

## 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

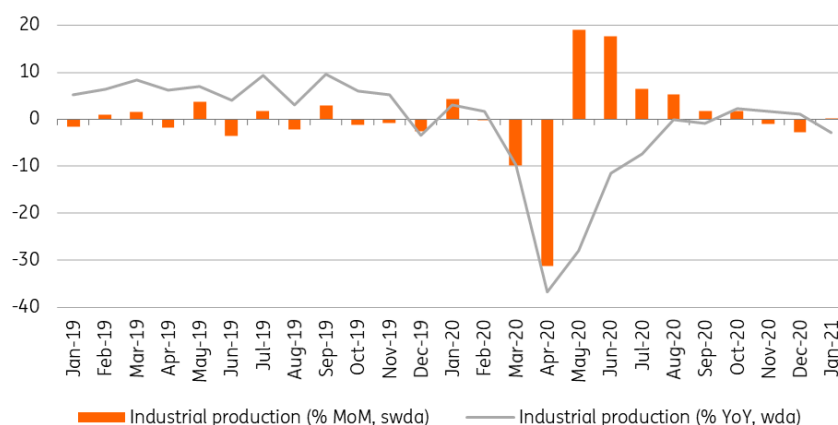
After a series of month-on-month contractions, the first month of 2021 broke the bad streak as industrial production increased by 0.2% month-on-month in January.

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



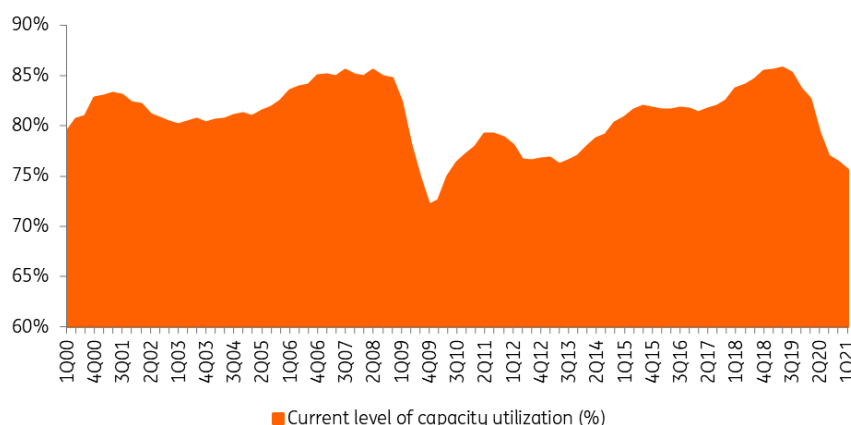
Source: HCSO, ING

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.

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