

Hungarian retail sales deteriorate further

The retail sector continued to experience a further contraction both on a yearly and monthly basis. The end of the fuel price cap remains the most significant individual factor behind the drop in volume



-4.5%

Volume of retail sales (YoY, wda)

ING forecast -3.5% / Previous -4.1%

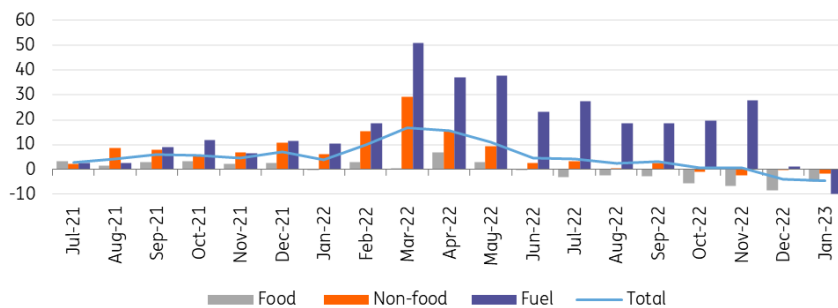
Worse than expected

After December's poor performance, the Hungarian retail sector started 2023 on the wrong foot, registering a 4.5% year-on-year (YoY) decline in the volume of retail sales, adjusted for calendar effects. The sharp YoY drop was gloomier than market expectations and even worse than the most pessimistic estimate given by ING. Monthly data showed a 0.6% decline in sales volume compared to December 2022. The performance of individual components is similar to that at the end of last year.

Even though food retailing dropped nearly 5% YoY, on a monthly basis it increased by 0.5%, thus the yearly drop is entirely attributed to base effects. However, with food prices posting a 44.0%

YoY increase in January, consumers are still significantly reducing their expenditure on food, leading to a significant year-on-year decline in food sales volume. Thus, the decrease in households' purchasing power continues to constrain overall consumption, which is likely to be a drag on growth in the first quarter of 2023.

Breakdown of retail sales (% YoY, wda)



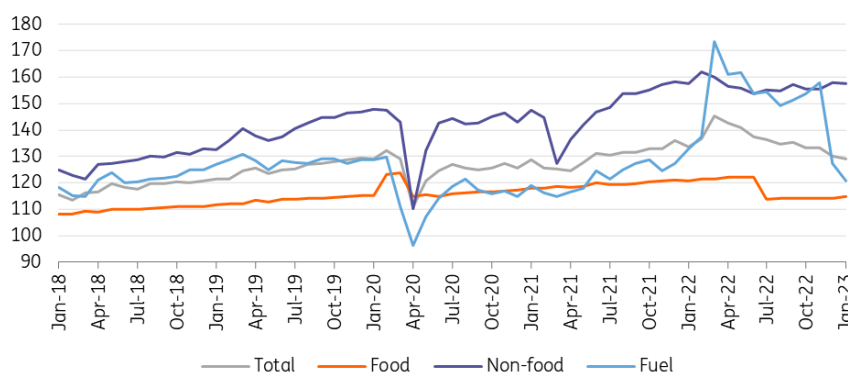
Source: HCSO, ING

Non-food retailing also experienced a shrinkage in both monthly and yearly comparisons, with the latter declining by 1.5%. A substantial year-on-year increase was registered only in the sales of clothing and computer equipment with significant declines in all other areas. In our view, the government's home renovation scheme is likely the reason why the other manufactured goods sub-component can remain at elevated levels. Second-hand goods posted a 27.0% month-on-month decline in January after December's 34.1% surge in volume, consistent with our view that households were buying second-hand goods for the Christmas shopping spree.

Besides contracting food and non-food retailing, the volume of fuel sales fell likewise on a yearly basis, registering a decline of 9.7% YoY. The negative effect of lifting the fuel price cap (from 7 December) is clear, as compared to December, fuel retailing dropped further by 5.3%. This fall underscores our view that the end of the fuel price cap remains the most significant individual factor impacting the retail sector's general performance.

[Hungarian retail sales suffer from record inflation in December](#)

Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

If we exclude fuel sales, then retail performance has been stagnating for three months. We believe that the situation is not severe, as we have only seen a marked slowdown rather than a complete collapse in the overall volume of retail sales. January's performance is consistent with the consumption statistics of the fourth quarter observed back in 2022. It seems like households are adapting to higher prices, primarily by smoothing consumption by tapping into their savings.

Going forward, we believe that the main question remains as to how long households are able (or want) to maintain their standard of living from their reserves. If consumption smoothing continues onward, then it is likely that both food and non-food retailing can evade sharp declines. As for fuel retailing, we believe there is still more room for contraction from the demand side, as consumers are still adapting to market fuel prices. Nevertheless, household adaptation to record inflation and to deteriorating purchasing power will much more negatively impact the sales of services rather than physical goods, in our view.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@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 www.ing.com.