Hungarian industry still limited by supply chain issues

After November's jump, December was much quieter for industry with global semiconductor shortages still limiting car manufacturing – but we see some glimmer of hope

The Hungarian industry remains in flux

3.6%

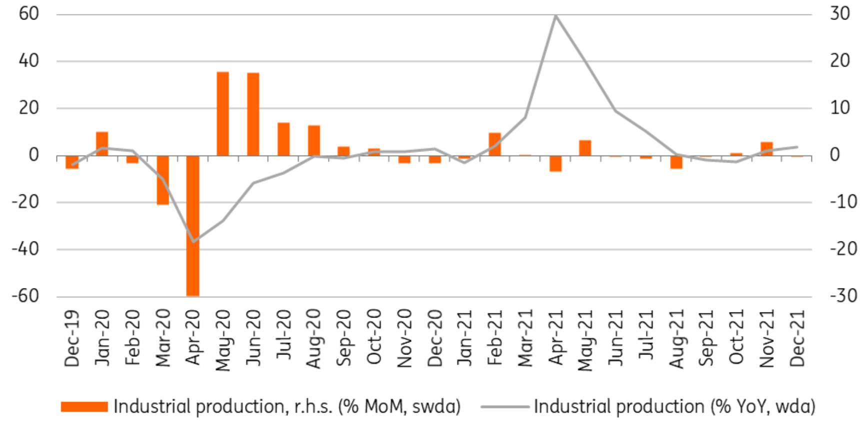
Industrial production (YoY)

ING forecast 4.3% / Previous 2.2%

Better than expected

After surprisingly high Hungarian industry figures in November, December's performance did not really raise our eyebrows. Industrial production marginally decreased (0.1%) on a monthly basis. But because of the low base 12 months earlier, and due to the higher number of working days in December 2021 than in December 2020, the year-on-year growth came in at 5.8%.

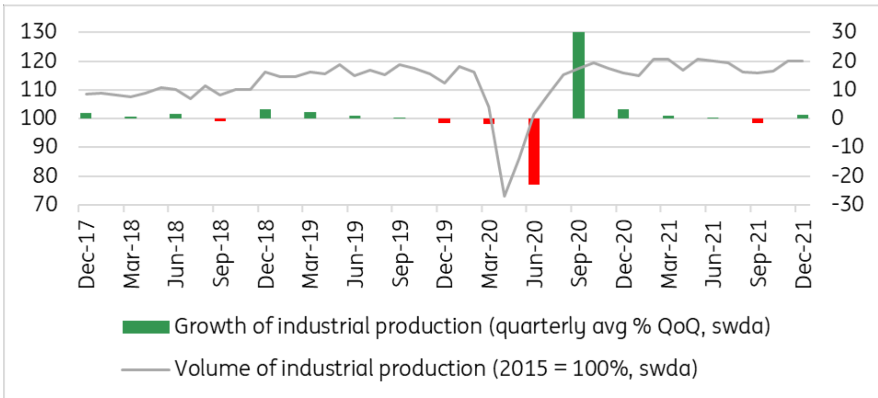
Performance of Hungarian industry



Source: HCSO, ING

This shows that the issue with industry nowadays is the volume of production compared to 2015. This index – as you can see in the below chart – is unable to move above the 120-121% threshold. It looks like there is a glass ceiling. We see this as clear evidence that recent shortages affecting industrial production have been making it impossible for the volume of production to pick up significantly.

Production level and quarterly performance of industry

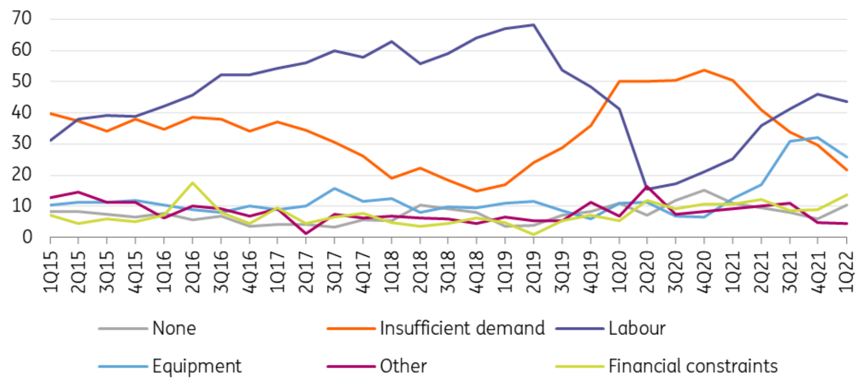


Source: HCSO, ING

Car manufacturers and electronics producers are also facing input shortages, thus working in shorter shifts. Instead of the usual three-shift working order, these manufacturers are now producing goods only on one shift. According to the Statistical Office's note, electronics manufacturing in December recorded growth alongside the food industry. So, despite the second and third most important sectors being able to lift production, the overall performance of industry was one of stagnation. This probably means a pretty bad month for car manufacturers in December.

All in all, the November jump eventually saved the fourth quarter as based on the quarter-on-quarter performance, industry as a whole was able to grow. This bodes well for the GDP growth data (to be released on 15 February). After yesterday's retail sales data, and checking this industrial performance for the fourth quarter, we still see an upside risk to our 5.5-6.0% year-on-year GDP growth call in 4Q21.

Factors limiting the production (% of respondents)



Source: Eurostat, ING

What the future holds for the Hungarian industry remains in flux, but the forward-looking indicators suggest that we can expect some positive developments in 2022. Not only has the manufacturing purchasing manager's index (PMI) been above the 50-watershed level lately, but the share of companies complaining about equipment and labour shortages seems to be on the decline in the first quarter. Based on this, we can't say that industry is out of the woods yet, but such data provides a glimmer of hope that the aforementioned glass ceiling will be broken in the coming months.

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