# Hungarian industry surprises to the downside

November brought gloomy industrial production data, possibly as a result of weaker external demand. Barring a large positive surprise in December, industry may have been a drag on GDP growth in the fourth quarter

-5.6%

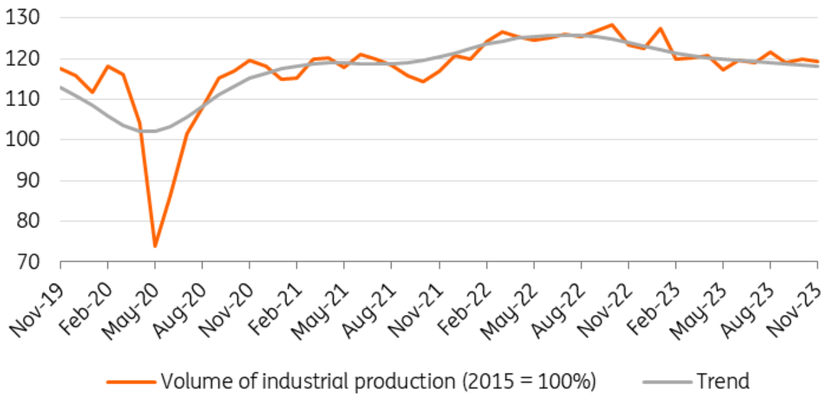
Industrial production (YoY, wda)

ING estimate: -0.8% / Previous: -3.2%

Worse than expected

In contrast to the retail sector, Hungarian industry delivered a very big negative surprise in November. On a calendar-adjusted annual basis, output was 5.6% lower than a year earlier, even worse than in October. Moreover, it cannot even be said that the sector's performance deteriorated due to negative base effects, as output fell by 2.3% month-on-month. Against this backdrop, it is possible that after the stabilisation seen in recent months, a new downturn has begun. Of course, it is too early to draw far-reaching conclusions from a single figure – but there is no doubt that the sector is still on a downward trend and that total production has fallen back to post-Covid crisis levels recorded at the end of 2020 and the beginning of 2021.

## Volume of industrial production

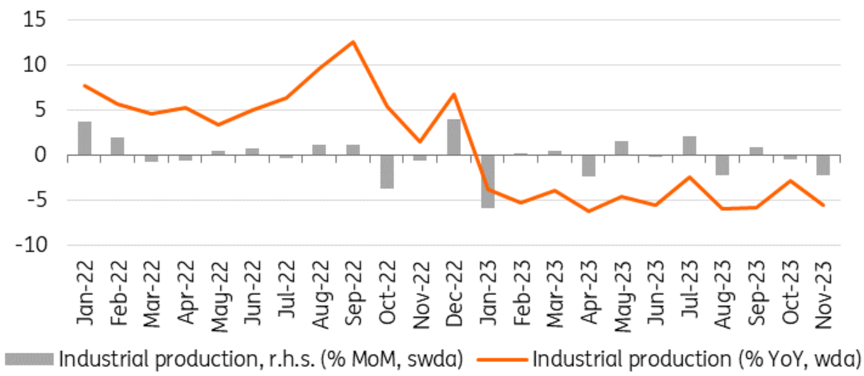



Source: HCSO, ING

Detailed data is yet to be released, but the preliminary release from the Hungarian Central Statistical Office (HCSO) contained some surprises. On reflection, such a large monthly decline would hardly have occurred without the poor performance of the main export-oriented sectors. In fact, while most of the sub-sectors contributed to the decline in output, there were two positive exceptions this time. These are the manufacture of coke and refined petroleum products, as well as the manufacture of chemicals and chemical products. These are two low-weight sectors, so it is clear that the most influential electrical equipment (battery production) and automotive sectors also had a weak month in November. If we look at previous preliminary releases, the latter two influential sectors have been the exception throughout 2023, however this was not the case in November.

In our view, as both sectors (manufacture of electrical equipment and automotive) are heavily oriented towards export sales, we suspect that November was characterised by subdued external demand. While a slightly weaker industrial performance was expected due to the month-long shutdown of Nitrogenművek, a decline in these two key sectors was hardly expected.

## Performance of Hungarian industry



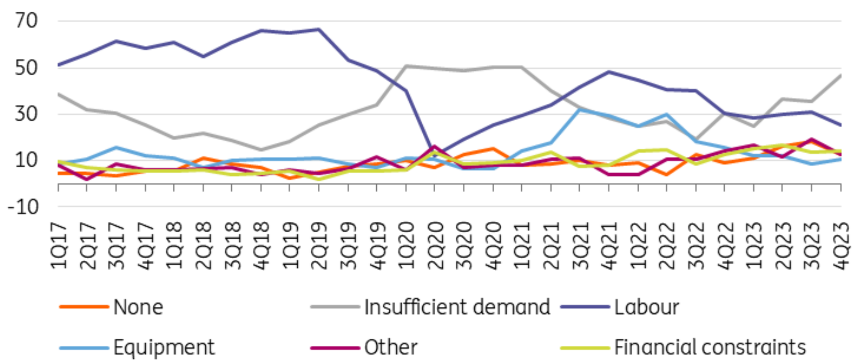

Source: HCSO, ING

In the absence of detailed data, we cannot yet say for sure, but it is possible that the process we have been predicting for months has begun. The effects of the weak global industrial economy may have arrived in Hungary and, as a result, the performance of export-oriented sectors may have started to weaken. Meanwhile, industrial sectors producing for the domestic market are unable to amass new orders and ramp up production in the absence of domestic demand, as consumption and investment dynamics still remain subdued. Regarding external demand, the downward trend of industrial production in Germany is not a good sign for Hungarian industry. The lack of demand therefore appears to be the main problem for industry in the fourth quarter, as also reflected in the Eurostat survey.

Whether this was just a one-off slump or whether the downturn in the export sectors has really begun will become clearer in the light of the December data. In the meantime, it has become almost certain that we will see an industrial contraction of around 5-6% for 2023 as a whole. This surprisingly poor industrial performance will also have a negative impact on the fourth-quarter GDP figure.

The positive surprise in November's retail sales data is more than offset by the gloomy industrial production data, and it looks very likely that – in the absence of a large positive surprise in December – industry could have held back GDP growth in the fourth quarter. On this basis, downside risks to the expected return to GDP growth in the fourth quarter are beginning to emerge.

## Factors limiting the production in Hungarian industry (% of respondents)




Source: Eurostat, ING

Looking ahead, the outlook for industrial performance this year has deteriorated further over the past month. In addition to weakening external demand, which is having a negative impact on new export orders, the crisis in the Red Sea region is also weighing on the situation. Several shipping companies have already suspended shipments on the Red Sea routes due to the ongoing Houthi attacks.

The result of trade diversion is reduced transport capacity, longer transit times by sea and a dramatic increase in shipping costs. In this regard, we have already seen shipping costs increase by up to 70-100% on the main routes in late December and early January. The Rotterdam-Shanghai route has been hit the hardest, posing serious risks to supply chains and the inflation outlook.

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