

Hungarian economic data paints a mixed picture in August

Retail and industry performance in August suggest that activity is holding up quite well. But big data are pointing to a marked slowdown in the economy and we expect a technical recession during the third and fourth quarters of this year



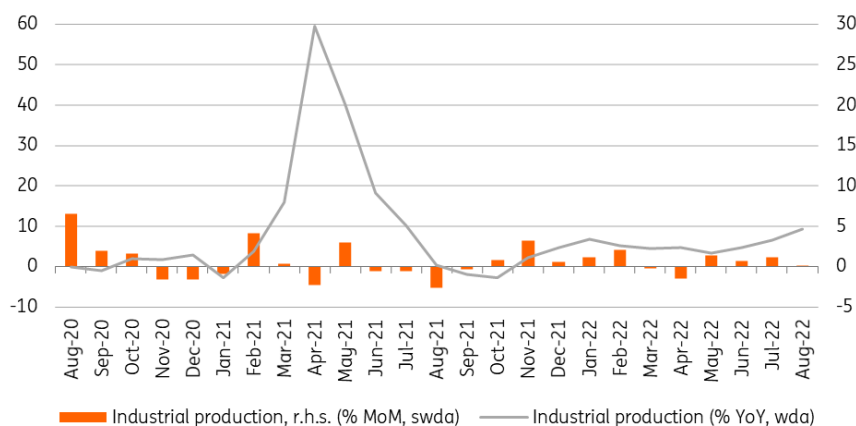
The Hungarian Central Statistical Office has released its latest set of data about retail sales and industry. At face value, we can't see a dramatic change in the performance of the economy. Some might say activity is holding up quite well despite the challenges and there are no signs of a recession. In our view, such an optimistic statement would be premature based on the headline figures of only two sectors.

Industrial production keeps growing, but not for long

Let's start with the good news. The surprisingly strong performance of industry has continued. Based on the Hungarian Central Statistical Office's data for August, industrial output increased by 0.1% month-on-month. This has been the fourth consecutive month showing an increase. While

the August growth rate doesn't seem particularly impressive at first glance, it is worth noting that during the summer months, and especially during August, industrial production is typically characterised by planned shutdowns. Presumably, this type of seasonality did not occur this summer due to the forced shutdowns during the spring.

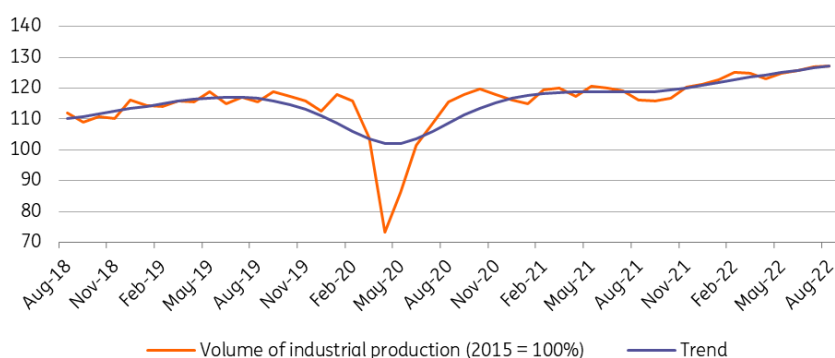
Performance of Hungarian industry



Source: HCSO, ING

Against this backdrop – and thanks to two more working days compared to last August – the volume of industrial production jumped by 14.4% on an annual basis based on the raw data. Industrial output has been on an upward trend since April. So far, companies have not felt the impact of drastically rising energy costs or the global decrease in demand. Of course, the backlog of unfulfilled orders accumulated in recent months plays a major role in this, which can thus serve as a buffer for a while.

Volume of industrial production (2015 = 100%)



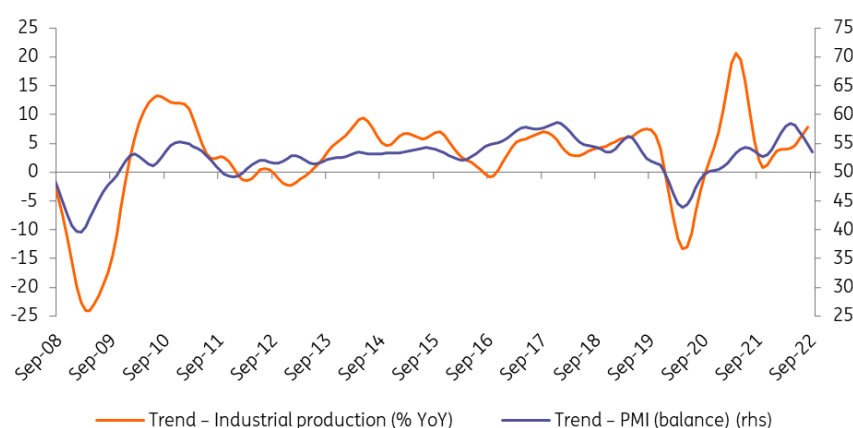
Source: HCSO, ING

The Statistical Office will present detailed data on 12 October, but in its recent note the office emphasised that most manufacturing industries contributed to the expansion of production. Growth was significant even in the most important subsectors, including the automotive and electronics industries. But here it is worth adding the effect of the low base due to last summer's planned and spare-part deficit-generated shutdowns. It will be interesting to examine the detailed

data on what happened among the smaller subsectors, where production has been decreasing for months. Now, the base effect of the most important sectors is distorting and covering the picture of the underlying processes in industry.

Although the backlog remains high, the volume of new orders has already begun to drop off, based on previous data, which indicates a decrease in aggregate demand. In addition, the manufacturing PMI also fell below the watershed level of 50, suggesting a contraction in industrial production. The September figure was 49.6. The last time the index was in the sub-50 area was in March 2021. This may foreshadow the further aggravation of possible demand problems in industries sensitive to business cycles or, in the case of the food industry, problems caused by drought.

Manufacturing PMI and industrial production trends



Source: HALPIM, HCSO, ING

In addition, we cannot ignore the drastically rising energy bills, which may have pushed companies in the direction of rationalisation since September. For many manufacturers, the new high-priced contracts for gas supply are about to bite in September-October, while new electricity contracts will raise the utility bills from January. In all, although the August industrial data paint a favourable picture, it is worth taking this optimistic headline figure with a (big) pinch of salt. The coming months will probably bring a marked slowdown for the industry.

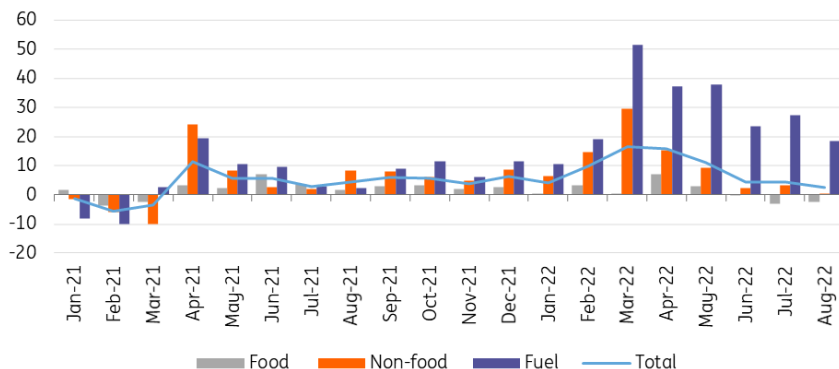
The retail sector is feeling the heat of rising prices

The August retail sales data was in line with our expectation that the upside surprise in July was an outlier. In the last month of summer, the volume of retail trade shrank again in a monthly comparison. In addition to the 0.1% monthly decrease in the volume of retail turnover, the year-on-year growth also slowed down significantly. In August, the turnover of retail stores exceeded the level measured a year earlier but by only 2.3%. So, the gradual retreat of consumption continues, as far as goods are concerned.

When it comes to the details, we can't see any major surprises. On a monthly basis, food retailing rose by 0.25% in August, roughly in line with seasonal trends. The turnover of grocery stores typically increases in the month characterised by an increase in tourism. Galloping inflation has been shaping the sales volume of non-food stores. This should not come as a surprise as consumers reduce consumption in these areas when they are facing an economic downturn. The

adjustment of family budgets reduced the volume of turnover in non-food stores by 0.8% on a monthly basis.

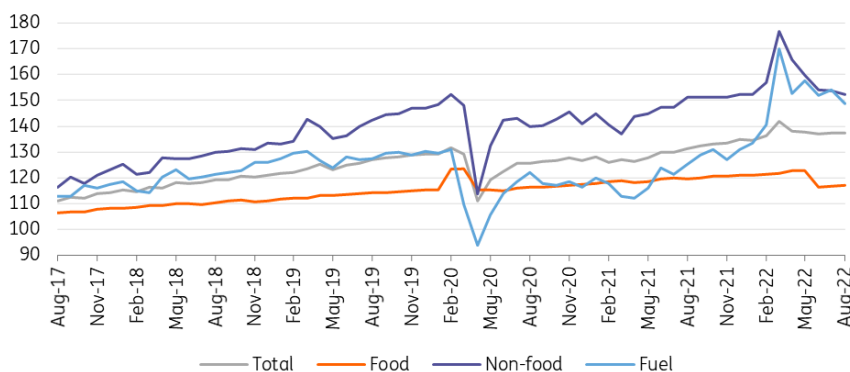
Breakdown of retail sales (% year-on-year, working day adjusted)



Source: HCSO, ING

In the case of fuel retailing, the impact of the fine-tuned fuel price cap regulation can be clearly seen. Drivers with company cars used for private purposes have not been entitled to the capped fuel price since August. This created a run in gas stations in July and dropped sales volume in August. On a monthly basis, the volume of fuel sales fell by 3.4% in August. However, demand for fuel is still much higher than a year ago because of the price cap. In addition, it is also quite telling that the turnover of used goods stores was able to increase the most over a year among all shop types. This underscores the rising price sensitivity of consumers and the transformation of shopping habits.

Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

Based on today's retail statistics, it is clear that consumption is slowing during the third quarter, even if some of the annual indices are still showing some growth. Households have started to adapt to higher inflation, and in the coming months real disposable income will see further hits due to rising utility bills and higher food and fast-moving consumer goods prices. This clearly

doesn't bode well for the economic performance of the third quarter.

Hard data will reveal the gloom

Based on the July-August sectoral hard data, the picture regarding GDP growth has been mixed so far. We expect a significant slump in the retail sector from September and the start of rationalisation in industry and construction during the fourth quarter. Big data are pointing to a marked slowdown as well, suggesting that the Hungarian economy might have already stepped over the line between growth and slump. We see a technical recession during the third and fourth quarters of this year, which will bring down the yearly average of GDP growth from the highs of the first half to around 4.5%. With a negative carry-over effect, we expect a 0.4% growth in 2023 with downside risks.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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