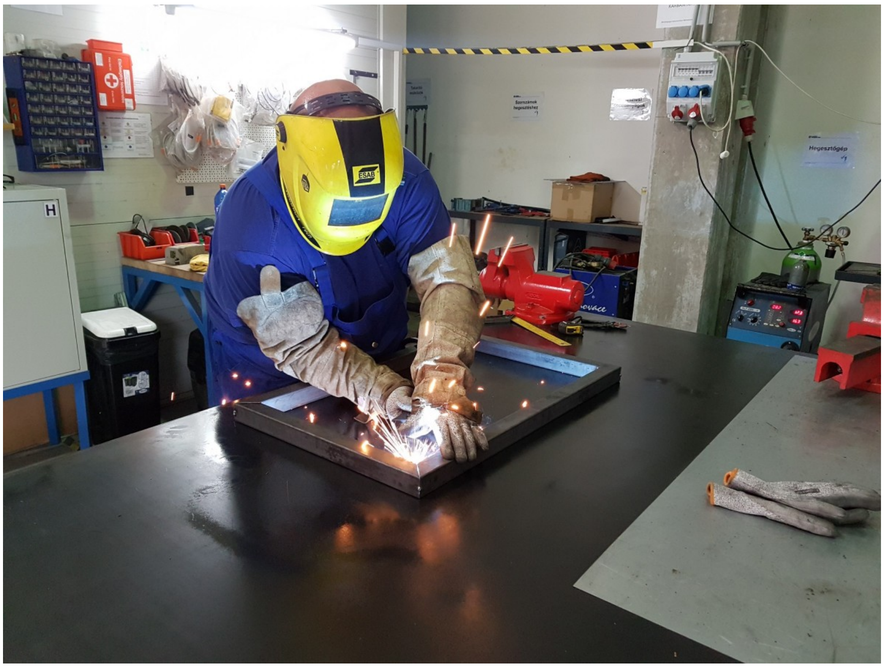
No one saw this big drop coming in Hungarian industry

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



3.2%

Worse than expected

Industrial production drop in January (YoY, wda)

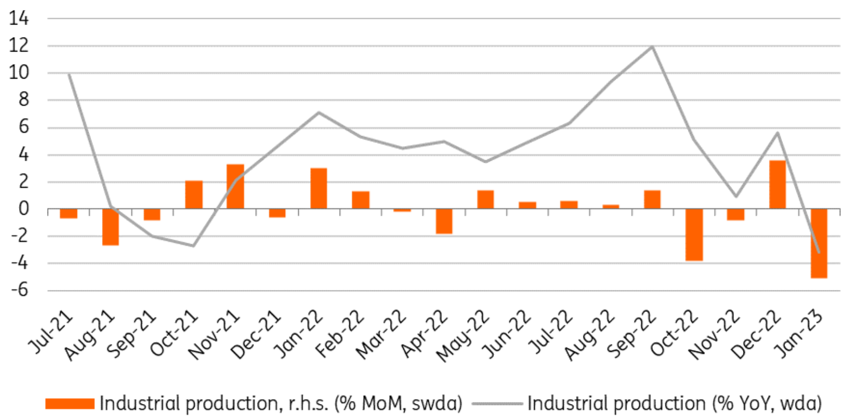
ING estimate 5.5% / Previous 5.6%

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 ouput 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

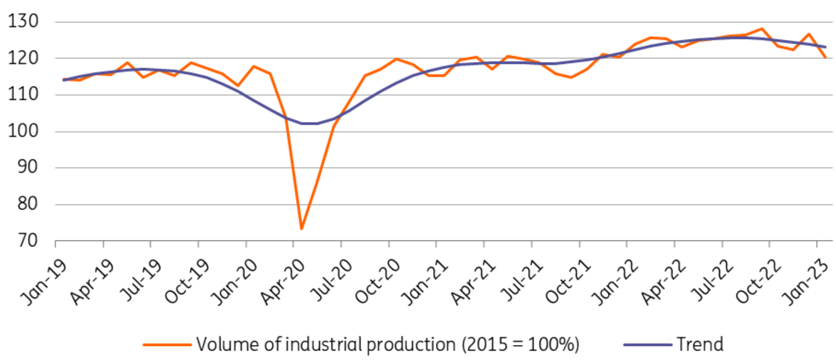


Source: HCSO, ING

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.

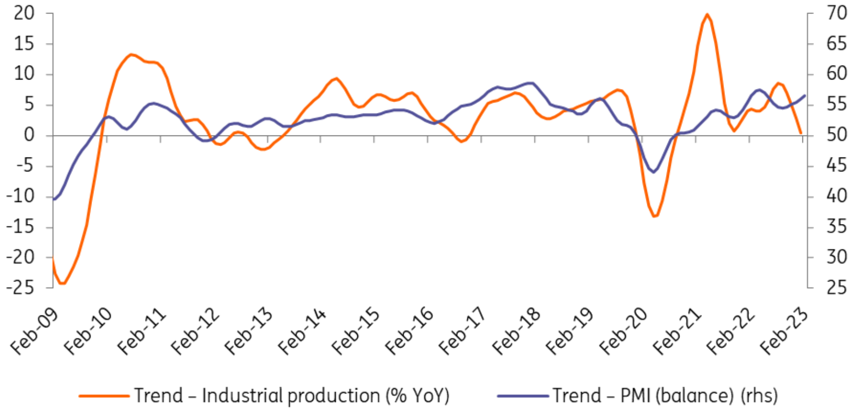
Volume of industrial production



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.

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