Hungary's industry and retail sector disappoint again

The incoming industrial and retail data for March paints a clear picture of an economy under strain. Government measures could help to boost retail sales down the road, while we see industry remaining a drag on the economy, with no clear signs of a turnaround in the near term

The Hungarian Central Statistical Office (HCSO) released retail sales and industrial production figures for March. As we have already seen disappointing GDP growth in the first quarter, the writing was on the wall for a generally weak set of numbers. The retail data showed a continued decline, indicating that the rebound in January was a one-off and not a real turnaround. We still expect retail sales to perform better this year than in previous years, but the outlook has worsened compared with recent months. The industrial sector continues to struggle, as the jump in the year-on-year print is driven by base effects. International and domestic trends show no sign of a quick turnaround, so the best we can expect is a slow bottoming out.

-5.4%

Industrial production (YoY, wda)

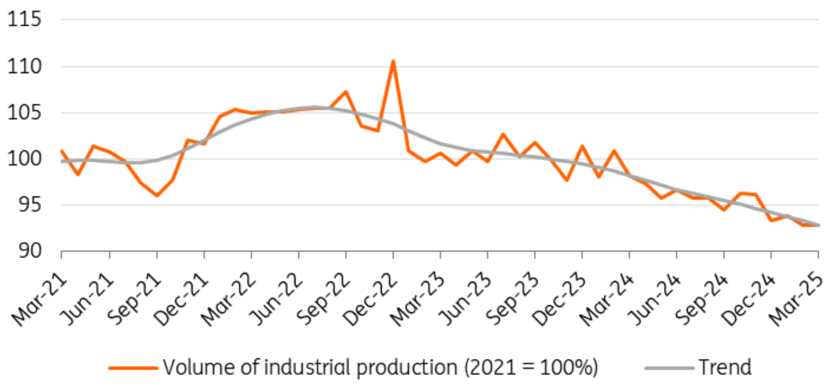
Previous: -8.0%

Hungarian industry still in the doldrums

After the decline in February, industry failed to pick up in March. The only consolation is that at least we are not seeing another monthly contraction. Industrial production rose by 0.1% month-on-month based on the HCSO's latest flash report on industry.

At the same time, the year-on-year index - adjusted for working day effects - improved significantly, but this is largely due to the base effect. Overall, the data release was slightly below market expectations, but given the first quarter GDP data, expectations were probably sufficiently depressed. Compared to the average monthly output for 2021, industrial production volumes are 7.1% behind. The last time industrial production was this low was during the Covid-induced shutdowns of 2020. Hence we haven't witnessed any change in the big picture.

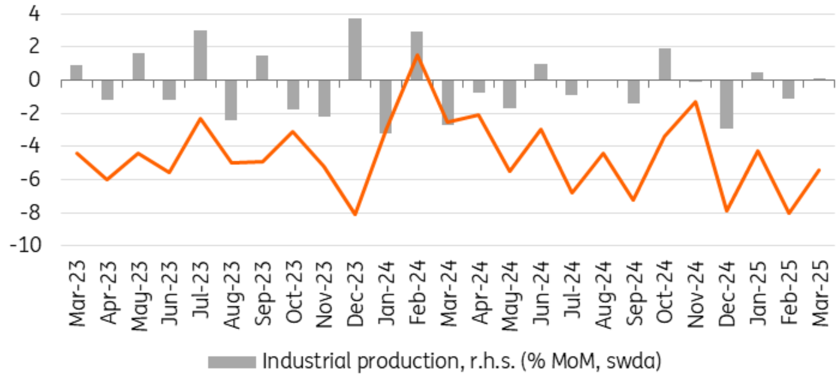
Volume of industrial production



Source: HCSO, ING

We're still waiting for the detailed data, but preliminary information shared by the Statistical Office suggests that the main sub-sectors, with the exception of electrical equipment, expanded on a yearly basis. However, it is likely that even here we are only talking about an improvement in the annual base indices due to base effects, so this alone is unlikely to represent a meaningful positive performance.

Performance of Hungarian industry

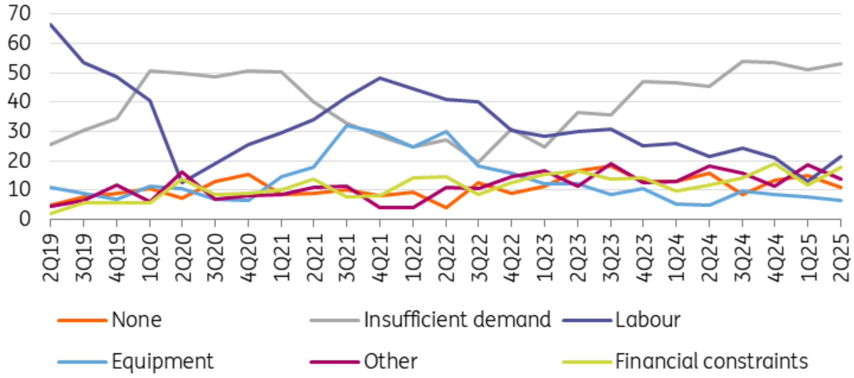


Source: HCSO, ING

With a significant proportion of domestic manufacturers continuing to hoard labour, the recent series of weak industrial data brings us ever closer to breaking point - the point where companies decide that it is simply no longer worth hoarding labour anymore as the costs outweigh the benefits. After two years of downturn, 2025 does not yet look like the year when Hungarian industry will emerge from the doldrums. In fact, for the time being, it does not even seem that the bottom has necessarily been reached, but we can hope that a slow bottoming is ahead of us.

Overall, the various confidence indices have shown a mixed picture in recent months, suggesting that there is no clear turnaround in the industrial outlook. But we probably won’t see a further freefall either. An important encouraging sign is the recovery in German industry, but it would be wrong to interpret one month's good performance as an improvement in the trend. The latest capacity utilisation data for the second quarter also shows some uptick over the previous quarter. However, the negative impact of the tariff war is set to hit companies in the coming months. And global demand for industrial goods does not appear to be particularly strong, so a turnaround in the inventory cycle is still some way off and will be further delayed by the uncertainty caused by the trade war. It is clearly visible in the latest survey that a lack of demand remains the main hurdle for expansion.

Factors limiting production in Hungarian industry (% of respondents)



Source: Eurostat, ING

All in all, the outlook for industry as a whole remains bleak, although new export capacity coming on stream towards the end of this year and the beginning of next may turn the tide. However, this alone will not be enough to save the day, especially if demand constraints do not ease quickly. In addition, it seems increasingly likely that Europe's response to the tariff war could be to turn towards the internal market, leading to dumping and overcapacity problems, which may not be expected to lead to a recovery in the short term. In short, industry could drag down the performance of the Hungarian economy in 2025 for the third year in a row.

0.4%

Volume of retail sales (YoY, wda)

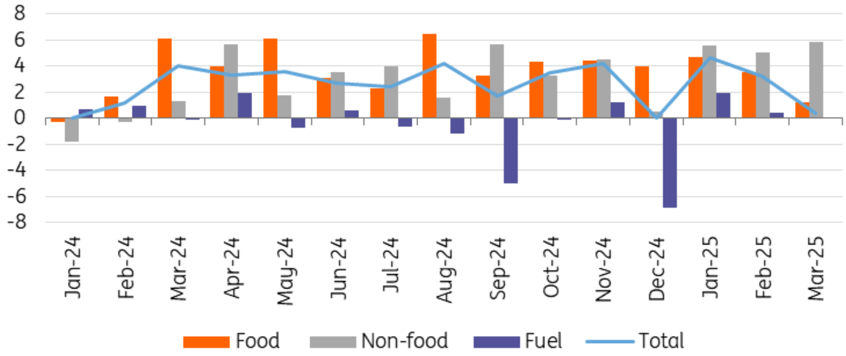
Previous: 3.3%

Hungary’s retail sales struggle as people prefer to save rather than spend

After a rather weak performance in February, the retail sector continued to decline in March. According to the latest data from the Statistical Office, the sector's sales volume fell by 0.5% month-on-month. This was accompanied by a significant decline in the year-on-year index due to the high base of the previous year. Accordingly, the adjusted index for March is 0.4% YoY. The data was therefore well below market consensus. However, the latest retail sales data is unlikely to affect the overall economic picture, as the Hungarian economy as a whole contracted in the first quarter and once again faces the prospect of a technical recession. There are now indications that this may have been fuelled by weaker growth in consumption, failing to offset the drag from other sectors.

Retail sales data for the first three months of this year suggest that sustained growth in the sector is not materialising after the level shift in January. The underlying fix-based index deteriorated in line with the monthly decline, meaning that sales volumes were only 0.5% above the monthly average of 2021. Consumer confidence remains well below its 2018-2019 peak. Households clearly prefer to save rather than spend. And this is reflected in the weak performance of the retail sector.

Breakdown of retail sales (% YoY, wda)

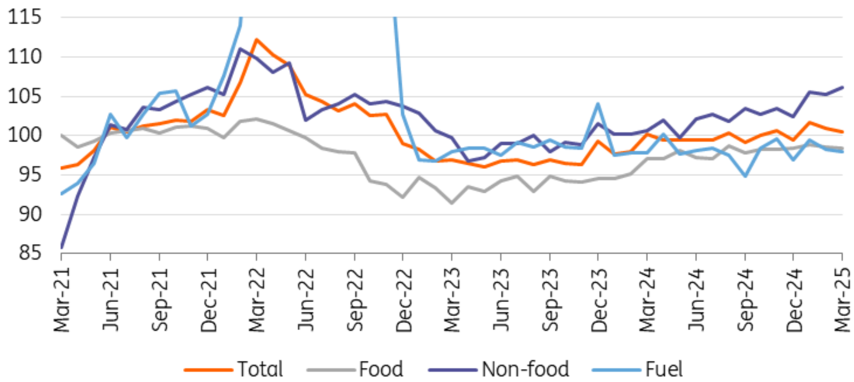


Source: HCSO, ING

Looking at the details, food sales also fell in March, meaning that this sub-sector has now been contracting for two months. Most surprisingly, the food price curbs introduced from mid-March have failed to boost sales. But perhaps April's data will provide a more complex answer to this puzzle.

Non-food retailing showed a month-on-month increase in March. However, this increase came mainly from second-hand goods and clothing stores. The latter has been very volatile in recent months. It would therefore appear that the one-off payments available to the public at the end of the first quarter have no longer affected sales in consumer durables stores. And with fuel prices falling sharply in March, it is definitely surprising that sales of fuel continued to fall, with a month-on-month decline of 0.5%.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

Today's data now suggests that the strong performance in January was due to one-off factors. Nevertheless, the overall performance in the first quarter remained positive, so it is likely that consumption made a positive contribution to economic performance, but the extent of this contribution may have been less than expected.

In the next month or two, we may see a more pronounced expansion in retail sales, as the ongoing redemption of government bonds may help. On the other hand, the expansion of price curbs to drugstores, including 30 categories of household goods from toothpaste to nappies (and many more) could also boost retail sales.

However, this momentum could fade by the middle of the year, especially if real wage growth is significantly lower than expected. In this respect, although January's data was encouraging, February was less positive. It is likely that the population felt a further decline in its purchasing power in March. This may also contribute to the persistent household caution.

Towards the end of the year, the retail sector could receive a more serious boost from government tax measures. So, given the past two years, we can certainly expect a more positive year for retail in 2025, but the outlook has clearly deteriorated compared to recent months. We therefore expect average annual growth in the sector to be around 3-4% this year, 1ppt lower than previously forecasted.

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