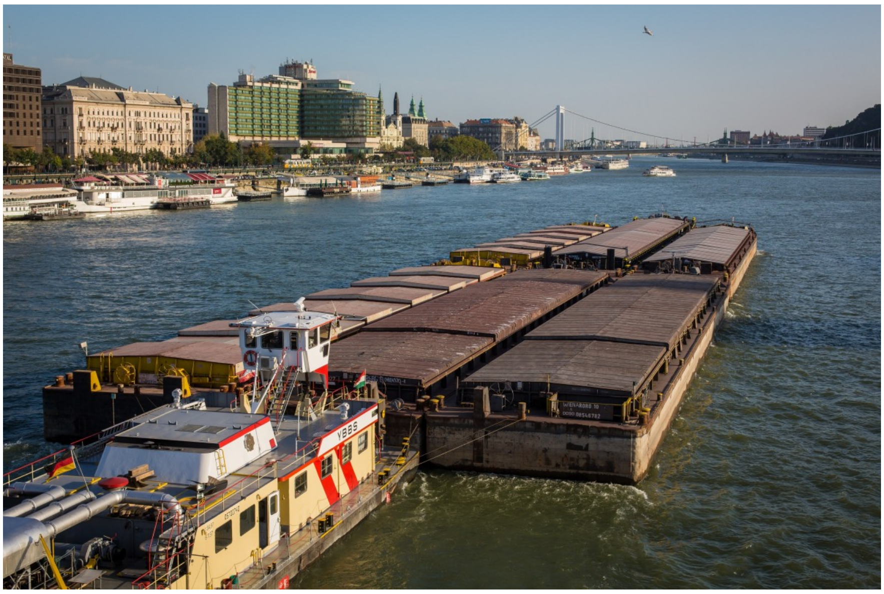
Hungarian industrial performance is like a cold shower in a bad way

First in June, then in July. Industry's performance came as a cold shower in an otherwise hot economy. Supply chain disruptions are having an impact on the sector



Cargo ship transports goods on the Danube River in Budapest, Hungary

10.2%

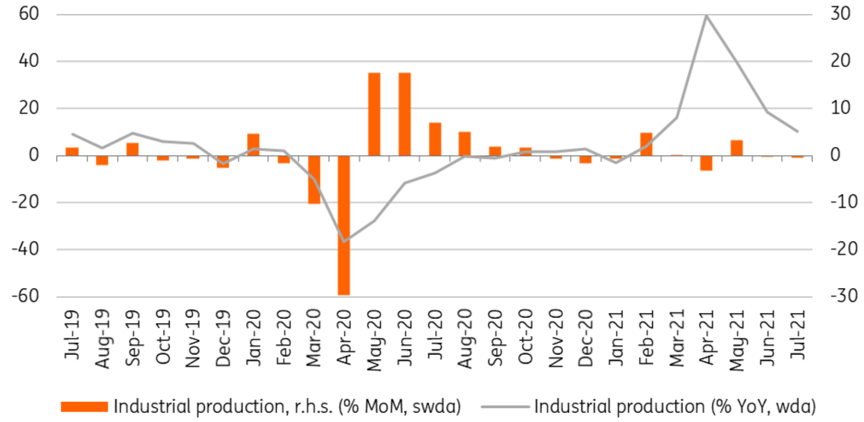
Worse than expected

Industrial production (YoY wda)

ING forecast 15% / Previous 18.6%

After a disappointing June, we expected a rebound from industry in July despite the well-known issues with supply chains. The main reasons behind our upbeat call were the very optimistic confidence indicators, including the PMI which has been above 50 since April, suggesting a continuous improvement. This time we were chasing dreams, as industry shrank by 0.5% month-on-month. So, despite the 10.2% yearly based growth (adjusted for the working-day effect), we can't cheer about a good performance.

Performance of Hungarian industry



Source: HCSO, ING

Based on the preliminary data release, the two most important sub-sectors (cars and electronics manufacturing) were highly affected by factory shutdowns, as well as one-shift work schedules. Against this backdrop, output decreased in the car and electronics sectors. With such a down performance from the two most important sub-sectors, the good performance by others couldn't compensate for this missing production.

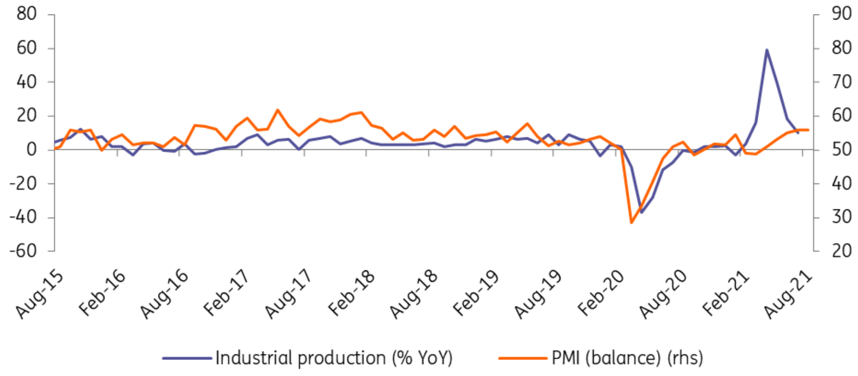
Taking a bird's eye view, after a rather disappointing retail sales data, industry doesn't help either to see a strong start from an otherwise hot economy during the third quarter. However, we still believe that the main driver of the GDP growth will remain services, thus a bad month from retail or industry won't change our view.

> *As for the near-term future of industry... August will probably bring another weak performance*

As for the near-term future of industry, it seems that the problems regarding the supply chain disruptions won't be solved soon, and August will probably bring another weak performance as summer shutdowns will be combined with component shortage-related shutdowns. On the other hand, smaller manufacturing sectors will be able to grow, moderating the negative impact. Moreover, as surveys still show us expansion, we can expect the rebound to come sooner or later.

Over the coming months, year-on-year indices will slowly normalise as the base itself rises. However, we continue to put an emphasis on monthly-based growth numbers. Based on these, we expect sustained but rather moderate growth until the problems with supply chains and difficulties in sourcing raw and intermediate products are resolved. In the meantime, the dynamically expanding global demand is expected to further expand the order books, but due to the scarcity of inputs (whether it is about materials or labour), we can expect longer delivery times. This duality is well represented in the manufacturing PMI data, which shows an improving trend despite challenges.

Industrial production and PMI



Source: HALPIM, HCSO, ING

Besides the GDP impact, the more forceful impact comes from the side of pricing. Rising input and labour costs may further strengthen producer price inflation in the months ahead. As producers are still in a better bargaining position amid expanding demand and scarce supply, we see this becoming more of an issue from a consumer price point of view too, further strengthening the already high inflation pressure.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

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