

Hungary: Industry still strong, but it won't last forever

Hungary's industry has once again showed resilience to global woes. However, this won't last forever; data on capacity utilisation is flashing a warning sign



Workers on an assembly line at an Audi factory in Hungary

6.4%

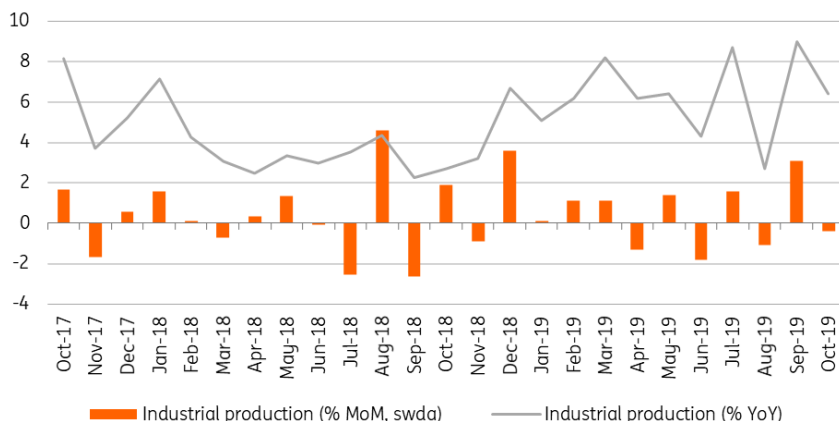
Industrial production (YoY, wda)

Consensus 6.7% / Previous 9.0%

Worse than expected

The rollercoaster is still on so it hardly comes as a surprise that after an exceptionally strong September, the October performance was somewhat weaker. On a monthly basis, industrial production dropped 0.4%, while output rose by 6.4% year-on-year. This is still a strong performance by recent European standards and mainly fuelled by car making, electronics and the food industry. However, we can't ignore the mounting signs of a significant slowdown ahead.

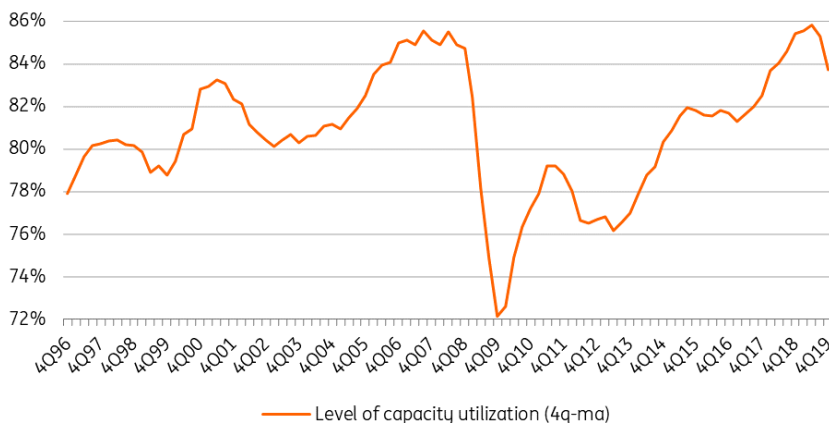
Performance of the Hungarian industry



Source: HCSO

First of all, 4Q19 capacity utilisation dropped to 80.3%, the lowest since early 2017. The trend is also disturbing, as the four-quarter moving average is showing a sharp downward trend. Despite the recent capacity enhancements in car and electronics, other sectors are facing severe constraints. This could be the most valid explanation for the decoupling in PMI and industrial growth trends.

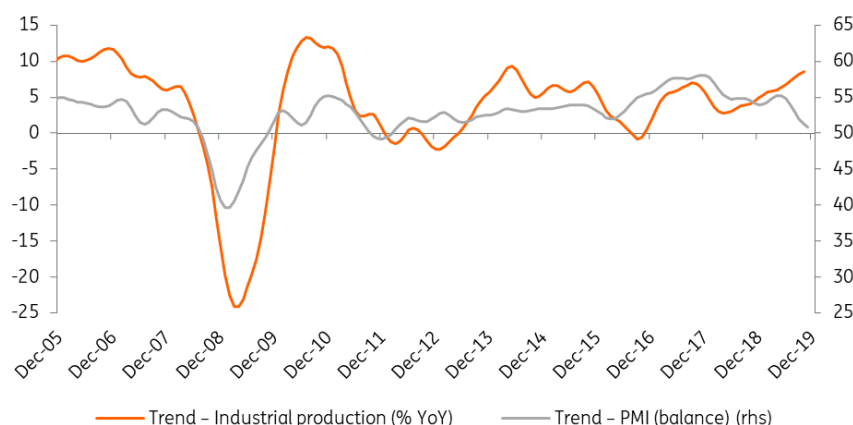
Level of capacity utilization



Source: Eurostat, ING

The former is signalling a major slowdown, while industrial growth is still doing fine. This could be the result of the fact that the large multinational manufacturers, which have the most significant weight in production, are able to produce more on recently-increased capacity, while mid- and low-level manufacturers are suffering and scaling back production. The stock of orders (as of September) is also pointing toward a slowdown, showing a 6.3% drop compared to a year ago.

Manufacturing PMI and industrial production trends



Source: Bloomberg, ING

Despite the gathering clouds, the short-term outlook for industry (and the national economy) is still quite rosy. Recent industry and retail sales data supports our view that GDP growth will remain strong in 4Q19. However, the outlook for 2020 is mistier both for industry and GDP growth overall.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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