

## Technical recession in Hungary may end in the fourth quarter

The first batch of fourth-quarter economic data offers a glimmer of hope that the technical recession, as sudden as it was, will fade just as quickly. But one swallow doesn't make a summer, and the overall picture is still bleak



Recent economic data indicate the technical recession in Hungary may be over in the fourth quarter

The Hungarian Central Statistical Office (HCSO) has published retail sales and industrial production figures for October. In contrast to the end of the third quarter, the start of the fourth quarter looks a little better. However, to be fair, the improvements may be due to one-off effects, so the jury is still out. Nevertheless, the rest of the year can't deliver the kind of performance that will allow Hungarian real GDP to grow much more than 0.5% in 2024 as a whole.

# 3.6%

Higher than expected

### Volume of retail sales (YoY, wda)

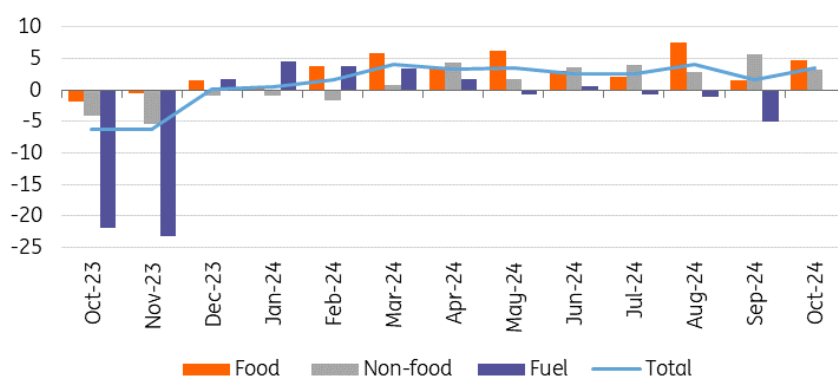
ING estimate: 3.3% / Previous: 1.7%

## Retail sales recovers after the floods

The release of September retail sales data a month ago sent a chill through the analyst community. However, the October statistics just released by the Hungarian Central Statistical Office (HCSO) put this into perspective. As suggested by several sources, September's decline was just a one-off blip, presumably due to the flood situation. This is suggested by the 1.2% month-on-month rise in sales volumes in the sector in October. The data came as a mildly positive surprise compared to market consensus, but was in line with our forecast. The rebound also led to a significant change in the year-on-year index, which was up 3.6% (calendar adjusted).

However, before we get carried away with unbridled joy, it is worth noting that October's rebound is really just a correction of September's performance. This is illustrated by the fact that overall retail sales have still not broken out of their 2021 monthly average. In fact, it is right at that average. Moreover, this is also the case for the last three quarters, as the sector's performance has essentially stagnated around this level since then. All of which supports our earlier assertion that the underlying economic fundamentals remain weak.

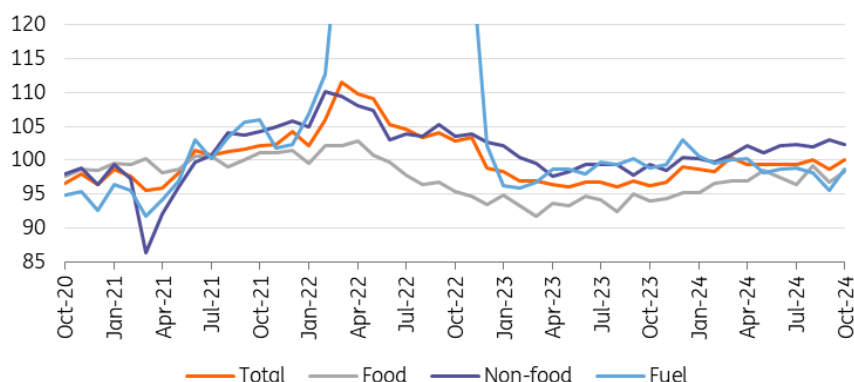
### Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Looking at the details, food retailing was the main boost to the retail trade performance in October. On a month-on-month basis, HCSO recorded an expansion of 1.6%. However, non-food stores failed to benefit from the expected recovery in demand after the floods, with a month-on-month decline of 0.7%. Within this, mail order and internet sales were particularly poor, although this may have been a reversal of September's boom. Moreover, almost all sectors rebounded in October, with the exception of textiles, clothing and footwear. The latter may also be a correction of a one-off spike due to the floods in September. Last but not least, fuel sales rose by 3.3% month-on-month in October, suggesting that it is a recovery in fuel demand following the floods due to the positive impact of the availability of road usage.

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



Source: HCSO, ING

Our main message is that the September-October period taken together gives a picture of the current situation in the sector, which is still not rosy. The sector has been stuck at the average performance level of three years ago, practically since the beginning of the year. Households are therefore unlikely to have changed their habits: they are spending on experiences rather than on things. Consumption is still growing, but retail is not benefitting from it. It could also be that physical or online shopping tourism remains buoyant, which would partly explain the rise in imports.

Looking ahead to next year, the expected high real wage growth (although the lower-than-expected increase in the 2025 minimum wage mitigates this positive outlook) and the huge retail government bond redemptions expected in the first half of next year should provide some grounds for optimism. Indeed, according to our calculations, the principal payments on retail government bonds maturing next year and the interest payments on the entire retail government bond portfolio in 2025 will amount to around HUF3,000bn. Moreover, most of this amount (around 56%) will be paid to households in the first quarter of the year.

The biggest question, however, is how much of this money will be spent, how much will be reinvested and whether these investments will remain in Hungary (and in the forint) or whether we will face a major capital outflow. This may depend mainly on the economic environment, business and consumer confidence and (FX-) market stability in the coming months. For the time being, the overall picture in these areas does not necessarily bode well for an outburst of consumption. The forint has typically traded around 415 against the euro in December, while business and consumer confidence indices have turned down.

**-3.1%**

Higher than expected

Industrial production (YoY, wda)

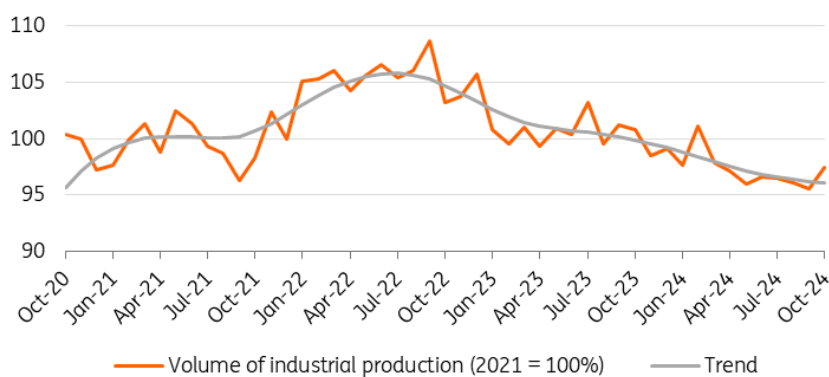
ING estimate: -3.9% / Previous: -5.4%

## Industry is showing its better side again, but the question is how long it will last

After the downturn in September, the overall picture for Hungarian industry improved in October. On a monthly, seasonally and calendar-adjusted basis, industrial production grew by 2.0% in the tenth month of the year. Overall, this was a positive surprise, but one swallow does not make a summer. The improvement is encouraging, and indeed the monthly growth rate is unusually high, but on an annual basis there is still a significant gap: a calendar-adjusted decline of 3.1%.

It is also telling that in terms of average monthly output in 2021, industrial production volumes are still 2.6% behind. In other words, the October improvement alone has not yet led to a breakthrough. Moreover, over the past three years, Hungarian industry has had some good months, but these have not broken the negative trend.

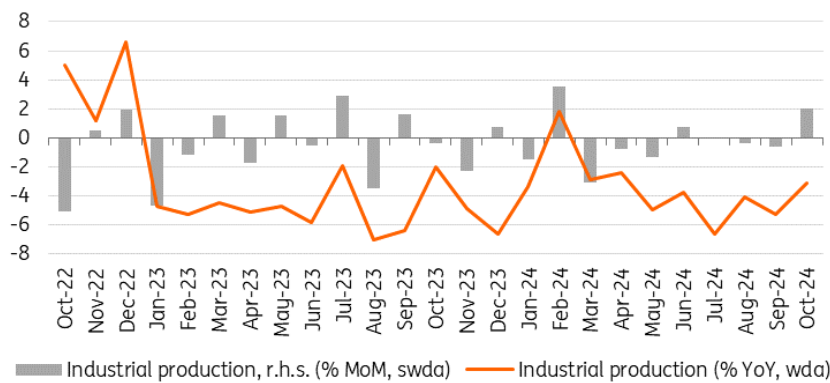
### Volume of industrial production



Source: HCSO, ING

Detailed data are still to come, but the preliminary release from the HCSO shows a similar industrial structure in some respects to what we have seen in recent months. And that is precisely why it is more likely that October's improvement is not necessarily a turnaround in trends. The two main industrial sectors (transport equipment and electrical machinery) are still in decline. What is changing, however, is that the other two major segments, electronics and food, have been able to expand. Overall, the HCSO also indicated that production volumes expanded in most sub-sectors.

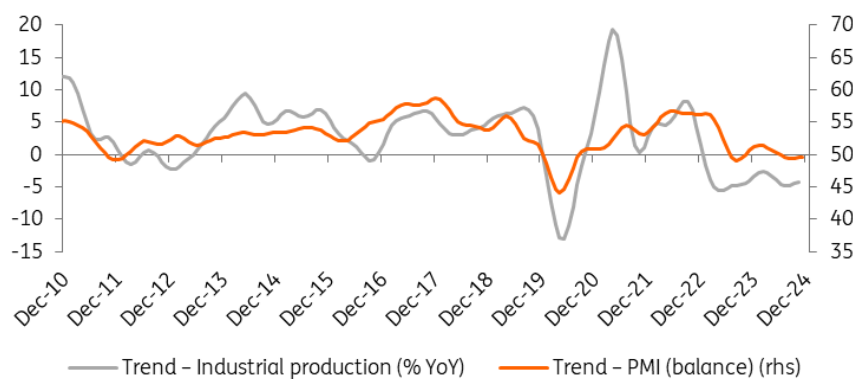
## Performance of Hungarian industry



Source: HCSO, ING

Recent business surveys and confidence indicators around the world continue to paint a mixed picture. Given that the Hungarian economy is mainly exposed to European, and in particular German production chains (although they are dependent on global demand), there is less good news here. Indeed, the latest German industrial data have once again come as a major negative surprise. In addition, the recent wave of factory closures and layoffs in the automotive and supplier sectors does not bode well for the short-term outlook.

## Manufacturing PMI and industrial production trends



Source: HCSO, ING

Looking ahead, structural problems in external demand and moderate recovery expectations for next year have remained with us, partly due to the expected negative impact of the new Trump presidency on world trade.

In this respect, it is difficult to base hopes for a short- to medium-term recovery of Hungarian industry on a rebound in export demand. It is no coincidence that recent domestic surveys also indicate that the biggest obstacle to growth for industrial companies at the moment is the lack of demand. In line with that the industrial confidence index in Hungary has taken a downward turn. The combination of fragile domestic consumer confidence (which could weaken further with a continued depreciation of the forint), strong savings motive and sluggish corporate investment

also make the domestic industrial outlook gloomy.

Hungarian industry as a whole is expected to be a significant drag on GDP growth in 2024, which is likely to be only around 0.5%. The extent of the industrial recovery next year will depend mainly on the utilisation of new capacities in automotive and related sectors, but the latest news on this is not necessarily positive either. On a more positive note however, October's industrial and retail sales data together suggest that the technical recession may be over as quickly as it came.

## Authors

### Peter Virovacz

Senior Economist, Hungary

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

### Kinga Havasi

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@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 <http://www.ing.com>.