Disappointing end to 2024 for Hungary casts doubts on a strong recovery

Retail and industrial data for December fell below market expectations, painting a bleak picture of economic activity. A strong recovery in 2025 now looks more like a hope than a reality, but there could be some encouraging signs

Christmas shoppers in Budapest. Retail sales for December have come in much weaker than expected

Retail sales and industrial production figures for December have come in much weaker than expected. Although Hungary emerged from a technical recession in the fourth quarter of last year, this data does little to brighten the overall picture for 2025.

0.1%

Volume of retail sales (YoY, wda)

ING estimate: 1.2% / Previous: 4.1%

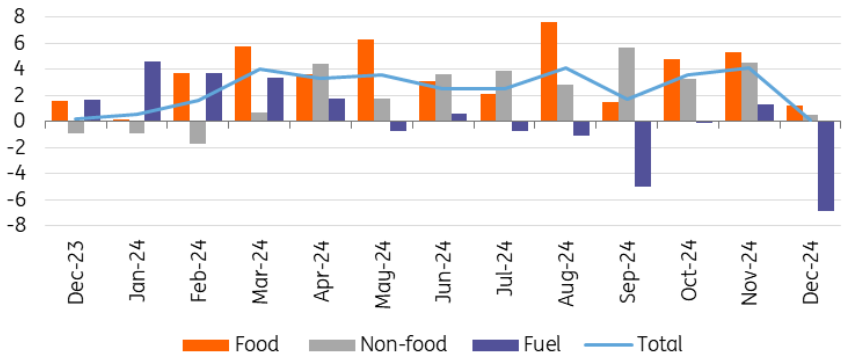
Lower than expected

Retail sales slump

As indicated by fourth-quarter GDP data, December's economic performance was weak. This is corroborated by the latest figures from the Statistical Office, revealing a 1.2% monthly decline in retail sales for the final month of last year. Year-on-year dynamics were not only significantly below analysts' consensus but also worse than our own, which was the most pessimistic in the market. Compared to the same period last year, the sector's performance was essentially flat, with a slight increase of 0.1% year-on-year in December.

Therefore, despite the positive performance in the preceding two months, the extremely weak December nearly negated those gains. This is evident as retail sales were 0.7% below the monthly average for 2021. If it were just one month of poor performance, it wouldn't be as alarming. However, the retail sector as a whole was a shadow of its former self in 2024. More precisely, it mirrors 2021, with the sector's overall performance in 2024 being 0.5% below the sales volumes of 2021.

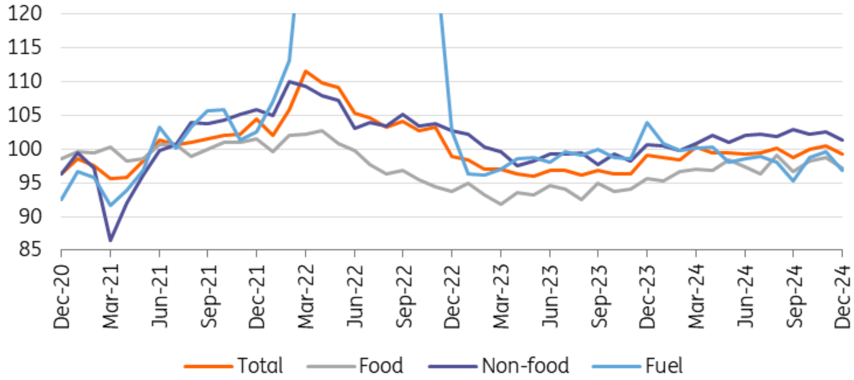
Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Looking at the details, it is clear that there was a more general deterioration in the sector, with broadly similar declines across all sub-sectors. Food retailing fell by 1.7% on a monthly basis and the non-food retail trade fell by 1.3%. Within this sector, only two areas showed any significant growth: mail order and internet sales and sales of second-hand goods. To be fair, sales volume rose somewhat in pharmaceuticals and cosmetics articles too on a monthly basis. As for fuel sales, rising prices are starting to have an impact, so it is not surprising that sales fell by 3% month-on-month.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

If we try to find a bright spot, we can say that for 2024 as a whole, there was a 2.6% increase in sales volume compared to the previous year, but again this was only enough to pull the sector close to its 2021 performance. So perhaps it is better to look ahead. With real wage growth expected to remain strong and significant retail bond payments due in the first half of this year, these could provide a much-needed boost to consumption.

At the same time, early data on retail bond holdings suggest that households may be putting away more savings than expected, meaning that the consumption impulse may be weaker. This is hardly surprising given the gradual decline in consumer confidence in recent months, presumably as a combined effect of rising unemployment, accelerating inflation and a weakening forint.

-6.4%

Industrial production (YoY, wda)

ING estimate: -6.4% / Previous: -2.9%

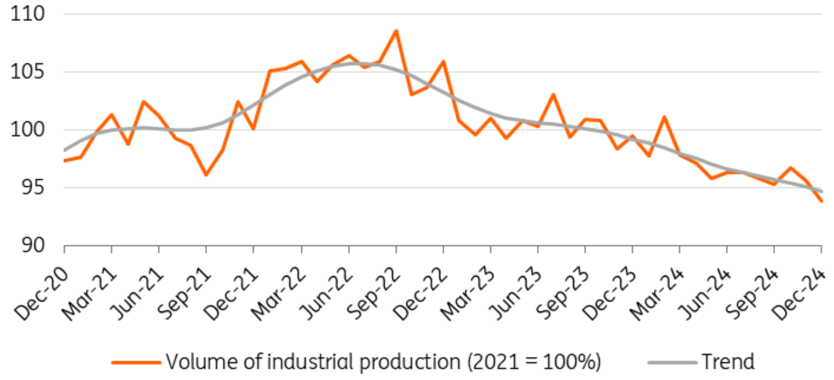
As expected

Industry in decline

Unfortunately, the industrial sector mirrored the retail sales slump in December, with the end of the year being quite bleak. Industrial production contracted by 1.8% on a monthly basis. When adjusted for working day effects, the industry was 6.4% below its performance from the previous year. This was a negative surprise compared to market expectations but aligned with our forecast, which was the most pessimistic in the market.

Unsurprisingly, the overall picture for the fourth quarter has also turned sharply negative, in line with the picture painted by the weaker-than-expected GDP data. Who can now recall the positive October surprise? With a poor showing in the last two months of the year, industrial production volumes are now more than 6% below the average monthly output for 2021. The last time industrial production was this low was due to the 2020 Covid closures.

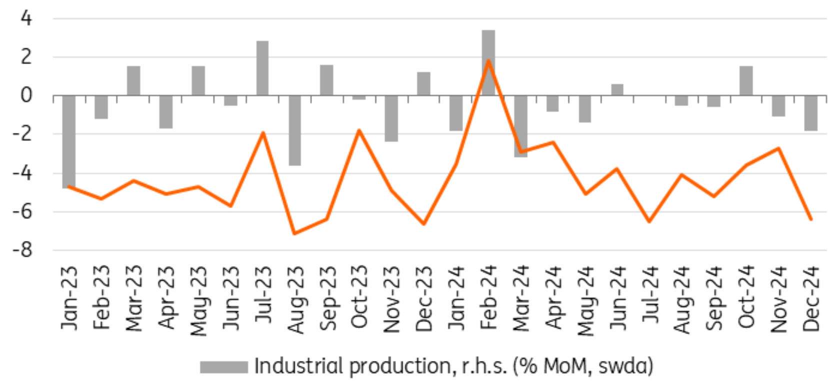
Volume of industrial production



Source: HCSO, ING

Detailed data has yet to be released, but the preliminary release suggests that the two dominant sectors, transport equipment and electrical equipment manufacturing, continued their downward slide. The good news is that the electronics and food sectors managed to grow, but clearly not enough to offset the slump in the other sectors.

Performance of Hungarian industry

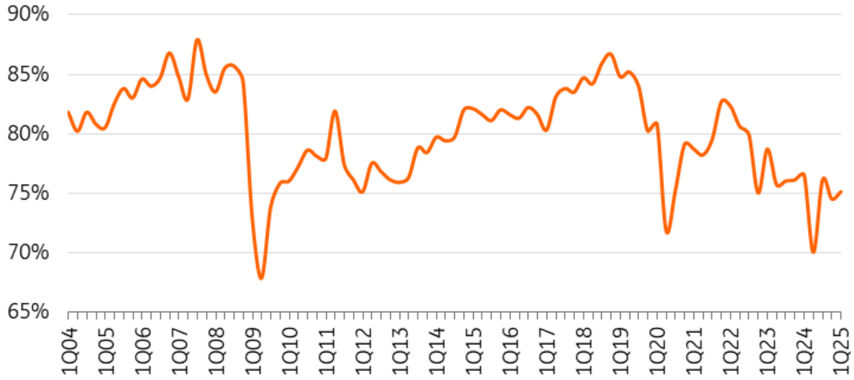


Source: HCSO, ING

Recent industrial surveys and confidence indicators have painted a generally weaker picture of industry in recent months. The latest manufacturing PMI fell below 50 (although the reliability of this indicator remains highly questionable), while the various business confidence indices continued their downward trend. All this makes it difficult to outline an industrial turnaround for the time being.

However, the upcoming tariff war could provide a surprising temporary boost. European producers may be interested in quickly ramping up production and increasing export activity before Trump pulls the trigger and raises tariffs against the EU. On the other hand, the actual imposition of tariffs could trigger a new downward spiral. But this is all speculation for now.

Current level of capacity utilisation in industry



Source: Eurostat, ING

There are still no clear signs of a short-term turnaround in the Hungarian industry. The outlook for export-oriented sectors has not improved recently, and if the tariff war intensifies, it could eventually harm global trade. Of course, new capacity coming on stream in Hungary (in the car and EV battery sectors) will have a one-off effect, but it seems very likely that the external environment will make it increasingly doubtful that production will take off at a fast pace.

The only encouraging sign may be that capacity utilisation ticked up in the first quarter, according to the latest Eurostat survey. However, more than 50% of respondents said that insufficient demand was limiting their production. On the other hand, industries driven by local demand could hope that consumption growth picks up, but again this is more a matter of hope than tangible evidence. Given all this, it may well be that industry as a whole will not be able to be a major driver of the Hungarian economy in 2025 either.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com