

Hungarian supply chain issues drag down industry

Industry started 2021 in a relatively weak manner, but it is hardly surprising given all the supply chain issues in the car manufacturing sector. With more lockdowns ahead, we cannot rule out first-quarter GDP shrinking again



The biggest market in Budapest

-2.8%

Industrial production (YoY, wda)

ING forecast -3.6% / Previous 1.0%

Better than expected

Something to cheer about.. almost

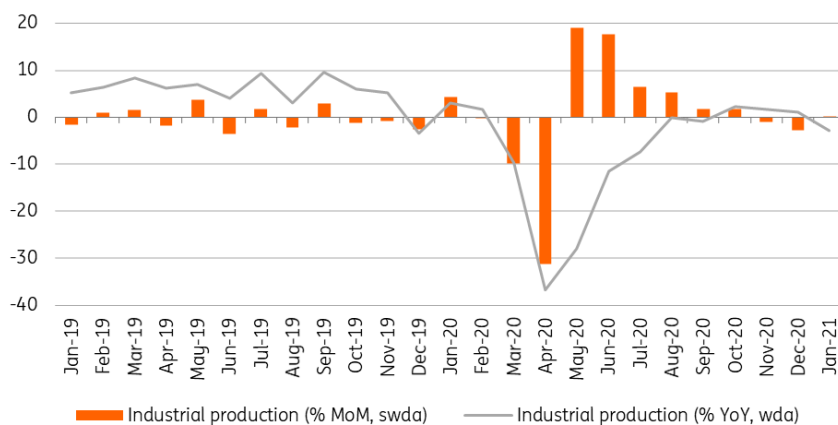
After a series of month-on-month contractions, the first month of 2021 broke the bad streak as industrial production increased by 0.2% month-on-month in January.

The fact that production was able to rise is a huge surprise. We all knew that car manufacturing faced supply-side constraints as there was a shortage in semiconductors and chips, triggering

shutdowns and fewer shifts. Even with that burden, industry was able to come up with a positive performance.

On the other hand, this growth is nearly not enough to elevate the year-on-year performance, nor is it really supportive when it comes to GDP growth. Industrial production was down by 6.7% on a yearly basis in January. However, the whole picture includes that in the first month of 2021 the number of working days was two days less than a year ago, so calendar effects played a big role too.

Performance of Hungarian industry



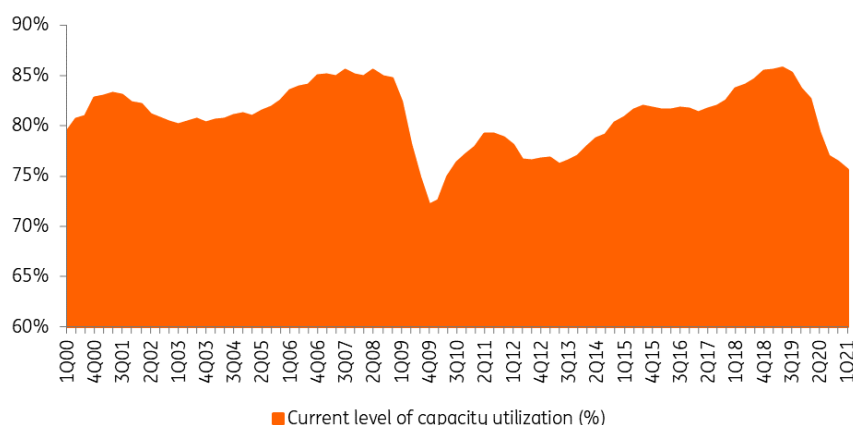
Source: HCSO, ING

As usual, the recent data released by the statistical office didn't contain any detailed figures.

The press release highlighted what we suspected: almost all of the subsectors performed poorly, showing a drop in production. The only important exception is electrics, which grew, and is responsible for the upside surprise in January. Car manufacturing registered a significant downturn and the food industry also closed the first month with negative performance.

Looking forward, this January performance won't be enough to counterbalance the expected problems in the short run. First of all, the supply chain issues haven't really eased in car manufacturing, causing the sector to run well below the maximum capacity, which means a drag on other suppliers too. Electronics are likely to remain a silver lining, but another lockdown from March onwards certainly won't help. Manufacturers can remain open, but schools will be closed and as we saw during the first wave, working from home is just not an option for people working in these sectors. This can cause temporary workforce issues, forcing manufacturers to further decrease working hours.

Capacity utilization in Hungarian manufacturing



Source: HCSO, ING

Four-quarter moving average, seasonally adjusted

All things considered; we can easily see industry being a drag on growth during the first quarter after all. In light of the new restrictions, there is a real possibility that we might see GDP shrink in 1Q21.

Clearly, the hurrah optimism after the fourth-quarter GDP data didn't last very long.

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>.