Hungarian industry still shows gloomy picture

The overall picture remains disappointing as Hungary's industry hits a new low. Looking ahead, structural problems in external demand seem to continue and industry is now almost certain to be a major drag on GDP growth in 2024

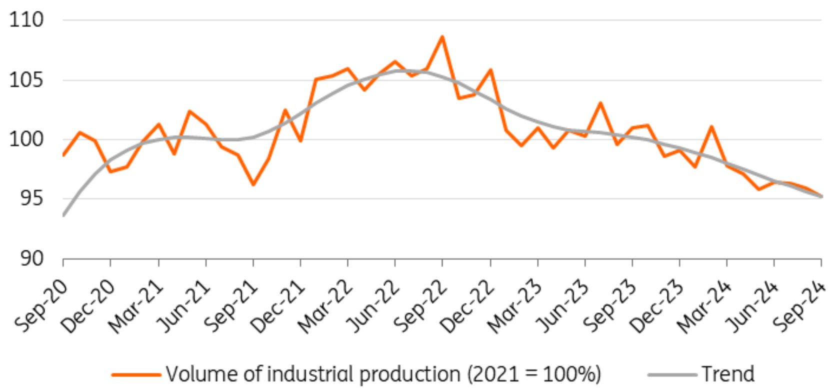
-5.4%

Industrial production (YoY, wda)

ING estimate: -6.0% / Previous: -4.1%

After the downturn in August, Hungarian industry continued its downward trend in September. On a monthly basis, and adjusted for seasonal and calendar effects, industrial production fell by 0.7%. There are no serious negative surprises, but the fact that industry did not improve even after the summer shutdowns is certainly telling. As we wrote in our August commentary, the minor size of the summer correction due to holiday-related shutdowns may indicate the fragility of the core sectors. These sectors experience significant losses during shutdowns because of their high production volumes. The new data and the lack of a post-summer rebound only reinforce this gloomy picture. For the year-on-year index, the calendar-adjusted figure shows a decline of 5.4% due to the impact of a higher base in the previous year. More telling, however, is the fact that the volume of industrial production is 4.8% below the average monthly output in 2021. This also means that the last time Hungarian industry had such a low level of output was during the recovery from the Covid closures.

Volume of industrial production

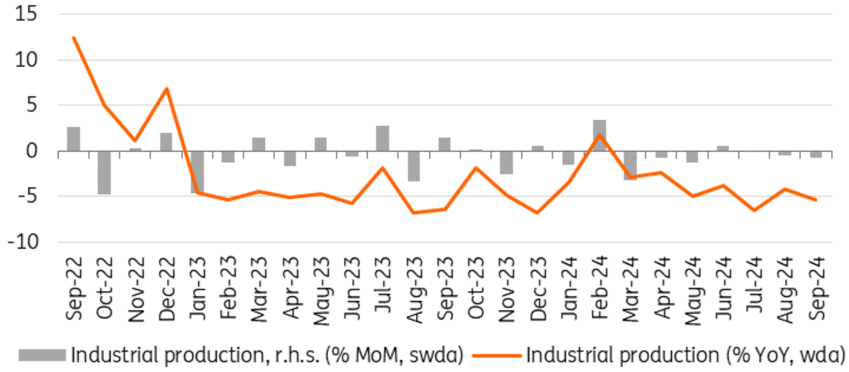


Source: HCSO, ING

Detailed data is still to come, but the preliminary release from the Hungarian Central Statistical Office shows a similar structure to that seen in recent months. Only one of the four main industrial sectors is highlighted in a positive light in the release. This is the food industry. However, the latest news suggests that there will also be disruptions from October due to a shortage of raw materials (vitamin B). None of the smaller sub-sectors are highlighted in a positive manner, while the release notes that the great majority of sub-sectors have seen a decline in production volumes.

Recent industry surveys and confidence indicators worldwide continue to point to further weakening or, at best, stagnation. Of course, the reliability of these surveys is questionable, but for the time being, the evidence does not really contradict this gloomy picture. Moreover, manufacturing activity in the euro area is at a low not seen for more than three decades without a recession in the region. Weak domestic demand, faltering external demand, high inventories and geopolitical tensions are all contributing to this.

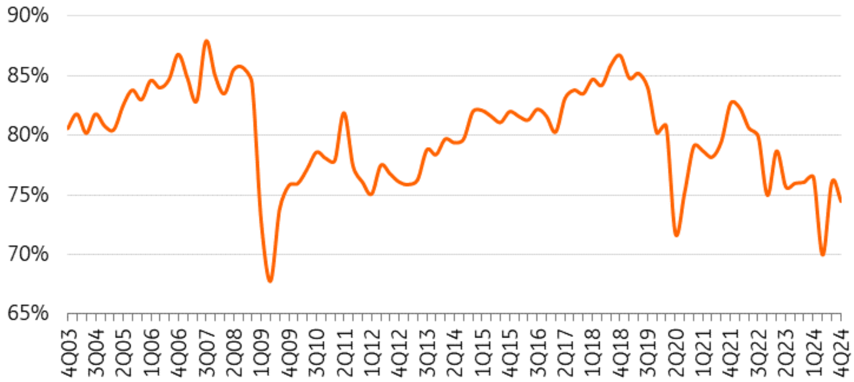
Performance of Hungarian industry



Source: HCSO, ING

Looking ahead, structural problems in external demand and moderate recovery expectations for next year remain. Moreover, the latest - as yet unofficial - results suggest that the Trump 2.0 era is upon us, which could be a major headache for European industry. In this respect, it is difficult to base hopes for a short- to medium-term recovery of Hungarian industry on a rebound in export demand.

Current level of capacity utilisation in Hungarian industry (%)



Source: Eurostat, ING

It is no coincidence that recent domestic surveys also point to a lack of demand as the main obstacle to growth for industrial firms at present. Meanwhile, the latest surveys suggest that industrial capacity utilisation deteriorated further in the fourth quarter, which does not bode well for the short-term outlook. The combination of fragile domestic consumer confidence (which could weaken with a further depreciation of the forint), strong caution and sluggish corporate investment also make the domestic outlook gloomy. Hungarian industry as a whole is now almost certain to be a significant drag on GDP growth in 2024, which is likely to be between 0.5 and 1.0% this year, but rather closer to the lower end of the range.

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