

## Hungarian industry was on an uptrend before the Ukraine war began

Industry was able to turn up the volume in February and was performing strongly. With the Ukraine war this is all in the past, however, as the sector is facing another year of extreme shocks



Industrial production rose by 4.5% year-on-year in February

# 4.5%

Industrial production (wda, YoY)

ING forecast 5.1% / Previous 7.1%

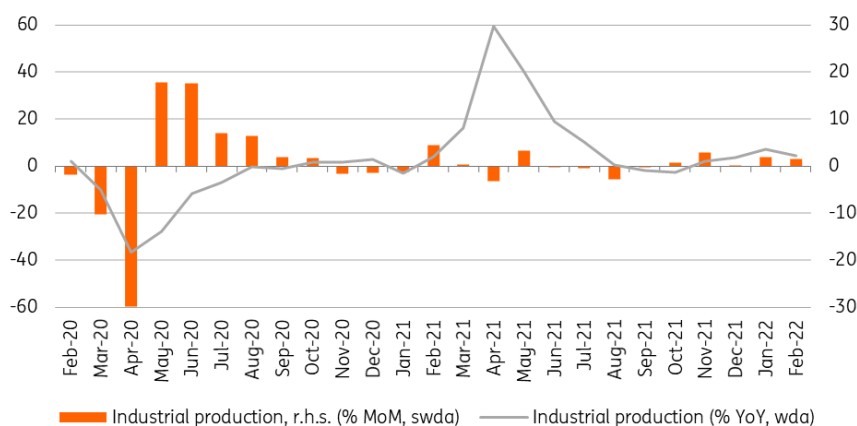
Better than expected

The reality is that no matter how strong the Hungarian industry was in January or February, everything has changed since the war in Ukraine. But February was indeed a strong month for industrial production, which was expected following the Covid-19 crisis.

Industrial production rose by 4.5% year-on-year in February, while there was a 1.6% month-on-month increase. This performance far outpaced the market consensus but fell slightly short of ING's forecast. The outbreak of the Ukraine war at the end of February presumably did not have a significant impact on industrial production. It seems there were enough spare parts to continue production during February despite the interruption of supply chains late in the month, allowing

producers to keep most of their production capacity intact. In contrast, we expect to see a much weaker performance in key sub-sectors in March.

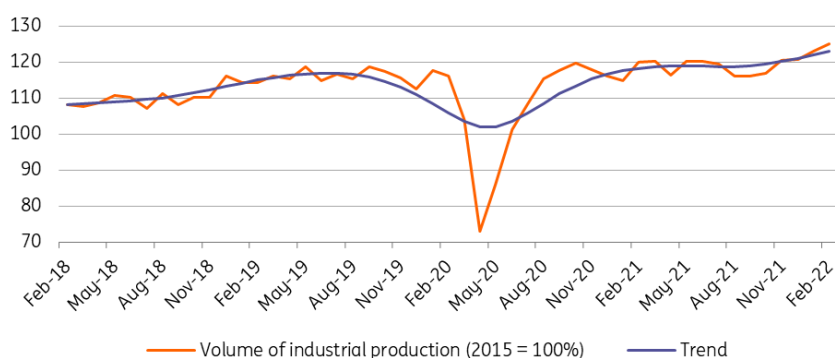
## Performance of Hungarian industry



Source: HCSO, ING

Preliminary data from the Hungarian Central Statistical Office do not contain too many details, but the press release revealed that most of the manufacturing sub-sectors were able to contribute to the sector's growth. However, it was also noted that the performance of car manufacturing decreased slightly, again. In other words, the sector was already restrained by the end of the month, but the rising capacity utilisation of the previous weeks (before late February) was still able to offset the decline at the end of the month. The fact that the electronics and food industries were finally able to expand at a high pace contributed to the performance of the Hungarian industry. But these are two areas that could be affected by supply problems caused by the war.

## Volume of industrial production

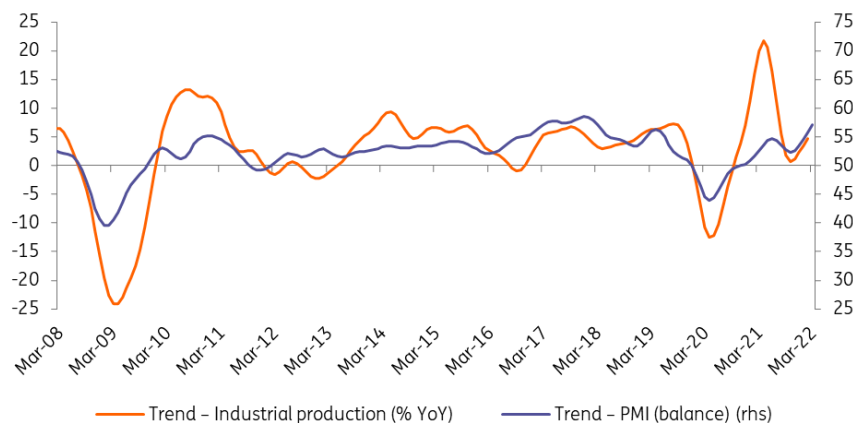


Source: HCSO, ING

The very strong expansion in January-February in industry is water under the bridge now. As a result of the war and the subsequent sanctions imposed, this uptrend has become unsustainable, in our view. The key question for the coming months is whether there will be a similar level of industrial shutdown as we saw during the Covid-19 crisis.

The latest anecdotal evidence is pointing toward a less severe but lengthier drop. The positive development here is that more production lines have restarted in Ukraine where possible. In addition, industrial companies are exploring alternative sources of spare parts that can improve supply problems while also bringing significantly higher costs. Maybe these are the reasons behind the still strong Hungarian PMI reading (57.6 in March), which remains on an upward trend as well.

## Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

On the production side, therefore, there is some really moderate optimism for the coming months after the first big shock in March. But there will be further upward pressure on inflation without a doubt due to higher costs of alternative sources. All in all, it is almost impossible to predict how the Hungarian industry will perform this year, but what is certain is that the sector is facing another year of extreme shocks.

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