

No one saw this big drop coming in Hungarian industry

After a surprisingly strong December, industrial performance in January recorded a considerable fall, bringing industrial production back on a downward trend



3.2%

Industrial production drop in January (YoY, wda)

ING estimate 5.5% / Previous 5.6%

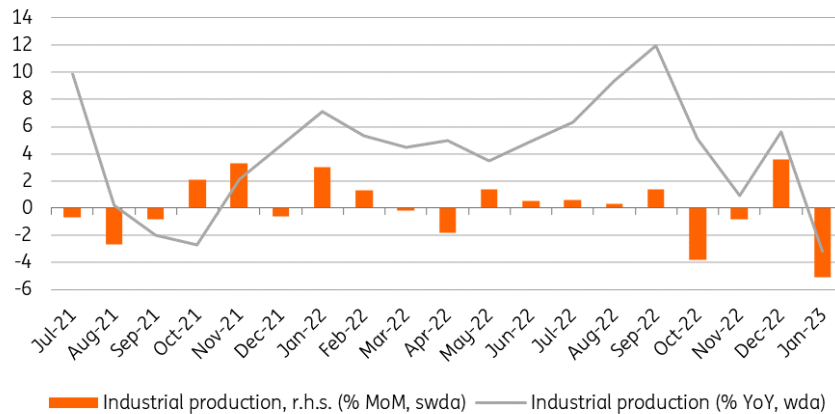
Worse than expected

We did not see this coming. The last time the Hungarian industry performed this poorly was during the darkest days of the Covid-19 crisis. Back then, it was easy to understand the poor data, but the same cannot be said this time.

According to the raw data, the volume of industrial production fell by 0.2% year-on-year in

January, while the drop came in at 3.2% after adjusting for calendar effects. Industrial output was 5.1% lower than in December 2022. Clearly, any optimism we had in December when industrial production rebounded was premature.

Performance of Hungarian industry

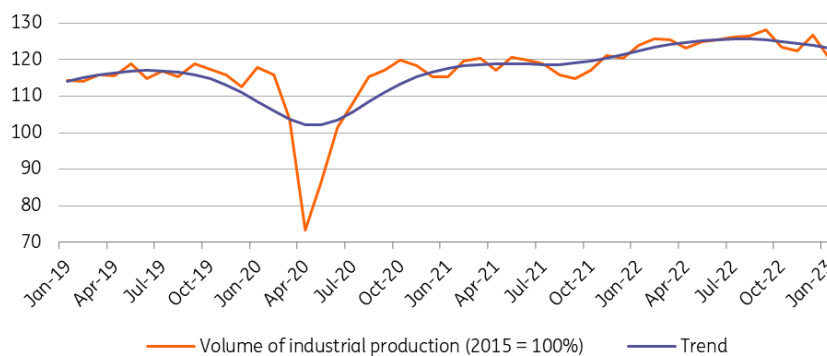


Source: HCSO, ING

Even though the Hungarian Central Statistical Office (HCSO) will only release the detailed data next week (14 March), the preliminary statement gives us some clues about the state of Hungary's industry. It shows that the largest positive contributors to industrial performance were electrical and transport equipment manufacturing (e.g. electric vehicle batteries and cars), which both expanded on an annual basis.

On the other hand, the food industry seems to be still struggling as it posted a yearly contraction in the volume of production. This hardly comes as a surprise given that the volume of sales regarding the manufacture of food, beverages and tobacco products have been contracting since June 2022 on a yearly basis. Other than this, we think that some energy-intensive sectors are still facing cost-side pressures as they could be stuck with bad energy contracts which are not following market prices.

Volume of industrial production

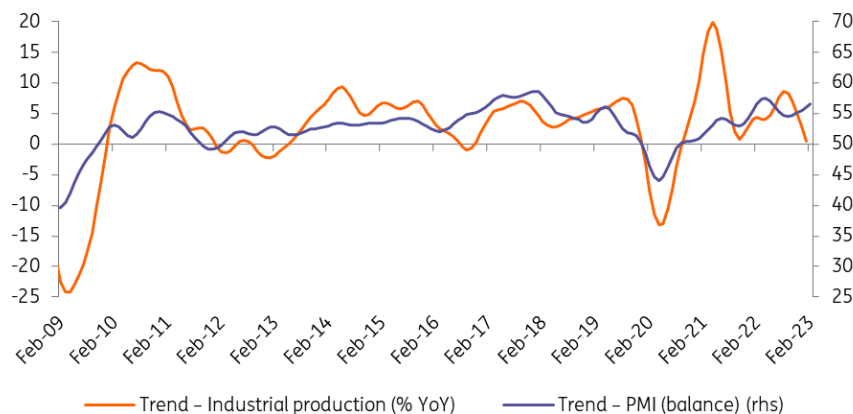


Source: HCSO, ING

The predictive power of the Hungarian PMI reading and the business confidence indicator has been

deteriorating for some time. Since October 2022, each PMI release has come in above 55, with the latest print in February at 56.5, indicating an expanding industry. However, despite positive soft data readings, the hard data's monthly dynamics have disappointed since October. December's surprisingly good performance was a notable exception to this soft and hard data divergence, but in light of January's data we believe that last year's outperformance was an anomaly.

Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

Going forward, uncertainty concerning future industrial performance remains elevated with soft data releases offering little clues. The detailed release by HCSO published on 14 March will be important, as at the moment we have limited information regarding the cause of the sharp drop. We suspect that individual plant shutdowns (lengthened winter stoppages to save energy) and temporary factory outages (maintenance issues) are the main culprits behind January's disappointing performance. Nevertheless, with the Hungarian industry starting 2023 so bleakly, we believe that a GDP contraction in the first quarter of 2023 cannot be avoided.

Authors

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Dávid Szónyi

Research Trainee

david.szonyi@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 <http://www.ing.com>.