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%

Worse than expected

Volume of retail sales (YoY, wda)

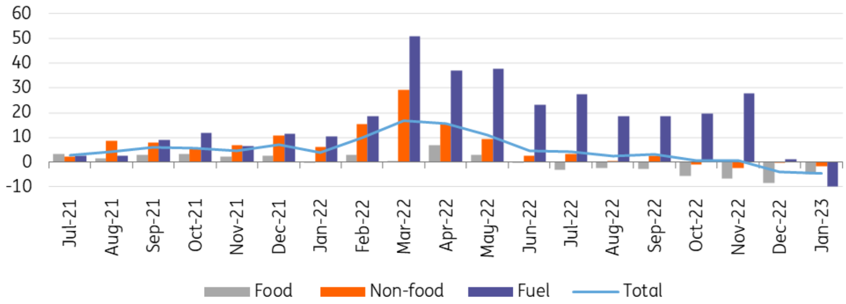
ING forecast -3.5% / Previous -4.1%

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)



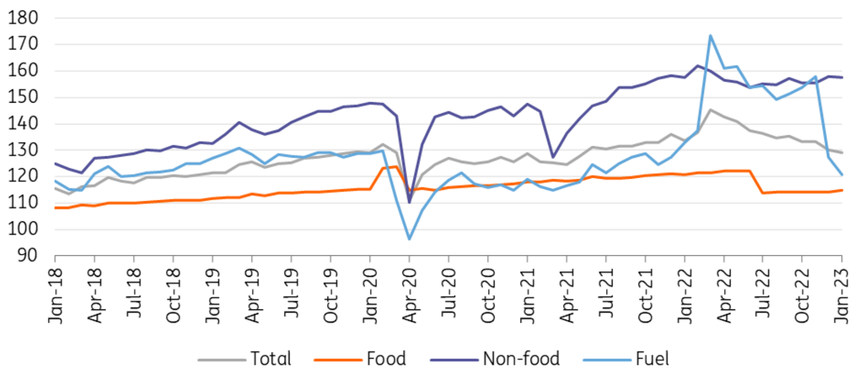
Source: HCSO, ING

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.

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