Hungarian industry continues to disappoint

After a very weak performance during the first quarter, Hungarian industry started the second on the wrong foot. Without a decisive rebound in external demand, this negative momentum is bound to persist

A Suzuki car factory in Hungary

-2.4%

Industrial production (YoY, wda)

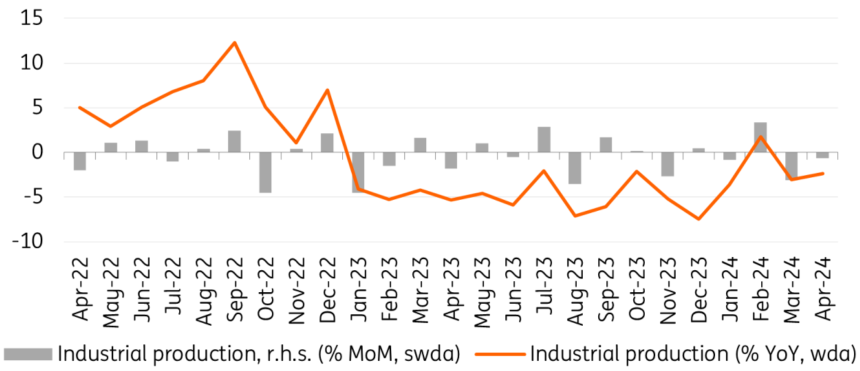
ING estimate: 0.9% / Previous: -2.8%

Worse than expected

Hungarian industry started the second quarter on the wrong foot, as evidenced by the 0.7% month-on-month (MoM) decline in April. As a result, the year-on-year (YoY) index showed a slight improvement to -2.8% according to the working-day adjusted data. As we had three more working days in April 2024 than a year ago, the raw YoY index posted a relatively large increase, which is the opposite of what we saw a month ago, when the calendar effect wasn't favourable to the raw data release.

Despite the improvement in the annual index, the short-term dynamics paint a rather disappointing picture, as the volume of industrial production continues to decline compared to the monthly average in 2021. In this respect, we've seen a deterioration of 0.6ppt compared to the previous month, as the volume of industrial production in April was 2.5% lower compared to the monthly average in 2021, according to the seasonally and working-day adjusted data.

Volume of industrial production



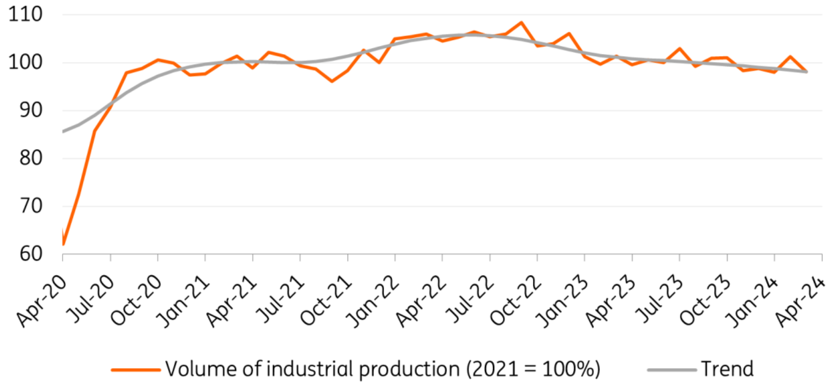
Source: HCSO, ING

We're still waiting for more detailed data, but the preliminary data released by the Hungarian Central Statistical Office (HCSO) was a bit of a head-scratcher. The reason for this is that the HCSO emphasised that the majority of sub-sectors contributed to the growth in output and included all sub-sectors that made a positive contribution. However, we strongly believe that they were definitely reflecting on the raw data release, which was exceptionally strong at 6.8% YoY, as April 2024 consisted of three more working days compared to a year ago.

Against this backdrop, the monthly contraction in industrial production is inconsistent with the positive comments from the Statistical Office. While we don't know exactly the performance of each subsector according to the working-day adjusted data, it is highly likely that the two largest sectors, transportation equipment and electrical equipment manufacturing, underperformed.

What's quite alarming is that based on the raw data, the HCSO highlighted that the manufacturing of electrical equipment products - notably EV batteries - declined, which signals that based on the working-day adjusted data, the fall could have been even larger. Nevertheless, we are still waiting for the detailed data (due on June 13th) to make our final assessment, but for now, the picture doesn't look too rosy.

Performance of Hungarian industry

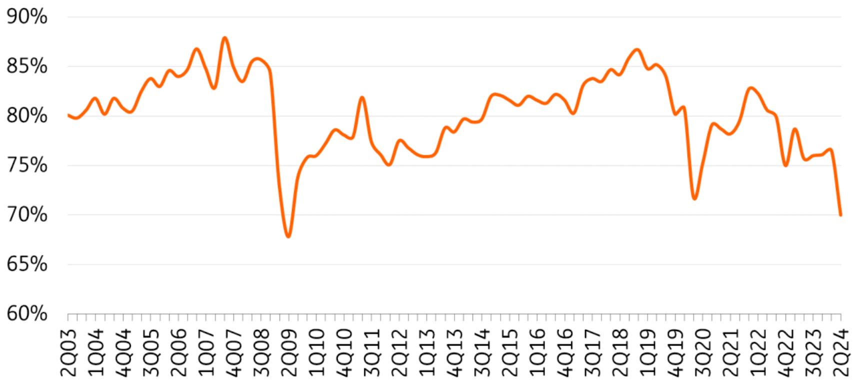


Source: HCSO, ING

According to the detailed March report, the domestic order book of the total manufacturing sector was down 4.2% YoY, while export orders were down 21.6%. Thus, the negative momentum in industrial production was hardly surprising given that external demand remains rather subdued while domestic demand hasn't picked up enough to offset the weakness on the export front.

Not to mention the fact that capacity utilisation in the second quarter of 2024 stands at 70%, which is lower than the low point of the Covid crisis. At the same time, as the German inventory cycle hasn't turned yet, with new orders falling based on the recent data flow, this paints a rather cloudy picture for external demand in the coming months.

Current level of capacity utilisation in Hungarian industry



Source: Eurostat, ING

Given the weak industrial production data for April, the resilience of the trade balance is puzzling. However, it is important to note that the exceptionally strong trade balance data we have seen in recent months results from a lower import bill rather than an outperformance on the export side. Since the share of intermediate imports used in manufacturing is around 70%, this means that lower production volumes imply lower imports for the manufacturing sector.

This means that lower industrial production actually helps to reduce the import bill, along with a much lower energy bill, which together result in a more subdued import bill. Therefore, as long as industrial production does not pick up on a sustained basis, the need for imports may be more subdued. That, in turn, helps the trade balance. Nevertheless, a more pronounced increase in consumption dynamics could lead to an increase in import needs, but judging by the retail volumes in the first four months of 2024, the road to recovery will be gradual.

Overall, we believe that after a dismal performance in the first half of 2024, the second half of the year will bring a sustainable turnaround as we expect an improvement on both the external and domestic demand fronts. However, a good performance in the second half of 2024 is unlikely to be enough to offset the weak performance observed in the first half of the year, so the contribution of industry to full-year GDP growth is likely to be negative.

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