Hungary kicks 2025 off with a retail revival as industry struggles

Retail and industrial data for January paints a mixed picture for Hungary. We're finally seeing a long-awaited positive change in retail sales, but manufacturing remains a drag on the economy. Looking ahead for 2025, we can hope for a better year in retail, while industry is likely to be a headwind once again

The year is off to a very mixed start for the Hungarian economy, with retail sales spurring optimism as industry disappoints

Unexpected positive surprise in retail sales

The Hungarian Central Statistical Office (HCSO) has released retail sales and industrial production figures for January. The retail sector data was surprisingly positive, which could provide some hope for a better year ahead. However, industrial production was even worse than expected, meaning that industry may continue to be a drag on economic growth this year.

4.7%

Higher than expected

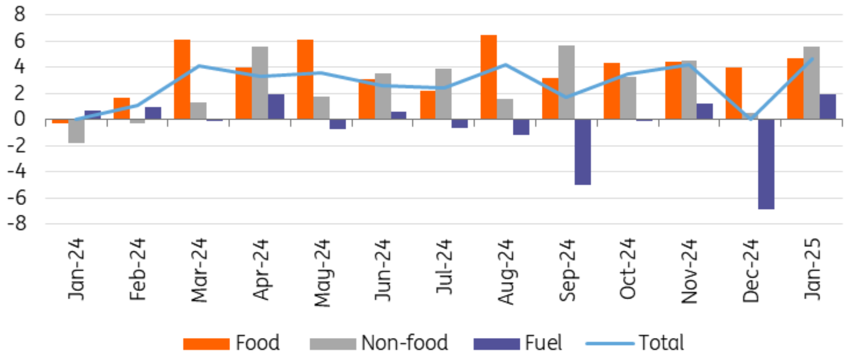
Volume of retail sales (YoY, wda)

ING estimate: 1.2% / Previous: 0.1%

It's been a long time since we've been able to say this, but the Statistical Office has published a particularly positive figure for the retail sector. The sector had a very strong start to the year, with retail sales volume up 2.2% month-on-month in the first month of this year, exceeding all expectations. Compared to the same period last year, the increase was 4.7% from a low base.

This is the first time in a long while that we have seen such a significant improvement in retail sales. This is indicated by the strong rise in the fixed base index, which means that sales volumes are almost 2% above the monthly average for 2021 and essentially reflect the volume of sales that was typical towards the end of 2022.

Breakdown of retail sales (% YoY, wda)

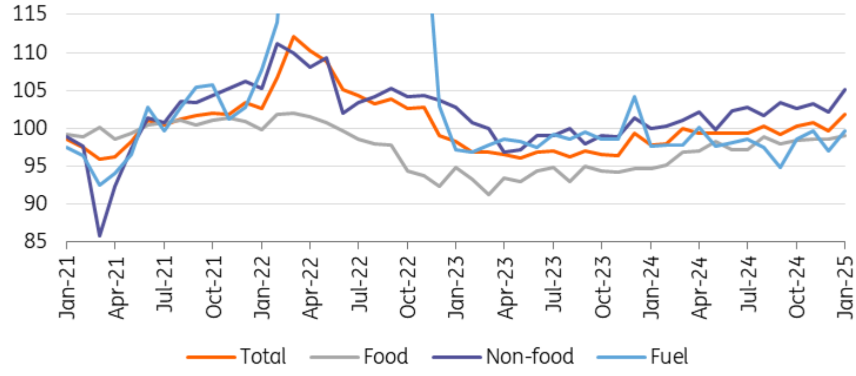


Source: HCSO, ING

Looking at the details, it is clear that a general recovery may be unfolding, with some one-off positive effects, as improvements were seen in all major sub-sectors. Food retailing rose by 0.5% on a monthly basis. In addition, non-food retailing showed the most dynamic growth in a long time at 2.8% MoM. Within this sector, cosmetic articles, pharmaceuticals, computer equipment, industrial goods and clothing performed particularly well.

It is important to note, however, that in many cases these large one-month gains follow a surprisingly weak December. Nonetheless, it appears that some of the retail bond-related payments to households have trickled down to the retail sector. How long this surge will last and how large the one-off effect will be will become clear in the coming months. In any case, the latest data gives us some reason to be optimistic about a continued recovery and catch-up to the pre-crisis trend in consumption. As for fuel sales, seasonality may have been stronger than usual, with a significant increase in sales despite rising fuel prices in January – the biggest surprise to note.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

For 2025 as a whole, a strong start to the year is certainly a positive sign. In the first few months of the year, one-off factors such as retail bond payments could provide a boost to the sector. Still, this momentum could fade by the middle of the year, especially if real wage growth is significantly lower than expected. Higher inflation and slower wage outflows could both potentially dampen consumption momentum.

On the other hand, government measures towards the end of the year could provide a further boost to consumption and retail sales turnover. In the light of the past two years, we can therefore expect a much more positive year for retail in 2025 and currently expect average annual growth of around 4-5%.

- 3.9%

Industrial production (YoY, wda)

ING estimate: -3.6% / Previous: -5.3%

Lower than expected

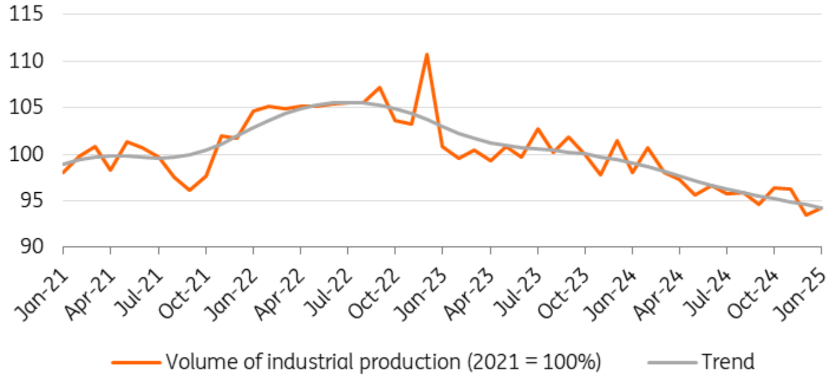
Industry remains a drag on the economy

While the retail sector brought good news, the same cannot be said for the industrial sector. Of course, the fact that industrial production rose on a monthly basis is positive at first glance. But an industry coming back from a winter shutdown tends to gain much more momentum at the beginning of the year than it has.

As for the year-on-year index, the rate of decline is close to 4%. The overall picture is even bleaker when we consider that the HCSO has made a very large negative revision to the data for previous months, so that the month-on-month decline in December, previously estimated at 2%, is now 3%. The January correction has to be interpreted in this context, and as a result appears quite weak.

Industrial production is 5.7% behind the average monthly output in 2021. The last time volume of industrial production was this low was due to the 2020 Covid closures.

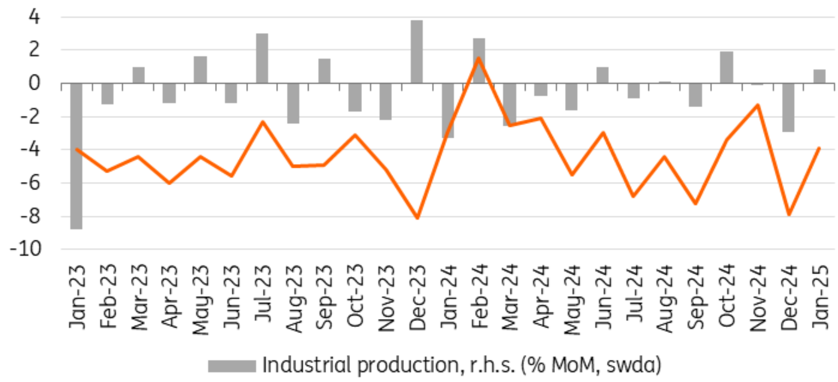
Volume of industrial production



Source: HCSO, ING

Detailed data is still to be released, but the preliminary release of the Statistical Office suggests that the two dominant sectors, transportation (cars) and electrical equipment (EV batteries), continued their downward slide. In January, food industry also joined the club of negative contributors. Among the major sectors, only electronics posted an improvement. In light of the above, it is perhaps not surprising to hear recent news that some domestic manufacturing plants will soon begin to make substantial changes to their labour forces.

Performance of Hungarian industry



Source: HCSO, ING

Elsewhere, recent industry surveys and confidence indicators have painted a generally weaker picture of industry over the past few months. While the latest PMI has somewhat improved, the reliability of this indicator remains highly questionable, and the employment component has deteriorated, which may foreshadow impending layoffs. All of this makes it difficult to foresee any kind of a turnaround in industry for the time being.

However, as surprising as it may be, a tariff war could bring a temporary recovery. European manufacturers may be interested in quickly ramping up production and increasing export inventories before US President Donald Trump pulls the trigger and increases tariffs against the European Union. So far, this has not had an impact in January, but perhaps in the next month or two we could see some temporary rebound. It is another matter that a new downturn could begin with the actual imposition of tariffs.

All in all, the outlook for export-oriented sectors hasn't really improved recently, and if the tariff war properly picks up, it could ultimately have a negative impact on global trade. Of course, new capacity coming onstream in Hungary (BMW, BYD, CATL, etc.) will have an individual positive effect – but it looks less and less certain that we'll see this in 2025. It's more likely to bolster the outlook for 2026.

The industrial sectors producing for the domestic market can nevertheless hope that local consumption growth will be maintained and that the momentum generated by improving order books will be sustained. However, the dominance of the export sectors will make this a mere drop in the ocean, and industry as a whole could drag down the performance of the Hungarian economy in 2025.

Author

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

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