

## Hungary's economic recovery remains on hold

Both the retail and industrial sectors started the fourth quarter on a weaker footing than expected. The Hungarian economy is still lacking the positive impact of domestic demand, and we don't see a sudden recovery taking place any time soon



Budapest, Hungary. Both industry and retail sales surprised to the downside

The Hungarian Central Statistical Office (HCSO) released the October figures for the industrial and retail sectors. Both industry and retail sales surprised to the downside, although at least the latter showed growth on a monthly basis. The common denominator in both sectors is the lack of consumption and investment activity by manufacturers and retailers, which is suffering from the lost years of real wages, high interest rates and lack of fiscal leeway.

### Export sectors disappoint and industry fails to deliver sustainable recovery

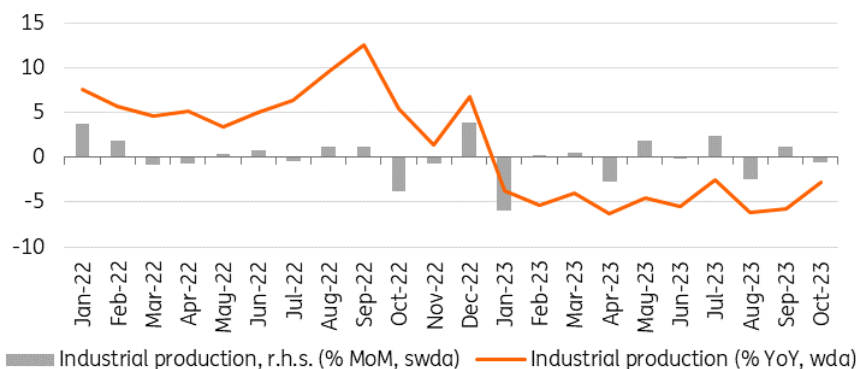
# -2.8% Industrial production (YoY, wda)

ING estimate: -0.2% / Previous: -5.8%

Worse than expected

Industrial production in October was well below expectations. While output was only 2.8% lower than a year earlier on a calendar-adjusted basis, it was still a weak performance overall. Last year's low base was the reason for this improvement. This is reflected in the fact that, on a month-on-month basis, production volumes fell again by 0.6%. There is still no change in the trend for industrial production. Since the autumn of 2022, the downward trend has continued, and total output is still unable to exceed the level of output recorded after the Covid-19 pandemic at the beginning of 2021.

## Performance of Hungarian industry

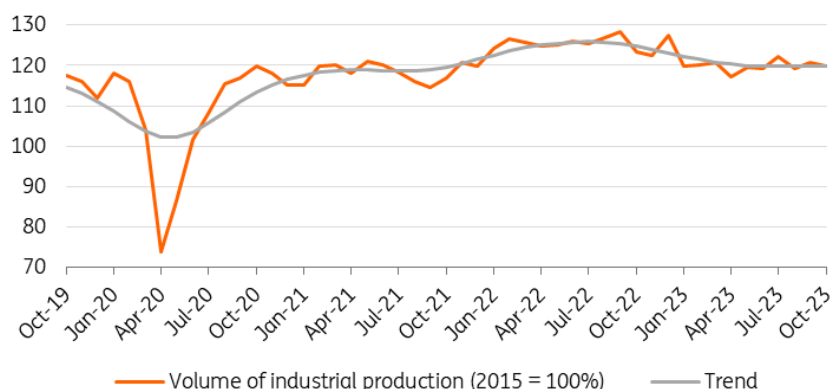


Source: HCSO, ING

Detailed data is yet to be released, but according to preliminary data from the HCSO, there was no significant change in the structure of industrial production. While most sub-sectors contributed to the decline in output, the exceptions remain the manufacture of electrical equipment (battery production) and transport equipment. Capacity utilisation in industry, therefore, seems to have stabilised in October after a rebound in September following the summer shutdowns. This is surprising in view of the start-up of a new industrial capacity ([Denso - Székesfehérvár](#)), although it is possible that production in October was still on a trial basis with minimal output.

In our view, in the absence of sustained change in the economic environment, industrial production will hover around the production levels seen since the beginning of the year, with some upside risk if new capacity is able to break through the "glass ceiling". This also means that there is no reason to change our forecast for industrial production for the year as a whole. We still expect industrial production to contract by around 5-6% in 2023.

## Volume of industrial production



Source: HCSO, ING

As far as 2024 is concerned, we have seen a slight deterioration in the overall outlook over the past month. The clouds are gathering on the external demand side – notably the export-producing sectors – as European industrial performance continues to struggle to find its footing. German industry, in particular, which is still important for the Hungarian economy, is performing poorly. In addition, the Chinese economy is becoming more inward-looking, which is not really conducive to a recovery in world trade.

As a sign of the weakening external environment, the total volume of orders in industry at the end of the third quarter was only 0.3% higher than a year earlier. If new orders fall behind in the coming months, we cannot expect further significant growth from export sectors next year. However, domestic demand may try to compensate for this. While there are no signs at present that output in sectors producing for the domestic market is likely to grow rapidly in the short term, new investment (helped by the expected inflow of EU funds) and a gradual recovery in consumption should help to revive domestic demand in the second half of next year.

## Real wage growth not an immediate remedy, retailers still suffering

**-6.5%**

Volume of retail sales (YoY, wda)

ING estimate: -5.9% / Previous: -7.3%

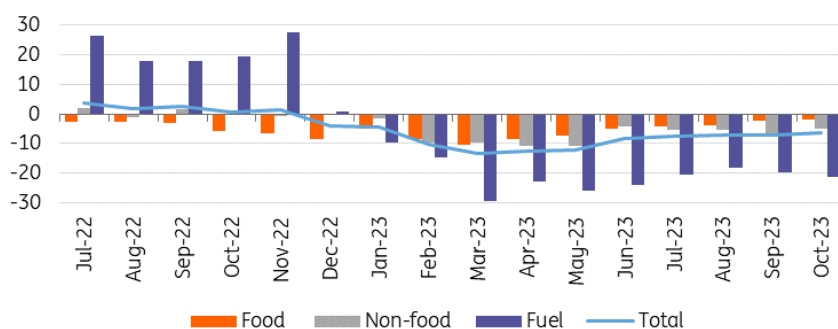
Worse than expected

Like industry, the retail sector failed to meet market expectations in October. On a monthly basis, retail sales turnover (adjusted for seasonal and working day effects) contracted again, and the improvement in the annualised index is only a consequence of an even worse performance last October. Compared with the same period last year, sales were 6.5% lower in the tenth month of 2023.

Looking at the details, we do not see much change in the structure of retail trade, but there are still some surprises. On a monthly basis, the volume of sales in food stores fell by 0.1% compared with September, meaning that the small growth of the previous month could not be maintained. So, despite a general fall in food prices, consumers remain rather cautious. This may be explained by the fact that households' purchasing power (based on real wages) is still around 2020 levels.

In contrast, it is somewhat surprising that non-food sales rose on a monthly basis in October. However, much of the 0.5% month-on-month increase was due to rising sales in second-hand shops and clothing stores. Otherwise, we continue to see a rather declining and weakening performance across the board. Where a more significant change in sales might have been expected, however, is in the fuel retailing sector. However, despite the significant fall in prices in October, total fuel sales rose only by 0.3% on a monthly basis.

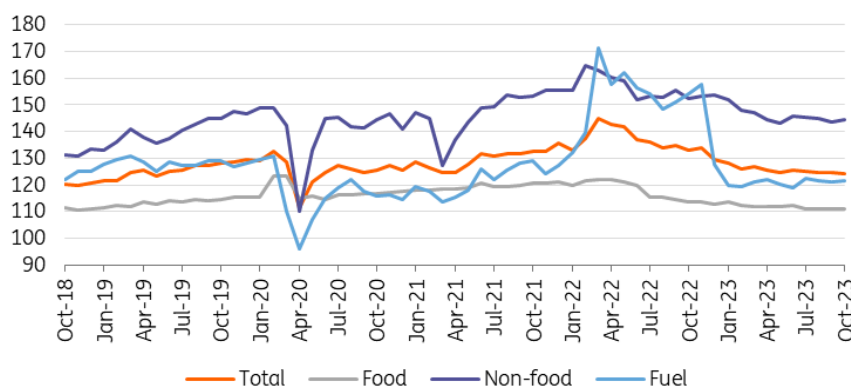
### Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

The overall development of retail sales in October also shows that the increase in real wages alone is only a statistical change – and that the fact that the indicator has turned positive after a year does not change the behaviour and overall financial situation of households.

### Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

We can't see any significant and sustainable improvement in any of the segments of the retail sector that could be described as clearly encouraging and positive. The weaker-than-expected

start to the fourth quarter suggests that the retail sector has a long and painful road ahead before it can make up for lost years. After all, let's not forget that the current volume of retail sales corresponds to the average volume of retail sales in 2020.

Real wages will continue to rise in the coming months, but this is unlikely to translate into dynamic consumption growth. Even so, we might still be surprised on the upside, considering the 10% and 15% minimum wage increases from December 2023 for skilled and unskilled workers, respectively. These low earners might have a higher propensity to consume, thus bringing a possible upside risk to the table.

Generally speaking, however, households will mainly deleverage and rebuild their reserves before consumption picks up. This is also reflected in the fact that consumer confidence remains at an almost 10-year low. Consumer confidence will, therefore, have to recover before households start to spend in a meaningful way. As a result, the impact of rising purchasing power is not expected to be reflected in retail sales data until 2024.

## Author

### Peter Virovacz

Senior Economist, Hungary

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

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).