

Hungary: Industry pushes the limits

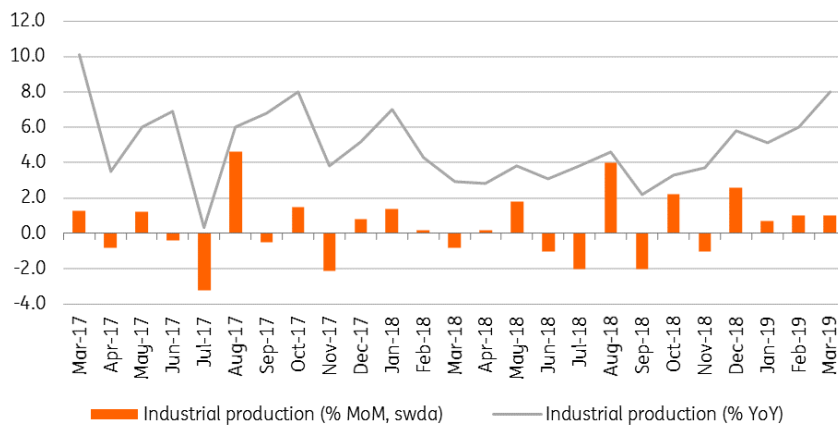
A decent start to the year in industry has continued, with growth actually accelerating in March. This strongly supports 1Q GDP growth, though negative risks remain



Workers on an assembly line at an Audi factory in Hungary

Industrial production not only maintained the great momentum seen at the beginning of the year but actually accelerated in March. Seasonally-adjusted output increased by 8% year-on-year- the highest rate since October 2017. What's more, the monthly growth rate has now been positive for four consecutive months, something which hasn't been seen in years. On average, industrial production grew 6.2% YoY in the first quarter, despite the negative effects of a gloomy external environment. Overall, this paints a really positive picture and supports further optimism ahead of next week's GDP data.

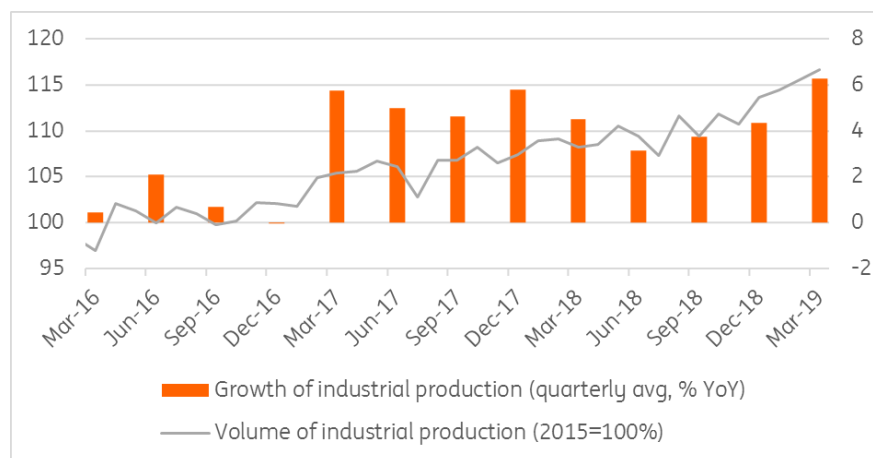
Performance of Hungarian industry



Source: HCSO

The greatest contributor to the IP data, the car industry, accelerated in March and boosted the overall performance. Indeed, most industries had a positive contribution. Heavily-weighted components like electronics and machinery posted a positive yet decelerating increase in output. New export capacity, being utilised throughout the year, could have a positive impact on the current account and GDP in the first quarter, as well as in the upcoming quarters.

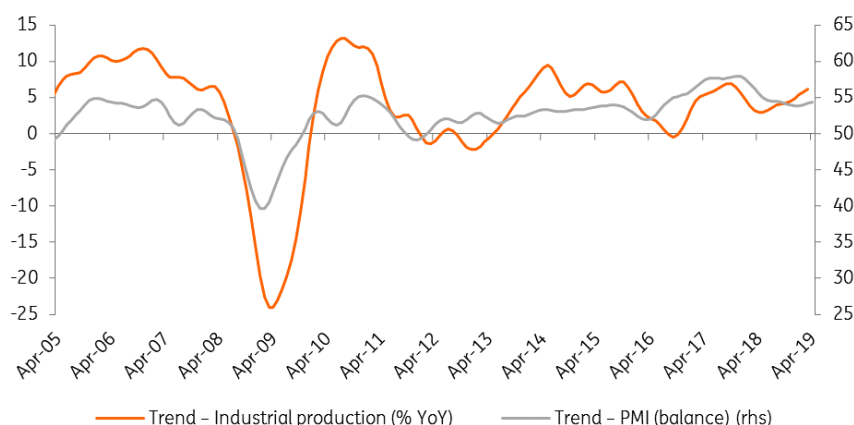
Growth rate and volume of industrial production



Source: HCSO, ING

Looking forward, we think this excellent performance can continue, partially on the back of strong domestic demand. However the risks are rather tilted to the downside. There are still uncertainties about the final outcome of Brexit and the trade war, which could hurt the industrial sector. The greatest threat remains the imposition of tariffs on imported cars in the US, which is still on the table. All things considered, we see a 6% average growth rate in 2019, with the balance of risks rather skewed to the downside.

Manufacturing PMI and industrial production trends



Source: Bloomberg, ING

When it comes to the big picture, it seems that the economy is pushing the limit and there is no strong sign of a slowdown. Rebounding retail sales, record-breaking construction performance and strong industrial output could lead to a huge positive surprise in the 1Q19 GDP reading.

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.