Hungarian retail sales and industry both surprise to the upside

The incoming industrial and retail data for April paints a more positive picture of the state of the Hungarian economy. However, this could be due to government measures and frontloading in anticipation of tariffs. The question is whether these effects will be sustained or are just a one-off

Budapest's famous Széchenyi Chain Bridge

The Hungarian Central Statistical Office (HCSO) has released figures for retail sales and industrial production in April. Following a disappointing first quarter, the start of the second quarter looks much more promising. Both sectors exceeded not just the market consensus but also the most optimistic forecasts. However, we must remain cautious about the sustainability of this improvement, although the possibility of a technical recession has now significantly decreased. In the coming months, the most important question will be whether these are one-off occurrences or whether they will be able to continue in the longer term.

-2.3%

Higher than expected

Industrial production (YoY, wda)

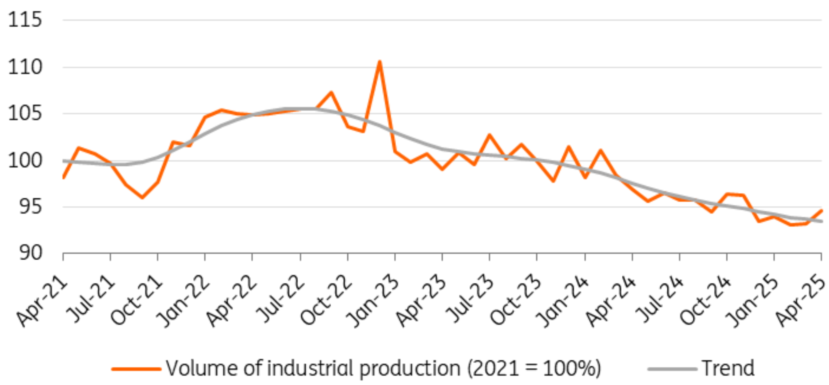
ING estimate: -3.2% / Previous: -5.4%

Significant positive surprise in Hungarian industry

For the first time in a long while, the Hungarian industrial sector produced a significant positive surprise, with industrial output rising by 1.5% month-on-month in April 2025. This also means that the year-on-year index has improved substantially, reducing the year-on-year shortfall to 2.3%, taking the calendar effect into account.

Overall, data releases have substantially exceeded market expectations, providing a good start to the second quarter and reducing the likelihood of a technical recession. While the improvement is welcome, industry is still not out of the woods: output volume remains 5% below the 2021 monthly average. The key question is whether this was a one-off improvement or whether the industry has finally bottomed out. Unfortunately, we have seen something similar in the last year or two, when industry has only been able to recover for a month or two at a time.

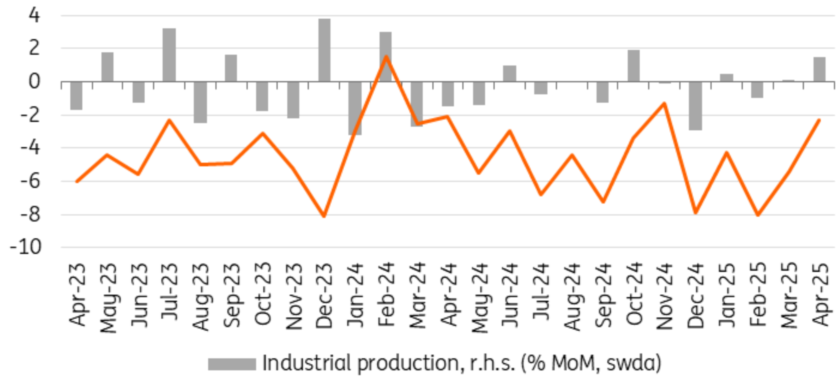
Volume of industrial production



Source: HCSO, ING

Although detailed data is still awaited, preliminary figures released by the HCSO indicate that most of the main sub-sectors contracted, with the exception of the manufacture of electronic products. This suggests that the positive performance was a one-off, as the vast majority of manufacturing sub-sectors experienced a year-on-year decline in output.

Performance of Hungarian industry



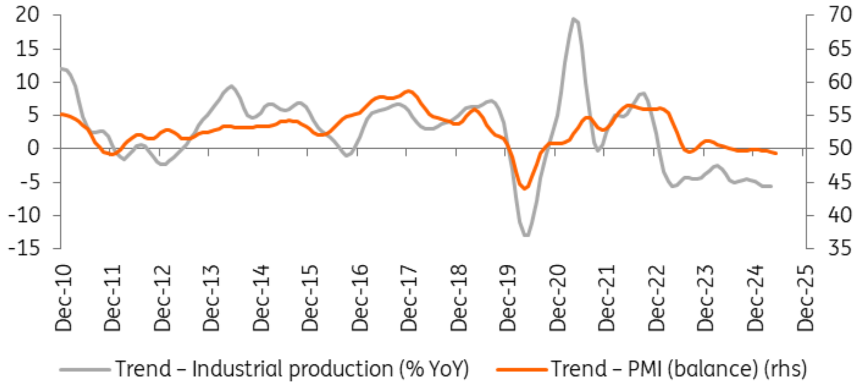
Source: HCSO, ING

A significant proportion of manufacturers in Hungary continue to hoard labour, and today's data provides little evidence to suggest that companies are optimistic about the future. Nevertheless, labour market statistics indicate that a gradual reduction in the labour force is already underway. This should come as no surprise after more than two years of industrial decline. Moreover, various confidence indices have tended to show an overall worsening outlook in recent months, indicating that there is no clear sign of a turnaround in the industrial outlook.

Nevertheless, the recent recovery in German industry can be seen as a positive sign. The two-month expansion in the order books of German industrial firms may indicate that this is more than just a frontload due to the tariff war. Nevertheless, German industrial data for April was much weaker than expected, which somewhat tempered the optimistic picture. However, a cyclical upturn may be on the horizon. But of course, we will have to wait three to six months for this good performance to have a sustained impact on Hungarian industry.

Overall, the outlook for sectors that produce exports is mixed. There are positive and negative signs. However, the ongoing tariff war continues to cast a shadow over world trade, with tariff levels changing from day to day. This creates uncertainty, which is the worst enemy of business growth, whether in terms of demand or investment. Additionally, it appears likely that Europe's response to the tariff war will be to turn to the internal market. This could lead to dumping and overcapacity issues, which may not necessarily result in a short-term recovery. While we can be cautiously optimistic, unfortunately, there are still too many risks.

Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

For industrial sectors producing for the domestic market, the slowdown in consumption growth seen in the first quarter is certainly a bad sign. It seems that the unintended consequence of increasing government intervention may be a renewed sense of consumer insecurity and a cautionary motive. However, the strong performance of retail sales in April provides some hope.

Overall, though, the year has got off to such a bad start that it will be very difficult for industry to recover, and we continue to see the sector as a whole holding back the performance of the Hungarian economy in 2025.

5.0%

Volume of retail sales (YoY, wda)

ING estimate: 0.2% / Previous: 0.4%

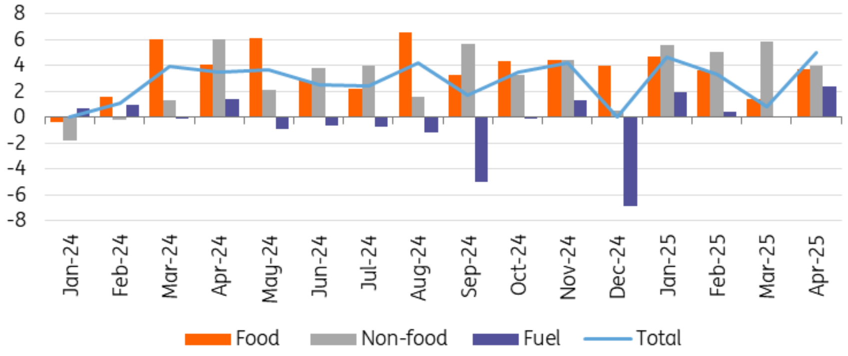
Higher than expected

Hungarian retail trade is growing slowly but surely

Following two months of weak performance, retail trade has recovered. In April 2025, the volume of Hungarian retail sales increased more quickly than anticipated. On a monthly basis, the sector grew by 2%, which translates into a year-on-year increase of 5%, when calendar and Easter effects are taken into account. Together with industrial performance, today's retail sales data certainly bodes well for the overall state of the economy, as the second quarter seems to have started strongly after a weak first quarter. This substantially reduces the likelihood of another technical recession.

Looking at performance over the past year or so, there is a growing sense that a sustained recovery in retail sales has emerged. However, this has not been a smooth ride. Rather, it is a 'two steps forward, one step back' process. Thus, volatility remains high and is likely to be driven mainly by one-off effects, such as government bond payouts or corporate bonuses. Accordingly, the evolution of the fixed base index shows that, after two months of decline, there was a significant increase in April. This represents a 3.3% increase compared to the monthly average for 2021.

Breakdown of retail sales (% YoY, wda)

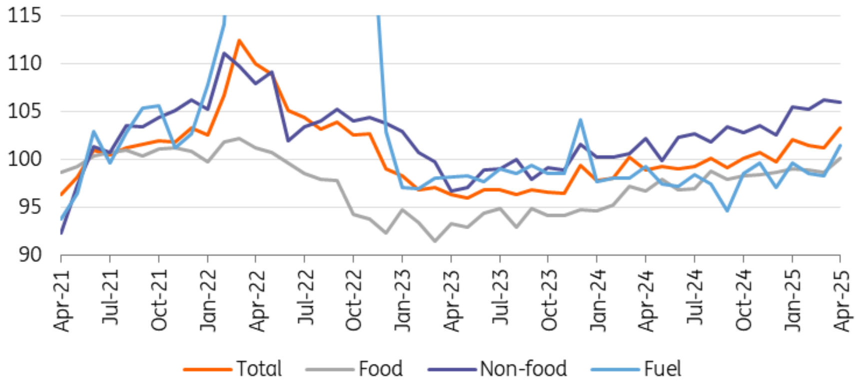


Source: HCSO, ING

Examining the details, it is clear that food store sales saw a very strong increase in April. The HCSO has not recorded a month-on-month increase of more than 1% in this area since last summer. Therefore, it seems that the demand effect of the margin freeze for certain food products really began to show in April.

However, it is feared that this will only be a one-off phenomenon. In non-food retail, a slight month-on-month decline was seen in April. This suggests that the good performance in April may also have been a one-off, induced by retail bond payments. Or even the frontloaded consumption may have played a role in the fear of a tariff war. This is because the demand for manufactured goods, which include more expensive products (big ticket items, white goods) and could be affected by the tariff war, has been particularly strong. The fact that mail order and internet sales have risen by over 2% (on a monthly basis) for two consecutive months now may also point to this effect.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

Unlike previous patterns, the many long weekends did not reduce fuel use; in fact, they significantly increased it by around 3% on a monthly basis. This segment was therefore also a major contributor to the strong increase in April. Overall, the figures are certainly positive, and there is even room for cautious optimism. However, there are many indications that this is another one-off surge, which could be followed by a correction in the coming months. Nevertheless, the government's delay in extending the price curb on food until almost the last minute could lead to a one-off surge in food purchases in May, driven by consumers stocking up in anticipation. Conversely, temporarily easing the tariff war narrative could reduce demand for manufactured goods.

So, volatility will probably stay with us, as will the growth trend, as government measures to stimulate demand are taking effects towards the end of the year. In light of this, and in light of the latest data, we can expect a better year for retail sales in 2025. We still expect the sector to grow at an average annual rate of around 3-4% this year, but with upside risks.

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