

Hungarian industry runs into trouble again

Despite the rosy picture painted by the past three months of PMI readings, industry is struggling to rebound. As such, the decoupling between the soft and hard data continues



Workers at an Audi car factory in Győr, Hungary

0.8%

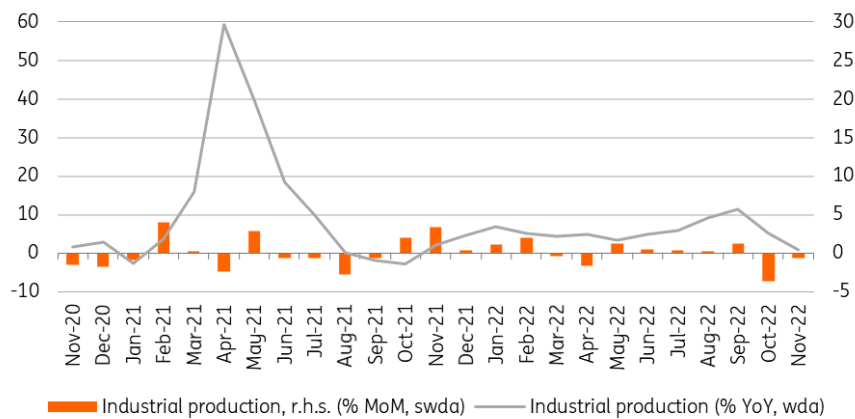
Industrial production (YoY, wda)

Consensus 4.1% / Previous 5.0%

Worse than expected

The November industrial performance further increases the odds of a technical recession in Hungary. According to the latest data release, the volume of industrial production rose by 0.8% on a yearly basis, adjusted for working days. However, if we consider the -0.7% Month-on-Month (MoM) industrial performance, which comes after a truly disappointing October data release (-3.5% MoM), we can say that the underperformance of industry did little to improve the big picture about the Hungarian economy in the fourth quarter of 2022.

Volume of industrial production

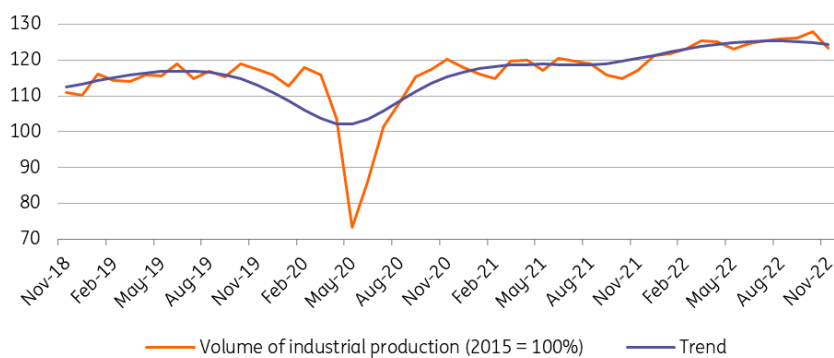


Source: HCSO, ING

Even though the Hungarian Central Statistical Office will only release the detailed data at the end of the week (13 January), the preliminary statement indicates which subsectors underperformed the most. The food industry (including beverage and tobacco production), along with electronics, posted a Year-on-Year slump, which could not be counterbalanced by a significant expansion in car manufacturing.

The exceptional lack of efficacy and resilience of agriculture puts downward pressure on the food industry, which has been underperforming for the last three months. Furthermore, we believe that high energy prices have set off overarching demand destruction among companies, which in turn negatively impacts the energy production subsector. If we want to point to any silver linings besides car manufacturing, Electric Vehicle battery production is one driving force in November.

Volume of industrial production

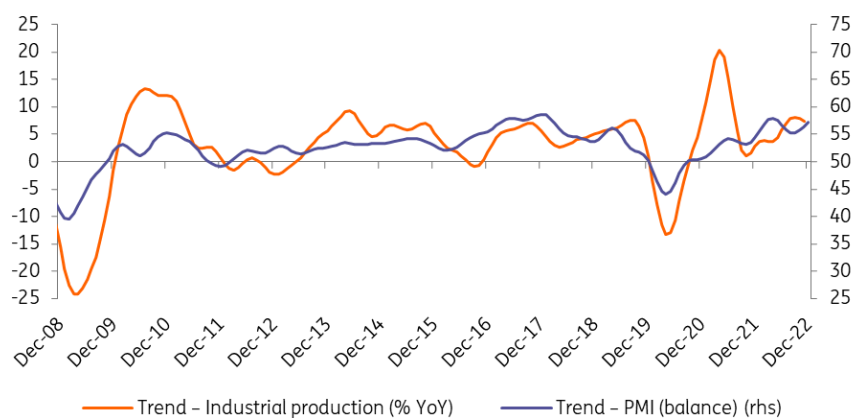


Source: HCSO, ING

After three consecutive PMI readings of 55+ (63 in December) and two consecutive drops in the volume of industrial production on a monthly basis, we can see a substantial divergence between PMI and industrial production trends. This means that we can rely less and less on the predictive power of this soft indicator. The surprisingly robust December PMI figure is based on the rising volume of new orders and quantity of output subindices. Considering that driving forces are few

and far between in the local manufacturing (and focused on car manufacturing and battery production), we think that the PMI is vastly overweighting these sectors.

Manufacturing PMI and industrial production trends



Source: HCSO, ING

A possible green shoot

Speaking of which, as far as order levels are concerned, based on previous months' detailed data, the volume of stock of orders was almost 20% higher than a year earlier, which signals that industry does have some reserves to tap into, though possibly this is true for only specific sectors. Against this backdrop and despite the October and November downturns, we remain optimistic about industry's longer-term outlook. If new waves of supply and energy shocks don't affect the sector, industry could remain a green shoot in a stumbling Hungarian economy.

Regarding the short-term outlook, we see no clear signs of further improvement in December, which used to be a weak month from a seasonal perspective. With winter shutdowns in car manufacturing and related suppliers, we might see the negative trend continuing. However, as domestic demand is dropping, reducing the economy's import needs, car and battery manufacturing might be able to produce enough export capacity to create some positive net effect, reducing the hit to GDP growth. Nonetheless, it won't be enough to avoid a quarterly drop in real GDP, and that's why we are pencilling in a technical recession for the second half of 2022.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.