

## Why there isn't much to cheer about in Hungary's latest data releases

In recent months, at least one of Hungary's data releases has provided a positive surprise – but not this time around. Both industry and retail sales surprised on the downside in May, making it harder to foresee a significant pick-up in GDP growth in the second quarter



We should no longer be talking about achieving 1.5% GDP growth in Hungary, but rather be cheering for 0.5%

The Hungarian Central Statistical Office (HCSO) has released industrial and retail sales figures for May. In contrast to the dynamics of recent months, when one data release has surprised the market consensus to the upside and the other to the downside, this data set was a complete disappointment. Industrial production continued its downward trend, while retail sales were flat on a monthly basis. Both sectors are performing in line with 2021 norms, which is hardly a compliment.

# -4.9%

### Industrial production (YoY, wda)

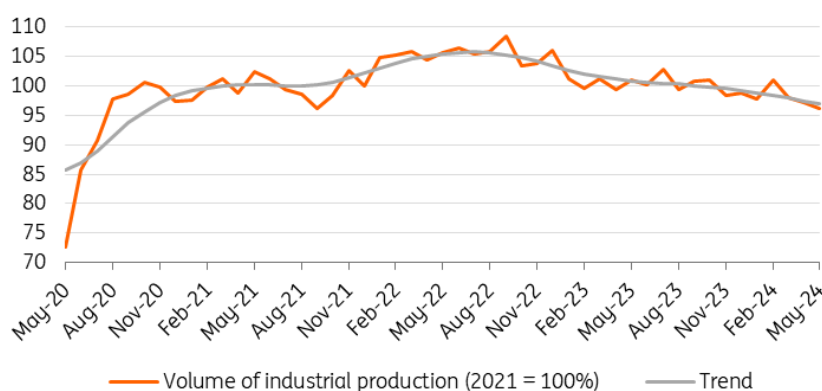
ING estimate: -2.1% / Previous: -2.4%

## The downturn in Hungarian industry continued in May

The performance of Hungarian industry continues to decline. This is shown by the latest industrial statistics for May. On a monthly basis, industrial production fell by 1.1% in seasonally and calendar-adjusted terms, below all expectations. This essentially means that February's surge was a one-off event, as industry has been shrinking for three months now.

The weak monthly performance is also reflected in the year-on-year index. Compared with the same period a year earlier, the volume of industrial production (working day adjusted) fell by 4.9%. More tellingly, the level of industrial production volume is almost 4% below the average monthly output seen in 2021. In fact, it is essentially reminiscent of the trough seen in the summer of 2021. All in all, then, there is absolutely nothing to cheer about.

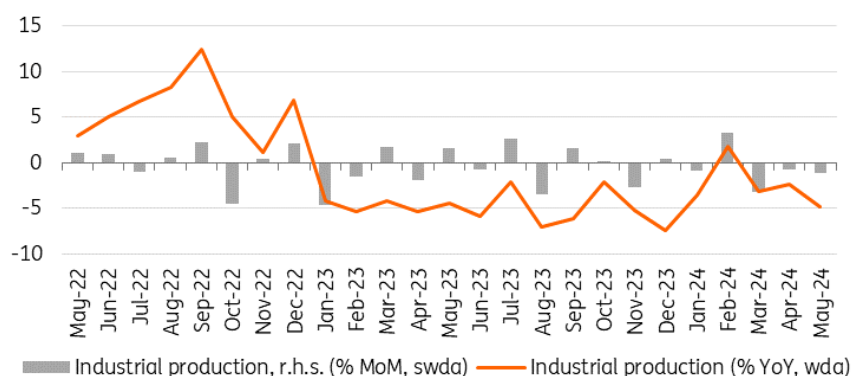
### Volume of industrial production



Source: HCSO, ING

Detailed figures are still to come, but the preliminary release of data from the HCSO outlined a generally worsening trend. Only one subsector was identified in the flash release as having delivered a meaningful positive performance. This was the food industry – in our view, a result of the context of favourable weather conditions providing affordable supply. In addition, key subsectors such as transport equipment, electrical equipment and electronic goods continued to decline.

### Performance of Hungarian industry

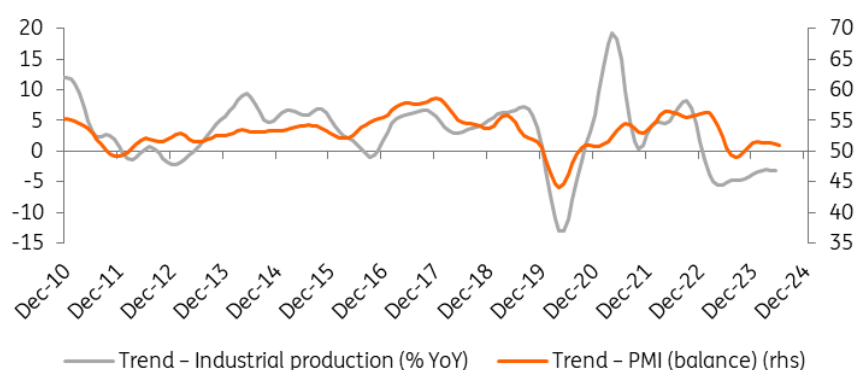


Source: HCSO, ING

All in all, there is little to be surprised about. While various global industrial surveys and confidence indicators have pointed to some improvement in recent months, their reliability is still highly questionable. Moreover, German industry is still in a downtrend and May's industrial performance was also a strong negative surprise. But the performance of euro area industry as a whole is also far from good.

The Hungarian manufacturing PMI remains scandalously useless, with no hint of real industrial performance. Though to be fair, if we calculate a trend from these figures, it gives us some correlation with industry production.

## Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

The economic performance of industry so far in the second quarter has been lousy, and it is now safe to say that the sector's impact on GDP will again be negative. Against this backdrop, it remains difficult to interpret the record monthly surplus in the foreign trade and current account. In our view, the main explanation is that the country's declining energy demand and weak consumption and investment are reducing the need for imports. In addition, weak industrial exports – which are also highly import-dependent – are also holding back the country's merchandise imports. So external balances are improving due to unfavourable reasons.

As far as the industrial outlook is concerned, we do not expect a sustained turnaround in the near future given global developments. We should first see global inventories start to fall, which could signal a pick-up in demand for industrial goods. Only when inventories start to shrink substantially and global consumer confidence improves will order books in production chains start to rebuild. This means that the recovery in external demand will be a slow and gradual process.

Of the sectors producing for the domestic market, only the food industry is capable of a sustained positive performance, which will clearly not be sufficient for good overall industrial production. At the same time, other domestic sectors could show an improving trend for the rest of the year as consumption slowly recovers. In summary, it is still likely that industrial performance will be negative for the year as a whole, in turn holding back GDP growth in 2024.

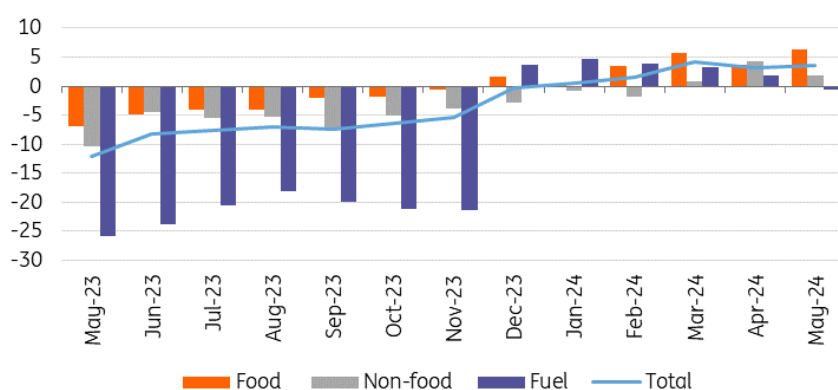
**3.6%** Volume of retail sales (YoY, wda)  
 ING estimate: 4.4% / Previous: 3.2%

## Retail sales growth held back by persistent cautiousness of households

After a negative surprise in April, retail sales did not turn the corner in May, and the incoming data surprised on the downside. This means that on a monthly basis retail sales volumes were essentially stagnant when looking at all subsectors together, adjusted for seasonal and working day effects.

Nevertheless, the annualised index showed an improvement compared to April, but this was mainly due to the low base of last year. Retail sales in May were therefore only 3.6% higher than a year earlier. By contrast, local analysts typically forecasted growth of over 4% in the fifth month of the year. As a result of the recent weak performance, overall retail sales volumes remain below the average for the year of 2021, and only a very tentative positive trend can be observed during 2024.

### Breakdown of retail sales (% YoY, wda)



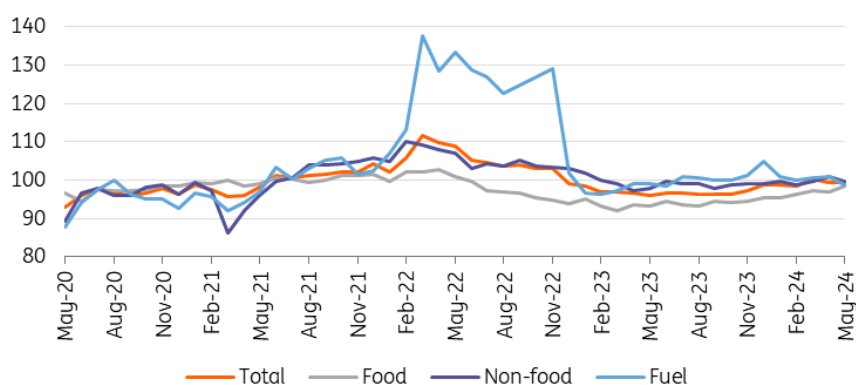
Source: HCSO, ING

Looking at the details, it is clear that the weaker-than-expected retail sales performance in May were not driven by sales in food and grocery stores. In fact, according to the HCSO, there was a turnover increase of 1.5% on a monthly basis. Presumably, falling food prices were responsible for the stronger sales performance. In contrast, non-food sales fell by almost 1% in May compared with the previous month. Most surprisingly, mail order and internet sales fell by 2.6%, breaking the growth trend of the previous two months. In addition, sales in non-specialised shops dealing in manufactured goods fell sharply. So, for the time being, there is no sign that households are rushing to the shops buying tech-goods in the run-up to UEFA Euro 2024 or even the forthcoming Summer Olympics in 2024.

In other words, the trend already highlighted in the detailed consumption data for the first quarter

seems to be continuing. Sales of durable goods are rather weak and households are spending mainly on non-durable or semi-durable consumer goods. And instead of buying big-ticket items, people are saving or spending rather on experiences. The latter, i.e., the performance of the services sector, will only be confirmed by the detailed GDP data for the second quarter. Finally, one of the biggest surprises is that despite the sharp fall in fuel prices in May, fuel sales fell by 2.1% on a monthly basis.

## Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

The picture is brighter for the year-on-year indices because of last year's low base. Food retail sales were up a healthy 6% on an annual basis, while non-food retail sales were also almost 2% higher than in May last year. Though – repeating ourselves – overall sales volumes are in line with the numbers seen in 2021.

The data for the second quarter so far has pointed to a rather weak consumption pattern. However, the unconvincing performance in retail sales does not necessarily imply a slowdown or drop in consumption growth, given the perceived consumption habits of households. It may well be that strong growth in services will offset the weakness in retail sales (e.g., experiences over material items).

Looking ahead, anecdotal evidence suggests that food sales may also strengthen further in the coming months, driven by the summer sporting events. Grocery stores are talking about double-digit sales volume increases in snacks, non-alcoholic and alcoholic drinks in June. Looking at the bigger picture, continued high real wage growth and a generally strong labour market should provide grounds for optimism. On this basis, we would rather expect a continuation of the slow, trend-like increase in retail sales volumes in the coming months.

At the same time, household saving motivation should continue to ease and consumer confidence should rebound. In a positive development on the latter front, the consumer confidence index finally improved slightly in June after two months of decline. What is clear is that the recovery in consumption is still fragile and that the priority is to strengthen consumer confidence on a sustainable basis to see a more vivid uptick in retail sales.

## Author

### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

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