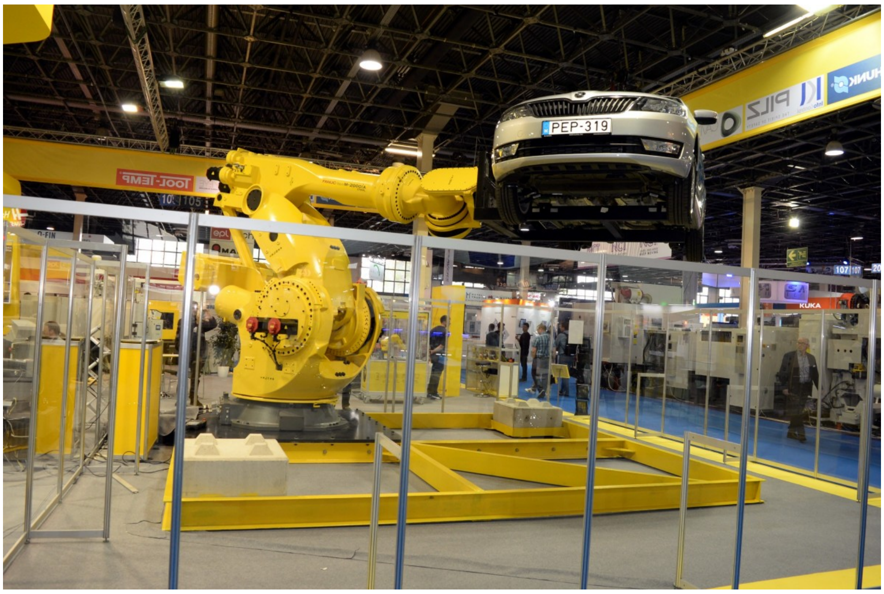
Hungary: Industry's winning streak ends

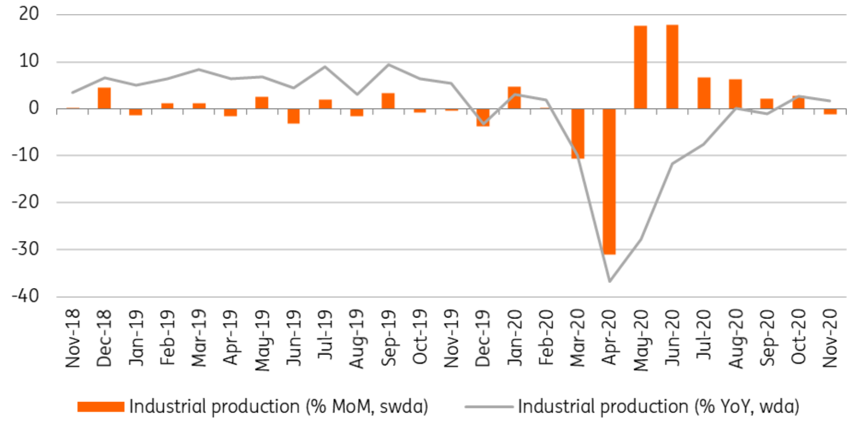
After six months of constant growth, industrial production dropped on a monthly basis in November. Despite the winter shutdowns, we still see industry remaining a positive contributor in the fourth quarter



An industrial robot machine in action at an exhibition in Hungary

Every winning streak comes to an end eventually. Just ask Tom Brady, who lost the Super Bowl after 18 games and 18 wins (including playoffs) in 2007. In Hungary, a very different game has been playing out, of course, but the result is similarly disappointing. After six months of continuous growth, industrial production shrank by 1.2% month-on-month (seasonally and working-day adjusted) in November. However, if we check the performance over a year, we don't see a big issue: the volume of production is up by 3.6% year-on-year, helped by the favourable calendar effect. In all, despite a weak month, industry still remains a bright spot in the Hungarian economy.

Performance of Hungarian industry

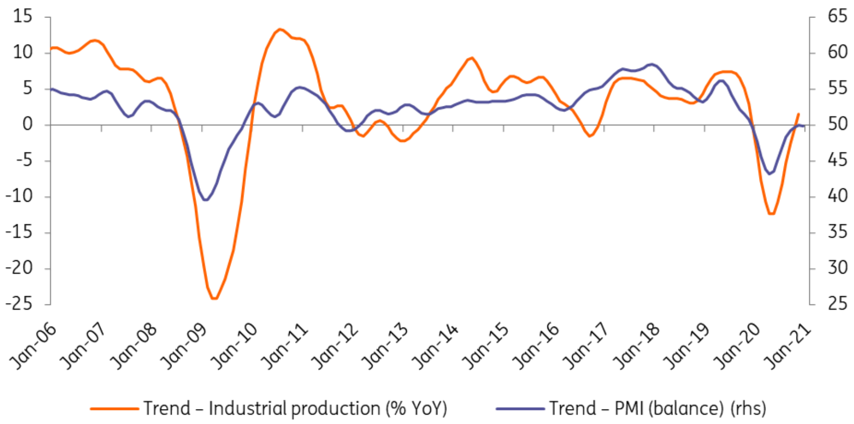


Source: HCSO, ING

Although the recent data release by the Statistical Office didn't contain any detailed figures, the press release highlighted that car manufacturing and electronics were able to grow, while the majority of other industries posted a drop in production volumes. This pattern has remained unchanged for the past four months. Against this backdrop, we expect the detailed data to show weakening growth in car and electronics manufacturing.

Last year, we had a similar pattern with production dropping in November and showing an even stronger reduction in December. It seems there is a new seasonality in the making. Based on this, the weaker performance in the 11th month of the year is not an earth-shattering surprise. On the other hand, the manufacturing PMI has remained in expansion territory for three months in a row. The apparent contradiction can be explained by the fact that big corporates have an outsized weighting in that index and the most important sectors are still showing growth.

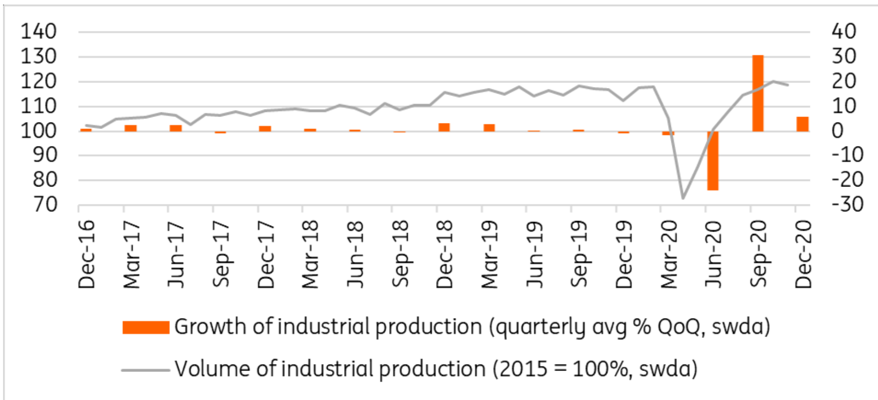
Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

The biggest question mark for 2020 remains to what extent production was pushed back by the usual winter maintenance period in industry. While some manufacturers made shorter shutdowns than usual, some large manufacturers, such as Mercedes-Benz shut down production for a month from mid-December. We continue to see GDP shrinking on a quarterly basis in the fourth quarter, expecting a so-called double-dip in growth. Despite the overall good performance of industry expected in 4Q20 (year-on-year expansion holds up), the vulnerability of the service sector remains a major brake on economic activity.

Production level and quarterly performance of industry



Source: HCSO, ING

Remark: 4Q20 data contains only October and November

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