Article | 9 January 2025

Hungary

# 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%

Volume of retail sales (YoY, wda)

ING estimate: 2.9% / Previous: 3.6%

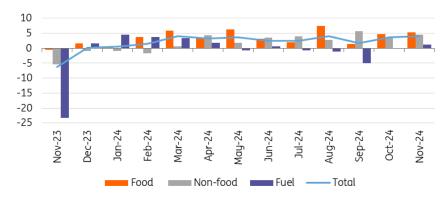
Higher than expected

# 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 calendaradjusted 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)



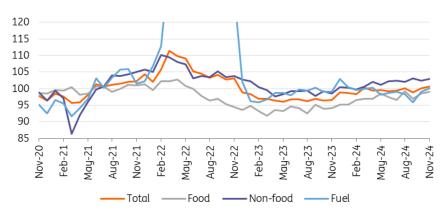
Source: HCSO, ING

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

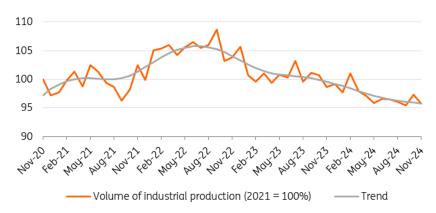
# Industry was unable to remain positive

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.

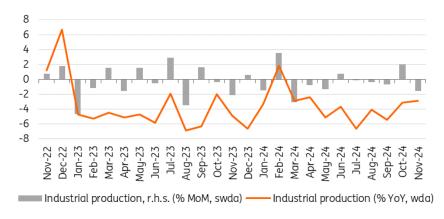
## Volume of industrial production



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

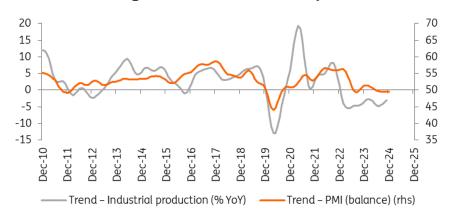


Source: HCSO, ING

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 <u>German industrial data</u> 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.

#### **Author**

### Peter Virovacz

Senior Economist, Hungary <a href="mailto:peter.virovacz@ing.com">peter.virovacz@ing.com</a>

## Kinga Havasi

Economic research trainee kinga.havasi@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 www.ing.com.