

Hungarian industry is still in the doldrums

The August industry decline isn't tragic at first glance, but the overall picture remains disappointing. Looking ahead, we can hardly count on a recovery in foreign demand. Industry will almost certainly be a drag on GDP growth in the third quarter



A Suzuki car factory in the north of Hungary

-4.1% Industrial production (YoY, wda)

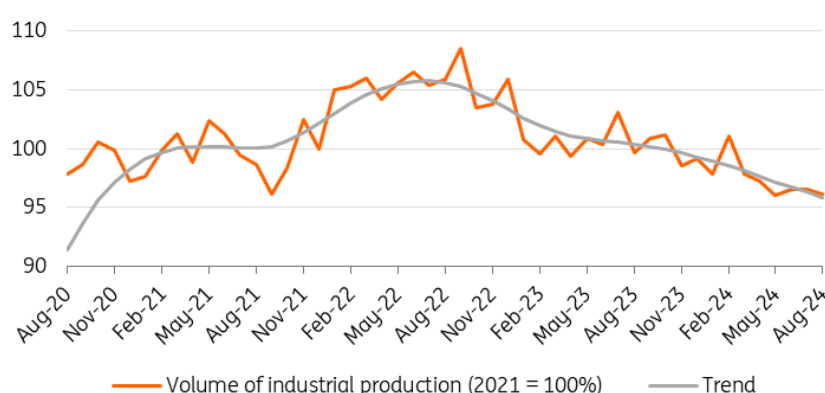
ING estimate: -5.2% / Previous: -6.4%

After stagnating in July, Hungarian industry continued to perform rather poorly in August. On a monthly basis and adjusted for seasonal and calendar effects, industrial production fell by 0.5% in the eighth month of 2024. Unsurprisingly, as expected, one of the summer months brought the downturn in performance. Indeed, we suspect that the planned summer shutdowns are behind the fall in output. If anything, it is encouraging that Hungarian industry escaped this summer without a major correction in production volumes, as a half percent monthly decline is not tragic.

However, it could well be that the small size of this correction is a sign of the weakness of the underlying processes in the main subsectors, whose shutdowns tend to cause serious temporary losses due to high production volumes. But now the performance of these sectors has been already weak, so the impact of the shutdowns was much lower, too. Turning to the year-on-year index, the calendar-adjusted figure shows a fall of 4.1% in production volumes, which is better than the previous month's figure, due to the impact of the low base of a year ago. The raw figure paints a much more negative picture (-9.1% YoY), as there are two fewer working days in August this year.

Overall, the picture is still disappointing. This is reinforced by the fact that industrial production volume is 3.9% below its average monthly output in 2021, and we have reached the rock bottom of 2021.

Volume of industrial production

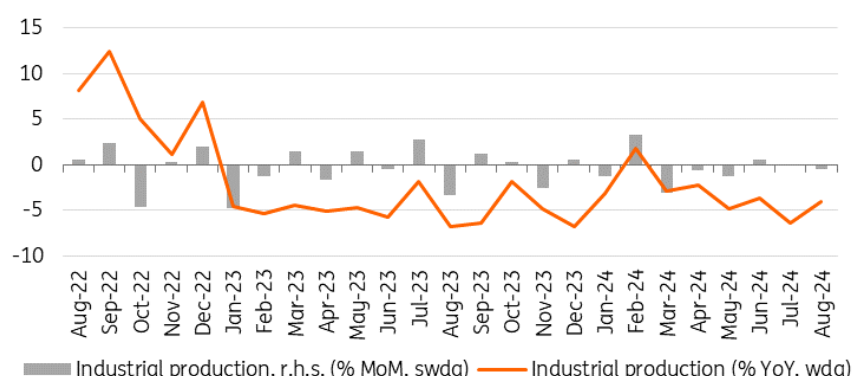


Source: HCSO, ING

Detailed data is still to come, but the preliminary release from the Hungarian Central Statistical Office shows a similar industrial structure to that seen in recent months. None of the four main industrial sectors was highlighted in a positive aspect in the press release. Output grew only in three subsections, at the highest rate in the manufacture of chemicals and chemical products. In other words, the food, transport equipment, electrical equipment, computer, electronic, and optical product sectors are still not expanding at all. But this is hardly surprising given global trends.

Recent industry surveys and confidence indicators worldwide continue to predict further weakening or, at best, stagnation. Of course, the reliability of these surveys remains highly questionable, but for the time being, the facts do not really contradict this gloomy picture. Moreover, since mid-2022, industrial production in the eurozone as a whole has been in steady decline. This represents the strongest downturn in production in more than 30 years without the eurozone economy entering a recession. Weak domestic demand, faltering external demand, high inventories and geopolitical tensions are all contributing to this.

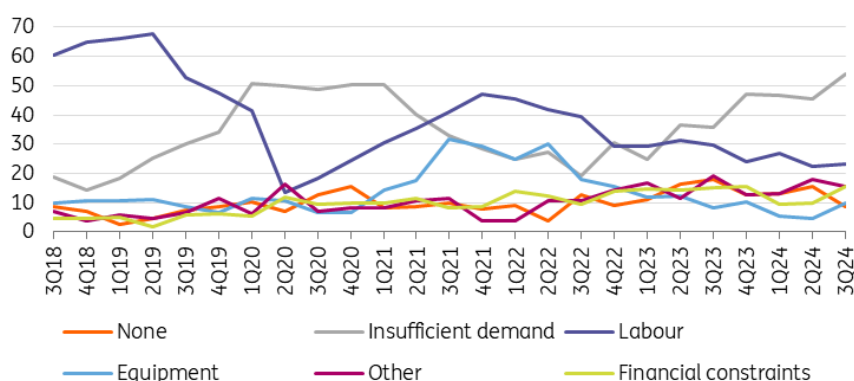
Performance of Hungarian industry



Source: HCSO, ING

Looking ahead, structural problems in external demand, thus moderate recovery expectations for next year, remain. In this respect, it is difficult to pin hopes for a near-term recovery in Hungarian industry on a rebound in export demand. It is no coincidence that recent domestic surveys also point to a lack of demand as the main obstacle to growth for manufacturing firms at present. In the case of export order books, the drop was still almost 29% YoY in July.

Factors limiting the production in Hungarian industry (% of respondents)



Source: Eurostat, ING

The outlook for sectors producing for the domestic market is not encouraging either, with domestic orders for the manufacturing sectors surveyed down by 7% year-on-year. The combination of low domestic consumer confidence, strong caution motives and sluggish business investment makes the domestic outlook fragile. However, domestic demand may improve towards the end of the year, allowing at least some industrial subsectors to sustain growth. But this will not be enough to save the day. Hungarian industry as a whole could be a significant drag on GDP growth in 2024.

Turning to the shorter-term outlook, the July-August data do not yet give much cause for optimism about economic performance in the third quarter. Another negative surprise in GDP

growth may well be in the offing, as industrial activity is almost certain to be a drag on the economy.

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