

# Hungarian industry's sink or swim moment arrives

Industrial performance in Hungary was clearly on the way up before it was derailed by the Ukraine war. Yet, March data shows resiliency despite the plethora of challenges, while the real sink or swim moment is on its doorstep



The single most important sub-sector of industry – car manufacturing – saw production drop considerably in March

4.2%

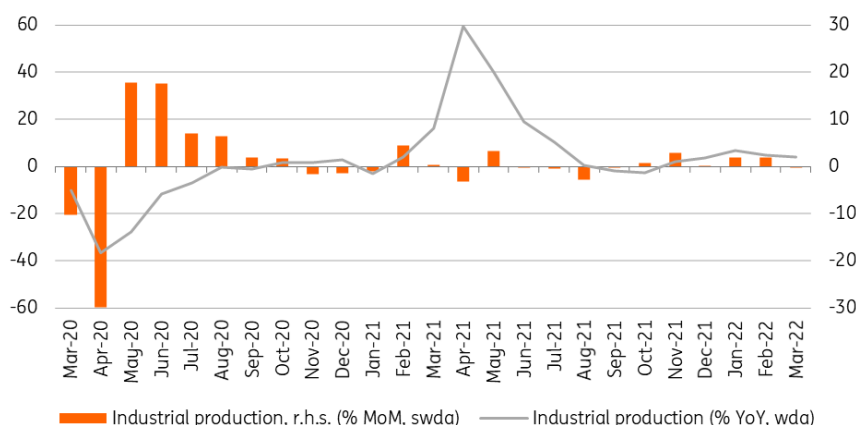
Industrial production (YoY, wda)

ING forecast 2.2% / Previous 4.8%

Better than expected

Although the volume of industrial production rose by 4.2% year-on-year in March (working-day adjusted), the Hungarian Central Statistical Office registered a 0.1% decrease on a monthly basis. Therefore, the dynamic growth seen during the first two months of 2022 has been broken. But it could have been worse.

## Performance of Hungarian industry

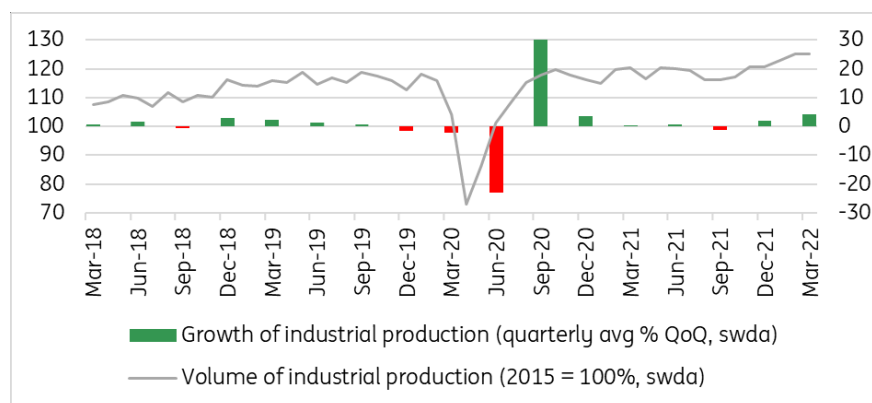


Source: HCSO, ING

After the outbreak of the war, automotive companies cut production hours and shifts in March due to a shortage of spare parts and logistic woes. Traces of this can be seen in the weaker performance of the industry. In its statement, the Statistical Office emphasised that the single most important sub-sector of industry – car manufacturing – saw production drop considerably in March.

In contrast, the other two major sub-sectors (electronics and food) showed above-average growth rates, counterbalancing the bad performance of vehicle production. However, perhaps these two sectors' good performances alone will not have been enough, so we wouldn't be surprised if smaller sub-sectors performed well thanks to recent capacity expansions. The Statistical Office is going to release the detailed statistics in one week's time.

## Production level and quarterly performance of industry



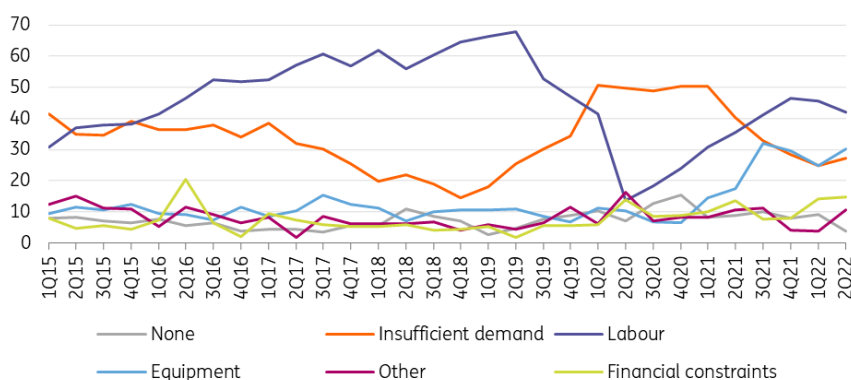
Source: HCSO, ING

Given the outstanding performance of industry in the first two months of 2022 and the not-so-bad March data (given the circumstances), the volume of industrial production expanded by 5.5% year-on-year in the first quarter. If we also take into account the extremely strong growth of retail sales turnover during the January-March period, a dynamic GDP growth picture emerges. We expect that – similar to the fourth quarter of last year – the first quarter of 2022 could show 7% year-on-

year economic activity. At the same time, based on other high-frequency data, we don't rule out the possibility of even stronger GDP growth.

Looking ahead, problems affecting supply chains are unlikely to improve at any time soon. Industrial companies are trying to find alternative sources for spare parts, but it will take time, and this issue is reflected in the latest Eurostat survey about factors limiting production. In addition to the war, China's zero-Covid policy is further exacerbating already existing logistical concerns.

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



Source: Eurostat, ING

So, practically, the Hungarian industry has reached its “sink or swim” moment. If companies are able to reshuffle their supply channels, keep their workers despite the rising salary demands on labour shortage, and adapt to rising financial constraints due to the higher interest rate environment, there will be better days ahead. The reason is simple: based on the stock of orders which is 26% higher on a yearly basis, the demand is clearly there to jumpstart production if limitations are easing. And those who are not flexible enough will sink.

### Author

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto: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 [www.ing.com](http://www.ing.com).