before then we will get the 1Q20 GDP data.

Production level and quarterly performance of industry



Source: HCSO, ING

The first two good months of the year in industry somewhat counterbalanced the March performance. On a yearly basis, industrial production stagnated in January-March. On a quarterly basis it showed a significant contraction. Due to the downward surprise to our call, we mildly change our GDP outlook for the first quarter. We now expect the economy to show a slight contraction, around -0.05% QoQ in 1Q20. This will still translate into 3.5% YoY GDP growth in the first three-month period, which could be one of the strongest across Europe.

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