

Hungarian industry shows summer upturn

Industrial production has often been heavily volatile during the summer months in Hungary. This year was no different as we saw a surprise uptick in industrial production in July. However, we need more evidence to see this as a true turning point



Any expected improvement at the end of the year will not be enough to salvage the situation for Hungarian industry, which could prove significant drag on GDP growth in 2024

-2.5%

Industrial production (YoY, wda)

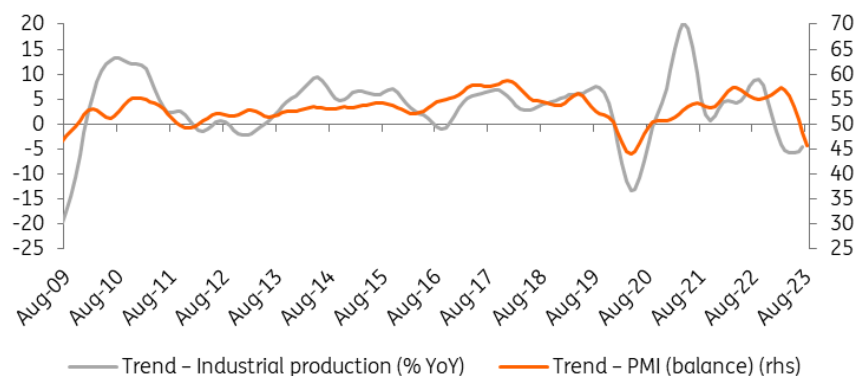
ING estimate: -6.9% / Previous: -6.1%

Better than expected

Hungarian industry delivered a significant positive surprise in July, with output volume rising by 2.8% month-on-month (MoM) adjusted for seasonal and calendar effects. As a result, the yearly change in output showed a significant improvement from June, coming in at -2.5% (adjusted for calendar effects). Given that survey-based soft indicators (Manufacturing PMI, different confidence indices of industry) have been predicting a further contraction in industrial production in recent

months, we look forward to a detailed assessment by the Statistical Office of the reasons for the positive surprise. For the time being, it is safe to say that these soft indicators continue to fail to capture shorter-term fluctuations in the sector's performance.

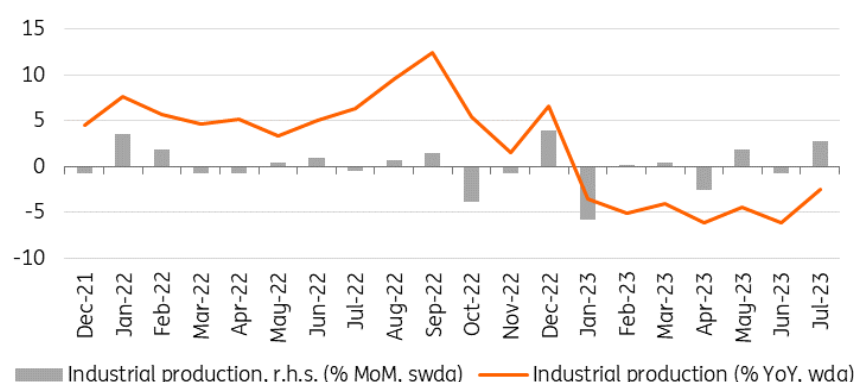
Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

While we await the detailed data, the preliminary release suggests that there is nothing new to see here. There was no significant change in the structure of industrial production. While most sub-sectors contributed to the decline in output, the exceptions remain the manufacture of electrical equipment (EV batteries) and car manufacturing. The only question that remains is whether the export-oriented sectors have been able to recover much better from the possible first summer shutdowns, or whether the other sectors have already experienced some sort of early recovery. Knowing that the performance of industry during the summer seasons has been extremely volatile recently with a lot of variation in the summer shutdown periods, it is really hard to say whether the July upturn is real or just a false hope generated by unreliable seasonal adjustments.

Performance of Hungarian industry

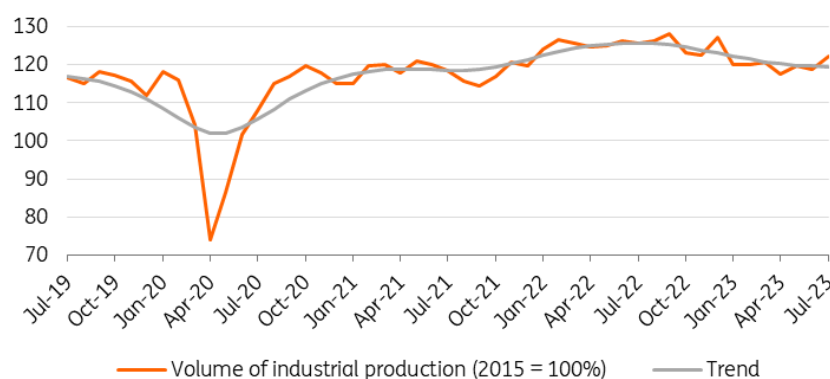


Source: HCSO, ING

For the time being, we need more evidence to believe that the July surprise is a positive turning point. All the more so because we haven't yet seen any significant positive changes in other segments of the Hungarian economy that would support the theory of improving domestic demand and industrial production in sectors linked to the domestic market.

Looking ahead, we expect this dichotomy between external and domestic demand to persist in the short term, making industrial performance a tale of two halves. Export-oriented sectors can boost industrial production in the short term through capacity-enhancing investment. The latest Eurostat survey shows that manufacturers expect capacity utilisation to improve somewhat in the third quarter, from 75.7% to 76%. However, this is still far from the peak of around 86%. This suggests that the positive impact of exports may be starting to fade as new export orders become more subdued globally and the one-off boost from capacity expansion fades.

Production level and quarterly performance of industry



Source: HCSO, ING

On a more positive note, towards the end of the year industrial companies may be able to renegotiate their energy contracts at a much more favourable market price. This could significantly reduce their costs and lead to a resumption of production in sectors that are now underperforming due to cost-side pressures. In addition, as inflation moderates and domestic purchasing power recovers towards the end of the year, domestic industrial production could receive some positive impetus not only from the supply side but also from the demand side, offsetting the initial weakening of industrial exports.

For 2023 as a whole, however, we still expect the performance of industry to be negative, i.e. below last year's total output. This also means that, barring a significant surprise from industry in the remainder of the year, agriculture will be the only sector able to meaningfully mitigate the expected decline in GDP this year.

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