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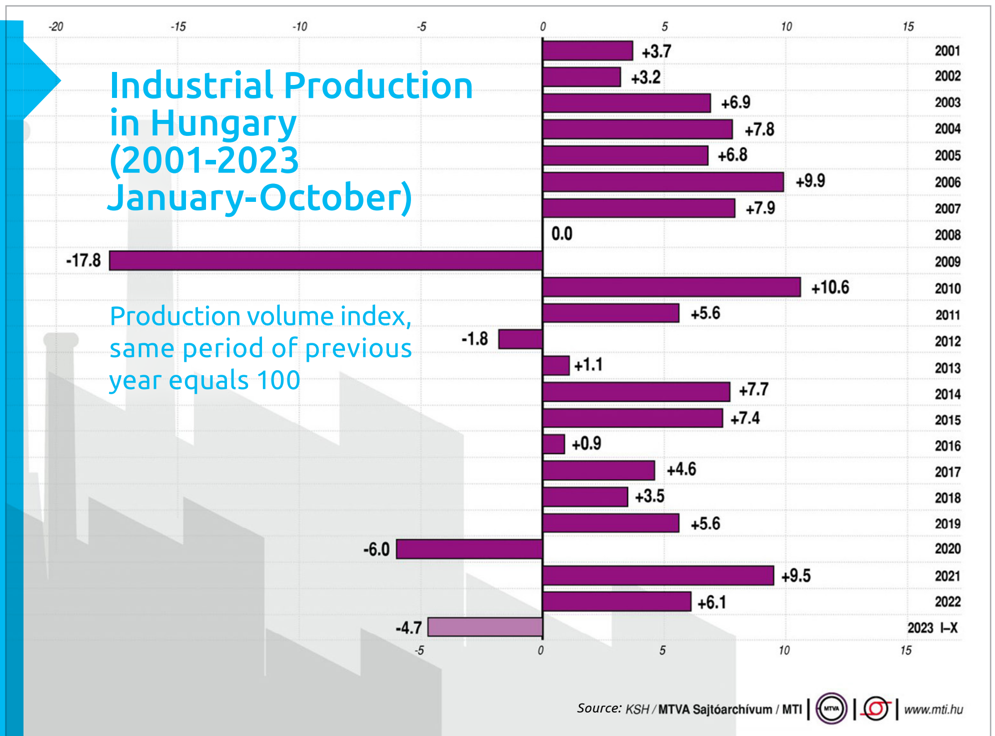
No Christmas Presents Hidden in Hungary's Macroeconomics

Hungary's industrial sector started the last quarter with disappointingly weak data. And despite real wages beginning to increase in September, shoppers have not returned to the stores more frequently yet, according to October's retail trade data. The good news is that inflation continued to fall in November, though analysts suggest a cautious approach even here.



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In October 2023, according to preliminary data released by the Central Statistical Office (KSH), the production volume of Hungary's industry fell by 0.6% compared to September. On an annual basis (adjusted for calendar effects), the decline is 2.8%. Industrial production was 4.7% lower in the first 10 months of the year than in the same period in 2022.

The performance of the sector declined in the second half of 2022, and a situation close to stagnation can be observed this year, leaving the figures roughly at the level of four years ago.

These moderate results can primarily be attributed to the rise in energy costs and the slowdown in the external economy. An improvement is expected in the former, as gas and electricity contracts are renewed in the coming months. As for the latter, for the time being at least, the outlook is rather deteriorating.

"The performance of the industry in October fell significantly short of expectations. Although production was down only by 2.8% year-on-year based on calendar-adjusted data, this is still a weak performance overall, as last year's low base caused this improvement. We can see this from the fact that the volume of production shrank again on a monthly basis, by 0.6%," comments Péter Virovácz.

The chief economist of ING Bank believes that there is still no trend-like change in the performance of the industry: the decline has been continuous since the fall of 2022, and the total volume of production still cannot exceed the output level registered after the COVID crisis, in other words, at the beginning of 2021.

Breaking the 'Glass Ceiling'

According to Virovácz, as long as the economic environment does not show a permanent change, industrial production will fluctuate around the production level observed since the beginning of the year, with some upside risk if the new capacities coming onstream can break through the current "glass ceiling."

This also means that there is no reason for ING to change its forecast for the performance of the industry for the year as a whole. The bank still expects an annual decline of 5-6% for 2023.

The generally weak European economy has also had an adverse effect on domestic output, Erste Bank analyst János Nagy said. He highlighted the weakening of the German economy: it is still a determining factor in terms of Hungarian export demand.

At the same time, he considered it a positive sign that the Hungarian Purchasing Managers' Index had again risen into the range indicating recovery. Nagy also said that, according to the latest news, the SK On battery factory in Iváncsa (51 km southwest of central Budapest by road) officially started production on Nov. 6. When at full capacity, expected in mid-2024, the South Korean-owned factory could have a visible effect on Hungarian industrial production, Nagy says.

Retail trade data also showed an unfavorable picture in October: despite the 1.7% real wage increase in September, it seems that Hungarians' spending has not accelerated yet. October's retail trade volume decreased again compared to the previous month, meaning consumer confidence has still not been restored. In other words, the minimal increase in September did not mark the beginning of a turnaround, thelatest data from the KSH shows.

Illusive Recovery

According to data adjusted for seasonal and calendar effects, the volume of retail trade decreased by 0.3% compared to the previous month. In the whole of 2023 to date, there were only three months when the turnover increased on a monthly basis, which means that the recovery has still not come in domestic stores.

According to some analysts, the moderate household spending could have also contributed to the slowing inflation. Consumer prices were 7.9% higher on average in November 2023 than a year earlier. Compared to October, the cost of goods was unchanged on average; however, motor fuels became 3.6% cheaper. In October, the annual inflation rate was 9.9%.

In the 12 months compared to November 2022, a price rise of 7.1% was recorded for food. Comparing just one month, November to October, consumer prices were unchanged on average. Food became 0.5% more expensive on average, predominantly due to a 6.6% rise in the price of seasonal food items (potatoes, fresh vegetables and fresh domestic and tropical fruits). Food prices excluding this group were unchanged on average.

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Customers saw poultry meat costs fall by 2%, edible oil by 1.9%, butter by 1.6% and sugar by 0.8%. Motor fuel prices were reduced by 3.6%.

Analysts are still cautious about the latest data, albeit they were more favorable than expected. They say that several risks are still present in the Hungarian economy. They believe falling residential demand plays a role in the current figure of 7.9%. As for the monetary policy of the National Bank of Hungary, analysts do not expect the central bank to change its interest rate path based on this lower-than-expected level.

Orsolya Nyeste, Erste Bank's leading macroeconomic analyst, pointed out that consumer prices had not changed on a monthly basis, yet the annual index decreased to 7.9%. The moderation in food prices and the relative price stability of services support the disinflationary trend and forecast a further decrease in the coming months.