Hungary: Industry posts worst data sequence since 2017

Industrial production has dropped for two months in a row but we see this as a temporary hiccup mainly due to the volatility in car manufacturing

Workers on an assembly line at an Audi factory in Hungary

5.7%

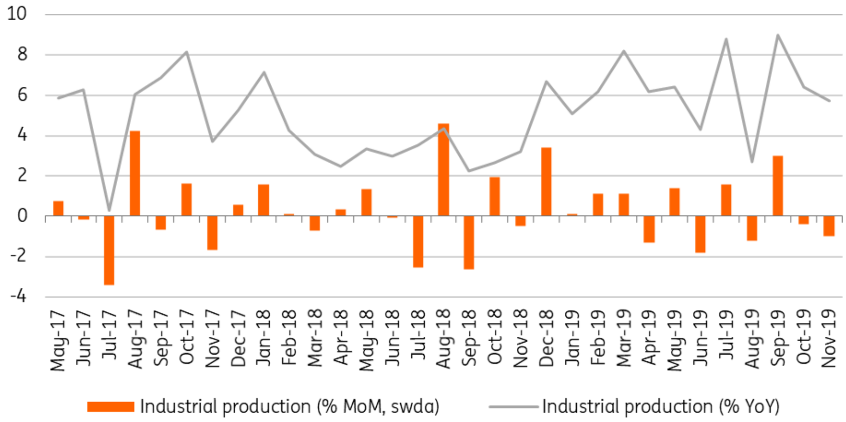
Industrial production (YoY, wda)

Consensus 7.8% / Previous 6.4%

Worse than expected

Hungarian industrial production broke its bad month-good month pattern and disappointed in the process. After a 0.4% month-on-month drop in October, the volume of industrial production fell again, this time by 1% on a monthly basis. The last time industry posted two consecutive monthly declines in production was in mid-2017. However, the 5.7% year-on-year performance is still close to the 6% year-to-date average, so it is far from a catastrophe. On the other hand, the significant slowdown in industry witnessed in the past three months raises questions about whether this is a new trend or not.

Performance of Hungarian industry



Source: HCSO

According to the commentary released by the Statistical Office, car manufacturing slowed significantly, but other areas posted a good performance. The food industry recorded an above average rate while the electronics sector was also able to speed up production. Considering that manufacturers are still carrying out capacity enhancement measures and productivity improvements, FDI inflow is exceptionally high and the PMI reading is improving, we'd say this downward trend is just a temporary hiccup. But downside risks have clearly been mounting as the German industrial outlook is worsening (or at least not improving), while the stock of orders for Hungarian manufacturers is sinking and the business confidence indicator has dipped again.

Despite the gathering clouds and the mixed forward-looking indicators, we expect industry to continue to cope well with adversity in the short-term. However, after this data there is no doubt we will see a lower contribution to GDP growth in the fourth quarter of 2019, causing most of the expected slowdown. In 2020, industrial growth should slow from 6% to 4% on average, in our view, putting pressure on economic activity, which is still expected to remain close to but below 4%.

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