Hungary: Industry switches to 'summer' mode

The summer break started early in industry, as production dropped on a monthly basis, with electronics leading the weak performance. But we are still optimistic for the remainder of the year

Workers on an assembly line at an Audi factory in Hungary

4.1%

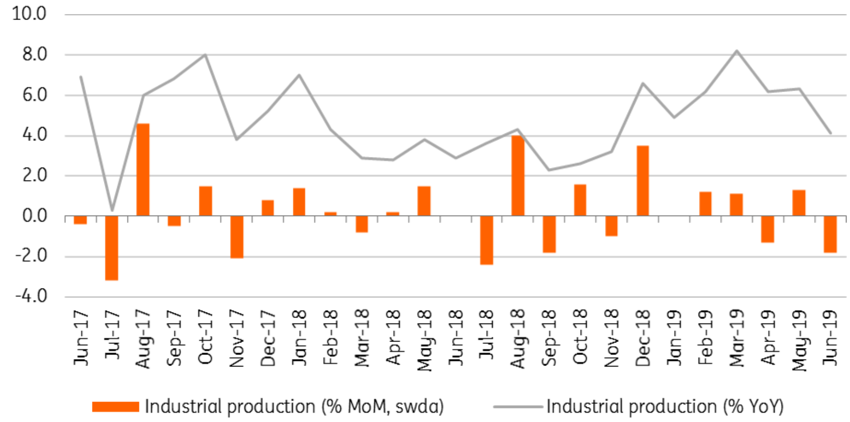
Worse than expected

Industrial production (YoY, wda)

Consensus 6.0% / Previous 6.3%

Hungarian industry started the summer (and closed the second quarter) with a weak performance. The 1.8% calendar- and seasonally-adjusted monthly drop in production suggests that the summer break has started early. This effect might be amplified by the fact that we had two fewer working days in June 2019 than a year ago. Based on the short assessment made by the Statistical Office, all of the main subsectors decelerated on a monthly basis with electronics leading the pack with a drop in production.

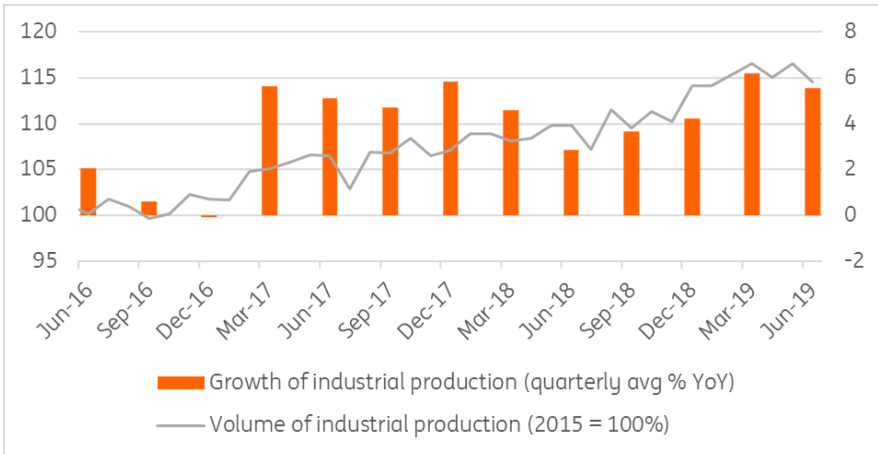
Performance of Hungarian industry



Source: HCSO

As we now have a full dataset to evaluate the performance of industry in the second quarter, we see an overall weak performance. This is not as bad as in Germany but the volume of production stagnated in 2Q19 on a quarterly basis. The year-on-year performance also dropped from 6.2% to 5.5% in the April-June period. This data, along with a slowdown in retail sales turnover, supports our view that the Hungarian economy reached a peak in 1Q19 and GDP growth should be lower in the second quarter.

Growth rate and volume of industrial production



Source: HCSO, ING

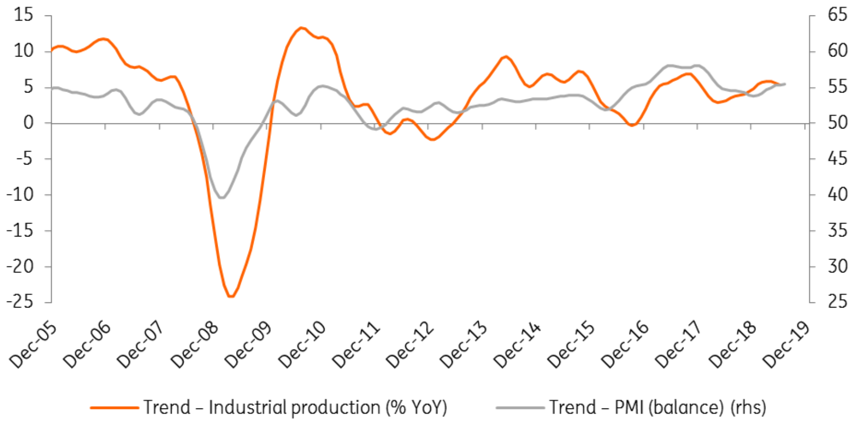
Looking forward, Hungary still seems to be a bright spot in Europe when it comes to industrial production. Despite the devastating German industrial performance, Hungary seems quite resilient and this may continue in the second half of the year. So what's the difference?

- With the looming car tariffs, US buyers are building inventories, preparing for the worst
- Hungary has increased its direct exports to other countries, meaning less re-export through Germany
- Sometimes you just need to be lucky and German carmakers in Hungary are producing

compact models, which have faced the lowest decrease in demand, so far
- Hungarian assembly lines represent state-of-the-art facilities in Europe combined with low costs in general. This provides a cushion against lay-offs and shutdowns which are in the pipeline in factories based in developed countries

Against this backdrop, it is more understandable that soft indicators (e.g. manufacturing PMI) and stock of orders remain in expansion territory in Hungary, suggesting a reasonable performance in 2H19 despite all the gloom and doom externally.

Manufacturing PMI and industrial production trends



Source: Bloomberg, ING

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