

5 June 2020

Snap

Hungary: Industry goes through historic collapse

Industry has collapsed in Hungary. We have never before seen a back-to-back double-digit drop in industrial production. We are living through an historic economic moment



-36.6%

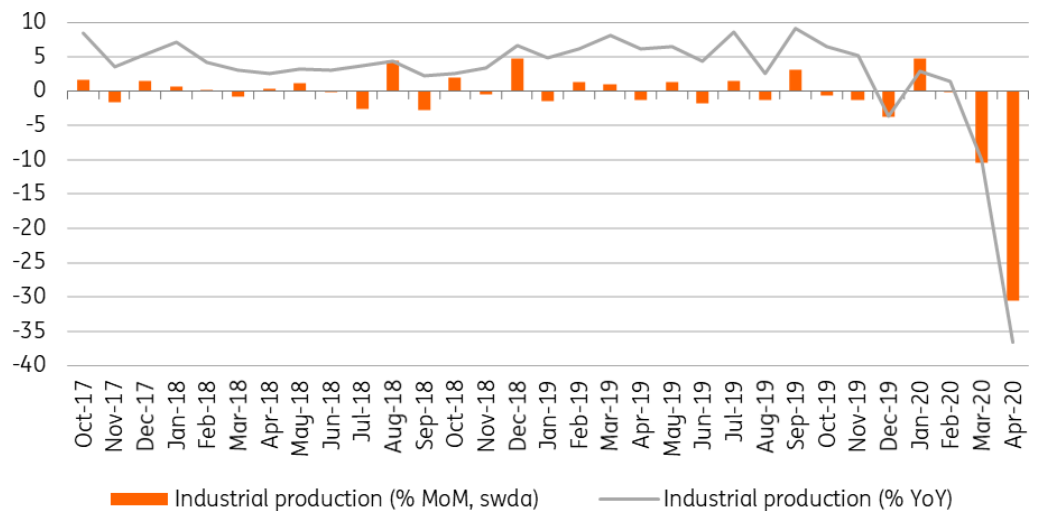
Industrial production (YoY) in
April

Worse than expected

Consensus -25% / Previous -10%

Some have said that the recent crisis is comparable to periods of war. In the modern statistical era (since 1995 in Hungary), we have not seen such a huge collapse in industrial production. The last time it could have possibly been worse was the year of political transformation in 1989 or around WWII. If the previous month's 10% year-on-year contraction in industrial production looked bad, it's hard to find the words to describe a 36.6% fall on a yearly basis in April. And the records don't stop there. We've never before seen a back-to-back double-digit drop in industrial production. This is new. After a 10.4% month-on-month drop in March, April brought a 30.5% MoM collapse. The contraction in industrial production was even worse than the most pessimistic forecasts.

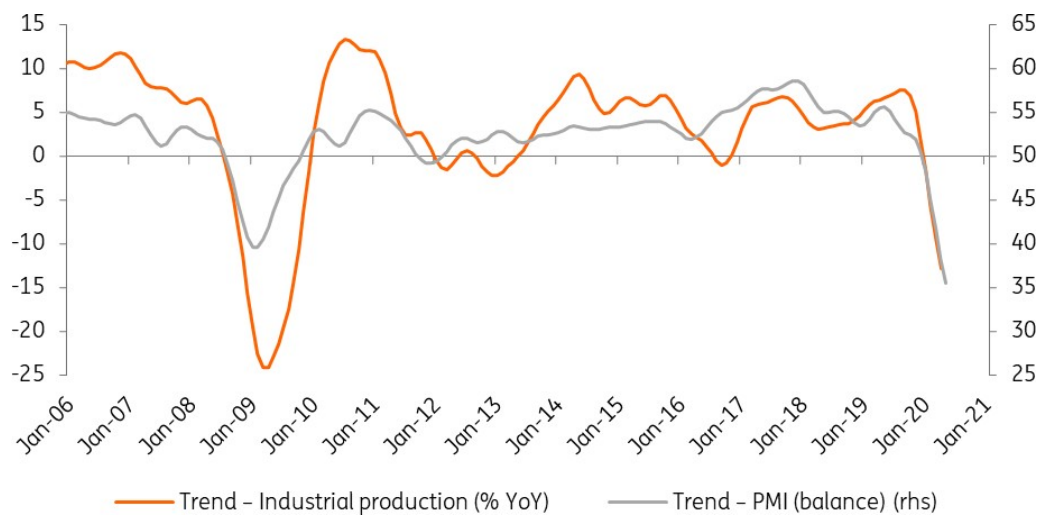
Performance of Hungarian industry



Source: HCSO, ING

Even though several industrial companies restarted production in some way from the second half of April, it was clearly not enough to counterbalance the total standstill in the first part of the month. Despite news that companies had shifted to produce masks and other health products, it was not enough. While the recent statistical release is an advanced one and doesn't contain any detail about sectors, the Central Statistical Office provided some information. We can be assured that the main sectors like car manufacturing faced a collapse much worse than average. The food industry may have been able to show some resilience along with the only sector which managed to increase production in April: pharmaceuticals.

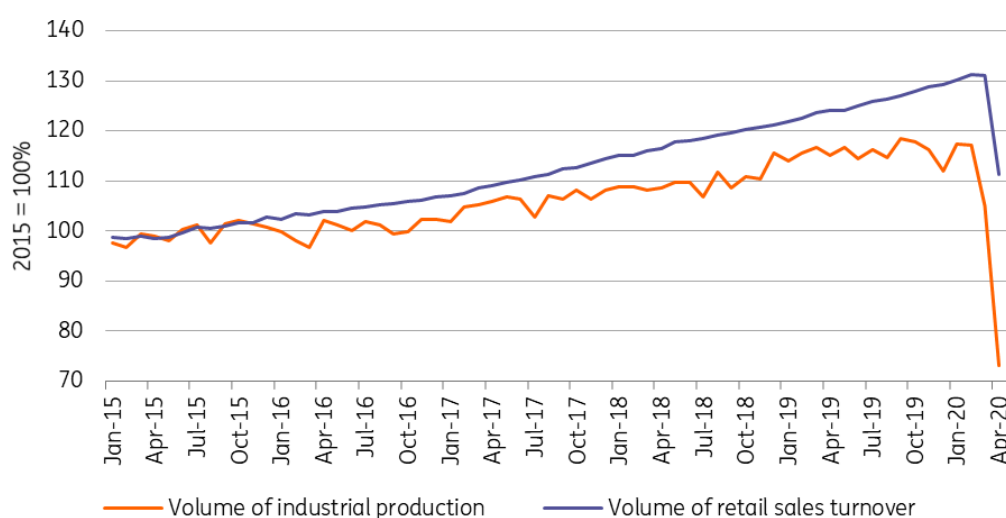
Manufacturing PMI and industrial production trends



Source: Bloomberg, ING

The only silver lining is that after a catastrophic April, May could bring some relief. As production restarted in car manufacturing and related suppliers, there are hopes that we could see a mild rebound. But there are clearly constraints in global and local demand, the level of orders has collapsed and companies are using just one shift to produce instead of the previous three-shift working order, suggesting that the recovery will be lengthy. The latest PMI figures support this view. The main question now is to what extent May and June will be able to recover from the recent freefall. Based on the April data, we see severe downward risks to our base case scenario, which looks for GDP to shrink by 4.2% this year. Our “worst” case forecast calculates a 9.4% YoY collapse in economic activity.

The level of production: industry & retail sector



Source: HCSO, ING

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