

Hot summer and cold Hungarian retail performance

Contrary to positive expectations, the volume of retail sales fell again on a monthly basis in August. The overall outlook for consumption remains gloomy



People shopping in the Great Market Hall in Budapest

-7.1%

Volume of retail sales (YoY, wda)

ING estimate: -5.4% / Previous: -7.6%

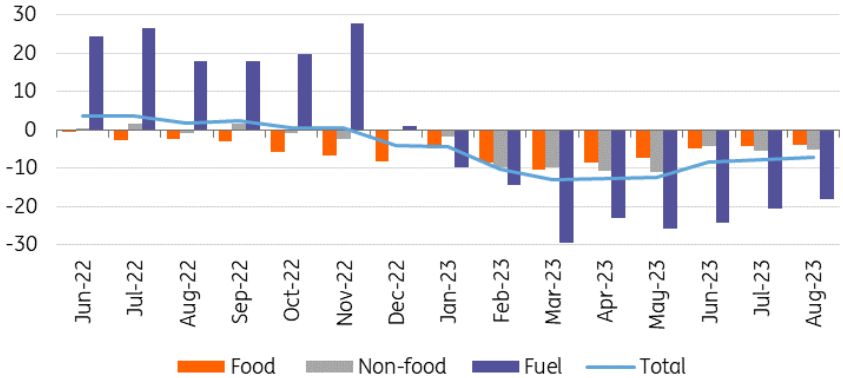
Worse than expected

The performance of the Hungarian retail sector in August was a major disappointment. Although the year-on-year index showed a slight improvement on the previous month, the volume of retail sales fell again, this time by 0.5% on a monthly basis. This leaves the sector's performance 7.1% below that of a year ago.

Looking at the details, we see a broadly-balanced poor performance across the sub-sectors. On a monthly basis, sales in food shops fell by 0.3% compared with July, marking two months of decline

in this segment. Consumption is likely to have been held back by persistently high food prices, which may have been temporarily exacerbated by the lifting of the food price cap in August.

Breakdown of retail sales (% YoY, wda)

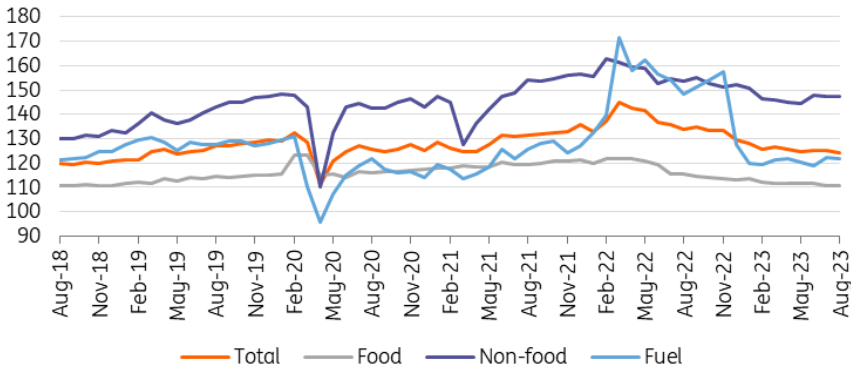


Source: HCSO, ING

The turnover of non-food stores stagnated on a month-on-month basis. The main surprise here is that there was a strong upturn in some areas, such as cosmetics shops and furniture and electrical goods stores. While the former may be linked to increased tourist visits and the hot summer, the latter is likely to be a one-off effect. However, we see no cause for celebration, as the year-on-year indices have yet to show any significant improvement. People continue to keep a tight rein on their family budgets as real disposable income falls. The volume of sales in most non-food shops is still 5-15% lower than a year ago. The biggest falls are in sales of products that cannot be described as necessities. These include manufactured goods, furniture and electrical goods, and even books, computer equipment stores, thus anything which has something to do with leisure.

The fall in household demand is also illustrated by the fact that the second-hand goods segment, which is essentially counter-cyclical, i.e. it performs better in times of crisis, has been shrinking for five months on an annual basis. Fuel sales are down too, both on an annual basis (almost 18%) and on a monthly basis (0.5%), which is hardly surprising in light of rising fuel prices.

Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

Overall, we conclude that there are still no signs of any trend-like and sustainable recovery in any of the segments of the retail sector. In August 2023, the volume of retail sales adjusted for fuel retailing was 4.5% below the level of the same period of the previous year. It is particularly disappointing that the World Athletics Championships hosted by Budapest did not have a significant positive impact on retail sales, at least temporarily. However, the writing was on the wall, after the subpar August budgetary performance, especially considering the weak revenue stream from value-added tax.

For the rest of the year, we expect real wages to rise, but this is unlikely to translate into dynamic consumption growth. Households will mainly deleverage and rebuild their savings and reserves before consumption picks up. This is also indicated by the fact that consumer confidence remains at an almost 10-year low. In our view, the effects of rising purchasing power are unlikely to be reflected in retail sales data until 2024, thus this year remains a lost cause.

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