A surprise drop in Hungary's retail sales

We saw a negative surprise in Hungary's retail sales numbers in April after an exceptionally strong reading in March. The retail spending structure suggests we're only going to see a gradual consumption recovery

Shoppers in Budapest's central market

3.2%

Hungary retail sales volumes

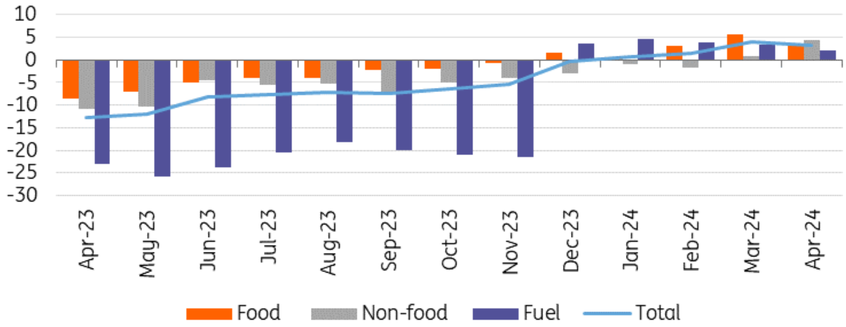
YoY, wda. ING estimate: 4.3% / Previous: 4.1%

Worse than expected

After a significant positive surprise in March, things turned negative in April for Hungary's retail sales. As we indicated in the March data, the rather extreme working-day effect combined with a moving holiday and the shocks of recent years, from Covid to energy to the cost of living, may have altered the usual seasonal factors we generally see. In the end, it seems the combination of all these factors caused that significant positive surprise in March. Nevertheless, we believe the same factors are still at work in April too, as there were three more working days in that month compared to the previous year.

As a result, based on seasonally and working-day adjusted data, the volume of retail sales contracted by 0.9% month-on-month (MoM) in April, following that huge and unexpected 2.0% MoM surge in March. This monthly decline resulted in a sharp slowdown in the year-on-year index to 3.2%, below all local analyst expectations. With April's weak performance, the overall volume of retail sales has once again fallen below the 2021 average. However, given the fluctuations over the past three months, we can still say that the performance of the retail sector is on an improving trend.

Breakdown of retail sales (% YoY, wda)

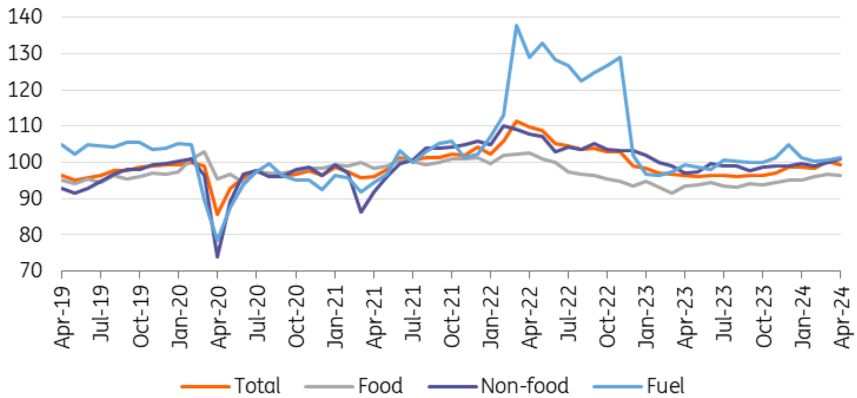


Source: HCSO, ING

At the component level, after the rebound seen in March, food retailing declined by a modest 0.3% MoM in April. Non-food retailers surprisingly posted a growth rate similar to the nearly 1% monthly increase seen in March. And it's worht highlighting two segments: second-hand goods and cosmetics, both of which displayed robust MoM growth.

However, in line with the detailed GDP data, sales of durable goods remain relatively subdued, as households seem to be spending more on experiences and daily necessities. So, industrial goods and computer product sales fell sharply compared to March. In addition, the year-on-year indices show that sales of big-ticket items, such as manufactured goods, furniture and electrical goods, continue to decline. Fuel sales expanded by 0.4% MoM amid falling fuel prices at the end of the month, showing more substantial year-on-year growth.

Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

The April retail sales data points to a relatively weak start to the second quarter. However, the poorer retail performance does not necessarily imply a stagnation in overall consumption growth, given the perceived consumption patterns of households. The data series will no longer be burdened by extreme working-day effects in the coming months, which may provide a clearer picture. Given the persistently high real wage growth and generally robust labour market conditions, it is more likely that retail sales volumes will continue to rise in line with the trend.

However, households' precautionary motives will need to diminish further, and consumer confidence needs to strengthen as that indicator has deteriorated slightly over the past two months. Without those two factors, a sustainable recovery in the retail sector will be tough.

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