

7 July  
Snap

## Hungary: A bittersweet record in industry

After an historic collapse, we now have an historic rebound in industry. However, the sector is still operating at 2013 levels, more evidence of a slow recovery



Workers on an assembly line at an Audi factory in Hungary

# -27.6%

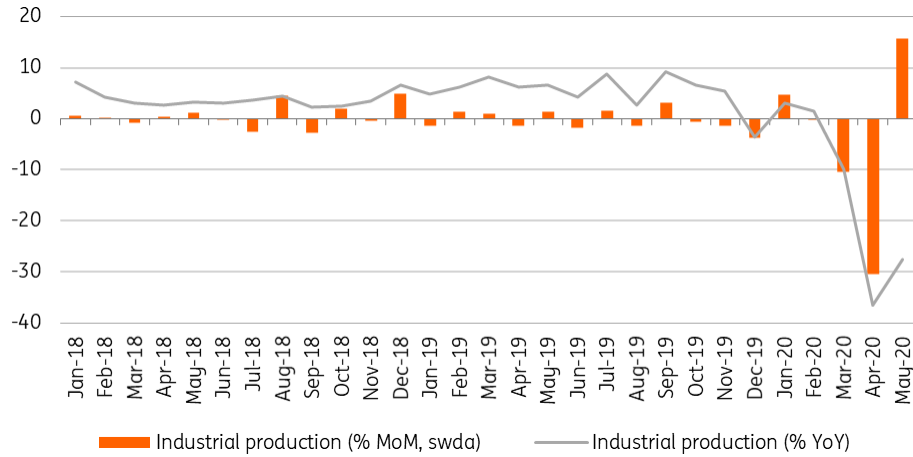
Industrial production (YoY, wda)

Consensus -24.3% / Previous -36.6%

Worse than expected

After an unprecedented collapse in the modern era, industrial production rebounded in May. The 15.6% month-on-month rebound is a new record, which we view with mixed feelings. The positive part of the story is that April proved to be the nadir of the crisis and industry (as well as retail sales) was able to recover in the following month. On the other hand, from such a low-point, even this record-breaking performance looks like quite a small improvement. The volume of industrial production is still down by 27.6% on a yearly basis. The level of output improved, so we are now back at the levels last seen in 2013. A bittersweet victory.

### Performance of Hungarian industry

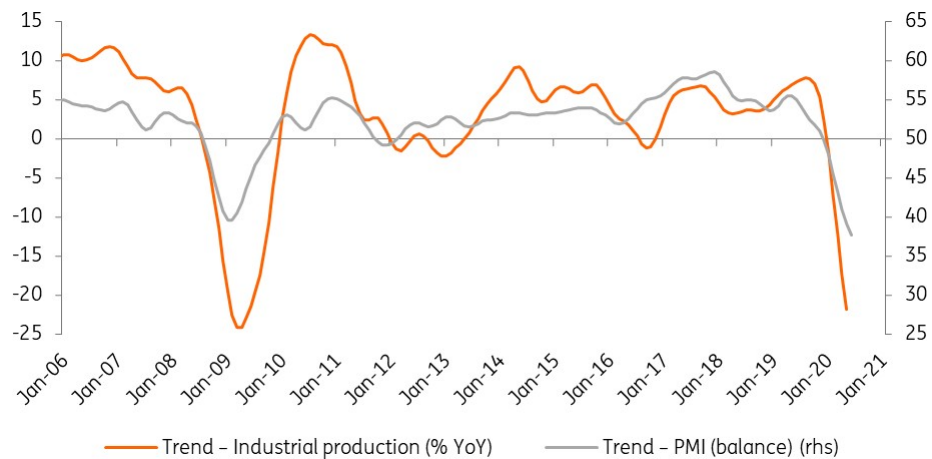


Source: HCSO, ING

Even though the majority of industrial companies restarted production in May, the rebound was far from balanced. Albeit the recent data release didn't contain details, the Statistical Office shared some interesting facts. Production volume decreased in every manufacturing subsection. An astounding fall was observed in the manufacture of transport equipment - which carries the largest weighting - while the manufacture of computer, electronic and optical products, as well as the manufacture of food products, beverages and tobacco products declined to a lesser degree.

The most interesting thing in the above is that after a substantial fall in the single most important sector (car manufacturing), industry as a whole was still able to show a double-digit rebound. It definitely gives hope for June, when carmakers went back to business, some of them even restarting a three-shift production.

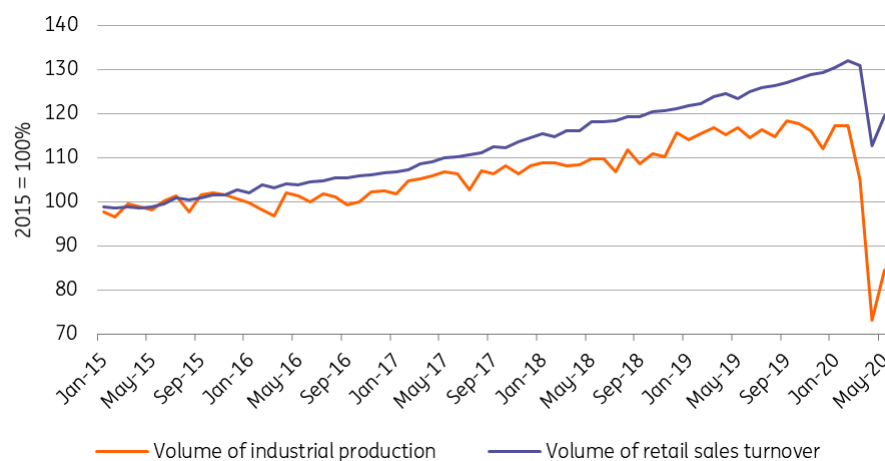
### Manufacturing PMI and industrial production trends



Source: Bloomberg, ING

Further down the road we expect a lengthy recovery. Recent developments in soft indicators, like the PMI, suggest only mild improvements. We will see how manufacturers feel when the euphoria about reopening settles down. The summer months will be about strong improvement and fulfilment of the backlog of orders. It will boost confidence in the short run. However, sooner or later (and we expect it to be sooner) lean order books will impact performance. Labour market woes, decreasing global demand and the possibility of sporadic lockdowns impacting supply chains will slow the pace of the recovery. Even with this recent pick-up, the level of production is far from being 'normal'. In our base case, we don't see the level of production reaching the pre-crisis level until 2021.

### The level of production: industry & retail sector



Source: HCSO, ING

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