

Hungary: Industry rebounds on cars

Strong May data offsets the drop in April, rescuing the 2Q19 performance in industry. Car manufacturing saved the day, while other major sectors showed some weakness



Workers on an assembly line at an Audi factory in Hungary

6.1%

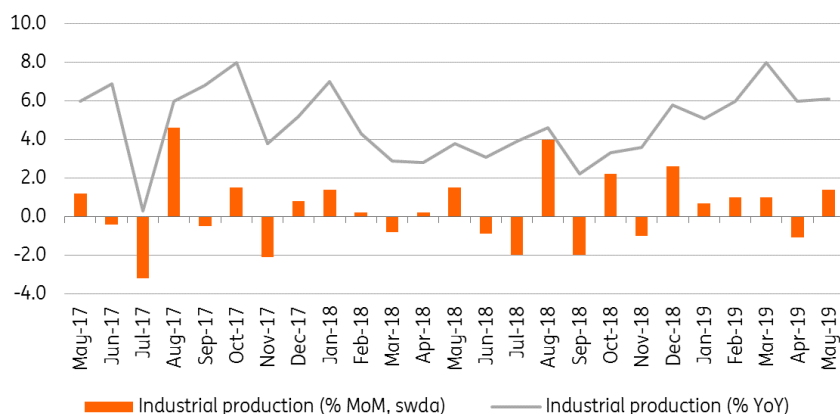
Industrial production (YoY, calendar adjusted)

Consensus (4.9%) / Previous (6.0%)

Higher than expected

Industrial production jumped in May after a weak performance in April. The 6.1% year-on-year calendar adjusted growth, implying a 1.4% month-on-month calendar and seasonally adjusted increase, exceeded the market's expectations. A weak April and strong May reading average out for 2Q19. This suggests a final figure that is just slightly below the first quarter average, reinforcing the deceleration in the sector.

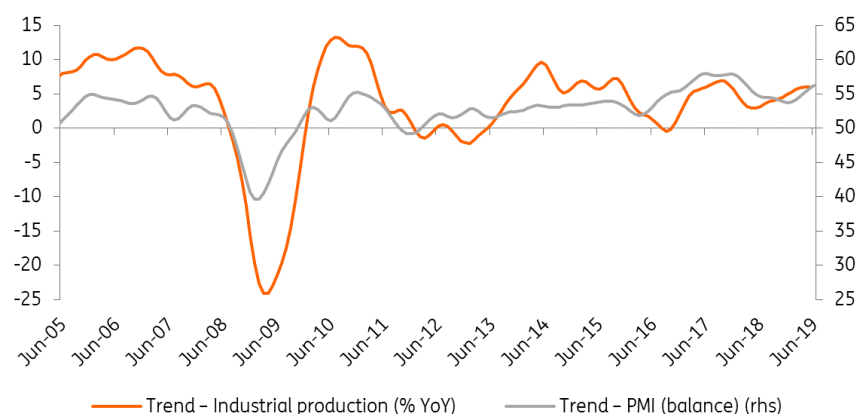
Performance of Hungarian industry



Source: HCSO

While detailed statistics haven't yet been released, it is clear that the relatively strong performance comes from the car industry. At the same time, production in other important subsectors showed some weakness, with the Statistical Office pointing to sub-average growth rates in electronics and food manufacturing. The decent industrial output measure shows that the collapse in the German industrial sector hasn't yet affected the domestic economy. Today's German new orders fell dramatically, while manufacturing PMIs also imply a considerable decline. But the Hungarian manufacturing PMI has decoupled from the German one, and indicates that strong growth will continue in the sector.

Manufacturing PMI and industrial production trends



Source: Bloomberg, ING

After the peak in 1Q19 (6.3% YoY growth), we think industrial production will start to decelerate slightly throughout the year. Looking forward, we expect a 6% YoY increase in 2019, which is still significantly higher than last year's growth rate. The overall good performance will be mainly driven by domestic demand and also partly by new export capacity, though this is certainly at risk. The global threats and uncertainties (struggling German economy, Brexit, trade war) pose a clear and significant negative risk for the sector's outlook.

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