A mixed picture of economic activity in Hungary

The incoming retail and industrial data for November was rather mixed, but reinforces our view that Hungary's technical recession will end in the fourth quarter. However, the expected strength of the recovery will not be reassuring enough to make the bigger picture much brighter

The Hungarian Central Statistical Office (HCSO) has released retail sales and industrial production figures for November. In contrast to the previous month, the picture is rather mixed, with retail sales surprising on the upside and industry on the downside. So far, we still believe that Hungary will be able to emerge from a technical recession in the fourth quarter, but the latest data does not instil much confidence about a brighter outlook for 2025.

4.1%

Higher than expected

Volume of retail sales (YoY, wda)

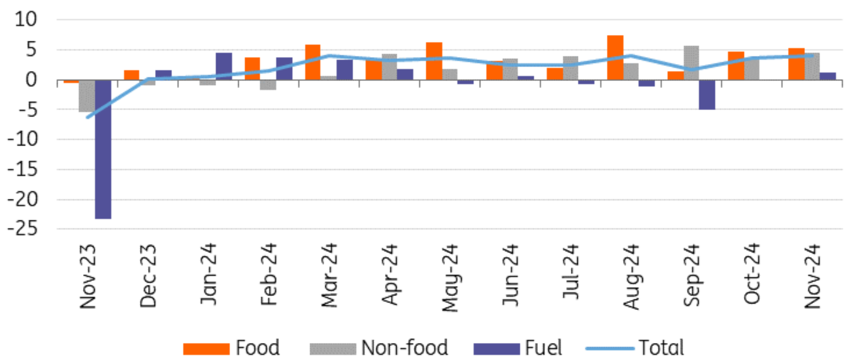
ING estimate: 2.9% / Previous: 3.6%

Retail sales continued to improve in November

After a positive performance in October, retail sales surprised to the upside in November once again. According to the latest data from the HCSO, retail sales rose by 0.6% on a monthly basis. This was well above analysts' consensus, with the sector expanding by 4.1% on a calendar-adjusted annual basis.

Over the past year or two, it has been quite rare to see two consecutive months of strong growth in retail performance. So this is certainly a positive development. And the growth in the fourth quarter has finally driven total retail sales away from the monthly average of 2021 in a meaningful way. In November 2024, sales volume was 0.7% higher, which is of course far from being an outlier, but the last time we saw a similar figure was towards the end of 2022. Thus the overall picture is also encouraging.

Breakdown of retail sales (% YoY, wda)

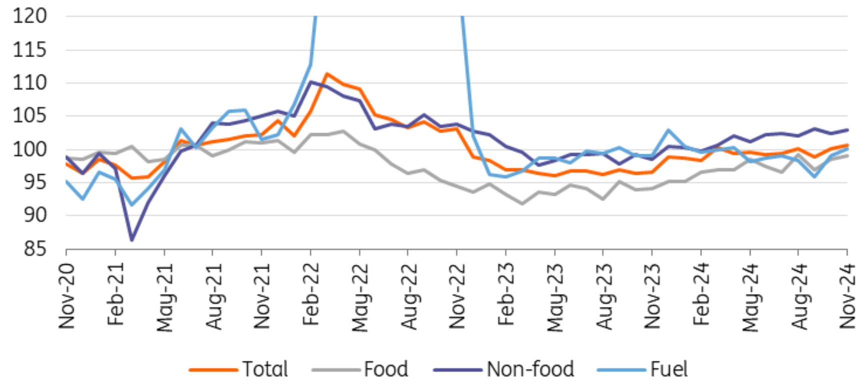


Source: HCSO, ING

Looking at the details, it is clear that this time there was more of an overall improvement in the sector, with broadly similar growth across all sub-sectors. Food retailing rose by 0.6% on a monthly basis. In addition, non-food retail trade recorded a rise of 0.5% month-on-month. Within this sector, mail order and internet sales continue to show surprisingly negative figures. After a fall of almost 4% in October, sales volumes fell by a further 2% in November compared with the previous month. This is probably linked to the fact that the 2024 Black Friday did not bring as many online discounts, which may also have dampened online shopping somewhat.

In contrast, sales of second-hand goods performed particularly well, even though this sector has traditionally performed well in the month before Christmas in recent years. The textiles, clothing and footwear sub-sector also performed well, presumably due to an increase in seasonal promotions. And the positive performance of furniture and electrical goods stores suggests that people preferred to shop in-store rather than online ahead of this year's Christmas season. As for fuel sales, there was an increase here despite rising prices, so this is largely where the surprise relative to consensus comes from.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

Looking ahead to the fourth quarter, the strong performance of the retail sector as a whole in October–November is encouraging. This should provide a good basis for a more positive start to 2025. Real wage growth is expected to remain strong, and the large retail government bond payouts in the first half of this year could provide a further boost to consumption. How strong this will ultimately be is likely to depend mainly on the economic environment in the coming months. This will mainly depend on business and consumer confidence and the stability of the (currency) markets. This may determine how much of the extra income received by households will be used for consumption and how much will remain in savings.

-2.9%

Industrial production (YoY, wda)

ING estimate: -1.3% / Previous: -3.1%

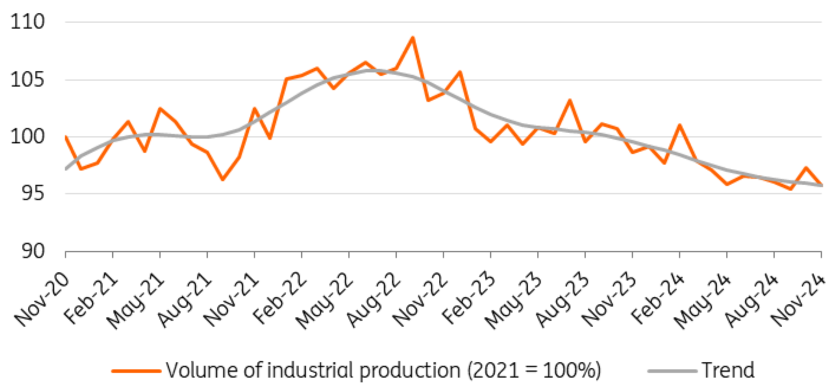
Lower than expected

Industry was unable to remain positive

Unfortunately, what was true for the retail sector cannot be said for the industrial sector. Despite a good October, industry was unable to maintain its positive momentum in November. On a monthly basis, industry fell by 1.6%. This means that industrial production, adjusted for working day effects, is 2.9% below last year's performance, which is a negative surprise compared to market expectations.

The overall picture is also rather negative, as November's contraction has essentially wiped out the effect of October's good performance, with industrial production volume once again more than 4% below the average monthly performance in 2021. Last month, we wrote that "over the past three years or so, Hungarian industry has enjoyed some good months, but this has not fundamentally broken the negative trend". Once again, the weak performance in November proved us right.

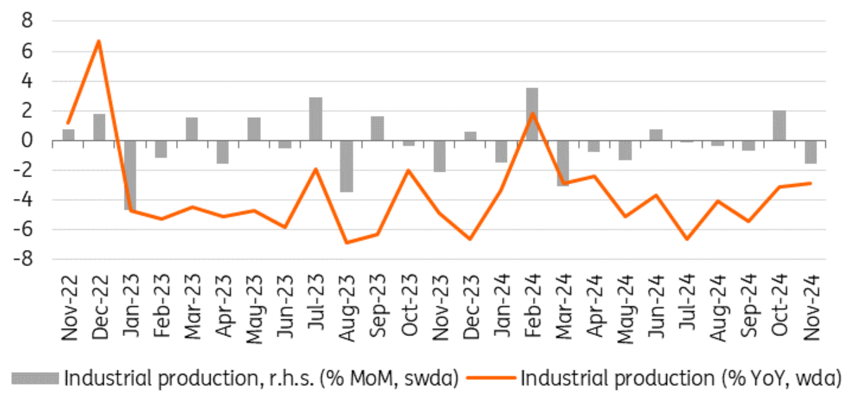
Volume of industrial production



Source: HCSO, ING

Detailed data are still awaited, but the preliminary data released by the HCSO shows a generally deteriorating environment. In total, three less important sub-sectors managed to increase output. This suggests that all four main sectors (transport equipment, electrical equipment, electronics and food) are in decline. For the first two, this represents a continuation of the negative trend, while for electronics and food it represents a negative turnaround.

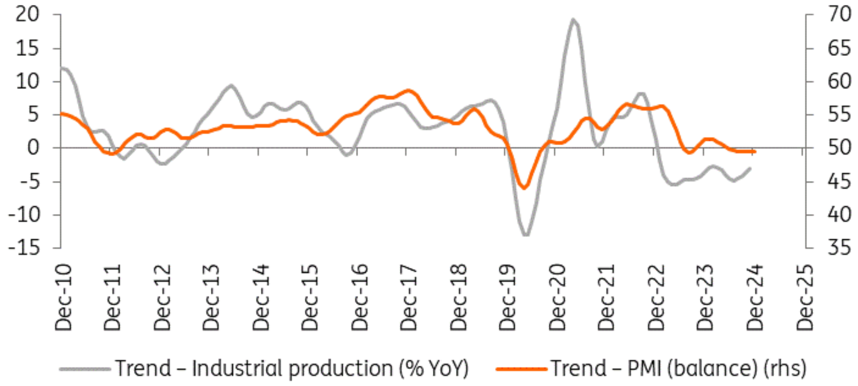
Performance of Hungarian industry



Source: HCSO, ING

The latest industrial surveys and confidence indicators have shown a mixed picture in recent months, although the overall picture may be slightly improving. So far, however, there is no sign of this in Hungarian industry, although German industrial data for November provided a big positive surprise. As in Hungary's case though, it can be argued that one good month does not represent a turnaround. In addition, it looks very much as if Donald Trump will move quickly and forcefully with his economic policy on global trade. The recent skirmishes with Canada and Denmark are a good example of this. Looking ahead, the structural problems in external demand and the moderate recovery expectations for next year remain and may even have worsened somewhat in recent weeks.

Manufacturing PMI and industrial production trends



Source: HCSO, ING

It is therefore unlikely that Hungarian industry, especially in export-oriented sectors, will turn around in the short term. Although new capacity will come on stream later this year, more likely in the second half, the further deterioration in the global environment may dampen the impact. It is perhaps no coincidence that domestic business confidence indices have been on a sharp downward trend for half a year, while the purchasing managers' index continues to prove useless in forecasting the expected performance of local industry.

Industry's performance may well continue to be a drag on GDP growth in the fourth quarter, barring a surprisingly strong December. A pick-up in consumption is helping imports and, in the absence of strong exports, the net export balance could deteriorate further. In other words, while there is a good chance that Hungary will emerge from a technical recession in the fourth quarter, it will be a correction rather than a strong recovery.

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