

Hungary: Industry remains resilient

Amid mounting issues with a lack of equipment, materials and labour, industry was able to maintain a high level of production in June



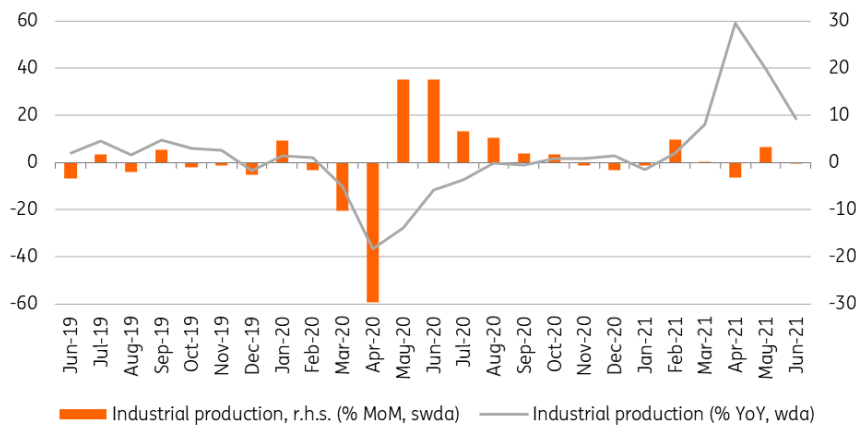
Workers on an assembly line at an Audi factory in Hungary

-0.3% Industrial production (MoM, swda)

ING forecast 1.5% / Previous 3.3%

We have mixed feelings regarding the incoming industrial production data. It's an exaggeration to say that production was remarkable in June. The 0.3% month-on-month drop is far from strong but it was better than the market consensus (though lower than our forecast). And if we look at today's German industrial data release, we see a much more drastic drop in production there. In the meantime, we know that supply chains continue to show severe disruption, so overall, Hungarian industry proved to be quite resilient in June. Due to last year's extremely low base, annual growth came in at 22%, based on the unadjusted time series.

Performance of Hungarian industry

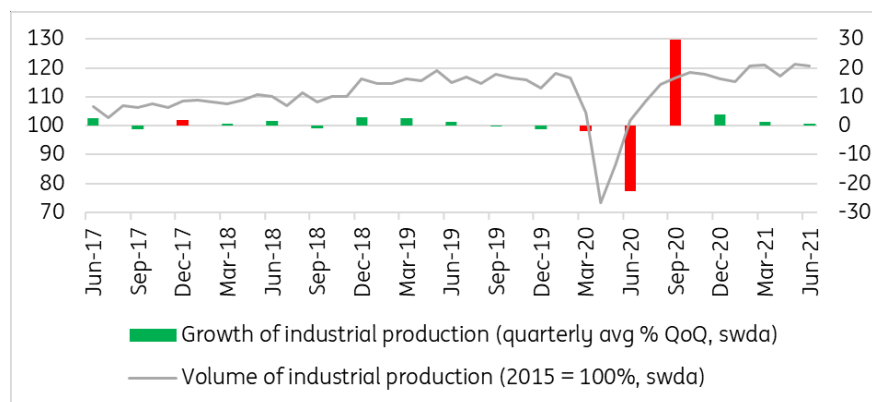


Source: HCSO, ING

Based on the preliminary data release, an expansion was observed in all sub-sectors, although some sectors showed a significant slowdown compared to the performance of the previous month. Unsurprisingly, the automotive industry has slowed down the most, as this sector is suffering more from shortages of inputs and the fragmentation of supply chains.

For the past three months on average, Hungarian industry improved (in terms of the volume of production) compared to the previous quarter, by roughly 0.6% based on seasonally-adjusted data. Given the retail sales data published earlier this week, we can say that the Hungarian economy performed quite well in the second quarter of 2021. According to our forecast, it could even repeat the 2% quarter-on-quarter growth seen in 1Q21.

Production level and quarterly performance of industry

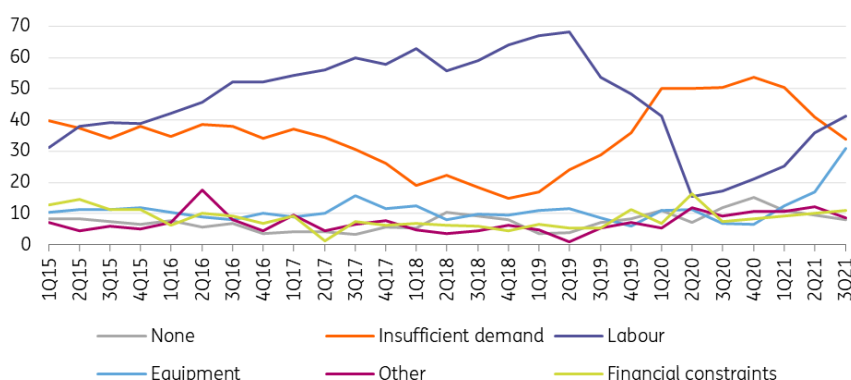


Source: HCSO, ING

As for the near-term, until supply chain disruptions have been resolved, we see sustained but moderated growth. The main reason behind the expected continuous improvement is the new production capacity in battery factories. And due to the dynamic expansion in global demand, the level of orders may continue to grow, though impeded production capacity means we can expect longer delivery times. Issues with capacity utilisation are more and more visible, as 41% of companies are now complaining about an insufficient number of workers and 31% see equipment

and material shortages as factors limiting production.

Factors limiting industrial production - Hungary



Source: Eurostat, ING

All of this means rising input and labour costs, which may further strengthen producer price inflation in the months ahead. As producers are in a better bargaining position amid expanding demand and scarce supply, we see this as becoming more of an issue from a consumer price point of view too, further strengthening the already high inflation pressures.

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 <http://www.ing.com>.