Hungarian retail sales increase as industry underperforms

The incoming industrial and retail data for June did not alter the overall picture of the recent dichotomy in trends. Industrial production continues to decline, while retail sales are rising. We do not expect these trends to change significantly for the remainder of the year

Shoppers in Budapest

The Hungarian Central Statistical Office (HCSO) has released figures on retail sales and industrial production for June. These figures provide some clarity regarding the economic performance in the second quarter. Both sectors performed worse than expected, although these expectations were probably skewed by the initial GDP estimate for 2Q, which came as a positive surprise. In terms of industrial production, we had hoped that the sector had finally bottomed out, but it has continued to decline, and the outlook for the coming months is also grim. Retail sales are following an established positive trend in a sawtooth pattern month by month. In this respect, the divergence between the two sectors continued.

Industry can’t find a bottom

-4.9%

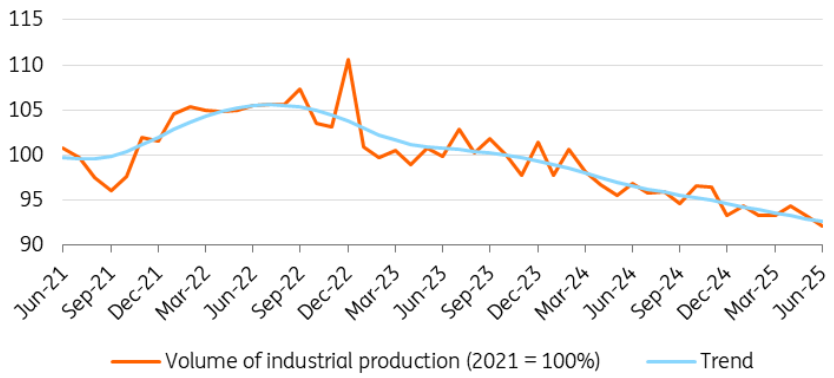
Industrial production

ING estimate: -2.3% / Previous: - 2.6%

After May, June brought an unpleasant surprise again regarding Hungarian industrial performance. Following the soft second-quarter GDP data, it was clear that we couldn't count on a strong end to the quarter from industry, but we were still expecting some improvement. On the contrary, the volume of industrial production fell by 1.2% month-on-month. At the same time, the year-on-year index shows a 4.9% decline.

Perhaps even more telling is the development of the fixed-base index. Compared to the average monthly performance in 2021, industrial output volume is down by 7.9%. To provide some context, if we disregard the temporary production stoppages caused by the lockdowns during the pandemic, the last time we saw a similarly low production level was in autumn 2018. Thus, despite some signs that industry might have hit rock bottom, the situation deteriorated further by the end of the first half of the year. While a month or two ago, it seemed that the fixed-base index trend had shifted towards stagnation, today's data make it clear that the negative trend is continuing.

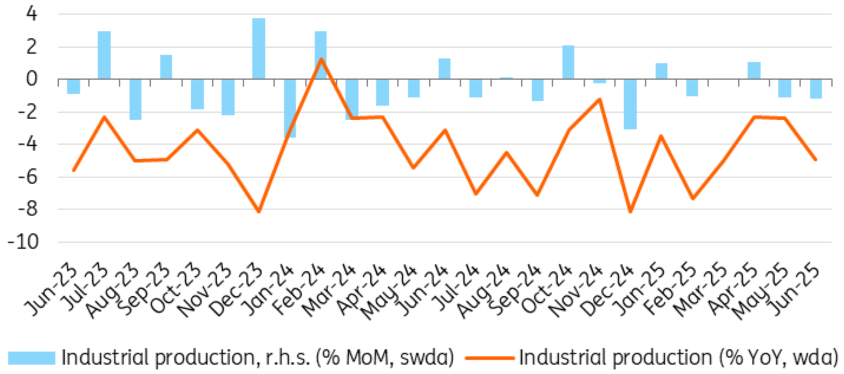
Volume of industrial production



Source: HCSO, ING

Although detailed data is still pending, preliminary data from the HCSO indicates that the most important sub-sector, transport equipment manufacturing, had the largest negative impact on growth. Although production declined in most manufacturing sub-sectors on an annual basis, slight growth in other key areas (electrical equipment, electronics, and the food industry) offer some glimmer of hope.

Performance of Hungarian industry

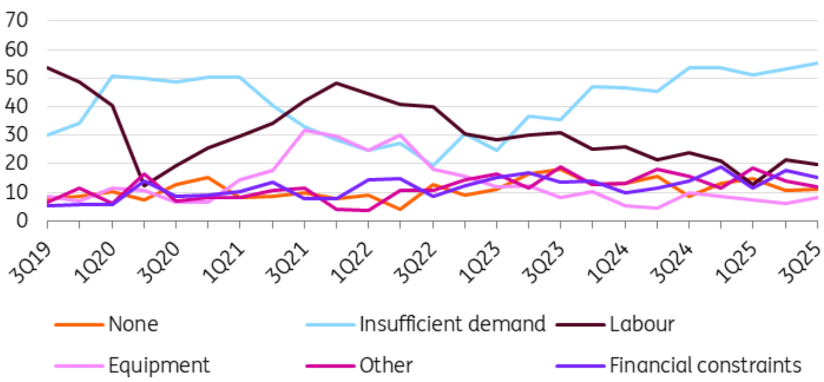


Source: HCSO, ING

Various confidence indices have shown a further deterioration in the outlook in recent months. This means there are no signs of a clear turnaround in industrial prospects. This grim outlook is reinforced by domestic companies' assessment of industrial capacity utilisation in the third quarter, which has also worsened (from 76.7% in 2Q to 73.6% in 3Q). Based on this, we can't necessarily expect a significant turnaround. Furthermore, the series of negative signs continues. More than half of the surveyed companies say they cannot produce optimal quantities due to low demand. A similar ratio of responses was last recorded in 2010, following the global financial crisis.

Moreover, today's German industrial order data fell far short of expectations, indicating that the volume of new orders shrank for two consecutive months in May and June. Meanwhile, the stock of orders is now only slightly more than 1% above last year's level. Given all this information, it is almost certain that a real recovery in industry will not occur until 2026.

Factors limiting production in Hungarian industry (% of respondents)



Source: Eurostat, ING

Thus, the outlook for export-orientated sectors remains gloomy. Although individual sub-sectors or major companies may show improved performance, a general upturn is not expected. The EU-US trade agreement may bring some relief because it provides a framework for industrial producers to adhere to. However, the various retaliatory measures threatened by President Trump, such as the recent 35% tariff threat against the EU, or secondary tariffs on countries that purchase Russian energy, hardly help to rebuild confidence.

In terms of GDP growth, the industrial decline in June is definitely an unfavourable turn of events, as it means that the outlook for the sector for the whole year is now more negative, and it is now foreseeable that the sector could significantly drag down the performance of the Hungarian economy in 2025 as a whole. We continue to expect an average annual contraction of around 4.0-5.0% in industry this year.

Retail trade is still growing

3.0%

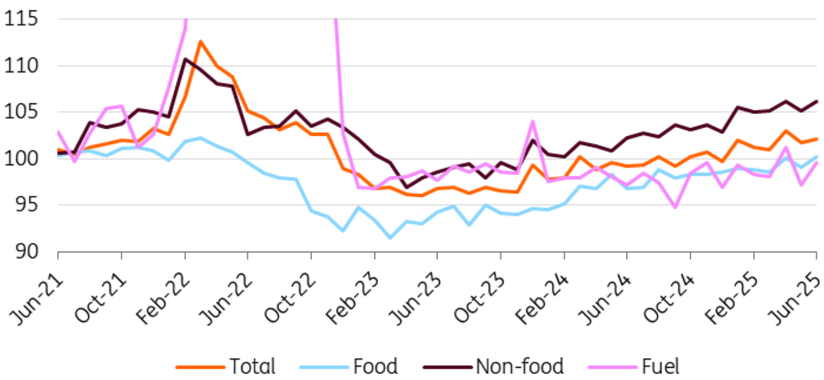
Volume of retail sales (YoY, wda)

ING estimate: 3.9% / Previous: 2.1%

Unfortunately, the retail sector was unable to provide any positive surprises. In June 2025, the volume of Hungarian retail sales fell short of market consensus. The good news is that, in this case, it does not indicate an outright decline, only slower growth. On a monthly basis, the sector grew by 0.5%, translating to a 3.0% year-on-year increase. Due to last year's low base, the overall picture based on the annual index has improved slightly compared to May.

At the same time, it remains true that, in the long term, retail sales volume has been growing since the end of 2023, though in a "two steps forward, one step back" pattern. The growth trajectory of consumption (including services), which is far from smooth, remains the only bright spot in the Hungarian economy. The construction industry could perhaps be included here as well, but let's wait for the June data. Returning to retail, the fixed-base index shows that the level reached during the big surge in April has not yet been matched. This means that the May decline has only been partially corrected. Nevertheless, retail sales volume is up 2.2% compared to the 2021 monthly average.

Retail sales volume in detail (2021 = 100%)

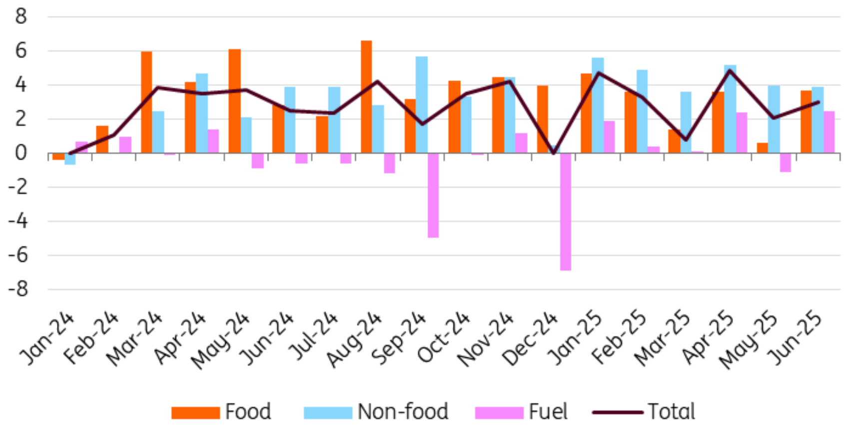


Source: HCSO, ING

Diving into details, food store sales experienced significant adjustments in June, indicating strong monthly growth. Even after adjusting for seasonal and calendar effects, however, the sector's performance fluctuates significantly (month-on-month indices for the last three months: +1.4%, -1.0%, and +1.3%), raising some methodological questions in data smoothing. As no new government measures relating to food were introduced in June, it is difficult to identify the driving force behind the upturn at this stage.

The indicator is similarly volatile in non-food retail, with performance fluctuating between +/-1% for four consecutive months. In June we saw favourable data. Within the sector, there has been a significant increase in mail orders and internet shopping, and cosmetics sales are also growing steadily. The voluntary price cap on specific pharma products likely contributed to the strong growth of shops selling pharmaceutical and medical goods. After a sharp decline the previous month, fuel sales increased significantly in June, likely due to lower fuel prices. This segment contributed significantly to the positive overall performance of retail trade in June.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Overall, we see an improved performance in all sectors. However, there are still no signs of sustained month-on-month growth lasting for a longer consecutive period. This indicates that even minor shocks or confidence issues hitting households, combined with already low consumer confidence, could slow down consumption growth in the future.

For now, it seems certain that volatility will remain with us for the rest of the year. However, in our view, so will the growth trend, as government measures to stimulate demand are expected to filter in towards the end of the year. Since some of these measures have already taken effect, July's data will provide insight into the extent to which the extra income can boost consumption and where it is primarily being spent. We still continue to expect average annual retail sector growth of around 2.5-3.5% this year.

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