

Hungarian industry back at rock bottom

Industrial data for May shows that the positive trends observed in April were a one-off. Furthermore, the number of companies retaining labour is gradually decreasing due to falling demand. The outlook is gloomy, with no sign of a sudden turnaround



-2.6%

Industrial production (YoY, wda)

ING estimate: -1.5% / Previous: -2.3%

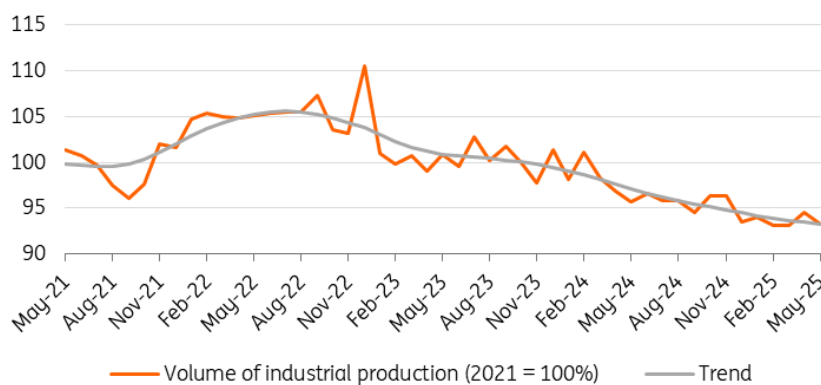
Lower than expected

Our previous statement about the performance of the Hungarian industry unfortunately still stands. While the sector can deliver strong results for a month, creating brief moments of optimism, consistent positive performance is still elusive. In May, the industry's performance contracted at a significantly higher rate than the market consensus expected. This weak performance was foreshadowed by previously published external trade data.

The 1.3% fall in production volume compared with April also means that the year-on-year decline was 2.6% in May. Compared to the average monthly output for 2021, industrial output volume was 6.7% lower in May, essentially back to baseline after the uptick seen in April.

This answers the key question we asked last month: was the good April figure just a one-off bounce, or has the industry finally risen from rock bottom? Unfortunately, the former has once again proved to be true. However, it is somewhat encouraging that the industry may have reached its lowest point, as there has been no downward trend in the fixed base indicator for the past six months, indicating that the industry has been 'only' stagnating rather than declining further.

Volume of industrial production

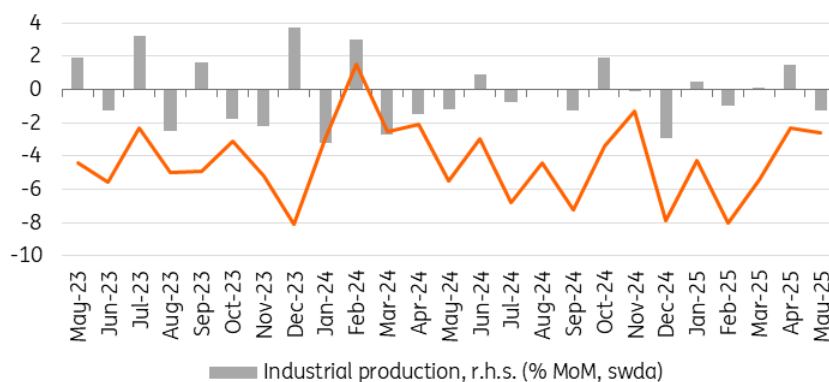


Source: HCSO, ING

Although detailed figures are yet to be released, the preliminary data published by the Hungarian Central Statistical Office (HCSO) reveals a mixed picture. While output fell on an annual basis in the vast majority of manufacturing sub-sectors, the transport equipment industry managed to post positive performance. However, this is likely due to last year's low base rather than an increase in production.

Electronics production also posted a positive year-on-year change in May, following April's figures. There may be a positive trend unfolding here.

Performance of Hungarian industry



Source: HCSO, ING

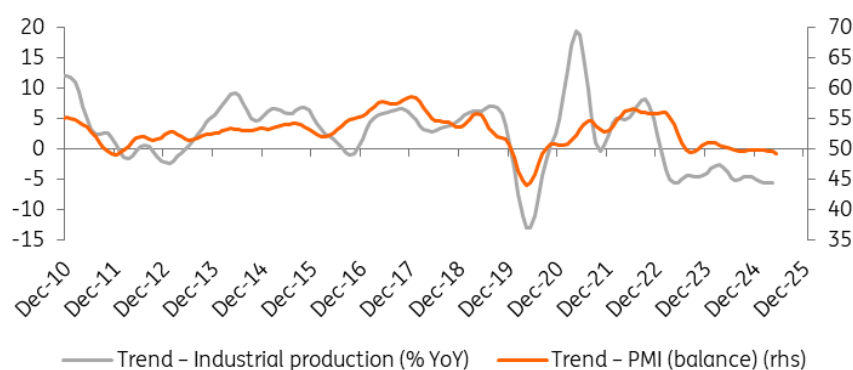
A significant number of manufacturers operating in Hungary are still hoarding labour, but there are growing reports of hidden layoffs (e.g. no filling of vacancies after retirement etc.) or impending redundancies. This should hardly come as a surprise after more than two years of economic decline in the sector.

The news about layoffs is reinforced by the fact that, while nearly 13% of domestic industrial firms were hoarding workers in the first quarter, this figure has fallen to less than 10% on average in the second quarter.

Today's figure isn't enough to suggest that business optimism is the decisive factor here. Rather, more and more companies are deciding to lay off workers and no longer wish to keep them just in case of a sudden turnaround.

Furthermore, various confidence indices have tended to show an overall worsening outlook in recent months, suggesting that there is no clear sign of a turnaround in the industrial outlook. More than half of companies indicated in the second quarter that a lack of demand was the main constraint to growth.

Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

The recent upturn in German industry is, however, a positive sign. The order books of German industrial companies have increased by a substantial 5% compared to a year ago, despite the negative surprise of the May data. In addition, the [ifo index](#) has improved steadily for the past six months, although the latest figure of 88.4 still suggests a pessimistic outlook. Nevertheless, a cyclical upturn may be on the horizon. Of course, it will probably be 2026 by the time this good performance becomes more sustained and spills over into Hungarian industry.

Overall, the outlook for export-producing sectors is mixed and cannot be described as positive or improving. The soon-to-be-reignited tariff war is a major headache for industrial companies, and this uncertainty does not bode well for a recovery in the near future.

In terms of GDP growth, the industrial contraction in May was certainly a negative development, as it significantly reduced the likelihood of the industry contributing positively to quarterly economic growth. Nevertheless, consumption growth may be sufficient to avoid a technical recession. The industry has had such a poor start to the year that it will be very difficult to recover, and we continue to see the sector as a whole holding back the performance of the Hungarian economy in

2025.

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