5 February 2021

Snap

Hungary: The slump in industry continues

A disappointing winter for industry. After a drop in November, industrial production sank again in the last month of 2020. But this was still enough to contribute positively to GDP in the fourth quarter

1.1%

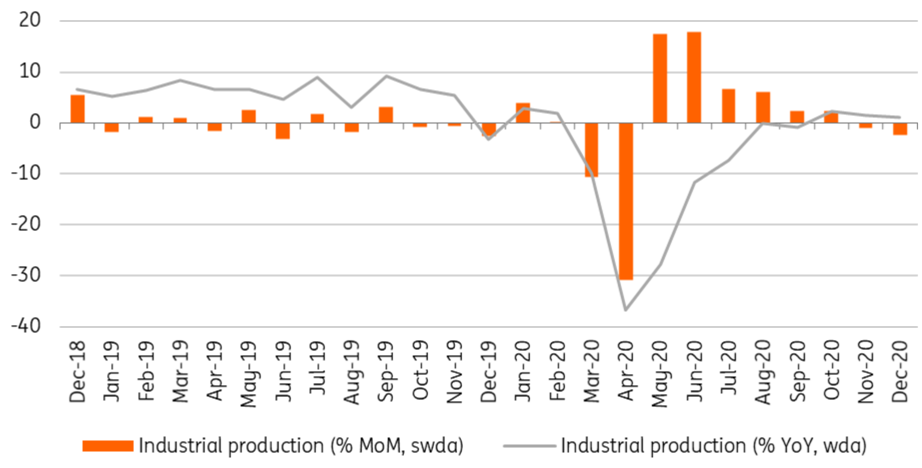
Worse than expected

Industrial production (YoY, wda)

ING forecast 3.0% / Previous 1.5%

After six months of continuous growth, industry has now gone into reverse. Industrial production shrank by 2.4% month-on-month (seasonally and working-day adjusted) in December, after a revised 1% drop in the previous month. When it comes to the yearly performance, last year's low base and the calendar effect helped a lot. The volume of production is up by 5.8% year-on-year, but when we adjust for the fact that there were two more working days in December 2020 than a year ago, the year-on-year performance comes down to just 1.1%.

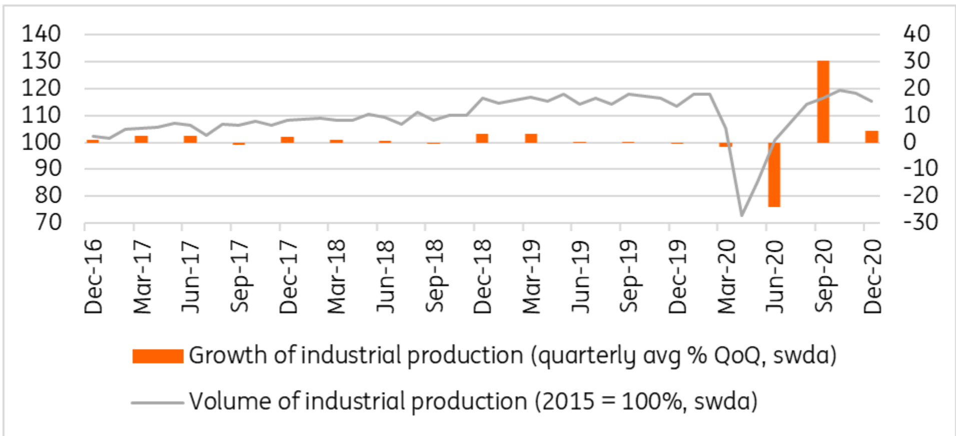
Performance of Hungarian industry



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 was able to grow faster. However, this was counterbalanced by the weak performance of the other two major manufacturing sectors: electronics and food industries. When it comes to the expected January performance, the outlook is quite cloudy. Car manufacturing suffered due to supply chain issues, and barring any strong rebound in the other sectors, industry's losing streak is likely to continue for a third straight month.

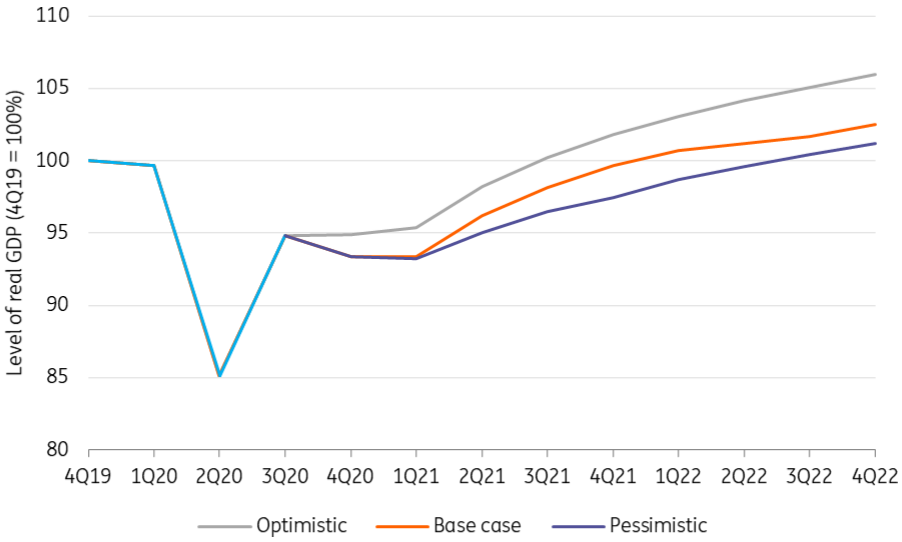
Production level and quarterly performance of industry



Source: HCSO, ING

Despite the weak finish to 2020, industrial production was still able to show growth during the fourth quarter as a whole. Both the quarterly and yearly based comparisons show growth: 4.3% and 1.7%, respectively. Not bad, but this performance lags expectations. A similar story to what we saw in retail sales.

The path of Hungarian real GDP in our three scenarios



Source: HCSO, ING

Optimistic scenario matches PM Orbán's 0.0-0.1% QoQ 4Q20 GDP performance. The base case expects a –1.5% QoQ GDP data in Q4.

Against this backdrop, we continue to think that GDP shrank on a quarterly basis in the fourth quarter, expecting a so-called double dip in growth. The severity of it remains in flux. We expect a 1.5% QoQ decrease but Prime Minister Viktor Orbán said in a radio show on Friday that preliminary data shows a 5.1-5.2% GDP reduction in 2020 as a whole. This could mean that Hungary was able to avoid a double dip as a full-year performance of this magnitude would suggest quarter-on-quarter GDP growth of 0.0-0.1% in 4Q. We see this as an optimistic outcome.

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