

Hungarian industry still limited by domestic demand

There still seems to be some kind of glass ceiling in industrial production. After a positive surprise in July, there was a sharp correction in August. However, this could be enough to lift Hungary out of a technical recession



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

-6.1%

Industrial production (YoY, wda)

ING estimate: -1.9% / Previous: -2.6%

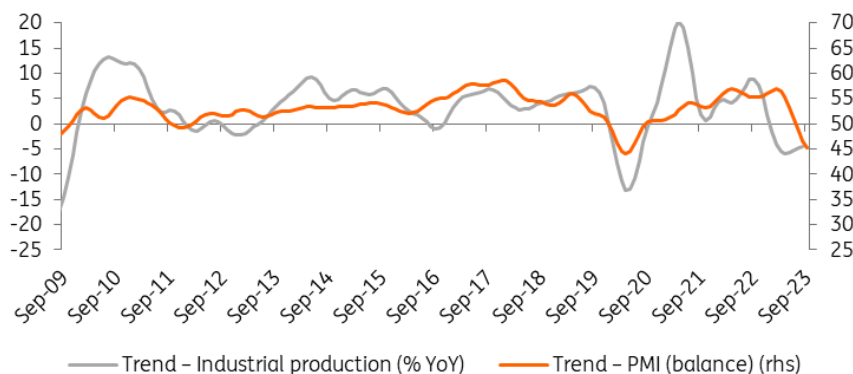
Worse than expected

Industrial activity was very weak in August. The Hungarian Central Statistical Office (HCSO) reported a month-on-month decline that was much worse than expected. Compared with July, industrial production (seasonally and working day adjusted) fell by 2.4%. This effectively wiped out July's surprising industrial growth. It is also important to note that production volumes have been fluctuating around a level that is 20% higher than the level recorded in 2015, thus it seems that

production levels are unlikely to increase further in the current economic environment. It is like hitting some kind of glass ceiling.

Industrial production fell by 6.1% year-on-year in working day adjusted terms. Given that the so-called soft indicators based on surveys (PMIs, industrial confidence indices) have remained in contractionary territory recently, they still suggested some improvement last month. Looking at the hard data for August, it can be said that the predictive power of these indicators is still limited.

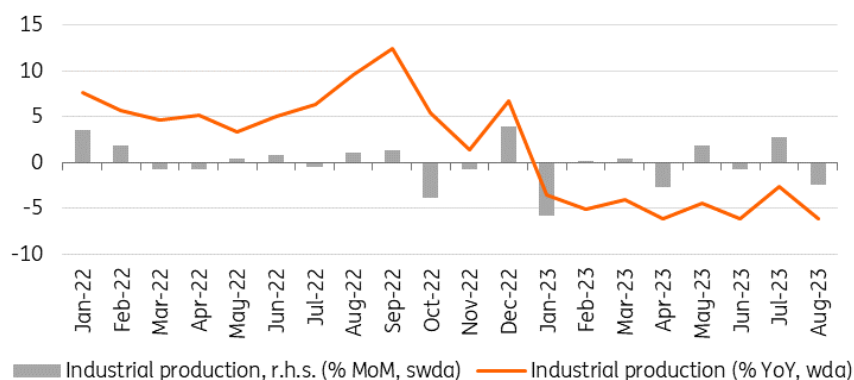
Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

Detailed data are yet to be released, but according to preliminary data from the HCSO, there were no significant changes in the structure of industrial production. While most sub-sectors contributed to the decline in output, the exceptions remain the manufacture of electrical equipment (battery production) and car manufacturing. Given the renewed sharp contraction, it is likely that the effects of the summer shutdowns in August may have been felt in sectors producing for export, while a further decline in domestic demand is weighing on the performance of sectors producing for the domestic market. It therefore appears that, in the absence of a sustained change in the economic environment, industrial production will hover around the production levels observed since the beginning of the year. This also means that industrial production is expected to contract by around 5-6% for the year as a whole.

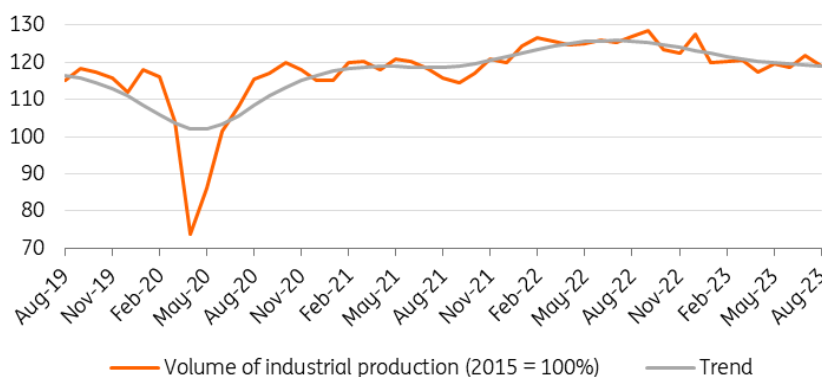
Performance of Hungarian industry



Source: HCSO, ING

Regarding the risks surrounding the industrial outlook, clouds are already gathering on the external demand side, i.e. the export-producing sectors, as European industrial performance remains sluggish while Chinese growth is more inward-looking, hardly conducive to a recovery in global trade. In addition, the one-day loss of production caused by a technical fault at the Volkswagen Group, which also forced the closure of the Audi plant in Hungary, is likely to weaken the September figure.

Volume of industrial production



Source: HCSO, ING

Turning to domestic developments, there are currently no signs of an imminent pick-up in output growth in sectors producing for the domestic market in the short term. However, what supports a somewhat improving outlook towards the end of the year is that industrial companies may be able to renegotiate their energy contracts at a much more favourable market price. This could result in a significant reduction in their costs, leading to a pick-up in output in sectors that are now underperforming due to cost constraints.

Moreover, as inflation moderates and purchasing power in the domestic economy recovers towards the end of the year, industrial sectors producing for the domestic market may receive some positive impetus not only from the supply side but also from the demand side. This may offset a possible slowdown in industrial exports. Finally, we conclude on a positive note. Despite the correction in August, the expected industrial performance in the third quarter should be significantly better than in the second quarter. Thus, barring an ugly surprise in September, quarter-on-quarter industrial production growth will remain in positive territory. In other words, industry, together with agriculture, could help the Hungarian economy emerge from a technical recession in the third quarter of 2023.

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 <http://www.ing.com>.