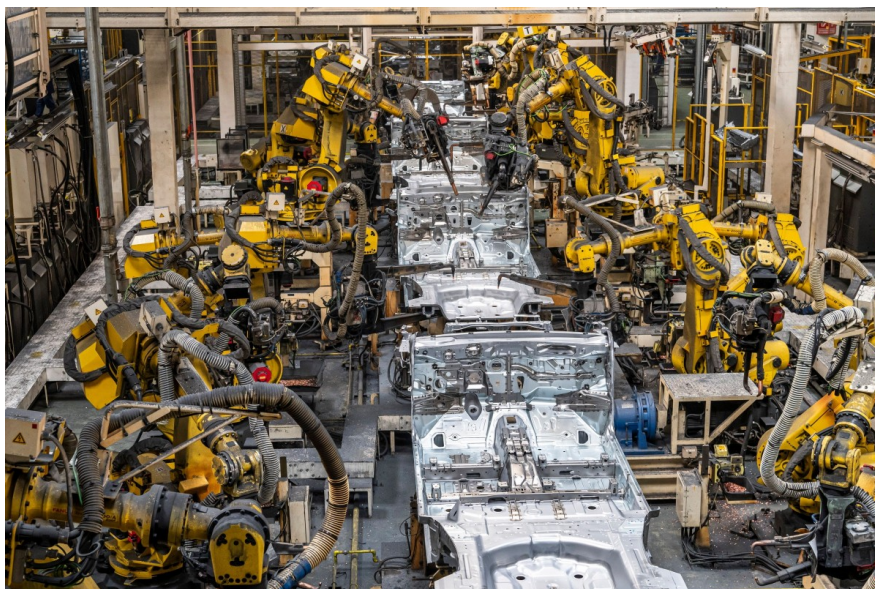


Why a June turnaround in Hungary's industrial performance is likely to prove temporary

After three consecutive months of deterioration, June brought a slight turnaround in production volumes. However, the overall trend remains unfavourable, and the medium-term outlook is becoming increasingly challenging



Any expected improvement at the end of the year will not be enough to salvage the situation for Hungarian industry, which could prove significant drag on GDP growth in 2024

-3.7%

Industrial production (YoY, wda)

ING estimate: -6.9% / Previous: -4.9%

Better than expected

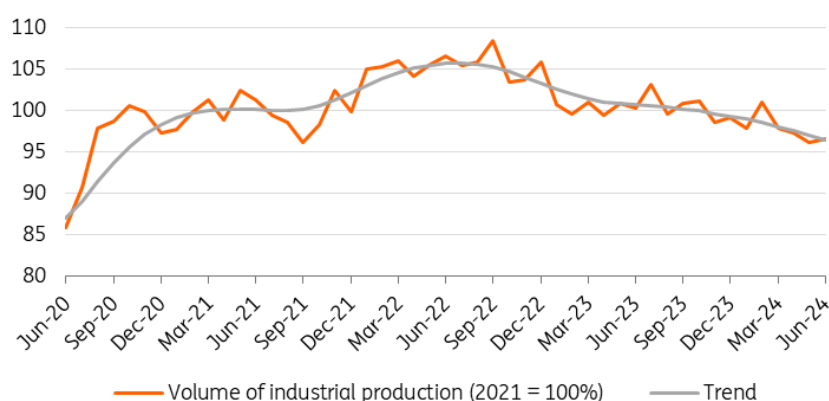
Hungarian industry continues to be lacklustre, but after a long time it has finally delivered a positive performance. On a seasonally and calendar-adjusted basis, industrial production rose by 0.5% month-on-month in June. This broke a three-month streak of industrial contraction, although

the improvement is hardly convincing.

The one-month increase also improved the year-on-year index. Compared with the same period a year earlier, industrial production (working day adjusted) fell by 3.7%. However, the working-day effect was again significant. With two fewer working days in June this year, the raw data show a fall of 8.2%. So, the overall picture is very mixed.

However, there is one statistic that helps us see clearly: the fixed base index. Compared with the average monthly volume in 2021, industrial production today is 3.4% below the 2021 average level and we are still quite close to the trough in 2021. General industrial performance remains rather weak, which is not surprising given the state of the economy, and more importantly the state of external demand.

Volume of industrial production

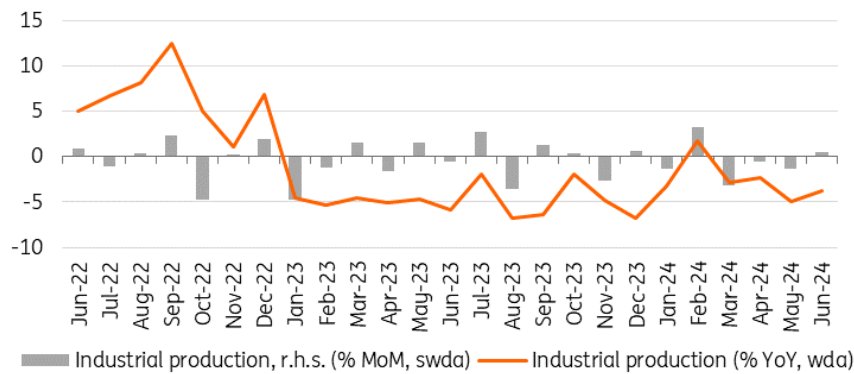


Source: HCSO, ING

We're still awaiting detailed data, but the preliminary data released by the Hungarian Central Statistical Office (HCSO) confirmed a generally deteriorating trend, as we have seen in recent months. Only two subsectors were identified in the flash release as showing a significant positive performance. These are the chemicals and chemical products subsector and the wood, paper and printing subsector.

Neither subsector is among the top six industrial sectors, and neither is usually described as the main driver of Hungarian industry. Unfortunately, this picture continues to suggest that the truly dominant manufacturing sectors – such as transport equipment, electrical equipment, electronics, and food – are still in a sustained state of contraction.

Performance of Hungarian industry

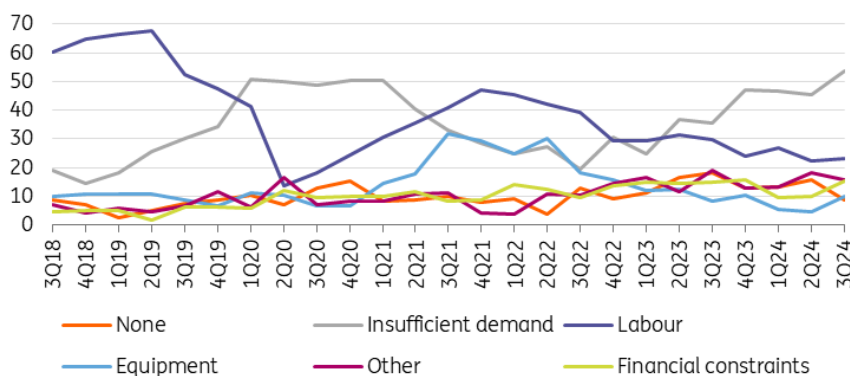


Source: HCSO, ING

Recent global industry surveys and confidence indicators still tend to show stagnation or very slight improvement. However, their reliability remains highly questionable. German industry is still at a low point, although the [June data](#) showed some positive developments. But compared with pre-crisis levels, German industrial production is still down by 10%. In addition, the expected loss of momentum in the US and Chinese economies and the tensions in international trade hardly point in the direction of a breakthrough in German or even eurozone industry.

In this regard, it is difficult to have high hopes for a short-term recovery in Hungarian industry based on a recovery in export demand. Global order books are low, and inventories of manufactured goods have barely come down from their peaks. In other words, it is only when inventories start to shrink substantially, global consumer confidence improves, and demand picks up that order books in the production chains will start to rebuild. This means that the recovery in external demand will be a slow and gradual process.

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

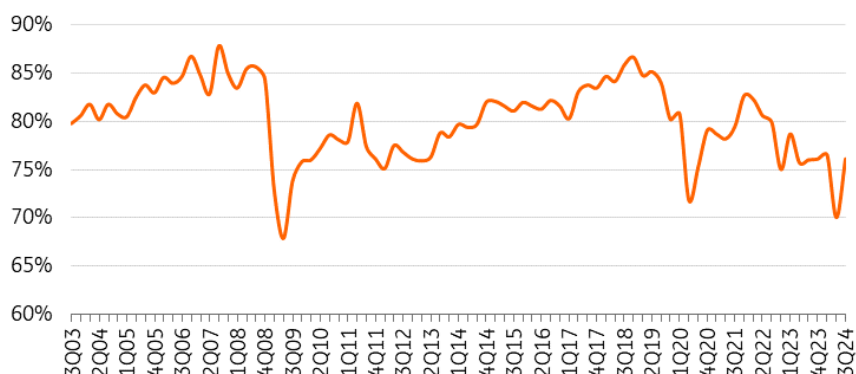


Source: Eurostat, ING

The outlook for sectors producing for the domestic market is not encouraging either. The latest data from May shows that the domestic order books of the observed manufacturing sectors were down by 7% YoY. For export orders, this represents a shortfall of almost 25%. The combination of

weak domestic consumer confidence, a still elevated precautionary motive, and sluggish business investment is also weighing on the domestic outlook.

Current level of capacity utilisation in Hungarian industry



Source: Eurostat, ING

However, domestic demand may improve towards the end of the year to the extent that at least some sectors of the economy will be able to sustain growth. A glimmer of hope may be provided by the latest capacity utilisation survey for the third quarter which, while improving, remains at historically low levels.

At this stage, the decline in the second quarter may have been due to an unflagged but planned factory shutdown or retooling of production lines. However, the current rebound in the third quarter might be therefore purely technical and is unlikely to translate into meaningful output growth unless there is a sustained recovery in demand. All in all, any expected improvement at the end of the year will not be enough to salvage the situation. Hungarian industry as a whole could be a significant drag on GDP growth in 2024.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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